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Investment Services

# Energy Weekly

**Monday, January 11, 2021**

**Highlights:**

- Crude gained 8% last week - Saudi Arabia plan for voluntary output cut
- President-elect Joe Biden to lay out stimulus plans this week
- EIA showed large bullish draw to crude oil inventories by the end of 2020

**Perspective:**

Oil ended the first week of New Year with a gain of nearly 8% as OPEC leader Saudi Arabia continued with its lower-for-longer supply strategy. Saudi Arabia announced an additional 1Mbpd output cut over Feb and March. OPEC+ agreed most producers would hold output steady in February and March while allowing Russia and Kazakhstan to raise output by a modest 75,000 bpd in February.

The oil market's attention has been almost entirely on the potential for reduced global supplies. The decision by the Saudis was a big deal and it's an underpinning for prices. Clearly, maintaining the oil price was paramount and they were willing to let others take advantage in order to accomplish that. This was followed by large US crude oil inventory drawdown reported by the EIA earlier in the week, which only provided further support.

Further boost to crude prices came from the annual rebalancing by commodity funds to match the requirement of indexes they are benchmarked against — an exercise that began Friday and could result in the purchase of some $9 billion of oil contracts over the next week. WTI's nearest contract traded at a premium to the following month for the first time since May, while the closely watched spread between the nearest two December contracts is at its strongest intraday level since last January.

Saudi Arabia's surprise cut appears to have caught some Asian buyers by surprise and demand for U.S. crude for export to Asia has gained this week. Unipec, the trading arm of China's largest refiner, bought its eighth cargo of North Sea crude in a pricing window run week and was seeking more in what may be the heaviest buying of its kind on record.

**Crude Oil**

| Exchange | MCX | NYMEX-WTI | ICE-Brent |
|---|---|---|---|
| Open | 3.7165 | 57700 | 105800 |
| Close | 3.6735 | 60250 | 102425 |
| 1 Week Chg. | 0.1205 | 2550 | -3375 |
| %change | 3.39% | -1.37% | -3.19% |
| OI | 2086.00 | 49832 | |
| OI change | 1329 | -18150 | |
| Pivot | 3.68 | 39150 | |
| Resistance | 3.72 | 20600 | |
| Support | 3.64 | 17760 | |

**Natural Gas**

| Exchange | MCX | NYMEX-NG |
|---|---|---|
| | | |
| Open | 198.2 | 2.611 |
| Close | 197.7 | 2.52 |
| 1 Week Chg. | -0.5 | -0.09 |
| %change | -0.25% | -3.56% |
| OI | 5612 | 12883 |
| OI change | 27.44% | 79.65% |
| Pivot | 196.4 | 2.56 |
| Resistance | 200.6 | 2.60 |
| Support | 193.4 | 2.48 |

**Front Month Calendar Spread**

| Exchange | MCX | NYMEX($) |
|---|---|---|
| 1st month | -10 | 0.00 |
| 2nd month | -53 | -0.15 |

**WTI-Brent spread$**

| | |
|---|---|
| 1st month | -0.16 |
| 2nd month | -0.25 |

Meanwhile, the bullishness in the market that drove oil prices higher came amid the prospects for a deeper fiscal stimulus in the US, vaccine optimism and a weaker US dollar. Moving on, and the cold weather that we are currently seeing in North Asia is helping to reduce middle distillate stocks in the region. Latest data from Singapore shows that middle distillate inventories fell by 689Mbbls over the last week, leaving stocks at their lowest level since August. Beijing's coldest weather since 1966 is pushing local energy prices higher and temperatures across much of Europe and Asia are expected to stay below average for most of January, supporting higher demand for heating oil as people turn up the heat during the lockdown. However, this factor is yet to clearly materialize on the petroleum refining margins.

In all this optimism, lost, or rather overlooked, was the question about the weakening demand for fuels in U.S., particularly with gasoline demand falling to its lowest since the start of the pandemic and inventories of diesel-led distillates piling up too.

For EIA inventories, Crude inventories fell by 8 MB to 485.5 million barrels, their biggest decline since August, exceeding expectations for a 2.1 MB drop. The drawdown in stocks in typical for the end of the year, when energy companies take barrels out of storage to avoid hefty tax bills. However, product demand slowdown remains a main worry as U.S. gasoline stocks rose by 4.5 MB, the biggest increase since April, the EIA said, ahead of expectations for a 1.5 MB rise. Distillate stockpiles rose by 6.4 million barrels, versus expectations for a 2.3 million-barrel rise.

**Natural Gas:**

Natural gas prices retreat after cold forecast was put back into the forecast and the government storage report fell short of expectations. While fundamental deficit remains favorable to the bulls, the lower heating demand projections have pushed the total gas balance to a surplus of ~1.97 Bcf/d. The main trend for gas is down, however, Firm demand for LNG will be one reason providing floor to the selloff. Weather is expected to remain in the driver's seat when it comes to price action over the coming weeks. Markets are discounting the fact that due to warmer weather forecast, , it could be a sign that even a major draw in this week's government storage report for the week-ending won't be enough to trigger a meaningful rally.

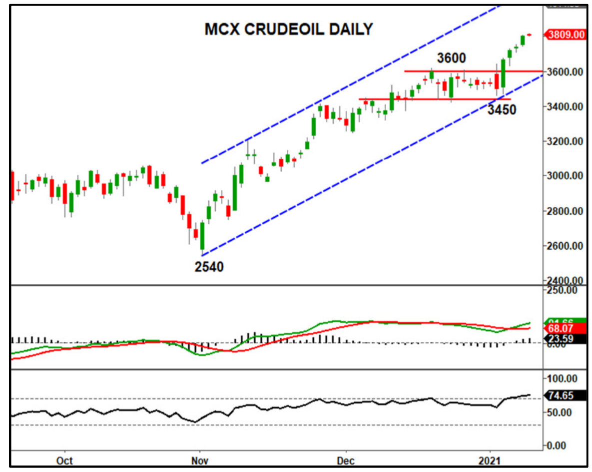
**Outlook**

Crude gains looks questionable as the market can its attention back to fuel demand issues in the coming weeks, and also to how well the U.S. and the rest of the world are coping in their recovery from COVID which can lead to sell off at higher levels. The big questions facing traders is how long will the OPEC+ news support speculative buying and at what level will the rising number of COVID cases and potential lockdowns weigh enough on demand to pressure prices.?

The move by Saudi Arabia could keep oil prices propped up for some time, but at some point prices will become overextended as the focus shifts toward slower demand for gasoline and other fuels in the United States and other parts of world due to wider restrictions to contain the spreading pandemic. Severe mobility restrictions around world to contain a surge in COVID cases still weighed on fuel sales, weakening prospect of energy demand recovery in the first half of 2021.

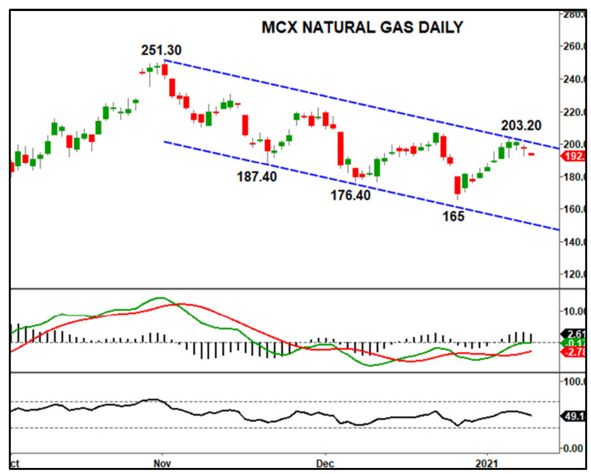
**Crude oil:**

MCX Crude Oil continued to trade in a rising channel formation and is not signifying any trend reversal as of now. The 14-period RSI is in overbought zone and MACD above the zero line both indicating strength in price. Strong short-term support is placed at Rs.3600 and bias remains positive as long as price holds above the same. The current rally is likely to extend towards Rs.3970 – 4050 area. Buying around Rs.3750 will be recommended in the coming session. Trend reversal for the counter will be seen if price break and sustains below Rs.3600 – 3450 range. Support for WTI crude oil is at $49.35 – 48.50 whereas resistance is at $54 – 55.35 levels.




**Natural Gas:**

As seen on daily chart, MCX Natural gas has been trading in a downward sloping channel marking lower highs and lower lows pattern. Immediate strong resistance is capped at Rs.203 – 206 zone and upside for the counter will be seen if price break and sustains above the same. The 14-period RSI is close to the mid-level of 50 and move the same will signify strength in price. The reversal on MACD is indicating some strength in price. Immediate support is at Rs.180 whereas major support is at Rs.165. Buying above the resistance will be advised targeting Rs.215 – 225 levels.



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