MOTILAL OSWAL
Investment Services

Energy Weekly

Monday, March 08, 2021

Highlights:

- Oil Bulls Wrap up a Good Week
- OPEC+ takes on market by surprise, decided to roll over its quota
- Yemen's Houthis attack Saudi oil heartland with drones, missiles
- Natural gas markets needs more than strong LNG demand to rally

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	4321	60.2	63.3
Close	4304	59.24	62.91
1 Week Chg.	-17	-0.96	-0.39
%change	-0.72%	-0.39%	0.77%
OI	2517	30145	263495
OI change	2170	147303	-120058
Pivot	4325	59.37	62.98
Resistance	4369	60.16	63.87
Support	4261	58.46	62.02

Perspective:

WTI prices skyrocketed and traded higher for the fourth consecutive session, touching the highest levels in nearly two years after OPEC+ shocked the markets with their decision to keep production cuts largely unchanged in April. It looks like the crude complex price cycle appears to be repeating itself, with OPEC+ opting to continue restricting output rather than respond to falling inventories, rising prices and increasing backwardation. Prices got a further boost on constructive Chinese trade data released over the weekend, along with news that the US$1.9t US stimulus package was passed by the Senate.

Major Banks upgraded price forecasts, with some calls for oil reaching north of $100 next year. Markets cheered the fact that OPEC is not worried about tightening neither markets, nor higher prices which will bring shale players back in the markets. The most surprising fact was Saudi's intention to extend its voluntary oil output cut of 1 Mbpd and would decide in coming months when to gradually phase it out. This caught investors by surprise and led some to revise upwards their price forecasts. The Saudis have raised prices for its crude for shipment to Asia and the U.S. next month after OPEC+ extended oil supply constraints, pointing to a tightening physical market.

On the premium front, the geopolitical premium is once again in picture after news that Iranian-backed Houthi rebels attacked a Saudi oil export facility over the weekend. The target was in fact, the Ras Tanura export facility, which is the world's largest export

Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	221.2	3.067
Close	222	3.07
1 Week Chg.	0.8	0.00
%change	0.36%	0.07%
OI	6309	25607
OI change	17.35%	74.91%
Pivot	223.0	3.07
Resistance	227.3	3.15
Support	217.7	2.99

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	16	-0.18
2nd month	105	-0.40

WTI-Brent spread$	
1st month	-0.77
2nd month	-0.63

facility, capable of shipping around 6.5MMbbls/d of crude oil, and with a storage capacity of around 33MMbbls.

All of Saudi Arabia's key crude oil grades -- mainly Arab Heavy, Arab Medium, Arab Light and Arab Extra Light -- load from here along with condensate and refined products. Saudi's have however reported no damage to any facility or any disruption. The attack followed a missile launch by Houthis rebels on Saudi Aramco facilities at Jeddah on March 4th. The geopolitical premium of disruption is expected to remain as Iran is expected to continue the ramp up attacks through proxies as a low cost way to bleed Saudi Arabia.

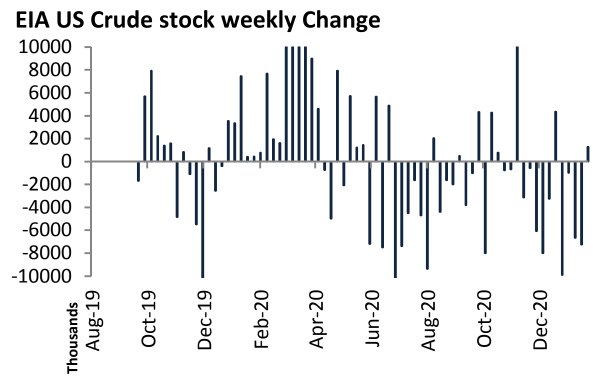
The whole sentiment of the paper market has turned bullish, but physical markets have failed to show any signs of tightness. Oil demand still appears pretty weak. Investors appear to be looking further forward to expectations for a strong demand recovery over the second half of this year. However, if these stronger demand expectations don't move as per expectations then markets can see a rafter downward correction.

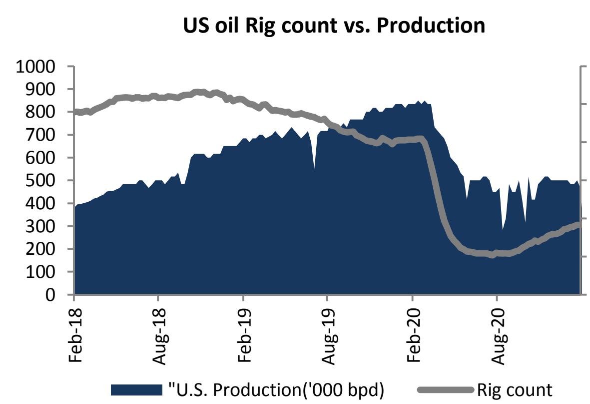
OPEC leaders are somewhere gambling on the prospects of the future of Shale as consolidation looks like an immediate future for players in the U.S. on account of needing to give back return to shareholders in place of more capital expenditure to drill more oil. Saudi Arabia is somewhere overconfident about shale as data shows that the number of rigs drilling for oil in the United States has already risen to 309, up from a low of just 172 last August, though it is still well below 678 at the same point last year.

If players once again start increasing production in shale, then the whole OPEC+ dynamics will once again be under question. In all this enthusiasm, higher prices are likely to increase strain within OPEC+ as some members like UAE, Russia and Iraq will want to pump more to relieve under-pressure economies. The group's next meeting is scheduled for April 1 to discuss production levels for May.

On the inventory front, Energy Information Administration reported crude oil inventory build of 21.6 million barrels which was in stark contrast to the estimated 7.356-MB build reported by API and expectations of an inventory draw of 1.85 million barrels. . Gasoline inventories fell by 13.6 MB, the most since 1990 whilst distillate stocks dropped by the largest margin since 2003, down by 9.7 MB. Crude inventories saw a record rise by 21.6 MB. These large decreases were expected as refinery operations in the Gulf Coast were heavily affected by the storm in Texas in Feb, with the enormous product draw more than offsetting the record crude build.

U.S. crude oil production, meanwhile, is ticking up, but remains well below pre-pandemic levels. The EIA reported crude production in the





Looking at the current rally, it seems like the current price rally is unwarranted and begs for a correction, as demand is not predicted to recover substantially until around the third quarter.

week averaged 10.0 million b/d, an increase of 300,000 b/d from the prior week but 3.1 Mb/d lower year/year.

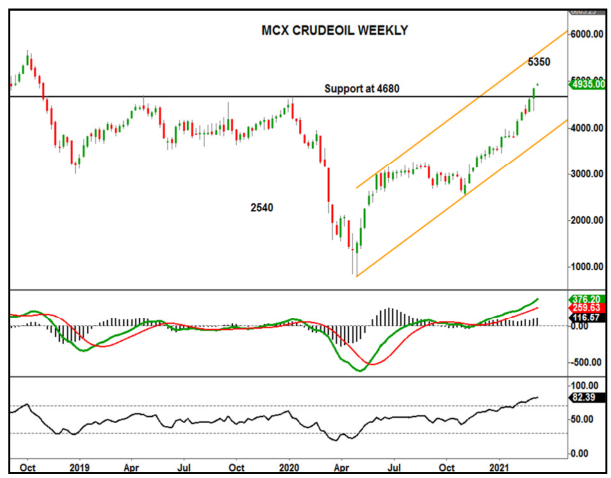
Natural Gas:

Natural gas traded lower for a second straight week, hitting its lowest level since the week-ending January 29. Prices were pressured by forecasts calling for milder temperatures this week and a bearish government storage report. Perhaps underpinning prices, at least over the short-term, was optimism over export demand. EIA reported a 98 Bcf withdrawal compared to expectations for a triple digit pull. LNG export levels topped 11 Bcf, hanging near record levels after rebounding from the interruptions imposed by frigid storm. It looks like LNG export won't be sufficient to turn the markets into a bullish zone.

Outlook:

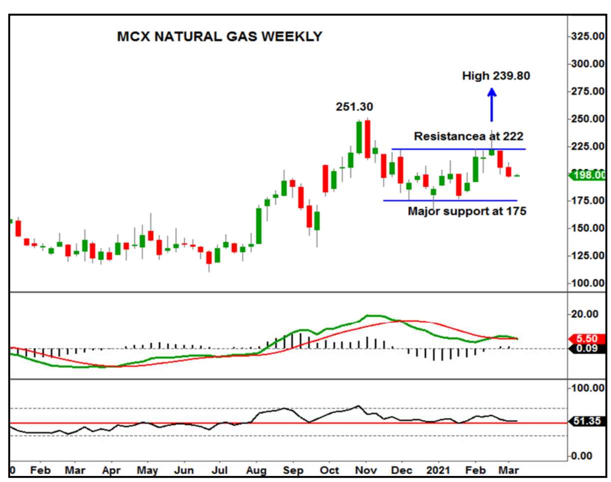
Looking at the current rally, it seems like the current price rally is unwarranted and begs for a correction, as demand is not predicted to recover substantially until around the third quarter. The current rally is not justified by oil market fundamentals as demand recovery globally remains a major question. There are many risks as in a higher price environment, OPEC+ is enjoying continued restricting output below its potential level to enjoy a temporary windfall by way of higher prices.

Crude oil:



MCX crude oil has been the best gainer amongst the commodities segment and is not signifying any sign of trend reversal as of now. As seen on weekly chart, strong support is placed at Rs.4680 and bias is likely to remain positive as long as price holds above the same. The 14-period RSI is in overbought zone, but is not signifying any trend reversal and MACD is also confirming further strength. The counter is likely to target Rs.5350 levels in the near term. Dip buying is recommended.

Natural Gas:



MCX Natural gas traded with negative bias for the second straight week as seen on the weekly chart. However, the 14-period RSI is flat but sustaining well above the mid-level of 50 and MACD is also above the zero line. Both the momentum indicators are signifying that downside for the counter will be limited. Supports are placed at Rs.185 – 175 whereas resistance is capped at Rs.222. Sideways consolidation within the given range will be seen and price break on either side will only give further trend confirmation.

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