# ENERGY MONTHLY

**8th Feb 2019**

# Fundamental Outlook

***Crude Oil:*** For the coming month, we expect global crude oil prices to trade bearish as ongoing US China Trade wars is forecasted to bring further tensions about the trade talks which has not shown any further progress and we are approaching the deadline of 1st March, before US taking further decision to impose higher sanctions of 25% on $250 billion worth Chinese goods. In addition, there can near term decrease in crude imports from Chinese Industries as the Chinese economy has been forecasted to slowdown in the current year as compared to the previous years. Though the overall OPEC crude production has been forecasted to be lower on a monthly basis, but then expectancy of global slowdown could dampen the overall demand for Crude Oil and eventually bring further pressurize international Crude prices. Furthermore, US inventories on a monthly basis has shown an incline as compared to the inventories reported in the past couple of months, which is more likely prevent spike in crude prices in the market. Likewise, the US production at a record high on a yearly basis as well which also possibly cap any major pullback global crude price.

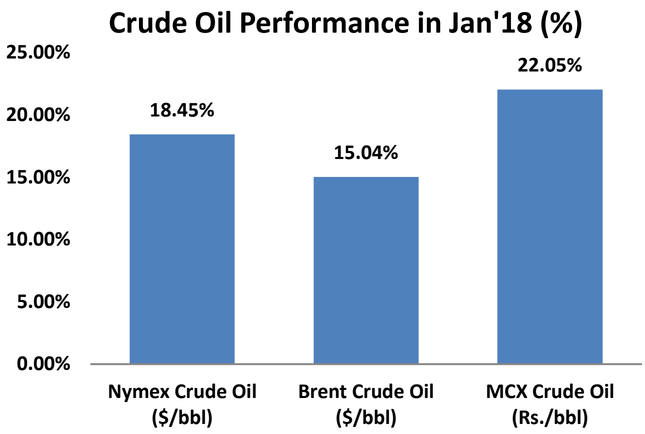
However, major downside may not be also witnessed owing to reduced production and supplies in Iran, owing to sanctions by United States and prevailing domestic hitches & management issues in Venezuela would also cause supply shortages in global markets. Furthermore, recent sanctions by the United States on Venezuela could also disrupt international exports and cushion crude prices on the lower levels. In consideration with the above factors, we expect bearish in MCX Crude Oil prices for the month.

***For the upcoming month, Brent crude oil prices are expected to trade in the range of $57/bbl to $67/bbl and on the domestic front, prices are estimated in the range of Rs.3400/bbl to Rs.4100/bbl.***

***Natural Gas:*** For the coming month, we expect NYMEX natural gas prices to trade lower due to steady supplies, lower demand and falling inventories reported in the US market. Currently the inventories have reported at 2197 billion cubic feet till 2nd February, lower by 18.78% compared to 2705 billion cubic feet reported during last month. On the other hand, the demand in United States has shown a fall and the fall has been majorly witnessed in power sector, residential and commercial sectors. The temperatures are forecasted to be near normal, which may not bring major rise in usage of heaters in the current winter season. Hence we expect bearish trend in the NYMEX Natural Gas futures for the month ahead.

In the Indian scenario, demand for natural gas in the power sector is expected to higher for the month ahead as temperatures are forecasted to be cooler in the current season. However, the demand for natural gas in the fertilizer sector would be at its lowest as we are currently in the rabi harvest season. Since the consumption of natural gas in the fertilizer sector is greater any than other sectors in India, we expect bearish trend to be witnessed in MCX Natural Prices for the coming month.

***For the next month, natural gas prices in the international market are expected to trade in the range of $2.481/mmbtu to $2.700/mmbtu and on the domestic markets are estimated to trade in the range of Rs.228/mmbtu to Rs.166/mmbtu.***



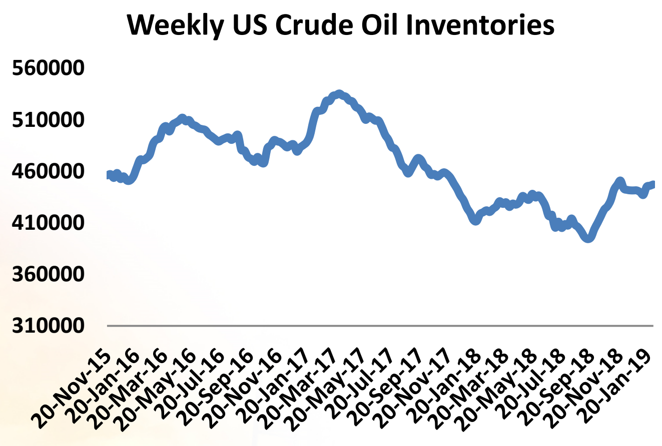

Source: Bloomberg, Choice Research

Crude Oil prices in the above exchanges had witnessed significant incline during the month of November, due to reduced supplies and steady demand in the global markets. Moreover, export cuts by Saudi Arabia in order to support prices in the global markets after the huge slump in the last quarter of 2018 led to pull back during the last month. Furthermore, recent sanctions by the United States on Venezuela also led to uptrend in global crude prices.

Looking forward for the coming month, we expect International Crude futures to trade bearish due to ongoing US China trade tensions which hasn't shown any signs of settlement of disputes. Moreover, since we are approaching the deadline of March 1 and recent news have indicated that there wouldn't be any further talks before the deadline, we can expect prices to remain on the lower side in the coming weeks.

Moreover, downtrend can also be witnessed for the coming weeks owing to rise in refinery production on a yearly basis. As per EIA (US Energy Information Administration) weekly report ending on 1st February, domestic production of crude oil reported at 11900 thousand bpd (barrels per day) similar compared to previous week.

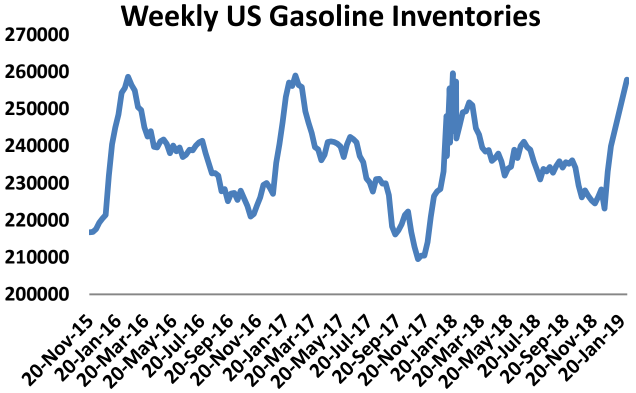
But, on a yearly basis, the domestic crude oil production has risen in United states by 16.08% compared to previous year's production of 10,251 thousand bpd. Higher production on a yearly basis has led to significant rise in exports to Mexico. Exports for the week ending at 1st Feb'19 have reported at 2870 thousand bpd, higher by 1287 bpd compared to 1583 thousand bpd of Feb'18. On the other hand, the imports ending on the above week has reported at 7146 thousand bpd lower compared to previous year's imports of 7892 thousand bpd. The overall refineries inputs in U.S. averaged at 16.633 million barrels, slightly lower by 0.97% compared to corresponding period last year's inputs of 16.797 million barrels. Refineries have majorly operated at 92-93% of their operable capacity during last month which has been slightly lower compared to 94-96% of their operable capacity preceding months.




Source: Bloomberg ,Choice Research

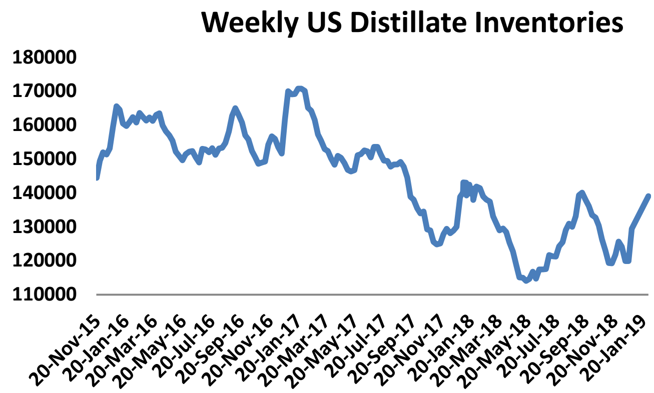
The above chart showcases that US Crude Oil inventories which has reported at 447207 thousand barrels till 1st February'19. It is higher by 7469 thousand barrels compared to 439738 thousand barrels reported on 4th January. Moreover, it is higher by 26953 thousand barrels compared to 420254 thousand barrels reported on 2nd February'18.

Overall, the above US Crude inventories has been on a rising trend during the last few weeks owing to lower demand from China due to trade war tensions and slowdown in the Chinese economy. Moreover, concerns regarding global economy slowdown and partial US government shutdown could also further slump the demand and eventually keep the inventories on the higher side during the coming weeks.




**Source: Bloomberg, Choice Research**

On a monthly basis, total motor gasoline inventories rose by 9831 thousand barrels on 1st February and reported at 257893 thousand barrels. Currently the Gasoline inventories have witnessed pull back based on seasonal basis, owing to lower usage in the Unites states. Moreover, the above inventories have also been reported to be higher on a yearly basis compared to 245475 thousand barrels reported on 2nd February 2018. Additionally, out of the total motor gasoline inventories, finished gasoline inventories increased to 26.5 million bpd from 24.5 million bpd on a yearly basis, while blending components inventories has shown a rise from 221.0 million barrels to 231.3 million barrels. Overall the past seasonal trend showcases that gasoline inventories are estimated to incline in the coming weeks owing to falling demand in the global markets.




**Source: Bloomberg, Choice Research**

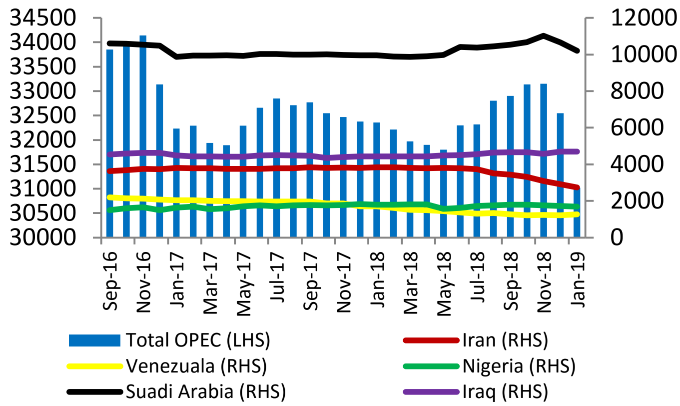
The above distillate fuel inventories which had been gradually declining on a yearly basis and has shown a pullback by 4521 thousand barrels during the January month and reported at 139103 thousand barrels by .1st February 2019. Currently it is still in the lower half of the average range for this time of year, due to lower imports and production of distillate fuel in the United States. However, Distillate fuel inventories during the current period has declined by -1.97% compared to 141826 thousand barrels during the corresponding period of the last year.

On the other hand, propane/ propylene inventories decreased by 2.7 million barrels during last week to 57.5 million barrels. However on a yearly average range basis, it has remained higher compared to 48.9 million barrels during the same period of the last year.

Overall the above US production and inventories scenario may keep the prices on the lower levels. However, recent supply cuts by the OPEC member countries may support the global Crude prices from the lower levels during the coming weeks.

# ENERGY MONTHLY

**Trend in Major OPEC Crude Production ('000**




**Source: Bloomberg, Choice Research**

The above chart gives a depiction of the total OPEC crude production trend on a monthly basis including some of the major crude oil producing countries. Looking at the above trend, the total OPEC production had peaked out during Nov'16, which eventually pressurized Brent crude prices to $43-50/bbl levels. Another high in OPEC production was witnessed in Nov'18, which had also pressurized the global crude prices. In Dec'18, OPEC crude production witnessed downtrend after Brent crude prices had touched down the low level of $50/bbl.

Similarly, the OPEC Crude production fell down further last month as Saudi Arabia and the other OPEC member countries have decided to reduce production and supplies to global buyers in order to support prices for the coming months. The outcome for the same was majorly witnessed in the first half of January, but then again slowdown in the Chinese Economy and partial shutdown of the U.S. Government led to decline in overall global demand. This eventually brought mixed trend during second half of January. Total OPEC production for the month of January'19 has declined to 31020 thousand barrels per day(bpd), similar compared to previous month.

In addition, crude production in Saudi Arabia have shown a fall of 4.22% to a total of 10200 thousand barrels. Saudi Arabia the key producer of Crude Oil among the OPEC members had majorly reduced production in order support prices from further declining. Iraq on the other hand has reported similar production of 4690 thousand barrels during Jan'19 compared to previous month. Along with Saudi Arabia, Iraq has also decided to cut down its production in the OPEC meeting which was held in the month of December. Moreover, recent news have confirmed that energy relations between Iraq and Iran are increasingly coming under pressure from the US government, which has forced OPEC's second largest producer to end a crude supply deal with its neighbor Iran. The US granted a sanctions waiver to Iraq for electricity and natural gas imports from Iran, but this was not extended to its oil supply deal with the country's fellow OPEC member.

Elsewhere, Nigeria has reported production of 1690 thousand bpd lower by -1.74% compared to the previous month. Considering Saudi's Allies such as Kuwait and UAE, crude production declined by 2.13% and 3.67% in that order, to 2750 thousand bpd and 3150 thousand bpd respectively.

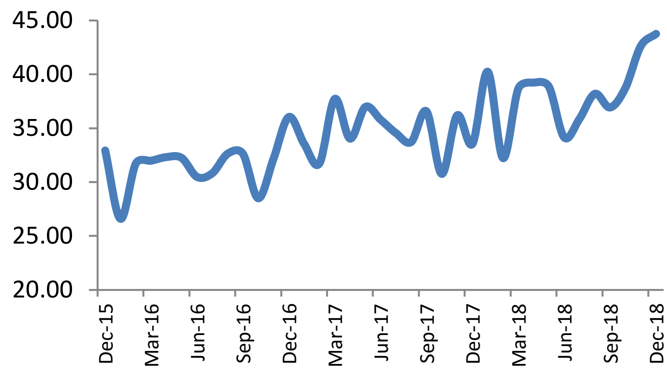
Similarly, Libya (OPEC Member) has shown a decline in production by 10% to 900 thousand barrels. Libya's largest oil producing refinery was shut down for over two months after it was occupied by armed group. However, recent news have point out that UN-backed government in Tripoli has gone to south Libya to secure the country's largest oil field, Sharara. Libya's National Oil Corporation (NOC) has said that "Oil production will now only restart at Sharara after alternative security arrangements are put in place."

Similarly, crude production in Iran has shown a decline by -6.16% to a total of 2740 thousand bpd, while Venezuela's crude production has increased by 50 thousand barrels to a total of 1270 thousand bpd. Despite having obtained U.S. waivers to continue importing Iranian oil, Italy and Greece have stopped buying Iran's crude, Iranian Oil Minister Bijan Zangeneh said on 5th February. He further added that so far they haven't responded to our correspondence. Moreover, among the Europeans, except for Turkey, no other nation has purchased oil from Iran till date. The above waiver for the 8 countries(which includes India) at reduced rate is projected to continue till May'19.

Furthermore, Iran's oil customers should not expect new U.S. waivers in the month of May, the U.S. Special Representative for Iran, Brian Hook, said during the first week of February, urging buyers to stop importing Iranian oil. The U.S. Administration has not officially said that no waivers will be issued, but officials have said that the goal is to drive Iranian exports to zero. Analysts, however, believe that there will be a direct correlation between the U.S. Iran waivers policy and the price of oil at the time Washington decides. All these above factors have indirectly affected production numbers on a monthly basis and Iran is likely to produce oil during the coming months at reduced operating capacity.

Finally, Venezuela which has recently faced sanctions by the United States is also forecasted to face huge amount of losses in its production and exports in the coming months. Dozens of tankers have been idling at the Caribbean sea and have no place to go. In addition to making it harder for Venezuela to export oil, the sanctions also make it harder and more expensive for U.S. companies to send fuel products known as diluents in the other direction.

**Trend in China Crude Imports (million tonnes)**




**Source: Bloomberg, Choice Research**

The above table showcases the trend of China's crude imports which has been gradually rising a monthly basis. For the month of Dec'18, China has imported approx. 43.75 million tonnes, higher by approx. 2.69% compared to 42.61 million tonnes reported on Dec'18. Though the Chinese economy seems to be slowing down since the last two quarter we have still witnessed incline in imports till the end of the year 2018. Along with Russia, China has also loaned Venezuela with funds to help the economy survive while taking oil from Venezuela as a form of repayment of its loans. Venezuela owes around $100 billion to its external creditors, including China and Russia. This has also increased the imports in China in the past couple of months.

However, we may see some slump in imports in China during the coming months as the Chinese economy has been forecasted to witness slowdown during the current year as compared to previous year. Major impact on the same could be witnessed in the industrial sector for producing refined metals. Moreover, imports may also decline as the U.S. China trade talks have not shown any major progress so far and we may see higher sanctions of 25% imposed on $250 billion chinese goods imported in United States.

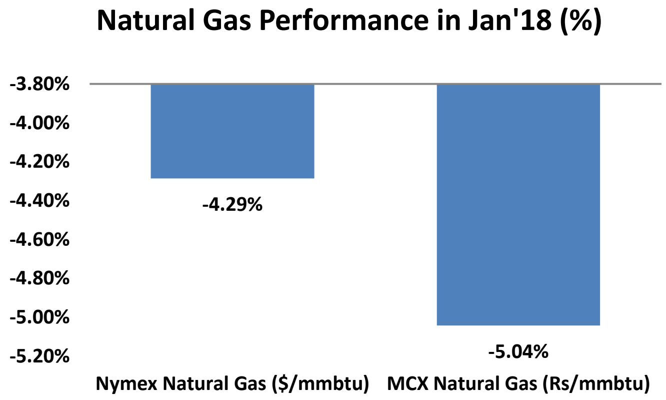
In conclusion, though the overall OPEC crude production has been forecasted to be lower on a monthly basis, but then expectancy of global slowdown could dampen the overall demand for Crude Oil and eventually bring further pressurize international Crude prices.

Additionally, ongoing US China Trade wars is forecasted to bring further tensions as the trade talks have not shown any further progress and we are approaching the deadline of March 1 before US taking further decision to impose higher sanctions of 25% on $250 billion worth Chinese goods. In addition, there can near term decrease in crude imports from Chinese Industries as the Chinese economy has been forecasted to slowdown in the current year as compared to the previous years.

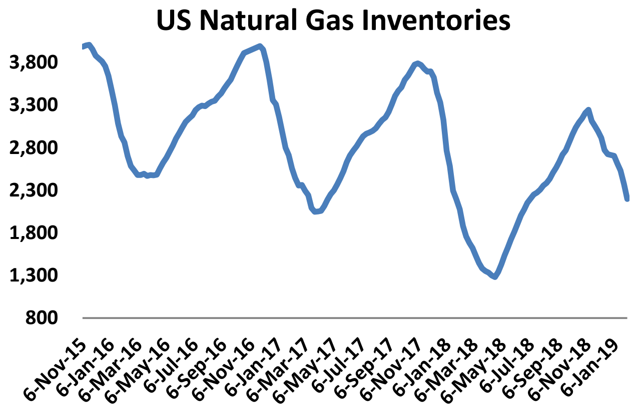
Furthermore, US inventories on a monthly basis has shown an incline as compared to the inventories reported in the past couple of months, which is more likely prevent spike in crude prices in the market. Likewise, the US production at a record high on a yearly basis as well which also possibly cap any major pullback global crude price.

However, major downside may not be also witnessed owing to reduced production and supplies in Iran, owing to sanctions by United States and prevailing domestic hitches & management issues in Venezuela would also cause supply shortages in global markets. Furthermore, recent sanctions by the United States on Venezuela could also disrupt international exports and cushion crude prices on the lower levels.

Overall, the above global production reports and geopolitical factors are estimated to have a bearish impact on the International and MCX Crude Futures for the coming month as well.




Source: Bloomberg & Choice Research




Source: Bloomberg, Choice Research

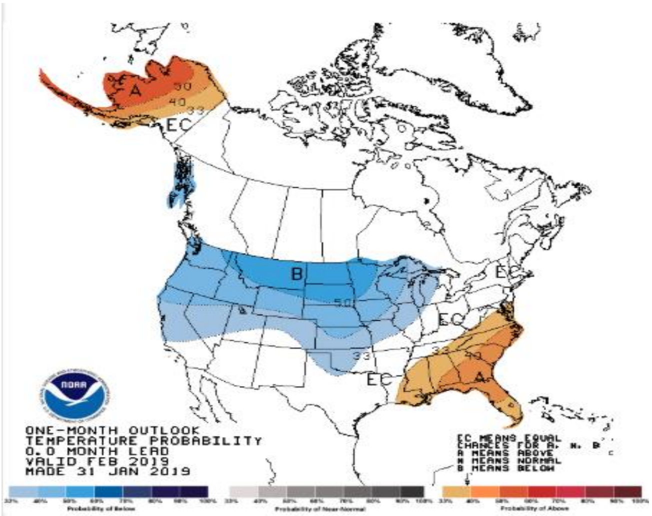
Nymex Natural gas prices has witnessed a decline of -4.29% during the month of January owing to partial government shutdown witnessed in the United States which led to lower demand for in the industrial sectors.

On the domestic front, MCX prices has also declined by 5.04% in the month of January with lower demand in the fertilizer sectors during the growth phase of the rabi crops in the country.

Looking forward for the coming month, we expect NYMEX natural gas prices to trade bearish due to lower supply, falling demand and declining inventories in the United States. As per EIA (US Energy Information Administration) weekly report ending on 7th February, supplies have reported at 92.5 Bcf/d (billion cubic feet per day), lower compared to previous week's supplies of 93.9 Bcf/d. However, the demand has declined significantly to 104.0 Bcf/d from 122.0 Bcf/d of the previous week. Fall in demand has been majorly observed in the power sector, residential and commercial sectors. Since the temperatures are forecasted to be near normal during the coming weeks we are expecting Natural gas demand to be remain lower in the markets.

The above chart showcases the US Natural gas inventories which had hit the lowest levels in Apr'18, but it has shown an gradual incline till the mid of November'18. Post Mid November inventories start to decline owing to changing weather conditions and season from Autumn to Winter. This has eventually increased the demand for heaters/power sectors in the natural gas sectors. Currently the inventories have reported at 2197 billion cubic feet till 2nd February, lower by 18.78% compared to 2705 billion cubic feet reported during last month. For the coming month, we are expecting US natural gas inventories to limited fall, as the demand is forecasted to be lower due to reduced usage in the power sectors and LNG pipeline receipts during the current month .

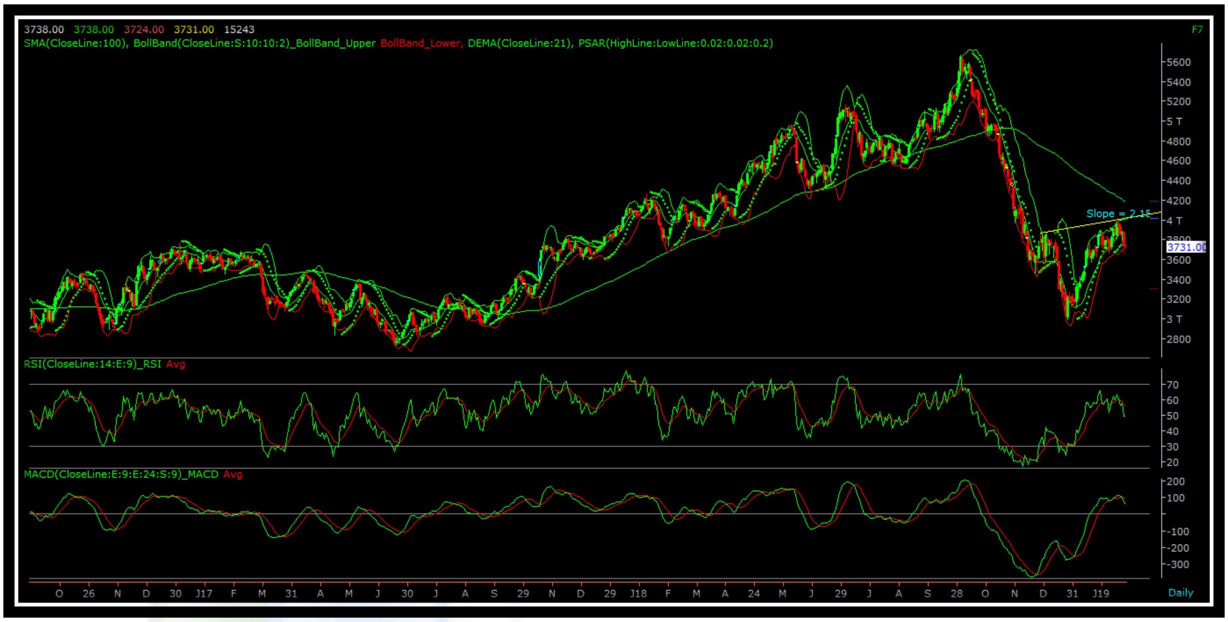
In the Indian scenario, demand for natural gas in the power sector is expected to higher for the month ahead as temperatures are forecasted to be cooler in the current season. However, the demand for natural gas in the fertilizer sector would be at its lowest as we are currently in the rabi harvest season. Since the consumption of natural gas in the fertilizer sector is greater any than other sectors in India, we expect bearish trend to be witnessed in MCX Natural Prices for the coming month.




US CPC (Climate Prediction Center) survey for next one month, showcases that cooler temperatures are expected to cover western, northern and central regions of United States. Higher temperatures are likely to be witnessed in south eastern and Alaska regions which could bring fall in demand power sectors in the current winter season. In addition, temperatures are likely to be near normal in the central-southern regions and some of the eastern regions. Overall temperatures are likely to be 20-30% below averages making a net lower to normal temperatures.

# Technical Outlook

## MCX Crude Oil




Crude Oil prices fell down as economic slowdown, although supply cuts led by producer club OPEC and U.S. sanctions against Venezuela provided crude with some support. On the daily chart, MCX Crude Oil price has retreated from upper band of **“Bollinger Pattern”**, which indicates further downtrend in the counter. Moreover, **Negative divergence** is seen in the RSI as the momentum indicator made Lower high against higher through in prices. Furthermore, price has taken **Rising Trendline** resistance, which indicates bearishness in the price. Furthermore, momentum indicator RSI and MACD has shown negative crossover on the daily chart; which adds more bearishness to the price. In addition, price has sustained below 100 days SMA; which intimates medium term trend remains bearish. So based on the above technical structure, **we expect bearish in MCX Crude Oil (Mar) on the higher end, price may move towards Rs.4100 levels, while on the lower end, it may find the support around Rs. 3400 levels.**

# Technical Outlook

## MCX Natural Gas


Natural Gas prices fell sharply as weather forecasts for February show more normal and even warmer-than-normal temperatures for parts of the U.S., following a brutal cold snap last week. On a weekly chart, MCX Natural Gas (Feb) has given a **Rising Trendline** breakdown; which intimate downward trend for near term. Furthermore, price has been trading below "**Parabolic SAR**", which indicates downward movements. On the other hand, a momentum indicator RSI (14) has slipped below 30 levels (oversold zone); which suggest that the price may accelerate further from the bottom. In addition, price has sustained below 200 days SMA; which intimate medium term trend remains bearish. So based on the above technical structure, **we expect sideways to bearish in MCX Natural Gas (Feb) on the higher end, price may move towards Rs.228 levels, while on the lower end, it may find the support around Rs.166 levels.**

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