SPECIAL MONTHLY REPORT ON

ENERGY

OCTOBER 2023

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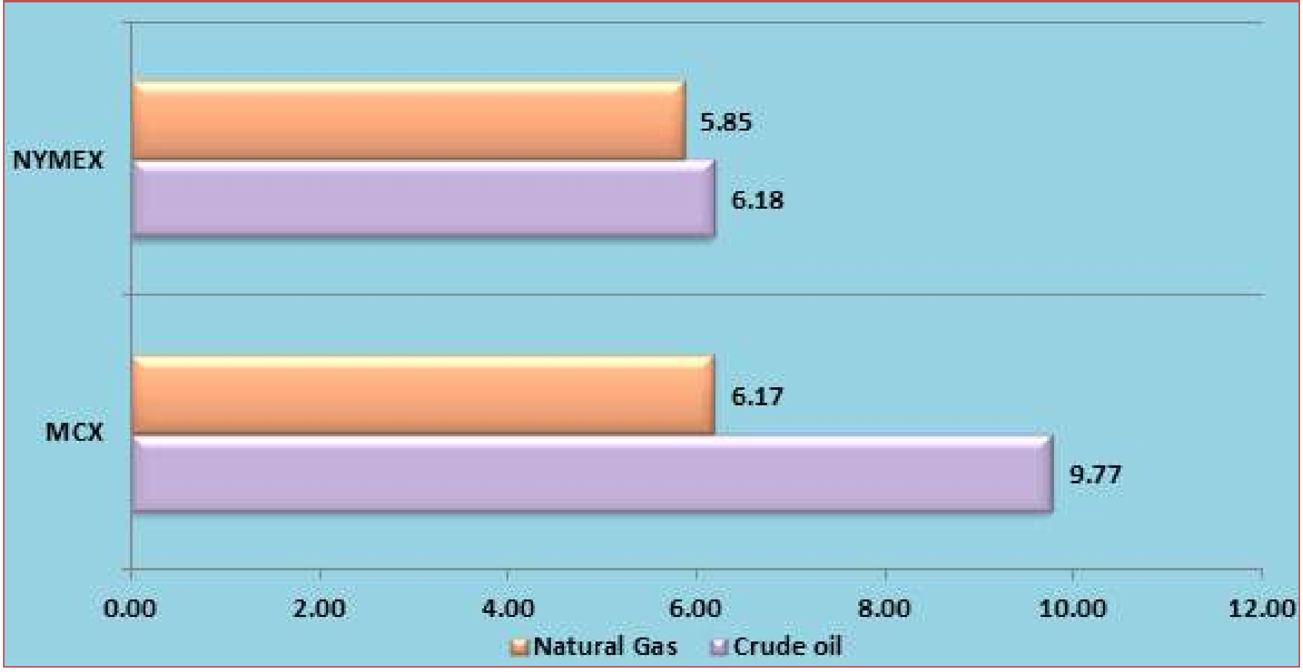
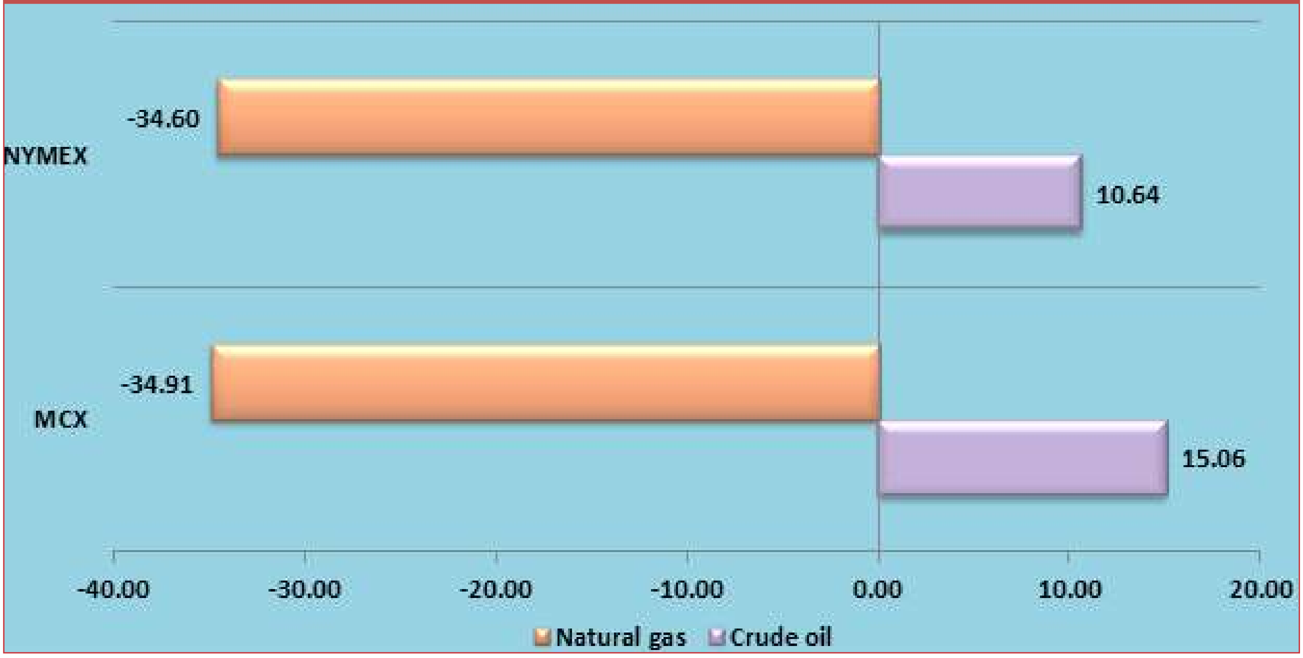
ENERGY

Price movement in September 2023



Source: SMC Research & Reuters

Price movement in January-September 2023



Source: SMC Research & Reuters

In September, Crude oil prices recorded monthly gains of almost 10% on MCX and more than 6% on NYMEX and closed about 30% higher in the quarter as OPEC+ production cuts squeezed global crude supply. Russian ban on the export of diesel and gasoline has ignited the crude prices. Russia imposed an indefinite ban on the export of diesel and gasoline to most countries, a move that risks disrupting fuel supplies ahead of winter and threatens to exacerbate global shortages. Stockpiles at Cushing have been falling closer to historic low levels due to strong refining and export demand, prompting concerns about quality of the remaining oil at the hub and whether it will fall below minimum operating levels. However, oil prices lost some of their gains in the end of month reflecting investor unease over the global economy in light of the Federal Reserve's long-term high-interest rates strategy.

Outlook

- The current state of the oil market reflects a complex interplay of geopolitical factors, production decisions by key players, and macroeconomic policies. As these elements continue to evolve, fluctuations in oil futures are expected to persist.
- The Federal Reserve's strategy of maintaining high-interest rates over an extended period has been viewed with apprehension by investors. This policy could potentially slow down economic growth, thereby affecting the demand for oil.

ENERGY

- The OPEC+ ministerial panel made no changes to the group's oil output policy, and Saudi Arabia said it would continue with a voluntary cut of 1 million barrels per day (bpd) until the end of 2023, while Russia would keep a 300,000 bpd voluntary export curb until the end of December.
- China's decreased oil demand is playing a significant role in the global oil market, countering recent crude price surges, according to Citigroup. The country's shift away from costly crude imports towards refined product exports and its large oil inventories are influencing global prices and supply dynamics.
- The declining oil demand in Europe and the United States was also recognized by the Citigroup analysts. As these major economies grapple with their respective challenges, their reduced demand for oil is impacting the global market.
- Oil and gas activity in three U.S. energy producing states has been rising with the latest jump in prices, according to a survey by the Federal Reserve Bank of Dallas.
- In July, U.S. crude production grew to its highest since November 2019, according to data from the Energy Information Administration.
- Moreover, the re-emergence of Iraqi Kurd barrels and new Surinamese and Guyanese barrels were also noted as factors influencing the oil market. Such developments indicate a diversified supply source, potentially adding to the volatility of prices.
- European manufacturing data showed the euro zone, Germany and Britain all remained mired in a downturn in September-bad news for oil demand.

Weekly Price Movement of Crude Oil in MCX

Source: Tradingview

Weekly Price Movement of Crude Oil in NYMEX

Source: Tradingview

In October 2023, Crude oil prices may trade with bearish bias and possible trading range would be 6800-7700 where selling near resistance would be strategy.

Natural gas

In September, natural gas prices trade almost 6% higher on NYMEX and MCX as hot weather in the United States and Europe increased demand for natural gas for power generation and cooling. Natural gas inventories in the United States were at below-average levels for the time of year, which raised concerns about supply shortages. The average gas output in the lower 48 states dipped slightly, registering 102.1 billion cubic feet per day (bcfd) in September, down from the 102.3 bcfd high in August. Meanwhile, pipeline exports to Mexico have marginally improved, and gas flows to major U.S. LNG export plants are rising despite ongoing maintenance activities at key facilities.

Outlook

- The natural gas market witnessed volatility as it remained influenced by weather conditions. Traders and investors closely monitored the supply and demand outlook, with weather forecasts, inflation data, and storage levels playing significant roles in shaping market sentiment.
- Meteorological data suggests a shift to near-normal weather conditions across the lower 48 states by mid-October. This forecast adjustment is expected to slightly reduce U.S. gas demand, including exports, to 94.5 bcfd next week from 94.8 bcfd this week.
- The demand is almost certainly going to pick up over the next several months, and traders are going to have to price in the idea of a cold winter.
- European storage sites keep adding reserves, with inventories in the bloc up to 96% full, according to data from Gas Infrastructure Europe.
- However, the European Union has no idea as to where it's going to get its gas, except for perhaps liquefied natural gas coming out of the United States. In other words, it's going to directly affect this market, and send prices higher than usual this winter.

Weekly Price Movement of Natural Gas in MCX

Source: Reuters

Weekly Price Movement of Natural Gas in NYMEX

Source: Reuters

In October 2023, prices may witness sideways to bullish movement where it may take support near 225 and resistance near 275.

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