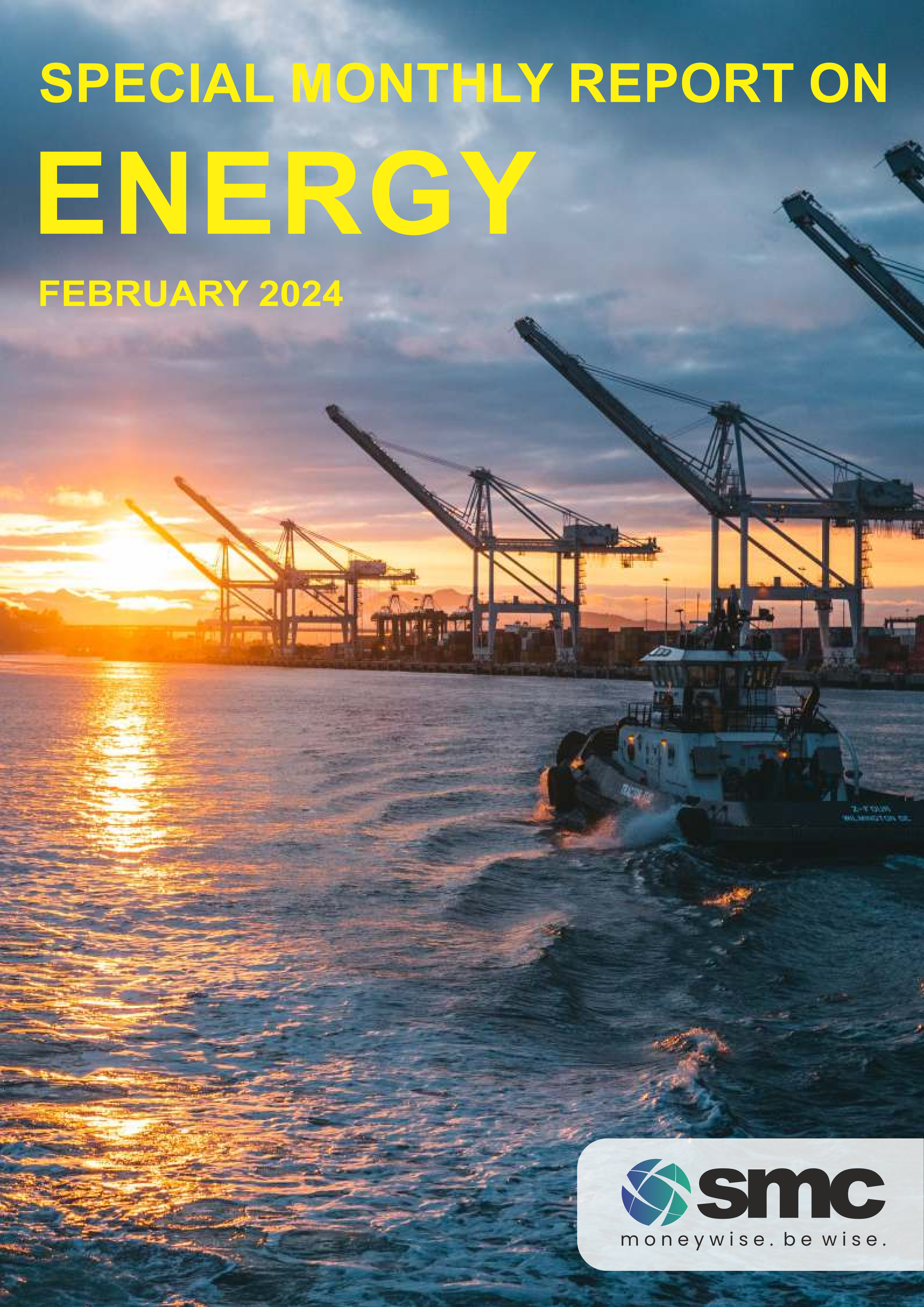
SPECIAL MONTHLY REPORT ON

ENERGY

FEBRUARY 2024



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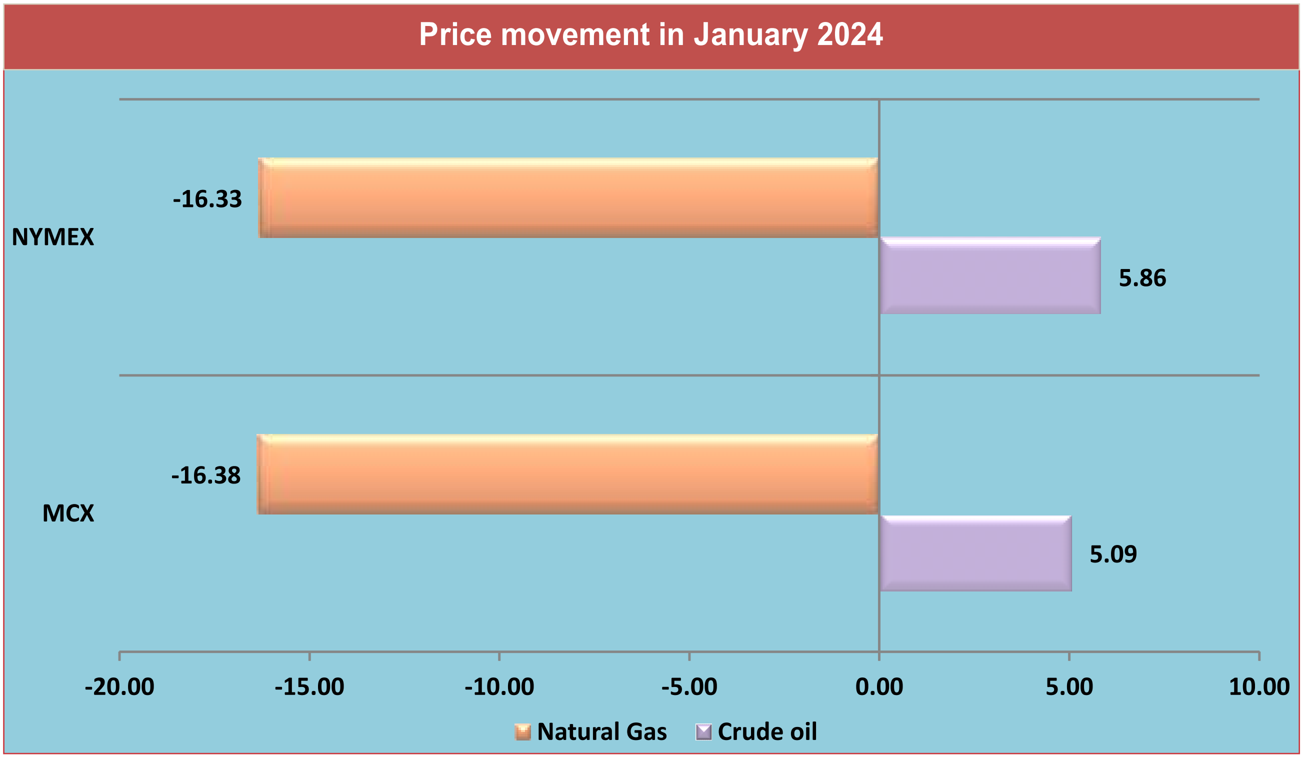

Source: SMC Research & Reuters

In the month of January, Crude oil prices for WTI experienced a significant rise of nearly 6% and snapped a three-month losing streak as a cocktail of geopolitical tensions kept global crude supply risks elevated. Manufacturing activity in China, the world's second-largest economy, contracted for a fourth straight month in January, in the first official snapshot of how this crucial market–China is the biggest importer of oil in the world–has started the New Year. A quick return to above-trend economic growth in China was behind the bullish forecasts of oil demand growth for 2024 from both the International Energy Agency and the Organization of Petroleum Exporting Countries earlier in January month. The International Monetary Fund lifted China's growth forecast this year to 4.6% from 4.2% in October, but there must still be doubt about this recovery given a property downturn, local government debt risks, deflationary pressures and weak global demand.

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.
- U.S. policymakers, meanwhile, kept rates unchanged. Economist predictions suggested that a cut is unlikely before June, given continuing strength in household spending and uncertainty over the economic outlook.
- Investors remained wary of any escalation in the Middle East conflict, after the U.S. signaled further strikes on Iran-backed groups in the Middle East in response to a deadly attack on U.S. troops in Jordan.
- Rumours of a potential ceasefire in the war had dented oil prices over the past week, given that potential disruptions to supply, arising from the conflict, were a key point of support for crude prices.
- But no truce materialized over the weekend, while clashes between Israeli and Hamas forces continued. Tensions in the Red Sea-between U.S.-led forces and the Iran-aligned Houthi group, also remained in play, as the latter threatened more strikes against vessels in the region.
- Tankers carrying Russian oil have continued sailing through the Red Sea largely uninterrupted by Houthi attacks on shipping and face lower risks than competitors, according to shipping executives.
- On the supply side, OPEC oil output in January registered the biggest monthly drop since July, a Reuter's survey found, as several members implemented new voluntary production cuts agreed with the wider OPEC+ alliance and unrest curbed Libyan output.
- Iran's budget targets oil sales of 1.35 million barrels per day for the Iranian year starting March 2024, about 1.3% of the 103.5 million bpd global supply forecasted by the International Energy Agency.
- JPMorgan said they expected China to remain the single largest contributor to global oil demand growth this year, forecasting oil demand there would grow by 530,000 barrels per day in 2024, following a 1.2 million bpd surge last year.

Weekly Price Movement of Crude Oil in MCX

Source: Reuters

Weekly Price Movement of Crude Oil in MCX

Source: Reuters

In February 2024, oil prices are anticipated to trade within a broader range with increased volatility, with a potential trading range between 5700 and 6400.

ENERGY

Natural gas

In January, natural gas prices nosedived almost 16% on both NYMEX and MCX, influenced by reduced demand forecasts and increasing output levels. The milder weather conditions across the U.S. have led to reduced heating demand. Rising gas production, as wells resume operations after the mid-January Arctic freeze, contributed to the downward pressure on prices.

Outlook

- The natural gas market may continue to witness volatility as it remained influenced by weather conditions. Taking into account the increased production levels, the on-going subdued demand due to mild weather and the uncertainties in the global LNG market, the natural gas market is expected to follow a bearish trend in the upcoming days.
- Gas output in the U.S. Lower 48 states increased to an average of 105.4 billion cubic feet per day in February from 102.0 bcfd in January, although still below the monthly record high of 106.3 bcfd in December.
- Meteorological projections suggest that temperatures in the Lower 48 states will remain warmer than normal through at least February 15 before turning near normal on February 16-17.
- While colder temperatures in mid-February may boost heating demand, current expectations indicate on-going warmth.
- The recent pause by the Biden administration on new U.S. LNG export projects introduces uncertainties in the global LNG supply chain. Such geopolitical factors can create volatility in the market, as LNG exports are a significant outlet for U.S. natural gas production.

Weekly Price Movement of Natural Gas in MCX

Source: Reuters

Weekly Price Movement of Natural Gas in NYMEX

Source: Reuters

In February 2024, natural gas prices are expected to trade with bearish bias, with support around 155 and resistance near 200. However, short covering at lower level cannot be denied.

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