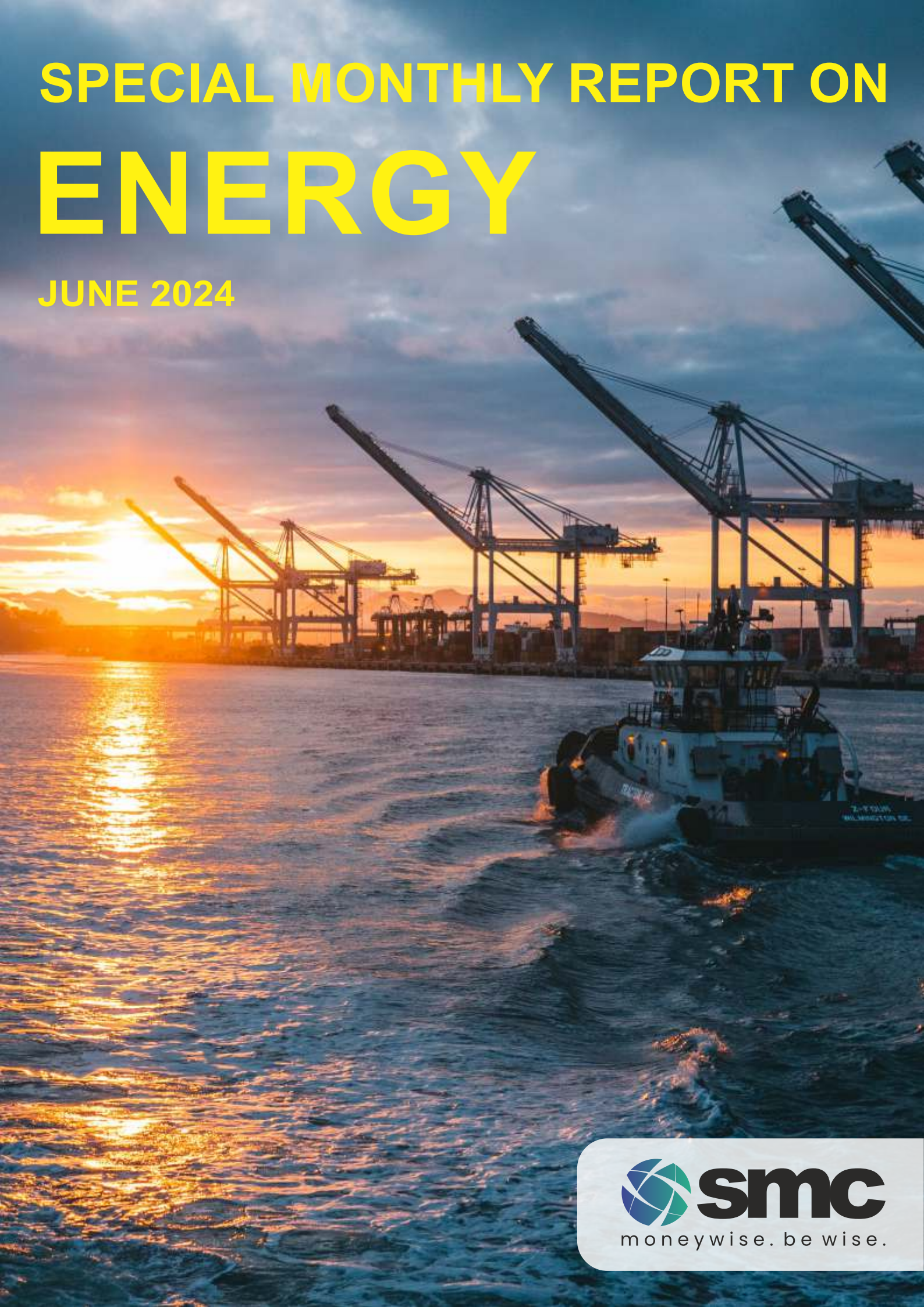


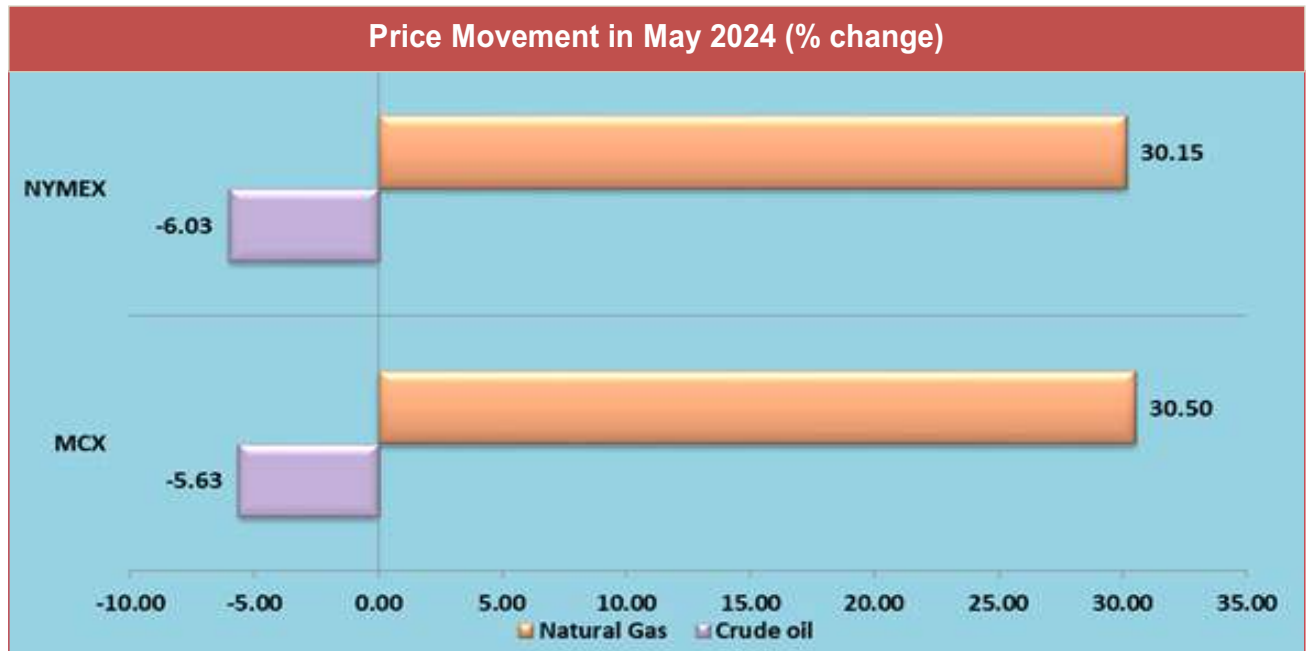
# SPECIAL MONTHLY REPORT ON ENERGY

JUNE 2024

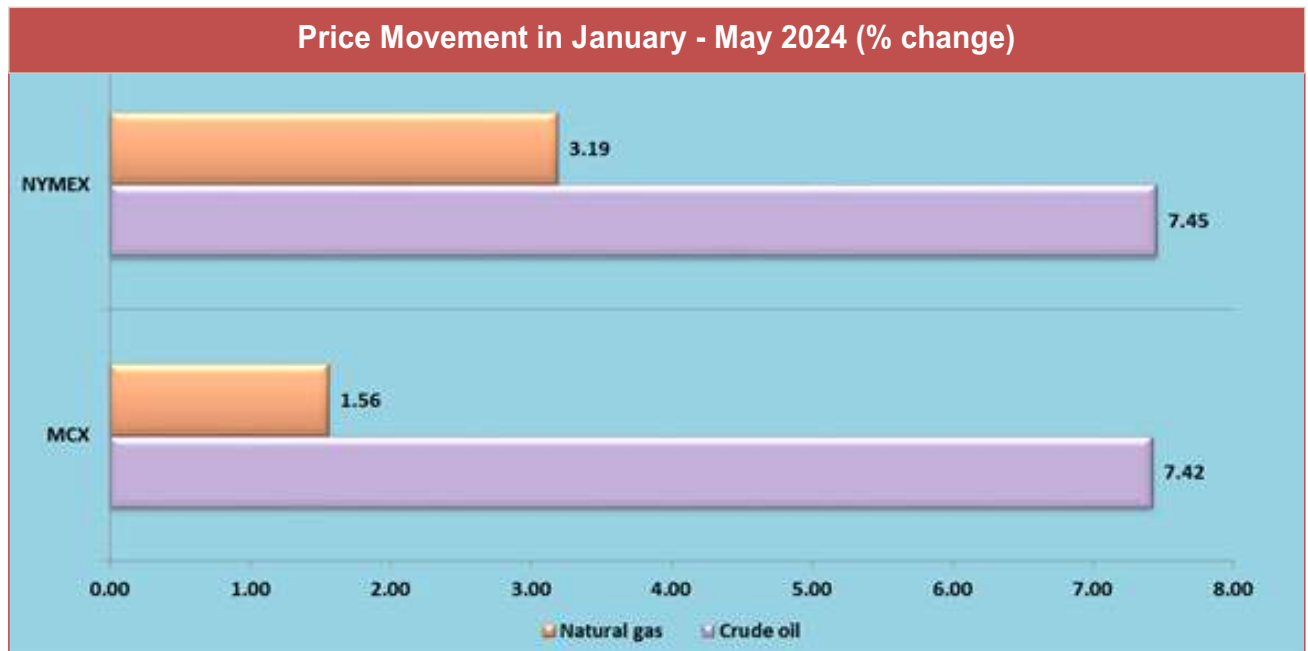


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Source: SMC Research &amp; Reuters



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In May, both oil benchmarks registered their biggest monthly declines since December due to the prospect of U.S. borrowing costs staying higher for longer, fresh hopes on a Gaza ceasefire and on-going demand concerns. Traders remain concerned that prolonged high interest rates in the US will hurt the economic outlook and demand for energy. On the production front, Russia said that it exceeded its OPEC+ production quota in April for "technical reasons." The Russian Energy Ministry stated that the country maintained production below the OPEC+ quotas through the first quarter of 2024. The April overproduction was attributed to "technical particularities of reducing production by a significant amount." Moreover, the United Arab Emirates' main oil company, Abu Dhabi National Oil Co., announced it had increased its production capacity. The latest signs of de-escalation of risk premiums have seen a 12 per cent correction in oil prices in the last two months. The setback for crude oil correlated with weak emerging markets as the official Chinese PMI figure for the manufacturing sector suggested a contraction. Analysts believed the death of Iranian President Raisi would not impact the crude market as Iran's Supreme Leader Ayatollah Ali Khamenei has assured there won't be any disruption to the country's affairs.

## 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.
- Investors were concerned that higher-for-longer borrowing costs would curb economic growth in the U.S., the world's leading oil consumer, after the Federal Reserve decided to continue interest rates steady.

- Geopolitical risk premiums due to the Israel-Hamas war may fade as the two sides are considering a temporary ceasefire and hold talks with international mediators.
- OPEC+ agreed on June 02 to prolong its deep oil output cuts in 2024 and was discussing extending them into 2025, OPEC+ sources said as the group seeks to shore up the market amid tepid global demand growth, high interest rates and rising rival U.S. production.
- OPEC+ members are currently cutting output by a total of 5.86 million barrels per day (bpd), or about 5.7% of global demand.
- The cuts include 3.66 million bpd by OPEC+ members valid through to the end of 2024, and 2.2 million bpd of voluntary cuts by some members which expire at the end of June.
- By December, an additional 500,000 barrels per day is expected to re-enter the market, with a total of 1.8 million barrels per day anticipated to return by June 2025.
- On the demand side, data indicated that U.S. manufacturing activity slowed for the second consecutive month in May, while construction spending fell unexpectedly for the second month in a row in April, driven by declines in non-residential activity.
- A steady flow of dim signals from major economies such as the U.S., China and Europe suggest that their appetite for oil may not be as healthy as hoped through the rest of the year.
- OPEC+ is probably concerned about the state of demand growth in Asia, the top-consuming region and the engine room of its forecast for global growth of 2.25 million bpd this year.

### Weekly Price Movement of Crude Oil in MCX



### Weekly Price Movement of Crude Oil in MCX



In June 2024, oil prices are anticipated to trade within a broader range with bearish bias, with a potential trading range between 5650 and 6750. Profit booking at higher level cannot be denied.

## Natural gas

In May, Natural gas prices jumped more than 30% after gaining more than 12% in April on both NYMEX and MCX, due to uptick in demand, low demand and increased flow to liquefied natural gas (LNG) export plants. The return of the Freeport LNG plant in Texas has also contributed to rising gas flows to major U.S. LNG export plants in May. Meteorological projections suggest warmer-than-normal weather across the Lower 48 states, contributing to the forecasted increase in gas demand. Gas output in the Lower 48 U.S. states slightly declined to 97.5 billion cubic feet per day in May from 98.2 billion cubic feet per day in April, although still below the monthly record of 105.5 bcf in December 2023.

## Outlook

- Considering the forecast of strong near-term demand due to continued warm weather, combined with production declines and potential supply disruptions in Europe increasing demand for U.S. LNG exports, the outlook for natural gas prices remains bullish.
- Natural gas supplies in Europe are plunging again and it turns out that despite all of the ideas of solar power, wind power, et cetera, they still need natural gas in Europe. Furthermore, the Russian supply of course is not available.
- Meteorologists project warmer-than-normal weather across the Lower 48 states until June 19, with only a few near-normal days from June 9-11. Meanwhile, U.S. utilities added 84 billion cubic feet of gas into storage during the week ending May 24th, exceeding expectations and marking the eighth consecutive week of seasonal storage increases.
- Gas stocks totalled 2,795 billion cubic feet, up 15% from the previous year and 26% above the current five-year average.
- In Europe, supply risks eased as a key Norwegian pipeline is expected to be repaired by Friday, following an outage that caused prices to surge.
- Norway, which became Europe's largest gas supplier in 2022, provided 26% of all natural gas consumed in Britain and the EU. Any outages in Norwegian fields significantly impact prices.
- U.S. gas production remains down approximately 8% in 2024, as companies like EQT and Chesapeake Energy have delayed well completions and reduced drilling activities following the price drops to 3.5-year lows earlier in the year.

### Weekly Price Movement of Natural Gas in MCX



Source: Reuters

### Weekly Price Movement of Natural Gas in NYMEX



Source: Reuters

**In June 2024, natural gas prices are expected to trade in both sides, with support around 170 and resistance near 260.**

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