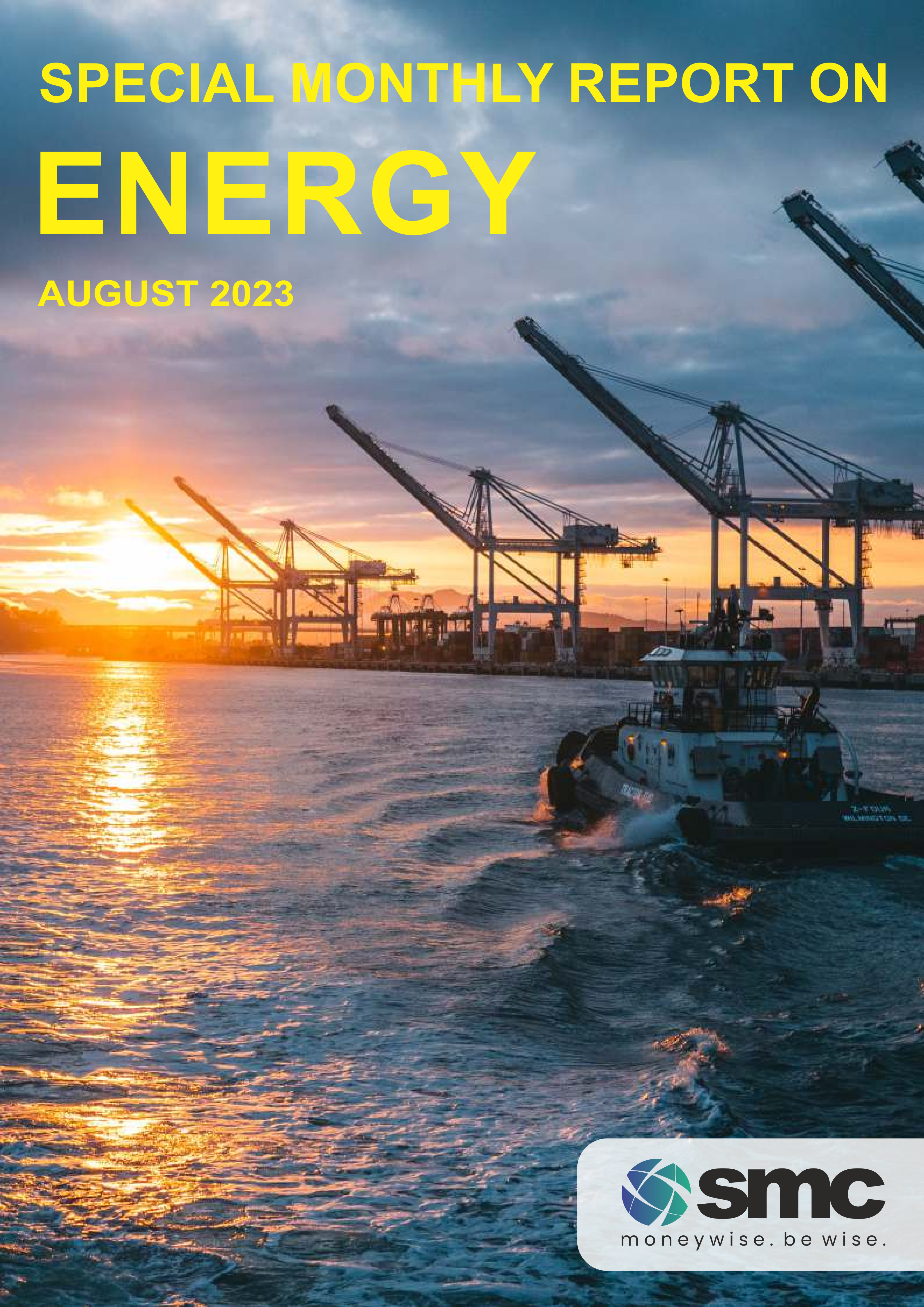
SPECIAL MONTHLY REPORT ON

ENERGY

AUGUST 2023



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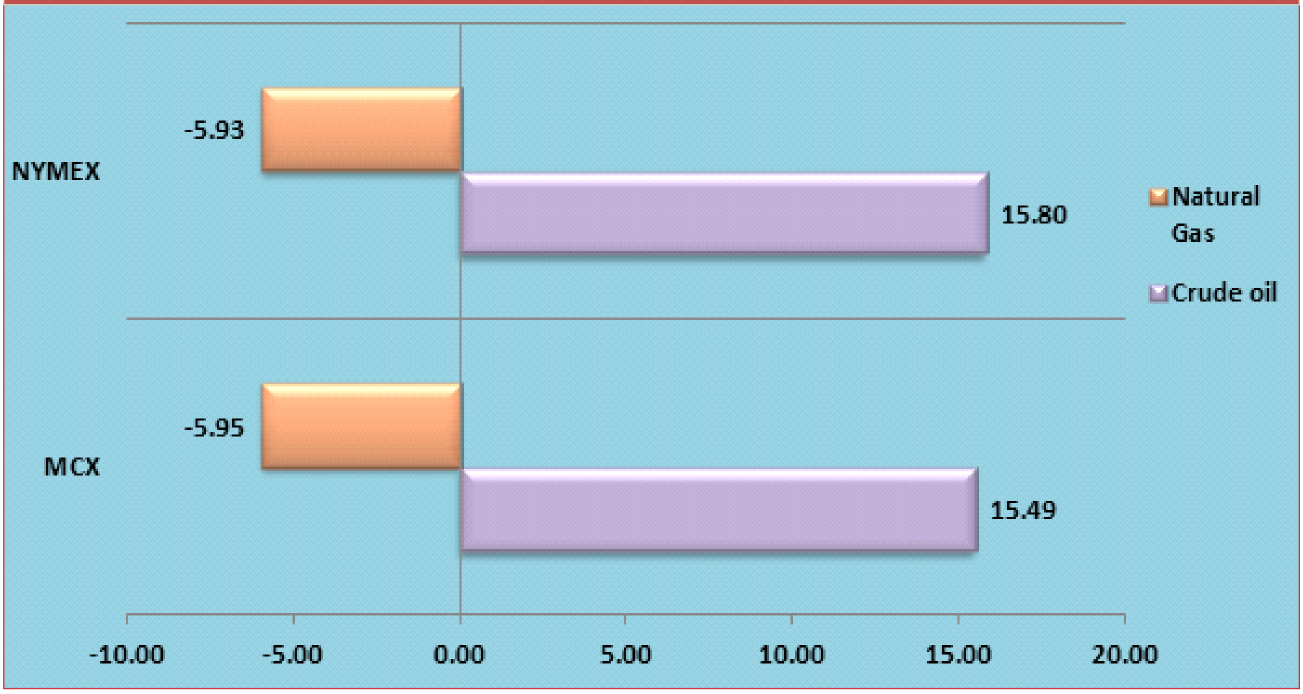
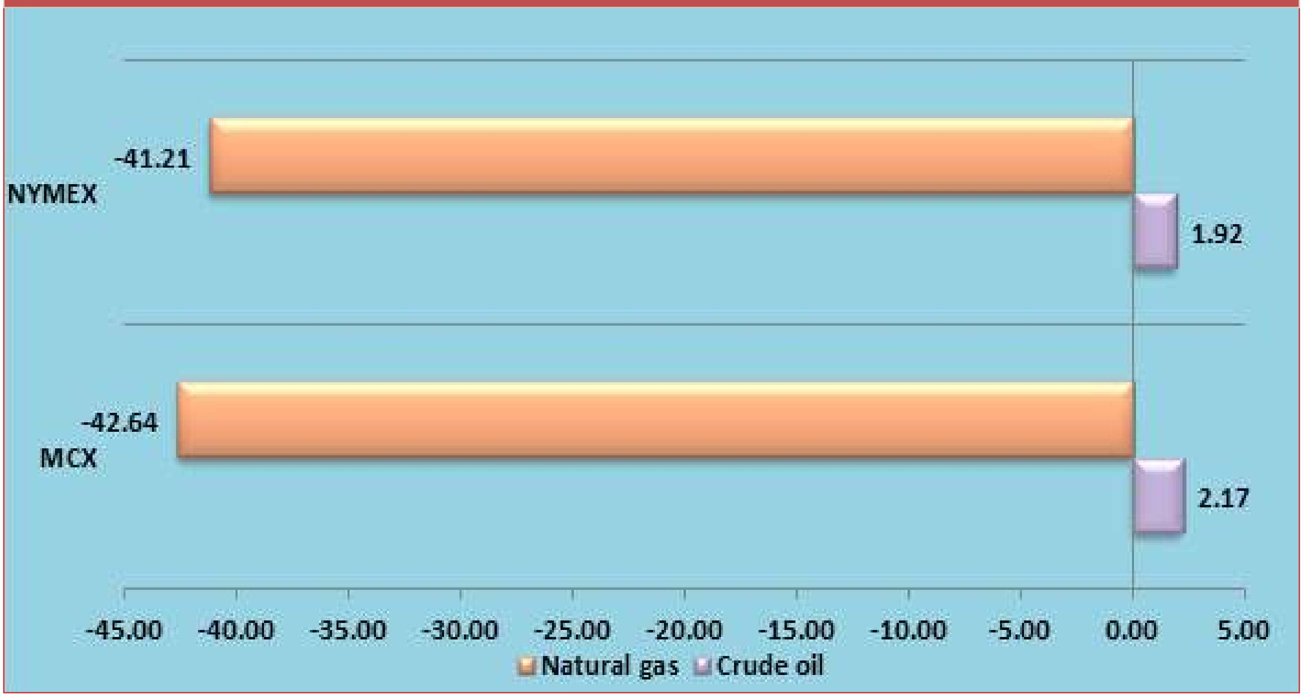
Price movement in July 2023



Source: SMC Research & Reuters

Price movement in January-July 2023



Source: SMC Research & Reuters

In July, Crude oil prices recorded their steepest monthly gains of more than 15.5% since January 2022, supported by signs of tightening global supply and rising demand through the rest of this year. Signs of tightening supplies, following production cuts by major oil exporters Saudi Arabia and Russia, were the biggest boost to the market over the past month. Recent production cuts from the two nations are also expected to keep markets tight for the remainder of the year. Saudi output fell by 860,000 barrels per day (bpd) in July, while total production from the Organization of Petroleum Exporting Countries was 840,000 bpd lower, a Reuters survey found. Besides the supply cut, crude oil prices are also trading higher on account of easing US inflation and supply disruptions in Libya and Nigeria. China's crude oil imports, which rose 45.3 percent in June year-on-year (YoY), are also supporting the bullish momentum. The International Energy Agency (IEA) has predicted global oil demand to climb by 2.2 million bpd in 2023 to reach 102.1 million bpd, a new record.

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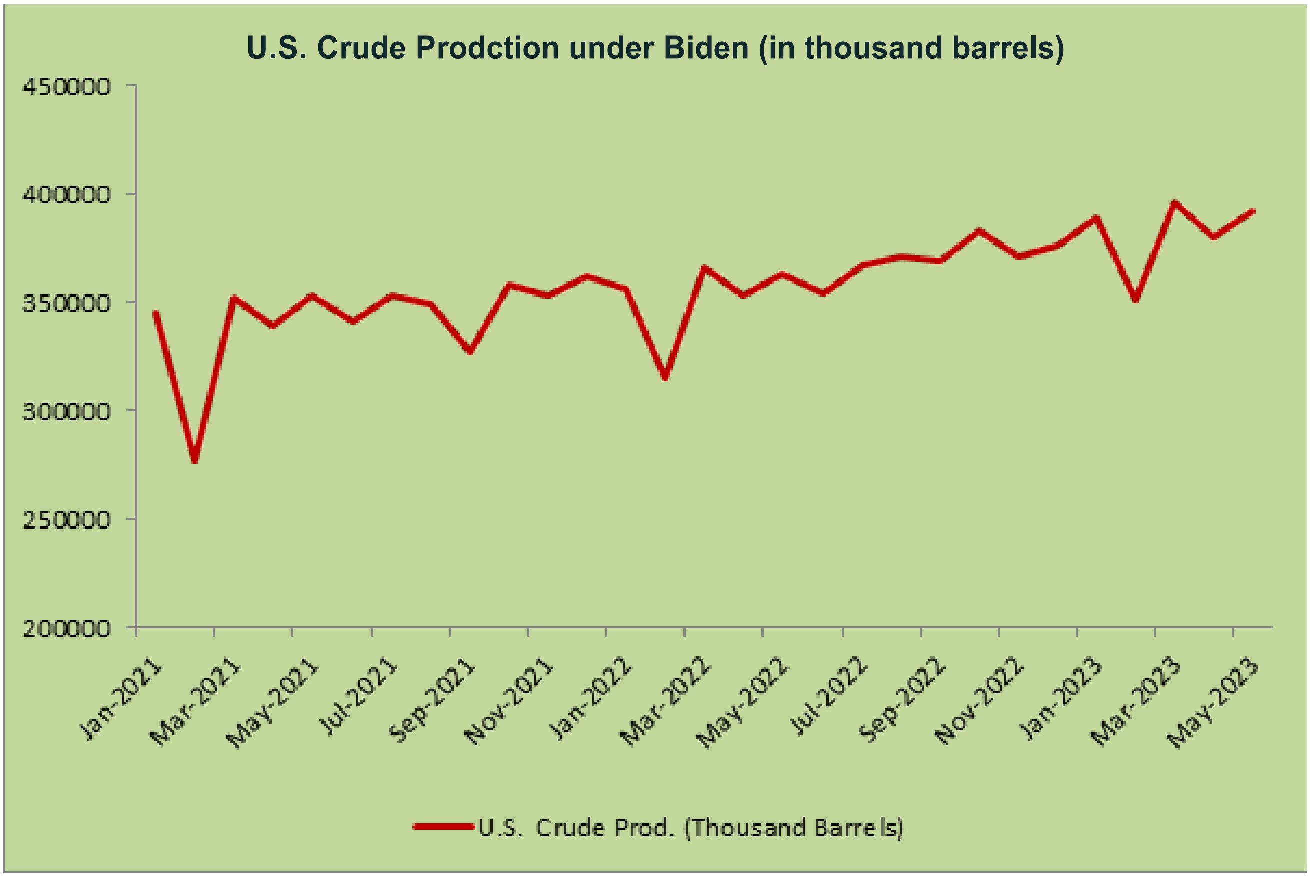
Outlook

- The recent volatility in oil prices may continue on fears of global recession, high inflation and as well as on-going geopolitical developments.
- On the macro front, the US economy is gaining traction with inflation gradually drifting towards the Fed's comfort level, which has raised the bets for the end of the interest rate hike cycle in the US.
- An increase in global crude oil demand and production cuts from OPEC would favour crude oil prices in the second half of 2023.
- Saudi Arabia is expected to extend a voluntary oil output cut of 1 million barrels per day (bpd) for another month to include September.
- Goldman Sachs estimated that global oil demand rose to a record 102.8 million bpd in July and it revised up 2023 demand by about 550,000 bpd on stronger economic growth estimates in India and the U.S., offsetting a downgrade for China's consumption.
- Chinese manufacturing activity shrank for a fourth straight month in July, while broader business activity also deteriorated as oil's biggest buyer struggled with a slowing post-COVID economic recovery.
- The outages in African countries could amount to a wiping of 300kbpd-400kbpd, which could tighten the market after OPEC+ is already squeezing supplies by 5 percent of global supplies. Meanwhile, OPEC continues to remain bullish on global oil demand, as it sees 2024 demand rising by 2.2 percent.
- Russian oil exports have also decreased significantly and, if this trend continues, it would probably drive prices up further since Russian oil exports are set to be reduced by 500,000 bpd in August.
- China, a key driver of the global oil demand growth, has led market concerns over its weaker-than-expected economic recovery, so any efforts to boost domestic demand, improve expectations, and prevent risks will support the oil market.
- The Biden administration has pulled an offer to buy 6 million barrels of oil for the Strategic Petroleum Reserve, an Energy Department spokesperson said, as oil prices are expected to keep rising after a output cut from Saudi Arabia.



Source : EIA

Weekly Price Movement of Crude Oil in MCX

Source: Reuters

Weekly Price Movement of Crude Oil in MCX

Source: Reuters

In August 2023, Crude oil prices may trade with bulllish bias and possible trading range would be 6200-6900 where buying near support would be strategy.

Natural gas

In June, natural gas prices lost almost 6% higher on NYMEX and MCX due to reduced demand during the summer season in the northern hemisphere. As industrial activity slows down and electricity consumption decreases, the demand for natural gas also experiences a dip. Various factors are contributing to the current subdued state of the market, including reduced summer demand in the northern hemisphere and geopolitical tensions affecting European supply. However, the market's potential remains promising, with the upcoming winter months potentially leading to increased natural gas demand for residential heating. Refinitiv said average gas output in the Lower 48 states rose to 101.7 bcfd in July, up from 101.0 bcfd in June but just shy of the 101.8-bcfd monthly record set in May due to pipeline maintenance earlier in the month.

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.
- With more hot weather coming, Refinitiv forecast U.S. gas demand, including exports, would rise from 106.1 bcfd this week to 106.9 bcfd next week as power generators burn more of the fuel to meet rising air conditioning demand.
- Global demand for US LNG has increased after countries reduced Russian oil and gas purchases following sanctions after its war against Ukraine. A decrease in spot prices due to mild winter temperatures and above-average inventory levels in the northern hemisphere are expected to attract imports from more price-sensitive Southeast Asian countries.
- IEA said European gas demand is now forecast to fall by 7% year on year in 2023 to 489 Bcm amid lower gas burn in the power sector and rapidly expanding renewable energy generation.

Weekly Price Movement of Natural Gas in MCX

Source: Reuters

Weekly Price Movement of Natural Gas in NYMEX

Source: Reuters

In August 2023, prices may witness sideways to bullish movement where it may take support near 200 and resistance near 240.

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