



FOR PRIVATE CIRCULATION ONLY

9 January 2018

## MARKET ANALYSIS

NYMEX crude rose more than 1% to hit a high of \$62.56 per barrel, the highest level since mid-2015. Crude oil has rallied sharply in last few days on back of supply worries and optimism about US economy. The overall momentum is still firm and this is also evident from the sharp surge in net long position held by speculators. However, we believe that crude's rally has outrun the recent development and a correction could be seen in the near term. We expect to see some selling pressure above \$62/bbl level amid position squaring ahead of inventory report.

Crude remains supported by firmness in equity market. US equity market hit record high level indicating optimism about the economy. Global markets have also followed US lead amid easing worries about North Korea and Iran and optimism that Germany may be able to form a coalition government. Optimism about US economy however helped US dollar recover from recent lows and this has limited gains in commodities. The US dollar index trades near 92.3 levels today after 0.4% gain yesterday on higher bond yields.

Crude has also benefitted from decline in US crude oil stocks. US crude stocks are at the lowest level since Sept.2015 due to higher refinery demand. Weekly inventory report is expected to note another 3.4 million barrels decline in US crude oil stocks. However, this is offset by higher US crude production. US weekly crude production is near record high levels. EIA will release its monthly report today which will reflect outlook for US supply.

Crude rose also as anti-government protests intensified in Iran fuelling supply concerns. Bloomberg tanker tracker noted that production and exports remain unaffected. Iran forces also claim that the protests have ended. Also weighing on price is improvement in supply from North Sea and Libya after the outages last month. Crude's rise in last few months has been supported by OPEC's production cut deal. As per latest Reuters estimate, OPEC production rose marginally in December. Platts survey indicates that total supply rose by 50,000 bpd to 32.4 million bpd. Reuters survey shows production rose by 20K bpd to 32.41 million.

## CRUDE OIL

### Futures Market Movement

#### MCX Crude Oil (Rs/bbl) as on 8-Jan

Contract	High	Low	Close	Change	% Change
Jan-18	3933	3892	3906	19	0.5
Feb-18	3936	3897	3913	22	0.6
Mar-18	3935	3909	3929	39	1.0

#### NYMEX WTI Crude Oil (USD/barrel) as on 8-Jan

Feb-18	61.97	61.34	61.73	0.29	0.5
Mar-18	61.93	61.35	61.72	0.31	0.5
Apr-18	61.80	61.26	61.62	0.32	0.5

#### ICE Brent Crude Oil (USD/barrel)

Mar-18	67.99	67.44	67.78	0.16	0.2
Apr-18	67.47	66.95	67.31	0.21	0.3

#### NYMEX Heating Oil (USD cents/gallon)

Feb-18	206.60	204.01	204.54	-1.33	-0.6
Mar-18	205.09	202.98	203.50	-0.82	-0.4

#### NYMEX Gasoline (USD cents /gallon)

Feb-18	179.95	178.07	179.18	0.60	0.3
Mar-18	182.13	180.29	181.40	0.63	0.3

Spread (USD/barrel)	Close	Prev.	% Change
ICE Brent- NYMEX WTI	6.06	6.21	-0.15
NYMEX 3-2-1 Crack Spread	17.08	17.38	-0.31

## MARKET OUTLOOK

MCX Crude may note some gains tracking cues from international exchange but upside is limited. NYMEX crude gained nearly 1% to hit a fresh 2 ½ year of \$62.56 per barrel. Crude oil trades higher supported by expectations of another decline in US crude oil stocks, decline in US crude oil rig count, tensions in Iran and firmness in global equity market. However, weighing on price is higher US crude oil production, recovery in North Sea and Libyan output, recovery in US dollar and mixed US economic data. Iran tensions have also not affected supply so far. The latest month data shows that OPEC's crude production rose marginally in December. Crude has rallied sharply on optimism about US economy however higher US supply will limit upside and we could see some selling pressure at higher levels. Focus today will be on EIA's monthly outlook. API weekly report is expected to note a 3.4 million barrels decline in US crude oil stocks but an increase in gasoline and distillate stocks.

Last Close	Support	Resistance	Trend
3906	3900	3970	Sideways



## TECHNICAL OUTLOOK





## MARKET ANALYSIS

NYMEX natural gas trades in a narrow range near \$2.85/mmBtu after a 1.4% gain yesterday. Natural gas rose as high as \$3.097/mmBtu last week, the highest level in a month but failed to hold on to the gains and corrected till \$2.746/mmBtu but has stabilized near \$28/mmBtu levels. Cold weather in US has underpinned gas price however expectations that cold weather may not sustain has limited upside. Natural gas may trade in a broad range unless there is more clarity about US weather but sell on rise is suggested. Focus will be on US weather and EIA monthly outlook.

In last few weeks we have seen market players positioning for winter season when cold weather increases heating demand. We have seen choppiness in price with varying weather forecasts. This trend may continue as market players remain unconvinced about winter demand after last year's surprise warm winter. We may not see a sustained rise in prices unless cold weather continues for a long time.

Natural gas rose sharply in last few days as cold weather engulfed parts of US. The rally however did not sustain as weather forecasts pointed that cold weather may not continue

According to US weather forecaster NOAA, colder-than-normal temperatures are expected across eastern US from Jan. 14-18. Market reports also indicated that temperatures will soar above normal beginning Jan. 16 until last week of month.

The severe cold weather in US over last few days is expected to result in a record decline in gas stocks. This will widen the deficit in US market. While stock decline is positive it has already been factored in.

As per early estimates, US weekly inventory report may note a 325 Bcf decline in US natural gas stocks. Previous record was decline of 288 bcf in Jan. 2014

Working gas stocks stand at 3,126 Bcf, which is 192 Bcf less than both the five-year average and last year at this time.

Natural gas rose also as drop in rig count shows weaker production interest. The number of rigs drilling for natural gas was unchanged last week at 182 rigs.

## NATURAL GAS

MCX Natural Gas (Rs/mmBtu)					
Contract	High	Low	Close	Change	% Change
Jan-18	182.70	177.40	179.20	2.10	1.2
Feb-18	180.00	174.20	176.00	1.00	0.6
Mar-18	173.60	169.10	170.60	-0.40	-0.2
NYMEX Natural Gas (USD/mmBtu)					
Feb-18	2.869	2.784	2.835	0.040	1.4
Mar-18	2.812	2.721	2.772	0.027	1.0
Apr-18	2.696	2.624	2.676	0.026	1.0
Spread/Ratio			Close	Prev.	% Change
WTI-Natgas Ratio			21.77	21.98	-0.21
MCX WTI-Natgas Ratio			21.80	21.95	-0.15

## MARKET HIGHLIGHTS

NYMEX natural gas trades near \$2.8/mmBtu after 1.4% gain yesterday

Cold weather in US continues to underpin gas price

## MARKET OUTLOOK

MCX Natural gas may note some gains tracking cues from international exchange but upside is limited. NYMEX natural gas trades in a narrow range above \$2.8/mmBtu as cold weather continues in US increasing heating demand. However, some weather forecasts indicate that weather may normalize later this month keeping a check on total demand. US weekly inventory report is expected to note a record high 325 Bcf decline in gas stocks but it is largely factored in given the cold weather in US. Natural gas may trade in a narrow range as market players are unconvinced that cold weather will sustain but sell on rise is suggested

Last Close	Support	Resistance	Trend
179.2	177	184	Sideways



### Price Movement on NYMEX last week

Commodity	Close	Change	%	High	Low
Crude Oil (\$/bbl)	61.44	1.02	1.7	62.21	60.10
Natural Gas (\$/mmBtu)	2.795	-0.158	-5.4	3.097	2.746
Gasoline (cents/gal)	178.58	-1.34	-0.7	181.11	175.88
Heating Oil (cents/gal)	205.87	-1.68	-0.8	209.06	204.92

### U.S. CFTC Commitments of Traders (COT) Futures Only Report (02 Jan 2018)

Non-commercial Position (contracts)	Long	Short	Net position	Change	Change (%)
Crude Oil	762,666	138,453	624,213	-7,948	-1.3
Natural Gas	369,822	511,022	-141,200	28,835	-17.0
Gasoline	156,151	71,810	84,341	1,437	1.7
Heating Oil	141,184	77,532	63,652	6,029	10.5

### U.S. EIA Weekly Petroleum Inventory Report (29 Dec 2017)

(1000 barrels)	Stocks	Change	%	Expectation	Demand	Change%	Imports	Change%
Crude Oil	424,463	-7,419	-1.72	-4,500	19,947	-3.99	7,966	-0.34
Gasoline	233,187	4,813	2.11	2,000	8,650	-8.80	349	-10.05
Distillate Fuel Oil	138,834	8,899	6.85	80	3,588	-17.06	129	-46.03

### U.S. Weekly Natural Gas Storage Report

Billion Cubic Feet (BCF)	Week	Stocks	Change	Change over last year	Change over 5-year average
Natural Gas	22 Dec	3,332	-112	-1.8%	-2.5%
Natural Gas	29 Dec	3,126	-206	-5.8%	-5.8%

### US Economic Calendar (01<sup>st</sup> Jan 2018 – 05<sup>th</sup> Jan 2018) (Source: Briefing.com)

Date	IST	Release	For	Actual	Consensus	Prior
Jan-09	2030	JOLTS - Job Openings	Nov		NA	5.996M
Jan-11	1900	PPI	Dec		0.20%	0.40%
Jan-11	1900	Initial Claims	06-Jan		248K	250K
Jan-12	1900	CPI	Dec		0.20%	0.40%
Jan-12	1900	Retail Sales	Dec		0.40%	0.80%



**Aurobinda Gayan- Vice President Research**

**[aurobinda.gayan@kotakcommodities.com](mailto:aurobinda.gayan@kotakcommodities.com)**

**Fundamental Team**

Faiyaz Hudani- DVP	Oilseeds; Pulses	<a href="mailto:faiyaz.hudani@kotakcommodities.com">faiyaz.hudani@kotakcommodities.com</a>
Madhavi Mehta- AVP	Bullion; Energy	<a href="mailto:madhavi.mehta@kotakcommodities.com">madhavi.mehta@kotakcommodities.com</a>
Priyanka Jhaveri- AVP	Base Metals	<a href="mailto:priyanka.jhaveri@kotakcommodities.com">priyanka.jhaveri@kotakcommodities.com</a>
Sunandh Subramaniam- Asst. Manager	Spices	<a href="mailto:sunandh.subramaniam@kotakcommodities.com">sunandh.subramaniam@kotakcommodities.com</a>

**Technical Team**

Ashok Kamrani- Senior Manager	<a href="mailto:ashok.kamrani@kotakcommodities.com">ashok.kamrani@kotakcommodities.com</a>
Karan Shah- Manager	<a href="mailto:shah.karan@kotakcommodities.com">shah.karan@kotakcommodities.com</a>

**Disclaimer**

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or solicitation of an offer to buy any commodity or commodity derivative to any person in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Commodity Services Private Limited. It doesn't constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Commodity Services Private Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice.

Price and value of the commodity referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions including those involving commodity derivatives involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a commodity's price movement and trading volume as opposed to focusing on a commodity's fundamentals and as such may not match with a report on a commodity's fundamentals.

We do not have any information other than information available to general public. The report is based on information from sources like respective industry associations, FICCI, CII, companies, media and other public sources. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading may make trading decisions that are inconsistent with the recommendations expressed herein.

We and our affiliates, officers, directors, and employees worldwide may: (a) from time to time, have long or short positions in, and buy or sell the commodities mentioned herein or (b) be engaged in any other transaction involving such commodities and earn brokerage or other compensation or act as a market maker in the commodity/ (ies) discussed herein or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject commodity and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Commodity Services Private Limited's prior written consent.

**Registered Office: Kotak Commodity Services Private Limited, Nirlon house, 1<sup>st</sup> Floor, Dr. Annie Besant Road, Opp. Sasmira, Worli, Mumbai-25**

CIN No. U65910MH1987PTC042230. Fax: +91 22 24924696. Customer care- 180010266776. Website- [www.kotakcommodities.com](http://www.kotakcommodities.com)