



FOR PRIVATE CIRCULATION ONLY

26 June 2018

## MARKET ANALYSIS

NYMEX crude trades in a narrow range above \$68 per barrel after a 0.7% decline yesterday. Crude has turned choppy post OPEC decision on production. Mixed factors may also keep crude in a range however we expect to see some selling at higher levels given weaker risk sentiment and OPEC's production hike decision.

While WTI crude slipped 0.7% yesterday, Brent crude plunged 1.2% and spread between the two narrowed further from \$6.97/bbl to \$6.65/bbl. Spread has narrowed amid expectations that higher OPEC output will weigh more on Brent. WTI has benefitted from decline in US crude oil stocks and higher refinery demand.

OPEC and allies met on June 23 and June 24 and indicated that it would raise output by 1 million barrels per day. No specifics of the deal were given, causing confusion in the market regarding the estimated increase in real barrels. Iran said Friday it expected output to increase by 500,000 bpd, Nigeria said roughly 700,000 bpd and Iraq said by 800,000 bpd. The official communique released by OPEC indicated that the oil producers will try to achieve 100% compliance with original production cuts from July 2018 till the end of the deal in December 2018. According to OPEC the compliance was 147% in May. OPEC originally planned production cut of about 1.8 million barrels per day. A 147% compliance with the cut indicates that producers cut output by about 2.65 million barrels per day. To achieve 100% compliance, production will have to be raised by about 850,000 bpd. The actual production hike will be less than 1 million barrels per day as some nations like Venezuela are not in a position to raise output. It would be largely up to Saudi and Russia to raise supply. While market players were disappointed by a modest increase in supply, the decision shows a shift in production policy. OPEC has taken the step to allay consumer fears and avoid demand destruction.

Amid other factors, crude is supported by expectations that US weekly inventory report may note a 1.8 million barrels decline in US crude oil stocks. US crude stocks are below 5-year average levels due to higher refinery demand. US crude oil rig count fell last week by 1 to 862

## CRUDE OIL

### Futures Market Movement

#### MCX Crude Oil (Rs/bbl) as on 25-Jun

Contract	High	Low	Close	Change	% Change
Jul-18	4735	4636	4658	-14	-0.3
Aug-18	4648	4588	4604	-4	-0.1
Sep-18	4612	4556	4567	-11	-0.2

#### NYMEX WTI Crude Oil (USD/barrel) as on 25-Jun

Aug-18	69.44	67.78	68.08	-0.50	-0.7
Sep-18	67.76	66.81	67.04	-0.59	-0.9
Oct-18	66.70	65.77	66.18	-0.61	-0.9

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

Aug-18	75.13	73.74	74.73	-0.82	-1.2
Sep-18	75.00	73.58	74.55	-0.77	-1.2

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

Jul-18	212.25	208.70	210.04	-2.50	-1.2
Aug-18	212.61	209.05	210.42	-2.51	-1.2

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

Jul-18	206.72	203.85	205.15	-1.90	-0.9
Aug-18	204.83	202.24	203.39	-2.00	-1.0

Spread (USD/barrel)	Close	Prev.	% Change
ICE Brent- NYMEX WTI	6.65	6.97	-0.32
NYMEX 3-2-1 Crack Spread	18.77	19.15	-0.38

### MCX Crude Options Monitor

Aggregate	25-Jun-18	Previous	Change (%)
Call Volume (lots)	801	1795	-55.4
Put Volume (lots)	1406	2750	-48.9
Call OI (lots)	1232	1166	5.7
Put OI (lots)	2157	1876	15.0
PCR Volume	1.76	1.53	14.6
PCR OI	1.75	1.61	8.8
Turnover (crores)	102.7	207.9	-50.6

rigs, first decline in 12 weeks. US crude production however stands near record high level.

On macro front, crude is supported by correction in US dollar index from 11-month high on mixed economic data, drop in yields and concerns about economic impact of trade policies. Weighing on crude is continuing weakness in equity market. US DJIA index fell 1.3% yesterday after 2% slide last week. After announcing import tariffs on China, Trump administration is planning to impose restriction in investment in technology sector. Harley-Davidson said it would shift some production out of US to avoid impact of trade tariffs.



## MARKET OUTLOOK

MCX Crude may note mixed trade in line with international market but bias may be on the downside. NYMEX crude trades in a narrow range above \$68 per barrel amid mixed cues and as market players assess OPEC's production deal. OPEC has indicated that it will raise output by 1 million barrels per day but actual hike is expected to be less due to inability of some nations to raise output. OPEC's deal was largely anticipated but production hike if adhered to will be negative for crude. Amid other factors, crude is gaining support from weakness in US dollar, expectations of another decline in US crude oil stocks and supply concerns relating to Libya. However, weighing on price is increasing worries about US led global trade war which has led to sell-off across equity markets and most commodities. Crude may witness choppy trade but we expect to see some selling at higher levels given general weaker sentiment.

Last Close	Support	Resistance	Trend
4658	4615	4720	Sideways





## MARKET ANALYSIS

NYMEX natural gas trades near \$2.93/mmBtu after a 0.7% decline yesterday. Natural gas topped \$3/mmBtu last week but failed to sustain on mixed cues. We expect to see choppy trade on mixed factors but bias may be on the downside. Focus will continue to be on US weather and trend in crude and other energy futures.

US witnessed hot weather in last few days resulting in higher demand for air conditioning and thereby fuels to generate power. Natural gas corrected as weather forecasts turned mixed denting demand expectations. The widening gap between coal and gas price has also reduced incentive to use gas for power generation.

According to US weather forecaster NOAA, hotter-than-normal temperatures is forecast across eastern US from July 1-5. According to the Weather Company, temperatures may be normal in much of South July 5-9 and higher than avg in Upper Midwest.

Also weighing on price is bigger than average rise in gas stocks in last two weeks. US EIA last week noted a 91 Bcf rise in US natural gas stocks as against market expectations of 85 Bcf rise and 5-year average increase of 83 Bcf.

Working gas stocks totaled 2,004 Bcf, which is 499 Bcf lower than the five-year average and 757 Bcf lower than last year at this time.

As per early estimates, US weekly report this week may note a 72 Bcf rise in gas stocks. The 5-year average increase for the week is 72 Bcf.

Also weighing on price is higher production. Production in the lower 48 US states has averaged a record-high 79.4 billion cubic feet per day (bcfd) over the past 30 days. On a daily basis, output rose to 79.6 bcfd on Thursday from 79.5 bcfd on Wednesday, keeping it shy of the all-time high of 80.2 bcfd hit on Monday.

EIA in its month outlook raised 2018 US natural gas production estimate from 86.36 Bcf/d to 87.26 Bcf/d. Drop in rig count however shows weakening production interest. The number of rigs drilling for natural gas fell by 6 to 188 rigs last week.

## NATURAL GAS

### MCX Natural Gas (Rs/mmBtu)

Contract	High	Low	Close	Change	% Change
Jun-18	199.90	197.20	198.70	-1.20	-0.6
Jul-18	200.30	198.00	199.50	-1.00	-0.5
Aug-18	199.70	198.20	199.00	-1.00	-0.5

### NYMEX Natural Gas (USD/mmBtu)

Jul-18	2.943	2.897	2.923	-0.022	-0.7
Aug-18	2.940	2.896	2.921	-0.024	-0.8
Sep-18	2.908	2.872	2.898	-0.022	-0.8

Spread/Ratio	Close	Prev.	% Change
WTI-Natgas Ratio	23.29	23.29	0.00
MCX WTI-Natgas Ratio	23.44	23.37	0.07

## MARKET HIGHLIGHTS

NYMEX natural gas trades near \$2.93/mmBtu after 0.7% decline yesterday

Mixed weather forecast is weighing on gas price

## MARKET OUTLOOK

MCX Natural gas may note some gains tracking cues from international exchange but sell on rise is suggested. NYMEX natural gas trades marginally higher near \$2.93/mmBtu amid mixed cues. Latest weather forecasts indicate hot weather in some parts of US and normal weather in other which could keep a check on cooling demand. Support from decline in US natural gas rig count is countered by higher production. Meanwhile, weekly inventory report is expected to note a near 70 Bcf rise in gas stocks largely in line with 5-year average. Mixed cues and positioning ahead of contract expiration may keep gas price in a range but bias may be on the downside given subdued demand.

Last Close	Support	Resistance	Trend
198.7	197	203	Sideways



### Price Movement on NYMEX last week

Commodity	Close	Change	%	High	Low
Crude Oil (\$/bbl)	68.58	3.73	5.8	69.38	63.40
Natural Gas (\$/mmBtu)	2.945	-0.077	-2.5	3.053	2.887
Gasoline (cents/gal)	207.05	4.73	2.3	207.32	199.75
Heating Oil (cents/gal)	212.54	3.84	1.8	213.61	206.58

### U.S. CFTC Commitments of Traders (COT) Futures Only Report (19 June 2018)

Non-commercial Position (contracts)	Long	Short	Net position	Change	Change (%)
Crude Oil	694,421	113,474	580,947	-14,346	-2.4
Natural Gas	336,570	385,826	-49,256	11,869	-19.4
Gasoline	153,053	55,517	97,536	11,668	13.6
Heating Oil	110,325	59,075	51,250	16,653	48.1

### U.S. EIA Weekly Petroleum Inventory Report (15 June 2018)

(1000 barrels)	Stocks	Change	%	Expectation	Demand	Change%	Imports	Change%
Crude Oil	426,527	-5,914	-1.37	-2,400	20,228	-7.22	8,242	1.77
Gasoline	240,040	3,277	1.38	-700	9,326	-5.60	850	3.16
Distillate Fuel Oil	117,408	2,715	2.37	-400	3,825	-13.15	49	-52.88

### 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	08 June	1,913	96	-29.1%	-21.0%
Natural Gas	15 June	2,004	91	-27.4%	-19.9%

### US Economic Calendar (25<sup>th</sup> June 2018 – 29<sup>th</sup> June 2018) (Source: Briefing.com)

Date	IST	Release	For	Actual	Consensus	Prior
Jun-25	1930	New Home Sales	May	689K	666K	646K
Jun-26	1830	S&P Case-Shiller 20-city Index	Apr		6.80%	6.80%
Jun-26	1930	Consumer Confidence	Jun		127.1	128
Jun-27	1800	Durable Orders	May		-1.00%	-1.70%
Jun-27	1930	Pending Home Sales	May		0.80%	-1.30%
Jun-28	1800	GDP - Third Estimate	Q1		2.20%	2.20%
Jun-28	1800	Initial Claims	Jun-23		220K	218K
Jun-29	1800	Personal Income	May		0.40%	0.30%
Jun-29	1800	Personal Spending	May		0.40%	0.60%
Jun-29	1915	Chicago PMI	Jun		61	62.7
Jun-29	1930	Univ. of Michigan Consumer Sentiment - Final	Jun		99	99.3



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