



Weekly Digest

KCSPL Research

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HIGHLIGHTS

- *NYMEX crude trades near \$68.5/bbl after 2.9% decline last week*
- *Crude trades choppy amid mixed cues*
- *Iran supply concerns, optimism about US economy countered by firmer US dollar and trade worries*
- *US non-farm payrolls rose by 201,000 in August after 147K increase a month ago*
- *The US DJIA index ended with 0.2% decline as turmoil in global market hit US*
- *The US dollar index rose 0.2% on upbeat non-farm payrolls data*
- *US EIA noted a 4.302 mn bbl decline in US crude oil stocks amid higher demand*
- *US crude oil production was steady at record high level of 11 million barrels per day*
- *The number of rigs drilling for crude oil fell by 2 to 860 rigs*
- *Spread between WTI and Brent widened from \$8.27/bbl to \$9.28/bbl*
- *WTI to remain under pressure amid higher supply*

MARKET ANALYSIS

- NYMEX crude trades near \$68.5 per barrel after a sharp 2.9% decline last week. Crude oil rose as high as \$71.4/bbl last week, the highest level since July 13, but failed to sustain at higher levels and corrected. Crude got a boost from storm activity in Atlantic, signs of falling Iranian exports in face of US sanctions and optimism about US economy. Price failed to sustain at higher levels due to higher US, OPEC and Russia output. Demand worries rose amid deepening trade crisis and concerns about health of emerging market economies. We expect to see volatility in crude oil as market players await more clarity on Iran's supply stance and trade war worries. Increased storm activity in Atlantic will also add to volatility. The impact of storms is usually limited however it can vary depending on the intensity and target region. While crude oil has shown a general disconnect from commodities market, we have seen some improvement in last few days as commodities at large are focusing on emerging market sell-off and trade war worries.

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- Crude rose last week as tropical storm Gordon formed in the Gulf of Mexico and led to a production shutdown of about 10%. The weather pattern however weakened after making a landfall near the Alabama- Mississippi border and part of the production restarted. This resulted in a sharp sell-off in crude oil later in the week. A number of weather patterns have formed in the Atlantic and market focus will be on the same.
- There are mixed cues both on demand and supply front. On supply front, crude is supported by signs of falling Iranian exports in face of US sanctions. However, weighing on price is higher US, OPEC and Russia output. As per latest Reuters survey, total OPEC output rose by 220,000 bpd to 32.79 million barrels per day led by higher Libyan output. Libyan output has stabilized after militant activity shut production few months back. Iraqi production and exports remain unaffected despite increasing civil protests near key facilities. As per reports, Russia produced an average of 11.21 million barrels of crude per day in August. Russia intends to maintain production at 11.2 mn bpd through the end of this year. US weekly production has been steady at record high level of 11 million barrels per day. Rig activity has however been sluggish indicating dampening production interest.
- On demand front, crude remains supported by higher demand from India and China however future uncertainty is rising in face of trade worries and concerns about emerging market economies. China’s crude imports rose 6.5% to 38.38 million tonnes in August on higher demand from independent refiners or teapots. US crude demand is expected to weaken with the end of summer driving season. Concerns about health of emerging market economies is high amid contagion fears. Sell-off which started in Turkey and Argentina has engulfed other emerging markets as well. Trade worries are high as US has threatened to impose import tariffs on nearly all of Chinese goods. US-Canada trade talks have also not yielded much result yet. US has also threatened to take up trade issues with Japan.

Price Movement (03 September – 07 September 2018)

Commodity	Exchange	Close	Change	%	High	Low
WTI Crude Oil (\$/bbl)	NYMEX	67.75	-2.05	-2.9	71.40	66.86
Brent Crude Oil (\$/bbl)	ICE	76.83	-0.81	-1.0	79.72	75.64
WTI Crude Oil (Rs/bbl)	MCX	4883	-76	-1.5	5114	4808
Gasoline (\$cents/gal)	NYMEX	197.00	-17.37	-8.1	206.24	192.60
Heating Oil (\$cents/gal)	NYMEX	221.82	-2.31	-1.0	230.93	219.07

Spread

USD per barrel	07 Sept	31 Aug
Brent-WTI (SEP)	9.28	8.27
3-2-1 Crack Spread	18.59	17.45

The 3-2-1 crack spread is the difference between crude oil and product futures i.e. gasoline and heating oil

SPECULATIVE POSITIONS

Crude oil retested \$70 per barrel as speculators raised net long position for the second consecutive week. As per US CFTC report for the week ended Sept.4, non-commercial traders for crude oil futures raised long and short positions by 2.9% and 3.5% respectively. Net long position rose by 2.8% to 565730 contracts. Crude oil has witnessed sharp volatility and this trend may continue in the near term as market players assess Iran's supply situation and global trade worries. we saw price rising above \$71 per barrel but failed to sustain and corrected back till \$68. We may continue to see volatility and this could hurt buying interest to some extent. Gasoline speculators however cut net long position as peak demand summer season came to an end. Heating oil speculators also raised net long positions amid signs of tightness and higher crude price.

U.S. CFTC Commitments of Traders (COT) Futures Only Report (04 September 2018)

Non-commercial Position (contracts)	Long	Short	Net position	Change in Net position	Change (%)
Crude Oil	673,427	107,697	565730	15417	2.8
Gasoline	148,231	45,687	102,544	-4586	-4.3
Heating Oil	101,072	55,971	45101	5994	15.3

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STOCKS AND DEMAND

The US Energy Information Administration (EIA) weekly inventory report noted a 4.302 million barrels decline in US crude oil stocks as against expectations of 2.4 mn bbl decline. Crude stocks fell amid steady production, minor rise in refinery utilization which offset higher imports and lower exports. Crude fell as EIA noted a 0.5 million barrels increase in crude stocks at Cushing, the delivery terminal for NYMEX crude futures. US crude production was steady at record high level of 11 million barrels per day. EIA weekly report also noted an unexpected 1.845 mn bbl rise in gasoline stocks and a bigger than expected 3.119 mn bbl rise in distillate stocks. Weaker demand led to buildup in product stocks and this pressurized crude price. While US crude production is at record high level, rig activity has varied. The number of rigs drilling for crude oil fell by 2 to 860 rigs last week.

The spread between WTI and Brent crude November contract widened from \$8.27 to \$9.28/bbl last week as WTI fell more than Brent. WTI is pressurized by record high US gas production. Also weighing on crude is rising stocks at Cushing, the delivery terminal for NYMEX crude futures, as supplies improved from Canada after outage in July. Brent crude on other hand has been supported by supply concerns relating to Iran. The spread has widened substantially but may not sustain as Brent will be pressurized by higher OPEC supply and demand concerns amid trade war worries.

U.S. EIA Weekly Petroleum Inventory Report (31 August 2018)

(1000 barrels)	Stocks	change	%	Forecast	Demand	Chnge%	Import	Chnge%
Crude Oil	401490	-4302	-1.06	-2400	21663	-2.14	7714	3.06
Gasoline	234619	1845	0.79	-1400	9734	-1.67	988	13.82
Distillate Fuel Oil	133120	3119	2.40	100	4290	-3.31	286	4.38

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CURRENCY AND EQUITY MARKET MOVEMENT

The US dollar index hit a low of 94.871 but recovered to end with a modest 0.2% gain at 95.37. The US dollar came under pressure earlier in the week as Pound and euro benefitted from progress between Germany and UK over Brexit terms. The US dollar however rebounded on upbeat US non-farm payrolls data which further strengthened the case for Fed's rate hike this month. Apart from US economic optimism, US dollar is supported by safe haven buying amid trade worries and contagion fear in emerging markets. Global trade war worries are far from over. The public comment period over imposing 25% import duty on \$200 billion Chinese goods ended September 6 and US can take a call anytime soon. In addition to it, US President Trump has threatened to impose import duty on all Chinese goods at the earliest. US-Canada are holding trade talks but are yet to come to a consensus over terms to revamp NAFTA deal. The sell-off in Turkey and Argentina has engulfed other emerging markets as well. It is unlikely that trade worries or contagion fear may subside any time soon and this will keep US dollar supported.

US DJIA index ended with a minor 0.2% decline as sell-off in global market affected US as well. Trade worries, contagion fear and prospect of higher interest rate has questioned the rally in global equity market and we expect to see some correction soon. Reuters/CRB index fell 1.3% last week led by losses in crude and industrial metals. Global trade policies and trend in US dollar will affect commodities.

Data for the week ended Sept.7

Indices/quotes	Close	change	%	High	Low
CRB INDEX	190.4	-2.60	-1.3	193.4	189.0
DJIA INDEX	25916.5	-48.3	-0.2	26073.7	25806.0
DOLLAR INDEX	95.37	0.225	0.2	95.737	94.871
EURO-USD	1.16	0.00	-0.4	1.17	1.15
USD-INR	71.74	0.74	1.0	72.11	70.73

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ECONOMIC DATA

The US economic data released in last few weeks has been mixed and this trend could continue. Outlook for the US economic is still upbeat however certain challenges prevail. The recent tax reforms are expected to boost growth however it has also fuelled concerns about higher debt. Fed's interest rate hike expectations have also fuelled concerns about higher borrowing costs. Import tariffs will also result in higher costs for domestic users. US economic data will continue to reflect health of the economy and this will affect US dollar as well as trend in equity markets.

Data released last week was mixed. ISM manufacturing index, weekly jobless claims, ISM services, non-farm payrolls data was better than expectations. On other hand, trade balance, ADP jobs report, and factory orders data disappointed.

US economic calendar is light this week. Focus will be on industrial production, retail sales, CPI, PPI and consumer sentiment. Forecasts indicate possibility of mixed data.

U.S. Economic Calendar (Source- Briefing.com)

Date	IST	Release	For	Actual	Consensus	Prior
Sep-04	1930	ISM Index	Aug	61.3	57.6	58.1
Sep-04	1930	Construction Spending	Jul	0.1%	0.50%	-0.8%
Sep-05	1800	Trade Balance	Jul	-\$50.1B	-\$50.6B	-\$45.7B
Sep-06	1745	ADP Employment Change	Aug	163K	186K	217K
Sep-06	1800	Initial Claims	01-Sep	203K	214K	213K
Sep-06	1930	Factory Orders	Jul	-0.8%	-0.60%	0.70%
Sep-06	1930	ISM Services	Aug	58.5	56.5	55.7
Sep 07	1800	Nonfarm Payrolls	Aug	201K	187K	147K
Sep-07	1800	Unemployment Rate	Aug	3.9%	3.90%	3.90%

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MCX Crude Options Monitor			
Aggregate	07-Sep-18	31-Aug-18	Change (%)
Call Volume (lots)	1412	455	210.3
Put Volume (lots)	1119	857	30.6
Call OI (lots)	1801	1186	51.9
Put OI (lots)	2359	2415	-2.3
PCR Volume	0.79	1.01	-21.5
PCR OI	1.31	0.75	75.8
Turnover (crores)	125.2	65.0	92.5

MCX launched Crude oil Options on May 15. Trade volumes nearly doubled from 65 crores to 125.2 crores last week amid sharp price volatility. MCX Crude traded in a broad range of Rs.4808-5114/bbl last week and ended with a 1.5% decline at Rs.4883/bbl.

Max OI for calls is 409 lots at 5000 strike. Max OI for Puts is 444 lots at 4700 strike. We are currently trading near Rs.4958 levels and OI concentration shows that market players expect price not sustaining above 5000 levels. The put call OI ratio rose from 0.75 to 1.31 as call OI rose and Put OI fell last week.

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Outlook for Crude Oil

Crude oil may witness choppy trade amid mixed cues but we maintain sell on rise on prospect of higher supply and increasing demand uncertainty. Supply concerns persist about Iran but this is countered by higher US, OPEC and Russia output. While supply outlook remains murky, demand outlook is weakening owing to trade war, contagion fear in emerging markets and concerns about health of Chinese economy. Both US and China have increased threats to take further trade action with no signs of deal so far. US led global trade war will soon start to show impact on economic activity. Lower Chinese exports will affect growth while US will face higher domestic costs. The US dollar index is expected to witness choppy trade but may remain supported by general positive outlook for US economy and Fed's monetary tightening stance. NYMEX crude may trade in a range of \$66-70.5/bbl and while we expect lot of volatility sell on rise is recommended. Further cues will come from US and Chinese economic data, weekly inventory report, EIA, OPEC and IEA monthly outlook, storm activity in Atlantic and development relating to oil producing states.

On domestic front, MCX Crude may trade in a range of Rs.4750-5050/bbl and we may see some selling pressure at higher levels. Trend in rupee will also affect domestic price. Rupee will be affected by general trend in US dollar and risk sentiment.

PIVOT LEVELS	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
NYMEX Crude Oil	USD/BBL	64.1	65.9	70.5	73.2
MCX Crude Oil	RS/BBL	4629	4756	5062	5241

These levels are determined by mathematical calculation based on previous week's price movement

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- NYMEX natural gas fell for three of four trading sessions last week and ended with a sharp 4.8% slide. Weighing on gas price was higher US output and easing storm concerns and forecast of cooler weather in most parts of US. Tracking cues from international exchange, MCX gas fell 3% last week. Domestic gas price were supported by Indian rupee’s 1% depreciation against the US dollar.
- Natural gas has generally been on a downtrend in last few days after failing to sustain above \$3/mmBtu levels. Hot weather in US was the biggest factor supporting gas price in last few days. However, storm activity in Atlantic last week caused rains in parts of US reducing temperatures. Current weather forecasts indicate cooler weather in large parts of US which will keep a check on cooling demand. US natural gas production was shut partially last week as Tropical Storm Gordon formed in the Gulf of Mexico last week. The weather pattern however weakened after making a landfall near the Alabama- Mississippi border and we saw production restarting. US gas price were also pressurized by higher US output. Lower-48 production at topped 80 bcf/d Wednesday, highest since July. Also weighing on price was bigger than expected rise in US gas stocks.
- However, supporting price is narrowing gap between natural gas and coal price. Natural gas slumped nearly 5% last week while coal ended with a 0.7% gain. The spread between the two narrowed from \$0.116 to -0.044. With natural gas trading at a discount, demand from power sector may increase. Also supporting gas price is higher European gas price due to higher demand and tighter supply in Norway due to unplanned outages.
- Natural gas has fallen sharply and may consolidate near \$2.75/mmBtu levels. Focus will be on US and European weather, storm activity in Atlantic and trend in coal price.

Price Movement last week

Commodity	Exchange	Close	change	%	High	Low
Natural Gas (\$/mmBtu)	2.776	-0.14	-4.8	2.904	2.759	2.776
Natural Gas (Rs/mmBtu)	200.7	-6.2	-3.0	206.2	198.7	200.7

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STOCKS, RIG ACTIVITY AND PRODUCTION

The US Energy Information Administration (EIA) weekly report noted a 63 Bcf rise in US natural gas stocks as against market expectations of 60 Bcf rise. Net injections into storage compared with the five-year (2013–17) average net injections of 65 Bcf and last year's net injections of 60 Bcf during the same week. Working gas stocks totaled 2,568 Bcf, which is 590 Bcf lower than the five-year average and 643 Bcf lower than last year at this time. Working gas stocks remain lower than the five-year range and continue to fall. The average rate of net injections into storage is 17% lower than the five-year average so far in the 2018 refill season. If the rate of injections into working gas matches the five-year average of 10.8 Bcf/d for the remainder of the refill season, total inventories will be 3,225 Bcf on October 31, which is 335 Bcf lower than the five-year low of 3,560 Bcf. While stocks are still below average levels, production is expected to hit record high levels this year and will help rebuild stocks. US rig count rose from 184 to 186 showing higher production interest.

U.S. Weekly Natural Gas Storage Report

Billion Cubic Feet (BCF)	Date	Stocks	Change	change over last year	change over 5-year average
Natural Gas	24 Aug	2505	70	-20.5%	-19.0%
Natural Gas	31 Aug	2568	63	-20.0%	-18.7%

SPECULATIVE INTEREST

While natural gas price remained under pressure, speculators cut net short position for the fifth time in last six weeks. As per US CFTC report for the week ended Sept.4, non-commercial traders for natural gas futures raised long and short positions by 1.2% and 0.9% respectively. Net short position fell by 0.5% to 65912 contracts. Natural gas speculators have cut net short position in last few weeks as smaller than average buildup in gas stocks has tightened supply in US market. However, lack of price gains may dissuade speculators from cutting bearish bets.

U.S. CFTC Commitments of Traders (COT) Futures Only Report (04 Sept 2018)

Non-commercial Position (contracts)	Long	Short	Net position	Change	Change (%)
	285,734	351,646	-65,912	357	-0.5

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Outlook for Natural Gas

Natural gas trades near \$2.77/mmBtu after a sharp slide last week. We expect to see choppiness in natural gas due to mixed trade but maintain sell on rise view. Cooler weather on US, higher US gas output and bigger than expected rise in gas stocks in last few weeks will weigh on gas price. Price may however gain support from increased storm activity in Atlantic, narrowing gap between coal and gas price and higher European gas price. Natural gas may trade in a range of \$2.72-2.87/mmBtu and sell on rise is suggested on higher US output and easing demand. Further cues will come from US weather outlook, weekly inventory report and trend in crude and other energy futures and storm activity in the Atlantic. A number of storms have developed in the Atlantic however their impact is uncertain depending on its intensity and target area. Natural gas may also be affected by EIA’s monthly outlook as it will reflect demand supply situation.

On domestic front, MCX natural gas may trade in a range of Rs.197-209/mmBtu and sell on rise is suggested. Trend in rupee will also affect domestic gas price.

PIVOT LEVELS	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
NYMEX Natural gas	USD/MMBTU	2.67	2.72	2.87	2.96
MCX Natural gas	RS/BMMBTU	194.4	197.5	205.0	209.4

These levels are determined by mathematical calculation based on previous week’s price movement

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ENERGY CALENDAR

DATE	IST	DATA	FOR
11 Sept		US EIA Short term Energy Outlook	Sept
12 Sept	0200	API Weekly US Inventory Report	07 Sept
12 Sept	2000	US DOE Weekly Petroleum Product Inventory Report	07 Sept
12 Sept		OPEC Monthly Oil Market Report	Sept
13 Sept		IEA Oil Market Report	Sept
13 Sept	2000	US DOE Weekly Natural Gas Inventory Report	07 Sept

ECONOMIC CALENDAR

Date	IST	Currency	Data	Forecast	Previous	Importan
10-Sep	7:00	CNY	CPI y/y	2.10%	2.10%	High
		CNY	PPI y/y	4.00%	4.60%	Medium
10-Sep	14:00	EUR	Sentix Investor Confidence	14.3	14.7	Medium
	21:30	USD	Fed Bostic Speaks			Medium
	14:30	EUR	German ZEW Economic Sentiment	-13.5	-13.7	Medium
		EUR	ZEW Economic Sentiment	-10.9	-11.1	Medium
	17:30	INR	CPI y/y	3.80%	4.20%	Medium
		INR	Industrial production	6.50%	7.00%	Medium
	18:00	USD	PPI m/m	0.20%	0.00%	Medium
	19:00	USD	Fed Bullard Speaks			Medium
	20:00	USD	Crude Oil Inventories		-4.3M	Medium
	22:15	USD	Fed Brainard Speaks			Medium
	16:30	GBP	Official Bank Rate	0.75%	0.75%	High
		GBP	Asset Purchase Facility	435B	435B	Medium
	17:15	EUR	Main Refinancing Rate	0.00%	0.00%	High
	18:00	EUR	ECB Press Conference			High
		USD	CPI m/m	0.30%	0.20%	Medium
		USD	Unemployment Claims	210K	203K	Medium
	19:30	USD	Fed Quarles Speaks			Medium
	20:00	USD	Natural Gas Storage		63B	Medium
	22:45	USD	Fed Bostic Speaks			Medium
14-Sep	7:30	CNY	Industrial Production y/y	6.20%	6.00%	High
		CNY	Retail Sales y/y	8.80%	8.80%	Medium
		CNY	Unemployment Rate		5.10%	Medium
	12:00	INR	Wholesale Prices y/y	4.65%	5.09%	Medium
	15:30	GBP	BOE Gov Carney Speaks			Medium
	18:00	USD	Retail Sales m/m	0.40%	0.50%	Medium
	18:30	USD	Fed Evans Speaks			Medium
	18:45	USD	Industrial Production m/m	0.30%	0.10%	Medium
	19:30	USD	Prelim UoM Consumer Sentiment	96.8	96.2	Medium
		USD	Fed Rosengren Speaks			Medium

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