23rd July – 27th July 2018

Weekly Digest

KCSPL Research

KOTAK COMMODITIES

HIGHLIGHTS

- ***NYMEX crude trades near $68/bbl after 2.4% decline last week***
- ***Crude pressurized by trade worries and prospect of higher supply***
- ***Saudi said it won't oversupply global oil markets; crude exports to fall next month***
- ***US President threatens to impose import duty on $500 billion Chinese goods***
- ***The US DJIA index rose 0.2% despite trade worries and rising interest rates***
- ***The US dollar index hits 1-year high of 95.562 but corrects to end with a 0.2% decline***
- ***US EIA noted a 5.836 mn bbl rise in US crude oil stocks on higher imports***
- ***US crude oil production rose to a fresh record high level of 11 million barrels per day***
- ***The number of rigs drilling for crude oil fell by 5 to 858 rigs***
- ***Spread between WTI and Brent narrowed from $5.38/bbl to $4.81/bbl as Brent fell more than WTI***

MARKET ANALYSIS

- NYMEX crude trades near $68 per barrel after a 2.4% decline last week. Crude first month contract hit a low of $67.03/bbl, the lowest level since June 22.Crude hit a high of $75.27/bbl earlier this month but failure to sustain above $75/bbl level has resulted in a sharp correction. The slide was triggered by signs of improvement in supply from Libya and Canada and prospect of higher supply from OPEC, Russia and US. Reports that US is considering giving exemptions to some nations from sanctions also eased supply worries relating to Iran. Meanwhile, US noted that it is ready to release stocks from strategic reserves to ease prices. On demand front, concerns about Chinese economy and deepening global trade war conflict has clouded demand outlook. There are still a spate of supply issues which will continue to keep a floor to price however prospect of higher supply will keep pressure on price. There are no near term solutions to trade conflict and this will keep demand uncertainty high. If no major supply issue emerges, crude may align with other commodities and will get affected by trend in US dollar and equity market at large.

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- A mixed bag on supply front indicates that we may see more volatility in crude. OPEC plans to raise output by 1 million barrels per day. OPEC committee last week noted that compliance with production cuts fell from 147% to 121% in June. Saudi Arabia raised production from 9.86 million barrels per day to 10.3 million bpd in June, highest since October 2017. Saudi Arabia however signaled last week that it won't go any further for now, saying exports this month will be "roughly equal" to June, and will drop by 100,000 barrels a day in August. There is also uncertainty about supply from Venezuela and Libya. Venezuela's four crude upgraders, with capacity of about 700,000 bpd, are scheduled to undergo maintenance in the next few weeks. In Libya, National Oil Corporation declared force majeure on exports from Zawiya oil terminal as production at Sharara oilfield dropped to 125,000 barrels per day. In Iraq, protests have hit port regions but production remains unaffected. US has shown willingness to give exemptions to some nations allowing imports of Iranian crude. Iran-US tensions will however keep uncertainty high. Amid non-OPEC nations, concerns about Norwegian supply eased as drilling rigs workers agreed to call off the strike their 10-day strike. Oil workers at Equinor's Mariner oil platform and Total's North Sea fields have threatened to strike. Russia production rose to 10-month high on June and is expected to rise.

- On US front, US weekly crude production rose to record level of 11 million barrels per day. US oil output from seven major shale formations is expected to rise by 143,000 bpd to a record 7.47 million bpd in August. US Trump administration is also considering releasing crude from strategic reserves to ease gasoline prices. US crude stocks unexpectedly rose last week but remain well below 5-year average levels. Rig count fell by 5 last week to 858 rigs, indicating weaker production interest.

- Amid other factors, crude benefitted from correction in US dollar index from 1-year high. However, weighing on price are trade war worries and concerns about health of Chinese economy. There has been no major storm activity in last few weeks.

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Price Movement (16 July – 20 July 2018)

Commodity	Exchange	Close	Change	%	High	Low
WTI Crude Oil ($/bbl)	NYMEX	68.26	-1.69	-2.4	69.78	66.29
Brent Crude Oil ($/bbl)	ICE	73.07	-2.26	-3.0	75.37	71.19
WTI Crude Oil (Rs/bbl)	MCX	4707	-129	-2.7	4797	4559
Gasoline ($cents/gal)	NYMEX	206.90	-3.77	-1.8	210.65	199.82
Heating Oil ($cents/gal)	NYMEX	210.44	-2.9	-1.4	213.63	204.17

Spread

USD per barrel	20 July	13 July
Brent-WTI (SEP)	4.81	5.38
3-2-1 Crack Spread	16.95	17.9

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 hit a near 1-month low as speculators cut net long position for the second consecutive week. As per US CFTC report for the week ended July 17, non-commercial traders for crude oil cut long and short positions by 5.9% and 21.5% respectively. Net long position rose by 3.5% to 631294 contracts. Speculators are cutting bullish bets on expectations of higher supply from US, Russia and Saudi Arabia. We expect to see some further correction in crude oil and this could reflect in further long liquidation. Gasoline speculators also cut net long position modestly by 4.1% as correction in crude price hit product market as well. Drop in gasoline demand also weighed on price. Heating oil speculators also raised cut bullish bets sharply on subdued demand.

U.S. CFTC Commitments of Traders (COT) Futures Only Report (10 July 2018)

Non-commercial Position (contracts)	Long	Short	Net position	Change in Net position	Change (%)
Crude Oil	710,471	79,177	631294	-23171	-3.5
Gasoline	148,048	51,266	96,782	-4099	-4.1
Heating Oil	88,703	48,680	40023	-11341	-22.1

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STOCKS AND DEMAND

The US Energy Information Administration (EIA) weekly inventory report noted a 5.836 million barrels increase in US crude oil stocks as against expectations of 3.5 mn bbl decline. Stocks rose amid higher production, rise in imports, decline in exports and refinery demand. US crude production rose 0.9% to hit fresh record high level of 11 million barrels per day. Imports rose 22% despite concerns about Canadian supply. Exports fell 27.9% as spread between WTI and Brent crude narrowed. While crude production hit fresh record high levels, drop in rig count shows weaker production interest. The number of rigs drilling for crude oil fell by 5 to 858 rigs, the biggest one week fall since March. EIA however noted a bigger than expected 3.165 million barrels decline in gasoline stocks due to higher demand. Distillate stocks fell by 0.371 mn bbl as demand rose. Overall, inventory report was mixed to negative. Crude stocks unexpectedly rose while US production hit fresh highs indicating higher supply in US. EIA however noted a decline in product stocks due to higher demand.

The spread between WTI and Brent crude September contract narrowed from $5.38/bbl to $4.81/bbl as WTI crude fell less than Brent crude. WTI benefitted from supply disruptions in Canada which affected exports to US especially the Midwest. Stocks at Cushing fell further by 0.8 million barrels last week. Brent was pressurized by prospect of higher supply from Saudi Arabia and Russia and easing supply issues relating to Libya. The spread has narrowed substantially but could widen with US crude production hitting fresh highs and Brent benefitting from Norway labour issues. Spread may trade in a range of $4.5-6/bbl and some widening is possible.

U.S. EIA Weekly Petroleum Inventory Report (13 July 2018)

(1000 barrels)	Stocks	change	%	Forecast	Demand	Chnge%	Import	Chnge%
Crude Oil	411084	5836	1.44	-3500	21302	7.00	9066	22.00
Gasoline	235832	-3165	-1.32	-400	9708	4.67	657	-22.98
Distillate Fuel Oil	121311	-371	-0.30	1400	4141	8.83	140	34.62

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CURRENCY AND EQUITY MARKET MOVEMENT

The US dollar index hit a high of 95.652, the highest level since July 2017, as Fed Chairman Jerome Powell reiterated optimism about US economy and support for gradual rate hikes. The US dollar however corrected as President Trump expressed concerns about currency strength and Fed's monetary tightening. The index ended the week with a marginal 0.2% decline. In general, the US dollar remains supported by general optimism about US economy and gap between monetary policy of Fed and other central banks. The recent surge in US dollar also indicates that it has seen some safe haven buying amid increasing uncertainty about US led global trade war. While general outlook for US dollar is positive, concerns about economic impact of trade war and inverting yield curve will limit gains in US dollar. The US yield curve is the flattest in more than a decade. An inverted yield curve is considered an early sign of recession. US companies have started feeling the pressure on higher aluminum and steel prices due to import tariffs. US and China import tariffs became applicable last week and will soon start having an effect on the economy in form of higher costs.

US DJIA index rose 0.2% last week despite intensifying trade war worries and Fed's support for gradual rate hikes. Further aggravating the trade conflict, US President Friday threatened to impose import duty on $500 Chinese goods. China will try to find avenues to retaliate. US imposition of import tariffs on aluminum and steel and retaliatory tariffs by EU and other nations has already started to have impact on manufacturers. It has also caused a divide between US and other countries. Reuters/CRB index fell 0.6% last week led by decline in crude and industrial metals. Global trade policies and trend in US dollar will affect commodities.

Data for the week ended July 20

Indices/quotes	Close	change	%	High	Low
CRB INDEX	192.6	-1.11	-0.6	193.2	190.0
DJIA INDEX	25058.1	38.7	0.2	25215.3	24979.6
DOLLAR INDEX	94.48	-0.201	-0.2	95.652	94.296
EURO-USD	1.17	0.00	0.3	1.17	1.16
USD-INR	68.85	0.32	0.5	69.13	68.28

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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.

US economic calendar was light last week and data released was mixed. Empire manufacturing, industrial production, jobless claims, Philadelphia Fed index and leading indicators data was better than expectations. NAHB housing market index, housing starts and building permits data disappointed. Retail sales was in line with expectations.

Economic calendar is light this week as well. Focus will be on US existing and new home sales, consumer sentiment and Q2 GDP growth estimate. Forecasts indicate possibility of mixed to positive data.

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

Date	IST	Release	For	Actual	Consensus	Prior
Jul-16	1800	Retail Sales	Jun	0.5%	0.50%	1.30%
Jul-16	1800	Empire Manufacturing	Jul	22.6	21	25
Jul-17	1845	Industrial Production	Jun	0.6%	0.50%	-0.10%
Jul-17	1930	NAHB Housing Market Index	Jul	68	69	68
Jul-18	1800	Housing Starts	Jun	1173K	1318K	1337K
Jul-18	1800	Building Permits	Jun	1273K	1330K	1301K
Jul-18	2330	Beige Book	Jun		NA	
Jul-19	1800	Initial Claims	Jul-14	207K	220K	215K
Jul-19	1800	Philadelphia Fed	Jul	25.7	22	19.9
Jul-19	1930	Leading Indicators	Jun	0.5%	0.40%	0.00%

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MCX Crude Options Monitor

Aggregate	20-Jul-18	13-Jul-18	Change (%)
Call Volume (lots)	464	2082	-77.7
Put Volume (lots)	700	2446	-71.4
Call OI (lots)	681	2199	-69.0
Put OI (lots)	589	3756	-84.3
PCR Volume	1.51	1.17	28.4
PCR OI	0.86	1.71	-49.4
Turnover (crores)	55.3	219.6	-74.8

MCX launched Crude oil Options on May 15. Trade volumes fell from 219.6 crores to 55.3 crores last week. Trade volumes fell as price consolidated in a narrow range. Expiry of July contract also affected volumes. MCX Crude traded in a broad range of Rs.4559-4797/bbl last week and ended with a 2.7% decline at Rs.4707/bbl.

Max OI for calls is 146 lots at 4600 strike. Max OI for Puts is 262 lots at 4500 strike. We are currently trading near Rs.4700 levels and we could see some shift in OI concentration if price holds near current levels. The put call OI ratio fell from 1.71 to 0.86 as Put OI fell more sharply that Call OI.

Outlook for Crude Oil

Crude oil has witnessed sharp volatility amid mixed cues but we maintain sell on rise on prospect of higher supply and increasing demand uncertainty. Supply concerns are still high relating to Norway, Libya, Venezuela and Iraq however this is countered by reopening of some ports in Libya, Russia's assurance to raise output more than 1 million bpd if required and US stance to release stocks from strategic reserves. Softening US stance on Iran has also eased supply worries to some extent. While supply outlook remains murky, demand outlook is weakening owing to trade war and concerns about health of Chinese economy. 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. Amid other factors, US equity market has managed to hold firm despite trade worries but this may not continue. The US dollar index has corrected from highs but remains supported by general positive outlook for US economy and Fed's monetary tightening stance. NYMEX crude may trade in a range of $66.5-70/bbl and while we expect lot of volatility sell on rise is recommended. Further cues will come from US economic data, weekly inventory report, storm activity in Atlantic and development relating to oil producing states.

On domestic front, MCX Crude may trade in a range of Rs.4580-4830/bbl and we may see some selling pressure at higher levels. Trend in rupee will also affect domestic price.

PIVOT LEVELS	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
NYMEX Crude Oil	USD/BBL	64.6	66.4	69.9	71.6
MCX Crude Oil	RS/BBL	4450	4578	4816	4926

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

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Technical Outlook

MCX Crude Oil Aug 18					NYMEX WTI Crude Oil				
S2	S1	Pivot	R1	R2	S2	S1	Pivot	R1	R2
4450	4578	4688	4816	4926	64.62	66.44	68.11	69.93	71.60
Stratergy:Sell at 4800-4810, TP 4660, SL 4880									

- NYMEX natural gas noted mixed trade but ended with a marginal 0.2% gain. Natural gas fell as low as $2.704/mmBtu, the lowest level since May 7, but recovered to end higher. Natural gas witnessed volatile trade as weather forecasts turned mixed. Record high gas production countered smaller than average decline in stocks. Tracking cues from international exchange, MCX gas rose 0.3% last week. Indian rupee's depreciation against the US dollar also supported domestic price.

- Natural gas rose in last few days on hot weather in US which increased cooling demand. Hot weather increases air-conditioning demand and thereby demand for electricity and fuels to generate power. Price came under pressure in last few days as weather forecasts turned mixed. Weather forecasts indicate hot weather across most part but not as severe. Another factor which affected gas demand from power sector was wide difference between coal and gas. It has however narrowed in last few days and further narrowing will rekindle buying interest in gas. Both coal and gas ended with a modest 0.2% gain last week. The spread was little changed from $0.18/mmBtu to $0.179/mmBtu. Focus will continue to be on US weather and trend in coal price.

- While demand remains firm, record high US gas production is expected to result in a fast buildup in gas stocks during injection season (April-October). According to EIA monthly oil drilling report, US natural gas production in the biggest shale basins was projected to increase to a record 70.5 billion cubic feet per day (bcfd) in August. Gas stocks continue to be below 5-year average. EIA last week noted a 46 Bcf rise in gas stocks as against 5-year average increase of 62 Bcf. Stock buildup may stabilize once summer demand ebbs. Natural gas rig count fell last week indicating dip in production interest. There has been no major storm activity in last few weeks.

Price Movement last week

Commodity	Exchange	Close	change	%	High	Low
Natural Gas ($/mmBtu)	2.757	0.005	0.2	2.788	2.704	2.757
Natural Gas (Rs/mmBtu)	190.2	0.6	0.3	191.9	186.8	190.2

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STOCKS, RIG ACTIVITY AND PRODUCTION

The US Energy Information Administration (EIA) weekly report noted a 46 Bcf rise in US natural gas stocks as against expectations of 56 Bcf rise. Net injections into storage compared with the five-year (2013–17) average net injections of 62 Bcf and last year's net injections of 31 Bcf during the same week. Working gas stocks totaled 2,249 Bcf, which is 535 Bcf lower than the five-year average and 710 Bcf lower than last year at this time. Working gas stocks are on pace to end the refill season lower than the five-year range. Net injections into storage are 17% lower than the five-year average rate so far in the 2018 refill season. If working gas stocks match the five-year average rate of injections of 9.4 Bcf/d for the remainder of the refill season, inventories will total 3,280 Bcf on October 31, compared with 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. The number of rigs drilling for natural gas fell by 2 to 187 rigs, showing waning 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	06 July	2203	51	-24.8%	-19.1%
Natural Gas	13 July	2249	46	-24.0%	-19.2%

SPECULATIVE INTEREST

Natural gas hit the lowest level since May as speculators raised net short position for the fourth consecutive week. As per US CFTC report for the week ended July 17, non-commercial traders for natural gas futures raised long and short positions by 1.7% and 5.4% respectively. Net long position rose by 16.9% to 116554 contracts, the highest since May. Expectations of higher US gas output is weighing on gas price while cooling demand outlook has been clouded by mixed weather forecasts. Price is now nearing the key $2.7/mmBtu levels and should recover from thereon.

U.S. CFTC Commitments of Traders (COT) Futures Only Report (17 July 2018)

Non-commercial	Long	Short	Net position	Change	Change (%)
Position (contracts)	316,100	432,654	-116,554	-16879	16.9

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Outlook for Natural Gas

Natural gas has corrected after failing to sustain above $3/mmBtu levels. While we maintain sell on rise view, we expect price to bottom out soon. Weighing on gas price is mixed weather forecast which indicated limited cooling demand. US gas production is near record high level. However, supporting price is wide deficit in US working gas stocks due to robust demand which counters production. The gap between coal and gas has also narrowed significantly in last few weeks and further narrowing will increase buying interest for natural gas. Rig activity has been mixed and indicates waning production interest at current levels. Natural gas may trade in a range of $2.70-2.83/mmBtu and sell on rise is suggested. 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. Two named storms have been formed in last few days but none have been a direct threat to US mainland.

On domestic front, MCX natural gas may trade in a range of Rs.184-193/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	2.71	2.80	2.83
MCX Natural gas	RS/BMMBTU	184.5	187.4	192.5	194.7

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

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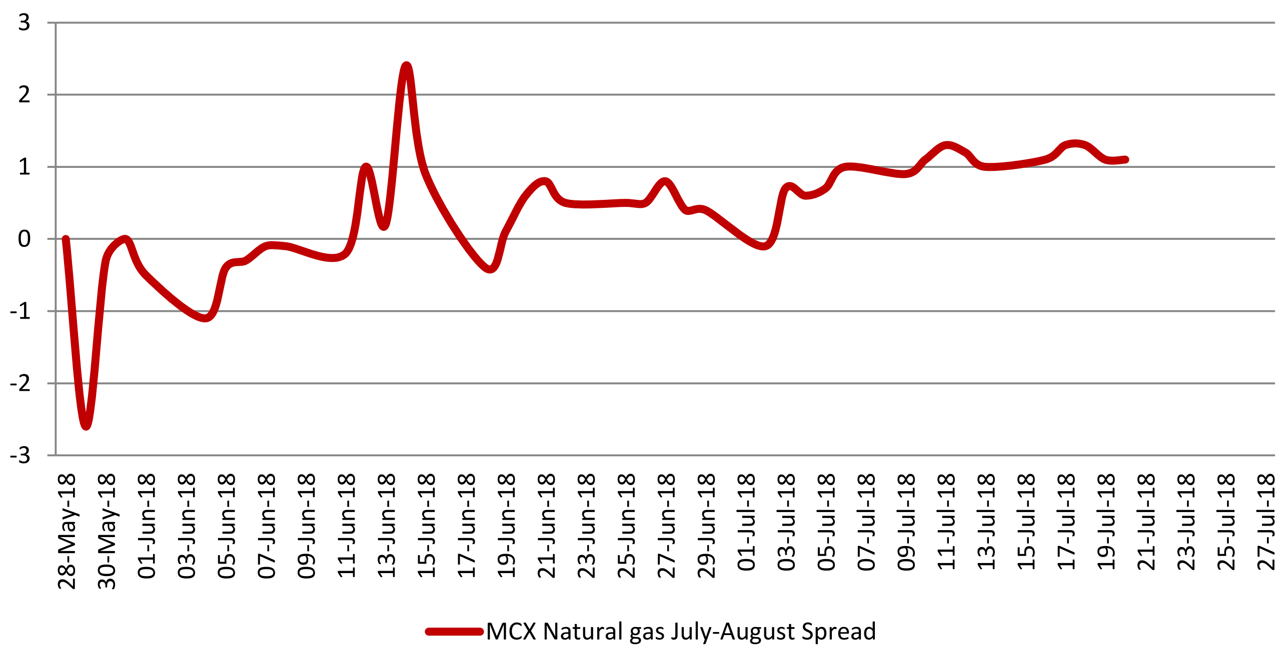
NATURAL GAS SPREAD (JULY- AUGUST CONTRACT)



The spread between MCX Natural gas July and August contract has been in a narrow range of -0.1 to 1.3 for past one month and is currently near 1.1. July contract is trading at a premium to August contract reflecting the structure in international market. Near month contract is benefitting from expectations that hot weather may keep cooling demand high. Farther month contract is under pressure from general higher US production. The recent fall in gas price indicates that there are more short positions in July contract which have to be rolled over or squared off. In this scenario we may see near month contract rising more. The spread or the backwardation could widen to around 1.5-1.8 levels.

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Technical Outlook

MCX Natural Gas Jul 18					NYMEX Natural Gas				
S2	S1	Pivot	R1	R2	S2	S1	Pivot	R1	R2
184.5	187.4	189.6	192.5	194.7	2.67	2.71	2.75	2.80	2.83
Trading Range: 184-194									

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ENERGY CALENDAR

DATE	IST	DATA	FOR
25 July	0200	API Weekly US Inventory Report	20 July
25 July	2000	US DOE Weekly Petroleum Product Inventory Report	20 July
26 July	2000	US DOE Weekly Natural Gas Inventory Report	20 July

ECONOMIC CALENDAR

Date	IST	Currency	Data	Forecast	Previous	Importance
23-Jul	18:00	USD	Chicago Fed Nat Activity Index	0.25	-0.15	Low
	19:30	EUR	Consumer Confidence	-0.70	-0.50	Low
		USD	Existing Home Sales	5.45M	5.43M	Medium
24-Jul	13:00	EUR	German Flash Manufacturing PMI	55.50	55.90	Medium
		EUR	German Flash Services PMI	54.50	54.50	Low
	13:30	EUR	Flash Manufacturing PMI	54.70	54.90	Medium
		EUR	Flash Services PMI	55.10	55.20	Low
	19:15	USD	Flash Manufacturing PMI	55.10	55.40	Medium
		USD	Flash Services PMI	56.50	56.50	Low
	19:30	USD	Richmond Manufacturing Index	18.00	20.00	Low
25-Jul	13:30	EUR	German Ifo Business Climate	101.50	101.80	Low
	19:30	USD	New Home Sales	669K	689K	Medium
	20:00	USD	Crude Oil Inventories		5.8M	Medium
26-Jul	11:30	EUR	German GfK Consumer Climate	10.70	10.70	Low
	17:15	EUR	Main Refinancing Rate	0.00%	0.00%	High
	18:00	EUR	ECB Press Conference			High
		USD	Durable Goods Orders m/m	3.0%	-0.40%	Medium
		USD	Unemployment Claims	215K	207K	Medium
	20:00	USD	Natural Gas Storage		46B	Medium
	20:30	USD	Kansas Fed Manufacturing Index	25	28	Low
27-Jul	18:00	USD	Advance GDP q/q	4.30%	2.00%	High
	19:30	USD	Revised UoM Consumer Sentiment	97.10	97.10	Low

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