March 09, 2020

SPECIAL REPORT ON

CRUDE OIL

Black Gold Tumbling Lower

smc

Moneywise. Be wise.

Overview

2020 (MCX)	
OPEN	4374
HIGH	4670
LOW	2155

Crude oil prices continued to plunge sharply lower as its prices have drastically fallen more than 55 per cent from the highs of nearly $65 since beginning of this year. Since the beginning of the year it has remained under selling pressure as worries about demand for fuel being sapped by the global coronavirus outbreak and record US crude oil production adversely impacted the prices. Meanwhile OPEC's failure to strike a deal with its allies regarding production cuts caused Saudi Arabia to slash its prices as it reportedly gets set to ramp up production, leading to fears of an all-out price war. OPEC and Russia oil price war unequivocally started when Saudi Arabia aggressively cut the relative price at which it sells its crude by the most in at least 20 years. Today crude oil fell by the most since 1991 after Saudi Arabia started a price war with Russia by slashing its selling prices and pledging to unleash its pent-up supply onto a market reeling from falling demand because of the coronavirus outbreak. The oil markets witnessed the worst price dip since the 1991 Gulf War as Brent prices plunged to $31.02 per barrel and WTI dropped below $28 per barrel. Saudi Arabia, the world's biggest oil exporter, is attempting to punish Russia, the world's second-largest producer, for balking at production cuts proposed by the Organization of the Petroleum Exporting Countries (OPEC).

Bearish factors impacting crude oil

Fear of global oil prices war as OPEC fail to strike deal with Russia

Recently OPEC's failure to strike a deal with its allies regarding production cuts caused Saudi Arabia to slash its prices as it reportedly gets set to ramp up production, leading to fears of an all-out price war. On Saturday, Saudi Arabia announced massive discounts to its official selling prices for April, and the nation is reportedly preparing to increase its production above the 10 million barrel per day mark. The kingdom currently pumps 9.7 million barrels per day, but has the capacity to ramp up to 12.5 million barrels per day. OPEC and Russia oil price war unequivocally started when Saudi Arabia aggressively cut the relative price at which it sells its crude by the most in at least 20 years. Saudi Arabia's price cut followed a breakdown of talks in Vienna last week. Last week, OPEC recommended additional production cuts of 1.5 million barrels per day starting in April and extending until the end of the year. But OPEC ally Russia rejected the additional cuts when the 14-member cartel and its allies, known as OPEC+, met last week. The meeting also concluded with no directive about the production cuts that are currently in place but set to expire at the end of the month. This effectively means that nations will soon have free rein over how much they pump.

Coronavirus outbreak has led to softer demand for crude

China's efforts to curtail the coronavirus outbreak has disrupted the world's second-largest economy and curtailed shipments to the largest oil importer. The spread to other major economies such as Italy and South Korea and the burgeoning cases in the United States has increased the concerns that oil demand will slump this year. Major banks such as Morgan Stanley and Goldman Sachs have cut their demand growth forecasts, with Morgan Stanley predicting China will have zero demand growth in 2020 while Goldman is seeing a contraction of global demand of 150,000 barrels per day.

Saudi Aramco aims to lift its output

Saudi Aramco aims to lift its output above 10 million barrels per day (bpd) in April, possibly as high as 11 million bpd. Given its current output is around 9.7 million bpd, this means as much as an extra 1.3 million bpd could flood the market next month - just as demand is taking a major hit from the economic fallout of the global coronavirus epidemic. But pumping more oil was only one of the two barrels fired by the Saudis. The other was a massive cut to their official selling prices (OSPs) for April. The OSP for Saudi Aramco's benchmark Arab Light grade was cut by $6 a barrel for Asian customers, the destination of about two-thirds of the kingdom's exports. This was the largest monthly cut stretching back to 2003. The prevailing logic was that the Saudis wanted to send a message to Russia: Extending and increasing output restrictions would have been a good idea, and that it would have been in all the producers' interests to make this happen. Other Middle Eastern producers such as Kuwait, Iran and Iraq will have little choice but to match the Saudi price cuts, as will other exporters around the world, unless they are prepared to lose market share or shut-in wells.

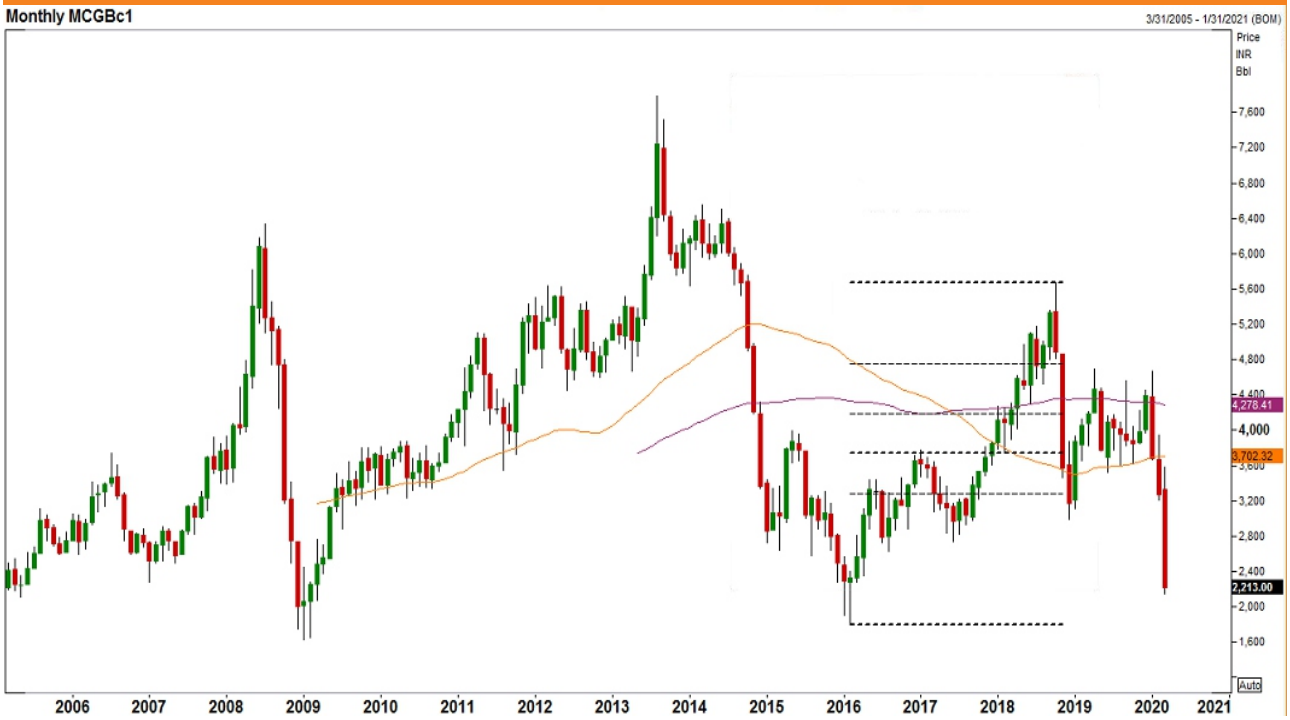
US production at record

Crude oil production in the U.S. reached a new record high of 13.1 million barrels per day (bpd) for the week ending Feb. 28, according to data released by the Energy Information Administration (EIA). The world's biggest crude oil producer saw its output increase by 1,000 bpd in the state of Alaska and rise by 100,000 bpd in other states excluding Hawaii, bringing total crude output in the country from 13 million bpd to approximately 13.1 million bpd.

Technical analysis of Crude oil

Source: Investing.com

MCX CRUDE OIL CHART



Source: Reuters

Crude Oil Price plummeted more than 30%, near 4-year low on a concern of the disintegration of the OPEC+ alliance triggered an all-out price-war among the world's biggest producers. Based on present structure support hold at Feb'16 low 1805 whereas resistance seen near 2630. If price failed to break below 1805 then we may witness a sharp rally towards 2630-2990. Alternative scenario indicates that if prices break and sustain below the level of 1805 then bearish rally may extended till the level of 1680 which is considered as buying opportunity.

WTI NYMEX CRUDE OIL CHART

Source: Reuters

WTI Crude charts are heading towards 2016 low $26.19 which is considered as immediate support. Resistance for the counter is seen near $34-$37. Break and sustain below $26.20 may extend bearish rally towards $18 which is considered as buying opportunity. On the other hand if price failed to sustain below the $18.20 then we may witness corrective rally towards $34-$37.

E-mail: smc.care@smcindiaonline.com

smc
Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401 / 402 , 4th Floor , Graham Firth Steel Compound, Off Western Express Highway, Jay Coach Signal, Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004