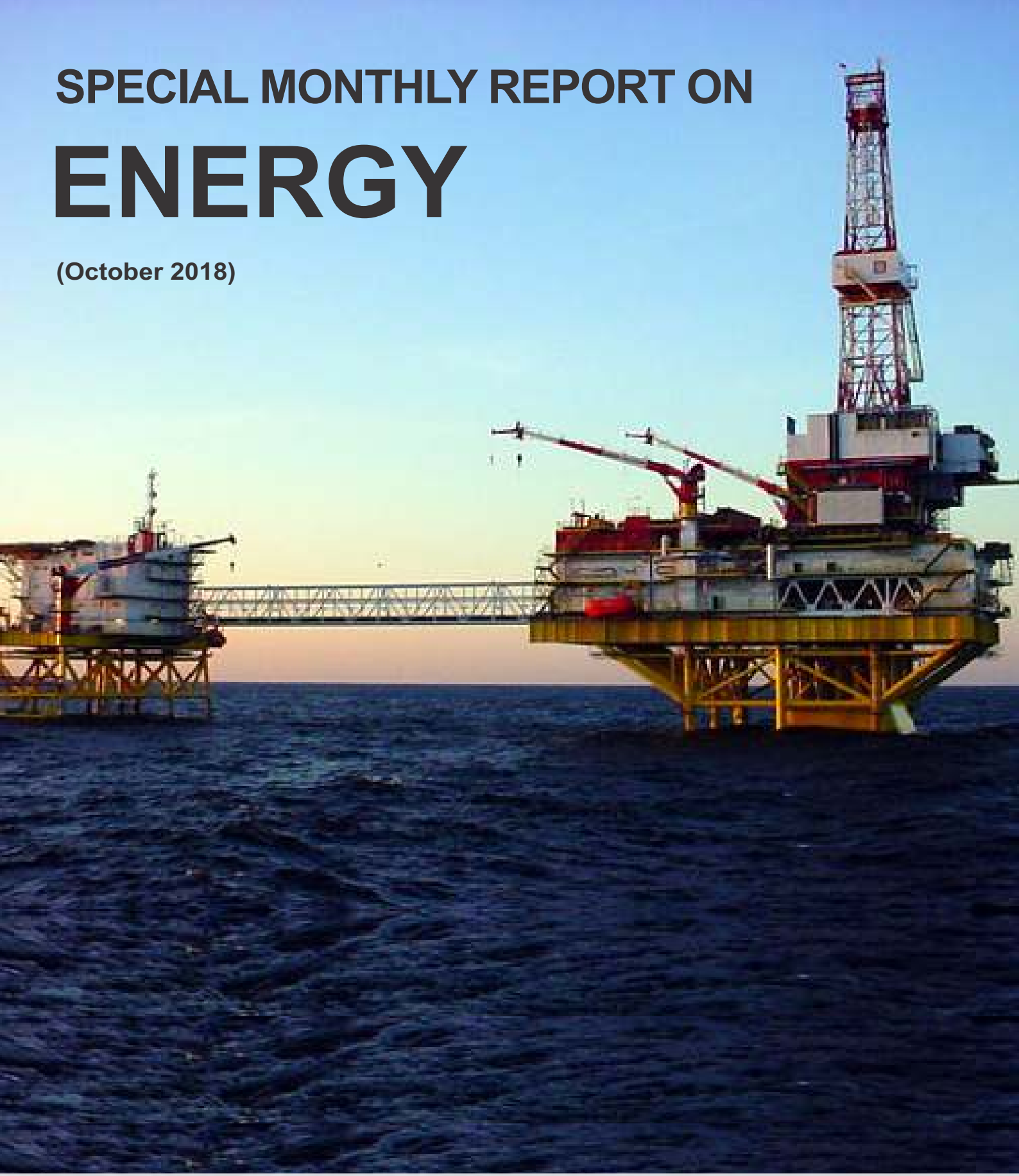
SPECIAL MONTHLY REPORT ON

ENERGY

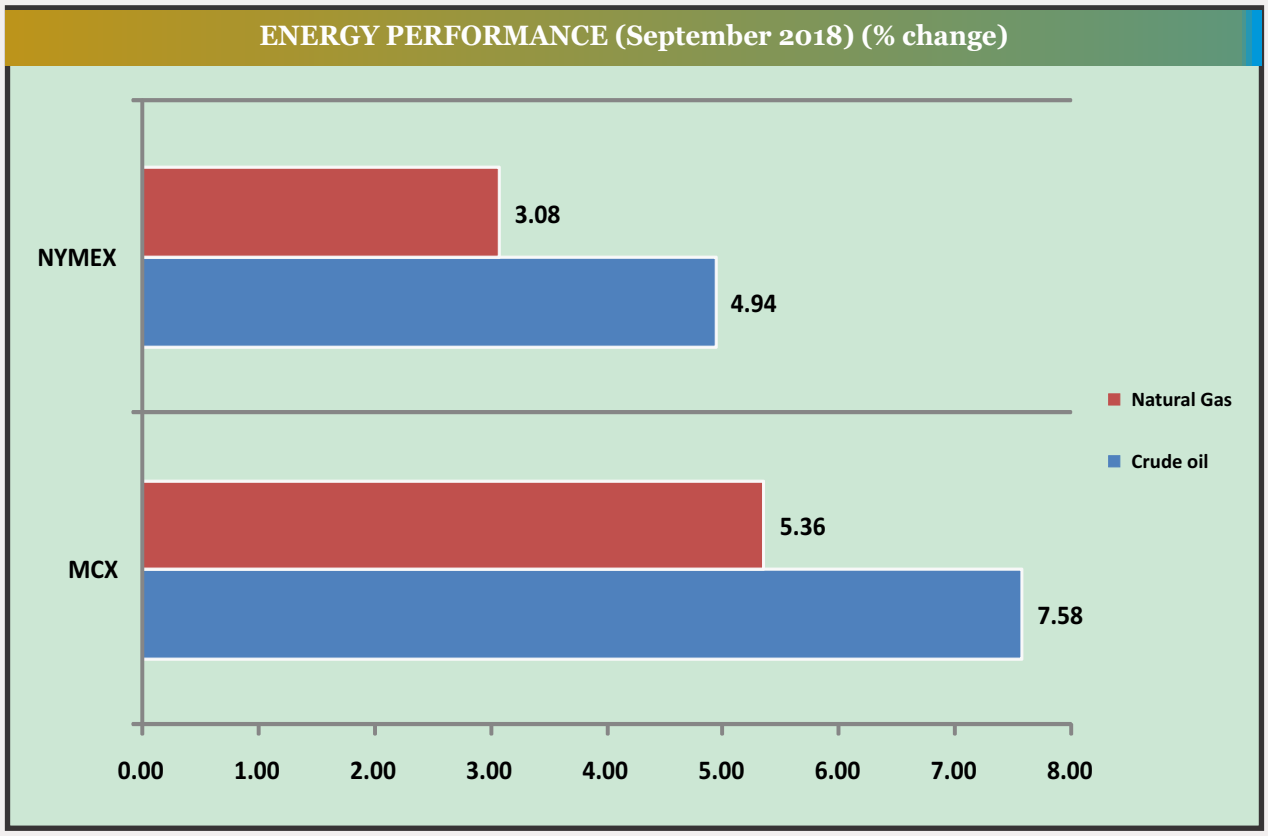
(October 2018)

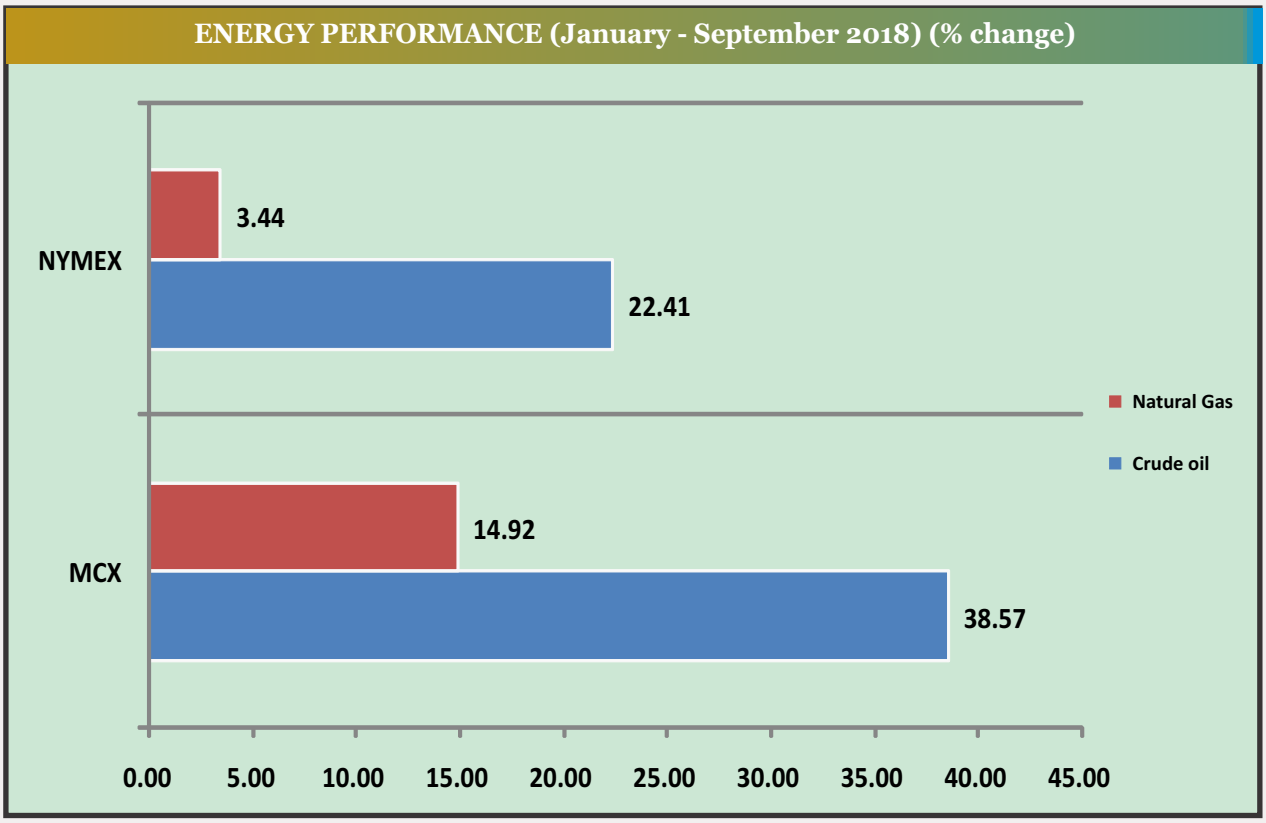


smc

Moneywise. Be wise.

ENERGY


ENERGY PERFORMANCE (September 2018) (% change)
NYMEX
MCX
3.08
4.94
5.36
7.58
Natural Gas
Crude oil
0.00
1.00
2.00
3.00
4.00
5.00
6.00
7.00
8.00


ENERGY PERFORMANCE (January - September 2018) (% change)
NYMEX
MCX
3.44
22.41
14.92
38.57
Natural Gas
Crude oil
0.00
5.00
10.00
15.00
20.00
25.00
30.00
35.00
40.00
45.00

ENERGY

ENERGY COMPLEX

Overview

In the month of Sep crude oil prices traded on firm path as looming U.S. sanctions against Iran and the unwillingness or inability of the Organization of the Petroleum Exporting Countries (OPEC) and top oil producer Russia to raise output to offset the loss of Iranian supply have spurred prices higher. But U.S. President Donald Trump pressure on OPEC nations to bring down oil prices can keep the upside capped. Overall it managed to hover in range of $66.86-73.73 in NYMEX and 4808-5356 in MCX. The U.S. sanctions were imposed by Trump in response to Iran's nuclear program, which the White House says is designed to produce weapons, an allegation Tehran denies. The Organization of the Petroleum Exporting Countries and other producers, including Russia, meet in Algeria to discuss how to allocate supply increases to offset the loss of Iranian barrels. The meeting is unlikely to agree an official rise in crude output, although pressure is mounting on top producers to prevent a spike in prices. The United States from Nov. 4 will target Iran's oil exports with sanctions, and Washington is putting pressure on governments and companies around the world to fall in line and cut purchases from Tehran.

Outlook

Crude oil prices may continue its last month recovery as looming U.S. sanctions against Iran's oil exports and supply disruptions from places such as Venezuela and Africa triggered expectations of a tightening market. But profit booking at higher levels cannot be denied as prices have gone up sharply in quick span of time. Meanwhile U.S. Energy Secretary denied reports that U.S. government plans to use emergency oil reserves to make up for barrels that would be lost from sanctions applied by Washington on Iranian oil exports. U.S. gasoline prices are sitting at four-year seasonal highs headed into the November midterm elections, even as President Donald Trump has called repeatedly for OPEC to push prices lower. Elsewhere, Saudi Arabia is ready to put as much as 550,000 additional barrels onto the market. The gains will come from about 200,000 barrels per day from its Kurais oil field, as well as resumed capacity from some pipeline issues with Manifa field.

Crude oil can take support near 5150-5250 and buy on dips strategy should be used for upside level of 5800.

Key News

Iran tensions and crude oil

Oil prices drew support from worries that Iranian production will drop sharply after U.S. sanctions go into effect on Nov. 4. Oil prices continue to climb, supported by the nearing Iran embargo and related supply concerns. The Trump administration set a deadline of Nov. 4 for oil buyers to stop purchasing Iranian crude.

When Iran launched ballistic missiles into Syria, its message was aimed more at the Islamic Republic's powerful foes: the United States, Israel and Saudi Arabia.

US accuses OPEC of withholding 1.42 million b/d of spare capacity

As oil prices hit new four-year highs, the US State Department accused OPEC of withholding 1.42 million b/d of spare capacity from the world market. The United States continues to engage with OPEC countries and we encourage them to utilize their spare capacity to ensure world oil supply meets the demand. OPEC, Russia and nine other countries pledged in June to reduce over compliance with production cuts that have been in force since January 2017, which they say will result in a 1 million b/d output rise from May levels.

Highlights of latest EIA report

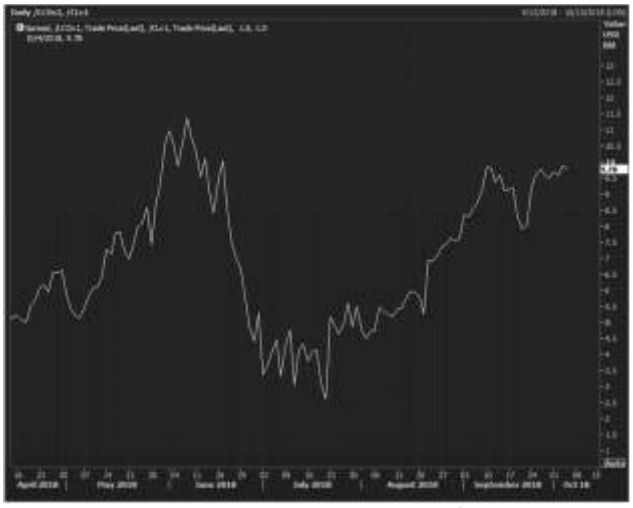
EIA estimates that U.S. crude oil production averaged 10.9 million barrels per day (b/d)

in August, up by 120,000 b/d from June. EIA forecasts that U.S. crude oil production will

average 10.7 million b/d in 2018, up from 9.4 million b/d in 2017, and will average 11.5 million b/d in 2019.

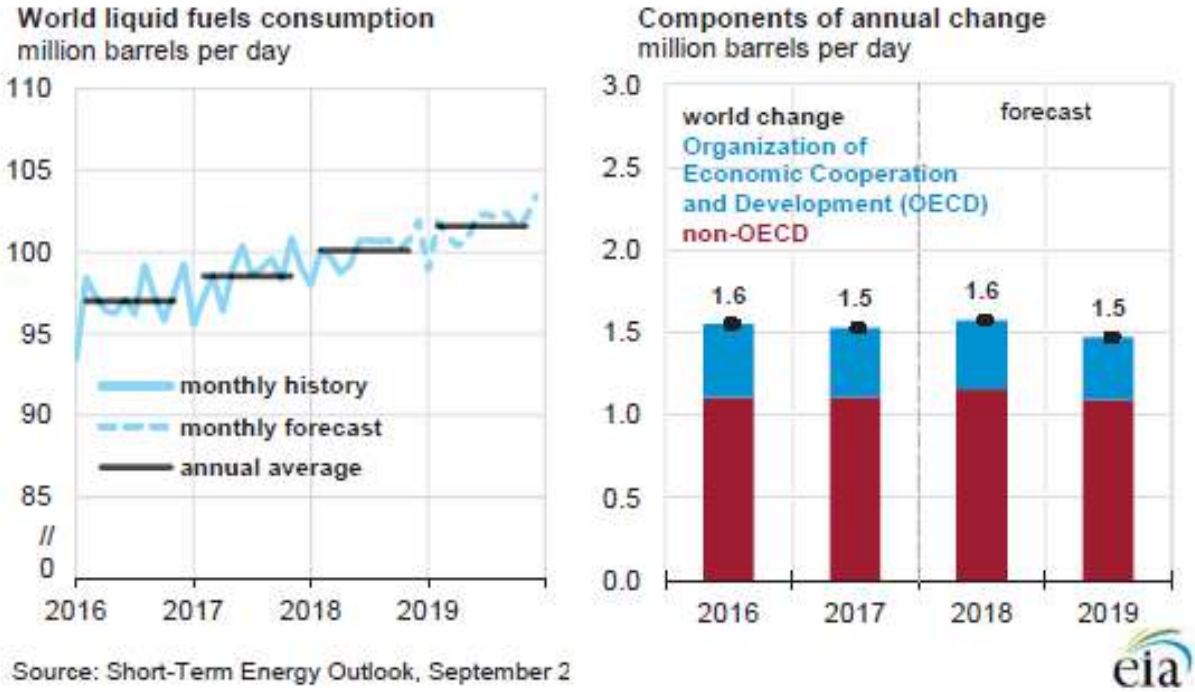
EIA forecasts total global liquid fuels inventories to decrease by 0.4 million b/d in 2018 compared with 2017, followed by an increase of 0.1 million b/d in 2019. This outlook of relatively stable inventory levels during the forecast period contributes to a forecast of monthly average Brent crude oil prices remaining relatively stable, between $72/b and $76/b, from September 2018 through the end of 2019.

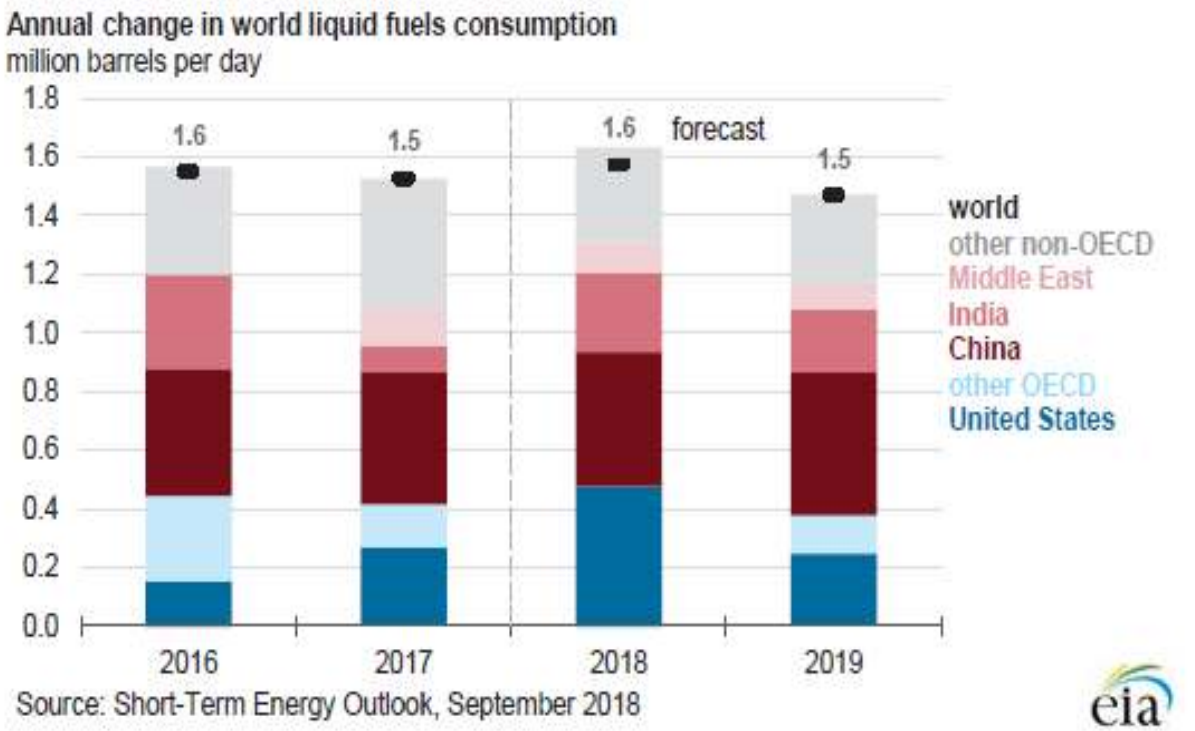
Brent WTI Spread



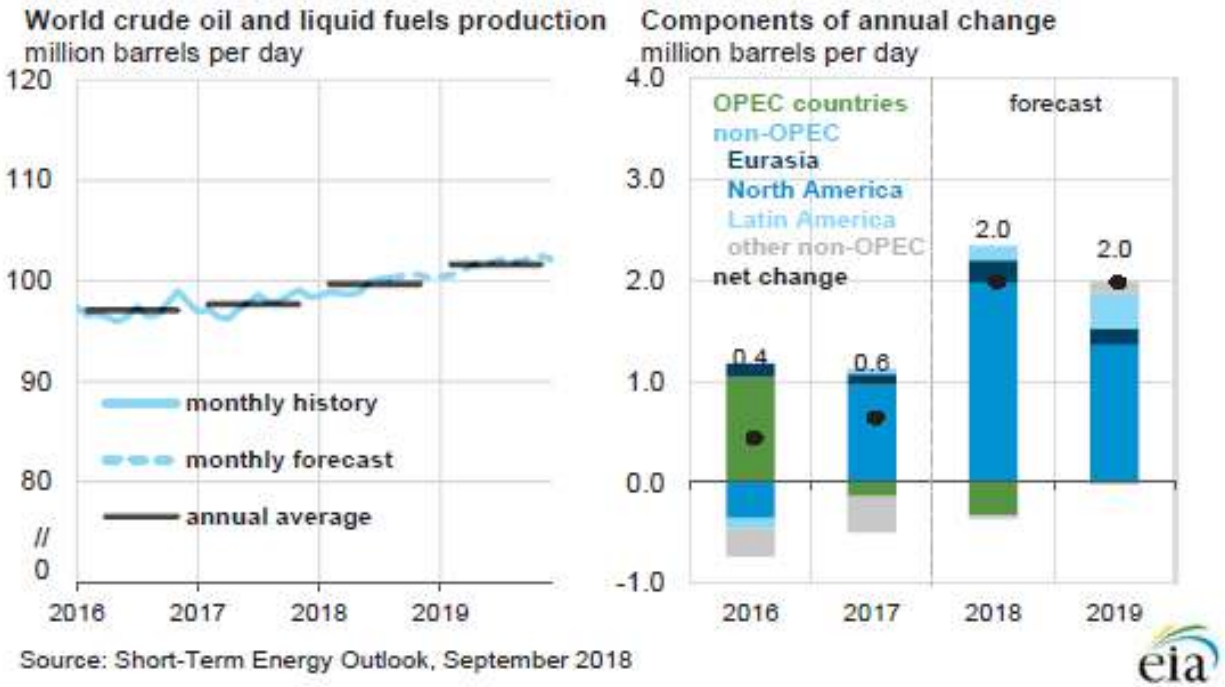
Source: Reuters

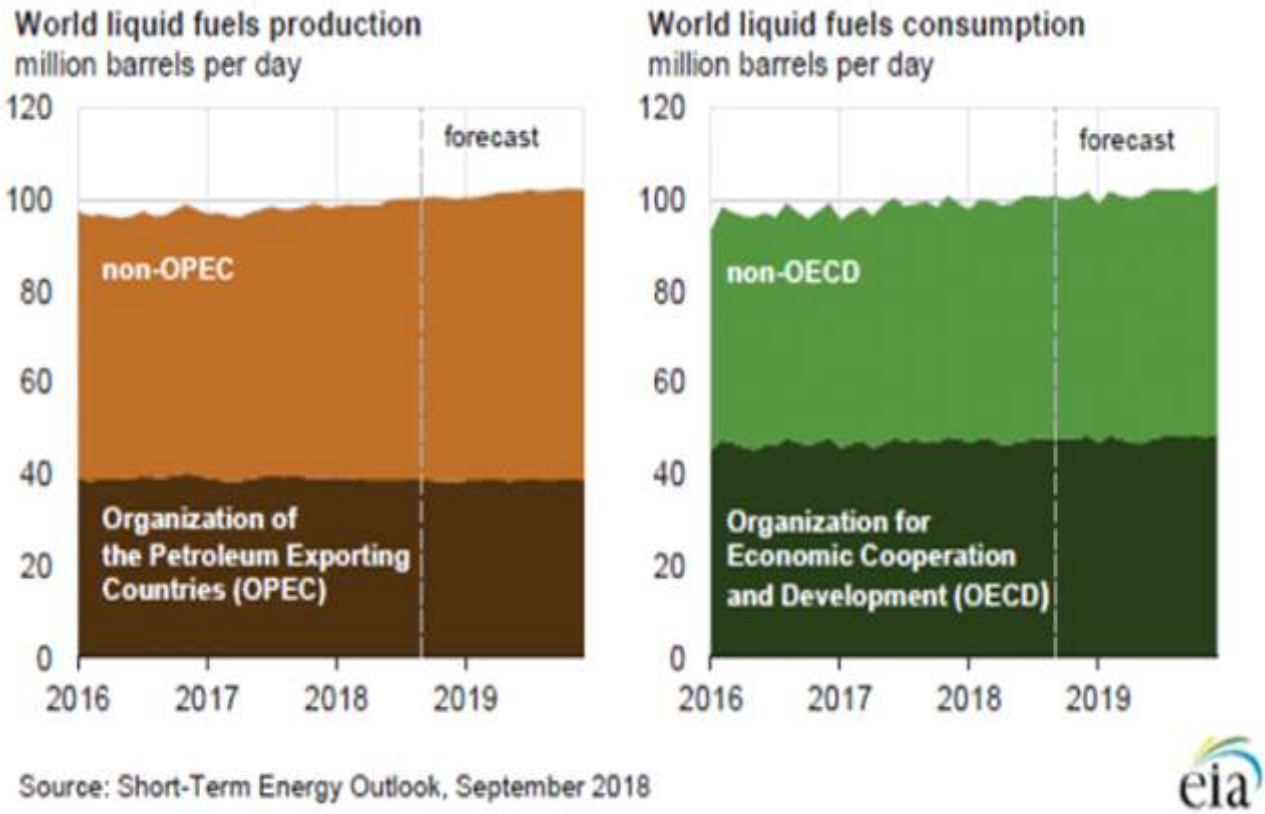
Analysis: Brent WTI crude oil spread widened from 8 to above 9.5. Overall it can hover in range of $7-11 in the month of October.


World liquid fuels consumption
million barrels per day
110
105
100
95
90
85
0
monthly history
monthly forecast
annual average
2016
2017
2018
2019
Components of annual change
million barrels per day
3.0
2.5
2.0
1.5
1.0
0.5
0.0
world change
forecast
Organization of Economic Cooperation and Development (OECD)
non-OECD
1.6
1.5
1.6
1.5
2016
2017
2018
2019
Source: Short-Term Energy Outlook, September 2
eia


Annual change in world liquid fuels consumption
million barrels per day
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
1.6
1.5
1.6
forecast
1.5
2016
2017
2018
2019
world
other non-OECD
Middle East
India
China
other OECD
United States
Source: Short-Term Energy Outlook, September 2018
eia

ENERGY


World crude oil and liquid fuels production
million barrels per day
120
110
100
90
80
0
monthly history
monthly forecast
annual average
2016
2017
2018
2019
Components of annual change
million barrels per day
4.0
3.0
2.0
1.0
0.0
-1.0
OPEC countries
non-OPEC
Eurasia
North America
Latin America
other non-OPEC
net change
forecast
0.4
0.6
2.0
2.0
2016
2017
2018
2019
Source: Short-Term Energy Outlook, September 2018
eia


World liquid fuels production
million barrels per day
120
100
80
60
40
20
0
forecast
non-OPEC
Organization of the Petroleum Exporting Countries (OPEC)
2016
2017
2018
2019
World liquid fuels consumption
million barrels per day
120
100
80
60
40
20
0
forecast
non-OECD
Organization for Economic Cooperation and Development (OECD)
2016
2017
2018
2019
Source: Short-Term Energy Outlook, September 2018
eia

ENERGY

Natural Gas

Overview

Natural gas traded on upside path on higher demand last month. Overall it traded in range of 198.70-224.30 in MCX in the month of September.

Natural gas can trade with upside bias as weather related demand to give further support the prices. U.S. natural gas futures jumped to their highest in four weeks last month on forecasts for unexpectedly high demand due to lingering heat in parts of the country that is expected to reduce the amount of fuel available to go into storage. Natural gas climbed above the psychologically important $3 level for the first time since the end of June, amid worries about unusually low inventories in storage.

Recently Natural gas prices hit highest since January as hot temperatures lead to higher-than-normal air conditioning use for this time of year.US natural gas supply and consumption grew substantially during the first half of the year, driven largely by increased production in Appalachia and higher demand across all sectors. Meanwhile, Hurricane Florence forced power plants in the Carolinas region to shut down as much as 17 gigawatts of nuclear power, or about 10 gigawatts more than usual over the last four years.

Natural gas can trade with upside bias as it can take support near 220 and resistance near 255 in the month of October.

Increase in demand of Natural gas

The United States has set new records for natural gas-fired electricity generation, liquefied natural gas exports and exports to Mexico. Even industrial consumption jumped to 20 billion cubic feet per day, also a record. Consumption and exports have totaled 93.2 billion cubic feet per day in the first half of the year, a 12 percent rise over the same period in 2017, according to the U.S. Energy Department.

Demand is expected to grow even higher in the years to come. Generators are replacing old, dirty coal-fired power plants with clean-burning gas-fired turbines. A half-dozen new gas liquefaction facilities are on the drawing board or under construction. And industrial consumption at ethane crackers along the Gulf Coast is on the rise, sending plastic pellets around the world.

EIA estimates of Natural gas

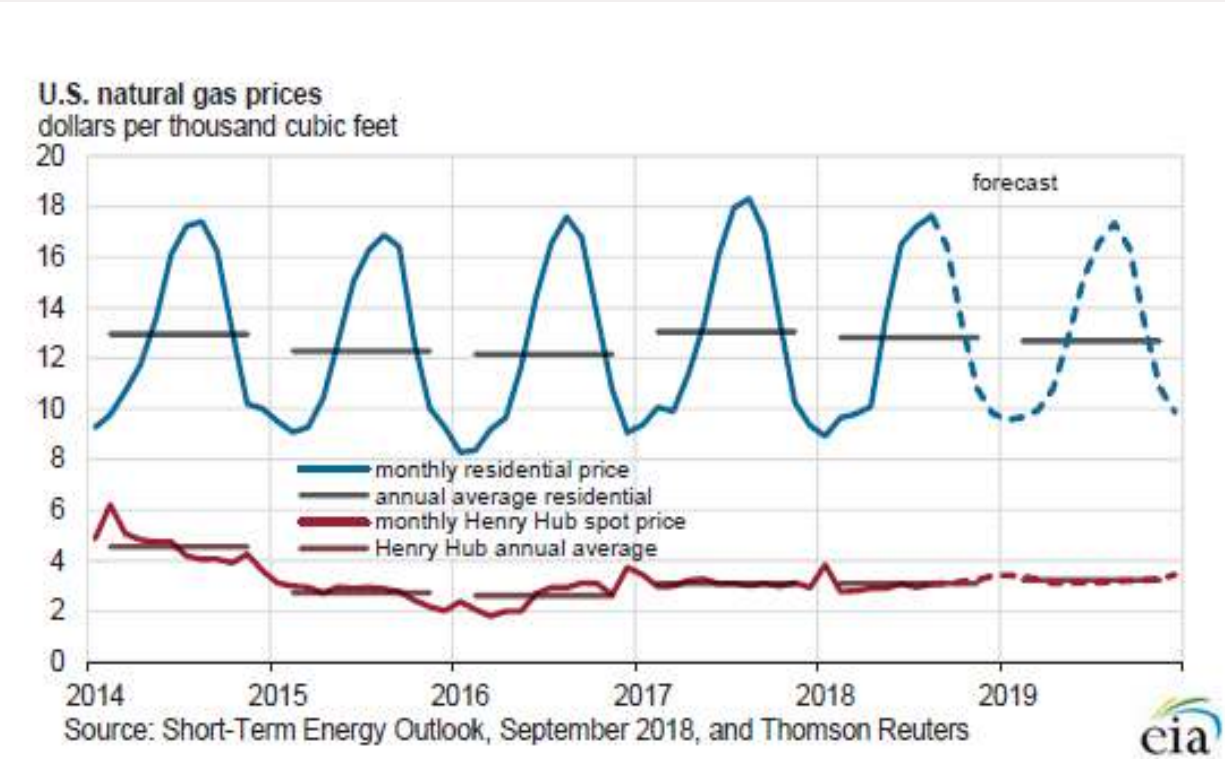
EIA estimates dry natural gas production in the United States was 82.2 billion cubic feet per day (Bcf/d) in August, up 0.7 Bcf/d from July. Dry natural gas production is forecast to average 81.0 Bcf/d in 2018, up by 7.4 Bcf/d from 2017 and establishing a new record high. EIA expects natural gas production will continue to rise in 2019 to an average of 84.7 Bcf/d.

EIA forecasts that U.S. natural gas inventories will total 3.3 trillion cubic feet (Tcf) at the end of October. This level would be 13% lower than the 2017 end-of-October level and 14% below the five-year (2013–17) average for the end of October, while also marking the lowest level for that time of year since 2005.

EIA forecasts that U.S. crude oil production will average 11.5 million barrels per day (b/d) in 2019, which is 0.2 million b/d lower than forecast in the August The lower production reflects more severe constraints in Permian region pipeline takeaway capacity than previously expected, which results in slower expected crude oil production growth in that region. The lower forecast is also the result of a reevaluation of projects in the U.S. Gulf of Mexico.

Note: Confidence interval derived from options market information for the five trading days ending Sep 6, 2018. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Source: Short-Term Energy Outlook, September 2018, and CME Group



Source: Short-Term Energy Outlook, September 2018, and Thomson Reuters

ENERGY

Vandana Bharti (AVP - Commodity Research) **Boardline : 011-30111000 Extn: 625** **vandanabharti@smcindiaonline.com**
Sandeep Joon Sr. Research Analyst (Metal & Energy) **Boardline : 011-30111000 Extn: 683** **sandeepjoon@smcindiaonline.com**

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