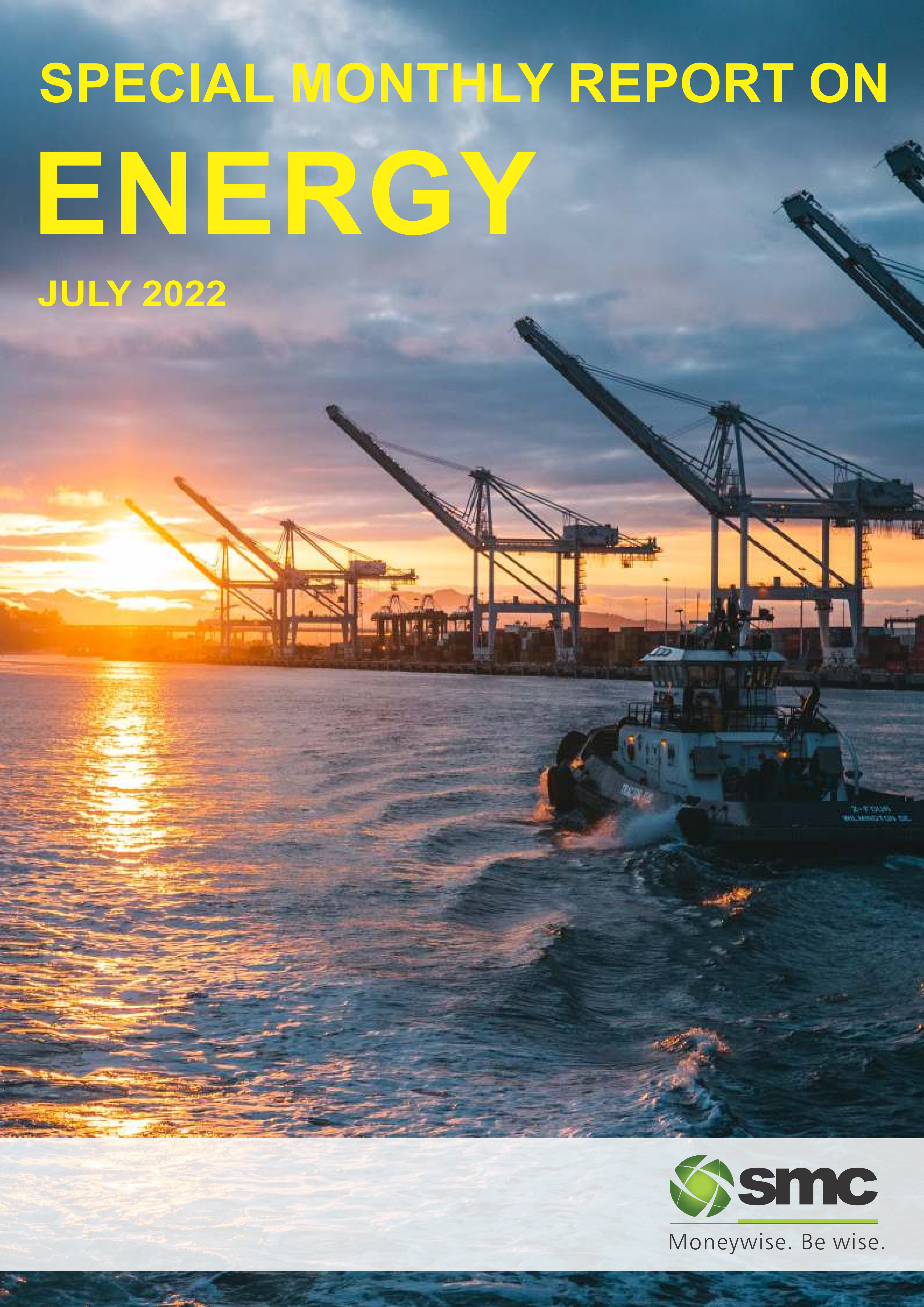
SPECIAL MONTHLY REPORT ON

ENERGY

JULY 2022



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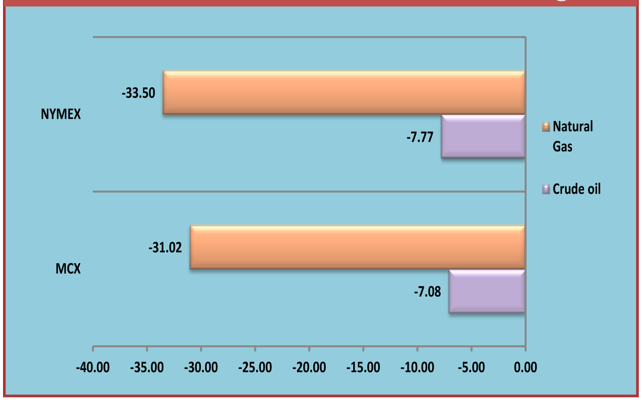
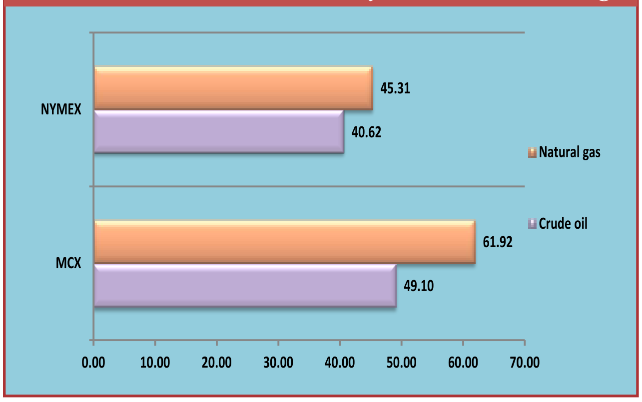
ENERGY PERFORMANCE (June 2022) (% change)



Source: Reuters & SMC Research

ENERGY PERFORMANCE (January - June 2022) (% change)



Source: Reuters & SMC Research

In June, crude prices fell more than 7% due to fear of a global slowdown, rise of dollar index and concerns about demand destruction due to resurgence of Covid-19 in China after registering six consecutive month rise on supply disruption on geo-political tension after continued Russia's attack on Ukraine. The heightened concerns of a recession in big economies outweighed misgivings of tight global supplies due to sanctions on Russia. The US economy is expected to show growth in 2022, but at a slower pace. The Fed's aggressive tightening cycle has raised fears of a push towards a recession on the American economy. China's declining real estate market and its COVID-19 measures are also triggering fears of a decline in economic activity. However, losses are limited, still more than 40% higher this year, on geo-political tension after continued Russia's attack on Ukraine exacerbated concerns about disruptions to global energy supply. The prices got support during the month due to the increased likelihood of a European Union ban on Russia crude imports as the war enters its 5th month despite diplomatic efforts for a cease-fire.

Outlook

The recent volatility in oil prices was not caused by fundamentals, but by ongoing geopolitical developments. However, prices may continue to trade in the range as the ongoing geopolitical tension regarding Ukraine and the associated sanctions on Russia continue to provide underlying support for the market while the recession fears are the primary bearish factor that may cap the surge in oil prices. The central banks' aggressive rate hikes and worries about a possible global recession curtailing fuel demand have been pressuring oil markets. A stronger dollar may also cap on prices as greenback gaining strength by aggressive approach on monitory tightening. However, price falls are poised to have limits due to the possibility of supply disruptions from sanctions in Russia, a reported lack of spare capacity in the UAE and Saudi Arabia, hurricanes in the US, and political unrest in Ecuador and Libya. overall, investors are becoming more concerned about demand amid a broad tightening in global financial conditions as the U.S. Federal Reserve fights rampant inflation with rapid interest rate increases.

Major Events & News

- Russia’s seaborne crude exports for Asia — a crucial market where China and India have stepped in to prop up Russian exports others have shunned in response to its invasion of Ukraine — were down by more than 15% on both a weekly and four-week average basis from the highs seen at the end of May.
- Recent developments in the world economy show an increase in inflation's impacts on many countries and a remarkable rise in fuel prices. United States inflation are near 40-year high, raising the likelihood of more aggressive interest rate hikes from the Federal Reserve. Aggressive interest rate hikes may leads to possible global recession that curtails fuel demand.
- Eurozone inflation hit yet another record high in June, strengthening the case for rapid European Central Bank rate increases, while US consumer sentiment hit a record low.
- Interest rate hikes also loom in Australia and in South Korea as authorities try to tamp down inflation. In South Korea, inflation in June hit a near 24-year high, adding to concerns of slowing economic growth and oil demand.

ENERGY

- Recently, Iran has offered to help tame energy inflation by raising crude oil output. Iran is reducing the price of its already cheap crude even more as a top ally gains a bigger foothold in the key Chinese market.
- Recently OPEC+ agreed to stick to a planned output increase in August, defying calls to pump more barrels to cool red-hot crude prices. It means the group will raise output by 648,000 barrels per day in both July and August. The Organization of the Petroleum Exporting Countries (Opec) missed a target to boost output in June, a Reuters survey found.
- India's crude oil imports from Russia surged by 286% amid international sanctions imposed against Russia. India imported $1,526 million worth crude oil from Russia, 286% more than the FY17-FY21 average.

WEEKLY PRICE MOVEMENT OF CRUDE OIL IN MCX

Source: Reuters

WEEKLY PRICE MOVEMENT OF CRUDE OIL IN NYMEX

Source: Reuters

In July 2022, Crude oil prices may trade with high volatility where buying near support would be strategy and short term resistance is seen near 8500 levels, support is seen near 7400.

Natural gas

In June, natural gas prices also nosedived more than 31%, the worst month since December 2018, due to larger-than-expected storage build, sparking fears of an oversupplied market Natural gas prices surged above $9 per MMBtu in May, hitting the highest level since August 2008due to the sweltering summer temperatures, rising cooling demand and declining U.S. storage inventories. Record high gas prices have depressed the demand and caused some gas users to switch to coal and oil, while recent sharp cuts in Russian gas flows to Europe are raising alarms about supplies ahead of the winter.

Outlook

- Global natural gas consumption is expected to contract slightly in 2022 and grow slowly over the following three years as Russia's war in Ukraine pushes up prices and fuels fears of further supply disruptions, according to the IEA's latest Gas Market Report.
- Global gas demand is set to rise by a total of 140 billion cubic metres (bcm) between 2021 and 2025, according to the new Gas Market Report – less than half the amount forecast previously and smaller than the 170 bcm increase seen in 2021 alone.
- The downward revision in gas demand growth in the coming years is mostly the result of weaker economic activity and less switching from coal or oil to gas.

- The European Union's commitment to phase out gas imports from Russia – historically, its largest supplier – is having global repercussions, as Europe's surging demand for LNG draws in deliveries initially intended for other

WEEKLY PRICE MOVEMENT OF NATURAL GAS IN MCX

Source: Reuters

WEEKLY PRICE MOVEMENT OF NATURAL GAS IN NYMEX

Source: Reuters

MCX Natural gas prices may trade in the range with high volatility. The recent resistance are at 510. Overall the commodity can move downside, so sell on rise should be good strategy. Support is seen near 370.

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