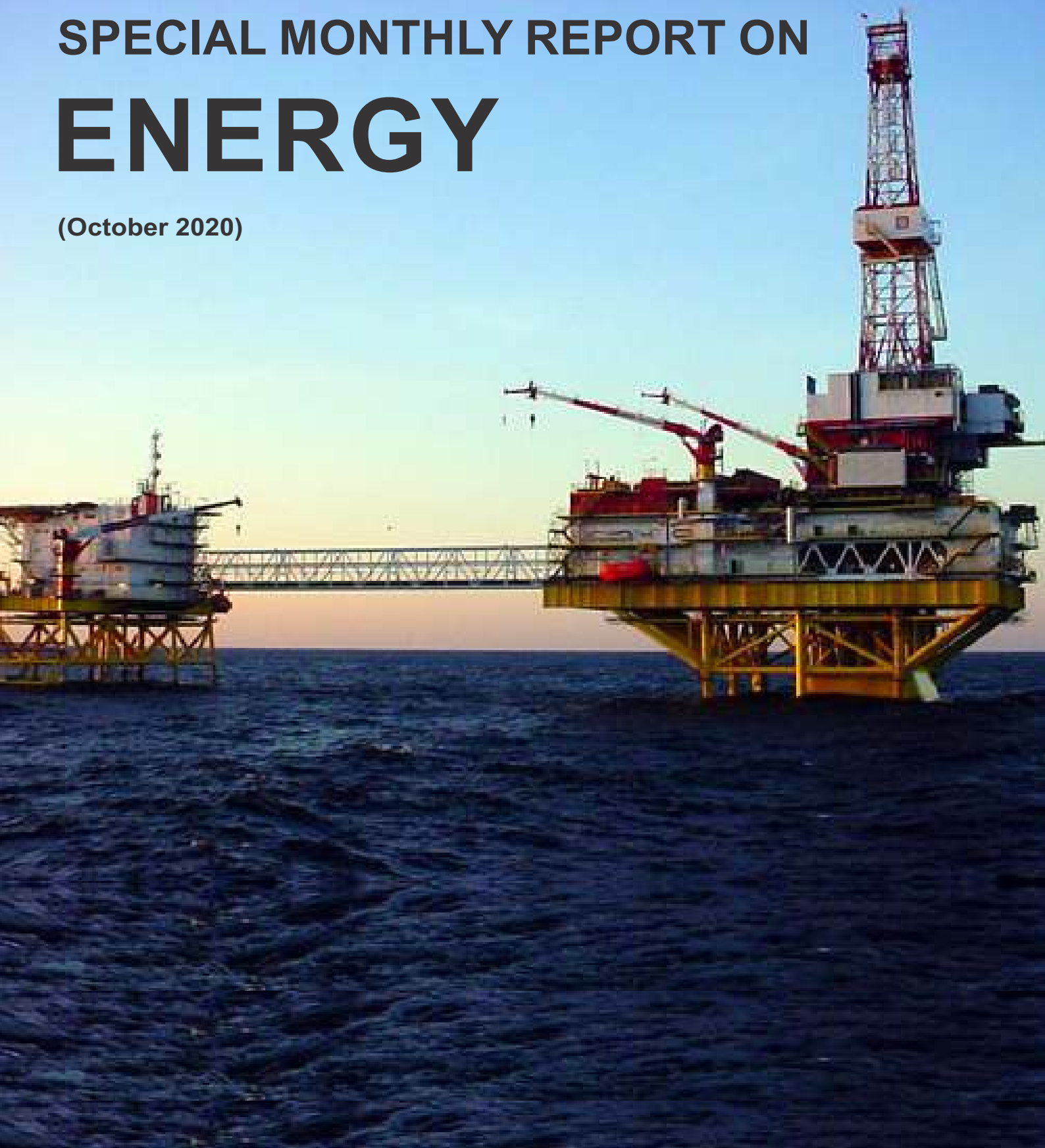
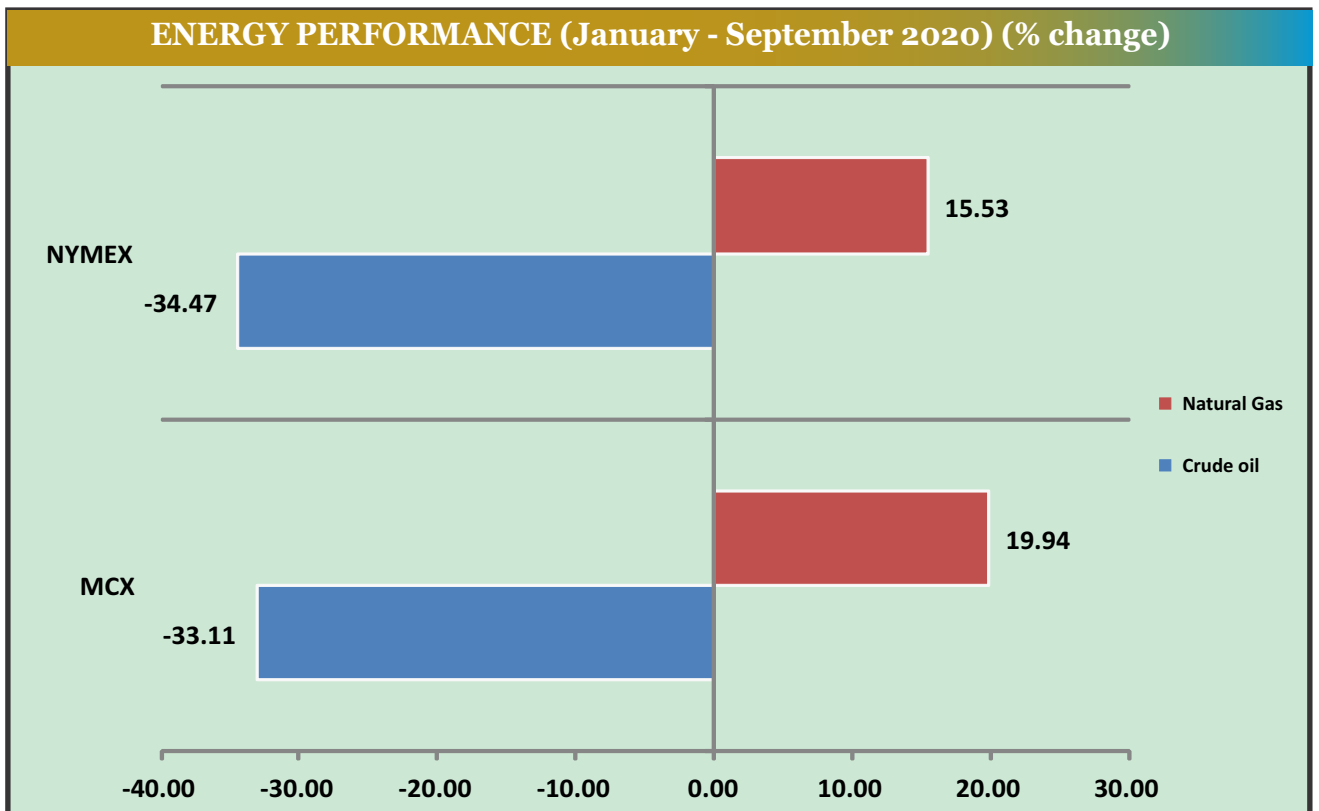
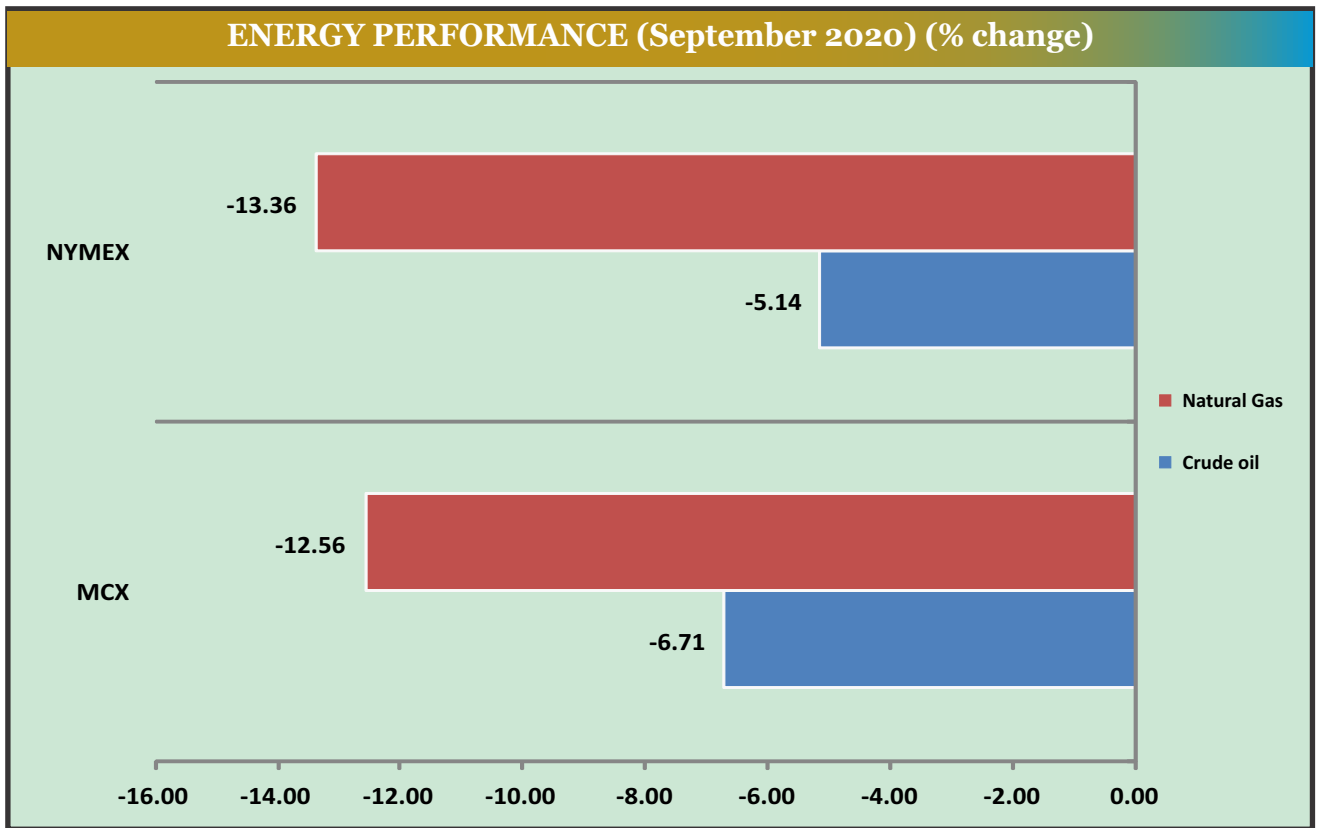


# SPECIAL MONTHLY REPORT ON ENERGY

(October 2020)



Moneywise. Be wise.



In the month of September, crude oil prices suffered their first monthly decline since April. Prices for the U.S. benchmark, based on the front-month contracts, saw monthly fall more than 5 % as worries about rising cases of COVID-19 worldwide fed expectations for a slowdown in energy demand but ended 2.4% higher for the quarter. Crude oil investors have closely followed the spread of the disease because it can have a detrimental impact on appetite for oil as economies stall. Europe was implementing or planning to reinstitute new social-distance restrictions as COVID-19 cases climb. The prices also pressurised due to higher supply as a survey by Reuters pointed to increased oil supply from the Organization of the Petroleum Exporting Countries, with output in September up 160,000 barrels per day from August. The OPEC+ group raised their total seaborne exports in September to 22.84 million barrels per day (bpd) from 22.11 million bpd in August. Saudi Arabia's shipments have recovered from the lows in June, when they were below 5 million bpd, and returned to above 6.25 million bpd in September, close to the levels last observed in March 2020,

## Outlook

Crude Oil may trade in the range with weak bias as global demand remained below pre-COVID levels while U.S. production edged up. Both Brent and WTI benchmarks could see headwinds in October as the latest news from the pandemic front is unlikely to give much hope to those waiting for a price recovery. With a second wave of Covid-19 raging across Europe and U.S. cases continuing to rise, most are preparing for a long wait until prices rebound. Oil prices may further bearish as U.S. producers began restoring output after Hurricane Delta weakened. In the United States, Hurricane Delta, which dealt the greatest blow to U.S. offshore Gulf of Mexico energy production in 15 years, was downgraded. However, the prices may get support if new hurricane emerge and hit to Mexico gulf. Renewed optimism over some U.S. coronavirus relief aid is also supporting the market. After shutting down talks over a larger stimulus deal, President Donald Trump wrote on Twitter Congress should pass money for airlines, small businesses and stimulus cheques for individuals, fuelling hopes for some relief. The fate of oil prices will also depend on growth of oil demand in China and India as economic activity in both the Asian hub started recovering from pandemic hit.

## Key News

### Energy demand and supply patterns changed due to reduced economic activity

As per the October Short-Term Energy Outlook (STEO) of EIA, reduced economic activity related to the COVID-19 pandemic has caused changes in energy demand and supply patterns in 2020. This STEO assumes U.S. gross domestic product (GDP) declined by 4.4% in the first half of 2020 from the same period a year ago. It assumes that GDP will rise beginning in the third quarter of 2020, and will grow 3.5% year-over-year in 2021.

### Rising oil import in China

China's crude oil imports averaged 11.52 million barrels per day (bpd) in September, up by 3.1 percent from August, but slowly returning to historical levels and starting to ease the congestion at Chinese ports. Compared to September last year, Chinese crude oil imports jumped by 24.4 percent, or by 2.26 million bpd. China's oil imports continue to grow compared with previous years, but they are easing off the record-highs seen earlier this summer when Chinese refiners imported cheap barrels they had snapped up in April at the lowest prices in decades. China imported record volumes of crude oil in May and June, as the oil-hungry nation attempted to benefit from the low oil prices in April.

### Production rising by OPEC +

Saudi Arabia is considering the cancellation of plans for the Organization of the Petroleum Exporting Countries to raise oil production early next year. The rise in COVID-19 cases in many parts of the world, as well as the expected return of Libyan crude oil to the world market for rethinking the plan, which calls for a gradual increase in output, as OPEC and its allies,

### Weekly Price movement of crude oil in MCX



Source: Reuters

Looking ahead in October, Crude oil prices continue to trade in tight range also we can expect dip towards 2700 which would be considered as buying opportunity, resistance is seen near 3240.

### Weekly Price movement of crude oil in NYMEX



Source: Reuters

collectively known as OPEC+, ease production curbs. OPEC+ had agreed to cut overall oil output by 9.7 million barrels per day starting in May. The group tapered the cuts starting in August to 7.7 million barrels per day. OPEC's next official meetings will be held on Nov. 30 and Dec. 1. Production in Libya, one of the members of the Organization of the Petroleum Exporting Countries, is expected to rise to 355,000 barrels per day after force majeure was lifted on the Sharara field. This would not be "helping OPEC+ in the task of rebalancing the market.

### **India's fuel demand**

India's fuel demand in September rose for the first time since June as easing coronavirus restrictions supported economic activity and travel, but consumption remained weaker than a year earlier, government data showed. Consumption of refined fuels, a proxy for oil demand, rose 7.2% in September from the prior month to 15.47 million tonnes, the first monthly increase since June when demand rose to 16.09 million tonnes. However, demand fell 4.4% from the same period a year earlier, posting its seventh consecutive year-on-year slide, data from the Petroleum Planning and Analysis Cell (PPAC) of the Ministry of Petroleum & Natural Gas showed.

### **U.S. presidential election & possible impact oil market**

Oil producers in the top U.S. shale fields are stockpiling drilling permits on federal land ahead of the November U.S. presidential election, concerned that a win by Democratic candidate Joe Biden could lead to a clamp-down on oilfield activity.

Federal permitting in the largest U.S. oilfield in the Permian Basin, located in Texas and New Mexico, is up 80% in about the last three months, which analysts attribute to a hedge against a win by Biden, who currently leads U.S. President Donald Trump by several points in national polling. Biden has stated that he does not want to ban fracking outright, putting him at odds with many environmentalists and Democratic party activists.

However, his climate plan includes banning new oil and gas permits on public lands, which industry groups say would hurt the economy and cut off an energy boom that has made the United States the world's largest crude oil producer.

If Biden were to follow through on his promise to spend \$2 trillion on a clean energy transition backed by a Democratic Congress pushing bold policies to wean the nation off fossil fuels, advocates say it could begin an orderly shift away from oil and gas production. But it's unclear whether a Biden administration could put a halt to new permits on lands that have already been leased.

As of Aug. 24, producers have received 974 permits so far this year for new wells on federal land in the Permian, compared with 1,068 for all of last year and 265 in 2018, according to data firm Enverus.

In the 90 days up till Aug. 24, producers received 404 permits in the Permian, compared with 225 and 11 in the same period in 2019 and 2018, respectively.

### **EIA estimates**

EIA estimates that global consumption of petroleum and liquid fuels averaged 95.3 million b/d in September. Liquid fuels consumption was down 6.4 million b/d from September 2019, but it was up from an average of 85.1 million b/d during the second quarter of 2020 and 93.9 million b/d in August.

EIA forecasts that global consumption of petroleum and liquid fuels will average 92.8 million b/d for all of 2020, down by 8.6 million b/d from 2019, before increasing by 6.3 million b/d in 2021. EIA's forecast for consumption growth in 2021 is 0.3 million b/d less than in the September STEO.

EIA reported that U.S. crude oil production rose to 11.2 million b/d in September. However, EIA expects U.S. crude oil production to generally decline to an average of 11.0 million b/d in the second quarter of 2021 because new drilling activity will not generate enough production to offset declines from existing wells.

**West Texas Intermediate (WTI) crude oil price and NYMEX confidence intervals**  
dollars per barrel

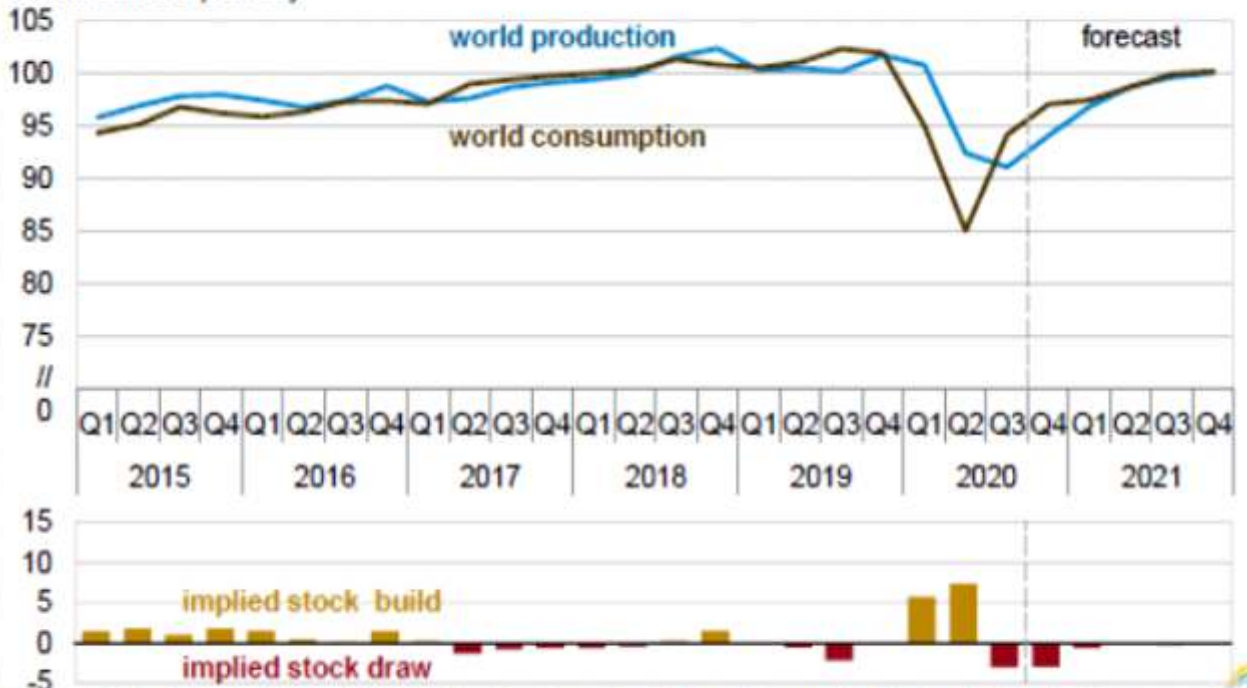


Note: Confidence interval derived from options market information for the five trading days ending Oct 1, 2020. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Sources: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2020, CME Group, and Bloomberg, L.P.



**World liquid fuels production and consumption balance**  
million barrels per day

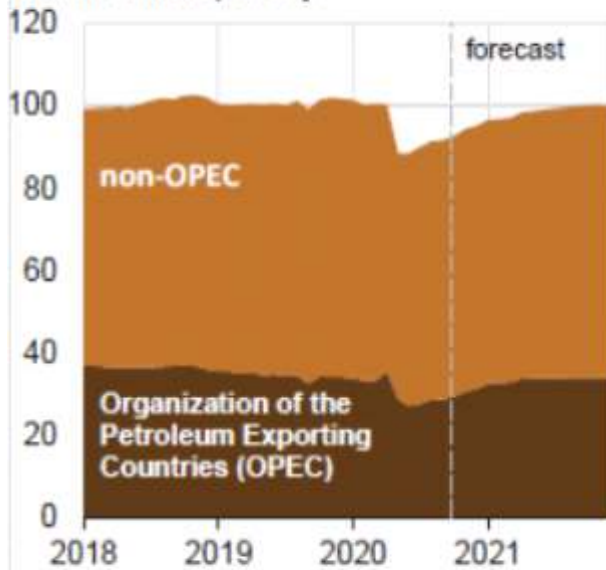


Source: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2020

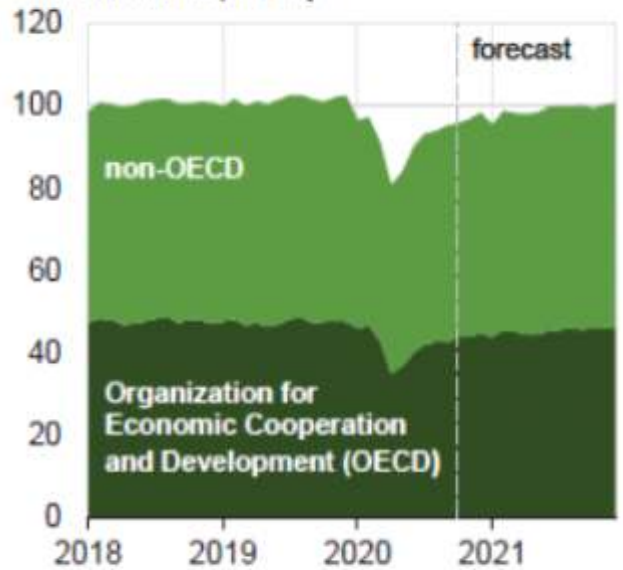


October 2020

**World liquid fuels production**  
million barrels per day



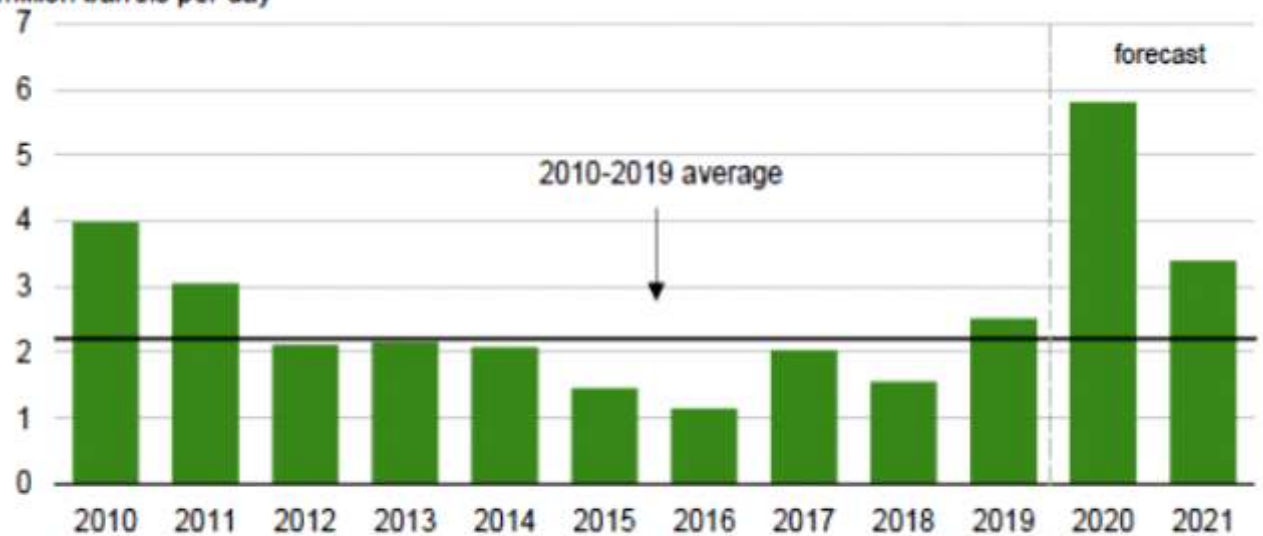
**World liquid fuels consumption**  
million barrels per day



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2020



**Organization of the Petroleum Exporting Countries (OPEC)**  
surplus crude oil production capacity  
million barrels per day



Note: Black line represents 2010-2019 average (2.2 million barrels per day).

Source: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2020



## Natural Gas

In September, Natural gas futures lost more than 13%. Lower natural gas spot prices reflected declining demand for natural gas from the U.S. electric power sector as a result of cooler-than-normal temperatures during the second half of September and relatively low demand for U.S. liquefied natural gas (LNG) exports amid hurricane-related activity in the Gulf of Mexico. The fall in the GDP in the recent quarter also contributed to the fall in the price of the commodity in the recent month. In September, the Henry Hub natural gas spot price averaged \$1.92 per million British thermal units (MMBtu), down from an average of \$2.30/MMBtu in August.

## Outlook

Natural gas prices are expected to remain firm and thus buy at dip should be a good strategy for this commodity. Support is seen near 180-185 whereas resistance is near 230 with exports rising and temperatures expected to remain warmer-than-normal through October. The combination of feed gas demand and the return of colder temperatures later in the month will be bullish for natural gas because it will help alleviate storage issues before the winter heating season officially begins. But profit booking at higher level cannot be denied as industrial consumption takes a back seat. The consumption of natural gas in the US industrial sector declined from 25.4 billion cubic feet per day (Bcf/d) in January 2020 to 20.1 Bcf/d in June 2020, according to the US Energy Information Administration's Natural Gas Monthly.

## Major News

- EIA expects that rising domestic demand for natural gas and demand for LNG exports heading into winter, combined with reduced production, will cause Henry Hub spot prices to rise to a monthly average of \$3.38/MMBtu in January 2021. EIA expects that monthly average spot prices will remain higher than \$3.00/MMBtu throughout 2021, averaging \$3.13/MMBtu for the year, up from a forecast average of \$2.07/MMBtu in 2020.
- EIA estimates that total U.S. working natural gas in storage ended September at more than 3.8 trillion cubic feet (Tcf), 12% more than the five-year (2015–19) average.
- EIA expects that total U.S. consumption of natural gas will average 83.7 billion cubic feet per day (Bcf/d) in 2020, down 1.8% from 2019. EIA expects total U.S. natural gas consumption will average 78.7 Bcf/d in 2021, a 5.9% decline from 2020.
- EIA forecasts U.S. dry natural gas production will average 90.6 Bcf/d in 2020, down from an average of 93.1 Bcf/d in 2019.
- EIA's forecast of dry natural gas production in the United States averages 86.8 Bcf/d in 2021.
- EIA estimates that U.S. LNG exports averaged 4.9 Bcf/d in September, an increase of 1.2 Bcf/d from August.



### Weekly Price movement of Natural gas in MCX



Source: Reuters

Prices are expected to remain firm and thus buy at dip should be a good strategy for this commodity. Support is seen near 185-180 whereas resistance is near 230.

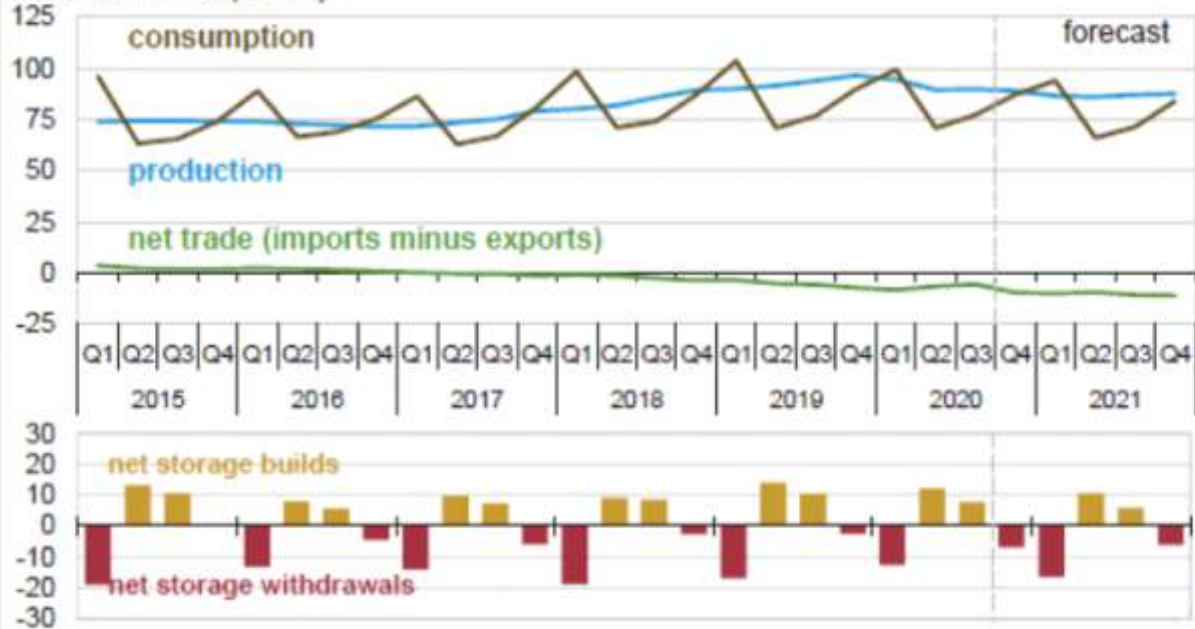
### Weekly Price movement of Natural gas in NYMEX



Source: Reuters

### U.S. natural gas production, consumption, and net imports

billion cubic feet per day

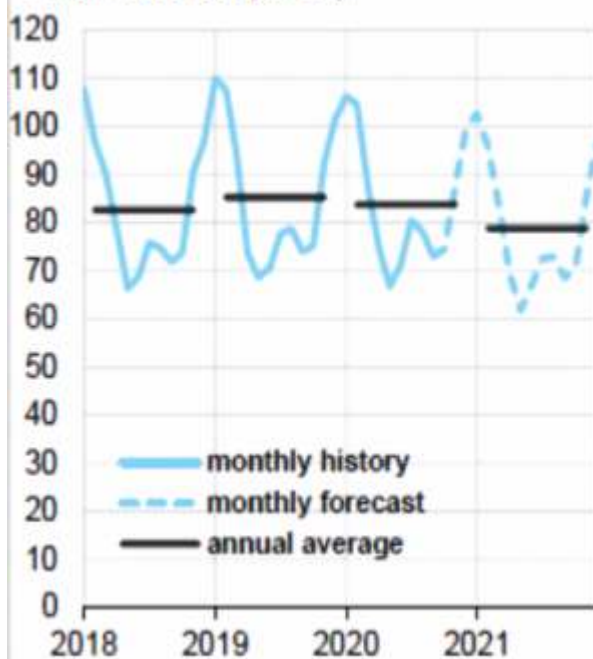


Source: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2020



### U.S. natural gas consumption

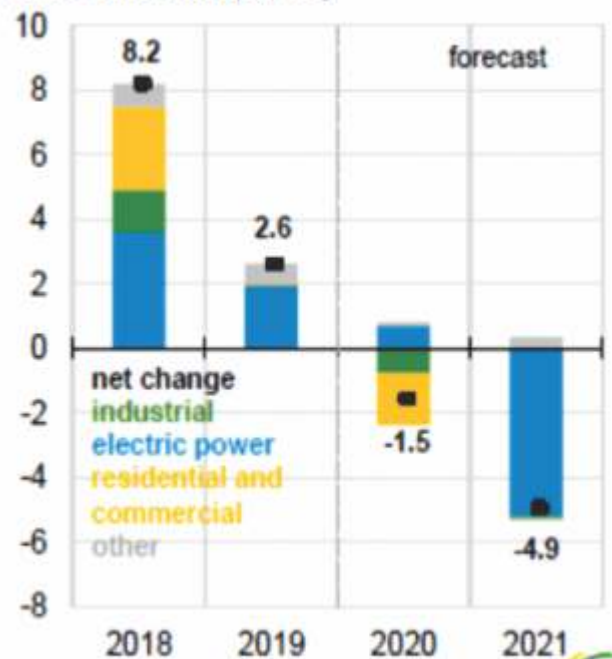
billion cubic feet per day



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2020

### Components of annual change

billion cubic feet per day



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2020



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