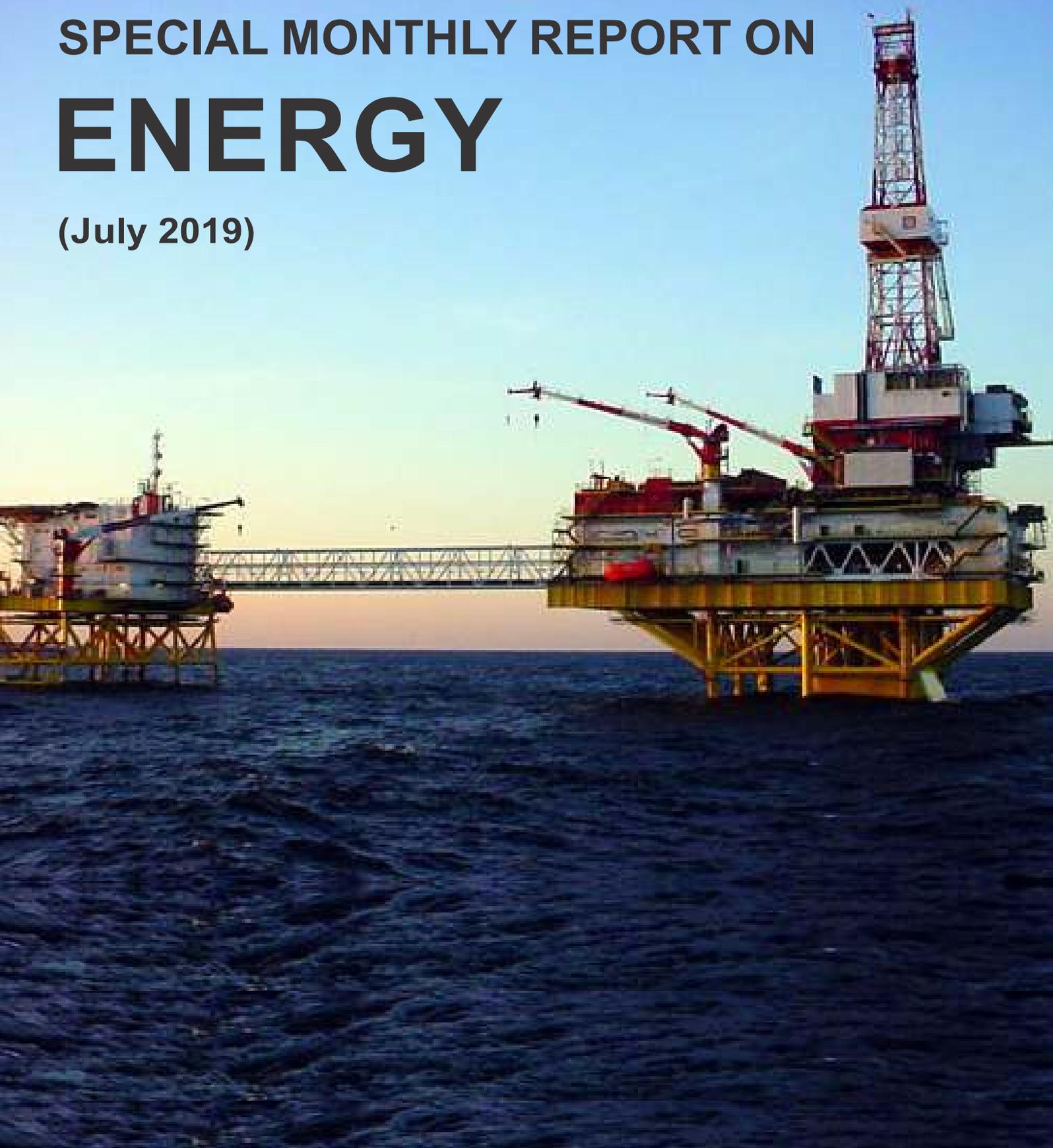
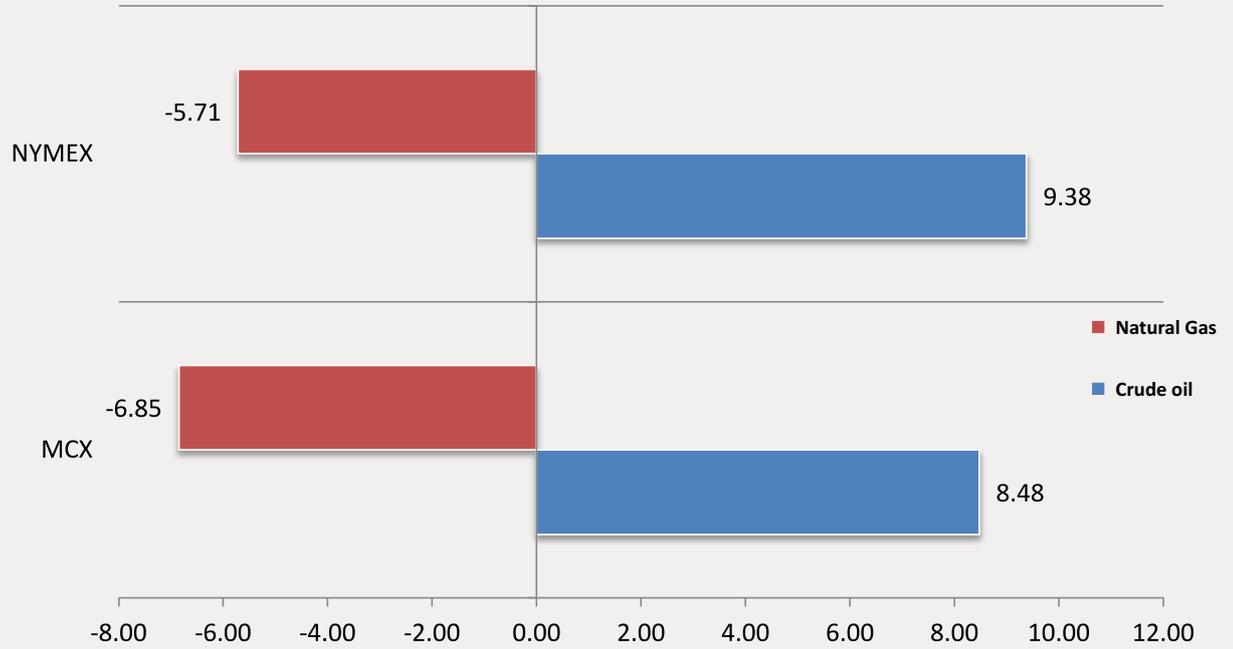


# SPECIAL MONTHLY REPORT ON ENERGY

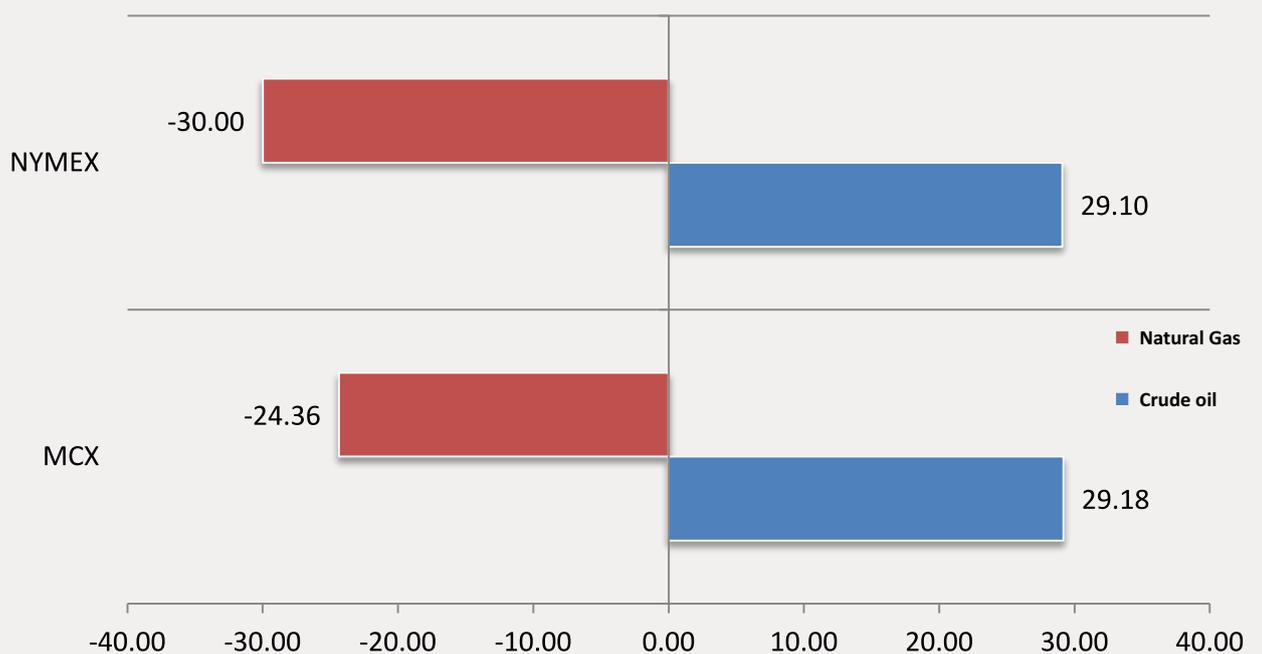
(July 2019)



**ENERGY PERFORMANCE ( June 2019) (% change)**



**ENERGY PERFORMANCE (January - June 2019) (% change)**



## Crude Oil

### Overview

In the month of June, crude oil prices witnessed swift recovery as tensions in the Middle East after Iran shot down a U.S. military drone and on hopes for a drop in U.S. interest rates that may stimulate global growth. U.S. President Donald Trump played down the destruction of the drone; tensions remain high after the latest incident in the Gulf, which followed tanker attacks that raised concerns about crucial oil supplies being disrupted. Tension has been rising in the Middle East, home to over 20% of the world's oil output, after attacks on two tankers near the Strait of Hormuz, a chokepoint for oil supplies. Washington blamed Tehran for the tanker attacks. Iran denied any role. The demand-side picture has also improved, with expectations that the U.S. Federal Reserve will cut interest rates at its next meeting and with plans by Beijing and Washington to resume talks to resolve a trade war that has hit economic growth prospects. Overall it traded in range of \$50.60-59.93 in NYMEX and in range of 3522-4164 in MCX.

### Outlook

Crude oil prices may continue to witness some profit booking at higher levels on growing concerns about weak demand but extension of production cut and Middle East tensions can cap the downside. The Organization of the Petroleum Exporting Countries and other producers such as Russia, a group known as OPEC+, agreed recently to extend oil supply cuts until March 2020 as members overcame differences to try to prop up prices. The OPEC+ meeting showed the members sticking together in tough times, characterized by weakening global demand outlook, aiming for a more balanced oil market, despite clear market share implications. Crude oil can be supported by increased tensions between US and Iran amid recent attacks in Middle-east and retaliatory sanctions by US on Tehran. The International

Energy Agency also projects softening demand growth. The IEA says there are multiple factors, including "a warm winter in Japan, a slowdown in the petrochemicals industry in Europe, and tepid gasoline and diesel demand in the United States."

**Crude oil can witness profit booking towards 3600 while taking resistance near 4250 on domestic bourses. In international market it can further dip towards \$54.4 while taking resistance near \$60.**

### Key News

#### US oil rigs

Rigs engaged in the exploration and production of oil and natural gas in the United States totaled 967 in the week ended Jun 28, in line with the prior week's figure. The current national rig count is, however, lower than the prior year's 1047. The number of vertical drilling rigs totaled 59 units against the previous week's 53. However, the horizontal/directional rig count (encompassing new drilling technology with the ability to drill and extract gas from dense rock formations, also known as shale formations) of 908 was below the prior-week level of 914.

#### OPEC meeting agreed to extend output cuts for nine months

OPEC and other allied major oil producers have agreed to extend crude oil production cuts for nine months, a move designed to keep oil prices from falling as U.S. production increases and concerns grow about global demand. Crude oil suffered its worst reaction in more than four years after OPEC meeting agreed to extend output cuts for nine months. Anxieties over global growth resurfaced following weak manufacturing reports from the US, China and Europe.

#### Highlights of latest EIA report

EIA forecasts global oil inventories will decline by 0.3 million barrels per day (b/d) in 2019 and then increase by 0.3 million b/d in 2020. Although global

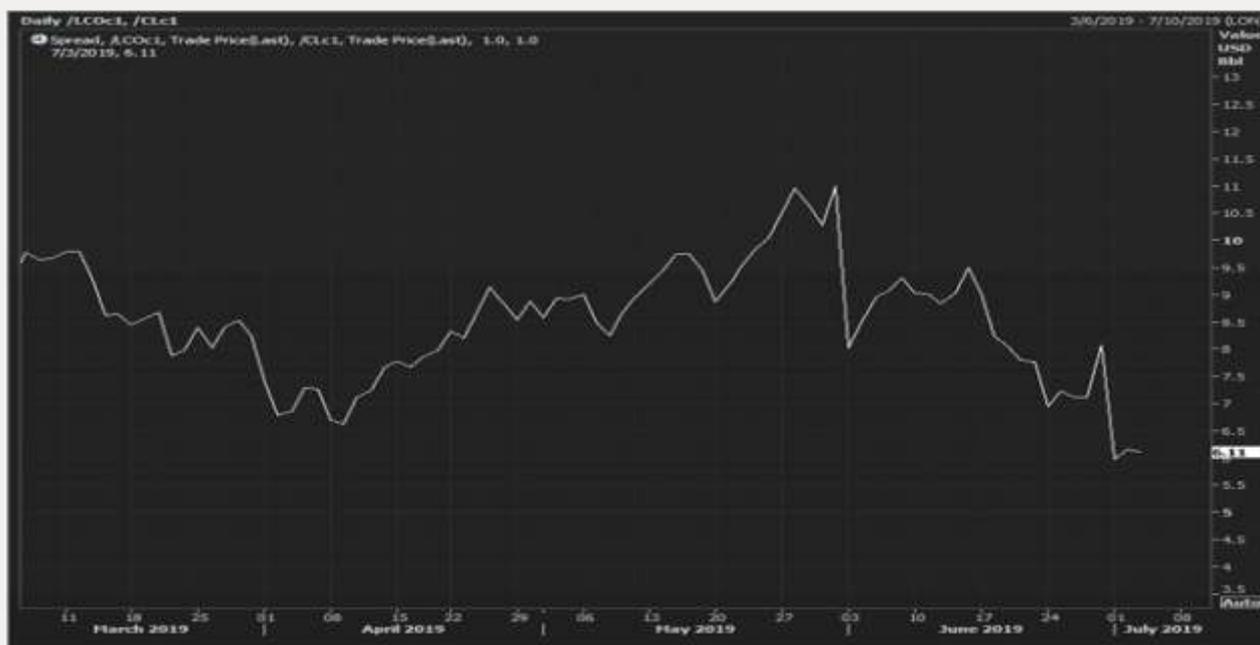
liquid fuels demand outpaces supply in 2019 in EIA's forecast, global liquid fuels supply is forecast to rise by 2.0 million b/d in 2020, with 1.4 million of that growth coming from the United States. Global oil demand rises by 1.4 million b/d in 2020 in the forecast, up from expected growth of 1.2 million b/d in 2019.

EIA forecasts global oil inventories will decline by 0.3 million barrels per day (b/d) in 2019 and then increase by 0.3 million b/d in 2020. Although global liquid fuels demand outpaces supply in 2019 in EIA's forecast, global liquid fuels supply is forecast to rise by 2.0 million b/d in 2020, with 1.4 million of that growth coming from the United States. Global oil demand rises by 1.4 million b/d in 2020 in the forecast, up from expected growth of 1.2 million b/d in 2019.

Annual U.S. crude oil production reached a record 11.0 million b/d in 2018. EIA forecasts that U.S. production will increase by 1.4 million b/d in 2019 and by 0.9 million b/d in 2020, with 2020 production averaging 13.3 million b/d. Despite EIA's expectation for slowing growth, the 2019 forecast would be the second-largest annual growth on record (following 1.6 million b/d in 2018), and the 2020 forecast would be the fifth-largest growth on record.

For the 2019 summer driving season, which runs from April through September, EIA forecasts that U.S. regular gasoline retail prices will average \$2.76 per gallon (gal), down from an average of \$2.85/gal last summer. The lower forecast gasoline prices primarily reflect EIA's expectation of lower crude oil prices this summer.

### Brent WTI Spread



Source: Reuters

**Analysis:** Brent WTI crude oil spread narrowed from 11 to below 6. Overall it can hover in range of \$5-8 in the month of July. Brent's premium over West Texas Intermediate crude narrowed to the smallest in nearly a year. The weak physical differentials follow worries over the state of global demand and growing U.S. shale production that have been highlighted as OPEC and its allies agreed to extend supply curbs into 2020. Now, the narrower WTI-Brent spread will likely slow U.S. crude exports as the domestic benchmark becomes more expensive in global markets.

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

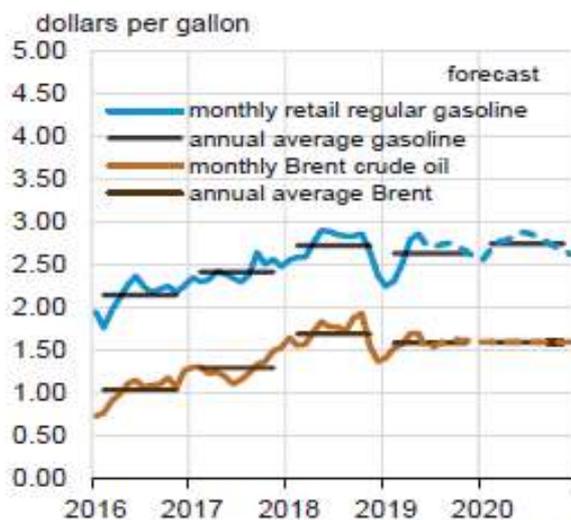


Note: Confidence interval derived from options market information for the five trading days ending Jun 6, 2019. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Sources: Short-Term Energy Outlook, June 2019, and CME Group

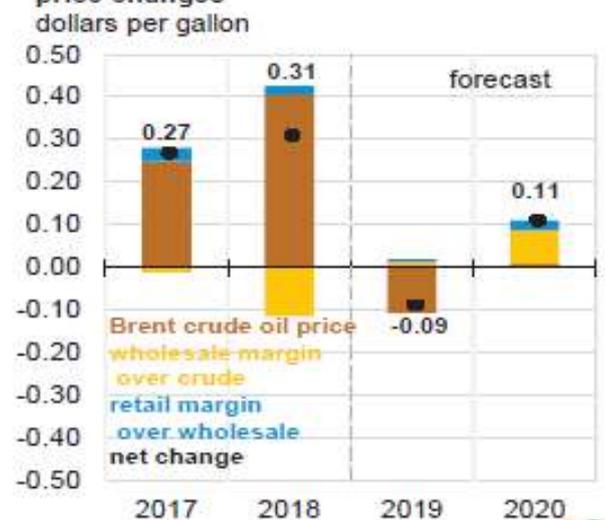


U.S. gasoline and crude oil prices

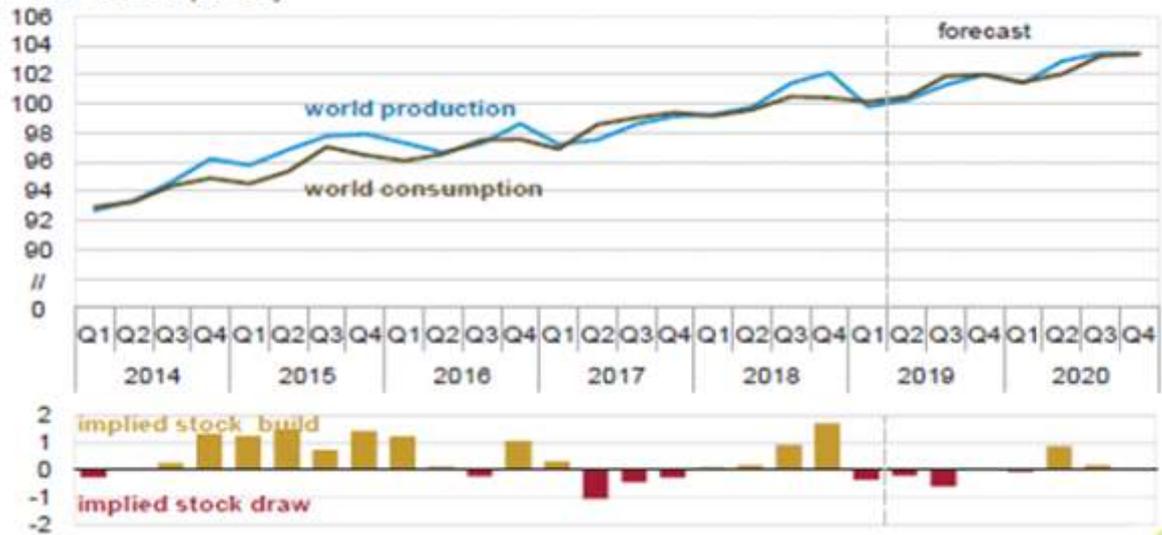


Source: Short-Term Energy Outlook, June 2019

Components of annual gasoline price changes



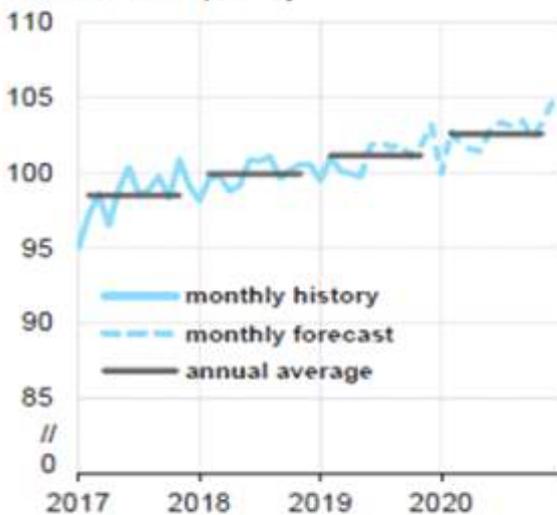
World liquid fuels production and consumption balance  
million barrels per day



Source: Short-Term Energy Outlook, June 2019

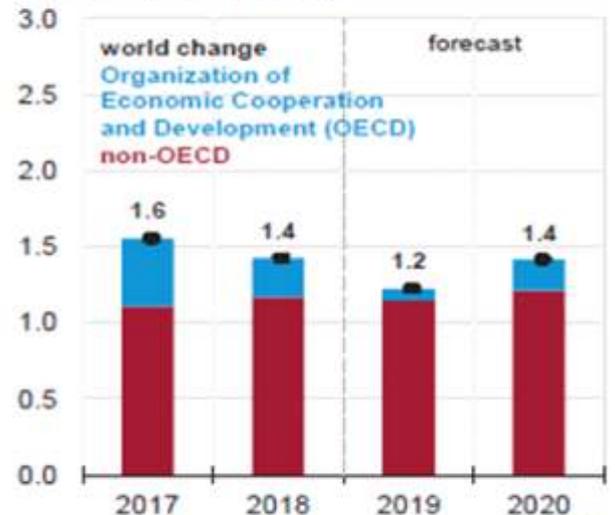


World liquid fuels consumption  
million barrels per day



Source: Short-Term Energy Outlook, June 2019

Components of annual change  
million barrels per day



## Natural gas

Natural gas has remained under selling pressure on unfavorable weather and decline in demand. The weather has remained milder than normal for this time of year which has weighed on cooling demand. This comes as production continues to rise and accelerate according to the EIA. Overall it traded in range of \$2.15-2.47 in NYMEX and 150.70-172.90 in MCX in the month of June.

**Natural gas counter can trade with sideways bias as it can take support near 150 while facing resistance near 180 in the month of July.**

### Short-Term Weather Outlook

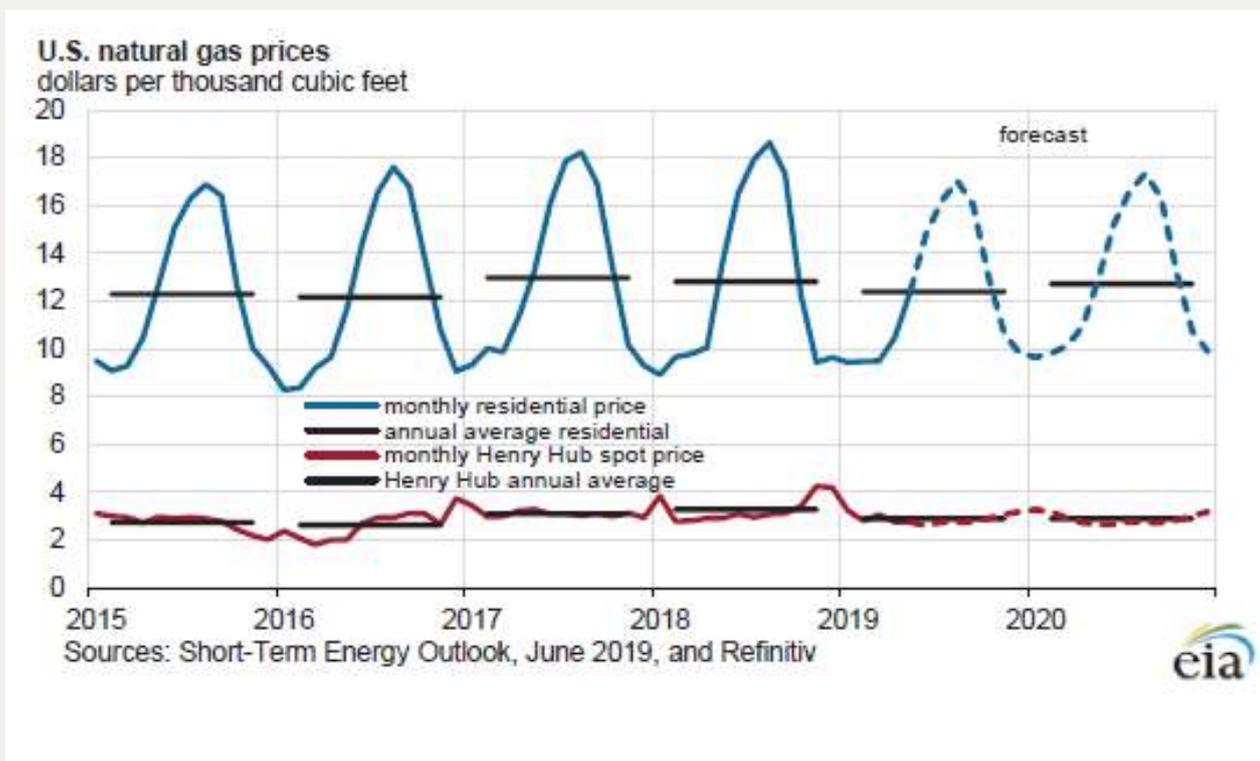
According to Natgasweather for July 2 to July 8, "A hot US pattern through Saturday with highs of upper 80s to lower 90s from the Great Lakes to the Northeast, including Chicago and New York City.

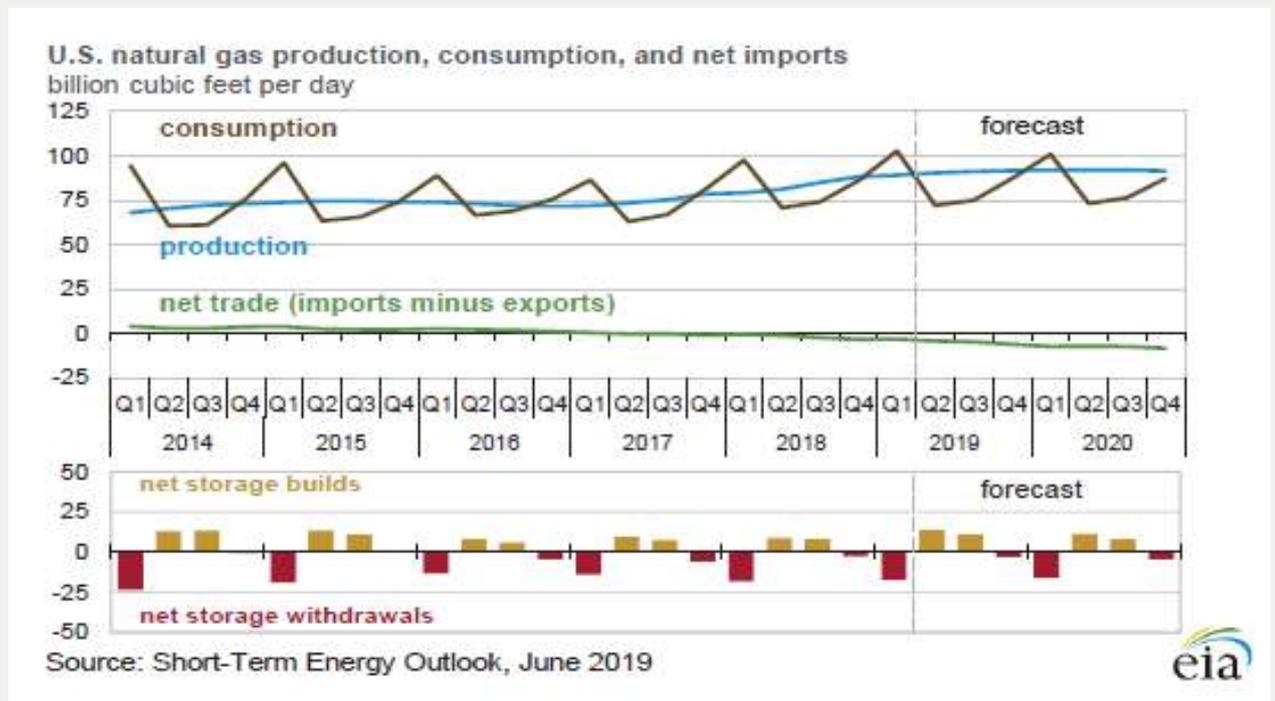
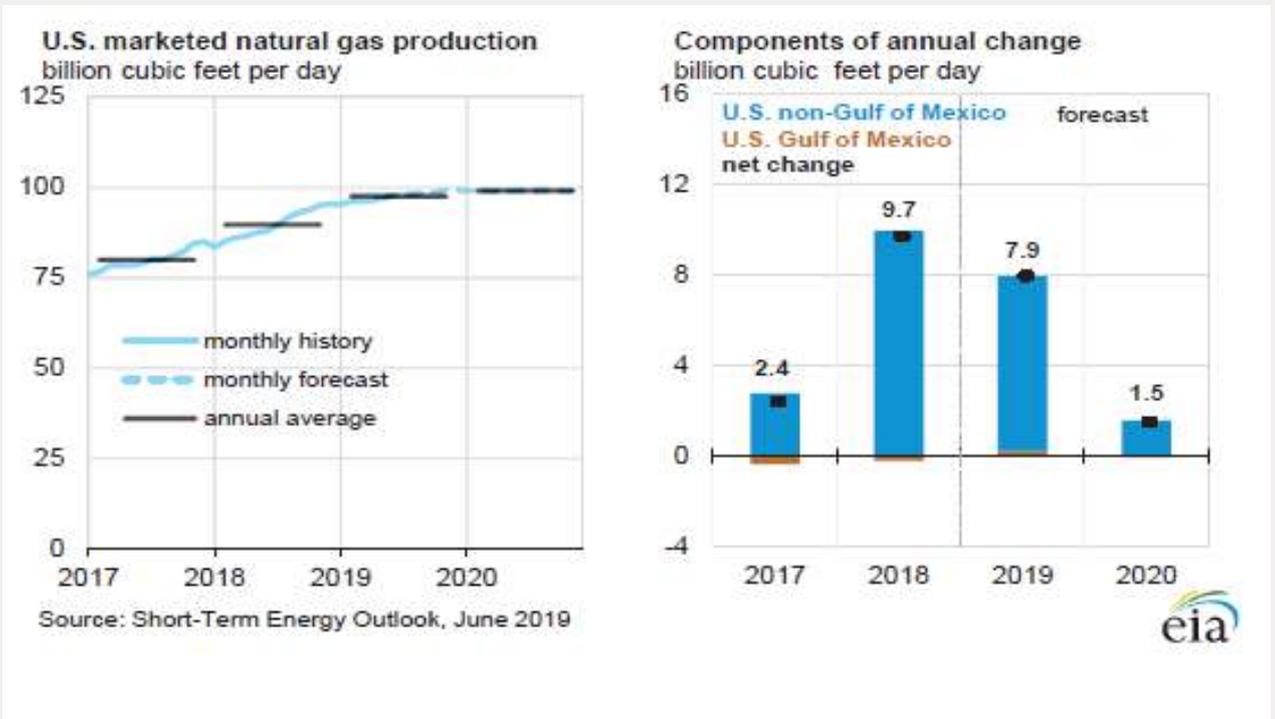
The Southwest will be hottest with highs into the 100s, although the nation's strongest demand will be across the Southeast and Mid-Atlantic Coast as highs reach the mid-90s, while combining with high humidities to push the Heat Index into the 100s. The Northwest & North Plains will be mostly comfortable with highs of upper 70s to 80s. Demand will ease early next week as cooling arrives across the Midwest.

### EIA estimates of Natural gas

EIA forecasts that U.S. dry natural gas production will average 90.6 billion cubic feet per day (Bcf/d) in 2019, up 7.2 Bcf/d from 2018. EIA expects natural gas production will continue to grow in 2020, albeit at a slower rate, averaging 91.8 Bcf/d next year.

U.S. natural gas exports averaged 9.9 Bcf/d in 2018, and EIA forecasts that they will rise by 2.5 Bcf/d in 2019 and by 2.9 Bcf/d in 2020. Rising exports reflect increases in liquefied natural gas exports as new facilities come online. Rising natural gas exports are also the result of an expected increase in pipeline exports to Mexico.





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