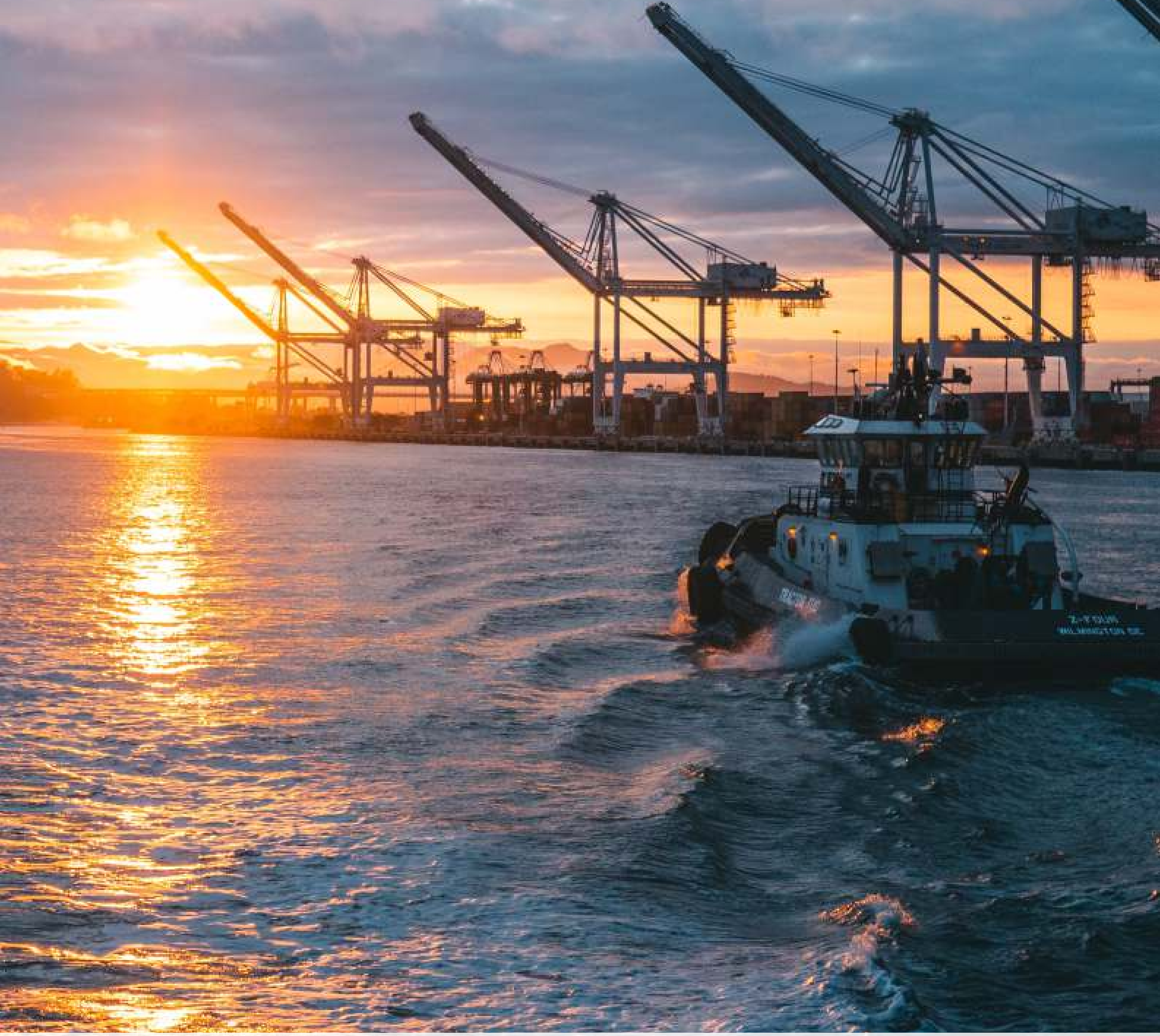
SPECIAL MONTHLY REPORT ON

ENERGY

JUNE 2022



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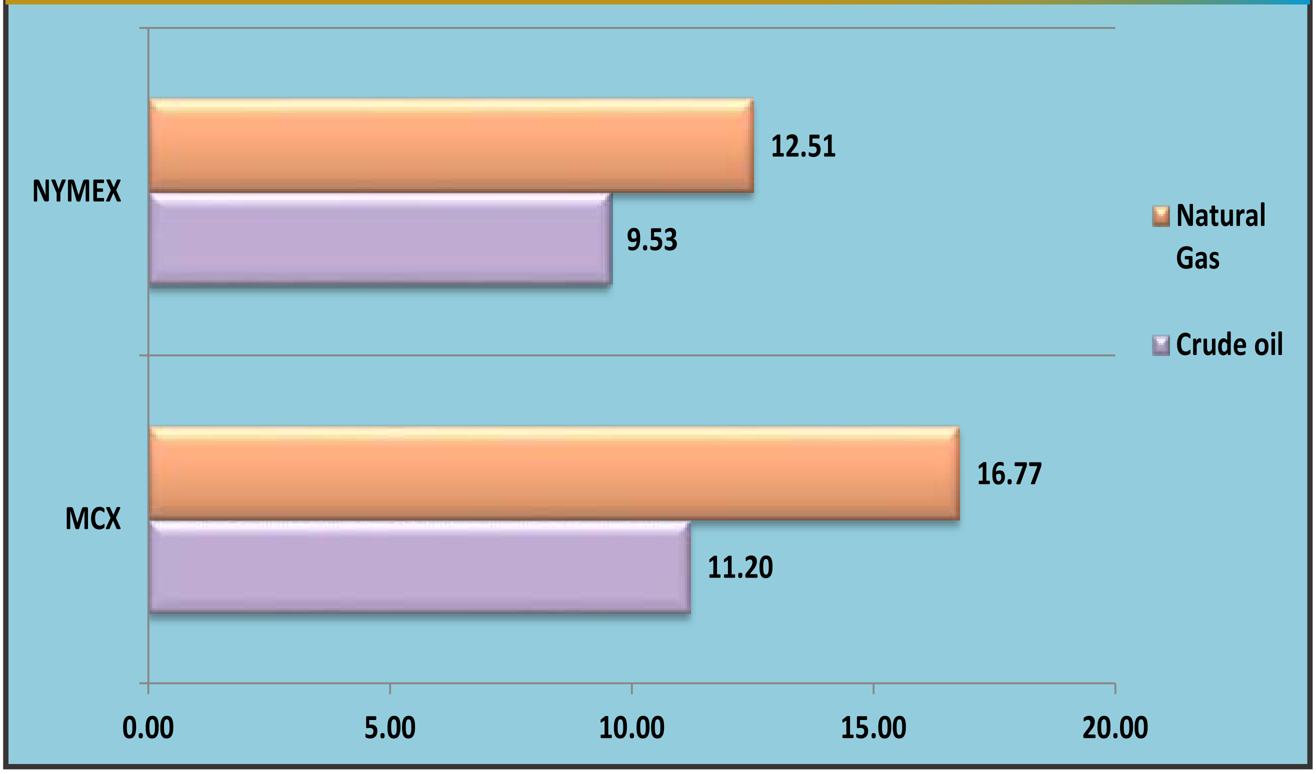
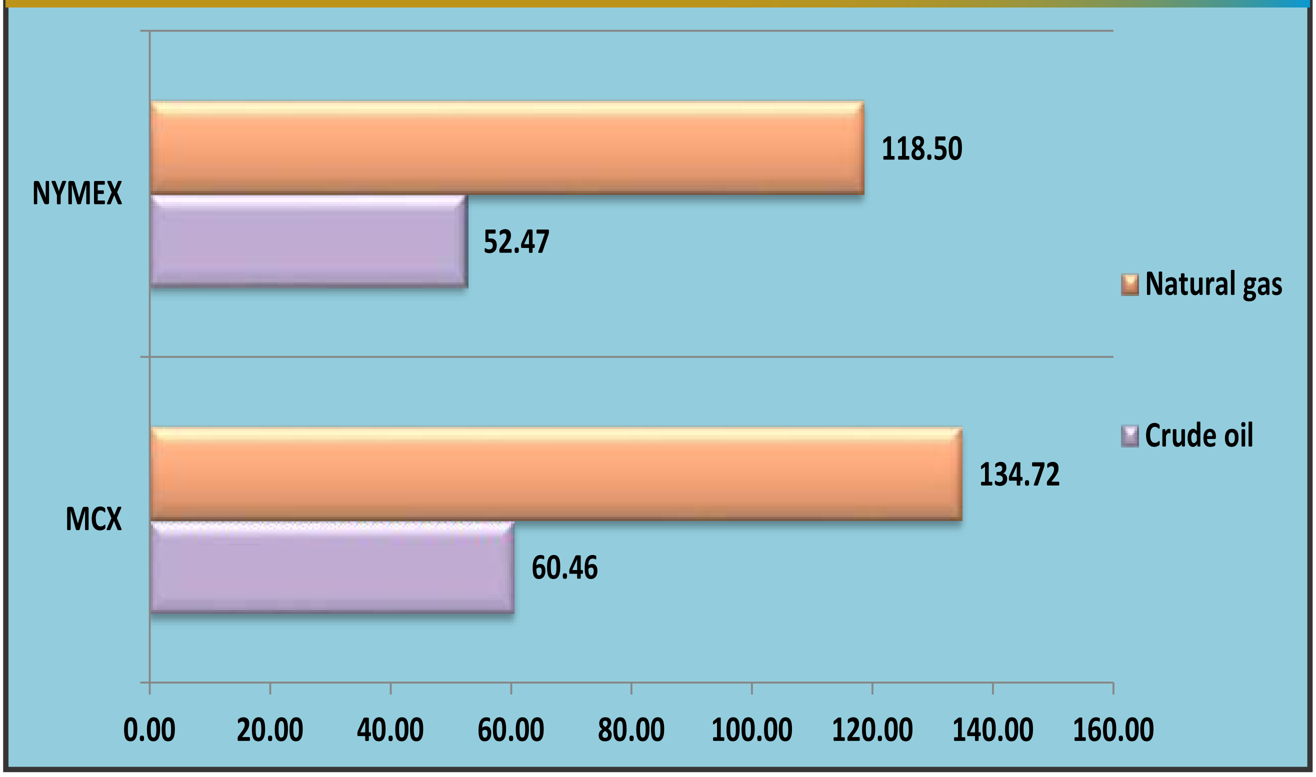
ENERGY PERFORMANCE (May 2022) (% change)



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



Source: Reuters & SMC research

In May, Crude prices continued to rise on 6th consecutive month by more than 11% on MCX & almost 9.5% on NYMEX due to heightened 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 4th month despite diplomatic efforts for a cease-fire. on last day of month EU leaders agreed in principle to cut 90% of oil imports from Russia by the end of this year with exemption of pipeline oil from Russia as a concession to Hungary and two other landlocked Central European states. The price rises were limited on rise of dollar index and concerns about demand destruction due to resurgence of Covid-19 in China.

Outlook

The recent volatility in oil prices was not caused by fundamentals, but by ongoing geopolitical developments. However, prices may continue to firm as the ongoing geopolitical tension regarding Ukraine and the associated sanctions on Russia continue to provide underlying support for the market. Once the European union agreement adopted, sanctions on crude will be phased in over six months and on refined products for over eight months. The sanctions on Russia led to disruptions of at least 3 million barrels more per day, leaving consuming nations with virtually no breathing space. In China, Shanghai's strict COVID-19 lockdown ended on June 1 after two months, prompting expectations of firmer fuel demand from the country. However, reports that some producers are thinking of suspending Russia's participation in the Organization of the Petroleum Exporting Countries and allies (OPEC+) production deal may cap black liquid's gains. Exempting Russia from its oil-production targets could potentially pave the way for Saudi Arabia, the United Arab Emirates and other producers in the Organization of the Petroleum Exporting Countries to pump significantly more crude, something that the U.S. and European nations have pressed them to do as the invasion of Ukraine sent oil prices soaring above $100 a barrel.

Major Events & News

- The ban on seaborne crude imports will be phased in over six months and for seaborne refined products over eight months. It excludes deliveries via the Druzhba oil pipeline which supplies refineries in Eastern Europe and eastern Germany.
- While there was no formal push for OPEC countries to pump more oil to offset any potential Russian shortfall, some Gulf members had begun planning an output increase sometime in the next few months, the Wall Street Journal reported, citing OPEC delegates.
- Russian crude output in April fell by nearly 9% from the previous month, an internal OPEC+ report showed this month.
- U.S. crude oil production rose in March by more than 3% to its highest since November, a U.S. Energy Information Administration report showed. However, output has been slow to recover from the impact of the coronavirus pandemic and is still far below its record high of 12.3 million bpd in 2019.
- US refineries that have stayed in the business are now providing only what they can — or, more accurately, what they desire — without putting any money into expanding existing capacity or acquiring the idled plants that can be reopened to provide some measurable relief to consumers.
- Bloomberg estimates that more than 1.0 million barrels per day of U.S. oil refining capacity — or about 5% overall — has shut since the COVID-19 outbreak initially decimated demand for oil in 2020. Outside of the United States, capacity has shrunk by 2.13 million additional barrels a day, energy consultancy Turner, Mason & Co says.
- World fuel demand has rebounded to pre-pandemic levels, but the combination of pandemic closures, sanctions on Russia and export quotas in China are straining refiners' ability to meet demand. China and Russia are two of the three biggest refining countries, after the United States. All three are below peak processing levels, undermining the effort by world governments to lower prices by releasing crude oil from reserves.

Weekly Price movement of crude oil in MCX

Source: Reuters

Weekly Price movement of crude oil in NYMEX

Source: Reuters

In June 2022, Crude oil prices may trade with high volatility where buying near support would be strategy and short term resistance is seen near 9400 levels, support is seen near 8700.

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Natural gas

In May, natural gas prices jumped almost 12.50% on 3rd consecutive month due to the sweltering summer temperatures, rising cooling demand and declining U.S. storage inventories. Since Moscow invaded Ukraine on Feb. 24, U.S. gas prices have soared about 78% as European countries look to the United States, the world's second biggest exporter, to sell more liquefied natural gas (LNG) to wean Europe off Russian fuel. The weather is expected to become cooler than normal in early June. Russia might cut off the natural gas supply to certain European counties. On the other hand, storage phobia could keep the natural gas prices on the higher side as the buyers are increasing stockpiles ahead of winter

Outlook

- Russia might cut off the natural gas supply to Denmark and the Netherlands. Although these countries do not rely on Russia for a significant amount of energy consumption, the cut could cause an increase in natural gas prices.
- Global liquefied natural gas buyers and sellers are bracing for more uncertainty over Russian supplies and an unclear demand outlook from Europe and top importer China in the run-up to the peak winter season.
- The LNG market is set to remain tight due to European Union countries' scramble to find substitutes for Russian gas this summer, ahead of the next winter heating season. Russia has already cut supplies to Poland and Bulgaria for their refusal to pay for deliveries in rubles.
- Russian energy giant Gazprom said that it has fully cut off gas supplies to Dutch gas trader GasTerra after it had failed to make payments for gas delivered in April, making good on its promise to shut down deliveries over payment issues.

Weekly Price movement of Natural gas in MCX

Source: Reuters

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MCX Natural gas prices may trade with firm bias and high volatility. If the price breaches the recent resistance of 735 then can move again upside towards 850 levels. Overall the commodity can move upside from its support level. Support is seen near 590.

Weekly Price movement of Natural gas in NYMEX

Source: Reuters

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