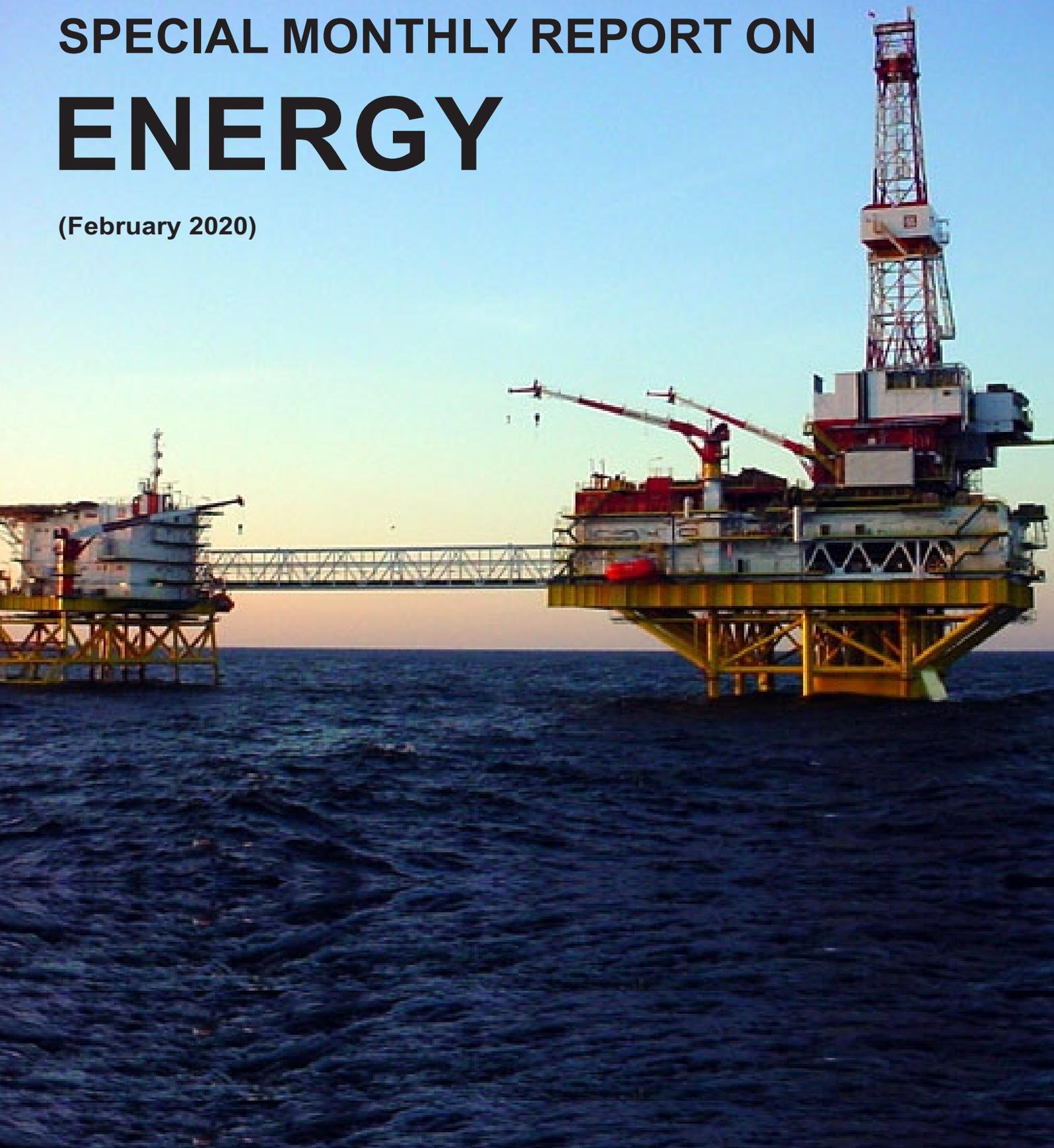
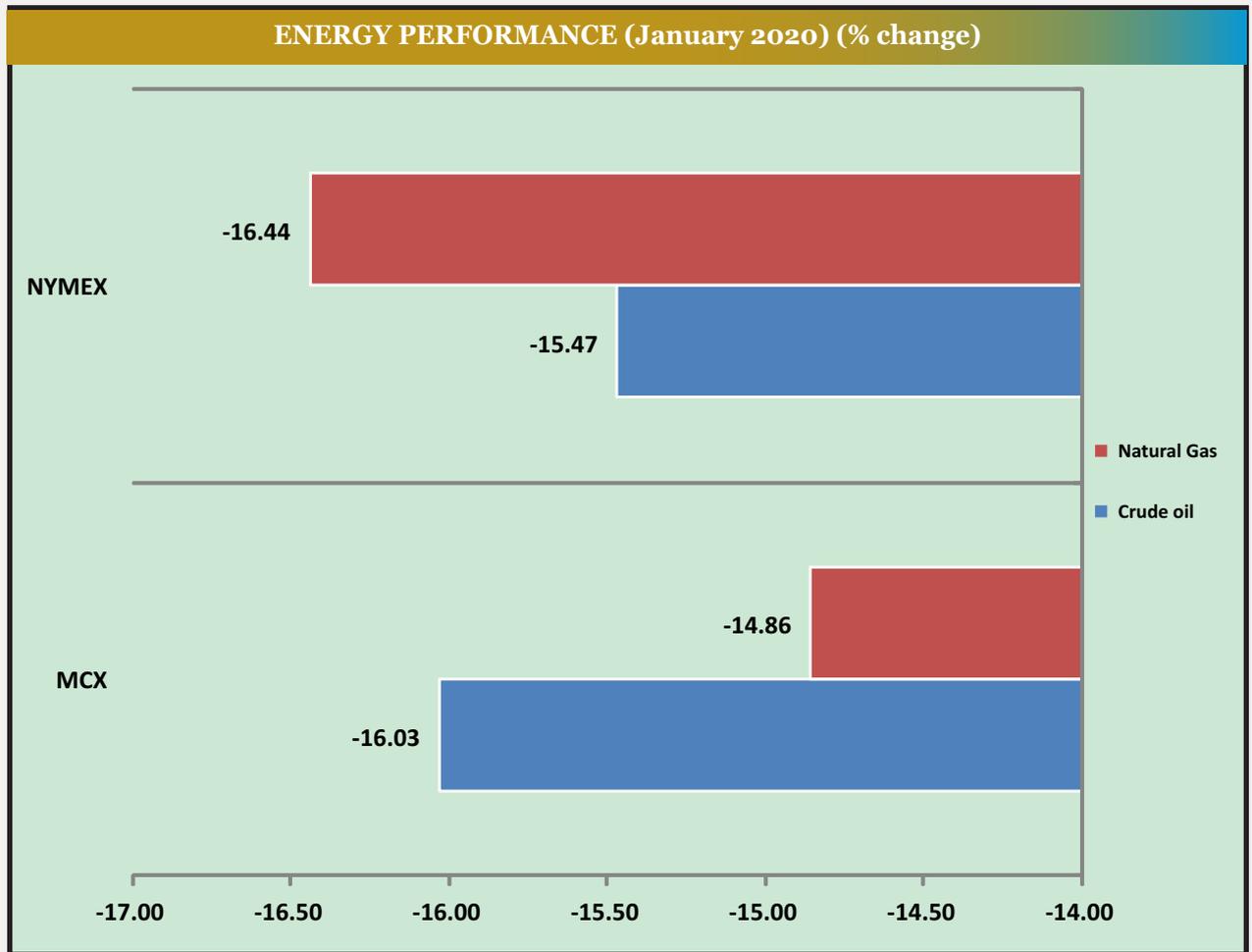


SPECIAL MONTHLY REPORT ON ENERGY

(February 2020)



ENERGY PERFORMANCE (January 2020) (% change)



ENERGY COMPLEX

Overview

In the month of January, crude oil prices nosedived and fell more than 15 percent as growing record U.S production and fear of coronavirus hurting global oil demand took toll on the prices. Meanwhile EIA released its Drilling Productivity Report, in which they forecast that US shale production would increase by 22Mbbbls/d over February to 9.2MMbbbls/d, with increases driven predominantly by the Permian, and to a lesser extent the Bakken region. The more recent pressure appears to be reflective of growing concerns over the Wuhan virus outbreak, and the potential hit this may have on growth. President Donald Trump, in Davos described U.S. as being in energy revolution that has reawakened the powerful machinery of U.S. enterprise, encouraging U.S. shale producers to crank out even more oil than the current record high of 13 Mbpd in order to retain country's energy independence. Overall it traded in range of \$50.97-65.65 in NYMEX and in range of 3667- 4670 in MCX. Libya's National Oil recently declared force majeure on the loading of oil from two major oil fields after the latest development in a long-running military conflict saw forces loyal to Commander Khalifa Haftar ordering the shutdown of facilities in the east and south of the country.

Outlook

Crude oil prices may remain on weaker path as spread of coronavirus is keeping the sentiments down. Until this fear does not vanish the sharp downtrend in oil is also unlikely to be reversed. The curbs for China outbound tourism and international carrier halt flights will reduce demand of crude by 5,00,000bpd. Meanwhile some short covering cannot be denied as Saudi Arabia has opened discussion about moving upcoming output policy meeting to early February from March following the recent slide in oil prices. No final decision over the new date of the meeting has been made, and not all OPEC members are on board yet,

with Iran a possible contender to oppose the move, OPEC wants to extend current oil output cuts until at least June from March, with the possibility of deeper reductions on the table if oil demand in China is significantly impacted by the spread of the coronavirus.

Crude oil can remain on weaker path but short covering at current levels cannot be denied as prices have dropped sharply in quick span of time. Overall it can face resistance near 4300-4200 while taking support near 3400-3200 on domestic bourses. In international market it can face resistance near \$56-57 while taking support near \$46-44.

Key News

Drop in Chinese oil demand due to Coronavirus

China's oil demand could grow at just 100,000 bpd this year due to the coronavirus, according to Bernstein. That would make it the slowest expansion in consumption in nearly 20 years. The firm previously predicted 350,000 bpd of growth.

OPEC aims to extend oil output cuts through June, alarmed by China virus

OPEC wants to extend current oil output cuts until at least June from March, with the possibility of deeper reductions on the table if oil demand in China is significantly impacted by the spread of a new coronavirus, OPEC sources said. The quick slide in oil prices over the past few weeks has alarmed OPEC officials, the sources say, as the new virus found in China and several other countries raised concerns about a hit to economic growth and oil demand. Russia's Energy Minister stated that Russia was ready to bring forward a meeting of OPEC and its allies to February from March to address a possible hit to global oil demand from a new coronavirus outbreak in China.

Russian oil output up to 11.28 mln bpd in Jan, highest since Aug

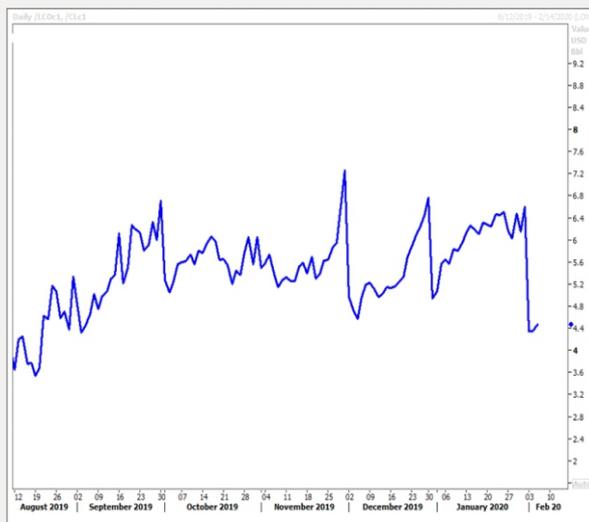
Russian oil and gas condensate output rose to 11.28

million barrels per day (bpd) in January, from 11.26 million bpd in December. In tonnes, oil output rose to 47.72 million versus 47.63 million in December. The global deal between the Organization of the Petroleum Exporting Countries and other leading oil producers, known as OPEC+, expires after March.

Venezuela exported 14% less oil in Jan, but stocks still fell – data

Venezuela's oil exports declined almost 14% in January compared with December, but crude inventories continued to fall, helping state-run company PDVSA alleviate a glut in storage that accumulated due to U.S. sanctions. PDVSA and its joint ventures exported 951,903 barrels per day (bpd) of crude and refined products last month versus 1.1 million bpd in December and 1.38 million bpd in January of 2019.

Brent WTI Spread



Source: Reuters

Analysis: Brent WTI crude oil spread narrowed sharply from 6.4 to below 4.4. Overall it can hover in narrow range of \$3.5-5.6 in the month of February.

EIA estimates

EIA estimates that U.S. crude oil production averaged 12.2 million b/d in 2019, up 1.3 million b/d from 2018. EIA forecasts U.S. crude oil production will average 13.3 million b/d in 2020 and 13.7 million b/d in 2021. Most of the production growth in the forecast occurs in the Permian region of Texas and New Mexico.

EIA forecasts that consumption will rise by 1.3 million b/d in 2020 and by 1.4 million b/d 2021. The expected rise in consumption growth from 2019 results from a forecast of rising global gross domestic product (GDP). Based on forecasts from Oxford Economics, EIA assumes global oil-weighted GDP growth will rise from 1.9% in 2019 to 2.4% in 2020 and 3.0% in 2021.

EIA expects that global liquid fuels consumption will also rise in 2020 because of newly completed petrochemical plants in China, the United States, and Russia that use liquefied petroleum gases (LPG) as feedstock.

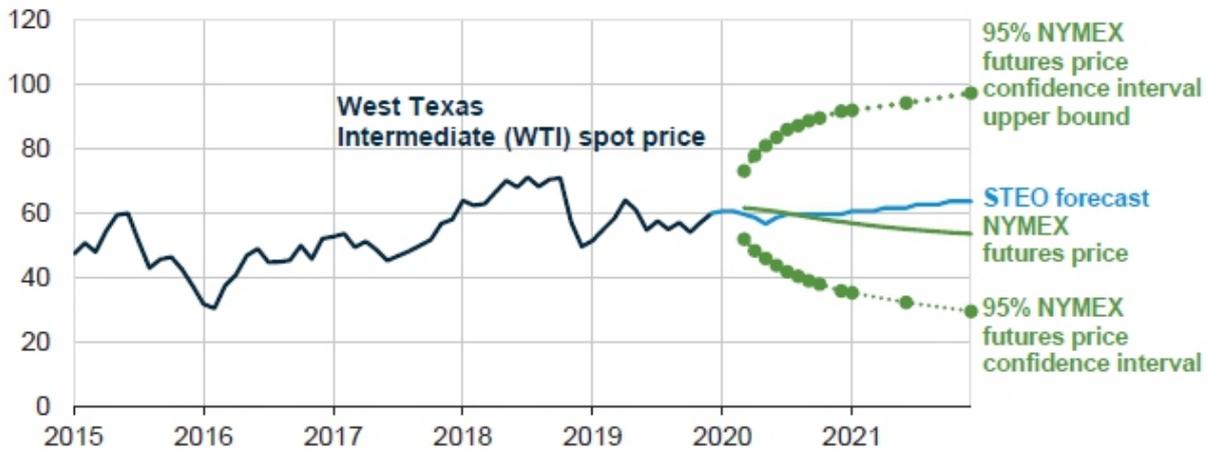
Oil balances in EIA's forecast begin to tighten in mid-2020, and in 2021, global oil supply growth slows. Non-OPEC supply growth slows to 0.9 million b/d in 2021, driven by a decelerating pace of growth in U.S. tight oil. EIA expects OPEC supply to add another 0.1 million b/d of growth, bringing total forecast global supply growth for 2021 to 1.0 million b/d.

EIA estimates that OPEC non-crude oil liquids production averaged 5.4 million b/d in 2019. EIA forecasts that it will fall to 5.0 million b/d in 2021 and remain flat in 2021. The decrease in non crude oil liquids production next year is the result of lower expected condensate output in Iran.

EIA expects that OPEC surplus crude oil production capacity, which averaged 2.0 million b/d in 2019, will increase to 2.4 million b/d in 2020 and then to 2.5 million b/d in 2021. This estimate does not include additional capacity that may be available in Iran but is offline because of U.S. sanctions on Iran's oil sales.

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

dollars per barrel



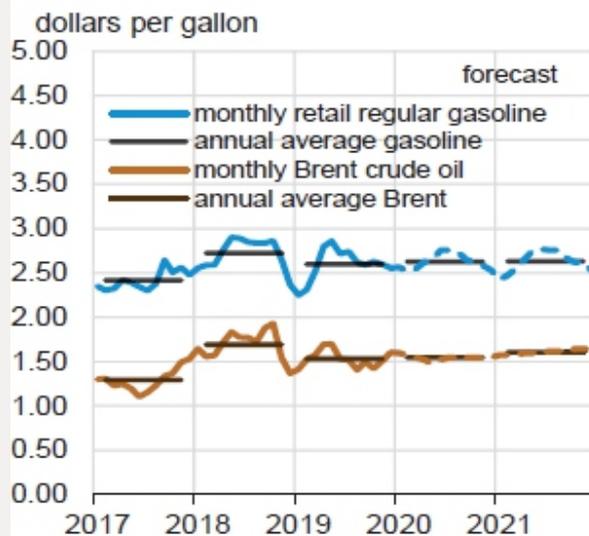
Note: Confidence interval derived from options market information for the five trading days ending Jan 9, 2020. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Sources: Short-Term Energy Outlook, January 2020, and CME Group



U.S. gasoline and crude oil prices

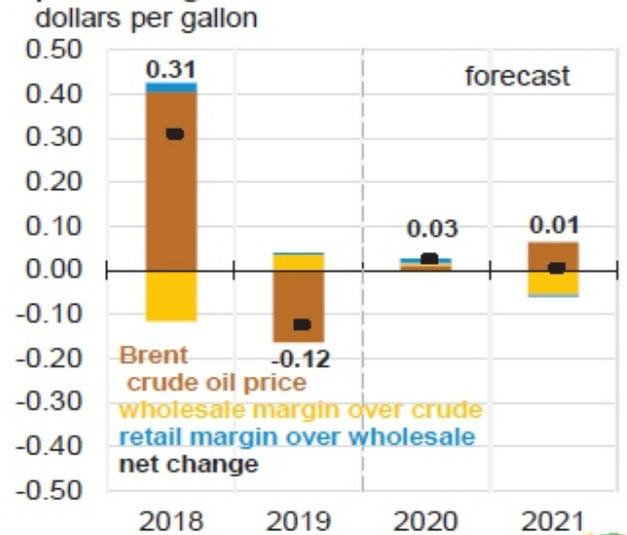
dollars per gallon



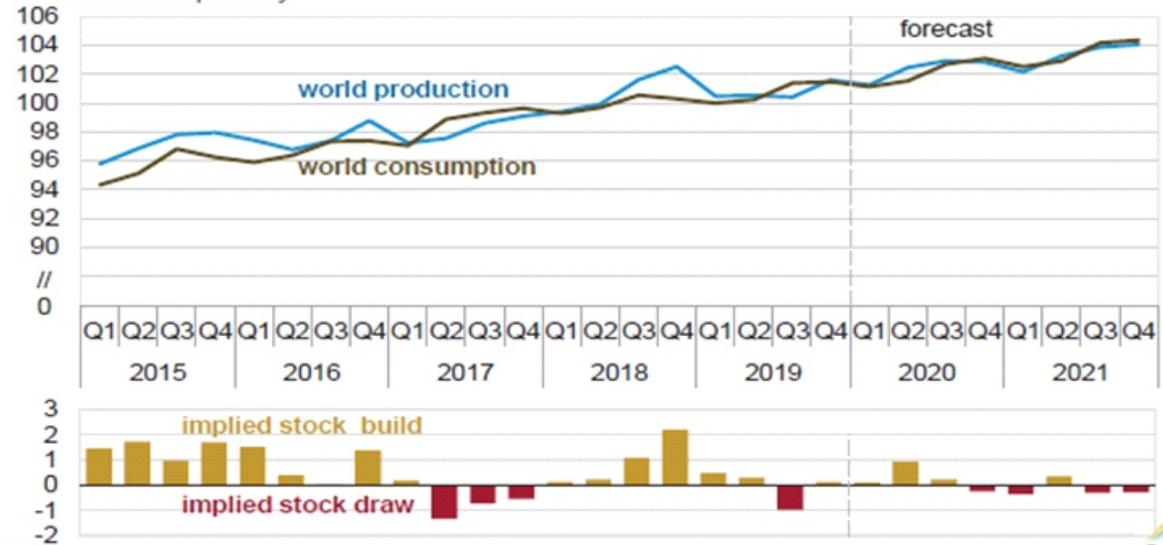
Source: Short-Term Energy Outlook, January 2020

Components of annual gasoline price changes

dollars per gallon



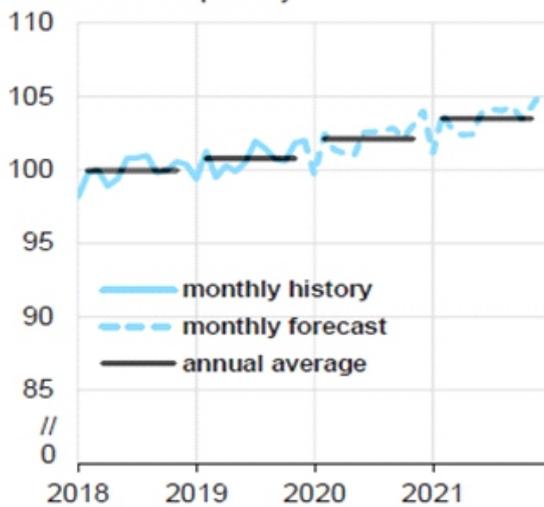
World liquid fuels production and consumption balance
million barrels per day



Source: Short-Term Energy Outlook, January 2020

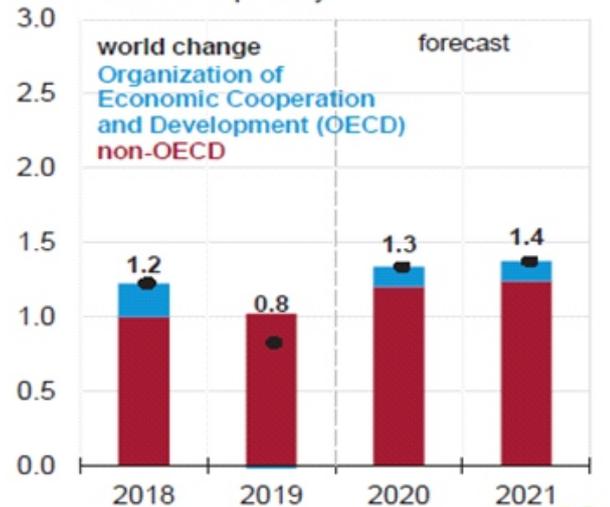


World liquid fuels consumption
million barrels per day



Source: Short-Term Energy Outlook, January 2020

Components of annual change
million barrels per day



Natural Gas

Overview

Natural gas witnessed sharp downside movement as prices traded in range of \$1.81-2.25 in NYMEX and 130.30-160 in MCX in the month of January. U.S. natural gas futures dropped to a fresh three-year low below key level of \$1.85 on forecasts for mild winter weather through early February, despite record liquefied natural gas (LNG) exports and signs of a production slowdown. The weather in the U.S. Lower 48 states so far this winter has been much milder than usual with average daily temperatures three degrees Fahrenheit higher than normal in December last year.

Natural gas counter can continue its downside momentum and sell on rise should be the strategy as prices can test 120-110 levels while facing resistance near 140-150 levels. In NYMEX it can tumble lower towards \$1.62 while resistance near \$2.40. The fact that winter has been relatively mild in the United States and 17 % excess gas production last year have resulted in huge glut of natural gas.

Steep decline in Natural gas demand

Recently demand declined sharply driven by residential and commercial sectors. The EIA reports that the consumption of natural gas fell by 10% compared with the previous report week. In the residential and commercial sectors, consumption declined by 15% with the return of unseasonably warm weather. Natural gas consumed for power generation declined by 6% and industrial sector consumption decreased by 3% week over week.

Short Term Weather Outlook

The weather on the east coast is expected to remain warmer than normal for the next 2-weeks. The weather in the west is expected to get much colder, while the mid-west is expected to remain normal.

The change to colder in the weather will only take a toll if it continues to move east.

EIA estimates of Natural gas

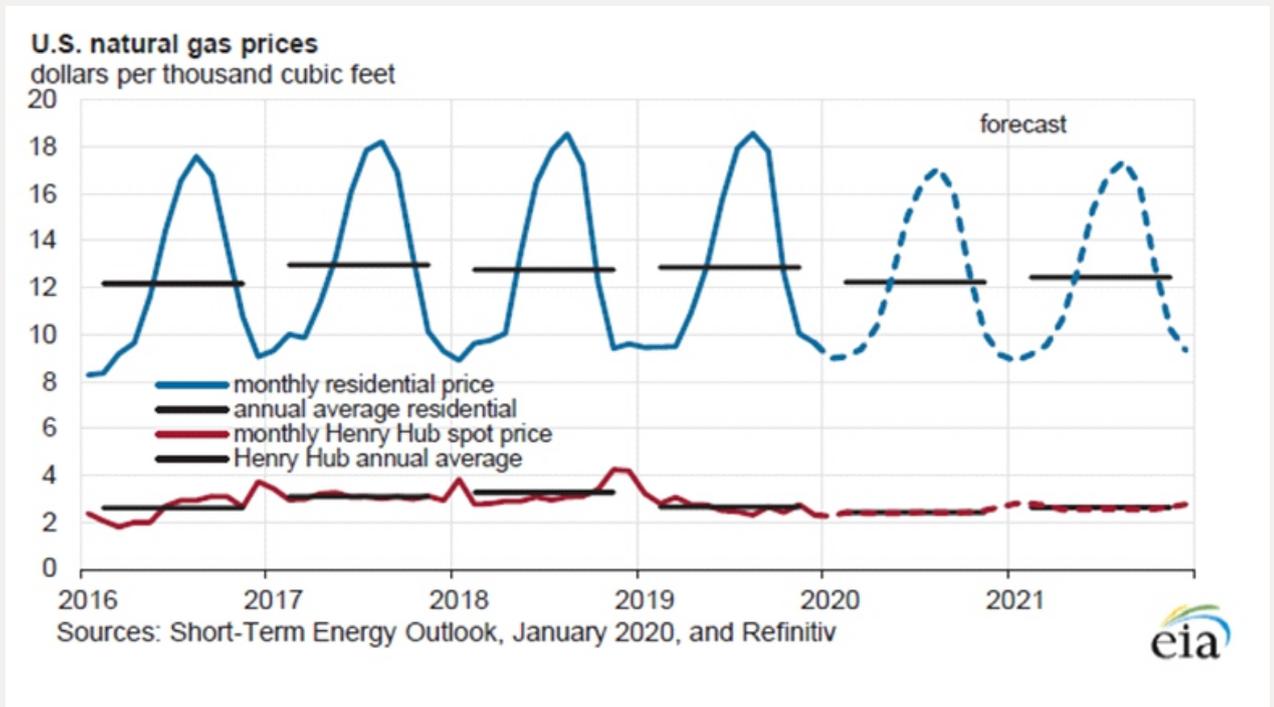
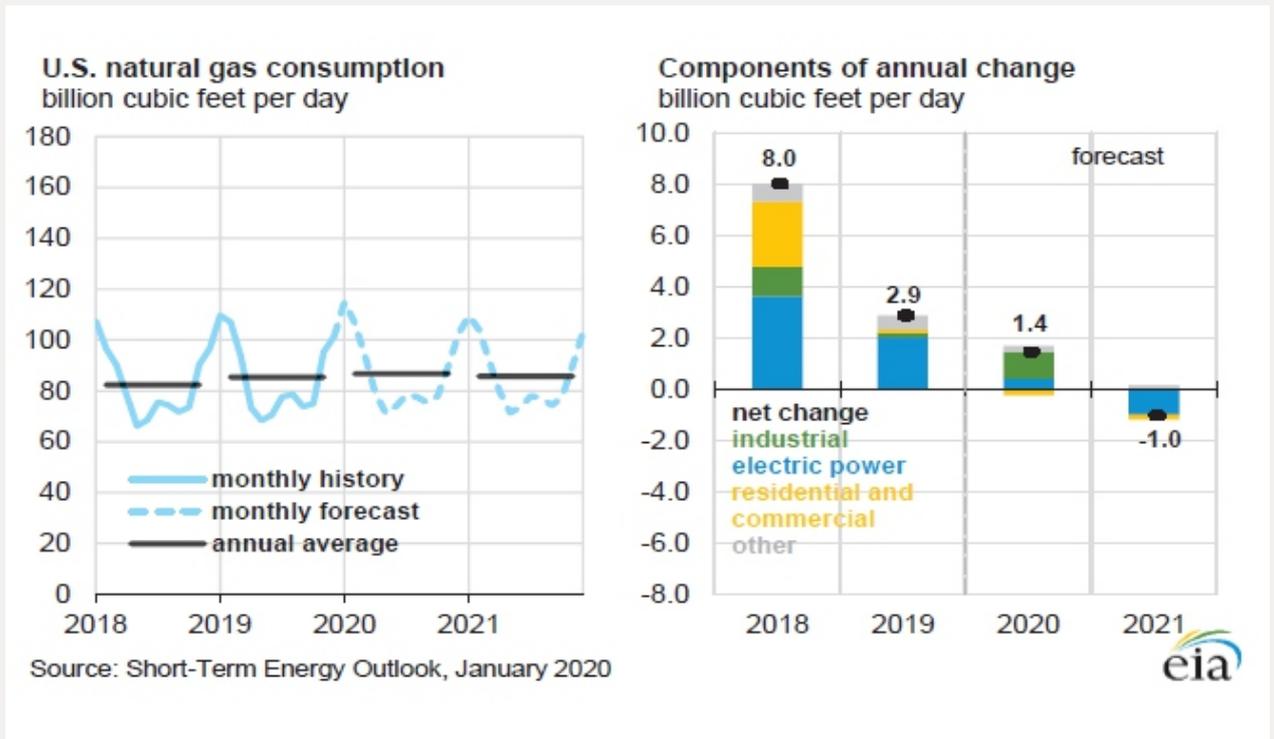
U.S. dry natural gas production set a new record in 2019, averaging 92.0 billion cubic feet per day (Bcf/d). EIA forecasts dry natural gas production will rise to 94.7 Bcf/d in 2020 and then decline to 94.1 Bcf/d in 2021. Production in the Appalachian region drives the forecast as it shifts from growth in 2020 to declining production in 2021.

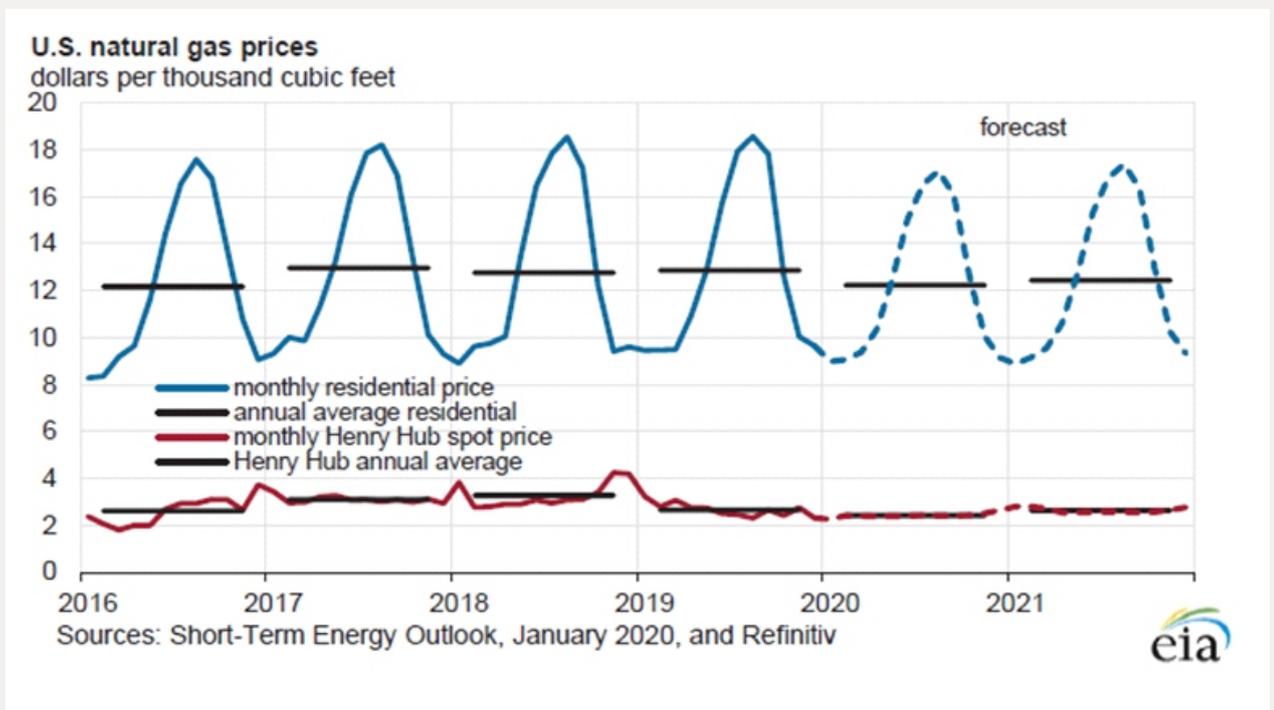
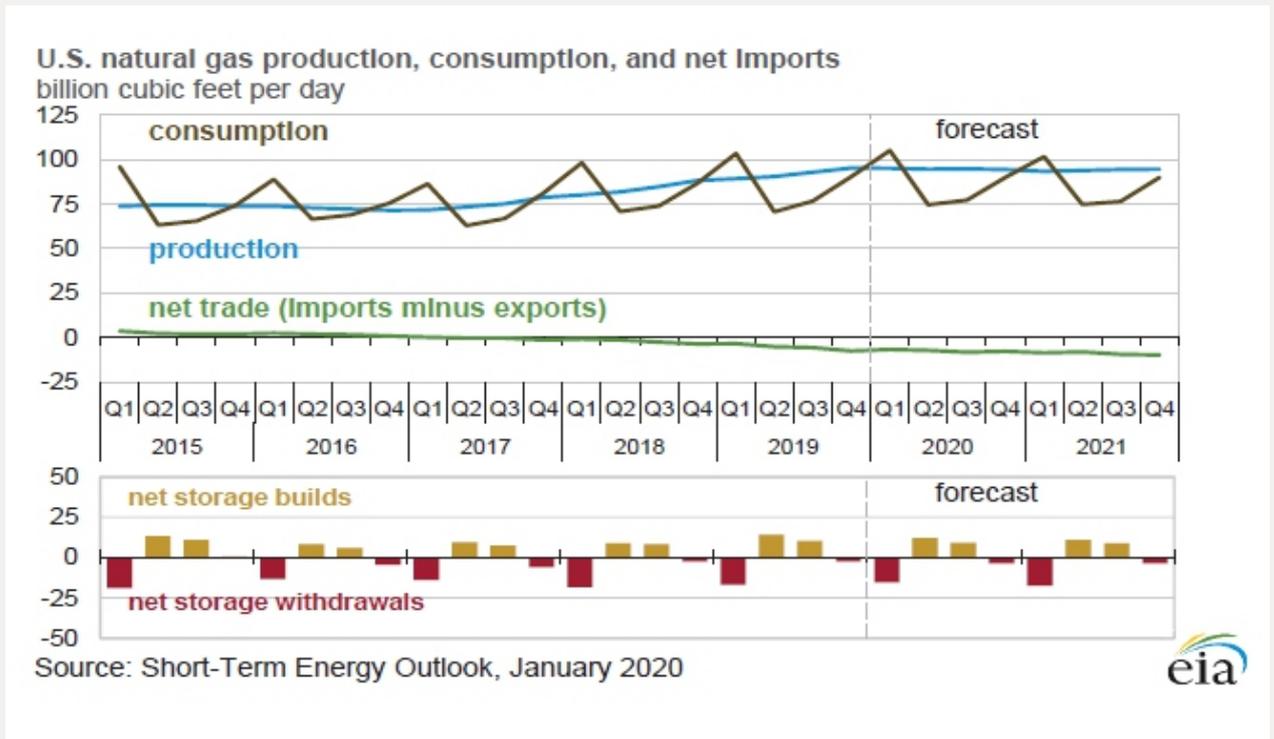
EIA forecasts that Henry Hub natural gas spot prices will average \$2.33 per million British thermal units (MMBtu) in 2020, down from \$2.57/MMBtu in 2019.

Total domestic U.S. natural gas consumption averaged an estimated 85.3 billion cubic feet per day (Bcf/d) in 2019, and EIA expects it will increase by 1.4 Bcf/d (1.7%) in 2020 before decreasing by 1.0 Bcf/d (1.2%) in 2021.

Based on an assumption of milder winter temperatures in the first quarter of 2020, along with a forecast of growing natural gas production, EIA forecasts that total inventories will be 1,807 Bcf at the end of March, which would be 5% higher than the five-year average for that time of year. For the 2020 storage injection season, EIA expects injections will exceed the five-year average rate as production outpaces consumption and exports from the end of March through October.

EIA expects combined residential and commercial natural gas consumption will average 23.2 Bcf/d in 2020, down 1.0% from 2019. The lower consumption reflects lower forecast space heating demand. Based on forecasts by the National Oceanic and Atmospheric Administration (NOAA), EIA forecasts 1.8% fewer heating degree days (HDD) in 2020 compared with 2019. Natural gas consumption in the residential and commercial sectors is expected to decline by 0.9% in 2021, based on a forecast decline in HDD of 0.7% in 2021.





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