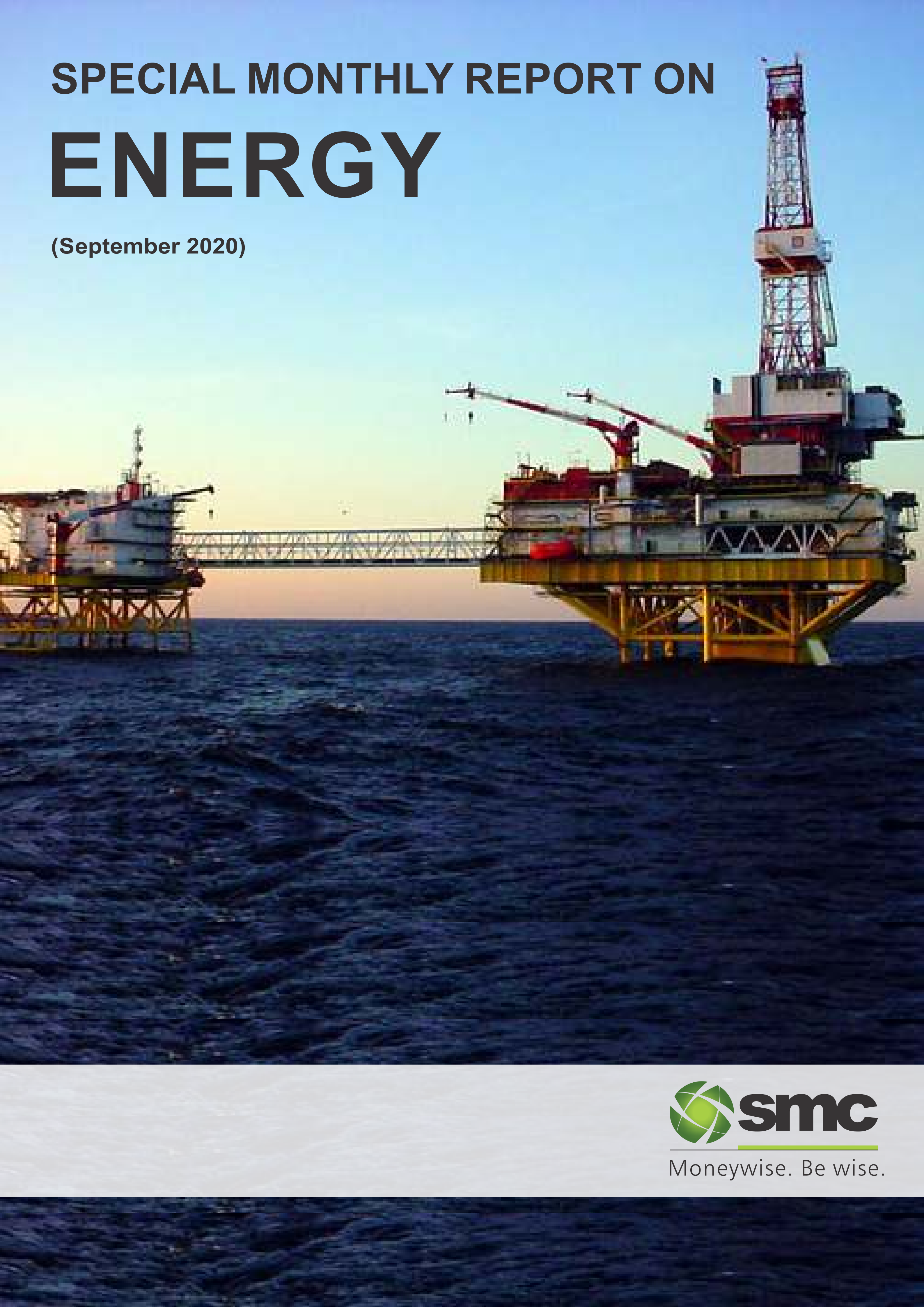
SPECIAL MONTHLY REPORT ON

# ENERGY

(September 2020)



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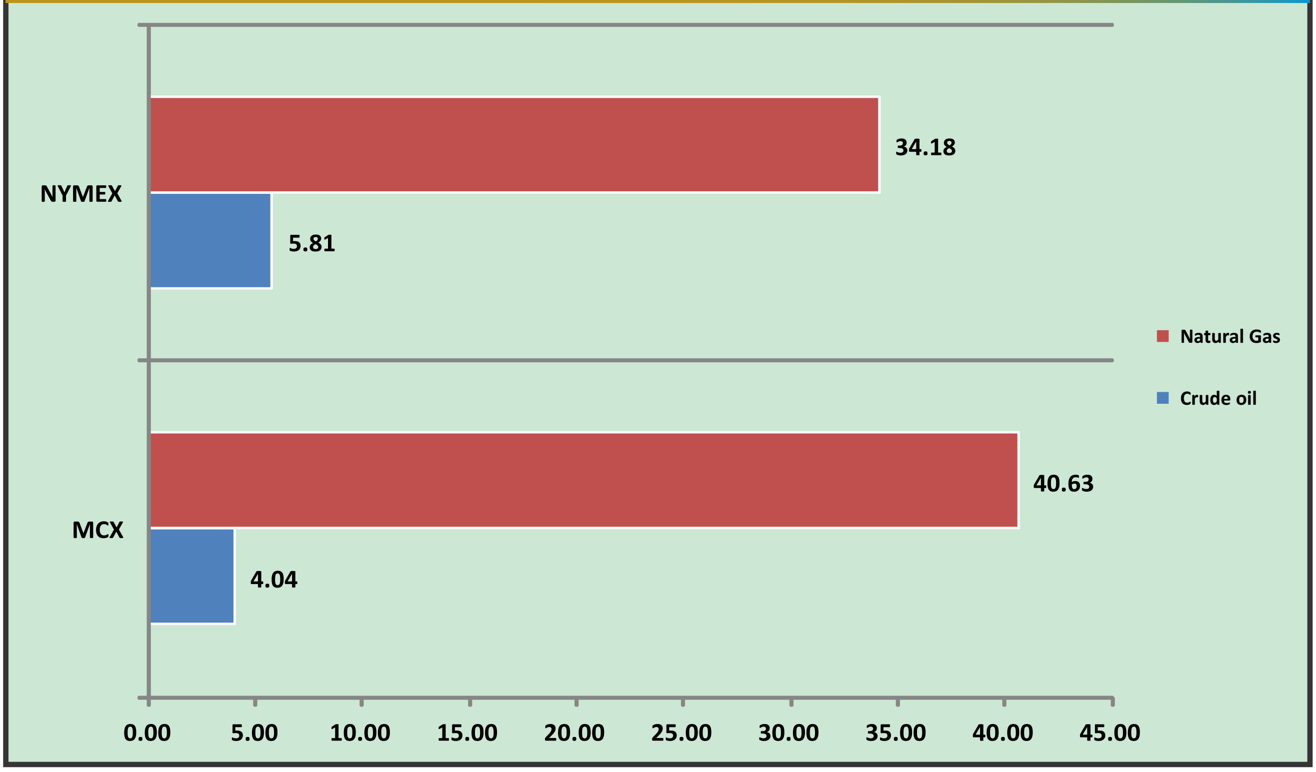
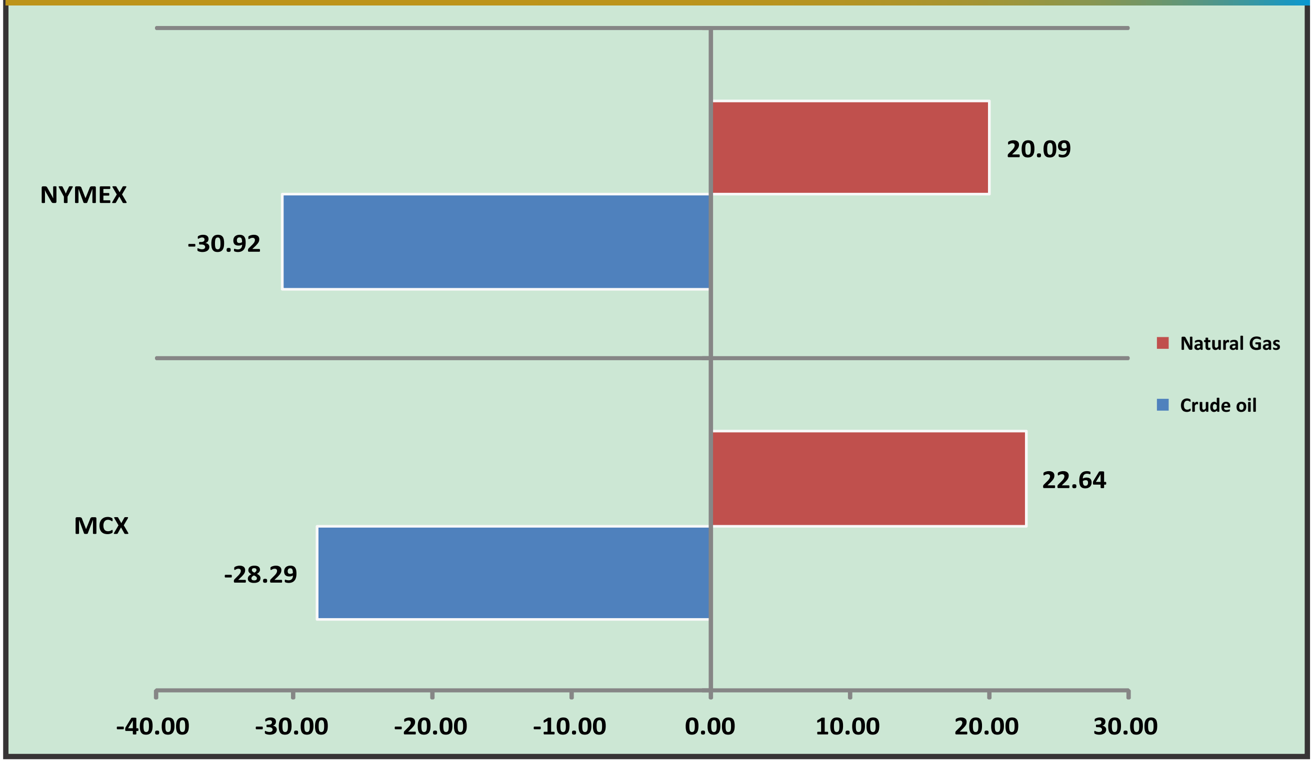
## ENERGY PERFORMANCE (August 2020) (% change)




## ENERGY PERFORMANCE (January - August 2020) (% change)



In the month of Aug, crude oil prices posted a gain, as demand from China has been one of the most important drivers in the ongoing recovery in oil markets. China's services sector grew at its fastest pace in over two and a half years in August. More bullish news for crude markets came from the UAE as Abu Dhabi National Oil Company (ADNOC) said that it plans to cut crude supplies by 30% in October. Brent closed out August up 7.5% for a fifth successive monthly price rise. WTI logged a fourth monthly gain at 5.8% after hitting a five-month high of $43.78 a barrel on Aug. 26 when Hurricane Laura struck. Oil output in the U.S. Gulf Coast was lower as energy companies continued efforts to restore platforms and refineries shut before two storms struck last month.

## 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 September as it is expected that the recovery to slow down as a result of ongoing uncertainty over the coronavirus pandemic and the state of the global economy. In the meantime, the global recovery in crude demand continues to materialize despite the fact that China's crude oil imports into the country dropped 7.4% month-on-month to 47.5 million tons (11.2 million barrels/day) in August as demand for inventories slowed due to capacity constraints and price recovery. China's demand slowdown comes at a time when the OPEC+ group has been easing production cuts and increasing supplies. At the same time, U.S. oil production climbed 420,000 barrels per day in June to 10.44 million barrels a day, the U.S. EIA said, putting further pressure on prices. Additionally, the second wave of Covid-19 in Europe and the virus' continued spread through India, two other huge importers, is also weighing on prices.

## Key News

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

As per the September 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 declined by 4.6% in the first half of 2020 from the same period a year ago and will rise beginning in the third quarter of 2020, with year-over-year growth of 3.1% in 2021.

### Oil import in China on dropped in August

China's crude oil imports into the country dropped 7.4% month-on-month to 47.5 million tons (11.2 million barrels/day) in August as demand for inventories slowed due to capacity constraints and price recovery. Imports have started to ease off peak as oil prices rebounded and port congestion persisted. But it's unlikely to see a sharp fall in the coming months as China's fuel demand remains robust. As refineries gradually complete overhauls and refining profit margins steadily pick up amid the approach of the peak fuel consumption season in September-October, we expect crude oil imports to maintain at a relatively high level, but not as high as the level we saw in June-July.

### Production cut by OPEC + relaxed in August

After having slashed output by 9.7 million b/d since May, OPEC and its partners in a coalition led by Saudi Arabia and Russia, relaxed their cuts to 7.7 million b/d as of August 1, excluding Iraq's and Nigeria's compensatory cuts. So OPEC produced more oil in August than it did in July as the cartel continued to relax its production cuts, with recovering demand also stimulating more production.

The August increase amounted to 950,000 bpd, the survey said, to a total of 24.27 million bpd. This appears to be despite Iraq's pledge to cut an additional 400,000 bpd from its output in August to compensate for its under compliance with the OEPC+ cuts. Nigeria had also pledged to effect additional production cuts to compensate for its

## Weekly Price movement of crude oil in MCX


Source: Reuters

**Looking ahead in Sep, Crude oil prices continue to trade in tight range also we can expect dip towards 2600 which would considered as buying opportunity, resistance is seen near 3200.**

## Weekly Price movement of crude oil in NYMEX


Source: Reuters

overproduction since May.

Demand for oil may be improving and thus helping the cartel stick to its quotas, but even OPEC is not particularly optimistic for oil demand this year. In its latest Monthly Oil Market Report the group said it expected oil demand loss this year to hit 9.1 million bpd, a 100,000-bpd upward revision on its July forecast. OPEC also estimated that the global economy could shrink by as much as 4 percent this year, a revision from 3.7 percent estimated in July.

**Aramco cut official selling prices**

Saudi Arabia's Aramco, the world's top oil exporter, cut the October official selling prices for its Arab light crude, seen as a sign demand growth may be stuttering as COVID-19 cases flare up around the world. Earlier, Saudi Arabia's state oil producer Aramco has increased official selling prices (OSPs) for its crude to Asia by $1 a barrel in August.

**Resurgence in COVID-19 halting recovery of oil demand**

Resurgence in COVID-19 cases in globally has raised concerns that the recent recovery in demand may be halted as the general public remains cautious about extended travel. Coronavirus cases rose in 22 of the 50 U.S. states, a Reuters analysis showed, on the holiday weekend traditionally filled with gatherings to mark the end of summer. At the same time cases are flaring up in India and Britain.

**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.

The shale revolution of recent years boosted U.S. crude output to roughly 12 million barrels per day (bpd) last year through hydraulic fracturing, or fracking, which is environmentally controversial as it involves pumping water, sand and chemicals into rock at high pressure to release oil or natural gas.

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 94.3 million b/d in August. Liquid fuels consumption was down 8.2 million b/d from August 2019, but it was up from an average of 85.1 million b/d during the second quarter of 2020 and 93.3 million b/d in July.

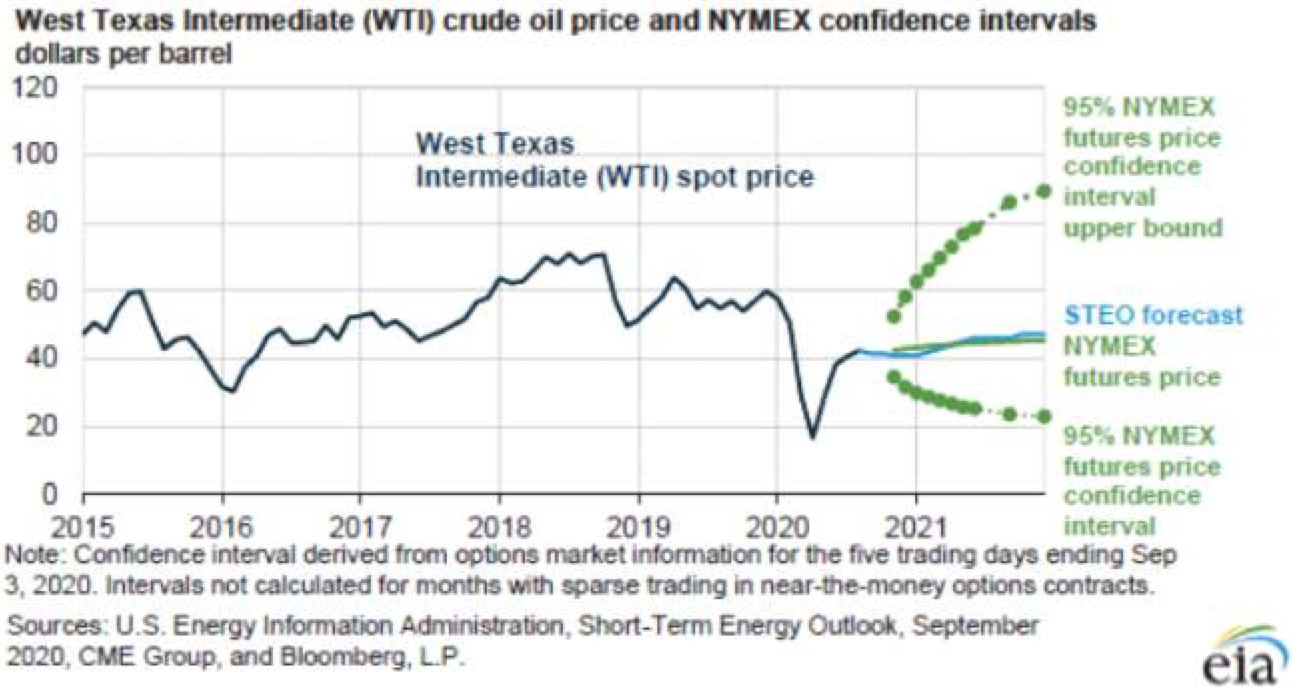
EIA forecasts that consumption of petroleum and liquid fuels globally will average 93.1 million b/d for all of 2020, down 8.3 million b/d from 2019, before increasing by 6.5 million b/d in 2021.

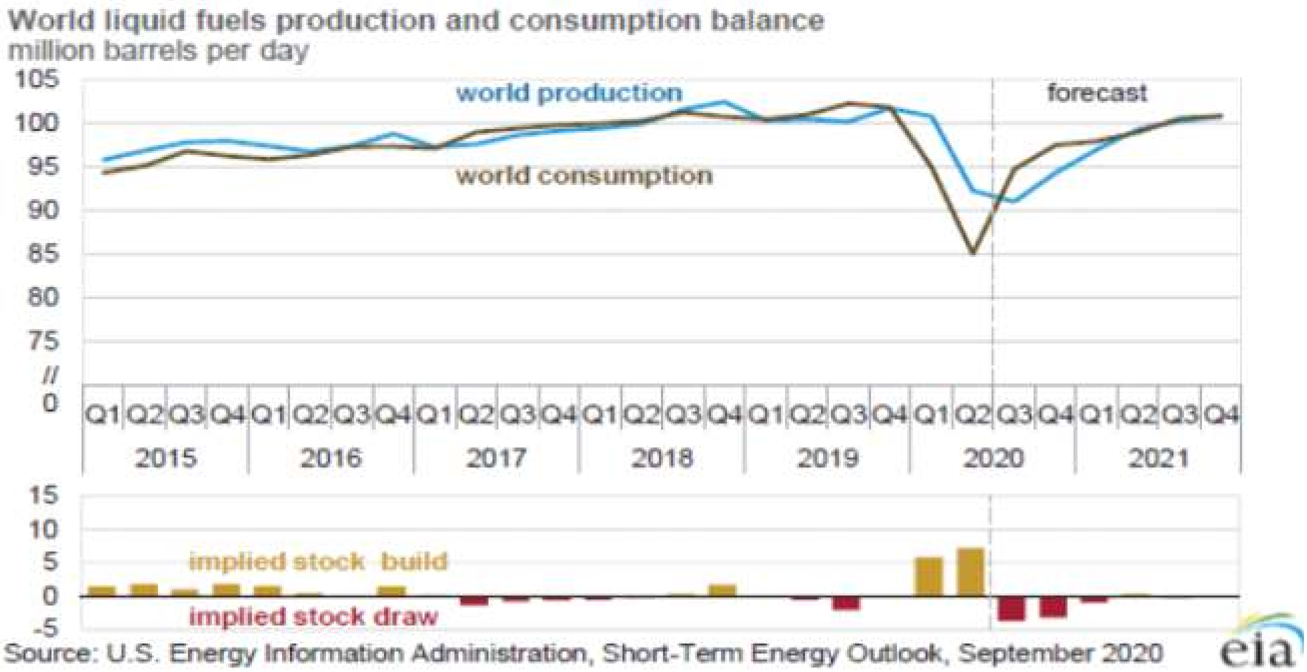
EIA estimates that global liquid fuels production averaged 91.5 million b/d in August, down 9.7 million b/d year over year. The decline largely reflects voluntary production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+), along with reductions in drilling activity and production curtailments in the

United States because of low oil prices. EIA expects global liquid fuels production will rise to an annual average of 99.3 million b/d in 2021.

Crude oil production in the United States has risen in recent months after declining from 12.7 million b/d in the first quarter of 2020 to a recent low of 10.0 million b/d in May. EIA estimates U.S. crude oil production increased to 10.8 million b/d in August. Production has risen as tight oil operators have brought wells back online in response to rising prices after curtailing production amid low oil prices in the second quarter. The increase in total U.S. production occurred despite shut-in production in the Gulf of Mexico as a result of Hurricane Laura. EIA expects production to rise to 11.2 million b/d in September as production in the Gulf of Mexico returns.

However, on an annual average basis, EIA expects U.S. crude oil production to fall from an average of 12.2 million b/d in 2019 to 11.4 million b/d in 2020 and 11.1 million b/d in 2021.

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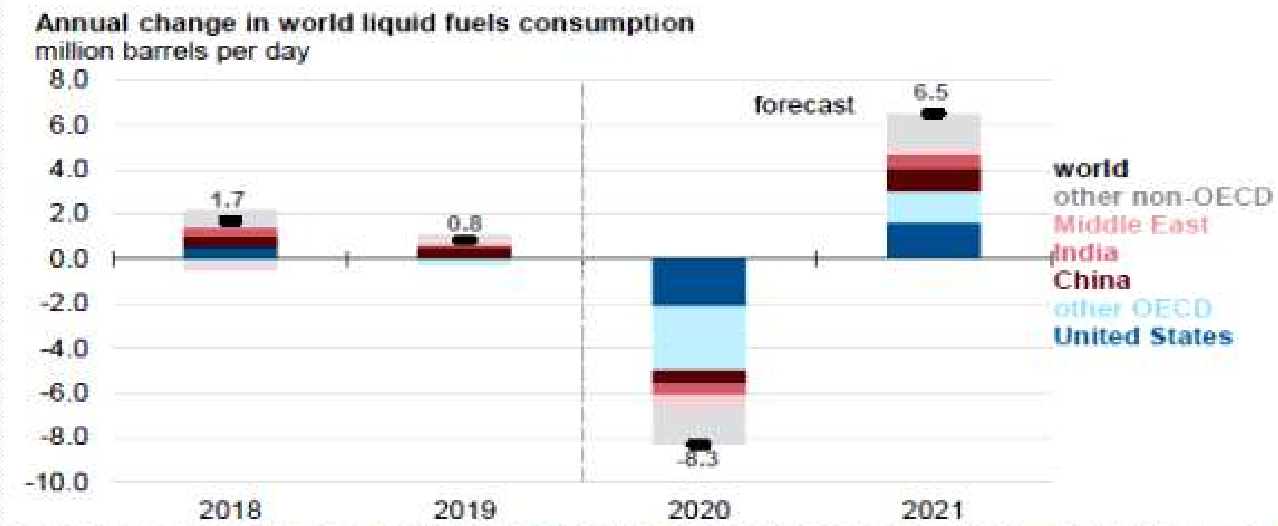
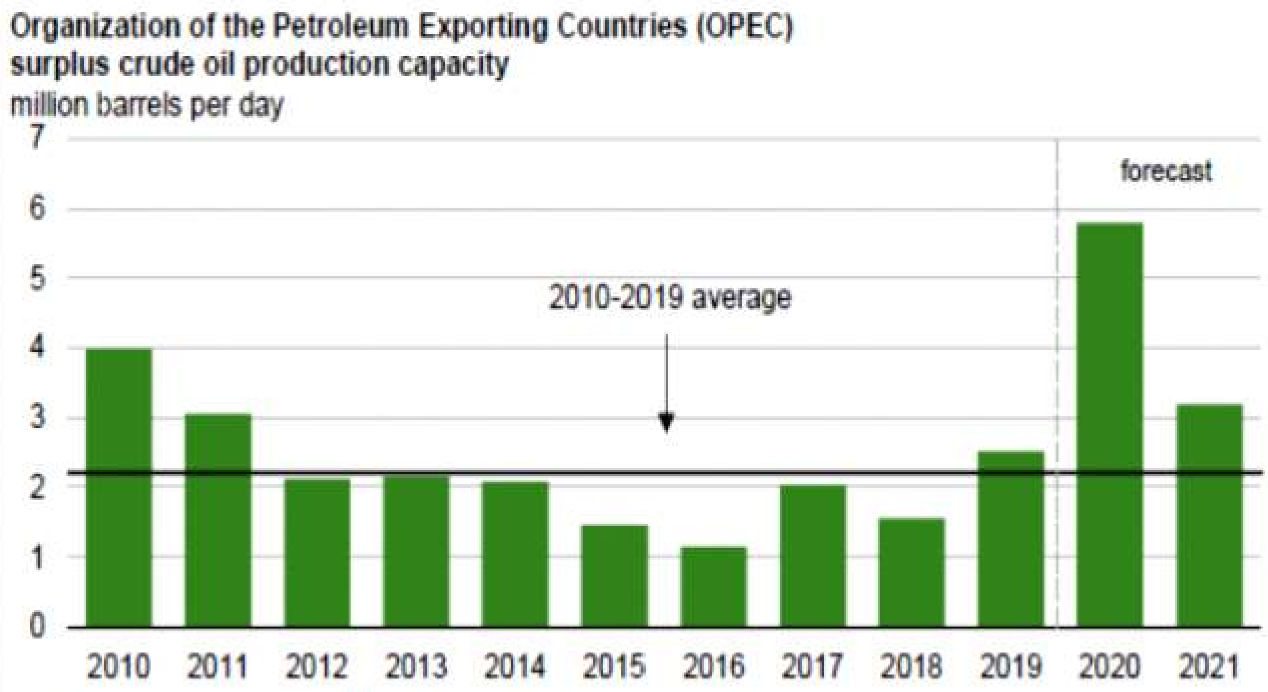



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, September 2020




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

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

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## Natural Gas

In August, Natural gas futures were cynosure with jump of more than 46% in NYMEX and more than 40% in MCX due to a daily increase in LNG exports following hurricane shutdown in late August and record sales to Mexico. Data provider Refinitiv said output in the Lower 48 U.S. states was on track to rise to 88.0 billion cubic feet per day (bcfd) in September, up from a three-month low of 87.6 bcfd in August. That is well below November's all-time monthly high of 95.4 bcfd.

### Outlook

Natural gas has seen very good upside and consolidating in the range of 170-200. Prices are expected to remain firm and thus buy at dip should be a good strategy for this commodity. Support is seen near 172-170 whereas resistance is near 230 with exports rising and temperatures expected to remain warmer-than-normal through mid September. In late September, however, demand is expected to decline as air conditioning use drops as the weather cools. The amount of gas flowing to U.S. LNG export terminals was on track to rise as Cheniere Energy Inc's Sabine Pass plant in Louisiana continues to ramp up after shutting for Hurricane Laura. Pipeline exports to Mexico were on track to rise to 6.2 bcfd in September, topping August's 5.9-bcfd record high. U.S. natural gas production and demand will drop in 2020 from record highs last year as coronavirus lockdowns cut economic activity and energy prices, the U.S. Energy Information Administration (EIA) said in its Short Term Energy Outlook (STEO) on September 9, 2020.

### Major News

- In August, the Henry Hub natural gas spot price averaged \$2.30 per million British thermal units (MMBtu), up from an average of \$1.77/MMBtu in July.
- EIA expects that rising domestic demand 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 \$3.40/MMBtu in January 2021. EIA expects that monthly average spot prices will remain higher than \$3.00/MMBtu for all of 2021, averaging \$3.19/MMBtu for the year, up from a forecast average of \$2.16/MMBtu in 2020.
- The EIA projected dry gas production will drop to 89.88 billion cubic feet per day (bcfd) in 2020 and 86.59 bcfd in 2021 from the all-time high of 92.21 bcfd in 2019.
- It also projected gas consumption would fall to 82.68 bcfd in 2020 and 79.14 bcfd in 2021, from a record 84.97 bcfd in 2019.
- That would be the first annual decline in consumption since 2017 and the first time demand has fallen for two consecutive years since 2006.
- EIA's projections for 2020 in September were higher than its August forecasts of 88.65 bcfd for supply and 82.42 bcfd for demand.
- The agency forecast U.S. liquefied natural gas exports would reach 6.27 bcfd in 2020 and 8.73 bcfd in 2021, up from a record 4.98 bcfd in 2019. That is higher than its August forecasts of 5.54 bcfd in 2020 and 7.28 bcfd in 2021.

## 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 172-170 whereas resistance is near 230.**

## Weekly Price movement of Natural gas in NYMEX


Source: Reuters

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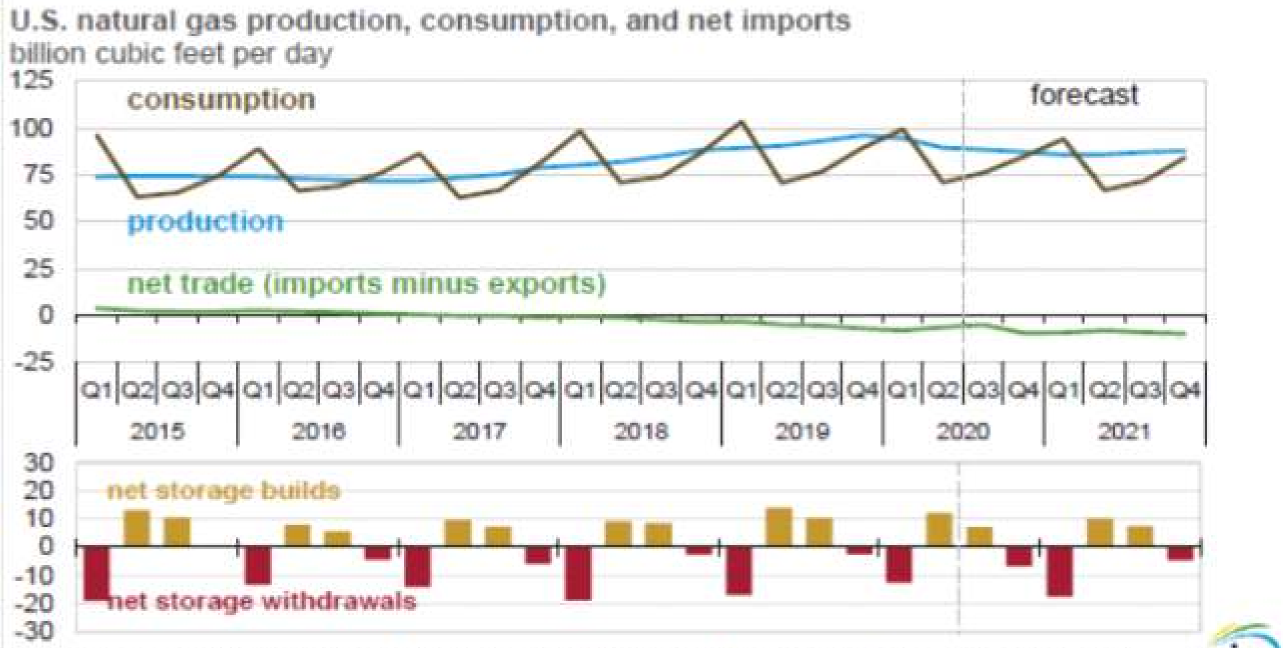


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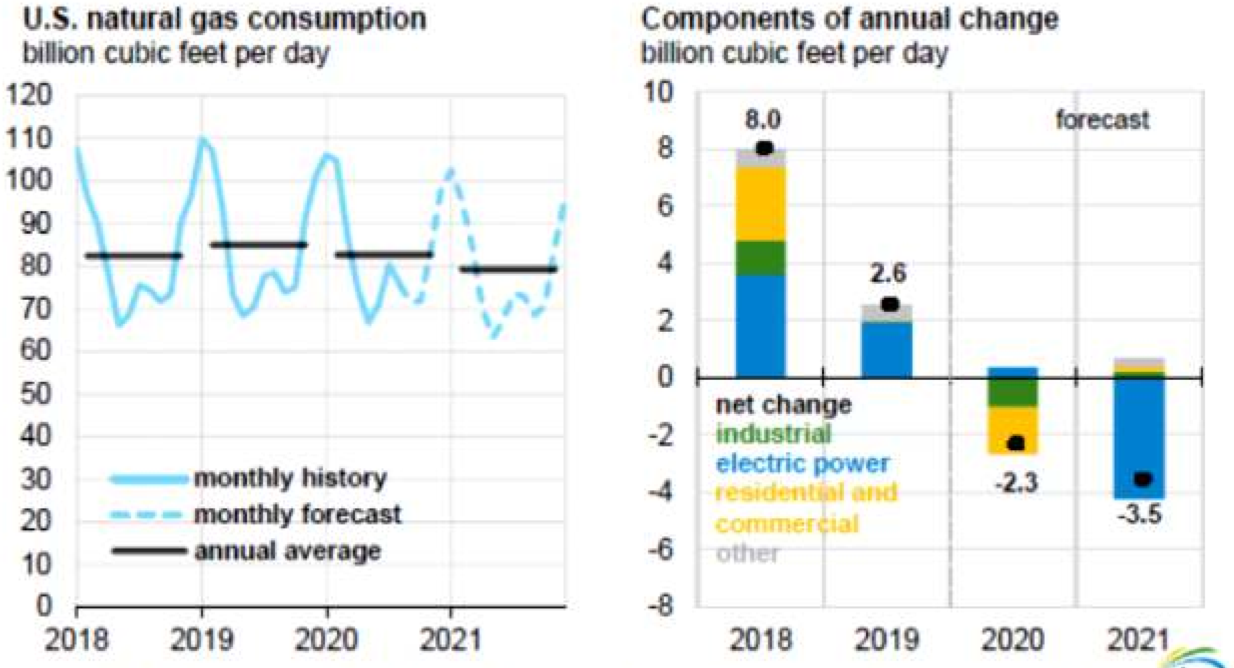


Source: U.S. Energy Information Administration, Short-Term Energy Outlook, September 2020

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