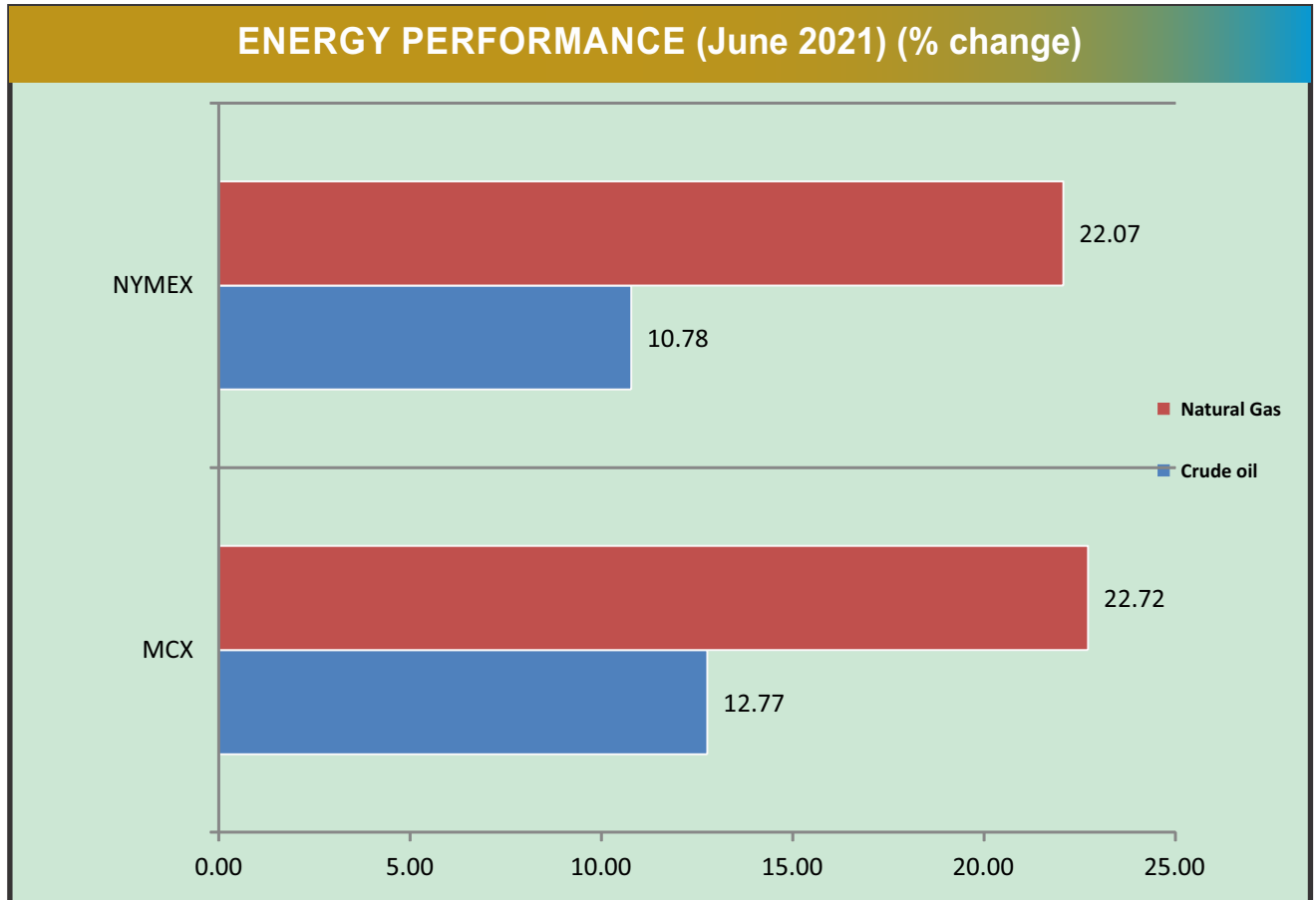


SPECIAL MONTHLY REPORT ON ENERGY

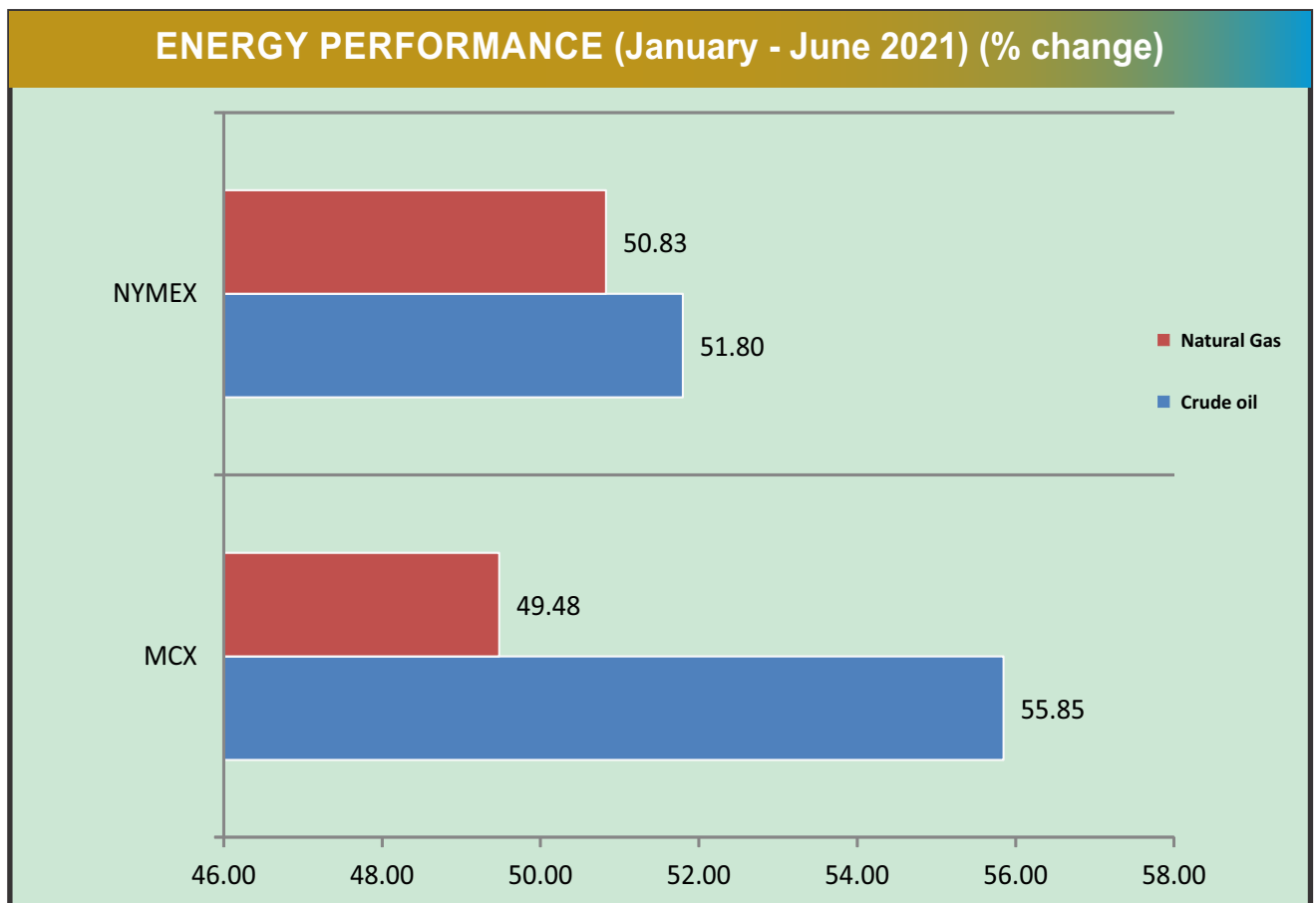
JULY 2021



Moneywise. Be wise.



Source: Reuters & SMC Research



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WTI rose more than 10% in June while Brent added over 8%, touching highs since 2018, on growing optimism that fuel demand will grow in current quarter. Crude prices on MCX also recorded almost 13% upside. Both contracts registered a third monthly gain. Fuel demand has increased as people take to the roads amid the economic reopening, and a rebound in goods transportation and air travel also has supported prices. Oil has jumped more than 50% this year so far as fuel demand was boosted due to the ongoing economic recovery from COVID-19 in the U.S., China and parts of Europe, despite the recent outbreak of delta variant of COVID-19 cases in parts of the world.

Outlook

Oil prices may continue to trade firm on indications that OPEC+ producers could increase output more slowly than expected in coming months, while rising global fuel demand would continue to tighten supply. The latest round of meetings among the OPEC+ group of oil-exporting countries has stalled as the UAE has pushed back proposals making an increase in crude oil supply conditional on an extension to an output agreement. Another round of discussions between OPEC+ countries scheduled on July 06, 2021, was reportedly called off as key players failed to make any progress in resolving key issues. However, OPEC's demand forecast does not account for the possibility of increased supply from Iran, spread of the COVID-19 Delta variant and lackluster seasonal U.S. gasoline use. There have been several outbreaks of the Delta variant of the coronavirus, raising concerns that the recovery will falter.

Latest Standoff among Oil Producers fueling prices: The latest round of meetings among the OPEC+ group of oil-exporting countries has stalled as the UAE has pushed back proposals making an increase in crude oil supply conditional on an extension to an output agreement. The 23-nation coalition decided to add about 2 million barrels a day to the market from May to July this year, easing output restrictions as demand recovered. Most delegates agreed to a deal to gradually undo the remaining output of about 5.8 million barrels a day by increasing production by 400,000 barrels a day from August to December 2021 and also planned to extend the pact with gradual output rises to the end of 2022, but the proposal was blocked by the UAE.

At the last minute, the UAE said it would only accept the proposal if it was granted the same terms for calculating its quota as the Saudis. It is haggling over a difference of about 600,000 barrels a day of output and wants its so-called baseline quota to be adjusted to 3.8 million barrels a day from the current allotment of 3.2 million barrels. The UAE said throughout that it would accept the output increase without the deal extension, but the Saudis argued that the two elements must go together.

OPEC boosted oil production last month by the most in a year, in line with plans to meet rising demand as countries recover from the pandemic. The Organization of Petroleum Exporting Countries production rose by 855,000 barrels a day in June to 26.47 million a day, with just over half the increase coming from group leader Saudi Arabia, Bloomberg survey showed.

Global oil demand: Global oil demand is set to continue rising despite worries over the spread of the delta variant of COVID-19. Global oil demand will recover to pre-pandemic levels late next year, the International Energy Agency predicted, urging OPEC and its allies to keep markets balanced by tapping their plentiful spare production capacity. World consumption will once again surpass 100 million barrels a day in the second half of 2022 as developed economies bring the virus under control, the agency said. On a full-year basis, world oil consumption will remain slightly below 2019 levels next year, at 99.5 million barrels a day. The recovery in consumption will also be uneven.

Shale producers grateful to OPEC : The US shale oil producers should indeed be grateful to OPEC for raising the oil price to above \$73 a barrel for the US crude oil. OPEC and partners had helped in bringing the oil price to such a level that USA producers are now relaxed, making money, curtailing production or not in hurry to increase its rig numbers. They are enjoying the party with their own shareholders generating profit and inflow of cash to such an extent that they are not bothered to look or monitor the oil prices. They are even ignoring the OPEC-Plus' outcomes.

China's latest oil probe may affect market: China is the world's largest crude oil importer and the No. 2 consumer after the United States. But the country's refining sector is saddled with overcapacity and excess fuel supplies which Beijing is keen to tackle. Authorities also aim to clamp down on tax evasion, as well as the blending and sale of fuels that do not meet emission standards. So China has issued 35.24 million tonnes of crude oil import quotas to non-state refiners in a second batch of allowances for 2021, a 35% drop from the same slot last year, according to a document seen by Reuters. China's imports from Saudi Arabia fell 21% in May from a year earlier but retained their top ranking among suppliers for a ninth month in a row, customs data showed. Imports from second-largest supplier Russia also dropped from a month earlier, to 5.44 million tonnes, or 1.28 million bpd.

Weekly Price movement of crude oil in MCX



Source: Reuters

Looking ahead in July 2021, Crude oil prices continue to trade with buying on dips strategy where prices may touch the 6000 level, support is seen near 5400 considered as buying opportunities.

Weekly Price movement of crude oil in NYMEX



Source: Reuters

Natural Gas

Natural gas prices rose around 22% in NYMEX & MCX both on forecasts for warmer than previously expected weather that should boost the amount of gas power generators burn to keep air conditioners humming. A heatwave in Western Canada and the U.S. Pacific Northwest drove spot cash prices sharply higher. Hot weather also move into the East Coast, contributing to a 30.5 cent jump in Natural Gas Intelligence’s (NGI) Weekly Spot Gas National Average. Natural gas prices gained on strong demand for US exports of LNG.

Outlook

The gas prices are expected to remain in range with bullish bias and thus buy on dip should be a good strategy for this commodity. Looking ahead, overall, the weather data for July 6-15th remains hot enough that would increase demand for energy to power air conditioning, even as temperatures are expected to turn a bit milder in two weeks. Flat domestic production, strong export demand and low storage may also set a bullish momentum.

Major News

- Data provider Refinitiv said gas production in the Lower 48 states has averaged 91.6B cf/day in June, up from 91B in May but well below the 95.4B cf/day monthly record high in November 2019.
- Refinitiv projected average gas demand, including exports, would slide from 93.3 bcf/d this week to 89.9 bcf/d next week as the milder weather cut air conditioning use, before rising to 93.8 bcf/d in two weeks when the weather turns seasonally hotter.
- The amount of gas flowing to U.S. liquefied natural gas (LNG) export plants averaged 10.9 bcf/d so far in July, up from 10.1 bcf/d in June but still below the record 11.5 bcf/d in April.
- With European and Asian gas both trading over \$12 per mmBtu, analysts said buyers around the world would keep purchasing all the LNG the United States can produce
- U.S. pipeline exports to Mexico averaged 6.4 bcf/d so far in July, down from a record 6.7 bcf/d in June.

Weekly Price movement of Natural gas in MCX



Source: Reuters

Natural gas continues to trade with bullish trend where resistance is seen near 300 and support is seen near 240. Higher volatility is expected in Natural gas.

Weekly Price movement of Natural gas in NYMEX



Source: Reuters

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