

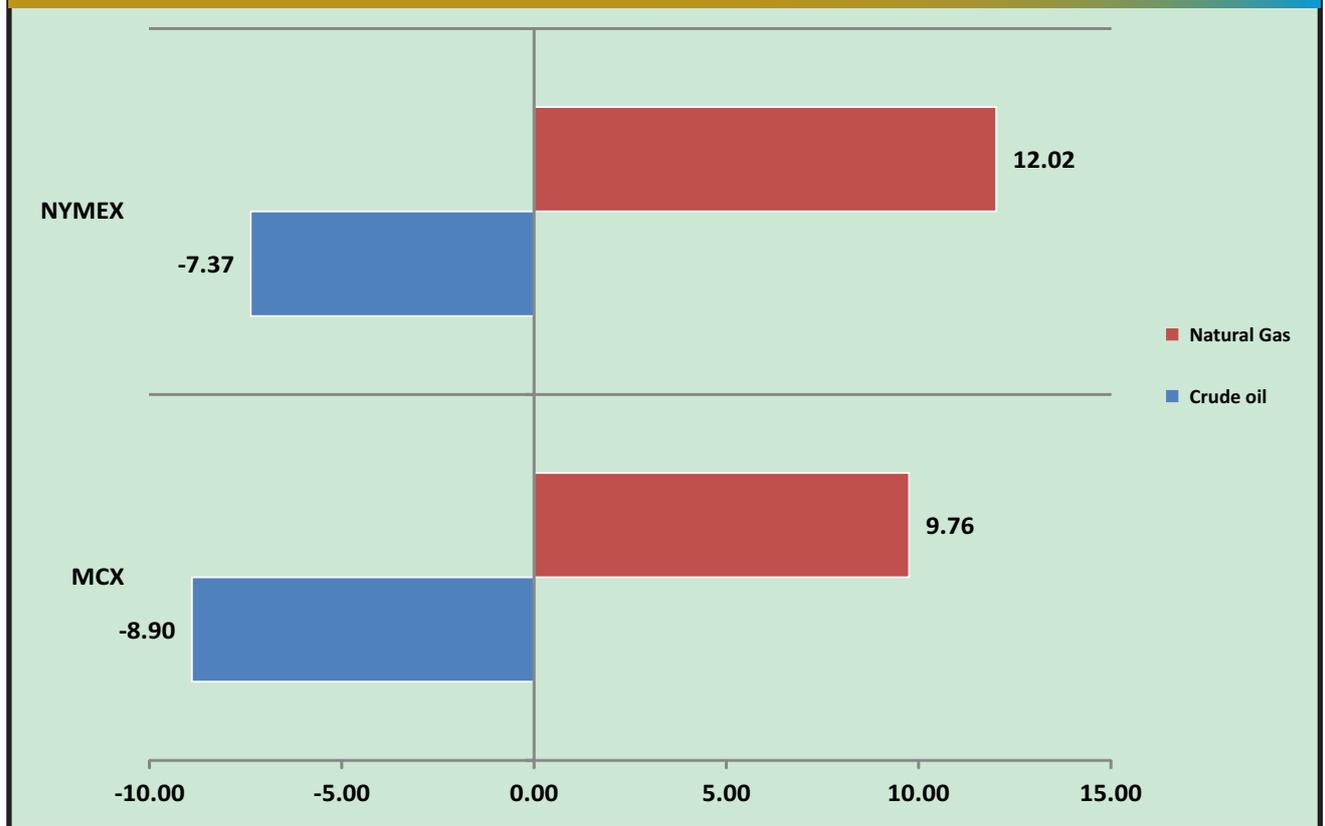
# SPECIAL MONTHLY REPORT ON ENERGY

SEPTEMBER 2021



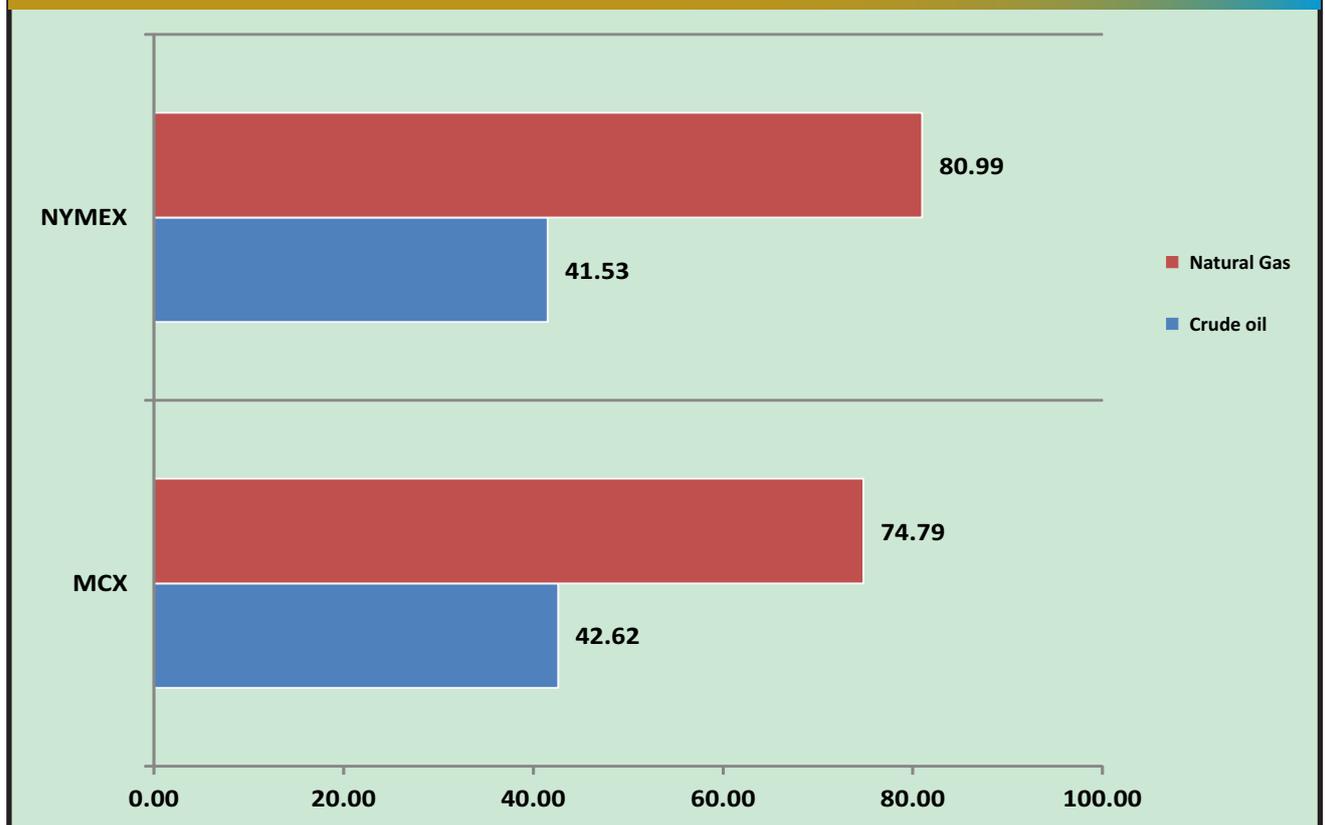
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### ENERGY PERFORMANCE (August 2021) (% change)



Source: Reuters & SMC Research

### ENERGY PERFORMANCE (January - August 2021) (% change)



Source: Reuters & SMC Research

In August, Natural gas and crude oil traded in opposite directions as natural gas clearly outperformed crude oil in consecutively second month. Crude oil fell more than 7% in NYMEX, its worst month in 10, as demand concerns due to rising infection of COVID-19 delta variant in US and many Asian countries along with slowing manufacturing activity in the U.S. and China dimmed the fuel demand outlook. Expectations that oil producing nations in the OPEC+ alliance would go ahead with a plan to raise output in September also weighed on prices. The Biden administration called on OPEC+ three weeks ago to boost oil production in an effort to dampen gasoline prices, amid concerns that rising inflation could derail the economic recovery from Covid

## Outlook

Oil prices may continue to trade with high volatility. The prices get pressurised as OPEC+ agreed to keep its policy of gradually returning supply to the market at a time when coronavirus cases around the world are surging. In the U.S., many refiners remained offline after Hurricane Ida hit the Gulf Coast area earlier in the week, with power and water shortages likely to impact fuel demand. An estimated 1.4 million bpd of the region's oil production still remains offline, according to the U.S. offshore regulator. Oil refineries in Louisiana may take weeks to restart after Hurricane Ida swept through the region, with operators facing power and water shortages, which is likely to crimp demand for oil. U.S. Gulf offshore crude production accounts for about 16% of daily U.S. It is not certain whether demand will be able to grow as quickly as OPEC+ and the market predicts, given the risk of new lockdowns to fight the unresolved Covid-mutant spread.

**Latest Oil Producers decision:** The Organization of the Petroleum Exporting Countries (OPEC) and other producers including Russia, together known as OPEC+, agreed in recent meeting to continue a policy of phasing out record production reductions by adding 400,000 barrels per day (bpd) each month to the market. It plans to do so until all the production that was halted due to COVID-19 is revived. However, OPEC+ raised its demand forecast for 2022 while also facing pressure to accelerate production increases from the Biden administration, which said it was "glad" the group had reaffirmed its commitment to raising supply. OPEC's own data showed the market will face a deficit until the end of 2021 but then flip into a surplus in 2022.

**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. OPEC also raised its demand forecast for 2022 and continues to face pressure from the U.S. to accelerate production increases. In the meantime, China's demand for crude appears to be recovering after nearly five months of slower purchases caused by a shortage of import quotas, drawdowns from high inventories and COVID-19 lockdowns that muted Chinese fuel consumption.

**Rising oil rig in US:** U.S. oil production has ticked up in recent weeks as shale producers drill more wells after going through a massive backlog of drilled but uncompleted wells. According to the latest Baker Hughes Co. tally, the overall domestic rig count rose to 508 as on Aug. 27, 2021. U.S. shale oil output is expected to rise to 8.1 million barrels per day (bpd) in September, the highest since April 2020, according to the Energy Information Administration's monthly drilling productivity report.

**Rising delta variant of Covid-19 denting global recovery:** The wave of Covid-19 delta variant's infections still haunting the world and denting the global recovery. The highly infectious Covid-19 variant is forcing governments to reimpose or extend some curbs, and investors are tracking an uptick in cases in the world's biggest crude markets. The number of cases from the Delta variant of COVID-19 continue to rise, even in countries like Israel that have vaccinated most of their populations. In the US, more children are coming down with the virus and the number of cases for adults under 50 is the highest it has ever been. However, record number of vaccination in many developed and developing countries is ray of hope that global economy will be on track of growth.

**India's fuel demand:** India's fuel demand recovery remained patchy in August after picked up in July as petrol consumption continued to rise but diesel sales fell. State-owned fuel retailers sold 2.43 million tonne of petrol in August, up 13.6% from August 2020. It was 4.1% higher than pre-COVID sales of 2.33 million tonne in August 2019. Sales of diesel — the most used fuel — rose 15.9% to 4.94 million tonne during August over the previous year, but was down 9.8% from August 2019. Diesel consumption was 8% lower than pre-COVID levels in first half of August.

### Weekly Price movement of crude oil in MCX



Source: Reuters

Looking ahead in September 2021, Crude oil prices continue to trade with bearish bias and where prices may touch the 4800 level and resistance is seen near 5200.

### Weekly Price movement of crude oil in NYMEX



Source: Reuters

## Natural Gas

Natural gas clearly outperformed crude oil in consecutively second month with more than 10% jump in month of August on depleting inventory amid low production and solid LNG demand. The gas price has been supported by warmer than normal weather in most parts of the United States which is likely to boost demand for air conditioning. Natural gas also outperformed in commodities with almost 80% gain this year till date.

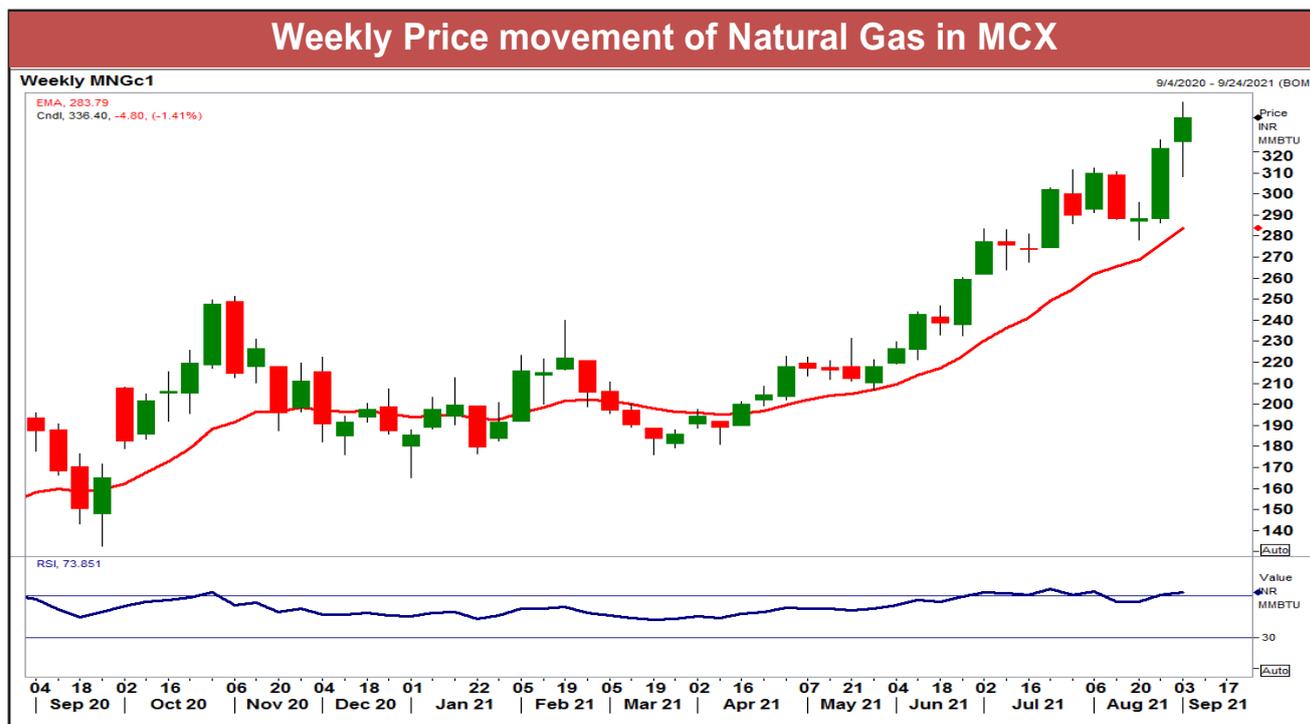
## Outlook

Natural gas still has potential to reach 370 in the month of September **but profit booking at higher level cannot be denied. So buying on dip should be a good strategy for this commodity.** Depleting inventory amid rising demand will keep supporting prices on higher side. The weather is expected to remain warmer than normal on the West Coast and normal on the East coast over the next 2-weeks. Tropical Storm Larry has formed in the Atlantic and is headed for Bermuda. The ports in the United States and natural gas pumps have stalled without electricity in the region. Stronger than expected manufacturing data had helped buoy the contract.

## Major News

- The Energy Information Administration reported Sept. 1 that the Appalachian Basin saw record shale natural gas production in the first half of 2021. The basin averaged 31.9 billion cubic feet per day during the first half of the year. That's the highest average for a six-month period since production began in 2008.
- Data provider Refinitiv said total U.S. production averaged 92.0 bcf/d in August, versus 91.6 bcf/d in July.
- The amount of gas flowing to U.S. LNG export plants has slipped to an average of 10.5 bcf/d in August from 10.8 bcf/d in the previous month, and much below April's 11.5 bcf/d records.
- U.S. pipeline exports to Mexico dipped to an average 6.2 bcf/d in August from July's 6.6 bcf/d, and a monthly record of 6.7 bcf/d in June.
- Production outages in the North Sea add to limited flows from Russia, Europe's biggest supplier. Asia is also scooping up cargoes of liquefied natural gas, making it harder for Europe to boost inventories already at their lowest level in more than a decade.
- Gazprom PJSC, Russian gas giant, said that Europe might not be able to fully rebuild its inventories before the upcoming heating season. The Russian gas giant is also facing a crunch of its own, having said last month it was overwhelmed with record demand both abroad and at home.

### Weekly Price movement of Natural Gas in MCX



Source: Reuters

Natural gas continues to tradewith bullish trend where resistance is seen near 370 and support is seen near 300. Higher volatility is expected in Natural gas.

## Weekly Price movement of Natural Gas in NYMEX



Source: Reuters

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