



FOR PRIVATE CIRCULATION ONLY

23 May 2017

MARKET ANALYSIS

NYMEX crude trades near \$51 per barrel after a 0.9% gain yesterday. Crude oil is choppy amid mixed factors and position squaring near contract expiration. Market players are also positioning for Thursday's OPEC meeting. We expect crude price to remain choppy but bias may be on upside owing to OPEC's production cut extensions talks. Focus today will be on US economic data and development relating to Trump. We may also see some positioning for weekly inventory report which is expected to note a decline in US crude oil stocks.

Crude oil has rallied sharply in last few days amid expectations that OPEC may extend production cut by another nine months. OPEC members will now meet on May 25 and a decision is likely on that day. Saudi Arabia last week indicated that most OPEC members are in favour of extending production cuts. As per latest reports, Iraq backed a proposal to extend production curbs into 2018

Also supporting price is expectations of another decline in US crude oil stocks. As per early estimates, US weekly inventory report is expected to note a 2.25 million barrels decline in US crude oil stocks. US crude stocks have fallen for last six weeks but are still well above 5-year average levels. Also in focus will be production and refinery demand. US crude production fell last week for the first time in thirteen weeks. US crude oil rig count has however risen to the highest level since April 2015 indicating higher production interest. US refinery demand is expected to remain high near summer driving season when consumption for fuels increases.

However, weighing on price are concerns about Trump administration. There have been spate of accusations against Trump which has fuelled concerns that his growth and tax reform plans may be delayed. As per latest reports, President Donald Trump asked intelligence chiefs to publicly deny any collusion between his campaign and Russia. Risk sentiment weakened also amid suspected terrorist attack in UK. North Korea issue intensified as the nation tested another missile over the weekend. In addition to it, North Korea said it is ready to start mass-producing a new medium-range missile.

CRUDE OIL

Futures Market Movement

MCX Crude Oil (Rs/bbl) as on 22-May

Contract	High	Low	Close	Change	% Change
Jun-17	3330	3290	3310	33	1.0
Jul-17	3360	3322	3339	34	1.0
Aug-17	3382	3357	3374	38	1.1

NYMEX WTI Crude Oil (USD/barrel) as on 22-May

Jun-17	51.06	50.44	50.73	0.40	0.8
Jul-17	51.43	50.75	51.13	0.46	0.9
Aug-17	51.78	51.03	51.40	0.48	0.9

ICE Brent Crude Oil (USD/barrel)

Jul-17	54.37	53.66	53.87	0.26	0.5
Aug-17	54.53	53.85	54.11	0.35	0.7

NYMEX Heating Oil (USD cents/gallon)

Jun-17	160.80	158.55	160.21	1.94	1.2
Jul-17	161.38	159.00	160.82	1.98	1.2

NYMEX Gasoline (USD cents /gallon)

Jun-17	166.79	164.87	166.26	1.03	0.6
Jul-17	166.40	164.54	165.83	1.05	0.6

Spread (USD/barrel)	Close	Prev.	% Change
ICE Brent- NYMEX WTI	2.74	2.94	-0.20
NYMEX 3-2-1 Crack Spread	18.25	18.09	0.16

MARKET OUTLOOK

MCX Crude may note some losses in line with international market but buy on dips is suggested. NYMEX crude trades near \$51 per barrel amid mixed cues. Weighing on price are concerns about Trump, geopolitical tensions and mixed economic data from major economies. Also weighing on price is rise in US crude oil rig count which shows higher production interest. However, supporting price is expectations that OPEC may extend production cuts beyond 2017. As per reports, Iraq backed a proposal from Saudi Arabia and Russia to extend output cuts for nine months. Also supporting price is expectations of another decline in US crude oil stocks. Mixed factors may keep price choppy but bias may be on upside on hopes of OPEC's production cut extension. Focus today will be on US economic data which will affect US dollar as well as general risk sentiment. US weekly inventory report is expected to note a 2.25 million barrel decline in US crude stocks.

Last Close	Support	Resistance	Trend
3310	3200	3310	Sideways



TECHNICAL OUTLOOK





MARKET ANALYSIS

NYMEX natural gas trades near \$3.3/mmBtu after a 2.3% gain yesterday. Natural gas has witnessed sharp volatility in last few days amid mixed weather and positioning for summer season. We expect price to remain choppy in the near term as well supplied US market counters expectations of higher demand during summer season. However, we suggest going long at lower levels. The gains will be supported by higher cooling demand during summer season. Focus will be on US weather and trend in crude and other energy futures. We could see some choppiness due to positioning near contract expiration.

Weather related demand usually slackens during spring season which is a shoulder period between winter and summer. Gas price rose in last few days as market players positioned for summer season when hot weather increases demand for air conditioning and thereby fuels to generate power. This is evident from speculative positions as speculators have moved from net short to net long. Meteorologists forecast this summer will be slightly warmer than normal but not quite as hot as last year.

We saw some signs of early summer demand as weather turned hot in some parts of US. According to US NOAA, above-average temperatures expected on U.S. east and west coasts from May 28-June 1. Weather may be warmer than normal in eastern third of U.S. May 27-31 after cooler conditions this week, as per MDA Weather Services.

US gas markets remains well supplied with stocks 12% above 5-year average levels. However, smaller than average rise in gas stocks will help reduce the supply overhang.

US EIA report last week noted a 68 Bcf rise in natural gas stocks as against market expectations of 61 Bcf rise. The stock buildup was less than 5-year average increase of 87 Bcf.

Working gas stocks now stand at 2,369 Bcf, which is 256 Bcf more than the five-year average and 375 Bcf less than last year at this time. As per early estimates, US weekly report is expected to note a near 75 bcf rise in gas stocks as against expectations of 90 Bcf rise.

Also supporting gas price is sluggish US production and higher export demand. Firmness in crude has also lent support to price. However, weighing on price is rise in rig count.

NATURAL GAS

MCX Natural Gas (Rs/mmBtu)

Contract	High	Low	Close	Change	% Change
May-17	214.80	211.70	214.50	3.90	1.9
Jun-17	221.40	218.20	221.10	3.80	1.7
Jul-17	224.00	221.10	223.50	3.50	1.6

NYMEX Natural Gas (USD/mmBtu)

Jun-17	3.334	3.279	3.330	0.074	2.3
Jul-17	3.428	3.374	3.424	0.071	2.1
Aug-17	3.462	3.413	3.459	0.069	2.0

Spread/Ratio	Close	Prev.	% Change
WTI-Natgas Ratio	15.23	15.46	-0.22
MCX WTI-Natgas Ratio	15.43	15.56	-0.13

MARKET HIGHLIGHTS

NYMEX gas trades mixed after 0.3% decline yesterday

US EIA noted a 68 Bcf rise in gas stocks as against forecast of 61 Bcf rise

MARKET OUTLOOK

MCX Natural gas may note decline tracking cues from international exchange but buying could be considered at lower levels. NYMEX natural gas trades marginally lower after a 2.3% gain yesterday. Supporting price is forecast of warm weather in some parts of US which will increase cooling demand. Also supporting price is expectations of another smaller than average increase in gas stocks. However, weighing on price is well supplied US market and rise in natural gas rig count. Further cues will come from US weather and trend in other energy futures.

Last Close	Support	Resistance	Trend
214.5	211	217	Sideways



Price Movement on NYMEX last week

Commodity	Close	Change	%	High	Low
Crude Oil (\$/bbl)	50.33	2.49	5.2	50.53	47.75
Natural Gas (\$/mmBtu)	3.256	-0.168	-4.9	3.408	3.161
Gasoline (cents/gal)	165.23	7.62	4.8	165.44	155.97
Heating Oil (cents/gal)	158.27	8.94	6.0	158.97	148.97

U.S. CFTC Commitments of Traders (COT) Futures Only Report (16 May 2017)

Non-commercial Position (contracts)	Long	Short	Net position	Change	Change (%)
Crude Oil	646,041	317,089	328952	201	0.1
Natural Gas	393,074	336,456	56,618	37143	190.7
Gasoline	109,813	77,494	32,319	2513	8.4
Heating Oil	86,330	71,347	14983	2642	21.4

U.S. EIA Weekly Petroleum Inventory Report (12 May 2017)

(1000 barrels)	Stocks	Change	%	Expectation	Demand	Change%	Imports	Change%
Crude Oil	520772	-1753	-0.34	-2500	19484	-5.16	8590	12.73
Gasoline	240669	-413	-0.17	-900	9452	0.47	696	-26.97
Distillate Fuel Oil	146824	-1944	-1.31	-1500	4215	1.84	161	40.00

U.S. Weekly Natural Gas Storage Report

Billion Cubic Feet (BCF)	Week	Stocks	Change	Change over last year	Change over 5-year average
Natural Gas	05 May	2301	45	-13.9%	13.6%
Natural Gas	12 May	2369	68	-13.7%	12.1%

US Economic Calendar (22nd May- 26th May 2017) (Source: Briefing.com)

Date	IST	Release	For	Actual	Consensus	Prior
May-23	1930	New Home Sales	Apr		605K	621K
May-24	1930	Existing Home Sales	Apr		5.65M	5.71M
May-25	1800	Initial Claims	May-20		238K	232K
May-26	1800	Durable Orders	Apr		-1.80%	0.70%
May-26	1800	GDP - Second Estimate	Q1		0.80%	0.70%
May-26	1930	Michigan Sentiment - Final	May		97.5	97.7



Aurobinda Gayan- Vice President Research

aurobinda.gayan@kotakcommodities.com

Fundamental Team

Faiyaz Hudani- AVP Research	Oilseeds; Pulses	faiyaz.hudani@kotakcommodities.com
Madhavi Mehta- AVP Research	Bullion; Energy	madhavi.mehta@kotakcommodities.com
Priyanka Jhaveri- Sr. Research Analyst	Base Metals	priyanka.jhaveri@kotakcommodities.com
Sunandh Subramaniam- Research Analyst	Spices	sunandh.subramaniam@kotakcommodities.com

Technical Team

Karan Shah- Research Analyst	shah.karan@kotakcommodities.com
Kiran Jani- Research Analyst	kiran.jani@kotakcommodities.com
Bhavin Shah- Research Analyst	bhavins.shah@kotakcommodities.com

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or solicitation of an offer to buy any commodity or commodity derivative to any person in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Commodity Services Private Limited. It doesn't constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Commodity Services Private Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice.

Price and value of the commodity referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions including those involving commodity derivatives involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a commodity's price movement and trading volume as opposed to focusing on a commodity's fundamentals and as such may not match with a report on a commodity's fundamentals.

We do not have any information other than information available to general public. The report is based on information from sources like respective industry associations, FICCI, CII, companies, media and other public sources. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading may make trading decisions that are inconsistent with the recommendations expressed herein.

We and our affiliates, officers, directors, and employees worldwide may: (a) from time to time, have long or short positions in, and buy or sell the commodities mentioned herein or (b) be engaged in any other transaction involving such commodities and earn brokerage or other compensation or act as a market maker in the commodity/ (ies) discussed herein or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject commodity and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Commodity Services Private Limited's prior written consent.

Registered Office: Kotak Commodity Services Private Limited, Nirlon house, 1st Floor, Dr. Annie Besant Road, Opp. Sasmira, Worli, Mumbai-25

CIN No. U65910MH1987PTC042230. Fax: +91 22 24924696. Customer care- 180010266776. Website- www.kotakcommodities.com