



Weekly Digest

KCSPL Research

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HIGHLIGHTS

- *NYMEX crude hits a high of \$50.89/bbl today, highest level since April 21*
- *Crude has benefitted from expectations that OPEC may extend production cuts*
- *OPEC officials favour extending production cuts by 9 months until Q1 2018*
- *Weakness in US dollar on Trump concerns also lent support to price*
- *The US dollar index slumped 2.1% and hit the lowest level since Nov.2016*
- *Trump accused of intelligence sharing with Russia and hindering federal investigation*
- *US DJIA index fell 0.4% last week on weaker risk sentiment*
- *US EIA noted a 1.753 mn bbl decline in US crude stocks, sixth consecutive decline*
- *US crude production dipped to 9.305 mn bpd, first decline in thirteen weeks*
- *The number of rigs drilling for crude rose by 8 to 720 rigs, highest since Apr. 2015*
- *The NYMEX WTI crude traded at a discount of \$2.94/bbl to ICE Brent crude as against \$2.67/bbl a week ago*
- *Brent may outperform due to OPEC's efforts to cut production*

MARKET ANALYSIS

- NYMEX crude gained more than 0.5% to trade above \$50 per barrel and has tested the highest level since April 21. This comes after a sharp 5.2% rally last week. Crude oil has witnessed sharp volatility in last few weeks as market players ascertain impact of oil producers measures on market balance. Crude oil slipped as low as \$47 per barrel in March but witnessed a sharp rebound to test \$54/bbl in mid-April. It fell again and hit a low of \$43.76/bbl on May 5, the lowest level since Nov. It has now recovered again to trade above \$50 per barrel. The volatility is caused by uncertainty about oil market balance. Global market remains oversupplied. OPEC is taking efforts to rebalance global market but it is offset by higher US supply. Uncertainty about US and Chinese economy has added to choppiness in price. We expect to see volatility continuing over days to come. Near term focus is on May 25 OPEC meeting. The sharp drop in price and rising US supply has forced OPEC to take severe measure and it has already indicated a possibility of it happening. Also in focus will be economic data from major economies.

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- OPEC and some non-OPEC members last year agreed on production cuts starting January 2017. OPEC's production fell by 40,000 barrels a day to 31.895 million barrels in April. Total output – including Libya and Nigeria -- remains 135,000 barrels a day above target, putting the group about 90% of the way toward its goal. OPEC's measures have however failed to support price due to continuous rise in US supply. OPEC members are now discussing extending production cut to help rebalance global market and a decision is expected on May 25. OPEC was considering an additional six months of production cut however it failed to support price indicating that more steps are needed. Crude price surged in last few days as Saudi and some other oil producers indicated that production cut could be extended beyond 2017. As per latest reports, Saudi Arabia's energy minister sees all oil producers participating in a deal to limit output agree on extending the cuts by nine months to help trim supply. Market players have already factored in that OPEC may extend production cut but a final decision will be known only on May 24.
- While OPEC is considering production cut, US crude production is rising and stocks are near record high level. US crude supply is likely to remain high. Weekly inventory report has been mixed in last few weeks as decline in US crude stocks has been modest. Refinery activity is still subdued despite upcoming high demand summer driving season. Production fell last week for the first time in thirteen weeks.
- On macro front, crude along with other commodities saw a brief dip last week as accusations against US President Donald Trump fuelled concerns that growth and tax reforms will be delayed. Equity markets also witnessed a sell-off on risk aversion. However, market reaction soon subsided as market worries of Trump's impeachment failed to hold ground. Concerns about US economy however also pressurized US dollar which lent support to all dollar denominated commodities. Near term focus will be on Trump, US economic data and Fed's monetary policy.

Price Movement (15 May to 19 May 2017)

Commodity	Exchange	Close	Change	%	High	Low
WTI Crude Oil (\$/bbl)	NYMEX	50.33	2.49	5.2	50.53	47.75
Brent Crude Oil (\$/bbl)	ICE	53.61	2.77	5.4	53.82	50.74
WTI Crude Oil (Rs/bbl)	MCX	3,265	199	6.5	3,282	3,085
Gasoline (\$cents/gal)	NYMEX	165.23	7.62	4.8	165.44	155.97
Heating Oil (\$cents/gal)	NYMEX	158.27	8.94	6.0	158.97	148.97

Spread

USD per barrel	19 May	12 May
Brent-WTI (Jul)	2.94	2.67
3-2-1 Crack Spread	18.09	17.2

The 3-2-1 crack spread is the difference between crude oil and product futures i.e. gasoline and heating oil

SPECULATIVE POSITIONS

Crude oil price zoomed towards \$50/bbl while speculators raised net long position for the first time in four weeks. As per US CFTC report for the week ended May 16, non-commercial traders for crude oil futures cut long and short positions by 1.4% and 2.9% respectively. Net long position rose by a marginal 201 contracts to 328952 contracts. Crude oil speculators cut net long position to the lowest level since Nov.2016 a week ago amid worries about global glut. Buying interest emerged amid increased expectations that OPEC may extend production cuts beyond 2017 to help rebalance global market. Speculators may remain long until OPEC's stance becomes clear. Gasoline speculators also raised net long position amid gains in crude oil price and expectations of higher demand during summer driving season. Heating oil speculators raised net long position on price optimism.

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

Non-commercial Position (contracts)	Long	Short	Net position	Change in Net position	Change (%)
Crude Oil	646,041	317,089	328952	201	0.1
Gasoline	109,813	77,494	32,319	2513	8.4
Heating Oil	86,330	71,347	14983	2642	21.4

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STOCKS AND DEMAND

The US Energy Information Administration (EIA) weekly report noted a 1.753 million barrels decline in US crude stocks. The fall was however less than market expectations of 2.5 mn bbl decline. Crude stocks fell amid steady production, 12.7% rise in weekly imports and 1.9% rise in refinery utilization rate. US crude oil production fell for the first time in thirteen weeks. US crude production dipped from 9.314 million barrels per day to 9.305 mn bpd. Rise in rig count however shows higher production interest. The number of rigs drilling for crude rose by 8 to 720 rigs, highest level since April 2015. EIA also noted a smaller than expected 0.413 mn bbl decline in gasoline stocks and a bigger than expected 1.944 mn bbl decline in distillate stocks. Demand trend was mixed in the report week. Crude oil demand, as measured by total product supplied, averaged 19.484 million barrels per day, down 5.2% from a week ago. Gasoline demand rose 0.5% to average 9.452 mn bpd while distillate demand rose 1.8% to average 4.215 mn bpd. Overall, inventory report was mixed to positive as it noted a first decline in US crude production in many weeks. US crude oil market remains oversupplied and this situation is unlikely to change soon enough. Near term focus will be on demand during summer driving season.

The spread between WTI and Brent crude July contract widened from \$2.67/bbl to \$2.94/bbl as Brent rose more than WTI. Brent has benefitted from expectations that OPEC may extend production cuts. On other hand, WTI is supported by optimism about US economy and decline in stocks. Spread between Brent and WTI may remain wide as higher US supply will weigh on WTI prices. The spread may remain in a range of \$2.6-3.1/bbl and may remain wide. We could see some volatility on position squaring near WTI expiration.

U.S. EIA Weekly Petroleum Inventory Report (19 May 2017)

(1000 barrels)	Stocks	change	%	Forecast	Demand	Chnge%	Import	Chnge%
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

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CURRENCY AND EQUITY MARKET MOVEMENT

The US dollar index slumped over 2% last week and tested a low of 97.08, a level not seen since Nov.2016. The US dollar fell sharply amid concerns about Trump administration. Accusations against Trump for intelligence sharing and hampering a federal investigation fuelled concerns that he could be charged for obstruction of justice and could be impeached. Market concerns also rise that Trump uncertainty could delay his growth and tax reforms. Political uncertainty in US also fuelled expectations that Fed may get cautious on future rate hikes. Risk aversion pushed yen higher against the US dollar. Drop in bond yields on safe haven buying also weighed on US currency. The US dollar fell sharply on Trump concerns but Fed's optimism about US economy could limit downside. Focus will be on US economic data, Fed comments and FOMC minutes. European currencies will be affected by economic data and political development.

The US equity market ended lower last week on concerns about Trump but were well above intra week lows. US equity market has been holding near record high levels and we have seen bouts of correction. However, optimism about US economy will continue to support. Near term focus will be on economic outlook, Fed's monetary policy stance and Trump.

Reuters/CRB index rose 1.9% last week led by sharp gains in crude oil prices. Weakness in US dollar lent support to commodities at large. However, concerns about Trump limited upside. Near term focus will continue to be on US and Chinese economic outlook and political development in Europe.

Data for the week ended 19 May 2017

Indices/quotes	Close	change	%	High	Low
CRB INDEX	185.1	3.39	1.9	185.1	181.2
DJIA INDEX	20804.8	-91.8	-0.4	21033.5	20553.4
DOLLAR INDEX	97.14	-2.11	-2.1	99.26	97.08
EURO-USD	1.12	0.03	2.5	1.12	1.09
USD-INR	64.64	0.33	0.5	65.02	63.98

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ECONOMIC DATA

The US economic data released last week was mixed in line with recent trend. Optimism is high about US economy and this outlook will continue unless we have a series of disappointing numbers. US economic data is being watched to gauge Fed's next move. Fed has maintained gradual rate hike stance however it has maintained optimism about US economy despite recent disappointing economic number. This has fuelled expectations that Fed may raise interest rate at the June meeting. Apart from US economic outlook, Fed is also looking at Trump's economic policies and development in Europe. European Central bank and Bank of England have maintained loose monetary policy stance despite improving political situation.

As per data released last week, industrial production, NAHB housing market index, jobless claims, Philadelphia Fed data was better than expectations. On other hand, Empire manufacturing, housing starts and building permits and leading indicators data disappointed

Focus this week will be on new and existing home sales, durable goods, consumer sentiment and GDP growth estimate. As per market survey, economic data is expected to be mixed to negative. Key price determining factor will be GDP data.

U.S. Economic Calendar (15th May to 19th May)

Date	IST	Release	For	Actual	Consensus	Prior
May-15	1800	Empire Manufacturing	May	-1	7.5	5.2
May-15	1930	NAHB Housing Market Index	May	70	68	68
May-16	1800	Housing Starts	Apr	1172K	1255K	1203K
May-16	1800	Building Permits	Apr	1229K	1270K	1260K
May-16	1845	Industrial Production	Apr	1.0%	0.30%	0.4%
May-18	1800	Initial Claims	May-13	232K	240K	236K
May-18	1800	Philadelphia Fed	May	38.8	18.5	22.0
May-18	1930	Leading Indicators	Apr	0.3%	0.40%	0.4%

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Outlook for Crude Oil

Crude oil trades higher above \$50 per barrel as market players position for the key OPEC meeting on May 25. Comments from OPEC officials have fuelled expectations that the oil producer group may extend production cuts beyond 2017 as well. Production cut extension has been factored in to some extent yet we expect market players to remain on buying side ahead of the meeting this week. US crude market remains well supplied however price may gain some support from decline in stocks in last few weeks. US crude production fell last week for the first time in thirteen weeks and market players would see if the trend is continuing or not. On demand front, market concerns are still high about US economy post accusations on Trump however market reaction has subsided and US equity market has regained upward momentum. Concerns about Chinese economy is countered by improving political situation in Europe. The US dollar will be affected by US economic data and Fed's monetary policy stance. FOMC minutes and Fed comments will show whether the central bank is on path to raise interest rate in June or not. NYMEX Crude may trade in a range of \$49-52/bbl and we could see some buying interest at lower levels. Crude may benefit from US economic optimism and expectations of OPEC's production cuts. Focus will be on OPEC meeting, US economic data, US weekly inventory report and FOMC minutes.

On domestic front, MCX Crude may trade in a range of Rs.3170-3340/bbl and buying could be considered at lower levels. Trend in rupee will affect domestic price.

PIVOT LEVELS	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
NYMEX Crude Oil	USD/BBL	47.1	48.9	51.7	52.7
MCX Crude Oil	RS/BBL	3058	3167	3339	3402

These levels are determined by mathematical calculation based on previous week's price movement

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- NYMEX natural gas fell for four of five trading sessions and ended the week with a sharp 4.9% slide. Natural gas fell last week after a sharp 4.8% gain a week ago. The mixed trade shows that market players are still trying to assess future trend. Natural gas rose sharply earlier this month amid expectations of higher demand during summer, supply disruptions and higher exports. The upward momentum lost steam as weather forecasts indicated moderate weather in US which would have kept a check on demand. Also weighing on price was bigger than expected rise in gas stocks. We could continue to see mixed trade in the near term as market players place themselves for summer season. Tracking cues from international market, MCX gas slumped 4.1% last week. Rupee's depreciation against the US dollar lent some support to domestic price.
- Spring weather is a shoulder period between high demand winter and summer season. Weather related demand is usually low during this period and this keeps price in a range. Market players will soon begin positioning for summer season. Warm weather during summer increases demand for air conditioning and thereby electricity. Higher electricity demand will increase demand for fuels to general power. Speculative activity shows that market players are turning optimistic about demand. This was also evident from CFTC data which showed that natural gas speculators turned net long.
- Natural gas fell last week as weather forecasts pointed to moderate weather in US. Also weighing on price was EIA weekly report which noted a bigger than expected rise in gas stocks. Also weighing on price is rise in US natural gas rig count which showed higher production interest. However, supporting price was firmness in crude price, expectations of higher exports from US and slack production.

Price Movement last week

Commodity	Exchange	Close	change	%	High	Low
Natural Gas (\$/mmBtu)	NYMEX	3.256	-0.168	-4.9	3.408	3.161
Natural Gas (Rs/mmBtu)	MCX	210.6	-9.1	-4.1	218.7	203.2

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STOCKS, RIG ACTIVITY AND PRODUCTION

The US Energy Information Administration (EIA) weekly report noted a 68 Bcf rise in natural gas stocks as against market expectations of 61 Bcf rise. Net injections compared with the five-year (2012-16) average net injection of 87 Bcf and last year's net injections of 71 Bcf during the same week. 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. This year-over-year deficit prevails in each of the regions of the Lower 48 states. While stocks are well above average levels, production has been slack. EIA however raised estimates for production this year. Rise in natural gas rig count however shows higher production interest. The number of rigs drilling for natural gas rose by 8 to 180 rigs, highest level since Dec.2015. Overall, US markets are well supplied and this scenario may persist. Near term focus is on summer related demand. If we see robust demand, stock buildup may slowdown.

U.S. Weekly Natural Gas Storage Report

Billion Cubic Feet (BCF)	Date	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%

SPECULATIVE INTEREST

Natural gas price witnessed choppy trade while speculators raised net long position for the second time in three weeks. As per US CFTC report for the week ended May 16, non-commercial traders for natural gas futures raised long and short positions by 10.9% and 0.5% respectively. Net long position rose by 190.7% to 56618 contracts. Natural gas speculators have accumulated huge long positions amid expectations that higher demand during summer season will tighten markets and push price higher. We could see speculators holding on to net long position unless summer outlook becomes more clear

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

Non-commercial Position (contracts)	Long	Short	Net position	Change	Change (%)
	393,074	336,456	56,618	37143	190.7

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Outlook for Natural Gas

Natural gas fell sharply last week reversing all the gains noted a week ago. The mixed trade in natural gas shows that market players are still awaiting more clarity about future trend. US market remains well supplied and this situation is unlikely to change soon as stocks are still 13% above 5-year average levels. In the near term, focus will shift to demand as we enter summer season during which air-conditioning demand picks up. Natural gas may also benefit from prospects of higher exports from US. On supply side, stocks are well above average levels however recent stock buildup has below average levels. Stocks rose by 68 Bcf last week as against 5-year average increase of 87 Bcf. For the current week, natural gas is expected to note a 77 Bcf rise in stocks as against 5-year average increase of 90 Bcf. Price may also benefit from firmness in crude oil prices. For the week, we expect NYMEX natural gas July to trade in a range of \$3.25-3.5/mmBtu and we suggest going long at lower levels. Further cues will come from US weather outlook, weekly inventory report and trend in crude and other energy futures.

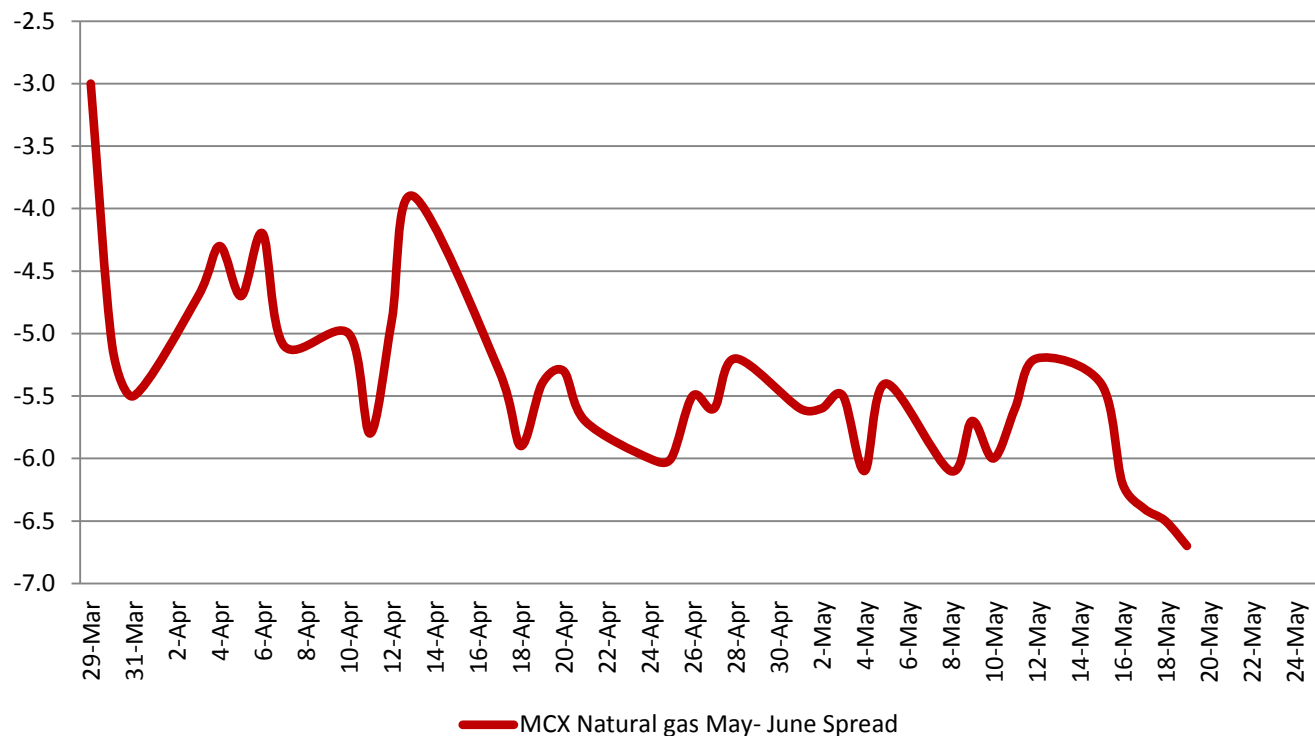
On domestic front, MCX natural gas June contract may trade in a range of Rs.210-224/mmBtu and we expect to see some buying interest at lower levels. Trend in rupee will also affect domestic gas price.

PIVOT LEVELS	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
NYMEX Natural gas	USD/MMBTU	3.14	3.25	3.47	3.58
MCX Natural gas	RS/BMMBTU	203	210	224	231

These levels are determined by mathematical calculation based on previous week's price movement

NATURAL GAS SPREAD (MAY-JUNE CONTRACT)

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The spread between MCX Natural gas May and June contract has been widening in last few days. Currently the spread stands near Rs.6.4/mmBtu. We expect the spread to widen further to near Rs.8/mmBtu. The spread may widen as market players take fresh long position in next month contract in anticipation of higher summer demand. To trade on the spread one must sell May contract and buy June contract.

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ENERGY CALENDAR

DATE	IST	DATA	FOR
24 May	0200	API US Weekly Inventory Report	19 May
24 May	2000	US DOE Weekly Petroleum Product Inventory Report	19 May
25 May	2000	US DOE Weekly Natural Gas Inventory Report	19 May
25 May		OPEC Conference in Vienna	

ECONOMIC CALENDAR

Date	IST	Currency	Data	Forecast	Previous	Importance
22-May	All Day	EUR	Eurogroup Meetings			Medium
	18:00	USD	Chicago Fed Nat Activity Index	0.10	0.08	Low
	18:30	CNY	CB Leading Index m/m		0.90%	Low
	19:30	USD	Fed's Harker Speaks in Philadelphia			Medium
	20:00	USD	Fed's Kashkari Speaks in Minneapolis			Medium
23-May	5:00	USD	Fed's Brainard Speaks on Economy		0.60%	Medium
	6:40	USD	Fed's Evans Speaks in Shanghai			Medium
	11:30	EUR	German Final GDP q/q	0.60%	0.60%	Low
	13:00	EUR	German Flash Manufacturing PMI	58.00	58.20	Medium
		EUR	German Flash Services PMI	55.50	55.40	Low
	13:30	EUR	Flash Manufacturing PMI	56.50	56.70	Medium
		EUR	Flash Services PMI	56.40	56.40	Low
	13:30	EUR	German Ifo Business Climate	113.10	112.90	Medium
	18:30	USD	Fed's Kashkari Speaks in Minneapolis			Medium
	19:15	USD	Flash Manufacturing PMI	53.10	52.80	Medium
		USD	Flash Services PMI	53.30	53.10	Low
24-May	19:30	USD	New Home Sales	610K	621K	Medium
		USD	Richmond Manufacturing Index	15.00	20.00	Medium
	0:45	USD	Fed's Kashkari Speaks in Minneapolis			Medium
	2:30	USD	Fed's Harker Speaks in New York			Medium
	11:30	EUR	GfK German Consumer Climate	10.20	10.20	Low
	19:30	USD	Existing Home Sales	5.65M	5.71M	Medium
	20:00	USD	Crude Oil Inventories		-1.753M	Medium
23:30	USD	FOMC Meeting Minutes			High	
25-May	3:30	USD	Fed's Kaplan Speaks in Toronto		0.3%	Medium
	4:00	USD	Fed's Kashkari Speaks in Wisconsin			Medium
	14:00	GBP	Second Estimate GDP q/q	0.3%	0.3%	Medium
	18:00	USD	Unemployment Claims	238K	232K	Medium
	19:30	USD	Fed's Brainard Speaks on Global Economy			Medium
	20:00	USD	Natural Gas Storage		68B	Medium
	20:30	USD	Kansas City Fed Manufacturing Index		7.0	Low
26-May	7:30	USD	Fed's Bullard Speaks on US economy			Medium
	18:00	USD	Prelim GDP q/q	0.9%	0.7%	High
		USD	Durable Goods Orders m/m	-1.5%	0.9%	Medium
	19:30	USD	Revised UoM Consumer Sentiment	97.50	97.70	Medium

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