



Weekly Digest

KCSPL Research

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HIGHLIGHTS

- *NYMEX crude hit a high of \$50.06/bbl today adding to last week's 8.6% gain*
- *Crude has benefitted from OPEC's commitment to reduce supply, exhaustion in US production, weaker US dollar and rally in US equity market*
- *US dollar index hit a low of 93.152, lowest since June 2016; US DJIA ends at record*
- *Saudi, Kuwait and UAE have expressed willingness to reduce supply*
- *OPEC and non-OPEC nations will meet in Abu Dhabi on Aug. 7-8 to discuss compliance*
- *US EIA noted a 7.208 million barrels decline in US crude stocks as against forecast of 3.1 mn bbl decline*
- *US crude production fell marginally to 9.41 mn bpd after testing the highest level since July 2015; production expected to rise in August*
- *The number of rigs drilling for crude oil in US rose by 2 to 766 rigs*
- *The NYMEX WTI crude traded at a discount of \$2.81/bbl to ICE Brent crude as against \$2.29/bbl a week ago*

MARKET ANALYSIS

- NYMEX crude trades near \$49.5/bbl after testing a high of \$50/bbl today. Crude surpassed the psychological level for the first time since May 30. Crude trades mixed today after a sharp 8.6% rally last week. Crude oil has rallied sharply in last few days however we believe that the rally is little overdone and faces lots of resistance hence we suggest waiting for lower levels to create long positions. Technically, crude has broken past the \$50/bbl market but is nearing overbought territory. Crude recent rise has been attributed to decline in US crude stocks and exhaustion in US crude production, OPEC's efforts to reduce oversupply in global market, weakness in US dollar and rally in US equity markets to record high level. Crude has managed to gain despite outlook for continuing oversupply in global market and demand concerns amid mixed economic data from major economies and despite choppiness in equity market amid uncertainty about Trump administration. In the near term we may continue to see wide fluctuations in crude price but we do expect a sustained rise above \$50/bbl.

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- On OPEC front, production has risen for last two months owing to higher output from Nigeria and Libya and reducing compliance by other members. Focus will be on monthly production data which is likely to show that production rose in July and which will be negative for price. OPEC members met earlier this month to discuss measures to reduce supply. The meeting ended without any major action and warning for members to improve compliance. Post the meeting, Saudi, UAE and Kuwait hinted that they will reduce production in coming months. This gave heart to crude market players. Representatives of some OPEC and non-OPEC nations will now meet in Abu Dhabi on Aug. 7-8 to discuss why some of them are falling behind in their pledges to cut production. It is highly unlikely that OPEC members may take any drastic step to check oversupplied global market.
- On US front, US crude production tested the highest level since July 2015 but dipped marginally last week. Volatility in crude price has affected rig activity as well. Rig count rose to the highest level since July 2015 but has witnessed mixed trend in last few weeks. Production is however expected to rise further in August. US crude stocks have fallen in last few weeks but are still 35% above 5-year average stocks.
- On macro front, crude has benefitted from weaker US dollar and firmness in US equity market. The US dollar index has slumped to the lowest level since Jun 2016 due to Fed and Trump uncertainty and mixed economic data. Fed last week kept interest rate unchanged in line with expectations but Fed's cautious tone on inflation fuelled uncertainty about future stance. US economic data has been mixed in last few days. US equity market is near record high level but we are seeing bouts of profit taking due to Trump uncertainty. Trump is under scanner due to investigation of Russia's role in US Presidential elections. Waning support for Trump's healthcare bill has raised concerns about his other policies. Also weighing on price is monetary tightening stance of major central banks which has resulted in higher borrowing costs.

Price Movement (24 July to 28 July 2017)

Commodity	Exchange	Close	Change	%	High	Low
WTI Crude Oil (\$/bbl)	NYMEX	49.71	3.94	8.6	49.81	45.40
Brent Crude Oil (\$/bbl)	ICE	52.52	4.46	9.3	52.70	47.68
WTI Crude Oil (Rs/bbl)	MCX	3,192	227	7.7	3,200	2,936
Gasoline (\$cents/gal)	NYMEX	167.61	11.28	7.2	168.17	154.44
Heating Oil (\$cents/gal)	NYMEX	163.97	12.45	8.2	164.24	150.23

Spread

USD per barrel	28 Jul	21 Jul
Brent-WTI (SEP)	2.81	2.29
3-2-1 Crack Spread	19.45	18.44

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 moved closer to \$50/bbl as speculators raised net long position for the fourth consecutive week. As per US CFTC report for the week ended July 25, non-commercial traders for crude oil futures raised long positions by 1.1% and cut short positions by 7.8%. Net long position rose by 6.8% to 423338 contracts, highest since mid-April. Crude oil has rallied on expectations that OPEC members may reduce exports and signs of topping out of US production. We however believe that recent run-up has been too sharply and may not sustain for long. Gasoline speculators also raised long position amid robust demand during summer driving season. This may wane with nearing end of summer season in September. Heating oil speculators turned net long again as rise in crude oil price lent support. However, we do not expect sustained rise due to oversupplied market.

U.S. CFTC Commitments of Traders (COT) Futures Only Report (25 July 2017)

Non-commercial Position (contracts)	Long	Short	Net position	Change in Net position	Change (%)
Crude Oil	659,050	235,712	423338	26879	6.8
Gasoline	112,522	55,300	57,222	7742	15.6
Heating Oil	78,079	68,202	9877	780	8.6

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STOCKS AND DEMAND

The US Energy Information Administration (EIA) weekly report noted a 7.208 million barrels decline in US crude oil stocks as against market expectations of 3.1 mn bbl decline. Crude stocks fell amid a marginal decline in production, higher demand and decline in net imports. US crude production fell marginally from 9.429 million barrels per day to 9.41 mn bpd. Production dipped after testing the highest level since July 2015. US crude production is showing signs of exhaustion. Rig count dipped a week ago showing weakening production interest. The number of rigs drilling for crude rose by 2 to 766 rigs last week. EIA report however noted a smaller than expected 1.015 million barrels decline in gasoline stocks but a bigger than expected 1.852 mn bbl drop in distillate stocks.. Demand rose in the report week. Crude oil demand, as measured by total product supplied, averaged 21.289 million barrels per day, up 0.5% from a week ago. Gasoline demand rose 2.4% to average 9.821 mn bpd while distillate demand rose 1% to average 4.376 mn bpd. Overall, inventory report was mixed to positive as it noted a decline in crude stocks and production and rise in demand. 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. Production numbers are to be keenly watched as it will determine future production trend.

The spread between WTI and Brent crude September contract widened from \$2.29/bbl to \$2.81/bbl as Brent rose more. Brent has outperformed on expectations that OPEC members may reduce exports to control supply. WTI however is supported by signs of exhaustion in US crude production and rig count. We are also see some choppiness due to position squaring near expiry of Brent crude. The spread may trade in a range of \$2.3-3/bbl and we could see some narrowing.

U.S. EIA Weekly Petroleum Inventory Report (21 July 2017)

(1000 barrels)	Stocks	change	%	Forecast	Demand	Chnge%	Import	Chnge%
Crude Oil	483415	-7208	-1.47	-3100	21289	0.52	8044	0.60
Gasoline	230196	-1015	-0.44	-1800	9821	2.39	723	22.34
Distillate Fuel Oil	149564	-1852	-1.22	-500	4376	0.97	130	3.17

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CURRENCY AND EQUITY MARKET MOVEMENT

The US dollar index 0.6% last week and tested a low of 93.152, the lowest level since June 2016. The US dollar remains pressurized by uncertainty about Fed's monetary policy and Trump administration. Mixed US economic data and correction in bond yields also put pressure on US dollar. Fed last week kept interest rate unchanged at 1-1.25% in line with market expectations. Fed also reiterated optimism about US economy however caution about inflation fuelled uncertainty about future rate hikes. Lack of clear timeline to start reduction in bond purchases also disappointed few market players. While there is uncertainty about Fed's future move, other central banks have tilted towards monetary tightening. This diverse stance has narrowed the yield gap between US and European central banks and this has put pressure on US dollar. The US currency is also pressurized by concerns about Trump administration amid waning support for healthcare bill and investigation on Russia's role in 2016 US Presidential elections. Going ahead, focus will be on US economic data and Fed comments and central bank decision of other central banks.

The US equity market witnessed choppy trade but ended with a 1.2% gain at record high level. US equity market has managed to hold ground despite mixed economic data, rising borrowing cost and uncertainty about Trump's economic policies. We are likely to see bouts of profit taking in US equity market. Further cues will come from US economic data and general outlook for global economy and geopolitical development. Reuters/CRB index rose by 3.1% as weakness in US dollar lent support to commodities at large. Focus will continue to be on central banks and US and China economic data.

Data for the week ended 28 July 2017

Indices/quotes	Close	change	%	High	Low
CRB INDEX	182.1	5.46	3.1	182.6	176.0
DJIA INDEX	21830.3	250.2	1.2	21841.2	21496.1
DOLLAR INDEX	93.26	-0.599	-0.6	94.29	93.15
EURO-USD	1.18	0.01	0.8	1.18	1.16
USD-INR	64.15	-0.17	-0.3	64.46	64.06

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ECONOMIC DATA

The US economic data released in last few weeks has been mixed and this trend could continue. While general outlook for US economy remains upbeat, recent mixed economic data has caused some uncertainty. IMF last week lowered 2017 growth forecast citing concerns about Trump. Fed has maintained optimism about US economy but has raised concerns about weaker inflation growth. Post Fed's meeting last week market players are factoring in a very small chance of rate hike this year and this is due to mixed economic data and weaker inflation outlook due to lower crude price. If data continues to disappoint, market players will lower chances of rate hike. Fed's stance will affect US dollar as well. US economic outlook will also help form demand expectations for commodities like crude oil.

US economic data released last week was mixed. Consumer confidence, durable goods orders and consumer sentiment data was better than expectations. On other hand, existing home sales and weekly jobless claims data disappointed. GDP growth picked up pace in Q2 but was less than market expectations. S&P home price index and new home sales data was largely in line with expectations.

Focus this week will be on non-farm payrolls, Chicago PMI, ISM manufacturing PMI

U.S. Economic Calendar (24th July to 28th July)

Date	IST	Release	For	Actual	Consensus	Prior
Jul-24	1930	Existing Home Sales	Jun	5.52M	5.58M	5.62M
Jul-25	1800	S&P Case-Shiller Home Price Index	May	5.7%	5.70%	5.70%
Jul-25	1930	Consumer Confidence	Jul	121.1	116.8	118.9
Jul-26	1930	New Home Sales	Jun	610K	610K	605K
Jul-26	2330	FOMC Rate Decision	Jul	1-1.25%	1-1.25%	1-1.25%
Jul-27	1800	Durable Orders	Jun	6.5%	2.90%	-0.10%
Jul-27	1800	Initial Claims	Jul-22	244K	240K	234K
Jul-28	1800	GDP-Adv.	Q2	2.6%	2.80%	1.20%
Jul-28	1930	Michigan Sentiment - Final	Jul	93.4	93.1	93.1

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Outlook for Crude Oil

Crude oil has witnessed a sharp rebound in last few days and is now near the psychological level of \$50 per barrel. Crude's recent rise can be attributed to weaker US dollar, firmness in US equity market, signs of exhaustion in US supply and OPEC's commitment to reduce supply. Crude rose overlooking the mixed economic data from major economies, IMF's downbeat outlook for US and UK economy, concerns about Trump administration, monetary tightening outlook of major central banks, still high US production and expectations of further increase in OPEC production. Hence we believe that the recent rise in crude price is overdone and a correction is likely. We suggest waiting for a corrective dip before creating fresh long in crude oil. Focus this week will be on US economic data which will affect demand outlook as well as trend in US dollar. Currency movement will also be affected by monetary policy stance of major central banks. Australia, England and India will hold their monetary policy meeting this week. Also in focus will be weekly inventory report which will reflect stock position and US crude production. Statement from OPEC officials will also be in focus ahead of oil producers meeting on Aug.7-8. Also in focus will be storm activity in Atlantic. NYMEX Crude September contract may trade in a range of \$47-51/bbl and buying should be done at lower levels only.

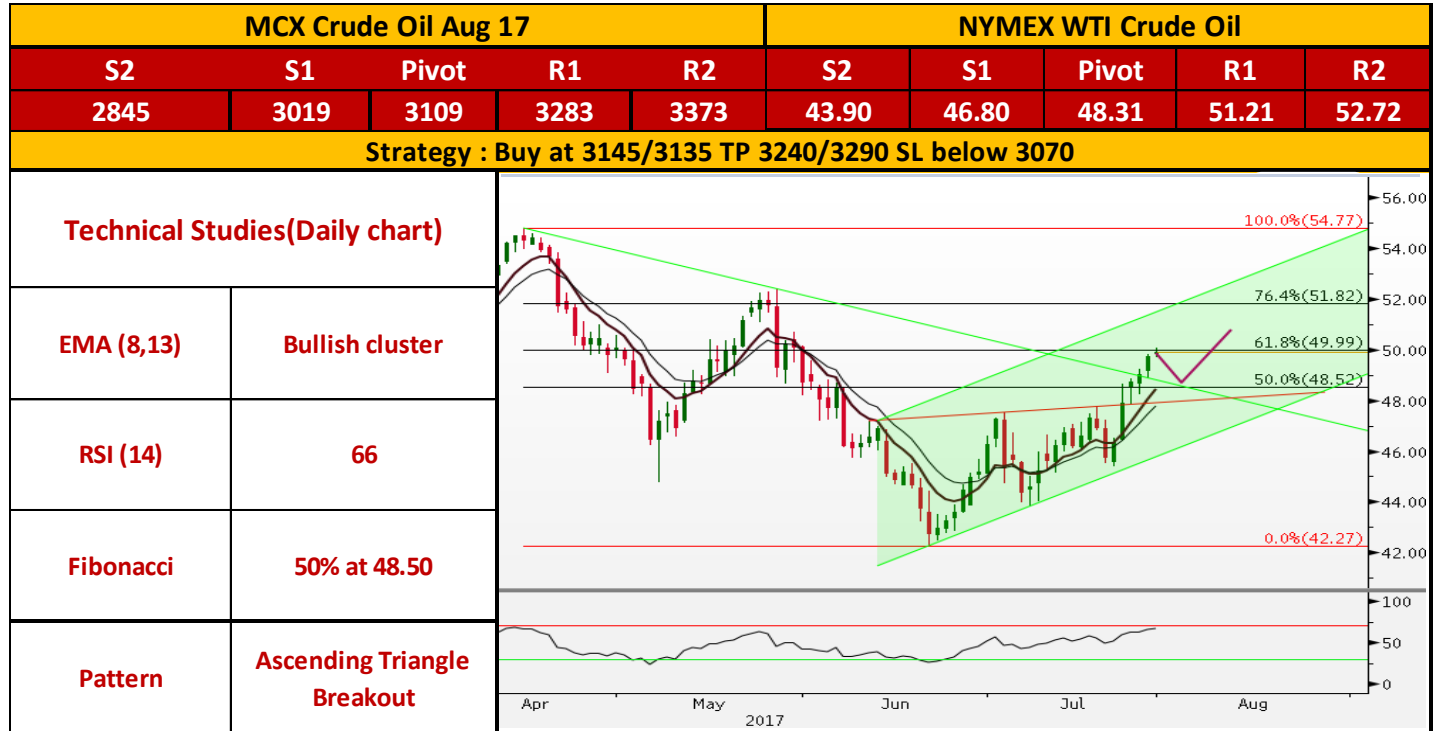
On domestic front, MCX Crude may trade in a range of Rs.3020-3280/bbl and fresh buying should be at lower levels only. Trend in rupee will affect domestic price.

PIVOT LEVELS	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
NYMEX Crude Oil	USD/BBL	43.9	46.8	51.2	52.7
MCX Crude Oil	RS/BBL	2845	3019	3283	3373

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

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- NYMEX natural gas noted mixed trade but ended with a modest 0.7% decline last week. Natural gas rose as high as \$3.114/mmBtu earlier this month but failed to sustain at higher levels and has corrected till \$2.9/mmBtu. Tracking cues from international market, MCX Natural gas tested Rs.200/mmBtu earlier this month but has corrected to trade below Rs.190/mmBtu today. MCX gas fell over 2% last week and has weakened again today. Natural gas price has witnessed sharp volatility in last few days caused by altering weather outlook. US markets remains well supplied and weather outlook is likely to cause short term volatility. Focus will continue to be on US weather outlook, storm activity in Atlantic and trend in energy futures. Sharp movement in crude oil will also affect gas price.
- Natural gas has witnessed sharp volatility in last few weeks amid lack of clear direction. This has been caused by wide variations in weather outlooks as well. Natural gas price rose earlier this month as weather forecasts pointed to hot weather in US which increases cooling demand. Price however failed to hold the gains as weather outlook turned mixed. Price weakened last week as weather turned cooler than normal. Meteorologists forecast temperatures during the month of August would be near normal after a warmer-than-average June and July. The mixed weather outlook has caused price uncertainty and this has speculative interest low. Speculators have raised net short position to the highest level since March. Export demand is expected to remain high owing to higher LNG demand.
- On supply front, US markets remain well supplied however smaller than average rise in gas stocks has reduced supply overhang and this has underpinned price. Gas production has improved in last few weeks but is below record high levels set last year. Focus will continue to be on US weather as summer related weather will affect demand outlook. Also in focus will be weekly inventory and storm activity in Atlantic and trend in energy futures.

Price Movement last week

Commodity	Exchange	Close	change	%	High	Low
Natural Gas (\$/mmBtu)	NYMEX	2.941	-0.02	-0.7	2.990	2.866
Natural Gas (Rs/mmBtu)	MCX	189.5	-4	-2.1	193.0	186.2

STOCKS, RIG ACTIVITY AND PRODUCTION

The US Energy Information Administration (EIA) weekly report a 17 Bcf rise in US natural gas stocks as against market expectations of 24 Bcf rise. Net injections into storage compared with the five-year (2012-16) average net injection of 47 Bcf and last year's net injections of 20 Bcf during the same week. The smaller-than-average net injections this week likely resulted from the warmer-than-normal temperatures that increased cooling demand for natural gas. Working gas stocks total 2,990 Bcf, which is 111 Bcf more than the five-year average and 302 Bcf less than last year at this time. So far in the 2017 refill season, net injections into working gas storage are lower than the five-year average. Net injections into working gas are at 939 Bcf since March 31, 2017 compared with the five-year average of 1,093 Bcf over the same period. While stock overhang is easing, production has improved in last few weeks. Rig activity has been mixed due to rangebound price.

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	14 Jul	2976	28	-9.1%	5.0%
Natural Gas	21 Jul	2990	17	-9.2%	3.9%

SPECULATIVE INTEREST

Natural gas continued to trade in a broad range near \$3/mmBtu while speculators raised net short position for the third consecutive week. As per US CFTC report for the week ended July 25, non-commercial traders for natural gas futures cut long and short positions by 2.1% and 1.6% respectively. Net short position rose by 21.1% to 42588 contracts, highest since March 2017. Natural gas is rangebound as support from smaller than average rise in stocks is countered by wavering weather outlook which has limited demand. We expect price to remain in a range of \$2.8-3.1/mmBtu in the near term but varying weather outlook may cause some volatility.

U.S. CFTC Commitments of Traders (COT) Futures Only Report (25 July 2017)

Non-commercial Position (contracts)	Long	Short	Net position	Change	Change (%)
	335,995	378,583	-42,588	-7409	21.1

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Outlook for Natural Gas

Natural gas has witnessed sharp movement in last few days but has managed to hold near \$3/mmBtu amid no major change in demand supply scenario despite summer season. We may continue to see volatility in price as market reacts to weather forecasts which will affect demand outlook. On supply front, the surplus over 5-year average has narrowed due to smaller than average buildup in last few weeks. Amid other factors, production has been below average but improved in last few weeks. Rangebound price movement has however affected rig activity. Exports remain above average and demand is also expected to remain high. For the week, we expect NYMEX natural gas to trade in a range of \$2.81-3/mmBtu and we suggest going short at higher levels as weather forecasts point to cooler weather in coming days. Further cues will come from US weather outlook, weekly inventory report and trend in crude and other energy futures. From a medium term perspective, we expect gas price to trade in a broad range.

On domestic front, MCX natural gas may trade in a range of Rs.183-193/mmBtu and sell on rise is suggested. Trend in rupee will also affect domestic gas price.

PIVOT LEVELS	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
NYMEX Natural gas	USD/MMBTU	2.81	2.87	3.00	3.06
MCX Natural gas	RS/BMMBTU	182.8	186.1	192.9	196.4

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ENERGY CALENDAR

DATE	IST	DATA	FOR
02 Aug	0200	API US Weekly Inventory Report	28 Jul
02 Aug	2000	US DOE Weekly Petroleum Product Inventory Report	28 Jul
03 Aug	2000	US DOE Weekly Natural Gas Inventory Report	28 Jul

ECONOMIC CALENDAR

Date	IST	Currency	Data	Forecast	Previous	Importance
31-Jul	14:30	EUR	CPI Flash Estimate y/y	1.3%	1.30%	Medium
		EUR	Unemployment Rate	9.2%	9.30%	Low
	19:15	USD	Chicago PMI	60	65.7	Medium
		USD	Pending Home Sales m/m	1.0%	-0.80%	Medium
01-Aug	7:15	CNY	Caixin Manufacturing PMI	50.40	50.40	Medium
	10:30	INR	Nikkei Manufacturing PMI		50.90	Medium
	13:25	EUR	German Final Manufacturing PMI	58.30	58.30	Medium
		EUR	German Unemployment Change	-5K	7K	Low
	13:30	EUR	Final Manufacturing PMI	56.8	56.8	Low
	14:00	GBP	Manufacturing PMI	54.5	54.3	Medium
	14:30	EUR	Prelim Flash GDP q/q	0.6%	0.60%	Low
	18:00	USD	Personal Spending m/m	0.10%	0.10%	Medium
		USD	Personal Income m/m	0.40%	0.40%	Medium
	19:15	USD	Final Manufacturing PMI	53.1	53.2	Medium
		USD	ISM Manufacturing PMI	56.5	57.8	High
All Day	USD	Construction Spending m/m	0.50%	0.00%	Low	
		Total Vehicle Sales	16.8M	16.41M	Medium	
02-Aug	14:30	EUR	PPI m/m	-0.10%	-0.40%	Low
	14:30	INR	RBI Repurchase Rate	6.00%	6.25%	High
	17:45	USD	ADP Non-Farm Employment Change	190K	158K	High
	20:00	USD	Crude Oil Inventories		-7.2M	Medium
	21:30	USD	Fed's Mester Speaks			Medium
03-Aug	1:00	USD	Fed's Williams Speaks in Las Vegas			Medium
	7:15	CNY	Caixin Services PMI		51.60	Low
	10:30	INR	Nikkei Services PMI		53.10	Low
	13:25	EUR	German Final Services PMI	53.50	53.50	Low
	13:30	EUR	Final Services PMI	55.40	55.40	Low
	14:00	GBP	Services PMI	53.6	53.4	Low
	14:30	EUR	Retail Sales m/m	0.00%	0.40%	Low
	16:30	GBP	Official Bank Rate	0.25%	0.25%	High
	17:00	GBP	BOE Gov Carney Speaks			High
	18:00	USD	Unemployment Claims	240K	244K	Medium
	19:15	USD	Final Services PMI	54.2	54.2	Low
	19:30	USD	ISM Non-Manufacturing PMI	56.9	57.4	Medium
		USD	Factory Orders m/m	2.80%	-0.80%	Medium
20:00	USD	Natural Gas Storage		17B	Medium	
04-Aug	11:30	EUR	German Factory Orders m/m	0.50%	1.00%	Low
	18:00	USD	Non-Farm Employment Change	180K	222K	High
		USD	Unemployment Rate	4.30%	4.40%	High
	USD	Trade Balance	-44.8B	-46.5B	Medium	

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