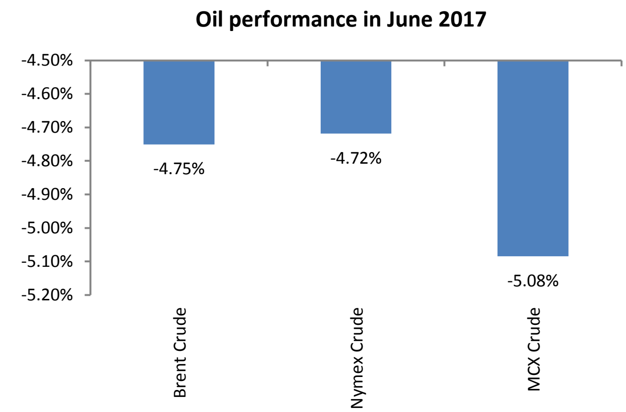
Price Performance –Crude Oil

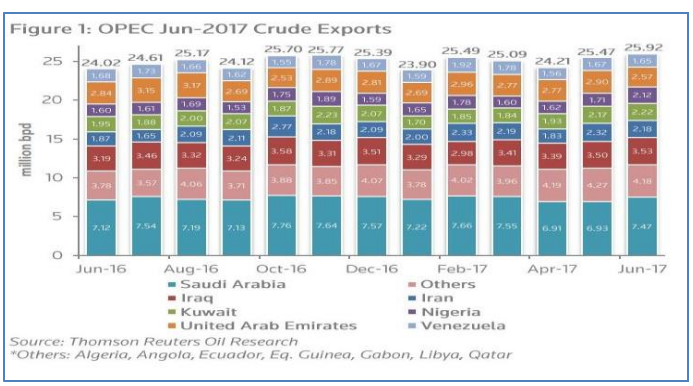
In June 2017, WTI and Brent oil prices declined by 4.75 percent respectively while MCX oil prices have fallen by around 5.1 percent in the same time frame.



Source: Reuters, Angel Commodity Research

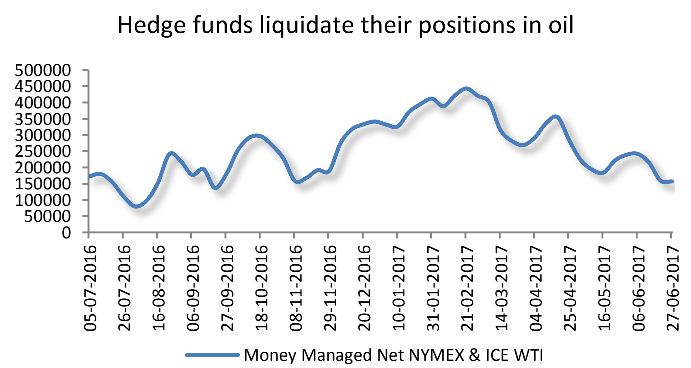
Fundamental factors affecting oil prices

Crude oil has slipped to its lowest level in almost a year at the end of June as the prospect of the continued large rise in the US production has slowed OPEC's efforts to cut its oil output and balance the oil markets. The rising production in the US is clearly evident in the increasing rig count which as on June 23rd stood at around 758, which is a record high for 23r week in a row. Moreover, the EIA in its report released in June'17 forecasted oil production for next year (2018) to top 10 million barrels per day.



On the other side of the Atlantic, OPEC nations which have pledged to cut the oil output between January this year and March 2018 to prop up oil prices have failed to respect their adhered targets. They have exported around 25.92 million barrels per day which is a continuous second month of gains in a row. OPEC exported 25.92 million barrels per day (bpd) in June, 450,000 bpd above May and 1.9 million bpd more than a year earlier. OPEC has exempted Nigeria and Libya from the curbs, leaving them free to ramp up output that had been sapped by local unrest. Libyan oil production is nearing 1 million bpd, in turn boosting the overall output of the OPEC nations.

Hedge fund positioning as per CFTC also indicates that they have been cutting back long positions as seen in the graph below. Money managers have liquidated 81758 contracts since 30th May when net longs stood at around 239049 contracts. This liquidation is clearly signaling that the oil is not the best bet even among biggest of the fund managers across the globe.



Source:Reuters

Given the supply overhang and the bearish sentiments in oil big brokerage houses like Goldman Sachs and Societe Generale have cut their 2017 forecasts for crude prices. SocGen estimated U.S. crude futures would average $47.50 a barrel in the third quarter, down from previous expectations for $55. That is something to ponder about in the coming quarters.

Dollar and commodities have inverse co-relation, however, this situation is nullified in June as dollar index declined by around 1.5 percent while oil prices (WTI & Brent have fallen) indicating that the fundamentals of demand and supply have its own role to play rather than the movements in the dollar as a currency factor.

Whatever the situation, it remains to be seen, how the oil markets behave in this conundrum. Will prices rise for second half of 2017 or will it take more time for oil markets to stabilize. Are we in the situation of consistently low era of oil prices?. All this questions needs a logical setup if prices have to take any direction from here on.

Outlook

Summer driving season in the US is not really a supporting factor for driving oil prices in the near term. Global oil supplies remain in a comfortable situation despite the 1.8 million barrels per day cut by the OPEC nations from Jan 2017 through March 2018.

The commitment by Saudi “it will Do “Whatever It Takes” To Bring Oil To Balance is not really taking shape as the OPEC nations have increased their exports for second consecutive month in June.

For oil prices to reverse or change its course it has to be a situation of backwardation (propensity to consumer more at present, however high the price is) rather than the Contango (propensity to postpone the consumption at a future date) scenario at present.

This situation will only arise if the global economy grows at a good speed and industrial growth happens at a faster pace generating employment opportunities which in turn can induce consumption and bring about the overall development.

The stance of the central bank economic policies has changed very recently wherein US is on a gradual path of tightening and talking about balance sheet normalization as per the recent US FED meeting on 13-14th June 2017, while the ECB has also hinted towards gradual winding of the easy money policy. This situation will lead to a gradual tightening of liquidity which in turn would further push oil prices lower.

Oil prices can go lower towards $42 (CMP:$45.81/bbl) in the international markets while MCX oil price (CMP July Rs.2971/bbl) can move lower towards Rs.2750 in a month time frame.

TechnicalS

Crude oil Aug Support 2830/2670 RESISTANCE 3260/3460

Crude Oil $ SUPPORT 43/39 RESISTANCE 49.50/53

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