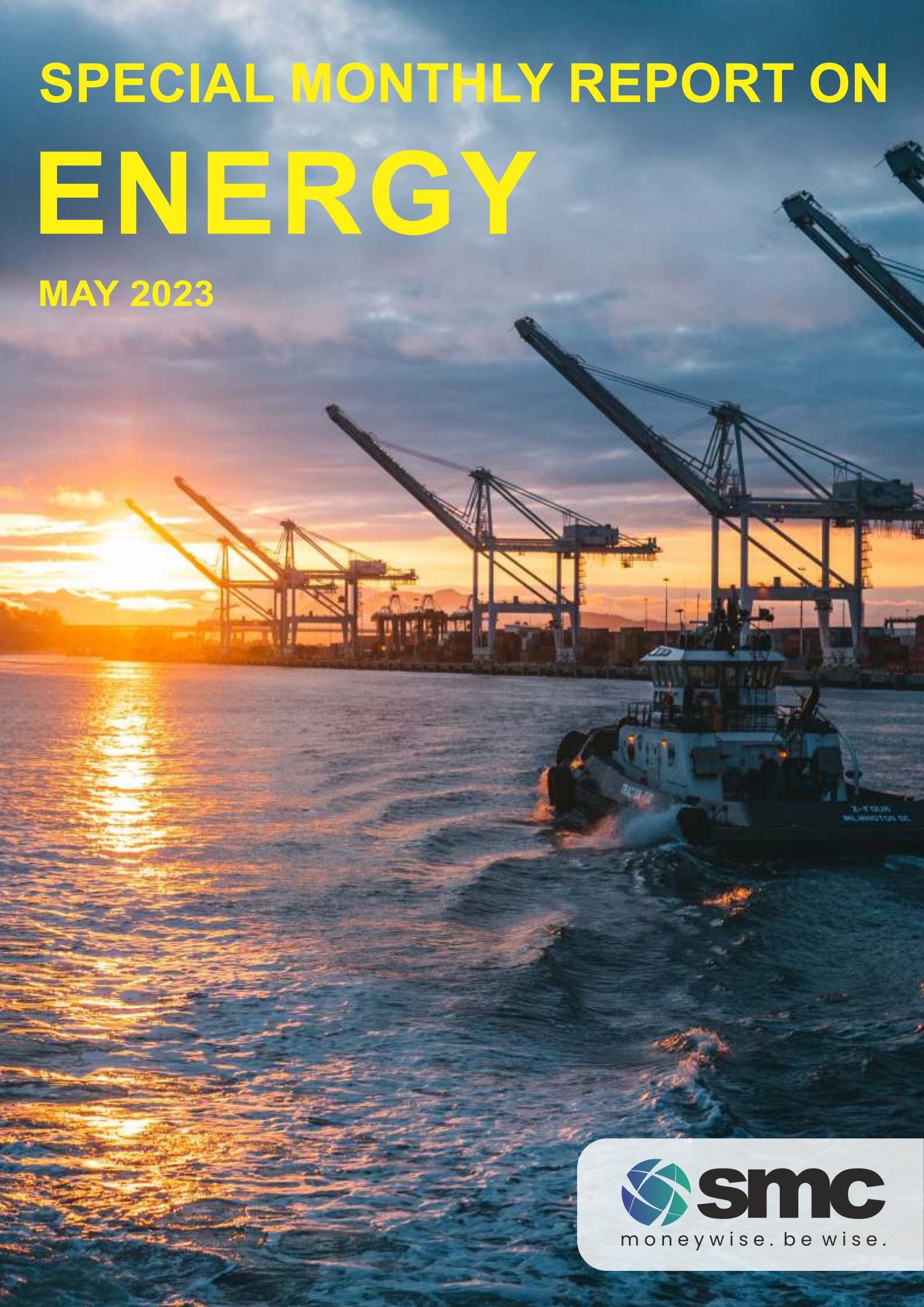


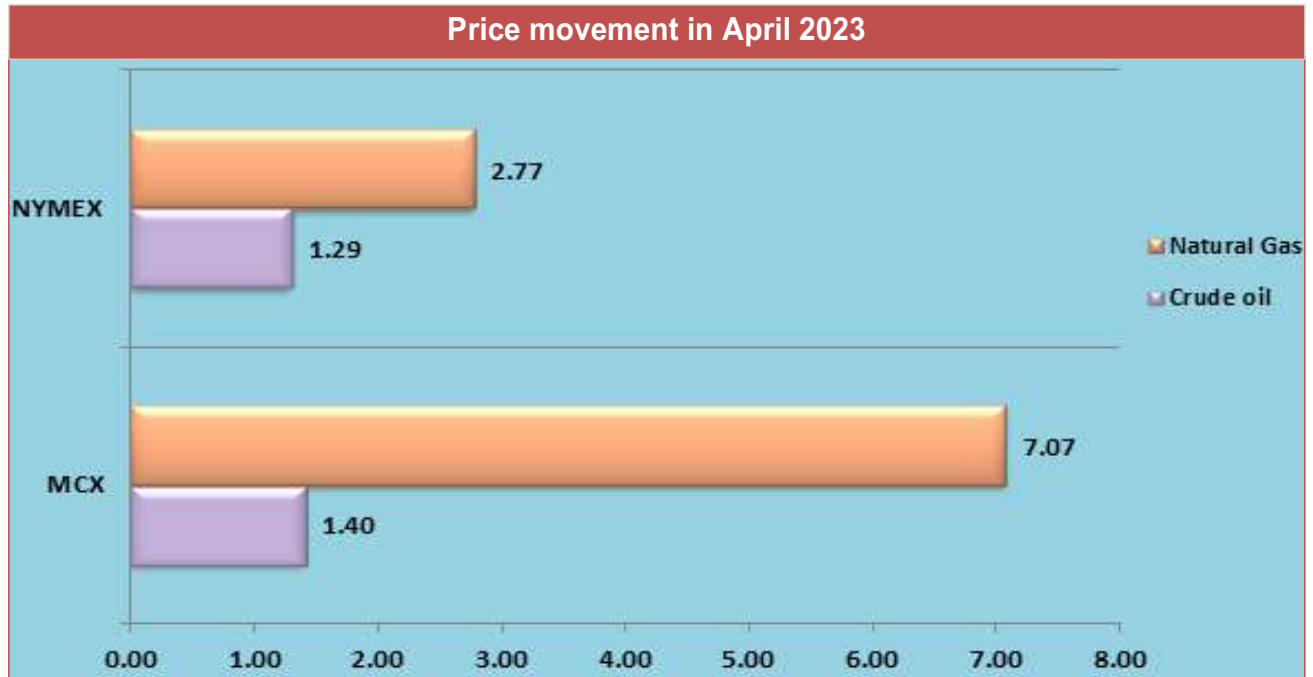
SPECIAL MONTHLY REPORT ON ENERGY

MAY 2023

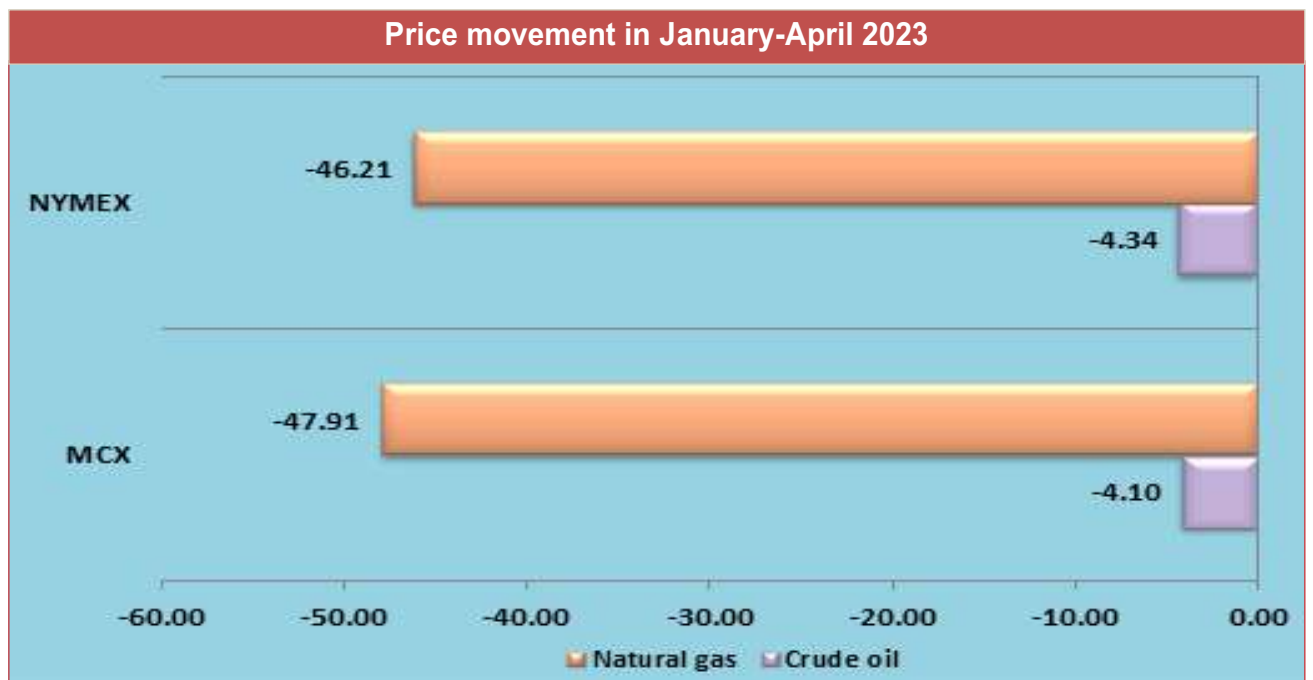


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Source: SMC Research & Reuters



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In April, crude prices traded with high volatility with prices ranging from high of 6843 to a low of 6070. Despite opening at 6220, the market witnessed selling pressure due to concerns about weak economic growth. Persistent concerns about global economic growth, worries about U.S. inflation and doubts about the strength of the economic recovery in the largest importer of crude in the world are dragging down consumption in the world's biggest economy pressurized while production cut by OPEC+ and declining crude output in US supported the prices. U.S. crude production fell in February to 12.5 million barrels per day (bpd), its lowest since December. Fuel demand rose to nearly 20 million bpd, its highest since November, according to the Energy Information Administration (EIA).

Outlook

- The recent volatility in oil prices may continue on fears of global recession, high inflation and as well as ongoing geopolitical developments.
- While the recent drawdown in the inventories is positive sign, the market continue to remain cautious due to prevailing uncertainties. Investors will closely monitor developments in the coming months to determine the direction of market.
- While the Fed raised interest rates by a quarter of a percentage point as expected, it signaled it may pause further increases to give officials time to assess the fallout from recent bank failures and wait for clarity over the dispute over raising the U.S. debt ceiling.

- The demand concerns have outweighed the support coming from the voluntary output cuts of just over 1 million barrels per day by members of the Organization of the Petroleum Exporting Countries and allies including Russia, a group known as OPEC+, which are taking effect in May.
- Chinese demand concerns continue to weigh on the market especially after a private sector survey showed that factory activity unexpectedly dipped in April due to softer domestic demand.
- The Organization of the Petroleum Exporting Countries (OPEC) and allies including Russia, a group known as OPEC+, started voluntary output cuts of around 1.16 million barrels per day at the beginning of this month and those are expected to support the market going forward into the summer peak demand period.
- U.S. crude oil exports for the month of April have surpassed forecasts, hitting a record 4.5 million barrels per day in March thanks to rising fuel demand in China.
- U.S. crude exports grew 22% last year from 2021 after Russia's invasion of Ukraine led the U.S., the EU, and Canada to ban imports of Russian oil and dramatically altered global flows.
- Oil prices will pick up pace towards \$90 a barrel over the course of this year as production cuts by OPEC+ and rebounding China demand shield against a deteriorating economic backdrop in the West, a Reuters poll showed.

Weekly Price Movement of Crude Oil in MCX



Source: Reuters

Weekly Price Movement of Crude Oil in MCX



Source: Reuters

In May 2022, Crude oil prices may trade with high volatility within the range of 5200-6200 where buying near support and sell near resistance would be strategy.

Natural gas

In April, natural gas prices closed almost 3% higher on NYMEX and almost 7% on MCX as temperatures are likely to start to warm in May. Asia's imports of liquefied natural gas (LNG) fell in April as major buyers China and Japan trimmed purchases, offsetting small gains among South Asian countries. The healthy state of European gas inventories does raise the possibility that LNG imports will steady or drop somewhat in coming months as utilities pare purchases for stock-building.

Outlook

- The reduced demand for natural gas during this time is further compounded by the anticipated economic slowdown that will affect the industry, leading to a decreased need for electricity. Consequently, the natural gas markets are likely to continue experiencing a decline.
- This year's gas balance is one of the highest in recent memory and remains the bane of gas longs who've been trying to restart a spectacular rally they enjoyed just months ago, before an unusually warm winter season led to less heating demand.
- New York has become the first U.S. state to pass legislation banning the use of natural gas for heating and cooking in some new buildings, a plan designed to reduce carbon emissions but opposed by industry groups as excessive and costly.
- According to data provider Refinitiv, the average gas output in the U.S. Lower 48 states has increased to 101.7 billion cubic feet per day (bcfd) in May, up from a previous record of 101.4 bcfd in April.
- Meteorologists have projected that the weather in the Lower 48 states will shift from colder-than-normal to near- to warmer-than-normal from May 6-17. With the weather turning seasonally warmer, Refinitiv has forecasted that U.S. gas demand, including exports, will decrease from 95.4 bcfd this week to 91.1 bcfd next week.

Weekly Price Movement of Natural Gas in MCX



Source: Reuters

Weekly Price Movement of Natural Gas in NYMEX



Source: Reuters

MCX Natural gas trade with bearish bias with high volatility where resistance is seen near 220 and support is seen near 150.

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