FINANCIAL EXPRESS, Delhi, 14.3.2023
Page No. 6, Size:(6.98)cms X (16.23)cms.

Long-dated oil prices are too low for comfort

The futures market is mispricing the outlook for crude

IT'S A PUZZLING mismatch. The oil industry believes it is underinvesting in future production capacity, creating the risk of future shortages and higher prices. Yet long-dated oil prices keep falling, sitting now at $65 a barrel and suggesting the market expects spending would be more than enough to avoid a gap. Either the industry is wrong—or the market is. My bet is that both are somewhat wrong. I'm not trying to hedge my view, but it looks like the industry is exaggerating its alarm about investment. Still, if I have to choose a side, I would bet against the market. Long-dated oil future prices appear too low right now. More is at stake than billions of dollars of oil investment in new projects, or wagers in the futures market. If the industry is right, it would mean higher prices in the second half of this decade, potentially fueling fresh inflation in the global economy. The incongruity between the industry and the market was in full display at the annual CERAWeek, the world's biggest energy conference.

From Darren Woods, the boss of Exxon Mobil, to Wael Sawan, the new CEO at Shell, everyone warned about underinvestment. Last year, the industry spent $499 billion on production, according to the International Energy Forum, a body that promotes dialogue between energy producing and consuming nations. If the industry is to meet future oil demand, the IEF estimates that spending would need to rise to $640 billion by 2030. But the guidance from companies suggest such an increase isn't on the cards.

The investment-is-too-low-to-meet-future-demand message was accompanied by warnings about rising oil prices in the future. But at CERAWeek, investors were largely unconvinced. From equity to commodity managers, there was a collective shoulder shrug. One veteran investor warned me: don't second-guess the market. First, a word of caution about forward oil prices. The futures curve is not a forecast of where commodity prices are heading but rather a snapshot of what the market is willing to pay today for delivery in the future. Today, the market is willing to pay just $65 a barrel for delivery of a barrel of Brent crude in five years—falling below the 10-year average for that benchmark. If one wants to buy a barrel for delivery in December 2024, that rises to $74 a barrel. The very same barrel, bought on the spot market for immediate delivery, costs about $82.

JAVIER BLAS
Bloomberg

If investment isn't coming, why are long-dated prices not higher? Oil investors appear convinced the future balance between supply and demand would not be as tight as the industry is warning. First, investment recovered significantly in 2022. And oil companies are set to lift spending even higher in 2023 and beyond. Second, Russian oil production hasn't collapsed as feared due to Western sanctions. That in turn means that the world won't have to replace low-cost Russian output with higher-costing production from elsewhere. Third, many investors believe that oil demand will slow over the next two to three years. Yet, those factors alone don't appear to fully justify the five-year forward for Brent trading at 20% discount to spot prices. For one thing, the recovery in headline spending reflects increased costs for machinery and parts. In nominal terms, spending has increased significantly less. And even at current rates, spending would need to increase another 30% to ensure enough supply by 2030. For now, hopes for a significant slowdown in demand growth remains just that—hope. Oil consumption is growing in 2023 at double the typical annual rate, and the early forecasts for 2024 also point to a further acceleration.

The bowels of the oil market offer a more convincing explanation for the most recent drop in long-dated oil prices. In recent weeks, the cost of hedging has declined, allowing shale companies to lock-in prices by selling forward. The concentrated wave of hedging has pushed down prices, particularly for 2024 and 2025, depressing longer-dated prices even further. That's a one-off factor that is likely to dissipate soons—which will further complicate the inflation outlook and make life even more difficult for central bank policymakers.

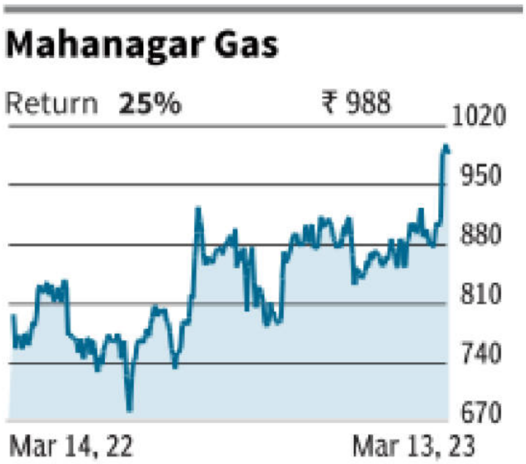
Spot oil prices will continue to fluctuate in the next few months, pushed up and down by concerns about a hard or soft landing for the US economy and hopes for strong reopening of China. But long-dated oil prices are poised to rise.

BUSINESS LINE, Delhi, 14.3.2023
Page No. 6, Size:(16.69)cms X (20.41)cms.

TODAY'S PICK.

Mahanagar Gas (₹988.95): BUY

Akhil Nallamuthu
bl. research bureau



The short-term outlook for the stock of Mahanagar Gas Limited (MGL) is bullish. The stock has been moving up gradually since June last year. However, the resistance at ₹915 was restricting this upmove recently. But last week, the bulls gained substantial momentum and the stock has risen well breaking above the resistance at ₹915. That strong rise indicates the resumption of the overall uptrend.

Even though there might be a minor corrective decline, possibly to ₹915, we anticipate the stock to eventually appreciate to ₹1,100. Intermediate resistance is at ₹1,010. A break above it can trigger the rise to ₹1,100. Traders can go long now. Accumulate on dips at ₹915. Keep the stop-loss at ₹880 initially. When the price rises above ₹1,040, tighten the stop-loss to ₹1,015. Liquidate the longs at ₹1,100

Note: The recommendations are based on technical analysis. There is risk of loss in trading.

Natural gas futures: Go short at current level

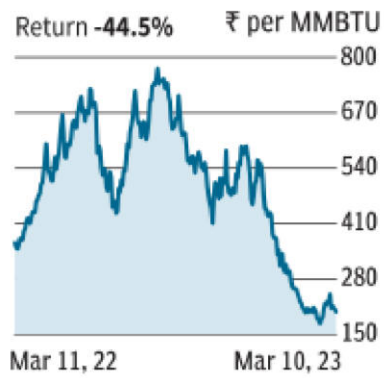
Akhil Nallamuthu
bl. research bureau

Natural gas futures on the Multi Commodity Exchange (MCX) witnessed a rebound after touching the support at ₹180 three weeks ago. However, the upside was capped at around ₹245 and the rally was largely a corrective one.

The contract resumed the downtrend and is now trading around ₹202. Thus, it has dropped below an important support at ₹210.

TRADE STRATEGY

The price action shows that the contract is likely to fall further from the current levels. While ₹190 is a minor support, we expect the natural gas futures to decline below this level and reach ₹180. On the upside, the price region of ₹210-215 is a resistance band. Subsequent resistance is at ₹245.



We suggest traders to go short at the current level of ₹202. Add more shorts when the price rises to ₹210. Place stop-loss at ₹225. When the contract touches ₹190, modify the stop-loss to ₹200.

Book profits at ₹180 as the natural gas futures might again rebound from this support.

BUSINESS LINE, Delhi, 14.3.2023
Page No. 9, Size:(16.88)cms X (20.00)cms.

'OMCs procured 6 crore litres of biodiesel till February'

Our Bureau
New Delhi

The oil marketing companies (OMCs) have procured six crore litres of biodiesel in the first 11 months of the current financial year ending March 2023, Parliament was informed on Monday.

Besides, the OMCs also procured and blended 433.60 crore litres of ethanol in petrol during the Ethanol Supply Year (ESY) 2021–22 (December 2021 to November 2022), Oil Minister HS Puri said in response to a query in the Rajya Sabha. "Several demand and supply-side interventions have enabled an increase in annual domestic ethanol production capacity from 421 crore litres to approximately 1,037 crore litres in the last eight years," he noted.

Puri pointed out that biofuels, including ethanol, biodiesel, compressed biogas (CBG), sustainable aviation fuel (SAF), etc., are produced from renewable resources and

HS Puri, Oil Minister

used in place of or blended with diesel, petrol and other fossil fuels.

"Amendments were made to the National Policy on Biofuels in 2018, advancing the target of 20 per cent blending of ethanol in Petrol to ESY 2025-26 from 2030," he added.

CBG PLANTS

The Minister said that oil and gas marketing companies have issued 4,128 Letters of Intent (LoIs) to potential entrepreneurs for the procurement of CBG up to February. Also, 44 bio-CNG plants under the Sustainable Alternative Towards Affordable Transportation initiative have been commissioned till February, with a production capacity of around 250 tonnes per day.

GREEN HYDROGEN

The National Green Hydrogen Mission's objective is to make India the global hub for production, usage and export of green hydrogen and its derivatives, Puri said. Oil & Gas public sector undertakings have formed a Hydrogen Corpus Fund to support R&D on various facets of hydrogen, including its application as an automotive fuel, he added. They have also undertaken pilot projects for the production of green hydrogen with a production capacity of 2.5 kilo tonnes per annum. Blending of green hydrogen has started with natural gas for supplying to the township of Oil India at Jorhat.

A trial run of hydrogen fuel cell buses on tourist routes — Vadodara to Kevadiya, New Delhi to Agra, and Jorhat to Kaziranga — has started, he noted.

ECONOMIC TIMES, Delhi, 14.3.2023
Page No. 10, Size:(10.99)cms X (8.47)cms.

Reliance, Nayara Account for 45% of Russian Oil Imports

Sanjeev.Choudhary@timesgroup.com

New Delhi: Reliance Industries and Russia-backed Nayara Energy together took 45% of all the Russian oil imported by India since the outbreak of the Ukraine war, far higher than their 35% share in the domestic refining capacity, data from energy cargo tracker Vortexa shows.

India imported on an average 870,000 barrels of oil per day from Russia in the 12 months through February this year, about 20% of its total crude imports, according to Vortexa.

The dramatic rise in the share of Russia in Indian imports, up from less than 1% in 2021, was driven by the deep discounts at which Russian oil came to be sold following Russia's invasion of Ukraine that prompted several countries led by the US to impose sanctions on Russia.

The sudden surge in the use of Russian oil, however, does not make Indian refiners extra vulnerable as they have a diversified basket and also because it's not hard to source supplies in a mature global market, industry executives said.

On average, Reliance and Nayara imported about 385K barrels per day of Russian oil

"Oil is a deeply traded global commodity and it is the techno-economics that ultimately determine its source and destination linkage," said MK Surana, CEO of Ratnagiri Refinery and Petrochemicals and former chairman of HPCL. "Every barrel produced ultimately has to find its consumer somewhere in the globe. If there is no absolute outage of barrels, it is only a shift in source-destination linkage with related price adjustment."

On an average, private sector refiners – Reliance and Nayara — imported about 385,000 barrels per day of Russian oil while state-run refiners – Indian Oil, Bharat Petroleum, Hindustan Petroleum and MRPL – imported 484,000 barrels per day in the year after the Ukraine war.

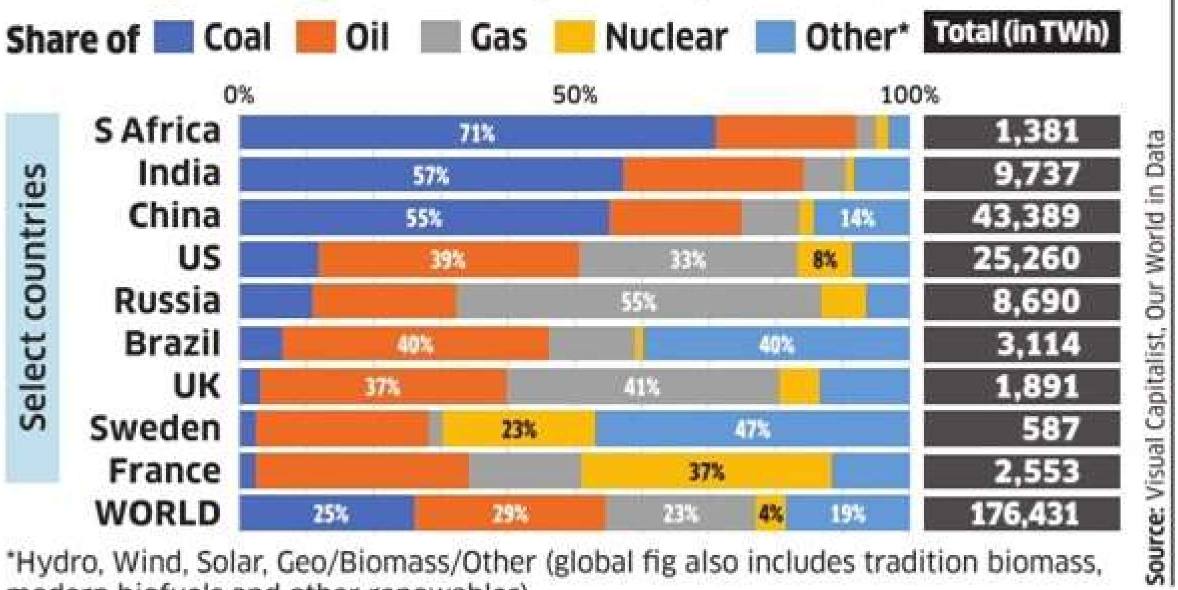
The private sector benefitted from faster decision-making, which helped it snap distressed cargoes, a lot of which became available early in the war, industry executives said.

ECONOMIC TIMES, Delhi, 14.3.2023
Page No. 12, Size:(8.37)cms X (7.47)cms.

A Fossil-Fuel-Heavy Mix

In the last 10 years, total global energy consumption has risen nearly 15%. And despite the focus on green initiatives, fossil fuels continue to account for the majority of total energy consumption. In 2021, 77% of global energy was sourced from coal, oil, and gas. Renewable energy sources like wind, solar, and hydro have gained traction, particularly since 2000, but coal has remained a key source of energy consumption for major developing countries...

Primary energy consumption by source, 2021



*Hydro, Wind, Solar, Geo/Biomass/Other (global fig also includes tradition biomass, modern biofuels and other renewables)

BUSINESS STANDARD, Delhi, 14.3.2023
Page No. 10, Size:(13.96)cms X (13.40)cms.

Oil slips 5% to $79

Oil prices fell $4 on Monday along with equities as the collapse of Silicon Valley Bank raised fears of a fresh financial crisis, but a recovery in Chinese demand provided support.

Brent crude futures were down $3.96, or 4.8 per cent, to $78.82 per barrel by 1220 GMT. West Texas Intermediate US crude futures (WTI) fell by $3.86, or 5 per cent, to $72.82 a barrel.

Brent hit its lowest levels since early January while WTI touched prices not seen since early December.

Fears of contagion from the failure of Silicon Valley Bank led to a selloff in US assets at the end of last week, while state regulators closed New York-based Signature Bank on Sunday.

In recent days a weaker dollar, which makes oil cheaper for holders of other currencies, has lent some support to prices. **BLOOMBERG**

BOTTOM OF THE BARREL
($ bbl)

Source: *Bloomberg*
Compiled by *BS* Research Bureau