BUSINESS STANDARD, Delhi, 23.11.2021
Page No. 10, Size:(14.72)cms X (21.15)cms.

Global bull-run in crude oil and gas may be peaking

Prospects of lower growth, US Fed taper weighing on sentiment

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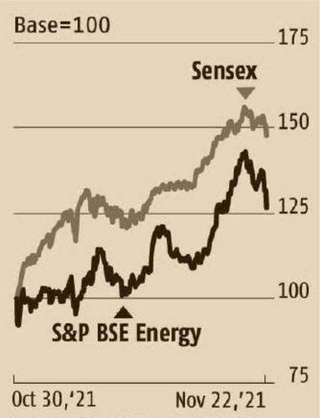
The global bull-run in fossil fuels like crude oil and gas may be peaking because of several adverse factors such as a decline in global economic growth due to the fresh wave of Covid infections across Europe and Central Asia.

The dollar has strengthened, and may rise further. The US Federal Reserve (US Fed) has started to taper its bond buying and may bring forward the schedule. A strong dollar is inversely correlated to commodity prices, which are dollar-denominated. In addition, US President Joe Biden has been persuading nations with large oil stockpiles to release some inventories, which could result in increased supply.

Europe and North America have seasonal heating requirements, which normally leads to increased demand for fuel oil and gas in winter. But given record Covid cases in large countries like Germany and France, and all of Eastern Europe and Central Asia, the net demand may ease.

If there are fresh lockdowns (Austria has imposed one and Holland has a partial lockdown), demand could fall sharply.

The US Fed has already started to reduce its $120-billion per month bond buying programme. Recent statements by senior officials indicate it may increase the pace of tapering, if there's high inflation. The USD may strengthen further. There is also the chance the US Fed may hike interest rates earlier than expected.



Compiled by BS Research Bureau

The latest advisories from OPEC, International Energy Agency, and the Energy Information Administration (EIA) of the US all indicate fuel markets could go into oversupply in January-March 2022. The EIA forecasts an excess of 900,000 barrels per day. Futures prices have started to adjust down for this.

The price of India's crude import basket rose, from $63.4 per barrel in April to $82 in October. However, both major benchmarks, Brent and West Texas Intermediate, peaked in late October and have dropped to two-month lows, losing 7-8 per cent in the last week. Gas prices have been buoyed by anticipated winter demand, but are also moving down.

India imports over 50 per cent of its gas, and over 85 per cent of crude. Lower energy prices are usually beneficial. Refiner margins also rise when crude and gas prices drop. For refiner-marketers like the Indian PSUs and Reliance Industries, realisations at retail level rise. However, inventory revaluations do have an adverse effect on the bottom lines.

This is an unusual period. The Indian economy is operating well below capacity. Slower global growth will impact exporters. Thus, there could be downgrades of India's growth estimates.

The stock market has responded negatively with the Nifty losing 5.5 per cent in the last month, but the NSE Energy index declining 6.7 per cent. Double-digit losses have been incurred in the last month by Reliance Industries, NTPC, BPCL, GAIL, with IOC and ONGC losing 6.75 per cent each as well.