

Downswing may extend

CRUDE CHECK. MCX futures could fall to ₹6,500

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Brent crude oil futures on the Intercontinental Exchange (ICE) tumbled nearly 13 per cent last week to end at \$83.1 per barrel. MCX Crude oil futures, too, saw a sharp fall of nearly 9 per cent to wrap up the week at ₹6,875.

Both contracts have broken some important support levels. However, the trend-defining support remains valid. It can be tested hard this week.

The decline was triggered by a weak demand. According to the latest EIA (Energy Information Administration) data, the demand for gasoline in the US dropped to 8 million barrels per day (bpd) last week, the lowest since the beginning of this year.

As per a statement from OPEC Plus, Saudi Arabia has extended the production cut of 1 million bpd until the end of this year and Russia's 0.3 million bpd of cut in exports too will be extended till December end. But weak demand outweighed the supply concerns leading to a price fall.

MCX-CRUDE OIL (₹6,875)

The October futures of crude oil crashed below the support at ₹7,375 and also the psychological ₹7,000-mark.



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However, the broader trend will not turn bearish until the support at ₹6,500 holds true. Notably, the Brent crude futures, now at \$83.1, too, is trading above a key base of \$82. Thus, the bulls have not lost completely.

That said, the probability of MCX futures falling to ₹6,500 is high. If there is a recovery post that fall, the contract might rally back to ₹7,000 or ₹7,375.

On the other hand, if the contract breaches ₹6,500, it will open the door for further fall. Support below ₹6,500 can be spotted at ₹6,100 and ₹5,750.

Trade strategy: Stop-loss of ₹7,300 for the longs initiated at ₹7,600 was hit last week. Stay away for now.

Go short if the contract rallies to ₹7,000. Target and stop-loss can be placed at ₹6,500 and ₹7,250 respectively.

Inability to hike petrol, diesel prices to weaken OMCs' profitability, says Moody's

SUKALP SHARMA
NEW DELHI, OCTOBER 7

GIVEN THE volatility in international crude oil prices, Moody's Investors Service expects the profitability of India's oil marketing companies (OMCs)—Indian Oil Corporation (IOC), Bharat Petroleum Corporation (BPCL), and Hindustan Petroleum Corporation (HPCL)—to weaken if oil prices are at elevated levels as the three companies will have little room to pass on the higher costs to consumers in view of the impending 2024 Lok Sabha elections.

"The OMCs' marketing margins—the difference between their net realised prices and international prices—have already weakened significantly from the high levels seen in the quarter ended 30 June 2023. Marketing margins on diesel turned negative since August while margins on petrol have narrowed considerably over the same period as international prices increased," Moody's said in a recent report. It added that to some extent, the slump in marketing margins has been mitigated by strong refining margins—the difference in the value of all refined products coming out of a refinery and the value of crude processed to derive those products. While Moody's expects the OMCs operating performance to weaken over the next few quarters if oil prices remain at elevated levels, the companies' earnings for financial year 2023-24 (FY24) are still likely to be strong, thanks to a spectacular show in the April-June quarter when they gained from strong marketing and refining margins.

"The three companies' fiscal 2024 earnings will remain strong and higher than historical levels, even if crude oil prices remain at current levels of \$85/bbl-\$90/bbl in the second half of fiscal 2024. This is attributable to the OMCs' exceptionally strong earnings in 1Q (April-June) of fiscal 2024. The three companies' EBITDA (earnings before interest, tax, depreciation and amortisation) in the first quarter alone was close to their average annual EBITDA for the last few years," Moody's said.

Last week, Nomura had also cautioned that the spurt in international crude oil and fuel prices was leading to an under-recovery



The companies have not revised prices since early April of last year. *File*

of over Rs 7 per litre for the OMCs on diesel and petrol sales, adversely impacting the profitability of the OMCs, which have a cumulative market share of around 90 per cent in India's fuel retail sector. Under-recoveries refer to the difference between the retail price and the international price of the fuel.

As per the pricing methodology followed by the OMCs, petrol and diesel prices should be revised daily based on the 15-day rolling average of international benchmark prices. However, the companies have not revised prices since early April of last year, when global crude oil and fuel prices had surged in the aftermath of Russia's invasion of Ukraine.

With Assembly elections in five states around the corner and Lok Sabha polls likely in a few months, analysts and industry insiders say that it is unlikely that the OMCs would hike prices of diesel and petrol. Although petrol and diesel prices are deregulated, the three OMCs in the past have kept fuel prices frozen around key elections, particularly if the global rates dictated a price increase.

After incurring heavy under-recoveries for much of last year, the OMCs were in the process of recouping their accumulated losses from 2022-23 (FY23) in the current financial year. There were indications from the government and the OMCs that they could revert to daily price revisions soon as most of their last year's accumulated losses had been recouped. Till a couple of months back, there was anticipation that petrol and diesel prices could soon see a cut. However, with international oil prices and fuel spreads, or margins, having risen substantially leading to incidence of under-recoveries again, the resumption of daily price revisions in line

with global rates and reduction in fuel prices may only be a distant possibility. In such a scenario, fuel price cut can only be achieved if the government cuts taxes on the petrol and diesel, like it did on two occasions over the past couple of years, or the OMCs decide to bear deeper losses at the government's behest. On the other hand, if oil prices and fuel spreads fall significantly, it would enable a reduction in fuel prices.

Global crude oil prices had been firming up for a few months prior to September, which saw a sudden spurt after major oil producers Saudi Arabia and Russia surprised the world by announcing an extension of their voluntary supply cuts—totaling 1.3 million barrels per day (bpd)—till the end of 2023. The two oil-rich countries are leading the cartel of major oil producing nations in efforts to prop up crude oil prices by reducing supply despite expectations of a rise in global oil demand.

Although global oil prices have seen notable correction over the past few days due to demand-side concerns, volatility persists and it is difficult to predict the trajectory going ahead. Moody's does not anticipate high oil prices to sustain for too long as global growth weakens. Global benchmark Brent crude is currently trading close to \$85 per barrel. At this year's peak in September, it had touched \$97 per barrel.

Moody's does expect international prices of fuels to soften in subsequent quarters over demand concerns, particularly emanating from apprehensions of an economic slowdown in China, even as supplies are likely to go up as a number of refineries come back online after scheduled maintenance shutdowns.

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'Soaring Crude Prices to Hit PSU Oil Marketing Cos' Profitability'

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New Delhi: High crude oil prices will weaken the profitability of the country's three state-owned oil marketing companies (OMCs) — Indian Oil Corporation (IOC), Hindustan Petroleum Corporation (HPCL) and Bharat Petroleum Corporation (BPCL) — as they have limited flexibility to pass on higher raw material costs to consumers due to the forthcoming Lok Sabha elections in May 2024, according to a report by Moody's.

The report points out that the market margins of the three oil companies — the difference between their net realised prices and international prices — have already weakened

significantly from the high levels seen in the April-June quarter of the current financial year.

Marketing margins on diesel turned negative since August while margins on petrol have narrowed considerably over the same period as international prices increased.

The earnings of the three OMCs will weaken in the second half of fiscal 2024 if oil prices remain elevated at current levels

The earnings of the three OMCs, all of which enjoy a Baa3 stable rating, will weaken in the second half of fiscal 2024 if oil prices remain elevated at current levels of \$85/barrel (bbl) — \$90/bbl. Still, full-year earnings will remain comparable with historical levels at this price range, the Moody's report states. The OMCs, however, will start incurring EBITDA losses in the second half of fiscal 2024 if crude oil prices increase to around \$100/bbl.

कच्चे तेल की बढ़ती कीमतों से इंडियन ऑयल, बीपीसीएल, एचपीसीएल को होगा नुकसान : मूडीज

नई दिल्ली, 7 अक्टूबर (एजेंसी): बीते कई दिनों से इंटरनैशनल मार्केट में कच्चा तेल उबाल पर है। कीमतें लगातार ऊंची बनी हुई हैं। इसका असर भारत में सरकारी ऑयल मार्कीटिंग कंपनियों- इंडियन ऑयल कॉर्पोरेशन लिमिटेड (आई.ओ.सी.एल.), हिंदुस्तान पेट्रोलियम कॉर्पोरेशन लिमिटेड (एच.पी.सी.एल.) और भारत पेट्रोलियम कॉर्पोरेशन लिमिटेड (बी.पी.सी.एल.) पर पड़ने का खतरा बढ़ गया है। मूडीज की एक लेटैस्ट रिपोर्ट में कहा गया है कि इन कंपनियों के प्रॉफिट में गिरावट देखने को मिल सकती है। मूडीज ने यह भी कहा कि क्योंकि भारत में अगले साल मई 2024 में लोकसभा चुनाव है तो कंपनियों पर इसका भार उपभोक्ता के ऊपर नहीं डालने का भी दबाव रहेगा।

तेल कंपनियों का बाजार मार्जिन काफी कमजोर

खबर के मुताबिक इन तेल कंपनियों का बाजार मार्जिन काफी कमजोर हो गया है। अगस्त के बाद से डीजल पर मार्कीटिंग मार्जिन

नैगेटिव हो गया है, जबकि पेट्रोल पर मार्जिन उसी पीरियड में काफी कम हो गया है। रिपोर्ट में कहा गया है कि अगर कच्चे तेल की कीमतें 85 डॉलर प्रति बैरल से लेकर 90 डॉलर प्रति बैरल के मौजूदा लैवल पर बनी रहती हैं, तो तीनों ऑयल मार्कीटिंग कंपनियों की कमाई, जिनमें से सभी को बीएए3 स्टेबल रेटिंग हासिल है, वित्त वर्ष 2024 की दूसरी छमाही में कमजोर हो जाएगी। मूडीज की रिपोर्ट में कहा गया है कि फिर भी इस प्राइस लिमिट पर पूरे साल की कमाई ऐतिहासिक स्तरों के साथ मुकाबले के लायक रहेगी।

कीमतें बढ़ने से दूसरी छमाही में घाटा हो जाएगा शुरू

अगर कच्चे तेल की कीमतें लगभग 100 डॉलर प्रति बैरल तक बढ़ जाती हैं, तो वित्त वर्ष 2024 की दूसरी छमाही में घाटा शुरू हो जाएगा। मूडीज का कहना है कि हमारा मानना है कि वैश्विक विकास कमजोर होने के चलते तेल की ऊंची कीमतें लंबे समय तक कायम रहने की संभावना नहीं है।

