KOTAK COMMODITY SERVICES LTD.
Infinite opportunities. Infinite gains.

ENERGY DAILY

FOR PRIVATE CIRCULATION ONLY

03 Feb 2012

Crude Oil

MCX Crude Oil (Rs per barrel)

Contract	Open	High	Low	Close	Change
20-Feb	4854	4854	4710	4727	-134
19-Mar	4880	4880	4752	4766	-136
19-Apr	4893	4951	4797	4810	-136

NYMEX WTI Crude Oil (USD per barrel)

Contract	Open	High	Low	Close	Change
Mar-12	97.11	97.99	95.44	96.36	-1.25
Apr-12	97.6	98.35	95.82	96.74	-1.25
May-12	97.9	98.79	96.26	97.17	-1.24
Jun-12	98.5	99.14	96.67	97.57	-1.22
Jul-12	98.85	99.25	97.05	97.91	-1.17
Aug-12	99.27	99.27	97.37	98.16	-1.11

ICE Brent Crude Oil (USD per barrel)

Contract	Open	High	Low	Close	Change
Mar-12	111.51	112.56	111.04	112.07	0.51
Apr-12	111.14	112.11	110.72	111.69	0.48
May-12	110.8	111.8	110.48	111.42	0.45
Jun-12	110.6	111.53	110.23	111.16	0.43
Jul-12	110.8	111.21	109.96	110.86	0.41
Aug-12	110.25	110.84	109.63	110.5	0.39

NYMEX Gasoline (USD cents per gallon)

Contract	Open	High	Low	Close	Change
Mar-12	289.19	289.86	284.1	286.89	-2.33
Apr-12	301.25	301.95	297.11	299.83	-1.38
May-12	300.08	300.6	296.24	298.62	-1.17

NYMEX Heating Oil (USD cents per gallon)

Contract	Open	High	Low	Close	Change
Mar-12	305	306.94	302.9	305.29	0.74
Apr-12	302.97	304.86	300.94	303.29	0.55
May-12	301.62	302.7	299.36	301.34	0.52

Highlights

- NYMEX crude trades slightly up in early trades today
- Higher crude oil stocks continue to weigh on the prices
- The US dollar index trades steady after 0.18% gain yesterday
- Most of the Asian markets trade lower in early trades today tracking choppiness in US equities yesterday
- China's Non-Manufacturing PMI eased to 52.9 in January from 56 in December
- US Initial Jobless Claims fell by 12,000 to 367,000 in the week ended Jan. 28
- US Fed Chairman says US economy showing signs of improvement
- Euro Zone Producer Price Index fell 0.2% in December after gaining 0.2% in November
- UK Construction PMI fell to 51.4 in January as against 53.2 in December
- Focus today on US Non-Farm Payrolls, ISM Non-Manufacturing PMI and Factory Orders

Market Analysis

NYMEX crude trades slightly up at $96.5 per barrel today after noting 1.3% decline yesterday which marked its fifth consecutive decline. Crude oil yesterday hit lows of $95.44 but pared some of its losses to end at $96.36 a barrel.

Crude prices continue to be under pressure amid higher crude oil stocks and fall in gasoline consumption. Prices pared some of its losses tracking positive labour data from US.

Crude oil is trading slightly higher in early trades today even as markets remain cautious ahead of key Non-Farm Payrolls data from US.

Prices are seeking support from yesterday's positive jobless claims data from US and optimistic comments by Fed Chairman Ben Bernanke.

In US, Number of people claiming jobless claims fell more than expected lending support to market sentiments. Jobless claims fell by 12,000 to 367K in week ended Jan 28th. Further Bernanke said that US economy is showing signs of improvement however the outlook remained uncertain. He further defended central bank's stance of loose monetary policy by stating that the economy though improving needs support.

Prices may further be supportive amid tensions in oil producing nations.

Tensions between Iran and western nations are high for last few weeks. US has already imposed sanctions against Tehran which the West sees as having nuclear weapons ambitions, which Iran denies, and the European Union is banning Iranian crude by July. Tighter measures are being planned by the U.S. Senate and U.S. lawmakers are also considering a bid to force President Barack Obama's administration to blacklist Iran President Mahmoud Ahmadinejad and the country's supreme leader, Ayatollah Ali Khameini, in the bid to curb Tehran's nuclear capabilities. Meanwhile, Banking transactions with Iran and financing for its oil shipments could come under tougher scrutiny after a bipartisan bill easily passed a key U.S. Senate Committee

In latest development Senior U.N. nuclear inspectors plan another trip to Iran later this month after holding what both sides described as good talks on Iran's disputed atomic programme. Meanwhile tensions persisted in Sudan after it stepped up its rhetoric, accusing South Sudan of hostility in their row over oil transit fees and said it would hold Juba responsible for any attack on northern oil facilities, Reuters reported.

The gains may however be capped amid weak fundamentals of crude oil coupled with fears of reducing demand from top consumer US.

US crude oil inventories rose 4.18 million barrels last week as against market expectation of 2.6 million barrels increase, the U.S. Energy Information Administration's weekly report said. Also, Gasoline stockpiles rose 3.02 million barrels as against market expectation of gain of 0.5 million barrels, while distillate stockpiles fell 135,000 barrels, as against market expectation of decline of 1.375 million barrels. Further gasoline consumption decreased to 7.97 million barrels a day, the lowest since September 2001, according to Energy Department data.

On demand front, the International Energy agency in January reduced its global oil consumption growth forecast by 200000 bpd to 1.1 mn bpd. IEA further warned that the demand assessment may be reduced further, depending on economic growth revisions from the IMF and other institutions. IMF and World Bank both have lowered their global growth forecasts.

On supply front concerns have eased after as supply from all 12 members of the OPEC rose to 30.95 million barrels per day in January, from 30.74 million bpd in December. The January output was highest since October 2008, with little sign yet that Gulf Arab producers would reduce output to make way for rising Libyan supply.

Further on macro-economic front persisting worries over debt crisis in Euro Zone may weigh on the market sentiments. Concerns about Greece are high as Greek government and private bondholders have failed to reach a consensus. Without a deal, Greece will need billions of euros in additional aid to help make major bond repayments due in March. Meanwhile concerns about Portugal have risen after yields on Portuguese 10-year government bonds rose to the highest they have been since the start of the euro currency. The sharp spike has fuelled speculation that the nation may require a second bailout.

Overall, crude oil trades may trade in a narrow range ahead of US Non-Farm Payrolls data. Payrolls are expected to rise by 150,000 after gaining 200,000 in December. Though the growth is expected to slow down from December's pace, the improving labour market trend is expected to remain intact. Weaker data may reduce risk appetite and in turn weigh down the prices. Meanwhile tensions relating to Iran will continue to keep a floor on the prices.

Outlook

Crude oil- MCX Crude may note some gains tracking cues from international exchange, however the upside remains capped. NYMEX crude trades slightly up in early trades today tracking decline in US initial jobless claims. Also lending support to the prices is tensions relating to Iran and other oil producing nations. The upside however remains capped amid higher than expected gain in US weekly crude oil stocks and weak gasoline demand in US. As for today, focus will be US Non-Farm Payrolls, ISM Non-Manufacturing PMI and Factory Orders. Weaker data may put further pressure on the prices. Support for MCX Crude Feb. contract is seen at Rs.4700 while Resistance is seen at Rs.4850.

Natural Gas

MCX Natural Gas (Rs per mmBtu)

Contract	Open	High	Low	Close	Change
24-Feb	119.5	125.7	116.3	124.3	4.80
27-Mar	127.6	134.4	125.4	133.3	5.10
25-Apr	133.8	141.2	132.5	140.4	5.60

NYMEX Natural gas (USD per mmBtu)

Contract	Open	High	Low	Close	Change
Mar-12	2.375	2.587	2.34	2.554	0.172
Apr-12	2.54	2.748	2.5	2.715	0.180
May-12	2.622	2.845	2.61	2.819	0.181
Jun-12	2.726	2.926	2.69	2.9	0.186
Jul-12	2.801	2.994	2.759	2.967	0.188
Aug-12	2.804	3.023	2.79	2.998	0.191

Highlights

- NYMEX natural gas trades lower on Friday after gaining 7.2% yesterday
- EIA Weekly Stock report showed drawdown of 132 bcf as against market expectation of decline of 129 bcf

Market Analysis

NYMEX natural gas is trading lower Friday after sharp gains yesterday. Natural Gas prices hit high of $2.587/mmbtu to end the session 7.2% higher at $2.554.

Prices rose after three straight losing sessions amid short covering after a government report showed a weekly inventory draw slightly above market expectations.

The U.S. Energy Information Administration report showed gas inventories fell last week by 132 bcf to 2.966 trillion cubic feet as against market expectation of decline of 129 bcf decline. It was second straight week that the storage data was slightly supportive versus market expectations. Inventories were below 3 trillion cubic feet for the first time since August as mild winter weather curbed demand during the fuel's peak season.

Prices however continue to remain under pressure amid mild weather forecasts and higher stocks in US storage. AccuWeather.com expects temperatures in the Northeast and Midwest, key gas-consuming regions, to remain above normal for the next 2 weeks. This winter so far has been the second mildest on record in US, averaging a projected 12% warmer than normal from Nov.1 through Jan.31, according to MDA EarthSat.

Also despite bigger than expected drop in stocks last week the decline was less than five year average of 186 bcf. As a result, supplies were 25.4% above the five-year average, the biggest weekly surplus since April 6, 2007, according to Energy Department data. The gap in last week's report was 21.4%. Inventory withdrawals this winter are running more than 300 bcf, or about 30%, below average, stirring concerns that the storage surplus may be an even bigger problem for prices than record production.

Meanwhile, production is expected to remain high. EIA data on Monday showed gross U.S. natural gas production in November hit a record high above 72 bcf daily. In its January Short-Term Energy Outlook, EIA said it expected marketed natural gas production in 2012 to rise by 1.4 bcf per day to a record 67.34 Bcfpd.

Last week US natural gas producer Chesapeake said that it will immediately curtail 0.5 bcf a day of gas production, reflecting about 8% of its total output. The company said it could cut production by another 0.5 Bcf a day if conditions warrant. Also the number of rigs drilling for gas in the US fell by 3 last week to 777 rigs, the lowest level seen since Dec.2009. However these production cuts are not seen as high enough. As per Reuters, a reduction of 3 Bcf per day from total US production of 67 Bcf per day would help tighten the oversupplied market. So far, cuts of 600 million cubic feet have been officially announced.

Overall, natural gas will continue to trade lower amid mild weather forecast and higher stocks at US storage.

Outlook

Natural Gas- MCX Natural gas may note some decline tracking cues from international exchange. NYMEX gas is trading slightly lower in early trades today after noting sharp gains yesterday. Prices continue to be under pressure amid forecast of mild weather in US coupled with higher stocks that are well above 5-year average level for this time of the year. The downside may however be capped after yesterday's EIA weekly report showed that Natural gas inventories fell more than expected. Stocks fell by 132 bcf last week as against market expectation of decline 129 bcf however five year average is decline of 186 bcf. Support for MCX Natural gas Feb. contract is seen at Rs.116 while Resistance is seen at Rs.128.

Prerana Desai
Vice President- Research
prerana.desai@kotakcommodities.com
+91-22-66528894

Dharmesh Bhatia
AVP Research- Technical Analyst
dharmesh.bhatia@kotakcommodities.com
+91-22-66528846

Faiyaz Hudani
Sr. Research analyst- Spices, Edible Oil
faiyaz.hudani@kotakcommodities.com
+91-22-66528837

Amit Sajeja
Sr. Research analyst- Technical Analyst
amit.sajeja@kotakcommodities.com
+91-22-66528847

Sudha R. Acharya
Research analyst- Edible Oil, Pulses, Grains
sudha.acharya@kotakcommodities.com
+91-22-66528809

Ajay Baheti
Associate Research- Technical Analyst
ajay.baheti@kotakcommodities.com
+91-22-66528845

Madhavi Mehta
Research analyst- Energy, Bullion
madhavi.mehta@kotakcommodities.com
+91-22-66528809

Priyanka Jhaveri
Research analyst- Base Metals
priyanka.jhaveri@kotakcommodities.com
+91-22-66528848

RegisteredOffice: Kotak Commodity Services Ltd., Nirlon house, 1st Floor,Dr. Annie BesantRoad, Opp. Sasmira, Worli, Mumbai - 25