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Commodity Insight

Crude oil to continue rally towards ₹ 3600 amid vaccine hopes

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Positional recommendation: Buy Crude Oil December Futures

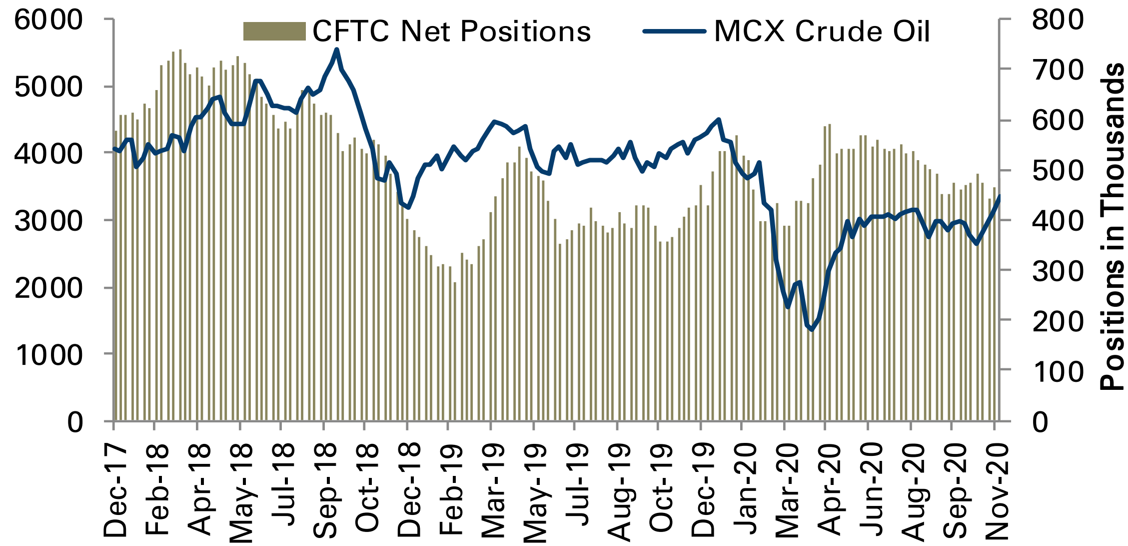
Crude Oil Strategy

Crude Oil future strategy:

Buy MCX Crude Oil December future at ₹ 3250-3290, Target: ₹ 3600, Stop loss: ₹ 3050, Time frame: Two to three weeks

Rationale:

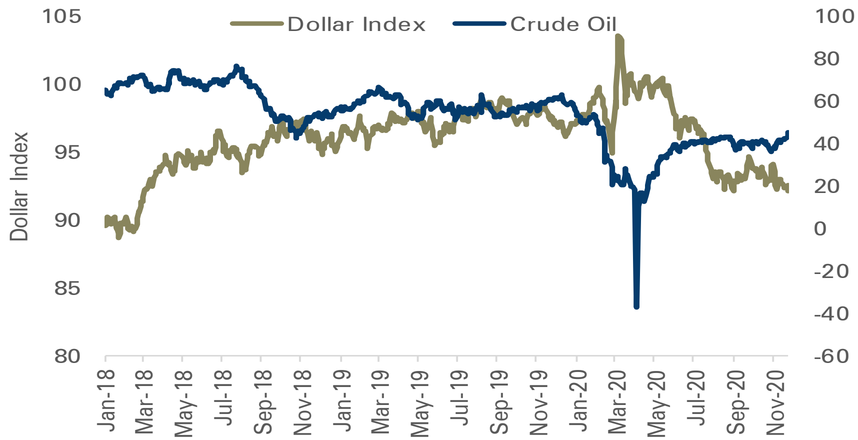
WTI Crude prices have rebounded recently and broken above $45 as positive vaccine announcements in the US prompted some short covering as prices fell sharply in the last month below $34 on surging Coronavirus cases around the world. Moreover, there are expectations that Opec+ nations will hold on to production cuts for the longer term as fuel demand continues to remain a major concern due to renewed lockdowns and travel restrictions in the Europe, which is badly suffering from a second wave of Coronavirus infections. However, prolonged supply cuts from Opec+ nations will likely support prices in the near term.



Source: Bloomberg, Reuters, ICICI Direct Research

Dollar weakening, vaccine hopes boost fuel demand outlook…

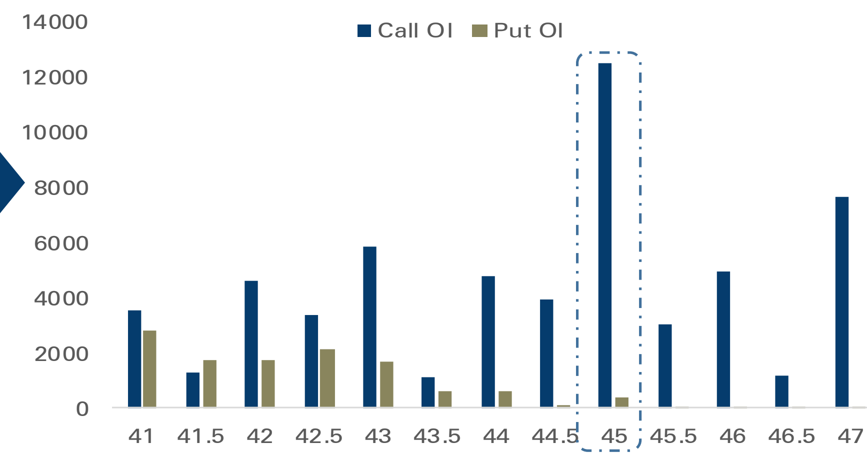
Dollar Index vs. Nymex Crude Oil



- The dollar index remained weak against a basket of major currencies. It traded below 92 level, even as a risk-on rally in global financial markets appeared to stall as US data continued to show a less-than-rosy economic picture
- The inverse correlation of dollar vs. crude oil is being re-established as continuous weakening of dollar is making commodities cheaper for holders of other currencies. Therefore, it is reviving the bargaining power of major crude oil importers

- A drop in US crude inventories extended a rally driven by hopes that vaccines would end the Coronavirus pandemic and revive fuel demand. In addition, Opec+ is leaning towards delaying next year's planned increase in output despite a rise in prices
- Prices have broken above their major resistance of $45 and are likely to continue the rally towards $49. On MCX, prices are expected to rise toward ₹ 3600. Hence, we recommend buying MCX crude oil December in range of ₹ 3250-3290 with stop loss of ₹ 3050

Nymex Crude oil options build-up



Source: Bloomberg, Reuters, ICICI Direct Research

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