



بنك الإمارات دبي الوطني  
Emirates NBD

## Commodities

3 February 2019

### Oil market weekly highlights

Crude futures recorded a strong start to the year, up more than 18% in January for WTI and more than 15% in Brent futures. The gains were the strongest month on month increase since April 2016. OPEC's production cuts, a risk-on tone to markets, no derailment of US-China trade talks and the imposition of US sanctions on PDVSA all contributed to a bullish month for oil. Prices gained in the final week of January, more than reversing the prior week's decline: WTI closed at USD 55.26/b and Brent at USD 62.75/b.

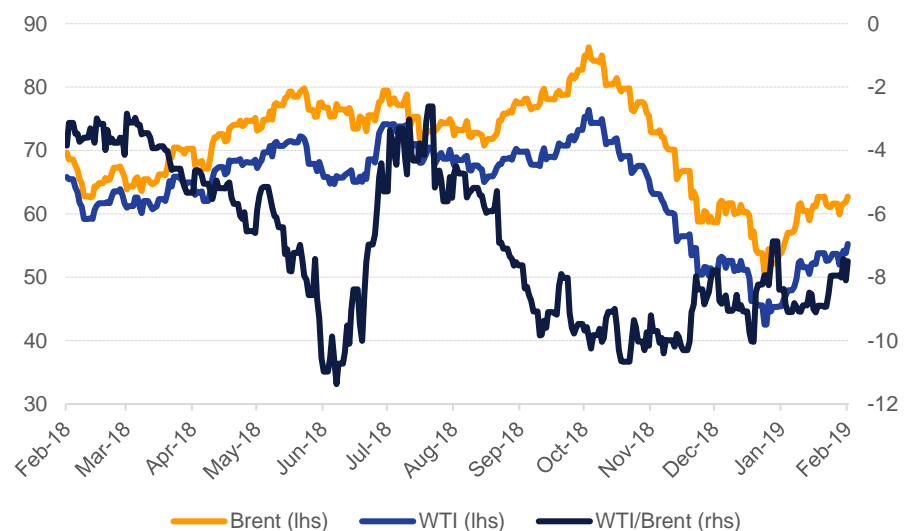
Forward curves strengthened even as there was some distortion at the front end related to the expiry of the Brent March contract. Brent Dec spreads closed at USD 0.87/b in 19/20 and more than USD 1.30/b in 20/21, their strongest levels since mid-November 2016. In WTI, the front end of the curve remains in contango but Dec spreads gained: 19/20 ended the week in a backwardation of USD 0.48/b compared with a Monday close of a contango of USD 0.12/b. Dubai spreads (1-3 month) have added nearly USD 1/b since the start of the year and ended last week in a backwardation of USD 0.66/b. With the heavy, sour market tightening in response to OPEC cuts and sanctions imposed on PDVSA the Brent/Dubai EFS is weakening consistently. Brent/Dubai EFS closed the week at USD 0.6/b, roughly half its level at the start of the year.

Inventories-globally-were roughly flat in the latest reported data. Total crude and product stocks in the US slipped by barely 0.4% while in Singapore stocks were relatively unchanged and gains in gasoil, jet and gasoline in north-west Europe were offset by large draws in fuel oil. As we outlined in our last assessment of oil inventories flat levels aren't themselves enough to support a bullish case for crude prices and we would be looking for consistent draws—similar to Q2-Q3 2018—to allow January's move in crude prices to be replicated.

The US drilling rig slipped last week by 15 rigs but did little to move the needle on overall levels. Prices for WTI at Midland have now converged roughly on par with WTI Cushing as the market prices in a slower pace of expansion by Permian producers and more access to export terminals via new pipelines opening later this year. Mars, a benchmark for heavier sour crude in the Gulf of Mexico, rose to more than USD 7/b above WTI in late January as the market assessed the impact of sanctions on PDVSA but ended last week below USD 5/b as maintenance season in the region beckons.

Conditions for Asia refineries remain lackluster. Benchmark Singapore gasoline cracks on Brent remain negative and fell to as low as USD -2.85/b mid last week. Our representative 321 margin for Singapore margins last week fell to just USD 0.51/b for dated Brent and USD 0.33/b for Dubai.

#### Oil prices bounce sharply in January



Source: EIKON, Emirates NBD Research.

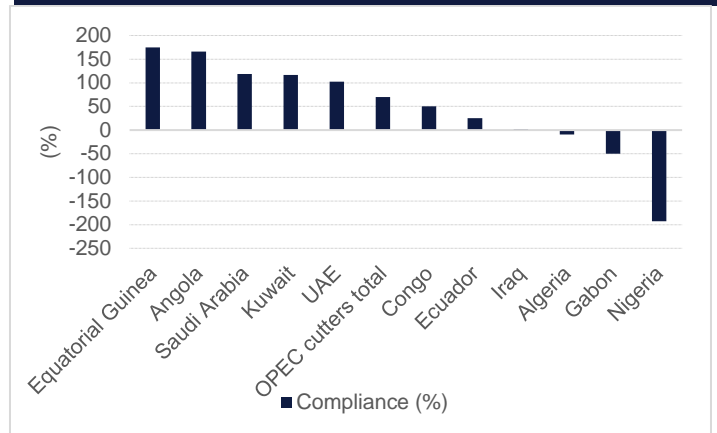
Edward Bell  
Commodities Analyst  
+971 4 230 7701  
edwardpb@emiratesnbd.com

## OPEC cuts begin to take effect

The first surveys of OPEC's production levels for January are hitting the markets and are coming in roughly as expected. Total production fell by nearly 900k b/d month on month in January, following on from an already sharp decline of 630k b/d recorded in January (Reuters estimates). Total production has fallen three months running and fell to slightly below 31m b/d in January (excluding Qatar).

Production cuts were consistent across all members as markets will fix their scrutiny on how compliant OPEC countries have been in meeting the terms of their December production cut decision. Saudi Arabia contributed the largest share of the monthly cuts—350k b/d—while output in the UAE fell by 170k b/d, Kuwait 90k b/d and Iraq was down 50k b/d. Output in both Iran and Venezuela, where the oil industries are under US sanctions, fell by 50k b/d a piece.

## OPEC compliance levels

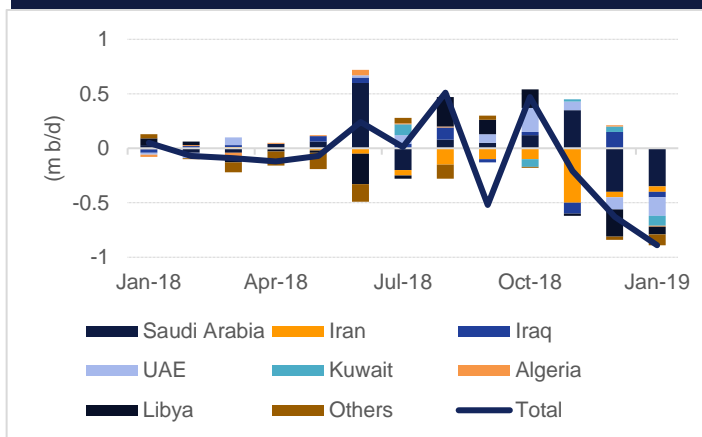


Source: Eikon, Emirates NBD Research.

Maintaining constructive relations between producers within OPEC+ will be necessary to ensure unity in the face of external pressure on production levels, particularly from US president Donald Trump. If prices repeat another month like January's strong performance we would expect Trump to begin another Twitter barrage at OPEC, shaking confidence in the sustainability of any rallies.

Our expectation is for OPEC MENA producers to be roughly as compliant as they were in 2017-18 with their production cut targets, meaning over-compliance by Saudi Arabia and the UAE and under-delivery by Iraq and Algeria. By the second half of the year we forecast that production will be increasing from most producers as they seek to occupy market-share ceded by declining production in Venezuela and Iran. However, this trend of increasing/decreasing production will lock producers into a pro-cyclical pattern of chasing moves in oil prices in the name of keeping markets balanced. OPEC actions, given how heavy handed they are in shifting markets, may end up exacerbating rather than tempering volatility in oil prices.

## OPEC cuts take effect



Source: Eikon, Emirates NBD Research. Note: m/m change.

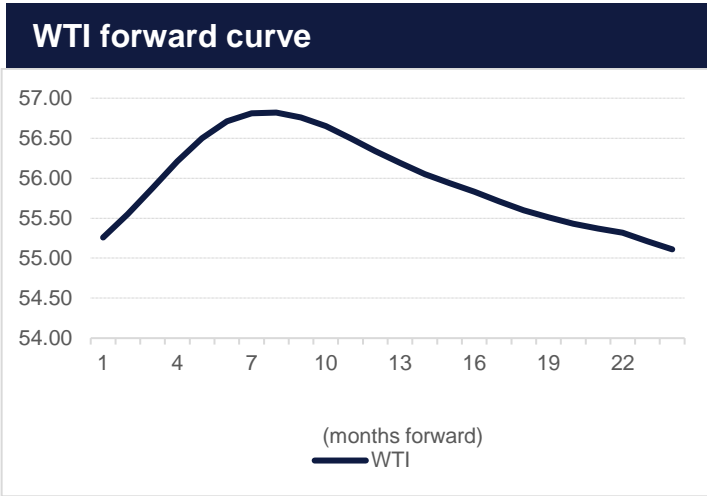
While countries across OPEC did cut production month on month, their adherence to production targets remains varied. Among the large producers Saudi Arabia's production cut hit 118% of its targeted level while the UAE came in at nearly 100%. Iraq underperformed, achieving just 2% of its targeted cut of 141k b/d from its October reference level. Collective compliance hit 70%, implying those members committed to the cuts will need to deepen their cuts more to achieve the cuts of 812k b/d pledged by OPEC members.

Russia's oil production has also decline m/m in January as the country is party to the production cut agreement. However, its level of compliance has fallen far short of most large OPEC producers, achieving -19% adherence to its target of 11.19m b/d. The official targets for OPEC+ producers could end up being a double edged sword in terms of achieving consensus on production levels going forward. On one hand they can give a strong signal to markets over the level of commitment by major producers to addressing over-supply in the market. But on the other hand, they may sow division within OPEC as those countries doing the heavy lifting (ie, Saudi Arabia) take free riders to task or pay little attention to their views on markets.

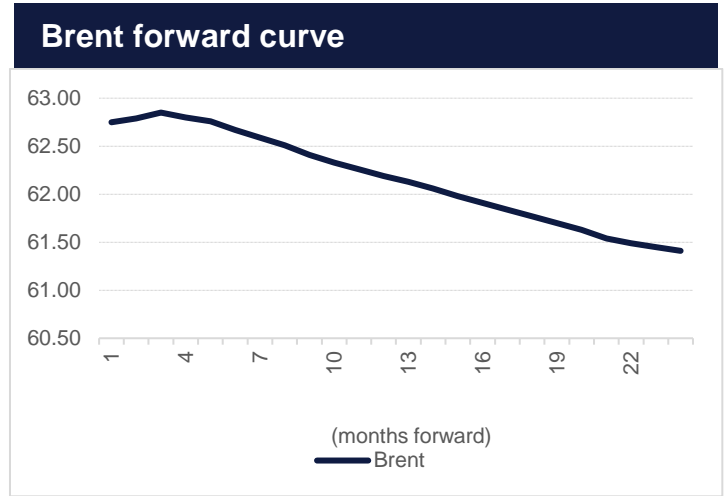
## Oil market volatility picks up



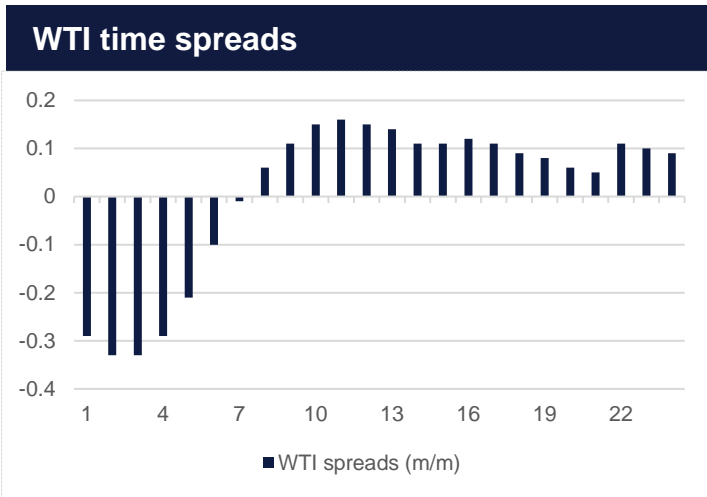
Source: Eikon, Emirates NBD Research.



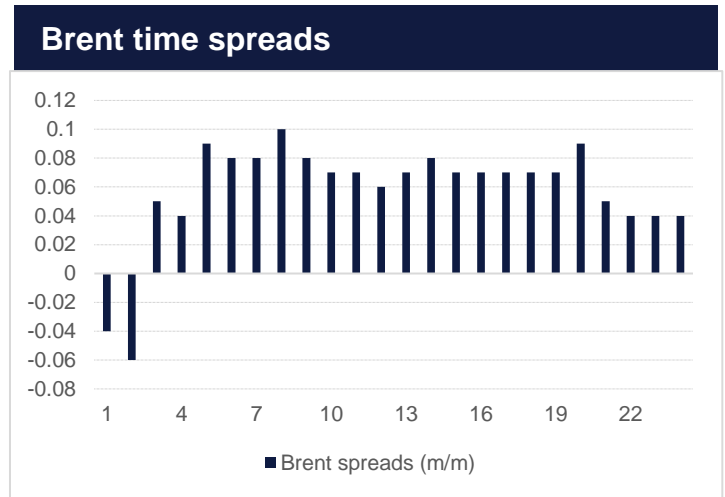
Source: EIKON, Emirates NBD Research. Note: USD/b.



Source: EIKON, Emirates NBD Research. Note: USD/b.



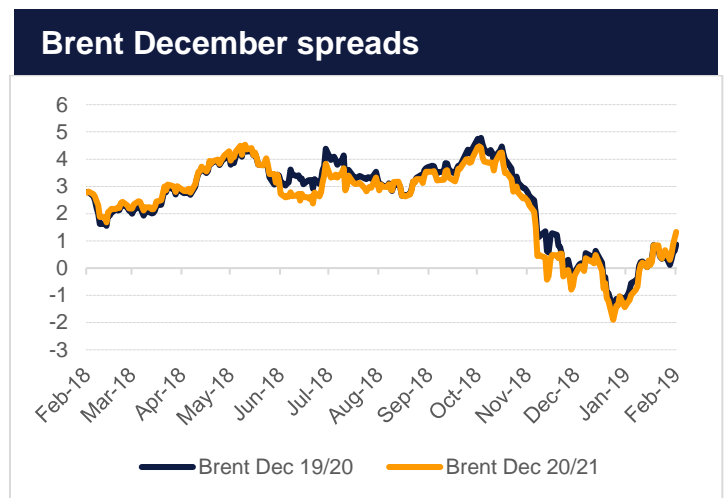
Source: EIKON, Emirates NBD Research. Note: USD/b.



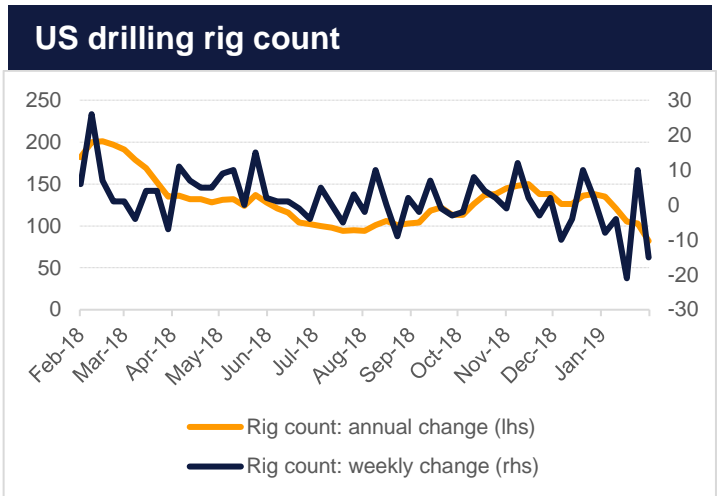
Source: EIKON, Emirates NBD Research. Note: USD/b.



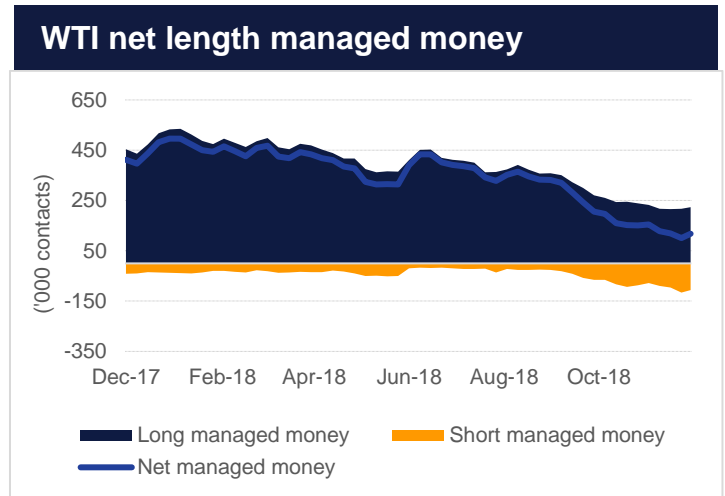
Source: EIKON, Emirates NBD Research. Note: USD/b.



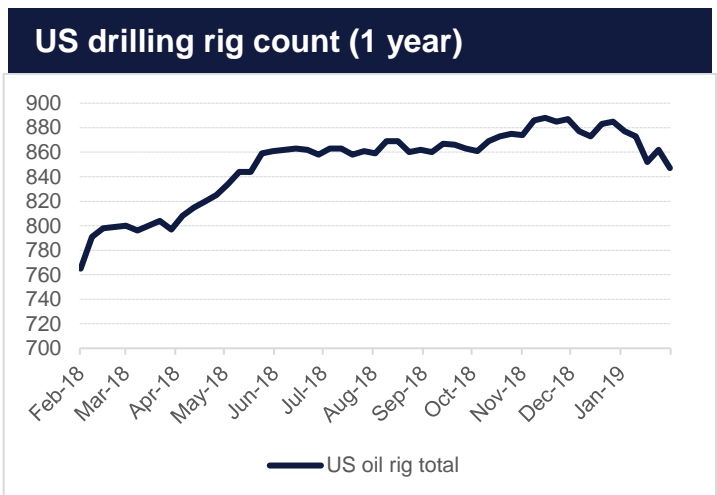
Source: EIKON, Emirates NBD Research. Note: USD/b.



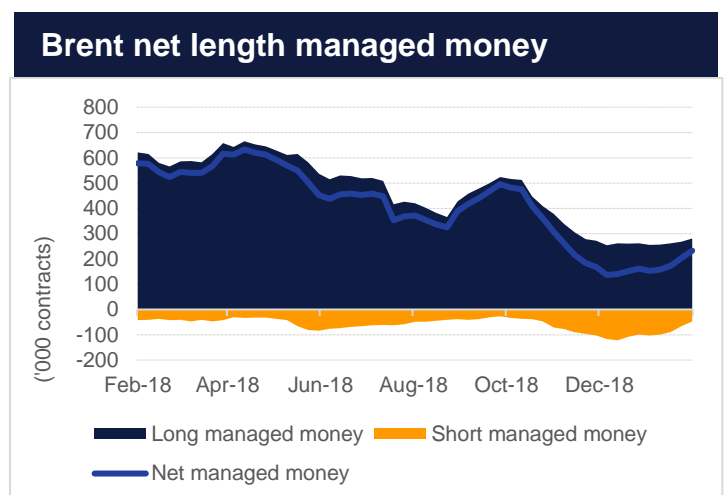
Source: EIKON, Emirates NBD Research.



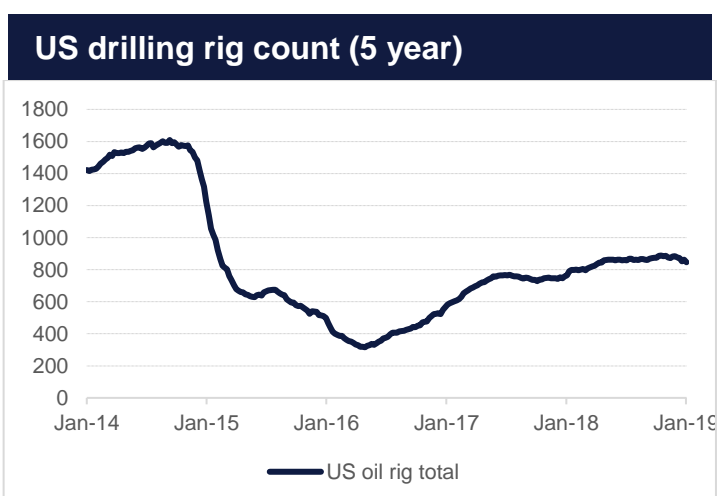
Source: EIKON, Emirates NBD Research. Note: NYMEX futures and options only.



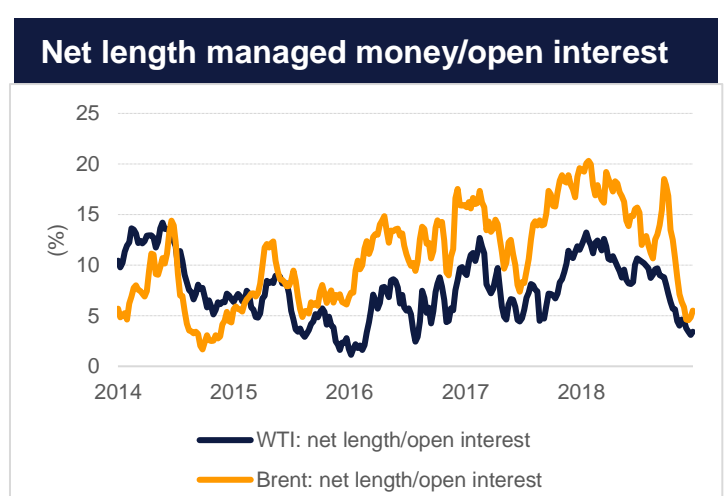
Source: EIKON, Emirates NBD Research.



Source: EIKON, Emirates NBD Research. Note: ICE only.



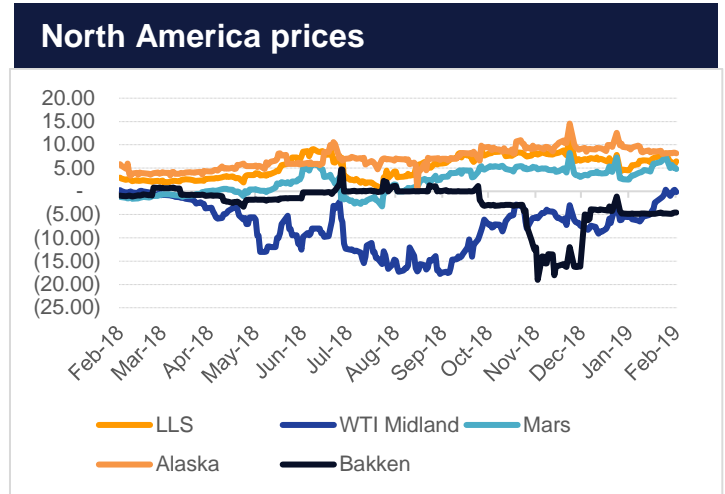
Source: EIKON, Emirates NBD Research.



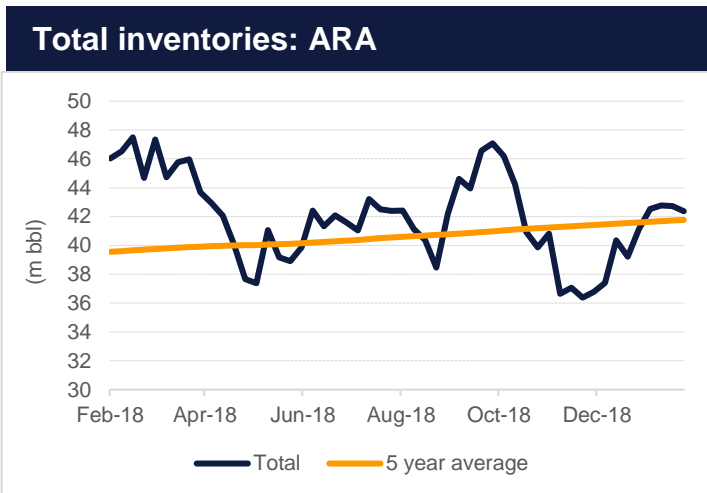
Source: EIKON, Emirates NBD Research. Note: NYMEX and ICE. Delayed until US government shutdown ends.



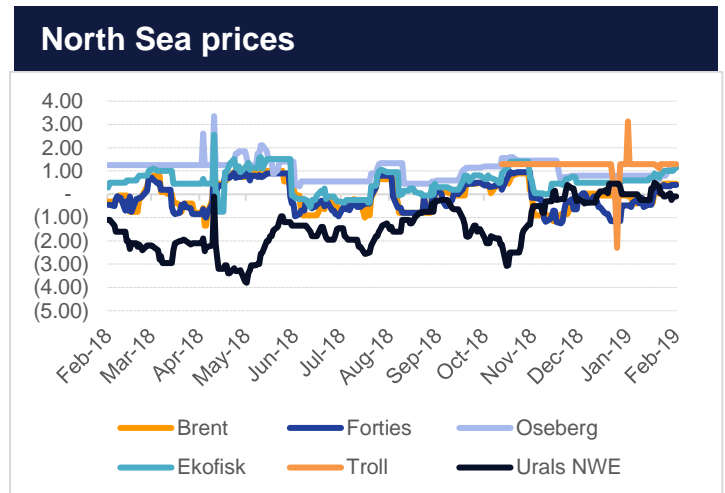
Source: EIKON, Emirates NBD Research. Note: crude and products.



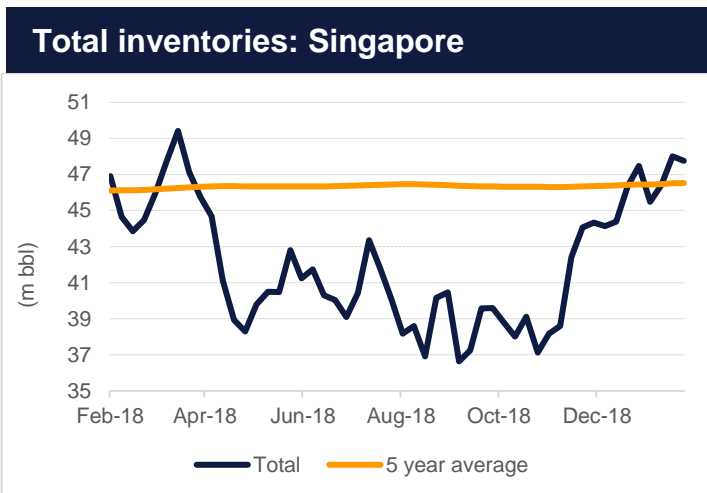
Source: EIKON, Emirates NBD Research. Note: USD/b



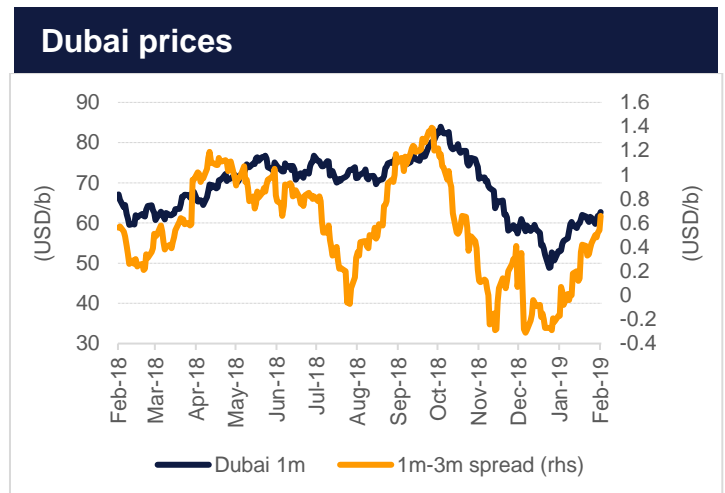
Source: EIKON, Emirates NBD Research. Note: products only.



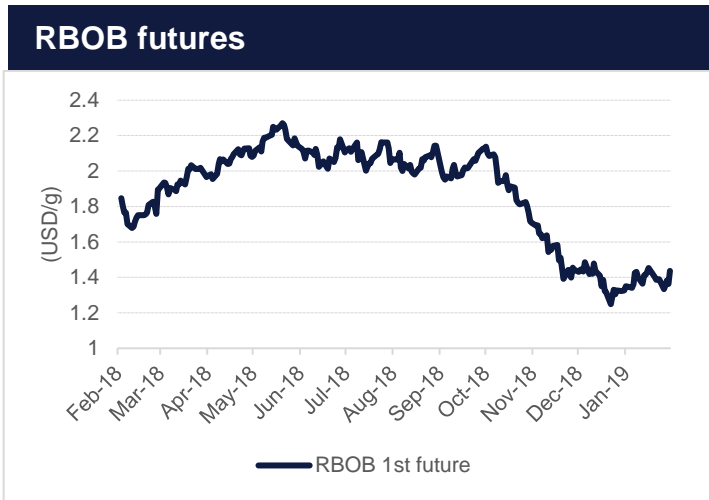
Source: EIKON, Emirates NBD Research. Note: USD/b.



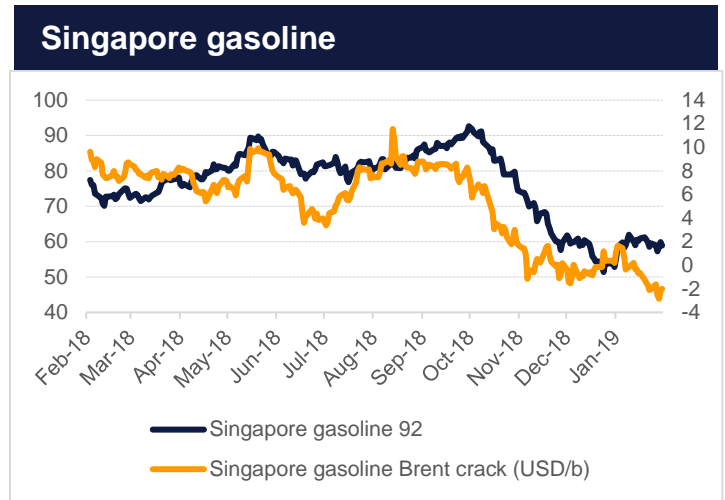
Source: EIKON, Emirates NBD Research. Note: products only.



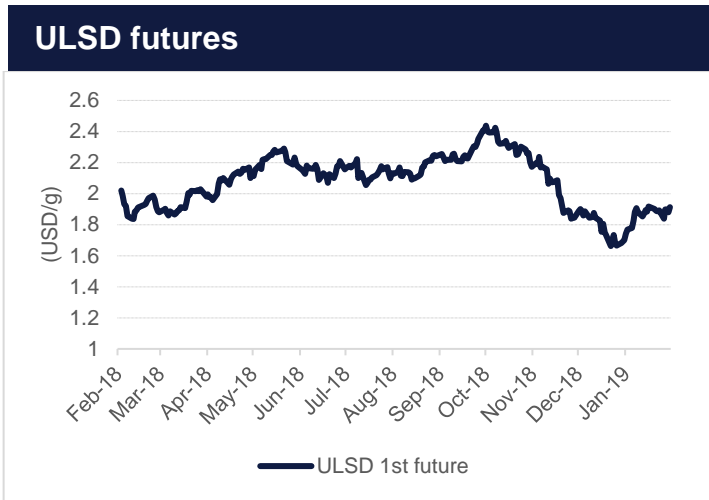
Source: EIKON, Emirates NBD Research. Note: USD/b.



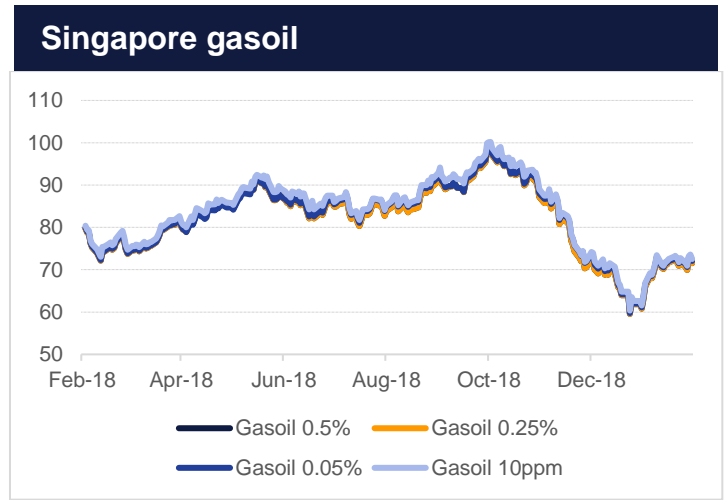
Source: EIKON, Emirates NBD Research



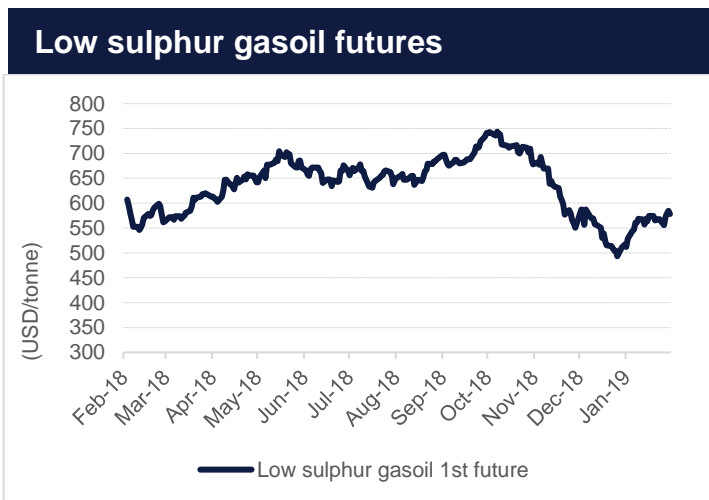
Source: EIKON, Emirates NBD Research



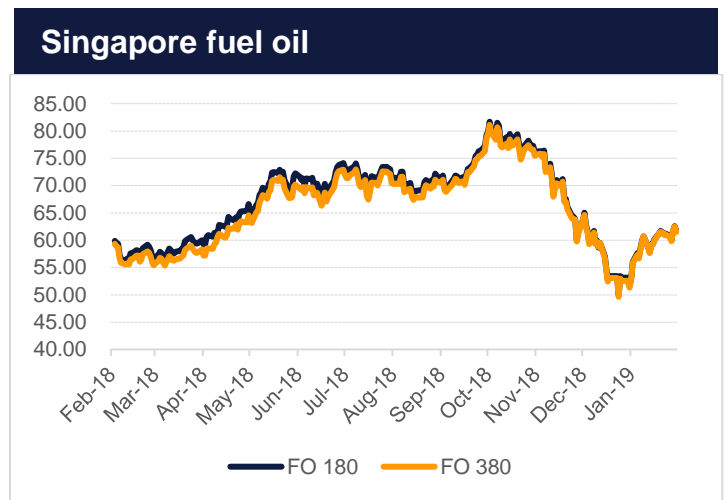
Source: EIKON, Emirates NBD Research.



Source: EIKON, Emirates NBD Research

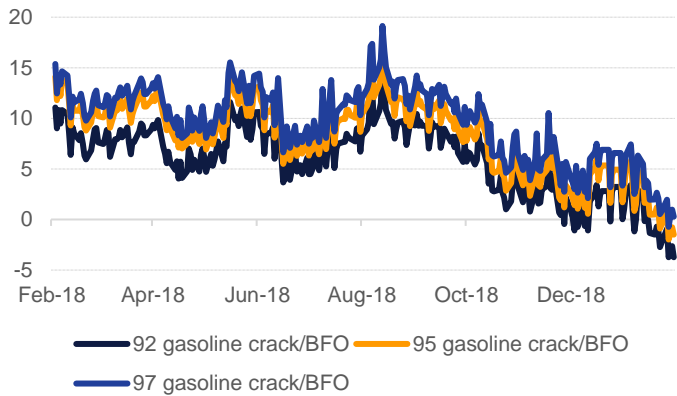


Source: EIKON, Emirates NBD Research



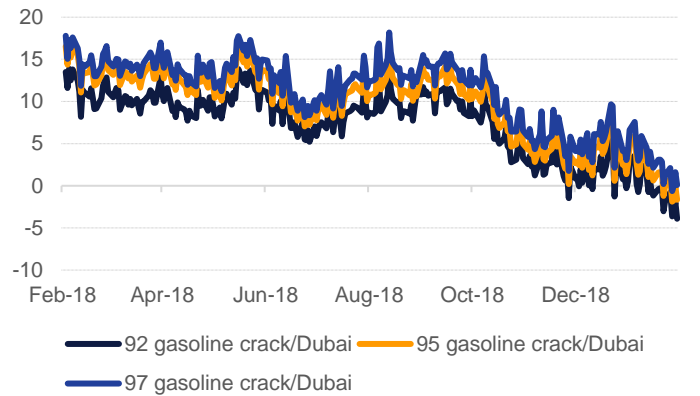
Source: EIKON, Emirates NBD Research

### Singapore/BFO crack gasoline



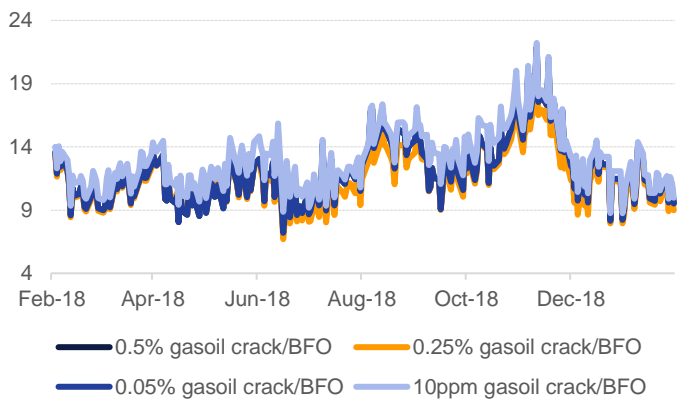
Source: EIKON, Emirates NBD Research

### Singapore/Dubai crack gasoline



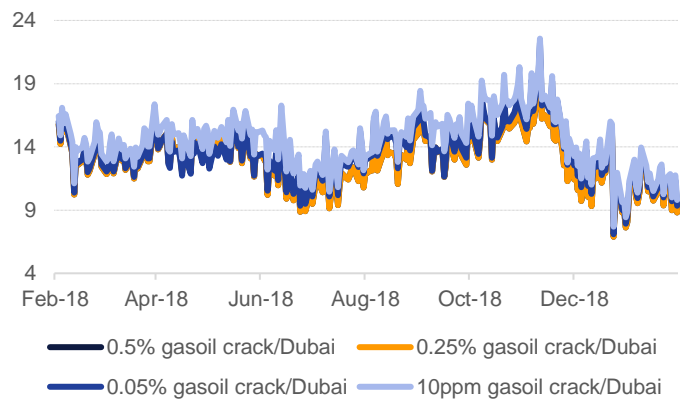
Source: EIKON, Emirates NBD Research.

### Singapore/BFO crack gasoil



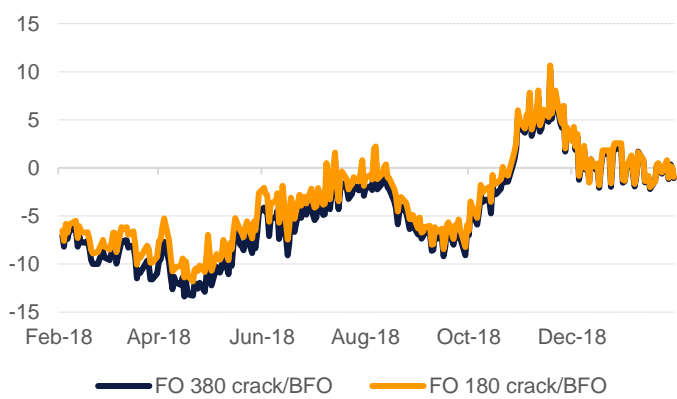
Source: EIKON, Emirates NBD Research.

### Singapore/Dubai crack gasoil



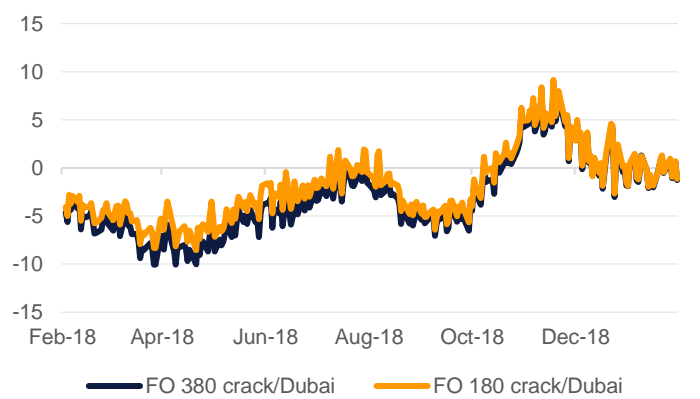
Source: EIKON, Emirates NBD Research.

### Singapore/BFO crack fuel oil



Source: EIKON, Emirates NBD Research

### Singapore/Dubai crack fuel oil



Source: EIKON, Emirates NBD Research.

## Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.



---

## Emirates NBD Research & Treasury Contact List

**Emirates NBD Head Office**  
12th Floor  
Baniyas Road, Deira  
P.O.Box 777  
Dubai

**Jonathan Morris**  
General Manager Wholesale Banking  
JonathanM@emiratesnbd.com

**Aazar Ali Khwaja**  
Senior Executive Vice President  
Global Markets & Treasury  
+971 4 609 3000  
aazark@emiratesnbd.com

**Tim Fox**  
Head of Research &  
Chief Economist  
+9714 230 7800  
timothyf@emiratesnbd.com

---

### Research

**Khatija Haque**  
Head of MENA Research  
+9714 230 7803  
khatijah@emiratesnbd.com

**Anita Yadav**  
Head of Fixed Income Research  
+9714 230 7630  
anitay@emiratesnbd.com

**Aditya Pugalia**  
Director - Financial Markets Research  
+9714 230 7802  
adityap@emiratesnbd.com

**Athanasios Tsetsonis**  
Sector Economist  
+9714 230 7629  
athanasiost@emiratesnbd.com

**Edward Bell**  
Commodity Analyst  
+9714 230 7701  
edwardpb@emiratesnbd.com

**Daniel Richards**  
MENA Economist  
+9714 609 3032  
danielricha@emiratesnbd.com

**Mohammed Altajir**  
FX Analytics and Product Development  
+9714 609 3005  
mohammedtaj@emiratesnbd.com

**Hessa Al Khawaja**  
Research Associate  
+9714 609 3015  
Hessaalkh@emiratesnbd.com

---

### Sales & Structuring

**Group Head – Treasury Sales**  
Tariq Chaudhary  
+971 4 230 7777  
tariqmc@emiratesnbd.com

**Saudi Arabia Sales**  
Numair Attiyah  
+966 11 282 5656  
numaira@emiratesnbd.com

**Singapore Sales**  
Supriyakumar Sakhalkar  
+65 65785 627  
supriyakumars@emiratesnbd.com

**London Sales**  
+44 (0) 20 7838 2241

**Egypt**  
Gary Boon  
+20 22 726 5040  
garyboon@emiratesnbd.com

---

### Emirates NBD Capital

**Hitesh Asarpota**  
Head of Debt Capital Markets.  
+971 50 4529515  
asarpotah@EmiratesNBD.com

---

### Investor Relations

**Patrick Clerkin**  
+9714 230 7805  
patricke@emiratesnbd.com

---

### Group Corporate Affairs

**Ibrahim Sowaidan**  
+9714 609 4113  
ibrahims@emiratesnbd.com

**Claire Andrea**  
+9714 609 4143  
clairea@emiratesnbd.com