



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

15 March 2020

Oil market lowlights

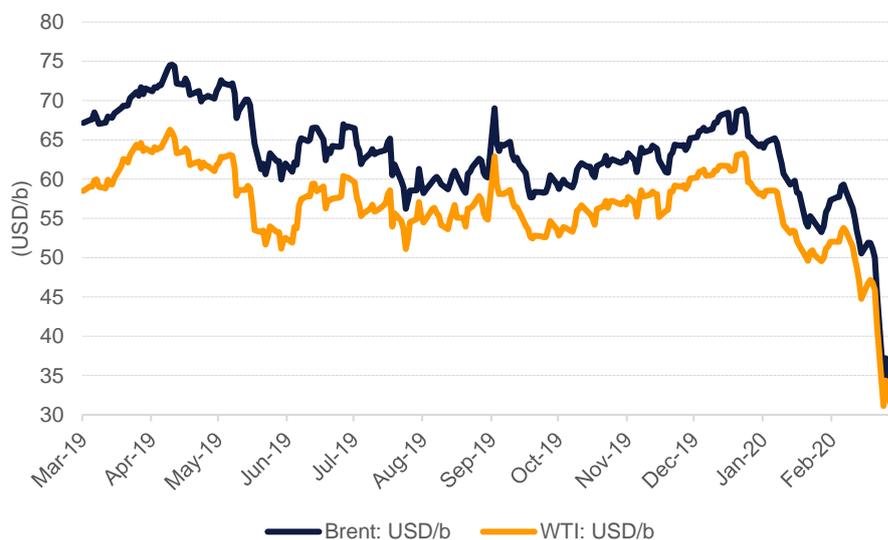
Oil markets collapsed last week under the weight of the Saudi-Russia price war, a complete exodus from risk assets and escalating panic over the spread of Covid19. Travel restrictions imposed by countries are now not a matter of if but when and who's next. The US has announced a state of emergency, France and Spain have imposed lockdowns to try and control the spread of the virus and several additional countries have imposed border closures. We don't think the dust has entirely settled yet but at the end of the week Brent futures closed at USD 33.85/b, down 25%, while WTI fell to USD 31.73/b, a drop of 23%. Both contracts recorded their largest weekly decline since the Global Financial Crisis.

At the moment uncertainty in markets is paramount and the modest rally we saw on Friday for both Brent and WTI—amid a surge in equity prices too—probably reflects positioning more than fundamentals. Indeed as global travel comes as close to an abrupt halt as is seemingly possible and major economies hit the pause button the impact on oil demand going forward will most likely be worse than the IEA's recent downside risk projections. Announcements from Saudi Aramco, ADNOC and other OPEC producers about raising output imply that the onslaught of crude to hit markets in a few weeks will be enormous, swelling inventories to unprecedented levels. Forward curves took an absolute nose-dive as traders hunt for storage options amid the collapse in demand. December spreads for 2020/21 closed at USD 4.61/b for Brent and USD 4.32/b in WTI, more than 1.5x higher than a week earlier. Time spreads in the Dubai market sank to USD 1.7/b in contango for the 1-3 month spread.

The US administration that it would make extensive purchases of crude to replenish the country's strategic petroleum reserve, amounting to around 77m bbl. The pace of purchases and inventory injections won't be enough to offset the surge expected from Saudi Arabia and other producers or have a profound effect in restoring markets to anywhere close to balance if demand deteriorates as badly as some market participants expect: Trafigura warned oil demand could collapse by 10m b/d this year.

Markets will now be tracking closely how immediately the price crash hits E&P companies in the US. The drilling rig count plummeted in 2015, the last time OPEC adopted a price war/market-share strategy. Last week the rig count actually moved higher by 1 rig but we don't put much stock in levels announced in recent weeks. Should the rig count fall heavily and quickly over the coming months it will arrest total growth in US output, albeit not likely by enough to compensate for the growth in OPEC and Russian production.

Oil markets collapse as price war declared

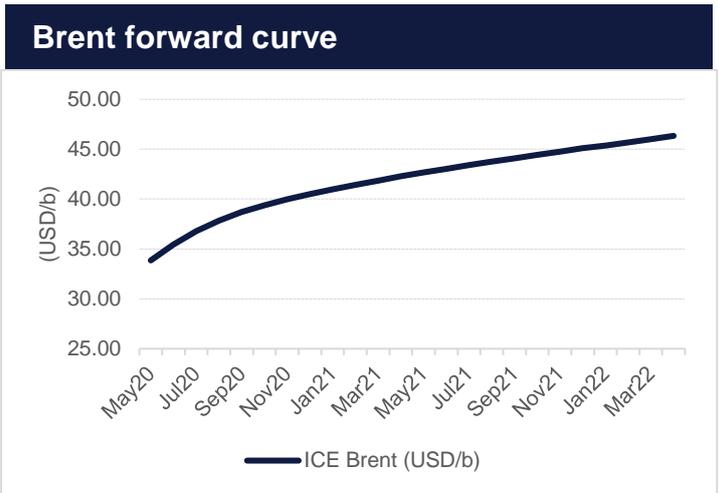


Source: Bloomberg, Emirates NBD Research.

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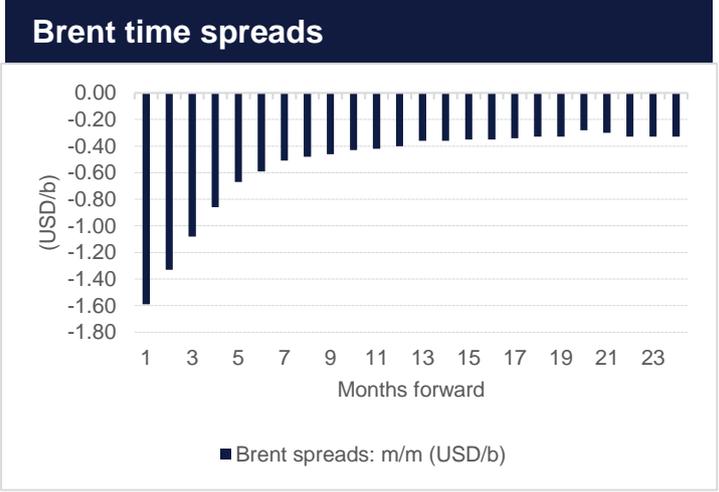
Source: Bloomberg, Emirates NBD Research. Note: USD/b.



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



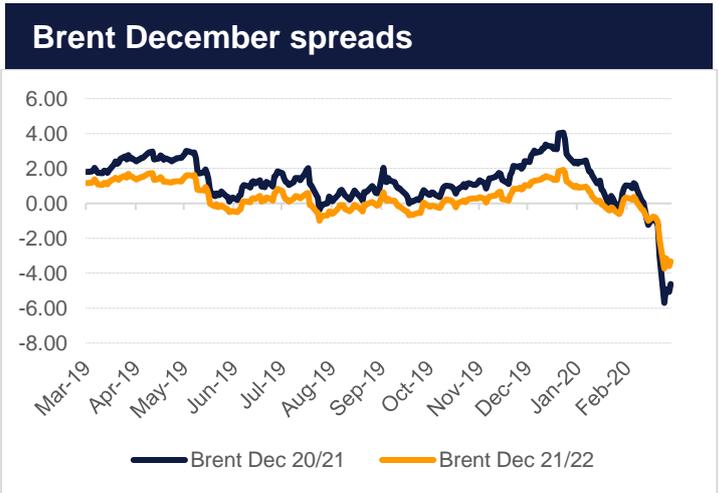
Source: Bloomberg, Emirates NBD Research. Note: USD/b.



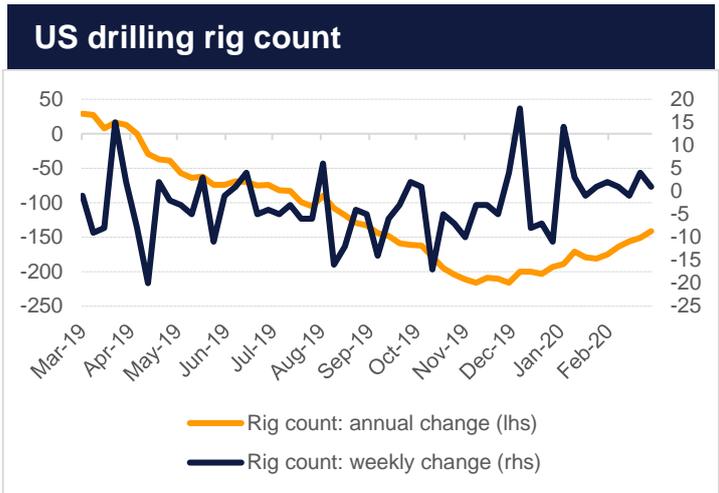
Source: Bloomberg, Emirates NBD Research. Note: USD/b.



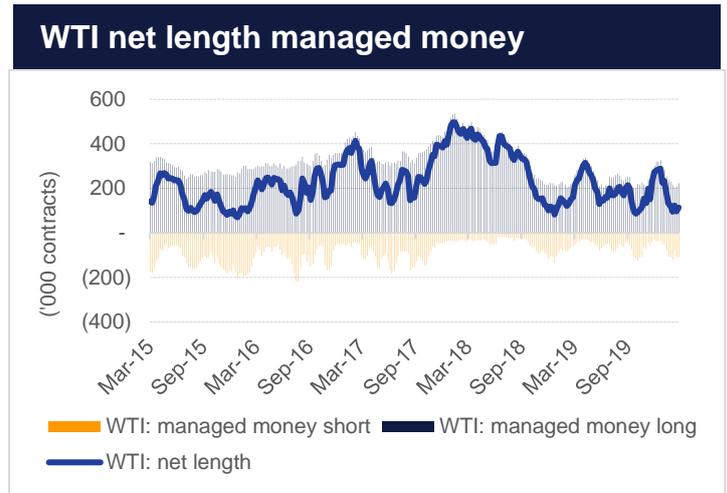
Source: Bloomberg, Emirates NBD Research. Note: USD/b.



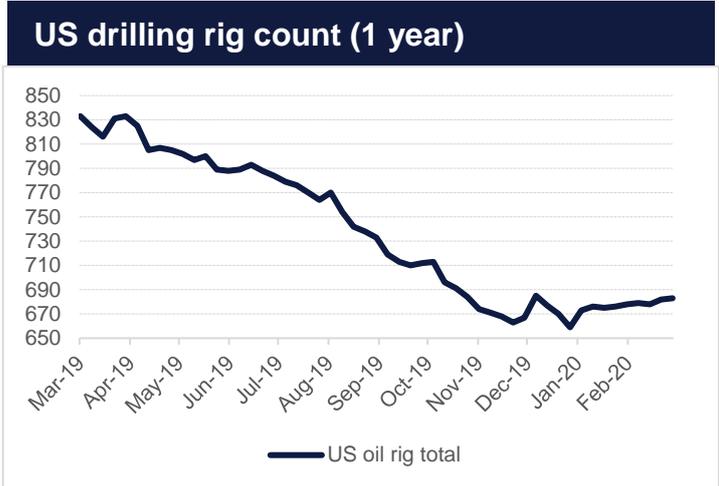
Source: Bloomberg, Emirates NBD Research. Note: USD/b.



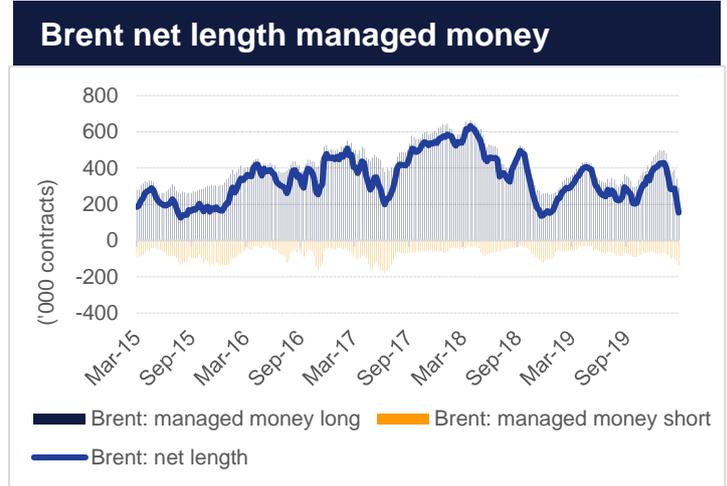
Source: Bloomberg, Emirates NBD Research.



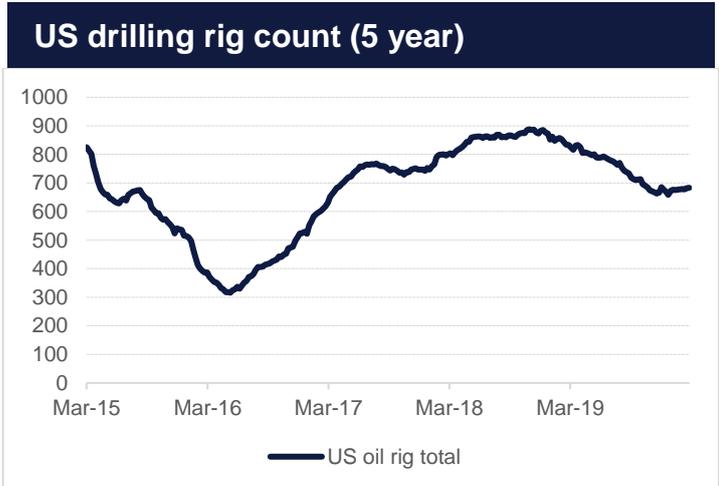
Source: Bloomberg, Emirates NBD Research. Note: NYMEX futures and options only.



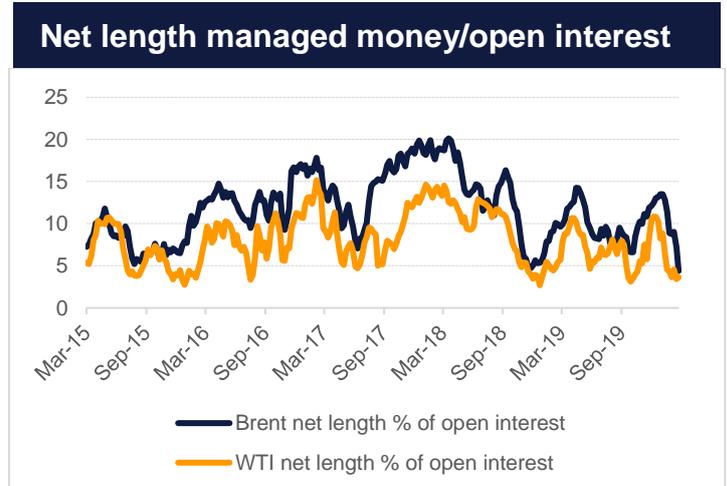
Source: Bloomberg, Emirates NBD Research.



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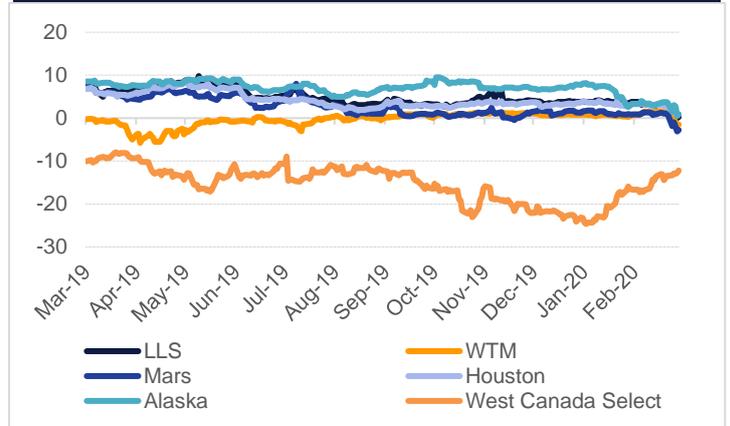
Source: Bloomberg, Emirates NBD Research.

Total crude stocks: US



Source: Bloomberg, Emirates NBD Research.

North America prices



Source: Bloomberg, Emirates NBD Research. Note: spread to WTI USD/b

Total inventories: ARA



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

Brent/Dubai spread



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

Total inventories: Singapore



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

Dubai market 1-3 month spread



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

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