بنك الإمارات دبي الوطني
Emirates NBD

Commodities

26 May 2019

Oil market weekly highlights

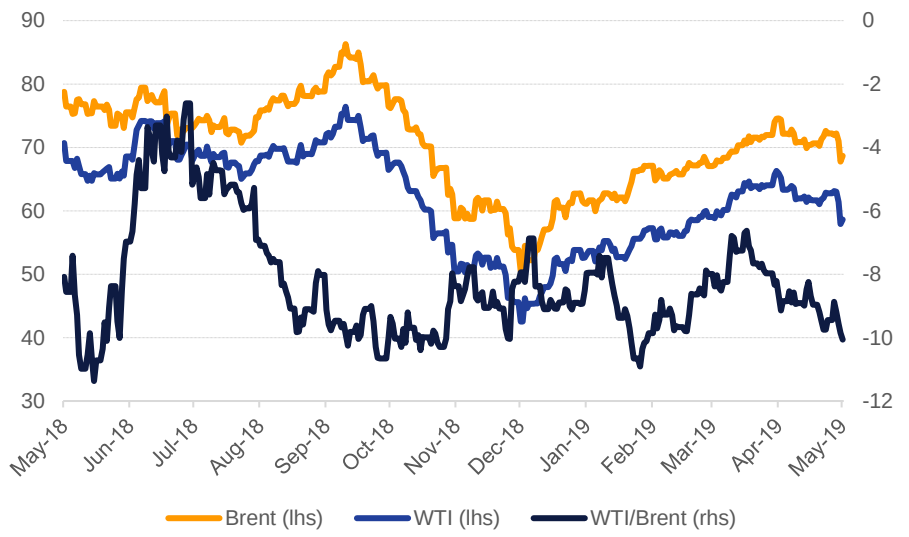
Fears that the trade war between the US and China will escalate pushed oil prices lower last week with both Brent and WTI futures recording their largest weekly loss for 2019. Brent fell 4.9% to settle at USD 68.69/b while WTI ended the week at USD 58.63/b, down nearly 6.6%. The weak performance stretched across benchmark equity markets and industrial commodities as investors anticipate trade relations between the US and China getting worse before they get better.

Oil markets had been lulled into a false sense of stability, holding into relatively narrow ranges in both WTI and Brent and recording unusually low volatility. However, as we laid out in our latest Monthly Insights (May 2019), we ascribed this stability to two opposing but balanced forces affecting crude prices: support from OPEC+ production restraint and geopolitical tension and opposition from the risk a trade war could damage the global economy. For now it appears that fear of a trade war has gained the upper hand in terms of setting the direction for prices in the near term and considering that investors had been relatively long in their Brent positions a further sell-off could be in the offing.

Despite the weakness in spot prices, the front end of the Brent curve actually saw backwardation widen last week. Spreads for 1-2 months hit USD 1.22/b at the end of the week, compared with USD 0.95/b a week earlier. WTI also pushed closer into backwardation, ending the week at roughly neutral on the 1-2 month spread. The relative strength of the very short end of the curve likely reflects the market pricing in a known variable of lower supplies from OPEC+ against a more intangible impact of how a trade war will affect commodity demand. Indeed, the impact from a trade war is a more medium- to long-term issue and Dec spreads weakened sharply over the last week.

Investors haven't exactly bolted out of long positions, particularly in Brent, but some signs of low confidence are creeping into positioning data. Net speculative length in Brent futures and options declined a second week running as investors added more than 5k lots of new short positions. WTI net speculative length fell for a fourth week in a row even as the drilling rig count in the US continued to decline (down five rigs last week).

Oil futures continue to push higher



Source: EIKON, Emirates NBD Research.

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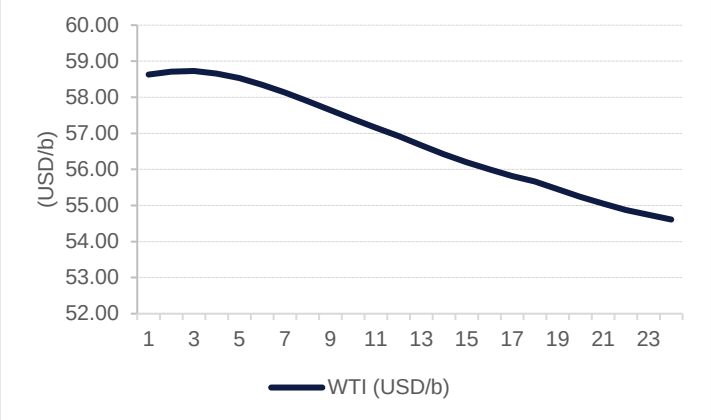
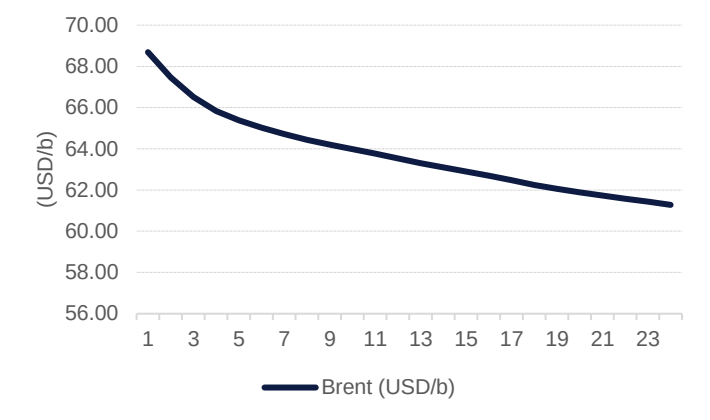
WTI forward curve



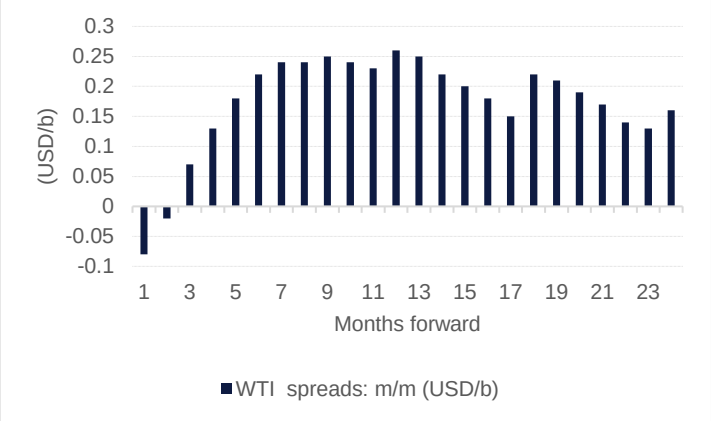
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent forward curve



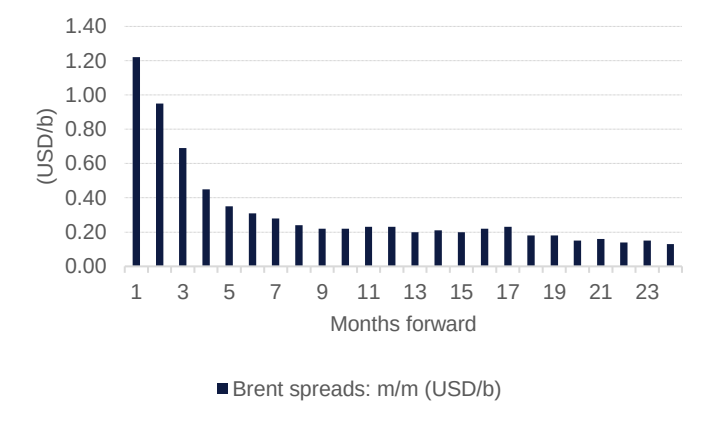
Source: EIKON, Emirates NBD Research. Note: USD/b.

WTI time spreads



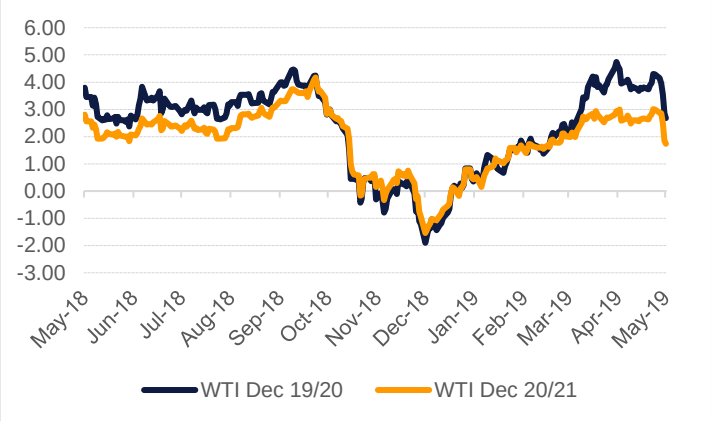
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent time spreads



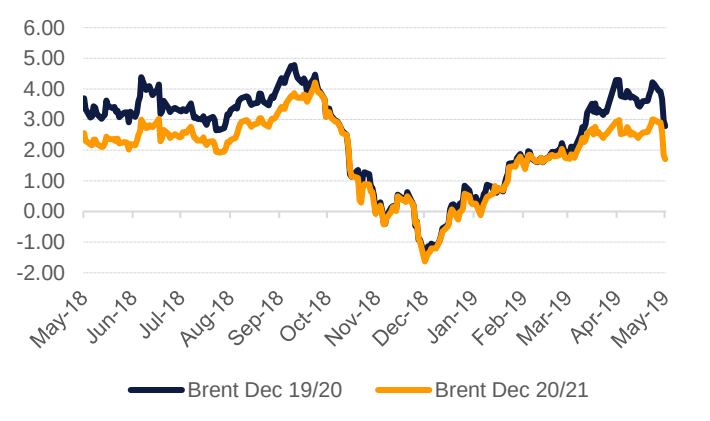
Source: EIKON, Emirates NBD Research. Note: USD/b.

WTI December spreads



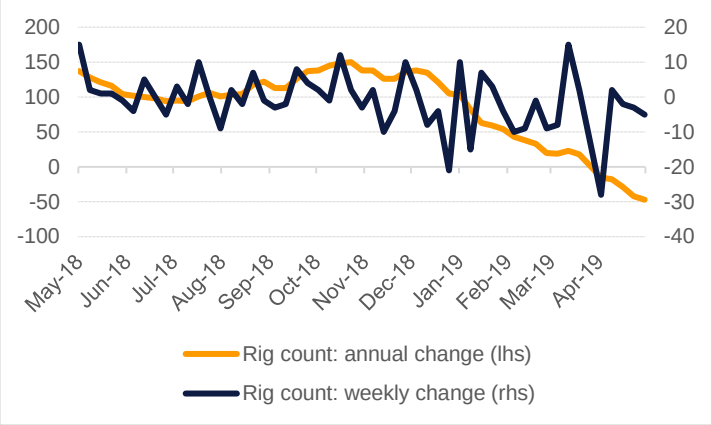
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent December spreads



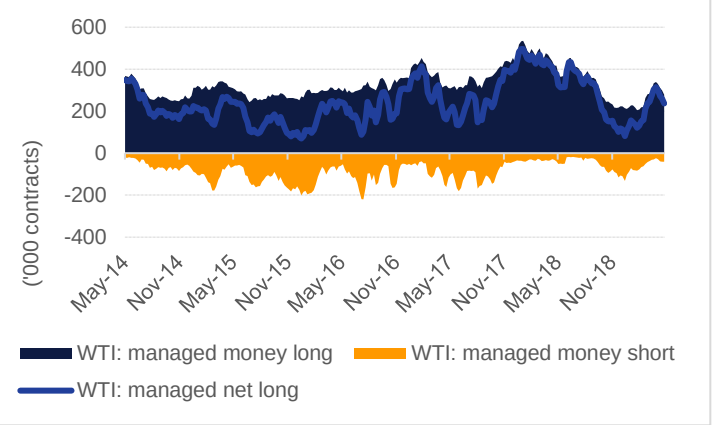
Source: EIKON, Emirates NBD Research. Note: USD/b.

US drilling rig count



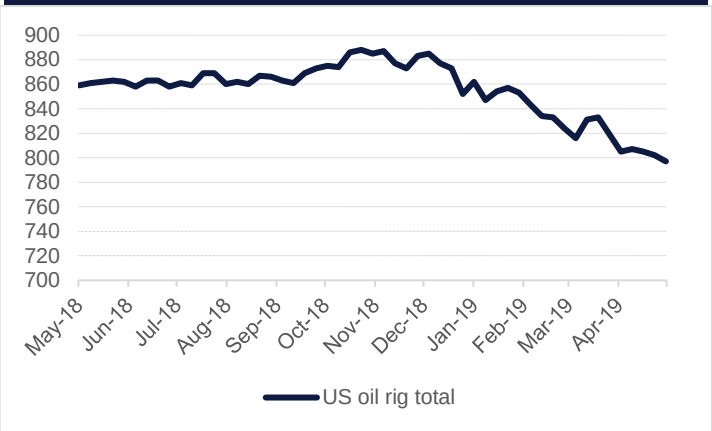
Source: EIKON, Emirates NBD Research.

WTI net length managed money



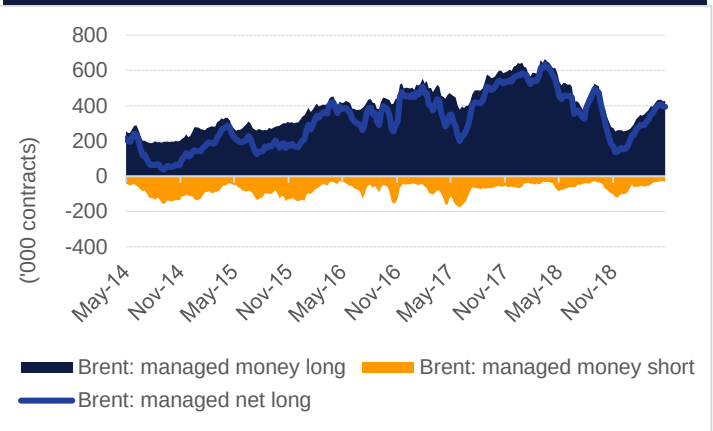
Source: EIKON, Emirates NBD Research. Note: NYMEX futures and options only.

US drilling rig count (1 year)



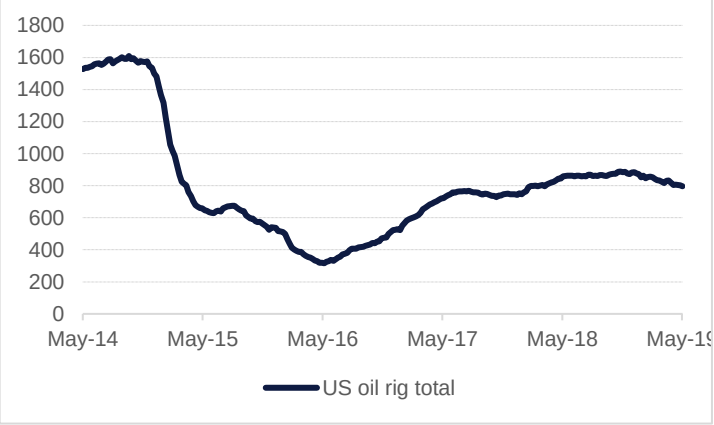
Source: EIKON, Emirates NBD Research.

Brent net length managed money



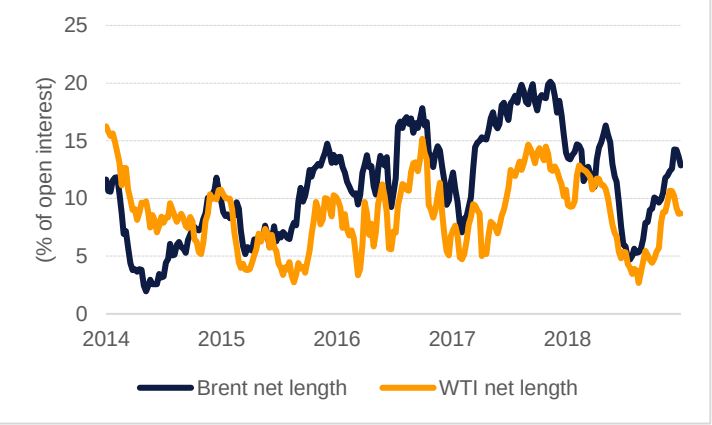
Source: EIKON, Emirates NBD Research. Note: ICE only.

US drilling rig count (5 year)



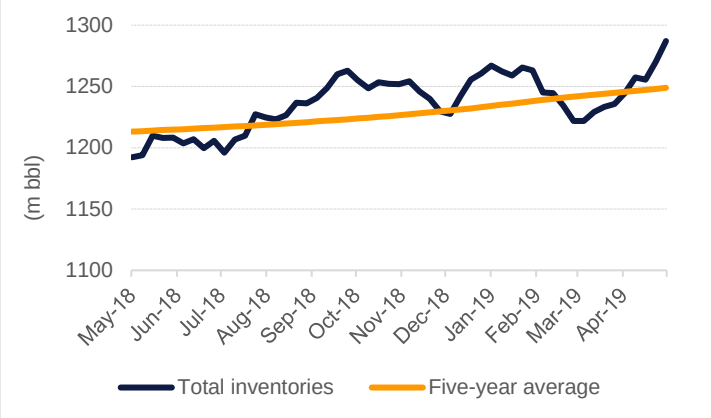
Source: EIKON, Emirates NBD Research.

Net length managed money/open interest



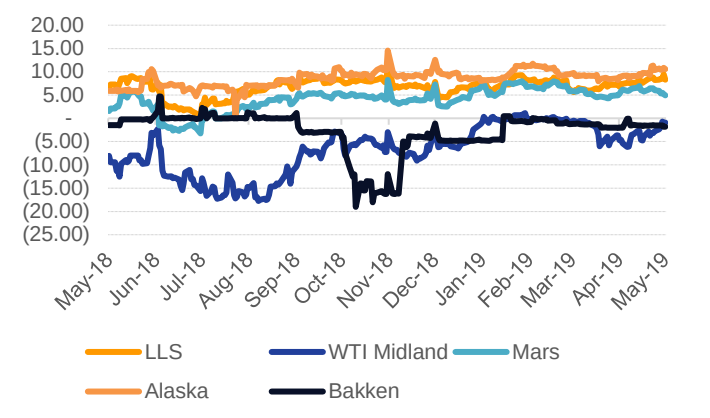
Source: EIKON, Emirates NBD Research. Note: NYMEX and ICE.

Total inventories: US



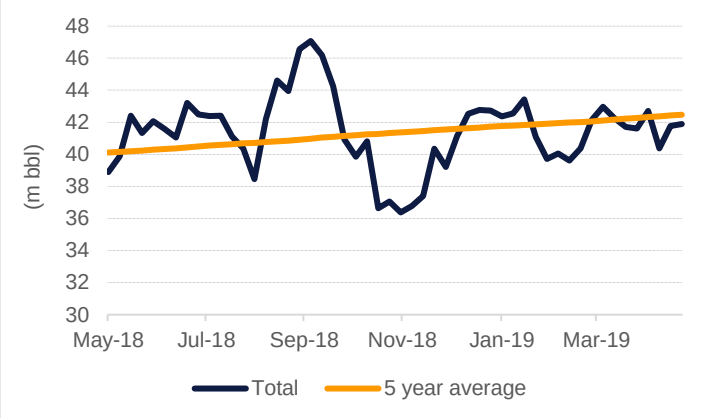
Source: EIKON, Emirates NBD Research. Note: crude and products.

North America prices



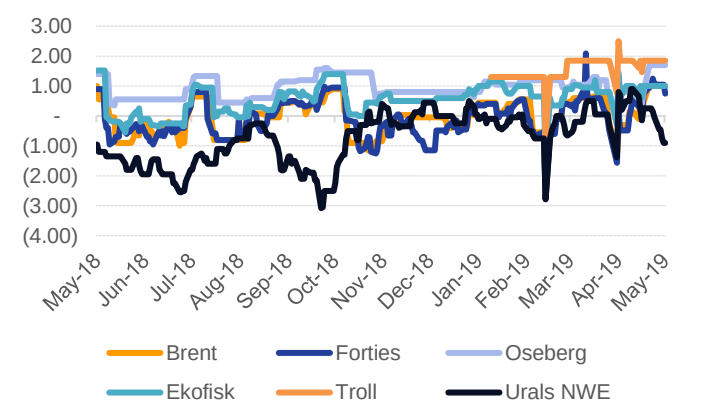
Source: EIKON, Emirates NBD Research. Note: USD/b

Total inventories: ARA



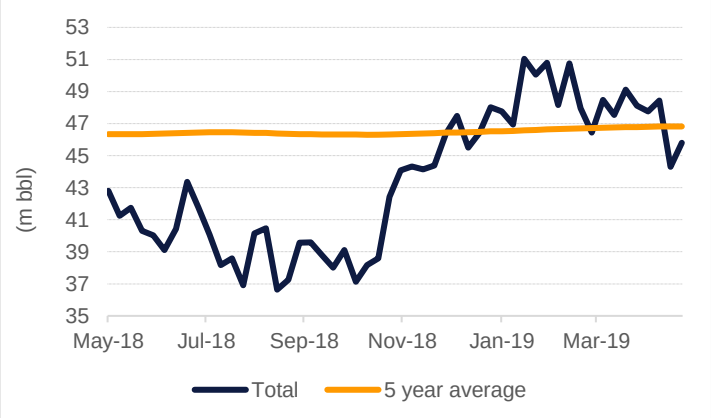
Source: EIKON, Emirates NBD Research. Note: products only.

North Sea prices



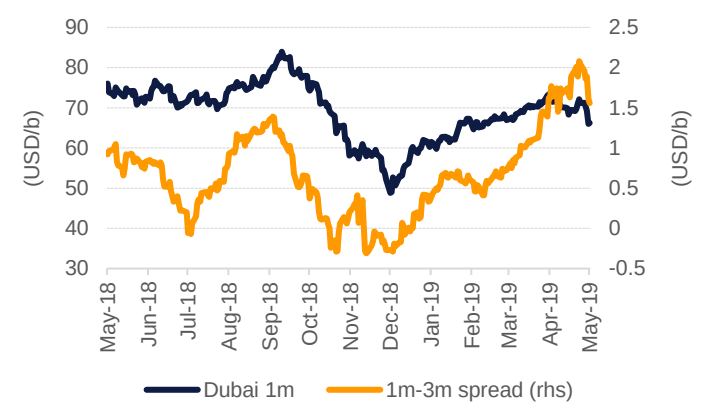
Source: EIKON, Emirates NBD Research. Note: USD/b.

Total inventories: Singapore



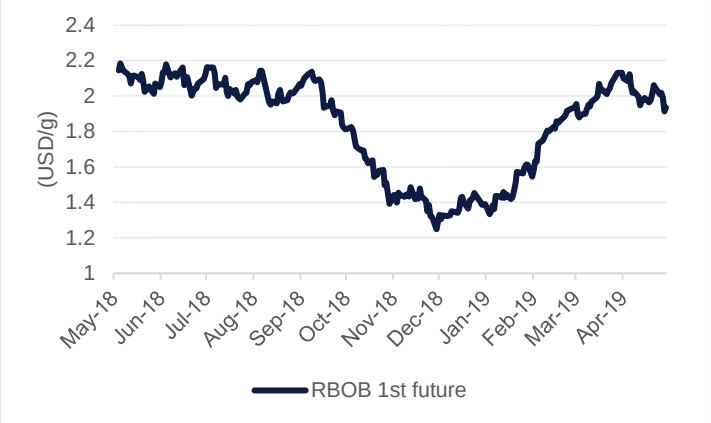
Source: EIKON, Emirates NBD Research. Note: products only.

Dubai prices



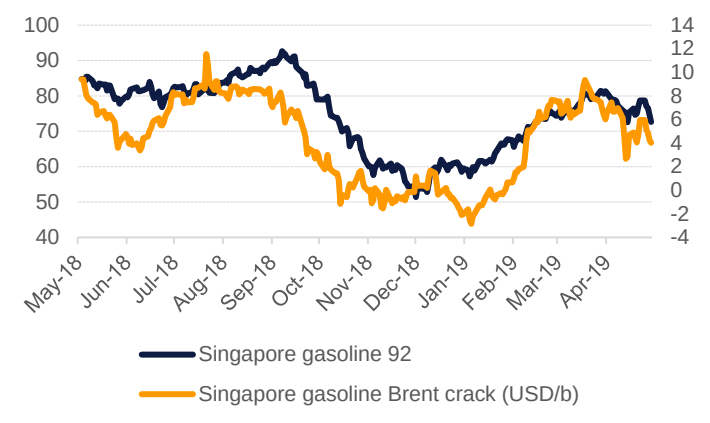
Source: EIKON, Emirates NBD Research. Note: USD/b.

RBOB futures



Source: EIKON, Emirates NBD Research

Singapore gasoline



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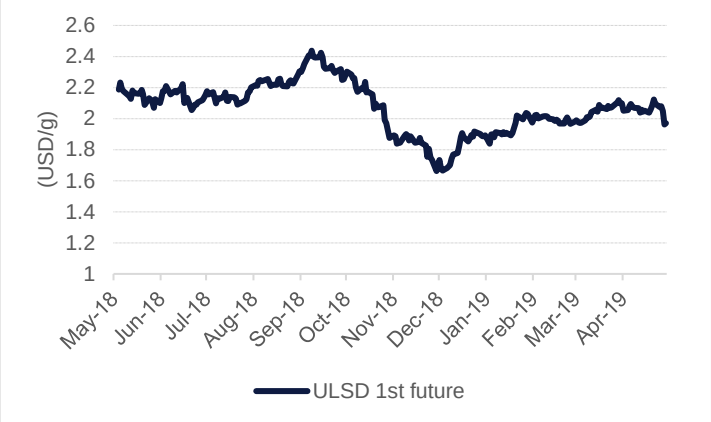
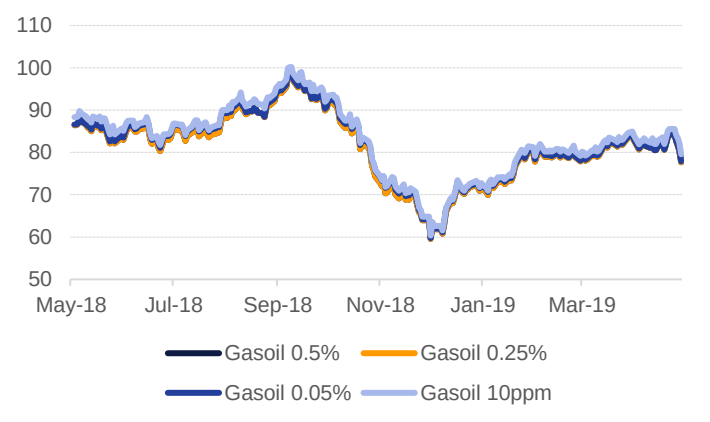
ULSD futures



Source: EIKON, Emirates NBD Research.

Singapore gasoil



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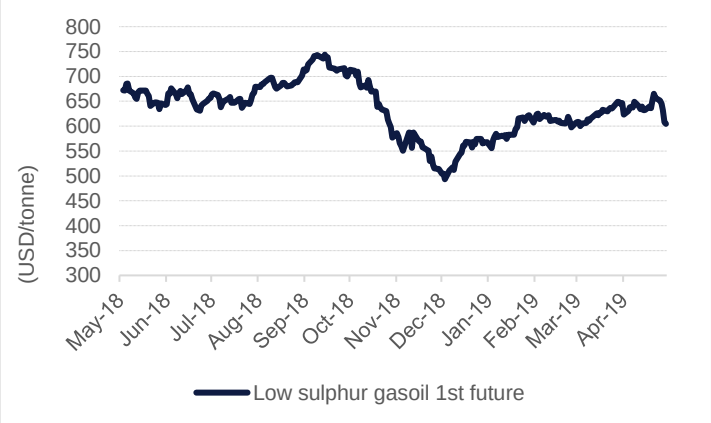
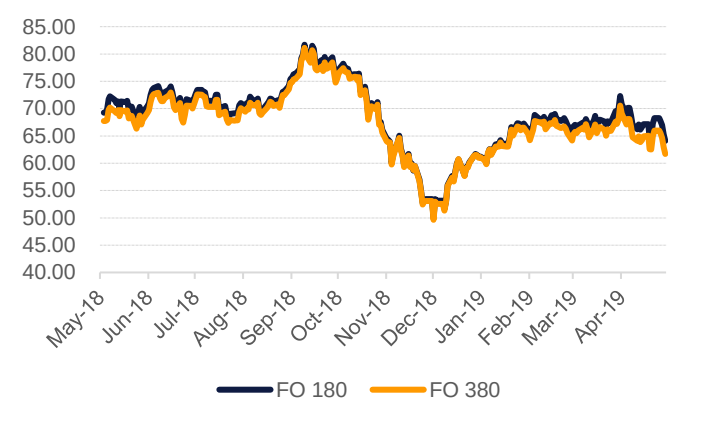
Low sulphur gasoil futures



Source: EIKON, Emirates NBD Research

Singapore fuel oil



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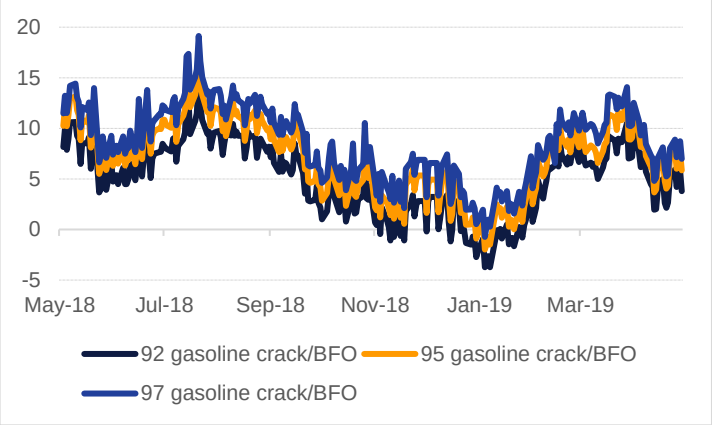
Singapore/BFO crack gasoline



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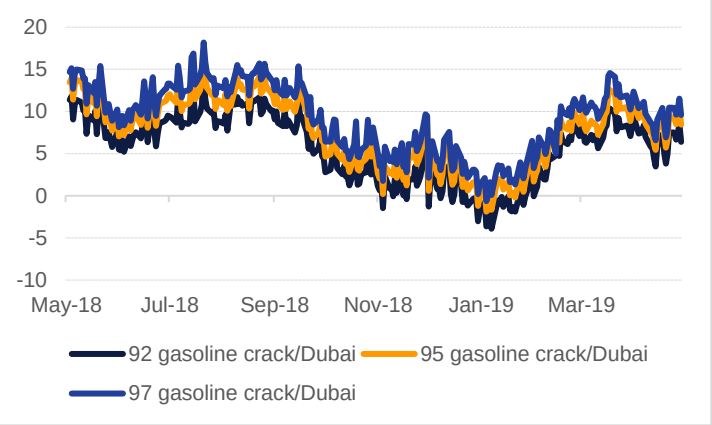
Singapore/Dubai crack gasoline



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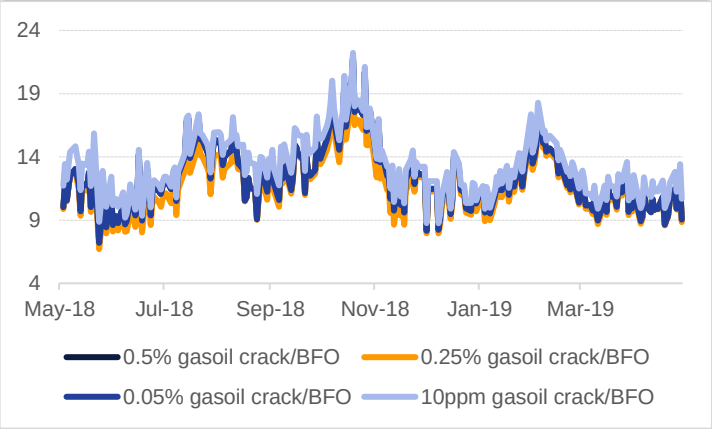
Singapore/BFO crack gasoil



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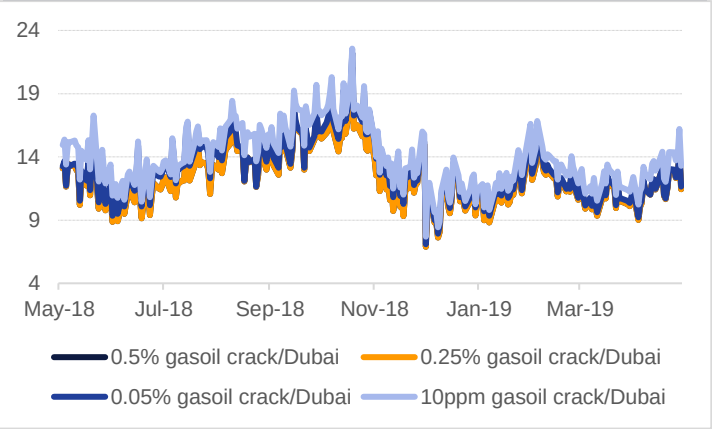
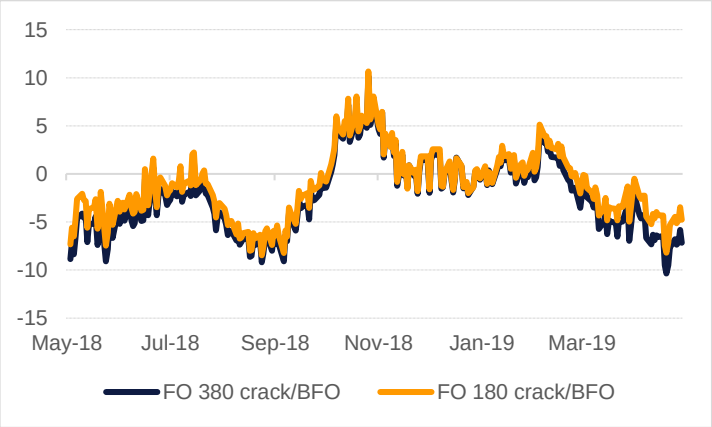
Singapore/Dubai crack gasoil



Source: EIKON, Emirates NBD Research.

Singapore/BFO crack fuel oil



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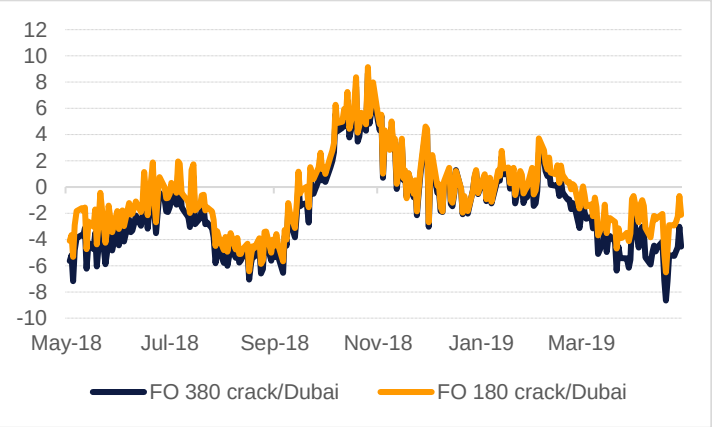
Singapore/Dubai crack fuel oil



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