



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

5 July 2020

Oil market highlights

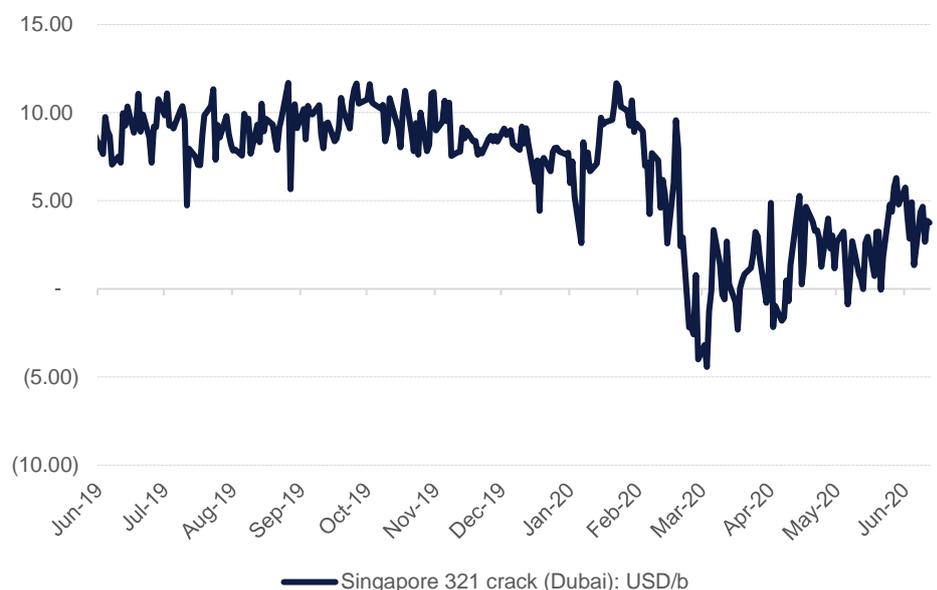
Oil prices managed to recoup their strength last week with both Brent and WTI futures rising despite persistent anxieties over the path of Covid-19 cases in the US. Brent settled up 4.3% at USD 42.80/b while WTI managed to close above USD 40/b, advancing 5.6% on a holiday shortened week.

Markets this week will focus on the latest outlooks from the IEA and EIA where demand again will be in focus. The IEA has revised up its demand projections for 2020 in recent reports, albeit still expecting significant year/year declines. On the supply side, OPEC+ has effectively played its strongest card early with the production cut agreement reached in April and over the coming months it will begin to taper the scale of cuts. Meanwhile production in the US and other market-oriented producers continues to reel from low prices and weak solvency conditions in many companies. That leaves demand squarely in focus to determine the oil outlook in the rest of the year. With the global number of Covid-19 cases at over 11m—and the US nearing to 3m—we still have strong doubts about how healthy demand will perform over the next six months and be able to chew through the enormous build-up in inventories.

Oil curves remain in contango with the tentative flips to backwardation at the front-end of the Brent curve appearing anomalous. Time spreads at the front end closed in a contango of USD 0.11/b for both the Brent and WTI markets while longer-dated (1-12 month) Brent spreads actually widened. Time spreads in the Dubai physical market also slipped last week with 1-3 month spreads closing in a backwardation of USD 0.21/b compared with almost USD 0.6/b a week earlier. As production from the GCC region begins to increase over the next few months—in line with the OPEC+ agreement—and demand remains prone to downside risks the potential for the Dubai curve to sink back into contango remains high, particularly as the backwardation is still very tentative.

Even as economies show signs of recovery—PMIs across developed and emerging markets all pointed to stronger levels of activity in June—demand conditions still appear soft. Refining margins have moved off their absolute troughs but still remain substantially depressed y/y. A notional 321 crack for Singapore refinery running Dubai crude closed the week at USD 3.75/b, a substantial improvement from flat one month ago but still almost 70% down on year ago levels.

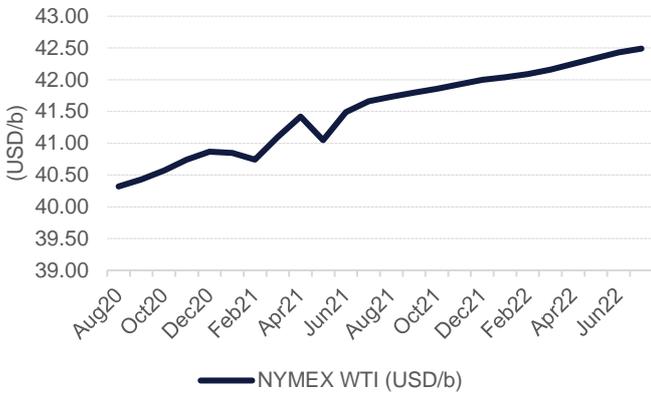
Refining margins face long recovery



Source: Bloomberg, Emirates NBD Research.

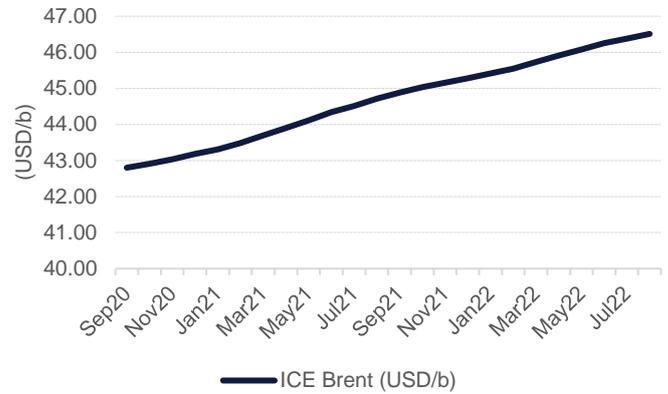
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WTI forward curve



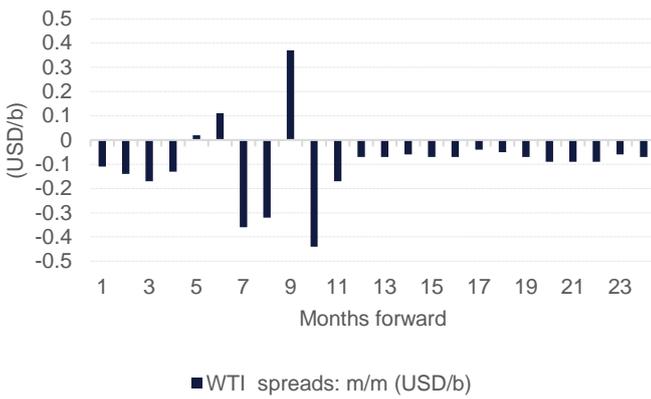
Source: Bloomberg, Emirates NBD Research. Note: USD/b.

Brent forward curve



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

WTI time spreads



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

Brent time spreads



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

WTI December spreads

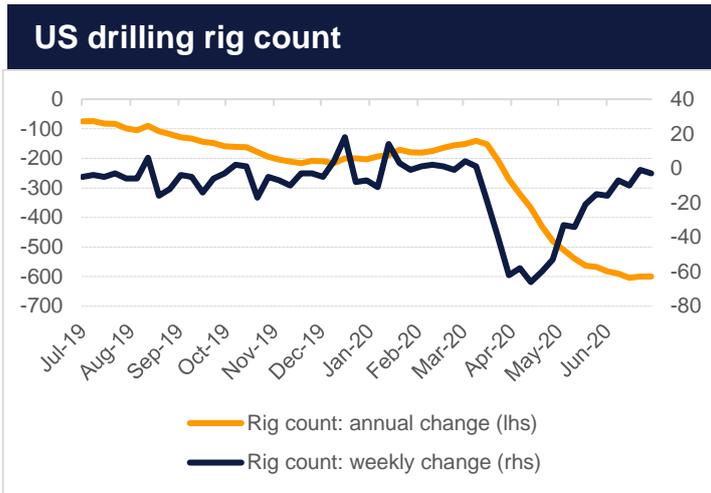


Source: Bloomberg, Emirates NBD Research. Note: USD/b.

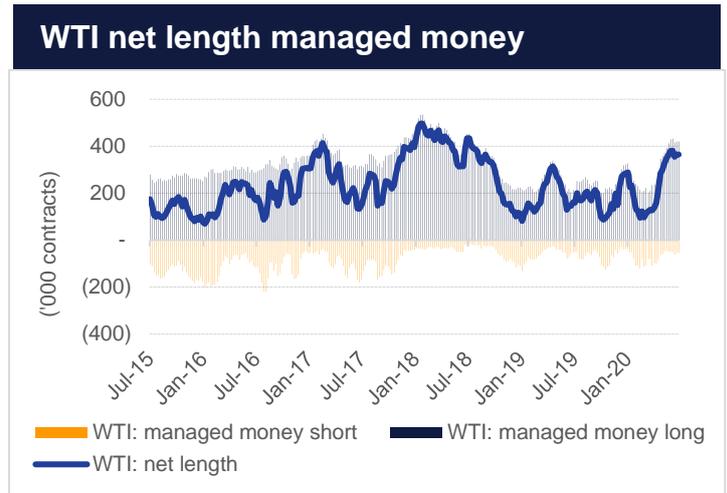
Brent December spreads



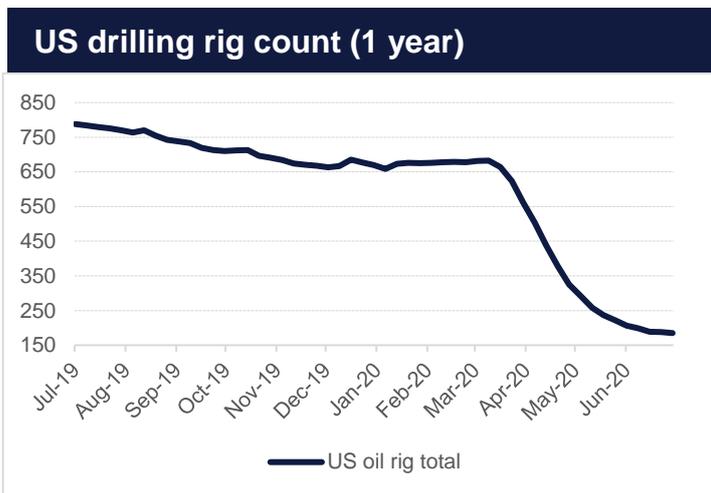
Source: Bloomberg, Emirates NBD Research. Note: USD/b.



Source: Bloomberg, Emirates NBD Research.



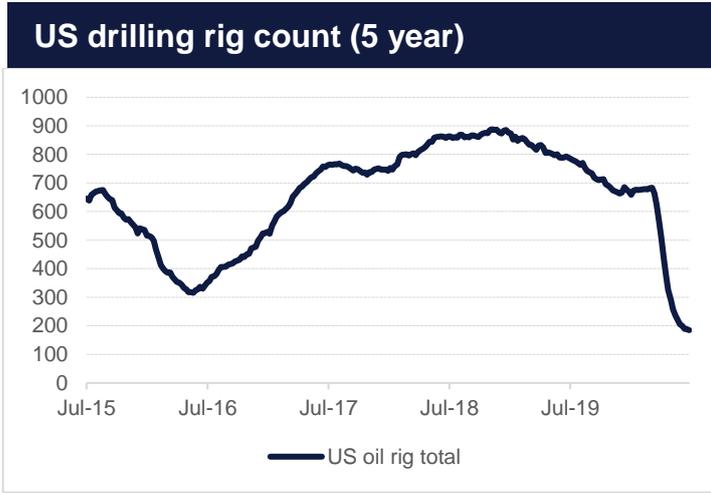
Source: Bloomberg, Emirates NBD Research. Note: NYMEX futures and options only.



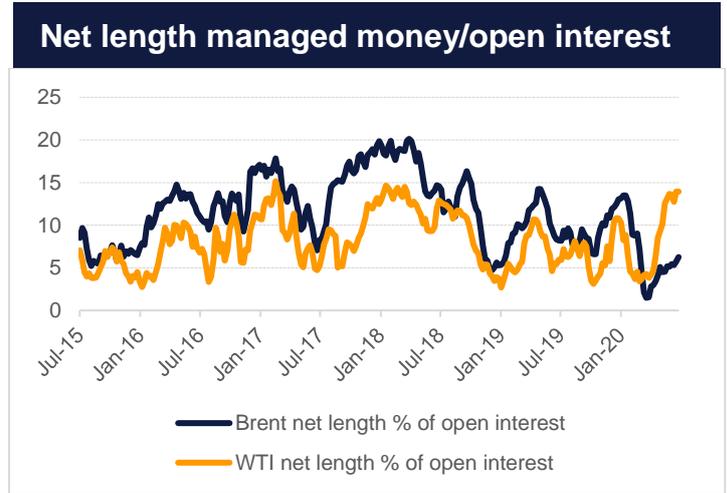
Source: Bloomberg, Emirates NBD Research.



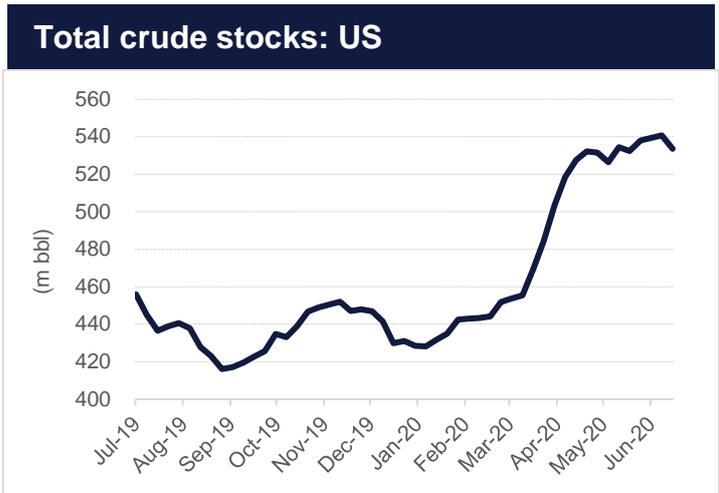
Source: Bloomberg, Emirates NBD Research.



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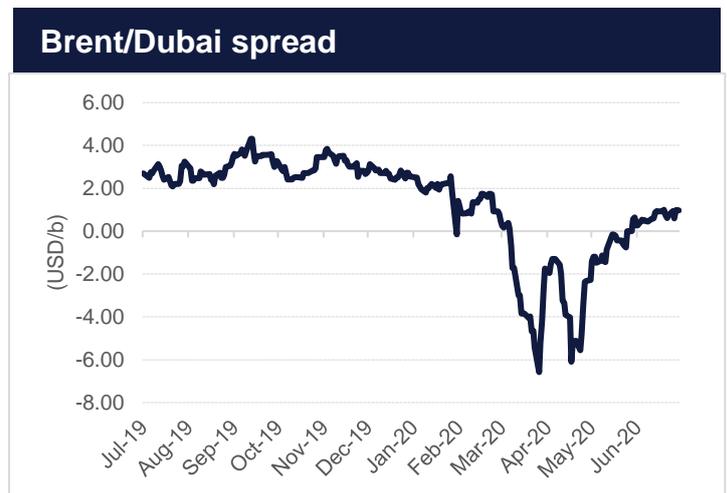
Source: Bloomberg, Emirates NBD Research.



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



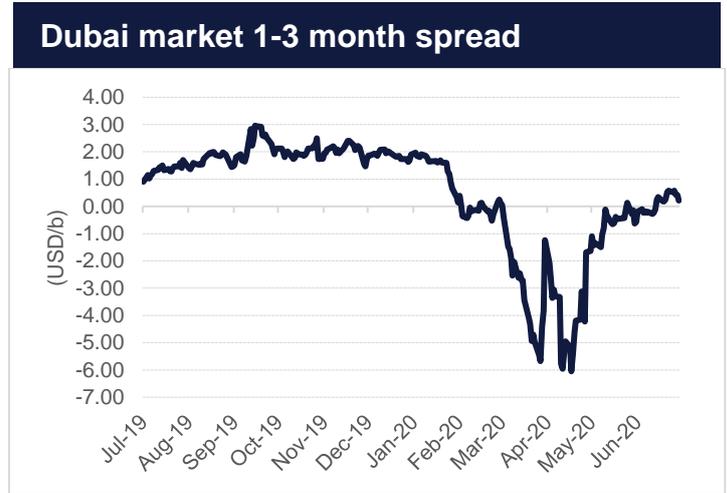
Source: Bloomberg, Emirates NBD Research. Note: products only.



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



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

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