



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

28 July 2019

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

Oil market weekly highlights

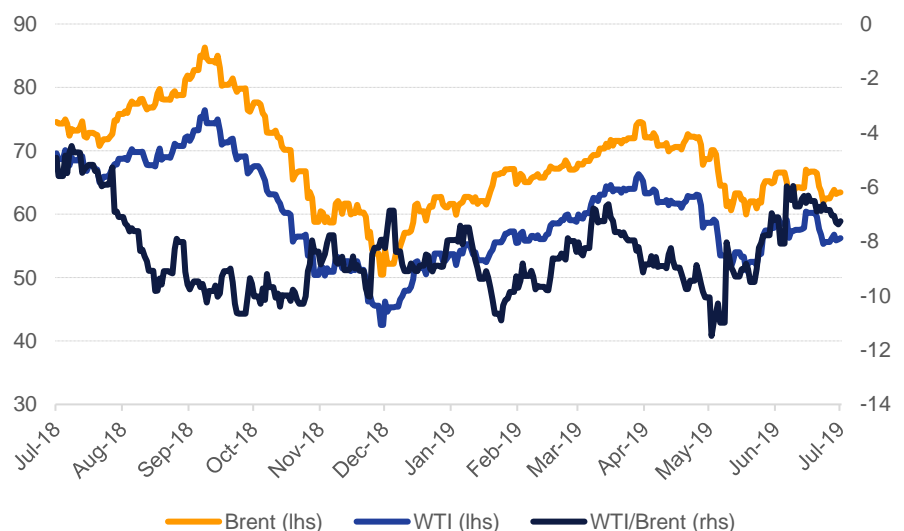
Oil prices showed relatively little change last week as fundamentals and policy from agencies such as OPEC+ kept to the sidelines. Brent futures managed a gain of 1.6% over the week, closing just shy of USD 63.50/b, while WTI added a little more than 1% to end the week at USD 56.20/b. This week we introduce our Oil Barrel Barometer, a measure for crude futures based on multiple variables which supports a view for relatively stable prices in the short run with a slight upward bias. But over a longer horizon our gauge suggests prices have further room to fall. More analysis of Oil Barrel Barometer can be found below.

The front-end of the Brent curve stood out in weakening considerably last week with 1-2 month time spreads closing at just USD 0.09/b in backwardation, their lowest weekly close since early March. Even as geopolitical tension in the Middle East remains high and the British navy will now escort tankers out of the Gulf region, raising concern over the speed of supply moving out of the region, markets remain fixated on what appears to be a more negative picture for the global economy. The anxiety over supply risk may be more apparent from longer-dated spreads with Brent 1-12 month adding USD 0.45/b and Dec spreads also showing a wider backwardation over the week. WTI spreads closed the week unchanged but did lose ground from the start of the week when a push into backwardation seemed possible. Dubai 1-3 month spreads pushed slightly higher over the week.

Investors unwound some of last week's build in net length thanks to new short positions added in both Brent and WTI. Net length in Brent futures and options fell more than 24k contracts while net long WTI positions declined by 28.8k lots. Total long positions in Brent have fallen more than 50% since their peak in Q2 2018 when the market was pushed higher by OPEC+ cuts and the US withdrawal from the JCPOA (the Iran nuclear deal). But total short positioning remains relatively tepid compared with maximum levels in the past five years. Were Brent time spreads to entrench into contango or growth fears to become more pronounced, there is ample space to add more downside positions particularly as options pricing implies Brent downside risk can be purchased relatively cheaply.

US crude inventories moved below their five-year average for the first time since March in the week ending July 19 and at six consecutive weeks have drawn for the longest stretch since end of 2017/early 2018. However, the draw in crude stocks in the last month and a half (40m bbl) has been tempered by builds in refined products over the same period. Total product stocks still remain well above their five-year average, helping to keep petroleum (crude and product stocks) elevated. By contrast, Singapore continues to display further draws in inventories as fuel oil stocks are worn down as refiners and traders look to lower sulphur requirements taking effect in less than six months' time. Compliance with IMO 2020 remains a major question for next year: China is the latest country to ban open-loop scrubbers from discharging waste water in coastal regions while Indonesia's ministry of transport has said it will not comply with the change in fuel quality rules.

Oil prices take a pause and hold stable



Source: EIKON, Emirates NBD Research.

Oil Barrel Barometer: are fundamentals in control of the market?

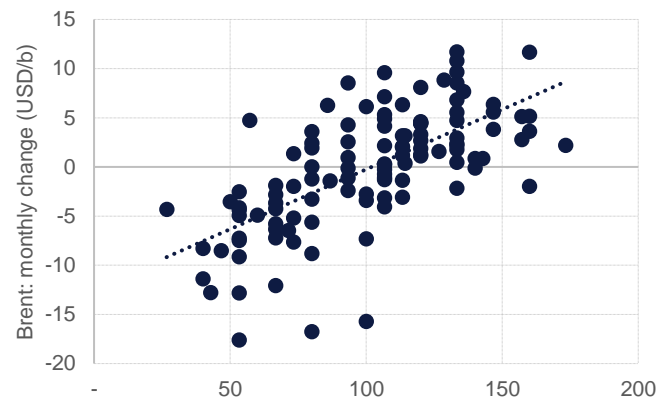
The escalation of geopolitical tension in the Middle East has raised market anxiety over the security of crude oil flows from the region. The chokepoint is vital for flows of crude and products and the EIA has estimated that as much as a fifth of total crude and products consumed globally passes through the waterway. Any threat to the clearance of the Strait should thus be notionally supportive for crude oil prices but since the first attacks on tankers in the port of Fujairah, Brent prices have risen by only a little more than 3%.

Does this relatively muted gain in prices mean the Strait of Hormuz doesn't matter? Certainly not given how important it is for the passage of crude and products. But it does suggest that other factors are acting with an equal or greater force in compressing prices or acting as a barrier that geopolitical risk has failed to punch through.

direct impact on crude oil but may trigger much broader moves in currency, rates, equity and, ultimately, oil markets.

A reading above 100 in the OBB suggests prices should be moving higher month/month while below 100 should support price declines. Over the last 10 years there is a reasonably strong correlation between the OBB and price changes but at this stage, the OBB is agnostic to the scale of the change in price (% change) and seeks to identify whether fundamentals support lower or higher prices. The relationship between the OBB and price changes does appear reasonably strong but the data points that fall far off the trend line (either the top left or bottom right quadrants) remain of interest as they suggest strongly non-fundamental variables acting as the catalyst for price moves and where more short-term analysis can provide clues to explain why prices moved in a specific direction.

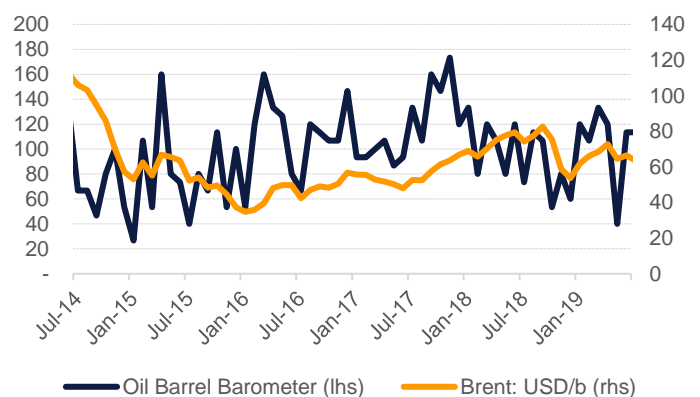
OBB vs Brent monthly change



Source: Eikon, Emirates NBD Research.

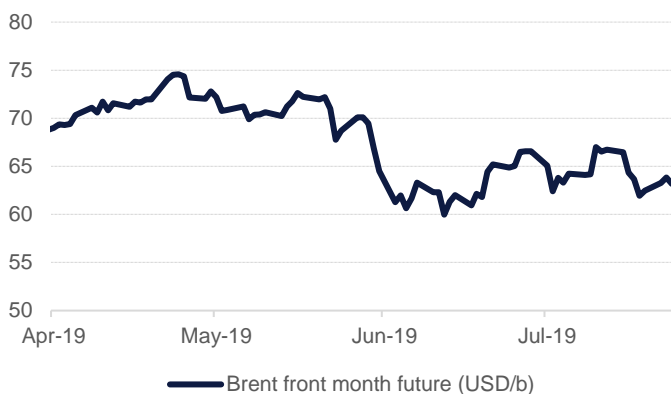
The current reading of 113 supports a positive price move story on a monthly basis as inventories in the US and other major trading hubs are firmly in decline. However, oil markets can be distorted by very short-term one-off factors: the impact of a hurricane disrupting production in the Gulf of Mexico for instance, or an interest rate decision by a central bank distorting financial markets.

OBB vs Brent last five years



Source: Eikon, Emirates NBD Research.

Geopolitics not showing up in prices



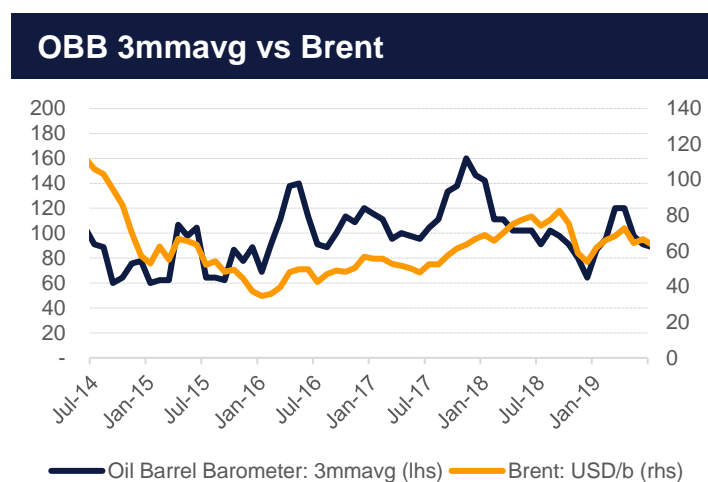
Source: Eikon, Emirates NBD Research.

In an effort to assess how direct and measurable fundamentals are in impacting oil prices we have built the Oil Barrel Barometer (OBB) to identify phases when both are moving in complimentary directions. That is, tight fundamentals see prices move higher and vice versa. We have built our OBB based on fundamental and market variables that impact crude prices both in the short run (month to month) and over longer time periods. Among the fundamentals we have included factors such as production levels from OPEC countries, inventory levels in the US and PMI readings from major economies as a demand proxy among others. External variables such as the value of the US dollar index, performance of equity markets and rates feed the OBB with sentiment on risk (higher or lower appetite) while we have also incorporated very long-dated time spreads from crude futures as an indicator of investment and hedging views specific to the oil market.

The variables all have an equal weighting as the market's evaluation of a given factor appears to us highly capricious. An inventory draw can be as significant as a change in the dollar depending on the week or month, particularly when factors outside the variables we have included in the barometer are setting the tone of financial markets: for instance, uncertainty around Brexit should have little

Rolling average strips out short-term noise

A rolling monthly average helps to strip out some of this 'noise' and provides a stronger forward-looking signal. The three-month rolling average at 91 suggests some price declines ahead which correlates with our forecast that oil market balances will return to surplus in the final months of 2019 and lead to lower average prices for Brent in Q4 than the rest of the year.

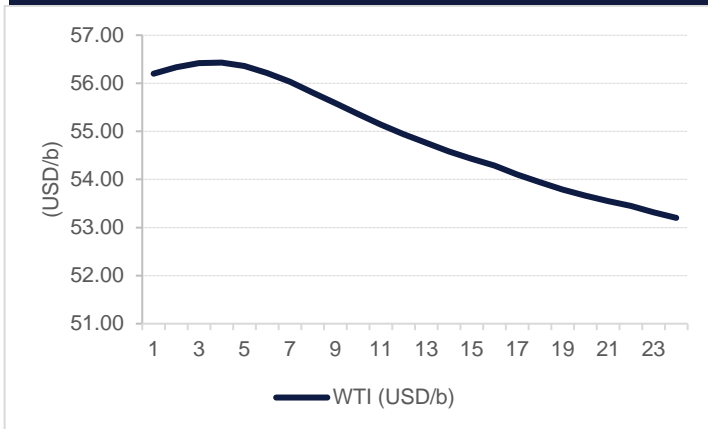


Source: Eikon, Emirates NBD Research.

We have restricted our presentation here to display the barometer measured against Brent futures for the sake of brevity but the relationship holds just as strongly for WTI futures.

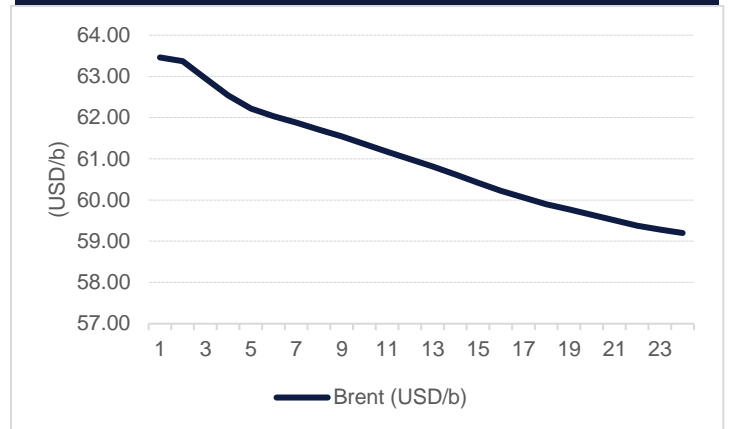
We don't intend for the Oil Barrel Barometer to be static and will continue to augment and enhance it with variables we deem important to setting the direction of oil prices. For instance, assessing risk appetite and sentiment in a more consistent manner based on the flow of headlines and market chatter may help give a clue as to why fundamentals may support a move one way only for prices to react in the opposite.

WTI forward curve



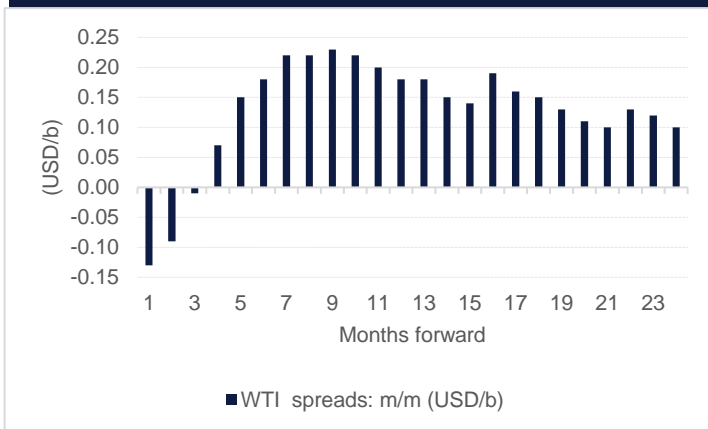
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent forward curve



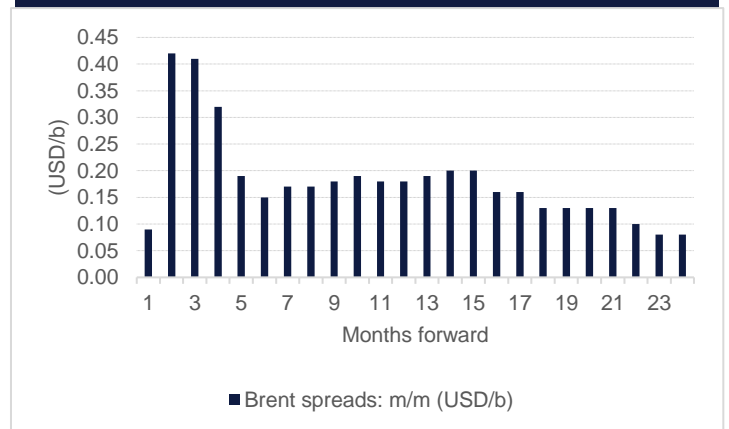
Source: EIKON, Emirates NBD Research. Note: USD/b.

WTI time spreads



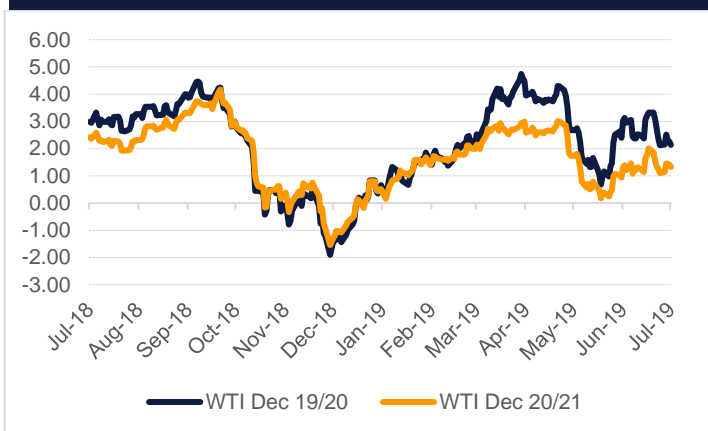
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent time spreads



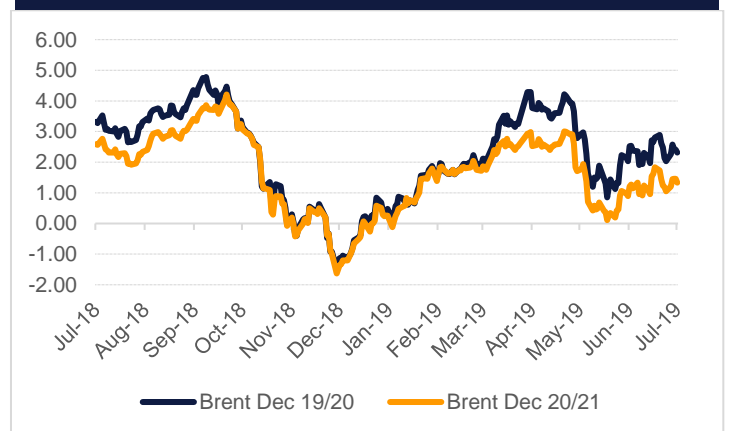
Source: EIKON, Emirates NBD Research. Note: USD/b.

WTI December spreads



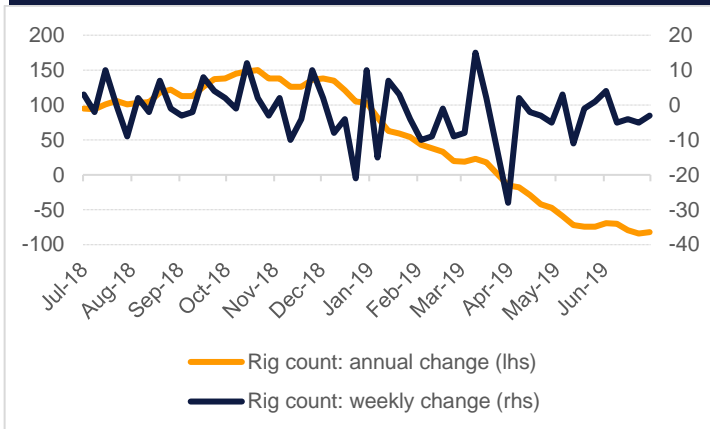
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent December spreads



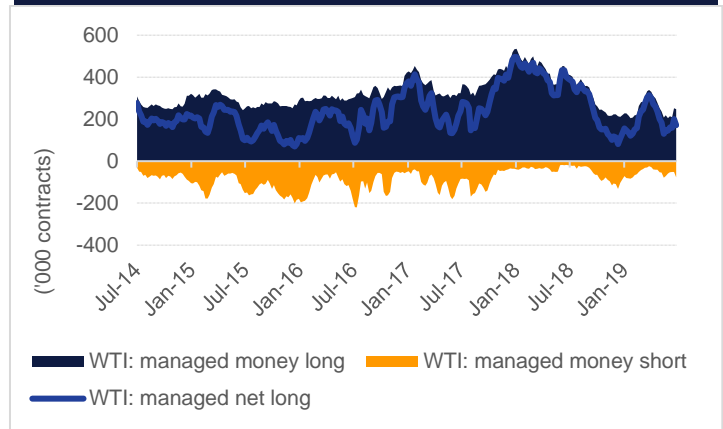
Source: EIKON, Emirates NBD Research. Note: USD/b.

US drilling rig count



Source: EIKON, Emirates NBD Research.

WTI net length managed money



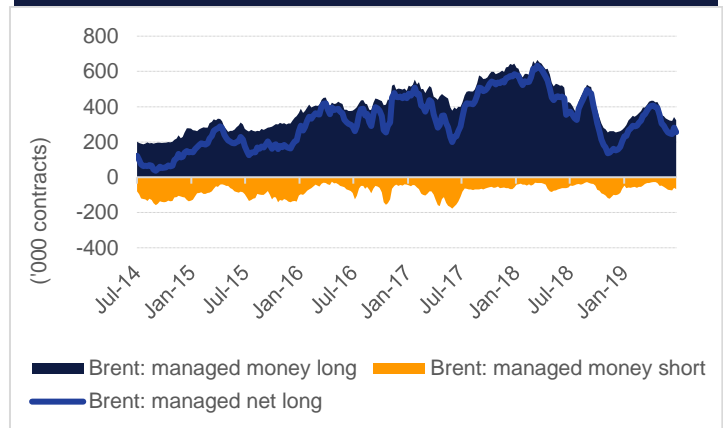
Source: EIKON, Emirates NBD Research. Note: NYMEX futures and options only.

US drilling rig count (1 year)



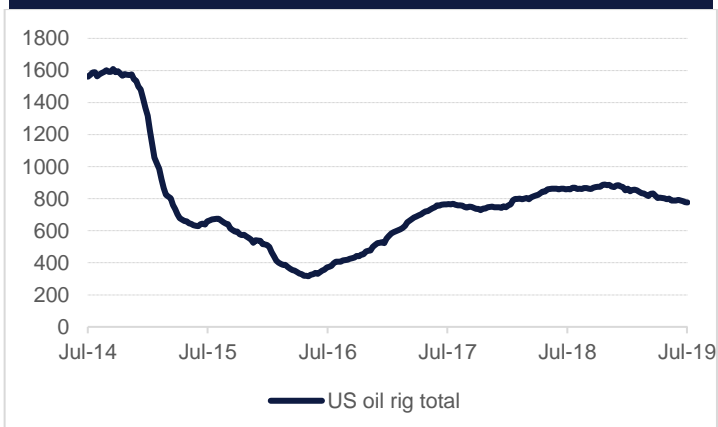
Source: EIKON, Emirates NBD Research.

Brent net length managed money



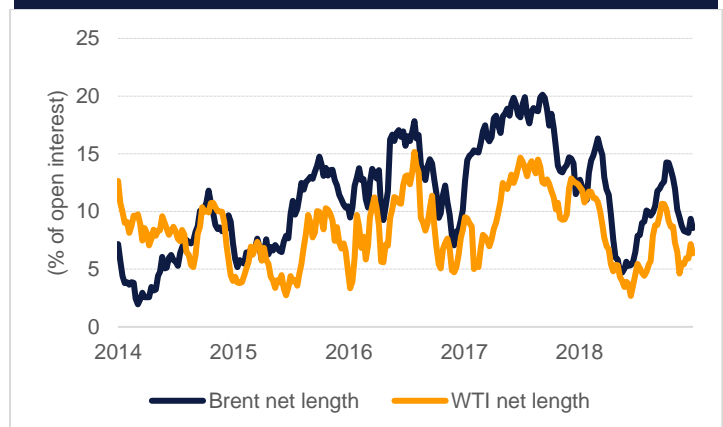
Source: EIKON, Emirates NBD Research. Note: ICE only.

US drilling rig count (5 year)



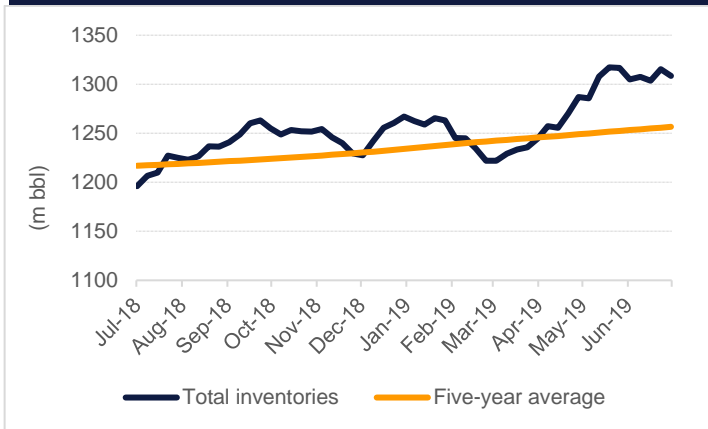
Source: EIKON, Emirates NBD Research.

Net length managed money/open interest



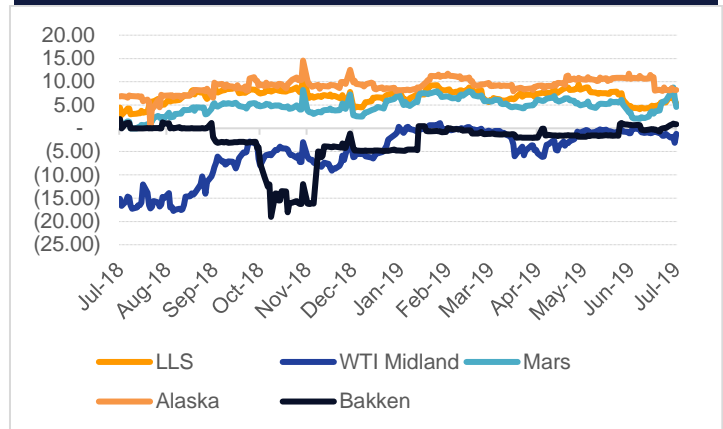
Source: EIKON, Emirates NBD Research. Note: NYMEX and ICE.

Total inventories: US



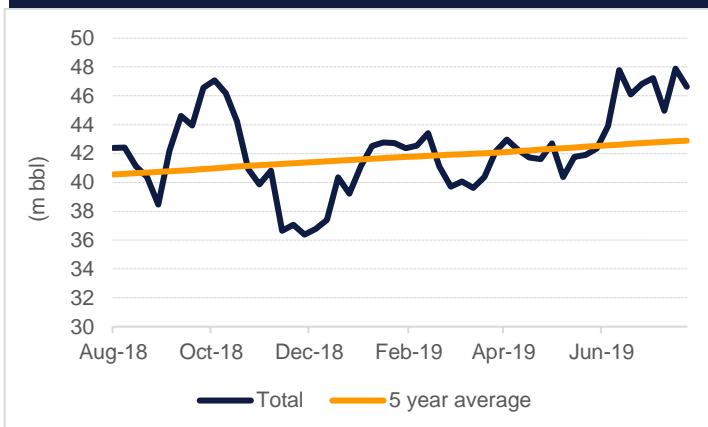
Source: EIKON, Emirates NBD Research. Note: crude and products.

North America prices



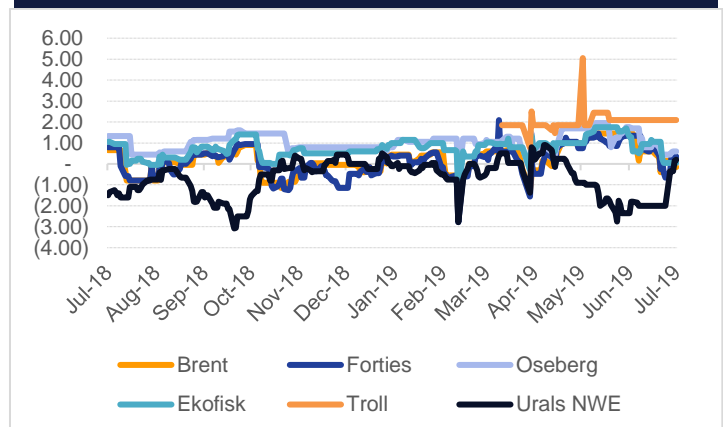
Source: EIKON, Emirates NBD Research. Note: USD/b

Total inventories: ARA



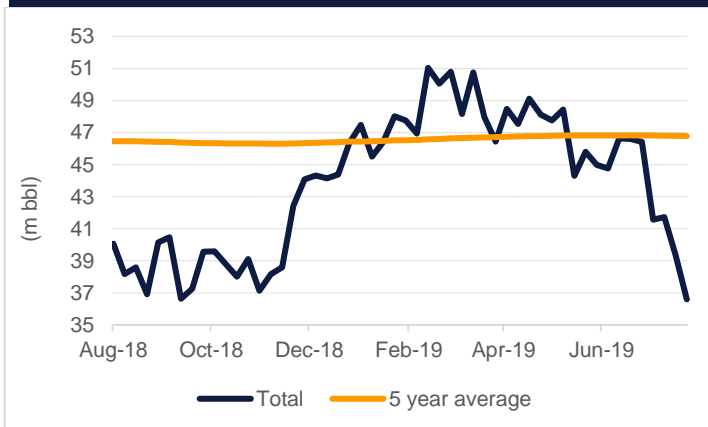
Source: EIKON, Emirates NBD Research. Note: products only.

North Sea prices



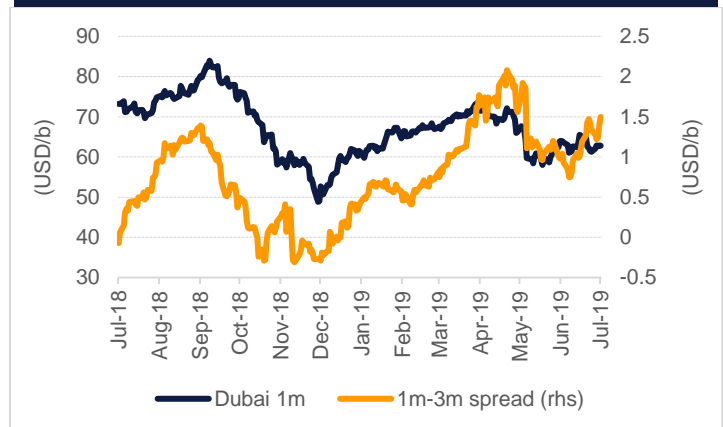
Source: EIKON, Emirates NBD Research. Note: USD/b.

Total inventories: Singapore



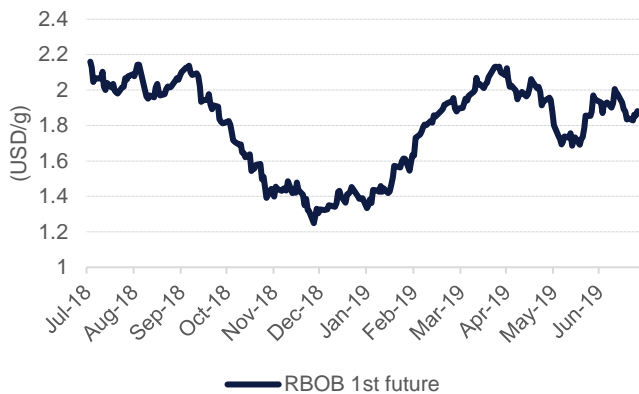
Source: EIKON, Emirates NBD Research. Note: products only.

Dubai prices



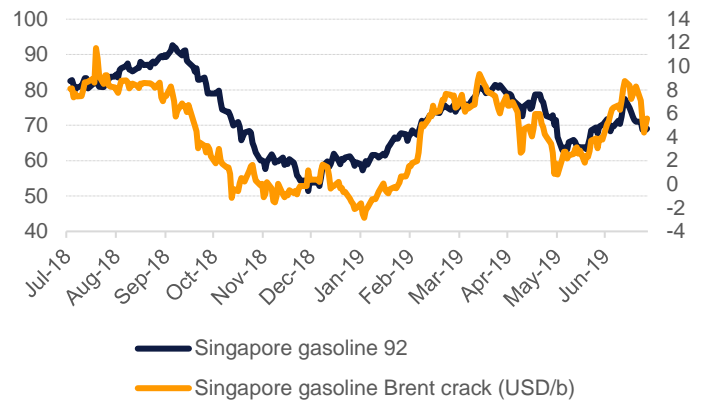
Source: EIKON, Emirates NBD Research. Note: USD/b.

RBOB futures



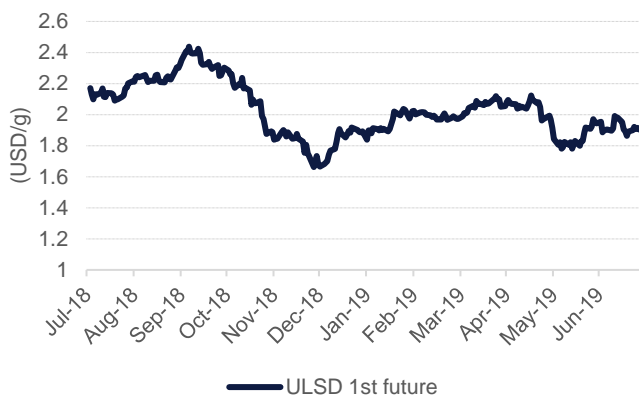
Source: EIKON, Emirates NBD Research

Singapore gasoline



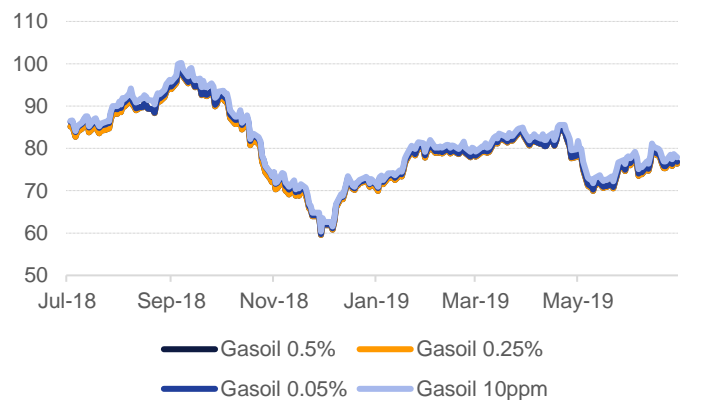
Source: EIKON, Emirates NBD Research

ULSD futures



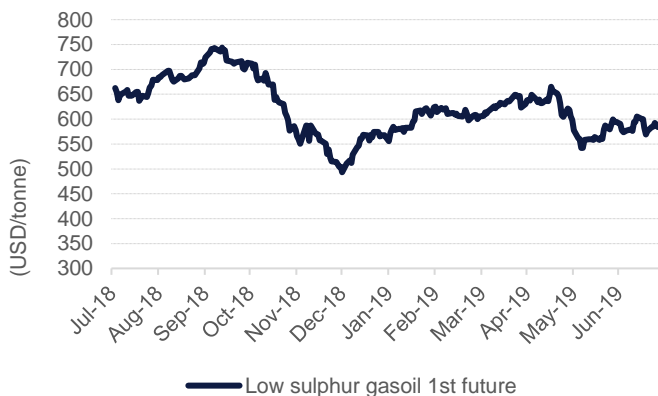
Source: EIKON, Emirates NBD Research.

Singapore gasoil



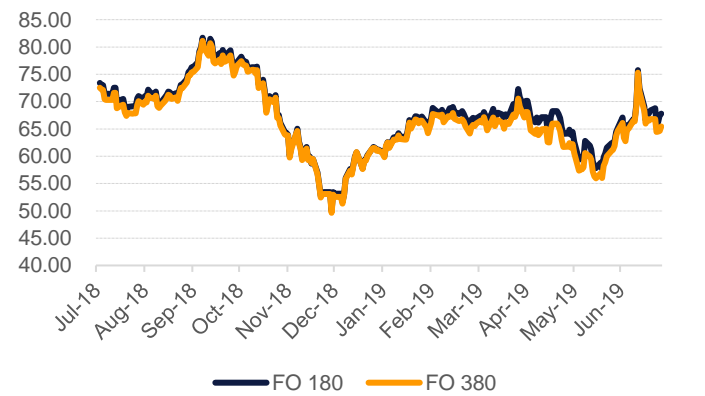
Source: EIKON, Emirates NBD Research

Low sulphur gasoil futures



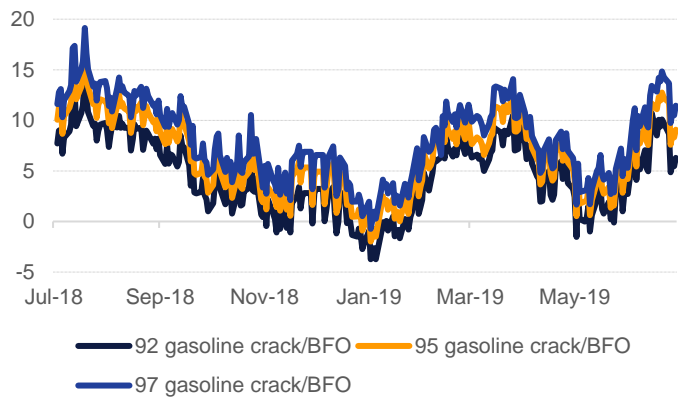
Source: EIKON, Emirates NBD Research

Singapore fuel oil



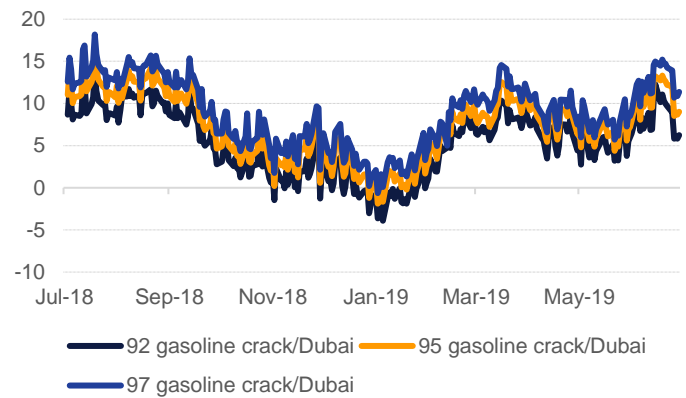
Source: EIKON, Emirates NBD Research

Singapore/BFO crack gasoline



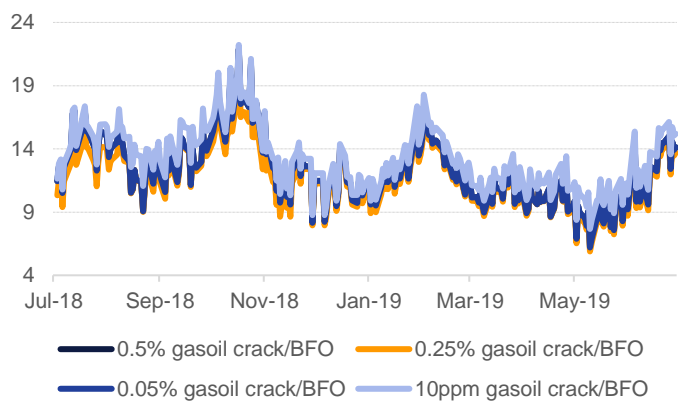
Source: EIKON, Emirates NBD Research

Singapore/Dubai crack gasoline



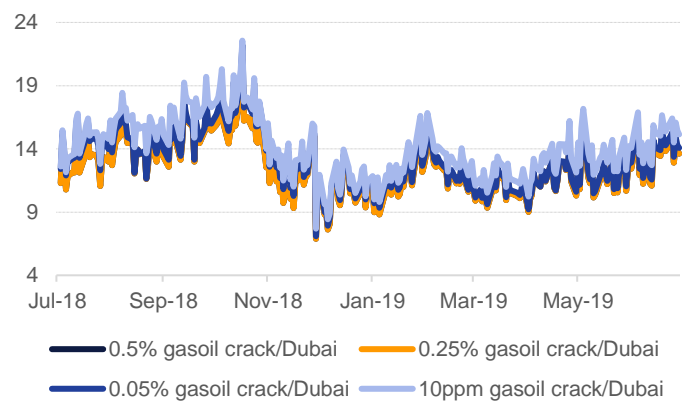
Source: EIKON, Emirates NBD Research.

Singapore/BFO crack gasoil



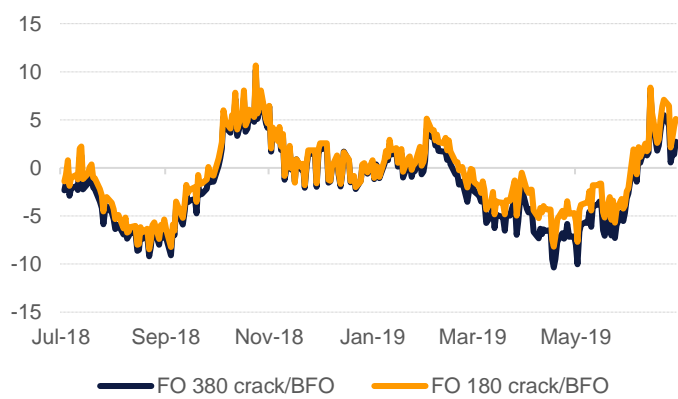
Source: EIKON, Emirates NBD Research.

Singapore/Dubai crack gasoil



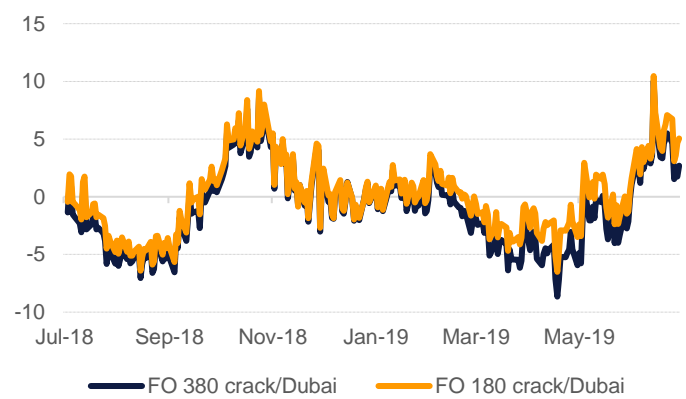
Source: EIKON, Emirates NBD Research.

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
Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

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

Edward Bell
Commodity Analyst
+9714 609 3055
edwardpb@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 Sakhalakar
+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