



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

25 August 2019

Oil market weekly highlights

The latest escalation of the US-China trade war helped to sink oil markets at the end of the week with both Brent and WTI futures declining on Friday. Over the course of the week WTI fell almost 1.3% while Brent managed a gain of almost 1.2%. Considering the scale of negative economic news coming out at the end of the week, the performance of crude futures was relatively healthy. However, as markets are likely to adopt an increasingly risk-off tone as the fallout of the US-China trade war becomes clear, we would expect to see the trajectory for crude set more and more by non-oil specific headlines in the coming weeks.

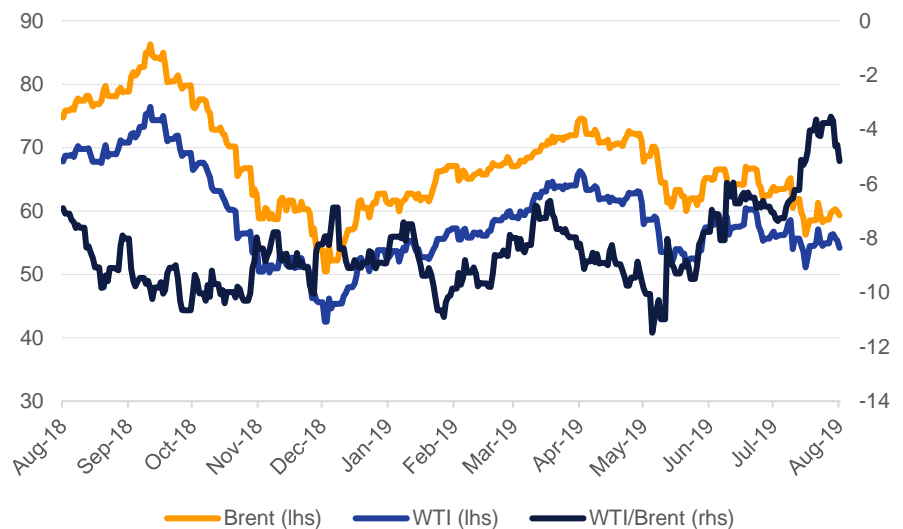
China will now levy a tariff of 5% on imports of US crude from September 1st, the first time it has directly targeted crude oil, although LNG imports from the US were already facing tariffs. A 5% tariff on WTI bound from Houston represents nearly USD 3/b, cutting into margins for Chinese refiners already negatively affected by lower values for fuel oil. China had seen a rapid pace of growth in imports of US crude, taking an average of almost 400k b/d in the first half of 2018 compared with 222k b/d on average in 2017. But China has used oil flows as a trade negotiating tool—imports almost fell to 0 in the second half of 2018. Chinese refineries may seek to displace US barrels and push US crude to alternative destinations or force prices lower to compensate for the higher rates.

Forward curves showed a mixed performance last week with longer dated Brent spreads widening their backwardation while WTI weakened as news that China will impose tariffs on US crude raised the prospect of inventory builds or price discounting. Spreads at the front of the curve strengthened in both Brent and WTI. Dubai spreads strengthened, closing at USD 1.93/b in 1-3 month spreads despite few new headlines from the Middle East. The UK has announced it will send an additional warship to the Gulf region to ensure security of UK-flagged vessels passing through the Strait of Hormuz.

Inventories globally are displaying a seasonal decline, most notably in the US where crude stocks remain below their five-year average. Total inventories in the US, however, remain high thanks to relatively stable levels of gasoline and distillates.

Investor positioning toward crude remains ambiguous as the outlook for commodities generally is subject to the US-China trade relationship. Net length in Brent futures and options fell by more than 6.5k contracts as investors cut long positions while in WTI net length rose thanks to a sizeable drop in short positions. However, we expect there is likely to be an adjustment in positioning following the latest trade war developments with more longs taken out of the market.

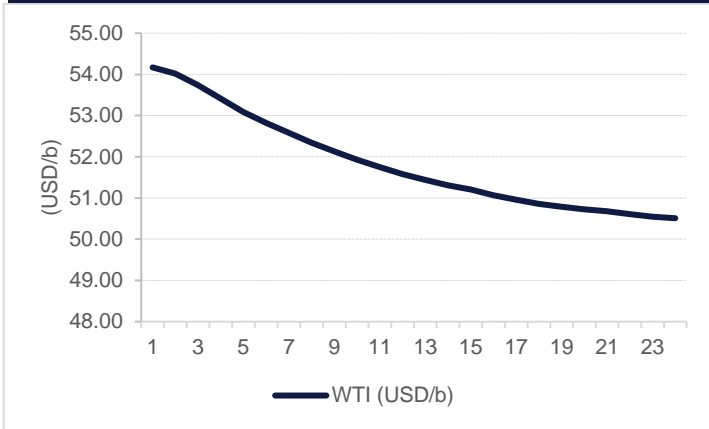
Oil directly targeted in US-China trade war



Source: EIKON, Emirates NBD Research.

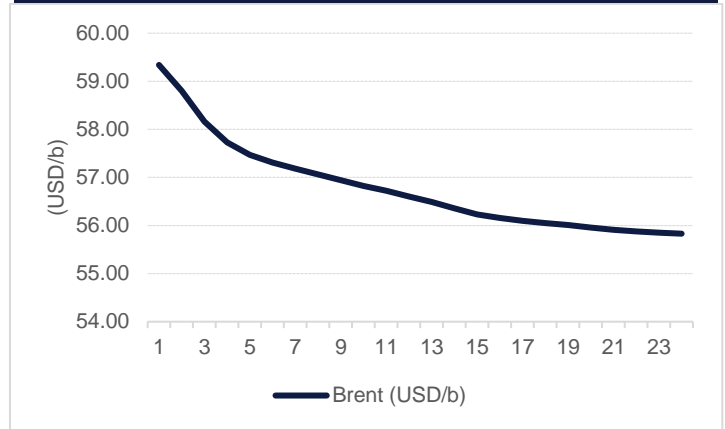
Edward Bell
Commodities Analyst
+971 4 230 7701
edwardpb@emiratesnbd.com

WTI forward curve



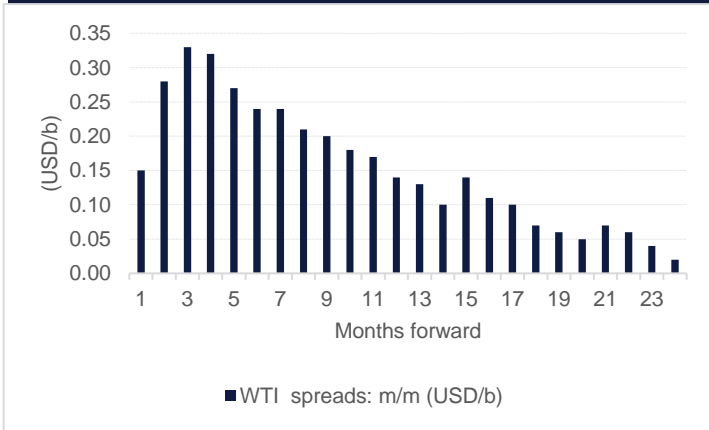
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent forward curve



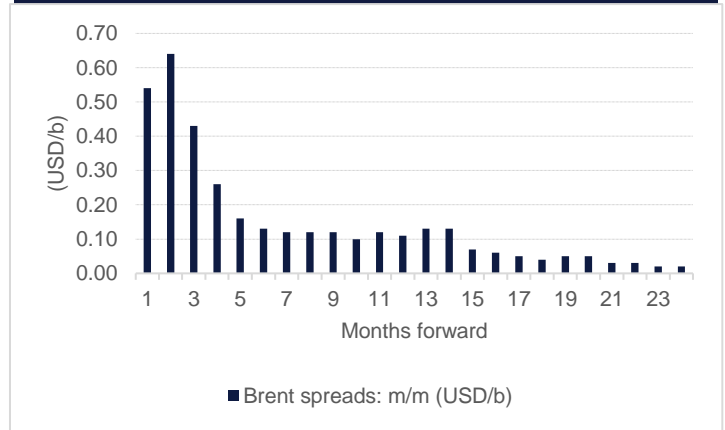
Source: EIKON, Emirates NBD Research. Note: USD/b.

WTI time spreads



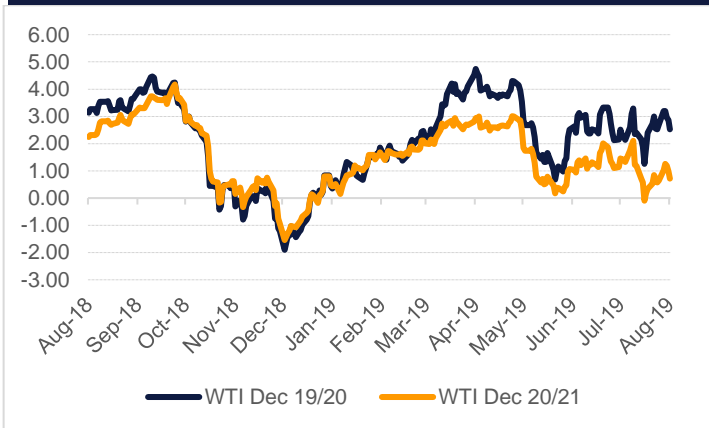
Source: EIKON, Emirates NBD Research. Note: USD/b.

Brent time spreads



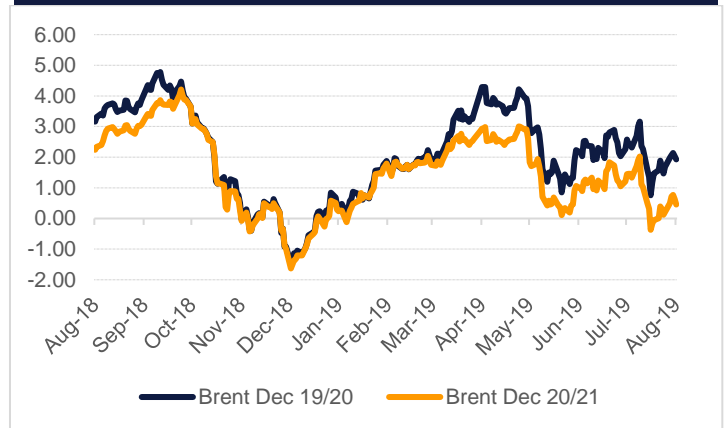
Source: EIKON, Emirates NBD Research. Note: USD/b.

WTI December spreads

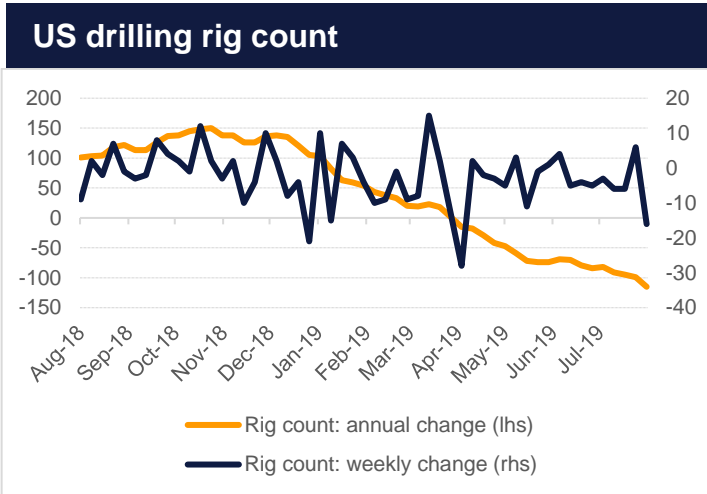


Source: EIKON, Emirates NBD Research. Note: USD/b.

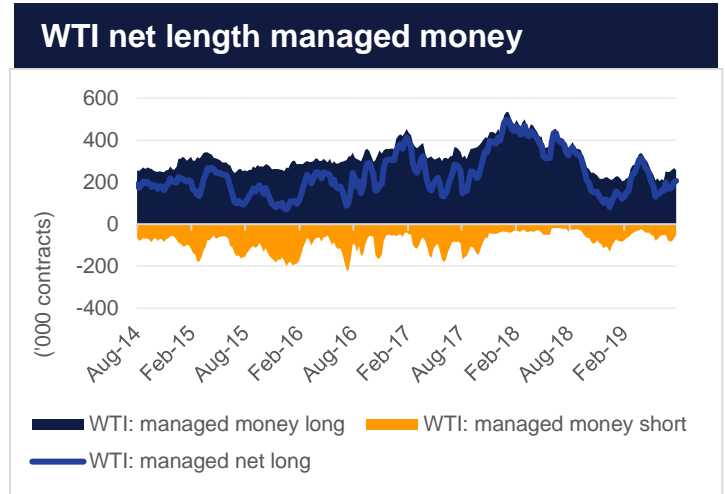
Brent December spreads



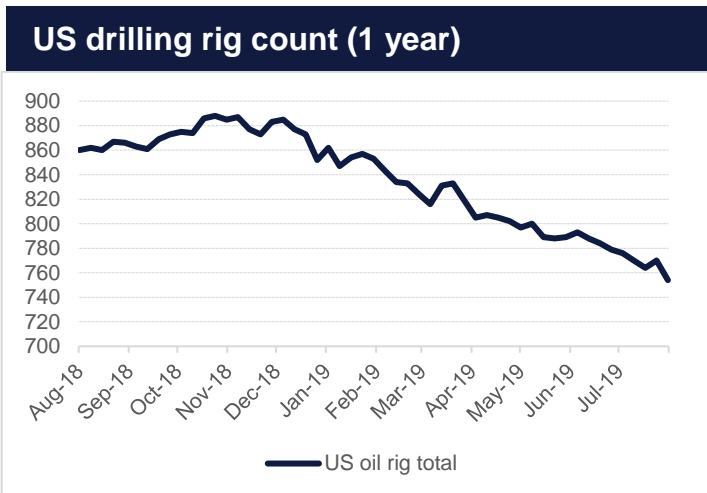
Source: EIKON, Emirates NBD Research. Note: USD/b.



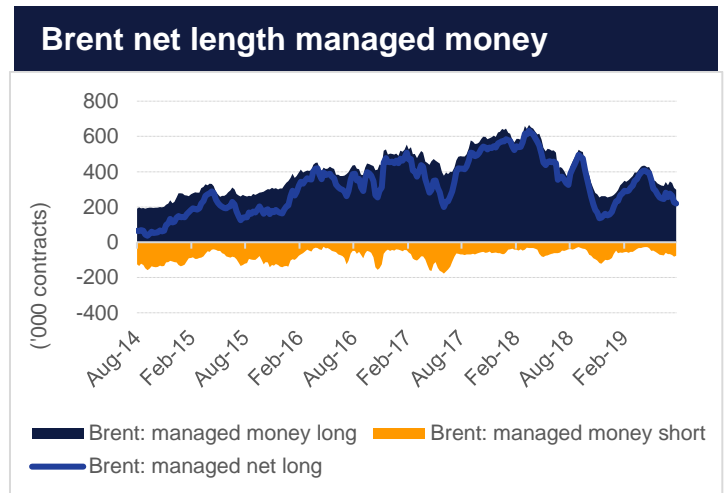
Source: EIKON, Emirates NBD Research.



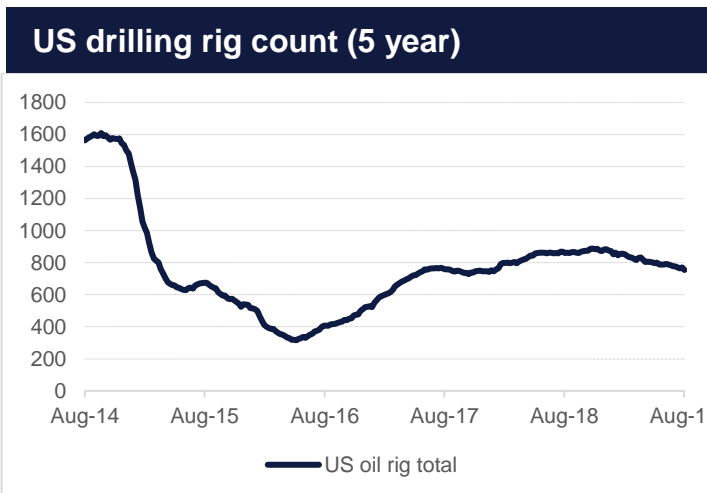
Source: EIKON, Emirates NBD Research. Note: NYMEX futures and options only.



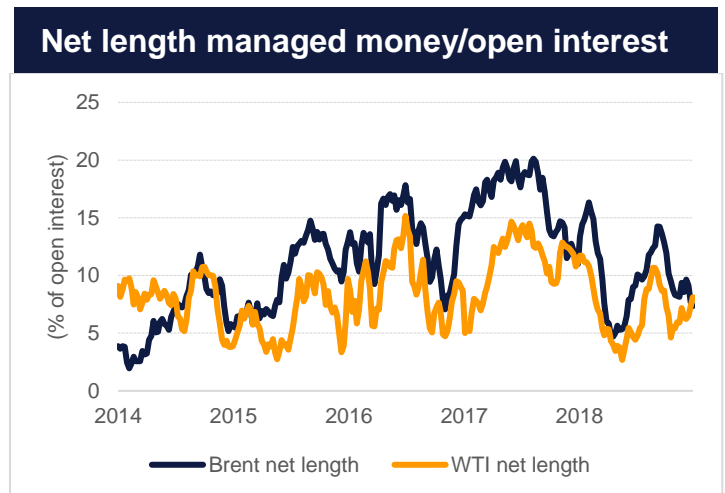
Source: EIKON, Emirates NBD Research.



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



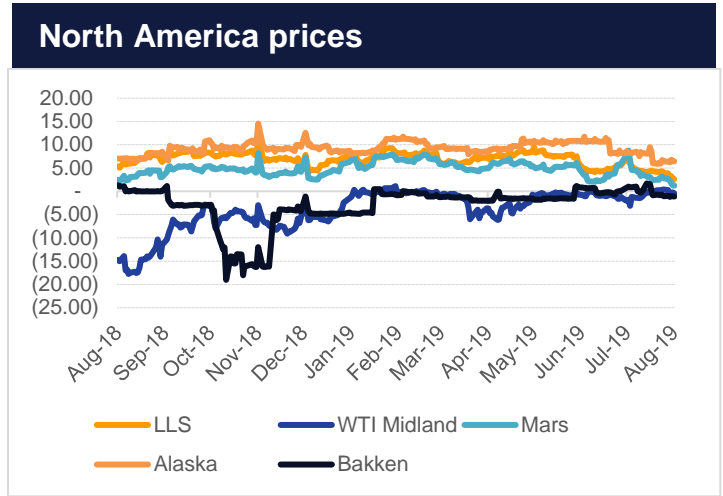
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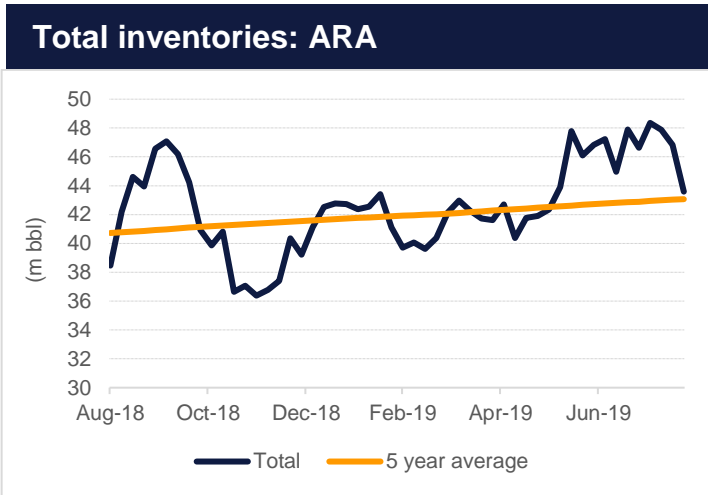
Source: EIKON, Emirates NBD Research. Note: NYMEX and ICE.



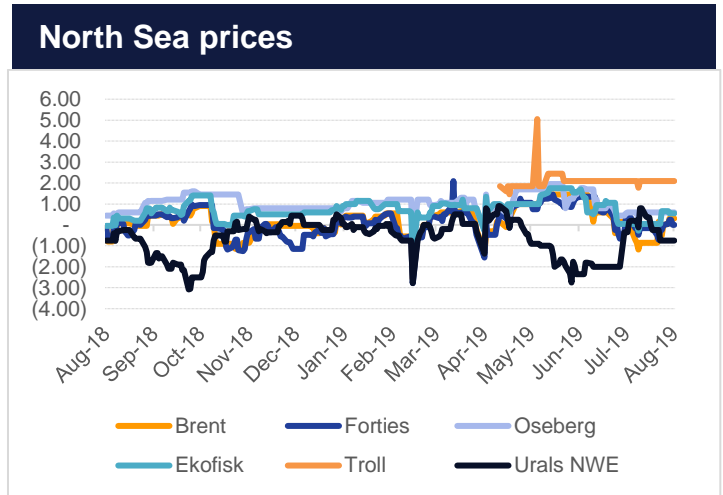
Source: EIKON, Emirates NBD Research. Note: crude and products.



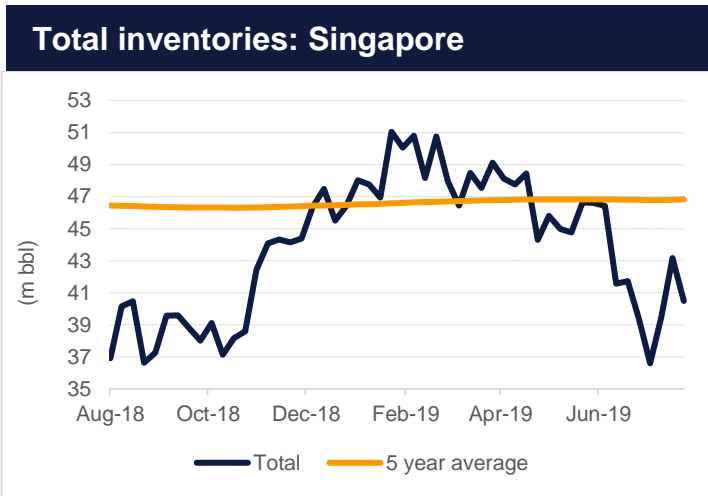
Source: EIKON, Emirates NBD Research. Note: USD/b



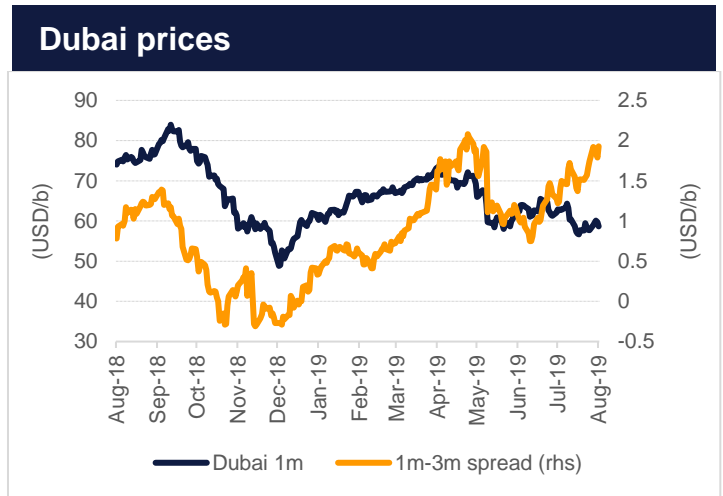
Source: EIKON, Emirates NBD Research. Note: products only.



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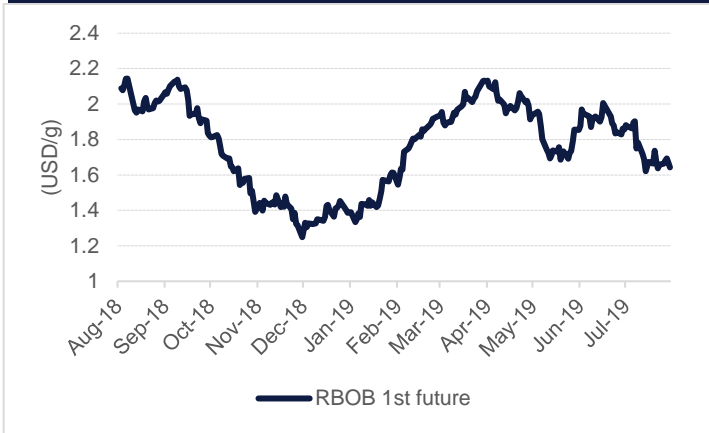


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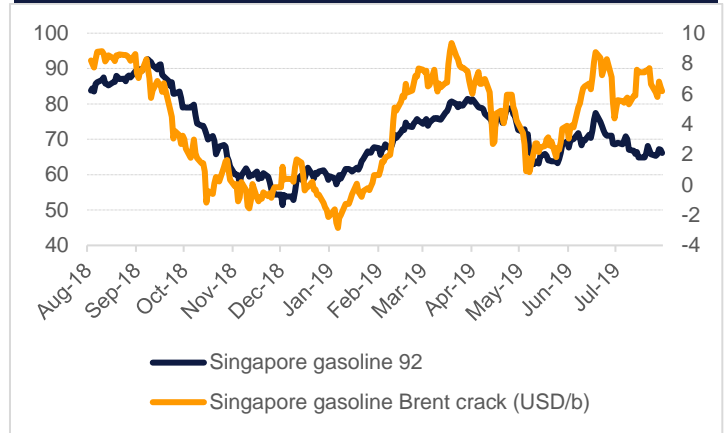
Source: EIKON, Emirates NBD Research. Note: USD/b.

RBOB futures



Source: EIKON, Emirates NBD Research

Singapore gasoline



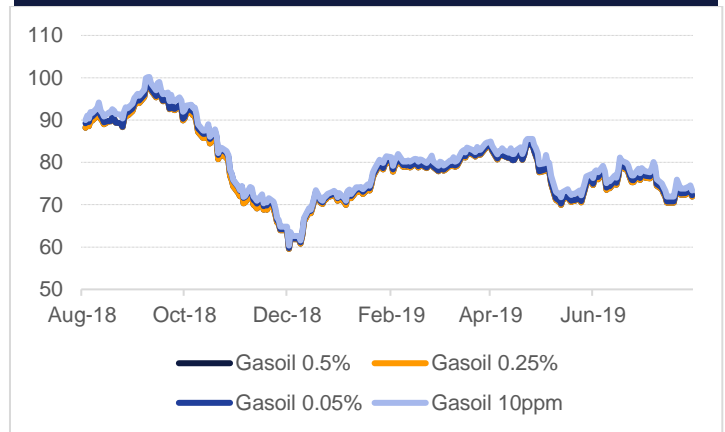
Source: EIKON, Emirates NBD Research

ULSD futures



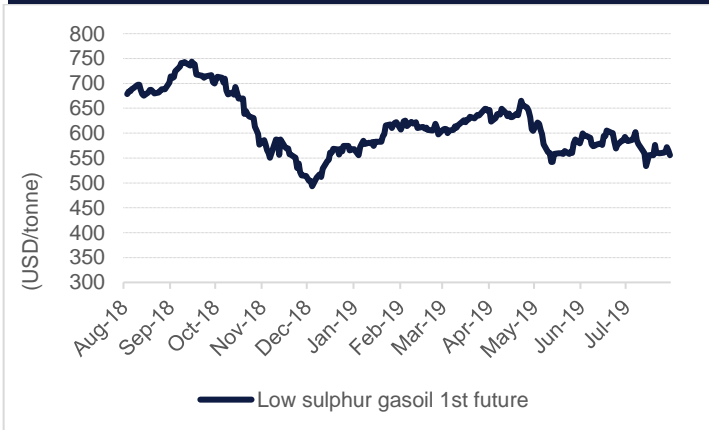
Source: EIKON, Emirates NBD Research.

Singapore gasoil



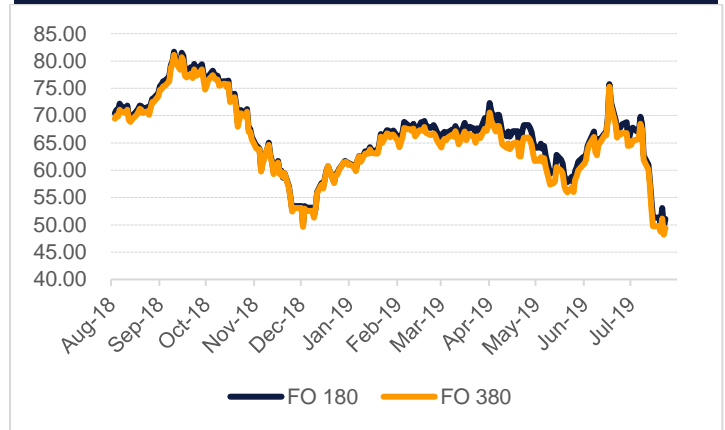
Source: EIKON, Emirates NBD Research

Low sulphur gasoil futures



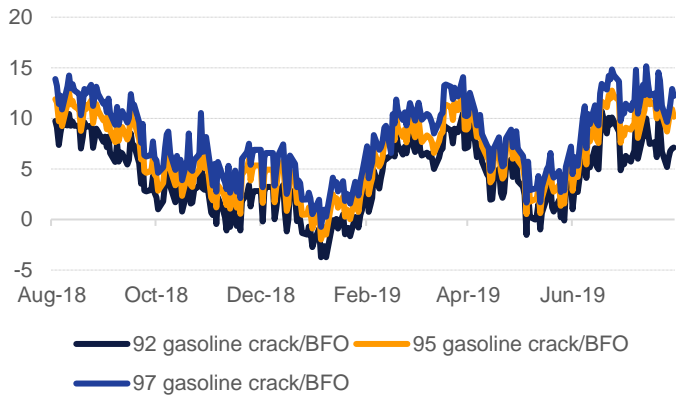
Source: EIKON, Emirates NBD Research

Singapore fuel oil



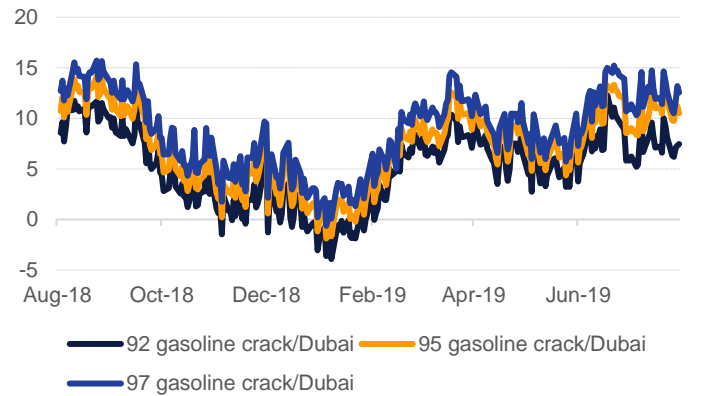
Source: EIKON, Emirates NBD Research

Singapore/BFO crack gasoline



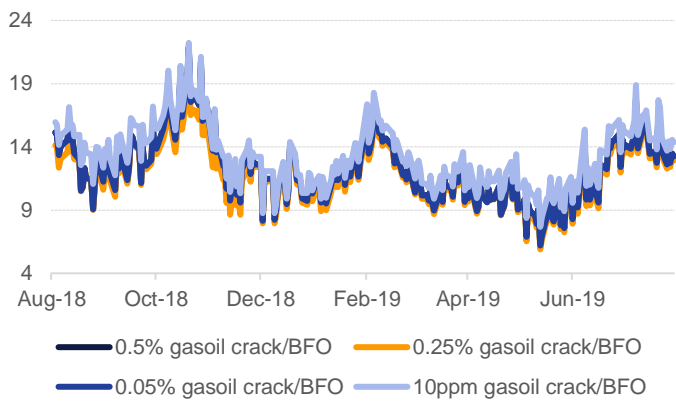
Source: EIKON, Emirates NBD Research

Singapore/Dubai crack gasoline



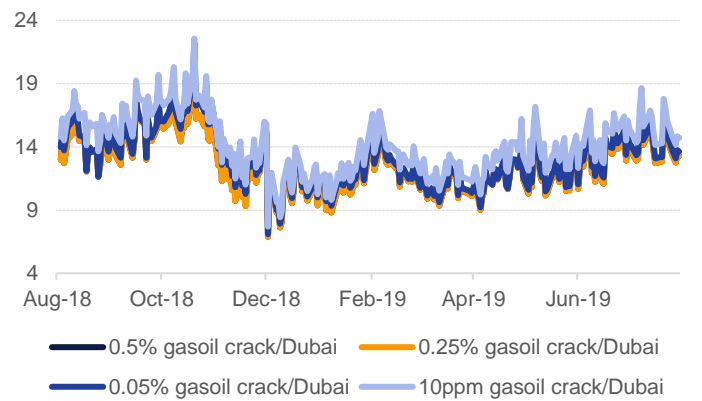
Source: EIKON, Emirates NBD Research.

Singapore/BFO crack gasoil



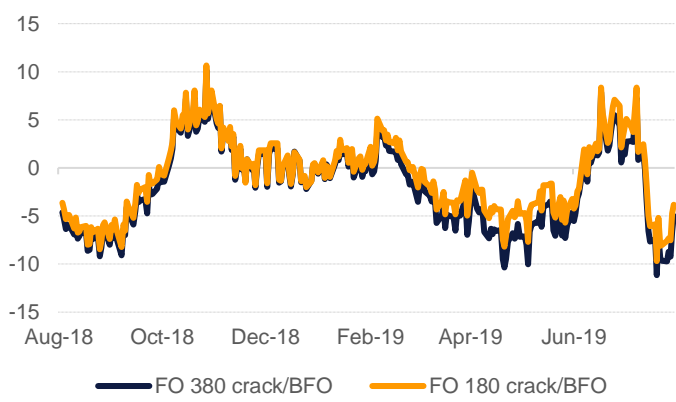
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Singapore/Dubai crack gasoil



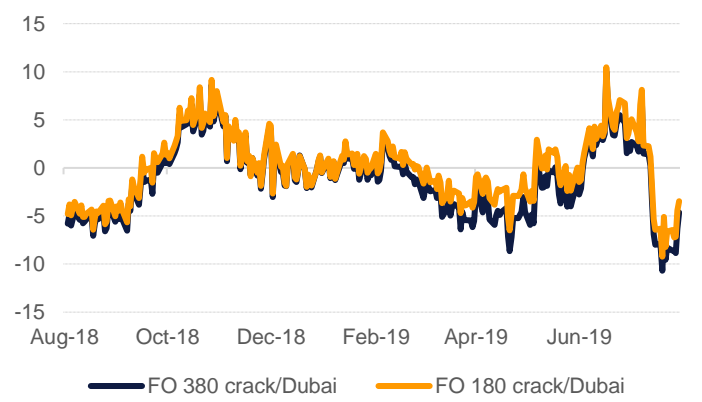
Source: EIKON, Emirates NBD Research.

Singapore/BFO crack fuel oil



Source: EIKON, Emirates NBD Research

Singapore/Dubai crack fuel oil



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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 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