



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

26 July 2020

Oil market highlights

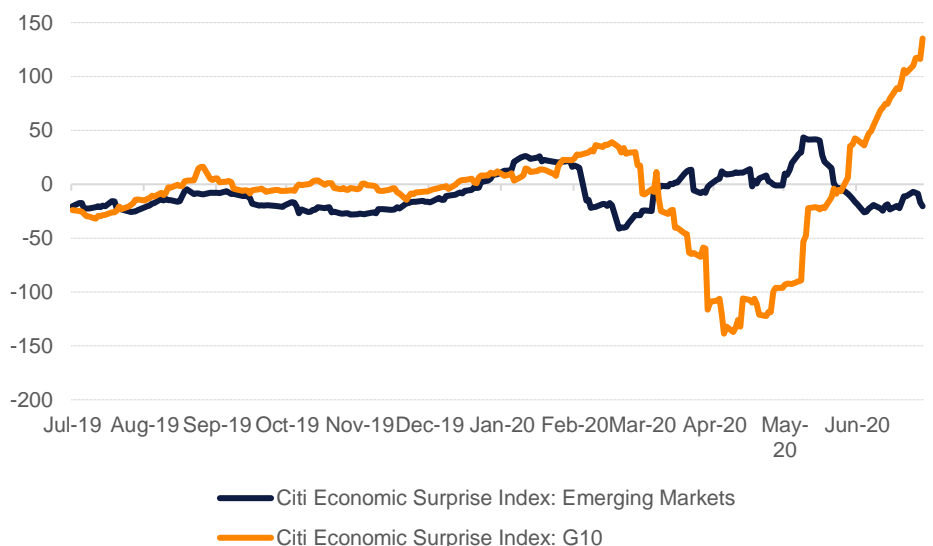
Oil market volatility continues to wane with prices recording their third consecutive week of minimal change. Brent futures gained all of 20 US cents last week to close at USD 43.34/b while WTI saw a 'richer' gain of USD 0.75/b, three measly US quarters, to settle at USD 41.34/b. The lack of movement is attributable to markets having to assess whether demand will succumb to second waves of coronavirus across many countries while the supply side adjustment from OPEC+ and others is already priced into the market. Forces of nature beyond viruses are also contributing to the sense of quietude in oil markets: Hurricane Hanna will pass to the south of most oil and gas platforms in the Gulf of Mexico.

Variables outside of oil market fundamentals will likely set the tone to trading over the coming week. The US dollar extended its July slump, sinking against all major peers while yields on US treasuries came within reach of new 2020 lows. Gold prices managed to push above USD 1,900/troy oz at the close on Friday while silver catapulted almost 18%. Meanwhile equity indexes seem to have stalled. This largely risk-off move doesn't bode well for oil as an asset class and even less so when more and more doubts are creeping into the market about the durability of demand.

Forward curves have also started to display a noticeably steepening contango. WTI spreads on the 1-2 month contracts held at USD 0.16/b in contango last week while longer-dated time spreads widened. In Brent the front month contracts will be distorted by the expiration of September Brent at the end of this week but longer dated and Dec spreads all widened. The expanding contango was more evident in the Dubai swaps market where 1-3 month time spreads moved from USD 0.18/b at the end of last week to USD 0.42/b as of July 24.

Even though there is little clarity as to what can keep pushing oil prices beyond current levels, investors continued to add net long speculative positions. Speculative net length in WTI futures and options hit 14.4% of open interest last week, its widest level since March 2018. Investors are also far more aggressive in their positioning in WTI than they are with Brent. Speculative net length accounted for just 6.4% of open interest. While the pending increase in supply volumes from OPEC+ makes a more tentative position on Brent rational, the crowded long positions in WTI risks an abrupt sell-off should government responses to control the virus need to harden or economic data begins to slip more the downside. Citi's economic surprise indexes show G10 data holding up well since mid-June while data for emerging markets—representing more than 50% of global oil demand—have begun to show some deterioration in recent weeks.

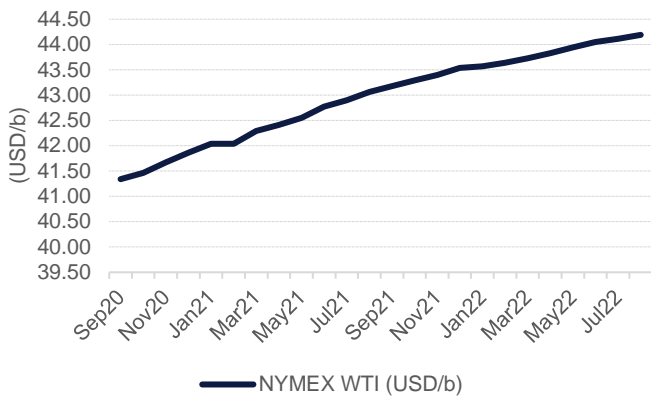
Soft EM data weighs on oil demand outlook



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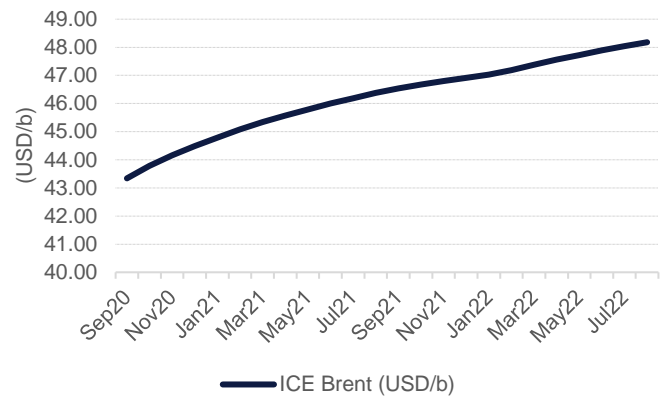
Source: Bloomberg, Emirates NBD Research.

WTI forward curve



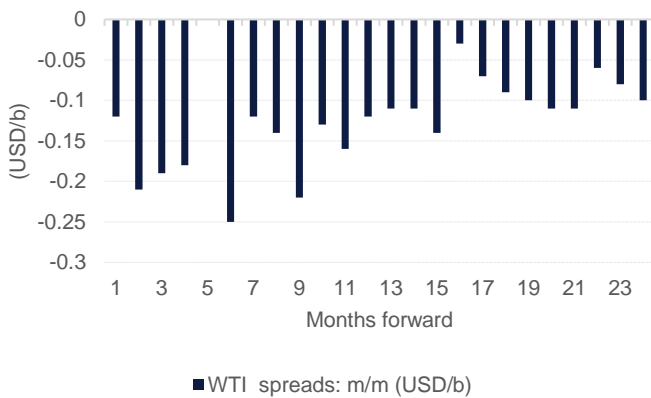
Source: Bloomberg, Emirates NBD Research. Note: USD/b.

Brent forward curve



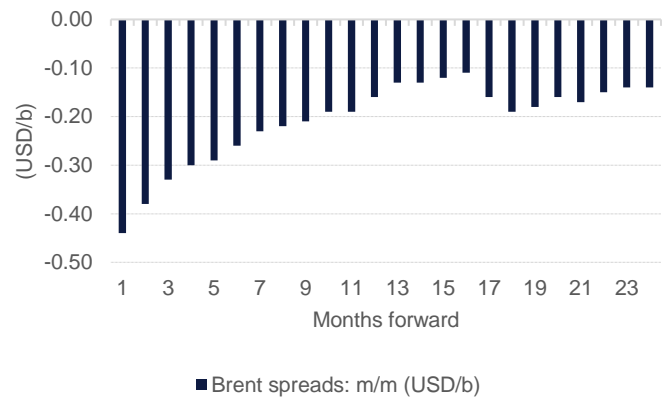
Source: Bloomberg, Emirates NBD Research. Note: USD/b.

WTI time spreads



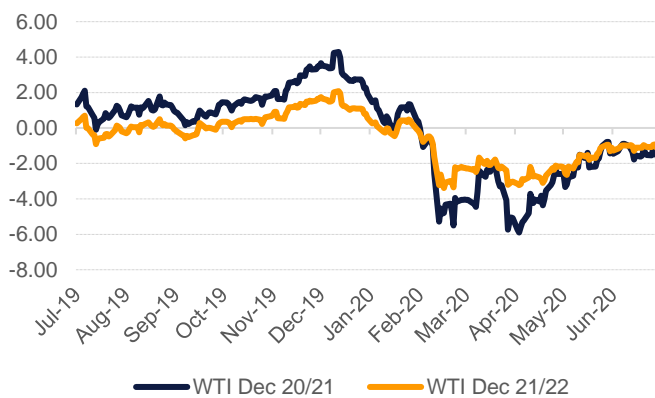
Source: Bloomberg, Emirates NBD Research. Note: USD/b.

Brent time spreads



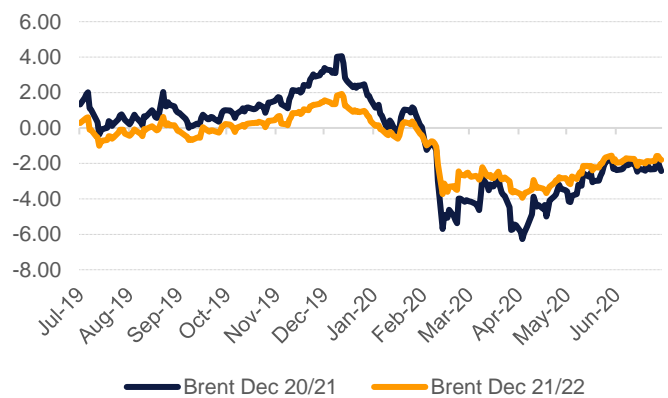
Source: Bloomberg, Emirates NBD Research. Note: USD/b.

WTI December spreads



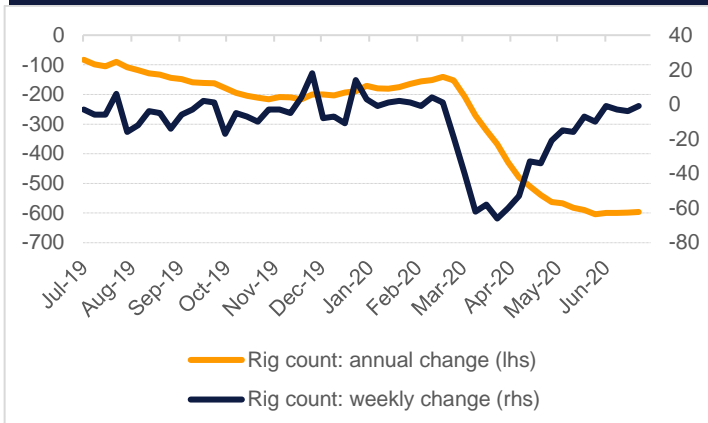
Source: Bloomberg, Emirates NBD Research. Note: USD/b.

Brent December spreads



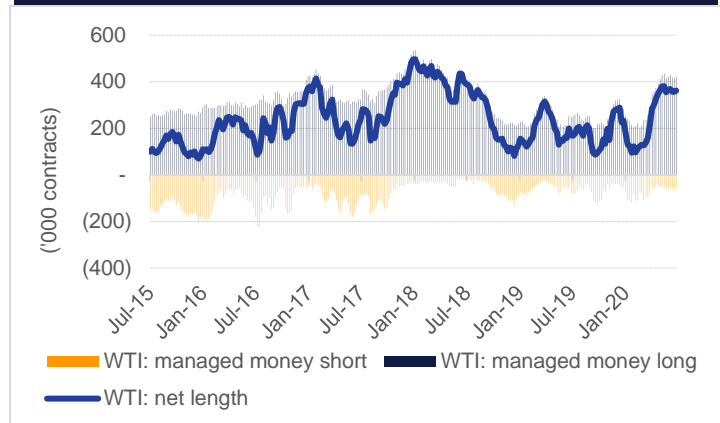
Source: Bloomberg, Emirates NBD Research. Note: USD/b.

US drilling rig count



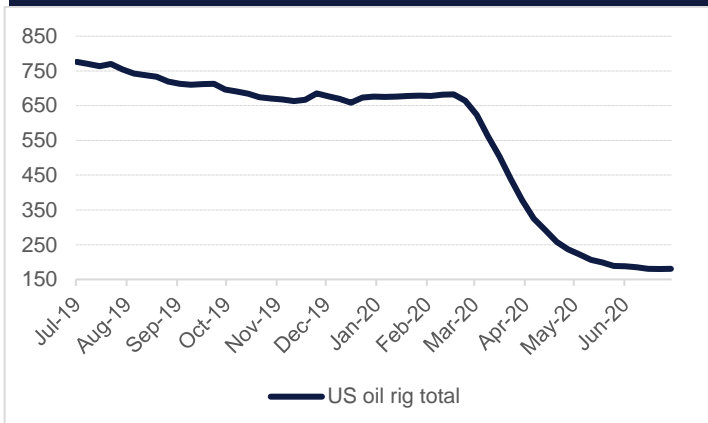
Source: Bloomberg, Emirates NBD Research.

WTI net length managed money



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

US drilling rig count (1 year)



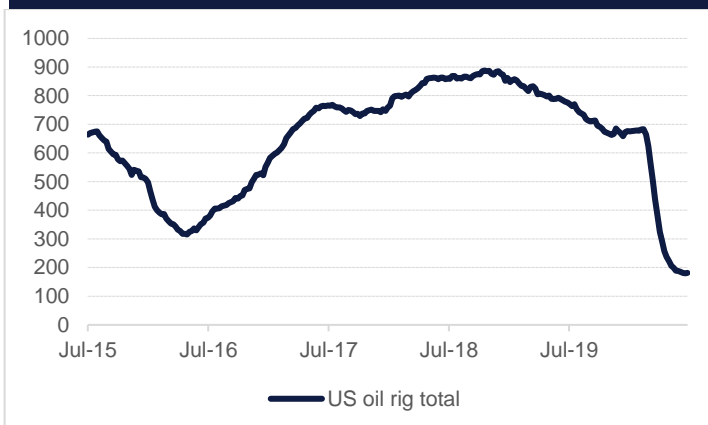
Source: Bloomberg, Emirates NBD Research.

Brent net length managed money



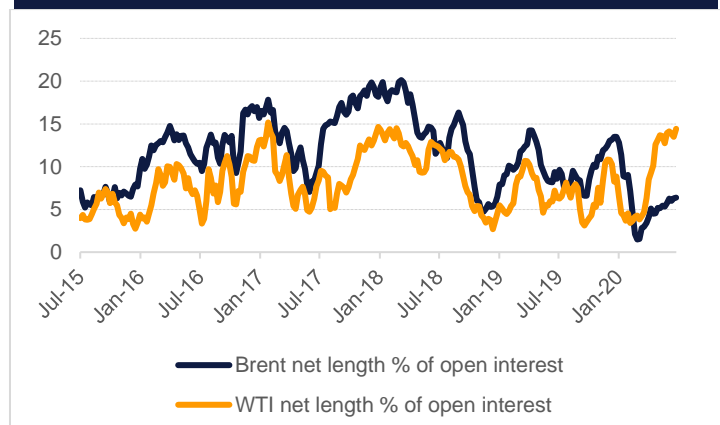
Source: Bloomberg, Emirates NBD Research.

US drilling rig count (5 year)



Source: Bloomberg, Emirates NBD Research.

Net length managed money/open interest



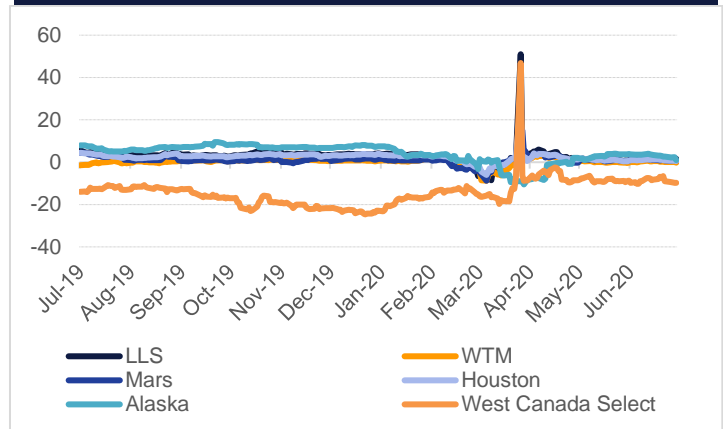
Source: Bloomberg, Emirates NBD Research.

Total crude stocks: US



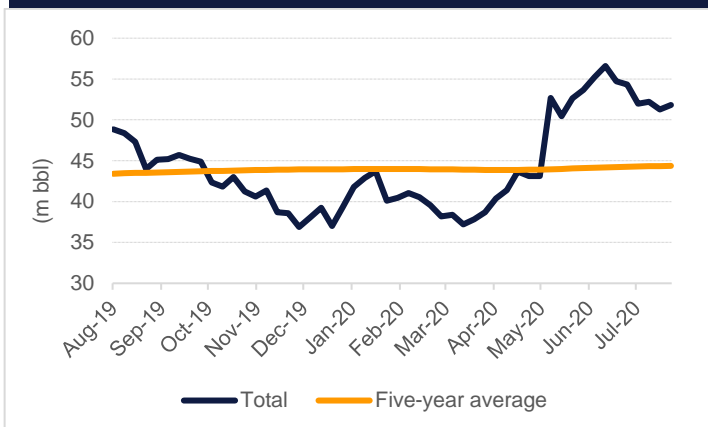
Source: Bloomberg, Emirates NBD Research.

North America prices



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

Total inventories: ARA



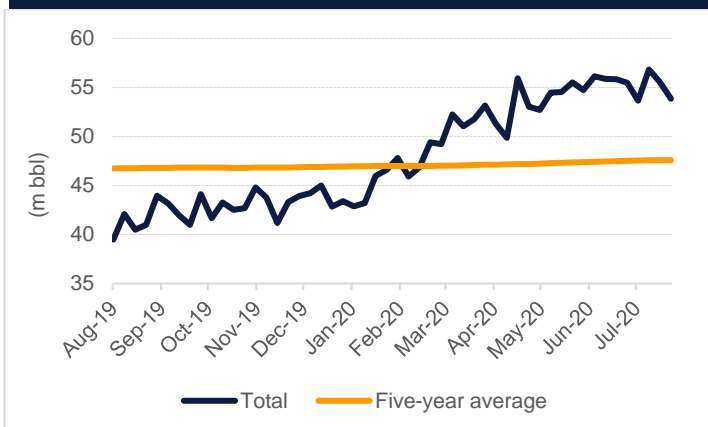
Source: Bloomberg, Emirates NBD Research. Note: products only.

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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