

ASR Alternatives

Oil Pack

24/09/20

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ABSOLUTE STRATEGY RESEARCH

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This Week's Headlines

- Brent up slightly on the week
 - Brent crude rose \$1.18 or 2.91% to just under \$42/barrel
- Libyan crude exports restart
 - Production expected to rise to 260k bpd next week as blockade lifted; pre-blockade Libyan production was 1.2m
- Dallas Fed Energy Survey suggests Shale industry in decline
 - 66% think US oil production has peaked while just 18% prioritise increasing production ([slide 4](#))
- US inventories and production fell while consumption rose, supporting prices
 - Crude production fell 200k bpd, stocks fell 2.4m barrels, exports of petroleum products rose by almost 1m bpd, and domestic consumption rose 1.4m bpd, helping to support prices
- OPEC meeting helped oil higher but yielded little of substance
 - The JMMC emphasised the importance of production curbs and recommended that participating countries “be willing to take further necessary measures when needed”.
- Gazprom CEO expects oil consumption to return to pre-COVID levels H2 '21
- Shell [reportedly](#) looking to cut oil + gas production costs by 30-40%



➤ Reasons for pessimism on oil:

- Global production is set to rise by several million barrels in the coming months as OPEC+ cuts taper and US shale responds to the price recovery
- Weak fiscal position of some OPEC+ members seems likely to encourage more cheating on supply restraint, as we have already seen from Iraq
- Demand recovery looks fragile to:
 - a) second-round effects from the initial lockdown (e.g. corporate labour shedding and defaults)
 - b) the possibility of further lockdowns until COVID-19 is contained via a vaccine, which experts don't expect to be widely available until well into 2021

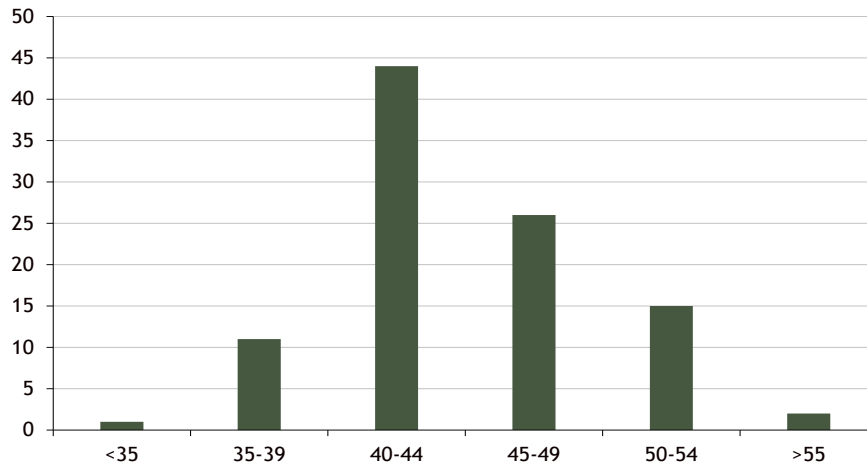
➤ Risks to our view

- US production proves less price-sensitive than we expect
- OPEC supply restraint endures longer than expected
- An incoming President Biden creates a hostile environment for US oil
- Further dollar weakness
- Vaccine creation/production beats estimates

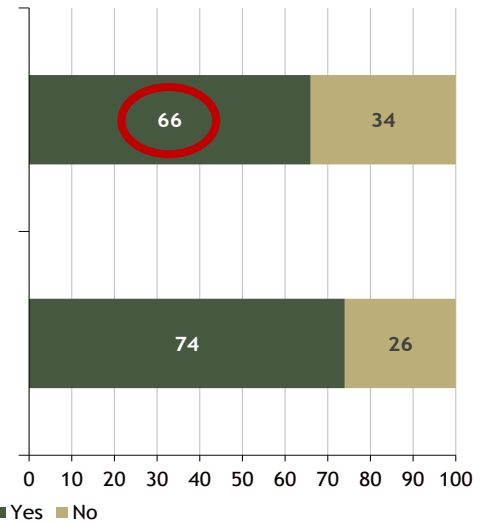


Charts of the Week: 66% believe US oil production has peaked

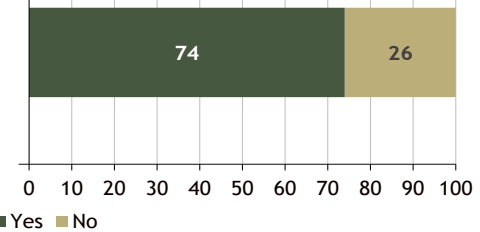
What do you expect the WTI crude oil price to be at the end of 2020? (\$/barrel)



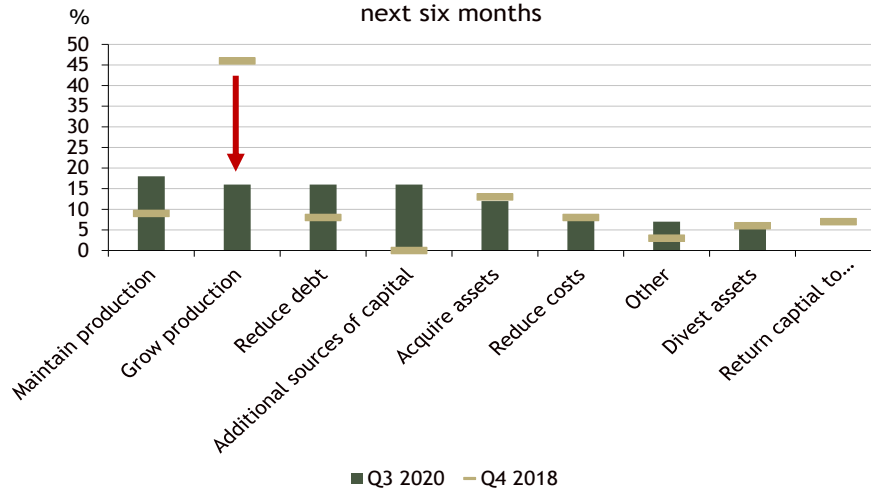
Do you believe that US oil production has peaked?



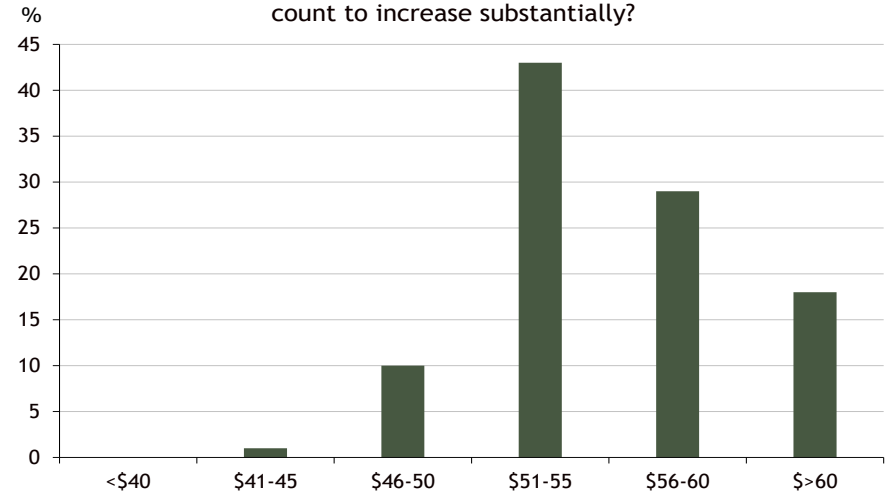
Do you believe that OPEC will play a bigger role in the determination of the price of oil going forward?



Which of the following is your firm's primary goal in the next six months



At that WTI crude oil price would you expect the US oil rig count to increase substantially?



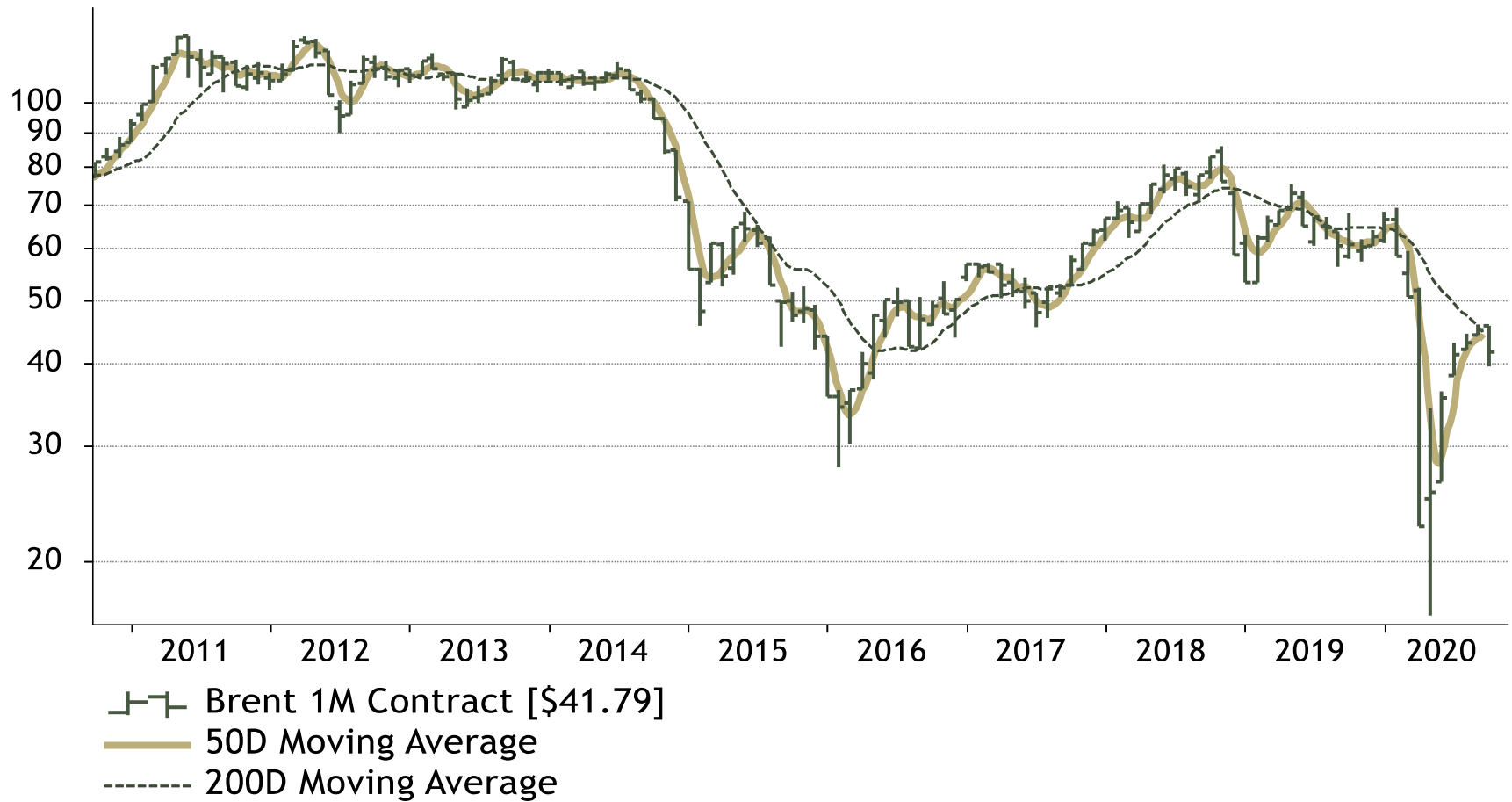
Source: ASR Ltd. / Dallas Federal Reserve



Brent Weekly High-Low Close

Brent Front-Month Contract High-Low Close (\$)

Weekly, Log Scale



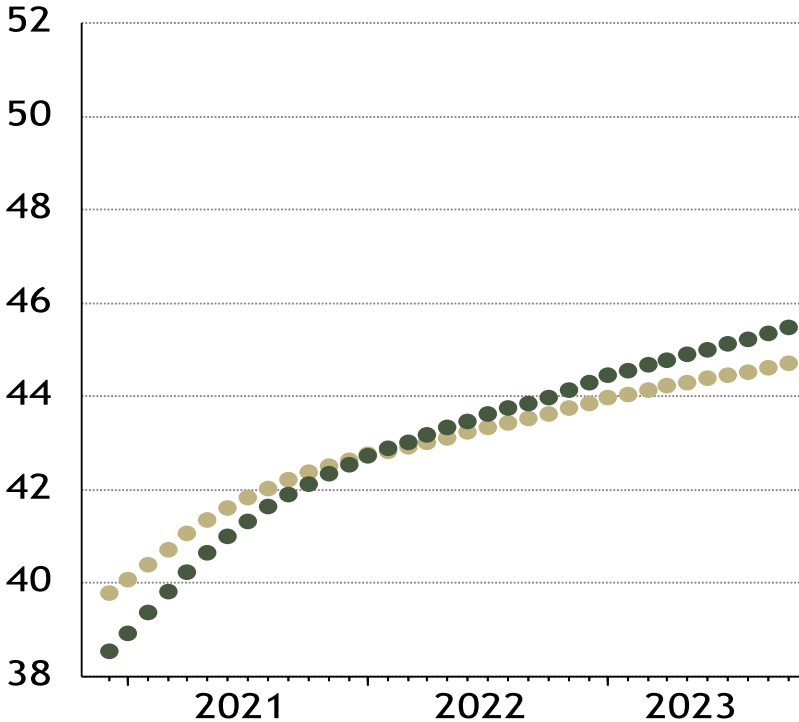
Source: ASR Ltd/ Datastream by Refinitiv



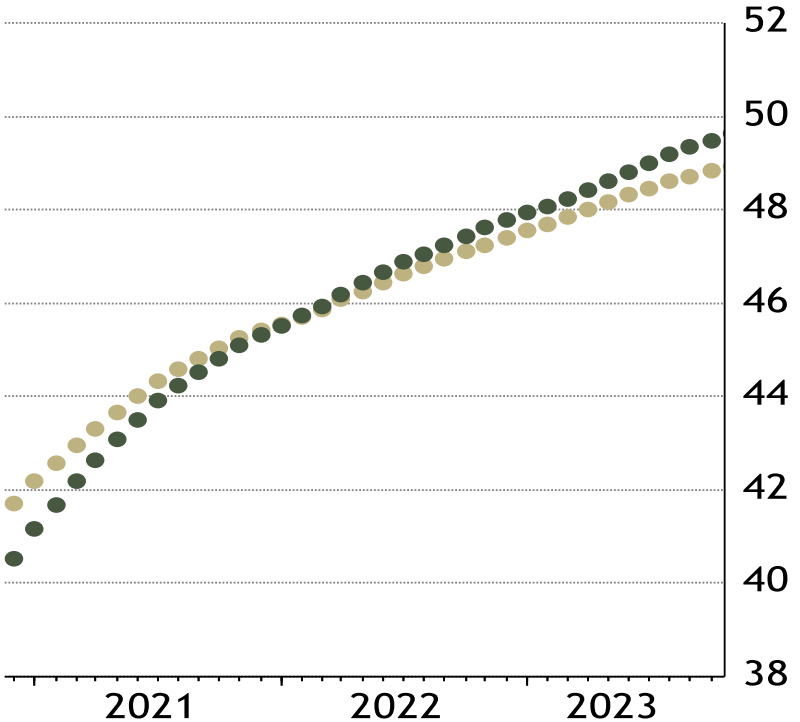
1-Week Change in WTI and Brent Futures Curves

WTI and Brent Futures Contract Curves, \$/barrel

Left: WTI; Right: Brent



● 22/09/2020
● -1W



● LATEST
● -1W

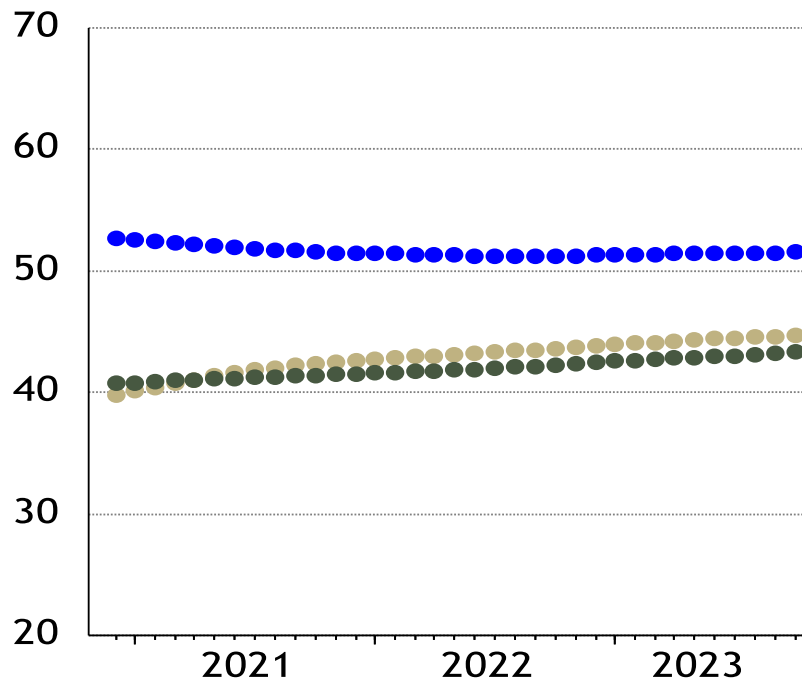
Source: ASR Ltd/ Datastream by Refinitiv



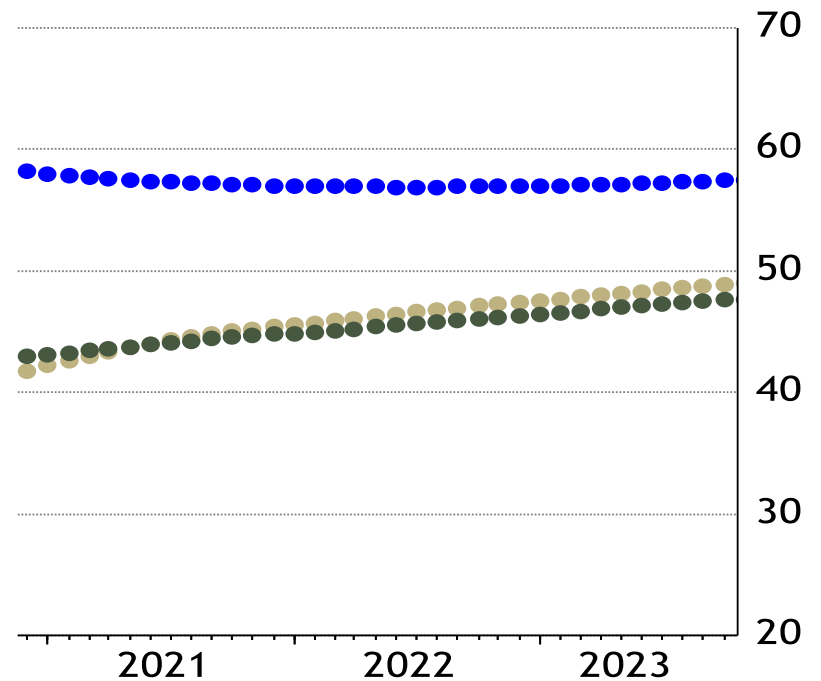
WTI, Brent Futures Curves (short-run)

WTI and Brent Futures Contract Curves, \$/barrel

Left: WTI; Right: Brent



- 22/09/2020
- -13W
- -52W



- LATEST
- -13W
- -52W

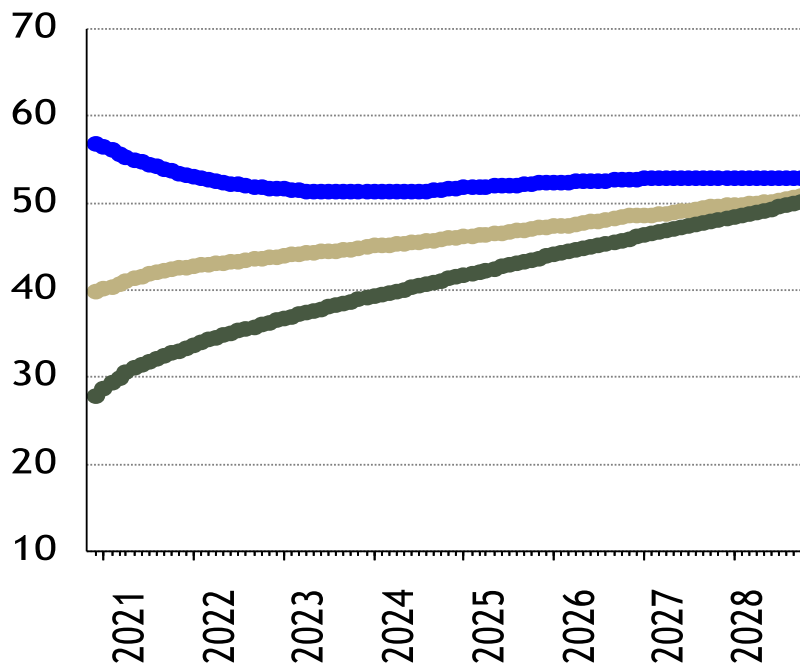
Source: ASR Ltd/ Datastream by Refinitiv



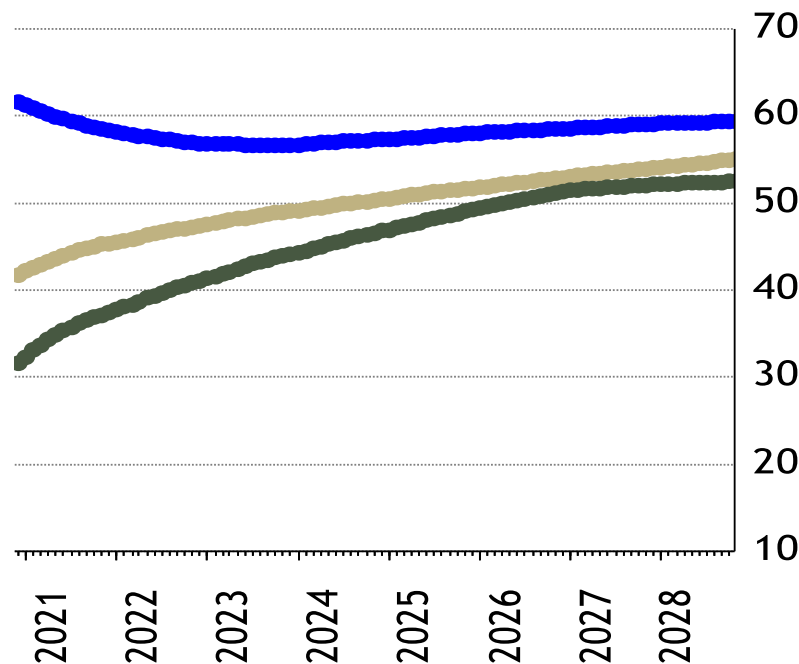
WTI, Brent Futures Curves (long-run)

WTI and Brent Futures Contract Curves, \$/barrel

Left: WTI; Right: Brent



- 22/09/2020
- 23/04/2020
- 01/01/2020

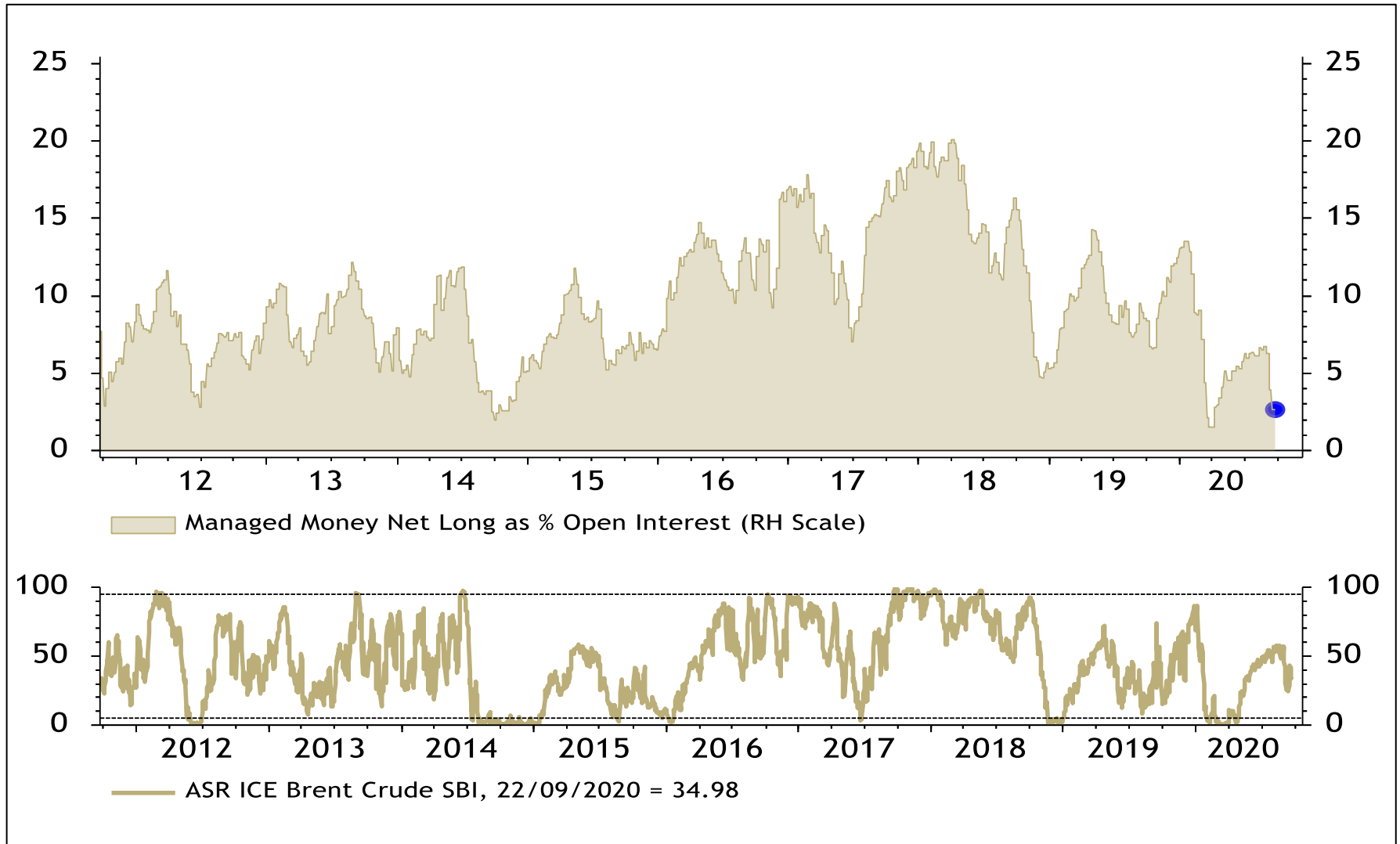


- LATEST
- 23/04/2020
- 01/01/2020

Source: ASR Ltd/ Datastream by Refinitiv



Brent Crude Oil: Sentiment and Hedge Funds' Positioning

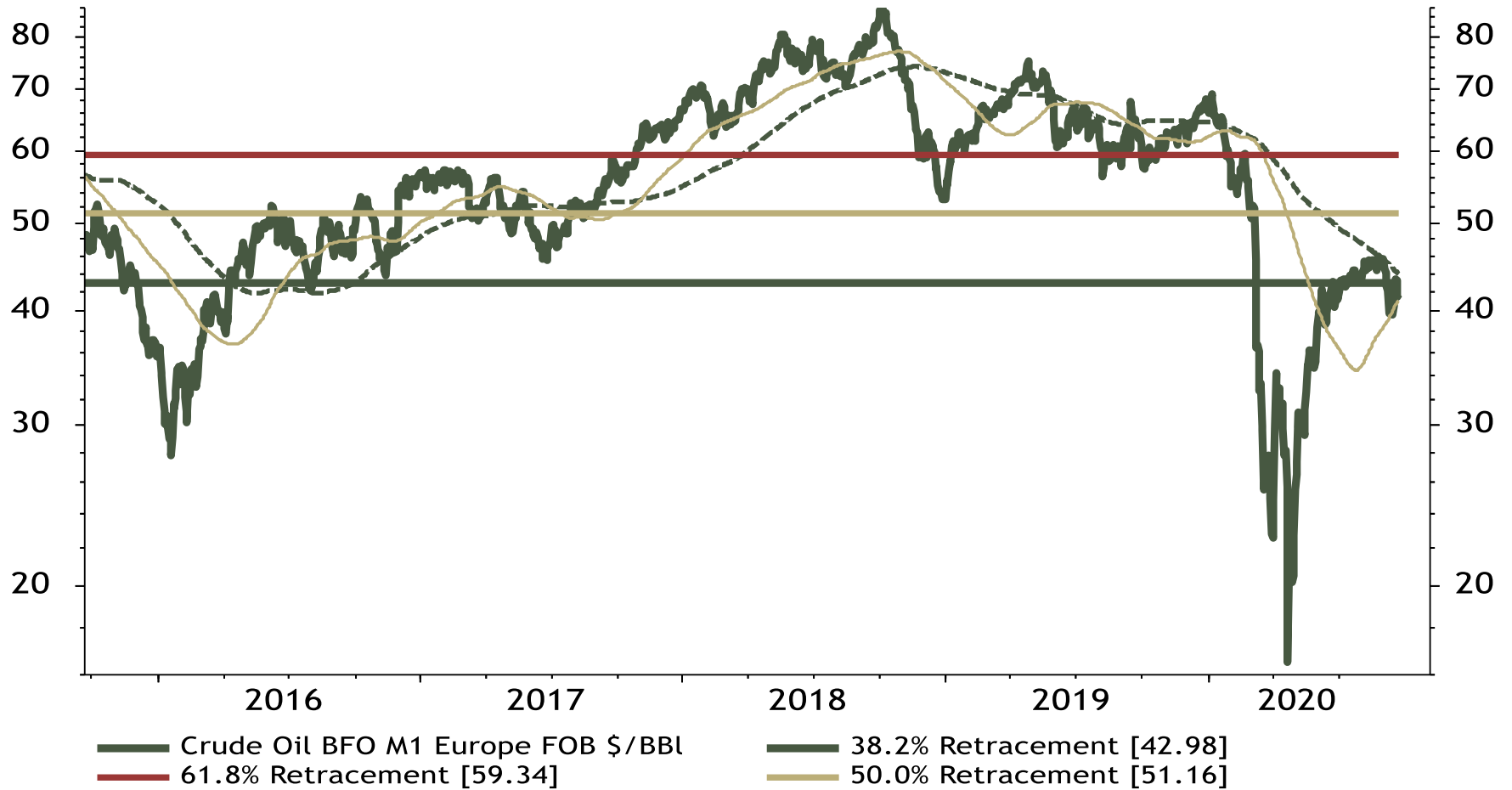


Source: ASR Ltd. / CFTC / DataStream from Refinitiv



Brent Fibonacci levels

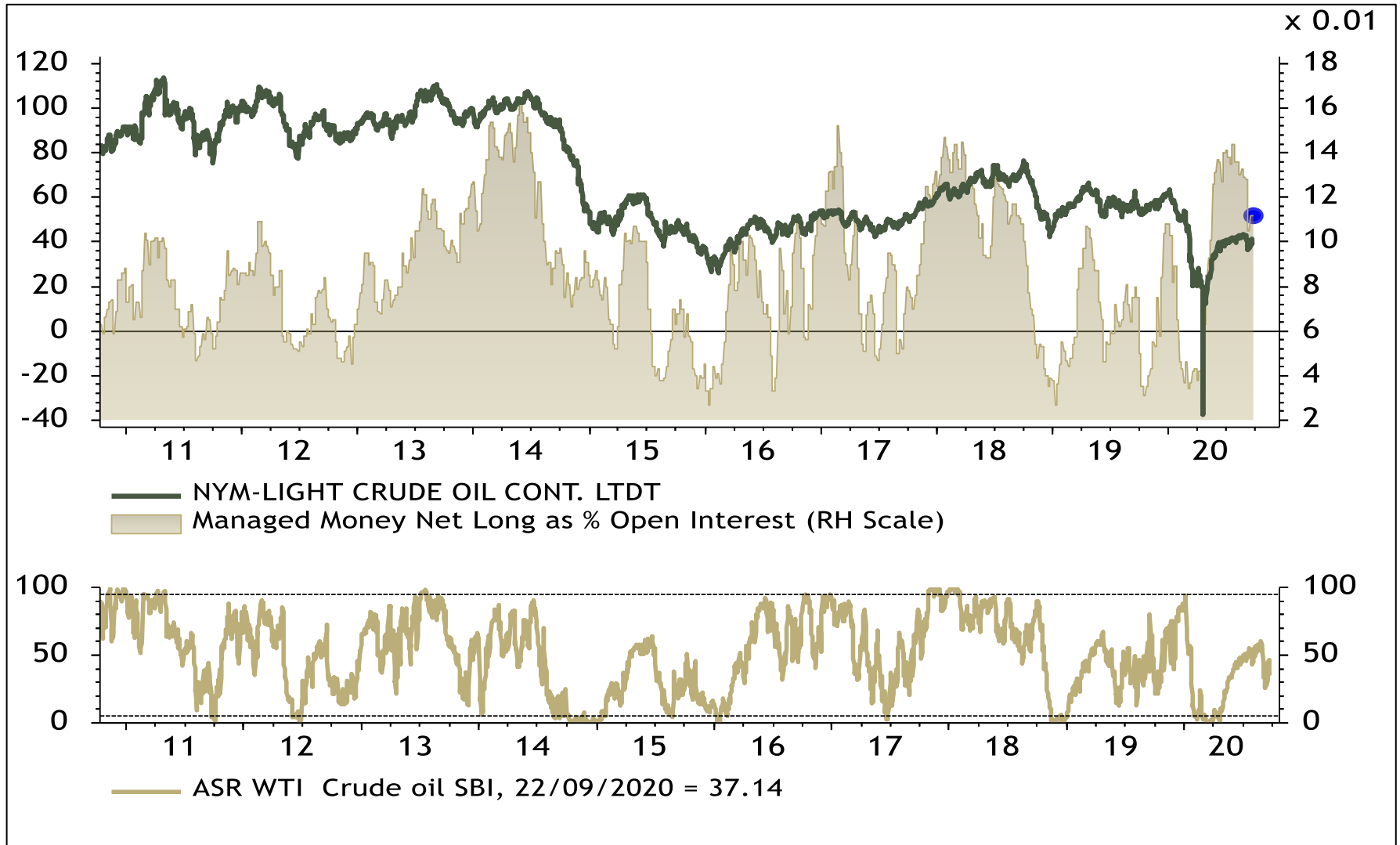
Inc 100DMA and 200DMA



Source: ASR Ltd. / DataStream from Refinitiv



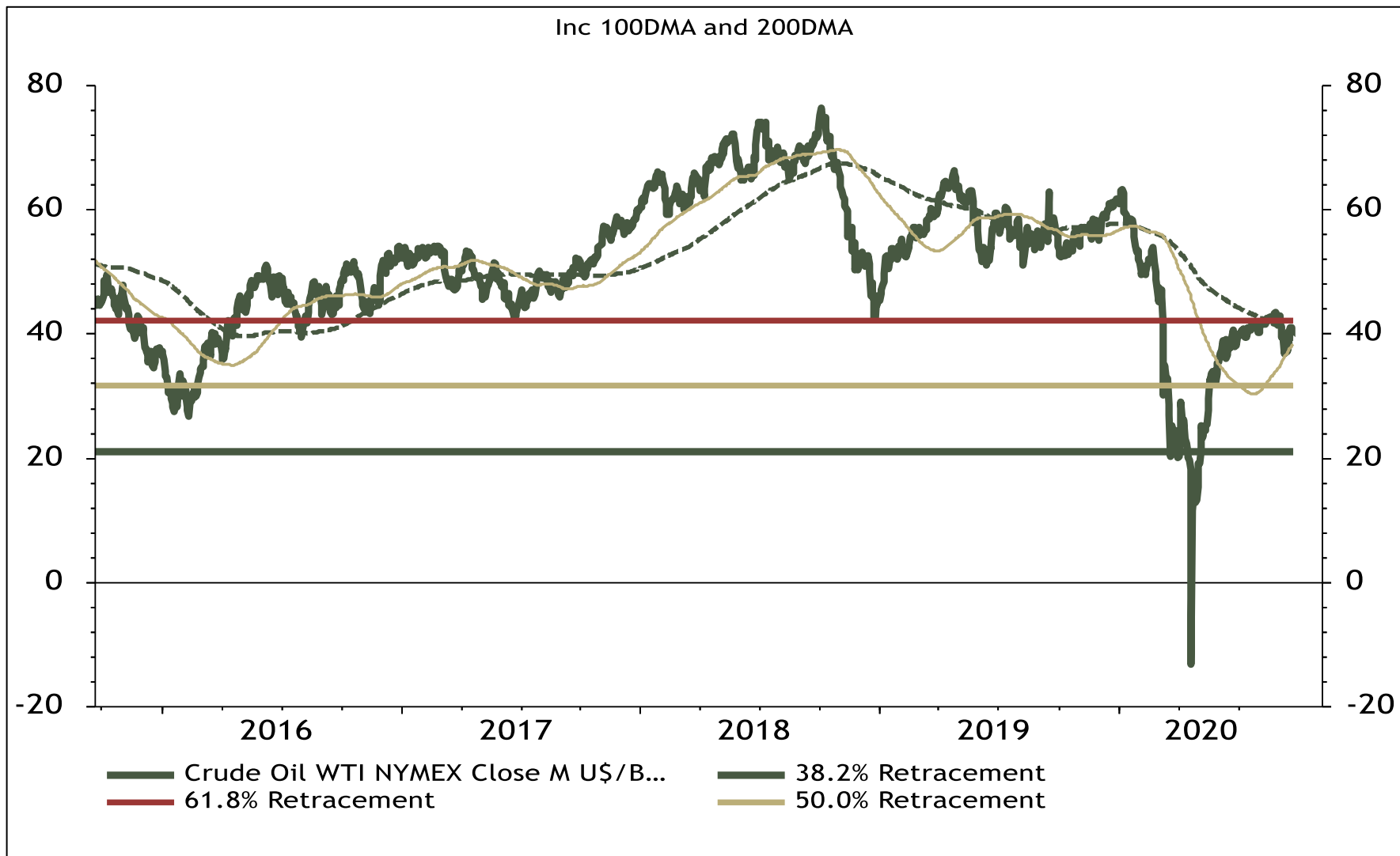
WTI Crude Oil: Sentiment and Hedge Funds' Positioning



Source: ASR Ltd/ Datastream by Refinitiv



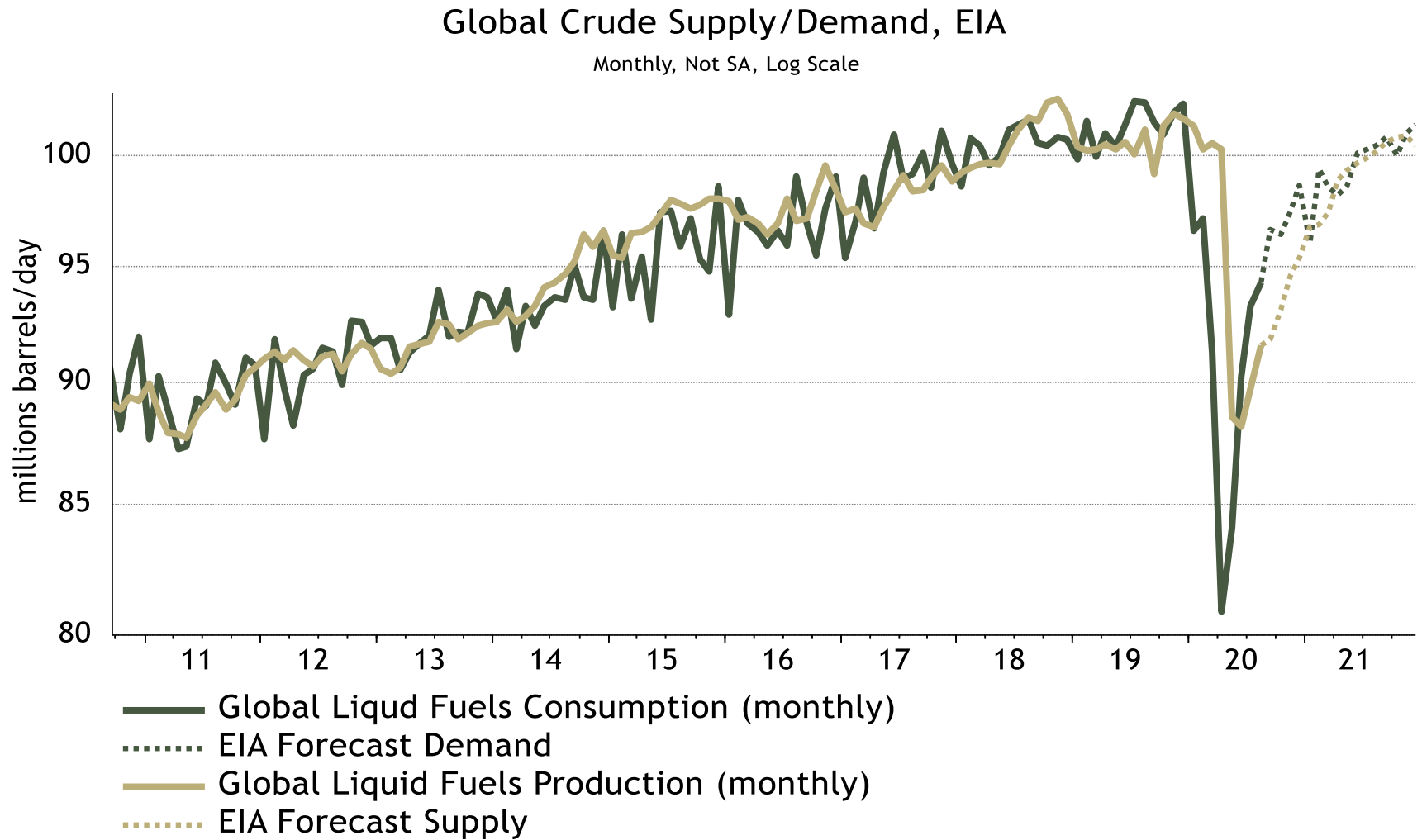
WTI Fibonacci Levels



Source: ASR Ltd/ Datastream by Refinitiv



Monthly Global Crude Production/Consumption

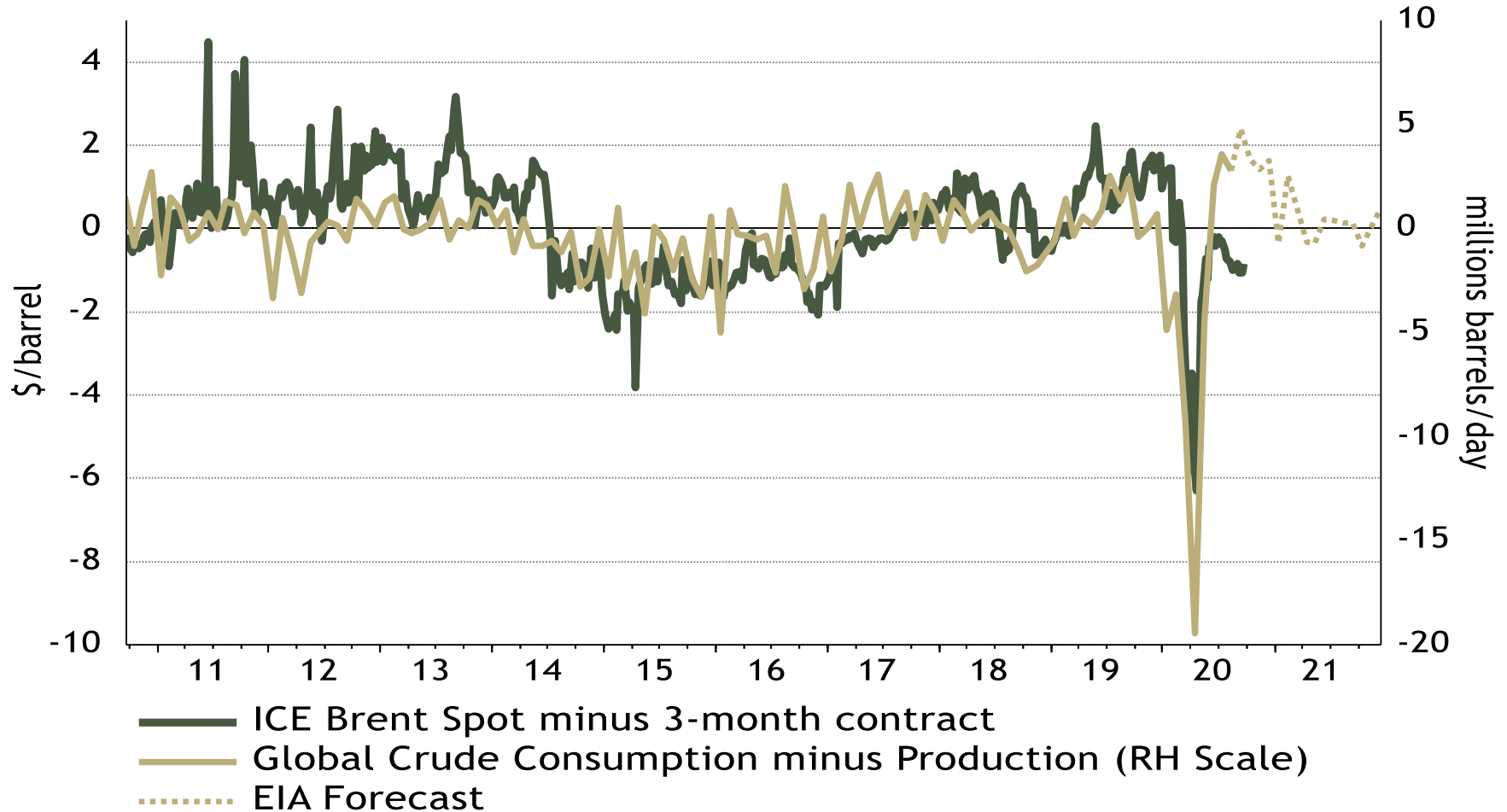


Source: ASR Ltd/ EIA / Datastream by Refinitiv



Global Excess Demand (all grades) vs Spot minus 3-month Contract

Global Excess Crude Demand vs Brent Spot minus 3-month Contract



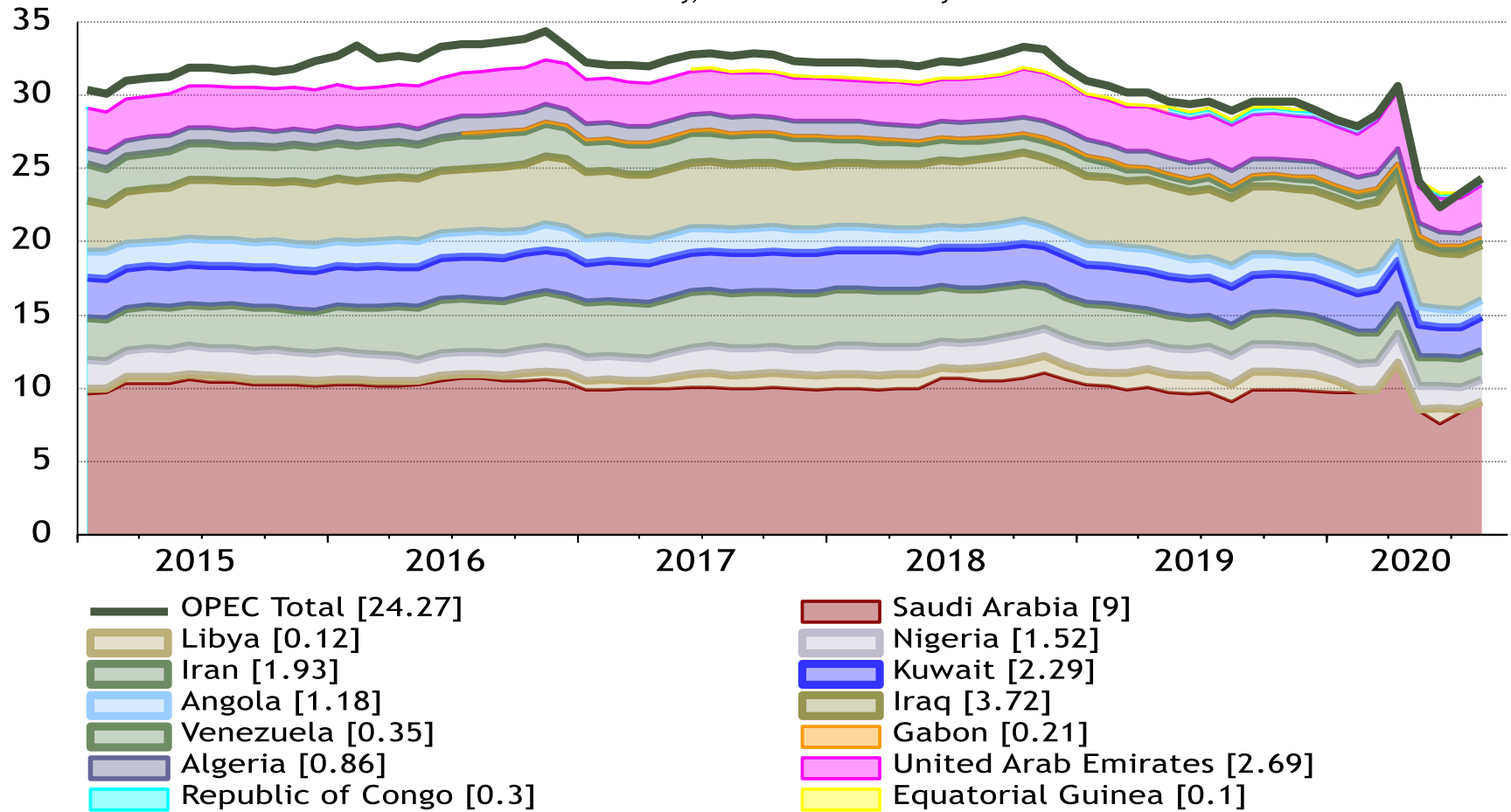
Source: ASR Ltd. / DataStream from Refinitiv



OPEC Production Breakdown (millions barrels/day)

Reuters Survey of OPEC Production Levels

Monthly, Millions Barrels/Day



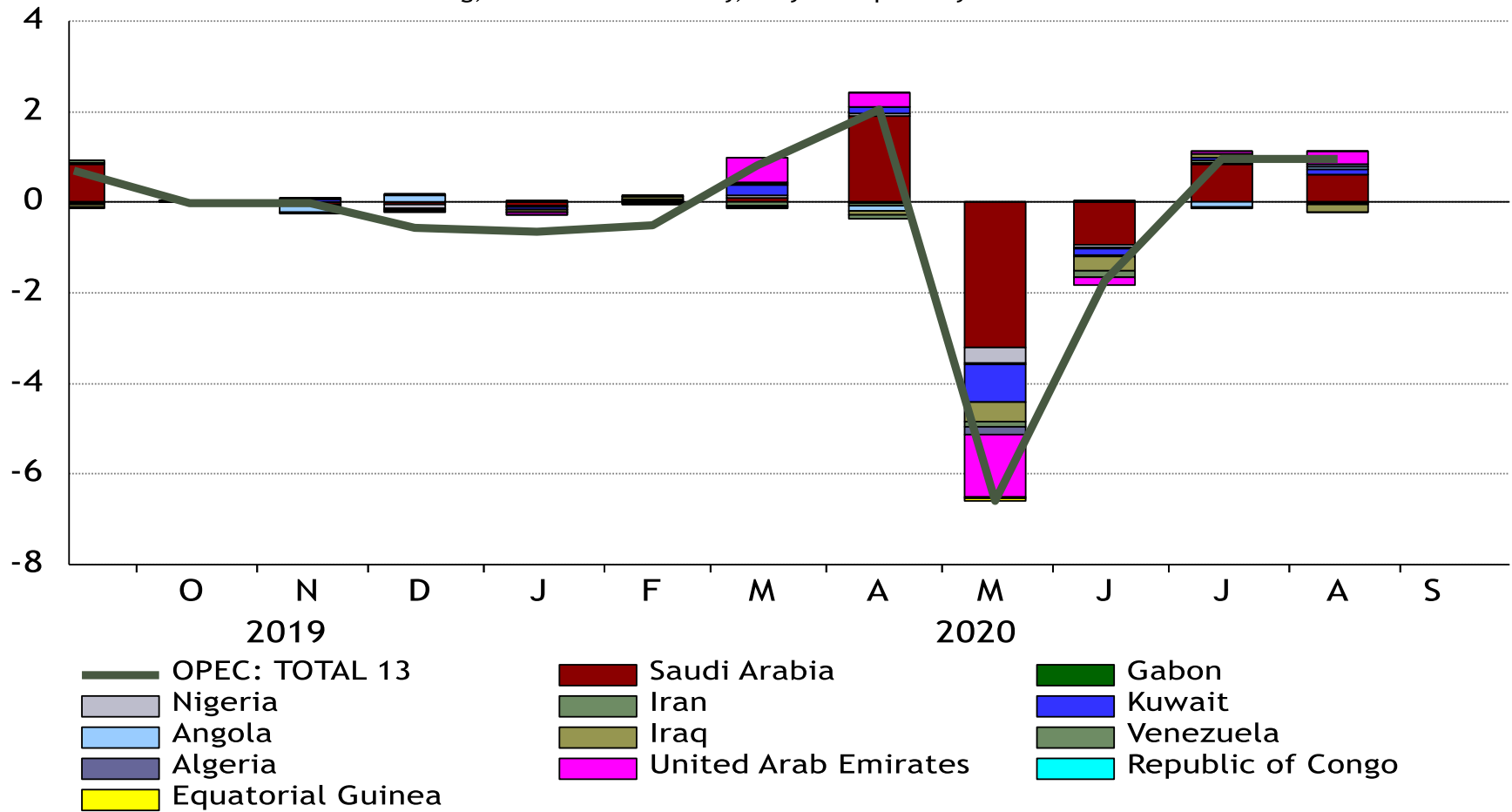
Source: ASR Ltd/ Reuters/ Datastream by Refinitiv



OPEC Production Breakdown 1-Month Actual Change

Reuters Survey of OPEC Production Levels

1-month Actual Chg, millions barrels/day, Libya temporarily excluded due to data error



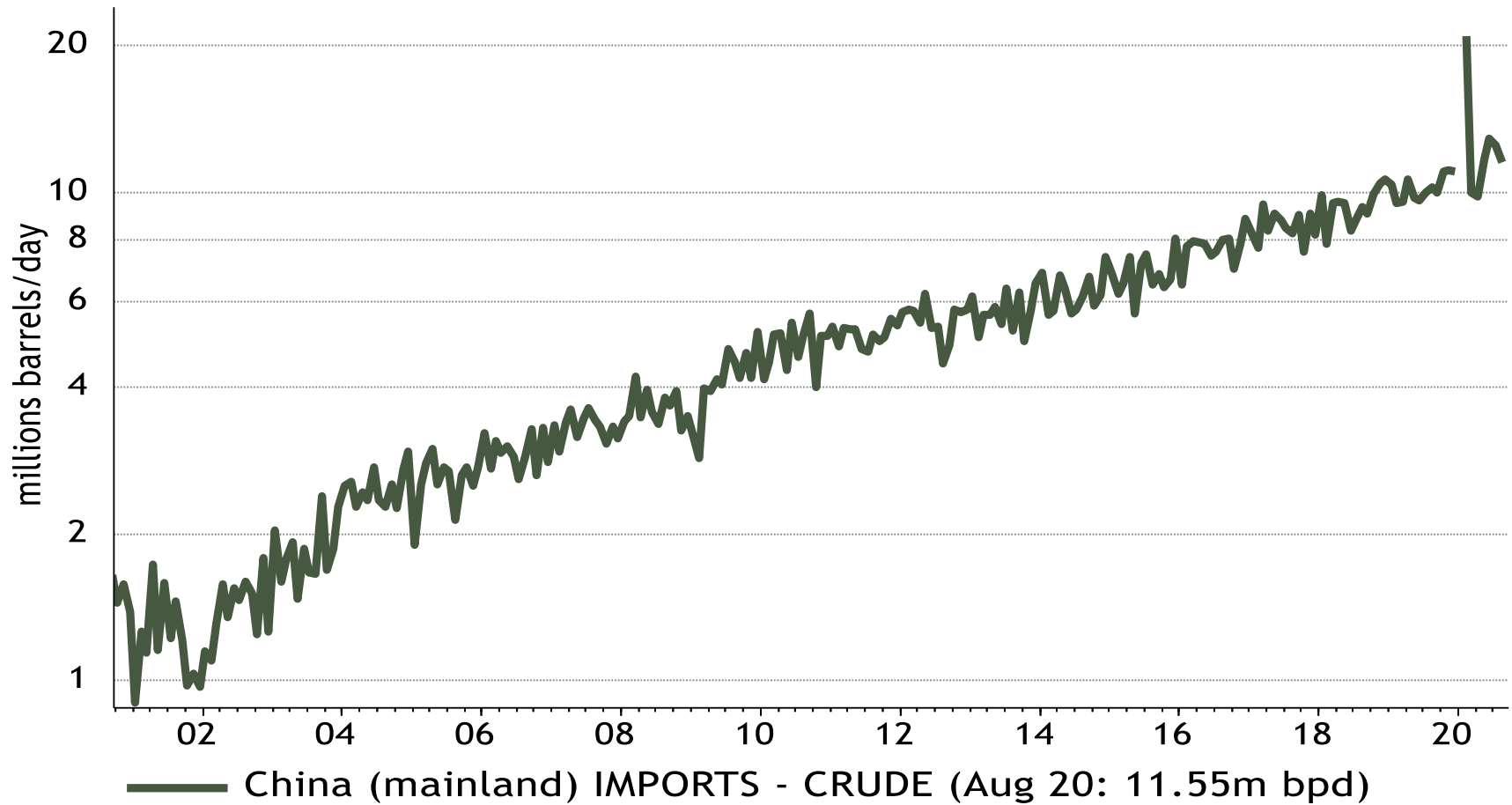
Source: ASR Ltd/ Reuters/ Datastream by Refinitiv



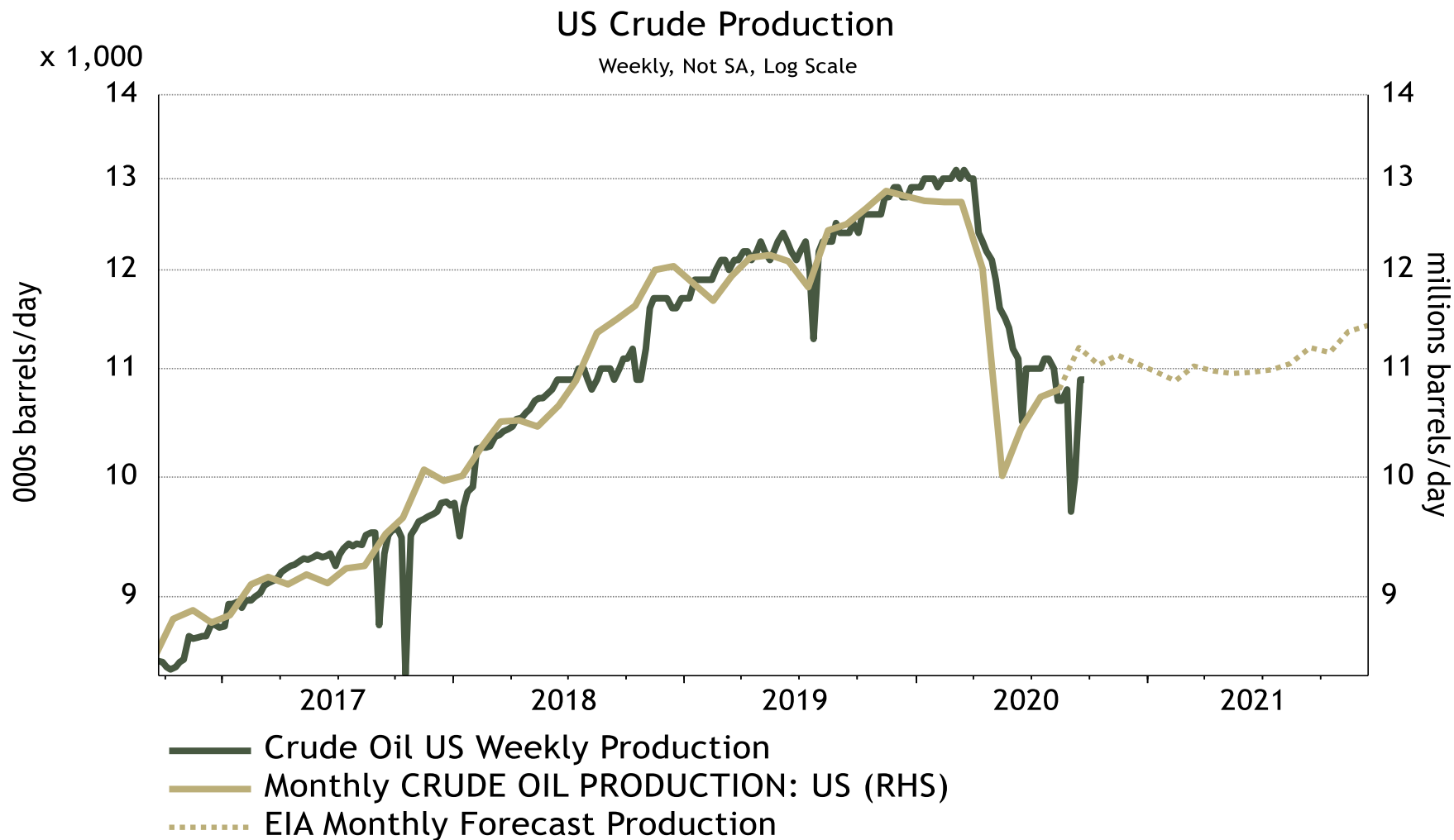
China Crude Imports

Chinese Crude Imports, converted from metric tons

Monthly, Log Scale, Not SA



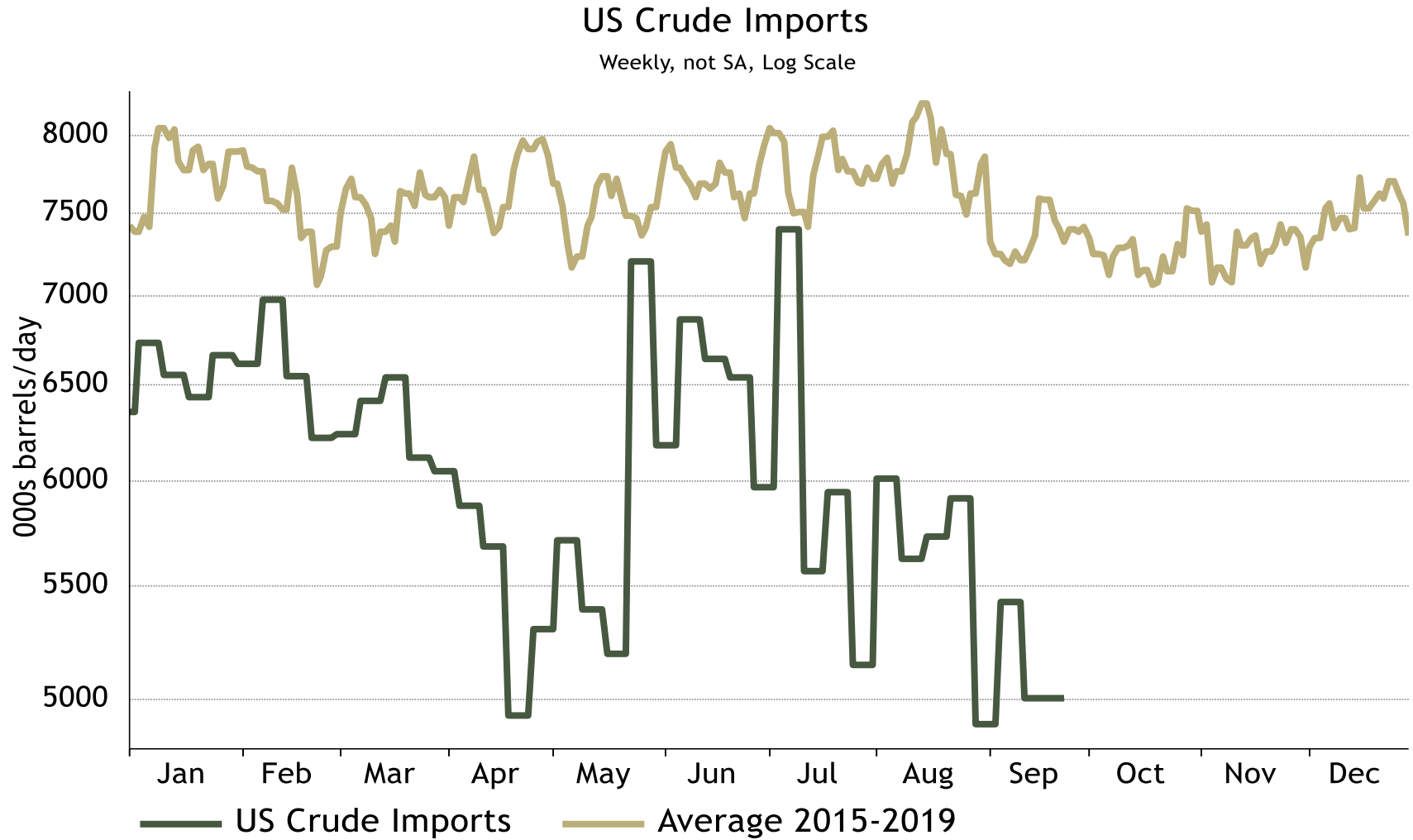
Weekly US Crude Production (EIA)



Source: ASR Ltd/ EIA / Datastream by Refinitiv



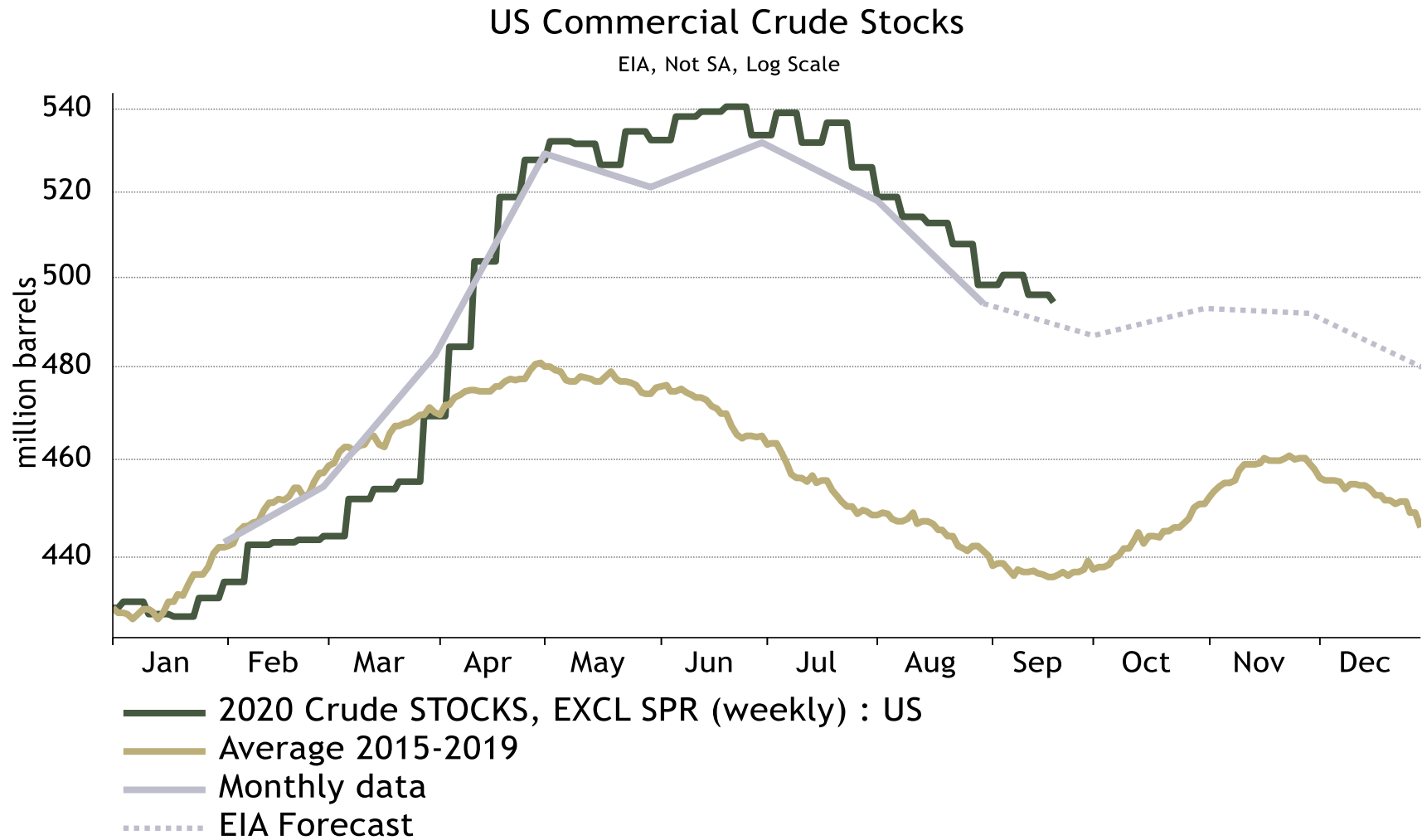
US Crude Imports



Source: ASR Ltd/ EIA / Datastream by Refinitiv



Total US Commercial Crude Inventories excl SPR (weekly)

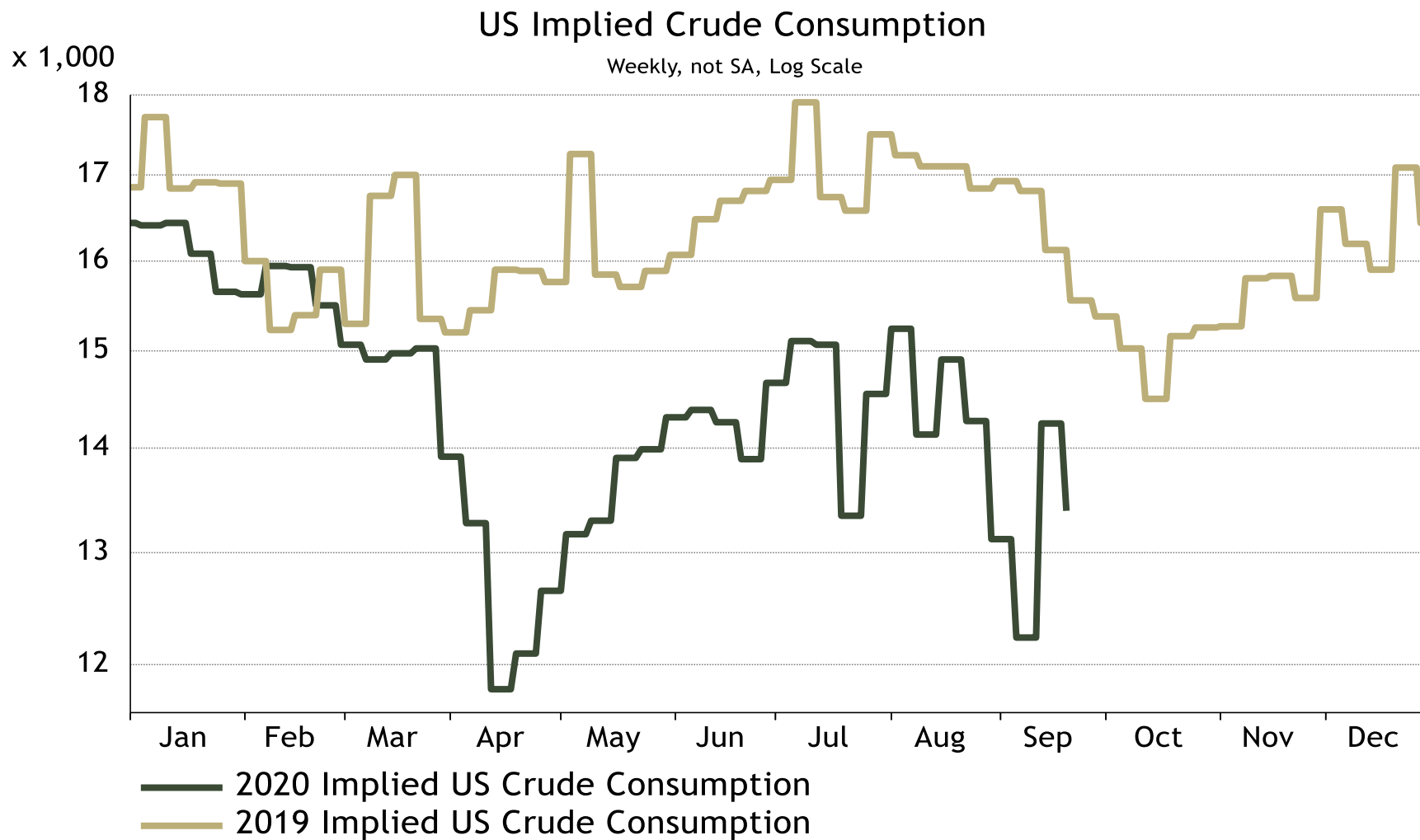


Source: ASR Ltd/ EIA / Datastream by Refinitiv



US Weekly Crude Consumption

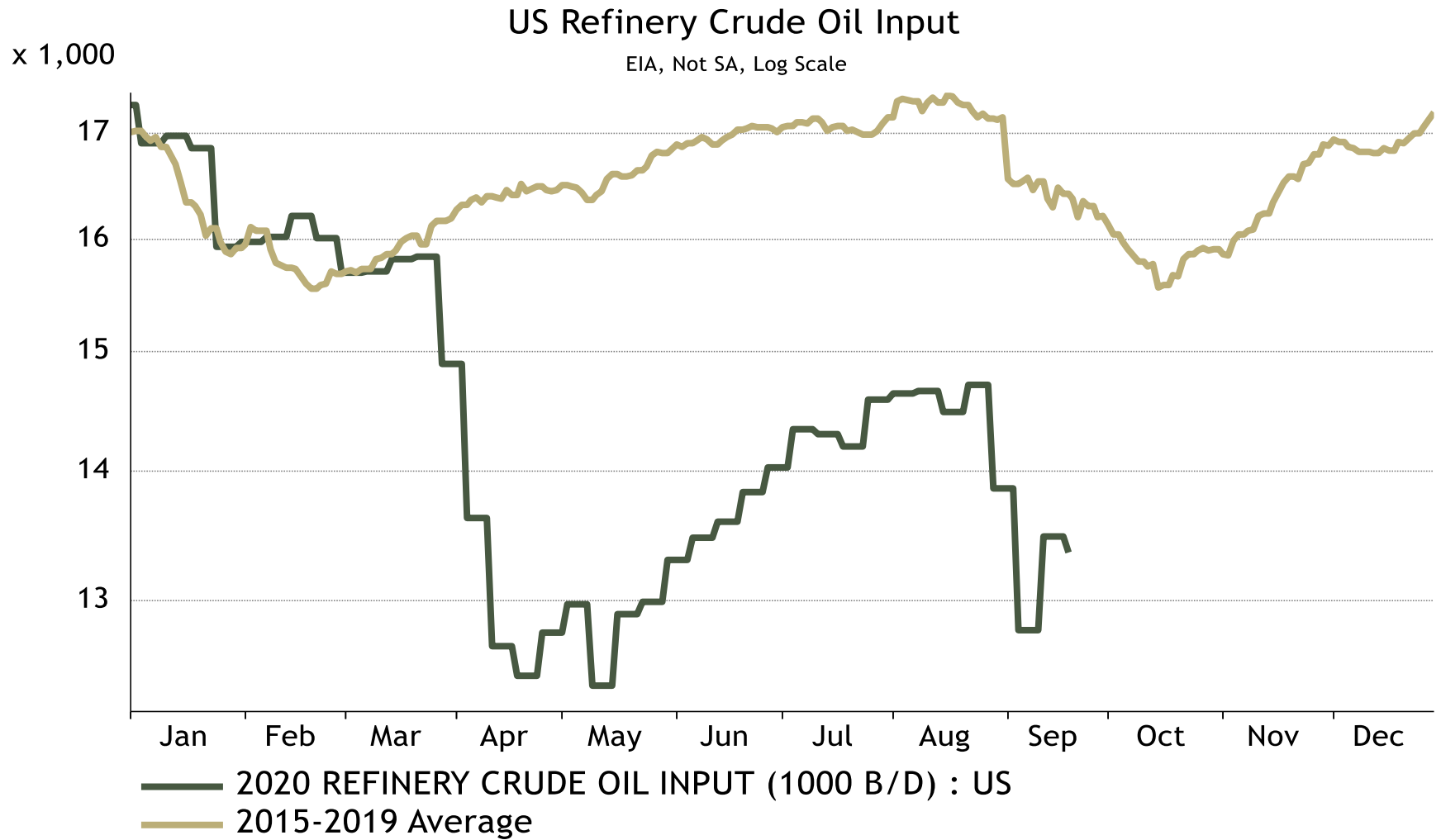
(consumption implied via weekly net imports, inventory change and production data)



Source: ASR Ltd/ EIA / Datastream by Refinitiv



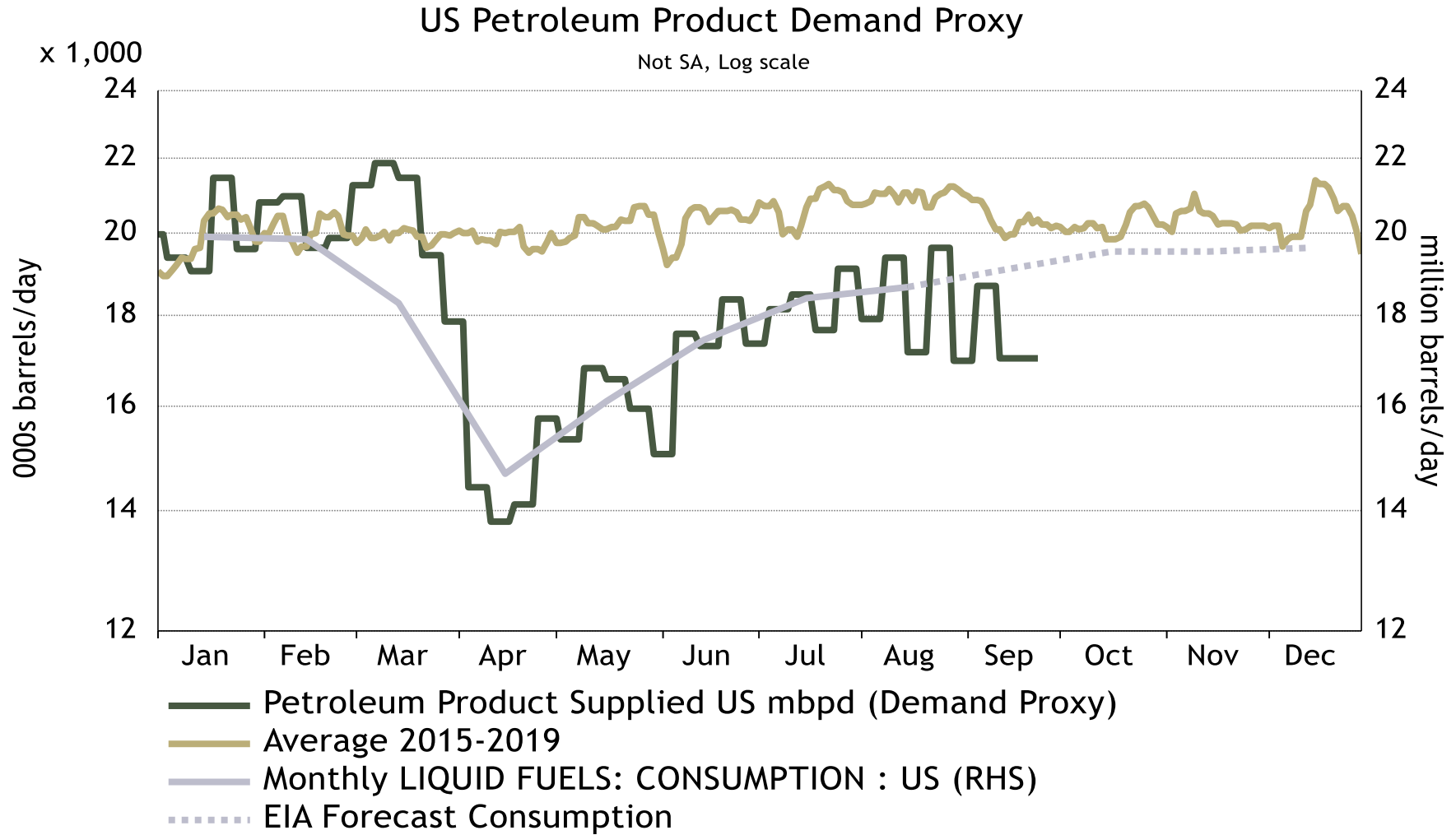
US Weekly Refinery Crude Oil Input



Source: ASR Ltd/ EIA / Datastream by Refinitiv



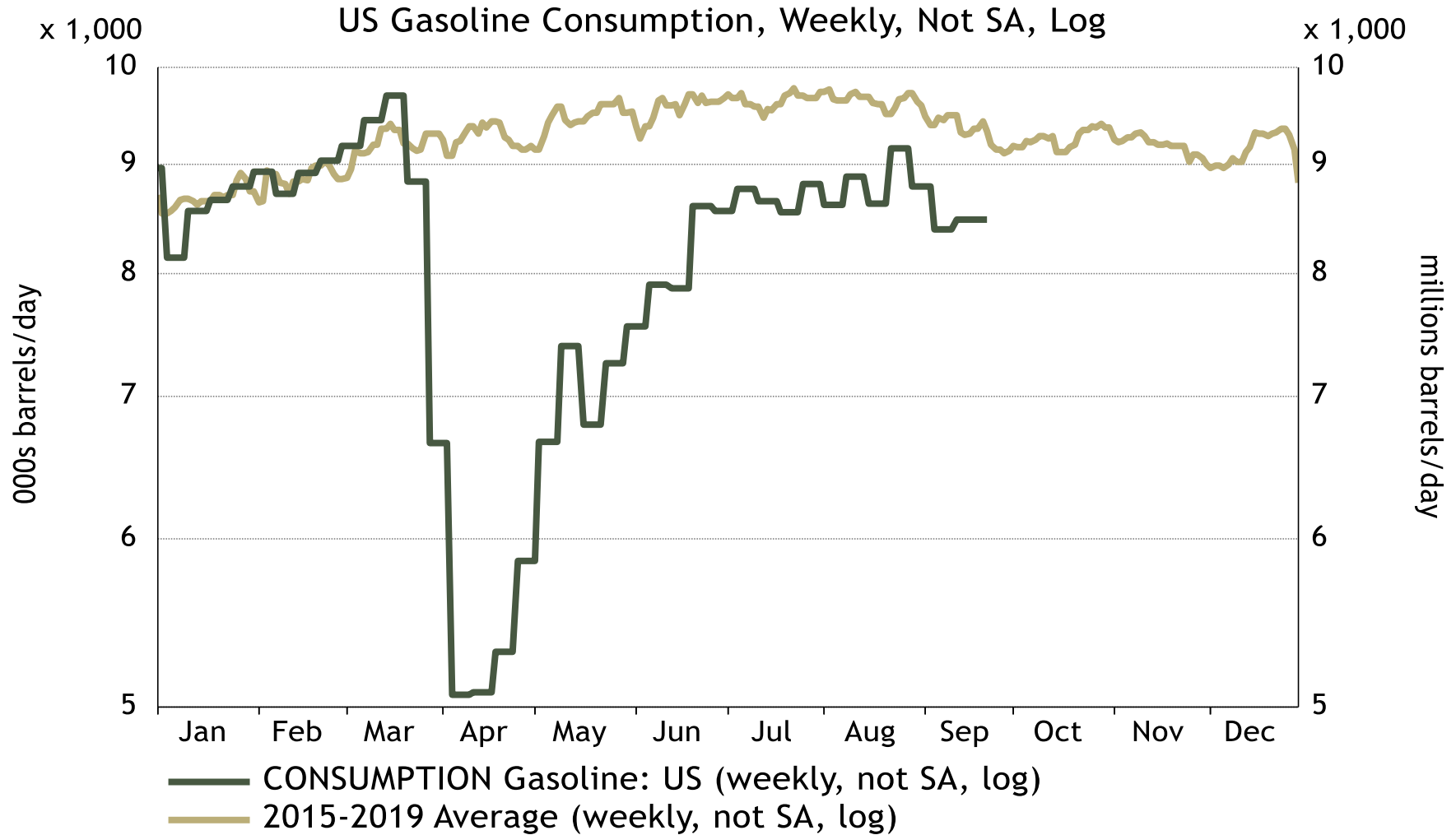
US Petroleum Products Consumption



Source: ASR Ltd/ EIA / Datastream by Refinitiv



US Motor Gasoline Consumption

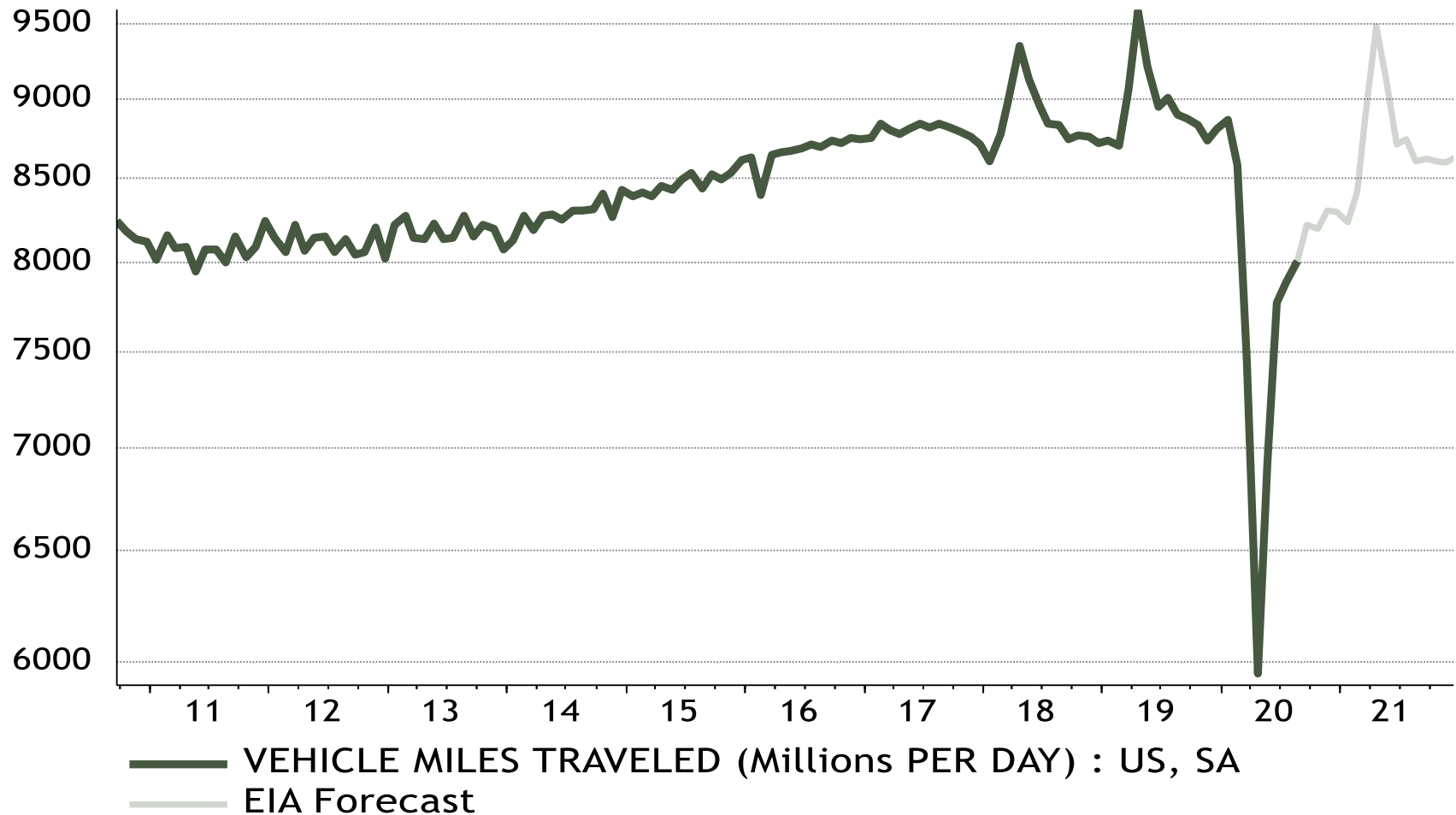


Source: ASR Ltd/ EIA / Datastream by Refinitiv



US Vehicle Miles Travelled + EIA Forecast

US Vehicle Miles Travelled/Day, Monthly, SA, Log Scale



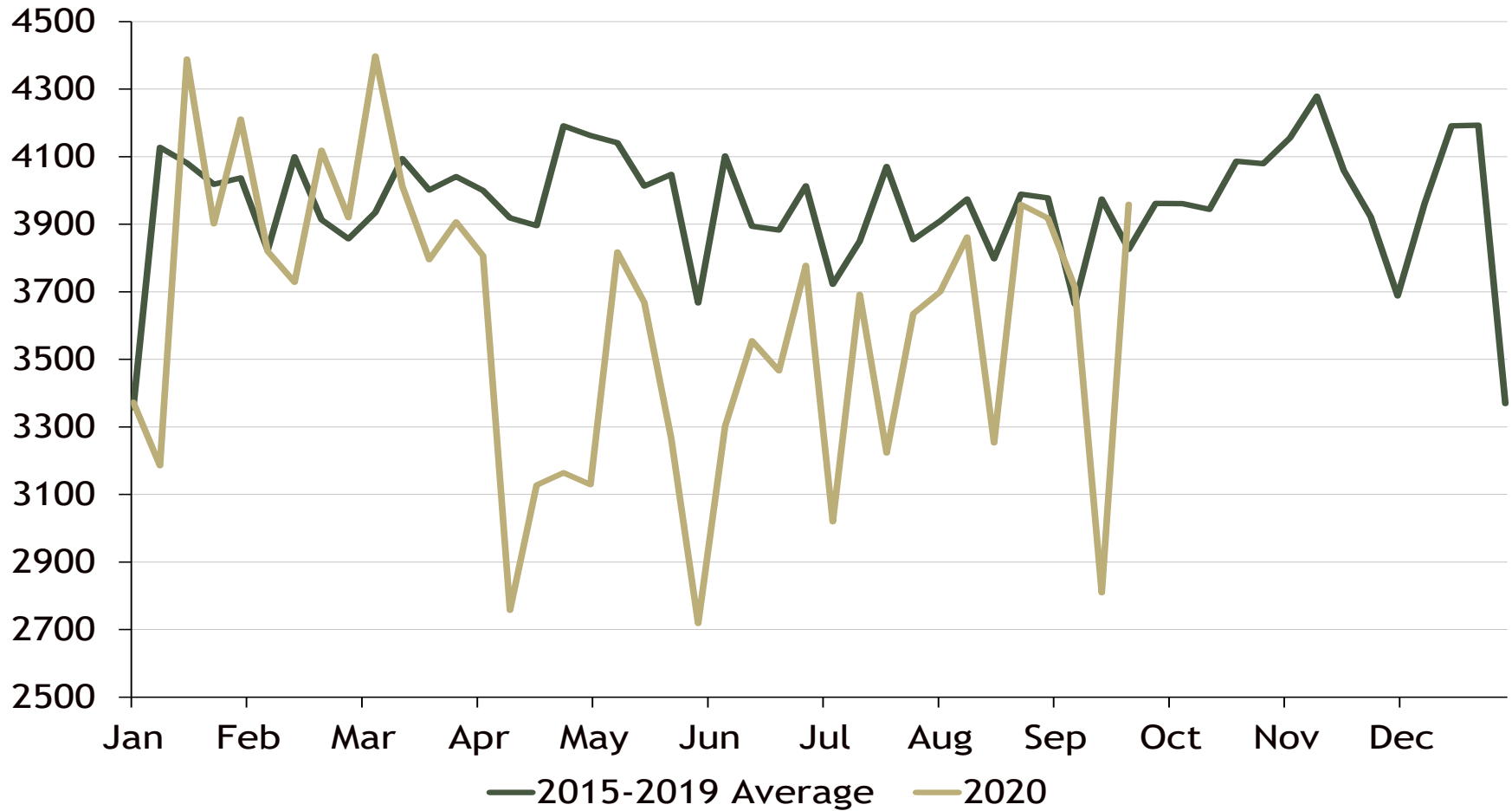
Source: ASR Ltd/ EIA / Datastream by Refinitiv



Distillate Fuel Oil (i.e. Diesel etc.) - Monthly

Distillate Fuel Product Supplied

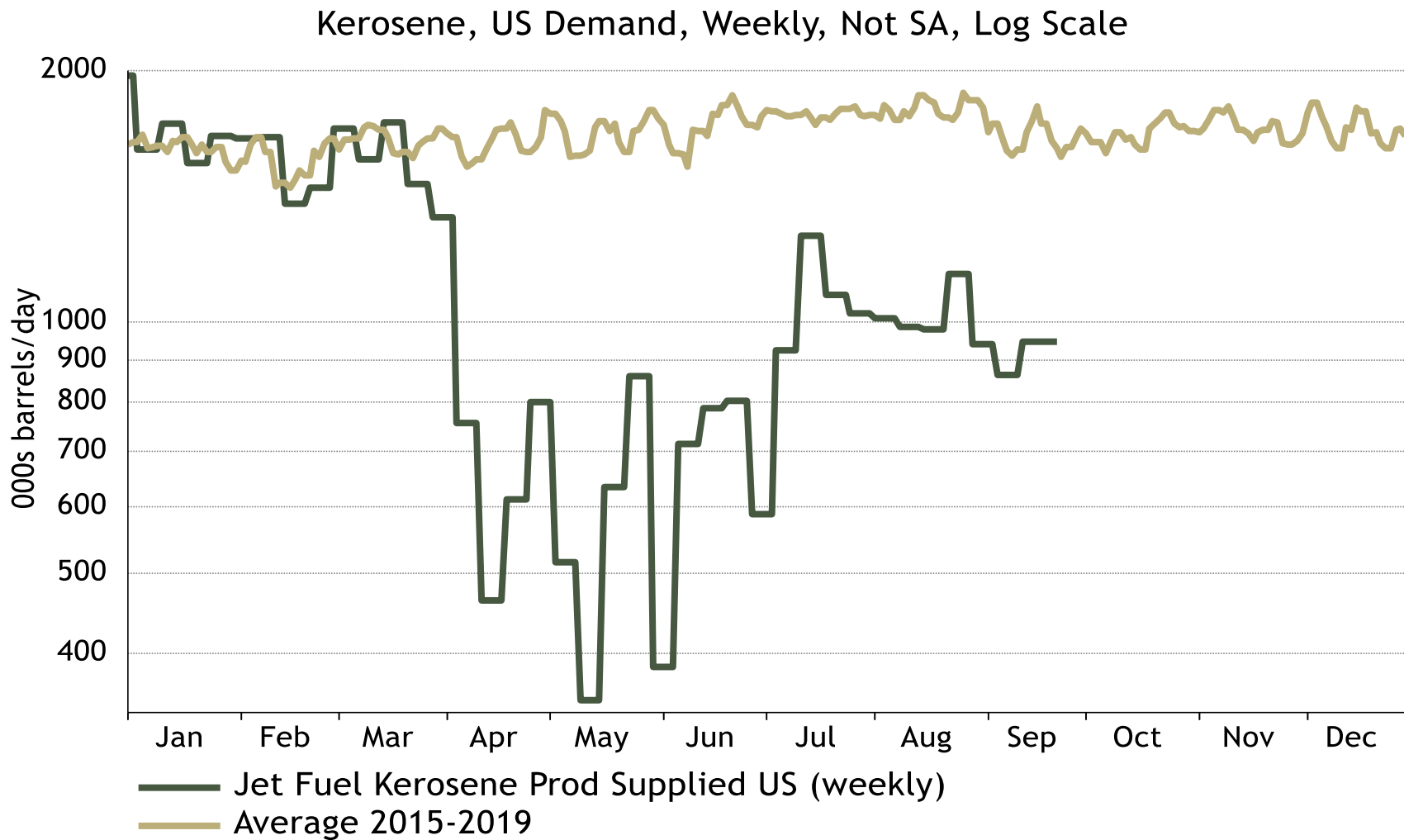
Weekly, Not SA, Not log scale, 000s barrels/day



Source: ASR Ltd/ EIA / Bloomberg



Weekly Jet Fuel Consumption - US



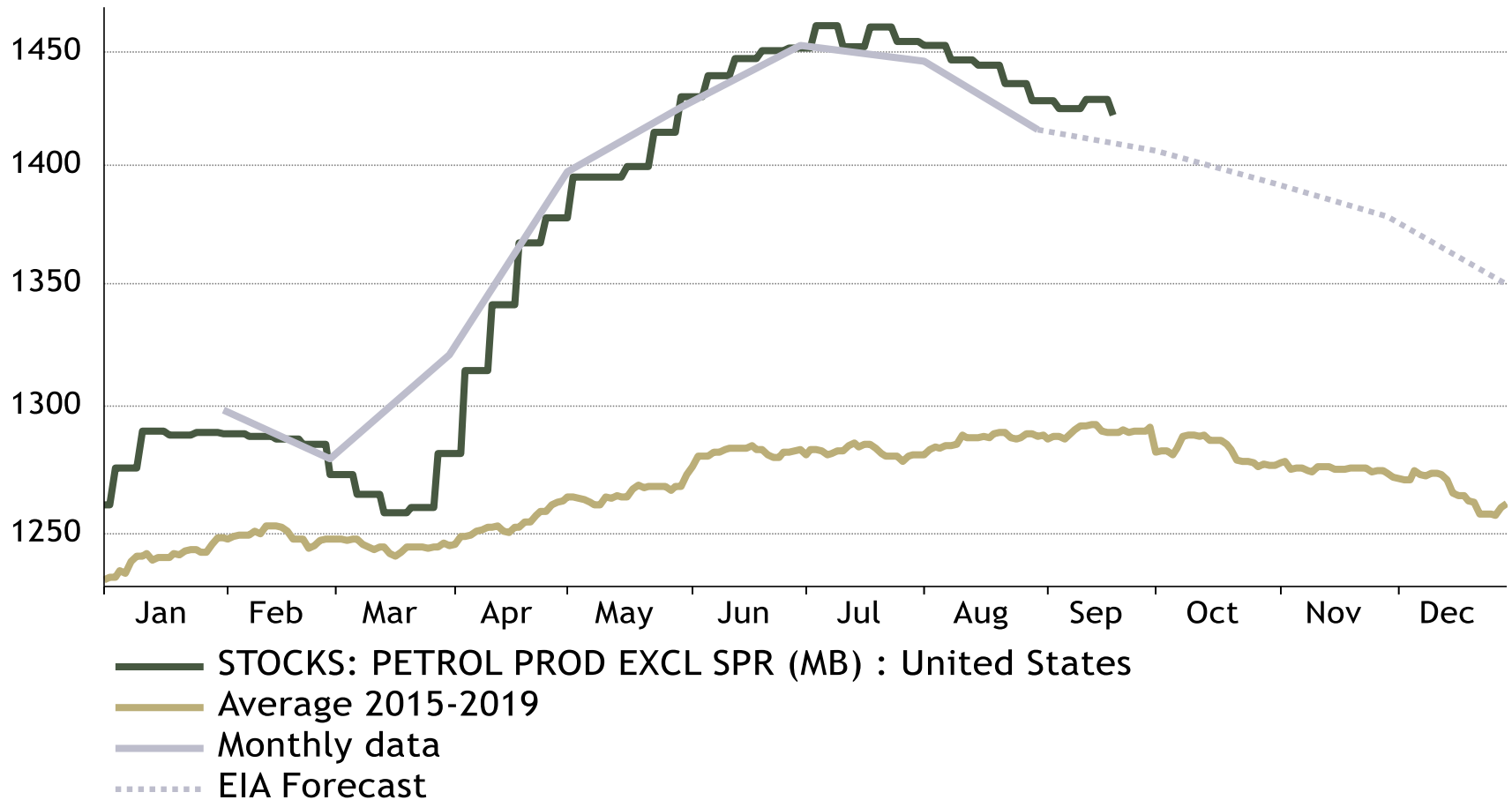
Source: ASR Ltd/ EIA / Datastream by Refinitiv



US Petroleum Products Stocks excl SPR

US Petroleum Product Stocks excl Strategic Petroleum Reserve

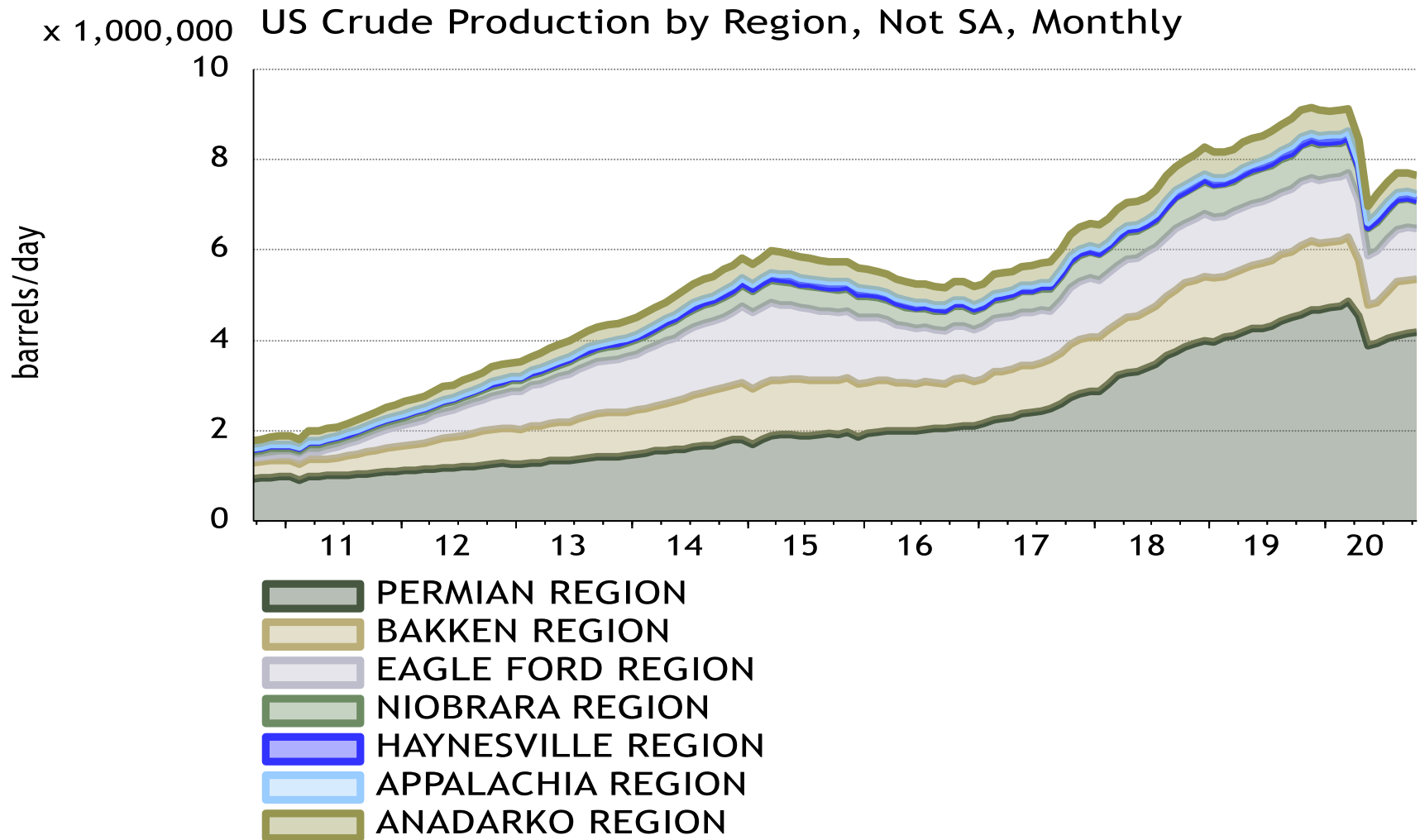
Millions Barrels, Weekly, log scale, Not SA



Source: ASR Ltd/ EIA / Datastream by Refinitiv



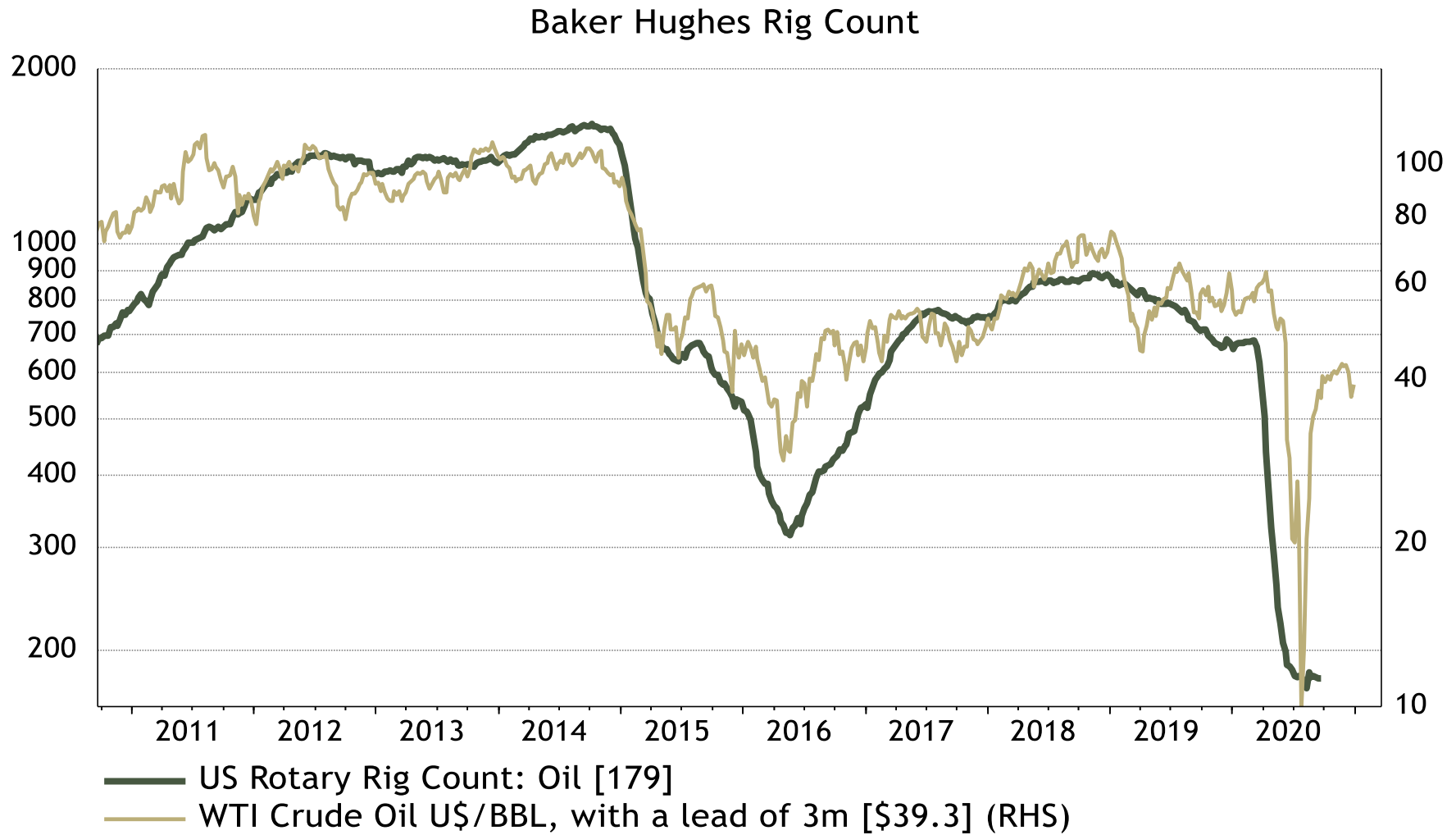
US Shale: Crude production by region



Source: ASR Ltd/ EIA / Datastream by Refinitiv



Baker Hughes Rotary Rig Count (Weekly)



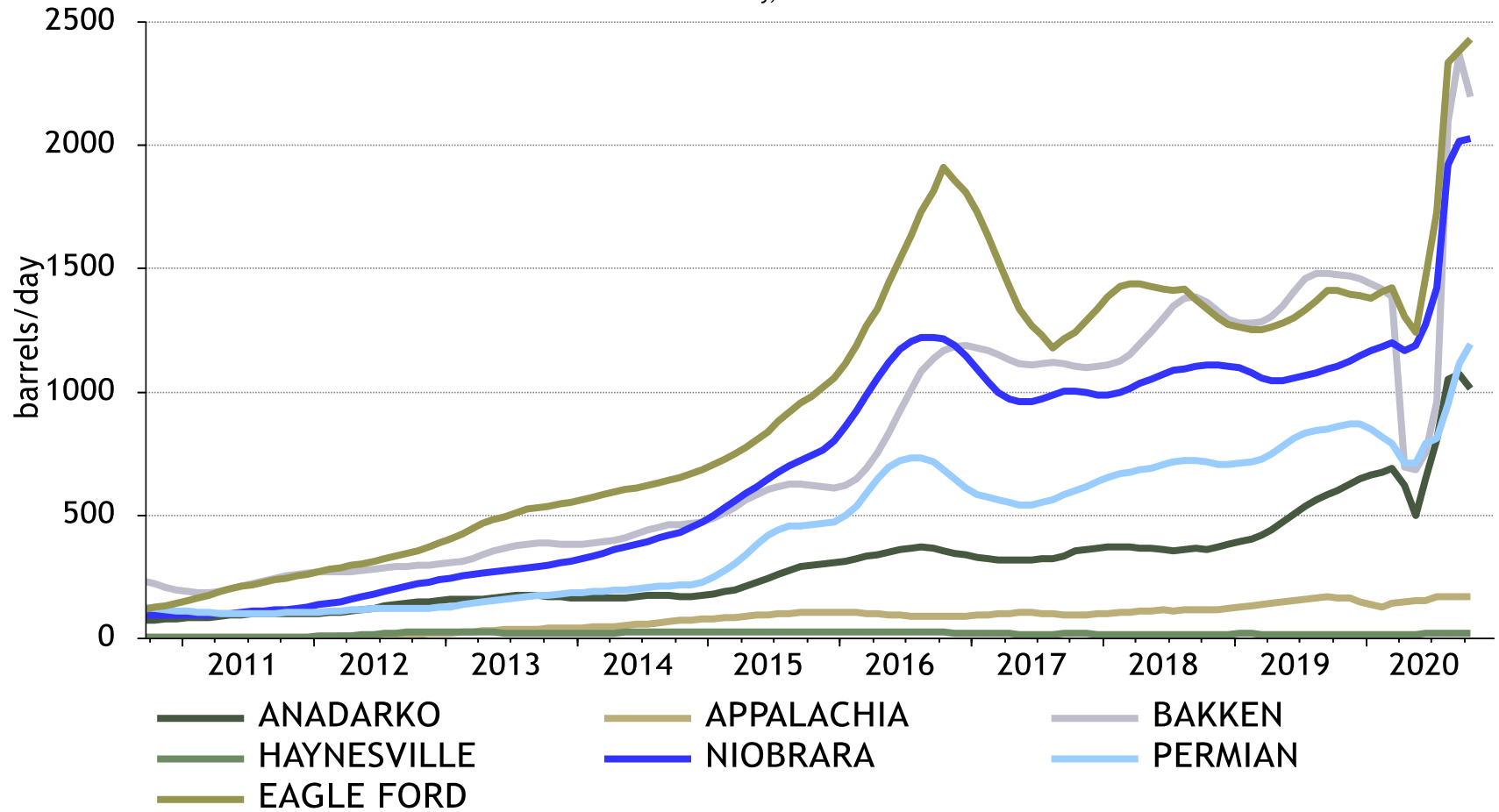
Source: ASR Ltd/ Datastream by Refinitiv



US Shale: Regional Rig Productivity

US Shale: Production Per Rig

Monthly, Not SA

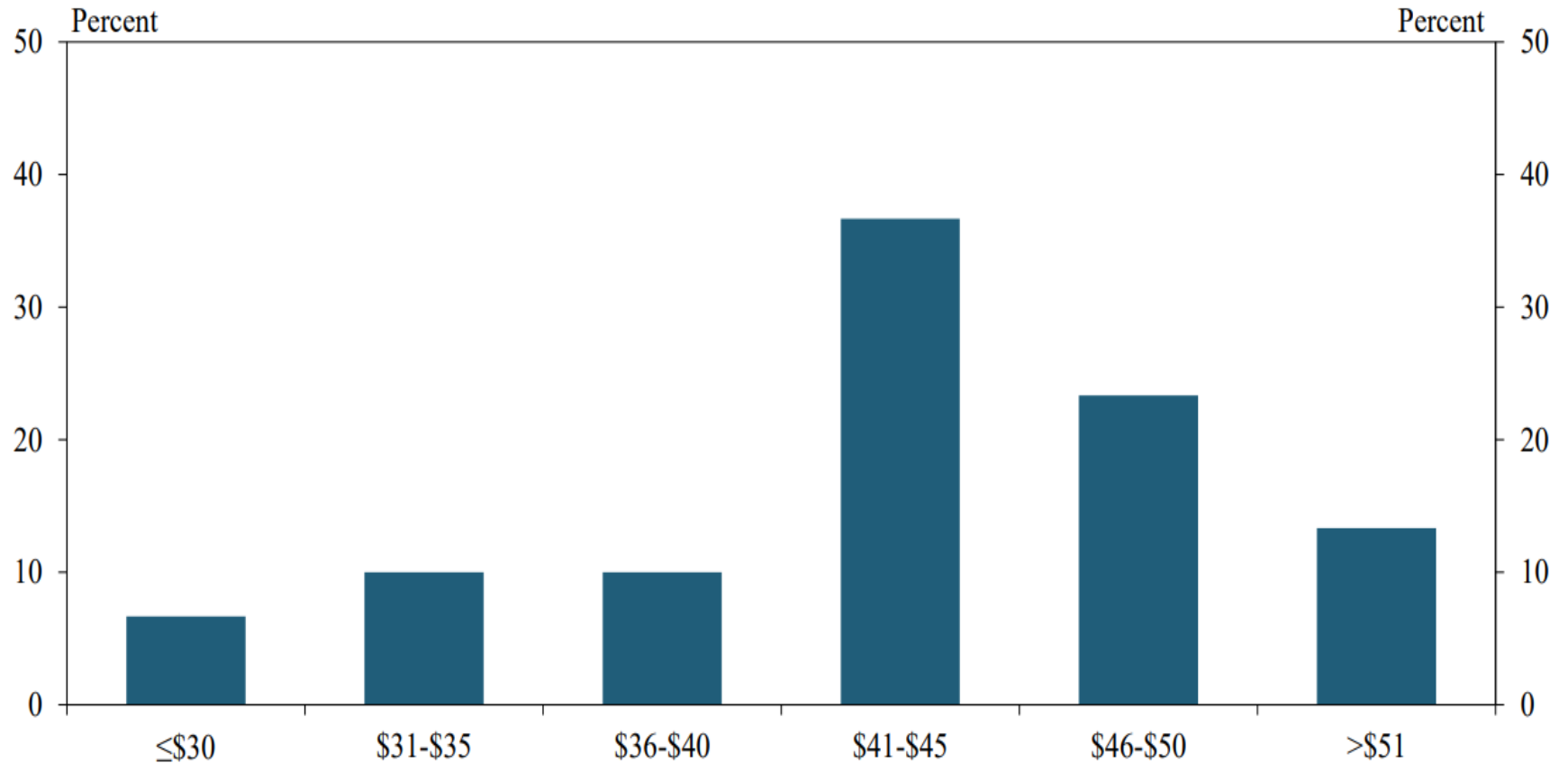


Source: ASR Ltd. / U.S. Energy Information Administration / Thomson Reuters DataStream



Respondents expect horizontal shut-in wells to restart at these prices

Chart 3. Special Question - At what price do you expect the majority of producers in the U.S. to restart horizontal shut-in wells?

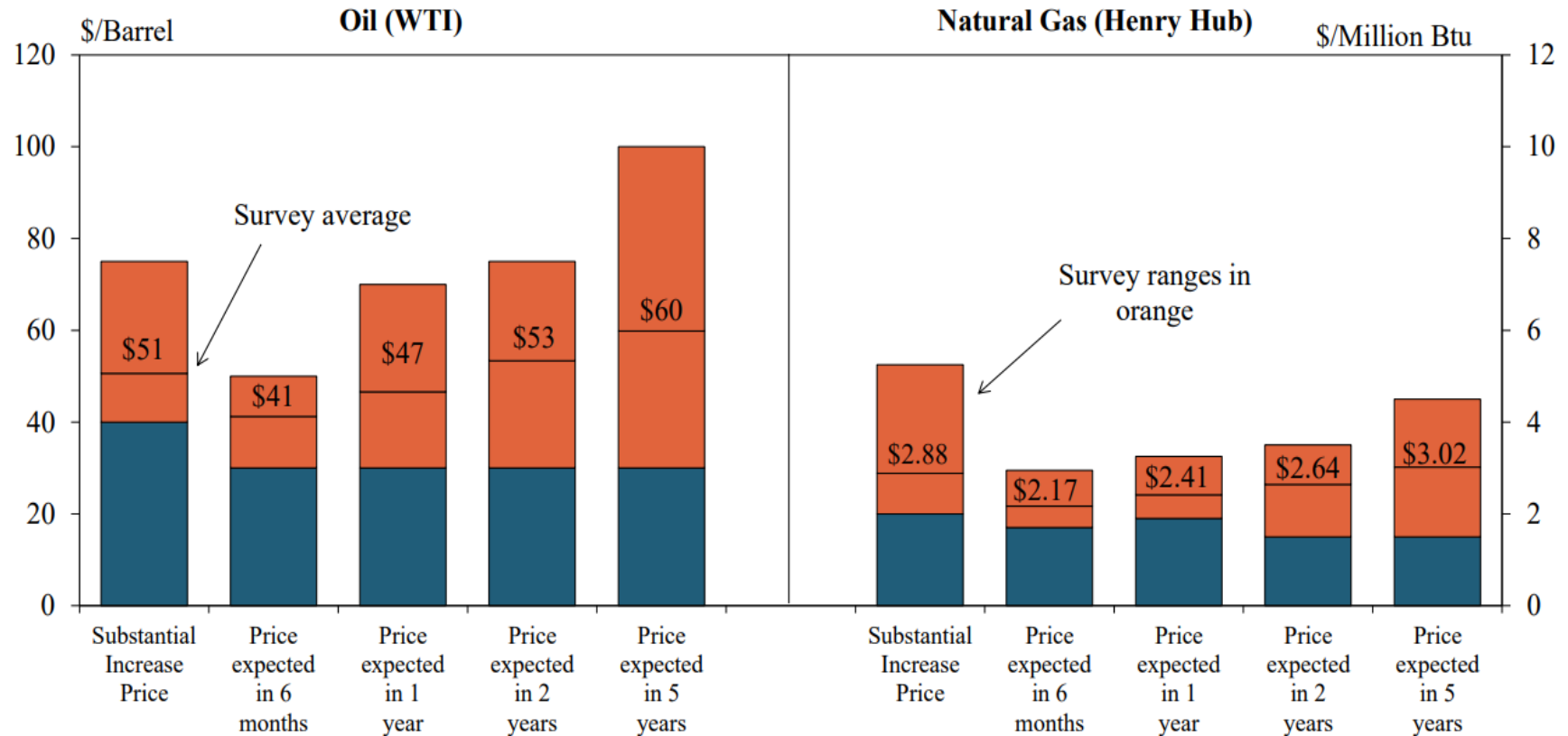


Source: Kansas City Federal Reserve, Q2 Energy Survey Report



...But \$51 WTI price required to substantially increase drilling

Chart 2. Special Question - What price is currently needed to substantially increase drilling for oil and natural gas, and what do you expect the WTI and Henry Hub prices to be in six months, one year, two years, and five years?

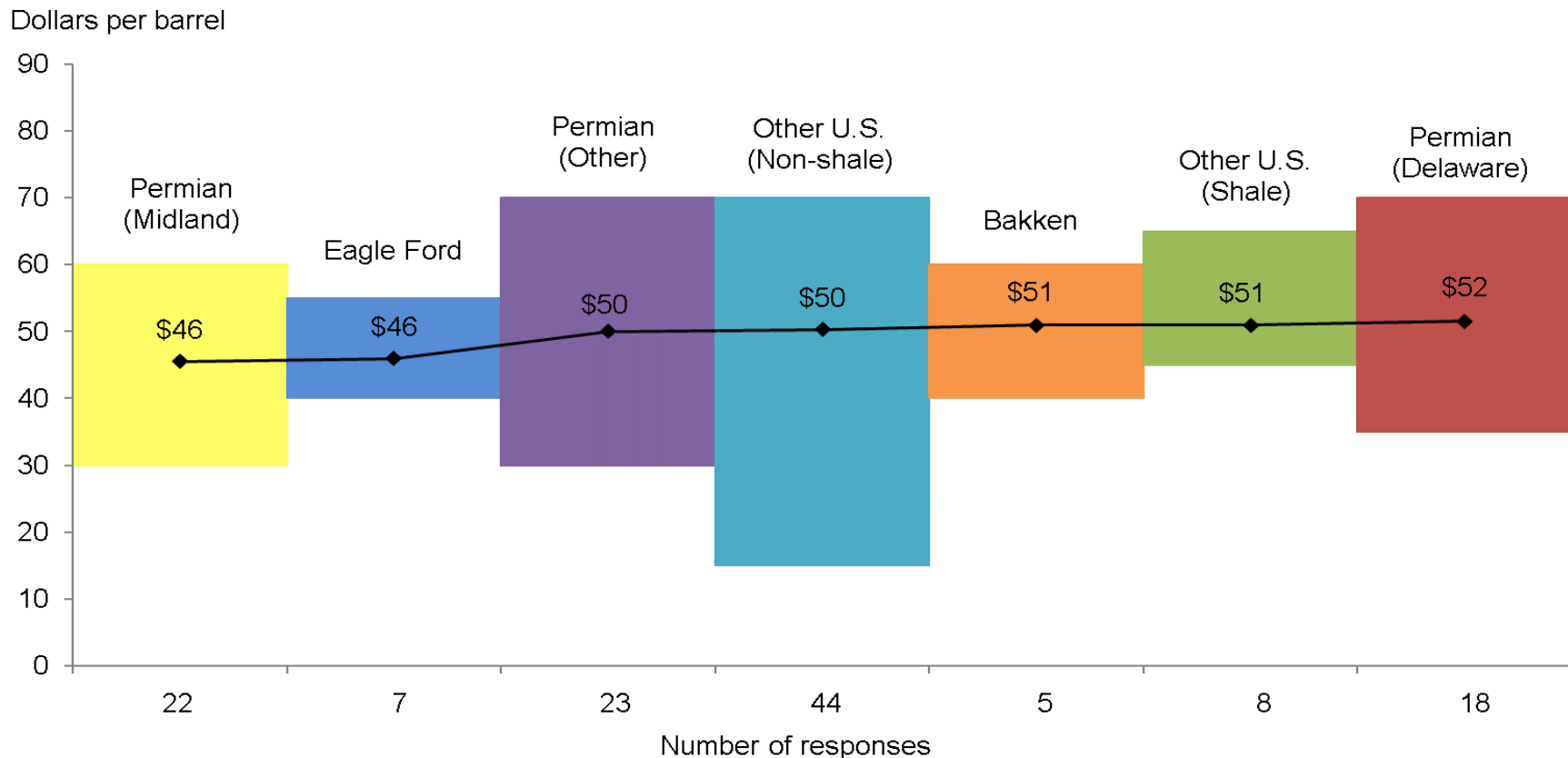


Source: Kansas City Federal Reserve, Q2 Energy Survey Report



Break-even price for new wells

**In the top two areas in which your firm is active:
What WTI oil price does your firm need to profitably drill a new well?**

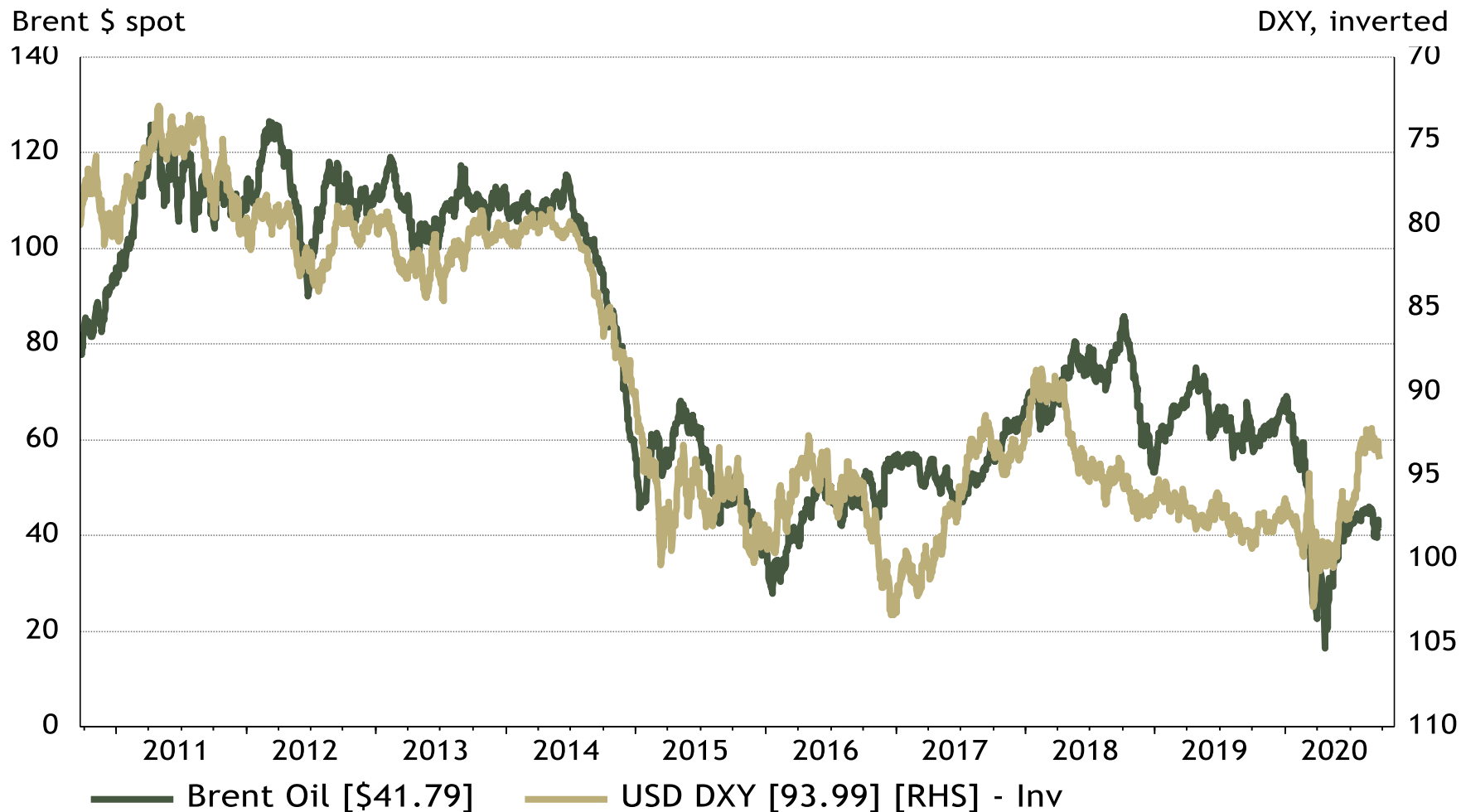


NOTES: Lines show the mean, and bars show the range of responses. Executives from 92 exploration and production firms answered this question during the survey collection period, March 11–19, 2020.

SOURCE: Federal Reserve Bank of Dallas.



Brent vs US Dollar (inverted)

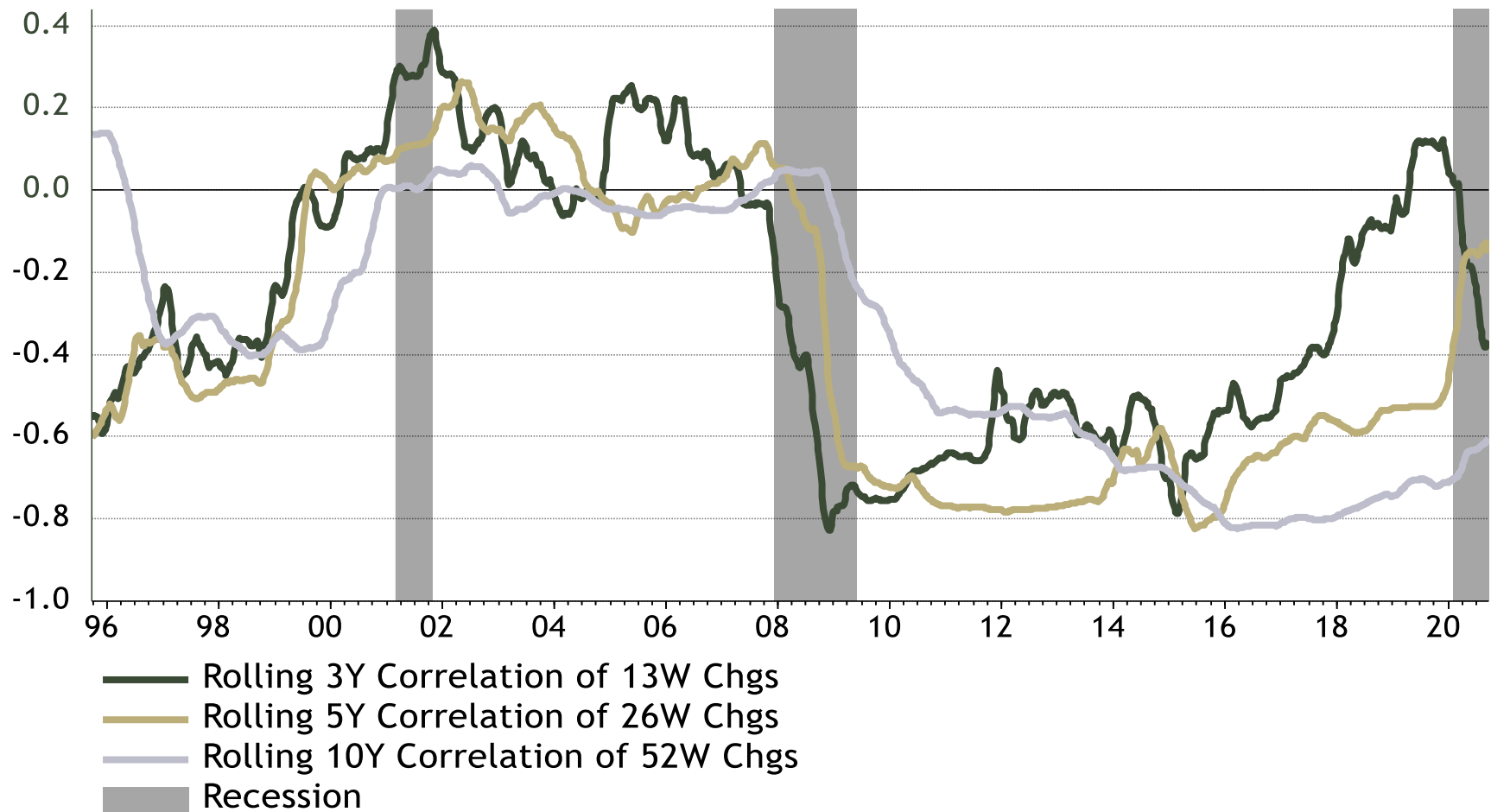


Source: ASR Ltd/ Datastream by Refinitiv



Brent/Dollar Correlation

Brent/DXY Rolling Correlations

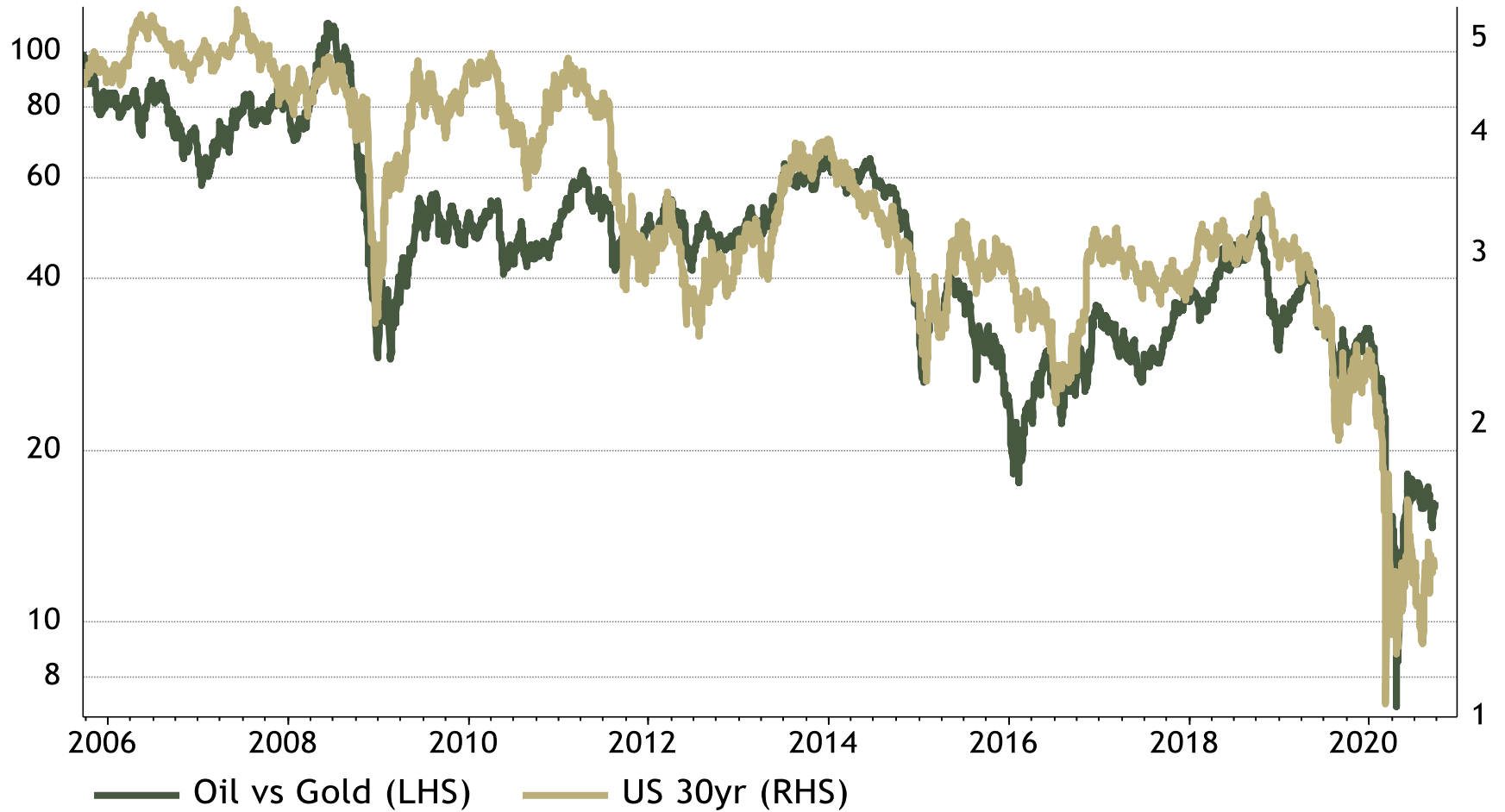


Source: ASR Ltd/ Datastream by Refinitiv



Brent/Gold vs US 30Y Yields

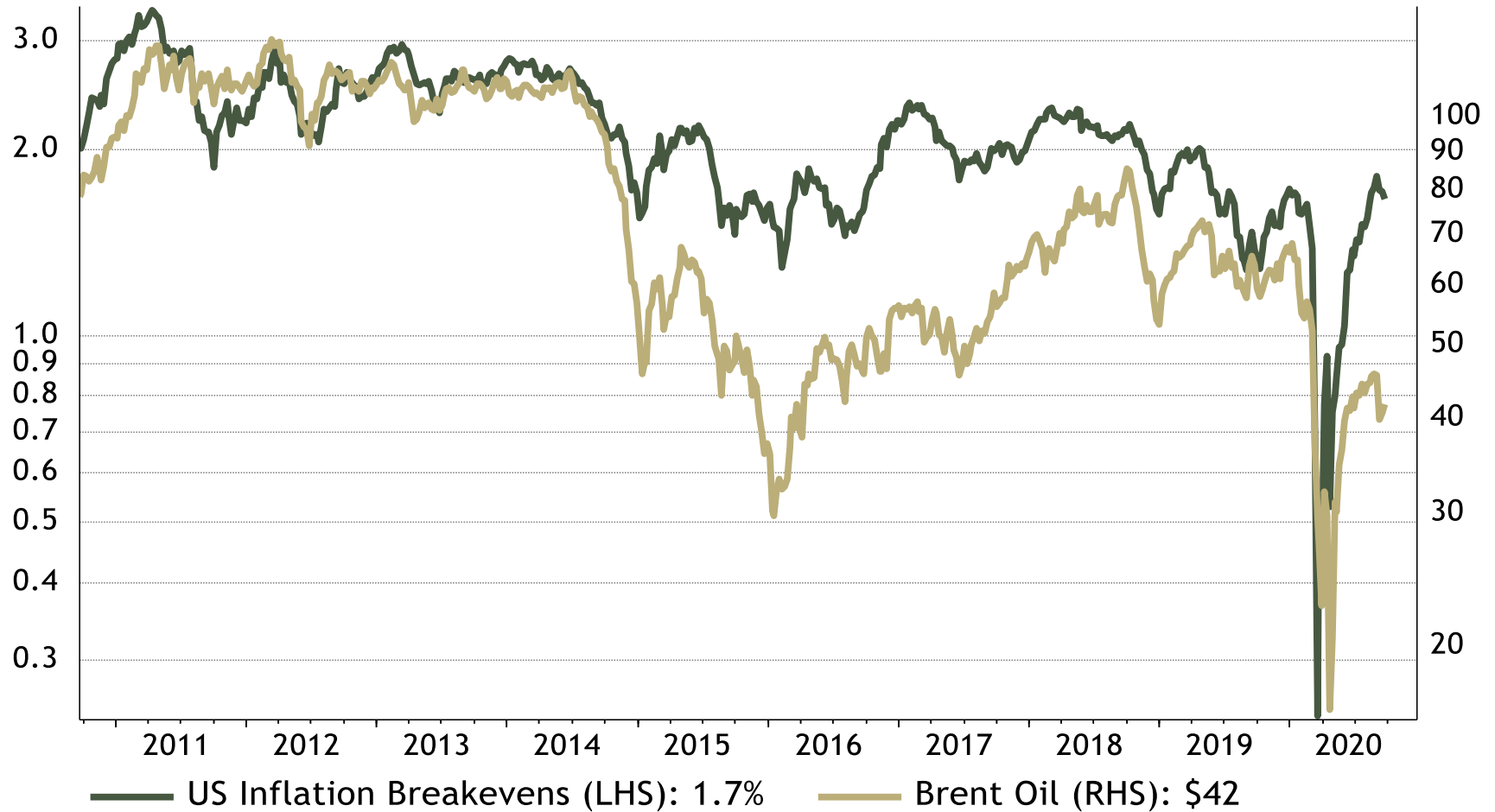
Brent vs Gold and US 30yr Yields



Source: ASR Ltd/ Datastream by Refinitiv



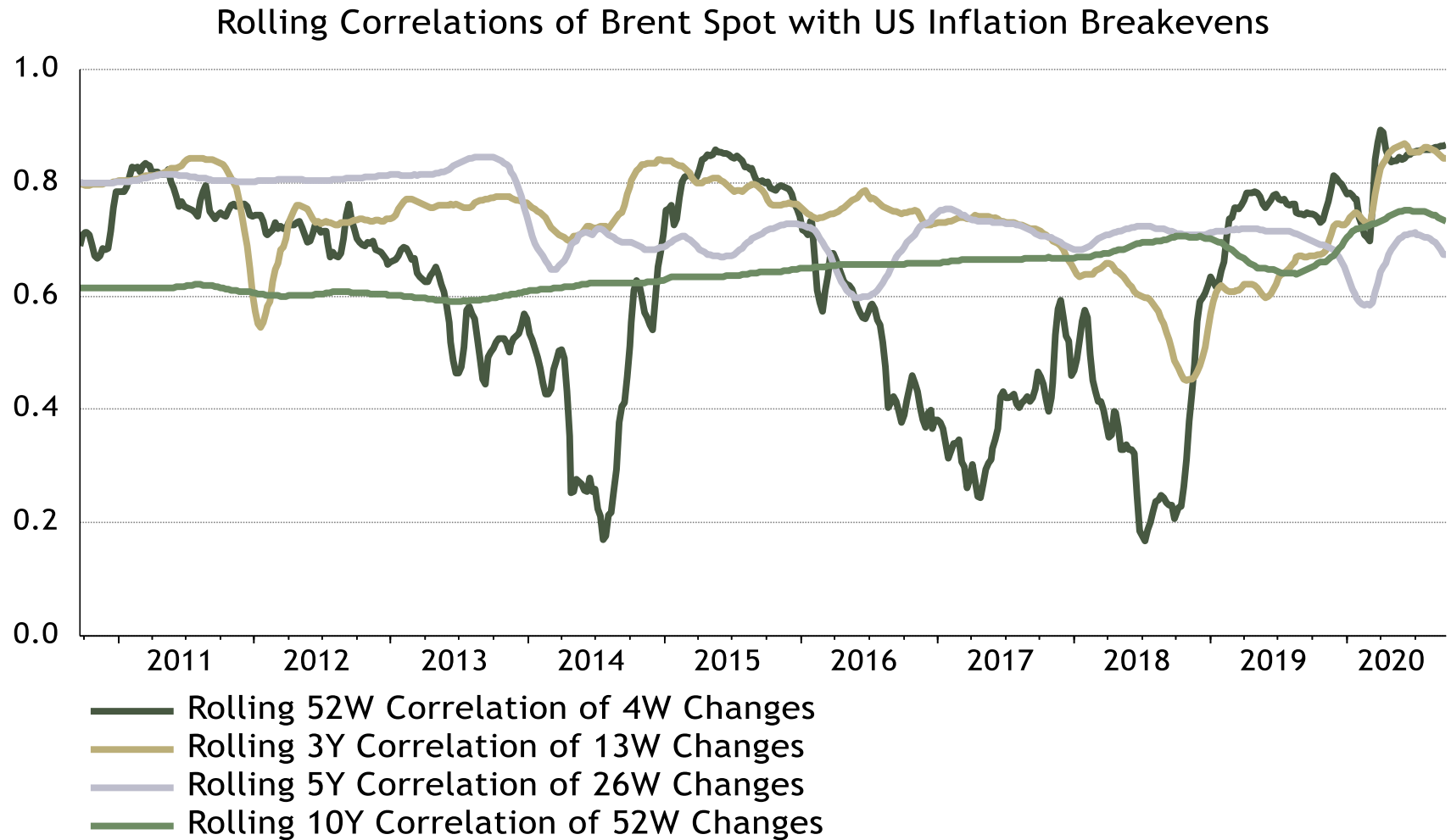
US Inflation Break-evens vs Brent Crude Spot



Source: ASR Ltd/ Datastream by Refinitiv



Rolling correlations of Brent Spot with US Inflation Breakevens



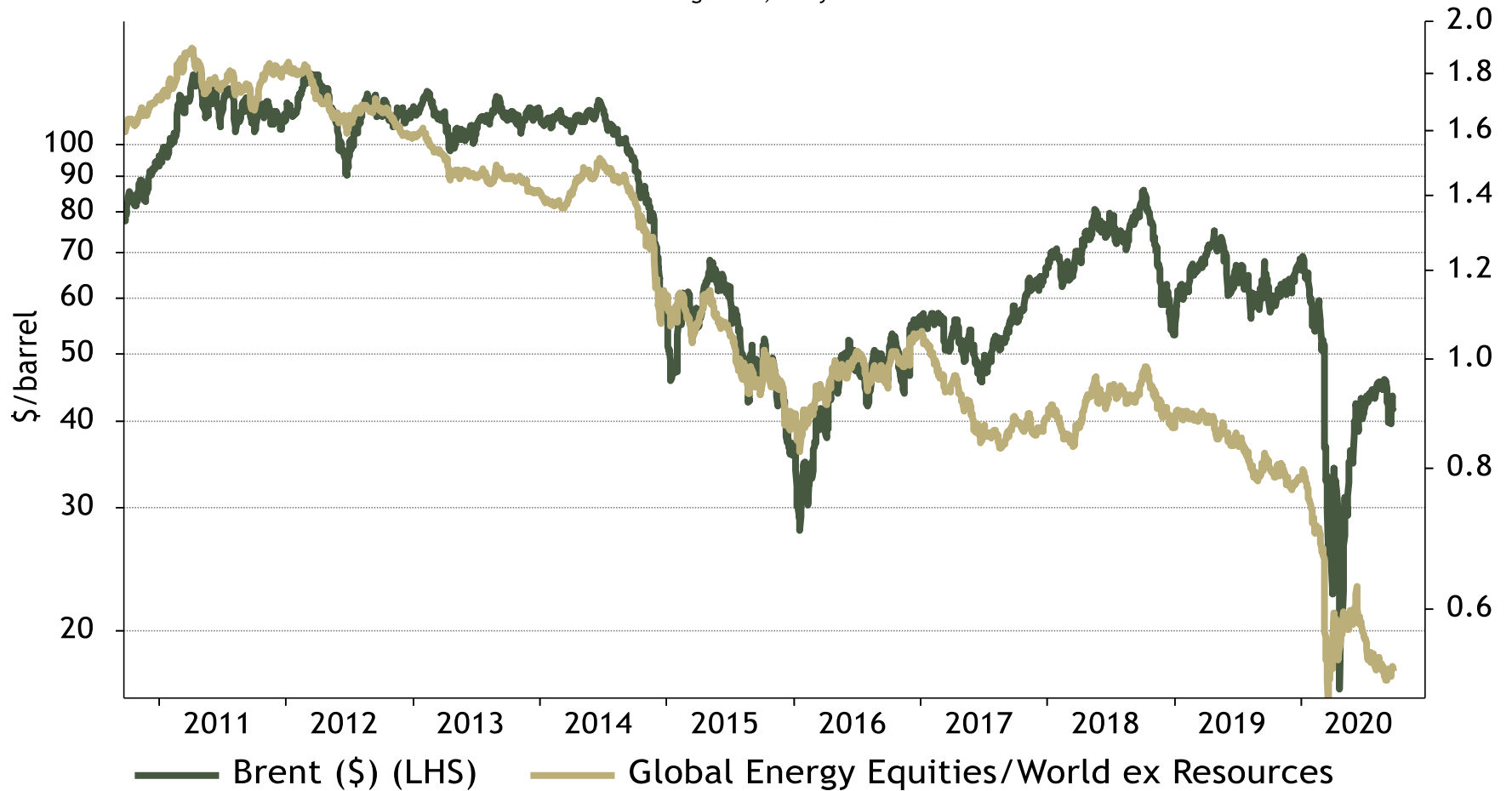
Source: ASR Ltd/ Datastream by Refinitiv



Change in Brent vs Change in Global Energy/Global Equities

Brent vs Energy/World ex Resources

Log Scale, Daily

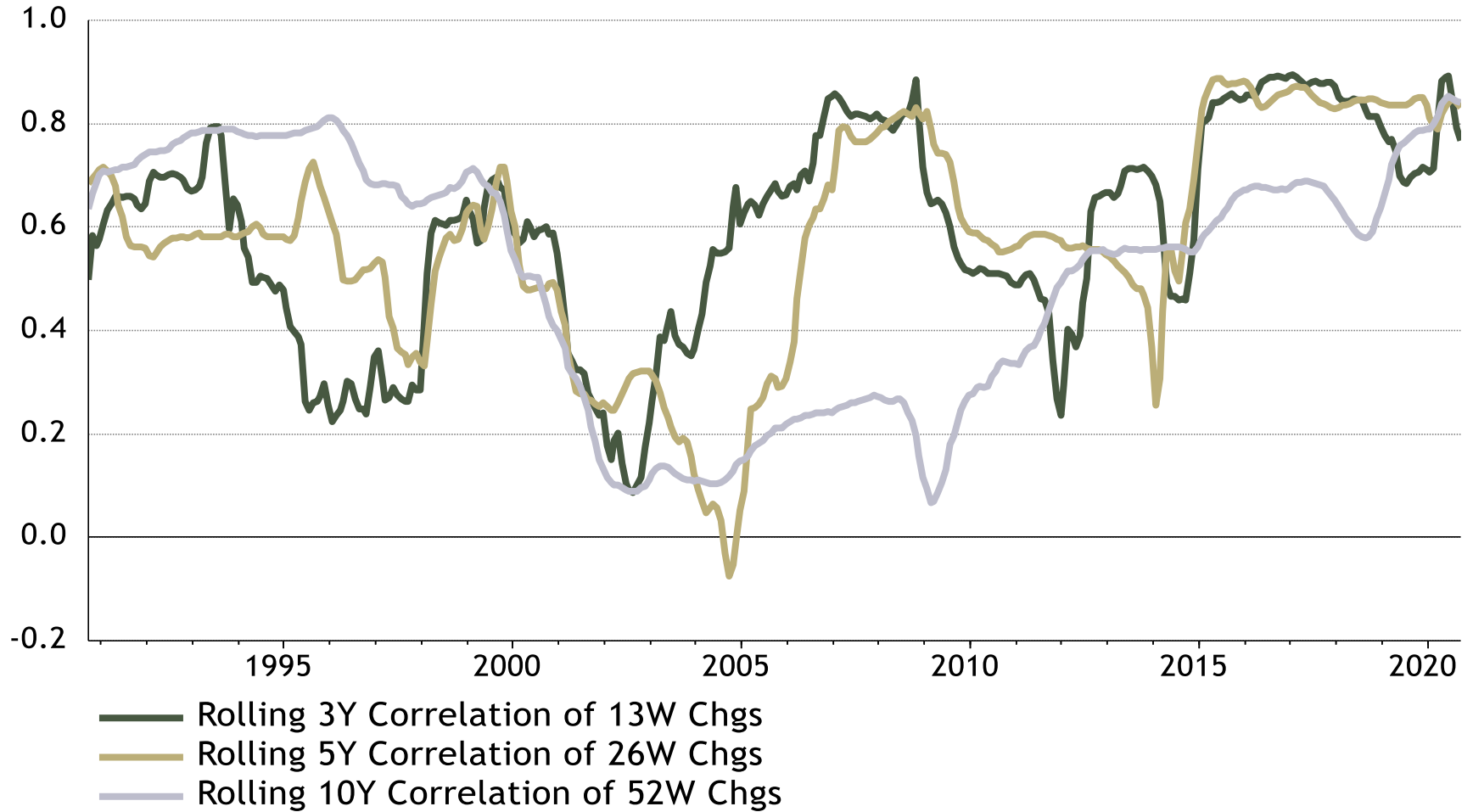


Source: ASR Ltd/ Datastream by Refinitiv



Rolling Correlation of Brent and Energy Equities

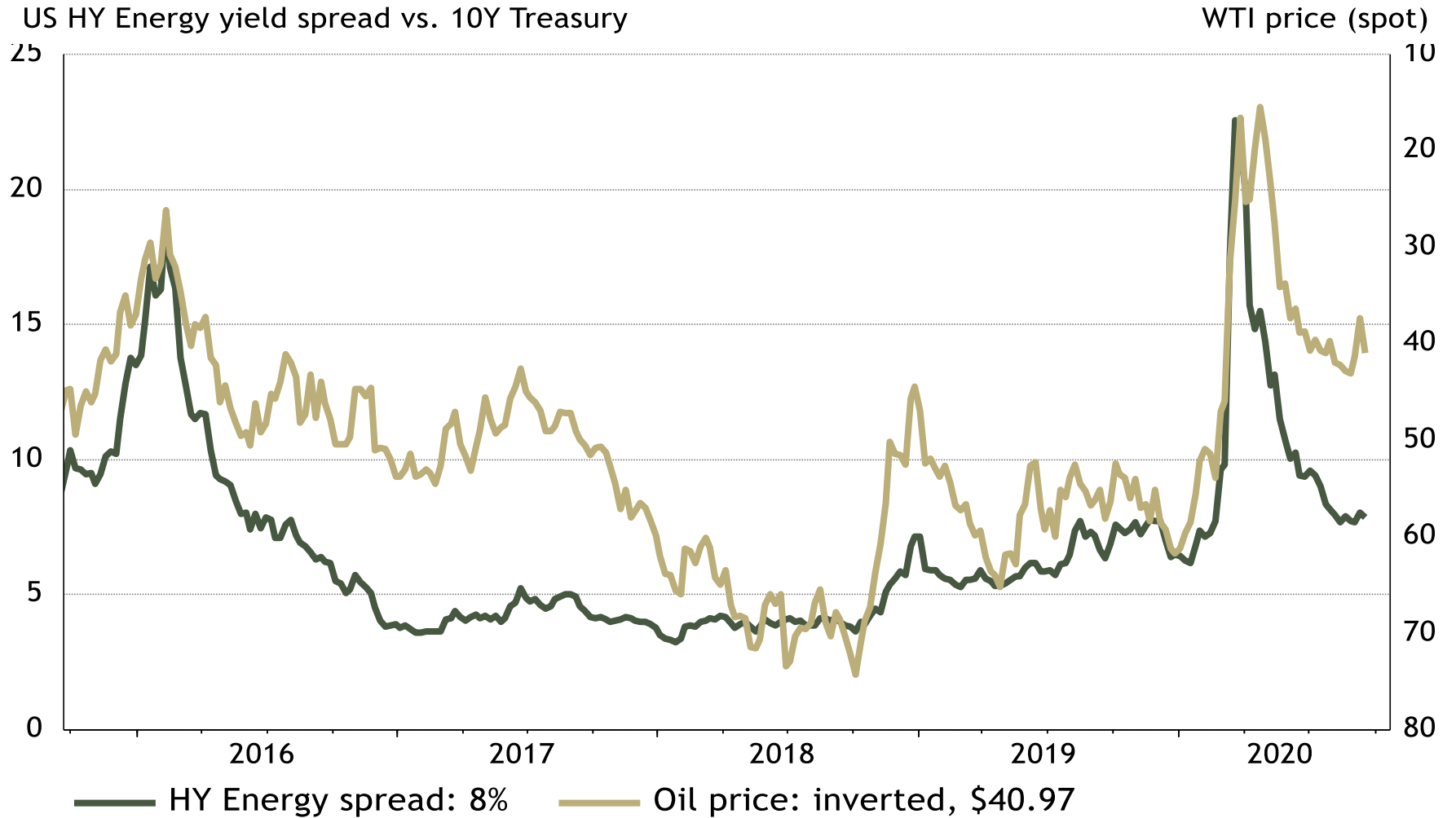
Rolling Correlation of Brent w/Energy vs World ex Resources Equities



Source: ASR Ltd/ Datastream by Refinitiv



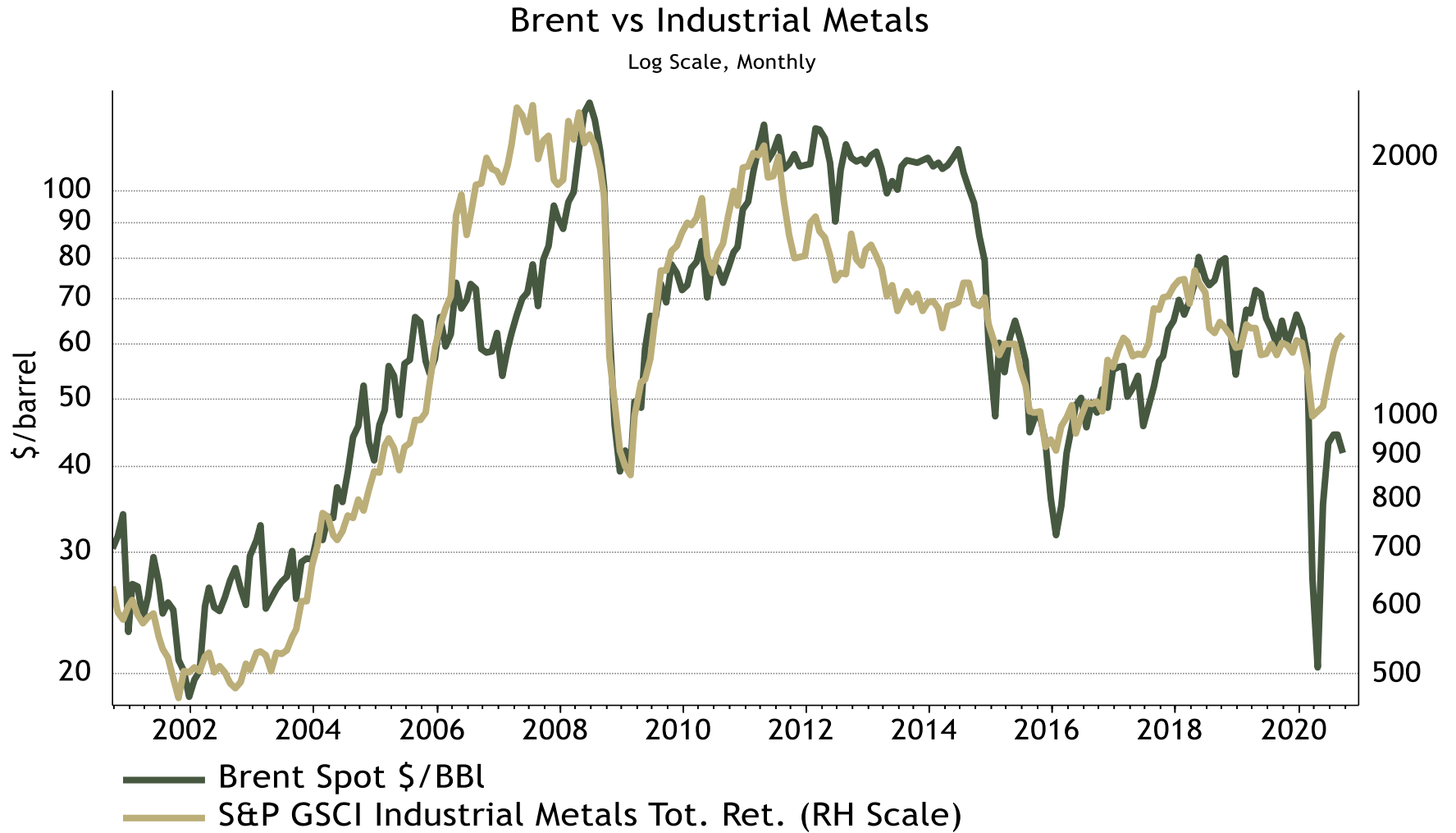
US High Yield Spread vs WTI



Source: ASR Ltd/ Datastream by Refinitiv



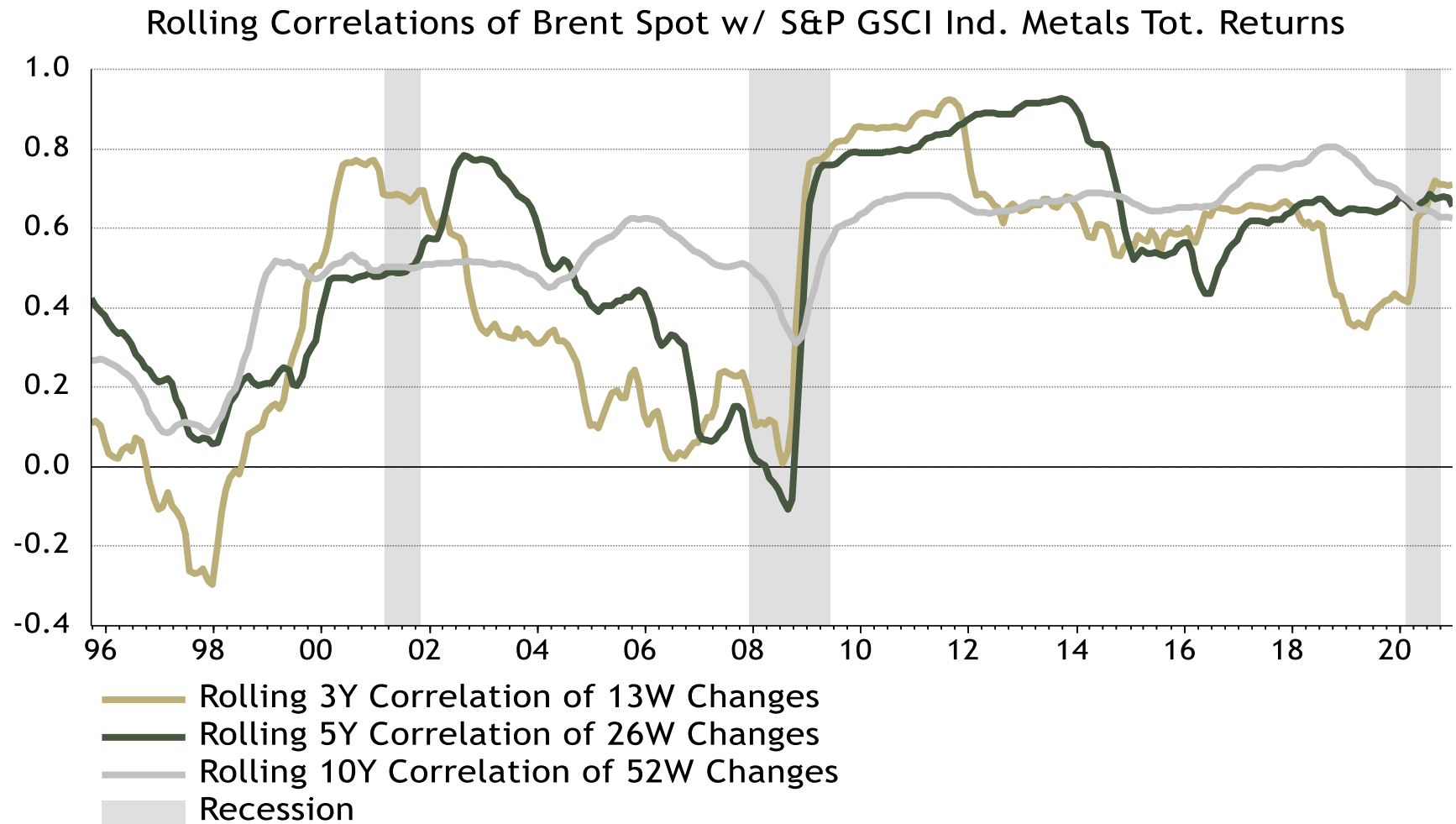
Brent vs Industrial Metals



Source: ASR Ltd/ Datastream by Refinitiv



Rolling Correlation of Brent with Industrial Metals

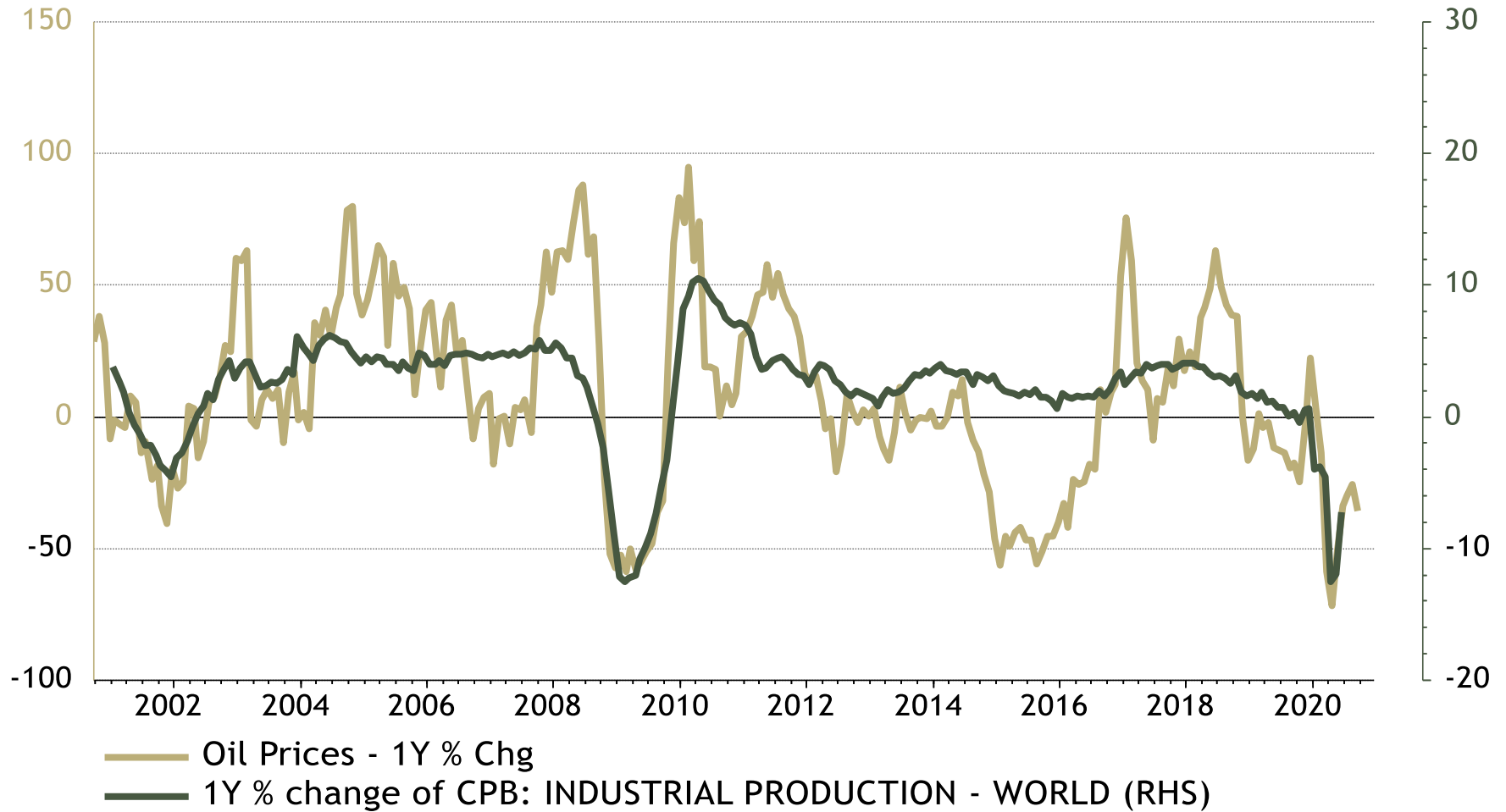


Source: ASR Ltd/ Datastream by Refinitiv



Oil Price vs Global Industrial Production

Global Industrial Production 1Y %Chg vs Brent 1Y %Chg



Source: ASR Ltd/ Datastream by Refinitiv



Report + Meeting Calendar

October

October	IMF World Economic Outlook	Biannual
06/10/2020	EIA Short-Term Energy Outlook	Monthly
09/10/2020	Kansas Energy Survey	Quarterly
13/10/2020	OPEC Monthly Oil Report	Monthly
14/10/2020	IEA Oil Market Report	Monthly
15/10/2020	API Monthly Statistical Report	Monthly
15/10/2020	OPEC Joint Technical Committee	Monthly
19/10/2020	OPEC+ meeting	Monthly

November

November	IEA World Energy Outlook	Annual
11/11/2020	OPEC Monthly Oil Report	Monthly
12/11/2020	IEA Oil Market Report	Monthly
19/11/2020	API Monthly Statistical Report	Monthly
30/11/2020	OPEC Conference	

December

01/12/2020	OPEC+ meeting	
14/12/2020	OPEC Monthly Oil Report	Monthly
15/12/2020	IEA Oil Market Report	Monthly
17/12/2020	API Monthly Statistical Report	Monthly
30/12/2020	Dallas Fed Energy Survey	Quarterly

2021

21/01/2021	API Monthly Statistical Report	Monthly
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