Energy Market Drivers:

One bullish and two bearish key developments this week in oil markets

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Content

- **Market view oil:** Still support at USD 70, but uncertainty is high as OPEC production policy might be changing
  - Three key developments this week
    - Saudi Arabia flirting with a volume strategy
    - Libyan oil is about to return to the market
    - China takes out the small bazooka
- **Market Drivers next week**: Labour market report and OPEC+ meeting
- Hedging views (consumer side):
  - Oil/oil products: Add to consumer hedges when Brent trade in the USD 70-74 range
  - EUA: Buy EUAs when DEC-24 below EUR 64 MT and
  - Gas: Buy when TTF front-month below EUR 34 MWH

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Market view oil: Still support at USD 70, but uncertainty is high as OPEC production policy might be changing

In our latest Energy Market Drivers report from September 20, we argued based on the 50bp Fed cut, geopolitics, a tight physical market and stretched positioning that optimism had reeturned to the crude oil market.

However, the oil market is never borring and this week we got three important pieces of news, two bearish and one bullish, that will set the direction not only short-term but also medium term for the oil market.

Short-term we might see some further downside for Brent and a test of USD 70 is not unlikely. We still hold the view that Brent will edge higher towards USD 80 in 2025. Hence, we see a possible test of USD 70 as an attractive level for new consumer hedges for oil and oil products.

This week we also published our Budget Outlook 2025 that is targeted corporate clients with energy exposure preparring the budget for 2025.

Three key developments this week

1. **Saudi Arabia flirting with a volume strategy**

The Financial Times reported yesterday that Saudi Arabia is directly seeking to regain market share and is, therefore, ready to accept lower prices for a period. Initially, they are prepared to bring more oil to the market starting on December 1 and implement OPEC+'s plan to gradually increase oil production through 2025. This could be the first indication that OPEC+ - or rather Saudi Arabia - is shifting towards a "volume strategy" at the expense of the current "price strategy."

Of course, the FT story may not hold water, or Saudi Arabia may be attempting to send a strong signal to quota cheaters such as Iraq, Kazakhstan, and Russia, warning that they are ready to let oil prices fall if overproduction does not cease.

Yesterday, Russia's oil minister, among others, tried to convince the market that no new decision had been made regarding increased oil production. However, other anonymous sources suggested that there is room for greater production if the quota cheaters reduce their output according to the so-called compensation cuts.

These comments are unlikely to change market sentiment in the short term, and the risk of further price declines remains high.

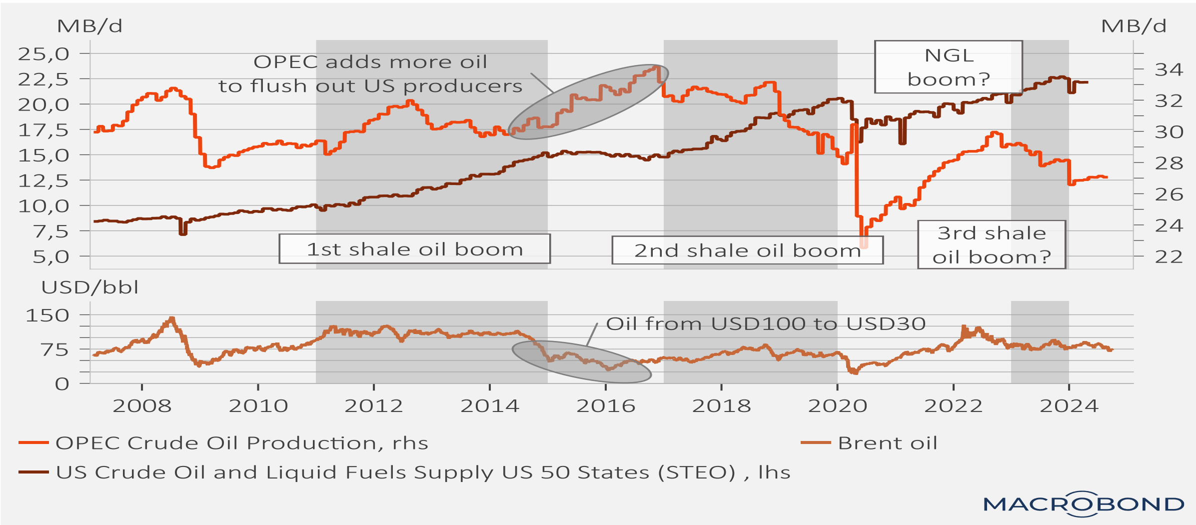
The main concern - or what some might call the "elephant in the room" - for the market is that this situation is beginning to resemble 2014-2015, when OPEC significantly increased production to regain market share from the booming US shale oil producers. However, it may not be as easy this time. US producers are much stronger financially and can withstand a lower oil price. In 2014-2015, the oil price fell from over USD 100 to briefly below USD 30.

Importantly, we do not believe that OPEC+ - or rather Saudi Arabia - is about to enter a trade war like in 2014-15. However, the article and the weak media response from OPEC+ representatives, including Russia and anonymous OPEC delegates yesterday, have increased short-term downside risks.

OPEC+ will hold its next Joint Ministerial Monitoring Committee (JMMC) meeting on October 2, where discussions about adding more oil will continue, and the quota cheaters will likely face scrutiny. Do not expect a firm conclusion on whether more oil will be added on December 1.

The graph below shows US oil production, OPEC oil production, and the oil price. Note what happened in 2014-15.

US and OPEC production in top chart and Brent oil in the lower chart



Source: Macrobond, Bloomberg, GRM.

2. Libyan oil is about to return to the market

The UN announced an agreement between the warring parties in Libya this week. The parties are reported to have reached a compromise regarding the central bank's leadership. The former central bank chief's dismissal triggered the crisis and an oil embargo from the eastern part of Libya, where most of the country's oil production is located.

The agreement was signed yesterday, and it could pave the way for Libyan oil to return to the market, amounting to approximately 0.5 million barrels a day.

Most analysts had expected the Libyan oil embargo to drag on for months. In 2020, a similar conflict took nine months to resolve. Therefore, the quick return of Libyan oil, when the market is concerned about OPEC+ increasing production, could be seen as negative for the market.

3. China takes out the small bazooka

China has been a primary concern in the oil market. The industrially sensitive Chinese economy is cyclically weak and burdened by more structural challenges. Notably, the rapid adoption of EVs and LNG trucks is structurally dampening oil demand. The market has traditionally relied on China to drive global oil demand growth.

However, Chinese authorities rolled out monetary and fiscal easing measures this week. A small rate cut was announced on Monday, and somewhat surprisingly, a press briefing was scheduled for Tuesday. During the briefing, the Chinese central bank (PBOC) announced a reduction in the key 7-day interest rate from 1.70% to 1.5%, and the reserve requirement for banks - capital that must be held at the central bank - was lowered from 10% to 9.5%. It translates to lower interest rates for financially strained Chinese homeowners and enables funds and banks to borrow from the central bank to buy shares.

Importantly, the Chinese authorities also introduced fiscal easing in various forms. Various ministries and local governments expect to announce specific support measures in the coming weeks. So far, the measures include living subsidies for low-income groups and so-called consumption vouchers. These measures are estimated to be worth around 3% of GDP.

Overall, these are significant easing measures from China, which mitigate some downside risks to Chinese growth. It might not be a big bazooka, but at least it was a small bazooka. Achieving the 5% growth target might even be possible, depending on how quickly the measures are implemented.

The market welcomed these actions. The Chinese stock market surged 15%, the CNY strengthened, and China-sensitive copper prices have once again surpassed USD 10,000/MT on the LME.

But Chinese easing is not enough to calm market concerns

Overall, this week's events have created more uncertainty in the oil market. As discussed above, a modest new move lower in oil prices is likely dependent on the general risk sentiment in global markets. We still see USD 70 as a strong support level. The supportive factors we mentioned last week still secure a floor below prices.

Importantly, we only expect modest OPEC+ oil to enter the market in 2025, and we firmly believe the market is overestimating the risk of a US recession. Hence, as the economic outlook might not be as bleak as some analysts call, we still recommend that consumers hedge oil exposure for Q4 and/or 2025 when Brent trades in the USD 70-74 range.

We still forecast oil prices to trade above current levels in the fourth quarter and in 2025.

Market Drivers next week: Labour market report and OPEC+ meeting

Next week, energy markets will closely watch several key events and reports.

In the US, the labor market report, including payrolls and the unemployment rate, will be critical in shaping Federal Reserve policy, while the ISM data for both manufacturing and services will provide further economic insights.

In the Eurozone, attention will focus on the Flash CPI for September, where inflation is expected to decline, with a potential drop in HICP inflation to 2.0% year-over-year, according to consensus estimates. Risk is tilted to the downside.

On the geopolitical front, tensions in the Middle East remain a concern, with speculation over Iran's potential involvement as a focal point.

China will also remain in the spotlight, with markets watching closely for any news on fiscal easing measures.

Any media comments or press releases related to the OPEC+ meeting (Joint Ministerial Monitoring Committee) on October 2 will be scrutinized. Markets will be watching for discussions on recent oil market developments and whether the group will confirm plans to add more oil on December 1. There will also be attention on remarks regarding ongoing overproduction by quota violators, particularly Kazakhstan and Iraq.

US inventory and implied demand data will remain critical, with Wednesday's Department of Energy (DOE) data taking center stage. US crude oil inventories have dropped in eleven of the last thirteen weeks, but with the arrival of autumn, the pace of inventory drawdowns is expected to slow. Note that recent hurricane activity likely impacted the data.

Speculative oil data will also be monitored closely after recent volatility in oil markets.

Additionally, we will keep an eye on speculative positioning data for EUA and gas, which will be published on Wednesday at 10:00 CET. The market remains excessively long on TTF gas, while some new short positions have emerged in EUAs.

Price overview

27/09/2024 15.53

	27 Sep 2024	Change 1D,%	Change 5D,%	Change 1M,%	Change 1Y,%	Change YTD,%
Brent 1.pos., USD/bbl	71,2	-0,6	-4,6	-11,7	-35,6	-8,2
ICE Gasoil 1.pos., USD/MT	650,0	-1,3	-2,4	-8,9	-49,4	-15,5
Jet Fuel NWE CIF 1M, USD/MT	686,0	-0,6	-2,4	-9,7	-48,8	-12,0
Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT	653,8	-1,0	-2,8	-9,7	-50,8	-10,4
Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT	493,3	-0,1	-1,7	-9,2	-22,6	2,2
Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT	418,3	2,0	1,9	-4,9	-30,3	8,9
Biodiesel, RME FOB Barge 1M, USD/MT	1166	0,6	3,0	1,4	-12,9	-10,8
Biodiesel, UCOME FOB Barge 1M, USD/MT	1296	0,5	4,0	-1,3	-22,6	-6,3
Biodiesel, FAME-0 FOB Barge 1M, USD/MT	1046	-3,9	-4,2	-5,8	-19,3	-21,6
EUA spot, EUR/MT	65,2	-1,2	3,6	-8,3	-25,0	-18,6
EUA Dec-24, EUR/MT	66,2	-0,5	4,2	-8,0	-30,6	-21,5
TTF Gas 1M, EUR/Mwh	37,9	0,0	9,1	-2,1	-3,7	14,6
TTF Gas Cal-25, EUR/Mwh	37,5	-0,6	4,8	-9,0	-20,9	3,4
API 2 coal 1M forward, USD/MT	118,1	1,5	4,7	-2,8	-6,1	18,8
API 2 coal Cal-25, USD/MT	121,5	0,8	5,1	-5,2	-8,8	21,0
Power Baseload Germany 1M forward, EUR/Mwh	79,5	0,9	4,4	-13,9	-20,6	-28,3
Power Baseload Germany 2025, EUR/Mwh	87,1	0,4	3,6	-11,7	-35,2	-9,5

Source: Macrobond, Bloomberg, GRM. Indicative, non-tradeable prices

Hedging views:

Table 1 on the next page summarises our market views and hedging recommendations in our different markets. See also our Budget Outlook 2025, which targets corporate clients with energy exposure preparing the budget for 2025.

Oil and oil products:

Add to consumer hedges when Brent trades in the USD 70-74 range. Despite the recent uncertainty, we still recommend adding to hedges in this range. Distillate cracks are depressed, implying that flat prices for diesel, gas oil, and jet fuel remain attractive. However, consider awaiting a temporary move below USD 70. We see Brent around USD 80 in 2025.

EUA and TTF gas:

Buy EUAs below EUR 64MT and TTF gas below EUR 34 MWH

As solar power productions remain high, power, gas, and EUA prices might see a setback in the coming months, creating more attractive entry levels for new consumer hedges.

However, the market might be prepared for this situation, indicating that the higher prices will continue in the coming months or that any price setback will be short-lived, notably in gas and power. Risks on the upside for gas prices remain high over the winter due to the situation in Russia and global competition for LNG. We recommend adding to EUA hedges on any price dip below EUR 64 MT for the EUA DEC-24 contract. For TTF gas, we see any dip below EUR 34 MWh for the front contract as an attractive entry level for new consumer hedges.

Our Brent, ICE Gasoil, 3.5% and 0.5% Marine Fuel forecasts above the forward curves and spot

	Spot	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	avg. 2025
Brent, USD/bbl	74	75	77	80	81	80	80
ICE Gasoil, USD/MT	**671**	**675**	**700**	**730**	**738**	**730**	**725**
Rotterdam							
HSFO (1M 3.5% Rotterdam Barge), USD/MT	423	417	425	457	457	451	448
VLSFO (1M 0.5% Rotterdam Barge), USD/MT	**514**	**506**	**514**	**527**	**533**	**527**	**525**
Singapore							
FO 380 CST 3.5% FOB Spore Cargo 1M (GRM Forecast)	411	423	437	469	469	463	460
Sing Marine Fuel 0.5% FOB Swap, USD/MT (GRM Forecast)	**564**	**568**	**572**	**599**	**599**	**593**	**591**

Source: GRM, Bloomberg

Table 1: GRM market and hedging views – updated August 30, 2024

	Market view next month	Market view from one month and beyond	Hedging implications
Brent oil	Brent remain under pressure, as focus turns to Q4 fundamentals and as OPEC+ is planning to add more oil in December. Falling inventories, positioning, a weaker US dollar and geopolitics are upside risks.	OPEC+ voluntary production cuts to be phased out in 2025. Range : USD 70-85 that is expected to last throughout 2024 and in 2025. Downside risks depend on non-OPEC supply growth and OPEC+ compliance/phase-out. We see small OPEC+ phase-in of oil.	We recommend that consumers have a hedge ratio above their individual company benchmark. The 2024/25 curve remain in backwardation. We see prices above the forward curve in 2024 and 2025. Add to hedge ratio when Brent in USD 70-74 range. We may see a new temporary move below USD 70.
ICE Gasoil (Diesel/Jet fuel,MGO)	ARA well supplied with gasoil/diesel/jet fuel adds downside. Weak industrial demand. Jet fuel demand has peaked. However, cracks are now "low".	To follow Brent. Lack of Russian supplies (Ukranian attacks) is an upside risk. Weak demand and robust ARA inventories might continue adding downside.	We recommend that consumers have a hedge ratio above the individual company benchmark after the crack has fallen. The ICE Gasoil curve isin backwardation in the front and very flat in 2025. We forecast prices above the forward curve. Add to hedge when Brent trades USD 70 - 74. Suppliers (inventory hedging): Consider rolling hedges early (if possible), as the current front-end backwardation might be more pronounced if flat prices move higher.
VLSFO	The VLSFO market is currently surprisingly tight. However, we expect supplies to return as refineries step-up production and return from maintenance.	To follow Brent. VLSFO is expected to be weak again vs Brent (smaller premium) as supply from Al-zour and Dengote refineries return.	We recommend that consumers have a hedge ratio at the individual company benchmark. Flat price to follow Brent higher. Consider awaiting better entry-level.
3.5% HSFO	3.5% HSFO have seen short term support (less negative crack vs Brent). However, as summer peak demand season is coming to an end (Middle East power consumption and bitumen demand) the risk is for a more negative crack.	3.5% HSFO is expected to stay relative weaak over the winter. We see prices above the forward curve due to our Brent forecast.	We recommend that consumers have a hedge ratio above their individual company benchmark. We expect prices to trade above the forward curve and a more expensive crack. Might see a better entry level later in the year.
Natural Gas TTF	EU gas inventories are rising and will again be full early this year. The market is sensitive to an early halt to russian gas supplies through Ukraine. Growing Asian demand. Market speculative long TTF gas. Downside risk to prices short-term. Norwegian maintanaince in focus.	Even though the inventories might be filled earlier than last year, we expect a nervous market ahead of next winter.	We recommend that consumers hedge especially the 2024/25 winter as the risk of a new price spike is still evindent. Consider hedging the 2024/2025 winter season and calendar-25 on price set-backs (front-month below EUR 34/Mwh).
EUA	The weak German economy and high use of renewables in power production weighs on demand. Downside risk short-term. Close correlation with gas has returned. Compliance buying might support short-term.	Range EUR 60-75 MT for the rest of 2024. Sensitive to gas prices and weather.	Better entry levels might be seen if gas prices drop. But market is preparred for summer/autumn weakness. Buy DEC-24 is below EUR 64. The EUA curve reflects the interest rate curve and is in contango. Entities that have to hand in allowances should compare internal funding costs to the implicit cost-of-carry in the EUA futures curve when considering buying EUAs "physically" or using the futures curve to hedge EUA risks.

Source: GRM

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