Energy Market Drivers:

Six reasons why oil could break out of the recent tight trading range

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Content

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Market view oil: Moving to a new higher trading range

We believe that the Brent oil price is about to break out of its recent trading range of USD USD81 to USD 84 and to establish a higher range around USD 83-88 for the coming quarters. Hence, we are "buying on dips" for a break of the trading range.

We keep the short-term view (the coming week) from last week's Energy Market Drivers that there are upside risks to the oil price. In the section below discusses why we see upside risks to oil prices heading into Q2.

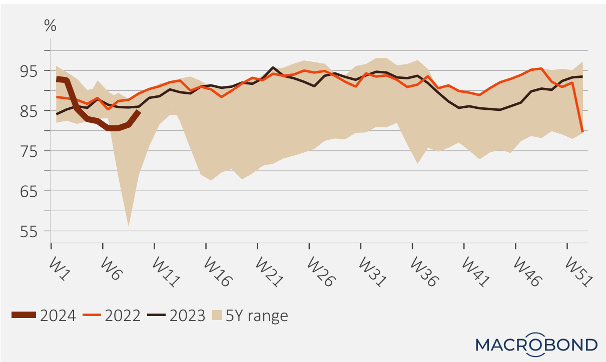
Six reasons why we see upside for oil in Q2 and Q3

We believe Brent has some upside from the current level heading into Q2. We see the following six reasons for higher oil prices:

OPEC+ commitment: OPEC+ showed with the extension of the 2.2 mb/d voluntary cut into Q2 announcement last weekend that the cartel is ready to defend Brent from falling below USD 80/bbl. The cuts will be at the expense of market share. However, it seems that OPEC+ is ready to accept this cost.

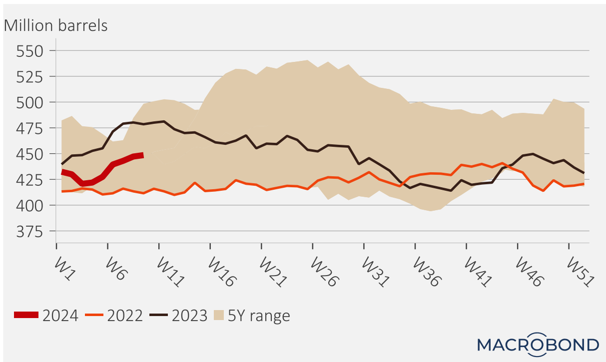
Seasonal demand support: Oil demand typically picks up in Q2 as the refineries tep up the run from the maintenance in Q1 and as economic activity picks up in the spring. Notably, this year, we have seen a lower-than-normal refinery utilisation rate in the US in January and February, well below the rate in 2022 and 2023. When refineries return to a higher utilisation rate over the coming weeks, we will see increased crude oil demand and a draw on US crude oil inventories after the recent build. Even though the market should be aware of this effect, we expect lower crude oil inventories to be seen as a sign of underlying demand growth.

Refinery utilisation rates to pick up in the US and elsewhere …



Source: GRM, Bloomberg, Macrobond

…it points to a new draw in global crude oil inventories (EIA crude oil inventories in the US)

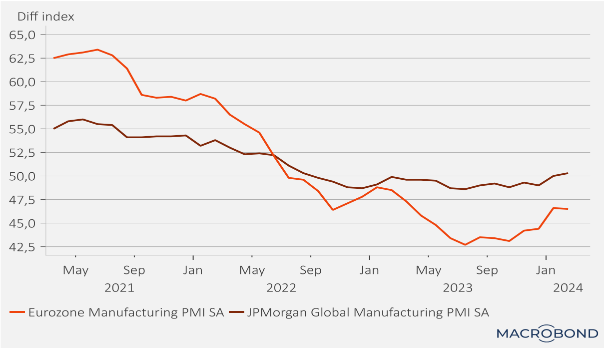


Source: GRM, Bloomberg, Macrobond

Global manufacturing recovery: We also see signs that the global manufacturing cycle is improving slowly. Hence, the demand for fossil fuels in manufacturing will improve. China of course remain a risk on the downside. But a well-known risk for the market. If anything, China could surprise on the upside if the amount of stimuli is stepped in the wake of the somewhat optimistic new 5% growth target for 2024.

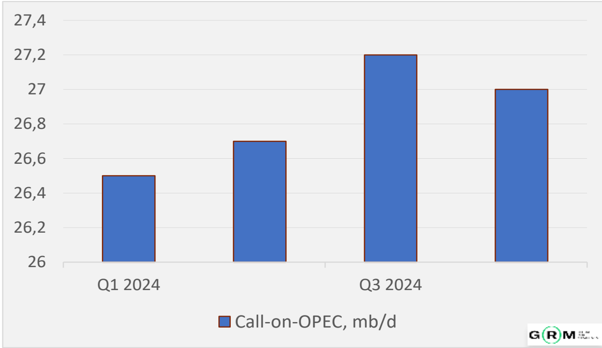
OPEC to produce below call-on OPEC: The combination of OPEC+ keeping production low and the seasonal pick up in demand implies that OPEC will most likely be producing below call-on-OPEC (the amount of oil OPEC needs to produce to secture a stable inventory situation). The chart below to the right shows call-on-OPEC according to IEA. If OPEC keeps production around the current level around 26.6 mb/d the result should be a tighter market, notably in Q3.

Incipient signs that the global manufacturing cycle is improving (PMIs)



Source: GRM, Bloomberg

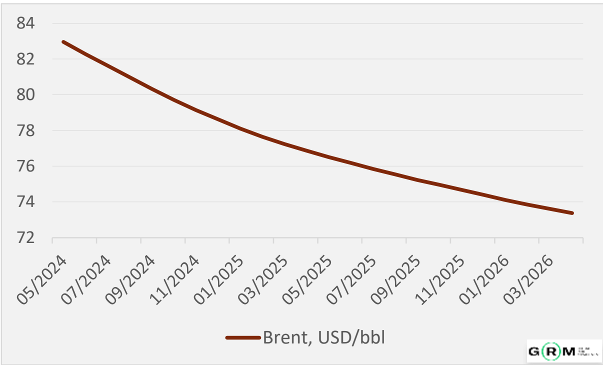
Call-on-OPEC in Q2 and Q3 from IEA well above January and February OPEC production levels, mb/d



Source: IEA February Oil Market Report and GRM

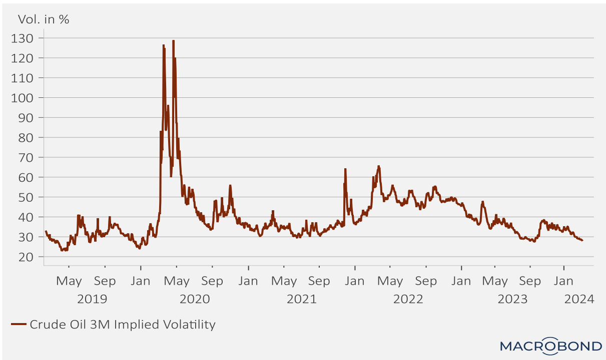
Investor demand: We expect investment funds and other speculative accounts to add to long positions in oil and oil products over the coming months. The backwardation in the oil curve and the lower volatility make it attractive for speculative accounts to be long oil in a situation with more robust fundamentals. The weaker US dollar, with EUR/USD close to a year-high, also supports higher oil prices.

Backwardation in the oil curve…



Source: GRM, Bloomberg

… and falling volatility makes it attractive to be long oil



Source: IEA February Oil Market Report and GRM

Geopolitics: Finally, geopolitics have moved in the background. However, it seems that no solution is in sight for the war in Gaza, which also implies that the attacks by the Houthis in the Red Sea will continue. We see little risk that the war will spread into a wider conflict, but it cannot wholly be ruled out. Hence, we should continue to have a small geopolitical risk premium in the oil price.

Based on the factors above, we believe Brent will soon break out of the recent trading range and move to a new USD 83-88 range.

Market view gas, power and EUA: We might have seen the lows for now

We wrote last week about the substantial spike in coal prices since mid-February. This week, we saw a slight setback in coal prices (API2) to around USD 109/MT, after the API2 1M forward contract was above USD 112 earlier in the week and at USD 90/MT in mid-February. Coal jumped as the US presented a new package of sanctions on Russian coal exports a few weeks ago.

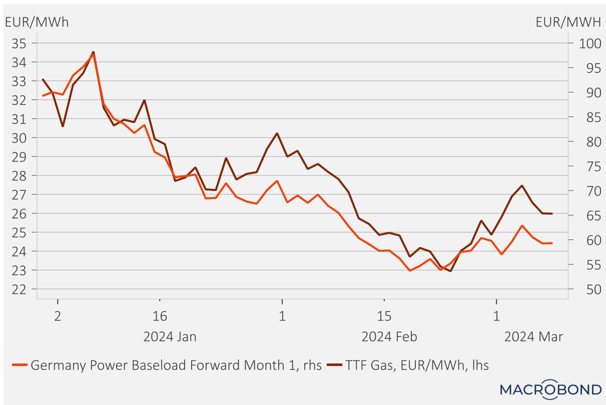
The lower coal price has also impacted gas, power, and EUA prices, and prices have all edged lower again. Weak gas fundamentals and a weather forecast pointing to another weak with mean temperatures above normal and sunny weather also point to lower prices over the next week. In the future, we should expect several days with low to negative power prices during the day. Due to higher solar power production midday, the so-called "duck curve" is back, notably in the Northern and Spanish power markets.

It could support new price setbacks, but we might have seen the lows for now. We believe **consumers should cautiously start scaling into gas, power, coal and EUA hedges.**

Coal prices (API2) have stabilised USD/MT

Source: Bloomberg, GRM

Gas and power prices fallen back somewhat



Source: Macrobond, Bloomberg

Price overview

	8 Mar 2024	Change 1D,%	Change 5D,%	Change 1M,%	Change 1Y,%	Change YTD,%
Brent 1.pos., USD/bbl	82,7	-0,4	-1,1	1,3	0,0	6,8
ICE Gasoil 1.pos., USD/MT	836,3	-1,0	-1,9	-6,0	3,3	10,2
Jet Fuel NWE CIF 1M, USD/MT	847,0	-1,5	-1,4	-7,7	0,3	7,0
Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT	816,0	-1,6	-1,3	-6,7	0,3	9,8
Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT	559,3	-0,9	-0,5	1,1	4,7	9,5
Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT	445,1	-2,7	-1,3	-1,7	9,3	9,4
Biodiesel, RME FOB Barge 1M, USD/MT	1130	-5,9	-1,3	1,9	-48,1	0,1
Biodiesel, UCOME FOB Barge 1M, USD/MT	1260	-0,6	1,6	1,1	-24,5	1,3
Biodiesel, FAME-0 FOB Barge 1M, USD/MT	1090	-1,7	-0,2	3,8	-18,6	3,9
EUA spot, EUR/MT	56,2	-2,0	2,9	-4,6	-68,4	-37,6
EUA Dec-24, EUR/MT	58,2	-1,6	3,2	-4,4	-76,8	-38,1
TTF Gas 1M, EUR/Mwh	26,3	1,0	1,7	-5,9	-61,3	-23,2
TTF Gas Cal-25, EUR/Mwh	30,0	-2,5	0,4	-4,7	-40,3	-20,8
API 2 coal 1M forward, USD/MT	109,8	0,7	2,9	11,3	-7,1	10,2
API 2 coal Cal-25, USD/MT	108,1	0,2	3,6	12,3	-14,4	11,4
Power Baseload Germany 1M forward, EUR/Mwh	58,3	-1,6	2,2	-12,3	-79,6	-54,4
Power Baseload Germany 2025, EUR/Mwh	77,3	-1,3	2,3	1,0	-52,2	-23,4

Source: Bloomberg, GRM. Indicative mid-prices (non-tradeable)

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

Market Drivers next week: Oil market reports

Regarding economic data, the focus will be on the US CPI data on Tuesday. The market is looking for a monthly rise of 0.3% m/m for the headline and core measure. A reading that actually would be a notch too high for the Fed. However, given Powell's comments this week, we should expect the market to continue pricing the first Fed rate cut in June.

The OPEC oil market report will be out on Tuesday. OPEC has an optimistic forecast for global oil demand for 2024 of 2.2 mb/d. We would not be surprised to see a downward revision, but the market seems to ignore the OPEC reports. They are too politically flawed.

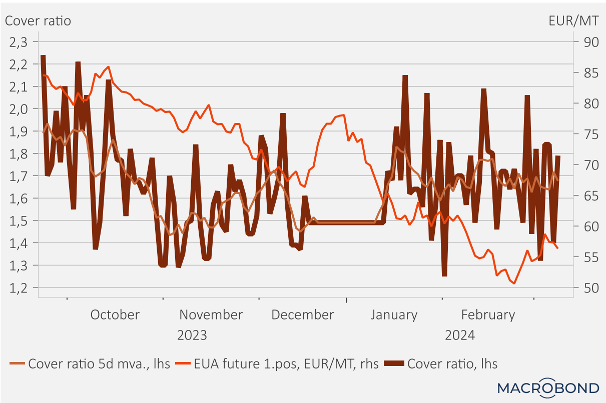
The IEA will also publish its more influential oil market report on Thursday. We will again focus on the global oil demand forecast, which was pencilled in at 1.2 mb/d in the February report. We also like to follow the IEA call-on-OPEC forecast.

Finally, we also have the EIA Oil Market Report on Tuesday. Here, we focus on the forecast for US crude oil production.

Inventory data remain important, and Wednesday's usual DOE data can potentially move oil markets. This week, we saw another rise in US crude oil inventories of 1.4 million barrels. However, note that the higher crude oil inventories are primarily due to refinery maintenance, which results in low crude oil demand. When refineries return online, crude oil demand will pick up, and the supply of products will increase.

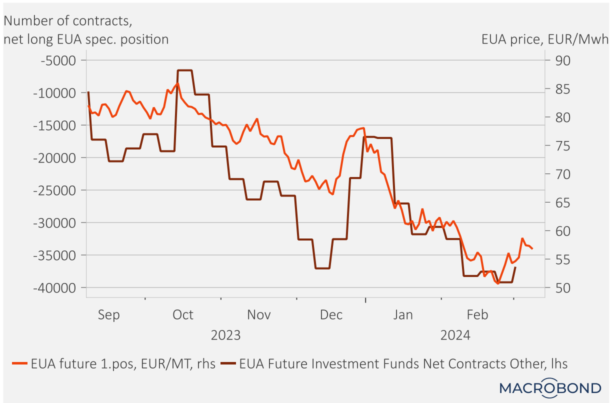
Notably, for the EUA market, the focus remains on the EEX auctions and the so-called cover ratio that we see as an indicator for underlining EUA demand. Last week, the speculative position data (published every Wednesday) showed that speculative accounts marginally added to short positions in EUAs.

Still relatively modest demand at EUA auctions at the EEX exchange



Source: Macrobond, Bloomberg

EUA speculative positions. Less net-short positions last week



Source: Macrobond, Bloomberg

Hedging views: Attractive backwardation in oil for consumers

Oil: Add to consumer hedges on dips below USD80 in Brent

Table 1 on the next page summarises our market views and hedging recommendations in our different markets.

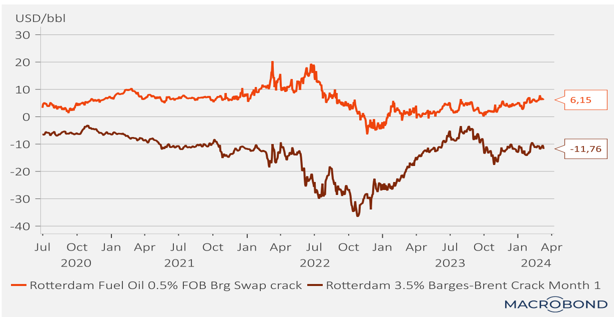
We maintain our long-held view that Brent prices below USD 80/bbl offer an attractive entry level for new consumer hedges for 2024, notably as the global growth outlook has improved. Hence, add to the hedge ratio if we see a setback in Brent below USD 80/bbl. The risk is growing that Brent will soon move to a higher trading range of USD 84 -88.

Hence, we recommend that consumers have a hedging ratio **above their individual company benchmark**. The backwardation in the oil product curves is a positive feature from a consumer hedging perspective. Read more about backwardation in the February 23 issue of Energy Market Drivers.

EUA, gas and power: Scale into consumer hedges

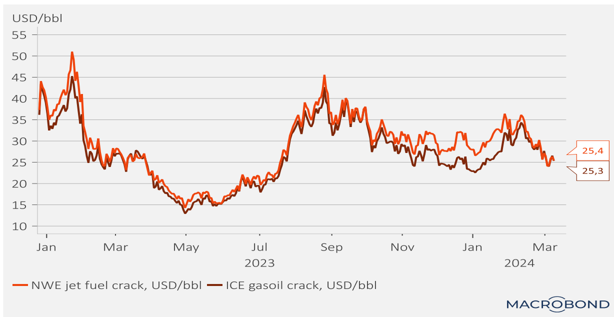
Power, gas, and EUA prices might fall further in the spring, creating more attractive entry levels for new consumer hedges. However, prices have come off slightly after the recent two-week rally. Hence, we believe it is time to scale cautiously into consumer hedges.

Support to VLSFO cracks (vs Brent), USD/bbl



Source: Bloomberg, GRM and Macorbond

ICE Gasoil/jet fuel cracks have edged lower, USD/bbl



Source: GRM and Macrobond

Brent and ICE Gasoil forecast GRM

	Spot	Q1 2024	Q2 2024	Q3 2024	Q4 2024	avg. 2024
Brent GRM Forecast avg., USD/bbl	82,7	81	85	86	86	85
Brent forward avg., USD/bbl			82	80	79	81
Brent Consensus forecast (Bloomberg)			83	83	84	83
WTI GRM Forecast, USD/bbl	78,6	77	81	82	82	81

	Spot	Q1 2024	Q2 2024	Q3 2024	Q4 2024	avg. 2024
ICE Gasoil crack avg., USD/bbl (GRM Forecast)	25	30	32	31	33	32
ICE Gasoil avg., USD/MT (GRM Forecast)	836	829	872	872	887	865
ICE Gasoil Forward, avg., USD/MT			793	769	757	788

Source: GRM, Bloomberg

HSFO and VLSFO forecast GRM

	Spot	Q1 2024	Q2 2024	Q3 2024	Q4 2024	avg. 2024
HSFO (1M 3.5% Rotterdam Barge) crack avg., USD/bbl (GRM Forecast)	-12	-12	-10	-10	-12	-11
HSFO (1M 3.5% Rotterdam Barge), USD/MT (GRM Forecast)	445	440	476	483	470	467
HSFO (1M 3.5% Rotterdam) Forward, avg., USD/MT			446	437	416	435

	Spot	Q1 2024	Q2 2024	Q3 2024	Q4 2024	avg. 2024
VLSFO (1M 0.5% Rotterdam Barge) crack avg., USD/bbl (GRM Forecast)	6	4	3	2	2	3
VLSFO (1M 0.5% Rotterdam Barge), USD/MT (GRM Forecast)	559	542	559	559	559	651
VLSFO (1M 0.5% Rotterdam Barge) forward, USD/MT			550	529	510	536

Source: GRM, Bloomberg

Table 1: GRM market and hedging views – updated February 9, 2024

	Market view next month	Market view from one month and beyond	Hedging implications
Brent oil	We expect Brent to trade slightly higher the coming weeks. Geopolitical risks are upside risks together with the OPEC+ announcement on cut extension into Q2. Stronger USD and weaker risk sentiment downside risks.	Focus on OPEC+ cuts in Q2-Q4 2024. OPEC+ production cuts to be extended throughout 2024 to support prices. Range : USD 75-95 that is expected to last throughout 2024. Downside risks depend on non-OPEC supply growth and OPEC compliance.	We recommend that consumers have a hedge ratio above their individual company benchmark. The 2024 curve remain slightly in backwardation. We see prices above the forward curve in 2024. Add to hedge ratio when Brent trades below USD80.
ICE Gasoil (Diesel/Jet fuel,MGO)	Still, a tight physical situation in ARA for Gasoil/diesel. Still some upside risks to prices and crack. Strong jet fuel demand expected. Red Sea closure supportive. If we see a reopening of the Red Sea downside risks are present. Weak consumer demand also a risk.	To follow Brent. But risk of new spikes in crack vs Brent as refineries have a difficulties keeping up with demand. A weaker recovery in Chinese product demand (higher export) could loosen the market. Red Sea reopening a clear downside risk.	We recommend that consumers have a hedge ratio above the individual company benchmark. ICE Gasoil is in backwardation. We see prices above the forward curve. Add to hedge when Brent trades below USD80. Suppliers (inventory hedging): Consider rolling hedges early (if possible).
VLSFO	The market to become better supplied with VLSFO as the Al-zour refinery in Kuwait have stepped up export. But supplies are lacking. Still modest demand in Port of Rotterdam though "south of Africa" could add to demand.Downside to crack short-term after recent move higher.	To follow Brent. VLSFO is expected to stay weak vs Brent (small premium or even negative) as supply from Al-zour refinery returns and muted demand. Stronger Gasoline demand add support on the upside.	We recommend that consumers have a hedge ratio at the individual company benchmark as VLSFO premium might fall further. Flat price to follow Brent higher.
3.5% HSFO	3.5% HSFO is relative strong for the season (less negative crack vs Brent). Residual oil availability is to stay low as Saudi and Russia have extended production cuts of heavy/sour crude. But seasonality points to a weaker market. Europe is a net exporter of residual oil. Hence, Red Sea closure means lower export and downward pressure on prices. ARA fuel	3.5% HSFO is expected to stay strong vs Brent (modest discount). Shipping demand might rise also due to the Red Sea tensions. Feedstock availability to stay low as Saudi and Russia is cutting back heavy/sour crude. We see prices above the forward curve. More oil from Venezuela is a risk, though we do not see an extension of the US waiver for exports from Venezuela.	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.
Natural Gas TTF	EU gas inventories are rising and will be full earlier than last year. Warm weather also weighs on prices. The market is now less sensitive to any supply disruptions.	Even though the inventories might be filled earlier than last year, we expect a nervous market ahead of next winter. Focus on possible industrial demand pick up and possible new sanctions on Russian gas exports. Outright low price relative to LNG costs.	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 at EUR 20-23/Mwh).
EUA	The weak German economy and high use of renewables in power production weighs on demand. Auction demand has been lacklustre. However, speculative short-covering could add support. EUA price pressure from rebalancing of EUA 2023 hedges should end now.	The Q1 set-back in prices was likely justified and further downside in the spring cannot be ruled out. Range EUR 60-80 MT later in the year. Sensitive to gas prices and weather. Focus on TNAC annoucement June 1.	Better entry levels expected in the spring for buyers. 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.
	Market comment		
Power	The sanctions from USA against Russian coal export continued its impact on thermal markets during week 10. Less coal to world market made gas, eua and power go higher. A short squeeze in carbon may have made the rally stronger. German power cal 2025 went from 75 €/MWh to 83,30 €/MWh. The reaction up, may have been exaggerated, as both coal and gas storage is plentiful at moment. The contract now trades lower around 79€/MWh. Cold weather in Scandinavia with less precipitation has firmed Nordpool contracts. Cal25 is trading unchanged, but april24 is up 10% to now 52,5 €/MWh. Not really cold in Europe, but market still very sensitive against disturbance in the supply of thermals. We anticipate the next weeks market movements to be sideways to lower, but with a risk of spiking prices. Current levels seem attractive to build strategic longs.		

Source: GRM

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