Energy Market Drivers:

Brent at USD 83.50 – a buying opportunity!

May 3, 2024

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Market view oil: USD 83.5 a buying opportunity as market to focus on OPEC+ meeting June 1st

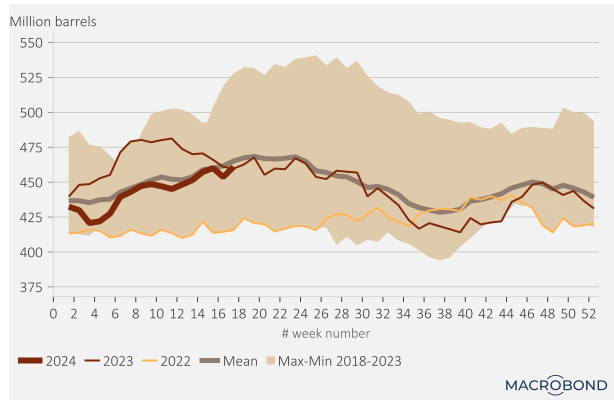
Oil prices have been under severe pressure the last week, and the Brent July contract traded Wednesday below USD 84 after it was above USD 90 two weeks ago and USD 88 last week.

We argue that the current Brent oil price offers good value for consumers, notably as the OPEC+ meeting on June 1st is an upside price risk.

Several factors are behind the drop in oil prices:

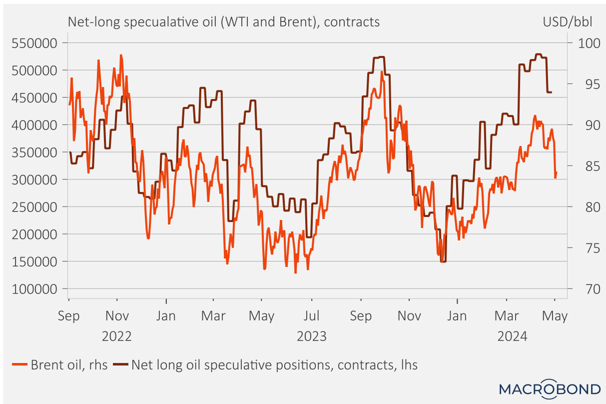
- **The geopolitical premium** in oil has fallen in the last couple of weeks as a ceasefire between Israel and Hamas brokered by the US and Egypt seems to be moving closer, and as the tensions between Israel and Iran have de-escalated. There are also speculations that there may be an agreement between Saudi Arabia and Israel on diplomatic relations for Israel supporting a two-state solution.
- **Higher US crude oil inventories.** On Wednesday, the US official crude oil inventory data showed a significant increase of 7.3 million barrels. That was significantly more than expected, even after Tuesday night's preliminary API figures showed a rise of 4.9 million barrels. The figures question whether OPEC+ has succeeded in tightening the market with their production cuts.
- **Less speculative activity.** We saw a steady inflow into net long speculative positions in the Brent and WTI futures in March and the first two weeks of April. However, the data released last Friday showed that investors took off long positions. It might have added to the bearish sentiment.

The 7.3 million barrel jump in US crude oil inventories last week was a bearish surprise, million barrels



Source: GRM, Macrobond, DOE

Less net-long speculative positions in oil



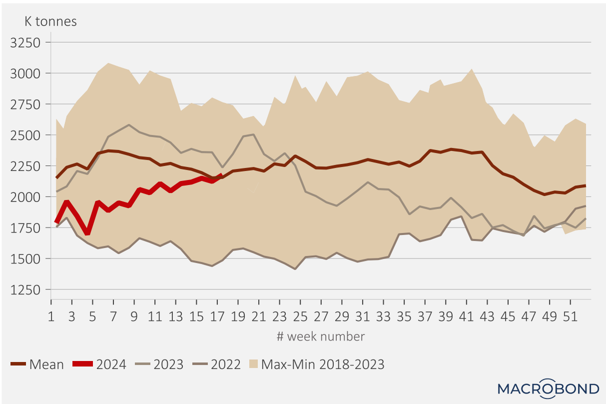
Source: Macrobond, GRM, CFTC

- **Fear of a hawkish Fed.** Financial markets, including commodity markets, increasingly started to price in ahead of the FOMC Wednesday night that the Fed would do a hawkish pivot and signal "higher for longer" or even a new rate hike.
- **Weak distillate market.** Over the last month, we have seen very weak diesel, gas oil and jet fuel markets. The cracks have fallen, distillate inventories have moved higher, and the

curves have moved into contango. The lower gas prices and a warm winter, notably in Europe, have also dented demand for heating oil. The market concluded that the weak distillate market would eventually hurt refinery runs and crude oil demand.

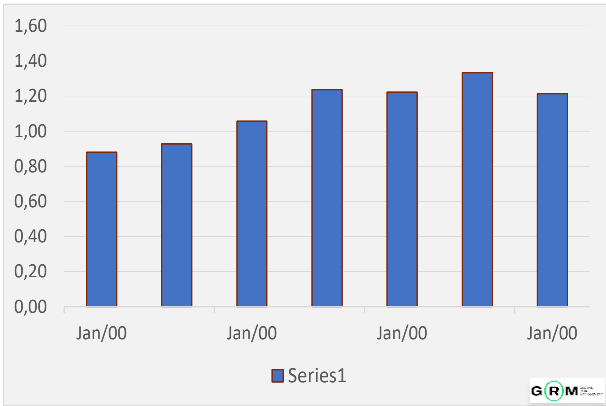
- **General oil demand concerns.** The IEA oil market report published Mid-April saw a downward revision to the 2024 oil demand forecast after four upward revisions in the last five reports. The PMI data for several countries also disappointed on the downside in April, questioning the recovery in the global manufacturing cycle.
- **OPEC countries pump too much oil.** The latest estimates for OPEC production in April indicate that countries like the UAE and Iraq continue to pump too much oil relative to quotas and voluntary production cuts.
- **Losing faith in sanctions.** There seems to be a widespread narrative that the US-led sanctions on Russia, Iran, and Venezuela will have a modest impact. The sanctioned countries are circumventing the sanctions, and the Biden administration signals that the sanctions should not increase global oil prices.

Rising gas oil/diesel inventories in ARA



Source: GRM, Macrobond

Lower IEA oil demand forecast for 2024. Mb/d



Source: GRM, IEA Oil Market Reports

We see strong support around the currentt USD 84 level in Brent

However, despite all the factors above why oil prices have been under pressure recently, we see good support at the current level and see upside risks to oil prices.

Less fear of Fed being "higher for longer"

The "higher for longer" Fed concerns have fallen after the FOMC meeting on Wednesday. Powell confirmed that the next move would be a cut and underlined that he found it unlikely that the Fed would have to hike rates further. We also saw an improved risk sentiment, including a weaker US dollar in financial markets after the FOMC. Both factors support the oil price. The marginally weaker non-farm payrolls report today also made the market move forward the first Fed rate cut from November to September.

Economic data have improved

If we look at the latest numbers, they have confirmed that the global manufacturing cycle is slowly improving. The details of the US GDP for Q1 were better than the headline number indicated. Euro zone GDP rose 0.3% in Q1. It was not impressive but was better than the expected 0.1% and the -0.1% figures for the previous quarter. We have also seen an improvement in PMIs globally, and the global PMI manufacturing remains above 50, though the Eurozone remains weak.

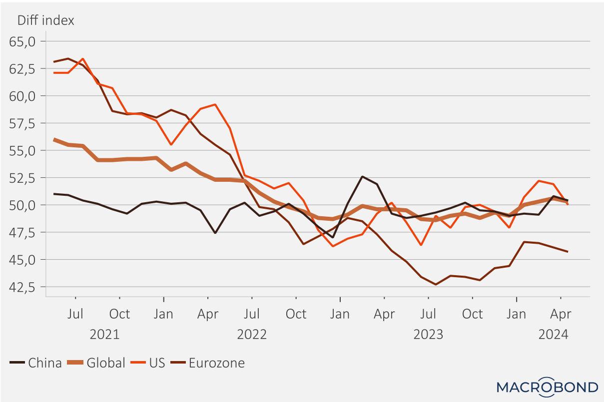
OPEC+ to extend voluntary production cuts into Q3 and likely Q4

The current weakness in oil prices has made it much more likely that the OPEC+ countries will decide to keep the voluntary production cuts in place in Q3. OPEC+ will meet for the Joint Ministerial Monitoring Committee (JMMC) in Vienna to discuss production policies on June 1st.

We believe the oil market over the coming weeks will price the voluntary production cuts to continue in Q3. In our view, a roll-over should secure a tighter market in Q3, adding upside to oil prices. In fact, we would not be surprised to see the cartel announcing that the cuts will also be in place in Q4. A kind of "forward guidance" to push up oil prices today.

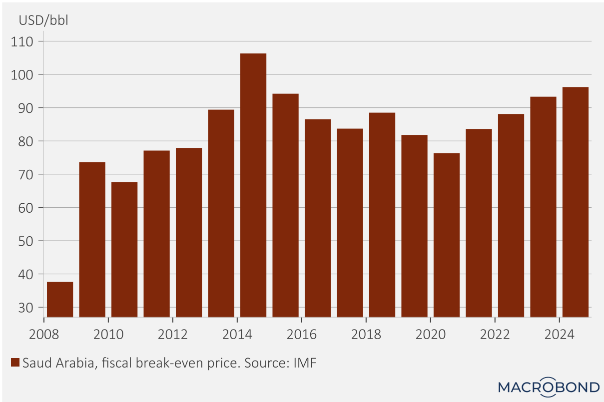
Notably, Saudi Arabia has shown a high quota compliance this year, producing very close to the quota at nine mb/d. The Saudis seem to advocate higher prices at the expense of volume. According to the IMF, Saudi Arabia has a fiscal break-even oil price of USD 96.2 in 2024. Hence, the current oil price and the Saudi budget are incompatible.

Slow but steady improvement in global PMIs in manufacturing



Source: Macrobond

The fiscal break-even oil price for Saudi Arabia 2024 well above the current oil price, USD/bbl



Source: IMF

The geopolitical premium has been priced out

Finally, we have the question of geopolitical premiums and sanctions. If we get a ceasefire agreement between Israel and Hamas, it might add some initial downside to the oil price. However, we expect any reaction to be short-lived and modest, as we see little risk premium in the current oil price. The main scenario is now that the Middle East conflict will not spread to Iran but that the blockade of the Red Sea will be in place for an extended period, adding to bunker demand.

Risk skewed to the upside for Brent after the latest sell-off

We see upside for oil prices after the latest sell-off. Both short-term (next week) and medium-term (as OPEC+ delivers an extension of the voluntary production cuts) and as the demand side remains healthy. We expect a new test of USD 90 in May or June and that Brent will move above USD 90 more sustainably in Q3.

Market view gas: Global fight for LNG supplies the main driver

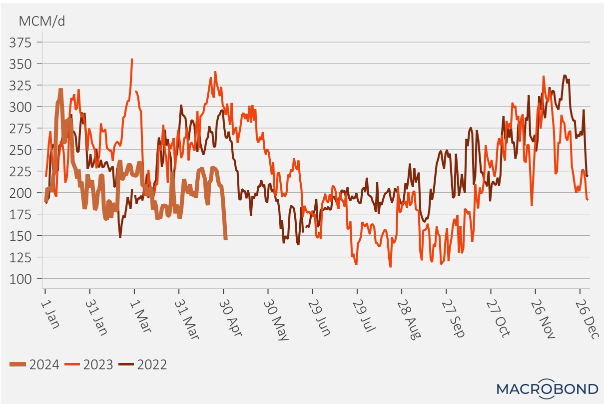
TTF gas prices have traded higher this week despite oil prices being under pressure and the TTF front-contract are currently trading at EUR 31.40 Mwh. Hence, prices stay close to a four-month high.

The market seems to be increasingly buying into our long-held view that 2024 is about the global competition and possible sanctions on Russian pipeline and LNG exports more than it is about weak EU gas fundamentals (high inventories) this spring.

So far this year, Chinese LNG imports have been up close to 25% y/y, though the latest data shows some weakness. On the other hand, LNG imports into the EU are down close to 20% % in 2024. We know that demand for LNG will rise in the Northern Hemisphere as we move into the summer months, and air conditioning demand will increase. EU LNG imports have increased in H2 in the last two years ahead of winter peak demand.

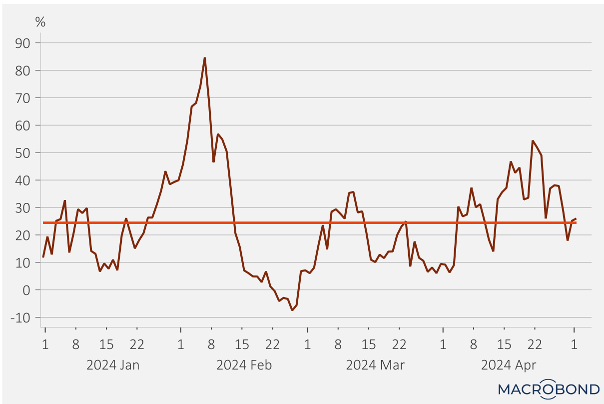
Hence, if we can see higher gas prices in April and May, where EU gas demand is relatively muted with high use of renewables in the power mix and low industrial demand, it underlines that the market could become increasingly tight ahead of and during the upcoming winter.

EU LNG imports have fallen close to 20% in the first four months of 2024 compared to 2023



Source: Macrobond, Bloomberg, GRM

China LNG import is up 25% y/y in 2025 ytd



Source: Macrobond, Bloomberg, GRM

Given warmer weather above the seasonal norm in Northern Europe, a lower geopolitical risk premium, and the spike in prices this week, we see some downsides to gas prices this coming week.

Importantly, we still recommend scaling into consumer hedges ahead of winter. The next couple of weeks might provide attractive entry levels. We believe EUR 26 - 28 MWh for TTF gas front-month is a solid support level.

Finally, we want to highlight that we published a paper on gas prices three weeks ago. We pointed to three reasons why prices might not fall significantly this spring despite elevated inventories and low demand, and why consumers should hedge gas exposure.

1) The European industrial sector is slowly recovering

2) Better Chinese numbers and a pick-up in Chinese LNG import

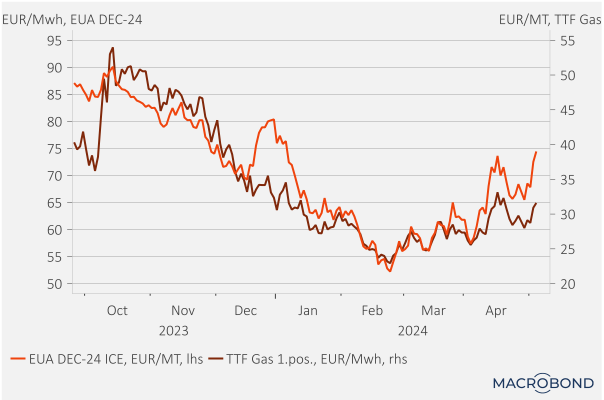
3) Sanctions on Russian LNG and pipeline gas to the EU

Market view EUA: EUA price has run ahead of gas prices, but long-term drivers remain bullish

The EUA price has rallied over the last two weeks, and gas prices have remained the most crucial short-term driver. However, the EUA price has recently run slightly ahead of the gas price.

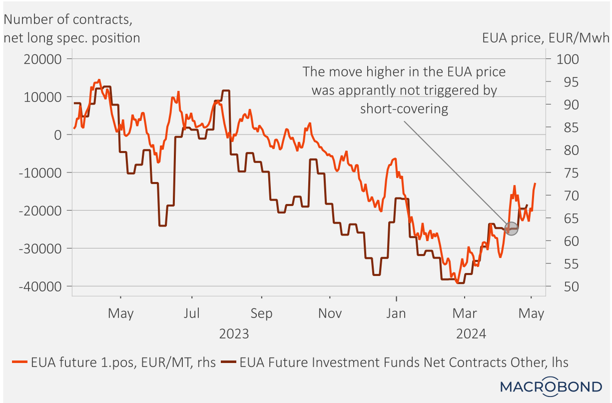
There might also have been a bit of short-covering at play. The weekly speculative data from the ICE showed that speculators closed only a few net-short EUA positions last week. Hence, a new EUA short-covering this week might have increased prices further.

High correlation between gas and EUA prices this year, EUR/MWh and EUR/MT



Source: Bloomberg, GRM

Speculators might have closed more net-short EUA positions this week



Source: Macrobond, Bloomberg

Medium to long-term bullish drivers vs short-term drivers

In the EUA market, we have several short-term drivers: Gas prices, speculative positions, EEX auction demand, use of fossil fuels in the power sector, weather, etc. The much-discussed RePowerEU frontloading of EUA sales and the effect on the market balance in 2024 is also a short-term driver.

Overall, many of these factors are admittedly bearish at the moment. There is no lack of EUAs in the market this year.

However, the EUA market is not an ordinary commodity market; it is a financial one. The latter implies that the expected price in the future impacts the spot price today. If everyone agrees that the EUA market balance will tighten or weaken in the future, the price will go up or down today; otherwise, an arbitrage opportunity would arise. Market participants can store, go short or lend EUAs. This feature is similar to the gold market but very different from what is possible in the physical commodity markets like gas, power and oil.

No one knows the EUA price in the future, and short-term market drivers tend to dominate in the short term.

However, we do have strong indications that the EUA market will tighten in the future. The idea of the EU ETS is that emitters should know that the emission price will increase over time, creating a solid incentive for decarbonising today. A price between EUR EUR 50 and EUR 75 is, in our view, not high enough to trigger the decarbonising transition.

The decarbonising incentive is built into the EU ETS via the 'linear reduction factor', the phase-out of free allowances and the CBAM (Cross Border Adjustment Mechanism). The 'linear reduction rate' and the phase-out of free allowances remove together with the Market Stability Reserve EUAs from the market over time. The introduction of the CBAM will mean more hedging and more demand for allowances (faster phase-out of free allowances in CBAM sectors) over time.

The bottom line is that a low price today makes it attractive for emitters and speculators to buy EUA spot or forward as most agree that this market will eventually tighten and the EUA price will go up.

In a way, there is an invisible hand from the future dragging spot prices higher over time. Sometimes, the short-term drivers dominate, as in February and March, and sometimes, the invisible hand from the future dominates. Recently, both factors might have dragged EUA prices higher.

Short-term market view:

The EUA market might have run ahead of itself relative to the gas price. However, as we argue above, the EUA price might be reflecting expectations of a tighter market in the future.

We continue to recommend scaling into long EUA positions. EUR 68 MT for the EUA DEC-24 contract is a strong support level in the channel where the price has been trading since late February. If we break above EUR 75, a new move higher is likely.

The EUA DEC-24 contract has been trending higher in a tight channel since late February

Source: GRM, ICE

Market Drivers next week: Inventory data remain key for oil market

The market will continue focusing on geopolitics for outright prices and cracks next week, though geopolitics attract less and less attention. Main focus is if we see a ceasefire agreement between Israel and Hmas. We also keepan eye on the possible defense pact between Saudi Arabia and the US.

Inventory data remain essential, and Wednesday's usual DOE data can potentially move oil markets again, as has been the case for the last two weeks. If we get another built like this week it will be bearish for oil prices.

Saudi Arabia will announce the premiums they add for exports to Asia and Europe relative to benchmark prices early next week. The premiums indicate demand for Saudi oil.

We might also start seeing OPEC+ comments from anonymous "delegates" before the OPEC+ meeting on June 1st.

We will follow the speculative oil data published after the US close tonight. Given we have the thesis that we currently see a sector rotation into oil and other commodities, the data are essential to follow. Many speculative long positions might have exaggerated the move lower in Brent prices this week due to traders taking stop/loss on long positions.

The US Department of Energy will publish its monthly Short-Term Energy Outlook. As always, we focus on the forecast for US oil production.

Notably, for the EUA market, the focus remains on the almost daily EEX auctions and the cover ratio that we see as an indicator for underlining EUA demand.

In the broader financial market, all attention will be on verbal communication from various Fed members after this week's Fed meeting. The market will scrutinise the communication for clues on the timing of the first Fed rate cut.

In the Eurozone, we have several CPI releases.

Price overview

03/05/2024 15.25

	3 May 2024	Change 1D,%	Change 5D,%	Change 1M,%	Change 1Y,%	Change YTD,%
Brent 1.pos., USD/bbl	83,7	0,0	-7,0	-6,8	13,5	7,9
ICE Gasoil 1.pos., USD/MT	747,5	0,5	-5,4	-15,4	14,8	-0,4
Jet Fuel NWE CIF 1M, USD/MT	806,7	0,2	-4,3	-11,0	14,5	3,7
Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT	762,5	0,1	-4,6	-12,2	15,0	4,5
Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT	551,4	0,1	-5,4	-7,6	14,7	9,7
Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT	473,7	0,1	-4,3	-2,0	19,0	15,6
Biodiesel, RME FOB Barge 1M, USD/MT	1145	-2,6	-2,0	-20,0	-2,5	#VALUE!
Biodiesel, UCOME FOB Barge 1M, USD/MT	1285	-1,7	-0,4	-13,7	-2,2	#VALUE!
Biodiesel, FAME-0 FOB Barge 1M, USD/MT	1115	-4,3	-3,8	-21,3	-2,3	#VALUE!
EUA spot, EUR/MT	70,6	5,5	5,8	19,3	-22,0	-9,4
EUA Dec-24, EUR/MT	73,2	0,9	8,6	21,6	-21,7	-9,8
TTF Gas 1M, EUR/Mwh	31,5	1,7	8,2	18,7	-16,9	-2,8
TTF Gas Cal-25, EUR/Mwh	35,5	3,7	5,4	13,6	-38,8	-2,3
API 2 coal 1M forward, USD/MT	111,2	1,8	2,6	-4,5	-15,0	13,7
API 2 coal Cal-25, USD/MT	114,7	1,3	1,9	-1,8	-14,9	16,5
Power Baseload Germany 1M forward, EUR/Mwh	71,4	0,8	13,5	31,7	-31,3	-26,1
Power Baseload Germany 2025, EUR/Mwh	83,0	-11,2	-17,7	6,6	-48,2	-14,9

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

Hedging views: We recommend a hedging ratio above the company benchmark for oil consumers. Neutral on gas, power and EUA hedge ratios

Oil: Add to consumer hedges as we trade below USD 84

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

For a while, we have argued that Brent prices below USD 87/bbl would offer an attractive entry level for new consumer hedges. We now have lowered this level to USD 84 after the latest slide in prices. We still recommend that consumers have a hedging ratio above their **company benchmark**. We note that the HSFO crack has recovered further this week. It might reflect that we are closer to the summer peak demand season.

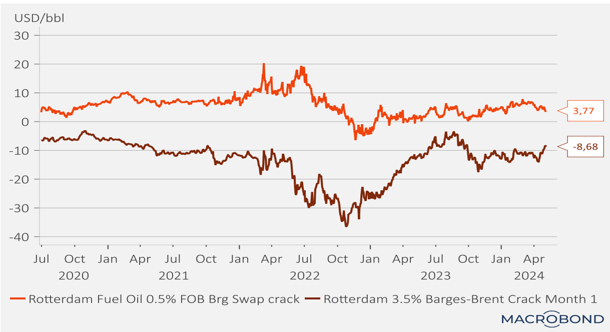
The contango in the ICE gas oil curve gives some attractive opportunities for inventory hedgers. The ICE gas oil and the NWE jet fuel cracks seem to have stabilised.

EUA, gas and power: Neutral on hedge ratio

As solar power returns, power, gas, and EUA prices might see a setback in the spring, creating more attractive entry levels for new consumer hedges. The lower geopolitical premium points in the same direction.

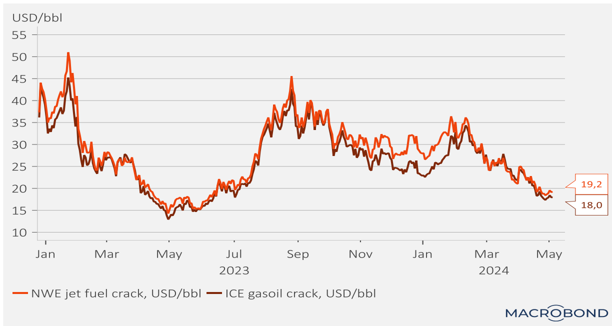
However, the market is likely prepared for this situation, which might indicate that the higher prices will continue in the coming months. This week, we, like last week, take a neutral stance on the gas, power and EUAs hedge ratios, notably after the last rally. See the Gas and EUA sectins for more comments.

HSFO crack (vs Brent) has recovered, USD/bbl



Source: Bloomberg, GRM and Macorbond

ICE Gasoil/jet fuel cracks have fallen further, USD/bbl



Source: GRM and Macrobond

Brent and ICE Gasoil forecast GRM

	Spot	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	avg. 2024
Brent GRM Forecast avg., USD/bbl	**83,7**	**82**	**88**	**92**	**93**	**92**	**89**
Brent forward avg., USD/bbl				82	81	79	
Brent Consensus forecast (Bloomberg)			85	84	85	83	85
WTI GRM Forecast, USD/bbl	**79,1**	78	84	88	89	89	85

	Spot	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	avg. 2024
ICE Gasoil crack avg., USD/bbl (GRM Forecast)	18	28	20	22	24	23	24
ICE Gasoil avg., USD/MT (GRM Forecast)	**748**	**820**	**807**	**849**	**872**	**857**	**837**
ICE Gasoil Forward, avg., USD/MT				756	751	745	

Source: GRM, Bloomberg * indicative forward prices

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)	-9		-9	-7	-10		-9
HSFO (1M 3.5% Rotterdam Barge), USD/MT (GRM Forecast)	474	521	504	533	527		507
HSFO (1M 3.5% Rotterdam) Forward, avg., USD/MT			473	465	444		461

	Spot	Q1 2024	Q2 2024	Q3 2024	Q4 2024		avg. 2024
VLSFO (1M 0.5% Rotterdam Barge) crack avg., USD/bbl (GRM Forecast)	4	6	6	6	5		6
VLSFO (1M 0.5% Rotterdam Barge), USD/MT (GRM Forecast)	551	561	599	622	622		705
VLSFO (1M 0.5% Rotterdam Barge) forward, USD/MT			557	541	528		542

Source: GRM, Bloomberg * indicative forward prices

Table 1: GRM market and hedging views – updated May 3, 2024

	Market view next month	Market view from one month and beyond	Hedging implications
Brent oil	We expect Brent to stay in a USD 83-92 range. Geopolitical risks are upside risks together with the OPEC+ announcement on cut extension into Q3. Less geopolitical premium, hawkish Fed, stronger USD and weaker risk sentiment downside risks.	Focus on on seasonal demand pick up in Q2 and Q3 and high "call on OPEC". OPEC+ production cuts to be extended throughout 2024 to support prices. Range : USD 80-100 that is expected to last throughout 2024. Downside risks depend on non-OPEC supply growth and OPEC compliance.Test of USD 100 likely	We recommend that consumers have a hedge ratio above their individual company benchmark. The 2024 curve remain in backwardation. We see prices above the forward curve in 2024. Add to hedge ratio when Brent trades below USD84.
ICE Gasoil (Diesel/Jet fuel,MGO)	A much less tight physical situation in ARA for Gasoil/diesel (rising inventories). Red Sea closure and Ukraine attacks on Russian refineries are supportive though risk premium is being priced out. If we see a reopening of the Red Sea downside risks are present. High inventories and weak demand also downside risks.	To follow Brent. Red Sea reopening a clear downside risk. Lack of Russian supplies (Ukranian attacks) is an upside risk. Weak demand might continue.	We recommend that consumers have a hedge ratio above the individual company benchmark after the crack has fallen. ICE Gasoil is in backwardation from six months and out. We see prices above the forward curve. Add to hedge when Brent trades below USD87. Suppliers (inventory hedging): Strongly consider rolling hedges early (if possible) as curve now in contango that may only be temporary.
VLSFO	The market to become better supplied with VLSFO as the Al-zour refinery in Kuwait have stepped up export. But supplies are lacking. Demand in Port of Rotterdam has finally picked up. Strong gasoline crack supportive and add risk to the upside.	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/crack add support on the upside.	We recommend that consumers have a hedge ratio at the individual company benchmark as VLSFO premium might fall again. Flat price to follow Brent higher.
3.5% HSFO	3.5% HSFO to stay strong short term (less negative crack vs Brent) as summer peak demand season is near. However. High ARA fuel oil inventories a downside risk. Less heavy oil from Iran, OPEC and Venezuela an upside risk.	3.5% HSFO is expected to strengthen vs Brent (lower discount). Shipping demand has picked up 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. Demand picks up seasonally over the summer. New sanctions on heavy sour crude 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. Focus on possible sanctions on Russian gas and growing global (China) demand.	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, possible new sanctions on Russian gas exports and not least China demand pick up.	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 26-28/Mwh).
EUA	The weak German economy and high use of renewables in power production weighs on demand. However, auction demand has picked up and speculative short-covering could add support. But we have seen a strong rally that give some downside risks 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 might be seen in the spring for buyers. But market is preparred for spring weakness 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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