Oil Buyer's Guide

News, analysis and commentary

Bloomberg Briefs

March 20, 2017

Bullish Bets Cut by Most Ever as Price Falls Below $50

By Jessica Summers

The exodus of oil-price optimists has begun.

Money managers cut bets on rising WTI crude by a record amount during the week ended March 14, while wagers on a further price drop doubled as oil remained below $50 a barrel.

"It's sort of a negative feedback loop, where money managers were selling because the price was falling, and the price was falling in part because money managers were selling," said **Tim Evans**, an analyst at **Citi Futures Perspective** in New York, in a telephone interview.

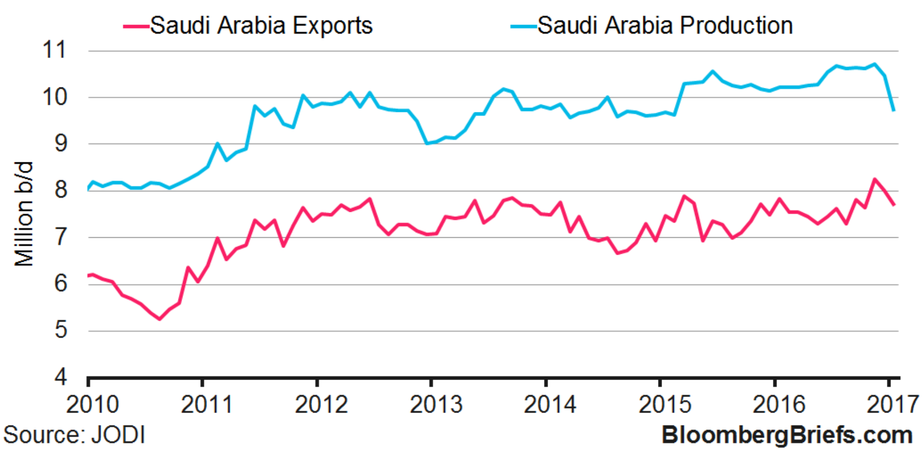
Bets on rising WTI crude during the report week were reduced by the most on record in data going back to 2006, the U.S. **Commodity Futures Trading Commission** announced March 17. The cuts came as prices tumbled below $50 a barrel for the first time this year, and anxious executives discussed rising U.S. rig counts at an industry meeting in Houston.

As the week ended, Saudi Arabia and Russia sent mixed messages on the future of the production cuts agreed to by OPEC and 11 other nations. Oil slid 69 cents today to $48.09 as of 9:53 a.m. London time.

Saudi Arabia is ready to extend the cuts into the second half if supplies stay above the five-year average, Energy Minister **Khalid Al-Falih** said on Bloomberg Television. Russian Energy Minister **Alexander Novak** countered it was too early to discuss an extension. An OPEC panel is scheduled to meet this month to review compliance with the current deal.

"If you make it through this next OPEC compliance meeting and we don't have further jawboning by the Saudis and Russia, or more compliance, I think that you have room to grow on the short side, which is worrisome," **Brent Belote**, founder of **Cayler Capital**, which manages $5 million in oil-related assets, said by telephone. Full *story* on web.

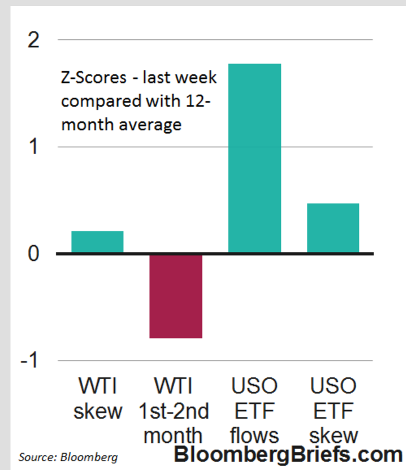
Saudi Arabia Cut Exports in January



Saudi Arabia reduced its crude exports in January, as the country led OPEC in production cuts designed to rebalance the market. Shipments from the kingdom fell 3.8 percent to 7.7 million barrels a day, according to data from the **Joint Organisations Data Initiative** published today. Output declined to 9.75 million barrels a day. That's the lowest level since February 2015, the data show.

— Christopher Sell

Bull-Bear Gauge



Option traders were more optimistic as OPEC's output cuts continue to hold, and the suggestion from Saudi Oil Minister Khalid Al-Falih that the kingdom could extend cuts in June. Click *here* for the Bull-Bear Gauge methodology.

Events

Today: Energy Transition Dialogue conference, Berlin, with speakers including U.A.E. Energy Minister Suhail Al Mazrouei, IEA Executive Director Fatih Birol. Day one of two

Today: Russia Urals 10-day loading program for April

All times eastern

Quote of the Day

"OPEC can easily shoot itself in the foot if the cuts lift the long-dated WTI price, which will drive U.S. shale yet higher and stronger."

– Bjarne Schieldrop, chief commodities analyst at SEB in Oslo

What to Read

A Sluggish Start at Sea Leaves OPEC Cuts Treading Water: Gadfly

A long way to go for inventories to really shrink.

Q&A

Now Is 'Good Buying Opportunity' for Investors, Says Invesco's Bloom


Source: Invesco

Jason Bloom, Global Market Strategist, PowerShares by Invesco

- Market "overly preoccupied" with U.S. inventories. U.S. stocks were always going to decline after Europe and Asia
- Expects OPEC to extend cut agreement, as group highly "incentivized" to keep crude above $50 a barrel

Interviewed by Christopher Sell on March 15. Comments have been edited and condensed for clarity.

Q: What's your position on oil, are you bullish?
A: I think honestly the fundamentals in the crude market are playing out as we expected them to. Our outlook for crude and refined products is that we will see a slightly choppy first quarter. The physical market needed time necessary to go through the rebalancing process post-OPEC cuts. It will take several months for inventories to decline globally.

The market is overly preoccupied with the WTI benchmark and U.S. inventories. We've known all along that the U.S. would be the last to drop. But everyone piled in and got long and really what we are seeing is investors with short-time horizons getting impatient because U.S. inventories haven't been drawing down whereas they have been drawing down very sharply in Europe and Asia. Eventually that will make it to the U.S in the second quarter and that is why we didn't expect strong oil prices in the U.S. in the first quarter.

Crude inventories in Japan are on the cusp of a 10-year low. In Europe they've been drawing down at twice the seasonal average and we are almost back to the normal range, whereas we are well above the historical average in the U.S.

So on a global basis we are seeing what we need. The nice thing is, if you have a longer-term investment horizon, this is the first buy-the-dip opportunity in commodities since the fourth quarter last year.

Q: So you are advising clients this is a good buying opportunity?
A: Yes, exactly. We see now as a good buying opportunity. We definitely expected some volatility, you just needed time for that re-balancing process to make its way to the U.S. OPEC is highly incentivized to keep crude in the $50s. If you look at demand, it is robust. It has surprised to the upside for a year now. So if OPEC can keep supply under control, eventually the curve is going to flatten out and spot prices will move higher. We also see the general curve shift upwards in the second half of the year. We still think the high $50s is a very reasonable price target in the fourth quarter.

Q: Are you anticipating increased volatility in the market?
A: It's all relative. Commodity volatility is generally significantly higher than equity volatility. Even in bull markets. For over a year, ever since we saw the cyclical recovery transpiring in commodities, we have always advocated "buy the dips." Commodities are not markets to grind away to the upside for years at a time like an equities bull market can. There's always a dip at some point round the corner to buy. We think a "buy-the-dip" mentality will serve long investors very well as far as the control for entry points. It's just the nature of commodities.

Q: What would you do in OPEC's shoes?
A: I think they've done their best to cut production. Shale has still managed to make a comeback, but if you look at the supply/demand fundamentals we are currently getting around 1.5 million barrels a day of demand growth. That's a little above trend. If shale is growing at say 5,6,700,000 barrels a day in the U.S, demand growth is double that. So if OPEC can just hold production steady, demand is far-outstripping the shale production growth.

You have the usual problems in Nigeria and Libya — production is not coming back online in Asia — so there is room for shale growth. You just don't want it to get too carried away.

So far I think OPEC's plan is working. But at the $60 a barrel level, I guess you' ll have to re-assess.

Q: Will OPEC extend in June?
A: I do believe they will roll the cuts. Saudi Arabia made it happen. The Saudi Aramco IPO has been put off until the second half of 2018, so Saudi is going to have to continue to tap the debt markets because it cannot afford the credit downgrades. OPEC producers generally, because of domestic needs, are highly incentivized to keep crude at $50 or higher.

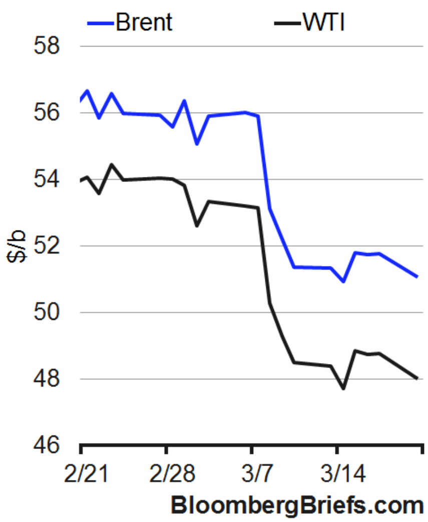
Q: U.S. stockpiles fell for the first time in 2017 last week. Is this evidence OPEC's plan is working?
A: I think its completely consistent with the timeframe we laid out. To see inventories head in the other direction in the first/second quarter is when we expected that process to occur and we expect it to accelerate going forward. So I wouldn't see this as a blip on the radar as much as that drawdown process slowly making its way to the U.S.

Q: Was it naive to think drawdowns would happen sooner?
A: Yes. The thing about commodities, as opposed to digitized securities markets, is that these futures are tied to physical commodities to be consumed over our daily lives. There is a timeframe over which those markets balance and re-balance. Again I think you have some investors with short time horizons. Those horizons may not align with the human pace at which these commodities are produced and consumed. But you need to keep an eye on the fundamentals and then match up the investment time horizon with the underlying market.

Today's Oil News

Supply

■ **Oil fell as U.S. drilling continued to rise, undermining** the potential for even an extended OPEC output-reduction deal to rebalance the market. Futures lost as much as 1.6 percent in New York after gaining 0.6 percent last week. Producers added more oil rigs to U.S. fields, extending a drilling surge into a 10th month, Baker Hughes said on March 17. Saudi Arabia is ready to extend cuts if supplies stay above the five-year average, Energy Minister Khalid Al-Falih said in an interview on Bloomberg Television. Full *story* on Terminal.



■ **Libya's major oil ports of Es Sider and Ras Lanuf are resuming** operations and preparing to export crude after a two-week halt in shipments due to military clashes in the holder of Africa's largest crude reserves. Staff are returning to work at Es Sider, the country's biggest oil port, and Ras Lanuf, its third-largest, and exports are set to restart in a week to ten days, Jadalla Alaokali, a National Oil Corp. board member, said by phone. Libya is producing 621,000 barrels a day after Waha Oil Co. began pumping again at its Waha field on March 18, he said. Full *story* on Terminal.

■ **OPEC and its allies improved their collective compliance** with a supply-cuts agreement last month as deeper reductions from members of the group offset weaker implementation from other producers. The group of oil producers implemented 94 percent of their pledged 1.8 million barrels a day of supply cuts in February, up from 86 percent the previous month, according two delegates familiar with the conclusions of a meeting of a technical committee at the Vienna headquarters of OPEC on March 17. Full *story* on Terminal.

Demand

■ **India's February crude imports fell 3.3 percent year on year** to 16.3 million metric tonnes, according to the oil ministry's Petroleum Planning & Analysis Cell. The country's oil-product exports declined 20.9 percent year on year to 4.6 million metric tonnes in February, the ministry said. Full *story* on Terminal.

Companies

■ **Borr Drilling, the offshore-rig company set up by Tor Olav Troim**, will acquire all of Transocean's jack-up units for $1.35 billion as it accelerates efforts to build a fleet at distressed prices amid the industry's worst downturn in a generation. Borr signed a letter of intent to acquire Transocean's 10-rig fleet and five more still under construction at Keppel FELS, Oslo-based Borr said today in a statement. A deposit has been paid, it said, without specifying how much. Full *story* on Terminal.

■ **Billionaire John Fredriksen, already involved in tough talks** to restructure the debt of Seadrill, is planning to register a new offshore rig company next week as he seeks to take advantage of depressed prices for the giant machines. Northern Drilling, which is purely an investment company and not a rig operator, will be registered on the Norwegian over-the-counter market — making shares available to securities dealers — and a full public listing on the Oslo stock exchange is planned for later this year, a person familiar with the matter said March 17. Fredriksen has raised about $230 million in capital for the company, about half of which he contributed himself, the person said. Full *story* on Terminal.

Market Calls

■ **JPMorgan has cut its 2017 WTI forecast to $53.75 a barrel**, the bank's senior oil analyst David Martin wrote in an emailed report. Full *story* on Terminal.

■ **U.S. crude output may rise by 5,000 barrels-a-day year on year** on average this year, Goldman Sachs analysts including Huan Wei and Damien Courvalin said in a note today. Full *story* on Terminal.

■ **The IEA expectes a "major boom" in U.S. shale oil** and gas output, Executive Director Fatih Birol said in a Bloomberg TV interview from Berlin. Amid supply growth, oil demand will also continue to rise this year and in the next few years, Birol said. Full *story* on Terminal.

■ **An historic agreement between OPEC countries** and other oil producers to reduce their output won't be enough to nudge crude prices above $60 a barrel this year, according to energy lender Arab Petroleum Investment. Consumer countries have built up large stockpiles of crude during nearly three years of low prices, and U.S. shale production is rebounding as prices have recovered since OPEC reached the production deal November. That means the process of balancing the market will take at least until the second half of 2017, it said today in a report. Full *story* on Terminal.

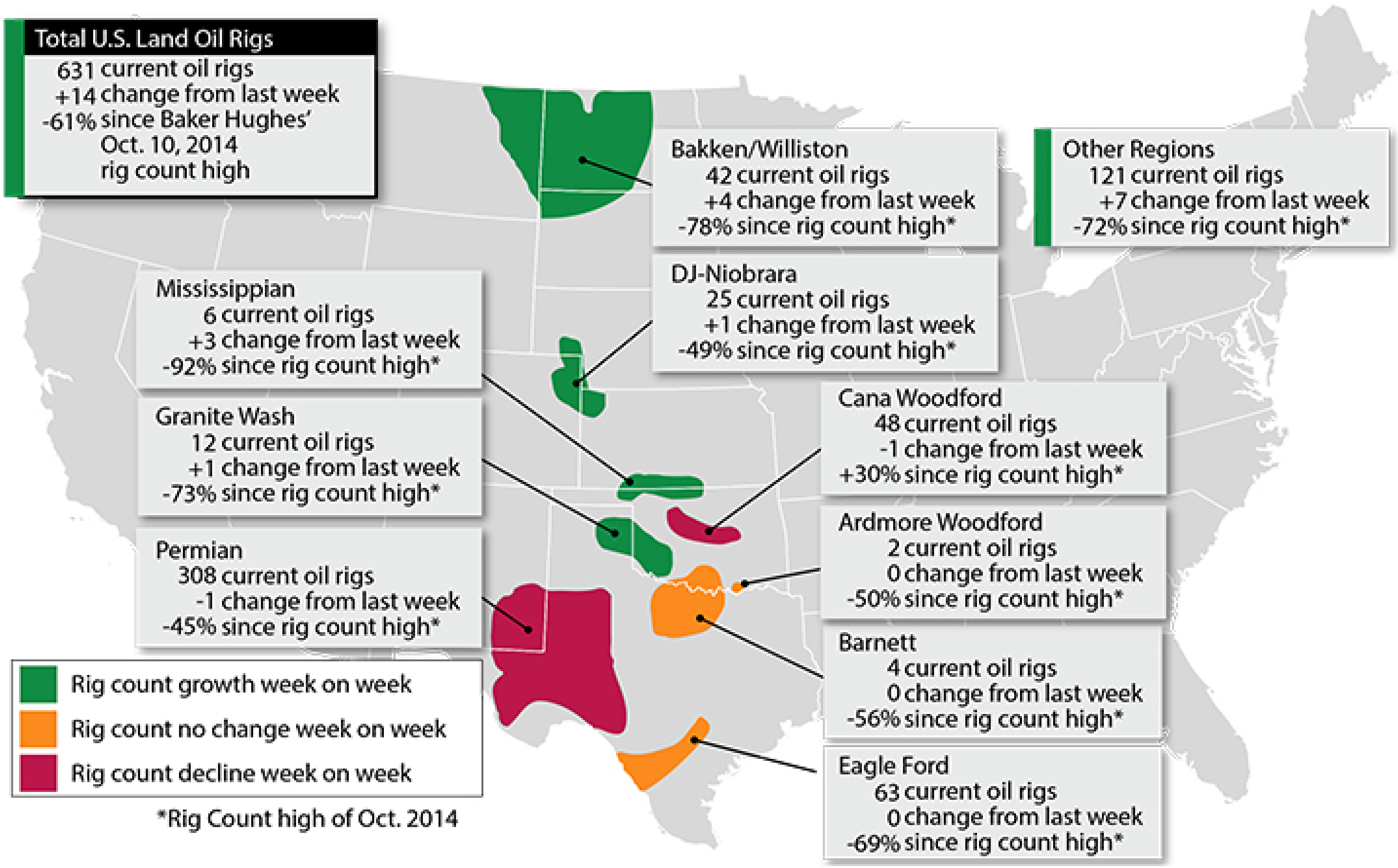
Refinery Outages

■ **A leak was identified on site at Shell's Deer Park**, refining and chemical complex on March 19, according to a message on a community hotline. The message didn't specify which facility would be impacted by the leak. Full *story* on Terminal.

■ **Kazakhstan's Shymkent oil refinery is to halt from March 20** until May 1 for planned repairs, according to Interfax, citing the company press service. Full *story* on Terminal.

State of Play

U.S. Oil Drillers Add More Rigs as Prices Hold Below $50



Shale producers remained in growth mode as rising U.S. oil production and near-record stockpiles weigh on OPEC's efforts to rebalance the crude market. Rigs targeting crude in the U.S. rose by 14 to 631 last week, the highest total since September 2015, according to **Baker Hughes** data reported March 17. Drillers have added 106 since 2017 began. The Williston Basin led all of the major basins adding four rigs, while the Permian removed one rig. "This is another good rise as companies working out of different basins are reflecting the price we had back in January," said **James Williams**, president of **WTRG Economics** in London, Arkansas. "More specifically, the Williston going up shows that drillers are paying attention to the Dakota Access Pipeline, but the Permian appears to be slowing down recently because of how high the land costs are rising."

— Bailey Lipschultz

LPG Early Insight

U.S. LPG Exports Fell 1.7 Percent Last Week: Bloomberg Estimate

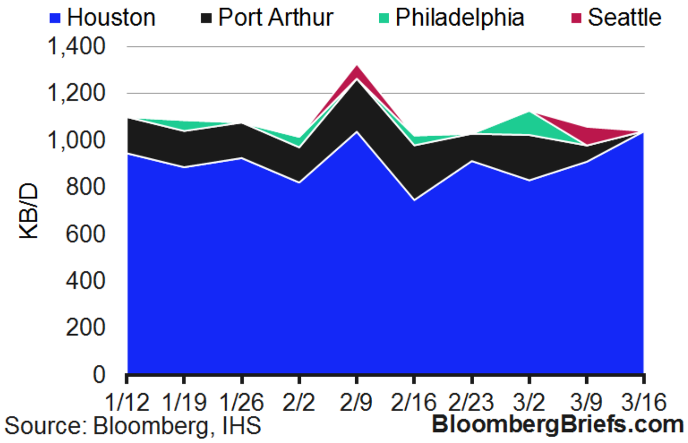
By Bert Gilbert, Bloomberg Oil Specialist, Bloomberg L.P.

Total U.S. waterborne LPG exports from Houston, Port Arthur, Philadelphia and Seattle fell 1.7 percent to 1.04 million barrels a day in the week ended March 16. That's down from 1.06 million barrels a day the previous week, according to a Bloomberg estimate.

Houston exports rose 14.4 percent to 1.04 million barrels a day, from 909,992 barrels a day the previous week. There were no exports from Port Arthur, Philadelphia or Seattle.

This article was written by a Bloomberg LP employee involved with salessupport and was edited by the News department. To suggest ideas or provide feedback, contact the editor for this story: Christopher Sell at csell1@bloomberg.net

Houston Exports Rose 14.4 Percent



Source: Bloomberg, IHS BloombergBriefs.com

The Week Ahead

By Fred Pals, Bloomberg News (All times Eastern)

Monday, March 20

- **Chevron** CEO **John Watson** speaks at Economic Club of Washington, 2:00 p.m.
- Oil fed into Dakota Access pipeline section that runs under Lake Oahe, starting sometime during March 20-22, according to legal papers filing by **Energy Transfer Partners**
- German Energy Transition conference, Berlin, with speakers including U.A.E. Minister of Energy **Suhail Al Mazrouei** and **IEA** Executive Director **Fatih Birol**, among others. Day one of two

Tuesday, March 21

- **API** U.S. oil inventories. 4:30 p.m.

Wednesday, March 22

- **EIA** weekly U.S. oil inventory report. 10:30 a.m.
- **Genscape** weekly ARA crude inventory report.
- **Exxon Mobil**'s annual financial, operating review released around 9:00 a.m.

Thursday, March 23

- Singapore onshore oil-product stockpile data. 4:00 a.m.
- Russian refining maintenance schedule. 6:00 a.m.
- **PJK**'s weekly ARA oil product stokpiles report
- **Rystad Energy** Seminar on "OPEC Cut and U.S. Shale Response, in New York.
- China final February energy and commodity trade data.

Friday, March 24

- **Baker Hughes** weekly U.S. oil rig count. 1:00 p.m.
- **CFTC** Commitment of Traders report. 3:30 p.m.

Benchmarks

Spots

AMERICAS	PRICE	1 DAY CHG	DIFFERENTIALS SPREAD	TO
Bloomberg US GC Sour Index	46.96	-0.07	-1.82	WTI
Light Louisiana Sweet (LLS)	50.58	0.03	1.80	WTI
Mars Blend	47.08	-0.12	-1.70	WTI
WTI Cushing	48.78	0.03		
West Texas Sour (WTS)	47.28	-0.02	-1.50	WTI
Bakken	48.18	0.18	-0.60	WTI
West Canadian Select	36.41	2.06	-12.90	WTI
Edmonton Syncrude Sweet	52.81	1.61	3.50	WTI
Alaskan Slope	50.73	0.18	1.95	WTI
Vasconia	46.92	-0.03	-5.00	Brent
Oriente	44.92	-0.03	-7.00	Brent
Gasoline New York 87	148.39	0.47	-11.50	NYMEX
Gasoline U.S. Gulf 87	151.26	0.09	-8.63	NYMEX
3:2:1 USGC/WTI Crack Spread	12.52	-0.02		
ASIA PACIFIC	**PRICE**	**1 DAY CHG**		
Crude Tapis (Bloomberg)	53.51	0.78		
C&F Japan Naphtha	468.50	3.25		
3:2:1 Asia/Tapis Crack Spread	8.03	0.39		
MIDEAST	**PRICE**	**1 DAY CHG**	**DIFFERENTIAL SPREAD**	**TO**
Crude Dubai Fateh	50.21	-0.42	1.63	Brent
3:2:1 AG/Dubai Crack Spread	10.94	0.63		
EUROPE	**PRICE**	**1 DAY CHG**	**DIFFERENTIALS SPREAD**	**TO**
Dated BFOE	51.22	0.02		
ESPO (Bloomberg)	53.01	-0.42	2.80	Dubai
Gasoil ARA FOB barge	448.25	1.00		
Gasoil NW Europe CIF cargo	457.25	1.00		
Diesel NW CIF Cargo	463.75	2.50		
Diesel W Med CIF cargo	460.75	2.50		
Fuel Oil NWE FOB cargo 1%	302.00	1.00		
3:2:1 NW/Brent Crack Spread	7.93	0.47		

Source: Bloomberg

For live spot prices, click *here* or run **BOIL<GO>** on Bloomberg. For crack spreads, click *here* or run **CRKS<GO>**

Futures Based Swaps

PERIOD	WTI	BRNT	WTI/BRNT	NYULSD	NYULSD/WTI
Bal Mo	48.68	51.37	-2.69	150.15	14.38
APR 17	48.95	51.55	-2.6	150.82	14.4
MAY 17	49.35	51.74	-2.39	151.57	14.31
JUN 17	49.67	51.91	-2.23	152.46	14.36
Bal Qt	48.68	51.37	-2.69	150.15	14.38
Q2 17	49.32	51.73	-2.41	151.62	14.36
Q3 17	49.98	52.06	-2.08	154.82	15.04
Q4 17	50.13	52.1	-1.96	157.89	16.18
Bal Yr	49.7	51.9	-2.2	154.32	15.11
Cal 18	49.95	51.86	-1.9	158.32	16.54
Cal 19	49.72	51.69	-1.97	160.78	17.81

PERIOD	NYULSD/BR	NYRB	NYRB/WTI	NYRBBR	RBHO
Bal Mo	11.7	159.37	18.25	15.57	9.22
APR 17	11.8	160.89	18.63	16.03	10.06
MAY 17	11.92	161.43	18.45	16.06	9.86
JUN 17	12.13	160.93	17.92	15.69	8.47
Bal Qt	11.7	159.37	18.25	15.57	9.22
Q2 17	11.95	161.08	18.33	15.92	9.47
Q3 17	12.97	153.91	14.66	12.58	-0.91
Q4 17	14.22	140.36	8.82	6.85	-17.53
Bal Yr	12.91	152.54	14.37	12.16	-1.77
Cal 18	14.64	149.01	12.63	10.73	-9.31
Cal 19	15.84	146.19	11.68	9.71	-14.6

Source: Bloomberg

For live swap prices, click *here* or run **CFVL<GO>** on Bloomberg

Spot prices as of end of previous day. Futures as of 7:30 a.m.

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