

**Flash Note:  
17/07/2019****Alex Fusté**[@AlexfusteAlex](#)[alex.fuste@andbank.com](mailto:alex.fuste@andbank.com)**Again. Sell oil above US\$65pbl (WTI)**

In my weekly review of what is going on in the energy market I can see how most of factors driving the oil price in the mid-term point to a structural weakness. Here is a summary of the main developments in the energy sector.

**(Price Negative) – OPEC+ pact does not change fundamental outlook of an oversupplied market.** In the latest edition of the IEA's Oil Market Report, the organization says the latest data show a global crude surplus in H2, noting that this adds to recent stockpile builds and that rebalancing seems to have moved farther into the future. The report notes that the widely anticipated extension of the OPEC+ output pact does not change the outlook for an oversupplied market, and suggests OPEC may have to dial back production by an additional 800K bpd in 2020 to prevent another surplus (which would mark its lowest production level since 2003). It adds that in the near term, the main area of focus remains on demand growth, which will be impacted in H2 by sluggish European economies, waning India growth, and lower y/y US fuel demand.

**(Price Negative) – OPEC+ pact could suffer tensions due to recent undercompliance of some members.** While the OPEC cartel's adherence to the OPEC+ production-cut pact was 122% in June, non-OPEC adherence slipped to 98% as Kazakhstan's recent over-commitment faded amid the end of maintenance operations at a large oilfield. Among the larger OPEC cartel producers, the UAE slipped out of compliance, joining Iraq (which hasn't yet fully complied in 30 months). Nevertheless, these shifts are outweighed by Saudi Arabia's 255% compliance rate.

**(Price Neutr-Positive) –Iran keeps tensions with the US by pushing back Pompeo's negotiation claims.** Iranian Foreign Minister Javid Zarif pushed back against comments from US Secretary of State Mike Pompeo, who said Iran was prepared to negotiate about its missile program for the first time in what he characterized as evidence US pressure on the country was working. Zarif suggested the US had misinterpreted his public statements. A NYT article detailed recent diplomatic efforts, but highlighted Iran's resistance to talks with the US.

**(Price Negative) – The UAE tanker MT Riah was not hijacked by the Iranian National Guard.** The tanker had made a request for assistance and was towed into Iranian waters for repairs. Iran's statement came

after mounting suspicions by US intelligence that the ship had been forced into Iranian waters by Iran's Revolutionary Guard after Iran continues to lobby the UK to release an Iranian tanker it has detained in Gibraltar.

**(Price Negative) – Military shipping escorts to prevent new incidents in the Hormuz Strait.** The US Defense and State departments plan to unveil a "maritime security initiative" that could involve military escorts of oil shipments through the Strait of Hormuz by a US-led coalition. Mike Esper, nominee for Secretary of Defense, highlighted that the presence of a Royal Navy ship last week prevented an incident between Iranian vessels and a UK-owned tanker from escalating.

**(Price Negative) – Pemex to ramp investments to boost oil production.** Mexico's state-owned Pemex plans to ramp up investment with tax breaks and government support over the next three years in an effort to boost oil production, which has been declining for the past 15 years. The long-awaited business plan was outlined in July by Pemex CEO Romero, pointed that government tax breaks may give the company around \$2.4B to invest in 2020, and some \$4.4B in 2021.

**(Price Negative) – New legislation could open up Nigeria's crude industry.** An overhaul of oil policy that has been in the works for more than a decade could move through Nigeria's parliament. Reforms are needed to drive investment in oil exploration and production that have been withheld because of policy uncertainty, which has led to stagnation in the industry and the pushback of targets for 4M bpd production by more than 15 years.

Just hope it helps.