

## Flash note 22/01/2021

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### Crude oil continued its upward path and may well continue.

Since November 1, crude oil accumulates a + 50% appreciation, and all the information I have gathered in the last month remains supportive for crude. My perception is that the oil price could well continue to rise somewhat more. I keep stable the USD60 pbl level as the upper band of a reasonable range for the 1H21. Of course, this will be a contributing factor to the rising trend in interest rates on long-term debt assets.

Beloww I summarize some of the most important developments in the global energy market, that make me continue constructive with the evolution of the price.

**(Price Positive) – OPEC expects oil global demand growth to 95.9M bpd.** In 2020, global demand declined to 90M bpd, There are also signals that the OPEC is on pace to deplete inventories, which remain about 160M barrels above the five-year average. However, while OPEC said it sees demand growing steadily this year supported primarily by transportation and industrial fuels, they also cautioned there are uncertainties with the main downside risks being issues related to COVID-19 containment measures.

**(Price Positive) – Russia & Saudi Arabia seem to be collaborating like never before.** Russia's Urals crude has risen nearly \$1/barrel since a mid-December low, boosted by Saudi Arabia's unilateral decision to cut its output by 1M bpd in February and March. The Urals grade has similar properties to Saudi Arabia's benchmark Arab Light, and has seen an increase in demand from European refiners. It is as if both countries (contenders in the energy market) have learned from the catastrophic effects of their particular struggle in the first quarter of 2020, with each increasing the quantities of barrels on the market.

**(Price Positive) – IEA lowers its global demand forecast on Covid concerns but affirms that supply management balances the trend very well:** In its January 2021 Oil Market Report, the IEA said that due to continued constraints from border closures, social-distancing measures, Covid-related shutdowns, and a slow vaccine rollout that may only gain steam in the second half, it is cutting its Q1 global demand outlook by 580K bpd and its 2021 forecast by 300K bpd. However, the IEA did also noted that the OPEC+ agreement is expected to drain 1.1M bpd from global oil stocks (assuming 100% compliance) and that much more oil is likely to be required in the second half of the year.

**(Price Positive) – Outgoing Trump administration makes multiple last-minute actions aimed at increasing crude production, but Biden’s administration has effective capacity to neutralize them:** In one of the final acts of the Trump administration, the US Interior Department issued drilling leases for nine tracts on more than 400K acres of Alaska’s Arctic National Wildlife Refuge (ANWR), where oil production has been opposed for years by environmental and indigenous groups. President-elect Biden has said he opposes the actions, and while the Biden administration may find it difficult to undo the leases, a Democratic Interior Department may decline to issue exploration or development permits.

**(Price Positive) – President-elect Biden has signaled that he is prepared to take multiple energy-related actions soon:** These actions include notifying the UN that the US will rejoin the Paris climate accords, as well as issuing a moratorium on oil leasing in the ANWR area. Biden is also expected to block the Keystone XL pipeline, which was designed to carry crude from Alberta’s oil sands to the US. In a broader move, Biden is seen issuing an order directing federal agencies to revisit fuel-efficiency standards and to revisit a 2019 Trump decision revoking California’s authority to issue its own tailpipe standards.

**(Price Positive) – Oil price reaches February levels (pre-pandemic) lifted by some talks of a commodity super-cycle:** Crude is now higher in nine of the past 11 sessions, with commentators attributing recent strength to optimism about US stimulus prospects and the vaccine impact on the global demand outlook. The boost in oil prices is driven by good news from the vaccine front, and from now on, we continue to expect a favorable flow of news from this front, either due to the incorporation of new vaccines, as well as the improvement in production capacity (laboratories such as Pfizer are adapting their plants to multiply the response capacity).

**(Price Positive) – The positioning in the futures market, and the mix between long and short positions, seems balanced, offering room for additional price increases.** Total holdings of Brent and WTI futures have climbed to their highest level since May, with analysts attributing the rise to the market’s prospects brightening, inflation hedging, and some talk of commodities entering a pricing supercycle. All said, crude’s recent rally has also spurred an uptick in producer hedging, with short positions of swap dealers rising to their highest level since April in the third week of January.