Flash Note
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Despite the recent rise, news flow remains negative for oil price

Geopolitical:

- **(Supportive for oil price) Geopolitical tensions remain in focus with the US stance on Iran.** Of special importance is the threat that the USA unilaterally decides to abandon the nuclear deal with Iran threatening to revive the old regime of economic sanctions to Iran and limiting its oil exports and production. This came after Trump refused on Friday to formally certify that Tehran was complying with the 2015 accord even **though international inspectors say it is.** On the other hand, Iran's oil minister said President Trump's hardened stance on the nuclear deal will not have much impact on global oil prices.
- **(Negative for oil price) Iraq forces take control of all oil fields operated by state-owned North Oil in Kirkuk,** completing an operation to seize the region over which the Kurds claim sovereignty. Iraqi oil officials said all the fields were operating normally. The US seeks to stay neutral in Iraq conflict where an all-out battle broke out between two of its closest ground partners in its campaign in Syria, although the US authorities raised concerns about a broader civil conflict erupting in Iraq. The current situation in northern Iraq laid bare the risks of Washington's decision to defeat Islamic State by backing a pair of local forces without addressing their long-simmering resentments against one another. President Trump said US forces wouldn't take decisive action to support the Baghdad government or the Iraqi Kurds.
- **(?) Goldman sees geopolitics haunting oil with unclear effects.** "the oil market is grappling with intensifying geopolitical risks and uncertainty swirls over the impact of tensions with Iraq and Iran". The bank said both sides in Iraq have an incentive to keep oil flowing due to low production costs and high revenue available per barrel. It added that the $1.50/barrel rally in Brent in the week of 15th October could

be interpreted as reflecting expectations for an outage of 250K bpd over three months.

Fundamental:

- **(Negative for oil price) No Aramco IPO may mean no more oil rally:** The oil rally could have the legs kicked out from under it if Saudi Aramco opts to forgo an IPO, which would bring into question its commitment to prop up oil prices. The Saudis have privately targeted an oil price of $60 to help the IPO generate tens of billions of dollars the kingdom has planned to use to diversify its economy. However, some of our sources suggested that Saudi Arabia is considering giving up on its plan to list its state-owned oil company, Saudi Aramco, on an international stock exchange and may instead offer shares only on the kingdom's exchange in Riyadh. Another option the company is considering is to do the IPO in two stages, with a listing in Riyadh in 2019 and an international listing a year later.
- **(Negative for oil price) An old fracking hot spot makes a comeback:** One of the early centers of American shale drilling is making a comeback, boosted by a building boom of petrochemical plants, fertilizer factories and gas-export terminals along the Gulf Coast. The Haynesville Shale in northwest Louisiana was one of the hottest fracking spots a decade ago. Now, the formation is being reborn as companies with longstanding positions in the area and newcomers seeking opportunity rush back in and drill again.
- **(Negative for oil price) World's largest oil hedge is completed.** Mexico has completed its annual oil hedge for 2018, which will lock in an average export price of $46/barrel. The country's deputy finance minister said that in addition to the put options bought on the market, a larger Oil Revenue Stabilization Fund, with the help of the central bank's exchange-rate surplus, will help to offset any negative impact from a sharp decline in oil prices. Could this mean that Mexico is no longer incentivized to fight intensively against a downward trend in the price of oil?

Positioning

- **(Negative for oil price) Investors could have hit peak bullishness on oil.** A Reuters column said the wave of investor bullishness towards oil that started back in July may have peaked at the end of September. Hedge funds and other money managers cut their net long position in the five major futures and options contracts by a total of 32M barrels in the week to 10-Oct.

No changes in our fundamental targets: Sell WTI near $55pbl. BUY at $30pbl.

Kind regards,

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