

Flash Note 11/06/2018

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What is going on in the energy market? Outlook

Investors reduce net-bullish position

- Investors reduced their net-long position by 3.3% for the week ended 5-June, with it hitting its lowest level since October 2017.
- Longs were down 3.3% while shorts dropped 2.8%. The article added that money managers were also less bullish on Brent, gasoline, and diesel.

Iran: Buyers of Iranian crude may be reluctant to reduce purchases

- The Trump administration's efforts to pressure Iran have generated resistance from Iran's crude customers (many of whom participated in the previous sanctions regime).
- According to the WSJ, while the US is asking buyers of Iran's oil to voluntarily eliminate or at least reduce their purchases, with the request backed by threats to limit access to US markets and financial institutions for those who continue to buy, some allies are working to comply (Reuters cites today the example of India), although others are likely to delay, resist, or outright defy US demands.

Russia puts production well above the quota agreed on its pact with Saudis (End of game?)

- Russia's oil production increased to 11.1M bpd in the first week of June.
- This is well in excess of the production limits the country agreed to in its pact with OPEC (that fixed production near the 10.7-10.8M bpd).

Outlook:

- We continue to view the energy market as vulnerable, having to manipulate the supply by placing production well below the real capacities of the sector, just to be able to defend prices.
- Any rebound from current levels will probably obey to short-term (political) factors that have nothing to do with the sector's fundamentals.

- Given the technological advances not only from the supply side, but also from the demand side (see the chart below), we believe that the oil price offers no value at current levels.

