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Flash Notes
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All the recent news are supportive for oil prices in the short-term

- **(Price Positive) – Global supply concerns (due to Venezuela) continue to push oil prices to the upside.** Venezuela's PDVSA will have 370K bpd of crude oil for export that has been left without a market due to US sanctions, which is increasingly bullish for oil in the short-term. Elliott Abrams, the US envoy for Venezuela, forecast that Venezuela's crude production would fall to 500K bpd by the end of the year if Maduro stays in office. Abrams also said he believes the "current political and economic environment is unsustainable and [Maduro] will not be able to weather it much longer." Venezuela's production has fallen from 3M to 1M bpd amid the country's economic collapse. Yesterday's DOE weekly showed imports from Venezuela plunging to 117K bpd, the lowest in at least 10 years. In the other hand, Russian Energy Minister Novak also said the country's output is down 80-90K from October levels, and down 140K from December. Positive headlines from the US and China trade negotiations have also boosted prices.

- **(Price Positive) –US lawmakers are still deciding which sanctions could be imposed on Russia,** stemming from a State Department report that said Moscow violated a 1991 chemical and biological weapons law. The penalties could include blocking Russian petroleum imports, banning US bank loans to Russia or restricting Russia's access to international debt, which could hamper the country's export capabilities and deliver a hit to its economy. The government of Russia could compensate for these negative effects by increasing international oil prices.

- **(Price Positive) – Recent reports said US shale executives may curb drilling.** US shale producers may curb output until transportation bottlenecks ease and investors stop punishing companies that increase capital spending. Actually, companies have cut back on their exploration budgets. Pioneer Natural Resources said this week it will cut capex by 11% in 2019, slowing production growth from recent years. Executives also said that cutbacks will continue until three pipelines from West Texas to the Gulf Coast are completed over the next 18 months. Executives also complained that investors have insisted on free cash flows and dividends, and that stock prices have not benefited from growing reserves or production.

- **(Price Positive) – As a result of these supportive news for oil price, Hedge Funds have been building (again) long positions in oil contracts,** pushing oil price to the upside. Oil traders expect global conditions to tighten this year as a full-blown US and China trade war is likely to be averted, and production slows across OPEC and due to Venezuela sanctions. Although oil demand is likely to be slow compared to rapid increases seen between 2014 and 2017, they believe oil price should still be supported by better trade and tariff outlook. Saudi Arabia's willingness to act as a swing producer has offset a lack of compliance by other OPEC members. Hedge funds and other managers have become more bullish on Brent recently, with overall bullish positions rising by 100M barrels over the last nine weeks. However, positioning remains near the lowest level for the last three years.

Outlook:

- In the short term, as long as we do not see a change in the dynamics coming from Venezuela; Saudi Arabia continues to act as a swing producer that compensates for any increase in supply; the US shale producers continue to suggest reductions in their investments, and the relationship between the US and Russia remains broken (with the threat of sanctions planning), the price of oil can go to the top of our mid-term fundamental range of US$45-US$65.
- With a longer term view, the investment dynamics that we observe in the world of alternative energies, as well as environmental legislation, and the potential for unconventional production, make us maintain a structurally bearish view of the price of crude oil.

Best regards