

## Flash Notes 19/03/2019

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### What's behind oil price rise? Our assessment

#### Short-term factors pushing oil prices up

- **Saudis suggest cuts may extend through 2019 though in spite of Trump pressure.** Saudi Arabia's energy minister al-Falih said on Sunday 18<sup>th</sup> March that he is still seeing inventory builds, and that the OPEC+ production alliance will "do what we have to in the second half," potentially signaling that the group's output cuts will hold through at least the end of the year. Saudi Arabia is ready to stick with the production cut strategy at next month's OPEC meetings despite continued pressure from Trump to increase production (and reduce oil price). Analysts noted that Saudi Arabia still feels betrayed after Trump misled the country on Iran sanctions by allowing waivers. Recent Saudi actions, including cutting production by more than it pledged, are a contrast from when the kingdom capitulated to Trump in the fall. In the other hand, Russian energy minister Novak hedged somewhat, saying that his country is now complying with Russia's commitment to reduce by 230K bpd but that "we don't know what will happen in April, so we can't forecast the second half." Members of the production group are seeing a growing consensus to cancel a scheduled April meeting and make a decision about possibly extending the cuts at the June OPEC meeting.
- **Barkindo says "pact compliance is improving".** OPEC Secretary General Barkindo said during the month that compliance with the OPEC+ groups supply-cut agreement is improving, a factor which will help the oil market weather the buildup of inventories. The article notes Barkindo characterized the improvement in compliance as "remarkable."
- **Venezuela's crisis represents a challenge to global markets.** IEA's monthly report said that Venezuela's worsening crisis could present a challenge to the oil market. Estimates for the country's February production were down 100K m/m to 1.14 M bpd. Total OPEC crude production was estimated down 240K bpd to 30.68M barrels. Despite the monthly production decline in the US, the OPEC now has spare capacity of 2.8M bpd, with much of it in crude of similar quality to Venezuela's, which could help support markets in the event of further Venezuelan losses.

- **Momentum is building. As a result of all the aforementioned, net longs are up for third consecutive week.** Investors' net-long WTI position rose 4% in the week (through 12-Mar), with longs increasing for the third consecutive week and shorts dropping 7% during the period. Analysts highlighted several factors for the increased bullishness, such as higher confidence the Saudis will keep supply strangled and under control. They add that WTI's 50-day moving average is set to cross its 100dma, which many consider a bullish signal.

#### Short-term factors that could keep oil prices range bound

- **US State Department official says US could extend waivers.** At CERAWEEK, US State Department special representative for Iran Brian Hook said that the US could extend waivers from sanctions on Iranian crude in order to avoid a sharp rise in global oil price. However, Hook said that the extension could be dependent of whether Venezuela significantly impacts global oil supply and prices. This is the first public indication that the White House could extend sanctions waivers on Iran, and walked back from Hook's previous statements that waivers would likely expire in May in an effort to push Iranian exports to zero. Hook said that Trump wants to apply maximum economic pressure on Iran, but also doesn't want to shock oil markets, and wants to maintain a well-supplied and stable market. The US wants to cut Iranian exports by 20% to below 1M bpd from May, but with waivers renewed for more countries purchasing Iranian crude this could be delayed. China, India, and Turkey are likely to keep their waivers given their dependence on Iranian oil, but getting below 1M in total exports could be a challenge since China and India alone account for up to 900K bpd of Iranian crude.

#### Our assessment

- Fundamental view (WTI): Target range USD45-65/bbl.
- Buy < USD45; Sell >65

Best