

Energy Monitor

Group Economics

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Oil prices testing the lows

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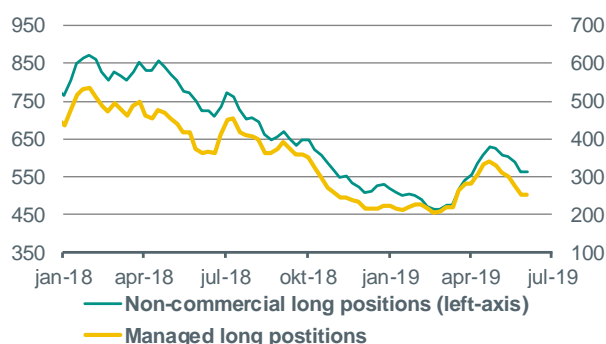
- Oil prices dropped to USD 60/bbl due to fears lower demand because of the trade conflicts
- OPEC facing a big challenge to balance the market and support oil prices
- Current high inventories result in a substantial divergence between (Dutch) gas prices

Oil prices tested the lowest level since January this year

After Brent oil prices traded at USD 76/bbl in April, they have dropped by more than 20% to the lowest level since January. On 5 June, Brent oil prices even traded below USD 60/bbl. This substantial price decline was mainly the result of a shift in market focus and market sentiment. The market's attention moved from supply related issues to possible negative effects for oil demand as a result of the ongoing trade tensions between the US and other countries (such as China and Mexico). This change in focus has resulted in investors taking profit on their recent gains and speculative long positions were closed. Despite the considerable price swings, we continue to hold our view of an USD 60-80/bbl trading range for Brent oil (prices have remained in this range).

Speculative long positions were sold again

x number of contracts



Source: Bloomberg

Important data:

13 June	OPEC Monthly Oil Market Report
14 June	IEA Oil Market Report
25 June	EIA Monthly Energy Review
25-26 June	OPEC/non-OPEC meeting

Trade tensions result in pressure on economic growth

We have downgraded our forecasts for **global** economic growth and we now expect a global monetary easing cycle to take shape by the end of this year. The changes reflect that we now take a more negative view on the way the trade conflict will evolve over the coming months. President Trump appears less concerned about market reactions to his trade policies than previously thought. The clash with China last month and the tense

relationship since already raised the risks. Meanwhile, the opening of a new front in the trade war with Mexico confirmed to us that the US administration would be more steadfast in the policy. We now therefore assume that there will be continued escalation of the trade conflict between the US and China/Mexico and possibly others going forward (Global Daily Insight – 4 June 2019). Please click [here](#) for our full analysis. Also financial markets have started to price in lower economic growth, which normally coincides with a drop in oil demand.

At the same time, supply issues haven't been solved yet and are still lingering on. The substantial drop in production and exports in both Venezuela and Iran are partly countered by the increased production/exports by Saudi Arabia, the UAE and Kuwait. This is possible as OPEC and its partners (led by Russia) have still maintained their production cut agreement until today. This agreement has resulted in 1.2 mb/d of spare oil production in order to balance the OPEC supply to the markets' need for oil. At the same time, US crude production continues to rise at a constant pace. However the higher US production, cannot be seen as a substitute for the drop in OPEC crude production as it is a different type of quality.

Brent and WTI under pressure



Source: Bloomberg

We think that these supply related issues are currently being underestimated. As a result, oil prices may have been pushed down too much. A further significant drop in oil prices is not likely in our base case scenario. So, the supply related issues basically put a floor under the oil prices. This floor is in line with the technical support zone of USD 58-60/bbl in Brent oil prices. At this moment we stick to our oil price forecasts for both Brent and WTI oil prices. We expect oil prices to recover somewhat in the second half of the year.

OPEC meeting in focus, though discussions expected

A lot has changed since our latest Energy Monitor. At the end of April, we still thought that the market was slowly but surely anticipating a revision of the OPEC production cut agreement. However, after the steep decline in oil prices, a smaller, or even no production cut at all has become less likely. It would result in higher OPEC/non-OPEC crude production and would add even more pressure to oil prices. An agreement for an even deeper production cut may be able to support oil prices, but would it would lower the

OPEC's market share as well. We think that most OPEC members are not in favour for such a loss in market share.

It is likely that the current 1.2 mb/d production cut agreement will be continued until the end of the year. This would give OPEC time to see how global oil demand will evolve in the course of the year as trade tensions will continue to dominate the headlines. Besides that, there is also more time to evaluate the level of production of sanctioned OPEC countries and to see whether the drop of oil prices would affect the crude offering/production.

However, there are signs that making an agreement will not be as easy as one may think. It proves already to be difficult to even find a date to meet with each other. Currently, the OPEC meeting is scheduled for 25 June. However, Russia (non-OPEC) prefers to postpone the meeting until 3 July. Iran on the other hand does not want to postpone the meeting at all. As these disseminations continue it mainly shows that the large oil producers are fighting for more dominance in the OPEC's policy making. In that respect, we think that it remains important to closely monitor the comments from Saudi energy minister Al-Falih during the coming weeks. His comments are seen as one of the most important indicators for OPEC's future policy. Besides that, it will be interesting to see how Russia will position itself in this debate as Russia is not in favour of keeping production at the current 'low' level. Russia would like to increase oil production and it were to happen this would weigh on oil prices.

High gas inventories resulted in low (TTF) gas prices...

Due to the mild winter and high imports, European gas inventories (as well as the Dutch inventory levels), are very high for the time of the year. Besides the normal imports via pipelines, also Liquefied Natural Gas (LNG) imports via the Gate Terminal in Rotterdam rose strongly this year. Due to the attractive prices in Europe and lower demand from Asia, LNG flows towards Europe has risen. The Dutch gas inventories remained above average levels and the seasonal pattern is therefore different than usual.

TTF gas: 1st month contract versus annual contract

EUR/MWh



Source: Bloomberg

These developments led to a significant drop in Title Transfer Facility (TTF) gas prices. However, this pressure is mainly reflected in the month contracts. The TTF 1st month

contract dropped from almost EUR 30/MWh in September 2018 to just above EUR 10/MWh at the start of this month.

...but the year contracts (like CAL2020) remained elevated

Unlike the substantial price declines in the monthly contract, prices of the annual contracts have remained elevated. Also here, to lower demand and higher inventories has weighed on prices, but the prices swings were less pronounced. The correlation between the month contract and the annual contract is usually close to 1 during the winter time. This means that prices of both contracts move in tandem. During the summer, this correlation is usually less strong. This year the same patterns has manifested itself. Despite volatile prices swings, the monthly contract tends to move closer to the annual contract in the course of the year. As a result we hold the view that the price of the month contract (EUR 11.25/MWh) has been pushed too low and will recover in the coming months.

This does not mean that the annual contract cannot drop further and pressure on prices is here to stay for longer. We revised our Q4 2019 and Q1 2020 TTF price forecast downwards as higher inventories will probably prevent a steep rise in gas prices later in the year. We think it is too early to also revise our longer term gas price forecasts though. After all, the price direction is not only depending on European supply and demand, but also on LNG flows towards Asia. As soon as LNG imports in Asia start to pick up again, LNG supply towards Europe could then fall under pressure resulting in higher gas prices.

Table 1: Oil and gas price forecasts ABN AMRO

End of period		6-jun	sep-19	dec-19	mrt-20	jun-20	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21
Brent	USD/bbl	61, 11	70	70	75	75	75	80	80	80	85	85
WTI	USD/bbl	52,07	60	60	65	65	65	65	70	70	70	75
Natural Gas (HH)	USD/mmBtu	2,37	3,00	4,00	3,25	3,00	3,25	3,75	3,25	3,00	3,00	3,50
TTF	EUR/MWh	11,25	20	20	21	21	23	26	28	23	24	26

Average		Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	2021
Brent	USD/bbl	70	70	70	73	75	75	78	76	80	80	83	83
WTI	USD/bbl	60	60	60	63	65	65	65	65	68	70	70	71
Natural Gas (HH)	USD/mmBtu	3,25	3,50	3,50	3,75	3,25	3,25	3,50	3,25	3,50	3,25	3,00	3,25
TTF	EUR/MWh	19	20	18	21	21	22	25	23	27	26	24	25

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