



June 30, 2018
Updated: November 26, 2018

June'18: Oil prices, which were on the verge of declining in early 2018, had a sharp change in fundamentals due to supply disruptions (Libya, Venezuela) and geopolitics (Iran sanctions). The case for lower prices is weak for the short-term.

Oil Prices Will Rise:	Oil Prices will decline
<ul style="list-style-type: none"> U.S. Rig increases have stalled probably due to pipeline-bottlenecks (alleviated by 2020?) 	<ul style="list-style-type: none"> Crowded trade: Bullish speculative bets are highest on record (these have come-down in Nov'18).
<ul style="list-style-type: none"> Trade War (see next column) 	<ul style="list-style-type: none"> Trade War (if results in weak GDP). China may place tariffs on imported oil (less demand) and has been purchasing sharply less oil from the U.S.
<ul style="list-style-type: none"> U.S.: Declining crude inventories 	<ul style="list-style-type: none"> Trump pressures OPEC to increase production
<ul style="list-style-type: none"> GDP growth accelerating in 2H'18 (but short-term due to Tax cuts) 	<ul style="list-style-type: none"> Shale Break-Even costs (\$45-\$55/bbl) are declining (global BE costs: \$35-\$40/bbl)
<ul style="list-style-type: none"> Libyan (unforced temporary closures) 	<ul style="list-style-type: none"> Renewables competition in 2020-25 (need more data)
<ul style="list-style-type: none"> Venezuelan: Unforced Prod. Cuts 	<ul style="list-style-type: none"> USD rises against global currencies
<ul style="list-style-type: none"> Oil balance is in Deficit 	<ul style="list-style-type: none"> Sanctions waivers to Iranian oil
<ul style="list-style-type: none"> Emergency Reserves (i.e., spare capacity) are declining 	<ul style="list-style-type: none"> Backwardation of the Futures market
<ul style="list-style-type: none"> Saramco likely to IPO soon 	<ul style="list-style-type: none"> Emerging Market or Euro/Italy-crises
<ul style="list-style-type: none"> Ocean drilling has declined due to its high cost 	<ul style="list-style-type: none"> Renegotiation of the US-Iran Missile deal (not likely)

30 Year Oil Price History



Notes:

- Hedging the Alerian MLP index: You would need to short both the S&P and oil prices if your goal is the 6-7% yield. The Alerian MLP is an index of infrastructure, mostly storage and pipeline companies.
- Break-even prices: Trend: declining over time, do not confuse Brent with WTI (which is a lower price)
- Futures prices: are in sharp backwardation meaning futures shorts could prove costly vs equity shorts.

ETFs:

Ticker	Name	Comments
DNO	U.S. Short Oil Fund	1.6% net expense, small size
DTO	DB Crude Oil short ETN	0.8% Net expense, Deutsche Bank (risky Counterparty for this ETN)
SCO	Proshares Ultra Short Bloomberg oil	1.3% net expense, 2x Inverse
SZO	DB Crude oil short ETN	0.8% Net expense, Deutsche Bank (risky Counterparty for ETN)

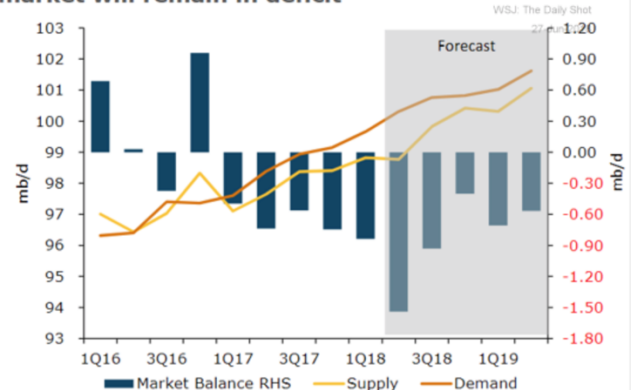
For hedging Alerian MLP

Ticker	Name	Comments
DDG	Proshares short Oil equities	1% net expense, Equity, Use to hedge the Alerian MLP index
SPDN	Direxion Daily SP500 Bear	0.6% net expense, Shorts many tech companies and may not move with SP500, use to hedge Alerian MLP Index

Charts supporting or contradicting the above thesis (charts are retained given the evolution of the data over time)

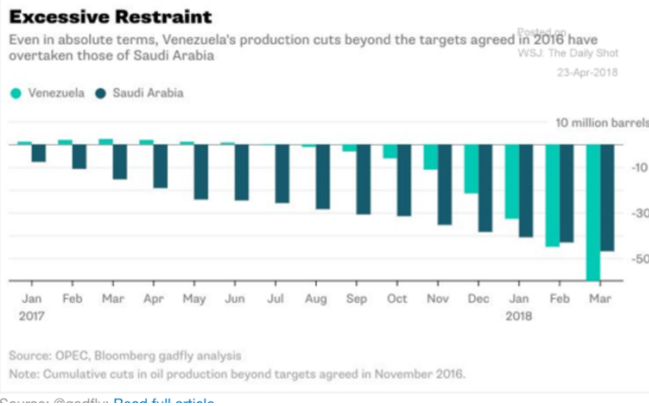
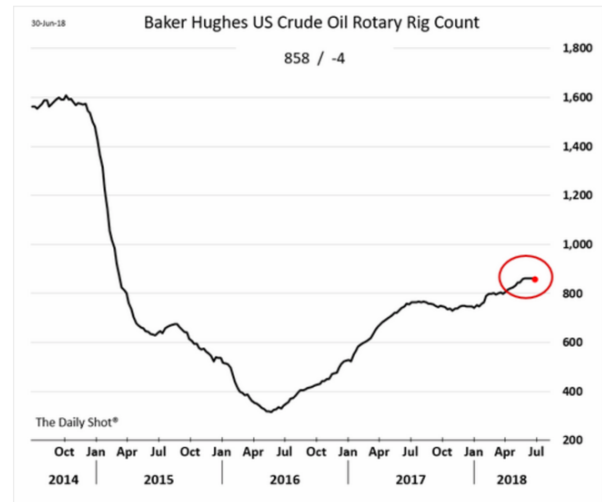
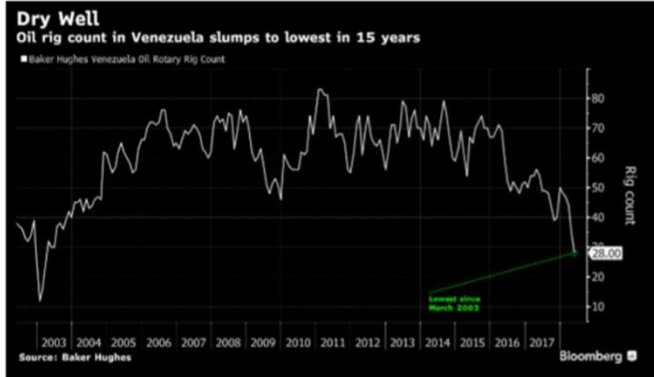
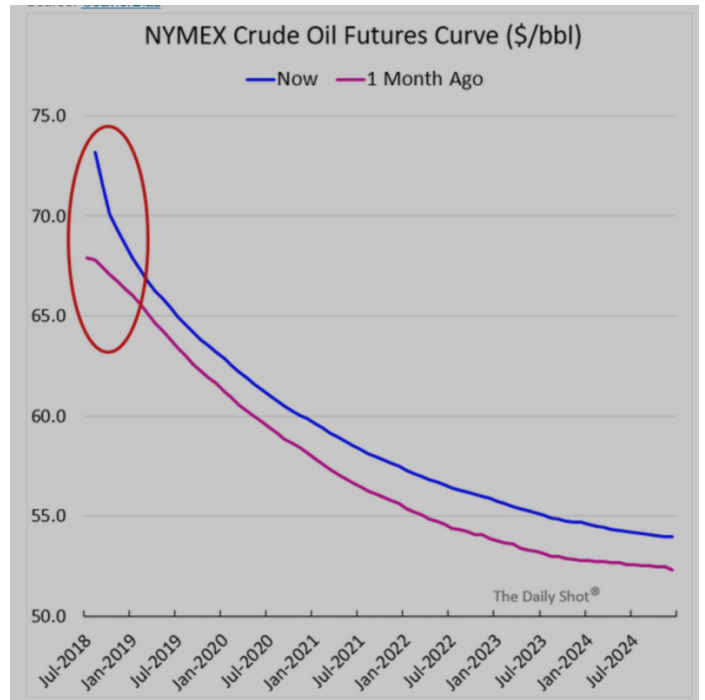
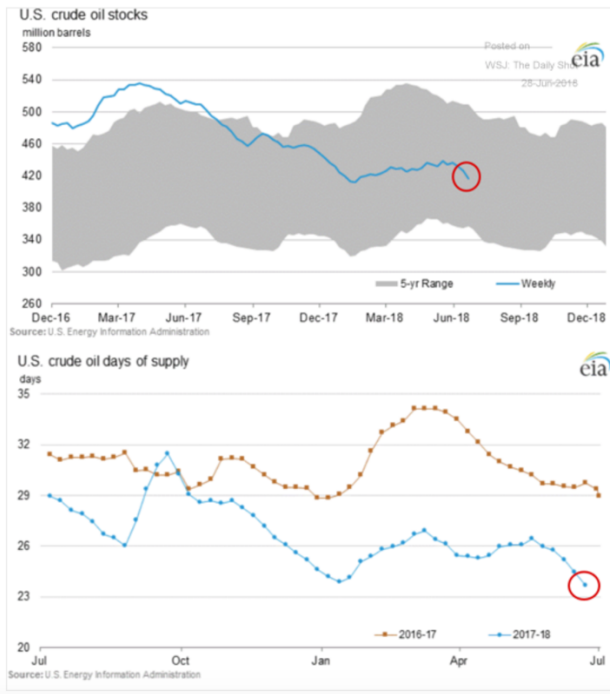
U.S. Gasoline Inventories

Figure 5. Even with rising OPEC production, the oil market will remain in deficit

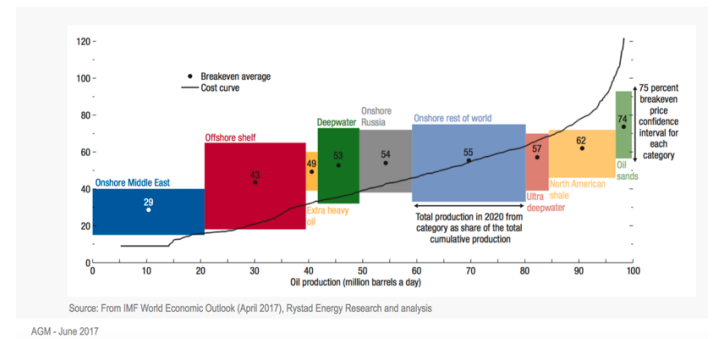


Source: OPEC, EIA, Bloomberg, ANZ Research

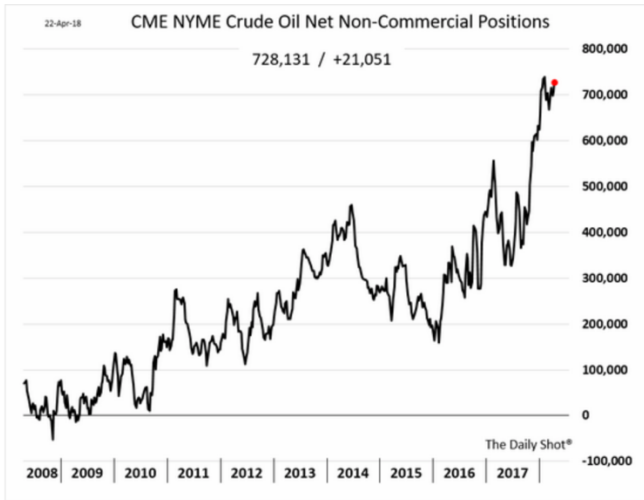
Source: ANZ Research



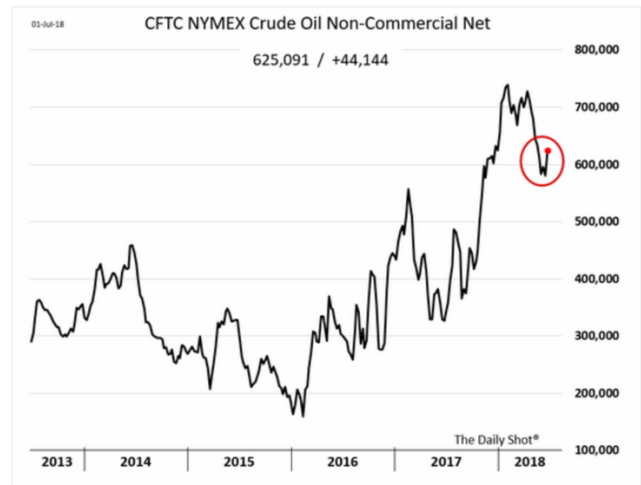
Global Oil Supply Cost Curve and Breakeven Prices (\$)



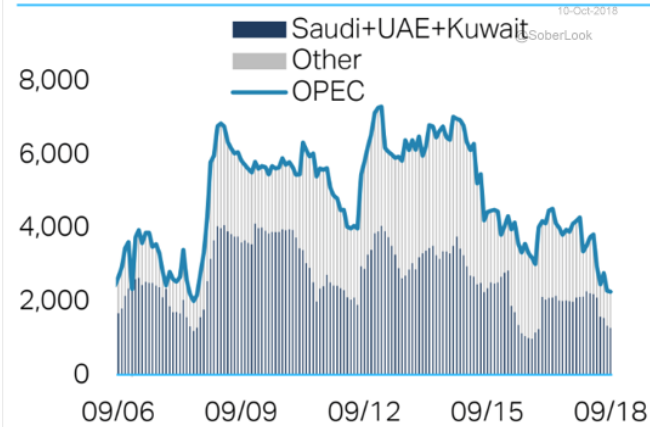
10YR Evolution of Speculative Positioning



5YR Evolution of Speculative Positioning

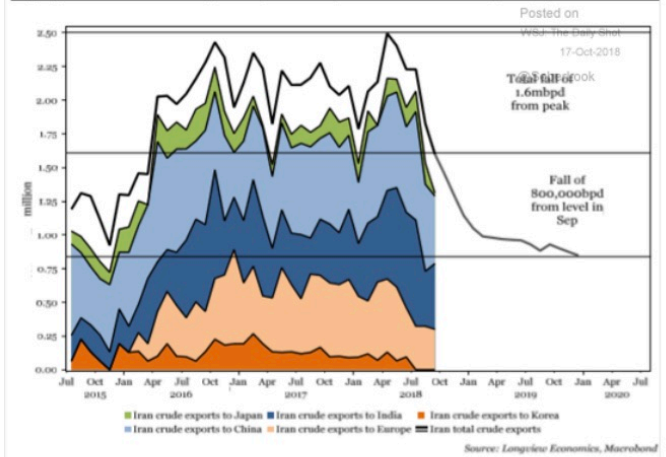


Thin margin of safety Spare capacity, mbd



Source: Bloomberg, TS Lombard

Fig 15: Iranian crude exports by source (shown with forecast, mbpd)

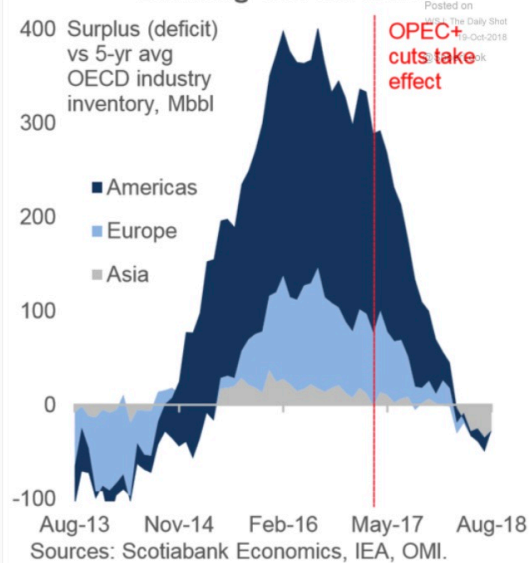


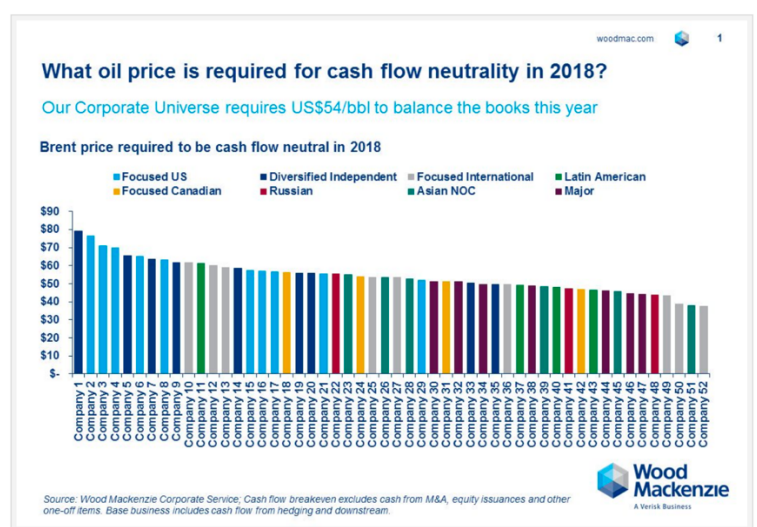
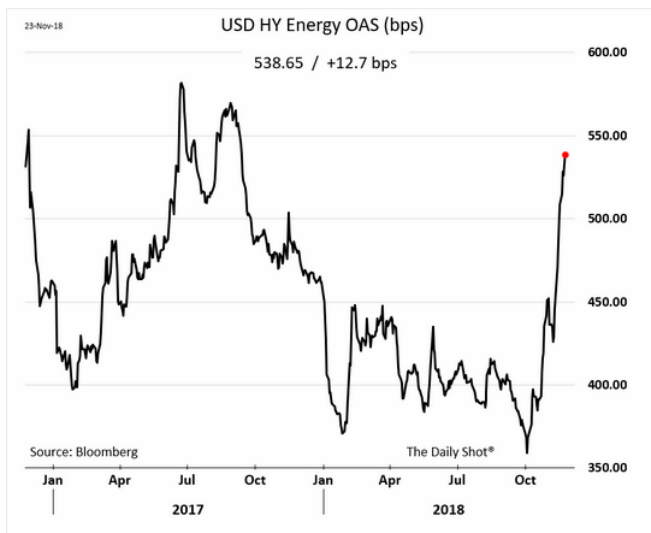
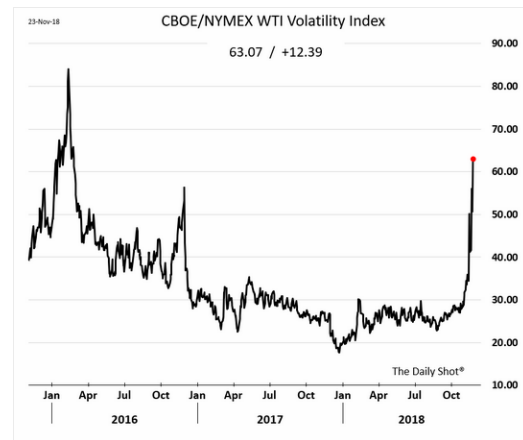
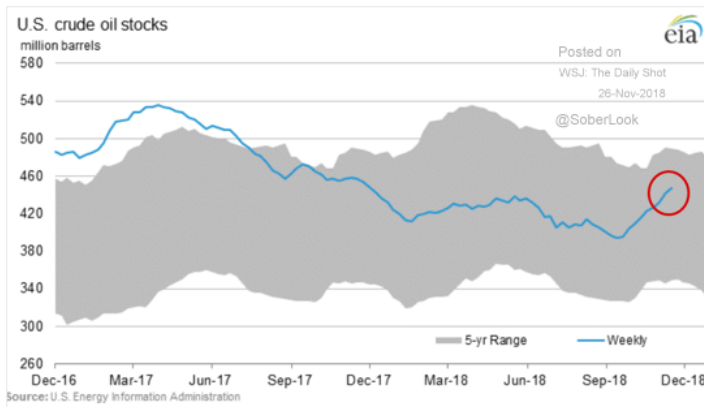
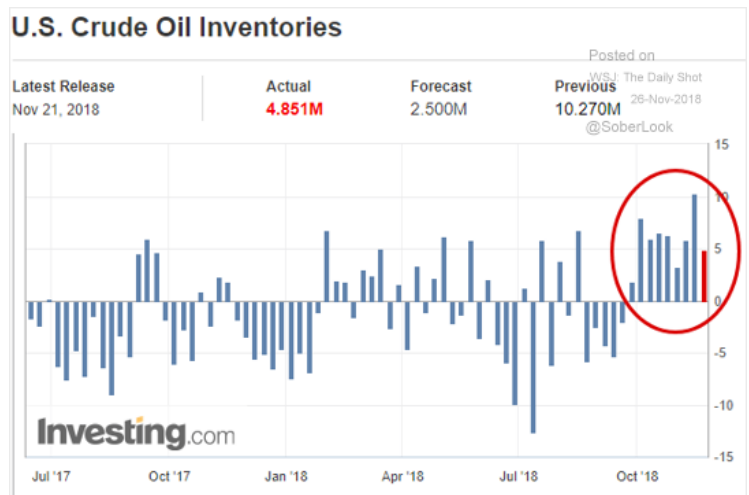
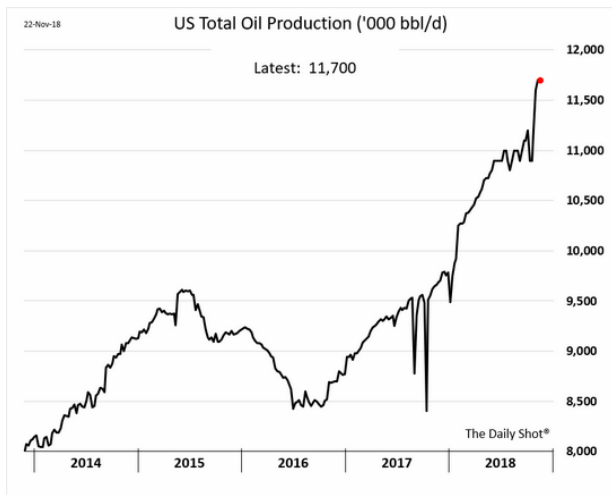
Commodity Fundamentals Report, 11th October 2018
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OPEC's Volatile Producers

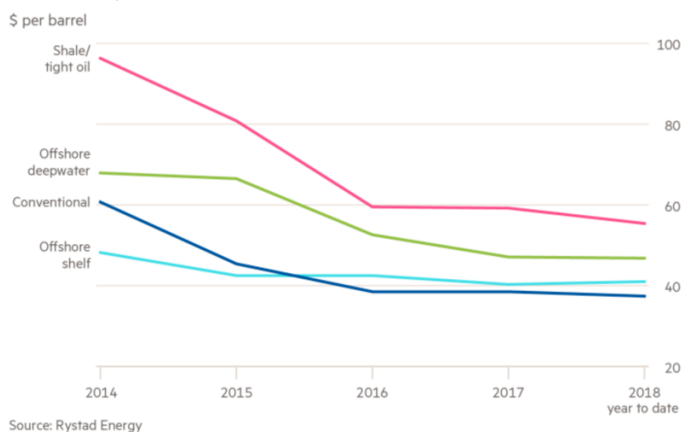


Draining The Oil Glut

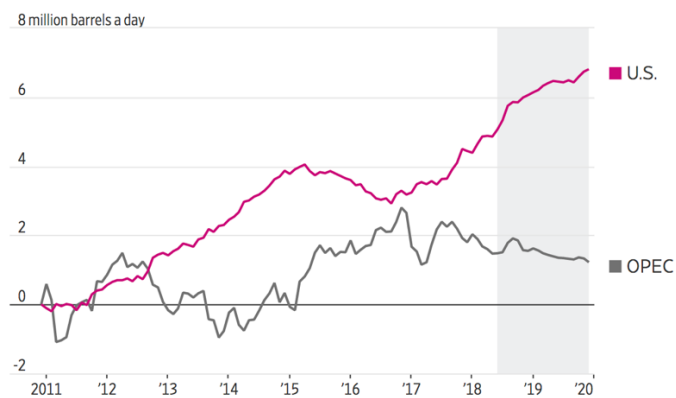




Break-even prices for benchmark Brent crude have fallen



Change in crude-oil production since 2010*



*Data after May 2018 are projections
Source: Energy Information Administration