

ENERGY MARKETS FORUM DAILY BULLETIN



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MONDAY /// JULY 12th /// 2021

TOP 10 DAILY NEWS DIGEST

1. OIL PRICES SLIP AS ECONOMIC WORRIES OFFSET TIGHTENING SUPPLIES
2. ASIA DISTILLATES-JET FUEL SLIP AS TRAVEL CURBS SOUR AVIATION OUTLOOK
3. DON'T RELY ON MARKETS TO SEE INFLATION THREAT
4. TREASURY RALLY LEAVES INVESTORS SCRAMBLING FOR YIELD PLAYS
5. CHINA'S CNOOC DIVES INTO UNCHARTED DEEP WATERS IT
6. SAUDI HEDGES ITS BETS IN IRAN POLICY
7. THE CHINA-PAKISTAN PARTNERSHIP CONTINUES TO DEEPEN
8. GLOBAL BOOM IN HOUSE PRICES BECOMES A DILEMMA FOR CENTRAL BANKS
9. ETHIOPIA ELECTION: ABIY AHMED WINS WITH HUGE MAJORITY
10. BRAZIL PLANS TO BE 5TH-LARGEST CRUDE EXPORTER BY 2030

RECOMMENDED VIDEOS & REPORTS

- BASF RELEASES PRELIMINARY FIGURES FOR Q2 2021
- EU RUSHES TO TIGHTEN COVID RULES, SPOOKED BY DELTA VARIANT
- CHINA WILL BE THE NEXT EMPIRE TO ENTER THE AFGHAN 'GRAVEYARD'
- HIGHLIGHTS FROM THE BP STATISTICAL REVIEW OF WORLD ENERGY 2021
- FUJAIRAH SAW RECORD THROUGHPUT MONTH-ON-MONTH IN FIRST HALF OF 2021

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NEW SILK ROAD LIVE PODCAST



Omar Najia
Global Head, Derivatives
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Laury Haytayan
MENA Director
Natural Resource Governance Institute



Jose Chalhoub
Political Risk & Oil Analyst

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NEW SILK ROAD LIVE

TOP 3

MONDAY /// JULY 12th

TAKEAWAYS

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FX

• Currency markets showed some wide two-way action as markets oscillated between anxiety over the spread of variants of Covid-19 and expectation that developed market central banks will keep policies accommodative in support of growth. The dollar ended the week generally lower, although the 0.1% decline in the DXY index to 92.13 over the week was relatively modest.

• The European Central Bank has adopted a more explicit inflation target of 2% and is prepared to accept overshoots over time, a similar approach to the Federal Reserve. However, the ECB's challenge to get inflation up sustainably on target looks more onerous than the Fed's, given productivity and demographic challenges facing the Eurozone economy. Nevertheless, currency markets did not seem overly fazed by the prospect of loose monetary policy in perpetuity and EURUSD managed to climb in the last two trading days of the week, pushing up to 1.1876 by the end of the week, a gain of 0.09% w/w.

• On the flip side, USDJPY has weakened as markets price in more the risk that the delta variant of Covid-19 could hamstring growth. The pair fell 0.8% last week to 110.14.

• Sterling was the most considerable gainer among major currency pairs, rising by 0.56% to 1.3901 at the end of trading. GBPUSD has recovered much of its post-FOMC swoon with the mid 1.39 level the next test.

Equities

• European and US equity markets bounced back on Friday, after what had been a challenging Thursday for many. Most of the major indices closed the week higher than they had done the previous Friday. There were new record highs for the S&P 500, the NASDAQ and the Dow Jones, which closed up 1.1%, 1.0% and 1.3% respectively.

• In Europe, a surge on Friday erased earlier losses for the DAX, where some strong earnings releases pushed the index up 1.7% on Friday and closing the week up 0.2%. Even Friday gains of 1.3% for the FTSE 100 and 2.1% for the CAC were not sufficient to erase earlier losses, with the UK benchmark closing the week flat while France's primary share index lost -0.4% w/w.

• Losses were more pronounced in Asia, where there are mounting concerns over a slowing recovery and a crackdown on digital firms in China, and pandemic risks in Japan. The Shanghai Composite managed to close up marginally, at 0.2% w/w, but the Hang Seng lost -3.4% and the Nikkei -2.9%.

• In the region, the DFM lost -1.3% w/w. The ADX continued its run with a 0.9% gain. The Tadawul lost -1.4% and the EGX 30 -0.7%.

Commodities

• Oil price slipped last week even as there remains considerable uncertainty over the status of the OPEC+ production cut agreement. Markets have displayed considerable two-way price action following the failure of OPEC+ to get to a deal and ended last week lower in both Brent and WTI futures, their first substantial weekly drop since May. Nevertheless, with Brent futures closing at \$75.55/bbl and WTI at \$74.56/bbl, prices are still high and forward structures are still expecting considerable tightness in the months ahead.

• Time spreads for 1-6 months in WTI closed at a backwardation of \$4.55/bbl at the end of last week, while Brent spreads for the same months closed at \$3.79/bbl in backwardation.

• Reports from the IEA and OPEC will set the agenda for this week, likely calling for higher output to address a widening supply shortage in H2. Of note will be their assessment on the response of non-OPEC+ producers to currently high prices. The EIA revised its US oil supply projections up marginally in its latest assessment, but the relative restraint US producers are showing is helping to underpin high oil prices. The US drilling rig count rose by two last week to 378, still showing a solid upward move from its lows of August 2020 and at around the same pace of addition from when the rig count recovered after plummeting in 2016.

• Precious metals were mixed last week, with gold prices managing a third weekly gain as investors move some assets into havens. Silver was off by 1.4% last week, while most industrial metals gained, with aluminium the sole declining exception.

Source: Emirates NBD

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ENERGY MARKETS FORUM Consultancy Intelligence Publishing **Mashreq 60-SECOND SOUNDBITE**

Laury Haytayan
MENA Director
Natural Resource
Governance Institute

***"Iran Nuclear Talks Unlikely
to Reconvene Before New
President Takes Office in
August"***

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ENERGY MARKETS FORUM Consultancy Intelligence Publishing **Mashreq 60-SECOND SOUNDBITE**

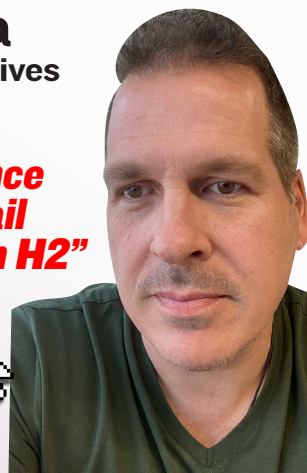
Omar Najia
Global Head, Derivatives
BB Energy

***"COVID Resurgence
Unlikely to Curtail
Demand Recovery in H2"***

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DAILY ENERGY MARKETS FORUM NEW SILK ROAD



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EXCLUSIVE SERIES VIEWS YOU CAN USE

Jorge Montepeque
President
General Index



What impact is the dispute within OPEC Plus having on the market?

We are seeing a serious and almost immature fight between the UAE and other OPEC members. The market has taken into consideration that they could bring in more barrels and they are in fact already bringing in 100,000-150,000 bd over what they are supposed to produce. But demand is growing faster than that, so market impact has been minimal. Ahead of the OPEC meeting, the perception was that prices could rise above \$80 very soon. Instead, they are now levelling off in a range of \$75-\$80 so it's just the angle of the price elevation that's changed.

Is cohesion within OPEC at real risk?

The new normal is increased friction between the UAE and Saudi Arabia. If you look back over the last two years, the countries have gone from being partners really tied at the hip in various policies (such as the war in Yemen), to a very steady deterioration in objectives and goals. On the oil front, the UAE clearly wants to optimize revenue now by increasing production. Saudi Arabia wants to optimize revenue by limiting production. We should be mentally prepared for a resetting in the relationship. The UAE is aggrieved that the world doesn't see how much they have cut relative to the rest of the group. Saudi Arabia has also been investing for decades in extra production to be ready to supply the world. Everybody has an angle.

How does this dispute affect discipline amongst others within the group?

It does not really matter. The only members that have the power to reduce or increase production quickly are Saudi Arabia, the UAE and Kuwait. Russia is not going to reduce its exports by 10% and neither are Nigeria or Iraq for example. They don't have that flexibility.

Was there an urgency to discuss quotas for beyond April of next year?

That is what is more puzzling about the UAE strong position. They could have accepted a structure for 2022, and then reviewed it along with anticipated demand in six months' time. There could be a new variant of Covid that is so strong that it sets us all back for example. OPEC should observe and make the decision on increased allocation in Q1 of next year. That's the right thing to do. ■

**Paraphrased comments*

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