ENERGY MARKETS FORUM DAILY BULLETIN

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MONDAY /// OCT 18th /// 2021

TOP 10 DAILY NEWS DIGEST

1. OIL PRICES CLIMB TO HIGHEST IN YEARS AS COVID RECOVERY
2. SAUDIS, RUSSIA SLAM BLIND FAITH IN FREE MARKETS
3. CHINA'S ECONOMY SLOWS AS COVID, ENERGY CRISIS & PROPERTY WOES TAKE TOLL
4. IRAQ SAYS OIL PRICE ABOVE $80 IS 'A POSITIVE INDICATOR'
5. EU & US TRY TO LURE IRAN BACK TO NUCLEAR TALKS AS HOPES FADE
6. COLD WEATHER COMES EARLY TO EAST ASIA AS ENERGY CRISIS LOOMS IN CHINA
7. EGYPT: UNVACCINATED GOVT EMPLOYEES TO BE BANNED FROM ENTERING WORKPLACE
8. US & CANADIAN WARSHIPS SAILED THROUGH TAIWAN STRAIT LAST WEEK
9. SAUDI ENERGY MINISTERS SAYS OIL INVENTORIES COULD RISE IN 2022
10. NEW ZEALAND PM ARDERN EXTENDS COVID-19 LOCKDOWN IN AUCKLAND

RECOMMENDED VIDEOS & REPORTS

- CALIFORNIA OIL PIPELINE MAY HAVE BEEN DRAGGED BY CARGO SHIP
- 'US TRAVEL NUMBERS ARE BACK CLOSE TO PRE-COVID LEVELS'
- CHINA'S ECONOMIC GROWTH WEAKENS AMID CONSTRUCTION SLOWDOWN
- "LNG: A BRIDGE TO HYDROGEN BUNKERING?"
- "LESS INTERVENTIONIST REGIONAL APPROACH BY US FAVORABLE TO IRAN SAUDI RELATIONSHIP"

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NEW SILK ROAD LIVE PODCAST

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NEW SILK ROAD LIVE

TOP 3

MONDAY /// OCT 18th

TAKEAWAYS

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FX
A pick-up in risk-on sentiment last week weighed on the dollar. The dollar index saw three consecutive days of falls through the end of last week as a robust earnings season and better-than-expected retails sales data saw the DXY close down -0.14% w/w on Friday, though it had been at 12-month highs earlier in the week and we still expect dollar strength over the coming months. The gains against the greenback were fairly widespread, with some commodity currencies in particular recording a strong week. The AUD added 1.5% and the NZD 1.8% to close on Friday at 0.7421 and 0.7067 respectively. GBP gained 0.6% on Friday to close at 1.3751 and record a weekly gain of 1.0% even as BoE officials pushed back against the narrative of imminent tightening. EUR saw more muted gains, climbing 0.3% w/w to close at 1.1601 on Friday.

Equities
Solid gains on Friday led to a strong week's performance for global equity markets, with almost all key indices closing higher as risk appetite returned. Investors shrugged off the ongoing supply chain issues as earnings season saw some strong results and US retail sales data surprised to the upside. In the US, the NASDAQ recouped some recent losses to end up 2.2% w/w, leaving it down just -1.0% compared to a month earlier. The Dow Jones added 1.6% w/w and the S&P 500 1.8%, leaving the broad-based index up 0.9% m/m. In Europe, the FTSE 100 closed up 2.0% w/w, taking the index to a pandemic high – although its comparatively sluggish recovery means it remains off the levels seen in February 2020. European markets saw even stronger gains, with the DAX added 2.5% w/w, the CAC 2.6% and the composite European STOXX 600 closing 2.7% higher than the previous week. In Asia, the Hang Seng was the standout leader, adding 5.7% w/w despite being closed Wednesday and Thursday, while Japan's Nikkei closed up 3.6% as new Prime Minister Fumio Kishida laid out his economic plan for the country.

Commodities
Commodity markets remained on a tear last week, with both major oil benchmarks hitting major milestones. Brent futures touched USD 85/bl on Friday for the first time since 2018, before ending the session at USD 84.86/bl, up 3.0% w/w. WTI meanwhile added 3.7% to record its eight straight weekly gain. It closed at USD 82.28/bl on Friday, its highest level since 2014. According to Baker Hughes, the US crude oil rig count rose by 12 last week, to 445.

Source: Emirates NBD

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NEW SILK ROAD

EXCLUSIVE SERIES

VIEWS YOU CAN USE

Maleeha Bengali
Founder
MB Commodity Corner

Is there anything which can pull these markets back?
There's a dislocation in asset classes. The macro markets are talking about stagflation and that is a concern. PMI indicators and growth numbers are pointing downward for both the US and Europe despite the surge in gas, coal, copper and oil prices. It's mainly commodities that are rallying in equity markets on inflationary fears. We see 10-year US bond yields threatening 1.6% percent again. But equities should be going lower, not higher. Something's going to snap very fast as the market can't take this high inflationary shock. The Fed is in a bit of a catch-22. They can't print more to get higher growth because they would get more inflation but if they raise rates, that's game over. They're still hoping that this inflation is transitory but it's not looking like that – it's real demand that's taking these commodity prices higher. Right now, the market's all about liquidity. The Fed may be talking about tapering, but they're still buying $120 billion of treasuries every single month and that's holding asset prices higher.

Asian refining margins are at their highest level since January 2020?
Demand is holding on distillates, with gasoline a bit softer but we're not impressed with Asian demand. Crude import numbers have been stagnating for months now. This rally in oil is basically very macro driven and it's exacerbating the actual physical tightness that's in the market.

US production finally ticking up, now at 11.4 million bd?
We don't see it going back to 13 million bd, but people are considering whether to hedge forward production and lock in these amazing prices, which will allow them to give cash back and continue to produce. There's also the debate within the White House on whether to incentivise US producers rather than pressure OPEC+ for more oil.

Where are we at with the US fiscal spending debate?
The US government has done a very good job in delaying the debt ceiling debate to December for now. The infrastructure bill will all depend on what happens in the equity and macro markets. We know the Fed has two key objectives - employment and inflation. The former is a concern and payroll growth in August and September were disappointing. Their objective has always been to see employment growth return back to pre-Covid levels and thereafter talk about tapering. ■

**Paraphrased comments*