ENERGY MARKETS FORUM DAILY BULLETIN

Consultancy Intelligence Publishing

MONDAY /// OCT 11th /// 2021

TOP 10 DAILY NEWS DIGEST

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1. BAKER HUGHES: US OIL-RIG COUNT RISES BY FIVE IN LATEST WEEK
2. SHIPPING: GLOBAL TANKERS Q4 FREIGHT, EARNINGS TO RISE
3. OMAN'S SEPT CRUDE OUTPUT EDGES UP TO 764,000 B/D
4. GLOBAL OIL DEMAND SEEN RETURNING TO PRE-PANDEMIC LEVELS
5. INDIA TO FACILITATE GAS SUPPLY TO RUN 2 UTILITIES IN DELHI
6. HIGH NATURAL GAS PRICES COULD LEAD TO 2MN BPD EXTRA OIL DEMAND
7. US SHALE DRILLERS FEAR LOSING EU GAS ORDERS TO RUSSIA
8. INDIA IS ON THE BRINK OF AN ENERGY CRISIS, AS COAL RESERVES HIT CRITICAL LOWS
9. BIDEN'S QUEST TO LOWER FUEL PRICES CLASHES WITH HIS CLIMATE AGENDA
10. GAZPROM PLANT CONNECTED TO RUSSIA-CHINA GAS PIPELINE SHUTTERED DUE TO FIRE

RECOMMENDED VIDEOS & REPORTS

- STANDARD CHARTERED RAISES OIL PRICE FORECASTS
- GOLDMAN CUTS FORECAST FOR US ECONOMIC GROWTH IN 2021 & 2022
- KRAFT HEINZ SAYS PEOPLE MUST GET USED TO HIGHER FOOD PRICES
- YELLEN CONFIDENT OF MINIMUM GLOBAL CORPORATE TAX PASSAGE IN CONGRESS
- UK ENERGY CAP NON-NEGOTIABLE, NO BAILOUTS, KWARTENG SAYS
- DEFLATION NOT INFLATION WILL BE THE TOPIC WHEN HOUSING, EQUITY BUBBLES POP

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NEW SILK ROAD LIVE PODCAST

Omar Najia
Global Head, Derivatives
BB Energy

Bora Bariman
Managing Partner
Hormuz Straits Partnership

Randall Mohammed
Managing Director
PetroIndustrial USA

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NEW SILK ROAD LIVE

TOP 3

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TAKEAWAYS

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FX
The dollar remained bid last week although the weaker than expected NFP clouded the picture somewhat. The DXY index added 0.03% last week to settle just above the 94 level. A test of 94.5 would be the next objective for the dollar to remain broadly supported against peers. The source of gains for the dollar was a bit more mixed last week, however, with EURUSD off by 0.2% to settle at 1.1569. That at least represented a far smaller depreciation than a week earlier. ECB president Christine Lagarde noted to the press last week that a "premature" tightening of policy would harm the eurozone economy. USDJPY provided a substantial share of the dollar's gains last week, with the pair up more than 1% to settle at 112.24. A survey of economic conditions by the BoJ revealed that most regions of Japan were doing worse now than they were three months ago, limiting the ability of the BoJ to adjust policy anyway toward tightening. GBPUSD managed to snap its recent losing streak and gained 0.5% last week to close at 1.3615. Despite data in the UK turning sour, Michael Saunders, a BoE MPC member, said it was "appropriate" that markets have priced in a faster tightening cycle than they were previously. As inflation is biting in the UK, the BoE may be the next among major central banks to tighten policy. In the commodity currency space USDCAD fell in favour of the loonie by 1.4%, closing out at 1.2472.A jobs report for September showed that Canada has recovered all jobs lost since the start of the Covid-19 pandemic after 157k jobs were added in September. Elsewhere, AUD rose 0.7% to 0.7309 last week as the RBA kept policy largely unchanged while NZD fell 0.13% to 0.6939 despite the RBNZ hiking rates at its meeting last week.

Equities
Equity markets had a somewhat better week last week than previous, with most major indices gaining as some risk factors dissipated with the debt ceiling compromise and the announcement by Russian President Vladimir Putin that he would boost gas production. In Europe the FTSE 100 was the major gainer, adding 1.0% w/w with a 0.3% gain on Friday, despite the Bank of England cautioning about the risk of an inflation-driven financial market sell-off. Elsewhere, the CAC closed up 0.3% w/w, trailing Germany's 0.7%. Both indices lost ground on Friday. In the US, all three major indices ended the week up, but some of those earlier gains were erased by the weaker-than-expected jobs report released on Friday. The NASDAQ clung on to gains of 0.1% w/w, while the S&P 500 and the Dow Jones added 0.8% and 1.2% w/w respectively. In India, the RBI's ongoing commitment to accommodative monetary policy was supportive of equity markets last week. The Nifty (2.1% w/w) and the Sensex (2.2%) both closed higher. The standout loser across global equity indices last week was Japan's Nikkei. The index had been on a tear following the announcement of Prime Minister Yoshihide Suga's resignation, but that momentum has fizzled out as his successor Fumio Kishida was announced. His speech detailing a 'new form of Japanese capitalism' last week spooked investors worried about tax hikes, and the key index is down -2.5% w/w and -8.6% from its recent high.

Commodities
Energy commodities generally remain on a tear with markets still pricing in considerable near-term tightness. Brent futures added 3.9% last week to close at USD 82.39/bl while WTI managed gains of 4.6% to close at USD 79.35/bl, having broken briefly above USD 80/bl at the end of the week. Front month time spreads remain high with 1-2month Brent closed at almost USD 0.60/bl last week while the same spread in WTI settled at USD 0.70/bl. Oil market conditions this week will be set by reports out from the EIA, OPEC and IEA where the recent run in energy prices will be in focus. Natural gas prices took a breather, however, as the market reacted to suggestions that Russia could deliver more volumes into Europe. UK pricing fell around 12% last week while Henry Hub futures closed down by almost 1%. However, there has been no material agreement reached yet on sending additional flows in to the European or UK gas systems. Metals prices were higher across the spectrum with the exception of gold. Spot gold prices fell 0.2% last week to settle at USD 1,757/troy oz even as inflation globally remains high. Investors have pulled out of gold ETFs for three weeks running with total holdings at their lowest level since May last year.

Source: Emirates NBD

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NEW SILK ROAD

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VIEWS YOU CAN USE

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The oil price increase has a name written all over it - OPEC Plus.

There's no systematic shortage of capacity - we have almost five million barrels a day of it. The only shortage is political willingness to release that capacity. We also need to be wary on how to judge the strength in current demand because we may have well published OECD and US inventories figures, but we don't really see what's happening in China or Asia and some other regions, where the actual growth comes from.

How much are natural gas prices driving oil's strength?

There's a systematic difference between the situation in natural gas and coal, and oil. The strong crude price is nothing compared to what's happened with other fuels. Natural gas prices have increased five or six-fold since March and coal has doubled. These are fuels where we have seen an investment gap which has led to a capacity shortage. That's a very different game from what has happened to Brent. Even US shale is coming back; by April next year, we could have substantial changes in US oil production. US natural gas is also plentiful. The only bottleneck for now is transport. A year from now, we may all be lamenting low prices. China doesn't look good, Europe doesn't look good, and the US looks good only if Biden gets his way with implementing his stimulus and infrastructure program.

Macroeconomic outlook through 1H 2022?

We need to look at the big picture economic performance triangle between Europe, China and the US on one hand, and what happens with this energy and inflation situation on the other. The Biden administration will be slow on clamping down on inflation for pollical reasons and Western governments and central banks deep down know that they have no chance of getting rid of the substantial debt which has been piled up, other than by gradually inflating it away. We will continue to see a conflict between the need for interest rate rises and the desire not to increase them. ■

**Paraphrased comments*