



Art Berman

# **Macro Voices: Oil-market madness**

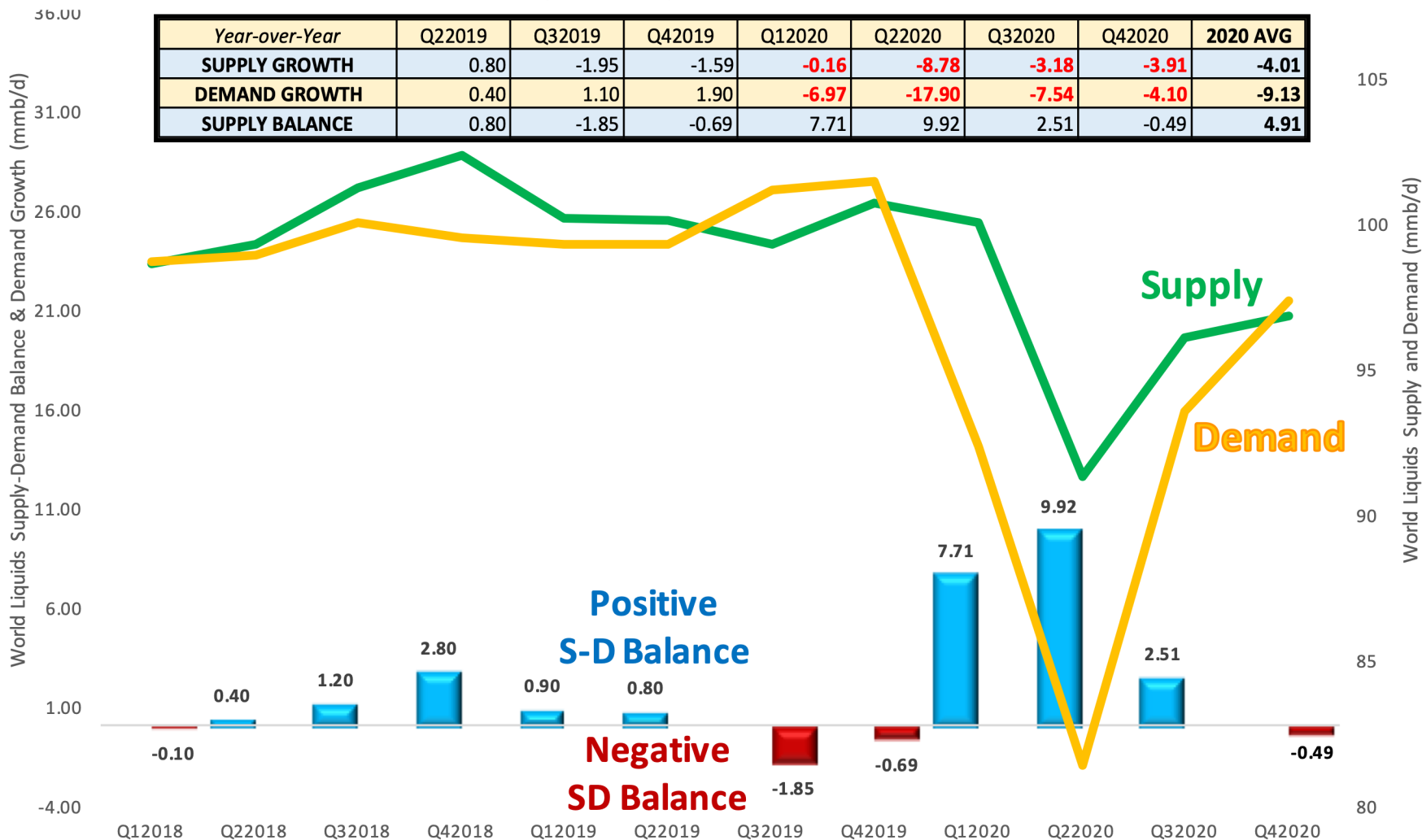
**April 5, 2020**



# OPEC++ production agreement is largely irrelevant

## Producers will be forced to cut production because of low price and low demand

### Oil markets will probably return to balance in 2H 2020



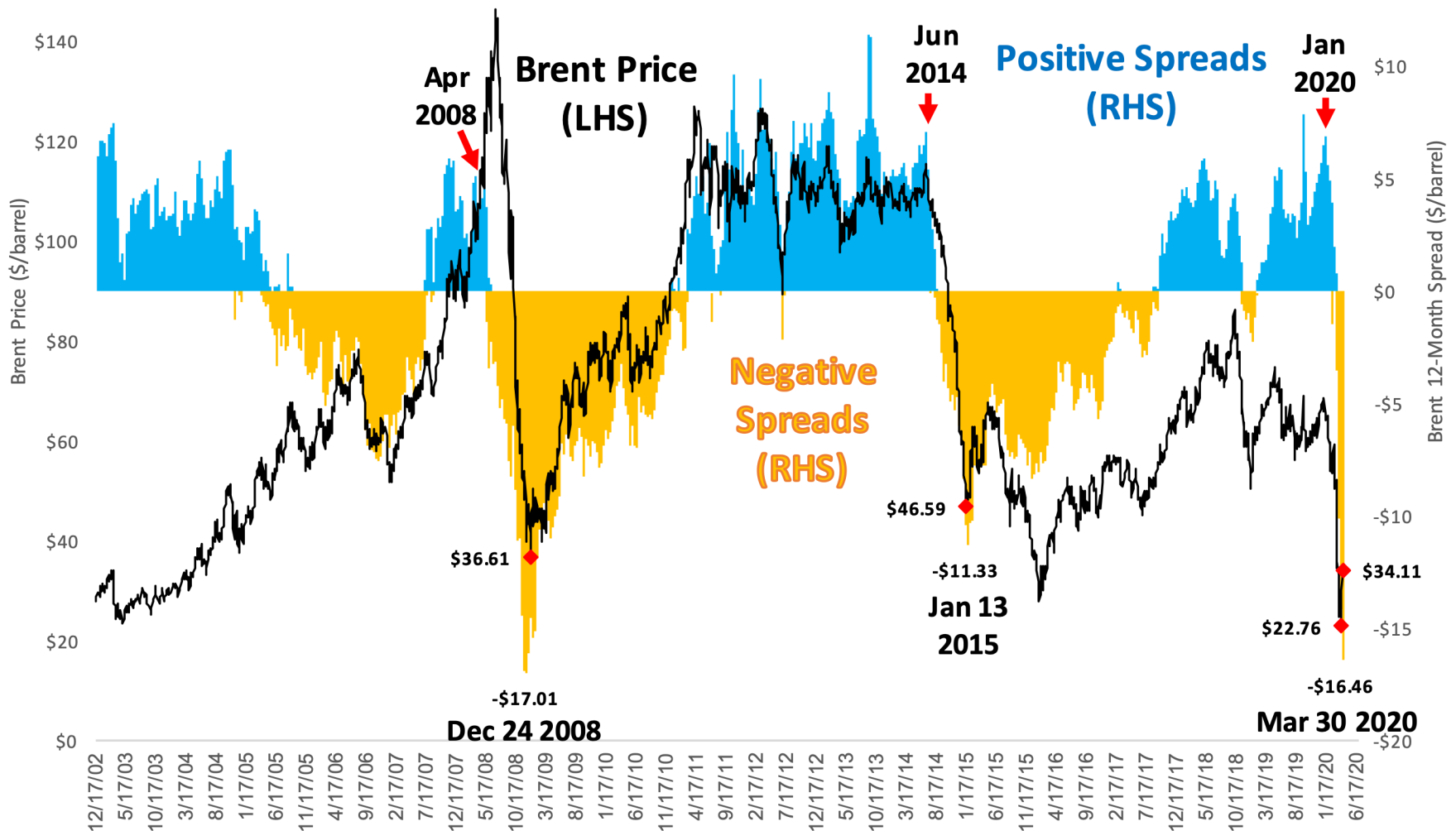
Source: OPEC, IEA, EIA, Vitol, Trafigura, Goldman Sachs & Labyrinth Consulting Services

EIA International/EIA Supply & Demand Master

## No one saw this coming?

Markets anticipated 2008, 2014 & 2020 collapses months before public awareness

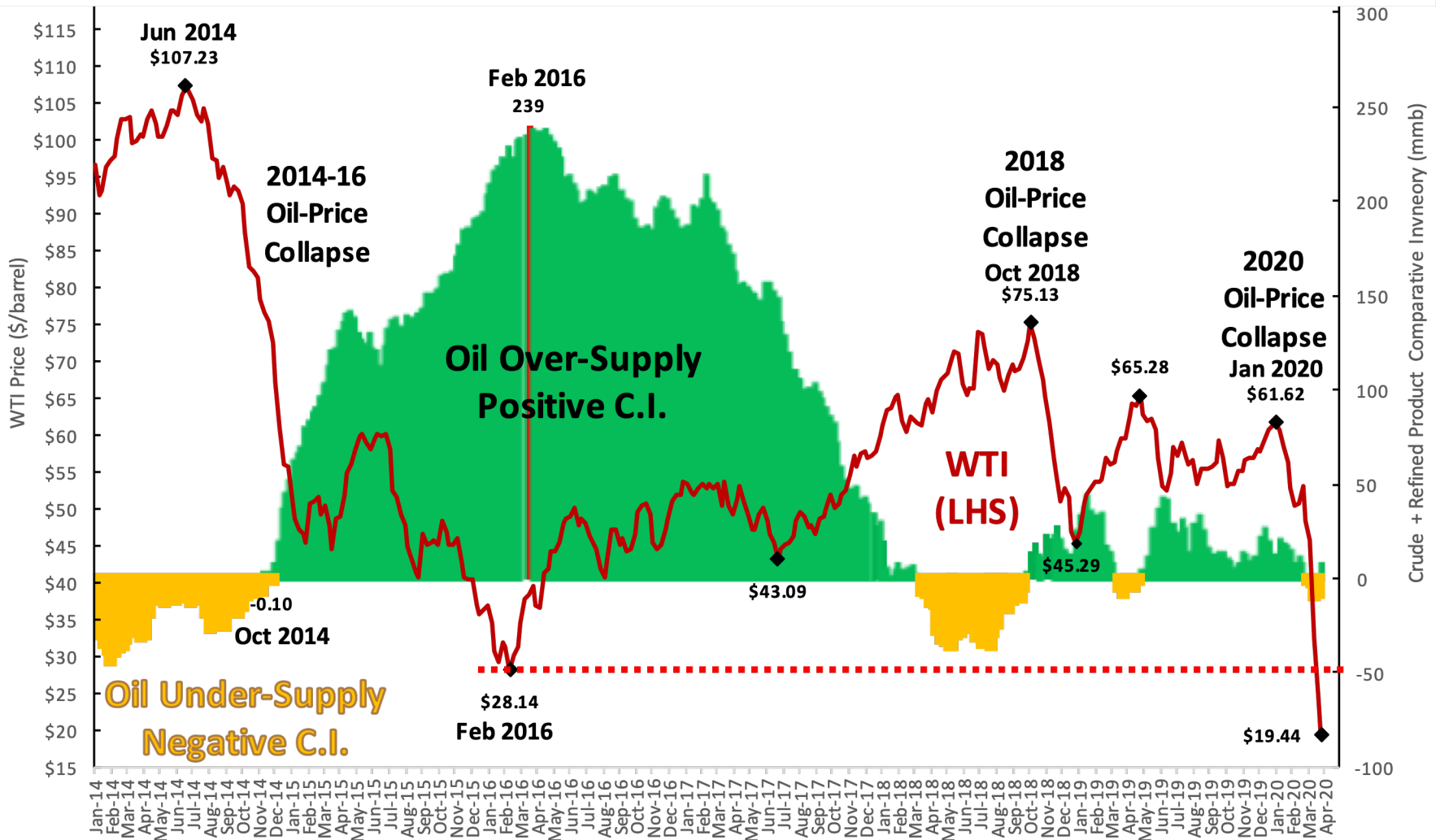
Brent 12-month spreads reached level almost as low as 2008, price was lower



Source: Quandl & Labyrinth Consulting Services, Inc.

Oil & Gas General/Futures & Future Spreads/BZ1-B12 2013-2020

**Markets have already priced-in upcoming inventory build with WTI priced in \$20 range**  
**That is why price fell so quickly and so far below previous levels**



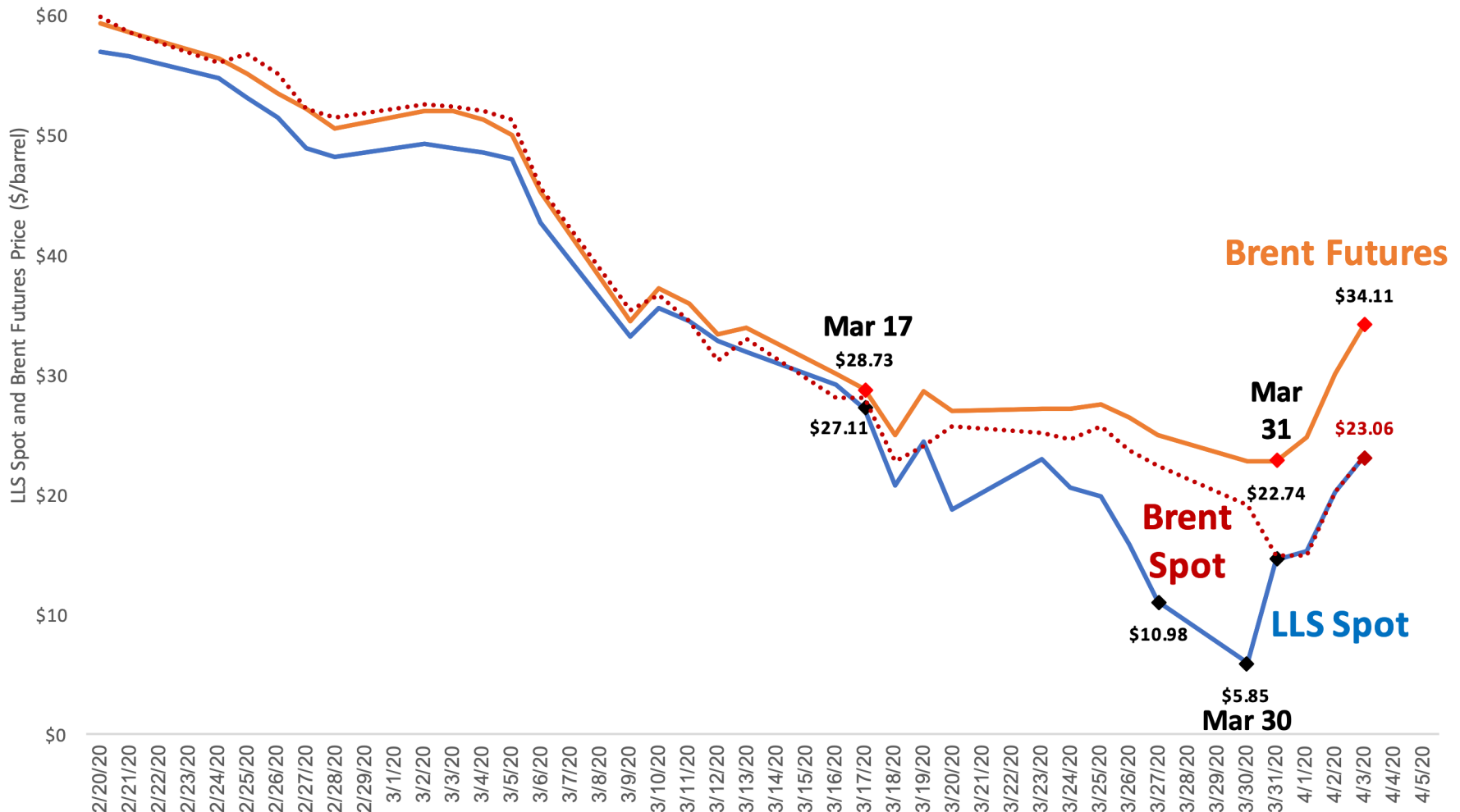
Source: EIA & Labyrinth Consulting Services, Inc.

EIA Current/Weekly Updates/Crude Oil & Refined Products Inventories & CI

# Oil prices had already found support levels before Trump-OPEC+ discussions

## Light Louisiana Sweet (LLS) reached bottom on March 30

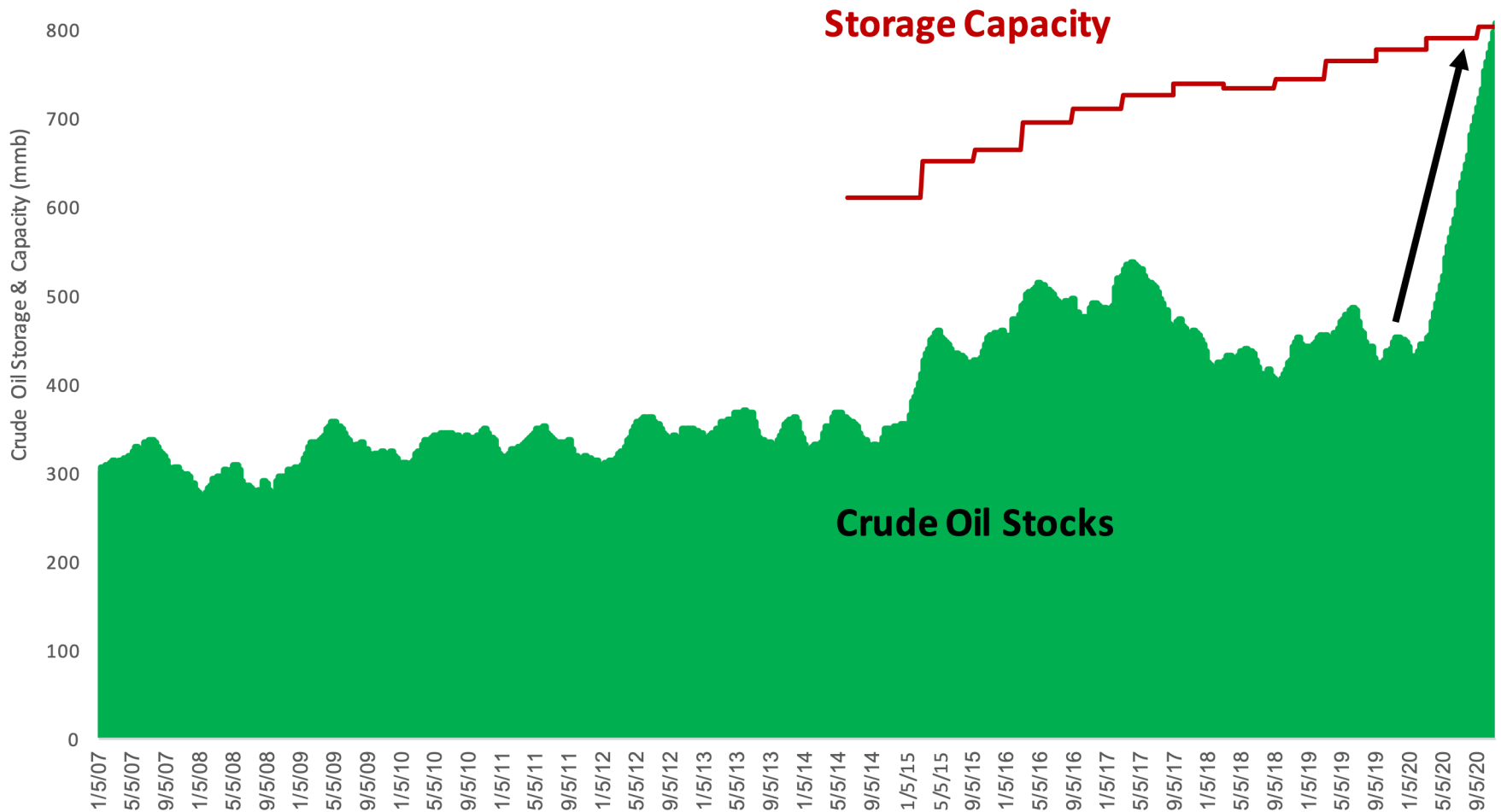
### Brent spot and futures followed the next day



Source: EIA & Labyrinth Consulting Services, Inc.

EIA Current/Weekly Updates/WTI & Brent Daily Spot Prices

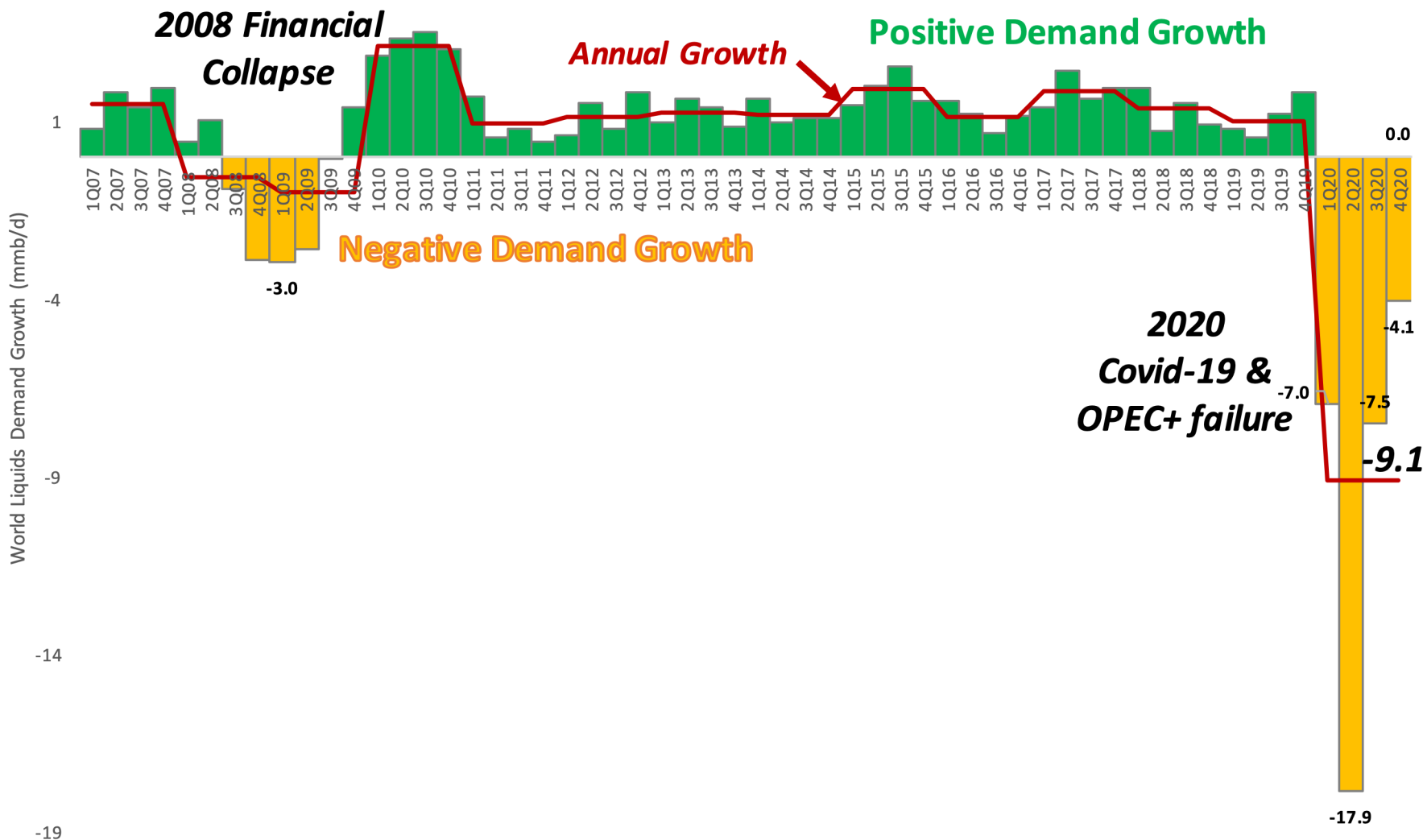
**Fears about filling oil storage are exaggerated**  
**U.S. crude oil storage would not reach capacity until November**  
**assuming a constant, never-seen fill rate of 1.5 mmb/d (10.5 mmb/week)**



Source: EIA & Labyrinth Consulting Services, Inc.

EIA Current/Weekly Updates/Crude Oil & Refined Products Inventories & CI

**-9 mmb/d world liquids y-o-y demand contraction possible in 2020**  
**-7 mmb/d in Q1, -18 mmb/d in Q2 & -8 mmb/d in Q3 and -4 mmb/d in Q4**

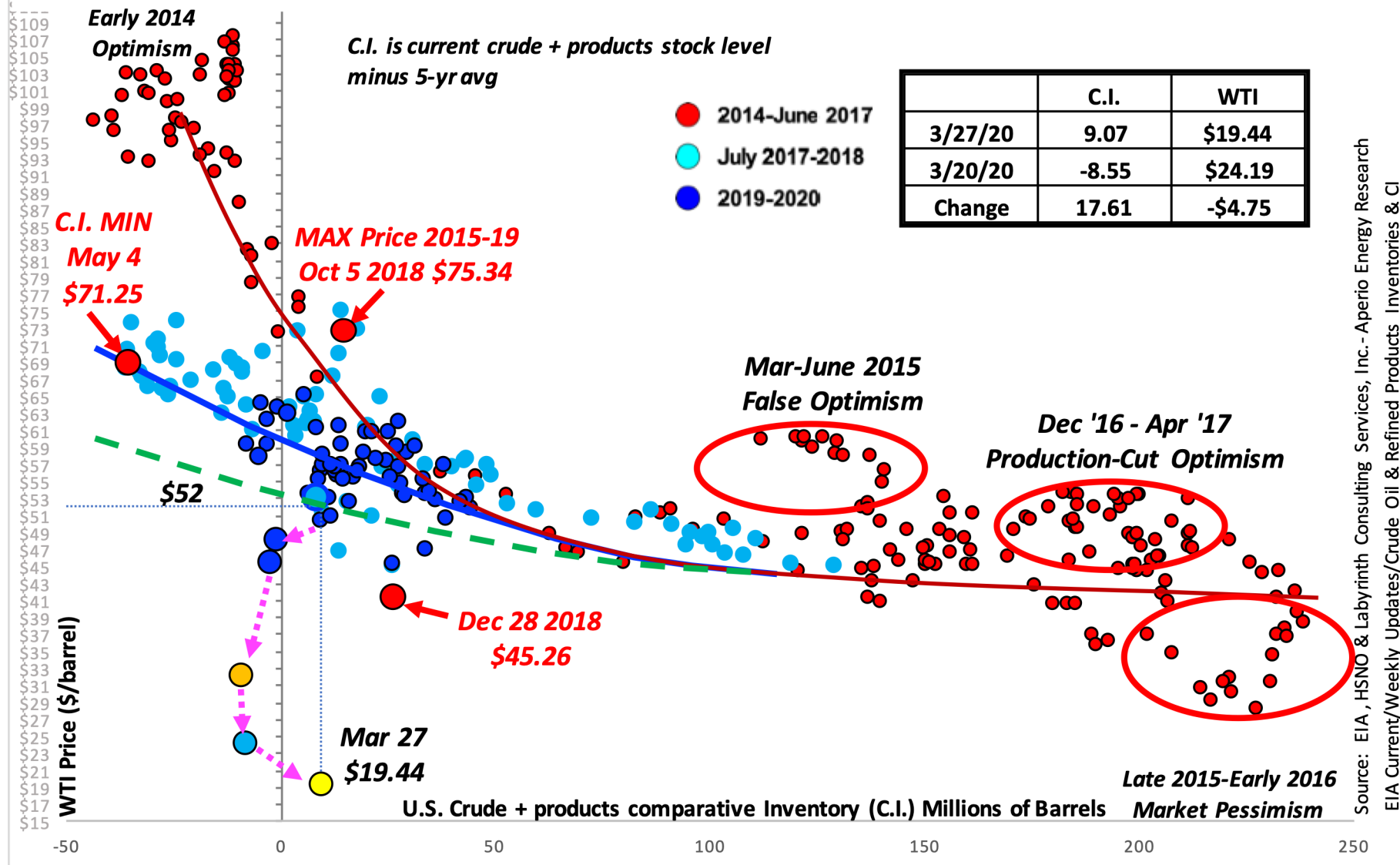


Source: OPEC, IEA, EIA, Vitol, Trafigura, Rystad, IHS Markit & Labyrinth Consulting Services

EIA International/EIA Supply & Demand Master



**WTI is at least \$30 under-valued at \$19 spot price based on green C.I. yield curve**  
**Price-discovery excursions from the yield curve are normal and necessary**  
**The present excursion is extreme but only one of six since mid-2014**



Source: EIA, HSNO & Labyrinth Consulting Services, Inc. - Aperio Energy Research  
 EIA Current/Weekly Updates/Crude Oil & Refined Products Inventories & CI



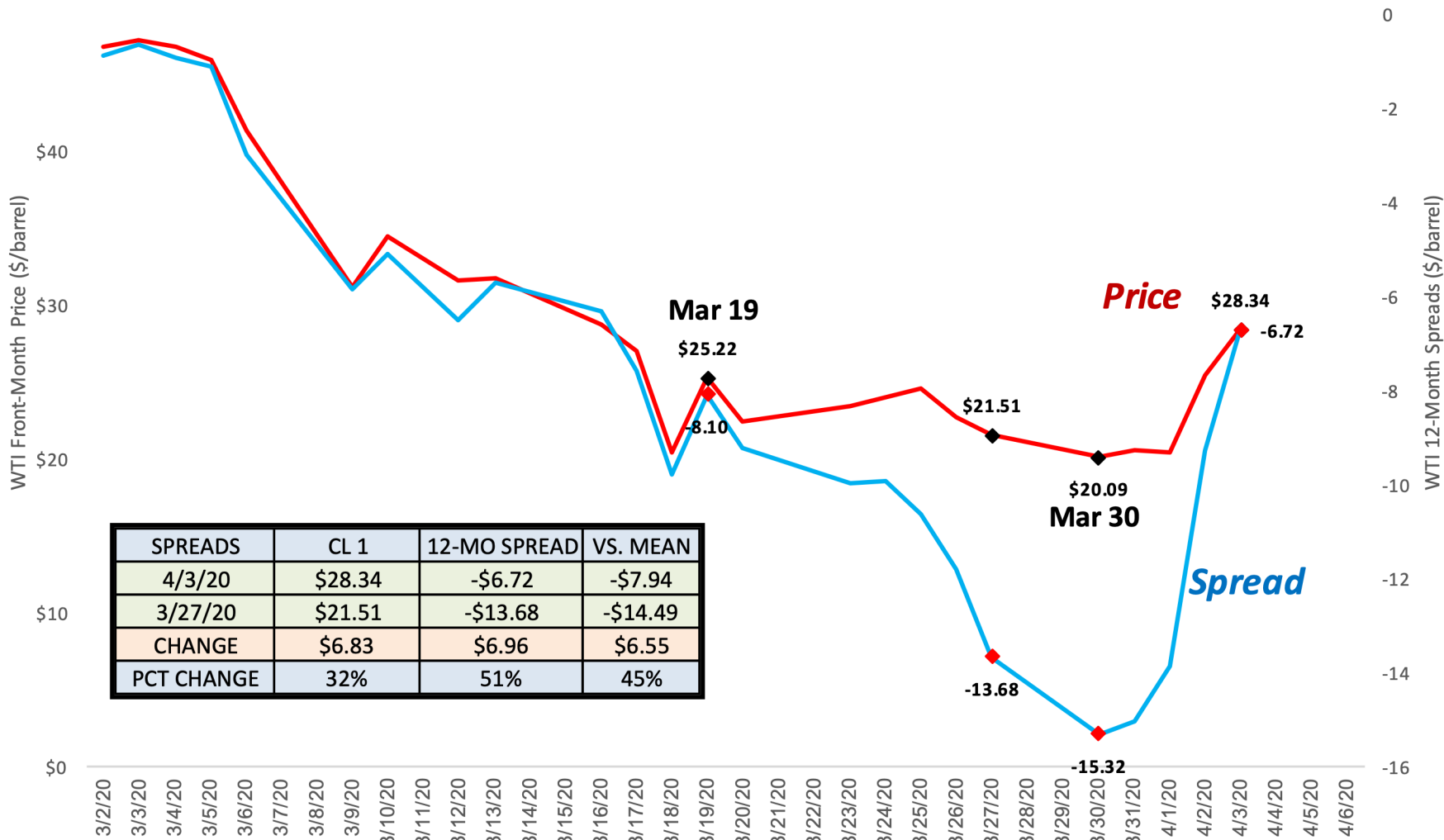
# Appendix Slides

**Prices were largely range bound within 1 standard deviation of the mean until coronavirus & OPEC+ failure combined to collapse prices to -4 standard deviations**

# Happy Days Are Here Again--\$28 oil!

## WTI front-month price rose +\$6.83 (+32%) to \$28.34 week ending April 3

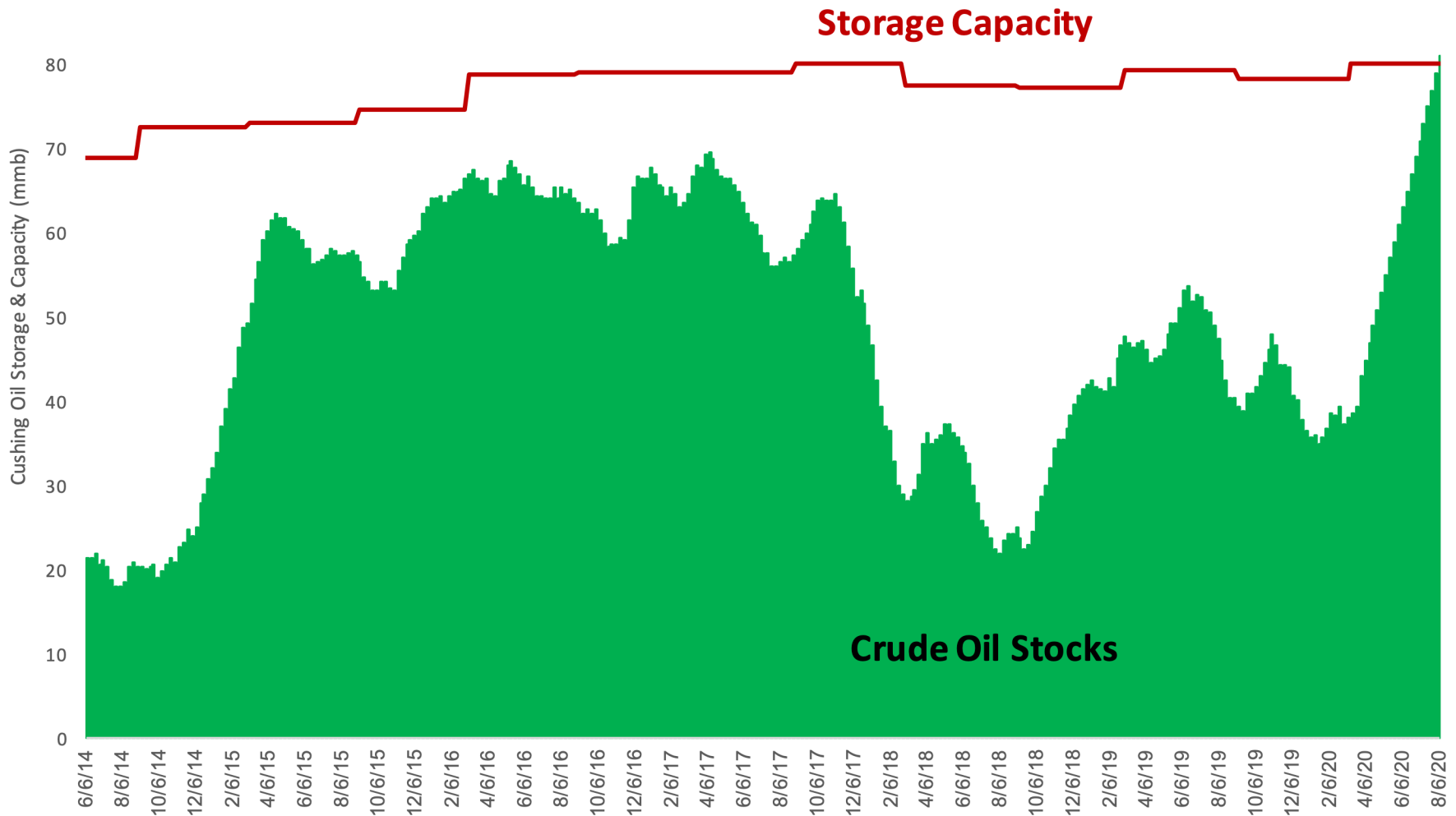
### 12-month spreads increased +\$6.96 (+51%) to -\$6.72



Source: Quandl & Labyrinth Consulting Services, Inc.

Oil & Gas General/Futures & Future Spreads/CL1&CL12 Futures

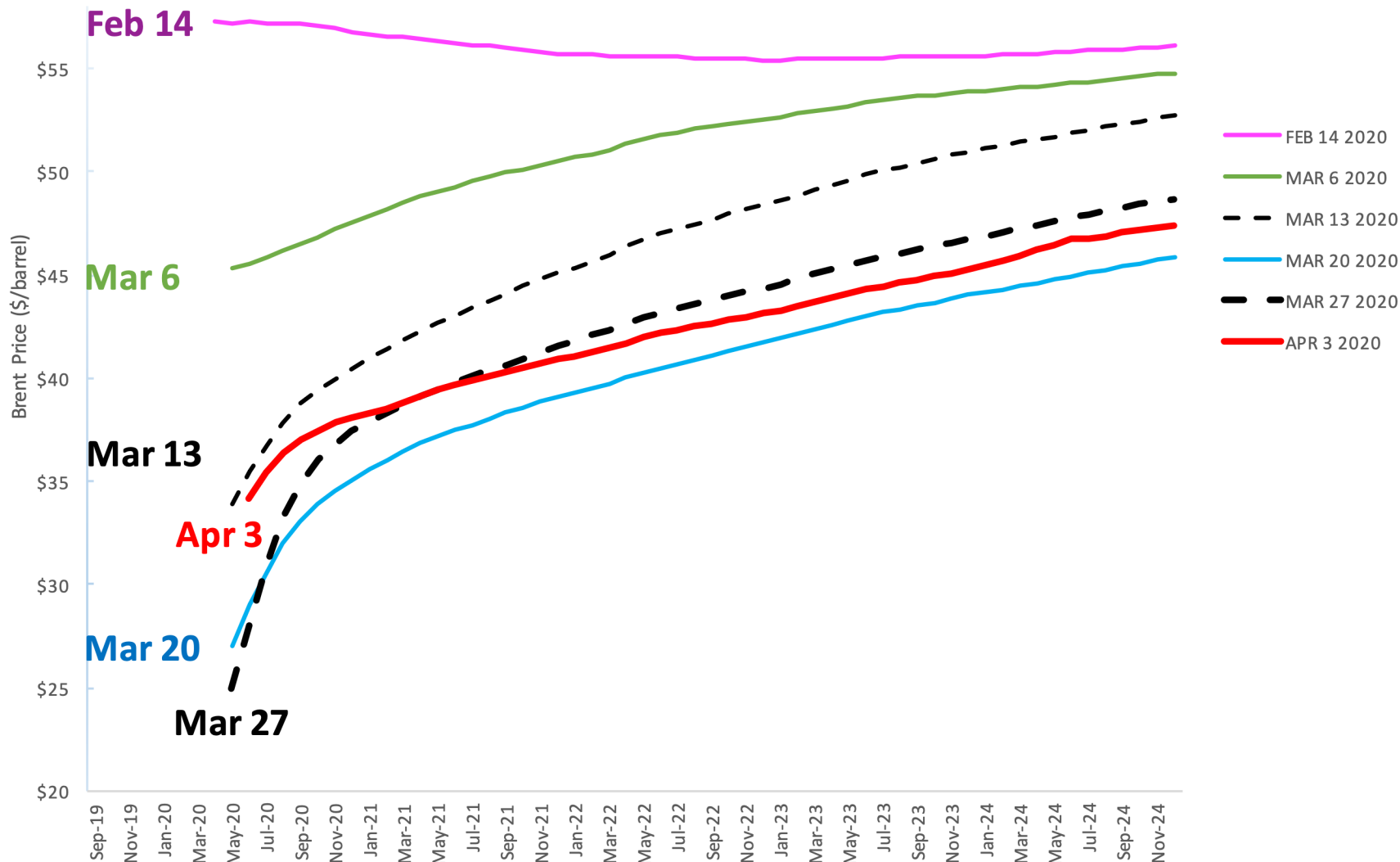
**Cushing storage would not reach capacity until August  
assuming a constant fill rate of 285 b/d (2.5 mmb/week)  
and not including Strategic Petroleum Reserve**



Source: EIA & Labyrinth Consulting Services, Inc.

EIA Current/Weekly Updates/Crude Oil & Refined Products Inventories & CI

**Brent in prompt-month-only super-contango week ending April 3**  
**12-month spreads eased +\$8.85 from -\$14.19 to -\$5.32 since last Friday**  
**Front-month price rose +\$9.18 to \$34.11 on hope of coordinated global production cut**



Source: CME & Labyrinth Consulting Services, Inc.

Oil & Gas General/Futures & Futures Spreads/FUTURES CONTRACTS MASTER

**WTI term structure in super-contango though July contract week ending April 3  
but 12-month spread has eased +\$8.85 (+62%) since last Friday  
Front-month price increased +\$9.18 to \$34.11**

