### Iran panic attack deja vu

**Who's Buying?**

Asian importers took a big chunk of March-leading Iranian oil

- **87,000 b/d** Turkey
- **108,000 b/d** Japan
- **226,000 b/d** Unknown
- **258,000 b/d** India
- **613,000 b/d** China
- **387,000 b/d** S. Korea

Source: Bloomberg tanker tracking  
Note: Europe and Syria bought zero Iranian oil for March

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**Saudi-UAE assurances that they can compensate loss of Iran supply seem improbable**

**Iran Waivers may take 1,689 kb/d off world market (Tanker Trackers says 1,900)**

Maximum Saudi-Kuwait-UAE spare capacity is approximately 895 kb/d

<table>
<thead>
<tr>
<th>Date</th>
<th>Chinese Rig Count</th>
<th>Production (kb/d)</th>
<th>Max Prod (kb/d)</th>
<th>Spare Capacity (kb/d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-19</td>
<td>148</td>
<td>16,056</td>
<td>16,951</td>
<td>904</td>
</tr>
<tr>
<td>Feb-19</td>
<td>156</td>
<td>16,902</td>
<td>16,951</td>
<td>559</td>
</tr>
<tr>
<td>Change</td>
<td>-8</td>
<td>-336</td>
<td>0</td>
<td>336</td>
</tr>
</tbody>
</table>

**Record high output**

<table>
<thead>
<tr>
<th>Source: Baker Hughes, EIA &amp; Labyrinth Consulting Services, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rig Count (LHS)</td>
</tr>
<tr>
<td>Production (RHS)</td>
</tr>
<tr>
<td>Oil Directed Rig Count (Saudi Arabia, Kuwait &amp; UAE)</td>
</tr>
</tbody>
</table>

**Iran Waivers kb/day**

<table>
<thead>
<tr>
<th>Date</th>
<th>China</th>
<th>India</th>
<th>South Korea</th>
<th>Japan</th>
<th>Turkey</th>
<th>Unknown</th>
<th>TOTAL</th>
</tr>
</thead>
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<td>148</td>
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**Hard cancellation of sanction waivers moved oil prices up $2 on Monday.**

- Concern is over 1.3 mmb/d currently under waiver: China, S. Korea, India, Japan & Turkey.
- OPEC effective spare capacity is probably less than 900 kb/d (mostly Saudi Arabia & UAE).
- China and Turkey have expressed unwillingness to stop imports from Iran.
Concerns about Iran production probably exaggerated

- Unlikely that Iran production will decrease more than ~ 0.5 mmb/d in 2019.
- Present output is less than during 2012-2015 sanctions.
- Lowest level during those sanctions was 3.1 mmb/d.
• Price collapse of 2018 a major signal from market to U.S. tight oil producers.
• Both 2014 & 2018 price events caused mostly by non-OPEC+ production growth
• Non-OPEC+ increase about three times that of OPEC+ in before both collapses.
• October was largest production surplus since 1990 (+2.3 mmb/d).
• March key producer output increased +560 mmb/d compared to January.
• Most of increase from U.S., Brazil, Nigeria and Libya.
Sentiment rules oil markets like never before

- Sentiment has resulted in $30 swing in WTI price & $24 swing in Brent over the last 3 months.
- Similar range as late 2015 (maximum market pessimism) to post-OPEC+ 2017 production optimism—but over much shorter period.
- WTI was under-valued and Brent was correctly valued before the recent Iran panic attack.
- WTI is now correctly valued and Brent is at least $5 over-valued.
- IEA, EIA and OPEC continue to forecast over-supply through much of 2019.
- Saudi Arabia and its OPEC+ allies are understandably skeptical about increasing production when sentiment seems to operate more-or-less independently of fundamentals.
Combined Iran + tainted Russian oil panic attacks couldn’t sustain the price rally

- Last week began with the surprise announcement that U.S. waivers for Iran exports would be completely canceled in early May.
- Later the same week, 1.5 mmb/d of contaminated Russia went off line.
- These combined panic attacks proved too little to sustain the price rally.
- WTI ended the week -$3.00 less & Brent ended -$2.42 less than their weekly high prices.
- WTI near-month contango strengthened by week end.
- Even though Brent price rally stalled, forward curve backwardation stronger than during August through early October 2018 Iran panic attack.
- Supply concern for Brent remains strong but not for WTI—probably an oil-quality issue.