

Near-term: **NEUTRAL**

Next 3 months: **MILDLY BULLISH**



BULLISH

US, China on the path to recovery

Although at different milestones, the world's two largest economies and oil-consuming countries are on the path to recovering from Covid. China approached normalcy towards the end of 2020, while the US appears poised to leap ahead on the back of rapid vaccinations and major fiscal and spending stimulus packages.

SUPPORTIVE

Asia ex-China limping back to normalcy

Though India is seeing a rise in Covid cases again and fresh localised outbreaks have prompted snap restrictions in recent days in Australia, the Philippines and Hong Kong, by and large, the Asian continent has averted new waves of the virus and blanket lockdowns. With vaccination drives underway in the major emerging economies, there is reasonable level of confidence in a gradual trek back to normalcy.

NEUTRAL

OPEC+ resumes tapering cuts

OPEC+ agreed on Apr 1 to raise output by 1.14 mil b/d over May-Jul. Separately, Saudi Arabia will roll back its 1 mil b/d additional cut gradually over May-Jul. Total effective cuts will drop from 7.9 mil b/d in Apr to 7.3 mil b/d in May, 6.60 mil b/d in Jun and 5.759 mil b/d in Jul. It is more restrained than envisaged in the Dec 2020 deal, which could have shrunk OPEC+ cuts to 5.7 mil b/d from May. We see OPEC+ moves as neutral to a bit bearish now, with prices beholden to demand recovery.

MILDLY BEARISH

US dollar surges

The dollar index climbed to 5-month highs above 93 at the end of Mar. The currency is up about 3.7% YTD. The correlation with crude has weakened and even flipped to positive in recent weeks but broadly, a firmer dollar can be expected to exert downward pressure on crude.

BEARISH

Lockdowns, vaccine setbacks in Europe

Major European economies Germany, France and Italy are in the grip of a third wave of Covid and back in full or partial lockdowns. Cases have been spiking in Brazil, while the US and India have also seen an increase. The global 7-day rolling average of cases has been rising for the past five weeks, reversing the trend of a consistent and sharp retreat in the pandemic from mid-Jan through Feb. It appears that a sustained normalisation of activity will have to wait for widespread immunisation, which has been imperilled by political ineptitude in the worst-hit parts of Europe and which is making a slow and modest start in the lower-income countries.

BEARISH

Patchy economic recovery, inflation fears

The Chinese and US recovery could continue boosting sentiment but Europe's woes are likely to drag on through summer, setting its economic and job market recovery back by three to six months. Europe's summer travel season will likely be muted. Meanwhile, investor sentiment could remain skittish on inflation fears, with bouts of risk aversion weighing on the oil complex.

BULLISH

Accelerating recovery in most parts of world

We expect global economic recovery to accelerate through Q2, raising oil demand, though international travel restrictions will largely sustain, keeping a lid on jet fuel use. While newer variants of the coronavirus and the recent uptick in infections in most continents poses hurdles, renewed and widespread national lockdowns is not our base case. The EU will have to get a grip over vaccinations soon as widespread public discontent could erupt with the approach of summer. Globally, as vaccinations race against the virus, we may see a positive tipping point in the next three months.

BULLISH

OPEC+ likely to remain vigilant

The tapering of cuts agreed on Apr 1 is not cast in stone. OPEC+ is staying with its monthly ministerial meetings and we wouldn't rule out a pause or even a reversal of supply boost if crude prices begin spiralling down. We expect the Saudis to defend a \$60 floor for Brent as long as economic recovery remains on track. If OPEC+'s demand outlook proves correct, the market will remain in slight deficit and draw down stocks despite the tapering of cuts, which will support crude.

NEUTRAL

Pick-up in US shale activity

Drilling and fracking activity in the US shale patch has been picking up, a trend we see continuing through the coming months. But it is emerging out of such a deep 2020 crater that the impact will not be visible in output levels at least till H2. Crude is unlikely to slip at the sight of rising rig and frac counts as the market has been lulled into ruling out a shale revival, at least in 2021.

MILDLY BEARISH

Stronger USD

The US dollar is expected to retain its newfound strength at least through Apr, according to a Reuters survey of currency analysts. A top analytics firm we speak to sees the USD slightly firmer though Q2, before easing slightly in H2. Even if it weakens, the dollar's influence alone is unlikely to prop up crude much unless oil fundamentals are firmly supportive.

BEARISH

Lingering shadow of Covid, investor unease

Much of the recent months' rally in oil has been forward pricing, and that will remain the case. Given the pandemic's unpredictable nature and uncertainties around immunisation – the effectiveness of current vaccines against variants and over time remains untested – the tussle between a troubled present and hope for a brighter future will continue. Crude prices will remain vulnerable to pullbacks from any signs of weakness in the physical market as well as risk aversion in the financial markets. The OPEC+ supply increase will amplify any downward pressure. Macro-economic data from across the globe, especially manufacturing activity, has been positive for March. But the improvements could level off. The pace of the job market recovery globally is also highly uncertain.