VANDA insights
Energy markets & beyond.

BULLS & BEARS
Sentiment on Oil
30 April 2021

Near-term: Neutral

BULLISH

US powering ahead, China normalised

The US economic recovery has gathered steam. Q1 GDP jumped by 6.4%. Unemployment was down to 6% in Mar from Apr 2020 peak of 14.7%. A receding pandemic, rapid vaccinations and stimulus payments are fuelling a retail boom and domestic leisure travel is at a year-high. US fuel consumption has reached 98% of corresponding 2019 levels. The Fed is sticking to easy monetary policy. The Chinese government is reining in credit but not setting off alarm bells as the economy has fully recovered from Covid. The US and China together account for 42% of global GDP and about 16% of current oil demand, and thus major sentiment-drivers.

SUPPORTIVE

Europe limping back to normalcy

The Covid curve has flattened in recent weeks in Germany, France and Italy, which were hard-hit by a third wave. Mobility data shows driving on roads is back to around 95% of January 2020 levels in the three countries. The European Union's vaccination program is back on track after a shambolic start. The region is preparing for an active summer tourism season.

SUPPORTIVE

OPEC+ pumps up optimism

The OPEC/non-OPEC alliance on Apr 27 reviewed and reaffirmed its deal of Apr 1 to gradually raise supply over May-Jul. It expressed concern over India's Covid crisis but confirmed its upgraded 2021 annual global oil demand growth forecast of 5.95 mil b/d. OPEC+ sees excess OECD oil stocks almost gone by mid-year and 1.2 mil b/d average stock-draw through 2021. OPEC+'s words as well as actions reinforced market optimism.

NEUTRAL

Weaker US dollar

The dollar index has cascaded lower through Apr, from 5-month highs above 93 at the end of Mar to levels around 90 at present. But the correlation with crude has turned patchy, so mostly a neutral factor for now.

BEARISH

Indian catastrophe; threat of variants

We expect at least 1 mil b/d or over 20% loss in Indian oil demand through May on widespread localised restrictions as a brutal Covid wave engulfs the country. The central government is avoiding declaring a national lockdown but a fast-spreading double-mutant virus is forcing a growing number of states to impose tight curbs. Neighbouring Nepal, Bangladesh and Sri Lanka are seeing infections jump. Elsewhere, Philippines, Japan, Brazil and Canada are seeing cases surge. Turkey imposed a 3-week nationwide lockdown from Apr 29, its strictest so far. The Indian variant has been detected in at least 19 other countries, which could trigger more waves, especially where vaccination rates are low and social mitigation measures lax. In the worst-case scenario, newer virus mutants that may be resistant to antibodies could threaten the vaccinated countries. These tail risks are currently not priced in, being pushed aside by optimism over US, China and Europe.

Next 3 months: Moderately Bullish

BULLISH

Strong summer led by US, Europe, China

Barring any unforeseen setbacks, we expect continental Europe's major economies to catch up with the US and UK's vaccination successes. A fully reopening economy and pent-up demand could trigger a summer bonanza in travel and other economic activity in the US. While China remains on a strong growth track, Indian oil demand could also begin to normalise sometime in Jun, once the latest wave is brought under control. Sporadic virus outbreaks across the world will likely continue to be tackled with localised restrictions rather than big lockdowns, making for a gradual trek to normality for the world as a whole.

BULLISH

Restrained OPEC+, hawkish Saudi Arabia

Saudi Arabia is likely to ensure OPEC+ proceeds cautiously with the remainder of its production cuts tapering. Monthly review meetings will help the alliance fine-tune its response to changes in market fundamentals and demand outlook. OPEC+ target of lowering OECD oil stocks to 2015-2019 average levels suggests the alliance wants to aim for a tight balance. The US has already cleared up its entire 2020 crude and product stocks overhang; if OECD stocks continue to decline amid strong summer demand, it will lend additional support to oil sentiment.

SUPPORTIVE

Shale sidelined

Drilling and fracking activity in the US shale patch has been steadily picking up since last Sep, but has to dig its way out of a deep hole. Oil majors and big independents in US shale will continue to choose cash discipline over output growth, while the pool of funding for mid-sized and smaller independents continues to shrink. In the absence of a shale rebound, OPEC+ will virtually control supply.

BEARISH

Lingering shadow of Covid, inflation worries

Global recovery from Covid has been uneven from the start. It has also been characterised by false dawns, sudden reversal in fortunes for countries and regions as well as unpredictable cycles of ebb and flow of the contagion. We assume that will remain the case on a global level and variable access to vaccination will increase the disparity between the economies of countries and regions. Critically, it also means the virus could continue to thrive and mutating into more transmissible or even potentially more lethal strains in some part of the world at any given time. While strict international border controls are expected to remain in place, the risk of an antibody-resistant variant finding its way into an immunised community and triggering a fresh wave cannot be ruled out. Meanwhile, although the broader financial markets are all pumped up by waves of monetary and fiscal stimulus, the spectre of inflation looms large, sparking concerns over policy tightening. Nervous bouts of risk aversion and sell-offs in equities are likely to also drag down oil.