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Energy markets & beyond.

BULLS & BEARS
Sentiment on Oil
12 February 2021

Near-term: **MILDLY BULLISH**

BULLISH — Early signs of Covid in retreat
Coronavirus infections have been steadily receding on a global level over the past four weeks. The 7-day rolling average of daily cases has plunged 43% from an all-time high of nearly 746,000 on Jan 11. The sustained and sharp drop, coupled with the spread of vaccination, has kindled optimism that the worst of the pandemic may be over even before we achieve global herd immunity. While not a unanimous view yet and clouded by the risk of a reversal in the virus' trajectory, each new day's encouraging data adds to the confidence.

SUPPORTIVE — Saudi extra tight
The unilateral Saudi output cut of 1 mil b/d over Feb-Mar had been progressively factored in since Jan 5. But it has been turbo-charged by an upgrade in economic and oil demand expectations on encouraging Covid data. Overall OPEC+ compliance for Jan was strong.

SUPPORTIVE — Shifting expectations of OPEC+
Crude's rally to successive 1-year highs has prompted a fresh view that it may encourage OPEC+ to turn more cautious and restrained on tapering its cuts. Brent at $60 and above can incentivise the producers to keep a lid on output through Apr, or till the recovery becomes more established. Higher prices bring higher oil revenues, achieving the same result as increased output.

SUPPORTIVE — Promise of vaccines
It's been a strong rollout of Covid vaccines in the US and UK, though a disastrous start in the EU. Major emerging economies have also either begun or are about to start vaccinations. While reaching global immunisation will take us well into 2022, the pace thus far is encouraging.

NEUTRAL — China outbreak, variants, USD, US stimulus
Early-Jan Covid outbreaks in north/northeast China are under control. Anxiety on account of more transmissible mutations of the coronavirus has ebbed somewhat as their impact has been fairly localised. The US Dollar Index has been flitting around the 90-91 handle, but not a major influence on crude right now. The Biden admin is pushing ahead with a $1.9 trillion stimulus plan but the effect is neutral for now, the hope already priced in.

BEARISH — Slow, patchy recovery in economies
The latest bout of optimism over Covid's retreat and accelerating economic and oil demand recovery is forward-looking and somewhat tentative. Macro-economic data showing most economies struggling to come out of the 2020 recession weighs on sentiment. Current oil demand across the globe is mostly flattish. European demand growth is negative, US growth is very slow, while Chinese buying is taking a breather. Stimulus has flowed into manufacturing and real estate sectors in several major economies but consumer confidence and retail spending have been declining. Job markets are currently expected to take a long time to recover.

Next 3 months: **MODERATELY BULLISH**

BULLISH — OPEC+ likely to try and defend $60
We expect OPEC+ ministers meeting in early Mar for a decision on Apr output policy to agree a strategy aimed at supporting Brent above $60. To some extent, that will depend on what prices do over the coming fortnight – they could op for a rollover or a nominal increase. Higher prices, a firm rein on output and strong compliance can prove to be a virtuous cycle. Saudi Arabia will likely end its 1 mil b/d extra cut. If it opts to do so gradually, that will be price-supportive.

BULLISH — Validation of weakening Covid
If Covid continues to recede across the globe in the coming weeks (minor setbacks and local flare-ups excepted), which is our base case, it will crystallise confidence in economic and oil demand recovery. As the crude trading cycle moves into summer, forward-looking, positive market sentiment will increasingly overshadow any concerns over a tepid Q1. Combined with optimism over a summer revival in travel and economic activity and continued vaccinations, it could result in a bullish momentum.

SUPPORTIVE — Improving risk appetite
If the broader financial markets continue to show a strong risk appetite – helped by an improving economic view on Covid's abatement and the likely passage of another US stimulus package – they will lend buoyancy to crude.

SUPPORTIVE — Declining oil inventories
The forward structure in all benchmark crudes, sweet and sour, has firmly settled into backwardation, which encourages barrels to move out of storage. US crude stocks slipped back to within their five-year range at the end of Jan. Global floating storage rose in Dec but resumed a decline in Jan. If landed and floating stocks continue to ease, helped by the extra Saudi cuts, they will send a positive signal to crude prices.

SUPPORTIVE — Asian appetite
We expect China to make a strong return to the crude market in Mar, with the Jan Covid outbreaks and the Lunar New Year slowdown behind it. Indian oil use is expected to remain on a strong recovery path.

BEARISH — Lingering shadow of Covid
At some point, economies will need to start delivering on the forward-looking optimism. But it may take a while for the job market and consumer sentiment to catch up with the promise held by data showing that the worst of Covid is behind us. Abundant caution may slow down recovery in some areas of the economy – especially the services sector and international travel – making current enthusiasm exaggerated. Glitches in vaccination programs, coupled with outbreaks of virus variants, may dampen the economic rebound even if overall global infections remain on a downward slope.

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