

Flash Note:
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Who is behind the historic decline of oil? As always, the usual guys. What next?

- **Who?** Hedge Funds were building short positions up to 214M barrels in the past month and a half to a total of 365M barrels.
- **What are they doing now?** Now they are starting to trim short positions in anticipation of shutdowns oilfields (as refineries are demanding producers in North America to stop pumping oil). Short positions across six major contracts were scaled to 313M barrels (from 365M barrels).
- **Will HFs continue to trim short contracts?** This will depend on the result of the conversations that Presidents Trump and Putin held this morning. As a first step, both leaders agreed to have their top energy officials discuss weak global oil markets. A Kremlin statement didn't say exactly what the ministers would discuss, but Moscow has previously signaled it would like to see more countries joining efforts to balance global oil markets. The Trump administration is seeking to persuade Saudi Arabia to cut its output, and will soon send a special energy envoy to the kingdom.
- **Storage is at the limit:** A dozen VLCCs are being sought to load oil from the US Gulf Coast from late-April to early-May. The VLCCs were provisionally chartered between \$11-15M, compared to \$6.5M in late February. Some of the tankers were provisionally booked to send crude to China, Singapore, and South Korea, and may reduce their speeds during the voyage, part of a slow-steam strategy where sellers wait for a rebound in prices. The good news are that refiners in China are expected to increase processing rates to over 12M bpd this week (from the 10M a day seen in February after Chinese refiners cut production by over 25% y/y).
- **Meanwhile, in the US, some private producers request all producers to cut output:** Executives from two leading shale producers sent a letter on Monday requesting Texas regulators to hold a hearing on the idea of curbing crude production, something that has not happened in the state since the 1970s. The executives argued that without additional regulation there could be single-digit prices across the country. In fact, oil was selling for less than \$10 a barrel across key North American hubs last night amid weak demand. Bakken crude in Guernsey, WY, fell to a record-low \$3.18 a barrel yesterday, while Western Canadian Select fell

to \$4.18. WTI in Midland was \$10.68, just above its all-time low from 1998. West Texas Intermediate Light fell to around \$7.50 a barrel yesterday, or the equivalent of \$3 a barrel outright. The article said that including transportation costs from the wellhead, that would mean that grade is worth near-zero, if not negative, when it comes out of the ground.

- **Saudi Arabia is also taking its toll:** Saudi Aramco is considering a sale of a stake in its pipeline unit to raise money amid a slump in crude prices. Aramco need to raise cash this year ahead of its commitment to pay out \$75B in dividends in 2020, as well as the first payment for its \$70B acquisition of a stake in chemicals producer Saudi Basic Industries.

I have the impression that soon the price of crude oil will normalize and rise sharply. I don't know when, but it is too expensive for all parties to keep it there.

It could be Hedge Funds themselves who inflate the price. In the same way that they dragged it down.