ANDBANK
Private Bankers

Flash note
25/06/2024

Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

Comprehensive Analysis Reveals Six Bullish Trends and Two Bearish Factors Shaping Crude Oil Prices

(Bullish price factor) – Israel-Hezbollah. US to Hezbollah: "Don't count on us to stop an Israeli attack". The messaging comes as Politico reported US officials appear resigned to the possibility Israel will make a major move against Hezbollah inside Lebanon in the coming weeks. U.S. officials are trying to prevent a bigger Middle East and issued this unusual warning to Hezbollah: "Don't assume that Washington can stop Israel from attacking you". The message is designed to get the Lebanese-based Shiite militia to back down and de-escalate the brewing crisis. U.S. special envoy Amos Hochstein and other American officials have traveled to the region in recent days to rein in both sides, even as there's a growing sense in Washington and beyond that escalation is inevitable. U.S. officials fear that a full-blown battle between Israel and Hezbollah, which, like Hamas, is backed by Iran, but is stronger and better armed, could tip the region into an all-out war. Israeli leaders do not appear to have made a final decision on what to do, though none seems to want an all-out war, and neither does Iran. The U.S. intelligence community believes that Hezbollah leader Hassan Nasrallah doesn't want a war but assesses that the risk of war is heightened this month as is the risk of a miscalculation on either side, according to another senior U.S. official.

(Bullish price factor) – The sinking of a coal ship in Red Sea on June 18th by Houthi rebels is driving fresh surge in insurance costs, transportation in general and crude oil price for refineries. The sinking of a coal-carrier by a sea drone has boosted the risk of navigating the vital Bab el-Mandeb chokepoint to a new level and is driving a fresh surge in insurance costs. Yemen's Houthi militants managed to strike it with a seaborne drone, killing one crew member and injuring others. The price of covering vessels for transit — measured as a percentage of the ship's value — surged to about 0.6%. It means that a vessel worth $50 million would have to pay $300,000 for one passage. US and UK bombing of the Houthis, which began in January, failed to quell the attacks and instead led to vessels associated with the two nations becoming targets for the group, alongside freighters with connections to Israel. The Houthis, supporting Gazans, have warned of an expanded operation to potentially attack as far as the Mediterranean. Not all ships are paying the bumper insurance premiums. Chinese vessels continue to receive significant discount, because they have so far been less likely to be deliberately targeted. The Tutor incident marked the first time that a ship was successfully hit by what the military call an uncrewed surface vessel, or USV — effectively a small boat packed with explosives. The ship was very new, having been built in late 2022. It was capable of hauling about 80,000 tons of coal and would have had a value of $37.5 million in market.

(Bullish price factor) –US SPR: The Biden administration is ready to release more oil from the Strategic Petroleum Reserve given gas prices are "still too high for many Americans." "We will do everything we can to make sure that the market is supplied well enough to ensure as low price as possible for American consumers,". The move comes amid a years-long debate among Washington lawmakers about the role of the US' SPR. A Treasury Department report has since claimed that sale brought the price of US gasoline down by as much as 40 cents/gal. "Our sales in the summer of 2022 kept Russia's weaponization of energy markets from hurting our consumers at the pump," Energy Secretary Jennifer Granholm told the Republican-led US House Oversight Committee May 24. Still, the sale spurred widespread criticism from Republicans, who accused the administration of risking the US' energy security in an attempt to curry favor with voters ahead of the crucial 2022 midterm elections. On May 29, two key energy-focused Republicans, US House and Senate Committee on Energy, sent a letter to Energy Secretary Jennifer Granholm urging her to prevent Biden and his staff from further SPR releases. "We urge you, in the strongest terms, to put this country's energy security first and stop abusing the SPR for political purposes". "As the Secretary of Energy, it is your responsibility to ensure that the SPR is ready to respond to true energy supply disruptions. We ask that you ensure that the SPR is not abused for political purposes in this election year, as it was in 2022”. According to the US Energy Administration, the SPR currently holds 370.5 million barrels. When Biden took office in January 2021, it held 638 million.

(Bullish price factor) – Berkshire Hathaway boosts stake in Occidental Petroleum to nearly 29%. Those acquisitions gave Berkshire about 255.3 million Occidental common shares, an about 29% stake worth approximately $15.37 billion. The Houston, Texas-based company acquired Permian shale oil producer CrownRock in a $12 billion deal last year to boost its presence in the largest U.S. oilfield.

(Bullish price factor) – Denmark is considering ways to restrict the passage of Russia's "shadow" tanker fleets through its Baltic waters. Russia sends about a third of its seaborne oil exports, or 1.5% of global supply, through the Danish straits that sit as a gateway to the Baltic Sea, so any attempt to halt supplies could send oil prices higher and hit the Kremlin's finances. Since Western nations imposed a price cap on Russia's oil in an attempt to curb vital funds for its war in Ukraine, Russia has relied on a fleet of often ageing tankers based and insured outside the West. Denmark has brought together a group of allied countries to evaluate measures that would target this fleet. "There is broad consensus that the shadow fleet is an international problem and that international solutions are required". "Countries involved in the talks included other Baltic Sea states and European Union members”, the minister said. Denmark is concerned that old tankers transporting oil through its straits represent a potential danger to the environment.

(Bullish price factor) –Less bearish: Traders repurchased some of the petroleum they had sold after OPEC+ surprised investors by announcing plans to start increasing production from the start of October. Now, Saudi Arabia and its OPEC+ allies have stressed that “any future production increases would be contingent on market conditions”. Hedge funds and other money managers purchased the equivalent of 80 million barrels in the six most important petroleum futures and options contracts. Purchases reversed about 40% of the 194 million barrels sold the week before.

(Bearish price factor) – UK output projection: Bloomberg reported the UK could be pumping almost 30% more oil and gas than currently projected by 2030 if about £20B of new investment can be secured. The UK could be pumping almost 30% more oil and gas than currently projected at the end of the decade if about £20 billion of new investment can be secured, according to an industry group. “Improved recovery rates and slower decline are both achievable but only if investment can be secured,” said Offshore Energies UK. “Government decisions following next month’s election offer the opportunity to focus on a homegrown energy transition which could secure the livelihoods of hundreds of thousands of highly skilled people.”

(Bearish price factor) – Brazil is steadily restoring crude output after production plummeted from damaged rig gear, hindering OPEC+ plans. Brazil’s rebound in oil production promises to complicate OPEC efforts to micromanage global supplies and prices. Daily crude output in the South American powerhouse kicked off the year at 3.73 million barrels, then plummeted nearly 25% as a flurry of offshore-platform repairs cratered crude output. Recovery from worst of outages seen happening in coming months. Now more than one-third of the deficit has been restored, offering far-reaching implications for Latin America’s largest economy and worldwide energy markets.

For us, it is crucial to understand the developments in the energy market in order to comprehend global inflation dynamics, which allows us to foresee the most likely performance of central banks in their interest rate decisions.

We keep our fundamental view for the WTI oil: Target range USD75-95bbl.

Best Regards,