

Oil – Have mercy

CRUDE's theme song for 2019 may as well be "Mercy" by Shawn Mendes. And that may not change much in 2020 as the same factors – and some – have a hold on the commodity.

Oil's half-full glass could be the deeper output cuts by Opec (Organisation of Petroleum Exporting Countries) and allies that could ensure prices don't fall off a cliff – that is, if members strictly comply with the quotas.

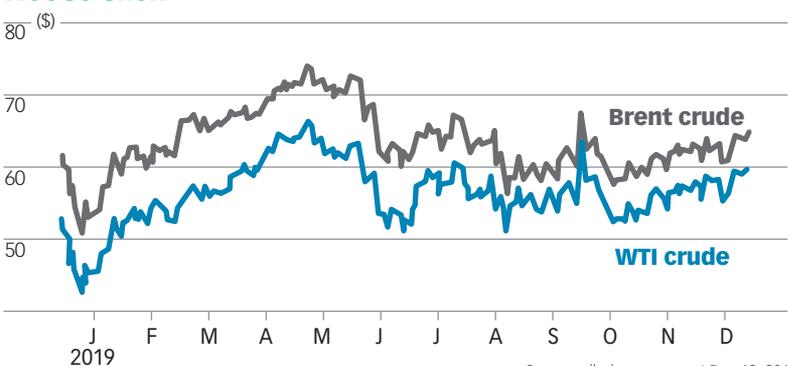
2020 will be a dance between Opec-led supply cuts and demand-side concerns amid a sagging global economy and rising inventory. The lingering impact of the tariff war – for now at least – will have no mercy on crude prices.

"I can see no justification for Brent crude above US\$70 (per barrel)," says Jeffrey Halley, OANDA's Asia Pacific senior market analyst.

That may be an understatement: Opec's ringleader and largest producer Saudi Arabia is not "rah-rah" over an uplift in oil prices in 2020. According to analysts' calculations, the kingdom's budget for next year assumes Brent will average about US\$60-US\$65/barrel.

Based on Bloomberg's analysts poll, Brent could average at just under US\$61/b next year. That echoes the forecast by the US Energy Information Administration (EIA) for Brent spot prices. **BY ANITA GABRIEL**

Not so slick

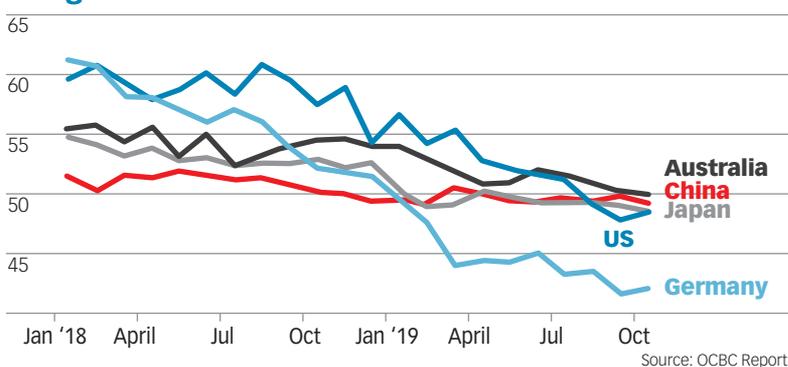


Party pooper – US-China feud

A prolonged US-China trade spat has set into motion a global economic slowdown which in turn, had a stranglehold on crude prices. This, despite attacks on Saudi Arabia's oilfields in September that knocked off 5 per cent of the world's oil supply.

Spot prices for crude benchmarks Brent and West Texas Intermediate (WTI) have averaged around US\$64 per barrel and US\$56.71 per barrel respectively in 2019. That has undershot AxiTrader chief Asia market strategist Stephen Innes' expectations that Brent would average at US\$73/barrel. He lays the blame on the "demand devastation" caused by the protracted trade wars.

PMI gloom



Note: PMI (Purchasing Managers' Index) is a gauge of economic health of manufacturing sector

Factors that could start an oil bash – or bash oil

- Fear of recession as global economic slowdown deepens
- Oil continues to be stuck in US-China trade talk limbo; a breakthrough would be a sure catalyst
- US shale boom could cap oil prices
- US November presidential elections to trigger price volatility
- Output decisions by oil cartel Opec and allies (if global economy worsens, Opec+ may have to contend with lower Brent as higher prices could pile inflationary pressure on fragile economies)

- Impact of IMO (International Maritime Organization) 2020 could create some uncertainty although it is reported that major bunkering hubs such as Fujairah, Rotterdam and Singapore already have large volumes of compliant fuel available
- Geopolitical risk in the Middle East and unrest in Latin America could threaten oil supply

PS: High-profile investors Warren Buffet and Carl Icahn are reportedly scooping up battered energy stocks, hoping for a rebound. Do they know something we don't?

Opec output



Excludes Iran, Libya and Venezuela production, which have been exempted from the quotas.

2019 – A recap

Brent started the year on an encouraging note, reversing the final two months of 2018 as it tumbled from US\$86.29 to US\$50.47 on US-China trade-war fears.

In April/May, a possible truce on the US-China trade front and tight supply pushed Brent to nearly US\$75 billion. By then, it became clear that the US Federal Reserve would reverse the rate hikes; sure enough, it slashed rates in July, September and October to calm recession fears.

In early August, Brent fell to a low of US\$56.23 – a decline of 25 per cent from peak to trough and has remained lacklustre, lacking the impetus to even break above its 2019 average levels, said OCBC in its commodity outlook report.

A bang and a whimper

