Futures Report

Short Term Oil Forecast

15th April 2024

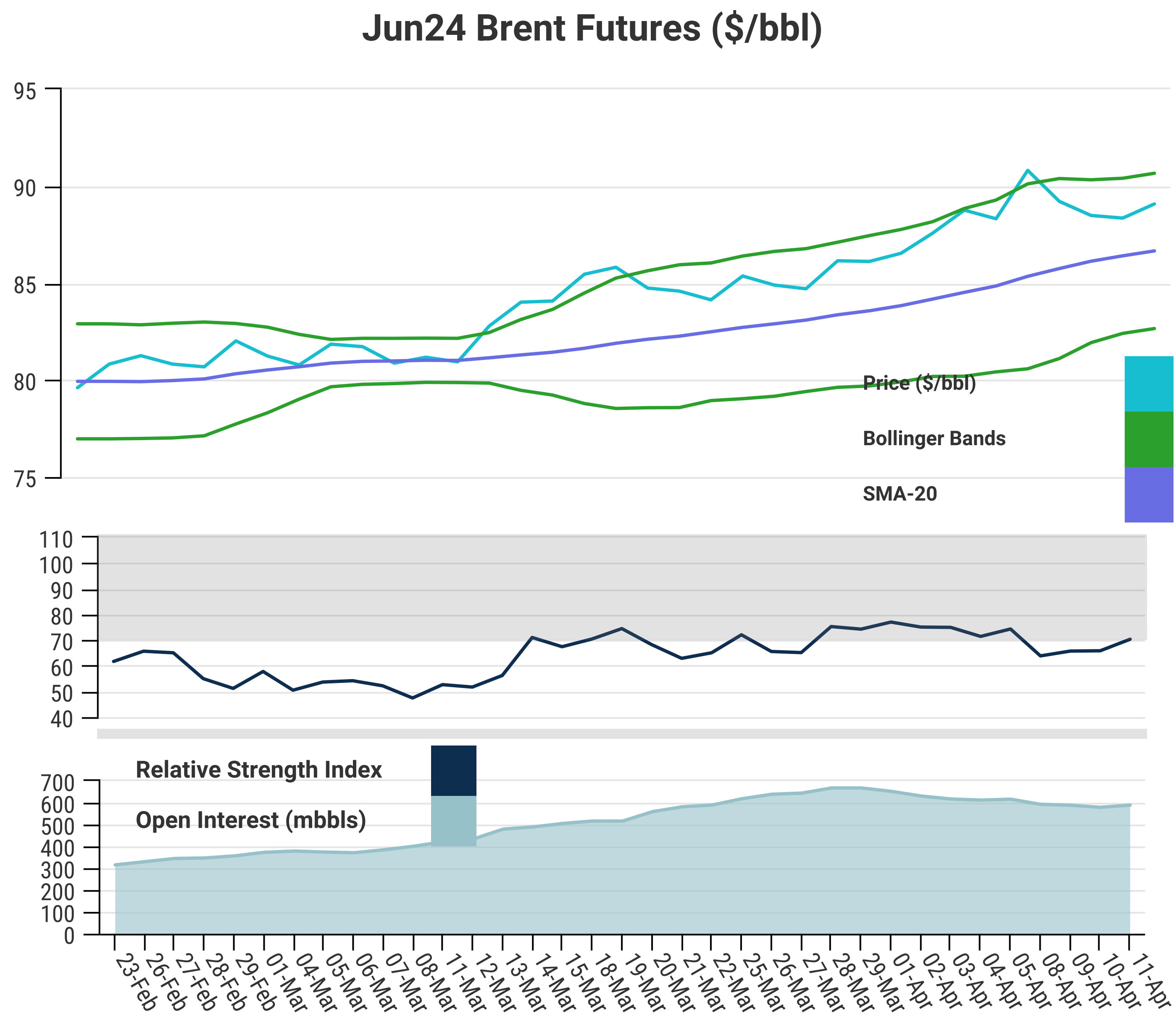
Forecast and Market Drivers

Product	Current	View	1W Forecast
June Brent	$89.35	BEARISH	$86-88
June WTI	$84.25	BEARISH	$82-83
June WTI/Brent	-$4.28	NEUTRAL	$(6)-(3)
June Gasoil Futures Crack	$19.87	CAUTIOUSLY BULLISH	$21-23
June RBOB Futures Crack	$30.69	NEUTRAL	$30-31.50

Summary

- **Technical indicators** for the current period highlighted similar trends across product groups. **Brent's** RSI has been hovering around overbought territory, with price action oscillating around the $90/bbl mark throughout the week. **Gasoil** has seen a significant increase in open interest, now above 112mbbls in June. Price action has levelled out a little from the significant drop we saw last week, and this has been replicated in the crack, potentially signalling there has been better buying at these very low prices. **RBOB's** Bollinger bands have continued to narrow w-o-w indicating a downturn in market volatility, as prices gained stability around the $2.70/gal level.
- Looking at the **correlation matrix**, products experienced similar price actions, with RBBR reaching $25.70/bbl before softening, while the gasoil crack correlated closely with the heating oil crack, reflecting weak demand amid a reported build in distillate inventories according to the EIA report on Mar 10.
- The **WTI/Brent spread** continued to widen week-on-week with levels at their lowest in the past four weeks. Brent structure remained consistent this week, mirroring the prior week's forward curve, albeit slightly weaker in the front months.
- **ETF flows:** All 3 ETFs saw a mixed flow, day on day, through the week although the bearish flows into the USO and UCO were greater. A great deal of this bearish momentum came from selling calls, indicating players' neutral to bearish outlook.
- **Refinery margins** weakened by 23c to $7.11/bbl on Apr 12. Gasoil continued weakening and unexpected builds reported by the EIA, while EBOB saw a week-on-week increase and HSFO and VLSFO components weakened notably due to lack of support.
- Over the last five trading sessions, the US dollar surged, driven by stronger-than-expected US inflation data, propelling USD/JPY to new highs since 1990, while pressuring EUR/USD and GBP/USD to five-month lows, exacerbated by ECB's dovish stance and heightened Middle East tensions.

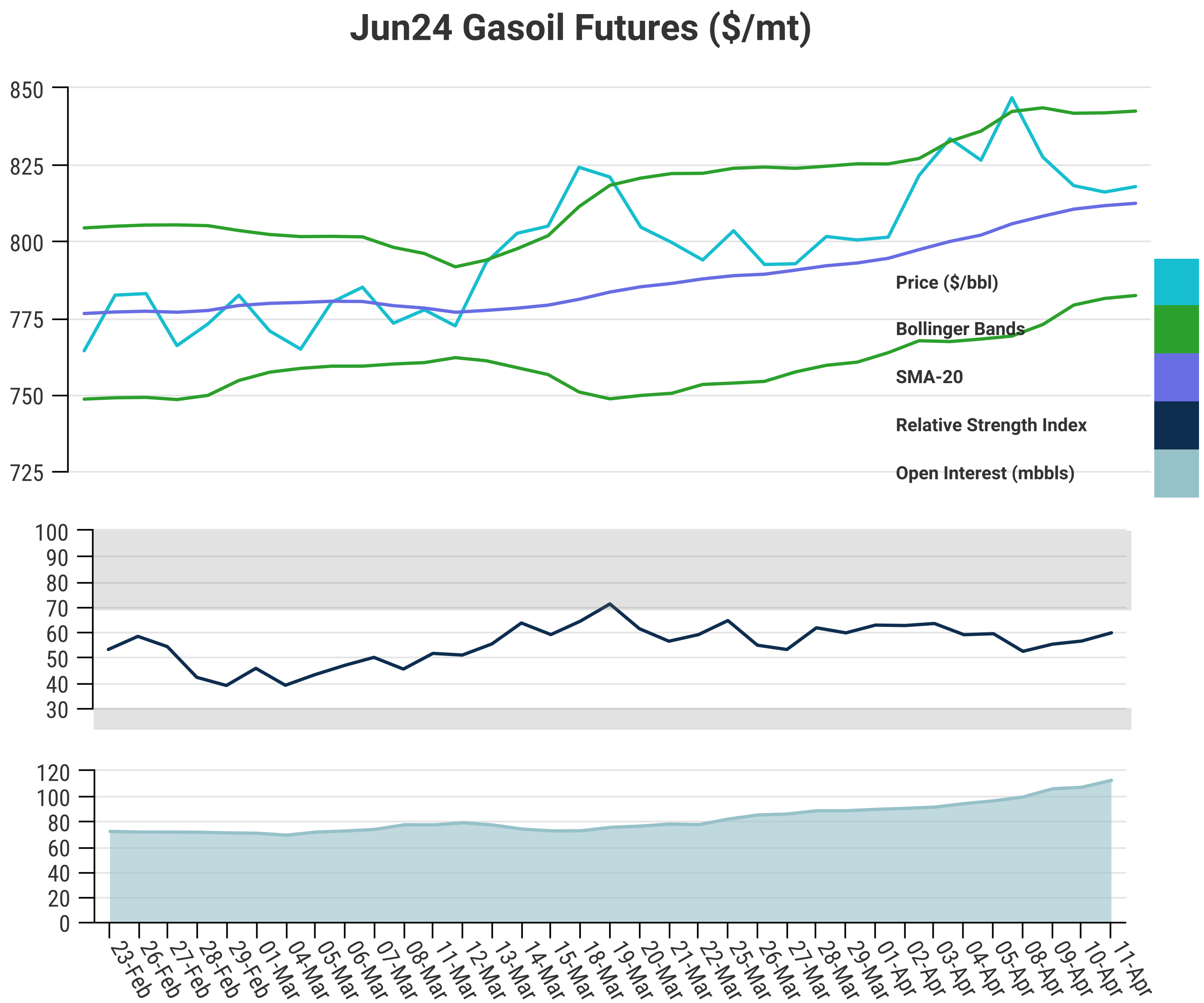
Crude Oil - Technical Analysis



Key Summary

- **RSI Status:** The RSI has been hovering around overbought territory, with price action oscillating around the $90/bbl mark throughout the week. Over the weekend, Iran launched a direct drone attack against Israel, however, it was met with an underwhelming response from the market due to its lack of damage and its being so choreographed. The market is keenly awaiting a decision regarding Israel's response, with Israeli Prime Minister Benjamin Netanyahu's war cabinet reportedly favouring a retaliation against Iran, whilst President Biden urges Israel to take a measured approach.
- **Bollinger Bands Indication:** The Bollinger bands have maintained their width as volatility stalls somewhat over the past week, with price action remaining comfortable between the Bollinger bands, after briefly surpassing the upper Bollinger band on Apr 05.
- **Open Interest Insights:** Open interest has continued to gradually come off, falling over 20mbbls week-on-week to reside at 590mbbls.

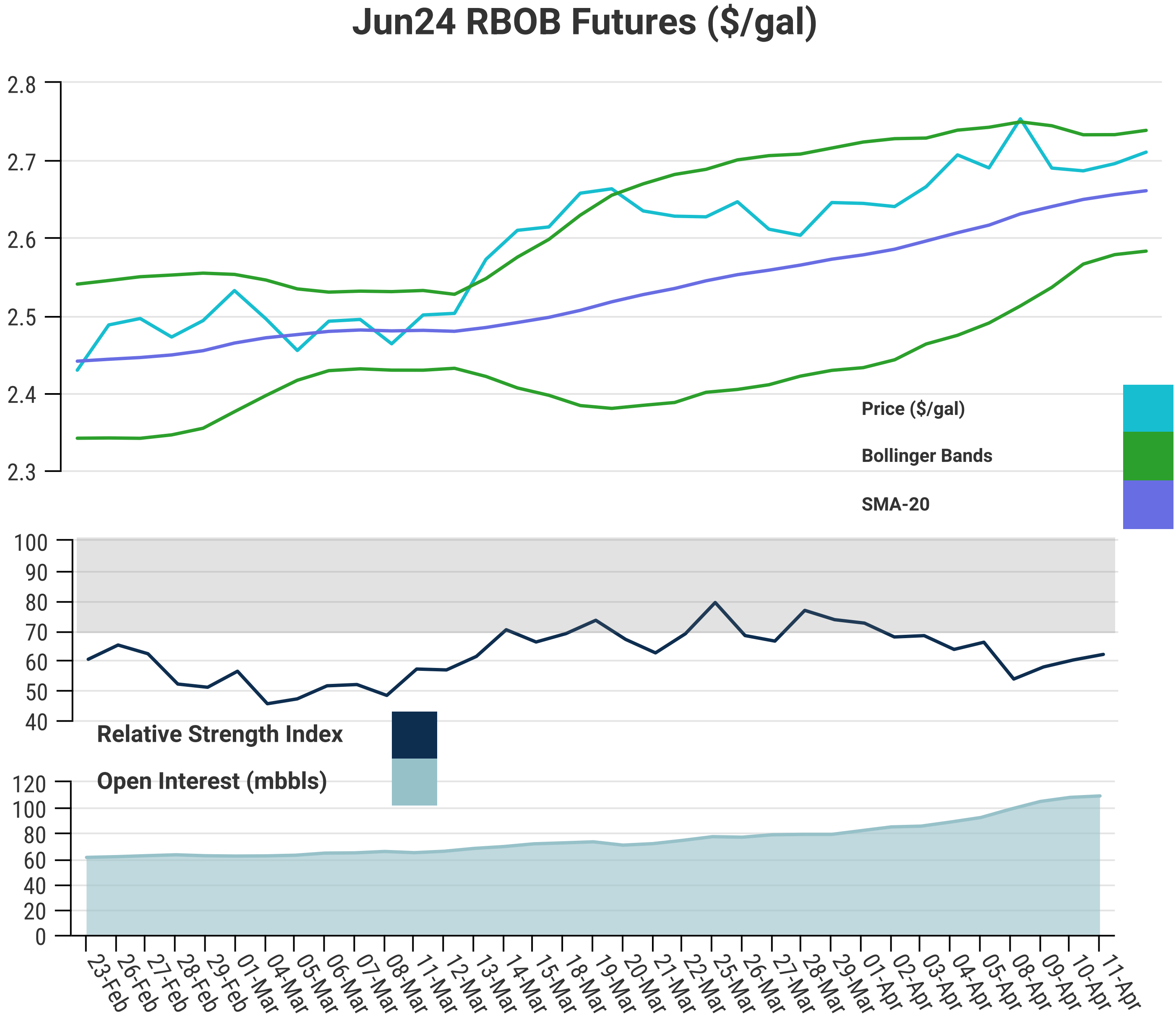
Gasoil Futures - Technical Analysis



Key Summary

- **RSI Status:** European gasoil fell from just under $847/mt on Apr 5 to $816/mt on Apr 10, although this seems to be somewhat of a support level as it rose to $817/mt on Apr 11. A similar pattern was seen in the May crack, which reached a bottom of $21.14/mt before it was supported to $21.78/mt. There is still an oversupply narrative dogging the market as Russian barrels have been turned away from Latin America and intermediate spec barrels have not shown strong physical demand. RSI has gently risen to 60 as the prices have levelled out.
- **Bollinger Band Indication:** The Bollinger bands have narrowed as the pressure came to an end, suggesting volatility has dropped into these supported levels.
- **Open Interest Insights**: Open interest continued to increase, breaking above the 112mbbls levels with players clearly happy to add risk in the market. Looking at the CFTC report for the week to Apr 9, managed by money positions added 8.7mbbls of length, and removed a huge 32% of short positions from the market. Interestingly, the open interest for June specifically continues to increase, even as the market at large is seeing a more risk off attitude.

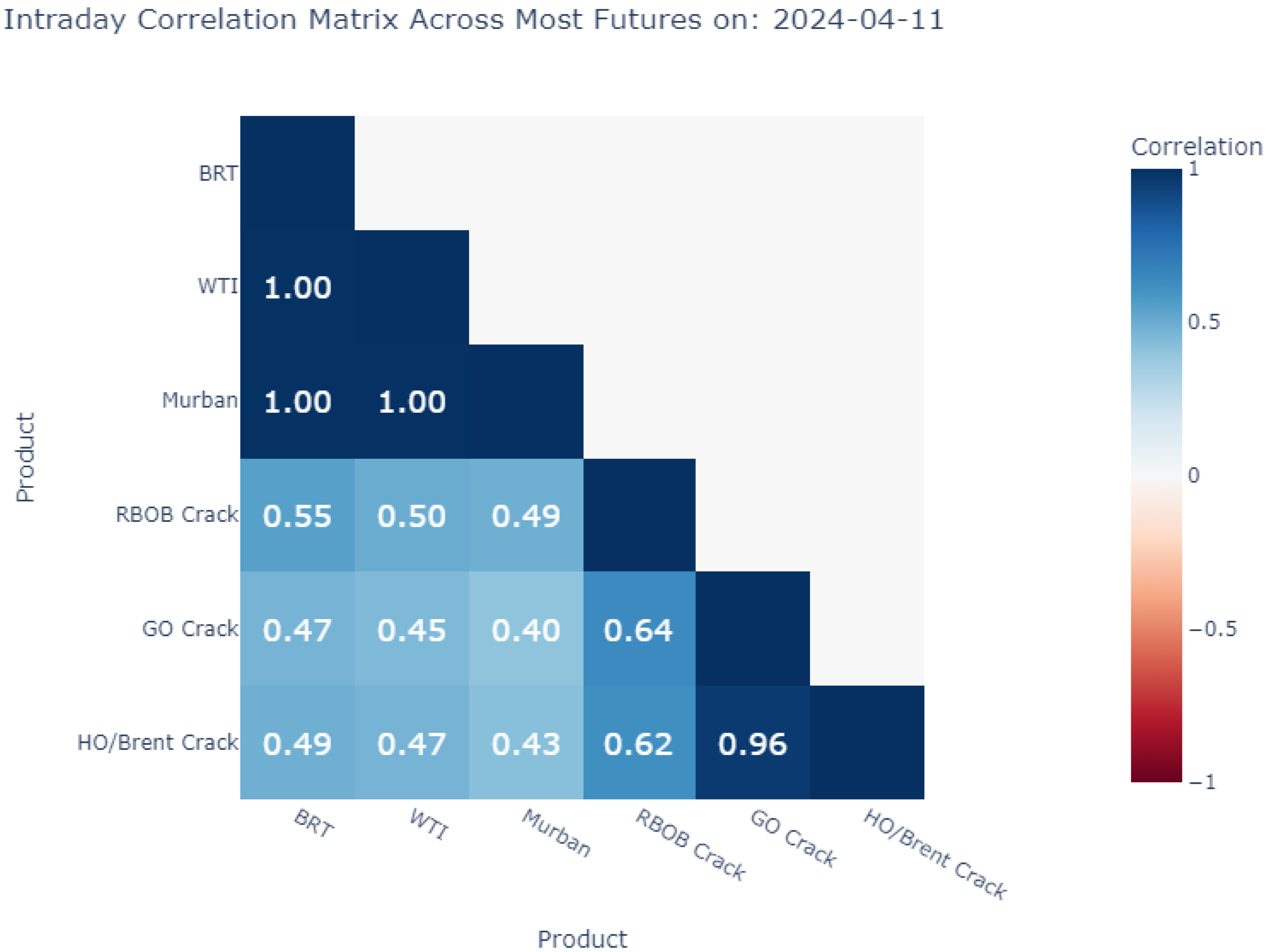
RBOB Futures - Technical Analysis



Key Summary

- **RSI Status:** The RSI has remained in neutral territory throughout this week, despite prices rising to above the $2.70/gal mark. Nonetheless, in line with this rising price action, the RSI has been trending towards overbought territory, sitting at 62 come Apr 11. RBBRs have also seen a retracement higher after falling to low $24/bbl handles on Apr 08, rising back to above $26/bbl by Apr 12.
- **Bollinger Bands Indication:** The Bollinger bands have continued to narrow w-o-w indicating a downturn in market volatility, as prices gained stability around the $2.70/gal level, though levels still remain higher than their 20-day moving average. Similar to Brent, except for Apr 05, prices remained within the width of the Bollinger bands. The EIA reported on Apr 10 that US gasoline demand had fallen 6.75% from the previous Friday to 8.612mbpd, 3.6% this time last year.
- **Open interest insights:** We continued to see open interest trending higher w-o-w, sitting at almost 110mbbls currently. Looking at CFTC data, we can see a lot more risk-on interest coming from speculative players in the week to Apr 09, as money managers were seen adding to both their long and positions in the week, by 7.7mbbls (+7.8%) and 6.4mbbls (41.2%), respectively.

Correlation Matrix



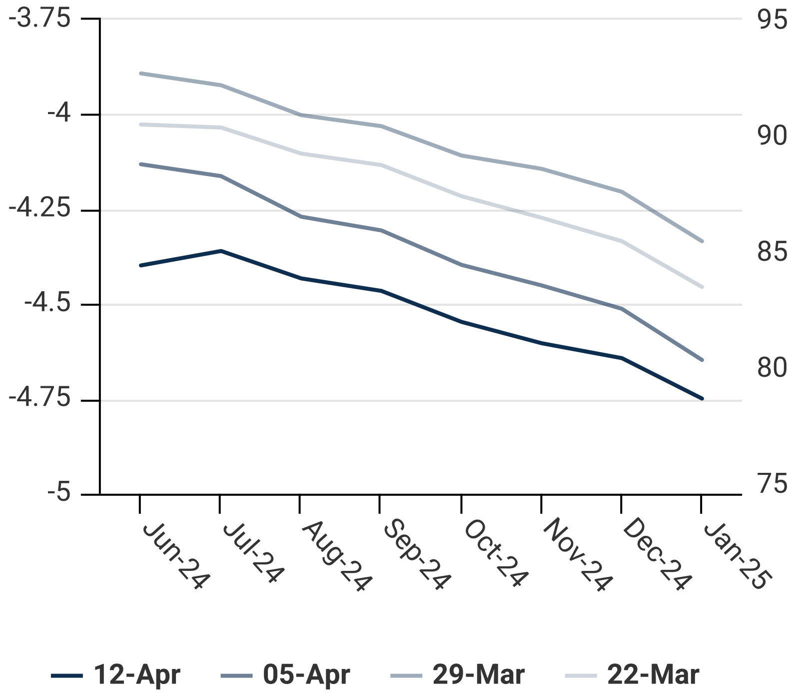
Looking at the correlation in the June tenors for a range of products, the crude contracts continued to have a strong correlation to one another as outright crude prices weakened over the day, with Jun Brent futures dipping below $90/bbl although prices were then supported higher in the afternoon as it was an all-around rangebound day for crude in lieu of significant changes in the continuing geopolitical turmoil in the Middle East.

The products all saw not dissimilar price action as they saw a fairly strong positive correlation over the day. RBBR reached $25.70/bbl in Jun before softening to $25.30/bbl as some real arb selling at 9.50c/gal was seen.

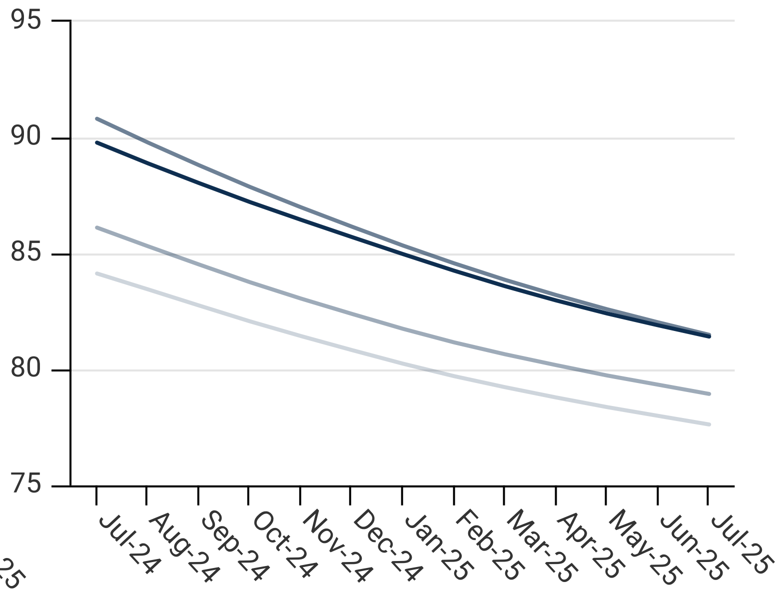
The gasoil crack saw a strong correlation to the heating oil crack as the distillate complex weakened across all regions as there continues to be a weak demand narrative, the EIA report on Mar 10 showed a 1.659mbbls build, compared to the 1.382mbbls draw forecast.

Crude Oil - Curve Structure

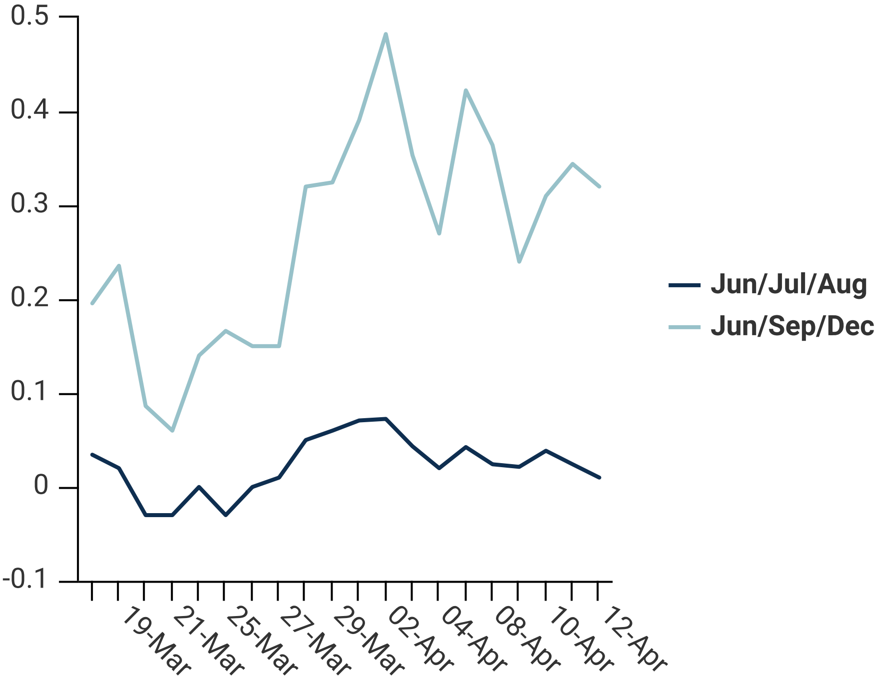
WTI/Brent Structure



Brent Jun24/Jun25 Structure over the last four weeks



Brent Futures Flies ($/bbl)



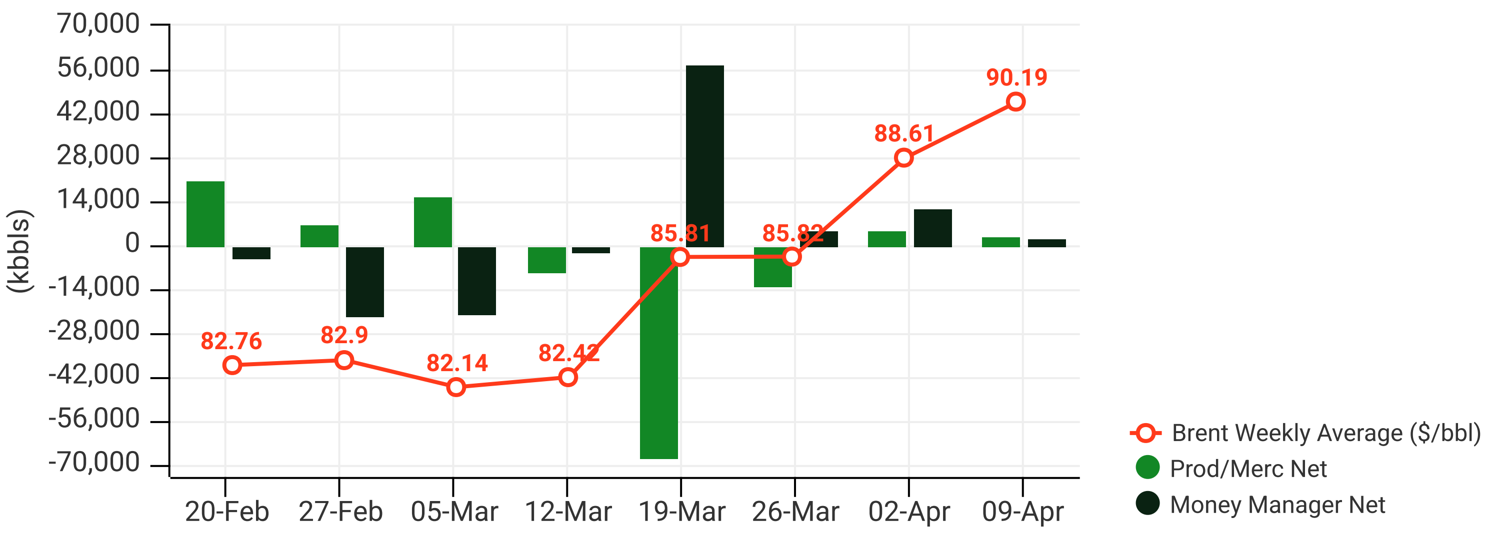
The WTI/Brent spread continued to widen week-on-week with levels at their lowest in the past four weeks. This has occurred on the back of Brent structure remaining supported around the $90/bbl mark, whilst the American benchmark hovered above $85/bbl.

Brent structure remained consistent this week, mirroring the prior week's forward curve, albeit slightly weaker in the front months.

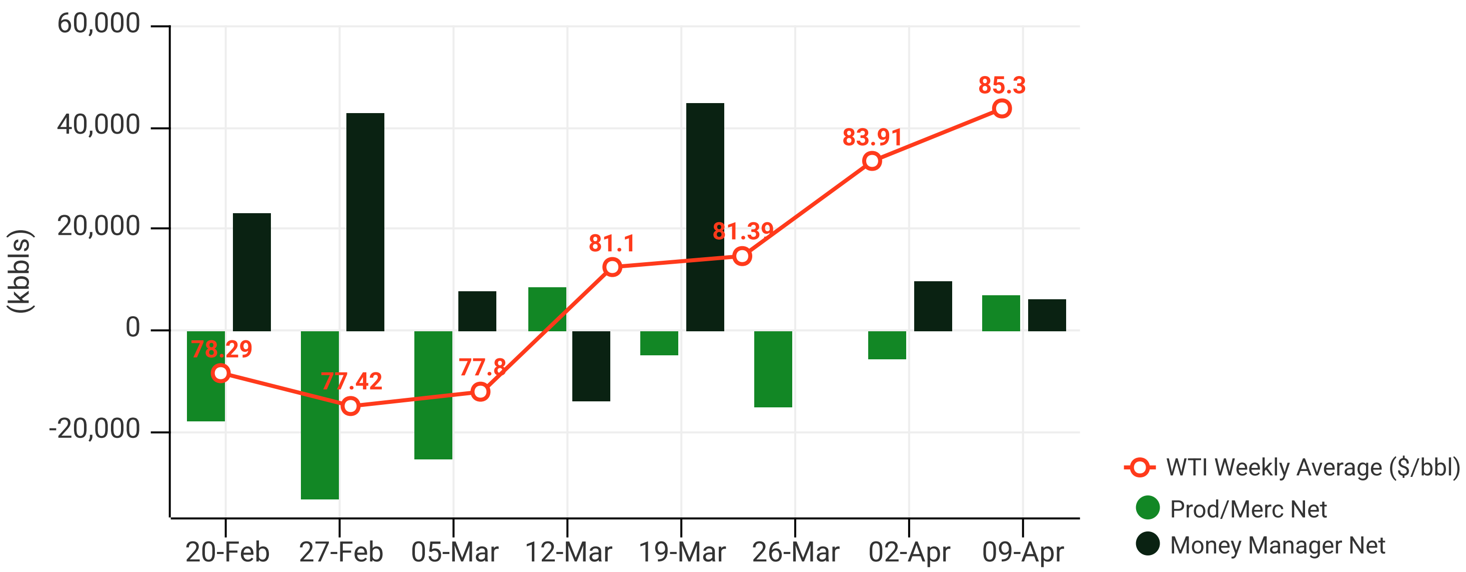
Looking at the Brent futures flies, we can see that there has been volatility in the Jun/Sep/Dec fly, with prices reaching 42c/bbl on Apr 05 before being pressured to 24c/bbl come Apr 09. On the other hand, the front Brent futures fly saw far more stability, hovering just above flat.

Crude Oil - Commitment of Traders

Brent - Weekly Net Change in Producer/Merchant and Money Manager Positions



WTI - Weekly Net Change in Producer/Merchant and Money Manager Positions



In the week to Apr 9th, Jun Brent futures continued to climb, with the weekly average rising to $90.10/bbl. Prod/merc and managed money players continued to add to their net positions, as they did in the previous week. Prod/merc players saw a smaller addition to their net positions than the previous week, adding 3mbbls. Both long and short players added to their positions, with not dissimilar scales, as length was increased by 59mbbls and short positions increased by 56mbbls as higher prices encouraged hedging from both sides. Managed by money net positioning by around 3mbbls as both long and short positions increased by 13.4mbbls and 10.8mbbls respectively.

This addition to both long and short positions in prod/merc and managed by money positions was seen in WTI too. This is the first time in 3 weeks that the prod/merc net position increased following the removal of risk on both sides seen in the previous week. Managed by money players added almost 10mbbls to WTI and 3.7mbbls of short positions.

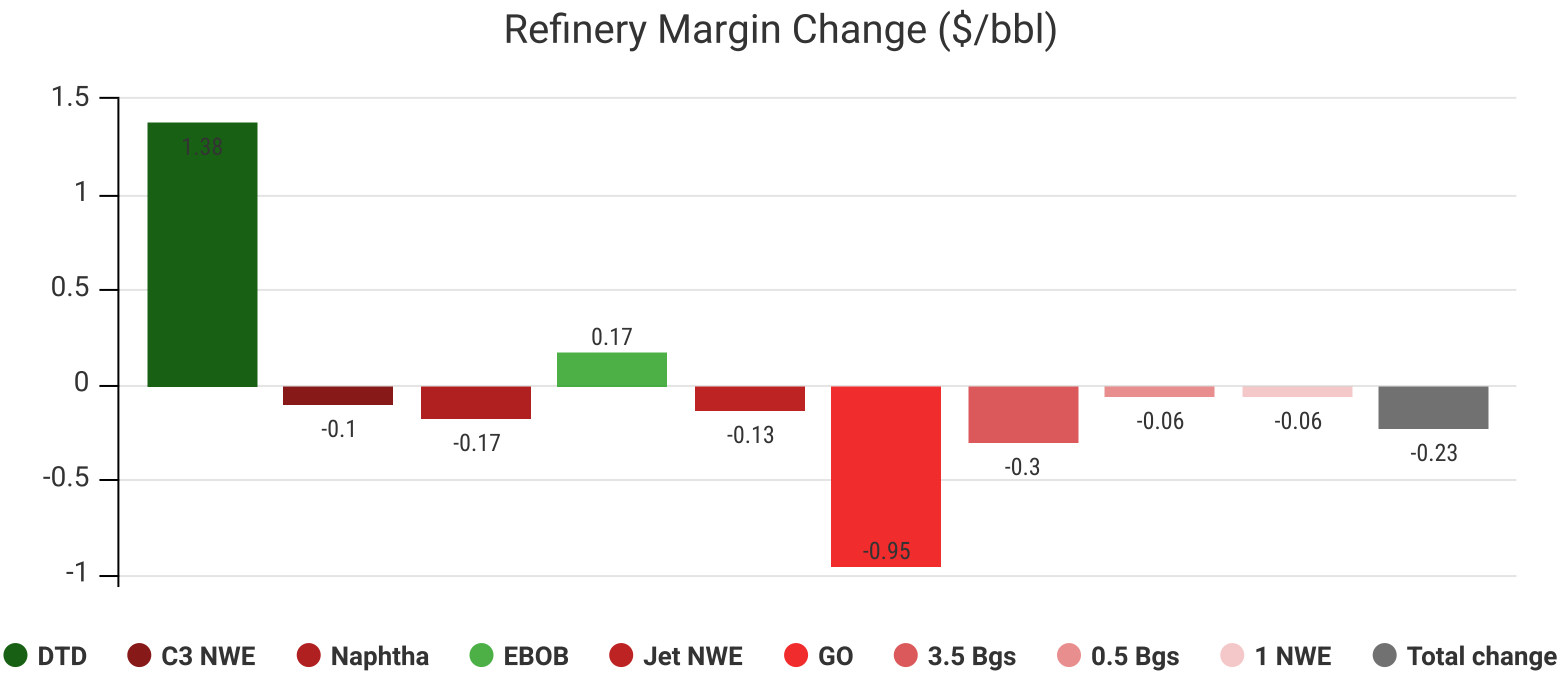
Crude Oil - ETF Flows

ltETF s	5-day Sentiment	Flows	Call OI Chg	Put OI Chg	P/C Ratio Chg
USO	**Bearish**	There was mixed flow into the USO ETF this week. Apr 8, 10 and 11 saw heavier bearish flows. Apr 11 saw 467K of calls sold, although there was also a good deal of call buying, at 319K. Large Institutional-size trades accounted for the highest dollar volume in single-leg options,with 2 million in notional traded. Notional trading across all types of traders exceeded their 30-day averages. The current implied volatility stands at 28.3, an 11.5% increase over its 20-day SMA of 25.4, suggesting a rising trend in implied volatility.	+1.1%	-0.7%	-1.8%
UCO	**Bearish**	As with the USO, the week saw the net flow flip between net positive and net negative deltas, although the delta negative values were greater. Both Apr 10 and Apr 12 saw the delta net short due to call selling, as seen in USO which points to players in both ETFs having a cautiously bearish outlook. On Apr 10 The largest delta volume came from large institutional trades with traders getting short -64K deltas.	+0.1%	-21.7%	-21.8%
SCO	**Bearish**	Another mixed week for the ETF though overall the bulk of the delta was more bearish, indicating a more bullish outlook for crude. Apr 12 saw the largest delta come from buying puts, whereas Apr 9 saw the largest delta come from selling calls. SCO call options open interest rose 2.9% to 15,046 contracts, with a 5.8% increase in the last 5 days. This surpasses its 52-week average of 12,828 contracts, indicating elevated interest.	+2.9%	+1.8%	-4.6%

*Sentiment and Open interest changes refer to the changes in open interest and overall sentiment in the ETF in the last 5-days.

All 3 ETFs saw a mixed flow, day on day, through the week although the bearish flows into the USO and UCO were greater. The significant closure of call positions in UCO suggests that possibly the call selling we saw during the week could have a closure of positions in the stronger prices.

Refinery Margins



For the week to April 12th, the M1 European refinery margin reached a low of $6.53/bbl on Apr 11, before seeing support to $7.11/bbl on Apr 12 as gasoil saw some slight strength after heavy pressure. ICE gasoil has been extremely weak recently, the May ICE gasoil crack fell to a low of $21.14/bbl on Apr 11, before it was supported to $21.78/bbl on Apr 12. There is little physical demand for Euro barges and the EIA are reporting builds at the time of year we expect draws.

EBOB is the only refined product in the European margin which has seen a week-on-week increase as players seem confident to continue putting length into gasoline structure. The May crack has risen from $21.90/bbl on Apr 5 to $22.70/bbl on Apr 12. The Motiva Port Arthur refinery was also halted on Apr 10 which could have served as support.

Both the HSFO and VLSFO components of the margin weakened. HSFO has been remarkably weak recently and has failed to see any support from the soon-to-be-starting summer air conditioning season in Asia. The May 3.5% Bgs crack has dropped from -$12.50/bbl on Apr 5 to -$14/bbl on Apr 12.

Forex Analysis

Currencies

Market	Current	5-Day Change (%)	One-Month Change (%)
US Dollar	105.75	+1.88	+2.43

Market	Weekly Change Longs (%)	Weekly Change Shorts (%)	Weekly Change Open Interest (%)
EUR/USD	4	9	5
USD/JPY	20	1	4
GBP/USD	-1	9	2

Over the last five trading sessions, the US dollar, tracked by the DXY index, experienced an increase, as it significantly rallied on Apr 10 following stronger-than-expected US inflation numbers with the CPI coming in at +0.4% month-on-month against +0.3% expectations. This propelled the USD/JPY to new 2024 highs and to its strongest level since 1990. The US dollar's renewed strength also pressured both EUR/USD and GBP/USD to 5-month lows on Apr 12. The EUR also lost ground against GBP with the ECB adopting a dovish stance at its April meeting, with heightened Middle East tensions placing currencies on red alert.

Commodities

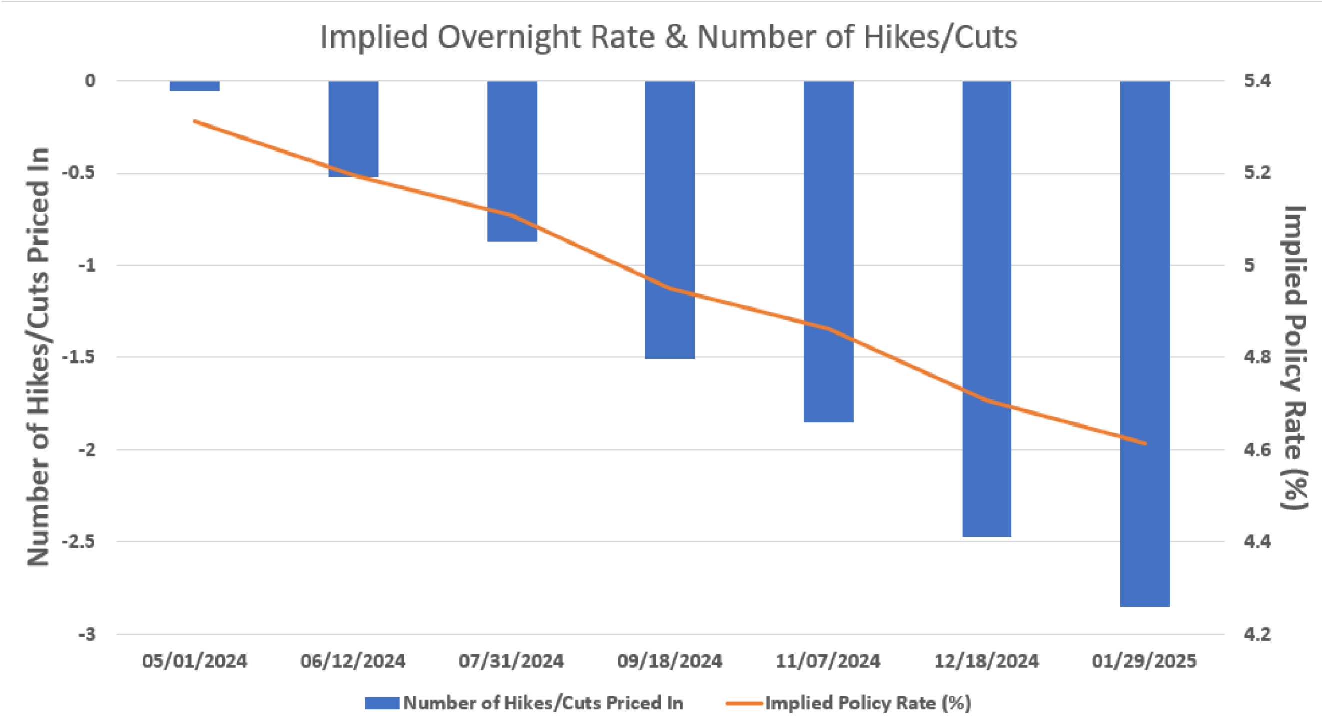
Market	Weekly Change Longs (%)	Weekly Change Shorts (%)	Weekly Change Open Interest (%)
Gold	10	4	7

On Apr 12, gold prices surged upwards again to another ATH at $2,431/oz, before retracing almost $100 to end the week at $2,343/oz.

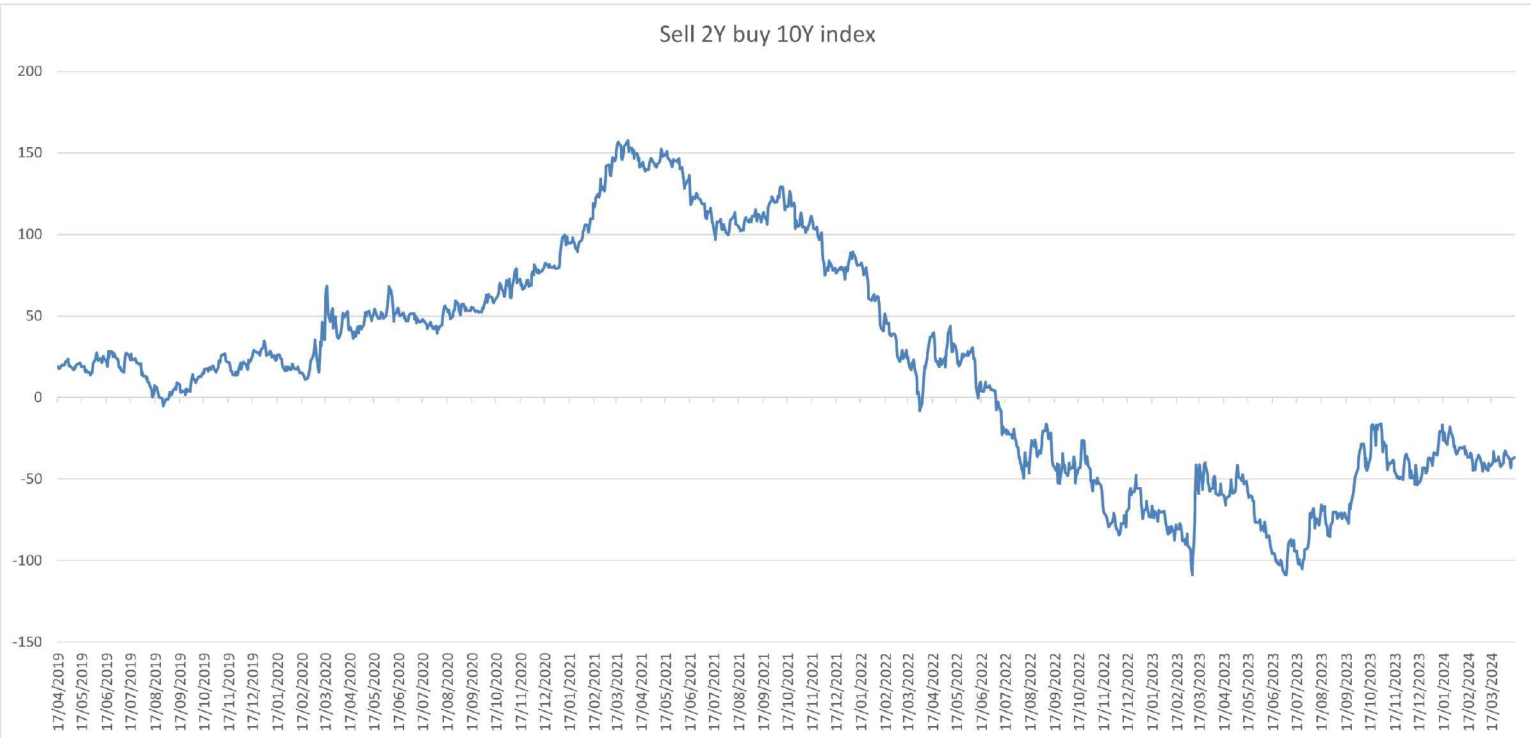
Market	Weekly Price Change (%)
COPPER	+1.35

We saw all metals open higher at 01:00 BST on Apr 15 when LME trading began. Copper 3M traded up to $9640/mt more than $200 higher than Friday's close, but with a lot of length already established on all exchanges we saw selling into this strength which pushed copper back down to the $9450 levels shortly after the Shanghai open at 02:00 BST.

Yield Curve

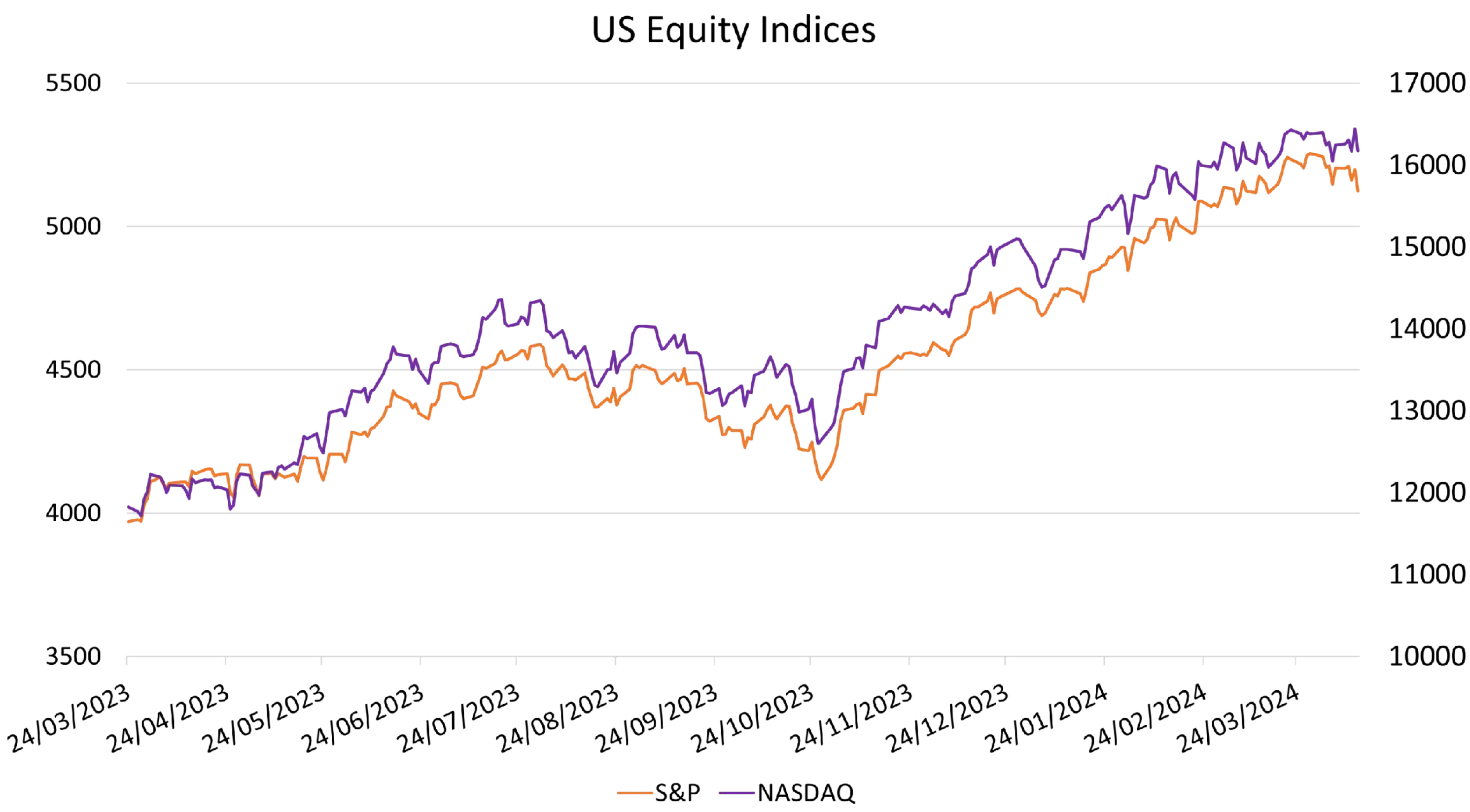


Implied Overnight Rate & Number of Hikes/Cuts
Number of Hikes/Cuts Priced In
Implied Policy Rate (%)
0
-0.5
-1
-1.5
-2
-2.5
-3
5.4
5.2
5
4.8
4.6
4.4
4.2
05/01/2024
06/12/2024
07/31/2024
09/18/2024
11/07/2024
12/18/2024
01/29/2025
Number of Hikes/Cuts Priced In
Implied Policy Rate (%)



Sell 2Y buy 10Y index
200
150
100
50
0
-50
-100
-150
17/04/2019
17/03/2024

S&P and NASDAQ



After rallying 18 of the previous 22 weeks, the strongest run since 1989, US stocks are now in a sideways range, with Nasdaq peaking back at $16,400 on Mar 21 and S&P at $5250 on Mar 28. This past week saw both the S&P and Nasdaq stagnate further, both hovering in the low $5,000 and $16,000 regions, respectively. In turn, they have each had a weekly change of -1.6% and -0.5%. This follows a stronger-than-expected CPI with a big reaction in markets for two reasons. Firstly, the market is pricing fewer rate cuts by the Fed this year (just 48bp now) so less monetary stimulus. Secondly, the dollar has jumped making dollar-priced commodities (all commodities bar palm oil) more expensive to non-USD-denominated currencies.

Top Market Data of the Week

OIS pricing

At the start of last week, U.S. bond market volatility was at 2-year lows, but that abruptly changed on Tuesday with stronger-than-expected CPI data (for the third month running). Bond yield jumped 23.5 basis points on the day, compounded by a catastrophic 10-year bond auction with its 3rd biggest tail ever (3.1bp).

The ECB meeting on Thursday on the other hand paved the way for a 25bp cut at the next meeting on 6th June with ECB governor Lagarde stating that a 'few' members were ready to cut today.

The U.S. OIS curve now predicts 43 bps of cuts by the Fed this year with the first full 25bp cut coming at the 18th September meeting.

The ECB is now expected to cut 83bp this year with 22bp at the upcoming June meeting, and the BOE is predicted to cut 53bp in 2024.

Key economic data

The key data last week was the Consumer Price Index (CPI) on Tuesday coming in hotter than expected on all counts.

U.S. Mar. CPI (MoM): 0.4%, [Est. 0.3%, Prev. 0.4%] U.S. Mar. CPI (YoY): 3.5%, [Est. 3.4%, Prev. 3.2%].

Currencies

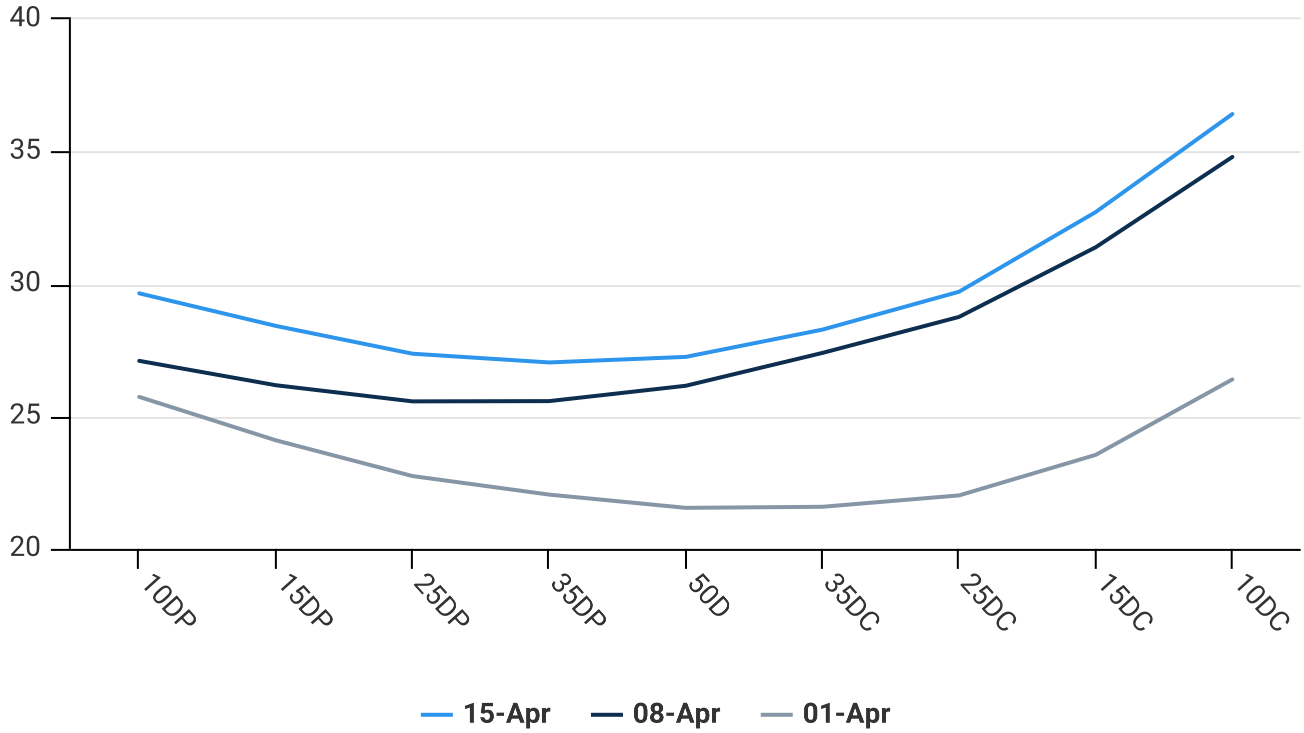
With hawkish U.S. data and increasing concerns over the European economy the dollar Index rallied 1.6% last week, a big move in FX markets when volatility is also at 2-year lows. The EURUSD which makes up 58% of the dollar index is breaking key support levels and with the current price at 1.0660, a longer-term target of parity is not unreasonable.

Equities and Precious metals

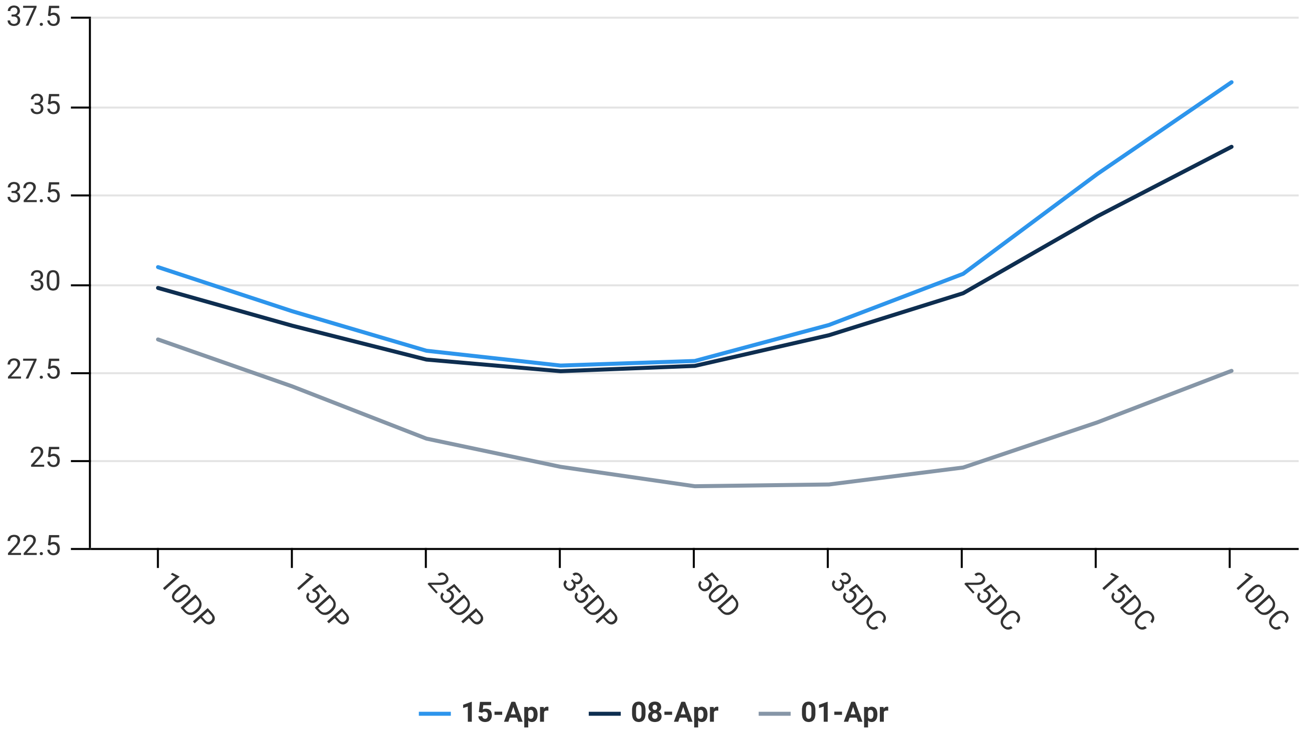
While equities have now been in a 3-week sideways range precious metals have taken the mantle of 'must buy' asset. The Nasdaq last all-time high was on 21st March, and Nvidia peaked on 12th March but gold has rallied a further 4.8% over the past two weeks, and silver an incredible 11.3%

Crude Oil - Option Analysis

Jun24 Brent Options - Volatility Skew



Jun24 WTI Options - Volatility Skew



The volatility skew for the week to Apr 15 for Brent witnessed a rise in OTM calls amid a more significant increase in puts. In comparison, whilst WTI also saw an uptick in both, it was more exaggerated on the calls side. Nevertheless, the 10-day delta calls remain comfortably higher than their 10-day delta puts of both benchmarks, illustrating the bullish sentiment of market participants.