Dated Brent Report Update

Onyx Capital Advisory

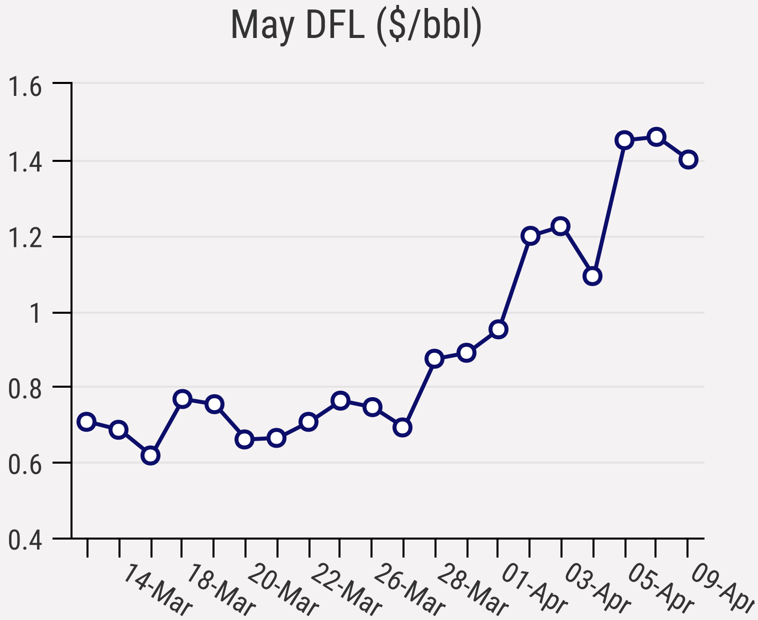
9th April 2024

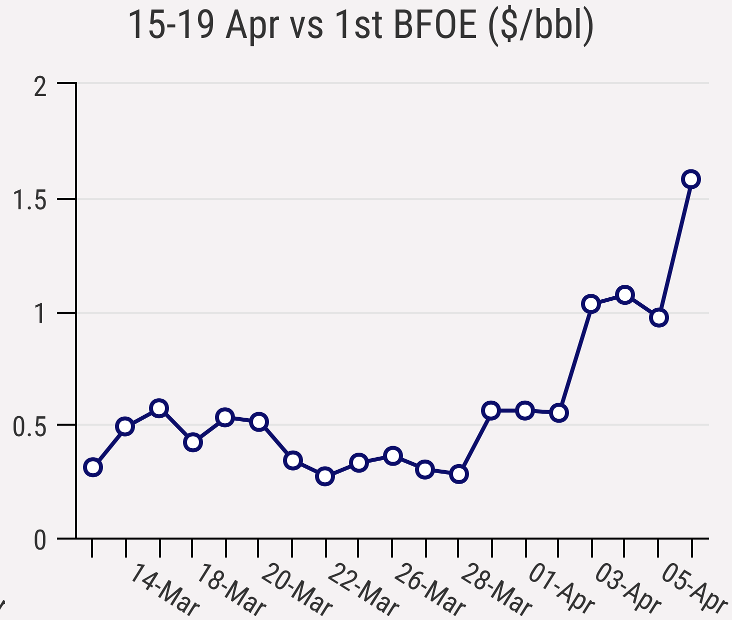
Overview

Market Update

- **Both CFDs and DFLs have improved since the last report.** CFDs have been well bid this week by majors and trade houses with the 15-19 Apr CFD rallying sharply this week.
- May DFL saw an aggressive rally into the end of last week as the front of the curve finally caught up to strength in the physical, surpassing $1.40/bbl levels in the May contract though we saw levels etching back slightly into Tuesday, though generally trading in line with spreads around $1.43/bbl and $1.47/bbl in the Sing window.
- A notable increase in tanker rates from the US Gulf Coast is expected to drive up delivered levels for US WTI Midland in Northwest Europe. These rates experienced a significant surge, rising by almost 25% week on week.
- Refinery margins have continued to trend lower given the stronger Dated market despite products generally remaining supported.

Weekly Charts

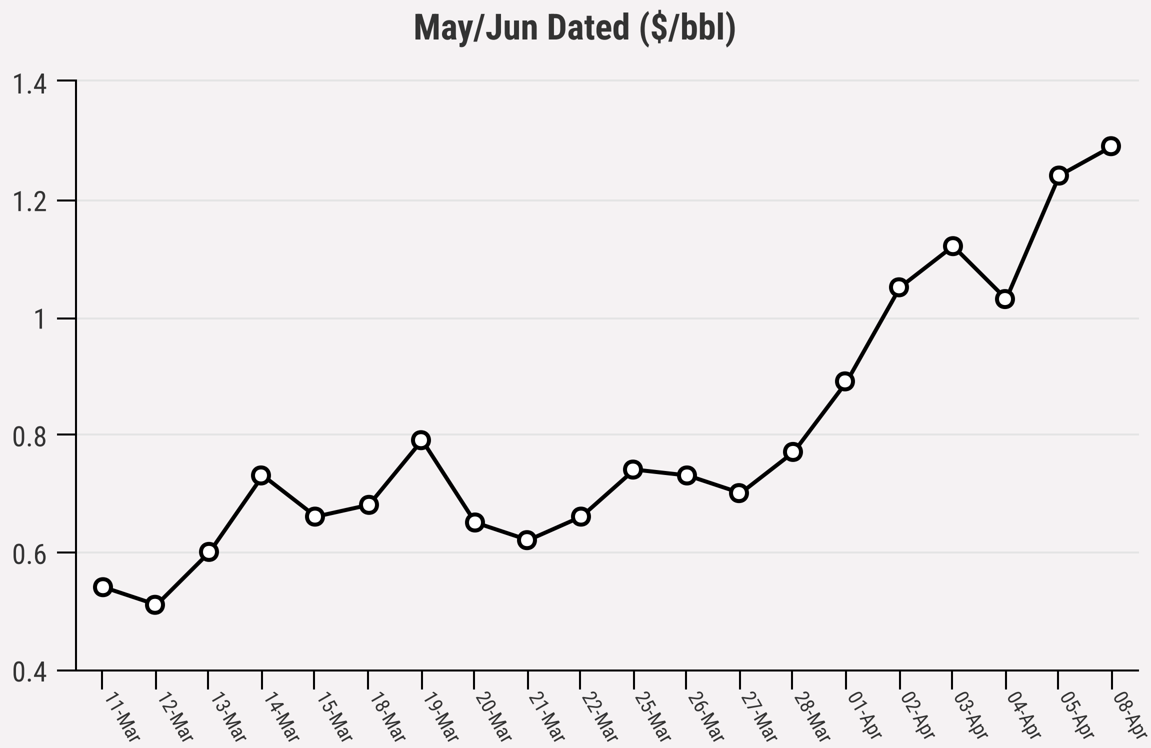




Trade Idea

Trade: Long May/Jun Dated

As we enter April, there appears to be stronger support for Dated. The selling pressure prompted by earlier factors seems to have tapered off, and there's noticeable interest in backend Forties bids, indicating a potential upward trend on the BFOE curve. Looking forward, we anticipate continued support for Dated as refiners exit maintenance season and May barrels become part of the pricing strip. The market seems to have been somewhat under-positioned amidst the recent significant rally in both futures and Dated. Though levels have already moved up somewhat, we still anticipate further upside.



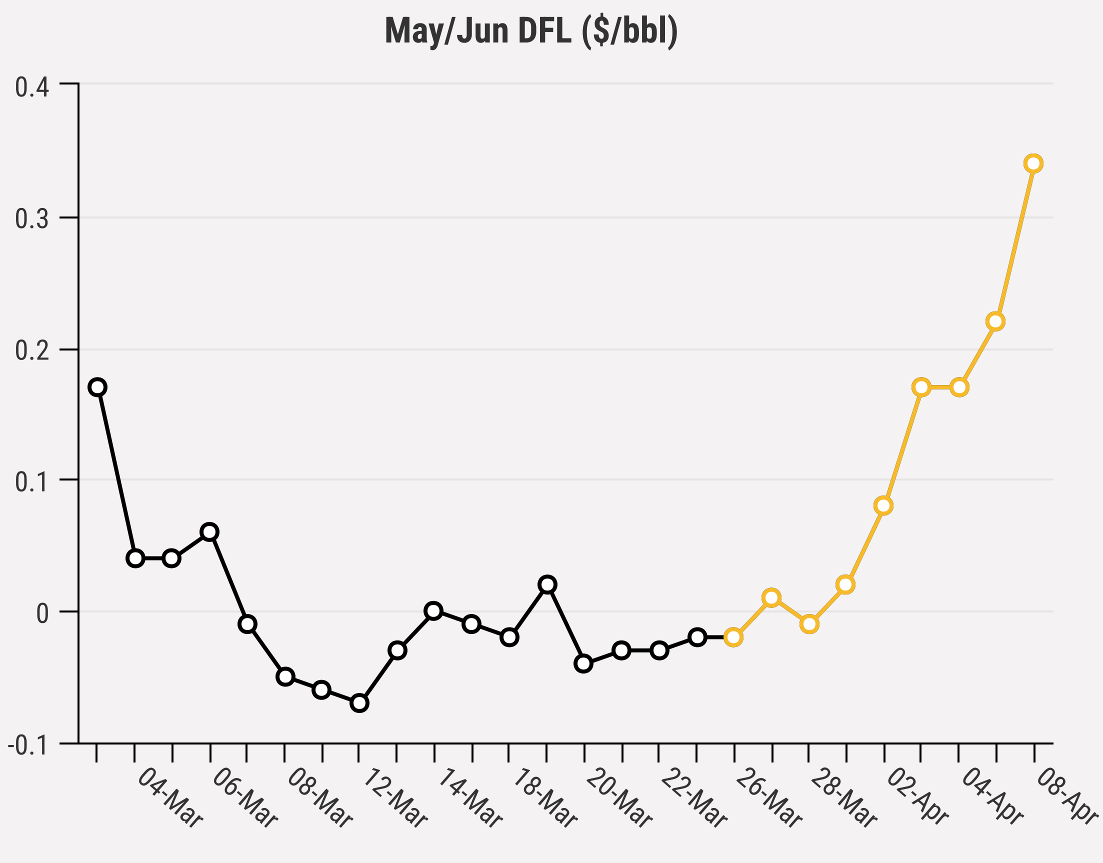
Previous Trade Update

Trade: Long May/Jun DFL Roll ($/bbl)

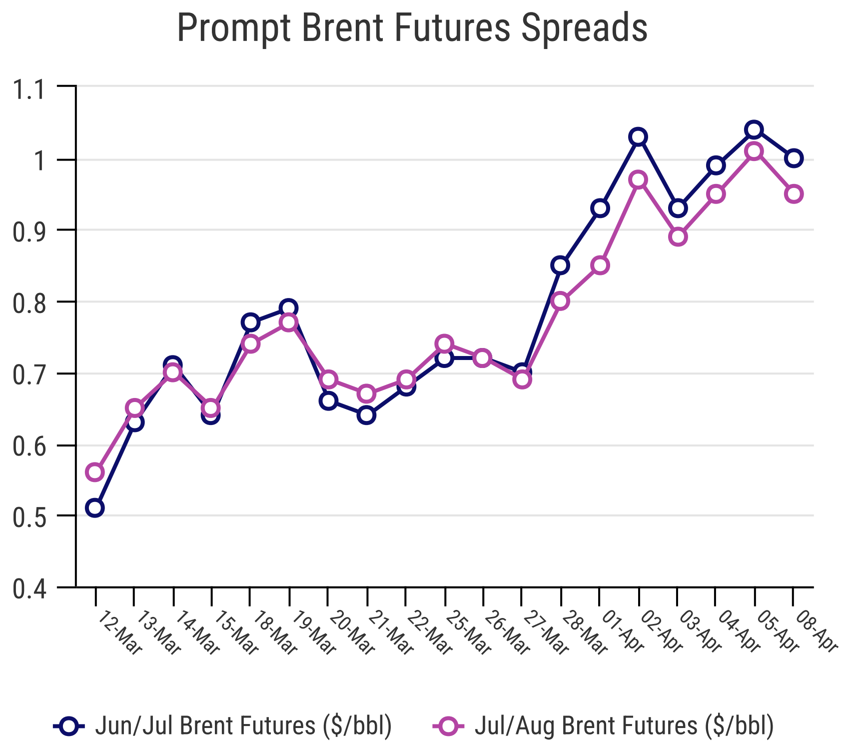
We suggested getting long the May/Jun DFL roll in our March 26th report given the recent weakness and contango in the North Sea crude market had been focused on the prompt April structure, whilst the weeks from 29-03May onwards had been relatively insulated from this.

Given May-loading barrels were entering the fray and refinery margins remained robust, we expected there was good risk-reward in going long in the May/June DFL roll, with structure rolling up stronger. The implied physical differential for the first week of May was around 50c/bbl, and there remained good hedge buying interest in the back end.

As expected, **this trade performed** with levels rallying sharply over the past two weeks offering good opportunity to take profit.



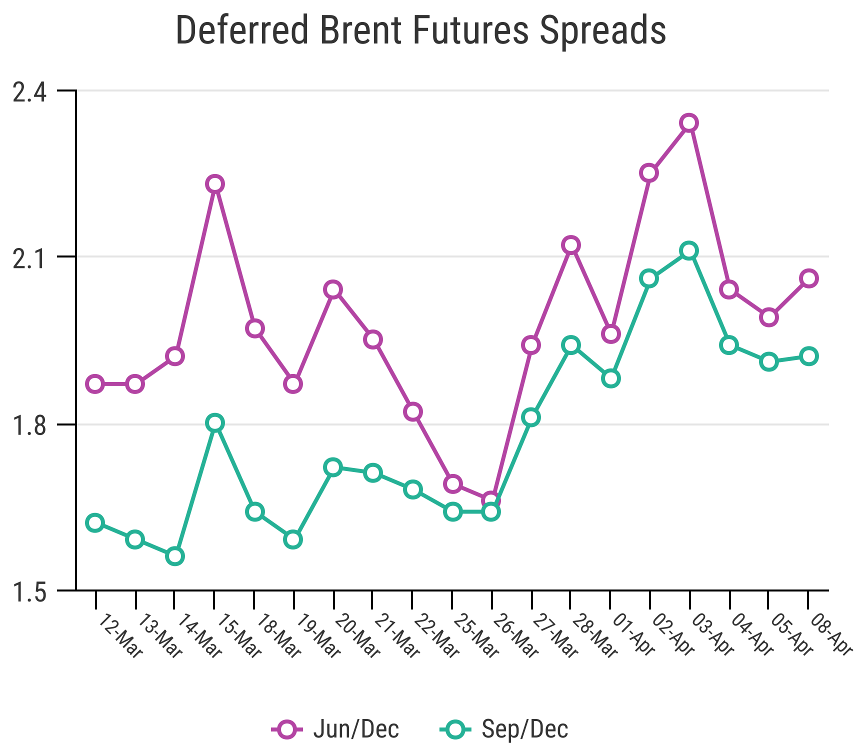
Brent Structure



Apr 01: The start of the month brought strong bullish interest in the front spread with levels soaring past the 95c/bbl mark as the buying was met with very little sell-side resistance.

Apr 02: The bullish interest generally continued into the 2nd of April, we did see around 26kb selling in the morning and another 10kb selling in the afternoon though this was overpowered by the buy side interest with levels reaching triple digits in the front Jun/Jul spread.

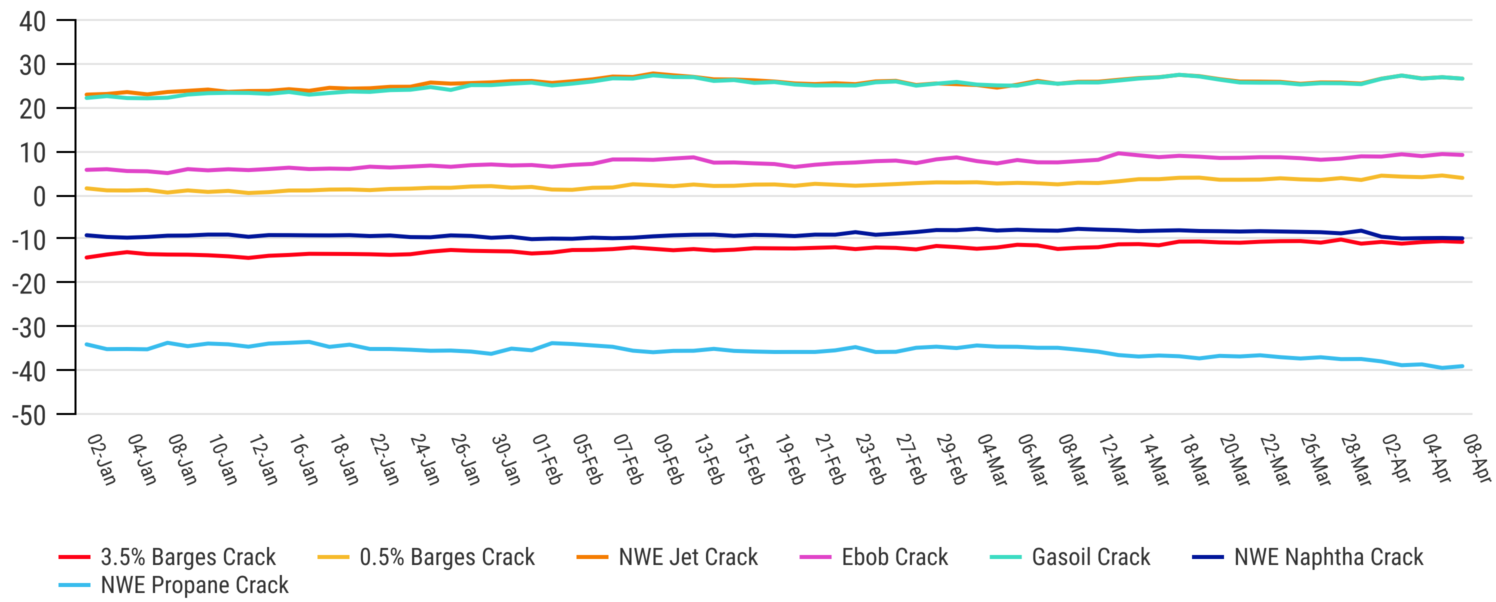
Apr 03/04: As the week progressed, we saw more sell-side interest coming into the market with people clearly happy to take some profit on their positions, breaking below the 95c/bbl level on the 3rd and then further coming off on the 4th with over 17kbbl selling seen. This looked attractive levels to buy again with over 40kbbl buying supporting levels back to $1/bbl in Jun/Jul.

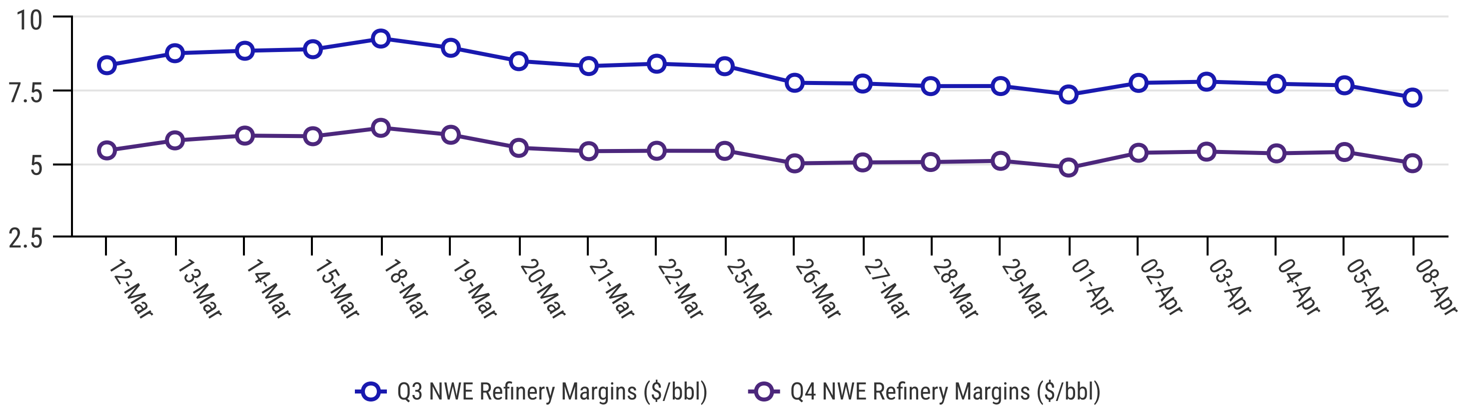


There has been strong fluctuations in the more deferred Brent spreads compared to the front spreads. The average level for Jun/Dec is slightly higher at $1.91/bbl compared to $1.78/bbl for Sep/Dec. Moreover, Jun/Dec spreads exhibit slightly higher variability with a standard deviation of 0.22 compared to 0.17 for Sep/Dec spreads indicating the higher volatility at the front of the curve in the Sep contract while Dec is moving a lot less aggressively d-o-d.

Oil Products and Refinery Margins

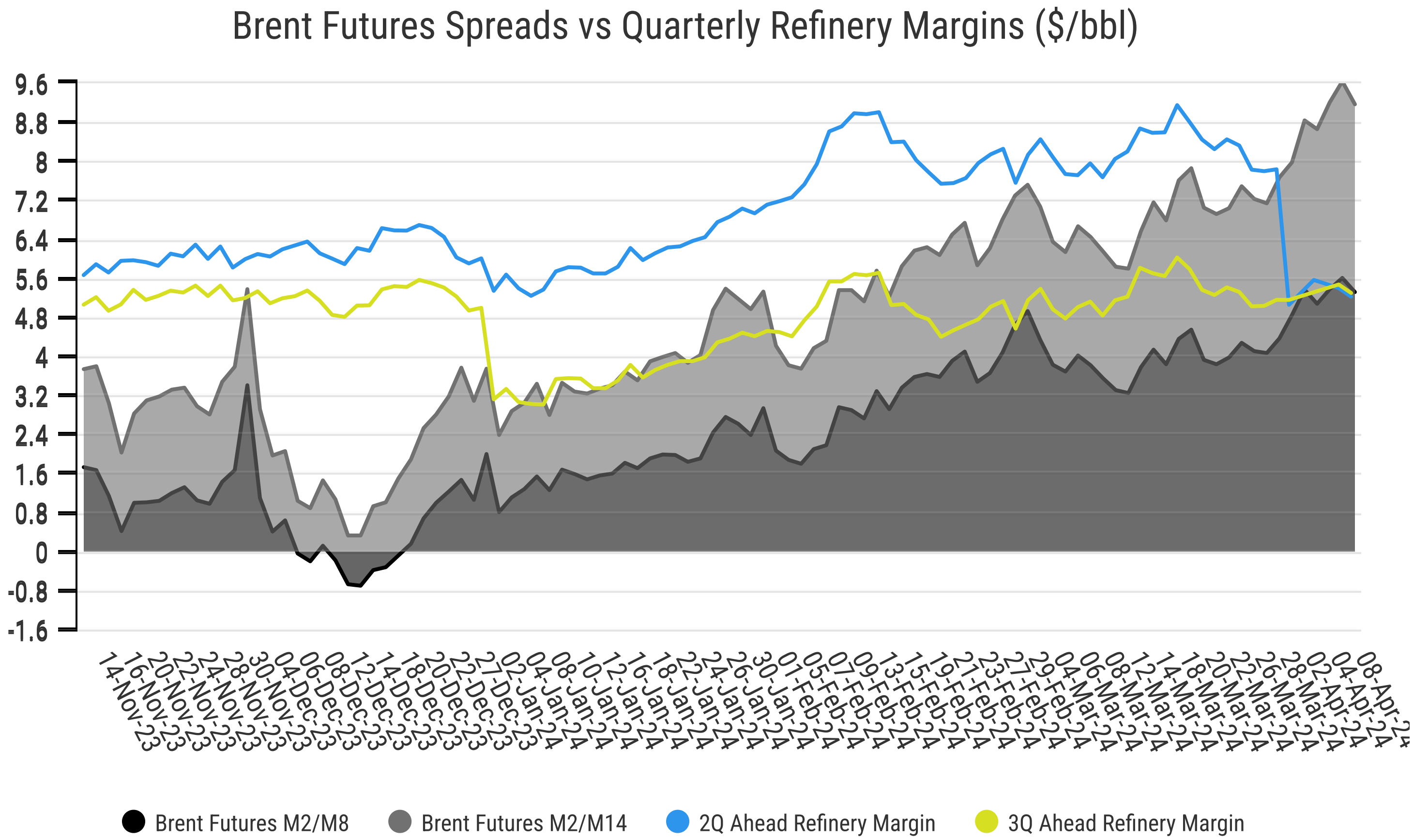
2024 Winter Oil Products Cracks ($/bbl)





- From the beginning of March, we have seen **both the Q3 and Q4 NWE margins ticking lower**, coming off by 111c/bbl and 44c/bbl respectively in that period. This weakness has come largely on the back of soaring Dated prices rather than any weakness in products as products on the whole ticked higher across the month.
- **EBOB cracks** in the winter have been holding relatively firm, holding in the $18/bbl handles over the past week with the general consensus remaining that summer tenors should price strongly. In the winter EBOB cracks, levels have generally held in the $8/bbl handles and briefly broke above $9/bbl last week.
- **Gasoil** was also seen lending support to the Q3'24 margin, adding over $2/bbl since the 12th of March. Winter cracks have started to tick higher once more, now holding in the $26/bbl range having come off briefly toward the end of March. It remains a very macro driven market and so we would continue to monitor supply/demand dynamics closely.
- In **Fuel Oil,** the market has generally been more bearish in HSFO in the front though notably, the winter 3.5% crack remained fairly firm in the $(11)-(10)/bbl handles. 0.5% cracks were more rangebound between $3-4/bbl levels and we continued to see Q3 crack buying interest throughout the month.
- **Propane cracks** in winter have trended lower, falling to -$39/bbl handles. Downstream demand has been poor in the front and it feels as though the market has not turned much attention to the more deferred part of the curve yet.

Spreads vs Refinery Margins

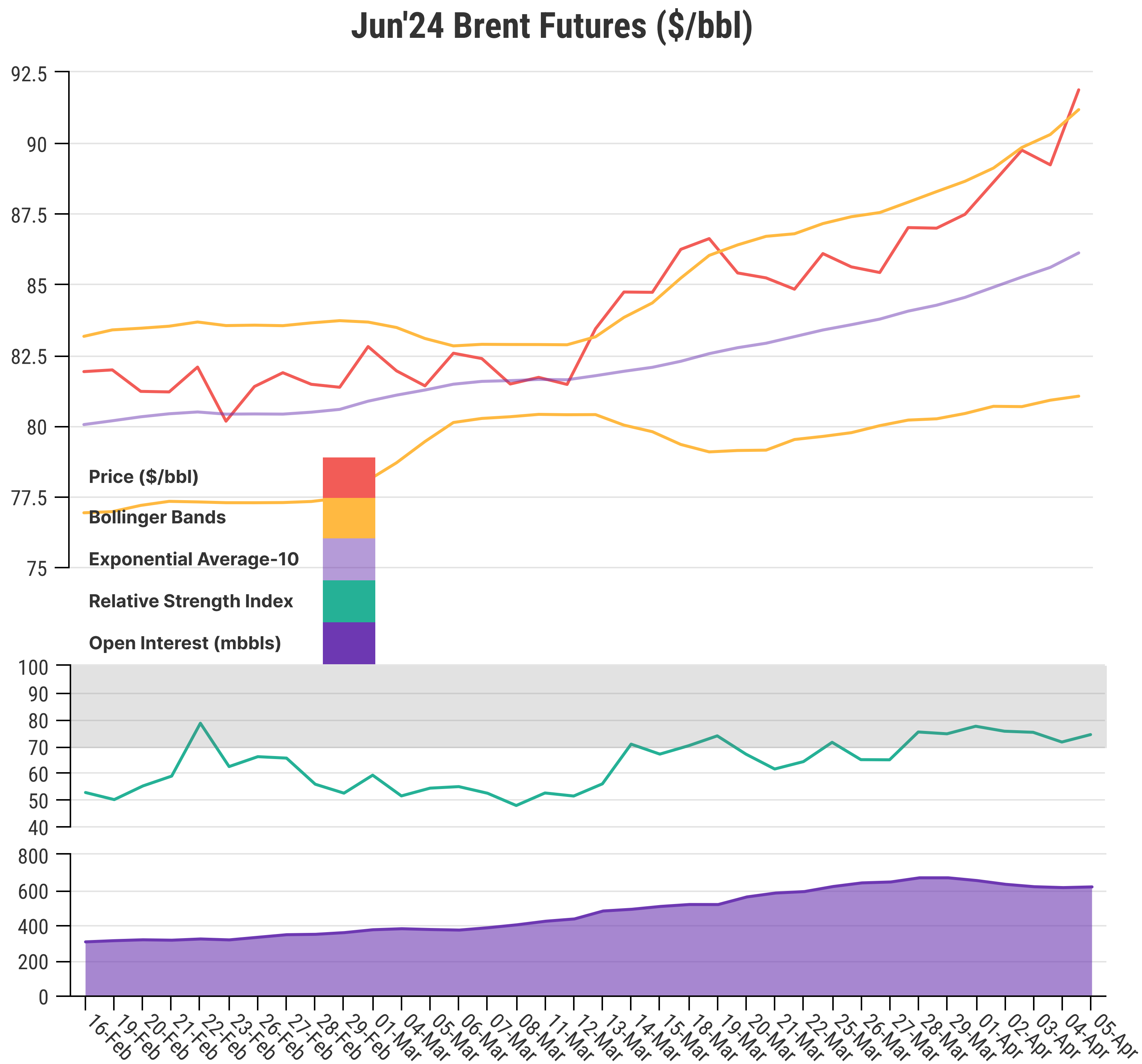


The current Q2 and Q3 ahead is looking at the Q3'24 and Q4'24 margins while the current spread looks at Jun4/Jul24 and Jun24/Jun25.

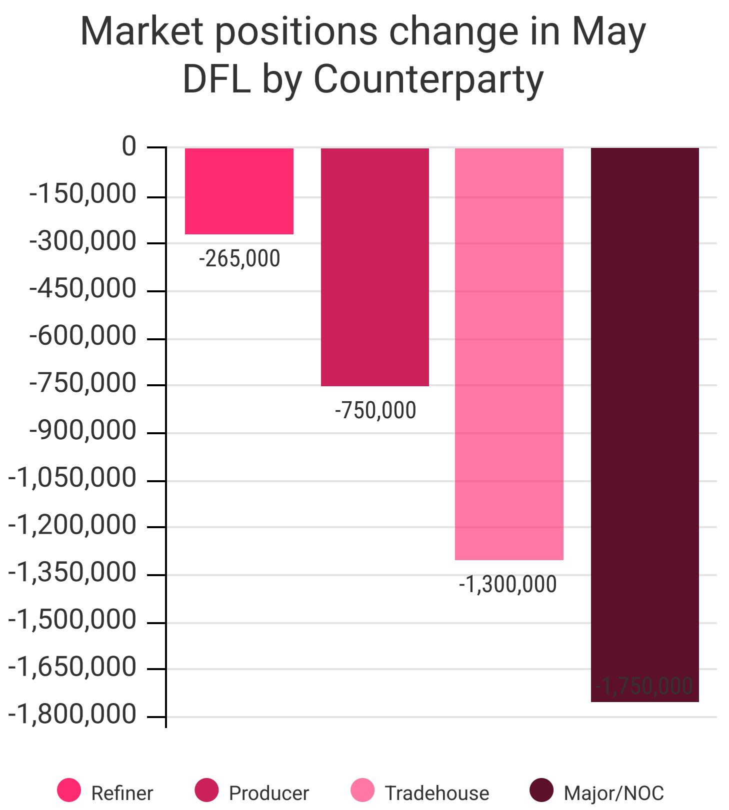
On February 20th, there was a moderate positive correlation between the Jun24/Jul24 spread and both Q3'24 ($r \approx 0.65$) and Q4'24 margins ($r \approx 0.53$), suggesting a tendency for refining profitability to increase alongside Brent spread expansion which indicates in this period, margins were largely driven by profits in products. Conversely, on March 6th, correlations weakened, indicating a less direct relationship between Brent spreads and refining margins during periods of heightened volatility. However, by March 20th, correlations strengthened once again, particularly between the Jun24/Jun25 spread and Q3'24 margin ($r \approx 0.72$), indicating a more synchronised movement between crude oil prices and refining profitability. Notably, on April 5th, while correlations remained positive, they diminished slightly, implying other market factors influencing refining margins.

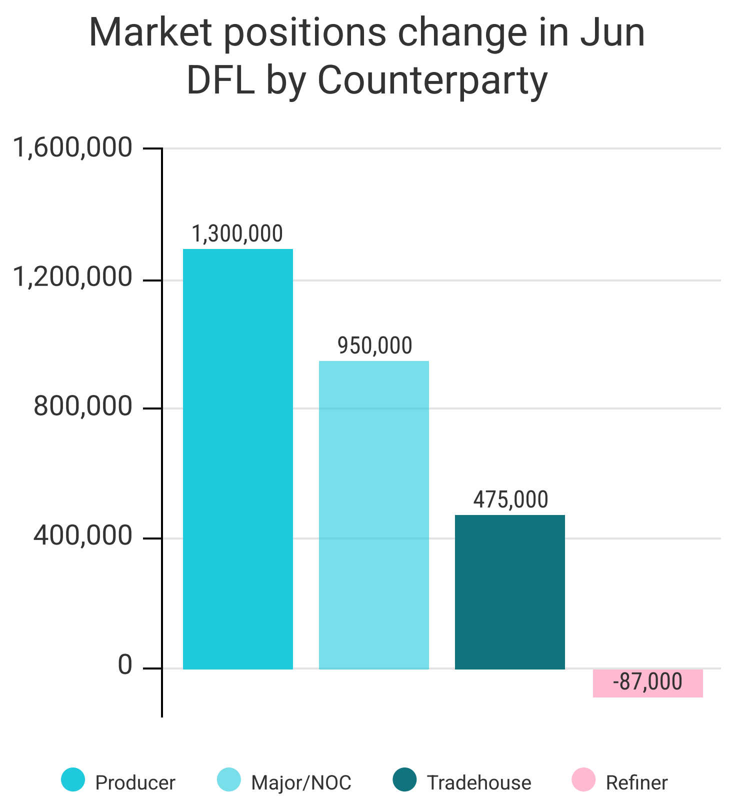
BRENT FUTURES - TECHNICAL ANALYSIS

- **The Jun Brent futures contract** rallied past the upper Bollinger band as levels surpassed the $90/bbl levels last week, where they have held into this week, currently trading around $90.50/bbl. The RSI has remained firmly in overbought territory, trending well above the 70 levels for the past week though there seems to be no signs of levels pulling back lower yet.
- On Monday a fresh round of Israel-Hamas ceasefire discussions in Cairo had ended a multi-session rally, leading Brent to its first decline in five sessions. However, Israeli Prime Minister Benjamin Netanyahu's announcement on Monday, setting a date for Israel's invasion of the Rafah enclave in Gaza, dashed hopes for a de-escalation of tensions in the region.
- The open interest did decline into the beginning of the month but seems to have picked up again slightly as players seem more happy to add risk with long speculative Brent positions now at the highest levels since Feb 2023.



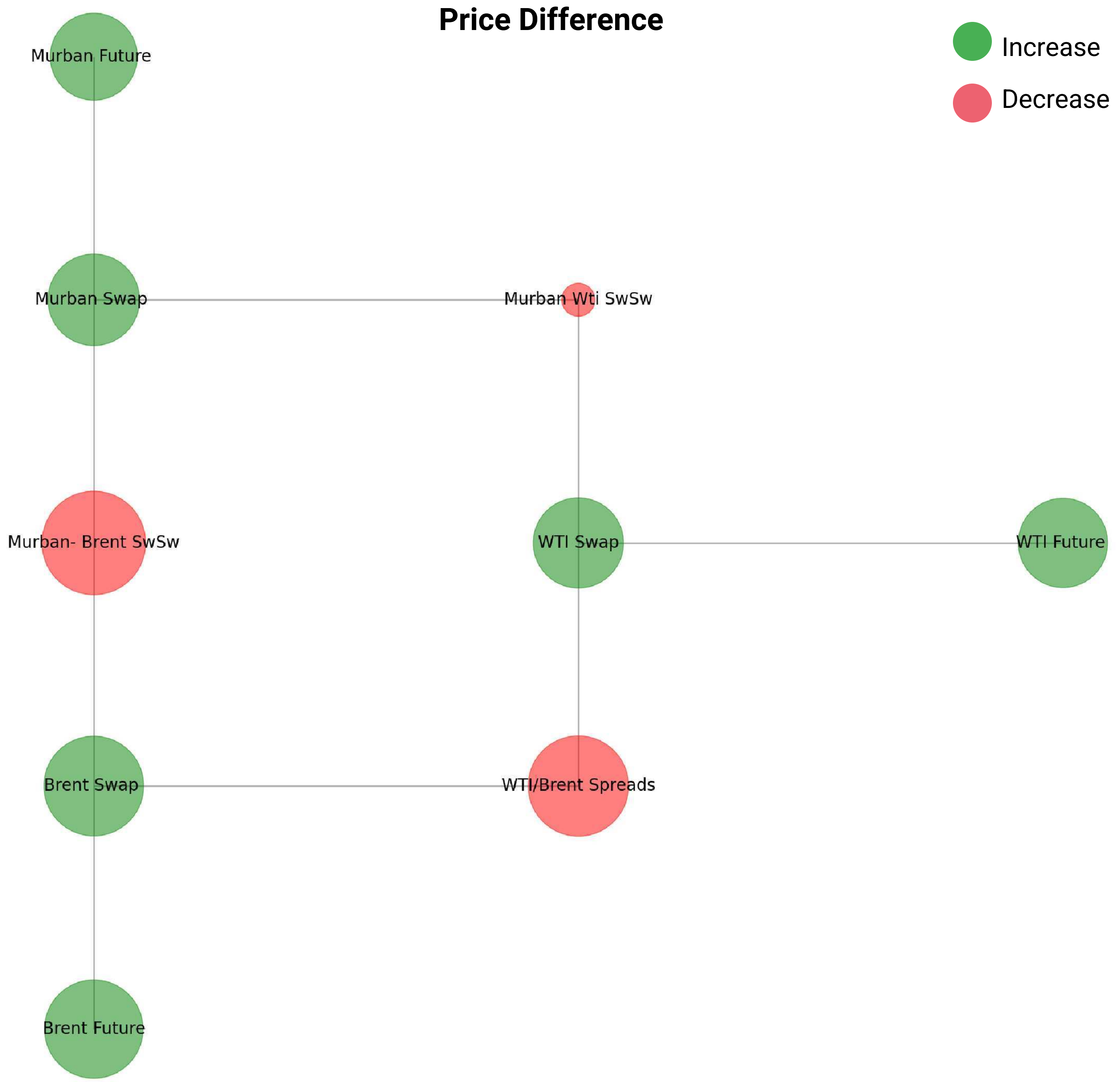
Counterparty Analysis





- Looking at the counterparty positioning over the past two weeks between March 25th and April 8th, we can see how the net positions in the now prompt May contract have flipped to more sell-side while in June we can see how only refiners have been net sellers while producers, majors/NOCs and trade houses have all been net buyers.
- This highlights our belief that the market is under positioned in the May contract and we will likely see a retracement higher.

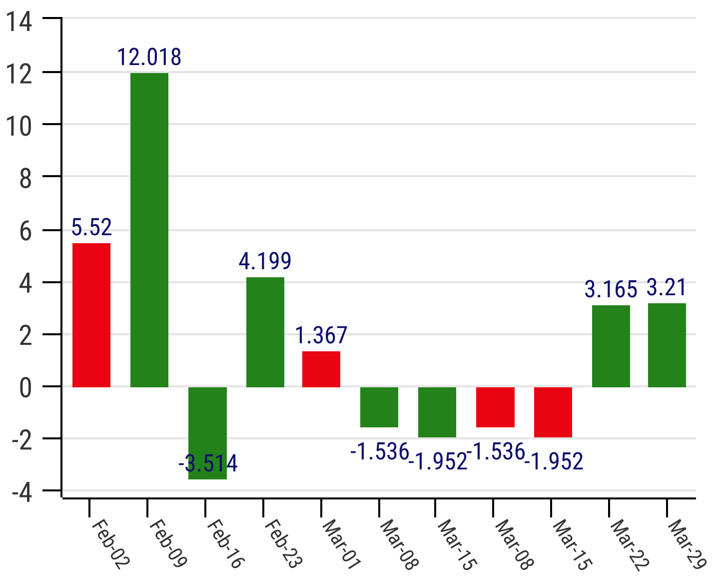
Network Analysis



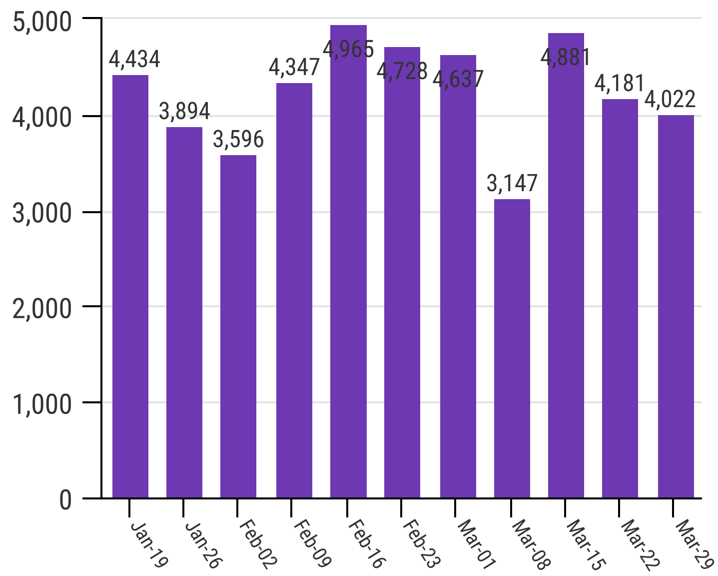
Looking at the changes in the May swaps and the Jun futures contracts in the last 5 trading days to the 5th of April, we can see the strength across the crude complex with support concentrated in Europe as both the Murban/Brent and WTI/Brent prices came under pressure in the week despite both Murban and WTI levels seeing support. Furthermore, we can see how levels in light sweet crude are outpacing the more heavy sour market with the Murban/WTI levels coming off in the five-day trading period.

BFOETM PHYSICAL - US IMPORTS

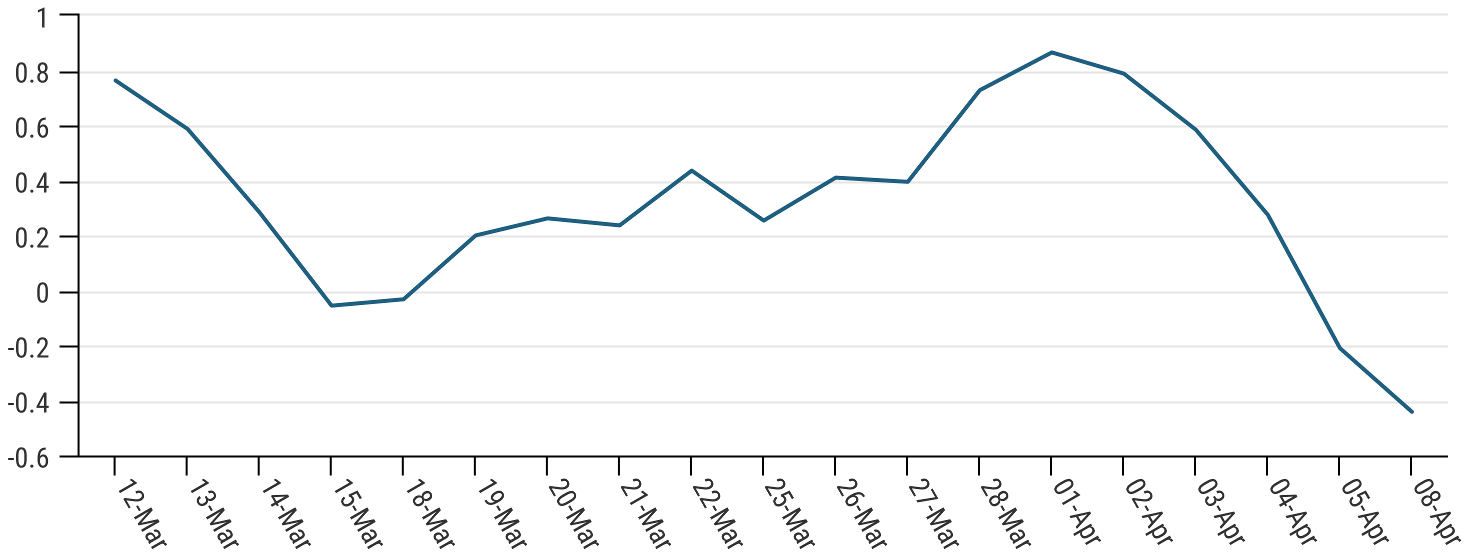
US Week-on-week Crude Inventory Changes (mbbls)



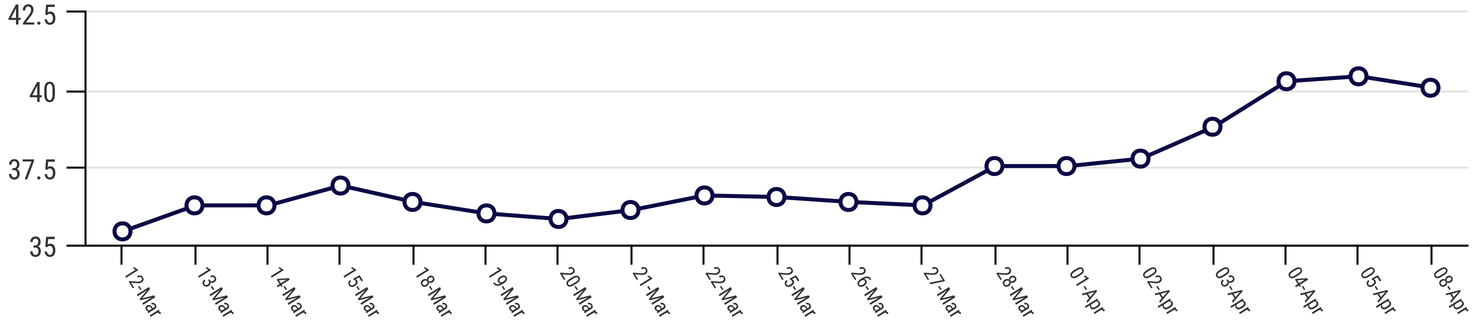
US Weekly Crude Exports (kbpd)



May WTI/Brent and May Dated 2-week rolling correlation



M1 TD25 Freight - US Gulf Coast to ARA (Baltic)



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