Futures Report

Short Term Oil Forecast

6th May 2024

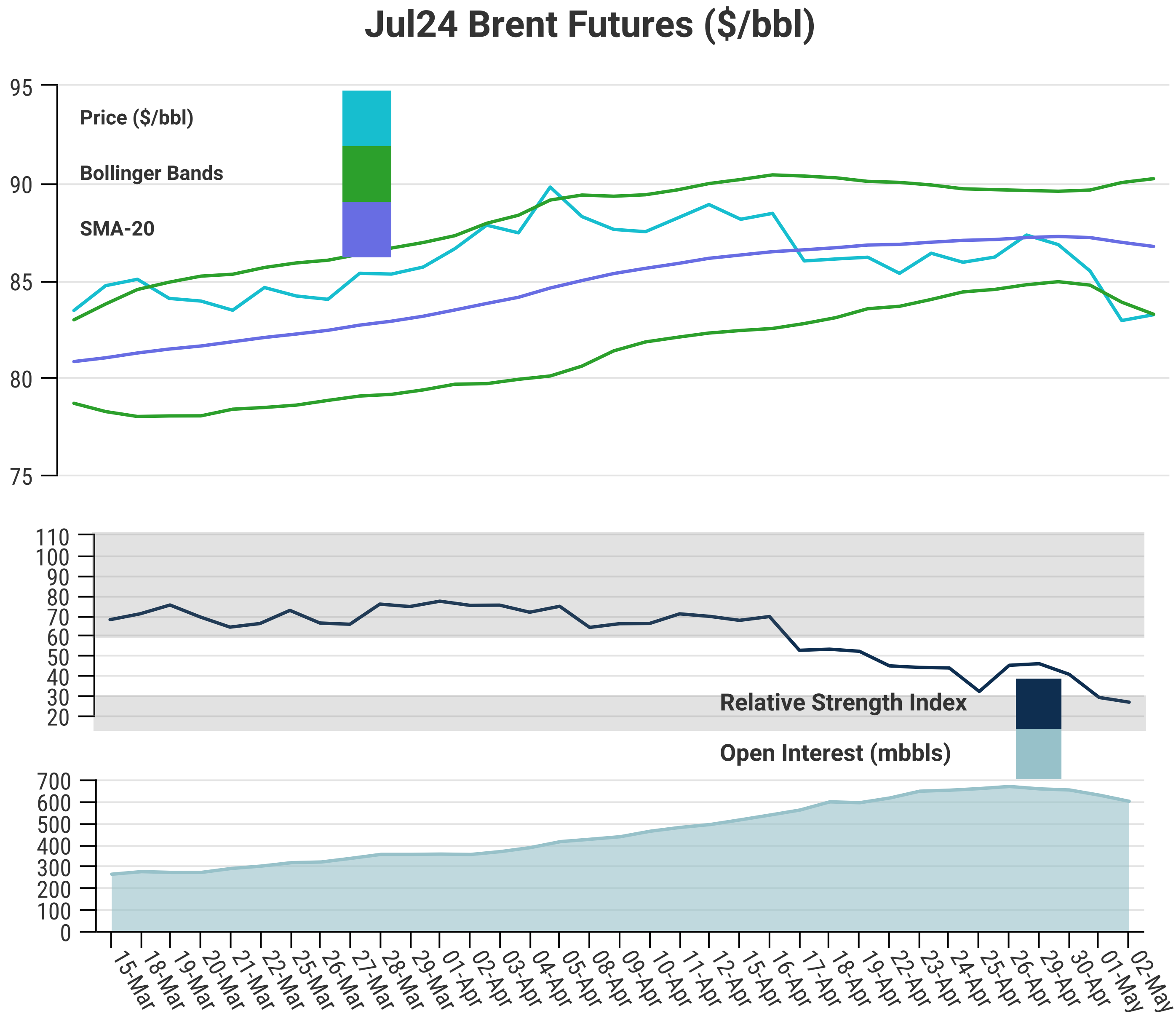
Forecast and Market Drivers

Product	Current	View	1W Forecast
Jul Brent	**$83.55**	**CAUTIOUSLY BULLISH**	**$84-86**
Jul WTI	**$78.40**	**CAUTIOUSLY BULLISH**	**$79-81**
Jul WTI/Brent	**-$5.15**	**SMALL BULL**	**$(5.00)-(4.50)**
Jul Gasoil Futures Crack	**$17.55**	**CAUTIOUSLY BULLISH**	**$18-19**
Jul RBOB Futures Crack	**$22.85**	**CAUTIOUSLY BEARISH**	**$21-22**

Summary

- **Technical indicators** showed the major futures contracts falling into oversold territory on the back of a waning geopolitical risk premium and poor sentiment out of the US which exacerbated the sell-off. Bollinger bands have widened, indicating a sustained increase in volatility, whilst the lower band is providing technical support to price action.
- In **correlations**, we see positive correlations between crude and RBOB with both contracts weakening in tandem. On the other hand, there was an inverse correlation between crude and distillate contracts on the week.
- The **WTI/Brent spread** saw an interesting shift with the forward curve moving into contango, with WTI weaker than Brent in the prompt, whilst strengthening against Brent in the deferred. With the flat price sell-off shifting the entire Brent forward curve lower, the deferred WTI/Brent may have retained some support.
- **ETF flows** highlight bearishness in USO, where the put/call ratio clocked in a 5% increase w-o-w. UCO flipped from net bull to net bearish sentiment over the week but still saw call OI rise relative to put OI. Finally, the ultrashort SCO saw significant bullishness into May – perhaps over the sell off in crude on May 01.
- The **June European refinery margin** in the week to Apr 26 softened by 43c/bbl to $6.56/bbl, as the sell-off in refined products exceeded the weakness in crude. The main culprits were gasoline and gasoil, where weaker fundamentals was magnified by the selling in US futures.
- In **currencies**, the USD continues to trade sideways, with bearish US labour market data and a stubborn inflation outlook garnering resistance and support for the currency. Still, the dollar fell to a four-week low this past week and despite correcting higher, it ultimately clocked in a w-o-w decline.
- Implied **volatility** across out-of-the-money put options has risen far above call options amid traders holding a bearish outlook of crude.

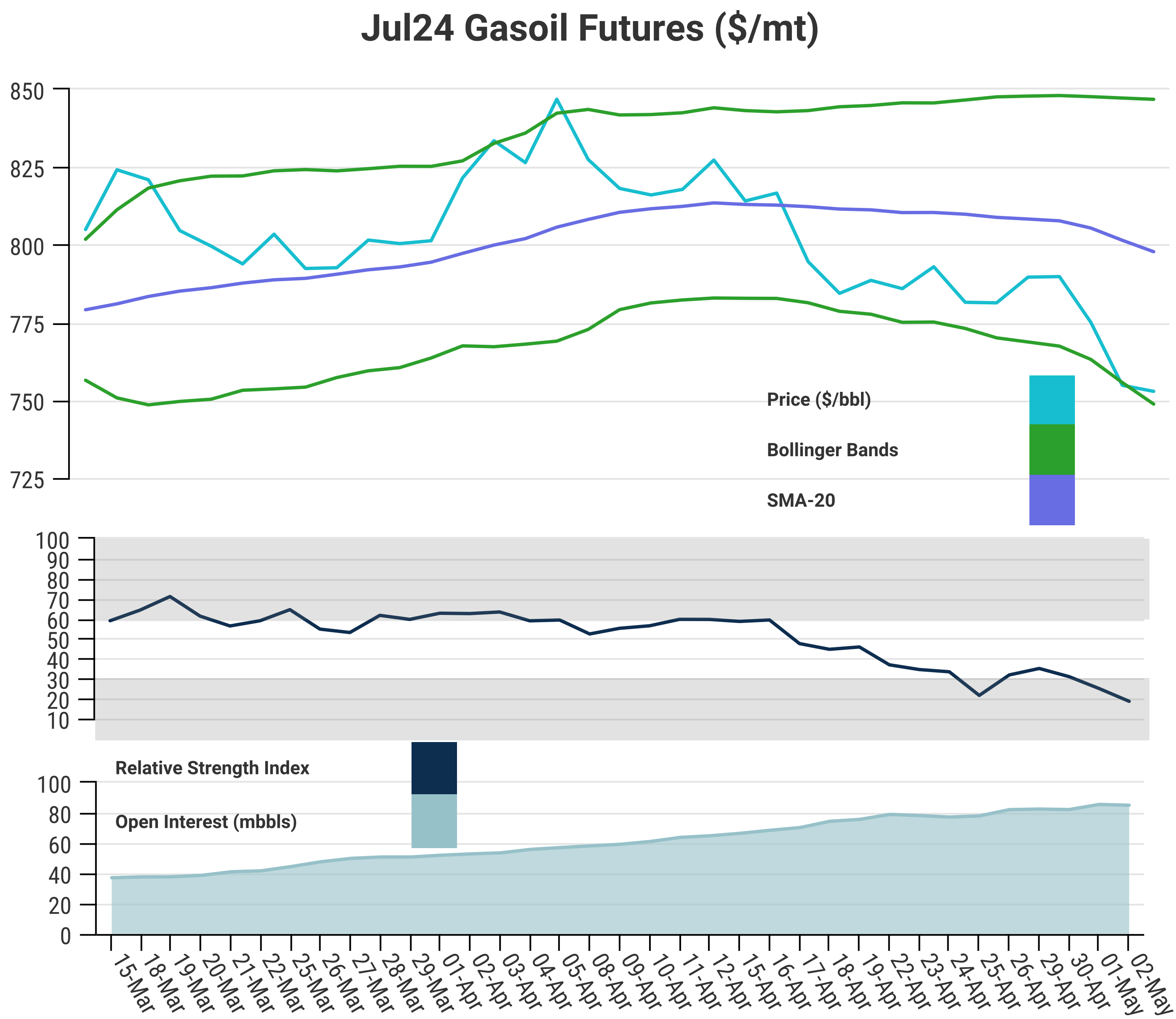
Crude Oil - Technical Analysis



Key Summary

- **RSI Status:** The prompt Brent futures sold off over the past week with price action moving down from over $87.30/bbl at the end of April to finally hitting support levels below $83/bbl on May 01. May 01 saw a particularly volatile day which ultimately trimmed $3 d-o-d from the futures contract and led to the RSI falling below 30 and well into the oversold territory.
- **Bollinger Bands Indication:** Price action also dipped below the lower Bollinger band at the start of May, a marker of oversold conditions. In addition, the Bollinger bands now appear to be widening, which is an indicator of rising volatility in the futures contract.
- **Open Interest Insights:** Open interest witnessed a w-o-w decline of nearly 9% to levels just shy of 600mbbls. The Jul futures saw a rise in OI last week as players rolled their positions into the new prompt, however, likely saw a rise in risk off sentiment amid the prevailing bearishness in Brent futures.
- This bearish sentiment is likely a product of dissipating geopolitical risk premia alongside bearish EIA news flagging a 7.3mbbls build in US crude oil inventories on May 01 against expectations of a draw in stocks.

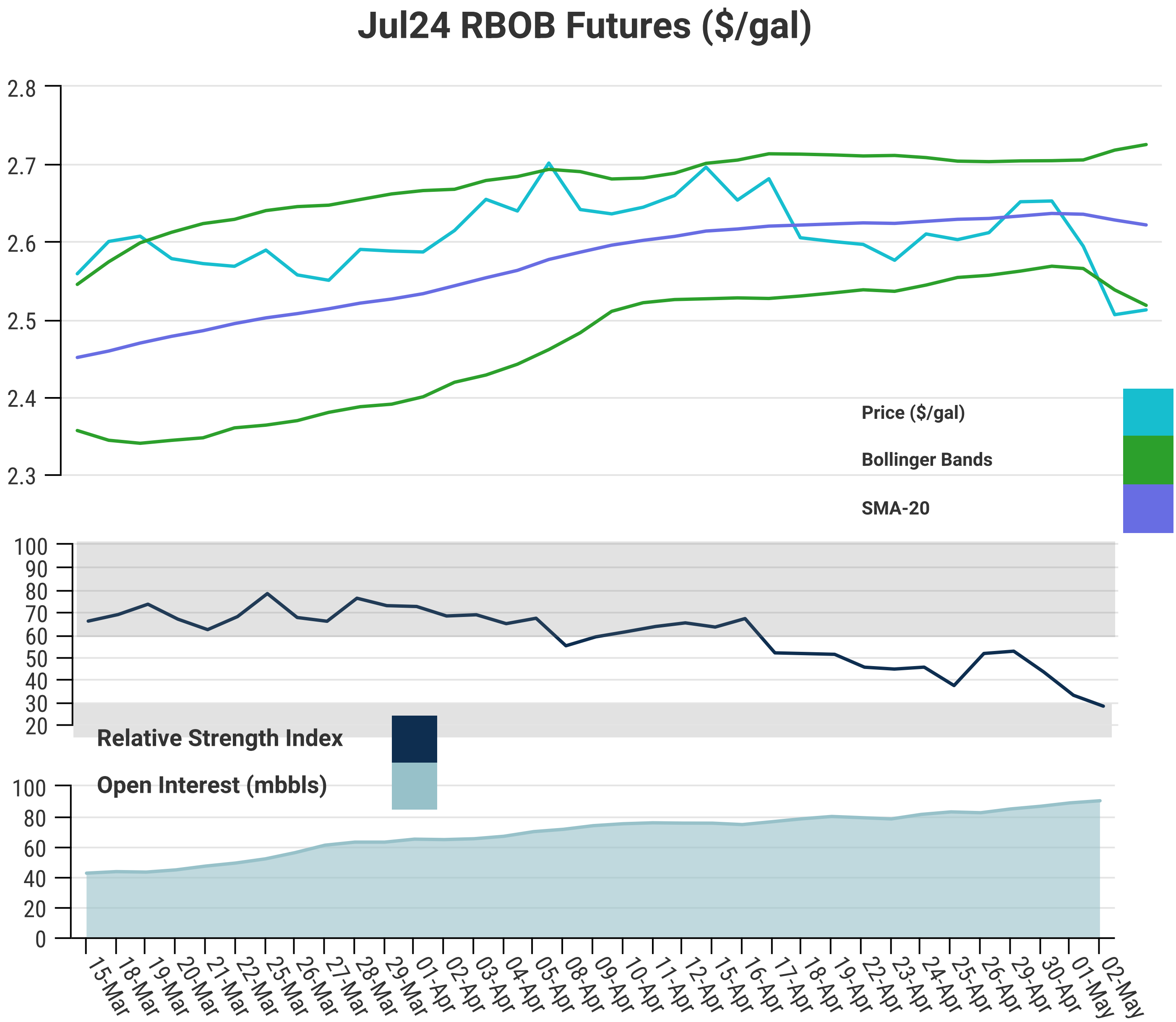
Gasoil Futures - Technical Analysis



Key Summary

- **RSI Status:** The ICE LS gasoil futures complex continued to weaken last week, ultimately driven by weaker crude flat price which saw the July gasoil contract finish the week a touch above $750/mt. Although the RSI briefly went above 30, it returned to oversold territory, highlighting the bearish sentiment in the contract, yet also pointing towards potential support at lower levels.
- **Bollinger Band Indication:** Although prices remain within the bounds of both Bollinger bands, it is trending closely with the lower band and well below the 20-day moving average. The bands continue to widen over the past week, indicating a sustained rise in volatility levels.
- **Open Interest Insights**: Levels have been trending upwards and surpassed 85mbbls in the July contract, although occasionally we may see a d-o-d decline, for example on April 30 and May 02. With cracks and spreads at depressed levels, plenty of existing length may be looking to exit, yet, bargain hunters will be looking for contango plays and entering cracks at these relatively cheaper levels.

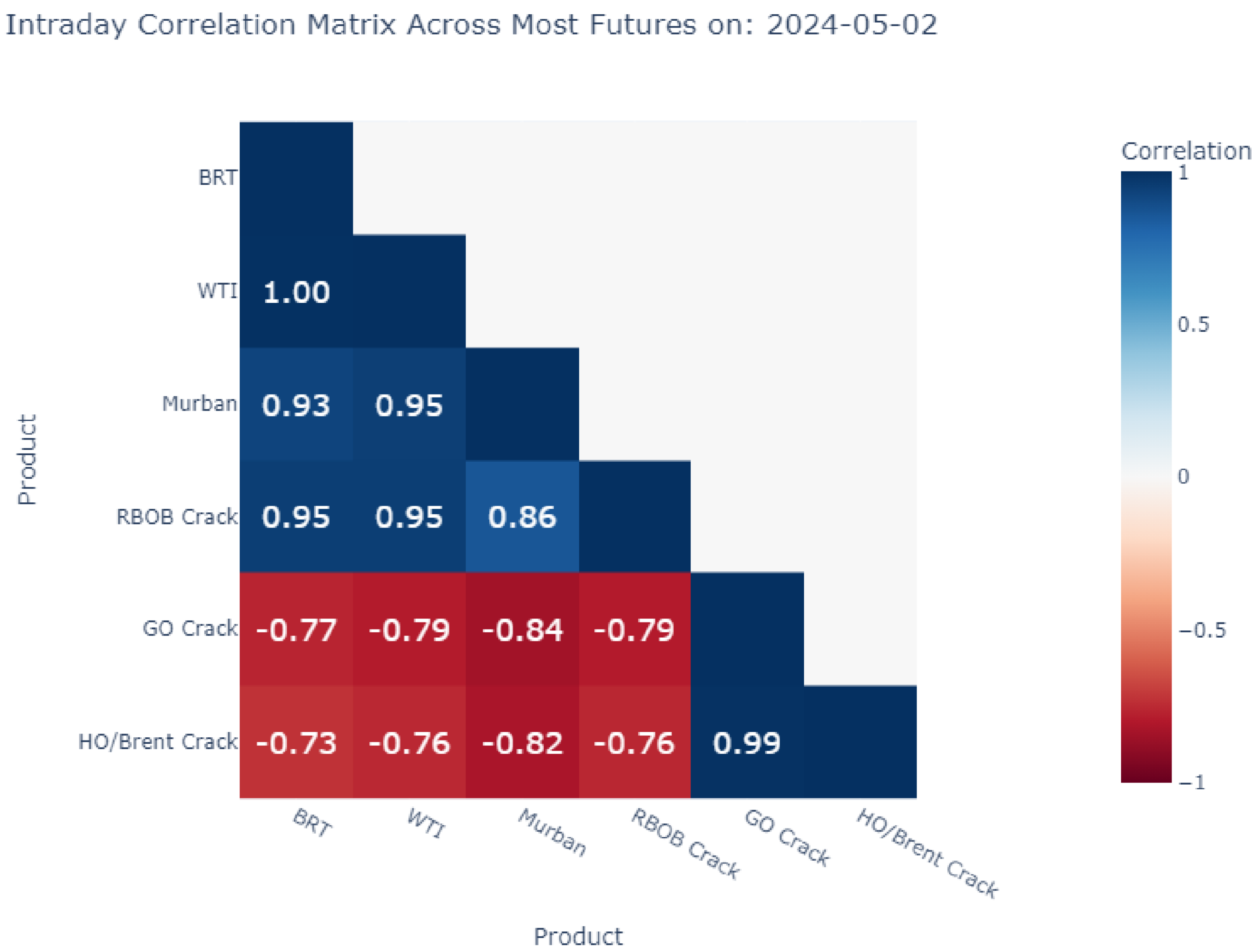
RBOB Futures - Technical Analysis



Key Summary

- **RSI Status:** It's been an abysmal week in gasoline despite expectations of upcoming summertime demand, with the Jul US gasoline futures falling from above $2.65/gal on Apr 29 to $2.50/gal on May 01 - breaching into oversold territory based on the RSI. The Jul RBBR also came off from an intraday high of $26.20/bbl on Apr 30 to $23.30/bbl the following day and eventually weakened to $23/bbl come May 06.
- **Bollinger Bands Indication:** The Jul RBOB futures contract fell into oversold bounds based on the Bollinger bands as well. Similar to Brent, we also see the Bollinger bands widening - signalling heightened volatility in the gasoline futures contract.
- **Open interest insights:** Unlike what we saw in Brent this week, open interest in the Jul RBOB futures rose gradually, ultimately rising ~9% w-o-w to surpass 90mbbls by May 02. Nonetheless, CFTC data for the week to Apr 30 highlighted a muted decline (of 0.10%) in OI across the RBOB futures complex.
- CFTC data also showed a w-o-w removal of long and short prod/merc positions by 4.40% and 3.65%, respectively. Money managers were seen trimming long positions but adding 2mbbls to their shorts.

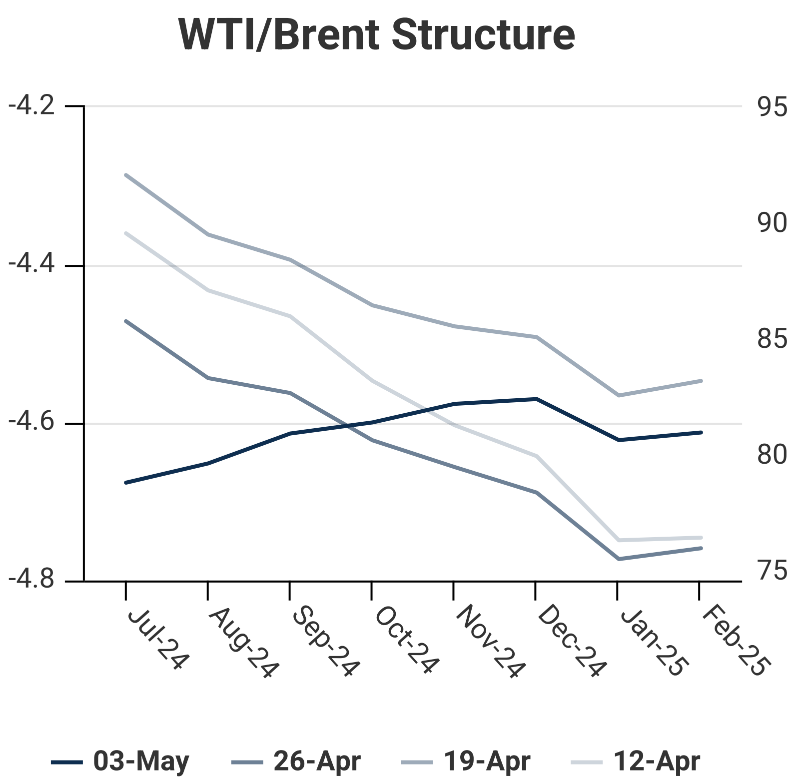
Correlation Matrix

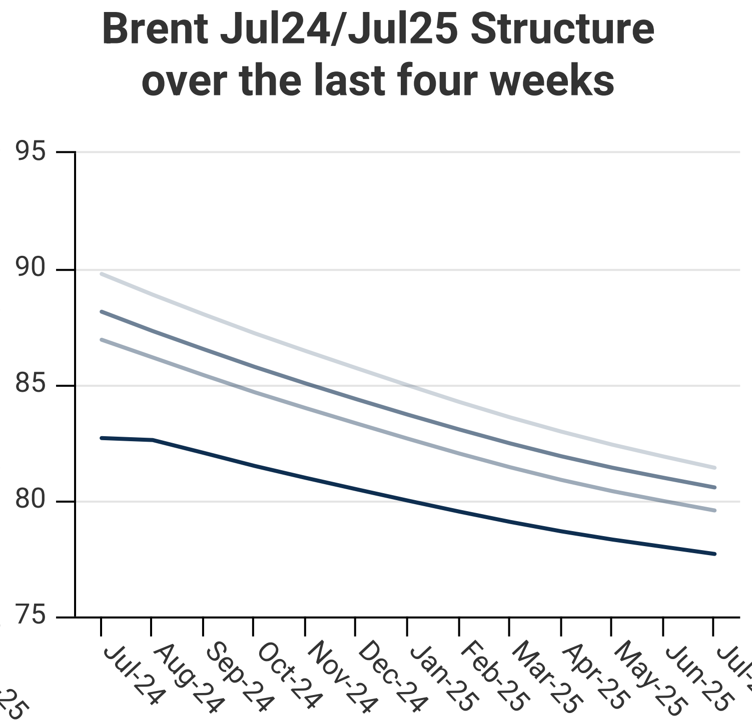


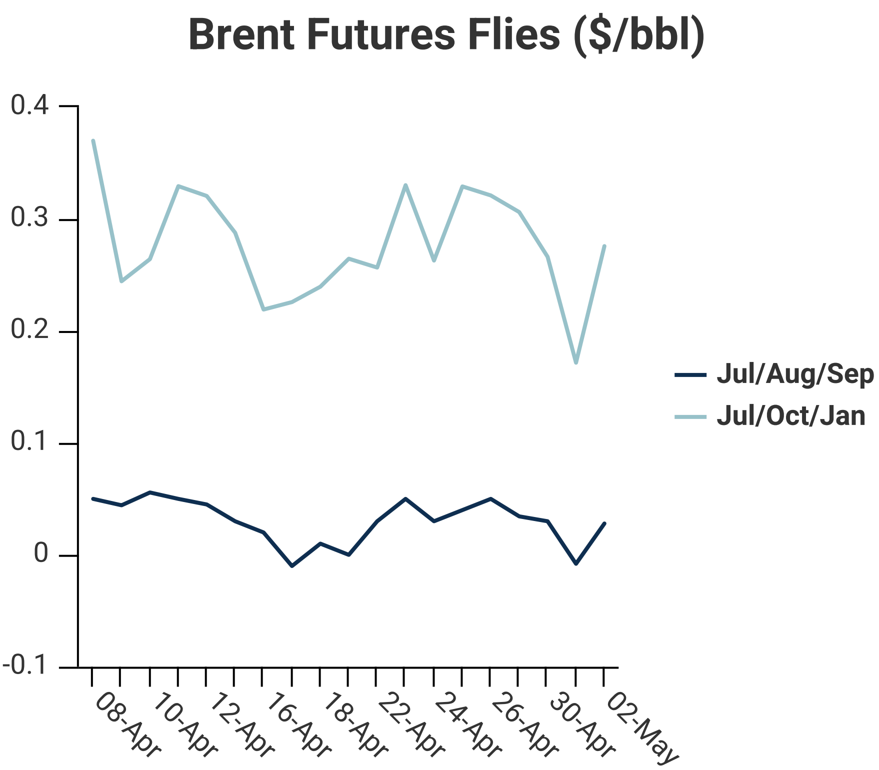
Looking at the correlation in the Jul tenors for a range of products, we saw a divergence in the typically close correlation between Brent and Murban which fell to 0.93. Notably, crude was positively correlated with gasoline cracks, at 0.95. Gasoline weakened alongside a poor performance in crude, which came off the back of an EIA stats build, with macro money selling off and following a similar pattern with US equities.

On the other hand, both the European and US middle distillate cracks saw an inverse relationship with crude. Despite weakness in the futures complex, the contango in spreads actually provided short-term support, whilst cracks have also seemingly found a floor.

Crude Oil - Curve Structure





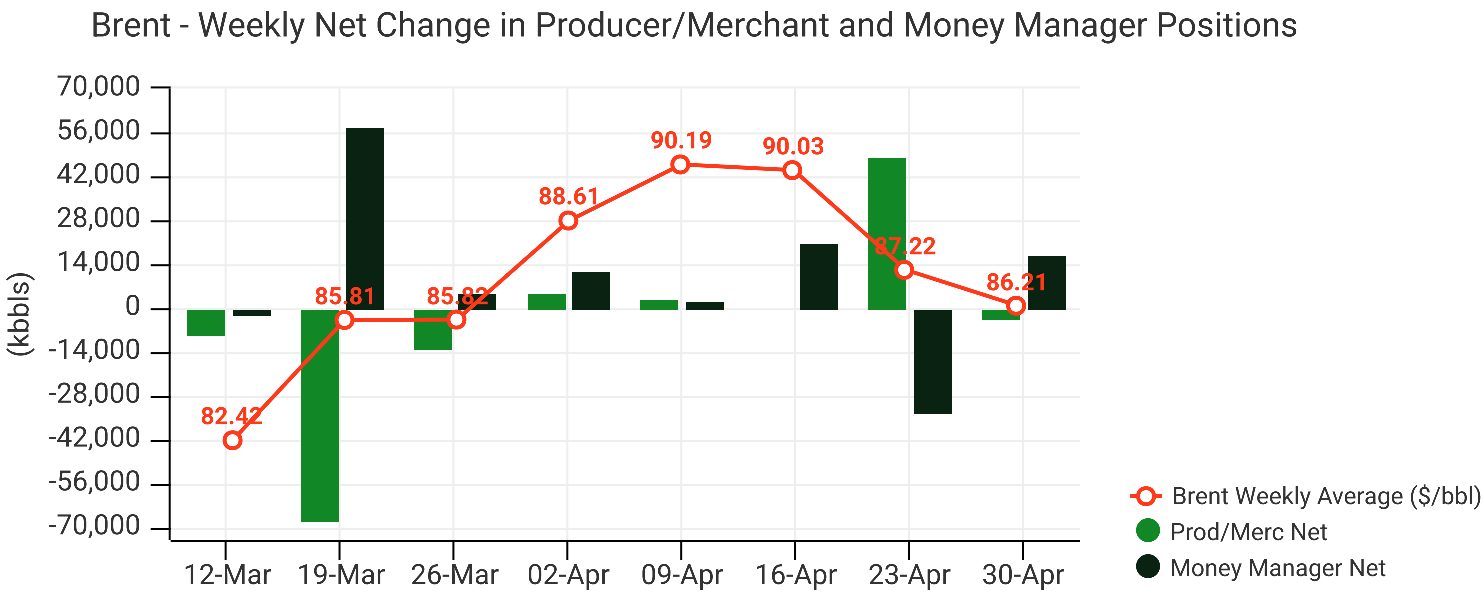


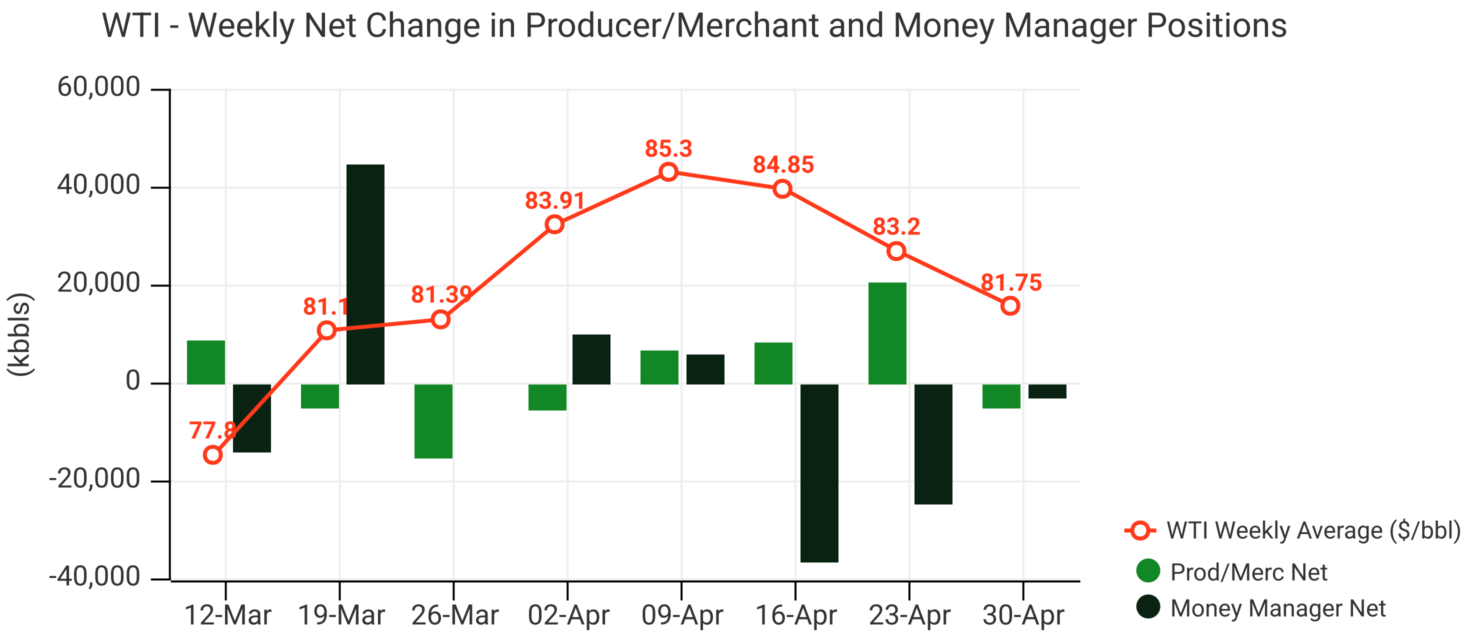
WTI/Brent structure shifted lower w-o-w in the prompt whilst retaining its strength in the deferred – highlighting that the current weakness in crude is perhaps localised in the front. Cementing this further, WTI/Brent structure is now backwardated throughout 2024 tenors.

In addition, the Brent futures forward curve witnessed a downwards shift week-on-week amid the Jul futures slumping into $83/bbl handles. Structure remains in backwardation, indicating a moderately tight market. That said, this backwardation appears less steep this week – although traders may wish to monitor this with OPEC planning on continuing its ongoing cuts into the remainder of the year.

The front futures fly remained predominantly rangebound over the past week, briefly hitting sub-zero category at the start of May. On the other hand, the Jul/Oct/Jan'25 fly saw more choppiness, highlighting the risk-off sentiment in the front.

Crude Oil - Commitment of Traders





The week to Apr 30 recorded weaker price action on average in both Brent and WTI, although money manager sentiment diverged between them. In Brent, speculative players added 9.3mbbls in long positions whilst liquidating 8mbbls in short positions, as recent shorts took profit following their entry at elevated levels, taking advantage of the waning geopolitical premium.

In contract, in WTI futures we saw managed money net positioning decline for the third consecutive week, albeit at a lower level than weeks previous. In contrast to the previous week, the week to Apr 30 was risk-on with both long and short positions increasing. In both contracts, prod/merc net positioning saw a week-on-week decline.

The weekly average price in WTI declined faster than its Brent counterpart, and we saw the WTI/Brent spread come off in the front. However, the deferred spread saw stronger support as the forward curve moved into contango.

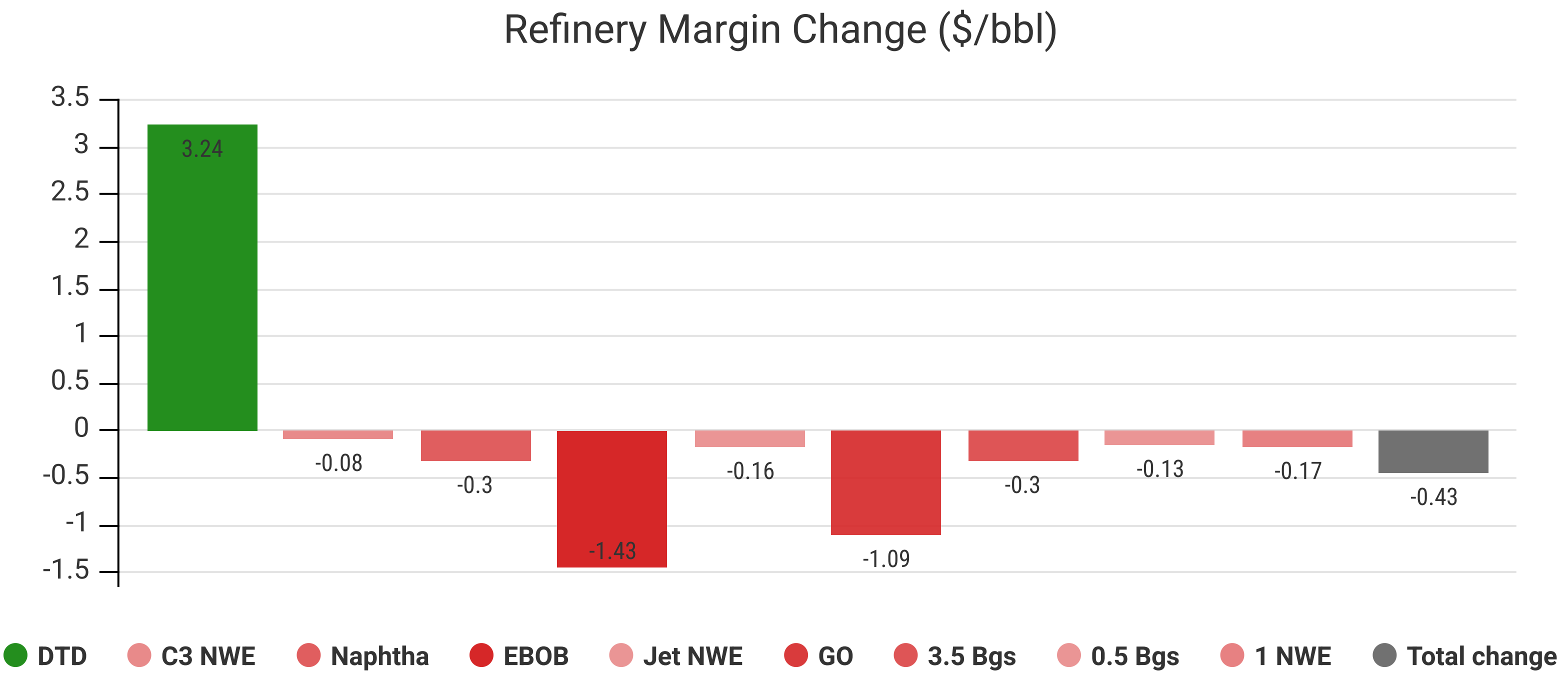
Crude Oil - ETF Flows

ETFs	5-day Sentiment	Flows	Call OI Chg	Put OI Chg	P/C Ratio Chg
USO	Bearish	Sentiment in USO was predominantly skewed towards selling this week with May 01 especially noting a net delta volume surpassing -385K. The largest bearish delta on this day emerged from traders selling a net equivalent of nearly 535,000 shares of stock. May 03 saw net delta volume sit just shy of -115K. Open interest in USO was largely unchanged over the past 5-days despite rising by 1.6% d-o-d on May 03. This influx in OI likely stemmed from put options rather than call with a w-o-w rise in the put/call ratio.	-1.7%	+3.3%	+5.1%
UCO	Bullish	Market sentiment in UCO started bullish into this week before flipping to bearish on May 03, which saw traders sell a net equivalent of over 115,000 shares of stock. May 03 saw the largest delta volume come from large institutional trades with traders getting short 83K deltas. Open interest came off w-o-w by 1.7%. However, unlike USO, we saw a weekly rise in call OI and trimming in put OI.	+0.4%	-7.0%	-7.4%
SCO	Bullish	Traders began the week on a bearish tone in the SCO before shifting their tunes towards the bull side into May. While Apr 30 recorded net delta equalling -25K, the following day saw this print at +15.8K. The largest contributors to delta volumes were sold puts and bought calls. On a weekly basis, open interest increased 22%. Among this, call OI rose by 26.4% and put OI increased by 7.2%.	+26.4%	+7.2%	-15.2%

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

USO and UCO saw bearish tides into the new month, although this was more pronounced in USO which saw its put/call ratio ultimately clock in a weekly increase. The ultrashort SCO saw bullishness into May 01, perhaps on the back of the substantial sell off in crude on the same day.

Refinery Margins



For the week to May 03rd, the June'24 European refinery margin softened by 43c/bbl to $6.56/bbl. This weakness emerged despite the sell-off in crude, as the refined products were marred by the futures sell-off and weaker fundamentals. The main driver was the bearish performance in EBOB which contributed to a $1.43/bbl decline in margins. This was due to poor macro sentiment in the US and bearish EIA stats which exacerbated the crude sell-off.

US weakness in the middle distillates complex also dragged down gasoil, contributing to a $1.09/bbl decline in margins. Interestingly, the margin has not been supported by strengthening naphtha over the past week. Nonetheless, the gasnaph has been on a significant downtrend.

Forex Analysis

Currencies

Market	Current	5-Day Change (%)	One-Month Change (%)
US Dollar	105.05	-0.49	+0.89

Market	Weekly Change Longs (%)	Weekly Change Shorts (%)	Weekly Change Open Interest (%)
EUR/USD	-12	8	6
USD/JPY	37	-20	-7
GBP/USD	-7	9	0

The US dollar continues to trade sideways albeit in a choppy fashion, printing a small w-o-w decline come May 06. Weaker US labour market data continues to bring bearish tides for US economic outlook. The US Nonfarm Payrolls report showed that fresh labour additions in April were far lower than expected while wage growth softened on a m-o-m and annual basis. The USD fell to a four-week low of 104.60 on the back of this data, but found support from ISM Services PMI data highlighting a rise in input prices for businesses - signalling a stubborn inflation outlook. The EUR/USD and GBP/USD both climbed up with the w-o-w fall in the US dollar.

Commodities

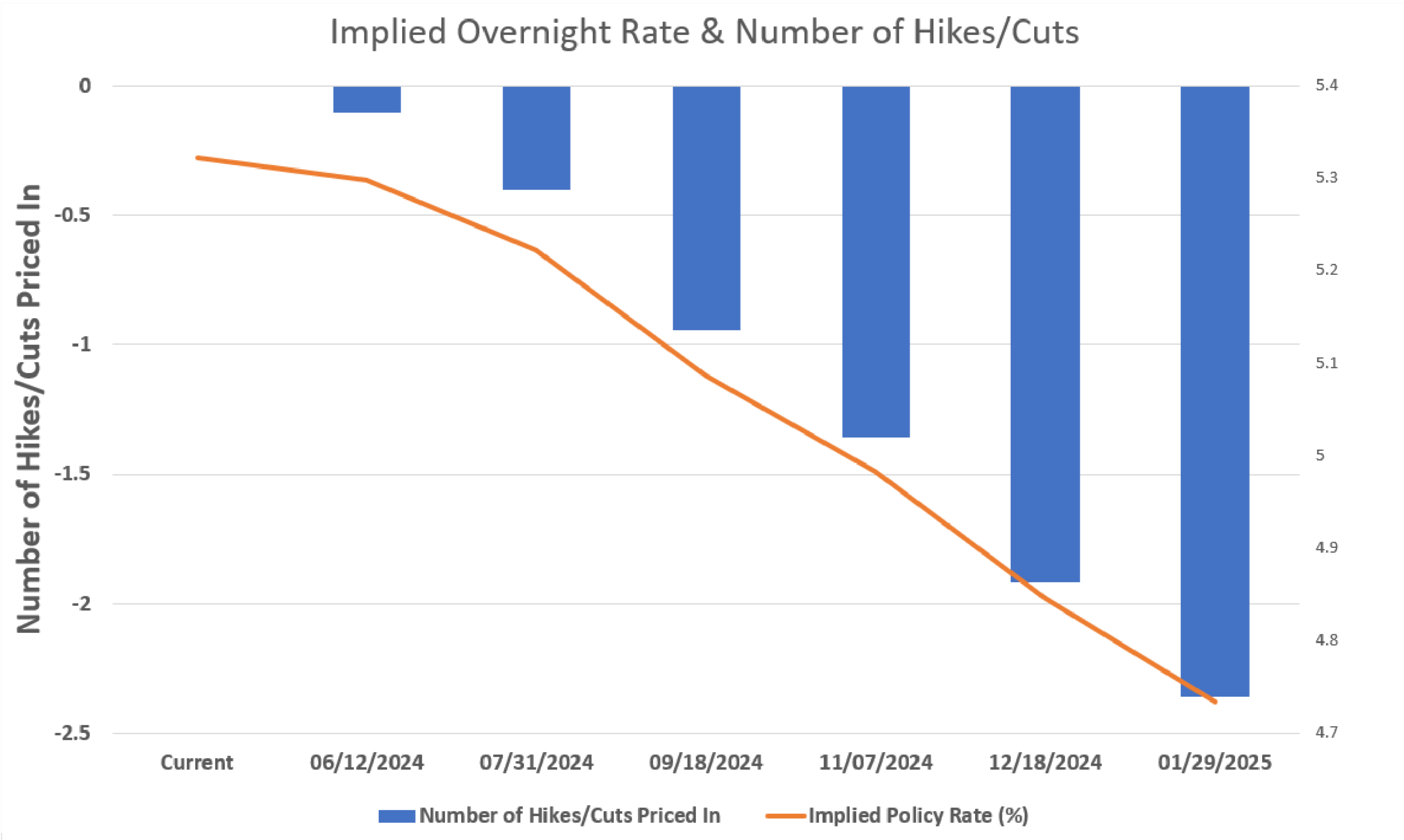
Market	Weekly Change Longs (%)	Weekly Change Shorts (%)	Weekly Change Open Interest (%)
Gold	-1	-7	-3

Gold climbed to levels just shy of $2,330/oz on May 06 amid China's Caixin PMI data remaining in expansive territory - highlighting higher demand. Still, we now see more risk-off sentiment in the market.

Market	Weekly Price Change (%)
COPPER	-1.17

Copper prices came off to $9,730/mt on May 06 after breaching into a two-year high of $10,000/mt last week. Despite this w-o-w loss in prices, we continue to see fears of supply tightness amid rising demand from green industries permeate into sentiment. In light of this tightness, Goldman Sachs increased their year-end price target to $12,000/mt from $10,000/mt.

Yield Curve



Implied Overnight Rate & Number of Hikes/Cuts
Number of Hikes/Cuts Priced In
0
-0.5
-1
-1.5
-2
-2.5
5.4
5.3
5.2
5.1
5
4.9
4.8
4.7
Current
06/12/2024
07/31/2024
09/18/2024
11/07/2024
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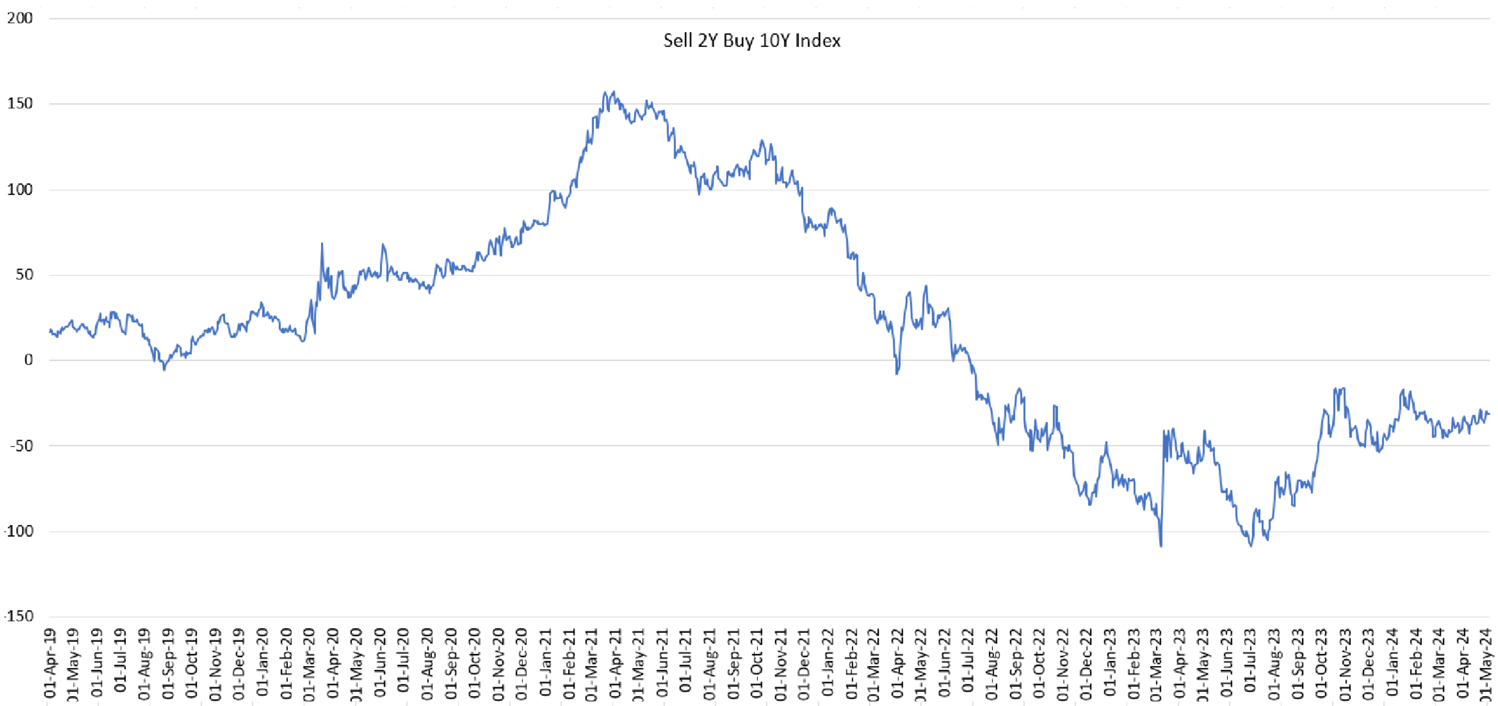
01/29/2025
Number of Hikes/Cuts Priced In
Implied Policy Rate (%)



Sell 2Y Buy 10Y Index
200
150
100
50
0
-50
-100
-150
01-Apr-19
01-May-19
01-Jun-19
01-Jul-19
01-Aug-19
01-Sep-19
01-Oct-19
01-Nov-19
01-Dec-19
01-Jan-20
01-Feb-20
01-Mar-20
01-Apr-20
01-May-20
01-Jun-20
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01-Aug-20
01-Sep-20
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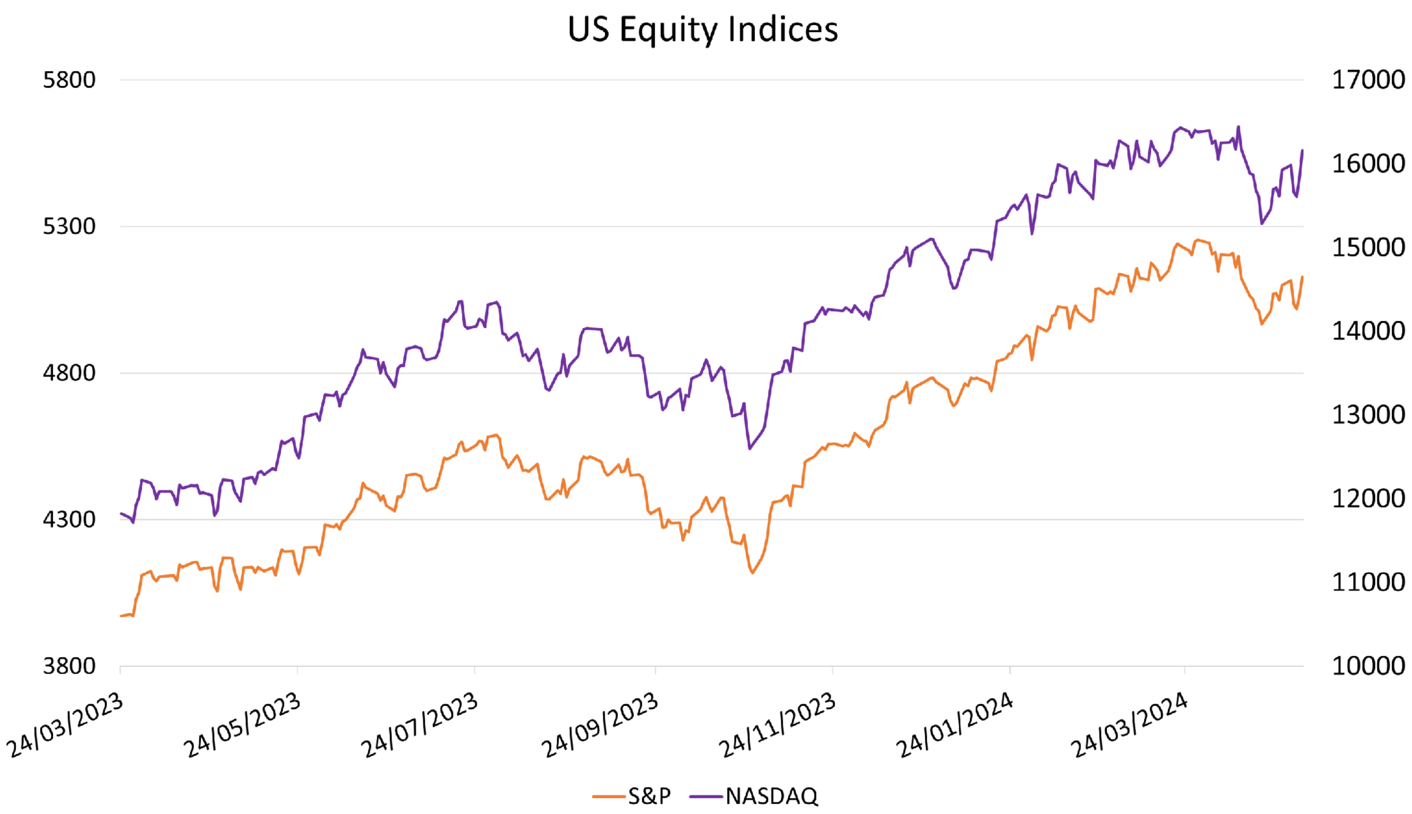
01-Apr-24
01-May-24

S&P and NASDAQ



US equities witnessed a mixed week flow-wise, with both the S&P and Nasdaq clocking in weakness at the end of April but ultimately strengthening into the new month, recording week-on-week gains of 1.40% and 0.55%, respectively. The initial weakness likely emerged amid concerns of a growing "stagflation" in the US. We also witnessed choppier movements last week with May 01 seeing the S&P jump 70 points over Jerome Powell's admittance that another rate hike was unlikely before giving these gains back 10 minutes before the day's close. It will be interesting to see how equities perform in the coming week with weaker-than-expected US nonfarm payrolls data showcasing an increase by 175,000 in April against expectations of a rise of 243,000.

Top Market Data of the Week

OIS pricing

Straight after the April payrolls on 3rd May the U.S. OIS market was pricing 51 bps of cuts by the Federal Reserve this year.

In Europe the market is pricing 75bps cuts by year end and a 94% chance of a full 25bp cut on 6th June. 54bp hikes are priced for the Bank of England, and after a raft of stronger than expected data in Australia the market has started to price the chance of a hike, +4.5 bp by year end. With 21bp of hikes priced for the Bank of Japan.

Key economic data

The key economic data this week include interest rate decisions by the Reserve Bank of Australia and the Bank of England on Tuesday and Thursday respectively. The market expects both to keep rates unchanged. China's inflation rate data is due on Saturday.

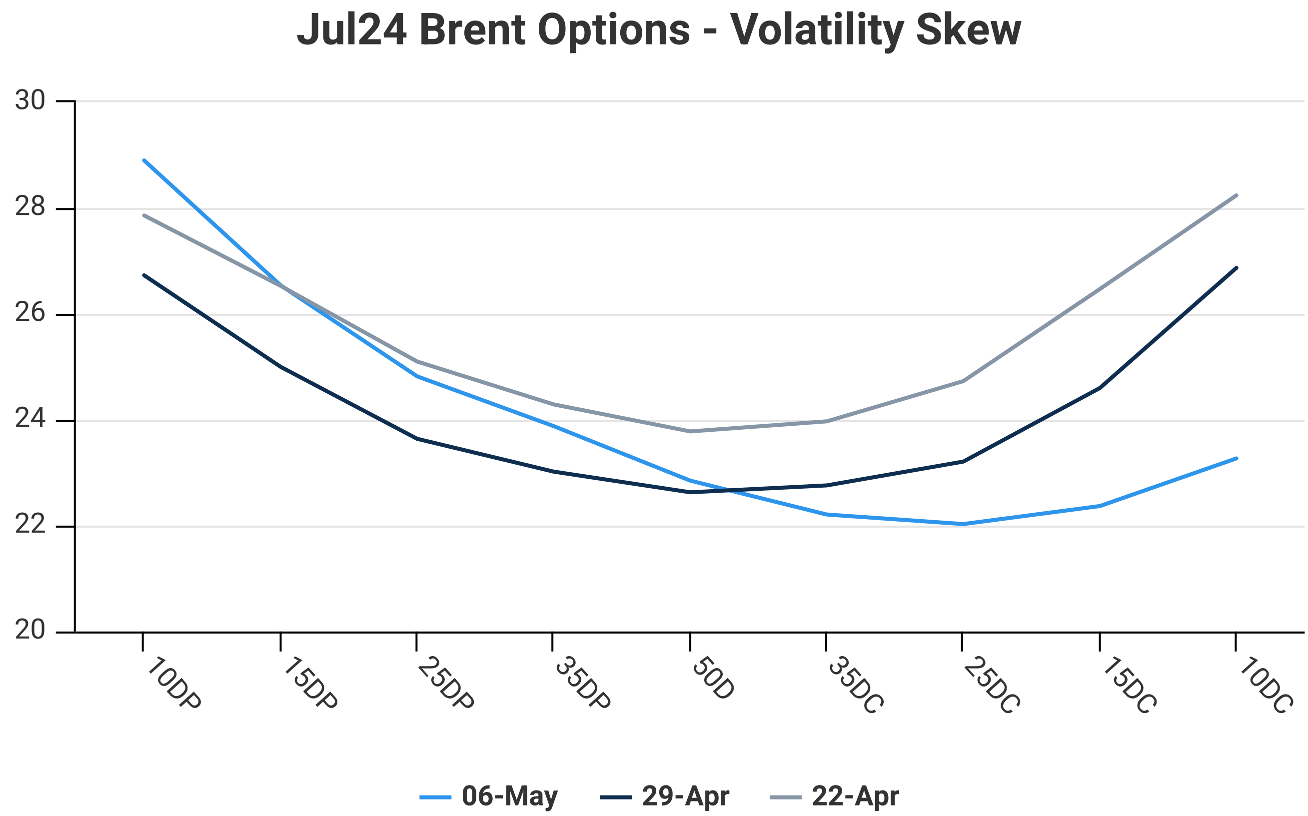
Currencies

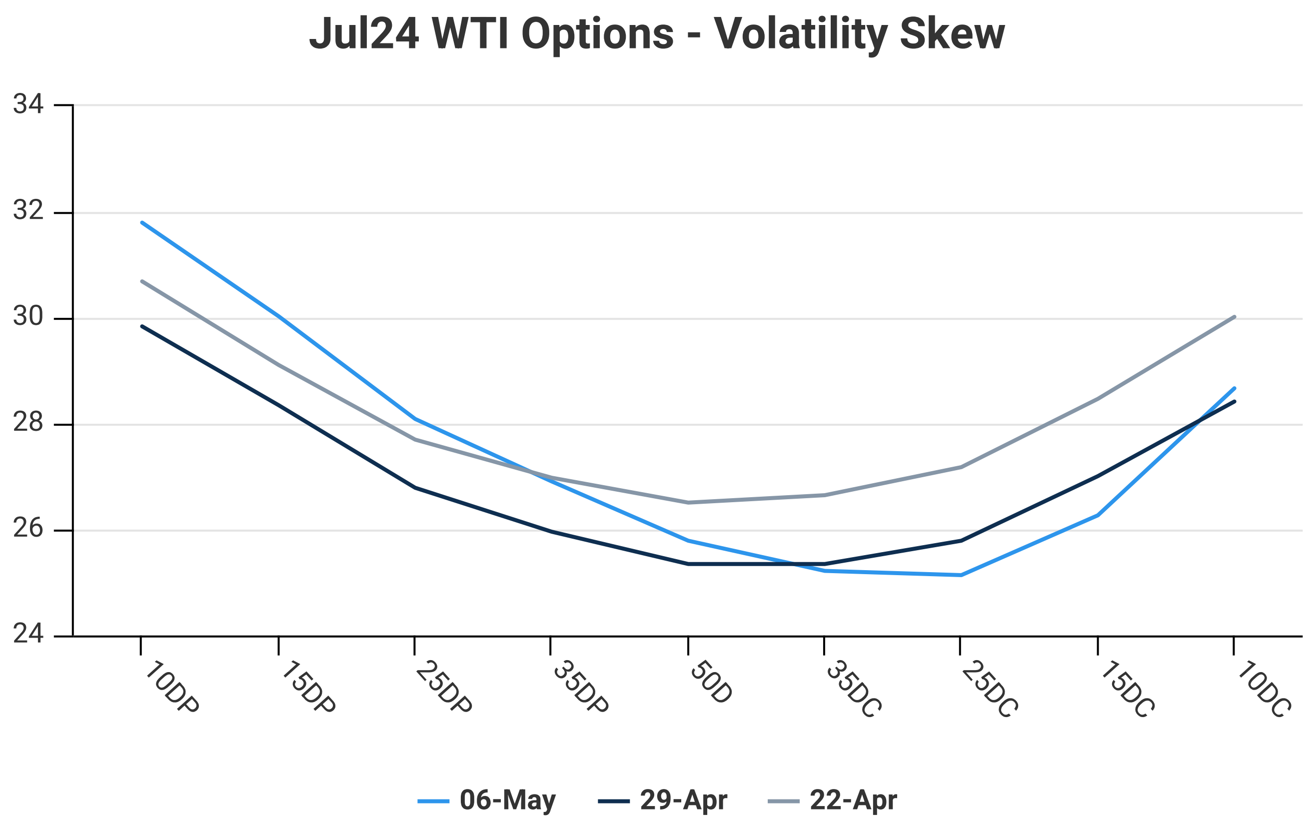
The US dollar weakened against the Japanese Yen going into the end of last week, from 157.08 on April 30 to 153.05 on May 03, with Japan suspected of carrying out two market interventions at a combined value of roughly $59 billion. The yen ended April at the weakest level against the dollar in 34 years.

Equities and Precious metals

Gold and Silver both had a strong month with data showing Central Banks have made their most aggressive first quarter purchases of gold for over 15 years. Data from the Shanghai Futures Exchange also shows aggressive retail buying with volume on 15th April 500% above the previous years average.

Crude Oil - Option Analysis





The recent bearishness in crude led to heightened implied volatility across out-of-the-money (OTM) put options relative to call options. This observation is particularly pronounced in Brent, where the implied volatility for OTM call options has fallen below levels seen in previous weeks. These changes in volatility imply that investors are perhaps anticipating bearish tides for crude in the near term amid sticky US inflation, EIA stock builds and an increasingly tepid outlook for geopolitical risk premia.