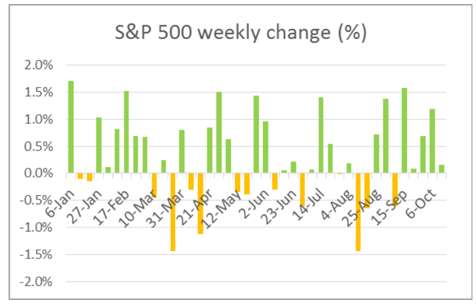
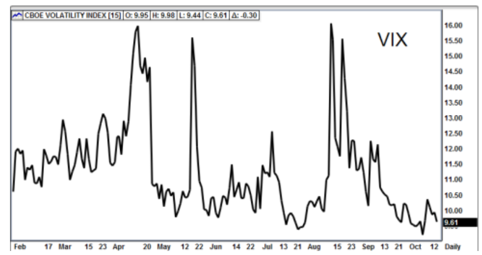
PETROMATRIX

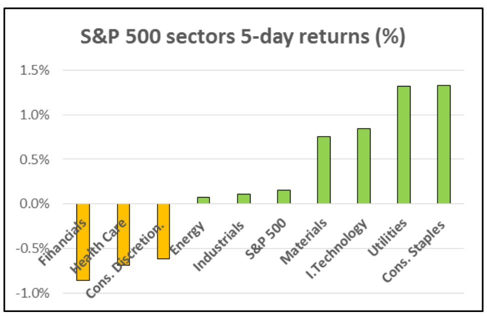
**16-Oct-17** **WEEKLY GLOBAL OVERVIEW**

## 1) Commodities as an asset class

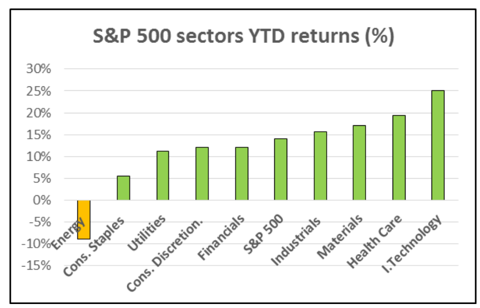



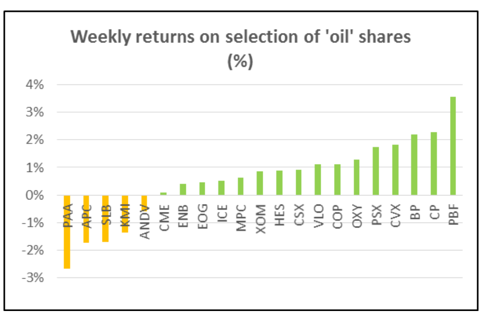

After the very strong performance of the previous week, the S&P500 took a pause but still added +0.15% in the week for a year-to-date gain of +14.04%. Friday still printed a new intra-day record high but not a record close. We noted last Monday that technically the S&P500 was in the overbought territory of the RSI-14 but with the pause taken during the week, that is no more the case. Equity markets had a very strong linear performance since the September but concern is growing about the very low volatility both in historical basis or through the VIX.



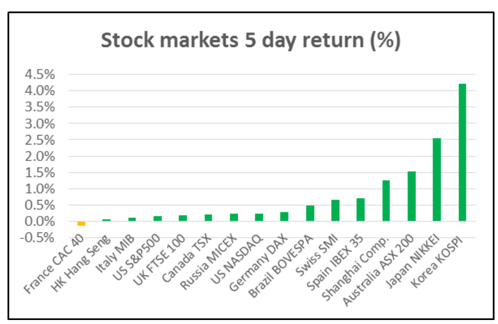




The energy sector of the S&P500 was about flat (+0.08% for a ytd of -8.95%). Consumer staples were leading with gains of +1.33%, followed closely by utilities with +1.32% while IT gained +0.85% (+25.06% ytd).

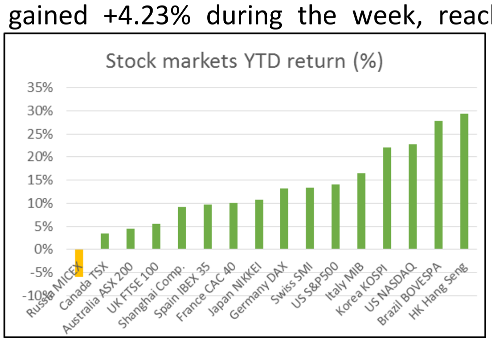



In our basket of energy shares there was no clear difference of trend between producers and refiners. The lack of intra-sector leadership explains the lack of performance in the energy sector of the S&P500.



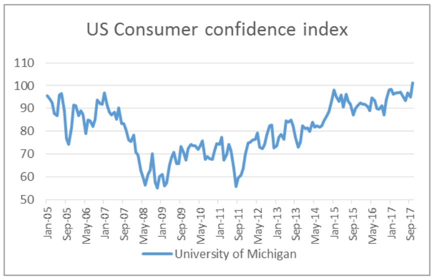

If the S&P500 was stalling, Asia was soaring. The Skorean KOSPI gained +4.23% during the week, reaching new record highs as concerns about North Korea were priced-off. The Nikkei also had strong gains (+2.55%) to print a 21-year high. The Swiss SMI gained +0.64% (+13.28% ytd) and the German DAX gained added +0.28% (+13.16% ytd).

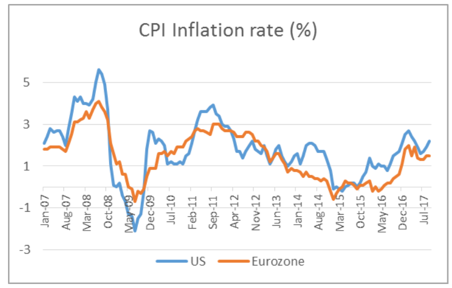


Data of last week:

The US JOLTS report on job openings was weaker than expected (but that still leaves it at a very high level). The US Fed FOMC minutes highlighted the continued debate about the lack of inflation. Anticipation are still that the US Fed will do another rate increase in December as unemployment trends lower and the stock market does not need any support anymore.

US CPI disappointed. The headline number increased to +2.2% y/y but the core ex-food and energy was unchanged at +1.7% y/y (+0.1% m/m). US advance retail sales were a strong +1.6% m/m and the University of Michigan consumer confidence index surged to the highest level since early 2014.




The EuroZone industrial production data was much stronger than expected, showing +1.4% m/m in August and +3.8% y/y. Compared to a year ago, industrial production in Germany is higher by +4.7%, Italy is +5.7%, Spain +2.5% and France just +1.3%.

China's trade surplus was smaller than expected due to strong imports. The latest data series from China have been positive with rising PMI and rising imports.

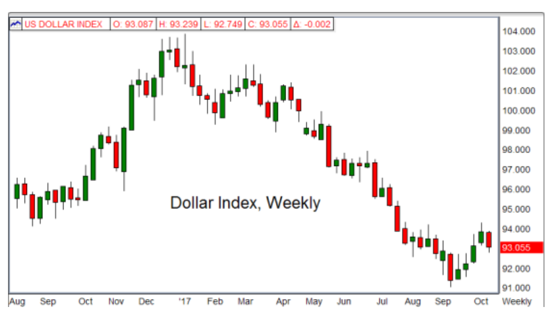
Overall, last week was not a heavy week for macro-economic data but apart from low inflation which continues to a struggle for central bankers, the numbers were positive for global economic growth. The IMF revised higher its estimate of the world's economic growth for 2017 from +3.5% to +3.6% and it increased its outlook for 2018 by +0.1% to +3.7% ( for 2018 it has the US at +2.3%, the EU at +1.9%, China at +6.5% and India at +7.4%).

Although not a macro-economic input per se, one of interesting development of last week was the increased speculation that Saudi Aramco would delay or scrap its public IPO and go instead for a face-saving private sale to Chinese interests.

Data points to watch this week:

**Monday:** China CPI **Tuesday** EuroZone final CPI, German ZEW survey, US industrial production **Wednesday**: US housing starts and building permits, US beige book **Thursday**: China 3Q GDP **Friday**: US existing home sales.

The Dollar Index was in retreat last week after four weeks of rebound. It took a hit on Friday on the release of the US CPI data but reversed that loss by the end of the day. The US 10 year bond yield had its first correction in four weeks to 2.2730%.




| S&P GSCI Returns | | |
|---|---|---|
| Commodity groups | Month | YTD |
| Industrial Metals | 4.12% | 23.08% |
| Livestock | 2.06% | 8.46% |
| Precious Metals | 1.89% | 11.92% |
| Softs | 0.94% | -17.15% |
| Grains | 0.03% | -6.60% |
| Energy | -0.12% | -7.48% |
| **S&P GSCI** | **0.68%** | **-3.11%** |

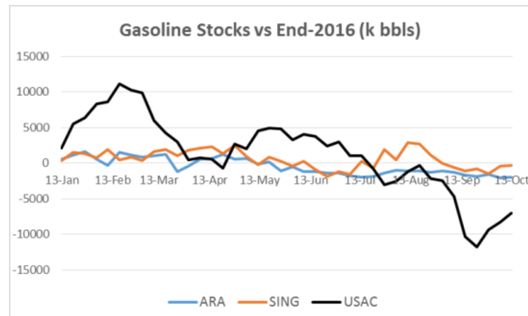
The S&P GSCI commodity index rose to +0.68% for the month (-3.11% ytd) helped mostly by gains in energy as well as in precious and industrial metals.

## 2) Relative Values

### a) Top of the barrel

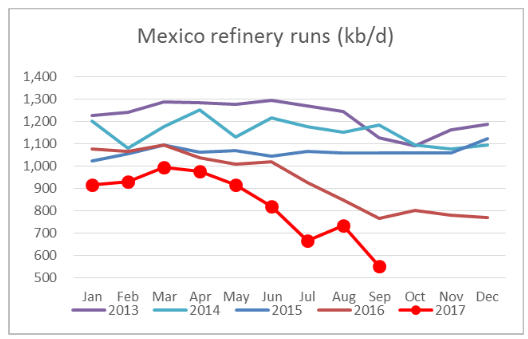
| Product Swaps (source: CME) | | | | |
|---|---|---|---|---|
| **Top of the Barrel** | **October** | *vs last week* | **November** | *vs last week* |
| Eur. Propane/Naphtha, $/MT | 0.897 | -20.00 | 10.833 | -18.92 |
| Eur. Naphtha Crack, $/bbl | 0.781 | 0.34 | 0.668 | 0.46 |
| Eurobob Crack, $/bbl (8.33) | 9.655 | 0.23 | 8.783 | 0.69 |
| RBOB to Eurobob, $/MT | 8.21 | 4.213 | 12.85 | -0.286 |
| RBOB Crack to Brent, $/bbl | 10.619 | 0.7210 | 10.295 | 0.6540 |

| Weekly Gasoline Stocks in Pricing Hubs | | | | |
|---|---|---|---|---|
| | US Padd1 (DOE) | ARA (PJK) | Singapore | Fujairah |
| 000 bbls | 58,210 | 6,828 | 12,040 | 4,554 |
| vs prev. week | 1,274 | 52 | 149 | -198 |
| vs year ago | 278 | 1,479 | -191 | |

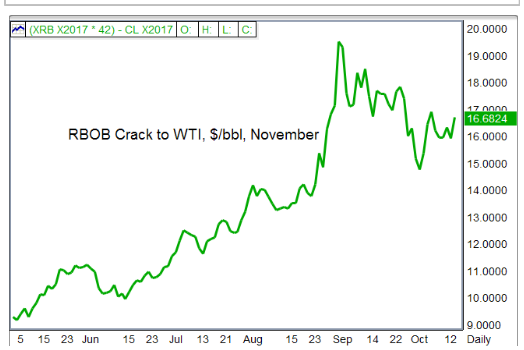



Gasoline stocks are rebuilding in Padd1, adding about the same as in the previous week; stock also increased in Padd3. ARA was unchanged while Singapore added marginally to stocks.

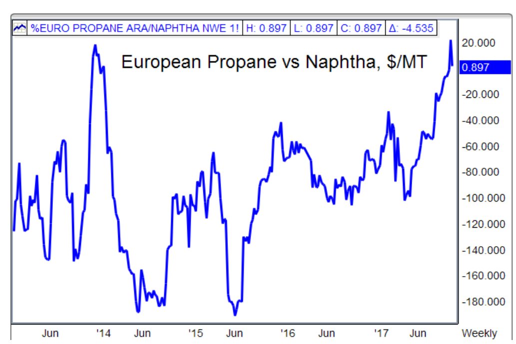
US refinery runs are increasing but Mexico will continue to be a source of underlying support for the US Gulf. Refinery runs in Mexico fell in September to a new low of 551 kb/d and the levels have not improved during the first week of October. Low refinery runs in Mexico last year provided an underlying support for gasoline in the 4Q and the situation today is even worse than a year ago; runs in September were -215 kb/d lower than last year and -0.5 myn b/d lower than in 2015. The combined US and Mexico refinery runs in September were about -2.0 myn b/d lower than a year ago.




The RBOB crack to WTI (November) was little changed during the week but the front time-spread regained some backwardation. Ethanol RINs were about unchanged.

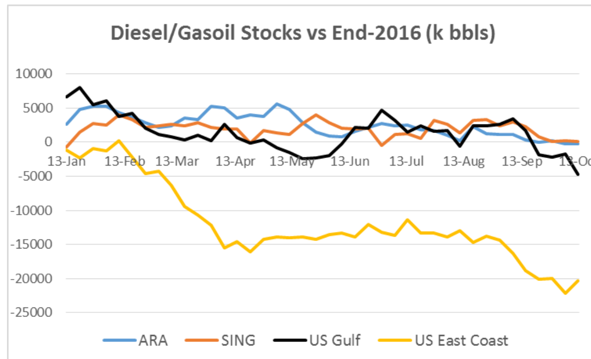

The European propane to naphtha narrowed slightly but still leaves naphtha at favorable economics for petrochemical crackers. Naphtha remains therefore well supported and at a positive crack to Brent. The Asian naphtha crack is significantly stronger than a year ago and naphtha swaps basis Japan or Europe maintain their backwardation.



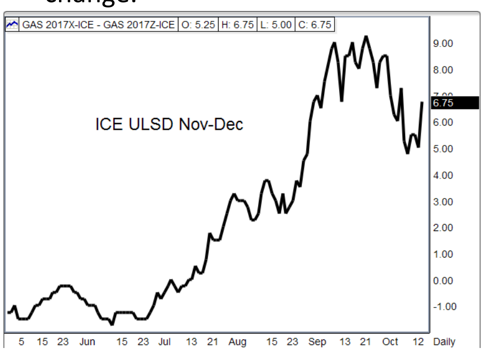
## b) Middle of the barrel

| Product Swaps (source: CME) | | | | |
|---|---|---|---|---|
| **Middle of the Barrel** | **October** | *vs last week* | **November** | *vs last week* |
| Singapore Gasoil vs ICE, $/bbl | -3.164 | *-0.29* | -2.874 | *-0.29* |
| ICE Gasoil Crack, $/bbl | 14.499 | *0.50* | 14.088 | *0.69* |
| Eur. Low Gasoil Sulfur Barges vs ICE, $/MT | 1.637 | *2.26* | 2.833 | *1.25* |
| Eur. Low Sulfur Gasoil Cargoes vs ICE, $/MT | 2.864 | *0.49* | 4.125 | *0.38* |
| Eur. Jet Cargoes vs ICE, $/MT | 20.67 | *-1.12* | 24.50 | *-2.46* |
| US Heat Oil Crack vs Brent, $/bbl | 18.125 | *0.41* | 18.497 | *0.69* |

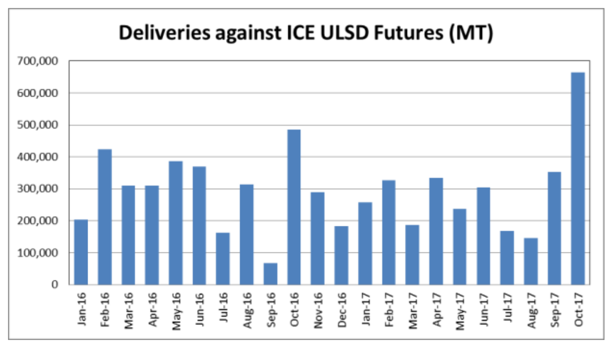
| Weekly Distillates Stocks in Pricing Hubs | | | | | |
|---|---|---|---|---|---|
| | US Padd1 (DOE) | US Padd3 (DOE) | ARA (PJK) | Singapore | Fujairah |
| 000 bbls | 47,729 | 40,960 | 18,993 | 10,529 | 2,957 |
| vs prev. week | 1,907 | -2,919 | -22 | -155 | 482 |
| vs year ago | -19,344 | 2,355 | -3,551 | -2,106 | |

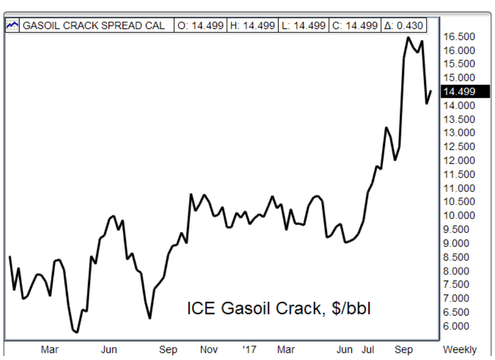



Padd1 had a stock build reversing the draw of the previous week but the y/y deficit is increasing. Padd3 had a large stock draw while stocks in ARA and Singapore did not see a lot of change.

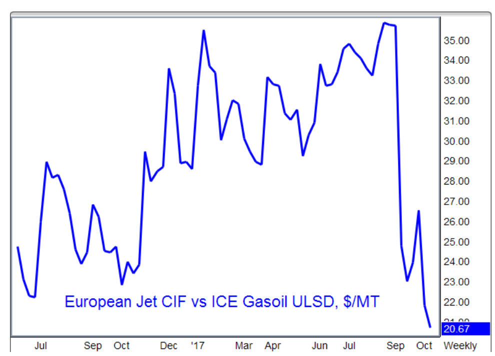



After the expiry of the October contract, the ICE ULSD Nov-Dec timespread gained some backwardation. Deliveries under the ICE ULSD contract surged to a very high level of 664'800 MT, close to double the deliveries under the September contract; a record since the change of specification to the ICE contract and the highest level since February 2013 (old contract).

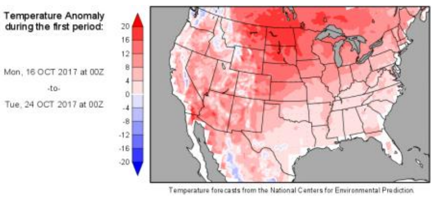


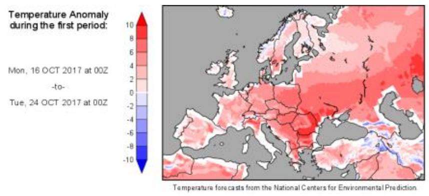



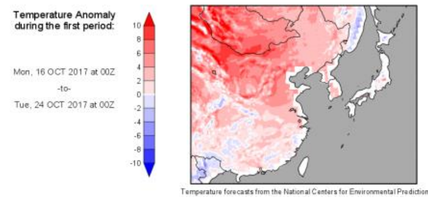

Both the ICE ULSD crack to Brent and the CME ULSD crack to WTI were stable during the week. Both remain at very strong levels that are supporting the refining margins. European jet premiums continue to be under heavy pressure as barrels are moved out of storage. The European gasoil differentials are also negatively impacted by the lack of storage incentive, the 50 ppm differential moving to the lowest level since 2015; differentials for 10 ppm diesel were however finding some strong support.




If September had a cold spell in Europe, the opposite is true for October as temperatures are well above normal and not providing any early winter demand. Temperatures are also above normal in the US and China. We will have to start watching the water levels on the Rhine again as they should start to decline due to the very dry European weather: water levels on the Rhine could start to negatively impact barge shipments out of ARA by the end of the week.



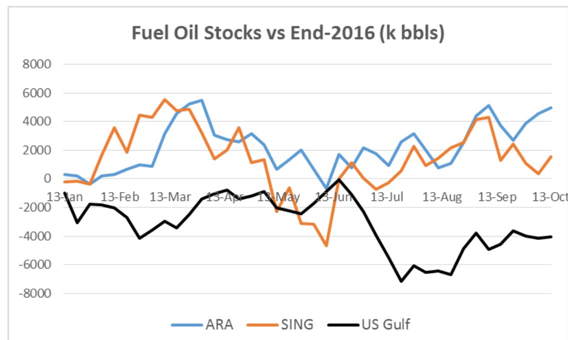



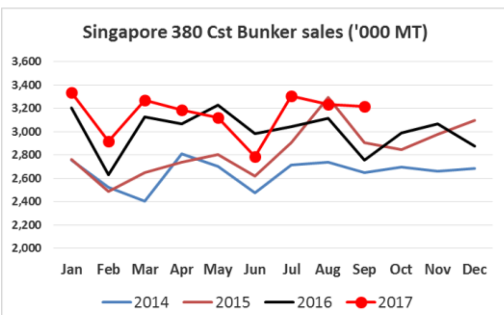

## c) Bottom of the barrel

| Product Swaps (source: CME) | | | | |
|---|---|---|---|---|
| **Bottom of the Barrel** | **October** | *vs last week* | **November** | *vs last week* |
| Singapore 180/380 Cst, $/MT | **3.727** | *-0.05* | **5.000** | *0.00* |
| East/West Fuel Oil, $/MT | **18.825** | *-1.49* | **23.395** | *0.10* |
| Eur. High Sulfur Crack, $/bbl | **-7.244** | *0.38* | **-7.728** | *0.42* |

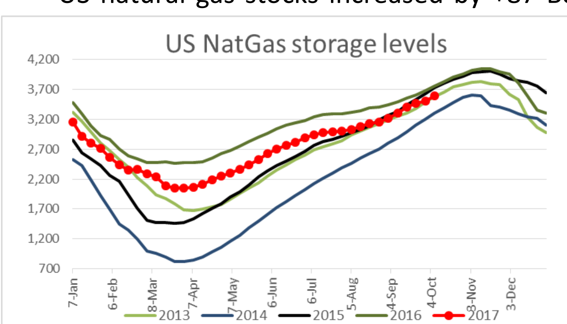
| Weekly Fuel Stocks in Pricing Hubs | | | | |
|---|---|---|---|---|
| | US Padd3 (DOE) | ARA (PJK) | Singapore | Fujairah |
| 000 bbls | 21,828 | 9,313 | 23,748 | 8,503 |
| vs prev. week | 71 | 452 | 1,198 | -782 |
| vs year ago | 575 | 3,975 | -1,566 | |

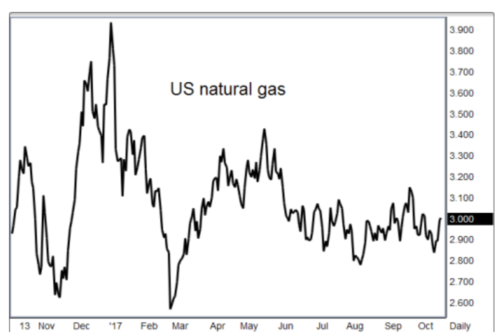



ARA had a build that maintains its surplus to a year ago, the US Gulf was unchanged but Singapore had a strong build. The European fuel oil crack stabilized after the correction lower of recent weeks, the east-west was also stable. Sales of bunkers in Singapore did not suffer any m/m slowdown like in the two previous years and are therefore a strong +13.3% (+510 kMT) versus a year ago. The average growth for the year-to-date is of +4.2%.




US natural gas stocks increased by +87 Bcf, in line with the 5-year average for this time of the year. The flat price and the time-spreads of US natural gas were improving and the next weekly report is likely to show some supply impact from the offshore shut-ins due to hurricane Nate.



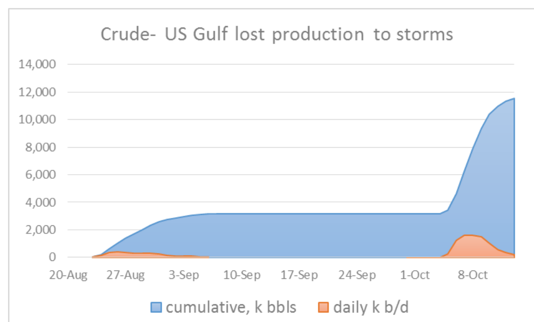

International coal prices were about unchanged during the week, still near the highs of the year.

## d) Crude

| Crude Oil Futures and Swaps (Source: CME) | | | | |
|---|---|---|---|---|
| **Crude Oil** | **October** | *vs last week* | **November** | *vs last week* |
| Brent-Dubai, $/bbl | 1.734 | *-0.04* | 1.839 | *0.02* |
| Brent Dated-Frontline, $/bbl | -0.25 | *-0.24* | 0.04 | *0.04* |
| WTI-Brent, $/bbl | -5.68 | *0.43* | -5.14 | *0.47* |
| LLS-WTI,$/bbl | 5.4600 | *0.14* | 4.6400 | *0.05* |
| Canadian Heavy-WTI, $/bbl | | *Nov* | **-11.22** | *-0.06* |
| WTS-WTI, $/bbl | | | 0.2500 | *0.1900* |

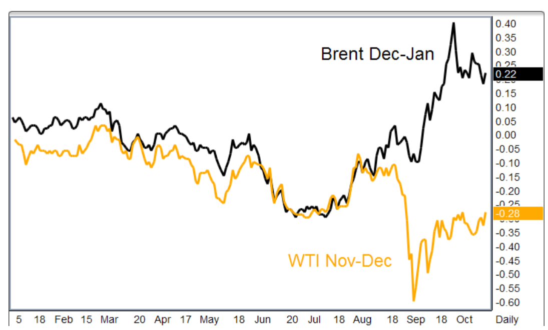
| Weekly Crude Stocks | | | | |
|---|---|---|---|---|
| | US Cushing | US Padd3 | ARA | Shandong China |
| Source | DOE | DOE | Genscape | SIC99 |
| 000 bbls | 63,784 | 232,137 | 49,188 | 17,063 |
| vs prev. week | 1,322 | -4,542 | -3,282 | 630 |
| vs year ago | 2,450 | -10,790 | -9,513 | |

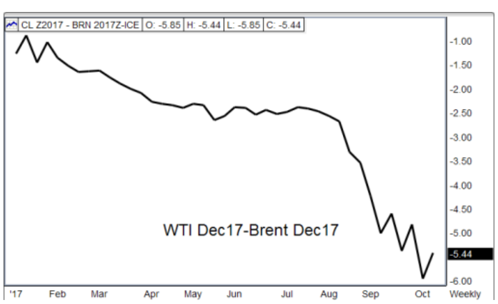
Crude oil stocks in Cushing had another large build and are increasing their surplus to a year ago while stocks in the US Gulf had another sharp draw and widening their deficit versus last year. According to Genscape, crude oil stocks in ARA had a sharp drop of -3.3 myn bbls to the lowest level of the year and the lowest level since March 2015. Crude oil stocks in ARA have "rebalanced" to the average of 2013/2014. Stocks in the teapot refinery center of China are however going the other way and have increased to the highest level on record (according to the SIC99 survey); the customs data for September showed a surge of crude oil imports in China of +1.0 myn b/d versus August.




The US oil rigs lost -5 units, the Permian added +1 rig but Eagle Ford lost -4 units. The next DOE report should show a large drop in US crude oil production: due to hurricane Nate there was on average a loss of -1.0 myn b/d of offshore crude production in the week covered in the next DOE weekly report.

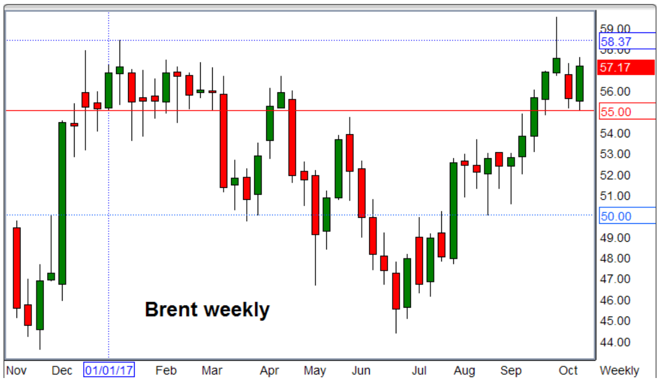
WTI narrowed its front contango despite the build in Cushing and the front backwardation in Brent was about unchanged and off from the peaks seen at the start of the month. The Brent Dec17-Dec18 backwardation is stable and that spread for WTI is almost moving out of contango. US crude oil export should stay at a strong level, making for low net US imports.



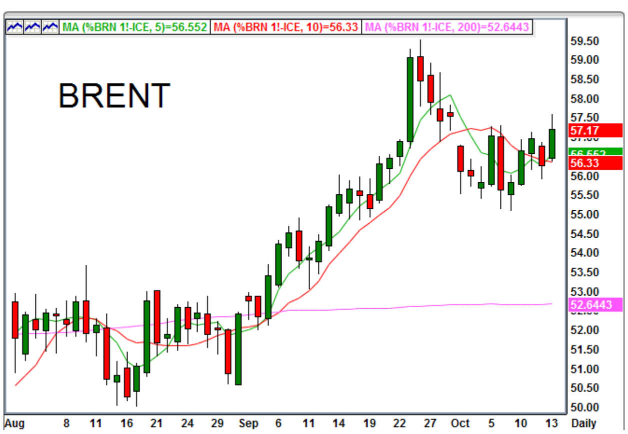

US crude oil differentials are very strong, both inland (Bakken) and in the US Gulf ( Mars and LLS). US Gulf differentials are supported by refineries coming back from Harvey, crude oil production dropping due to Nate and very high exports. The Brent backwardation is no incentive to keep oil in stocks and the floating storage VLCCs have left the North Sea to Asia. North Sea crude oil differentials remain however weak and at the lowest level since June, West African differentials are stalling. The Atlantic Basin has destocked into Asia and that region should see increased flows from the US, which will become strong competition to North Sea, North African and West African flows into Asia.

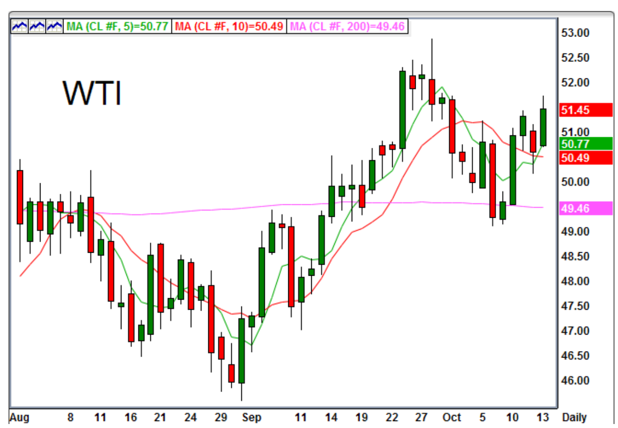
## 3) Technical overview






The main performance of the week has been the capacity of Brent to hold the support of 55.00 $/bbl and WTI to rebound above 50.00 $/bbl. The losses of the previous week have been fully offset in Brent and almost offset in WTI. Brent is in the same 55-58 $/bbl range as at the start of the year. It stayed into that range for 12 weeks at the start of the year and is now back into it for a fourth consecutive week. We continue to view the amount of speculative length in Brent as a capping factor that should provide strong resistance before 60.00 $/bbl. With a strong open at the start of this week, crude oil futures are set for a strong test of double-top resistance.




After the opening gap, in Brent we trace a first resistance at 58.00 $/bbl followed by 58.37 $/bbl and 59.00 $/bbl (the recent high of the year is at 59.49 $/bbl). First support at 57.20 $/bbl followed by 56.80 $/bbl and 56.00 $/bbl.

In WTI we trace a first resistance at 52.00 $/bbl followed by 52.30 $/bbl and the recent high of the year at 52.86 $/bbl. First support at 51.40 $/bbl followed by 51.00 $/bbl and 50.20 $/bbl.

## 4) Overall conclusions

The S&P500 took a pause near at the all-time highs. The advance of the S&P500 has been very strong this year. The low VIX shows a market that might be complacent about the steady rise in the S&P but the macro-economic data-points are still solid. Central bankers are not happy about the lack of inflation but global industrial production is strong and there is no lack of consumer confidence.

The US is rebuilding some equilibrium of its gasoline supplies after the disruption from Harvey but Mexico is still suffering from a lack of refinery production and that should provide an underlying support for gasoline in the US Gulf. Naphtha is well supported by industrial growth and the high prices of LPG.

The relative values of distillate are still very strong (backwardation and cracks) but the refining margins are strong enough that the crack does not need to pull higher to force a maximization of output. The lack of storage incentive is putting pressure on the differentials for jet and high-sulfur gasoil but the differentials for diesel are well supported. Temperatures are well above normal on both sides of the Atlantic, not making for strong end-user consumption of heating oil but the strong manufacturing activity is supportive for diesel consumption. This being said, with more US refining capacity coming back on line and strong US exports, distillate could take a pause from current levels until we start to move more into a winter weather pull for heating oil.

The weekly US report should show a big drop of crude oil production due to the precautionary shut-downs in the US Gulf. The US is pushing some of its crude surplus to exports and this will test if the international markets are tight enough to have the US export some of its contango without having a negative impact on the time-structure of Brent related crudes.  Europe has shipped its remaining floating storage to Asia but the North Sea is likely to face increased competition from US crude in Asia.

The Middle East is back in focus. On the short-term horizon, we start with many headlines about Baghdad troops and militias moving into Kirkuk. This is not the same as troops moving into Erbil, as the region of Kirkuk was part of Baghdad-controlled territory before June 2014 and there are also some intra-Kurd influences at work. The KRG is unlikely to find a lot of international support in trying to stop Baghdad moving back to pre-2014 territory and we don't expect the weekend's development to have a major impact per-se on oil supplies from the region.
On the long-term horizon, the new US stance on Iran might slow some international prospective investments in Iran but the other signatories to the nuclear deal will not follow the current US administration. Even the new US stance against Iran's Revolutionary Guards was not straightforward; the president ordered additional financial sanctions against it but did not order the State Department to designate it as a terrorist organization.  There is no reason for the Iranian government or the Revolutionary guards to escalate as both make public-relation gains on the latest US decision.

While we don't see a strong impact on oil flows from the latest geopolitical developments we think that in the short-term the US DOE weekly report should be price supportive on the combination of low supplies (due to Nate) and low net imports.