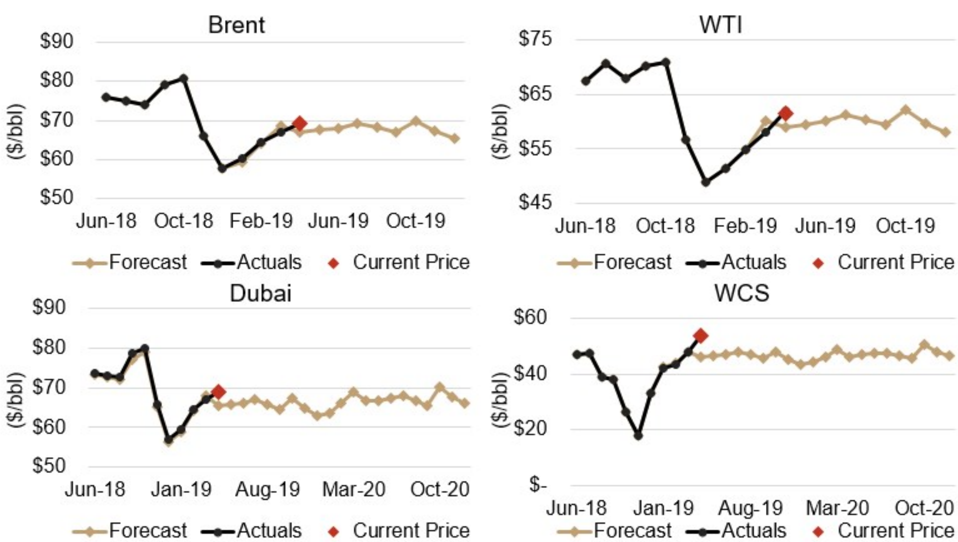
April 03, 2019

April Crude Oil Price Update

Crude prices had been stuck in wait-and-see mode for several weeks but a spate of news has driven prices higher. For the rest of this month, we are asking ourselves how high is too high and what could a correction look like?

In our latest Global Crude Oil Outlook Quarterly Update - 1Q2019 we revised lower our outlook for prices based on lower baseline prices at the start of the year. However, we remain overall constructive, and given the more balanced state of supply and demand expect significant volatility throughout the year.

Current Price Outlook versus Actual



Two days into the month and prices are trending slightly above our expectations. Several recent announcements have driven this most-recent bull run. Initial survey data indicates that March OPEC production may have dropped to the lowest level in four years. Additionally, Russian production also appears to have fallen, although the country is still not fully compliant with its share of the OPEC+ agreement. This is giving a boost to prices by removing concerns about sudden oversupply as we await a decision on whether the deal will be extended at OPEC's June meeting.

Another unexpected gift came in the form of more clarity around Iran sanctions waivers. The May deadline for the White House to announce any extensions is fast approaching and markets have been divided on the fate of those eight waivers. Here at Stratas Advisors we have held the expectation that if President Trump needed a political win due to issues at home or abroad, then the likelihood was much higher that the waivers would be adjusted or rescinded. However, the White House has now announced that three of the eight countries reduced their imports from Iran to zero. At the same time, trade negotiations with China are proceeding, and several legal investigations into the 2016 election have been closed. This spate of good news definitely lowers (but does not remove) the likelihood that remaining waivers are adjusted or rescinded.

We expect that in the month ahead the current bullish momentum will taper off and if it does not, then we will be set up for a sharp correction. Profit taking is a significant risk. Sentiment is fickle, and economic data has not been strong enough to remove all fears of a global slowdown. Additionally, prices are approaching technical overbought levels, indicating a ceiling to the current run. However, we expect that once the current climb is complete, prices will not automatically lose all of their gains. Fundamentals and news flow remain generally supportive and optimism (as evidenced by trader positioning) indicates that traders will likely engage in some profit taking, but not reverse course altogether.

We will continue to closely watch supply and demand data as official volumes are reported. At the moment, reports from OPEC+ indicate that supply is in line with our expectations while crude runs have remained strong, driven by robust margins during December and January. Moving forward, crude runs will fall due to seasonal maintenance and tighter margins.

