Futures Report

Short Term Oil Forecast

13 November 2023

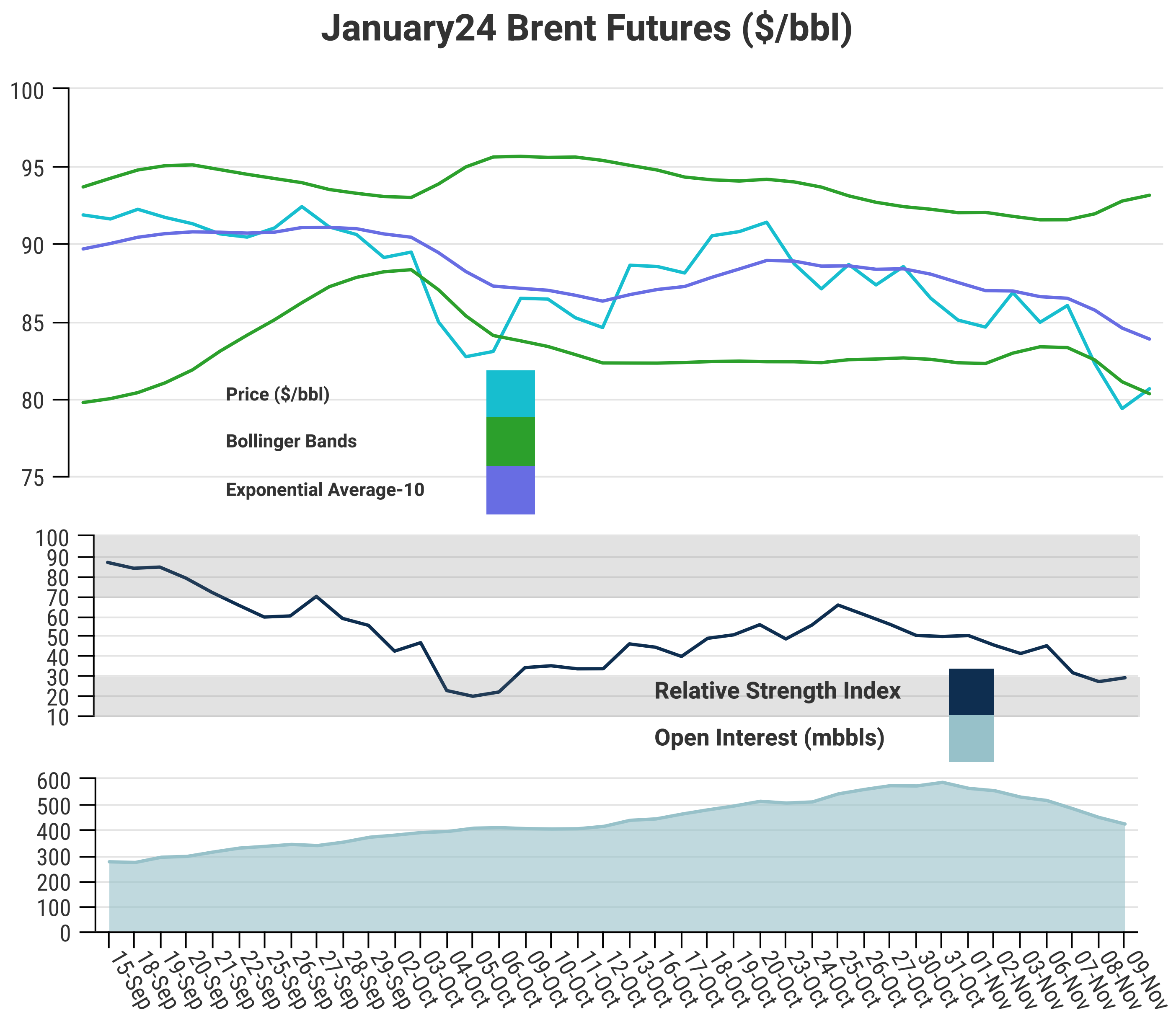
Forecast and Market Drivers

Product	Current	View	1W Forecast
Jan Brent	$81.60	NEUTRAL	$80-82
Jan WTI	$77.40	SMALL BEAR	$75-77
Dec WTI/Brent	-$4.25	NEUTRAL	-$5.00-4.00
Jan Gasoil Futures Crack	$23.90	BEARISH	$21-23
Jan RBOB Futures Crack	$9.30	SMALL BULL	$10-12

Summary

- **Technical indicators** highlight that overall, the market appears to be in a state of flux, with various factors pulling in different directions. In Brent, the market is showing bearish signs, with RSI in the oversold territory and prices falling below the lower Bollinger band. Open Interest has declined, reflecting a risk-off approach by investors. The focus is on the upcoming OPEC+ meeting, which could influence future price movements. In RBOB open Interest has increased significantly, suggesting a shift to a more risk-on attitude, likely influenced by refinery outages and potential stock draws in the US. This suggests a cautiously bullish outlook. In contrast, the outlook in gasoil is firmly bearish with market participants clearly waiting on better demand cues.
- In the past week, the **correlation** between gasoil crack and crude futures has decreased, while the RBOB crack has become more negatively correlated with crude. Gasoline contracts, especially RBBR, have shown a resurgence due to supportive fundamentals, whereas gasoil prices have declined amid weak demand in Europe and increasing stocks in the ARA and US, leading to a reduced correlation with crude contracts.
- The WTI/Brent remains in contango to April, due to WTI weakness at the front and clear uncertainty about demand and potential interest rates hikes with the market very much in risk-off mode.
- In the latest **CFTC data,** Brent saw a more bearish approach in line with its recent weakness in price action, with long money managers closing over 15mbbls of positions whilst bearish speculators increased their positioning by 6.5mbbls in the week to Nov 07.
- Looking at the **volatility skew** for both Brent and WTI options, we can see has been a slight correction higher put options compared to call, indicating perhaps slightly more bullish interest at the low market prices.
- **Refinery margins** increased by 76c/gal in the week from Nov 3 to Nov 10 off the back of low crude prices despite products across the barrel seeing bearish price action.
- **Mixed ETF flows** were noticed with the exception of UCO which saw bearish interest with large sell-side volumes noticed from institutional investors. USO and SCO flows have been switching between bearish and bullish interest, showing how uncertain prices are.

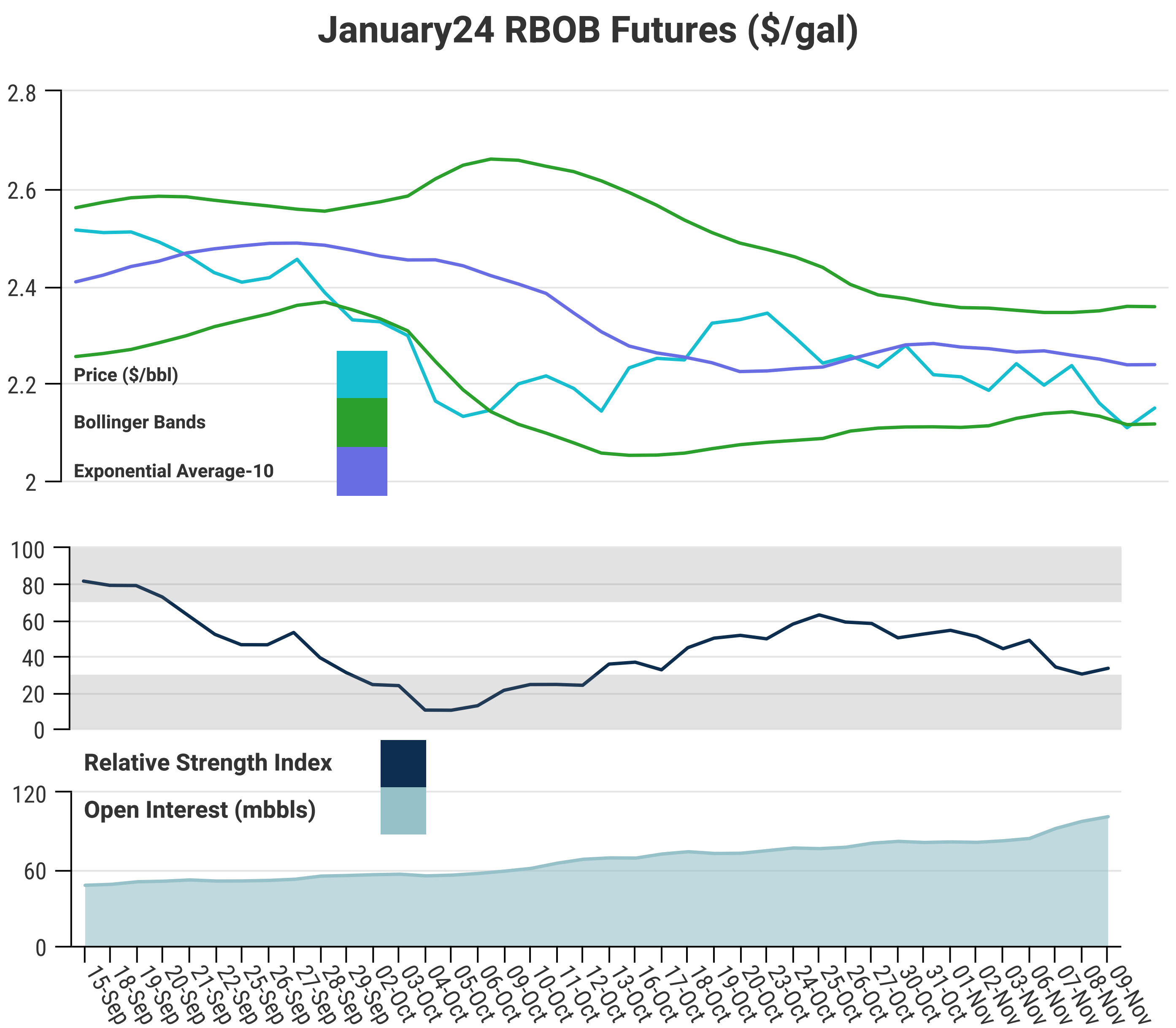
Crude Oil - Technical Analysis



Key Summary

- **RSI Status:** Brent futures fell to a three-month low last week and as such, we saw the RSI fall below 30 and into oversold territory.
- **Bollinger Bands Indication:** Prices sharply fell below the lower Bollinger band on the week of Nov 6th hinting at a market in oversold conditions though as levels stabilised in the $80-81/bbl range into the end of the week, we saw a recovery higher with levels gaining nearly 2% in Fridays trading though still experiencing a third straight weekly loss for the first time since May.
- **Open Interest Insights:** Open interest in the January tenor saw a continued decline in the week as investors take a a risk-off approach with market participants very wary of the supply demand dynamic over the next couple of weeks. Slowing demand in the US and China has countered fears of supply disruptions from the Israel-Hamas conflict with the risk-premiums very much over now, and investors remain concerned over potential further interest rate hikes.
- Overall, indicators look quite bearish at the moment with little in terms of bullish factors right now. Focus is firmly on the upcoming OPEC+ meeting on November 26th to see how the cartel reacts the the continued lower price movements.

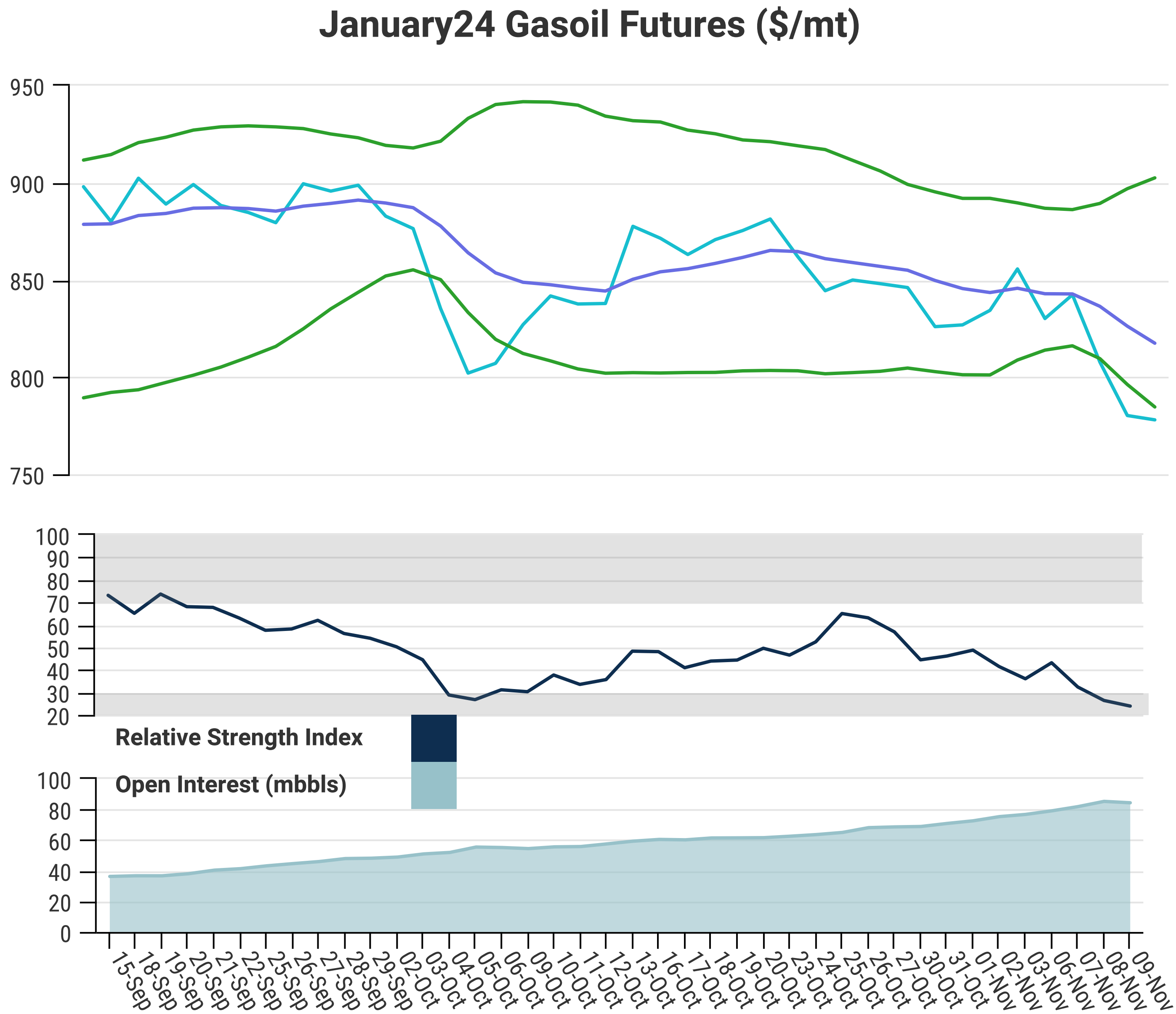
RBOB Futures - Technical Analysis



Key Summary

- **RSI Status:** The RSI continues to hover below 50 levels, briefly falling into oversold conditions last week before recovering somewhat though remains in a more bearish regime.
- **Bollinger Bands Indication:** Prices briefly broke below the lower Bollinger band last week before correcting slightly higher though still remaining below the moving average. Reports of issues at US refineries provided some support into the end of last week and lower FCC margins could also spur buying.
- **Open Interest Insights:** The open interest highlights the renewed appetite in the market this week with levels increasing over 20% between Nov 6th and Nov 9th. The growing OI shows the more-risk-on attitude of participants this week where prices a week previous had generally been trending higher on thin liquidity, the fundamental outlook for now is looking more supportive with outages on the back of operational issues in Baton Rouge, a PA refinery still down and delayed restart of Bayway FCC and Trainer, all bringing sentiment of stock draws in the US. EIA stats were delayed until this week and it will be interesting to see how the market reacts to these.
- We are beginning to see sentiment turn somewhat and we would be cautiously bullish and would closely monitor stock levels and outages this week which might encourage more risk-on sentiment.

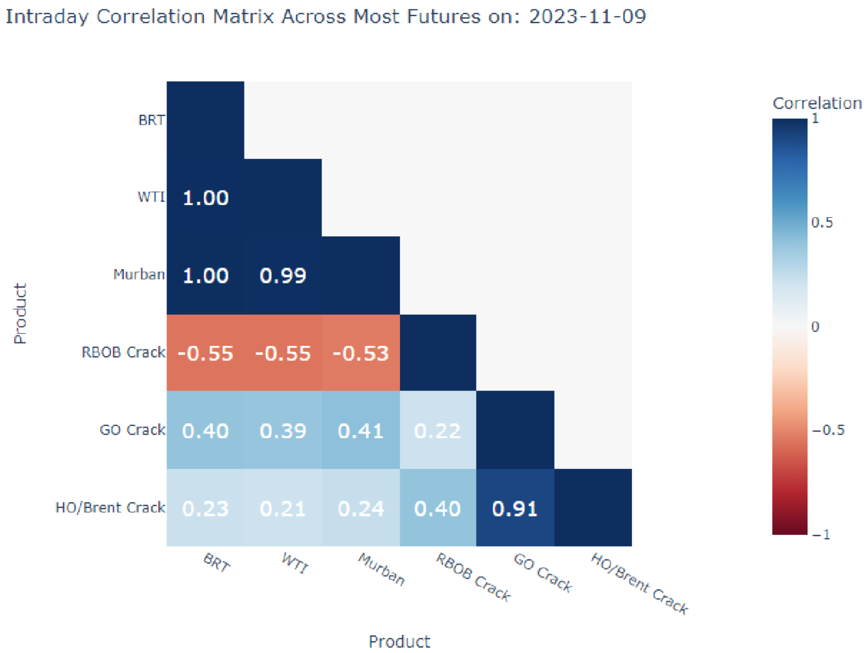
Gasoil Futures - Technical Analysis

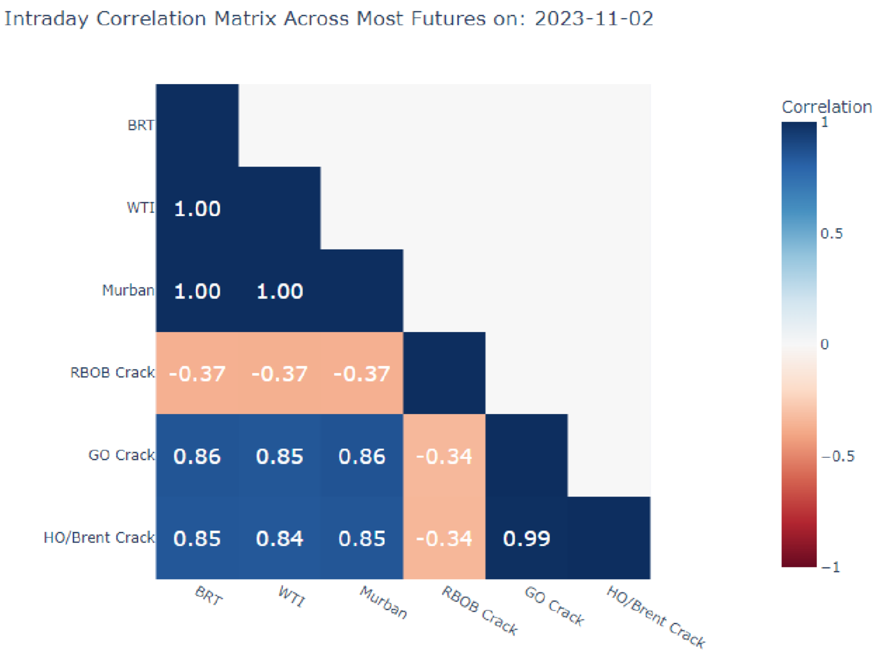


Key Summary

- **RSI Status:** The RSI has fallen firmly into oversold territory now with the gasoil market failing to find any meaningful traction recently.
- **Bollinger Bands Indication:** Bollinger bands began to diverge once more indicating more volatility in the market with prices breaking sharply below the lower Bollinger band and remaining there into the end of the week with levels now firmly below $800/mt on a flat price basis.
- **Open Interest Insights:** Open interest has reached a plateau and it seems the market is back in risk-off mode now. Stocks have built in the ARA while API stats also saw stocks building in the US and this may also start to play on market sentiment as right now, with the weather overall mild and not much demand for heating, it is lower stocks that are keeping a floor on prices though notably, in the front, levels have failed to return above the $30/bbl level.
- From a technical standpoint, the market mood is notably very bearish and with demand remaining very poor, we expect prices will remain under pressure in the near term until it becomes more clear how demand in Europe will evolve in the coming weeks.

Correlation Matrix





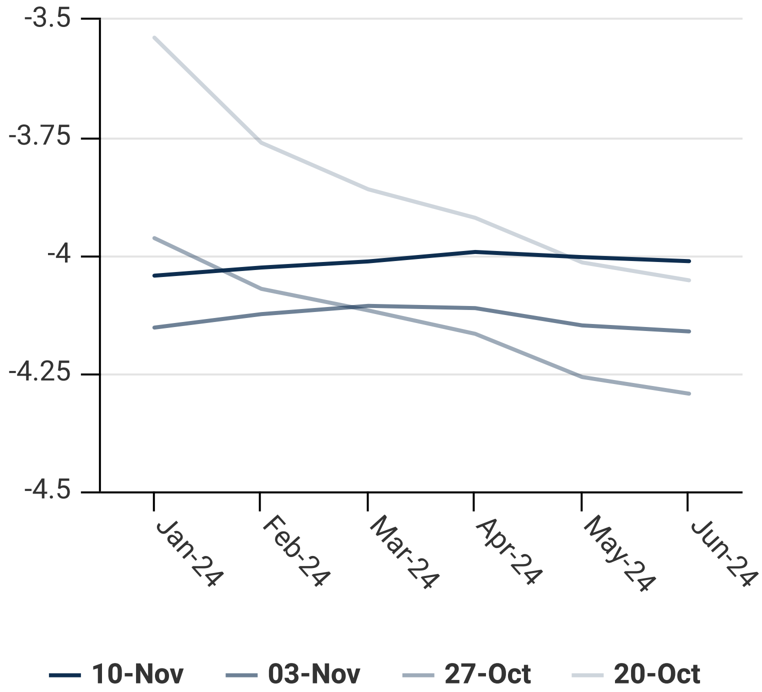
In the past week, looking at the January tenor across a range of futures, the correlation between gasoil crack and crude has diverged from being quite closely correlated to a lot less correlated while RBOB crack has become even more negatively correlated with crude contracts.

Crude levels seem to have consolidated into the end of the week last week despite WTI and Brent losing about 4% on the week. In contrast, gasoline contracts started to see a resurgence higher with RBBR in particular finding some good support, buoyed by a more supportive fundamental outlook.

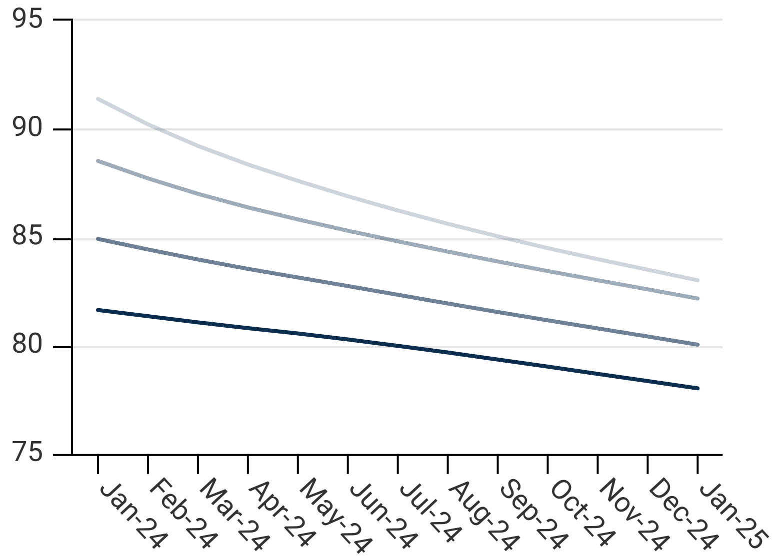
Gasoil on the other hand diverged as price began to tick lower. Despite the tighter fundamentals, the market is very aware of the lack of demand in Europe right now and last week saw stocks in the ARA and the US build (according to the API) which further weighed on price action with heating oil also correcting lower and becoming much less correlated with crude contracts.

Crude Oil - Curve Structure

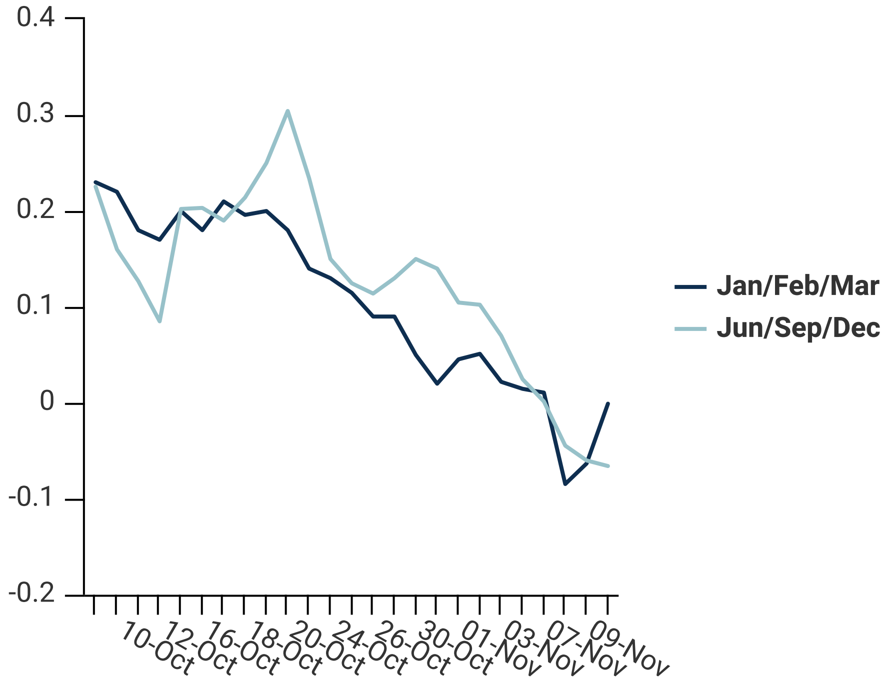
WTI/Brent Structure



Brent Jan24/Jan25 Structure over the last four weeks



Brent Futures Flies ($/bbl)



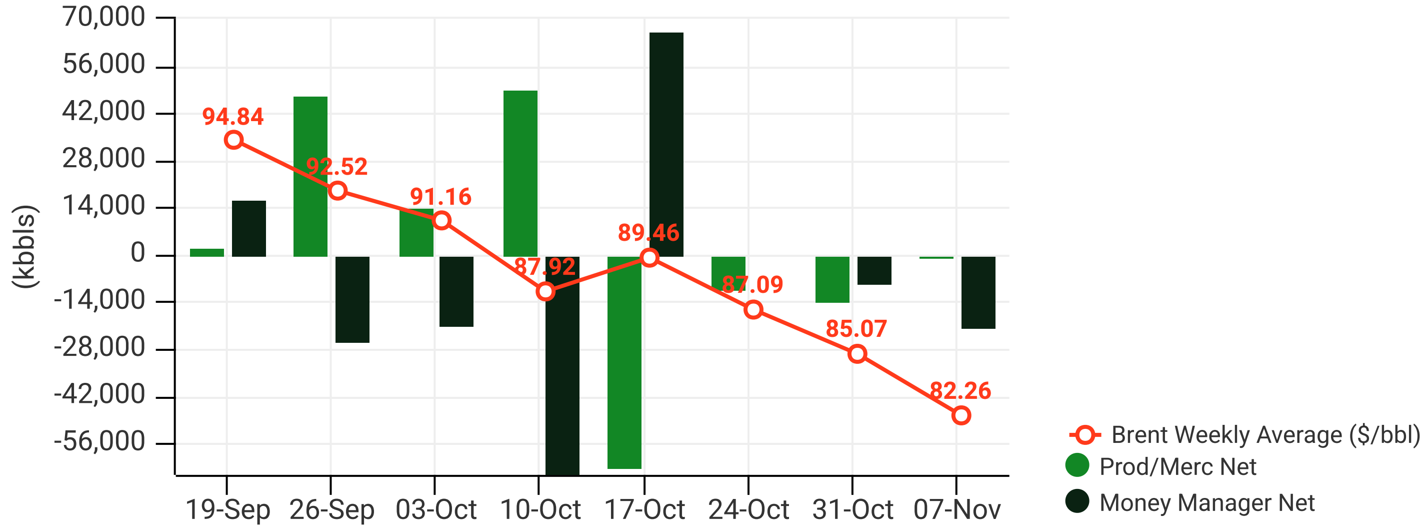
In the week to Nov 10, we saw the WTI/Brent structure remain in contango until April with weakness in the front concentrated in WTI. Crude demand in the US is expected to decline this year and investors are wary about potential further monetary tightening and demand worries clearly outpacing supply concerns.

The 12-month Brent futures spread has continued to fall below recent levels with clear market uncertainty weighing on the curve. Speculators have closed over 24mbbls of length in the past two weeks clearly illustrating the lack of bullish appetite.

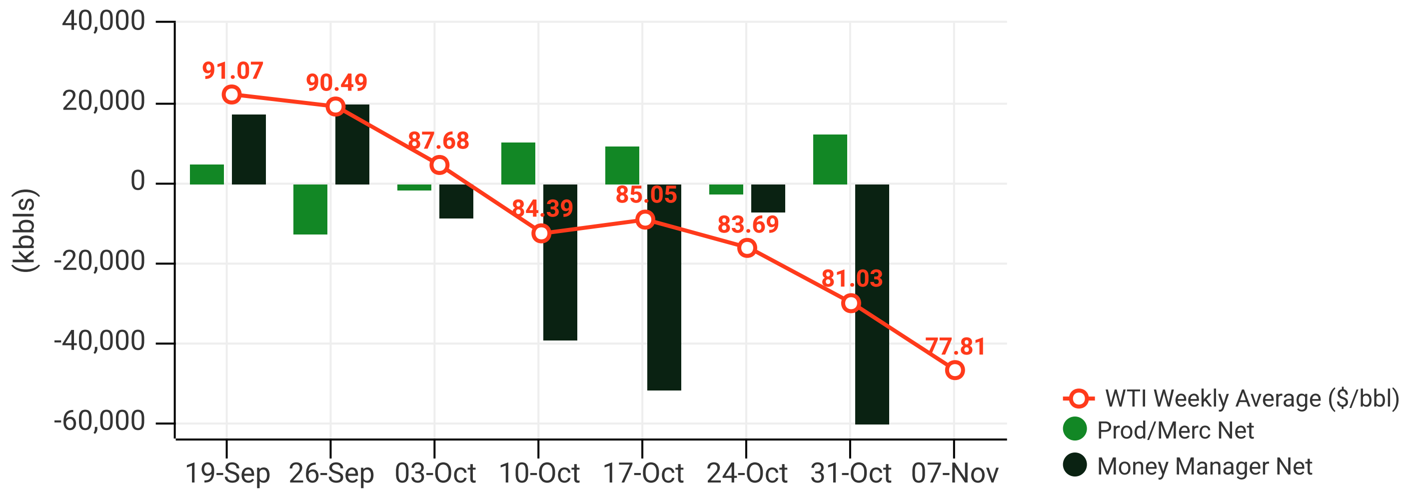
The Jan/Feb/Mar Brent futures fly recovered slightly though remained at negative levels while in the more deferred Jun/Sep/Dec spread, we can clearly see the more risk off attitude.

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 Nov 7 both Brent and WTI weakened as players' risk off attitude combined the worldwide economic uncertainty to create a pessimistic picture. Jan Brent reached a low of $79.22/bbl on Nov 8 as this attitude continued into the next week although $80/bbl proved a support level. Money managers removed over 15mbbls of long positions and put on 6.5mbbls of short positions. Chinese refinery margins are at a yearly low and the poor Chinese PPI data paints a worrying picture for the CPI release this week. In addition a continually strong US dollar has weighed on the market attitude. The prod/merc positions have seen a reversal in positioning following two weeks of increases in both long and short interest. There was the largest weekly decrease in prod/merc short positions since May. This closure of both long and short positions points to sell-side profit taking alongside the removal of out of the money longs, however the absence of new buy-side flow in particular points to a lack of confidence in bullish momentum.

The CFTC data for WTI is unavailable as of Nov 13 although due to the price action has been similar to Brent, therefore the sell-side bias of money managers is likely prevalent in WTI too.

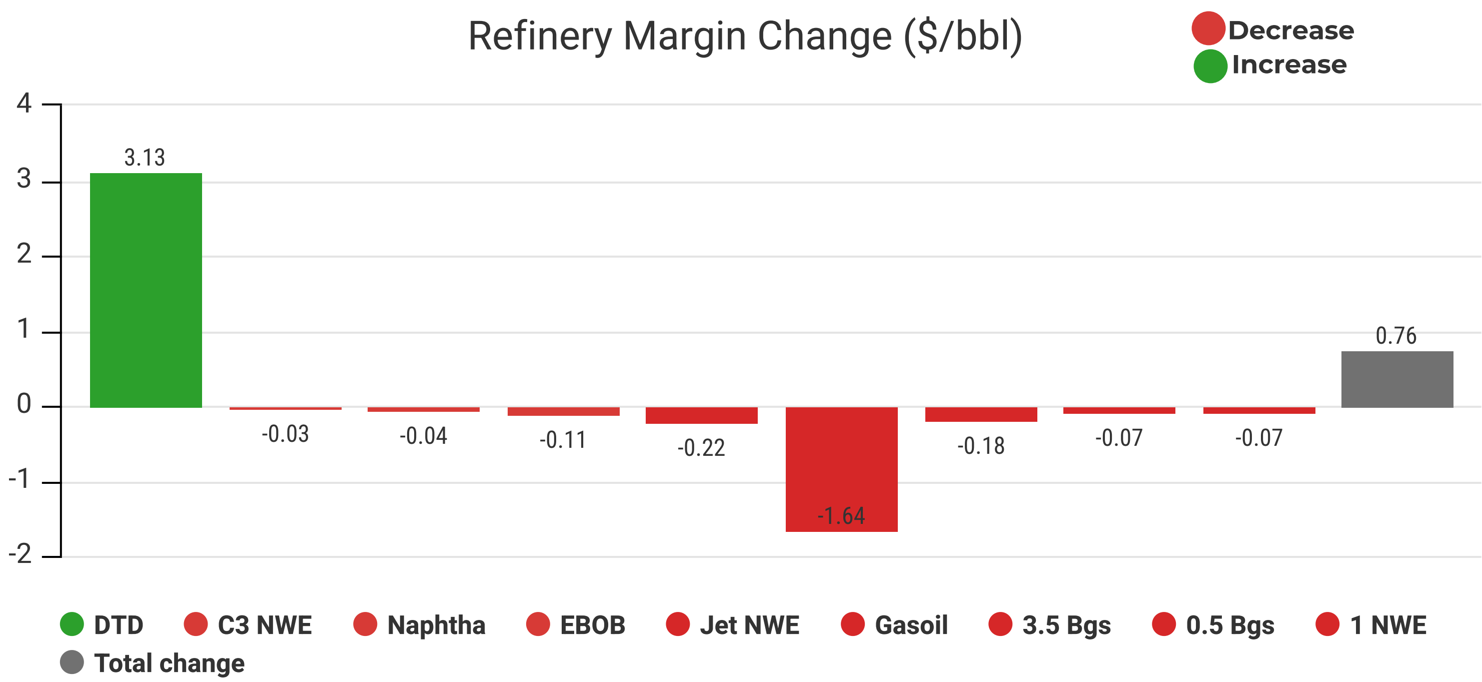
Crude Oil - ETF Flows

ETFs	5-day Sentiment	Flows	Call OI Chg	Put OI Chg	P/C Ratio Chg
USO	**Bullish**	With an average net delta of 10.8kbbls for last week, flows have been mixed for USO. Nov 8 had the highest net delta as the net delta was over 140kbbls and Nov 6 saw the least net delta with less -110kbbs. Other days were more rangebound. Overall Put/Call ratio is almost unchanged from levels 5 days ago.	+7.2%	+7.3%	+0.1%
UCO	**Bearish**	Flows were mostly bullish over the past 5 days except for Nov 9 which saw a drastically negative net delta of -122kbbls, dragging the 5-day net delta to negative territory. Open interest has seen a notable increase in put with an over 56% increase w-o-w. Flows from professionals were the most consistent throughout the week, with an overall 5-day volume traded of over 55kbbls. Institutional investors were not particularly active with the exception of Nov 9, contributing to over 98% of the net delta, with under -120kbbls of net delta.	+5.3%	+56.8%	+48.8%
SCO	**Bullish**	Although slightly more bullish, the net delta was very mixed over the last five days with Nov 6, 9, and 10 being positive and Nov 7 and 8 being negative, hovering between +13kbbls and -17kbbls. Institutions were mostly on the sell-side. 30-to-60-day-to-expiry options found the most consistent selling with over 35kbbls sold over the last 5 days.	+2.9%	+9.9%	+6.8%

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

The trading activity has been rather mixed over the last 5 days, with the exception of UCO which saw clear bearish interest. USO saw mixed flows with an almost-stagnant Put/Call ratio of 0.6. UCO saw major selling flows on Nov 9, dragging the net delta to negatives. These flows were associated with a 48.8% increase in the Put/Call ratio, skyrocketing to 0.7, positioning itself in the 100th percentile of the last 52 weeks. SCO had similar flows to USO with a notable selling interest in the 30-to-60-day-to-expiry options. Overall, it is clearly an uncertain market though leaning towards more bearishness for crude given the bearish UCO and bullish SCO.

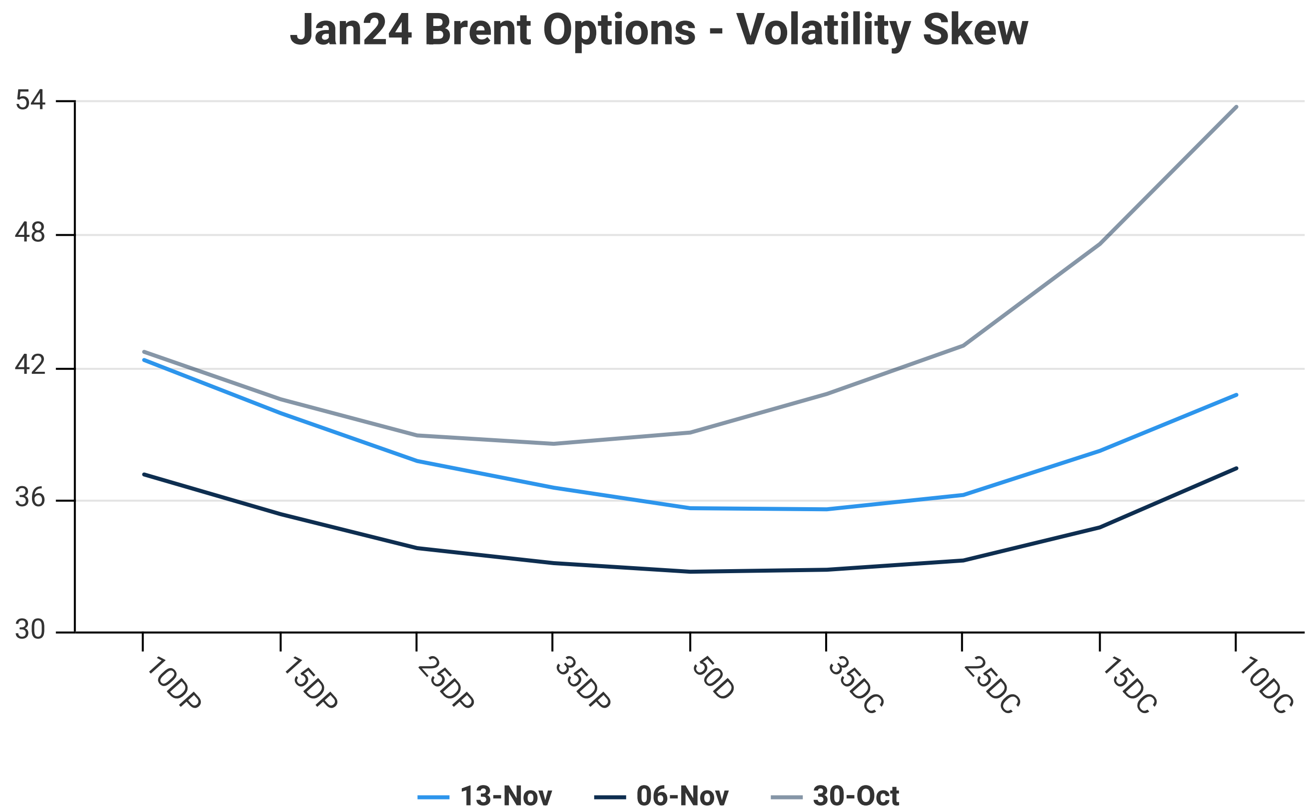
Refinery Margins

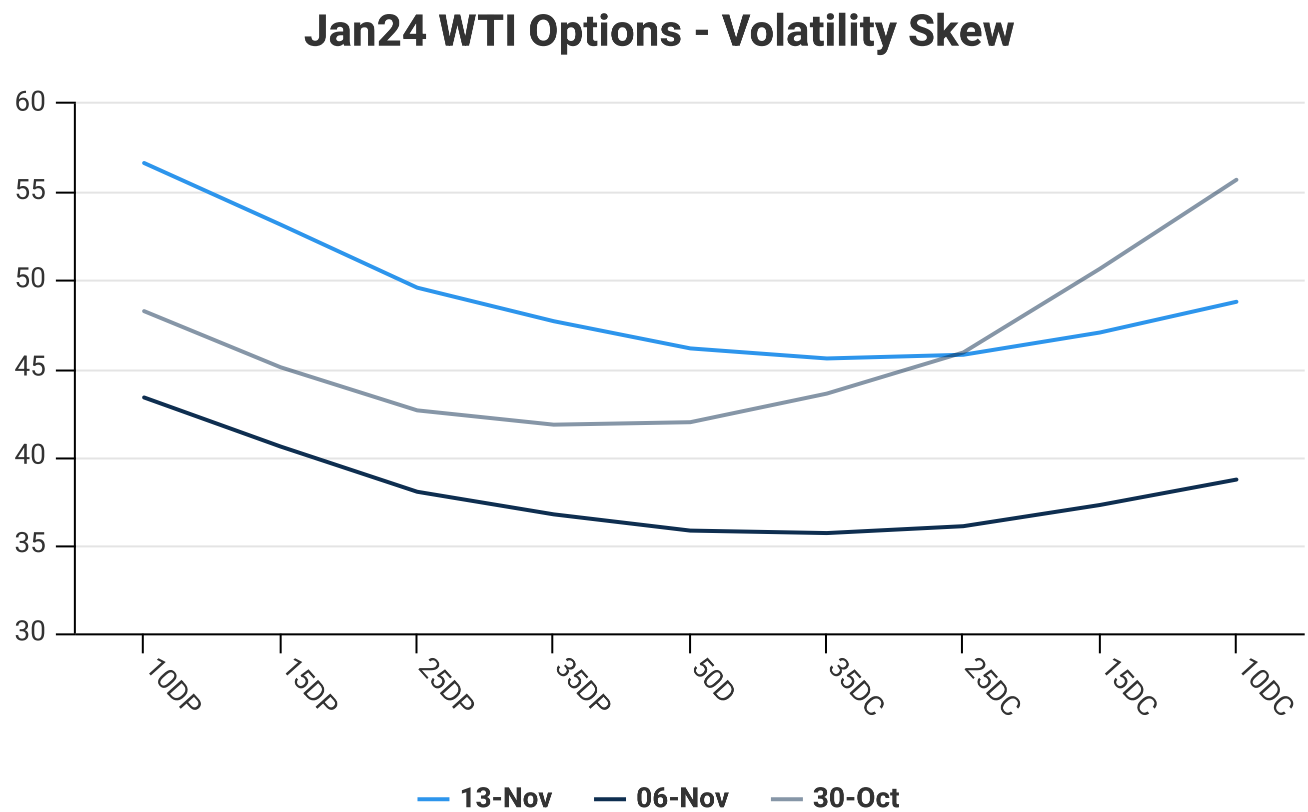


We see margins showing a slight loss of support between the 3rd and the 10th of Nov, we can see that the support in refinery margins was crude driven as Dated Brent fell $3.13/bbl over the week which outstripped the poor performance from the products and allowed for the refinery margins to rise by 76c/bbl.

The most notable weakness was seen in Gasoil this week, with money managers liquidating their length for the second consecutive week, implying bearish crack prices, furthermore weak demand from China and stock builds in Europe exacerbated the weak price action. EBOB also saw volatility this week with prices in the crack holding firm on Monday at $8.40/bbl handles.

Crude Oil - Option Analysis





Looking at the volatility skew graph for Jan24 Brent and WTI, we can see that there is an increase of interest in crude options, especially compared to the previous week's data. Brent saw an increase in both put and call options although there was a slightly higher skew in put options which implied a higher demand for price protection. This higher volatility was seen in WTI too, with the put options now at the highest volatility in the past 3 weeks.