Penn State Asset Management Group

BoW Product Report

Week of February 10 – February 14 CY2020

Energy Sector

BoW Product Report

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Upcoming Events This Week

Date & Time	Country	Event	Period	Previous	Forecast
2/10 1:30am	C.N.	Inflation Rate YoY	JAN	4.50%	5.10%
2/11 12:20am	A.U.	NAB Business Confidence	JAN	-2.00	-1.00
2/11 9:30am	G.B.	Balance of Trade	DEC	£4.03 bn	£-2.60 bn
2/11 9:30am	G.B.	GDP Growth Rate YoY Prel	Q4	1.10%	0.90%
2/11 9:30am	G.B.	GDP Growth Rate QoQ Prel	Q4	0.40%	0.00%
2/11 11:30pm	A.U.	Westpac Consumer Confidence Change	FEB	-1.80%	1.00%
2/11 11:30pm	A.U.	Westpac Consumer Confidence Index	FEB	93.40	94.30
2/13 1:30pm	U.S.	Core Inflation Rate YoY	JAN	2.30%	2.30%
2/13 1:30pm	U.S.	Inflation Rate YoY	JAN	2.30%	2.40%
2/14 7:00am	D.E.	GDP Growth Rate YoY Flash	Q4	0.50%	0.50%
2/14 7:00am	D.E.	GDP Growth Rate QoQ Flash	Q4	0.10%	0.20%
2/14 10:00am	E.A	GDP Growth Rate YoY 2nd Est	Q4	1.20%	1.00%
2/14 10:00am	E.A.	GDP Growth Rate QoQ 2nd Est	Q4	0.30%	0.10%
2/14 1:30pm	U.S.	Retail Sales MoM	JAN	0.30%	0.30%

OPEC+ Meeting

Azerbaijan Energy Minister, Paris Shahbazov, stated it is unlikely that members of OPEC+ will push up another meeting to discuss oil cuts. During the meeting this past week, Russia decided it needed more time to evaluate before the country would make a decision, but according to Shahbazov it is doubtful Russia will be able to reconvene with OPEC+ prior to the upcoming meeting set for March 5 – 6, CY2020. Current production cuts are at 1.70 mm Bbl/d and OPEC+ will be reevaluating the number in the next meeting. OPEC+ is expected to extend cuts throughout the rest of CY2020 or possibly increase cuts to combat the price effects of the coronavirus. Iran has shown the most support for another cut even though Russia and Saudi Arabia are seeing the greatest effects on oil demand. Iran has claimed it will cut if the majority approves. Oil Minister, Bijan Zanganeh stated, “Anything that the majority reaches, we support. We support those who want to decrease.” Other members are showing less concern after seeing a slight increase in both Brent and WTI prices this past week. Brent increased by 0.04% and WTI increased 0.42%. Azerbaijan’s Finance Minister, Samir Sharifov, has been confident in crudes ability to bounce back from the 16.00% hit it has taken. He claimed Azerbaijan has enough in foreign exchange reserves to protect it from another serious price decrease.

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UN to Discuss Oil Disputes in Libya

Current oil conflicts in Libya became a priority during the latest UN-backed talks. Libya is currently in a proxy war between two regional powers due to the belief that oil revenue is not being distributed evenly. The conflict has killed ~2.00 k people and injured tens of thousands. Eastern Commander Khalifa Haftar and supporters have taken over Libya's main supply ports, causing a massive decrease in its output levels. Libya supplies ~4.00% of OPEC+'s total volume, which translates to ~1.20 MM Bbl/d. However, as a result of the militia's protests, the number has seen a large decrease. The country now only supplies ~180.00 k Bbl/d. UN Special Representative Ghassan Salame is in talks with the Eastern Libyan tribal leaders that are behind the supply halt. The UN wants to strike a deal to support Libya's struggling economy. If Libyan ports become active again it would put ~1.00 MM Bbl/d back into the market, which could cause problems with the current oil demand crisis and complicate OPEC+'s efforts to stabilize prices. OPEC+ currently has cut ~1.70 MM Bbl/d which is supposed to last until its meeting in March CY2020 to discuss further cuts. During OPEC+'s most recent meeting, it was suggested by Saudi Arabia to cut an additional 600.00 K Bbl/d; despite this, the market suggests that there will be no further cuts until next meeting. If a deal is struck between the two Libyan parties, global supply would increase by 1.00 MM Bbl/d. OPEC+ would need to look at furthering cuts because of the renewed Libyan supply's downward pressure on oil prices.

U.S. Oil Production

In CY2019, U.S. oil production growth slowed to 11.00%, down from 18.00% in CY2018, because producers cut spending on new drilling. Throughout CY2019 oil rig counts fell by an average of 208.00 rigs. Regardless, output continued to rise due to an increase in productivity from the remaining rigs. EIA has predicted crude production to grow by 9.00% in CY2020, and 3.00% in CY2021. For that to happen, producers would have to continue decreasing the amount of rigs in operation. However, according to Baker Hughes, U.S. oil manufacturers added one rig to the total count last week. The additional rig is the third time in a month that U.S. rig counts have increased, and if manufacturers continue the trend then expect the actual U.S. production growth to surpass the forecasted 9.00%. On the other hand, a survey of 26.00 independent exploration and production companies are estimating the CY2020 spending to fall 13.00% YoY; this means that rig counts should decline throughout the year. The vast supply of U.S. oil is weighing on the price of WTI, currently $50.94, which is already trending below its average of $56.98 from last year. Since the shale boom, the U.S. has continued to overshadow Saudi Arabia as being the world's largest oil producer which has caused OPEC+ production cuts to have a marginally smaller effect on the price of crude oil. Moving forward, keeping a close watch on North American rig count changes will be crucial in determining the correct price of crude oil.

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