Penn State Asset Management Group

BoW Product Report

Week of February 3 – February 7 CY2020

Energy Sector

BoW Product Report

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Upcoming Events This Week

Date & Time	Country	Event	Period	Previous	Forecast
2/2 8:45pm	CN	Caixin Manufacturing PMI	JAN	51.50	50.50
2/3 8:00am	RU	GDP Growth Rate YoY	Q4	1.70%	2.30%
2/3 10:30pm	AU	RBA Interest Rate Decision		0.75%	0.75%
2/5 8:30am	CA	Balance of Trade	DEC	-$1.09 bn	-$1.50 bn
2/5 8:30am	US	Balance of Trade	DEC	-$43.10 bn	-$49.00 bn
2/5 10:30am	US	Weekly Petroleum Status Report			
2/5 7:30pm	AU	Balance of Trade	DEC	$5.80 bn	$5.90 bn
2/6 1:15am	IN	RBI Interst Rate Decision		5.15%	5.15%
2/7 2:00am	DE	Balance of Trade	DEC	€18.30 bn	€14.00 bn
2/7 8:30am	US	Non Farm Payrolls	JAN	145.00 k	148.00 k
2/7 10:00am	CA	Ivey PMI s.a	JAN	51.90	50.00
2/9 8:30pm	CN	Inflation Rate YoY	JAN	4.50%	4.80%
2/10 7:30pm	AU	NAB Business Confidence	JAN	-2.00	-1.00

Brent Crude Technical Analysis

Brent crude has seen a decrease in price of ~8.73% since the coronavirus was identified as a new virus . Many investors predict to see prices continuing to fall enabling short investors. However, Brent crude's technical numbers insinuates a potentially different outlook. The Relative Strength Index (RSI) of Brent has continued to decrease as a result negative investor sentiment. The pullback has caused the RSI to drop below 30.00. Its current level of 26.12 indicates that the commodity is being oversold. The Stochastic Oscillator shows readings less than 20.00, indicating that Brent crude is currently being oversold. The price is also closing in on its estimated support levels. It should theoretically become harder and less likely for the prices to drop as they close in on these levels. These gauges could suggest a possible uptick in investors long positions, causing prices to increase, which is contradictory to the current fundamental conditions of the oil market. Last week Brent crude prices decreased 11.80%. Prices will continue to drop as the level of demand for oil decreases in China, although OPEC+ is set to have talks about cutting supply in hopes to even out the negative effects of the coronavirus.

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Potential OPEC+ Emergency Meeting

OPEC+ is considering holding a meeting in response to the decrease in demand for oil as a result of China's coronavirus. China is forecasted to account for 14.00% of global oil consumption; travel restrictions will have an immense impact on oil prices. As of now, China has quarantined at least 16.00 cities, and the World Health Organization declared a global state of emergency but indicated that trade and travel restrictions were not necessary. Regardless, many global airlines, including three from the U.S., have canceled flights in and out of China. OPEC+ is scheduled to hold their meeting on March 5 - 6 but may move it to as soon as this weekend. Saudi Arabia and Russia both expressed that they are prepared to make production changes but want to wait until they have a deeper understanding of how much demand will be affected. OPEC+ already agreed in December that at the start of CY2020 they would begin reducing daily output by 500,000.00 Bbl/d so it is unsure how willing they are to cut production even further. Most members in OPEC+ rely on oil for a majority off their income so the current low prices threaten their abilities to cover their government spending. If they do elect to slash production, they face the risk of losing market share to non-OPEC countries, such as the U.S., Brazil, and Norway, who have already been predicted to increase output this year. The sector believe OPEC+ will choose to cut production to increase prices because low prices are a more direct threat than a potential increase in competition.

Oil Giants Continue to Struggle

Exxon Mobil Corp. and Chevron Corp. posted their earnings report this past Friday, only to disappoint investors. The two giants are trying to utilize different strategies to post higher numbers, however, neither seem to be having success. The cause of their current problems are stemming from the eruption of American shale since CY2009. In a little over a decade, oil and gas stocks relevance to the S&P 500 Index has dropped from 16.00% in CY2008 to 3.80% in CY2020. With a disappointing earnings report, investors continue to become more skeptical of the market's future. Exxon was down 4.10% in their Q4 report with a reported adjusted profit of $0.41 a share on sales of $67.10 bn. They were expected to have an adjusted profit of $0.43 on sales of $64.50 bn. Chevron reported a non-GAAP profit of $1.49 a share on sales of $36.40 bn, they were expected to have adjusted earnings of $1.47 a share on sales of $39.00 bn. Chevron had a GAAP loss of $3.51 a share. Exxon CEO, Darren Woods, stood by his investment plan. He is trying to build up oil and gas projects from Guyana to Mozambique through investing while prices are low and then sell high when the commodities cycle turns. Chevron decided to take a different approach by trying to adapt to the new shale-dominated industry. Chevron's CEO has cut costs, increase capital efficiency and buy back shares through the commodity cycles. These strategies have led to ~$19.00 bn being wiped off their market value. If they continue to struggle oil prices will continue to decrease and have less and less weight on the S&P 500.

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