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# Utilidex

## Oil Market Dynamics

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# Brent Crude Prices

## Oil Forward Curve Chart

Zoom       From  To



# Why Important

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- Impacts gas, electricity prices
- Impacts balance of payments
- Impacts the stock market
- Impacts banks who underwrite oil exploration projects
- Large input cost to manufacturing
- Directly impacts transportation costs
- Impacts green investments

# Oil Market Characteristics

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- Oligopolistic – OPEC/Russia
- Geo politically sensitive – can't always believe statements made
- Highly volatile
- Liquid benchmark futures, but local physical markets trend on short term supply/demand imbalances
- Lower latency if supplies are cut, prices tend to rocket
- Arguably a zero sum game (no coupon)

Participants have there own characteristics

- Sovereign states
- Oil majors
- Refiners/Petrochemicals
- Marketers
- Large end consumers
- Traders
- Banks/market makers
- Speculators including hedge funds

# Current market fundamentals and key drivers

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- Continual oversupply - 1M b/d+ due to Saudi, Russia and others not wishing to lose market share
- Iran's return to market, gradually increase output through 2016 (1M b/d+)
- Many shale oil/gas and off shore sites out of the money at current oil price on highly geared loans / unhedged commitments
- Cheap prices do impact demand around 94.5M b/d and rising (China and USA account for 1 in 3 barrels consumed)
- Some stock piling – floating storage, uncompleted wells
- Too much shipping availability
- Carbon taxes increasing (maybe not in the UK since making 2020 targets)
- Market substitution fossil fuels from nuclear, renewables (solar), electric vehicles, clean tech etc

## Things to look out for

- Change in policy from Saudi Arabia (swing producer) resulting in a reduction in barrels exported
- Geo political unrest near the largest oil wells (ME/Africa)
- Increase evidence of economic downturn in China and Japan
- Systemic banking failure due to default on loans from shale oil and gas/offshore oil
- Carbon taxes on shipping/ other COP21 initiatives

# Key market data sources and trading techniques

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- Platts' benchmark pricing and analysis
- ICE futures exchange and NYMEX – crude and refined products
- USA stocks – updated weekly
- Rolling news
- Ministerial statements (Opec and Russia)
- Global economic trends
- USA denominated exchange rates

## Trading Techniques

- Headline trading
- Technical analysis
- HF/Spread trading
- Fundamental research of key drivers
- Trade in stocks or products which have a close connection to oil value chain