



# Negative pricing – why it happens and its implications

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# Negative Pricing – Why It Happens & Its Implications

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# OPEC + ECONOMIC PRAGMATISM DIDN'T PROVIDE RELIEF INITIALLY

Table-1. Supply and demand table before the OPEC++ 9.7mb/d cut

Mb/d	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20	4Q20	2020
<b>World demand</b>	99.1	99.2	99.2	100.6	100.8	100.0	92.9	80.7	95.6	102.0	92.8
OECD Demand	47.9	47.7	47.0	48.1	47.7	47.6	43.8	34.4	45.0	48.9	43.0
Non-OECD demand	51.3	51.5	52.3	52.6	53.1	52.4	49.1	46.3	50.6	53.1	49.8
<b>World supply</b>	100.3	100.2	99.9	100.0	101.6	100.4	100.7	102.6	101.2	100.3	101.2
OPEC crude	31.9	30.7	30.1	29.5	29.8	30.0	29.0	31.5	31.6	32.2	31.1
OPEC NGLs	5.5	5.5	5.5	5.5	5.5	5.5	5.6	5.6	5.6	5.6	5.6
non-OPEC supply	62.9	64.0	64.3	65.0	66.3	64.9	66.0	65.5	64.0	62.5	64.5
<b>Balance</b>	1.15	1.07	0.62	-0.66	0.78	0.5	7.7	22.0	5.6	-1.7	8.4

Forecasts from 2Q20

Source: SG Cross-Asset Research/Commodities, IEA, S&P Platt

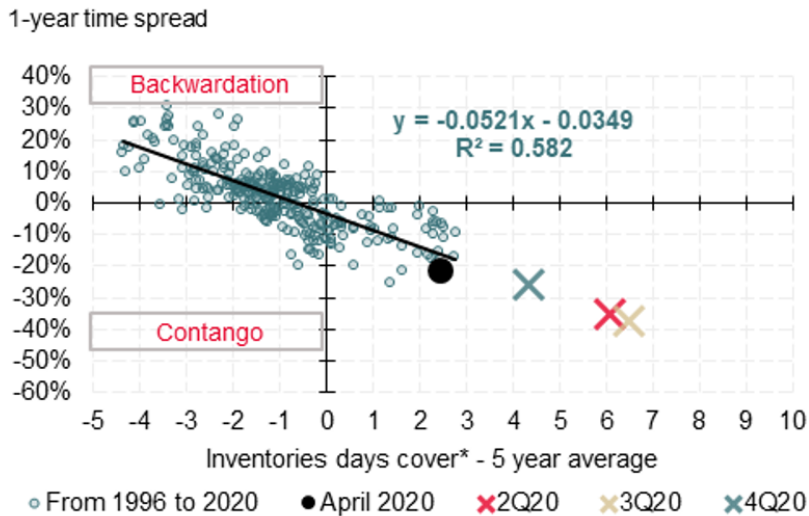
OPEC+ cuts of 9.7mb/d until July, then 8mb/d. Cuts until 2021.

The non-Opec supply responses is in full swing. Chevron, ExxonMobil, Continental, Conoco Phillips cut around 1.2mb/d. Others around 400kb/d in US. In Canada around 600kb/d. Norway, Brazil, Ecuador, Kazakstan around 1.1mb/d. Total: around 3.3mb/d. With some OPEC + already underway (Saudi's 2mb/d) we could be down over 7mb/d already. So with rest of OPEC+ should be 13mb/d.

Mb/d	2Q20	3Q20	4Q20	2020
<b>World demand</b>	80.7	95.6	102.0	92.8
OECD Demand	34.4	45.0	48.9	43.0
Non-OECD demand	46.3	50.6	53.1	49.8
<b>World supply</b>	95.0	94.2	94.3	96.0
OPEC crude	26.5	27.1	28.2	27.7
OPEC NGLs	5.6	5.6	5.6	5.6
non-OPEC supply	62.8	61.5	60.5	62.7
<b>Balance</b>	14.3	-1.4	-7.7	3.2

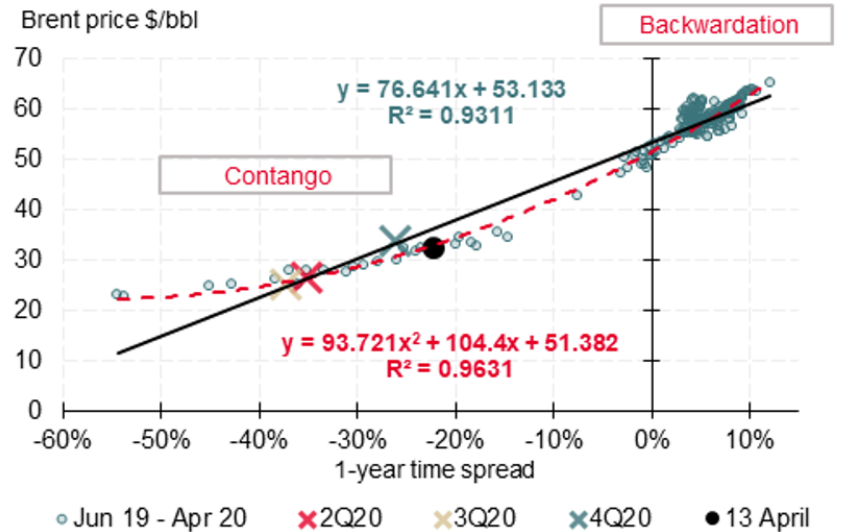
# OPEC + ECONOMIC PRAGMATISM DIDN'T PROVIDE RELIEF (2)

9.7mb/d OPEC+ cuts – The supply curtailment should slightly mitigate the super contango, but it's still massive



Source: SG Cross Asset Research/Commodities, IEA, S&P Platts  
\* Total OECD crude and products industry stocks divided by global forward consumption

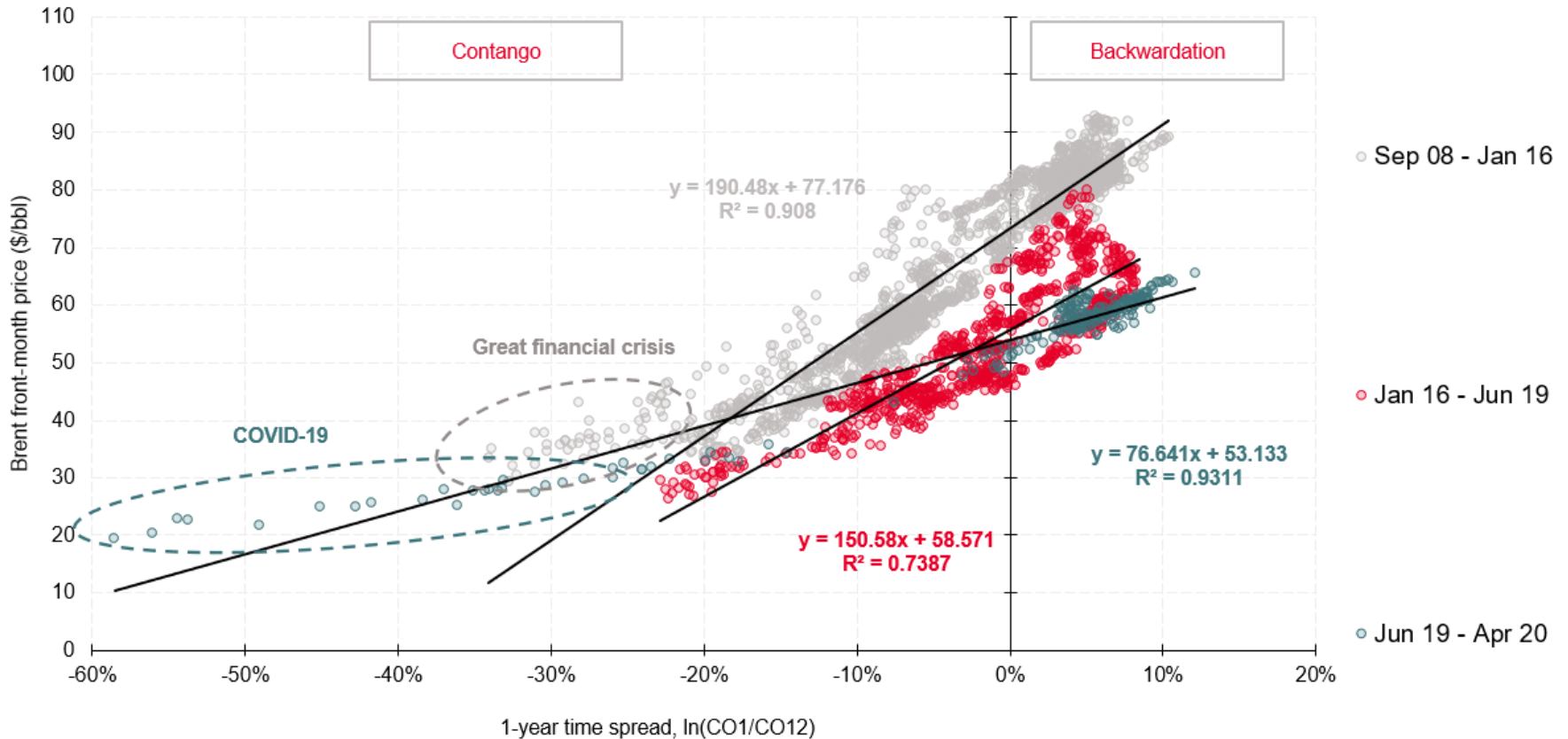
With 9.7mb/d OPEC+ cuts – As time spreads are less extreme the linear relationship seems to be a good fit



Source: SG Cross Asset Research/Commodities, IEA, S&P Platts

# A NEW REGIME

The same non-linear relationship between extremely negative time spreads and Brent prices was already observed during the 2008 GFC, when prices found a floor in the \$30-35/bbl range; during the COVID-19 crisis, the floor seems to be much lower



Source: SG Cross Asset Research/Commodities





# BEAR CASE, OPEC+ MODEL AND SG FORECASTS

With 9.7mb/d OPEC+ cuts – In this scenario, the inventories day cover build less as oversupply is partially contained; the day cover should be at similar levels to the GFC

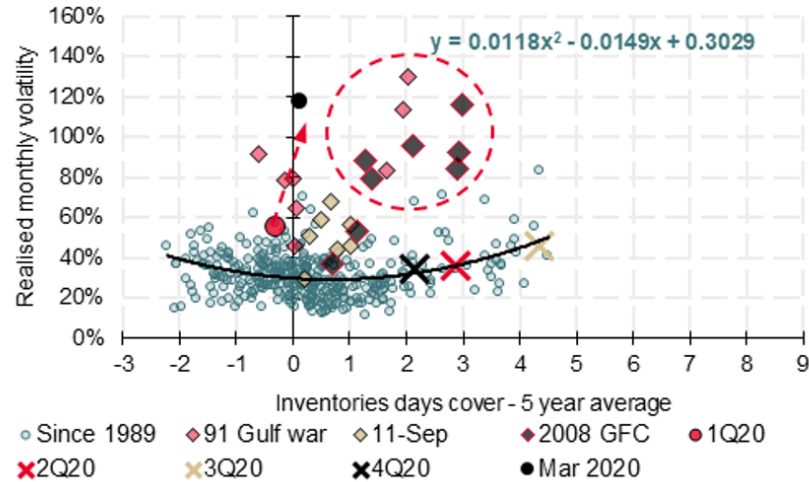


Table 2. SG Brent prices forecasts vs model's output for base case and for OPEC+ 9.7mb/d cuts

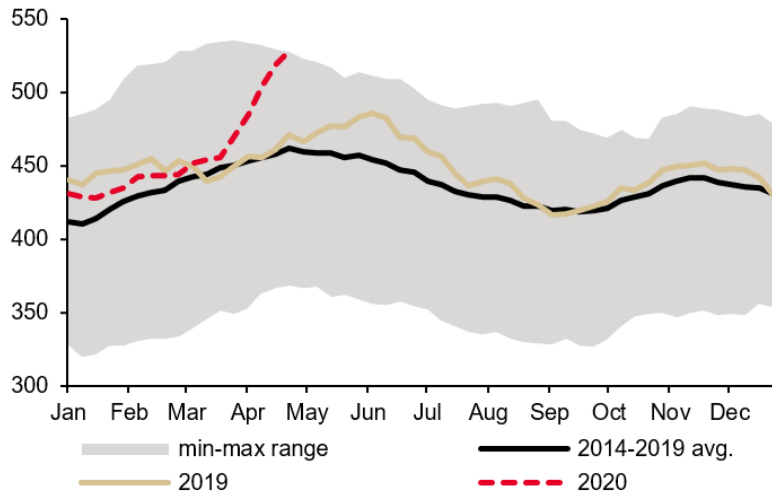
Quarter	Brent prices* (\$/bbl)			12 month time spread (contango)			Brent realised volatility**		
	Model's outputs		SG forecasts	Model's outputs		SG forecasts	Model's outputs		SG forecasts
	Bear case	OPEC+ cuts		Bear case	OPEC+ cuts		Bear case	OPEC+ cuts	
2Q20	22.41	26.31	30.00	-40%	-35%	-40%	46%	36%	90 - 110%
3Q20	14.04	24.67	35.00	-51%	-37%	-35%	93%	46%	40 - 60%
4Q20	15.19	33.21	40.00	-50%	-26%	-30%	85%	34%	30 - 40%

Source: SG Cross Asset Research/Commodities

\* Front-month Brent prices, \*\* Brent front-month contract monthly (22 days) volatility, annualised

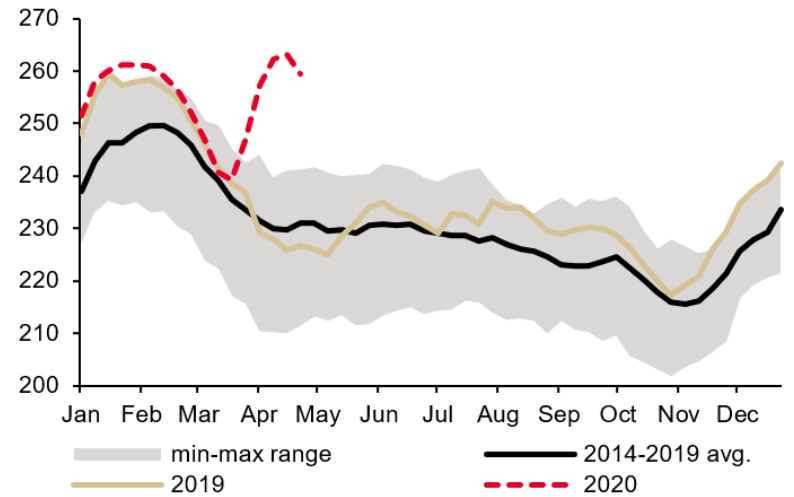
# TURNING POINT?

### Total US Commercial Crude Stocks (MMBbls)



Source: SG Cross Asset Research/Commodities, DOE/EIA

### Total motor gasoline (blendstocks and finished) stocks (MMBbls)

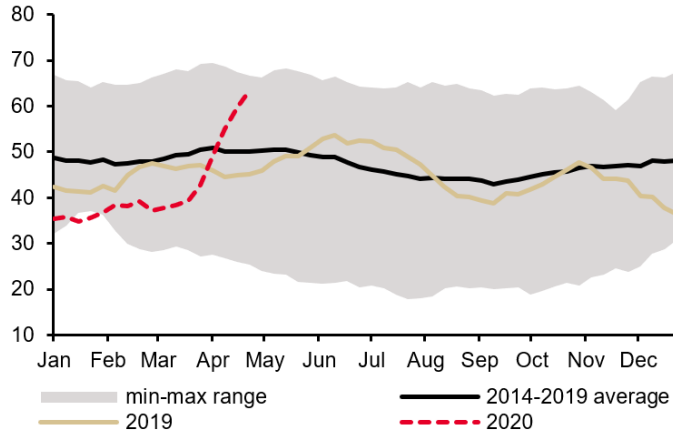


Source: SG Cross Asset Research/Commodities, DOE/EIA



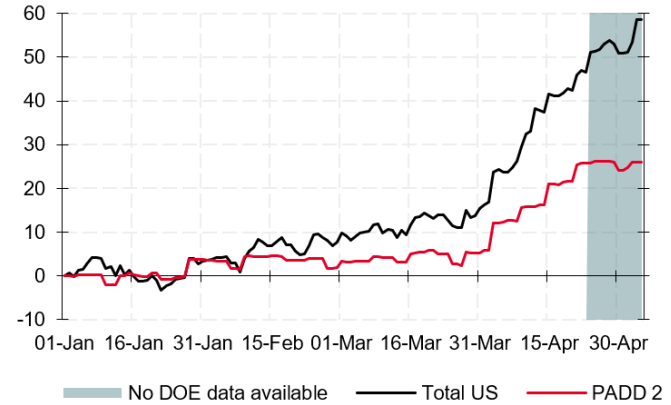
# SOME SIGNS OF A TURNAROUND

Cushing Crude Oil Stocks (MMBbls)



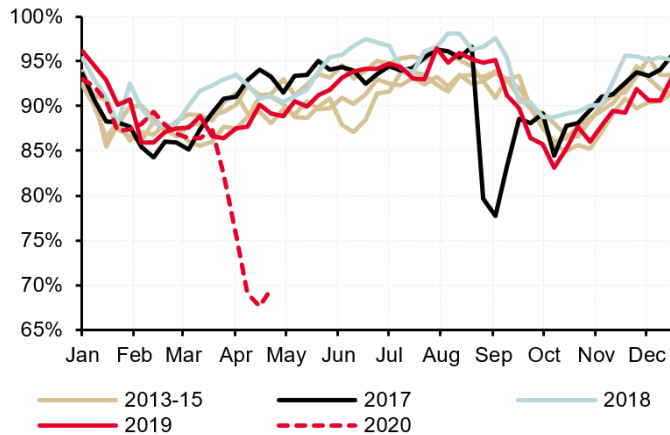
Source: SG Cross Asset Research/Commodities, DOE/EIA

US and PADD 2 stock changes since January 2020 (MMBbls)



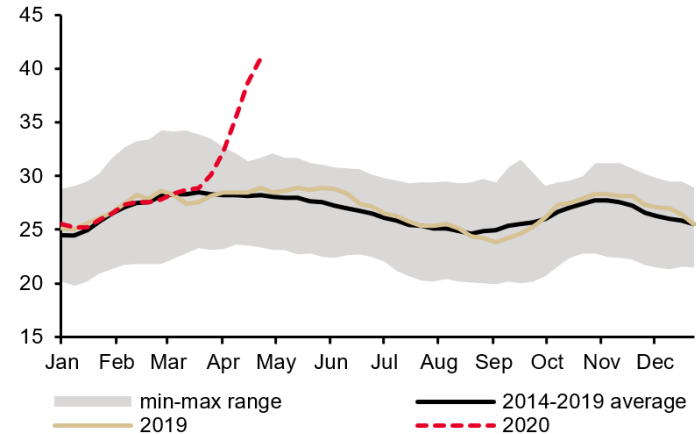
Source: SG Cross Asset Research/Commodities, Kpler

US Refinery utilization rates



Source: SG Cross Asset Research/Commodities, DOE/EIA

Total US crude days cover (days)

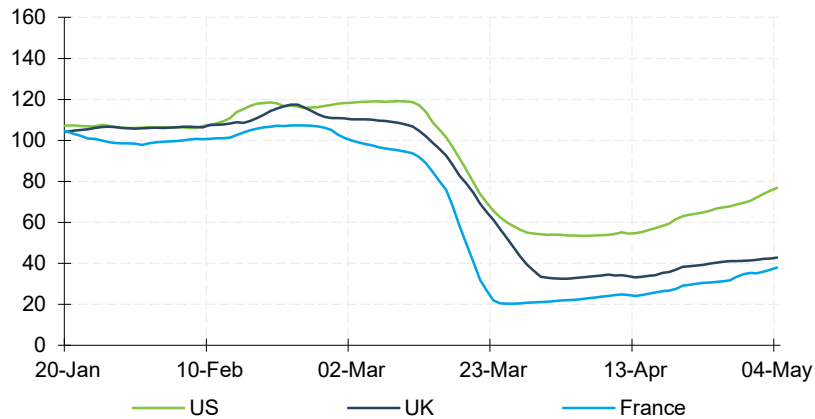


Source: SG Cross Asset Research/Commodities, DOE/EIA

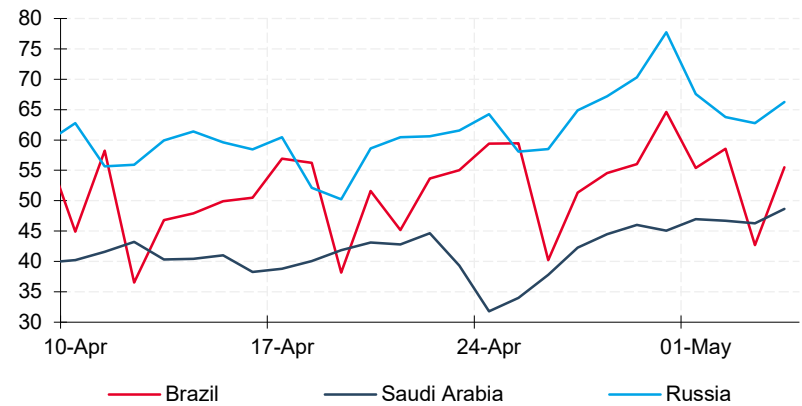
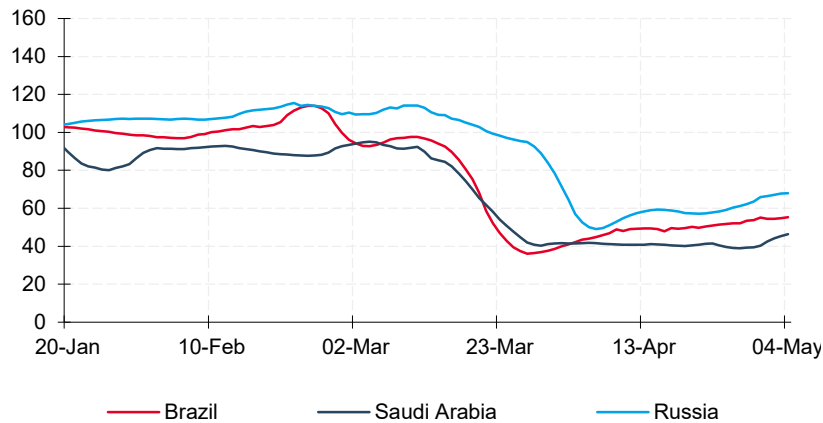
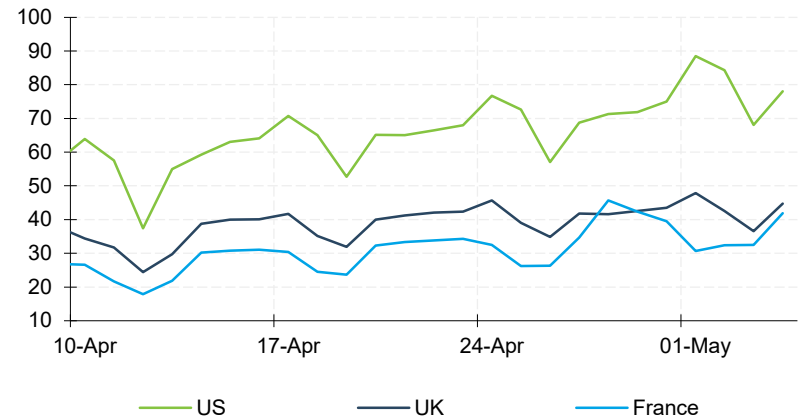


# ON THE ROAD AGAIN? DEMAND SLOWLY COMING BACK

Sharp decline for driving itineraries search on Apple maps with lockdown implementation (7 days moving average - base at 100 on 13 January)



A timid restart over the past two weeks as lockdowns and enforcements are easing (actual daily data - base at 100 on 13 January)



Source: SG Cross Asset Research/Commodities, Apple maps, Mobility Trends Reports



# Appendix

All pricing information included in this report is as of market close, unless otherwise stated.

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