DAILY BRIEF: OIL

– HEADLINES –

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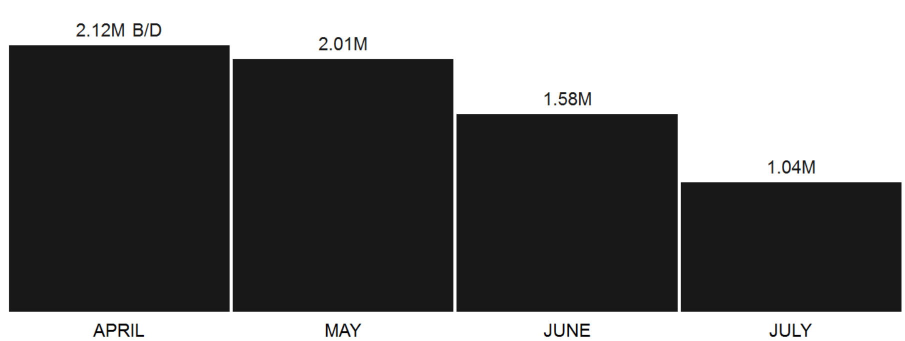
OPEC's Gulf members may need to pump almost as much crude as they can to cover swelling supply losses from Venezuela to Iran and beyond, the IEA said. Saudi Arabia might have to draw harder than ever before on its spare production capacity as a spiraling economic crisis in Venezuela, renewed U.S. sanctions on Iran and disruptions in Libya strain global markets, the agency predicted.

OPEC'S SHRINKING DEFENSES
SAUDI ARABIA'S SPARE CAPACITY MAY FALL TO 'UNPRECEDENTED' LEVELS



SOURCE: IEA
NOTE: JULY CAPACITY ASSUMES SAUDI OUTPUT OF 11 MILLION B/D

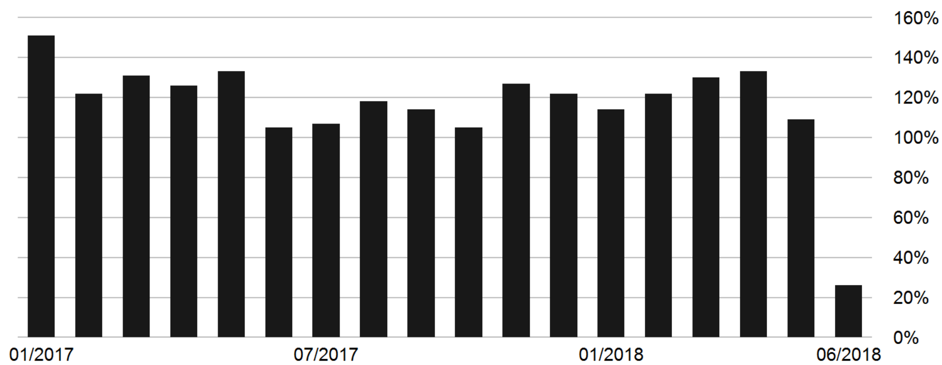
Oil rose in London, recovering some of the biggest losses in more than two years, as the IEA warned that output in OPEC's Gulf members may be stretched to the limit. Brent climbed as much as 2.3% after slumping 6.9% on Wednesday, the steepest loss in percentage terms since 2016.

Libya plans to ramp up its oil fields to feed reopened ports after a political standoff crippled exports for weeks. The country's National Oil Corp. is "managing the build-up of operations to maximize production and overcome obstacles and losses incurred during the crisis of the last four weeks," the Tripoli-based NOC said today. The resumption marks another abrupt turnaround in a country where numerous field and port shutdowns have complicated OPEC's drive to pump more crude.

Chart of the day: Saudi Arabia's compliance with the output-cut deal fell to 26% in June. That's the first time the kingdom has failed to comply with the agreement since it began in January 2017 and compares with an average compliance rate of 122% for the last 17 months. OPEC in June agreed to scale-back on its output cuts, after a push by Saudi Arabia to boost supply amid declining production among some of the group's members.

COMPLIANCE CUT

SAUDI ARABIA FAILS TO COMPLY WITH OUTPUT CUTS FOR FIRST TIME SINCE DEAL BEGAN



SOURCE: BLOOMBERG, OPEC

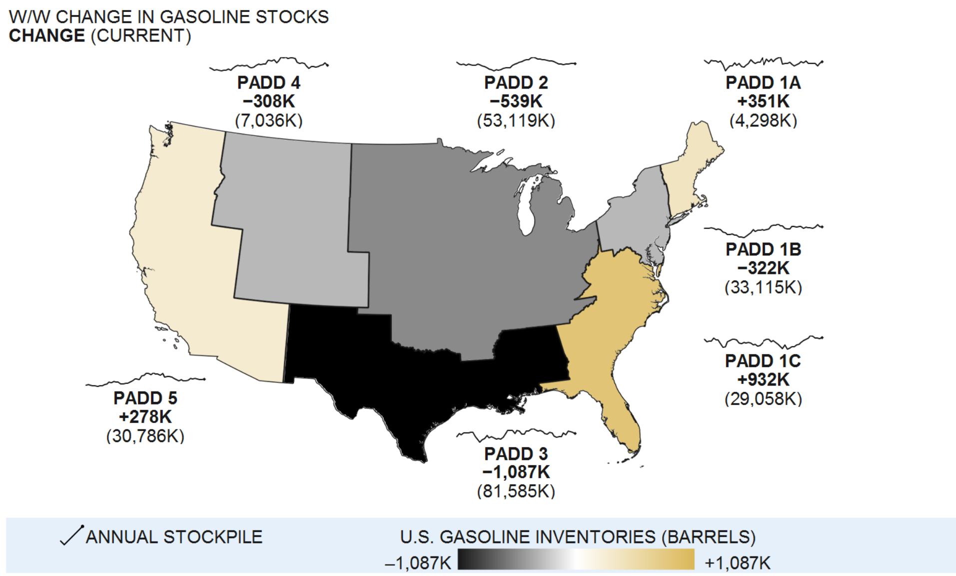
A strike by Norwegian drilling workers that forced Royal Dutch Shell to shut its North Sea Knarr field appears unlikely to cut any more production in the short term, even if the action escalates in the coming days. The strike is the first to directly cut oil output off Norway since 2012. Yet the Knarr outage, which has taken out about 23,000 b/d, is an exception in a walkout that's largely targeting wells that are not yet producing and maintenance tasks.

Ecuador May crude exports rose to the highest level since January, according to the country's Central Bank data compiled by Bloomberg. Shipments were up 17% m/m to 375,000 b/d, with the top three destinations being the U.S., Peru and Chile.

– DATA WATCH –

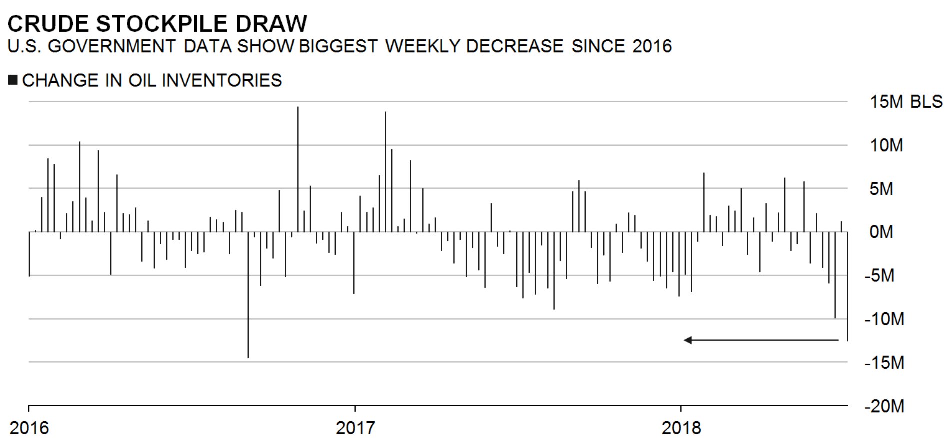
Supply

U.S. gasoline stockpiles fell by 694,000 barrels to 238.9 million barrels in the week ended July 6, according to EIA data Wednesday. The draw was driven by a drop of 1.09 million barrels in PADD 3, but in PADD 1, the Nymex delivery point, stocks were up almost 1 million barrels. The gasoline draw was more a result of exports than domestic demand.



SOURCE: EIA

U.S. oil inventories fell by 12.6 million barrels last week, the biggest drop since September 2016 and more than three times the median forecast of analysts surveyed by Bloomberg. WTI briefly pared losses after the EIA's report Wednesday before again declining amid trade-war concerns.



SOURCE: EIA

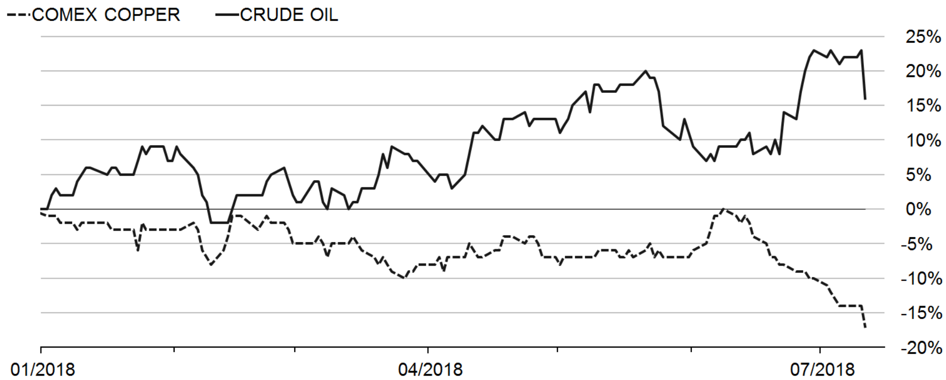
– ANALYSIS –

Oil Tightness Buffers Trade Fears Crushing Metals

Crude oil is leaving other commodities in the dust.

Down on Wednesday, WTI is still up more than 16% this year as industrial metals like copper and aluminum tumble, dragging down the Bloomberg Commodity Index lower. The secret lies in the raft of supply issues that have plagued the oil market, shielding the fuel from the ill effects of President Donald Trump's protectionist policies.

THE GREAT DIVIDE
CRUDE OIL RALLIES ON SCARCE SUPPLIES AS COPPER SLUMPS



SOURCE: NYMEX; COMEX

While crude slumped along with other raw materials on Wednesday after Trump outlined a new round of tariffs against China, scarcer supplies have allowed WTI for August delivery to continue to trade at a premium to futures contracts expiring a year later. That scenario makes it profitable for investors to pocket the gains from rolling the contracts forward, while those holding copper and gold lose money.

“What oil has that metals don’t have, is number one, all these disruptions we’ve seen recently,” said Mike Wittner, head of oil market research at Societe Generale in New York. "The other big thing that the metals markets don’t have is this whole issue of spare capacity is very tight in oil already and getting tighter.”

Supply outages from Canada to Libya raised concerns any additional barrels that members of OPEC can pump into the market would not be enough to meet demand. That would also leave Saudi Arabia with little spare capacity to address further shortages. That’s not the case for refined copper, which was estimated to have a surplus of 153,000 metric tons in the first quarter.

A more than 11% yield from rolling August crude contracts to futures expiring a year later is about quadruple what investors get from holding 10-year Treasuries. That’s one of the reasons fund managers are attracted to oil, Jonathan Spencer, president and chief investment officer of Gresham Investment Management, which oversees $7.5 billion, said in an interview in New York.

“With relatively tight supplies, you’re going to see a premium on the front part of the curve and that’s going to continue,” Spencer said. “I don’t see the inventories building up,” he said, referring to oil.

– MUST READ –

Market Calls

Permian oil supply growth in 2019 will be “well below consensus” estimates of about 650,000 b/d, Morgan Stanley analysts including Martijn Rats wrote in a report. The bank sees Permian production growth at 360,000 b/d y/y in 2019.

The IMO 2020 sulfur cap may bring shuttered refineries back from the dead as demand for compliant fuels rises, the IEA said in its monthly report. In five years to 2018 some 4.5 million b /d of refining capacity was closed down globally, the IEA noted. Refining sites that previously were written off may be brought back into use if they are able to benefit from advantaged feedstocks and ready access to markets needing lower-sulfur bunker fuels.

While South Korea, Japan, Taiwan and India are poised to substantially reduce Iranian oil imports in the coming quarters due to the U.S.'s renewed sanctions, China will be an exception and may resist restrictions, BMI Research said in a July 11 note. "Reduced demand for Iranian supplies globally could see these barrels offered at more competitive rates, allowing China to capitalize," BMI said in the report.

Oil's biggest plunge in more than two years was probably the work of machines, and is a great buying opportunity, according to Citigroup. Though Brent futures tumbled 6.9% Wednesday on concerns over escalating trade tensions between the U.S. and China, oil market fundamentals remain bullish, with plenty of supply disruption risks lingering, the bank said in a July 12 note.

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