Mind The Gap

www.sucdenfinancial.com

Wednesday, 06 June 2018

June 2018

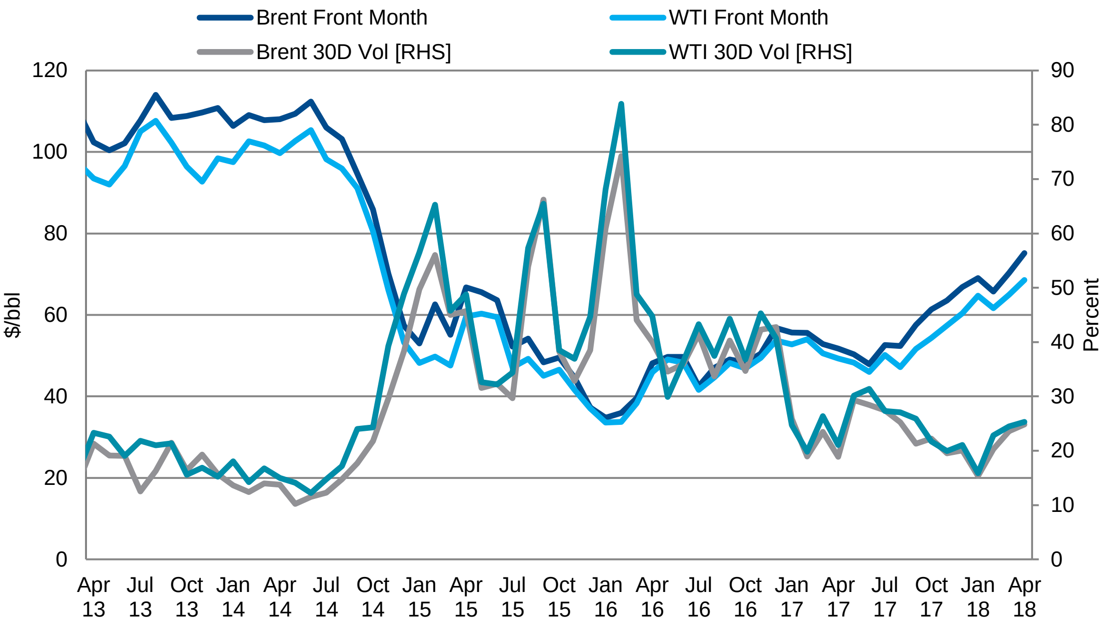
Geordie Wilkes
Head of Research
+44(0) 20 3207 5294

Calvin Wang
Research Analyst
+44(0) 20 3207 5189

research@sucfin.com

sucdenfinancial.com

Crude Oil Prices vs 30 Day Volatility: *Volatility has increased in 2018 due to geopolitical tensions.*



Source: Bloomberg

Demand

The global economy remains firmly in expansionary territory, despite the recent moderation of activity in Europe and the US. Growth in manufacturing, consumption and trade remains above-trend in major economies, providing favourable tailwinds to oil demand. In its latest report, the IEA (International Energy Agency) revised Q1 OECD demand up to 47.63m barrels per day (bpd), a change of 315k bpd, on account of cold weather events across western economies and surging US petrochemical production. Comparatively, Q1 non-OECD demand has been revised down to 50.43m bpd, a fall of 260k bpd, on account of weak Chinese consumption during New Year celebrations.

The IEA has set a 2018 global demand forecast at 99.29m bpd, up 1.47m bpd, or 1.5% y/y, from 2017. OPEC and the EIA (Energy Information Administration) have been comparatively more bullish, expecting consumption growth of 1.6m bpd and 1.8m bpd respectively. The IEA have stated that global oil demand grew strongly in Q1 and thus far in Q2, however, as we move through 2018 consumption could soften. The disparity in numbers is due to the different scenarios being modelled; technological developments continue to disrupt the industry, adding to the complexity of energy forecasting.

Gasoline, the largest segment of demand, rose only 0.7%. US crude demand grew by 2.4% y/y in February 2018. However, 'finished petroleum products' such as gasoline and diesel fell by 1.1% y/y. The balance was made up by 'hydrocarbon gas liquids', products used primarily in the manufacture of petrochemicals. Indeed, this suggests the recent moderation of growth in western economies is starting to drag on global demand for fuel products. We expect demand growth over 2018 will disappoint IEA forecasts, coming in softer at 1.3m bpd.

"We expect demand growth over 2018 will disappoint IEA forecasts, coming in softer at 1.3m bpd."

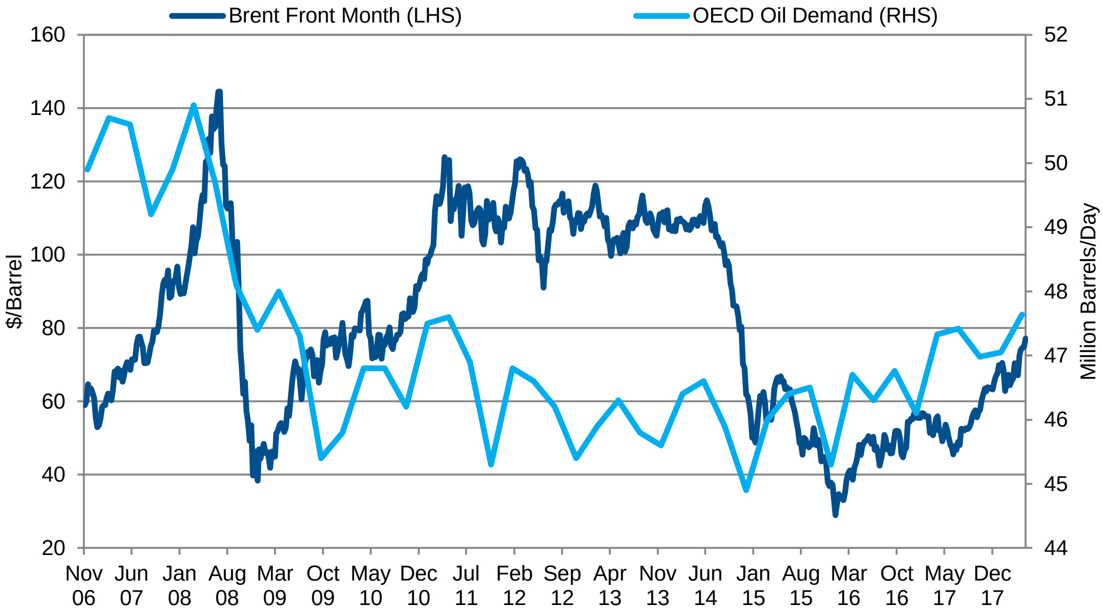
Recent economic data has added weight to the bearish demand outlook; Eurozone PMI readings have declined from start of the year, while US Q1 GDP growth disappointed at 2.2%. Recent data has been stronger, however we expect US growth will moderate as rate hikes take effect. Indian demand, a key source of growth in oil consumption, faces major headwinds from Rupee depreciation, high fuel prices, and poor export performance.

"Trade tensions present a major downside risk to the oil demand outlook."

Trade tensions present a major downside risk to the oil demand outlook. IMF data indicates that a recovery in international trade formed a key driver of the global cyclical upswing of the past 2 years, and the WTO is forecasting a continuation in this trend; merchandise trade volumes expected to grow 4.4% y/y over 2018. However, US protectionist rhetoric and tariff activity has fuelled fears of a trade war. US-China tensions have cooled somewhat following recent trade negotiations; China has made a number of concessions, including a cut on car import duties and dropping an anti-dumping probe into US sorghum exports. Treasury secretary Mnuchin has recently commented that the trade war has been 'put on hold'.

On the flipside, US-EU trade tensions have increased as section 232 tariff exemptions expired. The EU, India, Japan and Russia have recently notified the WTO of potential retaliation to US tariffs. A recent analysis from Bloomberg economics suggests that a 10% tariff on US imports, and a reciprocal retaliation from the rest of the world, would have a cost of 0.5% of global GDP by 2020. This situation would present major headwinds to crude consumption.

Brent Front Month vs OECD Demand: *Strengthening demand has helped support prices, but can it last?*



Source: Bloomberg

"…demand destruction concerns have once again entered the market."

Oil prices have rallied significantly over the past year, with ICE Brent rising from a 2017 low of $44.35/bbl. to $77.75/bbl. as of the 1st of June 2018. With prices firmly above their 20-year average, demand destruction concerns have once again entered the market. On the surface, this appears unlikely; oil is traditionally price-inelastic, the global economic outlook is optimistic, and consumers withstood far higher prices in 2006-2008 and 2010-2014. However, it is important to note that while global demand rose over these periods, OECD demand fell. Non-OECD countries avoided this consumption slowdown; however this was attributable to strong economic and disposable income growth. With economic activity beginning to moderate in the Eurozone and the US, and multiple emerging markets facing political and economic crises, it is possible further gains in crude may slow demand growth.

Valero Energy, the world's largest petroleum refiner, has set $80/bbl. as the level it expects US demand destruction to emerge. However, we suspect a measure of demand destruction may have already taken place; Europe has seen a boom in LNG demand over the past year, coinciding with the oil rally, while US average retail gasoline prices have recently broken the psychologically significant $3/gallon level, setting the stage for an expensive driving season. Oil demand may be particularly subdued across emerging markets in the coming months; the recent selloff in EM currencies will likely spur a significant increase in domestic fuel prices.

The elimination of consumption subsidies presents a further demand-side concern. Many Asian economies scaled back or eliminated fuel subsidies during the low-price period of 2015-2017. Consequently, consumers in India, Indonesia and Malaysia, collectively responsible for approximately 6.5m bpd, are now more exposed to rising oil prices; in its latest monetary policy meeting, the Reserve Bank of India cited elevated oil prices as a major tailwind to inflation, and headwind to its economic outlook. Consequently, a continuation of the oil rally could see a moderation in Asian oil demand.

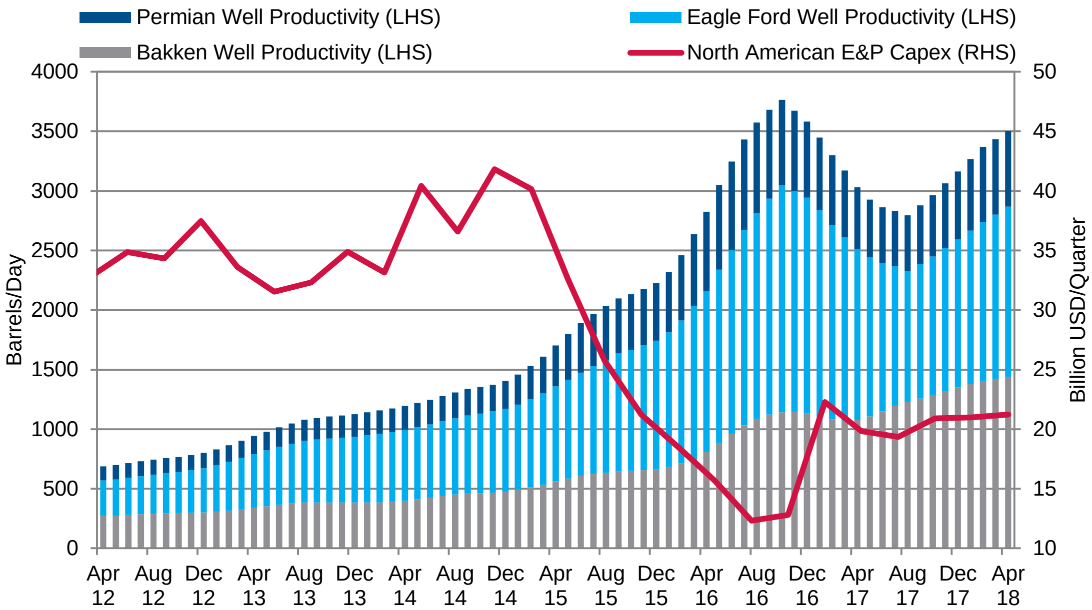
SHALE

"EIA data indicates shale output rose from a low of 5.156m bpd in 2016 to 7.034m in May 2018…"

The revival of US shale production has been one of the most significant paradigm shifts of the past 2 years. Shale producers saw a reversal of fortune as rising productivity, improving margins and a supportive macro environment saw the industry recover from a contraction during the 2015-2016 oil glut. EIA data indicates shale output rose from a low of 5.156m bpd in 2016 to 7.034m in May 2018, fuelling a surge in US oil exports.

The profitability of shale plays have increased in line with rising output; a recent Dallas Fed survey indicates that the average breakeven for new Permian (Midland) wells is WTI $47/bbl., while a price of $25/bbl. is required to cover operating expenses. Comparatively, the average industry average breakeven stood at around $70/bbl. in 2014, according to Rystad Energy. Bloomberg data suggests that leading shale firm cash flows are now capable of financing new wells without requiring additional capital inflows.

Shale Productivity vs N. American E&P CAPEX: Capacity growth is beginning to slow as CAPEX spending stagnates.



Source: Bloomberg

"…EIA has forecasting 7.178m bpd of output in June, a record high."

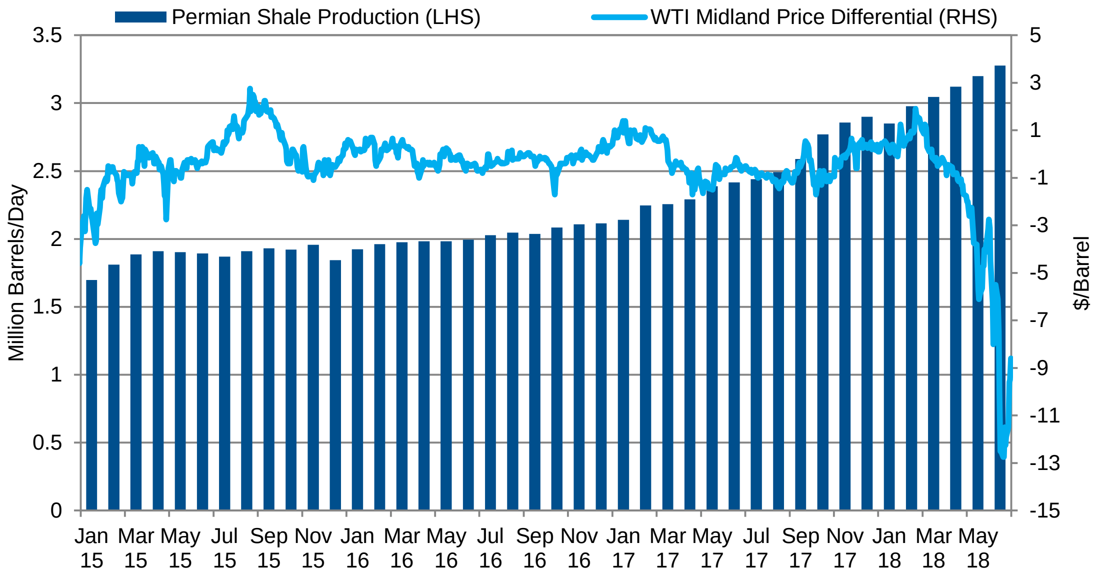
The short-term shale outlook remains optimistic; rising prices and strong demand are expected to support shale activity, with the EIA forecasting 7.178m bpd of output in June 2018, a record high. However, we expect headwinds to production will emerge in the longer-term. A shift in priorities among E&P companies, alongside looming production bottlenecks, could spur a moderation in production growth over the coming year.

The US shale industry has begun to transition from a 'growth at any cost' model towards one focused on capital discipline and profitability. This shift is likely attributable to investor pressure; the Q1 earnings season saw a number of shale firms announce or pledge dividend increases and stock buybacks. A recent survey of US E&P companies, conducted by RBN Energy, suggests this will remain the prevailing trend over 2018; curbing capital spending to focus on debt paydowns and shareholder returns was a common theme amongst survey participants. Guidance CAPEX from North American Independent E&Ps indicates the industry's CAPEX growth will slow to 15% in 2018, down from 24% in 2017.

"Independent E&Ps indicates the industry's CAPEX growth will slow to 15% in 2018, down from 24% in 2017."

In addition to changing business models, there are signs of growing capacity constraints emerging in the shale industry. A recent report published by Rystad Energy indicates the shale industry is beginning to see shortages of frac sand, machinery, and labour. Indeed, the unemployment rate in Midland Texas has fallen to 2.1%. Furthermore, infrastructure constraints have dogged shale producers; according to energy information provider Genscape, the Permian had 3.175m bpd of outgoing pipeline, rail and local refining capacity as of March 2018. However, capacity constraints in other key production areas are not as severe, which could help support output. In the longer term, geologists are suggesting that oil reserves for the Permian basin are running dry, and have forecast only 7 years of proven oil reserves.

Permian Shale Production vs WTI Midland Price Diff: *The Midland WTI discount has increased significantly as production continues to rise.*



Source: Bloomberg

"… Shale output is expected to exceed capacity by H2 2018…"

According to EIA data, Permian production averaged 3.045m bpd during this period. Shale output is expected to exceed capacity by H2 2018, with the EIA forecasting Permian production at 3.277m bpd in June 2018. Over 2.4m bpd of new capacity have been proposed by a half-dozen operators, however these projects are not expected to come online until Q4 2018/Q1 2019. Consequently, a number of shale firms have decided to delay production or sell oil at a discount. The Bloomberg Midland crude oil discount hit a low of -$13.25/bbl. in May 2018, and stands at -$11.50/bbl. as of the 1st of June 2018. It is expected to persist at these levels or lower over the coming months. We expect these bottlenecks will a lead to slight moderation in shale output growth over 2018.

OPEC

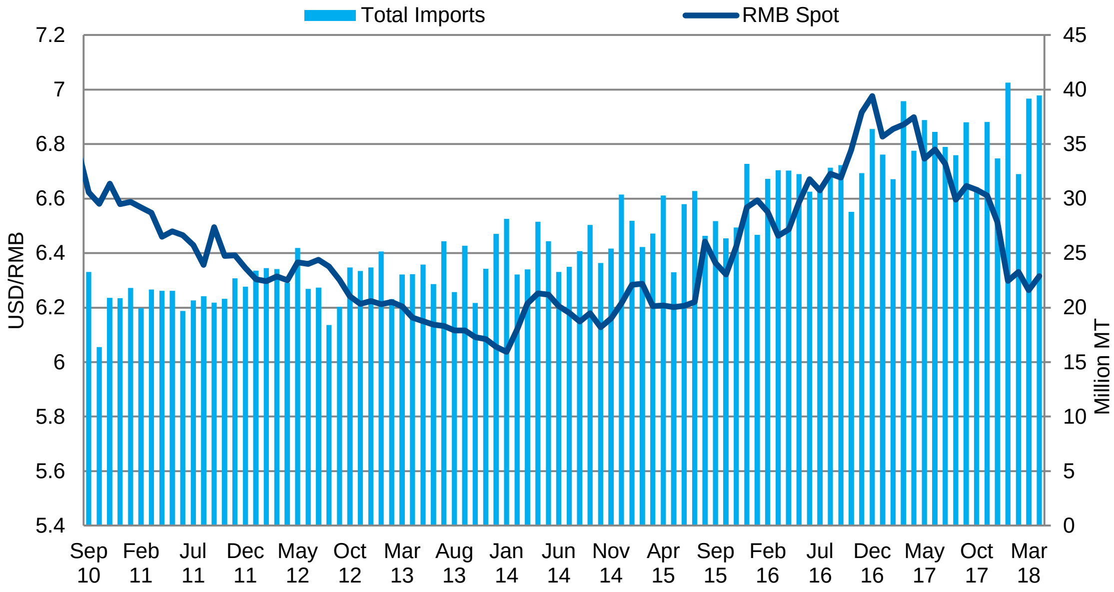
At the time of writing, the Organisation of the Petroleum Exporting Countries (OPEC) remains committed to the deal they extended in November 2017. The compliance rate of OPEC has been conducive to the effectiveness of the deal; and has facilitated the strengthening price outlook.

"For the OPEC 14, output was 31.93m bpd..."

In April 2018, the compliance rate for the OPEC 12 was 162%, with a total of 29.62m bpd below the implied 2018 target of 29.932m bpd. For the OPEC 14, output was 31.90m bpd in May 2018. For the same period, seaborne crude exports from OPEC increased to 24.5m bpd, a jump of 230,000m bpd. We attribute the expansion in exports to increased activity in the Middle East; Iranian exports climbed 22% m/m and we believe this is due to front loading before the re-imposition of sanctions.

China's imports have increased substantially in the last decade, breaking 40m tonnes in January 2018. Imports have remained elevated with only February 2018 falling below 35m mt, due to Chinese New Year. Preliminary data suggests that April 2018 imports were 39.46m mt (9.64m bpd). May arrivals are expected to be 38m mt, slightly lower m/m due maintenance for state owned refineries and teapots being expected in May and June 2018. The combined loss may be in excess of 1m bpd. As such, we anticipate exports to China from the Kingdom, Angola, Iraq and Iran to decline in May and June 2018.

Chinese Crude Imports vs CNY Spot: *Expansion in Chinese crude imports has led to the launch of a yuan denominated oil contract to mitigate exchange rate risk.*



Source, Bloomberg, Chinese Customs

"Middle Eastern flows into China are 4.27m bpd which equates to 46% of total Chinese crude inflows so far in May…"

According to Reuters, Middle Eastern flows into China are 4.27m bpd which equates to 46% of total Chinese crude inflows so far in May 2018, in an attempt to regain market share which has been lost in recent months. Total Asian imports are assessed at 98.03m mt month to date (23.18m bpd). Overall imports are expected flat to marginally lower at 103m mt, also due to maintenance. US exports to Asia remain a key trend, with flows recording a historical high of 3.20m mt this month.

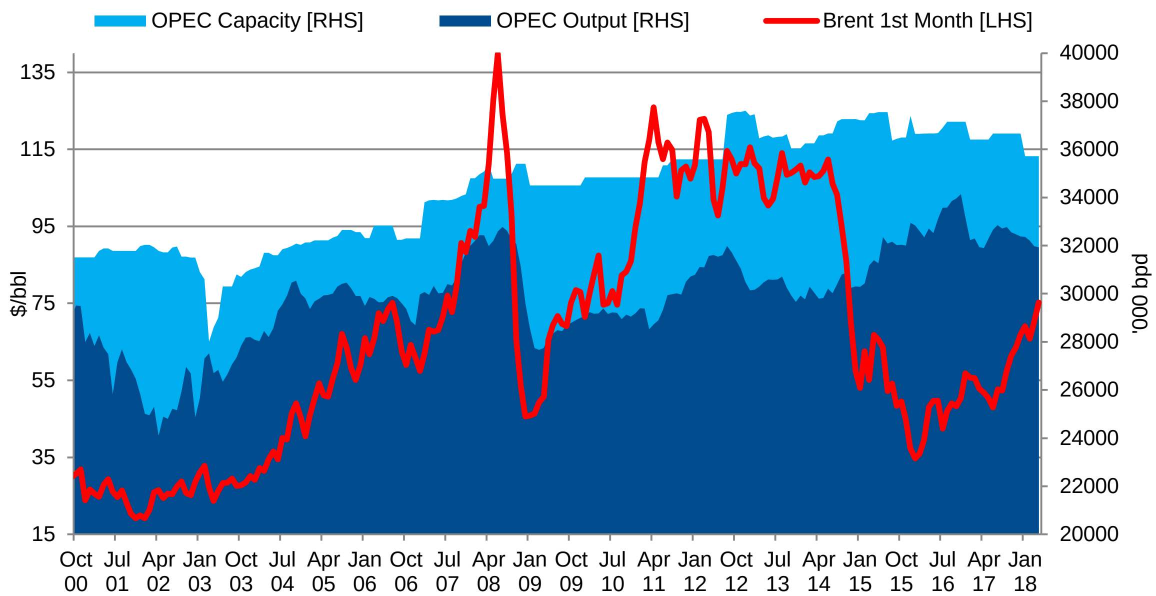
America's withdrawal from the JCPA deal prompted a knee jerk reaction from investors suggesting the decision was not fully priced into the market. Near term OPEC supply is under pressure due to Venezuela's decline and uncertainty surrounding Iranian output which reached 3.82m bpd in April 2018 with their exports averaging 2m bpd in Q1. We believe Iranian production will decline in the remainder of the year. China, the biggest importer of Iranian oil, has scaled back their imports form 900,000 bpd in 2016 to 600,000 bpd this year.

South Korea and Japan have also reduced their imports from Iran in recent months, evidenced by April's 12% y/y drop in South Korean imports. Buyers have 180 days to reduce their purchases, and it seems traders are not concerned, at this time. Large buyers of Iranian crude can apply for exemptions; these buyers will look to reduce their purchases in the next 6 months in order to be treated preferentially.

"The curtailment of OPEC output in recent years has generated spare capacity in the oil industry."

The curtailment of OPEC output in recent years has generated spare capacity in the oil industry. As such, the reduction in Iranian output can easily be offset by an increase in Saudi production whose capacity is around 15m bpd and produced 10.01m bpd in May 2018. Indeed, the Kingdom may capitalise on the opportunity in an attempt to regain market share. Saudi Arabia has been determined to ensure Russia's involvement in any deal to fill the void left by Iran, Nigeria and Venezuela. We believe OPEC output will trend higher for the remainder of 2018, putting downward pressure on prices.

OPEC Output vs OPEC Capacity vs Brent 1st Month: *Moderated OPEC output has helped to reduce the oil glut but spare capacity remains.*



Source: Bloomberg

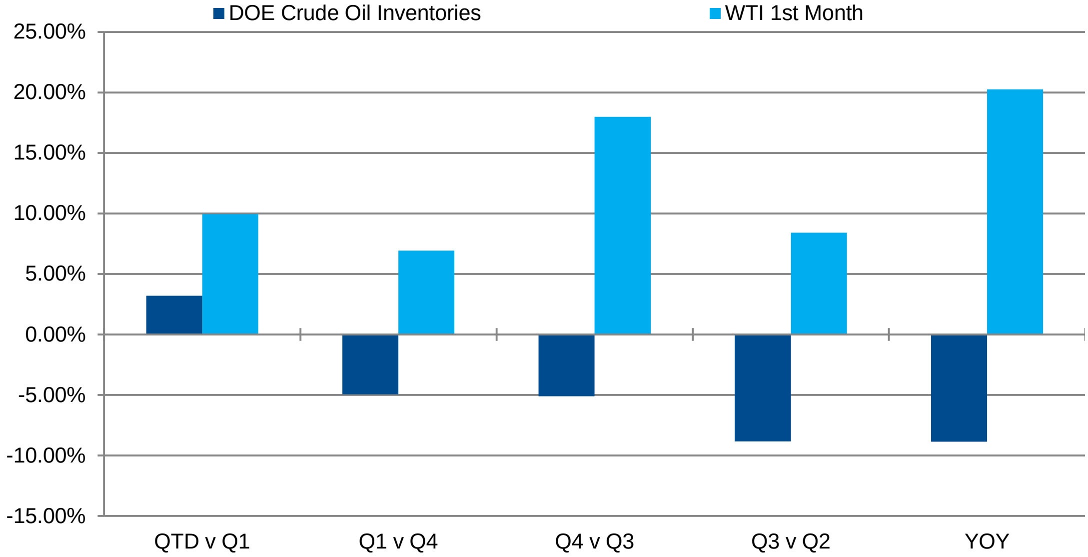
Near term tightness is reflected in the front end of the curve but the backwardation outlines the long term outlook. The CEO of Total alluded to this, outlining that the short term problems should not derail long term strategy. Total has recently indicated that unless they're granted an exemption from US sanctions, they will withdraw from Iran. Indeed, this contradicts the rhetoric set by the EU policy makers. Announcements by similar countries will put pressure on the Iranian economy.

There is a potential rearrangement of supply in the near term if Iranian exports decline and Venezuela fail to increase output. This could increase the reliance on OPEC and Russian oil, at the expense of US production.

…the recent rally is attributable to an expansion in the geo-political risk premium."

The drawdown in global inventories has increased the responsiveness of Brent to geo-political tensions and the recent rally is attributable to an expansion in the geo-political risk premium. Middle Eastern tensions are high, but as these tensions subside the market may correct sharply to the downside as the geo-political risk premium decreases and speculators reduce their net long, narrowing Brent –WTI differential. What's more, spare capacity in the oil market is likely to offset weaker output from Iran, Nigeria and Venezuela keeping, the backwardation intact.

DOE Crude Oil Inventories vs WTI 1st Month: *The stable drawdown in stocks has acted as a boon for oil prices.*



Source: Bloomberg

Venezuela's Demise

"…output was 1.50m bpd in April, a far cry from 3.2m bpd they produced in 2007…"

The plight situation that grips the once proud oil industry in Venezuela must be considered. Their compliance rate just shy of 600% and output was 1.50m bpd in April 2018, a far cry from 3.2m bpd they produced in 2007 and almost a 40% drop since 2015. Annualised inflation stands at 14,000%, and the bolivar is down 99% against the dollar over the last 12 months.

The election result is unlikely to fix Venezuela. Venezuela is in partial default of $70bn of traded debt; bondholders are growing increasingly tired of late payments which is emphasised by the commencement of law suits as counterparties endeavour to recover their investments. A legal suit against PDVSA, for lack of payment of a $25m promissory note, affirms Venezuela's issues.

What's more, ConocoPhillips have been authorised to seize $636m of PDVSA assets. Tankers destined for China and India were forced to turn back to port curtailing Venezuela's exports even more. PDSVA was the main source of government income for Venezuela, but output has fallen sharply in recent years. One refinery on the North Coast in Puerto La Cruz has a capacity of 187,000 bpd but is currently refining 30,000 bpd.

"The lack of investment in the sector has prompted an increase in environmental issues, accidents …"

Venezuelan output will remain under pressure, due to weak investment from the government. Indeed, the money owed by the national oil company makes it difficult to manage the maintenance of their facilities, not to mention potential sanctions from the US. The lack of investment in the sector has prompted an increase in environmental issues, accidents which have also led to a shortage of domestic gasoline. On paper this should put downward pressure on OPEC supply; however, the spare capacity in the oil market will offset the loss in Venezuela's production.

China's Contract

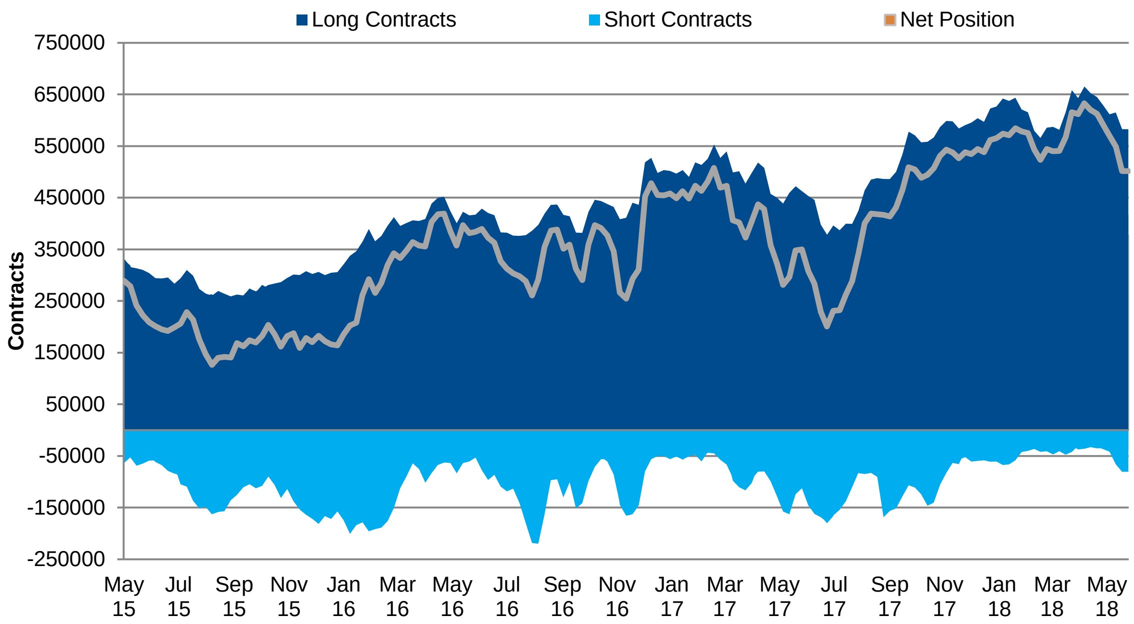
The launch of a crude contract on the Shanghai International Energy Exchange is China's attempt to exert pressure on the petrodollar and open China's borders to the international market. The futures contract is the first Chinese product that can be traded by non-Chinese entities. The new contract prices sour crude and is based on Middle East crudes which are predominately consumed by Chinese refineries. Being denominated in yuan, it allows Chinese participants to mitigate exchange rate risk but Chinese foreign exchange regulations could provide issues for foreign investors.

"Being denominated in yuan, it allows Chinese participants to mitigate exchange rate risk…"

The crude contract is an attempt by China to control import prices and increase the importance of the renminbi on a global scale. The two largest suppliers to China, Saudi Arabia and Russia, are not deliverable on the contract. Western investors are wary of government intervention during large price swings. Speculative activity is something the Chinese government has attempted to control. Whilst this is not a deterrent to liquidity on the surface, repeated intervention by the government could reduce the attractiveness of the contract to western investors.

Limits on cancelled orders and curb spoofing may reduce the involvement of algorithmic traders. Indeed, the daily position limits for entities outside China are a constraint on the contract, as well as the restrictive trading hours and closure on Chinese public holidays. In our opinion, the Chinese crude contract will be used as a speculative instrument in the near term. This was affirmed following America's withdrawal from the JCPA, open interest in the Shanghai contract spiralled causing the front month Shanghai contract to account for 12% of the global oil market on Wednesday 9th of May 2018. If western investors abstain from the contract, it will struggle challenge global oil benchmarks.

ICE Brent Crude COT Managed Money Combined: *Geopolitical risks prompted a rise in net length but prices are vulnerable to further long liquidation*.



Source:Bloomberg

Commitment of Traders

The precipitous incline of the ICE Brent crude managed money net position tailed off in the week up to 22nd of May, when the net position stood at 501,634 contracts, 20.68% off the all-time high at 632,454 contracts recorded on 10th of April. Therefore, despite the bullish price action, manged money investors have decreased their exposure by 10.63% this year, from 561,284 contracts long 26th of December 2017 to 501,634 contracts on

22nd of May 2018. However, since 27th of June 2017 the managed money net length has increased 150.56% from 200,000.

Open interest was 3,532,526 for futures and options the total number of traders was 483, just off the all-time recorded high of 487. The liquidation in long positions has not been accompanied by a retracement in the flat price outlining the trend is still intact. This suggests that we could see further in the near term, amidst geo-political tensions. The favourable spread positioning could entice investor flows away from the spot market.

Conversely, Bloomberg CFTC data for NYMEX crude oil shows the non-commercial net futures position has increased 0.19% this year to 633,386 contracts as of the 1st of June 2018. The total OI has confirmed the trend, remaining elevated at 3,509,832 for futures and options with the total number of traders at 433.

Data from the Bloomberg E&P Hedging Database indicates US oil producers have increased hedging activities over recent months. Permian E&Ps hedged 70% of full-year 2018 production as of Q4 2017 vs 63% in Q3 2017. Eagle Ford E&Ps hedged 49% in Q4 vs 36% in Q3, and Bakken E&Ps hedged 48% in Q4 vs 435 in Q3. The NYMEX crude oil swap dealers commitment of traders report, a proxy for producer hedging activity, shows a similar trend; the net short stands at 740,728 contracts, up 13.17% from 654,540 at the start of the year. E&P hedging will likely remain elevated over the coming months as futures prices continue to rise and near-term time spreads deteriorate; the NYMEX Jul18-August18 spread has shrunk from $0.64/bbl. in April 2018 to $0.14 at time of writing.

Elevated geopolitical tensions and the upcoming OPEC meeting in June 2018 may provide further incentives to hedge; The US has imposed sanctions on Iran, and Brent stands at $77.75/bbl. (1st of June), just below Saudi Arabia's $80/bbl. target. Under these conditions, the case for easing OPEC production cuts, and consequently lower oil prices, has strengthened. The geopolitical outlook is expected to keep Brent prices elevated, thus hedging activity may increase as producers look to lock in higher prices. The expansion of the futures and options OI has prompted the combined OI to record an all-time high.However, the recent reduction in net long positions for WTI and Brent could suggest traders are assessing their risk reward and taking profits off the table.

"However, the recent reduction in net long positions for WTI and Brent could suggest traders are assessing their risk reward"

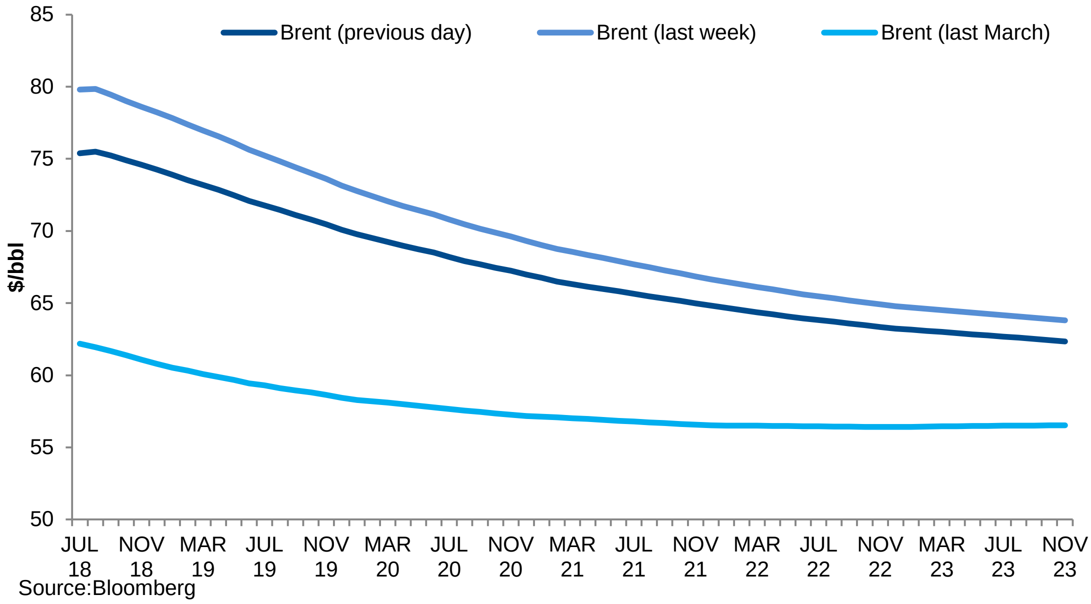
A shift in business strategy presents another possible explanation for the recent increase in hedging activity; as previously mentioned, E&P investors are increasingly demanding value-over-volume and a greater focus on shareholder returns. It has been speculated that North American E&Ps have increased protection on future production in an effort to provide a measure of certainty regarding future cash flows and executive capital discipline.

Spreads

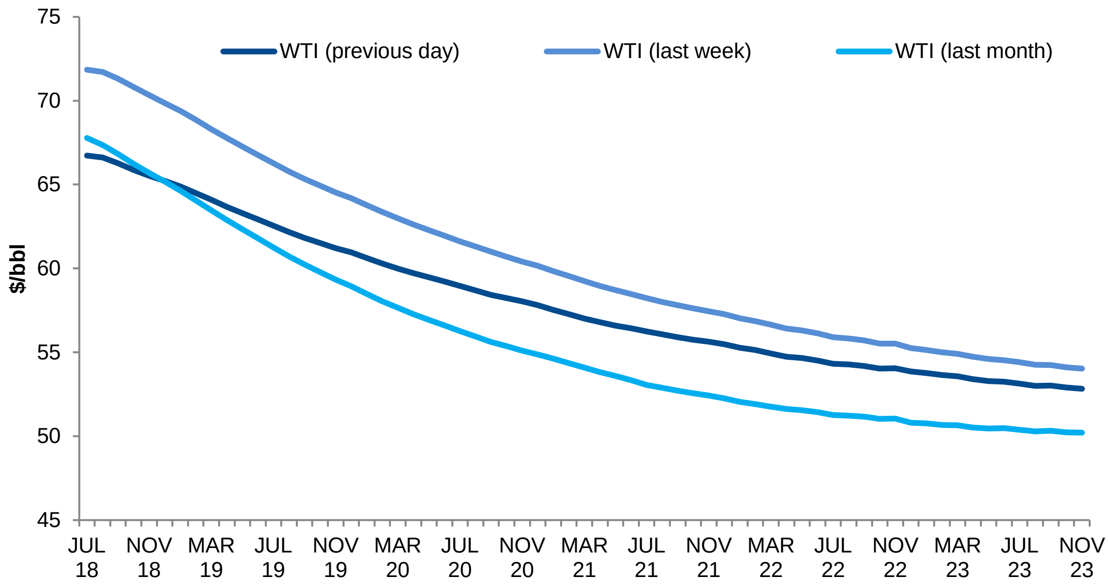
Geo-political tensions are not just dominating the oil market but also global economics, and have caused the oil market to continue its bull run in 2018. Brent is the international oil benchmark and is more susceptible to geo-political tensions. This relationship has been exacerbated by the drawdown in global stocks in recent years. The WTI-Brent 1st month spread has widened to -$10.61/bbl. as of the 1st of June, after narrowing to -$6.87/bbl. on 21st of May 2018.

We believe the widening of the spread is due to an expansion of the geo-political risk premium in the Brent market triggered by the US pulling out of the Iran deal in addition to tension between Middle Eastern countries. In our opinion, Iranian production will decline for the remainder of 2018. Buyers of Iranian oil have a 180 day grace period before sanctions take effect.

Brent Forward Curve vs WTI Forward Curve: *Both curves show backwardation out to 2023.*



Source:Bloomberg



Source:Bloomberg

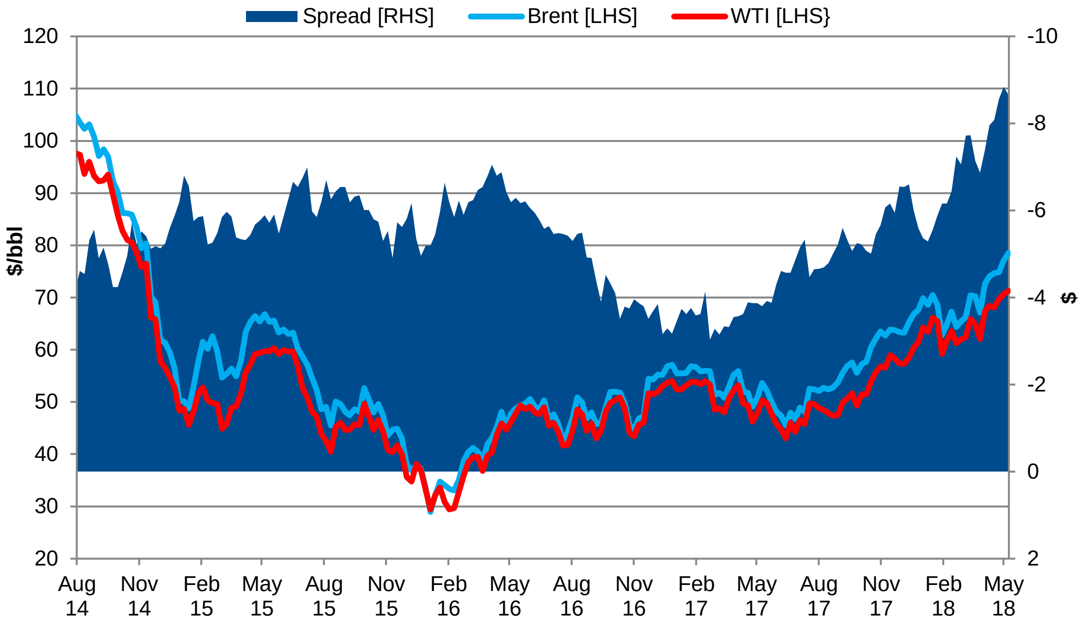
In our opinion, the impact in the near term will be more muted than previous sanctions. In the long run, the WTI-Brent spread will narrow due to the spare capacity available in OPEC production and strong exports from the US. However, lack of clarity surrounding Iranian sanctions and elevated geo-political tensions could keep the spread wide. The widening of the spread is due to the expansion of the geo-political risk premium which has indicated fundamental tightness in the crude market; however, there remains spare capacity in the industry. The WTI-Brent diff has helped support US exports as US products are strongly discounted basis Brent, but as OPEC supply concerns & the geopolitical risk premium subsides, we expect the WTI-Brent spread will narrow.

"The WTI-Brent diff has helped support US exports as US products are strongly discounted basis Brent"

The widening of the WTI-Brent spread may have originated from increased longs from speculators due to geo-political tensions. As of 23rd of May 2018 the WTI backwardation was steeper than the Brent with the forward curve out to 07/2019 showing $5.73/bbl. compared to the $4.81/bbl. On the 23rd of April 2018 the WTI July18-July19 spread closed at $6.53/bbl vs Brent at $5.73/bbl. Both have narrowed with WTI and Brent spreads for July18-July19 at $4.19/bbl and $3.62/bbl, respectively on May 29th.

The ability by OPEC and Russia to increase production to mitigate the loss of production has prompted the flat price to soften although, as long as the structure stays intact the spreads still deliver positive yield. For WTI, as of COB 29th of May, July18-July19 spread was $4.19/bbl with the July contract at $66.73/bbl. therefore to hold a long in the 6.27% (4.19/66.73x100). Cost of capital, storage and insurance would weaken the yield; however, for a speculator the yield would be substantial. The yield for Brent, using the same calculation, would be less at 4.80%. We believe, as long as the structure remains intact, the yield would be positive.

Brent 1st Month vs WTI 1st Month vs WTI – Brent Spread: The expansion of the geopolitical risk premium has caused the WTI-Brent spread to widen.



Source:Bloomberg

"Genscape ARA total crude inventories have increased 26.77% this year to 65.14m barrels…"

The US crude oil exports remain cheaper and we believe this will support demand for US oil. US oil being exported to European countries and China, indicate how US oil is profitable to deliver into traditional Brent markets. Genscape ARA total crude inventories have increased 26.77% this year to 65.14m barrels.

Conclusion

The geopolitical outlook remains supportive for energy prices in the near term; however, we believe it may be too late to buy the futures but also too early to sell. The probability of a deal between Russia and Saudi Arabia to offset the loss in production from Venezuela and Iran has increased; however, we do not believe the parties involved will rush to a decision. Indeed, energy prices start to soften leading up the meeting, they may come under pressure to keep the deal in place. Tensions between Iran and Saudi Arabia are likely to remain high following America's withdrawal from the JCPA and may reduce the incentive for Iran to meet the deals obligations.

"The geopolitical uncertainty remains the upside risk…"

On a historical level, the spread between WTI and Brent is wide. The geopolitical uncertainty remains the upside risk, there is a 180 day period until sanctions take effect.

“With the WTI-Brent spread this wide, we believe US exports will remain elevated…”

The disparity between world leaders on America’s decision to withdraw from the JCPA Differing could trigger further tensions. European leaders have suggested they will try and preserve the deal, although, the demands made by Iran’s leader are a tall order.

Brent 60 day historical volatility was at 24.11 on 23rd May 2018, below the 5 year average of 30. Volatility has increased increase this year, unsurprisingly considering the geopolitical tensions that have dominated the market. Volatility has increased in 2018 but remains relatively low on a historical basis. We believe a strangle could be a beneficial strategy as a hedge against large moves in the underlying.

If the forward curve remains backwardated, this could entice speculators, assuming the yields remains higher than their cost of finance. With the WTI-Brent spread this wide, it is likely US exports will remain elevated, which could prompt OPEC to increase output. Uncertainty surrounding Iranian production could prompt the Kingdom and Russia to increase production in an attempt to claw back market share. Indeed, a modest rise in OPEC production could strengthen headwinds for the crude market.

What’s more, the strengthening dollar and slowdown in the Euro area may cause the vast managed money position to unravel, increasing impetus on the downside. In our opinion, a covered call strategy would help offset downside risk for those holding a natural long or long exposure, allowing investors to reassess their risk vs reward at these prices. Geopolitical tensions in the near term provide the upside risk as we head into the US driving season and summer months.

London
Sucden Financial Limited
Plantation Place South
60 Great Tower Street
London EC3R 5AZ

Tel: +44 (0) 20 3207 5000
Fax: +44 (0) 20 3207 5010
Email: info@sucfin.com
www.sucdenfinancial.com

Hong Kong
Sucden Financial (HK)
Limited
Unit 1001, 10/F.
Li Po Chun Chambers
189 Des Voeux Road
Central
Hong Kong

Tel: 852 3665 6000
Fax: 852 3665 6010
Email: hk@sucfin.com
www.sucdenfinancial.hk

Moscow
Sucden Financial (Russia)
Sucden Financial Limited
Representative Office
Orlikov per. 3 ‘B’
Moscow 107139

Tel: +7 495 796 96 40
Fax: +7 495 796 96 41
Email: russia@sucfin.com
www.sucdenfinancial.ru

Disclaimer

Sucden Financial Limited is authorised and regulated by the Financial Conduct Authority.

This is a marketing communication. Forecasts are not a reliable indicator of future performance. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views. A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience. Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Data in this report has been sourced from Bloomberg unless otherwise stated. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy. This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice. Please visit our website to view our full risk warnings and disclaimers: www.sucdenfinancial.com.