

# Market Watch

## Oil: A roadmap to normalisation

### Summary

- Oil prices are experiencing one of the sharpest downturns in history as a lack of storage capacity becomes a key constraint.
- We expect a modest recovery in oil prices if agreed global supply cuts are effective and end-user oil demand shows a recovery, helping work off the oil inventory glut.
- **What we are keeping an eye out for:** Additional measures from OPEC+/US (if any), speed of economies re-opening and evidence of global oil demand recovering.

### What are the reasons and implications of the oil price collapse?

- WTI crude oil prices (measured by the active month contract) plunged into negative territory last week. The root of the problem is likely a lack of storage capacity, exacerbated by technical factors such as lower market liquidity. **Oil A roadmap to normalisation**  
At the time of writing, the quoted WTI oil price (Contract expiring in June) is currently at USD 12.25/bbl while Brent oil is at USD 19.97/bbl  
*\*Please refer to page 4 of our Weekly Market View, published on 24 April 2020, for a detailed explanation of recent oil price moves*
- The move lower in oil prices has also dragged down the market's inflation expectations lower, raising fears the fall in oil prices could exacerbate a 'deflationary' shock. However, unprecedented fiscal and monetary easing as well as our expectations of a gradual recovery in oil prices should help mitigate this to some extent.

### What is your view on oil prices from here?

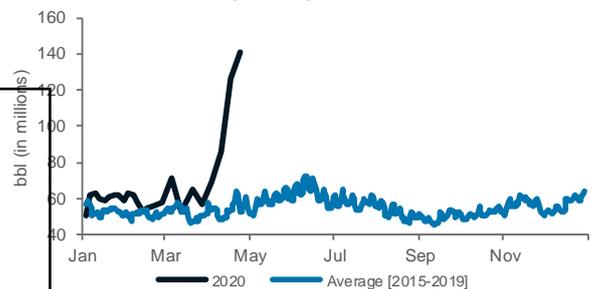
- We expect WTI crude oil prices to stabilise over the next 3 months to a range around USD 30/bbl as agreed OPEC+ production cuts should alleviate the global supply glut. This is above what the market is currently pricing (~USD 22/bbl)
- Over the next 6-12 months, our expectations are for a gradual recovery in the WTI oil price to a range around USD 45/bbl.
- **Technical watch:** There is strong support for WTI crude at the 1986 low of 9.75, which on a weekly basis continues to hold.

### What must happen for your view to pan out?

- First, we would need to see a recovery in oil product demand in end-user markets (i.e. motorists, airlines) over the coming weeks as economies gradually re-open. This is likely to be accompanied by a downward adjustment in non-OPEC supply as production falls due to financial and storage constraints.
- Second, oil inventories would need to normalise. Refiners will likely draw down current inventory first before resuming their normal pace of buying.
- The key risks to our view include (i) weak compliance with the OPEC+ output cut agreement and (ii) a slower-than-expected recovery in global oil demand later this year.

### Global floating crude oil storage has hit a record high

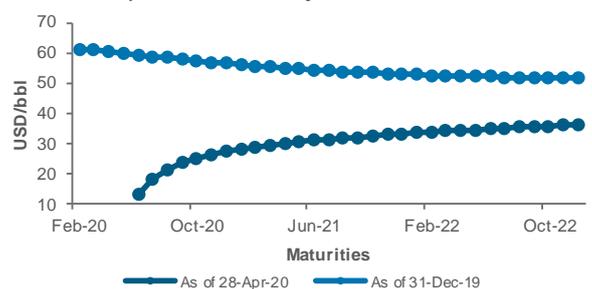
Global crude oil floating storage (millions, bbl)



Source: Bloomberg, Standard Chartered, Vortexa

### Acute storage constraints have hit near-term prices

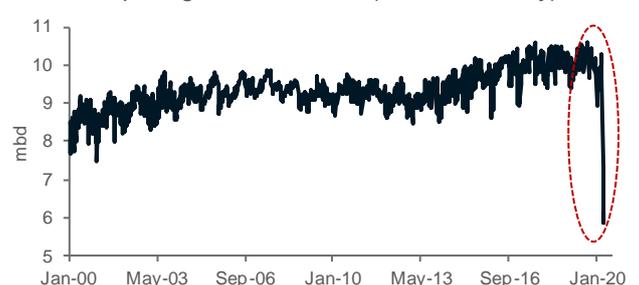
WTI crude oil prices for delivery across various maturities



Source: Bloomberg, Standard Chartered

### A nascent recovery in US gasoline demand would be an encouraging sign

US DoE implied gasoline demand (millions, bbl/day)



Source: Bloomberg, Standard Chartered

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