

# GX MIDDLE EAST CRUDE MARKET ANALYSIS

### The Big Picture

· Lunar New Year, Winter Olympics and winter season - where prices are headed

#### Apart from Covid...

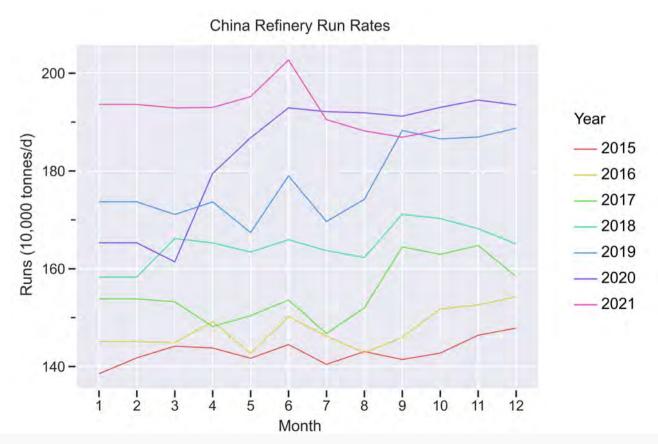
At the time of writing, Brent futures are testing US\$70.00/b levels as covid fears grip the market. For a short time, there was even an inversion in the short end of the curve which was no doubt aided by participants rolling their contracts forward. The phenomenon was fleeting and corrected itself, but it is a testament to how jittery markets are right now.

Much ink has already been spilled on the impact of Covid, even with limited information regarding the science of the new variant, so instead of joining the masses, this article will focus on other upcoming events that will impact crude markets – namely the advent of the Lunar New Year, Winter Olympics, and winter season in North Asia.

Given that the above-mentioned festivals are all major events on the calendar, intuition dictates that prices would be boosted in the next trading cycle. However, digging deeper, the apparent bullishness may be more moderate than expected.

#### Chinese New Year

Tackling first the problem of Chinese New Year, does the yearly festival boost demands for petroleum products?



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Using refinery run rate data from the National Bureau of Statistics as proxy for products demand, there isn't a strong correlation between Chinese New Year and crude demand.

Starting from 2015, refinery run rates see strong growth due to the rise of Chinese independent refiners. However, even under a strong growth regime, one cannot observe materially higher run rates during the months of January and February as compared to December.

Another trend worth noticing is that run rates tend to increase during year end, perhaps in anticipation of future demand. However, in the current context, the trading month for December delivery crude has since passed.

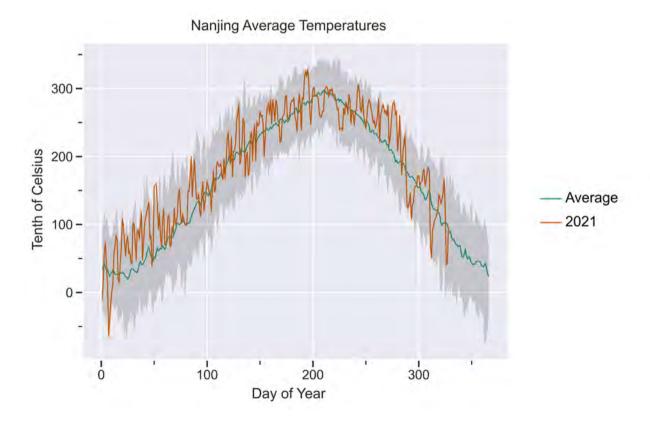
There is thus reason to believe that run rates will continue increasing in November and December. Initial data supports the hypothesis as well.

Strong spot trading differentials also support the view. Without delving too deep into the data, spot deals heard by GX during October and Nov have reached all-year highs. ESPO, in particular, traded at US\$6.00/b premium to Dubai at its highest point.

However, spot differentials did weaken late into the November trading cycle which suggest demand may be tapering off for February/January products. This phenomenon was overshadowed by other headlines, but traders cited complete disinterest from Chinese refiners for cargoes loading in late January.

#### Winter is coming

The second issue to tackle is the advent of winter. Although weather tends to be fickle and hard to predict, initial data from Nanjing suggests comparable temperatures to previous years.



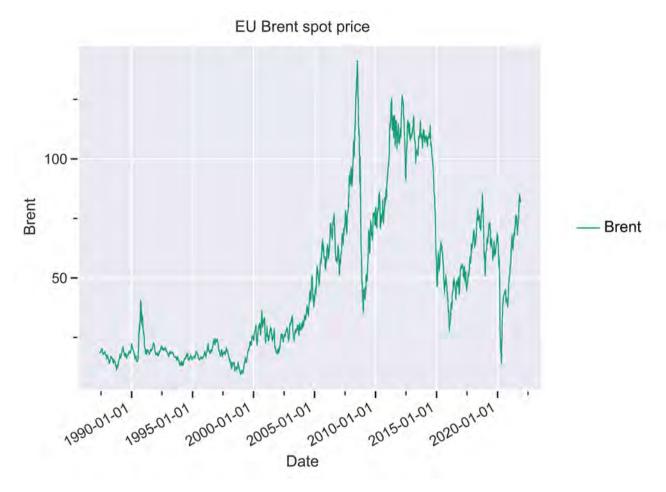
Observing the graph region between 250-350 days, daily temperatures have spent roughly the same amount of time both above and below the average line. Other than a few days which have flirted with extremes, temperature have remained moderate.



That said, weather is hard to predict but as of now, there is still insufficient evidence to suggest an extreme winter.

## But what about the Olympics?

Olympics are energy intensive events for various reasons. It is even more so when the organizing country is China, whose track record of hosting a super grand Olympics in 2008 coincided with this graph of Brent prices.



Before we get too excited, there are many reasons why this Olympics will be different. First and foremost, this is the Winter Olympics. The previous one hosted in 2008 was a summer Olympics which naturally generates far better turnouts.

Beijing is expected to shell out US\$3.9 bn for the Winter Olympics. In contrast, US\$44 bn was expended for the 2008 Olympics. Enough said.

Secondly, and this is the killer, Beijing has announced that it would not be receiving spectators due to the pandemic. Only Chinese citizens would be allowed to purchase tickets and enter sporting grounds. Needless to say, this measure dealt another huge blow to energy expenditures.

Last but not least, Beijing has committed to making the event as green as possible. This means using LNG, renewable energy, hydrogen fuel cells and hybrid vehicles. It is not clear if current LNG prices would deter Beijing from advancing its climate agenda. But it has demonstrated incredible political will to move towards a greener economy as evidenced by a partially self-inflicted economic slowdown this year.

To sum it up, if you are expecting prices to sky rocket for the above mentioned reasons, don't hold your breath.

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