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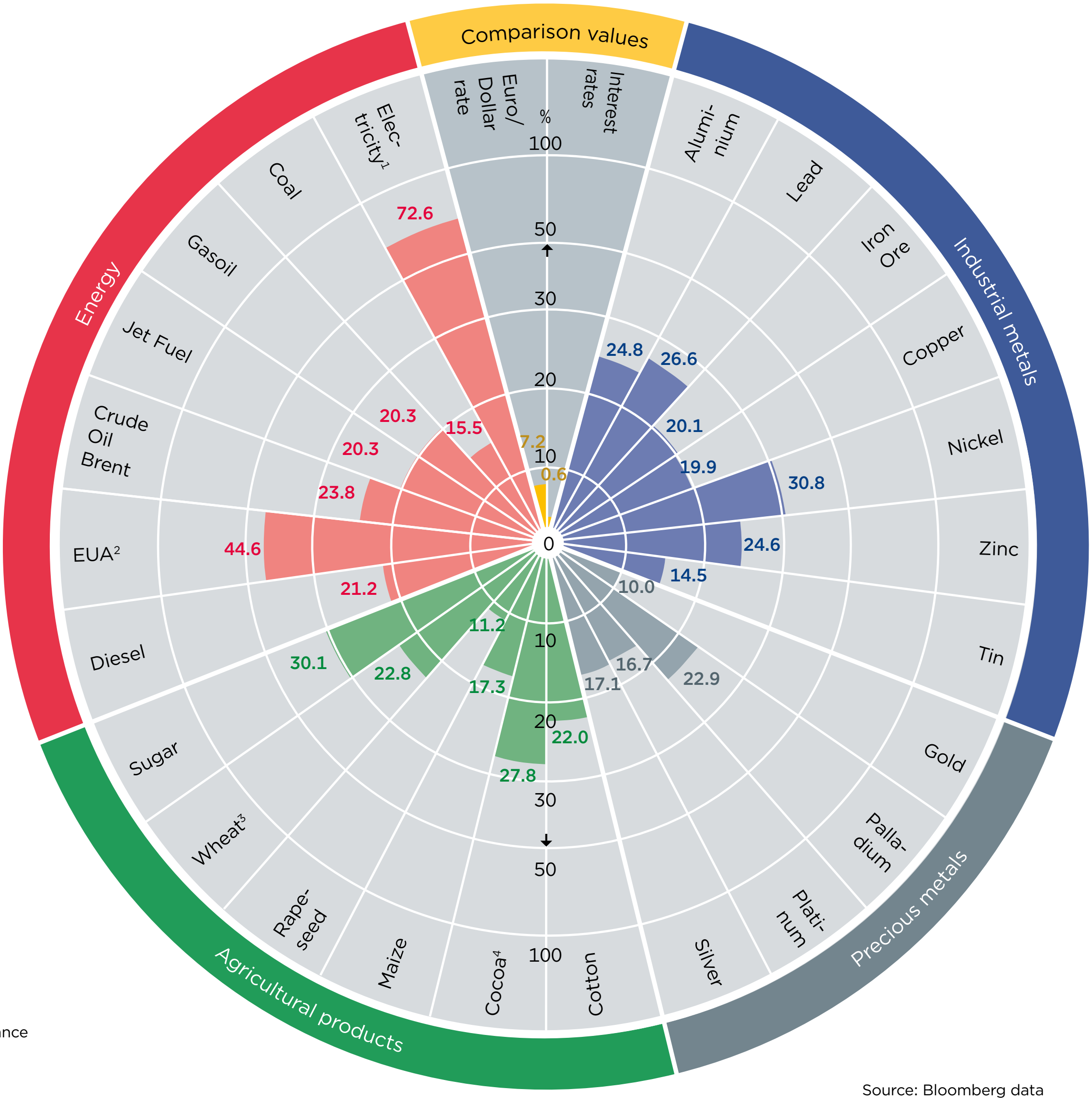
The bank at your side

Volatilities from: 01.10.2017 – 30.09.2018



[1] Phelix Baseload
[2] European Emission Allowance
[3] Euronext Milling Wheat
[4] Liffe Cocoa Euronext

Source: Bloomberg data

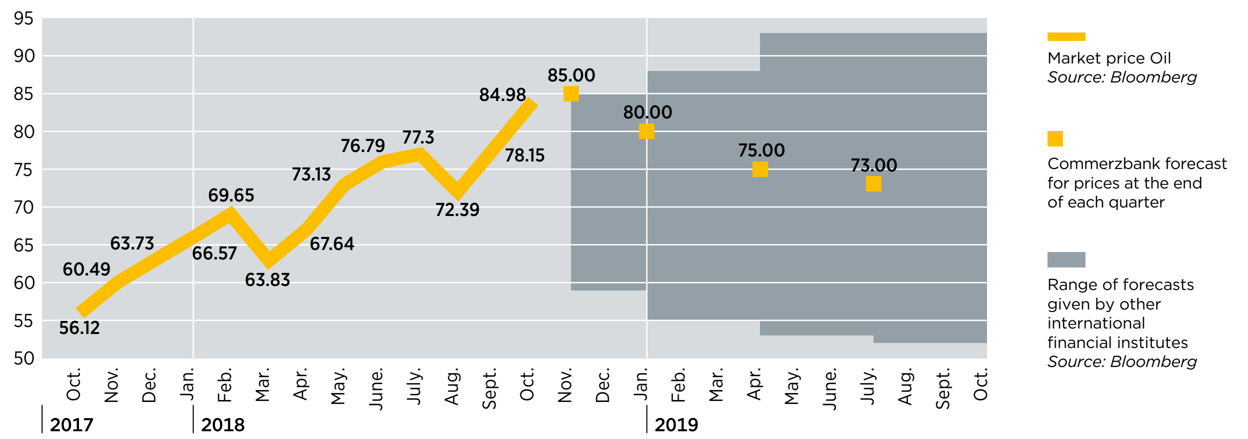
Commerzbank Commodities Radar 4th Quarter 2018

Oil price comes under pressure earlier than expected

At the beginning of October, the price of Brent crude rose to just under USD 87 per barrel, its highest level for almost four years. This development was primarily attributable to falling oil supplies from Iran, which lost many customers for its oil as a result of the US sanctions that came into force on 4 November 2018. This suggested that there may be a noticeable supply shortage in the fourth quarter.

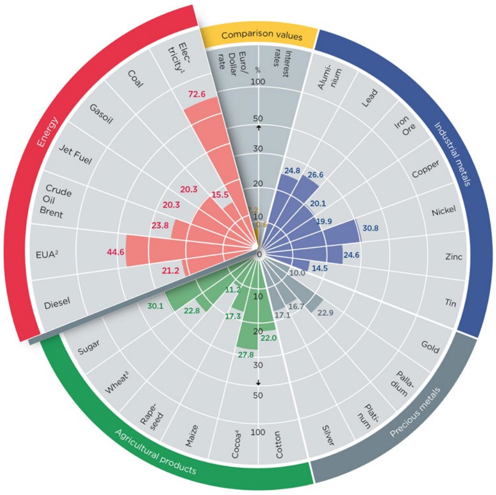
Oil price: on the rise

Oil price in USD per barrel



In September and October, Iranian crude oil exports were only 1.6 million barrels per day, compared with 2.5 million barrels per day in April. A further decline to 1 million barrels per day is to be feared for the following months. This shortfall would have needed to be compensated by a corresponding expansion of production in the other OPEC countries to ensure that the oil market would not slip into deficit. There was concern that the oil producers would not be willing or able to do so. In addition, the freely available production capacities would shrink in return, so that there would scarcely be any further losses to compensate for, but which are to be expected.

In the meantime, however, the situation has become noticeably more relaxed. OPEC and Russia have significantly increased their oil production. This has more than compensated for the supply shortfalls from Iran and Venezuela. Moreover, the US sanctions against Iran are proving to be less restrictive than previous announcements by the US government had suggested. For example, the US is continuing to allow eight major Iranian oil buyers to purchase Iranian oil for a period of 180 days. Iranian oil exports should therefore not fall further from the current level. Fears of a supply shortage have therefore vanished. As a result, the price of Brent crude has fallen by almost 20% from the level mentioned at the start of this article.



Indeed, in the coming year the oil market is threatened by a significant oversupply. The reason for this is the sharp rise in non-OPEC supply, which is expected to grow much faster than global oil demand. The most important driver is vibrant oil production in the USA. At the beginning of November, the US Energy Agency significantly upgraded its production forecast for 2019 and now expects production to rise to 12 million barrels per day by the second quarter of 2019. Originally, this level was not expected to be reached until the end of next year. Brazil, Russia and Canada are also expected to make a contribution – albeit a much smaller one – to the growing non-OPEC supply.

As a result, the need for OPEC oil is decreasing. OPEC currently produces around 1.5 million barrels more per day than the average daily requirement for the year 2019, a figure that already takes into account a certain decline in Iranian oil exports. OPEC is thus under pressure to reverse the recent expansion of its oil production if it does not want to risk causing a massive oversupply and a further drop in prices.

We had anticipated that oil prices would come under pressure next year due to the easing of the supply situation. However, due to significantly higher OPEC oil production and the less restrictive US oil sanctions, this has already happened. We are sticking to our price forecast of USD 70 per barrel for the end of 2019. This presupposes, however, that OPEC curbs production sufficiently to prevent the threat of oversupply next year.

Source: The above information has been extracted from previous Commerzbank research "Commodity Spotlight Energy" from 9. October 2018.
Further information can be found on the Commerzbank Research Portal.

Framework example of a commodity swap for Brent Crude in EUR

- Duration: 12 months
- Fixed price : 68.00 EUR/mt
- You (buyer) make a payment to Commerzbank (seller) each time the price of Brent Crude oil falls below 68.00 EUR/mt
- Commerzbank makes a payment to you each time the price of Brent Crude oil goes above 68.00 EUR/mt
- Calculation periods: 12 months
- Monthly Brent Crude oil purchasing quantity: 100 mt
- Total Brent Crude oil purchasing quantity: 1,200 mt

Potential scenarios

- The average price of Brent Crude oil as determined at the end of the month is:

  Scenario 1: 78.00 EUR/mt
  Scenario 2: 58.00 EUR/mt

- The following applies to the relevant calculation period:

  Scenario 1: You receive a payment in the sum of:
  (78.00 EUR – 68.00 EUR) x 100 mt = 1,000 EUR
  Scenario 2: You make a payment in the sum of:
  (68.00 EUR - 58.00 EUR) x 100 mt = 1,000 EUR

- An approximately 14.7 % reduction in the cost of buying Brent Crude oil in the relevant calculation period (scenario 1) or approximately 14.7 % decline participation in comparison to the market, based on the same calculation parameters (scenario 2)

From the perspective of German companies, the listed commodities are generally priced in a foreign currency. For this reason, currency risks need to be considered in addition to commodity price risks. You can view the latest version of the Commodities Radar online at **www.commerzbank.com/commoditiesradar**

Deutsches Risk survey 2011 – 2016*
1st place for commodities

The year's price highs and lows at a glance

	in EUR per unit	
Aluminium in mt	High	2,050.44
	Low	1,597.99
Lead in mt	High	2,205.78
	Low	1,675.46
Fine iron ore in mt	High	929.88
	Low	737.50
Copper in mt	High	6,221.01
	Low	5,005.18
Nickel in mt	High	13,390.95
	Low	8,775.01
Zinc in mt	High	2,910.20
	Low	1,966.06
Tin in mt	High	18,142.78
	Low	16,023.12
Gold per fine ounce	High	2,165.30
	Low	1,504.70
Palladium per fine ounce	High	827.68
	Low	672.69
Platinum per fine ounce	High	14.83
	Low	12.08
Silver per fine ounce	High	1,124.94
	Low	1,013.32

Source: Bloomberg data

	in EUR per unit	
Cotton in pounds	High	0.81
	Low	0.57
Cocoa in mt	High	59.82
	Low	28.25
Maize in mt	High	200.00
	Low	145.25
Rapeseed in mt	High	386.25
	Low	325.75
Wheat in mt	High	216.25
	Low	154.50
Sugar in pounds	High	0.13
	Low	0.08
Diesel in mt	High	635.92
	Low	438.59
EUA per certificate	High	25.23
	Low	6.93
Brent Crude Oil in barrels	High	73.45
	Low	47.44
Jet fuel in mt	High	672.99
	Low	462.90
Gasoil in mt	High	634.45
	Low	440.00
Coal in mt	High	87.99
	Low	63.85
Electricity in MWh	High	25.23
	Low	6.93

*Surveys conducted by the Deutsches Risk magazine (autumn 2011 – 2016 issues) to analyse German derivative traders. Further information at http://www.risk.net/tag/deutsches-risk

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