

Oil: Trading opportunities ahead

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WisdomTree

Contributor

As we approach the next OPEC meeting on 25 May, the oil price is getting closer to a critical juncture with pressure on OPEC producers to restrain supply, rises in oil stock levels and the rebound in shale oil. Volatility remains the one overriding feature of the oil price and even if OPEC comes to an agreement on further production cuts this may not be enough to create a more stable oil price environment.

Investor positioning around oil has changed dramatically over the past six months with data from the CFTC showing traders commitments in oil futures reduced substantially. Prior to the previous [OPEC meeting in November 2016](#), net long positions in oil hit a relatively low level of around 276,000 contracts. These positions jumped by over 61% by the end of 2016 reaching almost 445,000 contracts as the oil price reacted positively to the proposed reduction in production by OPEC members from levels of close to 34mb/d to a range of 32.5 to 33mb/d. Although the cuts were relatively modest it was more about the signalled intent to curb production together with a commitment from Russia to also restrict output that helped deliver price stability.

Chart 1: Traders net long positions and the oil price

Source: *WisdomTree, Bloomberg*

Move forward to May 2017 and we have a more complex picture. OPEC-related production is reasonably under control. There has been a reduction from just over 34.1mb/d at the end of November 2016 to a recent level of 31.9mb/d at the end of April, a decrease of 6.6%. Russian production has also been complicit with the agreement. On the other hand, the oil price has weakened from a high of US\$54.45 in late February to a recent low of below US\$46. Over the past couple of weeks, a short-term rally has been induced by Saudi Arabia and Russia committing to lower production for a longer period of time, not just for 2017 but into 2018.

However, overshadowing this progress at an OPEC level is the unconstrained recovery in shale oil both with respect to production and the number of rigs in operation. Over the past ten months, shale oil rigs in action have risen from a low of 262 to over 600, whilst production has increased by almost 0.35mb/d. Whilst not completely offsetting the efforts by OPEC, this change to the supply dynamics of the market place has created weakness in the oil price.

Put simply, the ability of the US shale sector to revive itself, restructure at a corporate level, and bring back on tap incremental oil production is a deep challenge to OPEC's oil price policy. In the short term, we expect that OPEC will look to limit production and remain disciplined and organised. This may generate an uplift to the trading range of oil from sub- US\$50 to between US\$50-\$55. On the other hand, as the

oil price rises it merely encourages an expansionary policy from US shale producers thereby constraining any potential upside.

Chart 2: Shale oil, number of rigs versus production

Source: WisdomTree, Bloomberg

Overall, whilst the next OPEC meeting may not create much excitement, we expect that it will aim to reiterate the resolve that OPEC has in its approach to production cuts and stability. This is likely to create short term volatility and trading opportunities as market participants seek to understand the longer-term trajectory for both production and the oil price. A further complicating factor is the gradual weakness in global demand estimates with the recent IEA report highlighting weakness in previously strong countries such as India, US, Germany and Turkey.

Conclusion

Oil remains set to dominate the headlines with a mixture of higher volatility, conflicting production scenarios and political risk. In this environment, investors are likely to find ample short-term trading opportunities with the CFTC net positions data being closely related to rises in the oil price.

Investors sharing this sentiment may consider the following ETPs:

- + [Boost WTI Oil 3x Leverage Daily ETP \(3OIL\)](#)
- + [Boost WTI Oil 3x Short Daily ETP \(3OIS\)](#)
- + [Boost WTI Oil 2x Leverage Daily ETP \(2OIL\)](#)
- + [Boost WTI Oil 2x Short Daily ETP \(2OIS\)](#)
- + [Boost WTI Oil ETC \(WTID\)](#)
- + [Boost WTI Oil 1x Short Daily ETP \(OILZ\)](#)
- + [Boost Brent Oil 3x Leverage Daily ETP \(3BRL\)](#)
- + [Boost Brent Oil 3x Short Daily ETP \(3BRS\)](#)
- + [Boost Brent Oil ETC \(BRND\)](#)

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