

AFTER VIENNA, TERM STRUCTURE OF OIL SHOWS A HUMPBACK

BOFA MERRILL LYNCH REPORT

Crude oil prices have responded to the recent OPEC and non-OPEC deal in Vienna by bouncing firmly into the \$50+/bbl range.

storage, and spec positioning flows all feed into this awkward oil curve. We refer to it as "the hunchback of Vienna".

backwardation in front-to-third month oil spreads. And fourth, on the consumer side, airlines may not come back in size into the market unless spot oil prices spike above \$75/bbl, an unlikely event.

Given the relentless selling pressure of shale producers, US nat gas provides a good template for oil structure. Since US shale gas output started 9 years ago, the front-to-thirteenth month curve has moved from contango into backwardation three times.

rotation will likely take at least 6 months of crude inventory declines of 440 thousand b/d. Said differently, the "hunchback of Vienna" may not depart until the July Brent contract becomes prompt on April Fools' day.

1.2mn b/d with key non-OPEC producers indicating a 558k b/d curb, a first since 2001. Country quotas and an independent production monitoring committee are also part of the deal, so we expect firmer compliance.

OECD demand will grow by 80k b/d this year as Americans drive over 3tn miles, but we project flat OECD demand in 2017. Yet we see EM oil demand expanding by 1.2mn b/d in 2017 but acknowledge downside risks on the back of higher US rates.

Macro outlook

Global GDP in USD terms at market exchange rates is stagnant. China's GDP is changing, with services overtaking industrial activity as a driver of growth.

Fed tightening cycles and a strong USD do not bode well for oil, as rising US rates and flatter yield curves hurt EM demand. Global oil output was unchanged YoY in 3Q, as OPEC growth offset again non-OPEC field decline rates of 5.0 percent.

2017 Energy Outlook

Refining margins have rebounded from their September lows across all regions on planned and unplanned refinery outages. Yet we now see margins falling as refining costs structures rise and global crude stocks rebalance faster than product stocks.

With global inventory trends diverging, our work shows Light Louisiana Sweet (LLS) is turning into the global oil bellwether 2017 global oil demand growth will average 1.2mn b/d in 2017 while supply is roughly unchanged, resulting in a 2017 Brent price of \$61.

OPEC agreed to cut crude oil output by

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Summary table with columns: Index, Change, Closing, Last Closing, High, Low, Volume, Value (KWD), Number of Trades

Table with columns: Security, High, Low, Volume, Value (KD), Trades, Last, Change

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Global Stock Indices table with columns: Index, Previous Close, Last Price, Change, Daily Performance, Yearly Performance

MENA Stock Indices table with columns: Index, Previous Close, Last Price, Change, Daily Performance, Yearly Performance

Global Currencies Exchange Rate table with columns: Currency, Kuwaiti Dinar, Saudi Riyal, US Dollar, Euro, Sterling Pound, Swiss Franc, Japanese Yen, Australian Dollar

MENA Currencies Exchange Rate table with columns: Currency, US Dollar, Kuwaiti Dollar, Saudi Riyal, Bahraini Dinar, Qatari Riyal, Omani Riyal, Emirates Dirham, Egyptian Pound

Global Interest Rates table with columns: Currency, 1-Week, 1-Month, 3-Month, 6-Month, 1-Year

Global Bond Yields table with columns: Country, 2 Year, 5 Year, 10 Year, 30 Year

Commodities table with columns: Index, Previous Close, Last Price, Change, Daily Performance, Yearly Performance

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