

W U T I S



## Global Markets Division

# Crude Oil

**Iron Condor on WTI Oct. 23 futures**

**Investment Horizon: 5 Months**

Vienna, April 20th, 2023

# Team Overview

Global Markets Division



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Team lead

- Task distribution
- Trade structure



- B.Sc. Business Administration



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- OPEC



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- Russian Supply



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1	Demand	4
2	Supply	13
3	Conclusion	19
4	Trade Structure	20

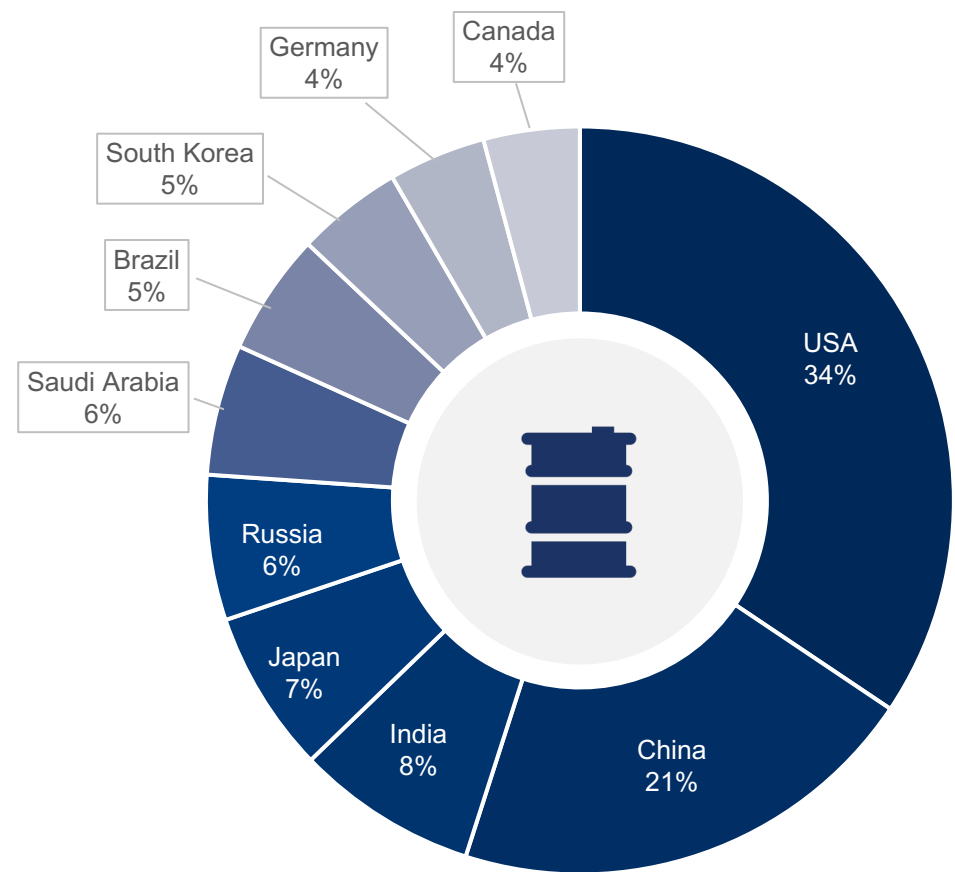


**Global Demand**

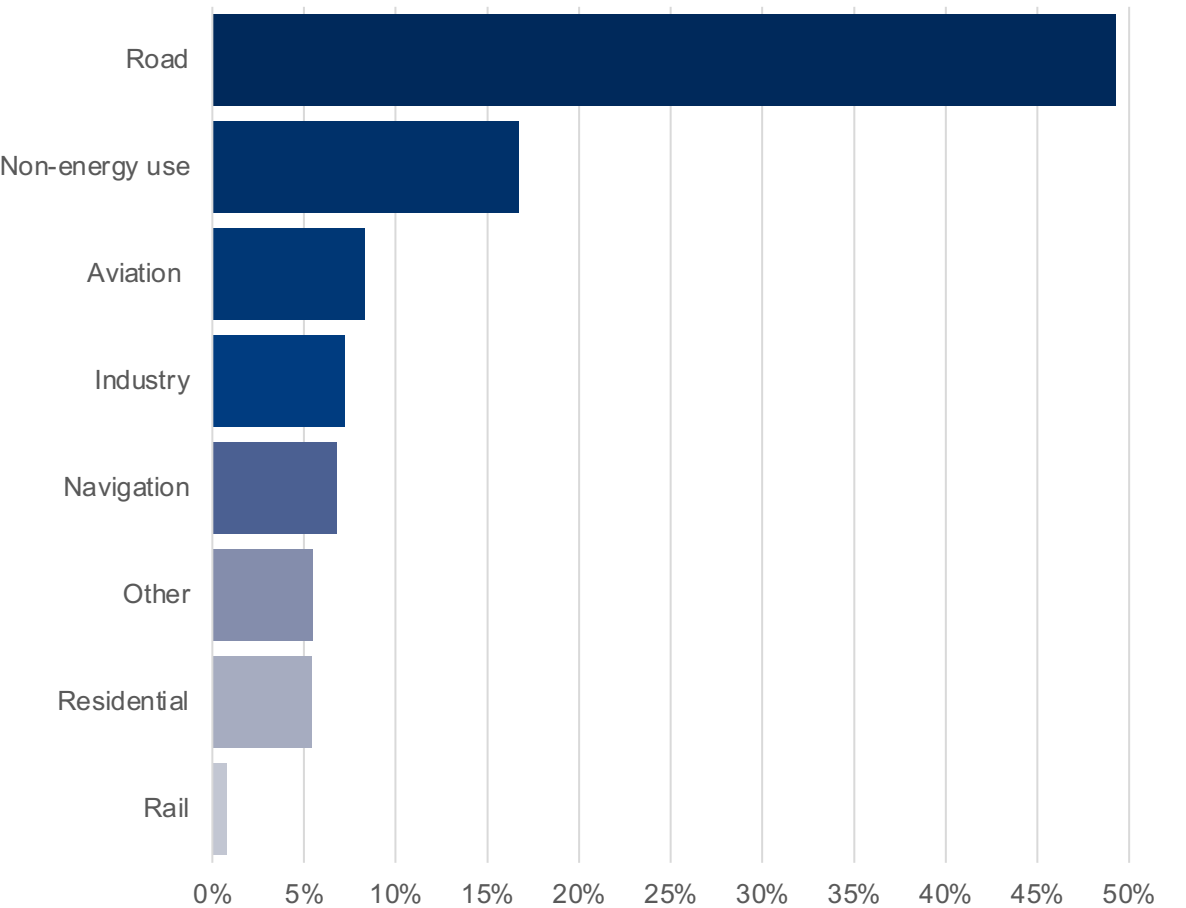
# World Oil Consumption

Oil remains the world's most important energy source

Top 10 oil consumers (% based on Mbbbl/d, 2023)




Oil consumption by industry



# US Recession

How likely is it and how will it impact oil?



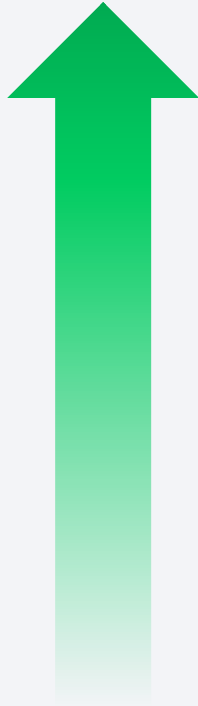
Good GDP composition



High consumption



Strong labour markets



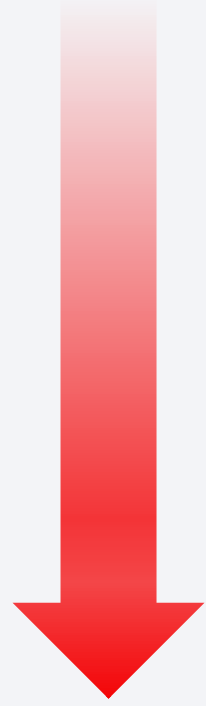
Rapid Fed hike



Banking turmoil



Financial tightening



We raise recession probability to 35%.

Our models estimate a 90% chance of recession in this year.

Economist surveys showed 60% of experts expect a recession.

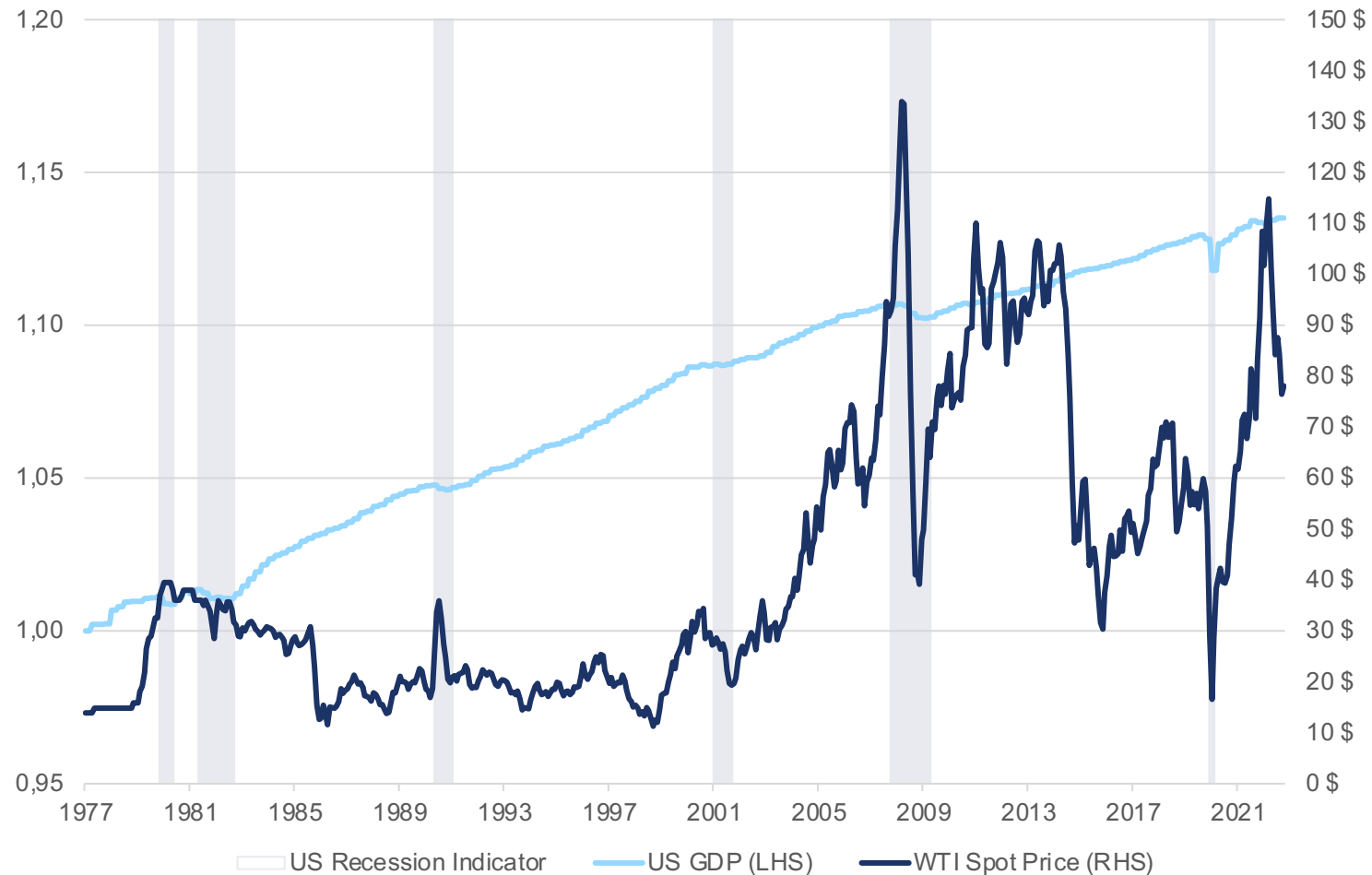


**It is very hard to currently predict a recession with meaningful precision**

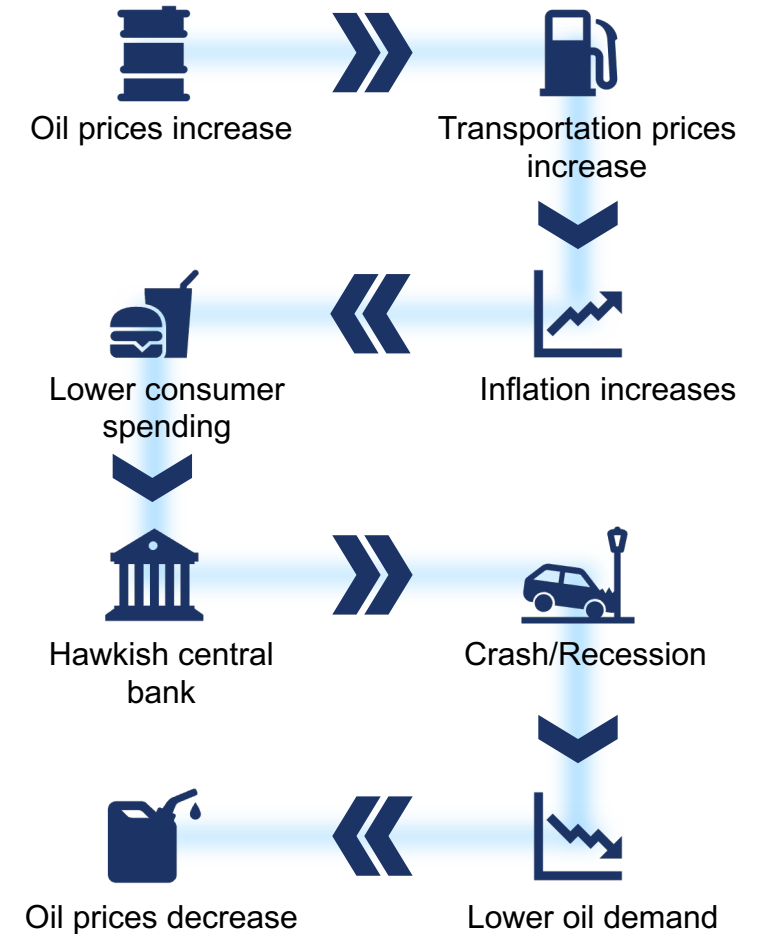
# Oil Price in Recession Times

How oil price and recessions correlate

WTI price and US GDP (indexed)

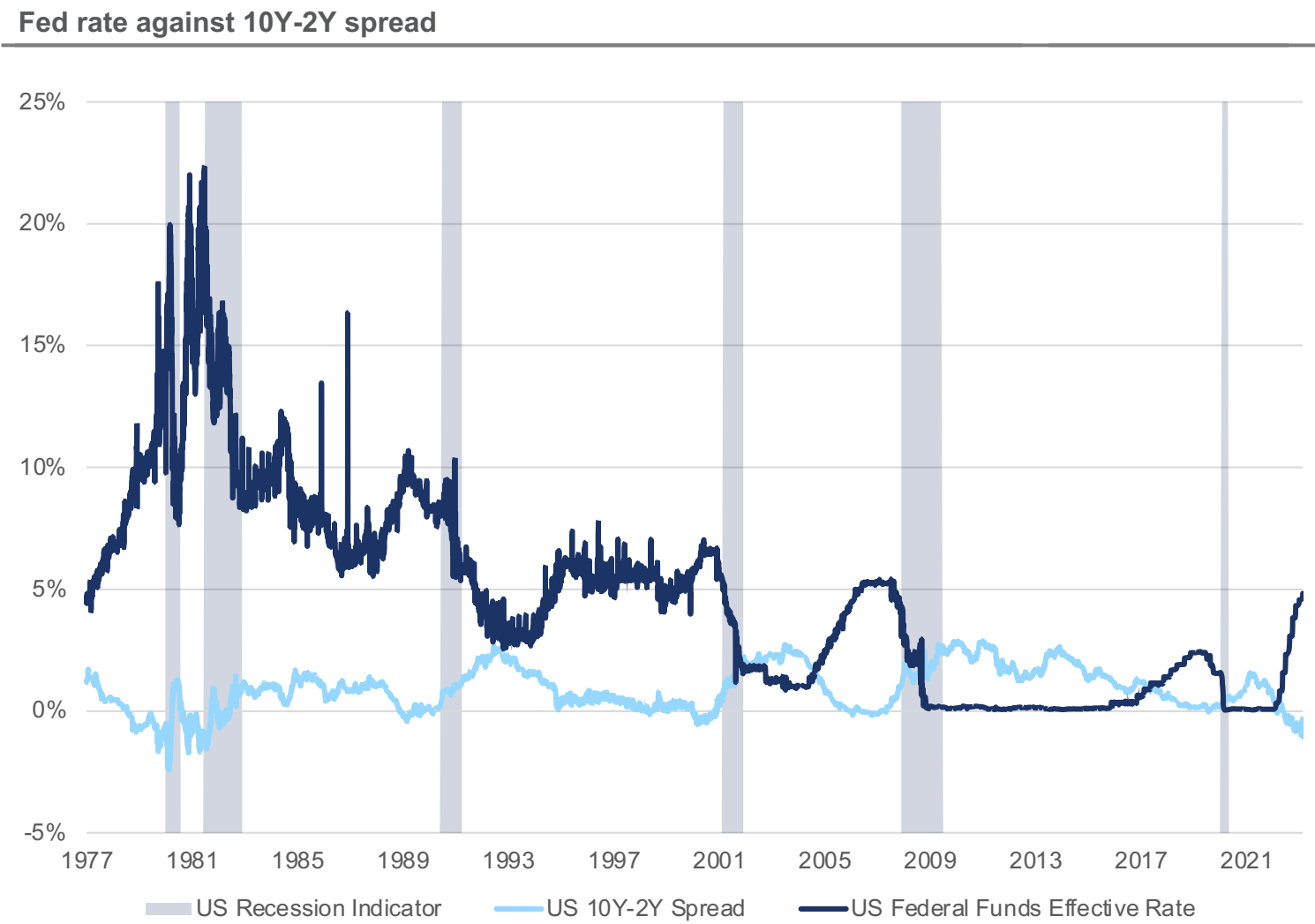


The reasoning behind the correlation



# Yield Inversion

The best indicator for a recession we have



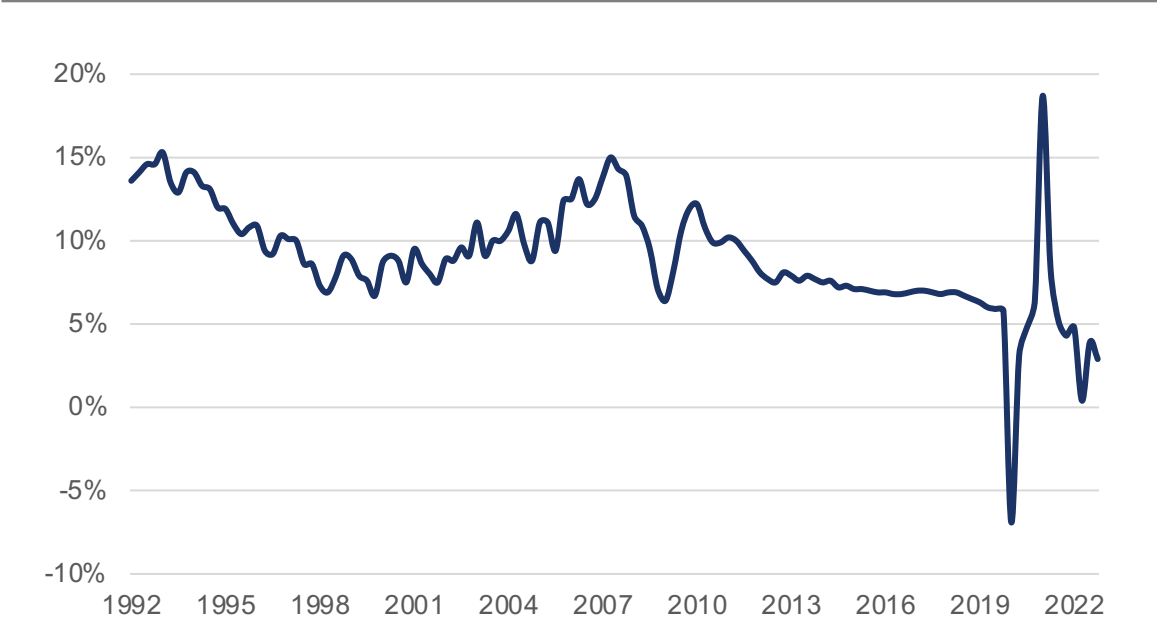
Yield curve inversions and recessions<sup>1</sup>

Yield curve inversion date	Curve inversion to S&P 500 peak before recession	S&P 500 peak to start of recession	Curve inversion to recession
Aug '78	18	0	18
Sep '80	3	8	11
Dec '88	19	1	20
May '98	22	12	34
Dec '05	22	3	25
Median	19	3	20
Average	17	5	22

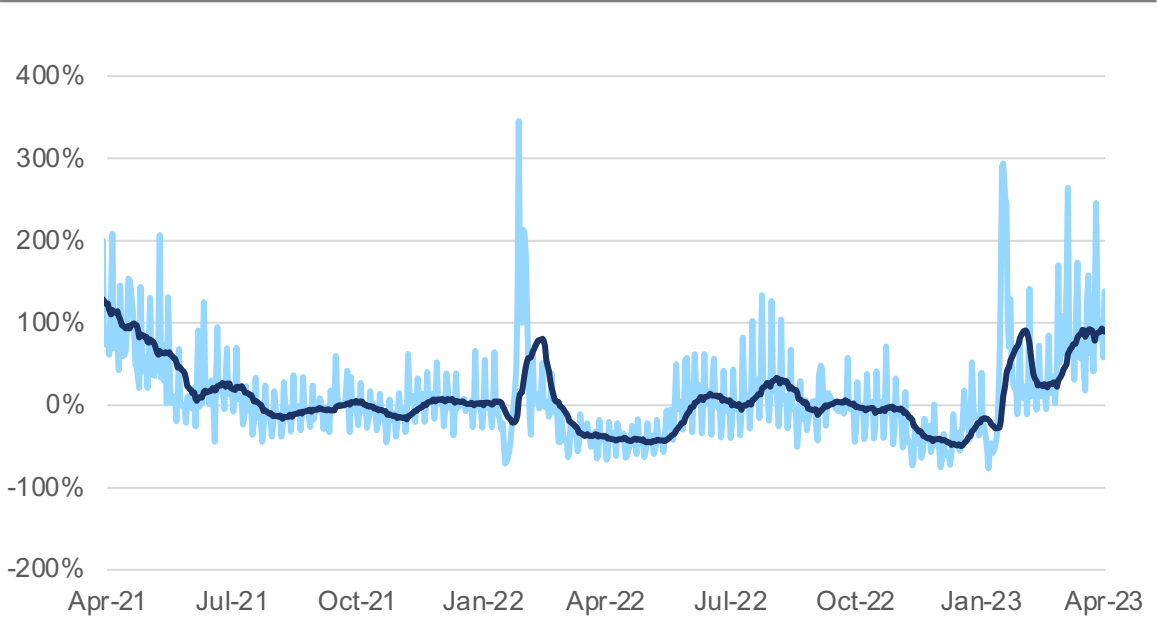
<sup>1</sup>in months

Oil prices could rebound following increased demand

Real GDP growth (YoY)



Average metro passengers (YoY)



## Growing business and economic activity



Expected GDP growth of 5.3%



Business hiring is at the highest point since 2015

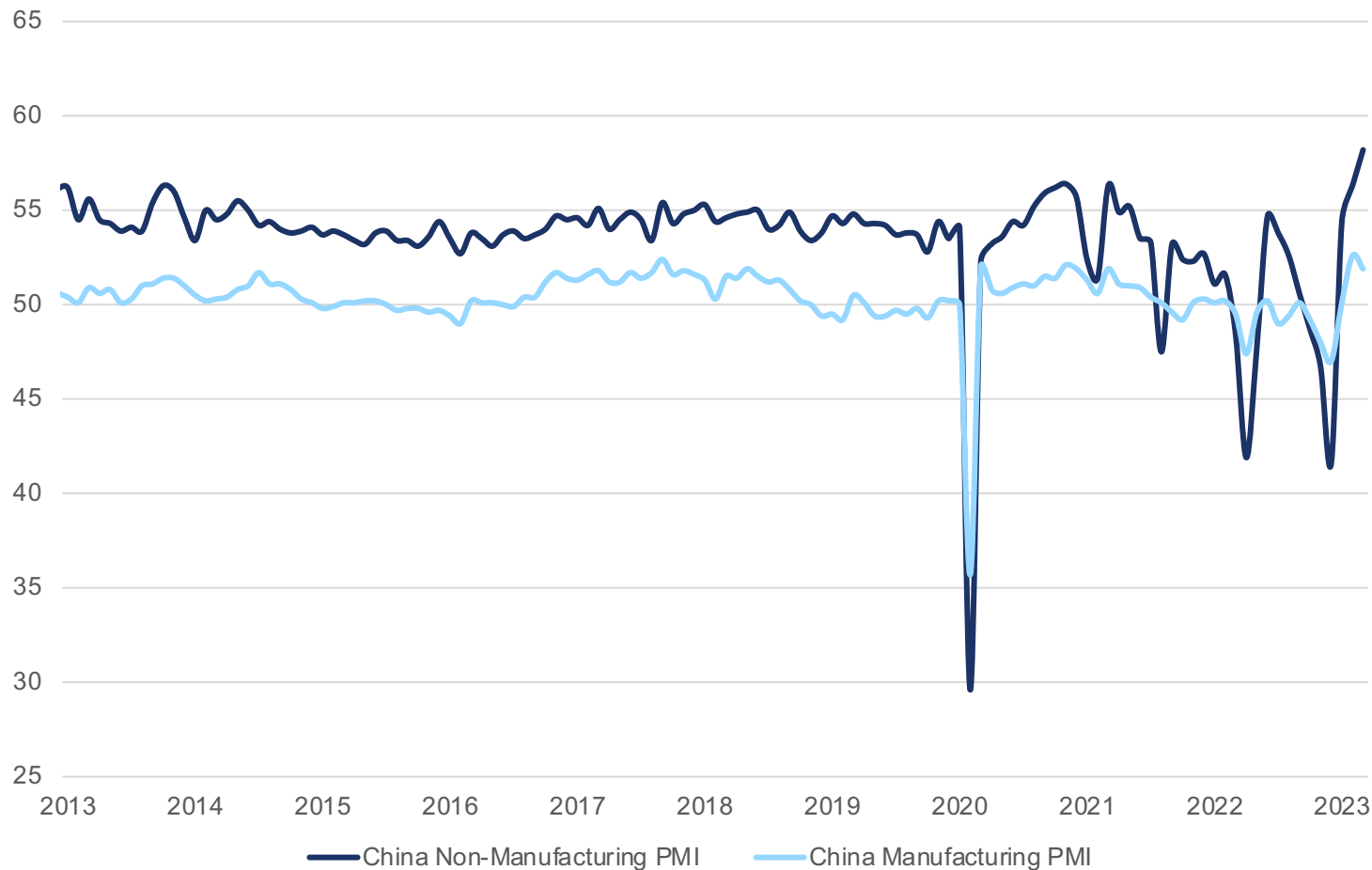


Metro usage doubled in March

# Chinese Demand

There is a huge divergence between different sectors

## Chinese PMI comparison



## Yield curve inversions and recessions



Service sector experienced a more severe decline



China's economic growth will be service driven



Since services are less tradeable, effect on the world will be small

## Impact of leisure activities

### Impact of excess savings

#### Excess Savings



\$827 billion accumulated over the last 3 years



#### Leisure and Travel



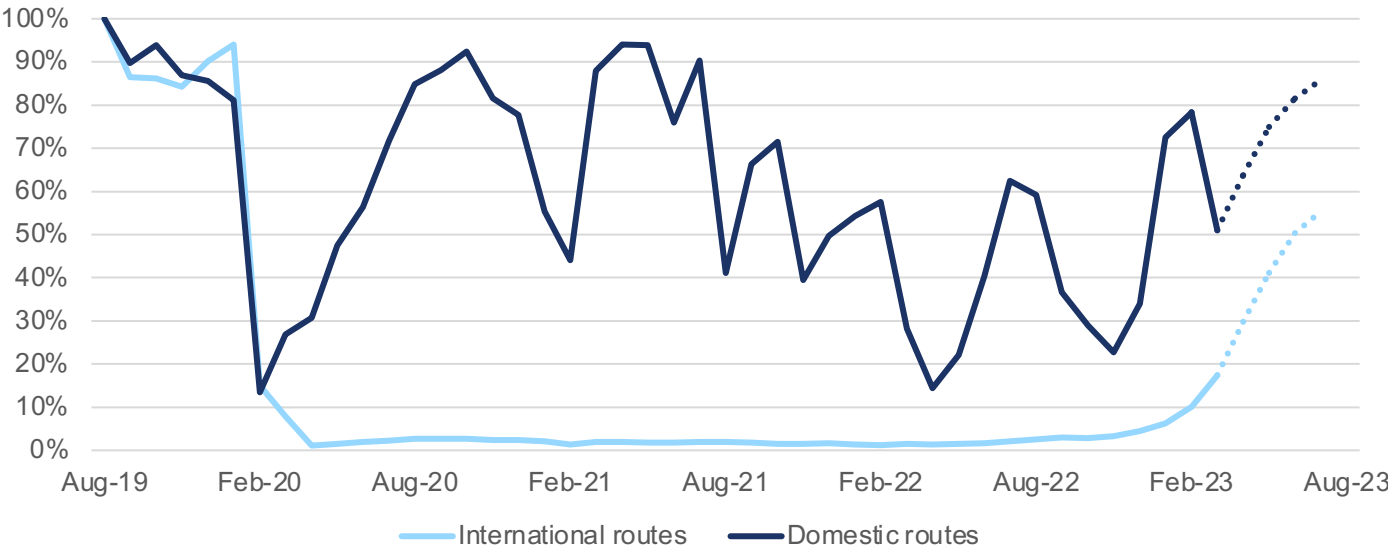
Border crossings to reach 65% of 2019 levels



Growing Chinese cruise line demand in 2023



### Number of airlines passengers (% of 2019)



#### Oil Dependency



Ships and planes are fully oil-dependent



#### Oil Price

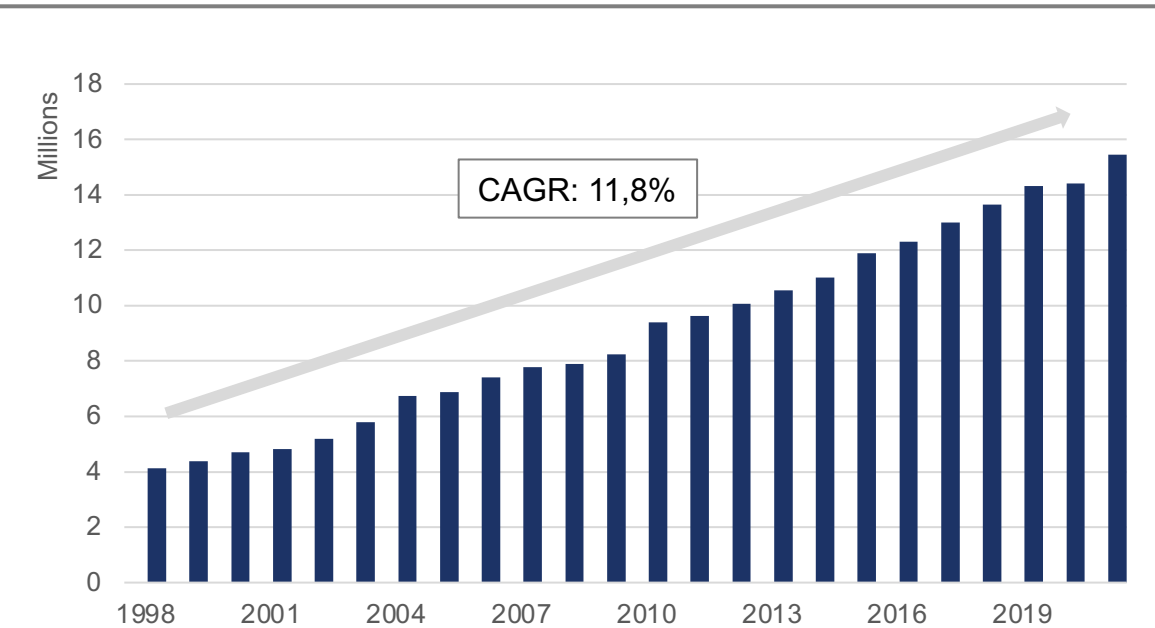


Increase in oil demand

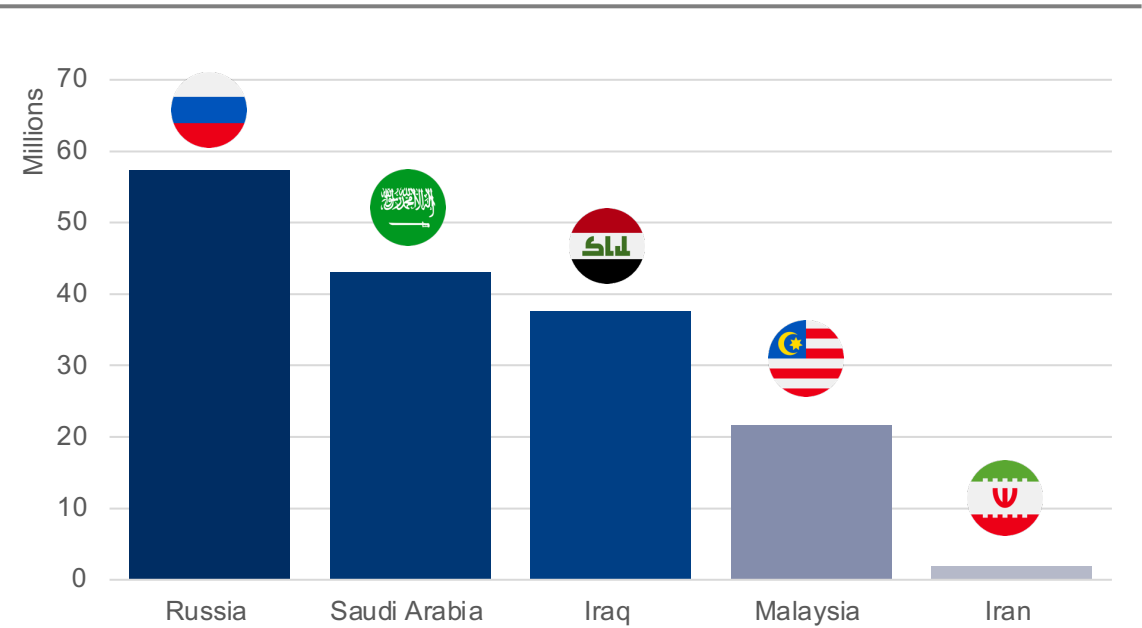
# Chinese Imports

China is the world's second largest oil consumer

Chinese oil consumption




Crude oil imports by country in bbl (February 2023)





OPEC forecasts Chinese oil demand to be at 15.61 mb/d



In 2022, China became the largest oil refining market



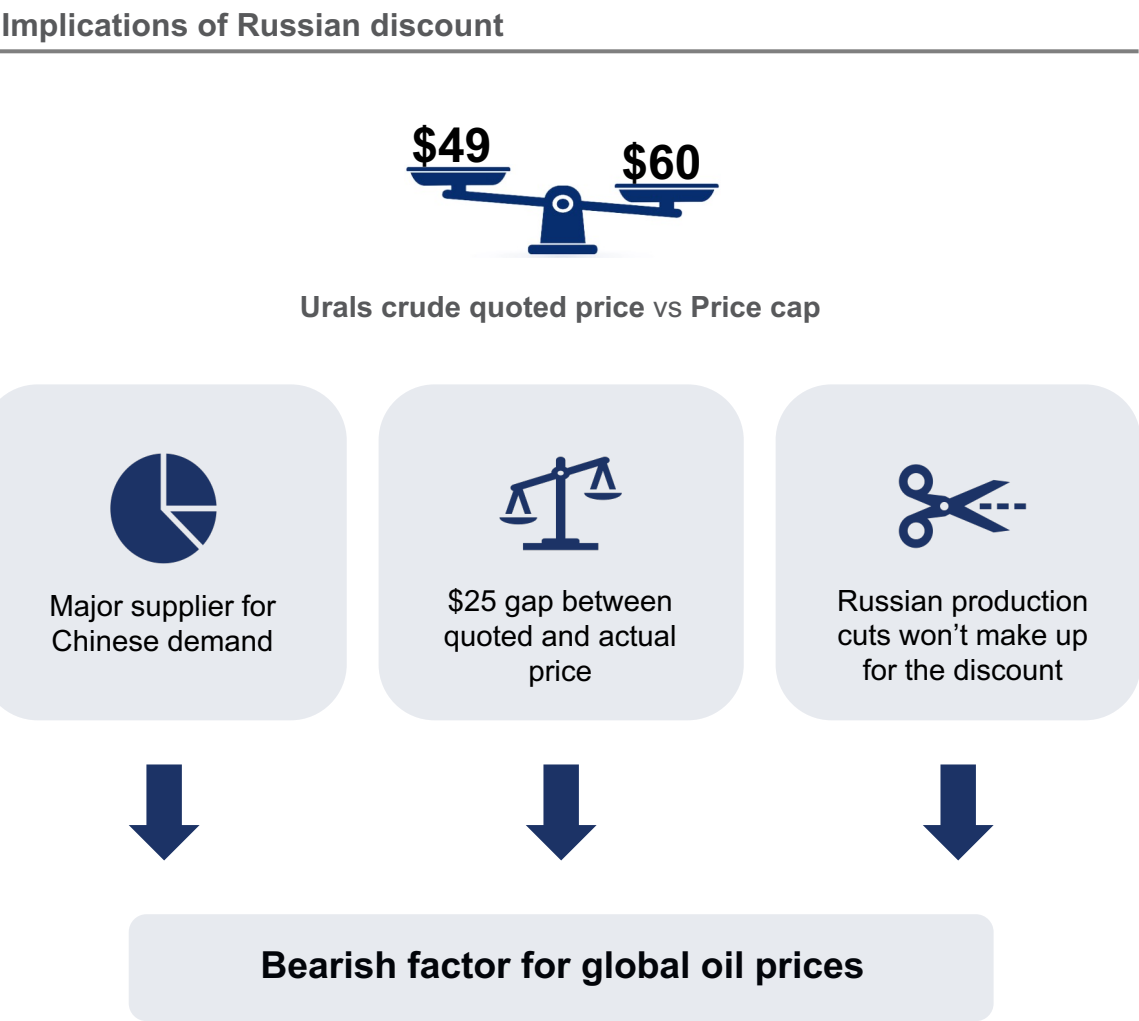
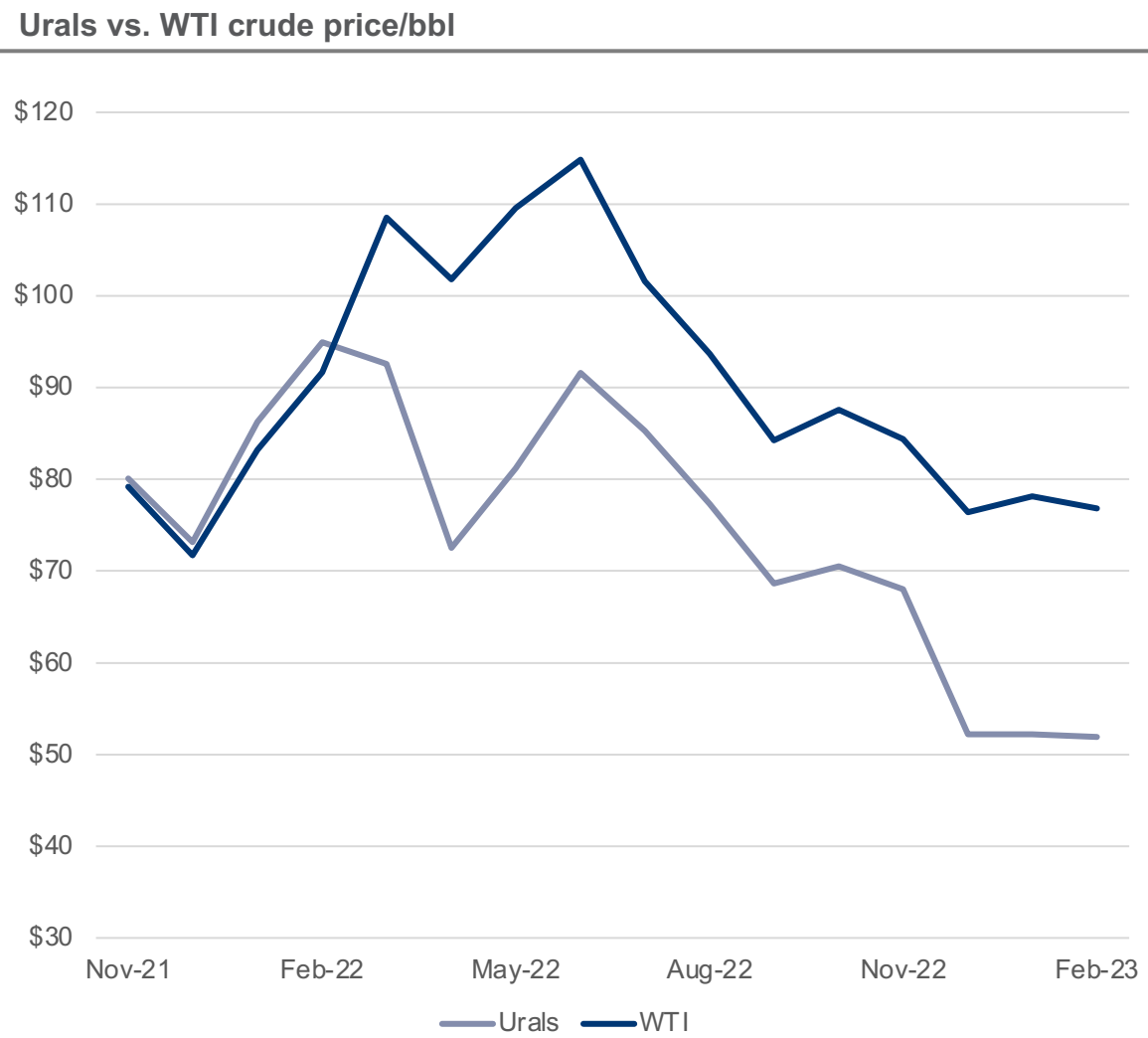
The Chinese plastic industry is the largest in the world



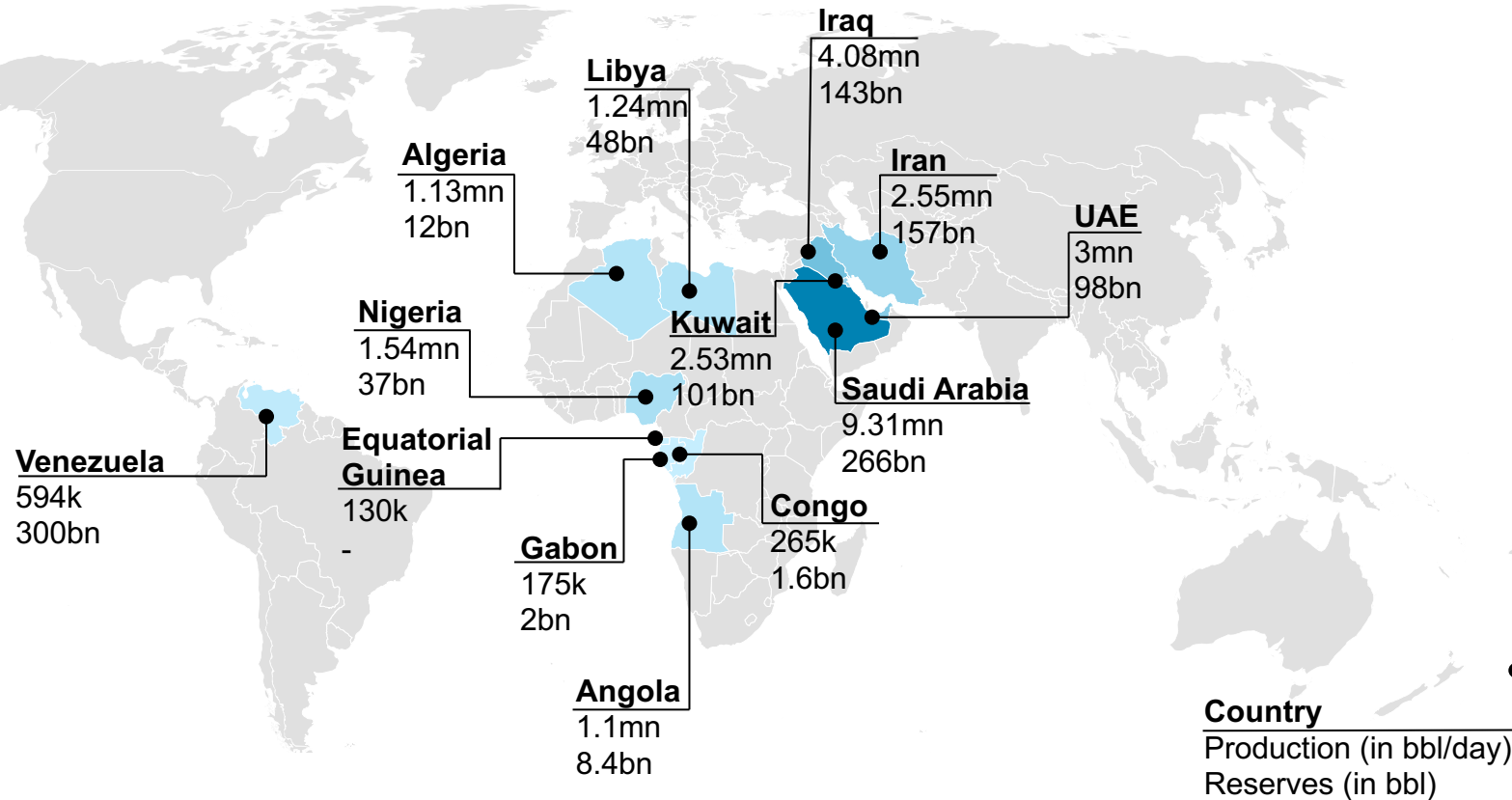
**Global Supply**

# Russian Discount

How does Russia influence the oil price?



### Members and mission



Coordinate petroleum policies



Ensure efficient supply



Establish fair return

### Facts



- GDP \$833.5B USD
- Oil exports \$213B USD
- 5.5% YoY GDP growth Q4 2022
- Interest Rate 5.5%
- Inflation Rate 3%

### Global Importance



Young and dynamic leader



Healthy demographics



Largest oil producer



Largest member of GCC

### Head of Delegation



'[We will] make sure whoever gambles on this markets will be ouching like hell'

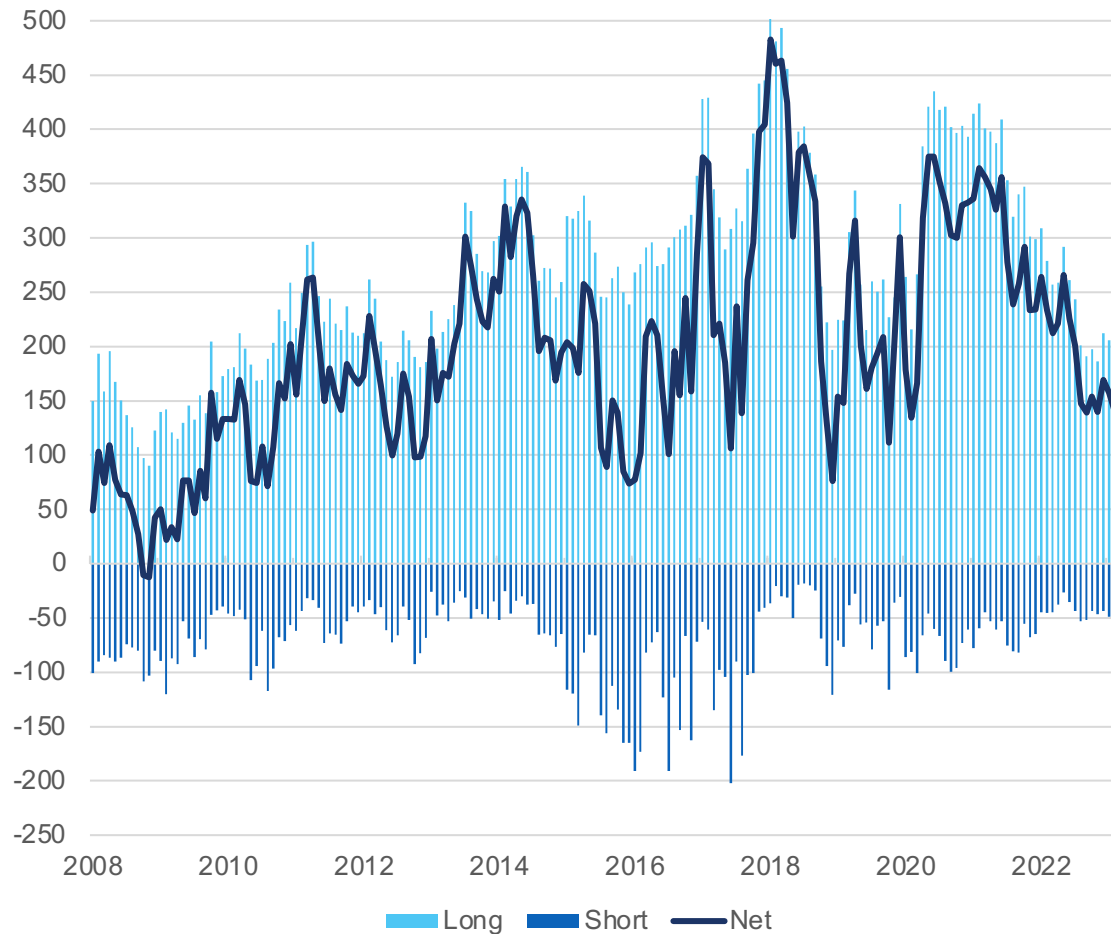
- Prince Abdulaziz bin Salman Al-Saud
- Minister of Energy
- Declined calls with President Biden

# The Oil Futures Market

Heavy selloffs in March

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## Lowest net long position since August 22



## Banking turmoil beginning of March



233 MMbbl sold  
in two weeks



Futures net long decline

## Rebound 2<sup>nd</sup> half of the Month



Banking fear  
subsided

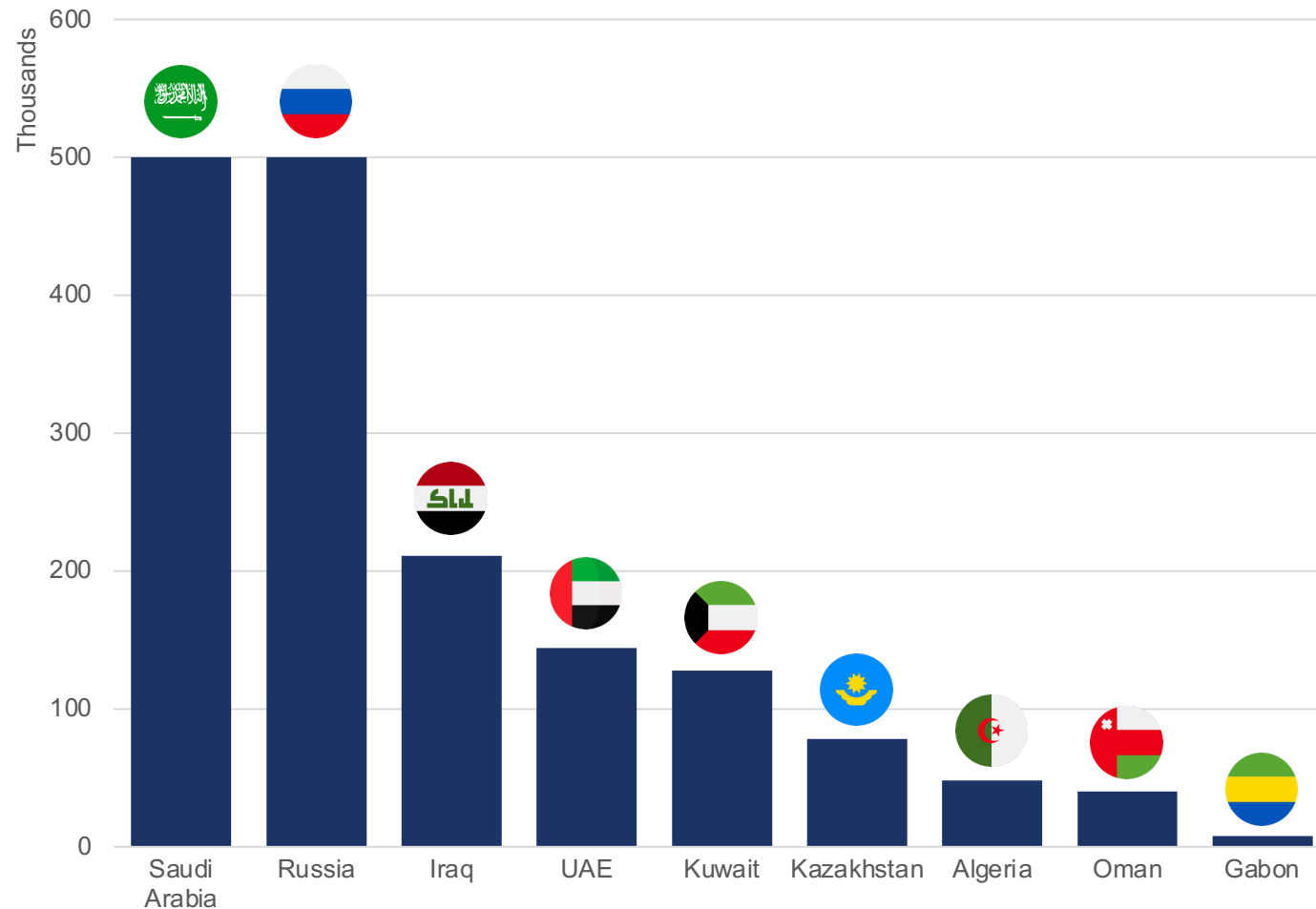


Temporary halt of  
Cayman Terminal

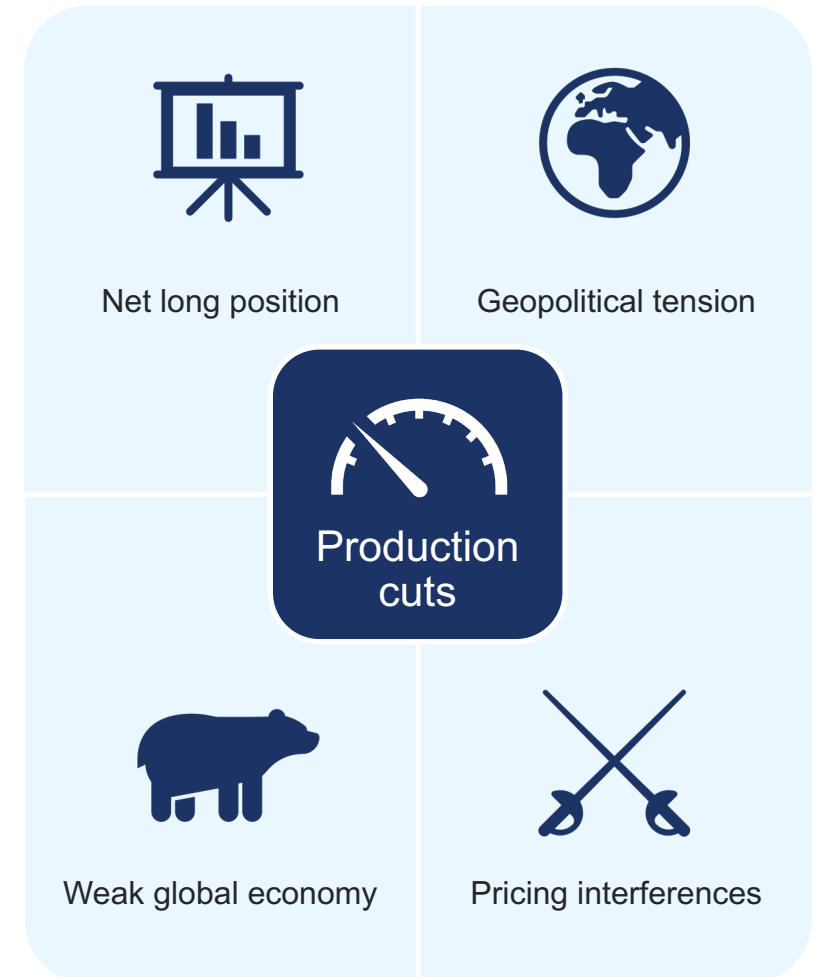
# Voluntary Output Adjustments

OPEC and Non-OPEC (DoC)

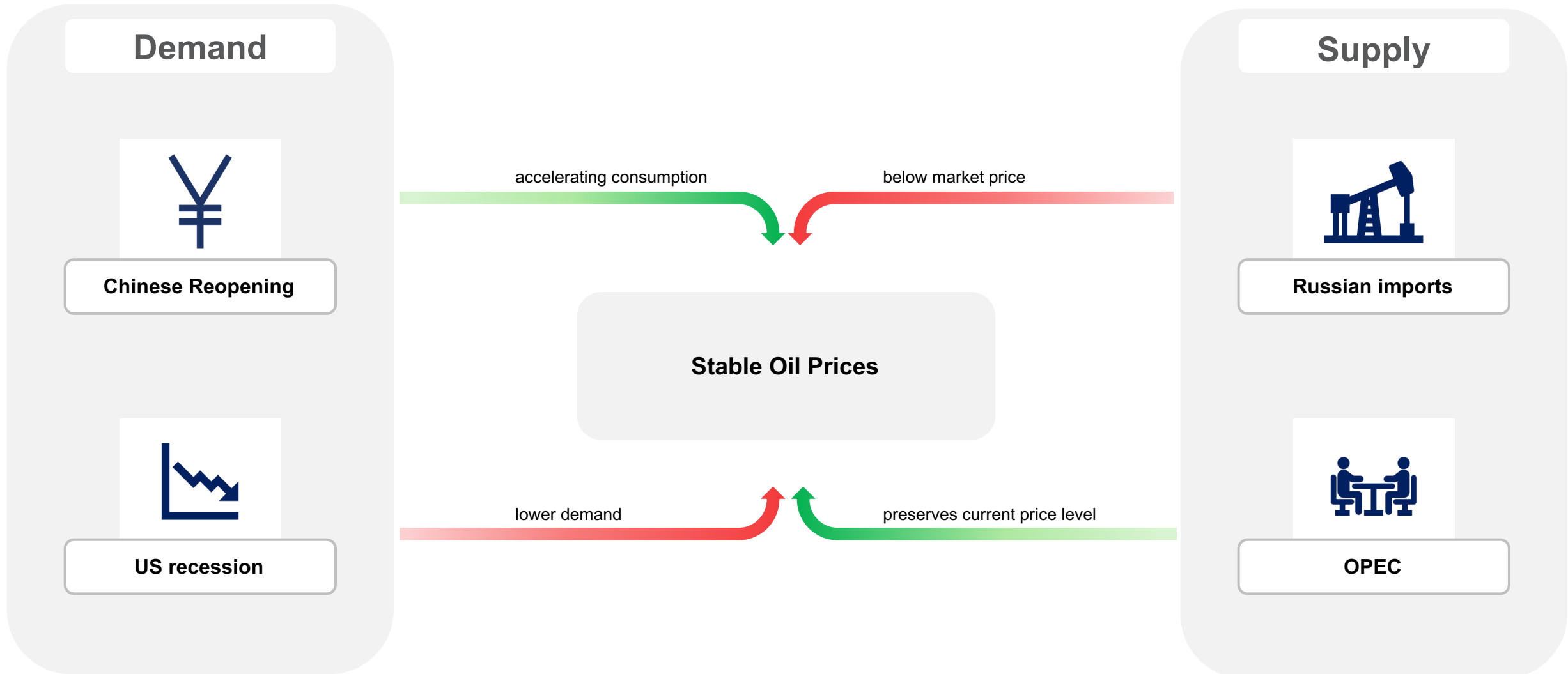
Production and output cuts (in bbl/day)



Reasons for the output adjustment



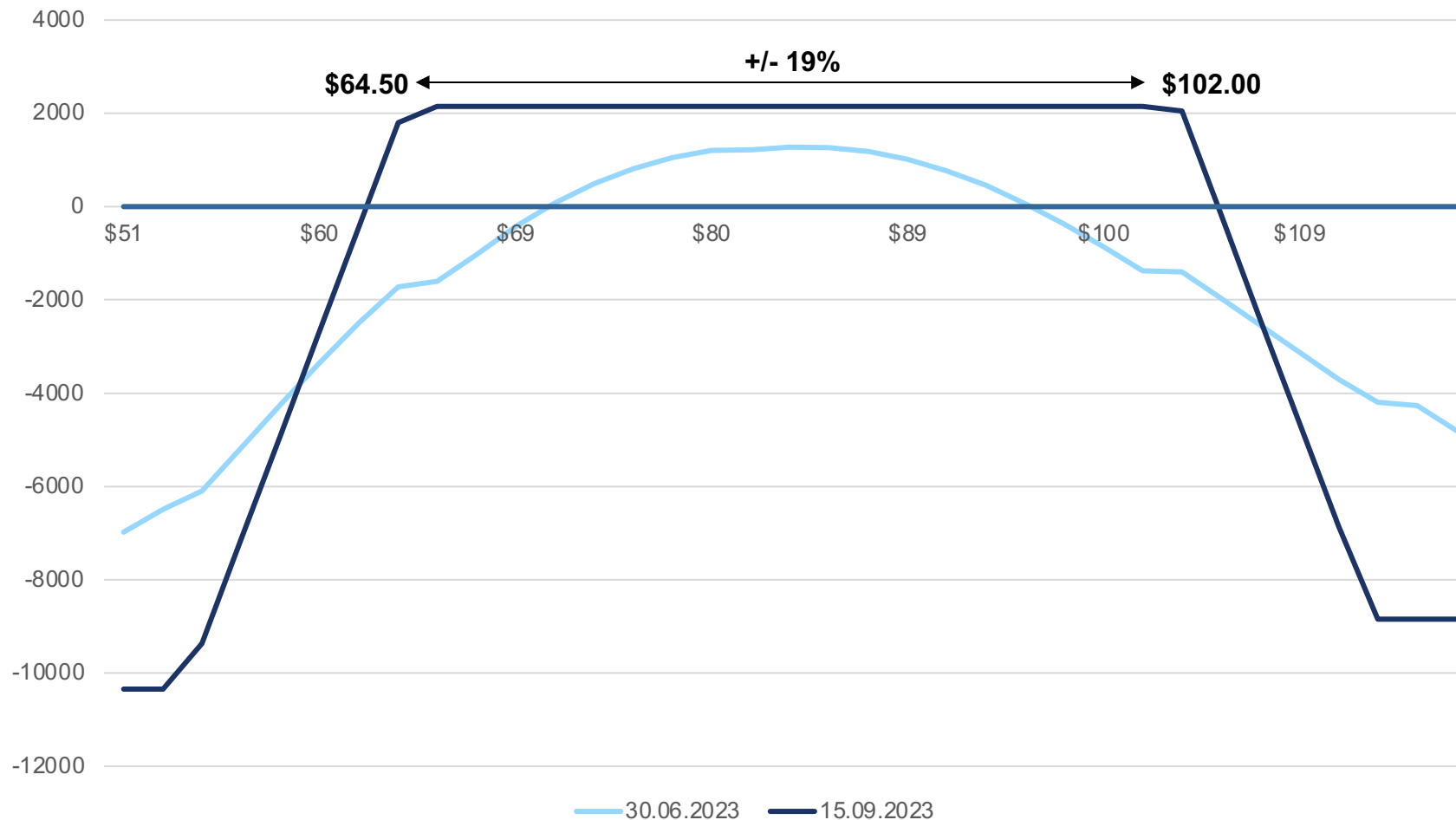
# Conclusion



# Trade Structure

## Iron Condor on WTI Oct23 futures

### Iron Condor on WTI Oct23 Futures



### Trade description

#### Iron Condor

- Neutral strategy profiting from the underlying asset trading in a predetermined range
- Selling put and call spread at different strike prices

#### Execution

**Buying** CLV23230915C00113000

**Buying** CLV23230915P00052000

**Selling** CLV23230915C00102000

**Selling** CLV23230915P00064500

#### Payoff

Max. profit at expiration if futures trade between \$64.50 – \$102.00

(+/- 19%)

# Appendix

## Sources

Source Name	Link	Date of Retrieval	Used for
Bloomberg L.P.		15.04.2023	Trade structure
Bloomberg L.P.		15.04.2023	China Real GDP growth
Bloomberg L.P.		15.04.2023	China Manufacturing and Non-manufacturing PMI
Bloomberg L.P.		17.04.2023	Amount of passengers in Chinese metro
Bloomberg L.P.		17.04.2023	Number of airlines passengers
Bloomberg	<a href="https://www.bloomberg.com/opinion/articles/2023-01-11/chinese-consumers-where-will-they-splash-their-extra-827-billion#xj4y7vzkg">https://www.bloomberg.com/opinion/articles/2023-01-11/chinese-consumers-where-will-they-splash-their-extra-827-billion#xj4y7vzkg</a>	13.04.2023	Chinese Excess Savings
Centre for Research on Energy and Clean Air (CREA)	<a href="https://energyandcleanair.org/">https://energyandcleanair.org/</a>	19.04.2023	Consumption and Export Statistics
China Outbound Tourism Research Institute	<a href="https://china-outbound.com">https://china-outbound.com</a>	13.04.2023	Predictions for border crossings in 2023
EIA U.S Energy Information Administration	<a href="https://www.eia.gov/finance/markets/crudeoil/">https://www.eia.gov/finance/markets/crudeoil/</a>	15.04.2023	Energy and Financial Markets
European Central Bank	<a href="https://www.ecb.europa.eu/">https://www.ecb.europa.eu/</a>	19.04.2023	Sanctions and Implications

## Sources

Source Name	Link	Date of Retrieval	Used for
IMF	<a href="https://www.imf.org/en/News/Articles/2022/08/09/CF-Saudi-Arabia-to-grow-at-fastest-pace">https://www.imf.org/en/News/Articles/2022/08/09/CF-Saudi-Arabia-to-grow-at-fastest-pace</a>	19.04.23	Saudi Arabia
J.P. Morgan Asset Management	<a href="https://am.jpmorgan.com/lu/en/asset-management/adv/insights/market-insights/guide-to-the-markets/">https://am.jpmorgan.com/lu/en/asset-management/adv/insights/market-insights/guide-to-the-markets/</a>	15.04.2023	Oil market and recession correlation and yield inversion
Oilprice.com	<a href="https://oilprice.com/Energy/Energy-General/How-OPEC-Punished-The-Short-Sellers.html">https://oilprice.com/Energy/Energy-General/How-OPEC-Punished-The-Short-Sellers.html</a>	19.04.23	Saudi Arabia statements
OPEC Monthly Oil Market Report	<a href="https://www.opec.org/opec_web/en/publications/338.htm">https://www.opec.org/opec_web/en/publications/338.htm</a>	15.04.2023	Production data, Market outlook, Oil futures market structure
S&P Global	<a href="https://www.pmi.spglobal.com/Public/Home/PressRelease/5c4f277e413c4abd928624bbb8c26892">https://www.pmi.spglobal.com/Public/Home/PressRelease/5c4f277e413c4abd928624bbb8c26892</a>	13.04.2023	Readinnes for hiring among Chinese businesses
The Wall Street Journal	<a href="https://www.wsj.com/articles/saudi-arabias-oil-production-cuts-reflect-cost-of-reshaping-economy-7fb6e09c">https://www.wsj.com/articles/saudi-arabias-oil-production-cuts-reflect-cost-of-reshaping-economy-7fb6e09c</a>	19.04.23	Info on HRH Prince Abdulaziz bin Salman Al-Saud

# Option Chain CLV23

Calls							Puts						
Strike	Ticker	Bid	Ask	Last	IVM	Volm	Strike	Ticker	Bid	Ask	Last	IVM	Volm
Oct-23 (153d 9/15/23); CSize 1000; CLV3 80.04													
102	CLV3C	0,97	0,99	1,12	33,06	10	52	CLV3P	0,73	0,75	0,67	46,97	7
113	CLV3C	0,4	0,43	0,47	34,2	73	64,50	CLV3P	2,4	2,43	2,21	41,24	21

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