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Asset Class Pitch: Brent Crude Oil

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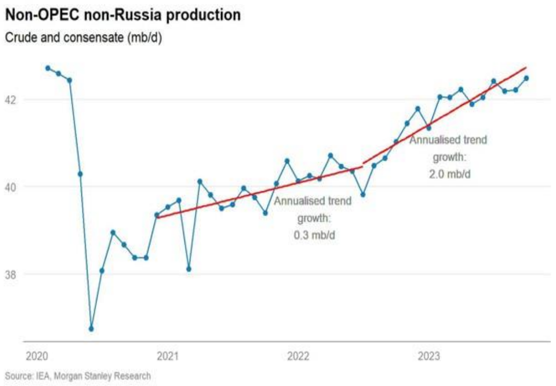
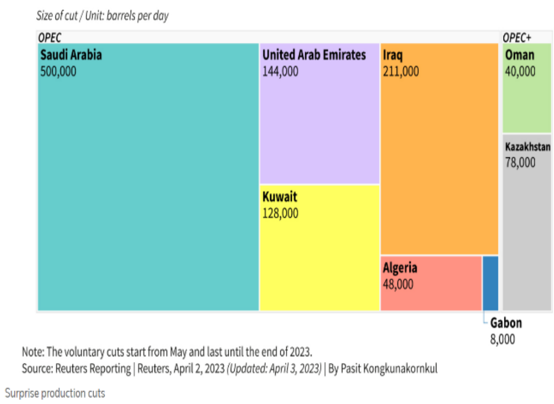
Chart Info

Figure 1: Non-OPEC, non-Russia production has accelerated sharply since summer 2022



Source:Morgan Stanley Research Forecasts

Figure 2: OPEC&OPEC+ Voluntary Cut



Source: Reuters Reporting

Brent Crude Oil Market Overview

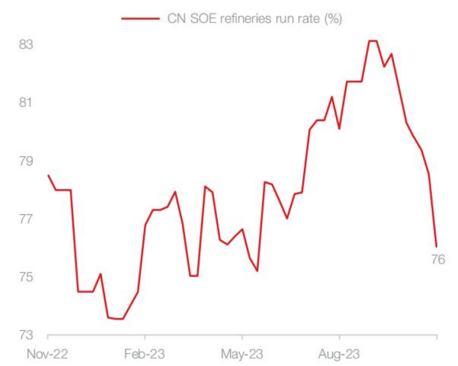
- Global oil market in 2024 shows a surplus in supply, driven by stronger-than-expected non-Organization of the Petroleum Exporting Countries (non-OPEC+) and its allies production, despite OPEC+ commitments to output cuts.
- Leading to uncertainties in the global oil market. China, responsible for 80% of global oil import growth, faces a slowdown in demand due to economic concerns.
- The U.S. economy anticipates a slowdown in 2024, influenced by high-interest rates, impacting consumer spending and economic growth.
- Europe is anticipated to undergo sluggish growth in 2024, adopting a cautious "wait-and-see" approach. The trajectory of the U.S. dollar will play a pivotal role in influencing international oil prices during this period.
- Geopolitical factors such as the Israel-Hamas conflict, Russia-Ukraine war, and U.S.-China rivalry add volatility to oil markets.
- The global energy landscape is undergoing a transformation, as renewable energy challenges traditional fossil fuels, leading to a negative impact on oil demand.
- OPEC's strategic choice to maintain oil prices around $80 per barrel unintentionally supports the green revolution but poses challenges for oil sustainability.
- Oil prices are expected to fluctuate, ranging from $63-$65 in bearish scenarios to $100 in bullish scenarios, with a mid-range around mid-$80 per barrel.

Investment Thesis

The global oil market in 2024 presents a nuanced landscape characterized by a surplus in supply, driven notably by stronger-than-expected non-OPEC+ production and concerns about OPEC+ commitments to output cuts. Despite these challenges, there are distinct opportunities for long-term investment in Brent Crude Oil. The robust growth in non-OPEC production, especially outside Russia, has outpaced initial post-Covid projections. Although there is an anticipated deceleration in non-OPEC supply growth in 2024, it remains a dominant force, leaving limited room for OPEC to boost output. The strategic output cuts by major oil-producing nations, including Saudi Arabia and Russia, contribute to a delicate balance, resulting in a projected slight surplus in the global oil market.

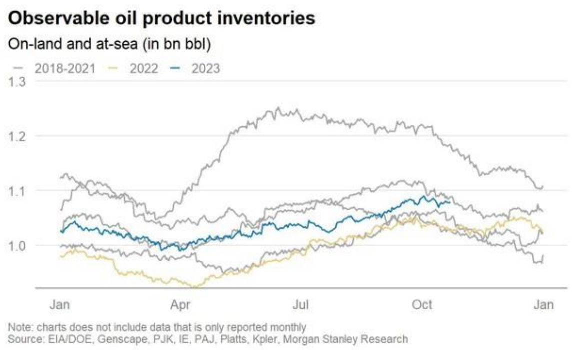
Besides that, China, a key player responsible for 80% of global oil import growth, is expected to face a demand slowdown due to economic concerns and high-interest rates. The U.S. and Europe also anticipate economic challenges, potentially impacting oil demand. Moreover, geopolitical factors, including conflicts in the Middle East and the ongoing U.S.-China rivalry, introduce uncertainties that could affect the global oil market.

Figure 3: China SOE refineries run rate has declined sharply since September



Source: Bloomberg

Figure 4: Inventories of refined oil products should be drawing by now but they are not, suggesting soft demand



Source: EIA/DOE

Figure 5:

What's Changed - Economics

	OLD FORECASTS		NEW FORECASTS		Δ from Last Forecast	
	2023e	2024e	2023e	2024e	2023e	2024e
Real GDP (%YoY)						
Global	2.9	2.8	**3.0**	**2.8**	0.1	0.0
G10	0.9	0.9	**1.5**	**1.2**	0.6	0.3
US	1.2	0.8	**2.4**	**1.9**	1.2	1.1
Euro Area	0.7	1.0	**0.4**	**0.5**	-0.3	-0.5
Japan	1.1	1.1	**2.0**	**1.0**	0.9	-0.1
UK	0.2	0.5	**0.5**	**-0.1**	0.3	-0.6
EM	4.4	4.2	**4.2**	**4.0**	-0.2	-0.2
China	5.7	4.9	**5.1**	**4.2**	-0.6	-0.7
India	6.5	6.4	**6.6**	**6.4**	0.1	0.0
Brazil	2.0	1.8	**3.1**	**1.7**	1.1	-0.1
CPI (%Y)						
Global*	3.8	2.7	**3.8**	**2.6**	0.0	-0.1
G10	4.6	2.3	**4.8**	**2.5**	0.2	0.2
US	3.8	2.2	**4.1**	**2.1**	0.3	-0.1
Euro Area	5.4	2.3	**5.6**	**2.4**	0.2	0.1
Japan	3.2	2.1	**3.3**	**3.2**	0.1	1.1
UK	7.1	2.1	**7.4**	**2.8**	0.3	0.7
EM*	3.2	3.0	**3.1**	**2.7**	-0.1	-0.3
China	0.9	1.6	**0.3**	**1.1**	-0.6	-0.5
India	5.5	4.9	**5.6**	**5.1**	0.1	0.2
Brazil	5.0	4.5	**4.6**	**4.3**	-0.4	-0.2

Source: IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPP weights excluding Ukraine; CPI numbers are period average; Global* and EM* consumer price inflation aggregates exclude Argentina, Turkey, Egypt and Ukraine; Old forecasts refer to forecasts published as of June 4, 2023.

Source: Morgan Stanley Research

Figure 6: US and China to become drivers of slowing global growth

The transformative impact of the green revolution and a broader energy transition pose challenges to traditional fossil fuels, affecting oil demand. Geopolitical events such as the Israel-Hamas conflict, Russia-Ukraine war, and U.S.-China tensions add an element of unpredictability, influencing oil prices.

In navigating this investment landscape, adopting a long-term approach proves prudent, capitalizing on key technical indicators and prevailing market dynamics. The current market value at $78.82 aligns strategically with the Fibonacci 0.5, commonly known as the golden zone, and holds significance concerning support-resistance levels. In a downside scenario, oil prices could fluctuate within the $85-$90 range, with an unlikely dip to a robust support level at $65. However, it's more probable that prices will maintain stability within the $85-$90 range, presenting a favorable investment outlook.

Anticipating the Potential Movement of Oil Prices in 2024

1. **World Oil Supply Projected to Surpass Demand in 2024, Even with OPEC+ Extending Current Cuts**

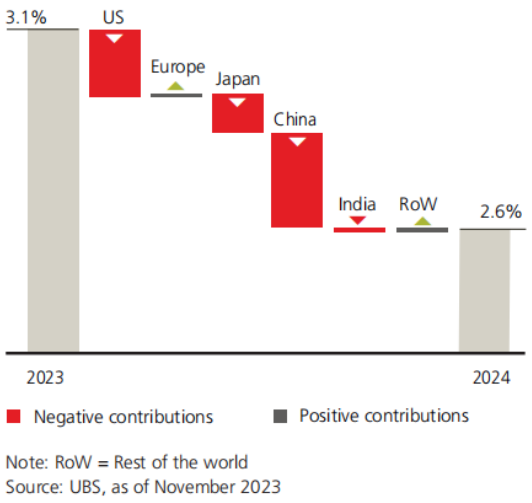
Much has changed in the oil market over the last year. Most notably, non-OPEC+ production has been stronger than expected. Coming out of Covid, oil production outside OPEC+ and Russia initially grew at an annualized trend rate of ~0.3 mb/d (Figure 1). However, after the oil price surge in 1H22, oil production outside OPEC+ and Russia accelerated sharply. Since the summer of 2022, non-OPEC, non-Russia production has grown at a trend rate of ~ 2 mb/d year on year. At such growth rates, non-OPEC production is meeting the vast majority of global oil demand growth, leaving little room for OPEC to boost output.

Looking forward into 2024, non-OPEC supply growth is expected to decelerated to ~1.4 mb/d from 2.1 mb/d in 2023. This already assumes a very significant slowdown in US supply growth (from 0.9 mb/d in 2023 to 0.4 mb/d in 2024), but with some growth from Canada, Brazil, Guyana, global biofuels, and NGLs, non-OPEC supply can still reach that surplus level.

Besides that, Saudi Arabia, Russia and other members of OPEC+ have already pledged total oil output cuts of 5.16 mb/d in a series of steps that started in late 2022. At its last policy meeting in June 2023, OPEC+ has agreed on a broad deal to limit supply into 2024 and Saudi Arabia pledged a voluntary production cut for July of 1 mb/d that it has since extended to last until the end of 2023(Figure 2). Although the OPEC+ nations extend their cuts into next year, global oil market will see a slight surplus of supply in 2024.

2. **World oil demand slow down**

China is expected , accounting for 80% of the global rise in oil imports, maintains a pivotal role in the oil market in 2024. Despite historically driving nearly half of the world's oil demand growth in the past two decades, its demand is anticipated to decline in 2024 due to concerns about persistent high-interest rates and a fragile

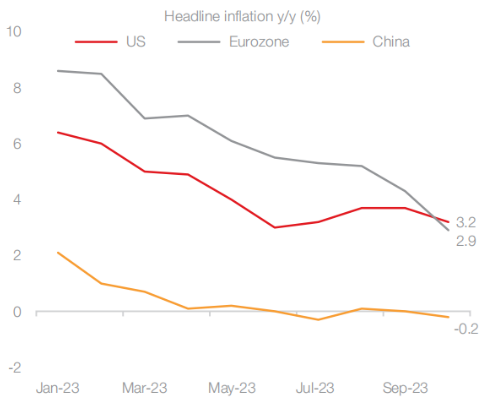


Source: UBS

Figure 6: PMI remains subdued

Source: Bloomberg

Figure 6: Moderating inflation



Source: Bloomberg

economic recovery. The risk of China entering a structural debt-deflation loop poses a threat to earnings and growth, with potential cascading effects on the broader Asian economy. Similarly, China's refiners run rate have also turned negative in late October 2023 for the first time since early January, and this is reflected in the lowering run rates by state-owned refineries, which has fallen to approximately 76% in November 2023(Figure 3). Additionally, there is usually a decline in the consumption of gasoline and diesel as the year 2024 comes to a close, contributing to a further reduction in the demand for oil.

Moreover, the sharp rise in interest rates is slowing global economic growth, and thus oil demand, and the very high prices of oil, particularly diesel, in many emerging markets when measured in local currency terms are also headwinds. Additionally, the impact of electric vehicles remains limited but is likely to reduce demand growth by 0.2-0.3 mb/d in the future. Currently, OPEC+ maintains its forecast for world oil demand growth in 2023 at 2.46 mb/d. Looking ahead to 2024, OPEC+ projects demand growth at 2.25 mb/d.

3. Strategic Insights for Optimizing in the Dynamic Landscape of 2024: A Macroscopic Outlook

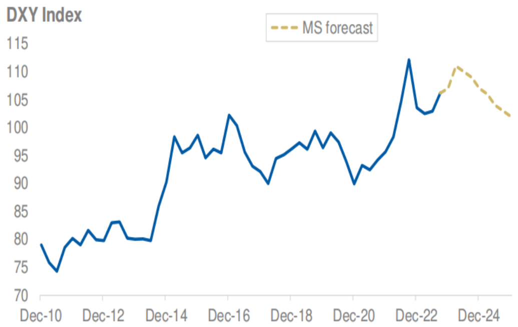
Anticipating a deceleration in growth, declining inflation, and a potential policy easing in 2024, current market valuations are contingent on a favorable macroeconomic scenario. This scenario encompasses various factors such as tight financial conditions, Gross Domestic Product (GDP) performance, inflation rates, unemployment rates, and interest rate levels, all of which contribute to shaping the overall economic landscape. While rate cuts are not anticipated until later in the year, global growth faces exposure to a range of risks, including geopolitical tensions, trade disputes, economic downturns in major economies, and supply chain disruptions. These challenges, combined with an ongoing earnings recession and concerns about bond supply, have heightened apprehensions. From my perspective, the outlook for interest rates in 2024 suggests an expectation of stability followed by a gradual decline. This reflects an anticipation of a slowdown in inflation and an intention to manage the deceleration of economic growth. However, if the Fed perceives an impending economic crisis, it may adopt a more aggressive monetary policy, leading to more substantial rate cuts. Despite the robust labor market data, economists predominantly consider inflation as the key factor guiding the Fed's decisions. Emerging market fundamentals face challenges, and cross-asset correlations remain at extreme levels. (Figure 5)

The economic outlook of major oil-importing nations, including the United States, China, and the Europe, plays a pivotal role in influencing the trajectory of the oil market. Changes in the economic conditions of these significant importers have a direct impact on the overall trends and dynamics within the oil sector:

1. US

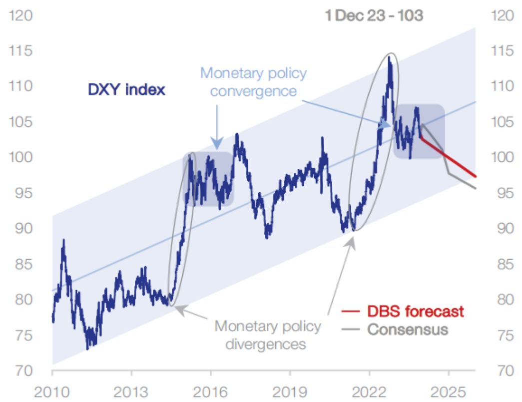
In 2023, the US economy displayed unexpected resilience, benefiting from excess consumer savings. However, projections for 2024 suggest an impending slowdown as high interest rates are poised to reduce spending, particularly on items often financed through borrowing

Figure 6: Expect the dollar to continue its trend before falling from a peak from 2Q onwards



Source: Bloomberg,MorganStanley forecast research

Figure 7: USD Index has been consolidating on monetary policy converges in the G10



	Year	1Q	2Q	3Q	4Q
DBS	2024	101.9	101.2	100.5	99.9
forecast	2025	99.2	98.6	97.9	97.3

Source: Bloomberg DBS

Source: Bloomberg，DBS

such as houses and cars. Households are grappling with the cessation of childcare subsidies, Medicaid reductions, and the resumption of student loan payments, contributing to an anticipated rise in savings rates amid declining confidence. Despite expectations for a slowdown, the outlook doesn't foresee a significant contraction in the economy. Unusual in historical terms, optimism prevails for several reasons. Job security within the middle-income demographic is expected to remain high, and robust investment spending in artificial intelligence, semiconductors, infrastructure, and green energy is anticipated. Additionally, strong household and business balance sheets are seen as providing resilience against negative shocks.

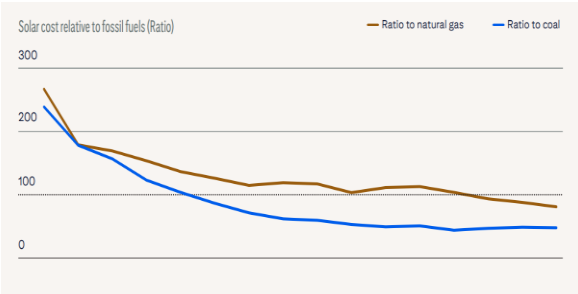
Markets have oscillated in their assessment of US economic conditions, vacillating between perceptions of cooling or overheating, anticipating falling or sticky inflation, and debating the need for tighter or looser policy. The prevailing consensus revolves around the concept of a 'soft landing,' consistent with global growth projections slightly below the trend but still positive at 2.8% Year-over-Year (YOY). Anticipations entail a gradual decline in inflation, with the US Core Personal Consumption Expenditure (PCE) expected to be at 2.6% 4Q/4Q in 2024. Nevertheless, a significant portion of this favorable scenario seems already factored into present valuations, given a recent market surge reminiscent of specific historical periods. Notably, in years such as 1999, 2009, 2013, and 2021, US Purchasing Manufacturing Index (PMIs) (Figure 6) rebounded swiftly from troughs, marking the initiation of new market cycles. This suggests that markets may already assume the ability of central banks to achieve a successful economic landing, underscoring the importance of careful valuation considerations in the current economic landscape.

2. China

A significant concern identified by China economists and strategists revolves around the potential for China to enter a structural debt-deflation loop, which could pose risks to both earnings and overall economic growth. The ramifications of such a scenario would extend beyond China, with every 1 percentage point slowdown in China's real GDP growth resulting in a 15 basis points reduction in growth for Asia excluding China. While this remains a risk, it is not the bear case for China. The expectation is that the Chinese economy will find its equilibrium, with a forecast of a slight improvement in real GDP growth to 4.2% YoY in 2024. This projection is contingent on further fiscal and monetary easing measures, with inflation expected to gradually rise from 0.3% YoY in 2023 to 1.1% YoY in 2024.

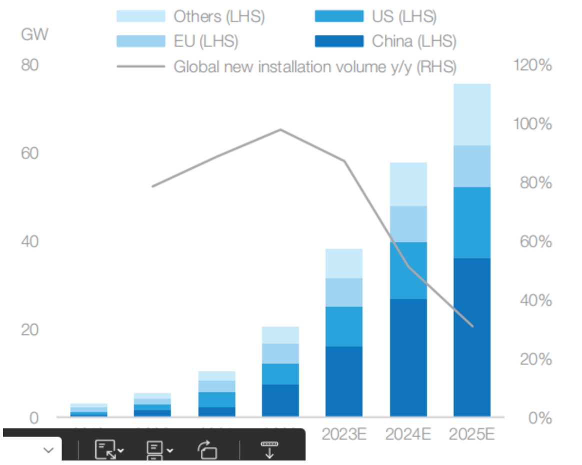
Despite the potential downside risks, the stance reflects an equal-weight position on undervalued Chinese equities and a bearish outlook on the RMB. The identified risk of a debt-deflation loop underscores the cautious approach. In a departure from previous years, there is a projection of a new normal for the Chinese economy, expecting growth to be at 4.2% in 2024, down from an estimated 4.9% in 2023. This moderation is attributed to factors such as subdued consumption, sluggish external demand, and challenges in the property sector. Looking further ahead, structural factors such as a shrinking labour force, constraints on trade-driven growth, and geopolitical complexities suggest that the era of consistently achieving over 6% annual growth in China might be behind the country.

Figure 8: Global cost of adding new green electricity capacity relative to building an equivalent new fossil-fuel-fired plant



Source: Bloomberg

Figure 9: Global installation of new energy storage projects by region



Source:CNESA, Wood Mackenzie, EASE

However, this new normal doesn't diminish China's status as a growth engine. Recent initiatives, such as Beijing's announcement of a Chinese Yuan(CNY) 1 trillion bond issuance program, could potentially boost next year's GDP growth by 0.4–0.8 percentage points, indicating a commitment to proactive policy measures. In the longer term, there is an anticipation of durable and quality growth drivers in the form of increased consumer spending, leadership in the carbon transition, and industrial supply chain upgrades. These factors contribute to a more nuanced perspective, acknowledging the challenges while recognizing the potential for continued growth and adaptability in the Chinese economy.

3. Europe
The European economy is experiencing sluggish growth, marked by a cautious outlook. The continent, heavily dependent on global growth due to its import and export-oriented nature, is anticipated to spend a significant portion of the year in a wait-and-see . Particularly concerning is the contraction observed in the manufacturing sector throughout 2023, contributing to the overall economic hesitancy.

Real consumer incomes are expected to see an increase, supported by a decline in inflation and a resilient labour market. This, in turn, may result in higher consumer spending, driven by accumulated precautionary savings and reduced household debt. The fiscal policies implemented, especially in southern and eastern Europe, are poised to stimulate growth through investments in infrastructure and low-carbon energy production.

Projections for the recovery of investment attitudes hinge on the banking system easing lending standards and an expected decline in government bond yields, thereby reducing the cost of borrowing. However, overall expectations for European Union (EU) gross domestic product (GDP) growth are subdued, with a forecast of 0.5% in 2024 (compared to 1.0% in 2023) before a potential acceleration to 1.3% in 2025.

Despite the challenges faced in the latter part of 2023, the outlook for headline inflation is one of deceleration, gradually converging towards the 2% target favoured by the European Central Bank (ECB). While peak policy rates are believed to have been reached, the potential for actual rate cuts remains slim unless more severe economic risks materialize. There is a cautious optimism for economic activity to pick up in the second half of 2024, driven by well-above-average household savings, higher interest income, and close to full employment, potentially paving the way for a more robust recovery.

4. Dynamic Shifts: Navigating the USD Tale in Two Halves of 2024
As the globally accepted currency, the trajectory of the U.S. Dollar has a significant impact on the trends in international oil prices. The trajectory of the U.S. Dollar (USD) emerges as a focal point, embodying a tale of two halves. The initial phase, marked by relatively robust U.S. growth in the first half, propels the U.S. Dollar Index (DXY) to a projected rise to 111 by the spring（Figure 6）. This momentum is instigated by a risk-off environment in stocks and an anticipation of the troughing of earnings early in the year. A resilient floor at 99.6 in

mid-July quashes disinflation concerns, only to be followed by a surge to 107.3 in October, driven by strong GDP growth.

However, the narrative pivots in the second quarter, mirroring a softening of U.S. growth and market pricing of rate cuts. USD, having peaked at 107.3, is poised to weaken slightly, settling at 107 by year-end. This nuanced view underpins the outlook for emerging markets (EM), where stable yields and USD strength counterbalance the expected decline in inflation, thus maintaining EM rates at a steady pace. The prospect of a weaker USD and a decline in U.S. rates becomes a catalyst for potential inflows back to EM assets in the latter half of 2024.

The common thread weaving through these perspectives is the intricate dance between the U.S. Federal Reserve and the market. Throughout 2023, the Fed countered market expectations of rate cuts with a higher-for-longer mantra, a theme that is anticipated to persist into the first half of 2024. By mid-year, as inflation inches towards the 2% target and the U.S. economy experiences a soft landing, the stage is set for the Fed to normalize monetary policy. An initial 100 basis points cut in the second half of 2024 aims to bring the Fed Funds rate off its current high of 5.25-5.50%.

While the expectation is for a gradual softening of the USD, the narrative acknowledges the potential for a stronger greenback. The USD might reclaim its haven role if the Fed opts for aggressive rate cuts in response to global economic or financial market shocks, or if inflation continues its ascent, pushing rates higher. Thus, the nuanced story of the USD's trajectory in 2024 unfolds, influenced by a myriad of economic factors, Fed policy, and global market dynamics.

5. Geopolitical Crossroads: Navigating Oil Markets Amidst Political Turbulence in 2024

Geopolitical factors are poised to significantly impact global oil market. This includes key events including:

1. US presidential election
2. Ongoing conflicts such as the Israel-Hamas and Russia-Ukraine wars
3. US-China rivalry

Presently, President Joe Biden and former President Donald Trump lead in their party nominations, with a 70% chance for Biden as the Democratic nominee and an 80% chance for Trump as the Republican nominee according to betting markets.

The Israel-Hamas conflict poses a risk of regional escalation, with potential effects on oil markets. Brent is anticipated to trade in a range of USD 90–100/bbl, potentially rising to USD 100–110/bbl if Iranian crude exports decline due to the conflict. The Russia-Ukraine war, while not heavily impacting global financial markets, leaves the world vulnerable to supply shocks that could affect oil prices.

The US-China rivalry, particularly in trade and technology, may also impact the oil sector. China's efforts to achieve self-sufficiency in semiconductor production and the White House's aim to limit Chinese access to crucial AI chips and chipmaking technology could influence global supply chains, potentially affecting oil demand.

6. Reshaping Oil Trends in the 2024 Energy Landscape

The global energy landscape is undergoing a profound transformation, influenced by the dynamic interplay between the green revolution and a broader energy transition. The sharply declining costs of renewable energy sources such as wind and solar power pose a significant challenge to traditional fossil fuels (Figure 8). Interestingly, OPEC has unintentionally fueled the green revolution by maintaining oil prices at around $80/bbl(per barrel) . This strategic choice aims to protect oil interests but has created an environment conducive to affordable consumer prices and substantial investments in critical green infrastructure. As major integrated oil and gas companies (Chevron, Shell, ExxonMobil, etc.) and National Oil Companies, NOCs(Saudi Arabian Oil Co, Rosneft Oil Co, Petroleo Brasileiro SA, etc.) strive to balance short-term returns with long-term sustainability, they must navigate a diversified industry landscape. The International Energy Agency's Sustainable Development Scenario (SDS) sets a benchmark consistent with the Paris Agreement, emphasizing the need to achieve a diverse energy matrix and reduce emission intensity.

While Majors represent only 12% of reserves, highlighting industry diversity, NOCs account for over half of global production, facing challenges in adapting to changing energy dynamics. The analysis underscores that 15% of global energy-related greenhouse gas emissions come from the oil and gas extraction process, emphasizing the urgency of minimizing emissions. However, the impact of this green and energy transition on the supply and demand for oil is evident. The rise of renewable energy and its declining costs make it a more viable energy choice, affecting the demand for oil. OPEC, by maintaining oil prices, safeguards its interests and somewhat mitigates the declining trend in oil demand. Majors and NOCs must strike a balance in this landscape, aligning with green trends while ensuring the sustainability of their oil business.

Essentially, the green revolution and the broader energy transition are reshaping the oil trends of 2024. In this global transformation, the oil industry must adapt rapidly by increasing investments in green infrastructure, optimizing the environmental benefits of oil and gas production, and exploring new business opportunities to achieve a balance between sustainability and profitability. Additionally, the impact of electric vehicles, although currently relatively small, is expected to shave off 0.2-0.3 mb/d from demand growth in the future. This further emphasizes the potential impact of energy transition on oil demand, which, though modest at present, may increase with the widespread adoption of electric vehicles.

Conclusion:

In the complex landscape of the 2024 oil market, a nuanced interplay of supply and demand dynamics, geopolitical uncertainties, and the transformative impact of the green revolution unfolds. A surplus in global oil supply, fueled by robust non-OPEC production growth and strategic OPEC+ output cuts, converges with a deceleration in global oil demand, particularly emanating from China, setting the stage for a delicate equilibrium.

The geopolitical stage, marked by events like the US presidential election and regional conflicts, introduces an element of unpredictability, adding complexity to market dynamics.

Concurrently, the ongoing energy transition reshapes the industry dynamics, with renewable energy sources disrupting the traditional fossil fuel landscape.

Forecasts for oil prices anticipate volatility, hovering around the mid-$80 range. A bullish scenario envisions a surge to $100, while a bearish outlook foresees potential declines to the $63-$65 range. These projections reflect the intricate balance of market forces and uncertainties at play, providing financial analysts with a multifaceted landscape to navigate.

Figure 8:

Source: TradingView

Trade idea: Long Brent Crude Oil for Long-Term Investment in 2024

In evaluating the long-term investment potential of Brent Crude Oil for the year 2024, a meticulous examination of the weekly chart is paramount. The current market value of $78.82 presents a favorable entry point, strategically aligning with the Fibonacci 0.5, also known as the golden zone—a prominent buying area. Additionally, the proximity to the $74.865 region, acknowledged as a significant support and resistance level, further strengthens the attractiveness of this buying zone, as corroborated by the Smart Money Concept.

Technical Indicators: The application of the MACD (Moving Average Convergence Divergence) with parameters 50, 200, 20 on the daily chart reveals diminishing bearish momentum. This stable and less noisy configuration provides compelling evidence of an impending bullish trend. Multiple confirmations from various indicators enhance the confidence in the decision to enter the market at the current position of $78.82.

Trade Strategy:

- ***Entry Point**:* Considering the alignment with the Fibonacci 0.5, the golden zone, and the Smart Money Concept's buying zone, the current market position of $78.82 becomes an opportune entry point for investors anticipating an upward movement.

- ***Take Profit**:* A judicious take-profit level of $97.24 is set, guided by the identification of the $93 to $100 range as a selling zone. Smart Money Concept reinforces this area as resistant, presenting a lucrative opportunity to secure profits.

- ***Stop Loss**:* Prudent risk management dictates a stop-loss placement at $69. This decision is rooted in the recognition that, despite the current buying zone, a breach in this area, marked by a neckline and the formation of a head and shoulders pattern, could trigger a substantial decline. The projected drop to $65-$63 aligns with the Fibonacci 0.382 and represents the lower boundary of the buying zone per the Smart Money Concept.

- ***Risk-Reward Ratio**:* The calculated risk-reward ratio for this trade stands at an enticing 2.00, offering investors a well-balanced opportunity to capitalize on potential market movements.

Conclusion: This holistic analysis supports a bullish outlook for Brent Crude Oil in 2024, advocating for a long-term investment approach. By strategically leveraging key technical indicators and adhering to a well-defined trade strategy, investors can navigate market fluctuations with confidence. The structured risk-reward ratio enhances the overall appeal of this investment opportunity.

Entry: $78.82
Take Profit: $93-$100
Stop Loss: $69
Risk-Reward Ratio: 1:2

Disclaimer: