

CIO Flash Bulletin

Oil on Settled Waters: OPEC+ anticipates supply-demand imbalances

Investment Solutions

25 June 2018

If you wanted one health metric for the global economy over the past decade, oil consumption is a good candidate. Consumption rose more than 14% from 2009 to 97.2 million barrels per day last year, in line with the world's economic growth. The International Energy Agency forecasts that demand will reach 100 million bpd in 2019.

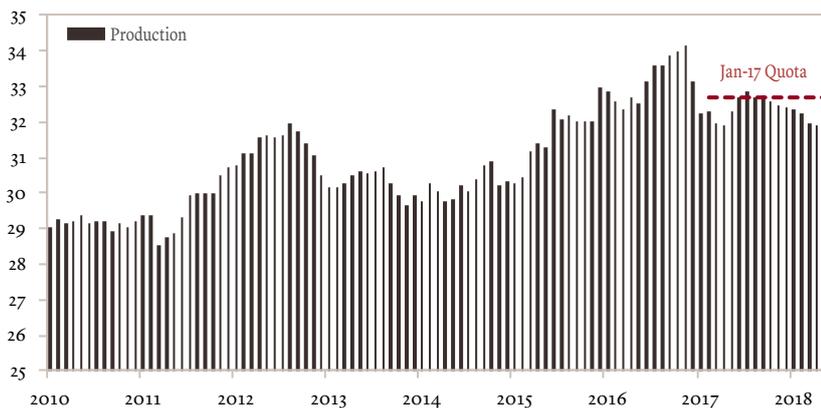
That trend underlines the solidity of the recovery since the financial crisis, and suggests that the challenge for oil is all about supply. With oil in storage compared with demand at the lowest levels since January 2015, and below a five-year average, the US, China and India have all called for higher supplies to avoid economically damaging shortages.

OPEC plus Russia last week secured an agreement to raise supply by as much as 1 million bpd, effective 1 July. The deal overcame resistance from Iran, OPEC's third-biggest producer, which faces falling output as re-imposed US sanctions loom.



Stéphane Monier
Chief Investment Officer, Lombard Odier Private Bank

OPEC oil production



Source: Bloomberg

Avoiding shortages

The Organisation of the Petroleum Exporting Countries, which together with Russia accounts for nearly one-half of the world's oil supply, implemented a production cut of 1.8 million bpd in January 2017. That cut addressed excess oil supplies that depressed oil inventories in 2015/2016. Since then, strong demand, production cuts and geopolitical tensions have helped push prices close to three-and-a-half-year highs.

Important information: Please read the important information at the end of the document.

Weekly publication of Lombard Odier - Contacts: Investment Solutions, CP-INVESTMENT@lombardodier.com

Data as of 25 June 2018 unless otherwise stated.

Lombard Odier · CIO Flash Bulletin · 25 June 2018

The world's big powers – the US, China and India – have indeed put a reasonable amount of pressure on OPEC to reach an agreement, notably through the establishment on 11 June of an “oil buyers’ club” by China and India, which seeks to facilitate more US crude inflows into Asia. And Saudi Energy Minister Khalid al-Falih said last week that the world now needed a minimum increase of 1 million bpd to avoid shortages in the second half of 2018.

Overshooting and balance

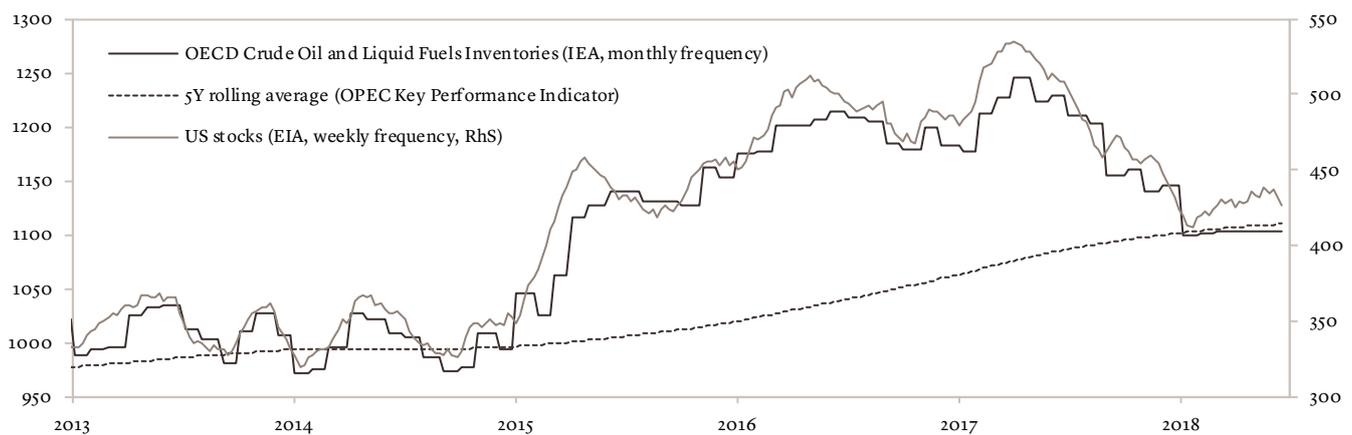
OPEC-12 compliance with the 2017 cuts reached nearly 150%, overshooting the target because some members such as Venezuela have seen output decline. The OPEC meeting in Vienna also discussed how to implement the latest adjustment and bring compliance to 100%.

Only a handful of OPEC members (Saudi Arabia, Kuwait, United Arab Emirates) and Russia have the capacity to increase production. That has put them at odds with other producers, such as Venezuela and Iran, which have no spare capacity, and so no incentive to raise production and lower prices.

The other domestic dynamic at play is that Saudi Arabia is in a social reform and infrastructure investment process. While higher oil prices increase government revenue, the country is quite comfortable with current levels. Higher oil prices also increase the value of the national petroleum and gas company Saudi Aramco, ahead of its planned initial public offering next year, which is also part of the government's strategy for diversifying the kingdom's economy.

In sum, despite the agreement in Vienna, the oil market may be at best balanced this year, and suffer undersupply if demand rises faster than the International Energy Agency's forecast. Looking to 2019, we expect to see rather balanced supply-demand, assuming there are no disruptions. Inventories, in absolute terms, may rise modestly while remaining lower than the five-year average. In a context of more limited spare capacity and the lack of investment seen in the sector in the recent years, oil may become more sensitive to disruption and geopolitics.

Mission accomplished: Reducing supply glut



Source: Bloomberg

The investment case

What does this mean for our investment case? We continue to like commodities as an asset class which can offer investors a hedge against geopolitical and inflation risks in a multi-asset portfolio. Our view on oil remains neutral, with a target price at USD 70. OPEC remains clearly committed to defending this price level, which makes both producers and consumers comfortable.

We also believe that the strong backwardation of the futures curve (where futures prices are lower than expected spot prices) offers an interesting carry opportunity for investors in the oil market.

Last week's production pledge answers oil consumers' requests, and as long as supply rises and prices are at least stable, the outcome will be positive for emerging market producers as well as equities.

Important information

This is a marketing communication issued by Bank Lombard Odier & Co Ltd (hereinafter “Lombard Odier”). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication. This marketing communication is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe to, purchase, sell or hold any security or financial instrument. It contains the opinions of Lombard Odier, as at the date of issue. These opinions and the information contained herein do not take into account an individual’s specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalised advice to any investor. Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. Lombard Odier does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. The information and analysis contained herein are based on sources considered to be reliable. Lombard Odier makes its best efforts to ensure the timeliness, accuracy, or completeness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice.

Investments are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The investments mentioned in this marketing communication may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, Lombard Odier will be pleased to provide investors with more detailed information concerning risks associated with given instruments. **Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested.** The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. These rates may fluctuate and adversely affect the value of the investment when it is realised and converted back into the investor’s base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset.

This marketing communication is not issued by the organisational unit of the Bank Lombard Odier & Co Ltd responsible for the production of financial research, as defined under the Swiss Bankers Association Directives on the Independence of Financial Research. Consequently, it is not prepared in accordance with the provisions of the referred Directives or any other legal requirements designed to promote the independence of the production of financial research. Opinions expressed in this marketing communication may differ from the opinions expressed by other divisions of Lombard Odier, including Bank Lombard Odier & Co Ltd’s Financial Research Department. Nevertheless, if opinions from financial analysts belonging to the Financial Research Department are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Lombard Odier may hold positions in securities as referred to in this marketing communication for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Lombard Odier or affiliated Group companies.

European Union Members: This marketing communication has been approved for use by Lombard Odier (Europe) S.A in Luxembourg and by each of its branches operating in the following territories: **Belgium:** Lombard Odier (Europe) S.A. Luxembourg · Belgium branch; **France:** Lombard Odier (Europe) S.A. · Succursale en France; **Italy:** Lombard Odier (Europe) S.A. · Italian Branch; **Spain:** Lombard Odier (Europe) S.A. · Sucursal en España; and United Kingdom: Lombard Odier (Europe) S.A. · UK Branch. Lombard Odier (Europe) S.A. is a credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg

Notice to investors in the United Kingdom: Lombard Odier (Europe) S.A. · UK Branch is authorised in the UK by the Prudential Regulation Authorities (PRA) and is subject to limited regulation by the Financial Conduct Authority (‘FCA’) and the Prudential Regulation Authority (‘PRA’). **Details of the extent of our authorisation and regulation by the PRA and regulation by the FCA are available from us on request. UK regulation for the protection of retail clients in the UK and the compensation available under the UK Financial Services Compensation Scheme does not apply in respect of any investment or services provided by an overseas person.**

In addition, this marketing communication has also been approved for use by the following entities domiciled within the European Union: **Gibraltar:** Lombard Odier & Cie (Gibraltar) Limited, a firm which is authorised and regulated by the Financial Services Commission, Gibraltar (FSC) to conduct banking and investment services business; **Spain:** Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., an investment management company authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), Spain.

Israel: This marketing communication has been approved for use in Israel by the Israel Representative Office of Bank Lombard Odier & Co Ltd, an entity not supervised by the Supervisor of Banks in the Bank of Israel, but by the Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.

South Africa: This marketing communication has been approved for use in South Africa by the South Africa Representative Office of Bank Lombard Odier & Co Ltd, an authorised financial services provider Registration number 48505.

Switzerland: This marketing communication has been approved for use in Switzerland by Bank Lombard Odier & Co Ltd Geneva, a bank and securities dealer authorized and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

United States: Neither this document nor any copy thereof may be sent, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term “United States Person” shall mean any citizen, national or resident of the United States of America, partnership organized or existing in any state, territory or possession of the United States of America, a corporation organized under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

Media: Lombard Odier would like to offer you for your information the enclosed CIO Flash Bulletin.

In connection with the use of the enclosed document Lombard Odier kindly draws your attention to certain particular items/conditions. The information sent is for your personal use only. In case of quoting please cite Lombard Odier in no other capacity than as source of information only. For the sake of good order Lombard Odier would like to remind you that responsibility regarding quoted content and compliance with applicable regulations rests with you. The information provided does not constitute the provision of investment advice or an offer of any financial services especially not to the public.

Important information about data protection:

When receiving this marketing communication we may process your personal data for direct marketing purposes. We herewith inform you that you have the right to object at any time to the processing of your personal data for such marketing purposes, which includes profiling to the extent that it is related to such direct marketing. If you wish to object to the processing of your personal data in this respect, please address your objection to the Group’s Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: group-dataprotection@lombardodier.com **European Union Members:** For more information on the data protection policy in respect of the EU-General Data Protection Regulation (GDPR), which is applicable to Lombard Odier (Europe) S.A. and its branches, Lombard Odier & Cie (Gibraltar) Limited and Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., please refer to www.lombardodier.com/privacy-policy.

© 2018 Bank Lombard Odier & Co Ltd – all rights reserved. Ref. LOCH-MWNPR-en-052018.

SWITZERLAND

GENEVA

Bank Lombard Odier & Co Ltd¹

Rue de la Corraterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com

Lombard Odier Asset Management (Switzerland) SA

Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
Management Company regulated by the FINMA.

FRIBOURG

Banque Lombard Odier & Cie SA · Bureau de Fribourg¹

Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE

Bank Lombard Odier & Co Ltd¹

Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY

Banque Lombard Odier & Cie SA · Agence de Vevey¹

Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH

Bank Lombard Odier & Co Ltd¹

Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

EUROPE

BRUSSELS

Lombard Odier (Europe) S.A. Luxembourg · Belgium branch²

Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com

Credit institution supervised in Belgium by the Banque nationale de Belgique (BNB) and the Financial Services and Markets Authority (FSMA).

GIBRALTAR

Lombard Odier & Cie (Gibraltar) Limited

Suite 921 Europort · P.O. Box 407 · Gibraltar
gibraltar@lombardodier.com

Authorised and regulated by the Gibraltar Financial Services Commission (FSC) to conduct banking and investment services business.

LONDON

Lombard Odier (Europe) S.A.²

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom · london@lombardodier.com

The Bank is authorised and regulated in the UK by the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. Details of the extent of our authorisation and regulation by the PRA and regulation by the FCA are available from us on request. Registered in Luxembourg No.B169 907.

Lombard Odier Asset Management (Europe) Limited

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom · london@lombardodier.com

Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).

¹ Private bank and securities dealer authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

² Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg

LUXEMBOURG

Lombard Odier (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

Credit institution regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

Lombard Odier Funds (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

MADRID

Lombard Odier (Europe) S.A. · Sucursal en España²

Paseo de la Castellana 66 · 4^o Pl. · 28046 Madrid · España · madrid@lombardodier.com

Credit institution supervised in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).

Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.

Paseo de la Castellana 66, 4^o Pl. · 28046 Madrid · España · madrid@lombardodier.com

Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).

MILAN

Bank Lombard Odier (Europe) S.A. · Succursale in Italia²

Via Santa Margherita 6 · 20121 Milano · Italia
milano-cp@lombardodier.com

Credit institution supervised in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.

MOSCOW

Bank Lombard Odier & Co Ltd · Representative Office Moscow

82 Sadovnicheskaya Street · 115 035 Moscow · Russian Federation · moscow@lombardodier.com

Under the supervisory authority of the Central Bank of the Russian Federation.

PARIS

Lombard Odier (Europe) S.A. · Succursale en France²

8, rue Royale · 75008 Paris · France.
RCS PARIS B 803 905 157 · paris@lombardodier.com

Credit institution supervised in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities. Business permit No.23/12. Registered in Luxembourg - No.B169 907.

Insurance intermediary authorised by the Commissariat aux Assurances (CAA) No.2014 CM002. The registration with the CAA can be verified at www.orias.fi.

AFRICA | AMERICAS | ASIA-PACIFIC |

MIDDLE EAST

BERMUDA

Lombard Odier Trust (Bermuda) Limited

3rd Floor, Victoria Place · 31 Victoria Street · Hamilton
HM 10 · Bermuda · bermuda@lombardodier.com

Licensed to conduct Trust, Investment and Corporate Service Provider Business by the Bermuda Monetary Authority.

DUBAI

Bank Lombard Odier & Co Ltd · Representative Office Dubai

Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE

dubai@lombardodier.com

Under the supervisory authority of the Central Bank of the UAE.

HONG KONG

Lombard Odier (Hong Kong) Limited

3901, Two Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com

A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.

ISRAEL

Israel Representative Office · Bank Lombard Odier & Co Ltd

Alrov Tower, 11th floor · 46 Rothschild Blvd. · Tel Aviv 6688312 · Israel · telaviv@lombardodier.com
Not supervised by the Supervisor of Banks in the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.

JOHANNESBURG

South Africa Representative Office · Bank Lombard Odier & Co Ltd

140 West Street · Sandton
Johannesburg 2196 · South Africa
johannesburg@lombardodier.com
Authorised financial services provider Registration number 48505.

MONTEVIDEO

Lombard Odier (Uruguay) SA

Luis Alberto de Herrera · Torre 2 · Oficina 2305
1300 Montevideo · Uruguay
montevideo@lombardodier.com

Supervised by Banco Central del Uruguay.

MONTREAL

Lombard Odier & Cie (Canada), Limited Partnership

1000 Sherbrooke Street West · Suite 2200 · Montreal (Quebec) · Canada H3A 3R7
montreal@lombardodier.com

Regulated by the Autorité des Marchés Financiers du Québec.

NASSAU

Lombard Odier & Cie (Bahamas) Limited

Goodman's Bay Corporate Centre · West Bay Street · P.O. Box N-4938 · Nassau · Bahamas
nassau@lombardodier.com

Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.

PANAMA

Lombard Odier & Cie (Bahamas) Limited · Representative Office in Panama

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com

Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.

Lombard Odier (Panama) Inc.

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com

Supervised by the Superintendencia del Mercado de valores de Panamá. License to operate as an Investment Adviser.

Res. SMV No.528-2013.

SINGAPORE

Lombard Odier (Singapore) Ltd.

9 Raffles Place · Republic Plaza #46-02 · Singapore
048619 · singapore@lombardodier.com

A merchant bank regulated and supervised by the Monetary Authority of Singapore.

TOKYO

Lombard Odier Trust (Japan) Limited

Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com

Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator (No.470).