Philequity Corner (July 3, 2017)
By Wilson Sy

Bear Market in Crude Oil Part 2

In our article last week, we discussed how the global supply glut in oil coupled with weak demand has put the oil market back in bear territory. We noted how the continued expansion of US shale oil output and the introduction of new energy alternatives have diminished OPEC's ability to influence the oil markets. Oil prices failed to stabilize this year despite the production cuts announced by OPEC alongside non-OPEC members such as Russia last November 2016.

Worst 1st half performance since 1998

Crude oil rallied last week on news of a decreased US rig count and stronger demand data for China. However, it still finished the first half with its worst performance for the period since 1998. WTI crude fell 14 percent to $46.04 per barrel in 1H2017, while Brent crude declined 16 percent to $48.77 per barrel over the same period. Note that on the chart below, the past big drops in oil prices happened during the 2nd half of the year.

From a long-term technical perspective, the range between 50 and 55 where the long-term trend line was broken in 2015 and when prices were repelled in 1Q2017 should be a formidable resistance area in the future.

Long-term price chart of WTI Crude Oil

Source: U.S. Energy Information Administration

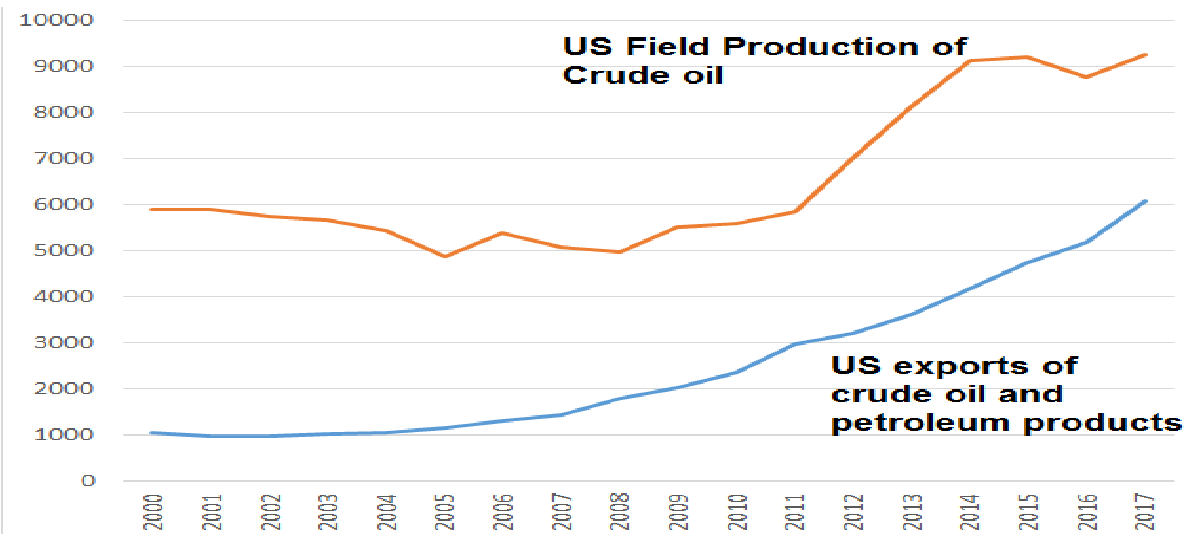
US oil exports accelerate the past 2 years

In December 2015, the US lifted its 40-year old ban on crude oil exports dating back to 1975 after the 1973-74 Arab oil embargo shocked the US economy. This enabled US shale producers to expand their market outside the US. Previously, the shale producers were forced to sell their products only to US refiners, who can then sell only refined oil products to the world market.

In 2016, on its first full year without the export restriction, US exports of crude oil and petroleum products grew 10 percent despite the production dip during the same year.

According to the US Energy Information Agency (EIA), US crude oil production has reached a record of 9.25 million barrels per day as of June 2017. Meanwhile, exports of crude oil and petroleum products amounted to 6 million barrels per day as of April 2017.

US Crude oil output & exports (in thousands of barrels per day)



Source: EIA, Wealth Securities Research

Global oil supply glut

The world is awash with oil as highlighted by US oil inventories at near-record levels. The latest data show that US crude oil inventories are at 509 million barrels, more than 50 percent higher than what it was as of end-2013.

	US oil stocks w/o SPR	US oil stocks including SPR
2013	330,695	1,026,664
2014	352,979	1,043,942
2015	455,106	1,150,226
2016	479,012	1,174,094
2017	509,213	1,191,649

Source: EIA, Wealth Securities Research

Including the US Strategic Petroleum Reserve (SPR), US crude oil stocks amounted to 1.19 billion barrels of oil as of June 2017.

The SPR is an emergency storage of petroleum held underground in Louisiana and Texas with a capacity of 720 million barrels. The SPR was established by the US Congress back in 1975 in response to the Arab oil embargo.

Planned sale from the US Strategic Petroleum Reserves?

A wild card in the global oil supply glut story is the proposed sale of the US SPR. According to the EIA, 682 million barrels are held as of today. But with the US becoming largely self-sufficient in energy, there is less sense in keeping the SPR at very high levels.

President Trump early this year proposed selling half of the SPR to help fund the US budget deficit. If this materializes, it will add to the global supply glut that would keep oil prices at low levels much longer.

Effect on OFW remittances

Last week, we mentioned that employment conditions in the Middle East and remittances from the region may be affected negatively by lower oil prices. But a quick check from BSP's data show that remittances from the Middle East remain healthy, growing at 4.2 percent for the first four months of the year. Nevertheless, we will continue to keep a close watch on these numbers.

Remittances	Jan-Apr 2016	Jan-Apr 2017	% Change
UAE	637,801	748,128	17.3%
Qatar	307,172	384,937	25.3%
Saudi Arabia	890,289	855,909	-3.9%
Middle East	2,434,058	2,535,821	4.2%
Total Remittances	8,670,152	9,035,764	4.2%

Source: BSP, Wealth Securities Research

Happy birthday Uncle Wash!

Mr. Washington Sycip turned 96 last Friday (June 30). Mr. Sycip is a valuable member of Philequity's board. It's amazing that at this age, he continues to provide Philequity and other companies where he is a director with priceless insights and guidance.

In one of our board meetings years ago, we were discussing the US shale oil revolution and benefits of lower oil prices to our country. Mr. Sycip provided us with an important insight that was overlooked by most economists and political analysts at that time. He commented that lower oil prices will lead to rising geopolitical tensions and deteriorating economic conditions in the Middle East. He talked about an increase in terrorism and possible civil war. He warned us on the impact this may have on the job security and employment prospects of our OFWs in the Middle East.

Mr Sycip is also a great advocate of the fund. He makes some of his donations to charity in the form of Philequity fund shares. He also buys Philequity Fund shares for his secretaries, driver and kasambahays.

Happy birthday Uncle Wash!