OCBC TREASURY RESEARCH

Crude Oil

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Quick take: Trump or Biden, oil loses

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Evaluating Biden's potential US Presidential election win on the oil market.

1) Is Joe Biden as US President a good or bad thing for the energy market?

The oil market appears to believe that the potential political mix in the US – Joe Biden as President, with a Republican Senate and a Democrat House – as the most optimal for the oil market. With this potential setup, the market believes Biden may see his hands tied in aggressively pushing his clean energy policy as well as restarting talks on Iran's nuclear deal. This keeps status quo in the oil market as much as possible, which is what the market seeks.

2) Would it have been any different with a Trump win?

Unlikely. Regardless of who had won, we think the mid-to-long run outcome would not have been positive for crude oil. Trump would have allowed US fracking to continue expanding, while Biden's renegotiation with Tehran on a nuclear deal may lift export sanctions on Iranian oil. On the demand side, Trump's volatile relation with China would have crimped energy demand in Asia, while Biden has a clean energy policy as his core mandate. **In our opinion, oil loses, no matter which candidate wins.**

3) How has oil prices performed this morning on Biden as president-elect?

Crude oil prices this morning have rallied but this is likely sentiment driven. The fundamentals remain fragile for the energy complex. Gasoline demand in the US has not recovered to its pre-pandemic levels and China's crude oil imports in October were surprisingly low. Gasoline crack margins are half the level it was a year ago, while that of diesel is one-fifth. We think this morning's rally may be technical short-covering and we do not expect a sustained rally.

4) Is there a difference in the way Biden views oil prices compared to Trump?

Any US President needs to keep the price of gasoline affordable for Americans. In that regard, Biden seeks the same goal as Trump – a moderate oil price that is not too high, nor too low. Unlike Trump, however, Biden needs an oil price high enough to ensure his clean energy options are competitive to fossil fuels. To that extent, Biden may prefer a higher price of oil compared to his predecessor. This is not an outcome that Biden actively seeks, but rather a by-product in his ambitious quest for clean energy.

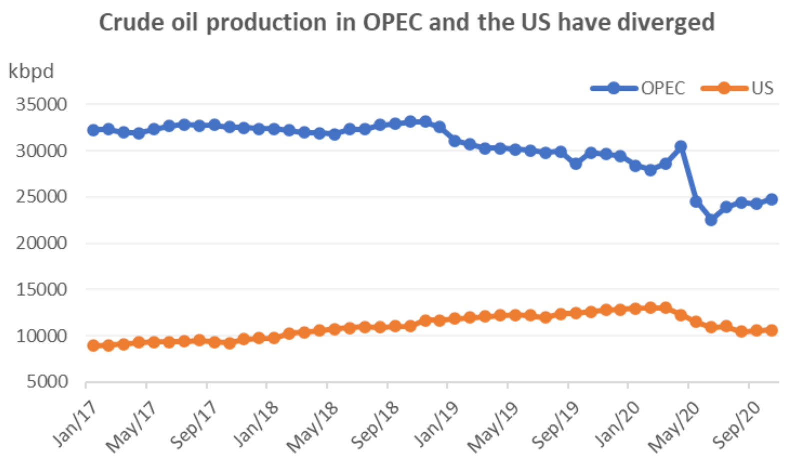
5) Is a split Senate really going to stop Biden's clean energy policy?

It is surely more difficult for Biden to push through his energy reforms compared to having a full Democrat-controlled Congress. The Republicans will be keen to remind Biden how clean-energy California had to go into rolling blackouts this year due to a surge in electricity demand from the heat wave. That aside, for now, we think Biden has more pressing issues on hand, chief among which are to reunite a divided country and to push through a much needed fiscal package. Talks of his clean energy quest may come only in mid-2021.

6) How will a Biden presidency affect US-OPEC relations?

Biden's multilateral diplomacy mean we may see Iran and Venezuela exit Washington's sanctions and restart oil trade in the international market. The additional supplies may mean OPEC (Saudi Arabia, in particular) having to further double down on restricting production. That reduces much needed oil revenue for many OPEC members.

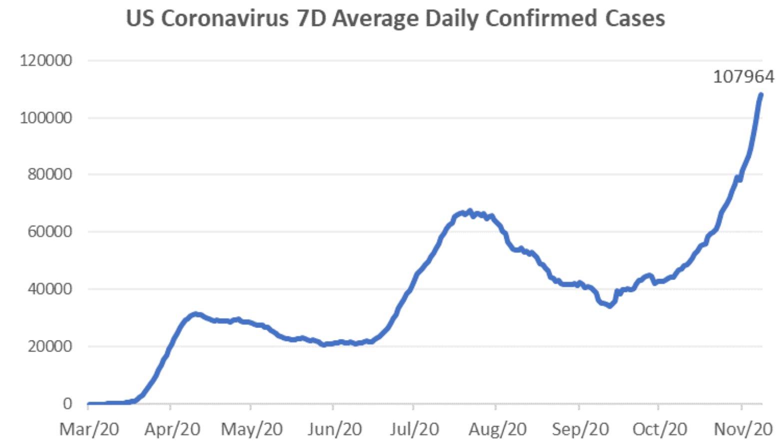
Additionally, with tougher environmental oversight on fracking under Biden's watch and the anticipated return of Iranian and Venezuelan oil supplies, we expect the Brent-WTI spread to continue narrowing.



Source: Bloomberg, OPEC, US DOE, OCBC

7) What is the main pressing issue with the energy market at present?

The elections have provided a temporary distraction to the escalating Covid-19 situation in both the US and Europe. In the US, cases have now exceeded 100,000 cases a day. The world has not found a way to contain the virus effectively and vaccine developments appear to have hit a snag. The initial oil demand recovery has plateaued and if Biden imposes tougher movement restrictions, US gasoline demand may turn further south.



Source: Bloomberg, OCBC Bank

8) What is holding back oil demand at this stage?

Much of the recovery in oil demand in Q2 and Q3 have been predicated on two main factors. The first is China's relentless appetite for economic rebuilding, which saw oil imports soar to record highs in May and June 2020. That has appeared to have hit a ceiling – possibly the result of excessive oil stockpiles, as seen in the slowing pace of crude oil imports. The second is the US reopening its economy without having really brought the coronavirus under reasonable control. That may change under Biden, whose approach to handling the virus is likely more heavy-handed than that of Trump.

Source: Bloomberg, OCBC Bank

9) What are our latest crude oil price forecasts?

We see Brent ending the year at $43/bbl and rising gradually to $50/bbl. Prices may eventually grind higher from here through the rest of 2021 as long as the market remains in a supply deficit. This is conditional on OPEC+ keeping an appropriate lid on supply and a vaccine discovery only occurring in H2 2021 or later. Although we expect prices to rise through 2021, levels are still very suppressed by historical standards and the pace of increase pales in comparison to the V-shape bounce evident in other risk assets.

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