



NRB Bank Vice Chairman Tateyama Kabir opens the bank's 44th branch at Nayabazar in Dhaka on Thursday. Directors Khandakar R Amin and Md Motior Rahman and CEO Md Mehmood Husain were present.

Oil traders bet on economic upswing in 2020

JOHN KEMP
Crude oil traders are betting the market will tighten significantly next year, even as the major statistical agencies predict production will outstrip consumption and oil inventories will rise.

Most of the divergence can be explained by differing assumptions about global growth in 2020. The International Energy Agency (IEA), the U.S. Energy Information Administration (EIA) and the Organization of the Petroleum Exporting Countries are all projecting that the oil market will be in surplus in 2020.

Each of the three agencies is forecasting that non-OPEC oil supplies will increase around 1 million barrels per day (bpd) faster than global oil consumption next year.

The three agencies are also forecasting non-OPEC production growth of 2.2-2.4 million bpd while consumption increases by only 1.1-1.4 million bpd.

If these forecasts are correct, the result will be a significant rise in stocks of crude and refined products, unless OPEC members and their allies reduce their own output even further.

But the shape of the crude futures curve suggests traders and hedge funds are instead anticipating a drawdown in stockpiles next year.

Brent's six-month calendar spread has tightened to a backwardation of around \$3.50 per barrel, up from less than \$1.90 at the same a month ago and a contango of \$1.10 this time last year.

Backwardation (where spot prices trade above futures prices) is normally associated with low/falling inventories, while contango (spot prices trading below futures) is typically associated with high/rising stockpiles.

The six-month calendar spread is now in the 91st percentile for all trading days since the start of 1990, implying that traders anticipate production will fall significantly below consumption over the next

six months. Brent futures have been progressively shifting towards backwardation since early 2015 as the crude market has gradually recovered from the slump of 2014/15.

But the current degree of backwardation is unusual: previous backwardations of similar magnitude have recently been temporary and associated with sudden disruptions in oil supplies.

Big backwardations have been

in oil consumption over the next 12-18 months.

Recent financial market and industrial data suggests the current cyclical downswing in the global economy may have past its worst point (Global economy dodges recession by the narrowest of margins, Reuters, Nov. 19).

If that proves correct, there is potential for a cyclical upswing in 2020/21, similar to the recovery in 1999/2000, after a similar mid-cycle slowdown in 1997/98 (Oil

next year.

The resolution of US/China trade tensions, or at least a temporary truce, and the resulting impact on global growth, is therefore critical for the oil market balance and prices in 2020.

At the moment, most major economic forecasters, including the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) and see global growth staying subdued in 2020.

But if the US/China trade dispute can be resolved, and if the global expansion re-accelerates, there is the potential for faster growth in both economic activity and oil consumption.

Following the IMF/OECD, the major oil statistical agencies are predicting only a modest acceleration in global economic growth next year, implying the oil market will be oversupplied.

By contrast, oil traders are increasingly betting on a faster economic acceleration, eliminating the predicted oil surplus and even pushing the market into deficit.

At the moment, most hedge funds and other money managers have relatively small speculative positions in petroleum futures and options betting on an increase in prices.

If the prospect of a cyclical recovery encourages more fund managers to establish bullish long positions in the next few months, however, it will accelerate the shift into backwardation.

Portfolio managers tend to invest in futures contracts near to maturity since they offer the greatest volatility and liquidity: position-building therefore tends to lift spot prices and increase the degree of backwardation.

If the hedge fund community becomes more convinced the economy and oil consumption growth will accelerate in 2020, position building will cause the backwardation to become even steeper.

The writer is a Reuters market analyst.



An oil pump jack pumps oil in a field near Calgary, Canada.

caused by the attacks on Saudi Arabias oil installations in 2019 or the repeated tightening of U.S. sanctions on Venezuela and Iran in 2018.

The current backwardation, however, is not associated with any sudden loss of oil supplies. Instead it reflects the combination of steadily tightening supplies and expectations for faster demand growth in 2020.

U.S. sanctions continue to limit exports from Iran and Venezuela. Lower prices are expected to slow growth from U.S. shale. And the OPEC+ group of exporters is likely to extend current production restraints well into next year.

At the same time, investors and commodity traders are growing more hopeful the global economy will avoid a recession in 2020, which would support faster growth

and equities prepare to party like its 1999, Reuters, March 19).

In the last two decades, oil consumption has grown on average by around 1.5 percent per year which at the moment is equivalent to an additional 1.5 million bpd per year.

If oil consumption growth returns to its long-term trend rate next year, consumption could rise by an extra 150,000 to 300,000 bpd compared with the current major-agency forecasts.

And if consumption rebounds more strongly like 1999, when it rose by 2.1 percent, oil use could increase by an extra 700,000 to 1 million bpd compared with the major forecasts.

A cyclical recovery in oil consumption could therefore absorb much of the predicted growth in non-OPEC production

Pakistan central bank keeps rates on hold as inflation steadies

REUTERS, Karachi

Pakistan's central bank kept its main interest rate at 13.25 percent on Friday, having recently stopped hiking rates as data on the economy has begun to show that inflation is steadying.

The bank said it expected inflation to ease in the second half of the fiscal year to the end of next June and remain broadly unchanged in fiscal 2020 at 11 percent to 12 percent.

Furthermore, the current account balance, the broadest measure of the country's trade with the rest of the world,

It said the government's primary balance - the balance of revenue versus spending excluding debt-servicing costs - is likely to enter a surplus in the first quarter of next fiscal year for the first time in almost four years.

"This, together with the end of deficit monetization has qualitatively improved the inflation outlook." The bank last lifted rates in July, when it hiked by 100 basis points. It was the ninth increase since the start of 2018 as the country faced rising inflation, a big current account deficit and downward pressure on its rupee currency.

The International Monetary Fund is currently reviewing Pakistan's progress on



REUTERS/FILE

A currency trader counts Pakistani Rupee notes as he prepares an exchange of US dollars in Islamabad.

turned to a surplus in October for the first time in four years, the bank said, meaning external pressure on Pakistan's finances is receding. "The market sentiment has begun to gradually improve on the back of sustained improvements in the current account and continued fiscal prudence," the statement said.

"In the first four months of the current fiscal year, the current account deficit contracted by 73.5 percent to US\$ 1.5 billion," it added.

reforms agreed as part of a bailout package in July. Under the terms of the \$6 billion bailout, the government has put in place tough measures to meet a fiscal deficit target set by the IMF.

The rupee has appreciated 5.6 percent since hitting a low in June, and inflation stood at 11 percent year-on-year and 1.8 percent month-on-month in October.

The bank said it expected inflationary pressures to ease in the second half of this fiscal year.



IDCOL

SM Monirul Islam, deputy CEO of Infrastructure Development Company Ltd (Idcol), poses after receiving a "Financial Innovation Award 2019" in "Best Sustainable Finance Initiative" category at a hotel in London on Thursday. The London Institute of Banking and Finance presented the award to Idcol for implementation of solar irrigation pump projects.



NRB GLOBAL BANK

NRB Global Bank Chairman Nizam Chowdhury opens an "Islamic Banking Branch" at Tebunia Bazar in Pabna on Thursday. Independent Director Md Nizamul Hoque Bhuiyan and Managing Director Syed Habib Hasnat were present.

Uber still in the dark on London taxi licence renewal

REUTERS, London

Uber is waiting to find out whether its taxi licence in London, one of its most important markets, will be renewed, just three days before it is due to expire in the latest stage of a long-running battle with the city's transport regulator.

Transport for London (TfL) rejected a renewal request in 2017 due to shortcomings it said it found in the firm's approach to reporting serious criminal offences and driver background checks, prompting legal action.

A judge in 2018 then granted Uber a probationary 15-month licence, after the Silicon Valley-based company had made several changes

to its business model.

In September, TfL gave Uber just a two-month extension, far short of the maximum possible five years, and imposed further conditions covering ride-sharing, appropriate insurance and driver document checks.

Uber's licence in London currently expires on Nov. 25. On Friday, both TfL and Uber declined to comment.

Ahead of the latest decision, Uber said it would introduce measures such as a discrimination button enabling drivers and riders to report abuse, enhanced safety training for drivers and a direct connection to the emergency services.

The taxi app's presence in London has angered the drivers of the city's

iconic black cabs, who have previously blocked streets in protest, arguing the firm is a threat to their livelihoods.

The company says its roughly 45,000 drivers in the city enjoy the flexibility of their work and that it has taken several steps to improve safety.

But in a possible sign that the regulator wants to have more power over new entrants by granting shorter licences, fellow ride-hailing service Ola gained only a 15-month right to operate earlier this year.

TfL's latest decision will come less than three weeks before a general election and fewer than six months before Londoners decide whether to re-elect Mayor Sadiq Khan, who is also chairman of TfL.

US FCC blocks China's Huawei, ZTE from subsidy scheme

AFP, Washington

American regulators on Friday unanimously branded Chinese telecoms firms ZTE and Huawei as threats to national security and blocked them from accessing \$8.5 billion in federal funds for services and equipment.

The Federal Communications Commission also proposed that other service providers be required to cancel or replace existing services and equipment from the companies.

"Both companies have close ties to China's communist government and military apparatus," FCC Chairman Ajit Pai said in a statement, citing recent remarks from Attorney General Bill Barr and Federal Bureau of Investigation Director Chris Wray.

"Both companies are subject to Chinese laws broadly obligating them to cooperate with any request from the country's intelligence services and to keep those requests secret. Both companies have engaged in conduct like intellectual property theft, bribery and corruption." In a statement, Huawei said Washington was needlessly undermining its own interests "based on selective information, innuendo and mistaken assumptions." "These unwarranted actions will have profound negative effects on connectivity for Americans in rural and underserved areas across the United States," it said.

The FCC's 5-0 decision added the companies to a new list of entities prohibited from tapping the

"Universal Service Fund." "Rural schools, hospitals and libraries will feel the effects," Huawei said, adding that the FCC's decision would result in higher prices.

Friday's decision by the FCC follows President Donald Trump's move in May to block American companies from doing business with Huawei, which US officials accuse of violating US sanctions on Iran.

Trump has since offered temporary reprieves for Huawei to allow service providers covering remote rural areas time to comply with the ban, US officials say.

The FCC in May also denied a request by China Mobile to operate in

the US market, likewise citing national security risks.

ZTE came close to collapse last year after American companies were banned from selling it vital components over its continued dealings with Iran and North Korea.

But in a politically charged settlement, Trump then allowed ZTE to resume imports under tough conditions.

Huawei's chief financial officer, Meng Wanzhou, who is also the daughter of the company's founder and CEO, was arrested in Canada last year and is now fighting extradition to the United States on fraud and conspiracy charges tied to US sanctions.



AFP

Staff members of Huawei walk inside the Huawei research and development centre in Shanghai on November 19.