

## Markets

# Oil Gauges Plunge as Bulls Rattled by Trade War, Libyan Barrels

- Time-spreads crushed as Brent suffers biggest drop since 2011
- Paper, physical oil markets seen disconnected in recent weeks



Trade War Sends Ripple Effects Through Oil Market

By [Alex Longley](#)

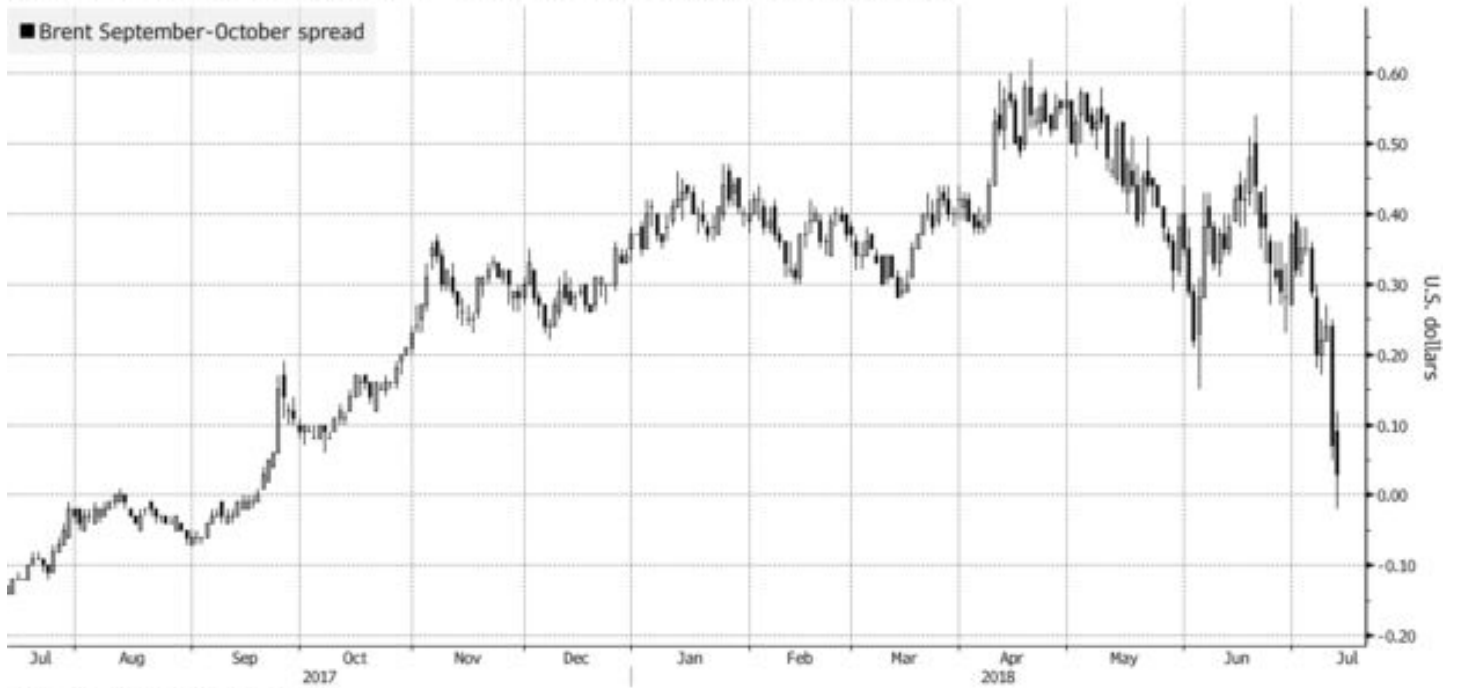
July 12, 2018, 4:30 PM GMT+1 *Updated on July 13, 2018, 12:01 AM GMT+1*

Oil bulls have long been holding out for a tighter market. But underlying indicators of supply, and America's escalating trade war with China, have suddenly given them the jitters.

As Brent crude suffered its biggest decline in dollar terms since 2011 on Wednesday, key gauges tumbled in sympathy. The spread between December 2018 and December 2019 futures -- a favorite play for hedge funds -- settled at the weakest in four months. Trading volumes on the global benchmark hit the second-highest on record. Brent's prompt time-spread on Thursday flipped into contango, a market structure suggesting near-term surplus.

## Spread Slide

### Brent September-October spread hits multi-month lows



Source: ICE Futures Europe

Crude's move lower on Wednesday was rooted in the escalation of the trade war between the U.S. and China, which blighted commodity markets across the board. Coupled with that was the return of Libyan oil exports, which had been reduced by several hundred thousand barrels a day, and the suggestion that the U.S. may grant some waivers from sanctions to buyers of Iranian oil. Those headlines were enough to cause oil bulls to throw in the towel -- for now at least.

"There has been a growing disconnect between physical and paper markets over the past month and the near-\$6 a barrel sell-off in Brent was the paper markets reconnecting with this reality," Thibaut Remoundos and Mark MacLean of Commodities Trading Corp. in London, which advises on hedging strategies, said in a report.

The sharp sell-off in crude markets also saw oil options grow more bearish. Traders were asking for the biggest premium for bearish put options over bullish calls in two weeks on Thursday, a significant turnaround to earlier this week when call options were more expensive than puts.



Returning supplies from Libya come at a time when the Organization of Petroleum Exporting Countries is ramping up production for the first time since output cuts took effect at the beginning of last year. The brunt of the impact from OPEC's strategy shift has been felt on Brent time-spreads, consultant Energy Aspects wrote in a report this week.

"The fact that Brent spreads simply cannot perform is telling," Energy Aspects said, noting falling U.S. inventories and looming sanctions on Iran. "The prompt seaborne market still feels terribly soggy."

### Urals, Forties

There's no marked weakness in Europe's physical oil markets, but differentials for the region's individual crude grades have not been trading at levels that reflect futures at \$80, according to Warren Patterson, senior commodity strategist at ING Bank NV. Brent neared that level on Tuesday.

Differentials for Russian Urals crude have recovered from multi-year lows reached in late-April and early-May. Similarly, discounts paid for key North Sea grade Forties have been little changed since early June.

Still, some analysts saw Wednesday's sell-off as overdone. With global spare capacity set to decline, and sanctions on Iran due to bite in November, the \$5.46 drop in Brent was "out of whack with the fundamental reality," UBS Group AG analysts including Giovanni Staunovo wrote in a report.

– *With assistance by Laura Hurst*

---

[Terms of Service](#) [Manage Cookies](#) [Trademarks](#) [Privacy Policy](#)  
©2022 Bloomberg L.P. All Rights Reserved  
[Careers](#) [Made in NYC](#) [Advertise](#) [Ad Choices](#) [Help](#)