



DME

FUTURES INSIGHTS

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OSP

\$41.11



TOTAL
DELIVERY

9.727
MILLION BARRELS



TOTAL EXCHANGE
VOLUME

93,238
CONTRACTS



ADV

4,238
CONTRACTS



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Biden presidential victory

As Joe Biden prepares to take up residence in the Whitehouse, this article looks at the potential impact for oil markets and Middle East U.S. policy.

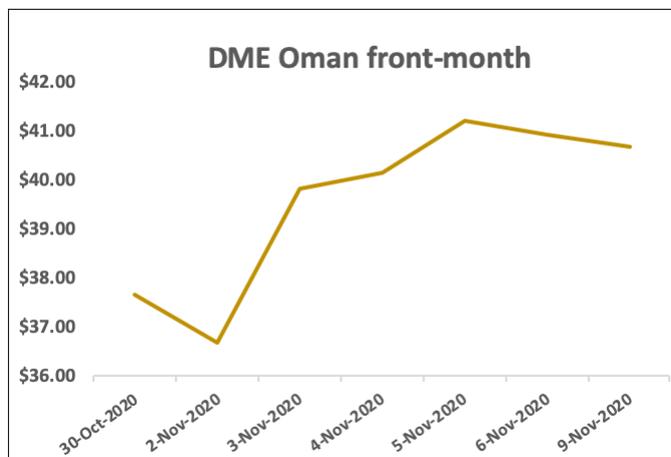
Donald Trump was broadly viewed as a pro-oil president, and a friendly ally to OPEC and the broader OPEC+ group. He is credited for his contribution in brokering the deal between Saudi Arabia and Russia which ended the price war between the world's two largest oil exporters earlier this year.

The Trump presidency comes to an end in January 2021, leaving markets and governments to adapt to the new Democrat administration – which given its commitments to meeting environmental goals, could result in major challenges for the oil industry.

Oil price reaction

Oil markets were unsurprisingly volatile over the voting/results period and prices initially rallied after early results showed strong support for the sitting President in key States such as Texas and Florida. U.S. oil prices rose nearly 4% on the 5th November as benchmark WTI closed the session up \$1.49/b at \$39.15/b, as some traders viewed a victory for Trump as bullish for oil because of sanctions on Iran and his support for Saudi-led oil production cuts.

The DME Oman benchmark, which acts as a proxy value for medium sour crude trading in the Middle East and Asia, rallied to a two-week high with the benchmark DME Oman futures contract hitting \$41.21 on November 5, before easing back by the end of the week.



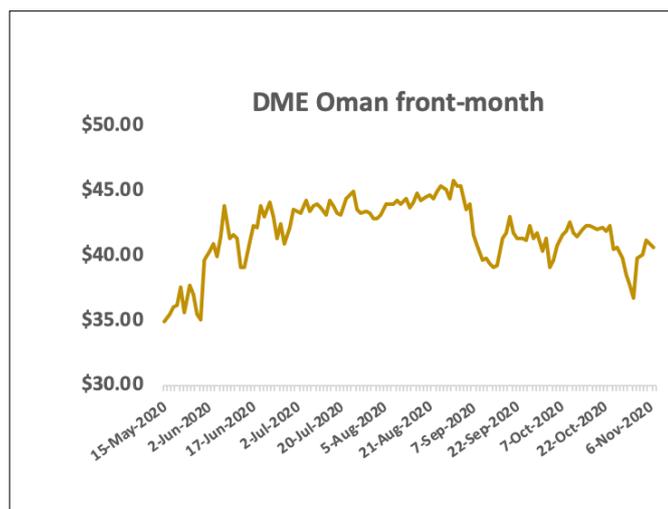
However, prices were already on a pre-election uptrend on reports that the OPEC+ group were exploring options to suspend the 2 million barrel per day (bpd) output hike. Additionally,

falling U.S. crude output and oil inventories added to the upside.

Short to medium term, traders expect that oil market sentiment will continue to be dominated by covid-19, and the potential for further downwards destruction due to European lockdowns.

Traders will be keen to see if there is any shift in U.S. policy in 2021 with regards to covid-19 measures. Coronavirus cases in the U.S. registered new highs during U.S. election week, so traders will be looking for any policy shift in tackling the pandemic, including either targeted or broader lockdowns which would have a greater impact on U.S. oil consumption.

Other shorter-term impacts as a result of the new administration could be the next tranche of fiscal stimulus and currency movements, given the vast majority of the world's international commodity trade is conducted in U.S. dollars.



OPEC policy

After the Democrats were declared the victors, Reuters reported that a number of key members of OPEC are concerned that tensions in the OPEC+ alliance could reemerge with Joe Biden as U.S. President.

Citing sources close to the producer group, the report said they may miss President Trump who went from criticising the group to helping bring about the record oil output cut in Q2. The report further noted that Biden could modify U.S. diplomatic relations with three members of OPEC - de facto leader Saudi Arabia, and sanctioned countries Iran and Venezuela, as well as with key non-OPEC

producer Russia.

Long-term sanctions and strict enforcement against Iran and Venezuela has removed several million barrels per day of crude from the market, so traders will look for any signs of softening measures that allow for greater crude oil export, which in turn will make OPEC's attempt to keep markets in balance all the more difficult.

Reuters noted that Biden previously said he would prefer multilateral diplomacy to the unilateral sanctions applied by Trump, although that may not mean a relaxation in sanctions any time soon. During campaigning, Biden said he'd return to Iran's 2015 nuclear deal if Tehran resumes compliance with the pact.

Trump had supported producer-group talks early in the year that resulted in the record cuts of up to 20% of supply moved from the global markets. Trump stepped in to apply political pressure on Saudi Arabia and Russia to end a dispute that had sparked a price war and resulted in both countries planning to raise output just as demand slumped.

U.S. Energy and Environmental policies

Trump has widely been viewed as supporter of the U.S. oil and gas industry, pushing back against stricter environmental regulations and allowing for the development of fossil fuel output and infrastructure, boosting U.S crude oil production and exports during his presidency.

Biden's pledge for a \$2 trillion climate plan will see a major shift to cleaner energy sources such as solar and wind as fossil fuels are phased out with the aim to achieve 100% clean electricity by 2035.

During the final presidential debate Biden said he would "transition from the oil industry," although Biden has since said fossil fuels would be around for a long time and that he had been referring to a plan to kill subsidies for the fuels.

Included among transition plans are upgrades to millions of buildings for energy efficiency, new energy-efficient homes and a rollout in public transport. The Biden presidency also wants to strengthen vehicle emission standards

with incentives for auto manufacturers to produce zero-emission cars

Biden has so far resisted making commitments to ban fracking, a move favored by elements of the Democratic party as fracking produces gases linked to climate change. However, proposals to ban new oil and gas permits on federal lands may go ahead.

U.S. Middle East/Asia policy – what to watch

With the Senate remaining in Republican hands, President Biden may have more scope in foreign diplomacy compared to domestic policy. For the Middle East, key issues will be the relationship with Iran and timescale for any easing of sanctions. Trump enjoyed strong relationships with regional powerhouse Saudi Arabia, who has consistently pushed for sanctions on Iran. U.S/Saudi relations will have a major bearing on broader oil markets and will be keenly watched by traders.

Further afield, Biden is expected to enjoy more cordial relationships with China compared to his predecessor. This opens the door for improved trade relations, although the Democrats are expected to maintain a firm line in relation to Hong Kong and Xinjiang region.

China was the only major economy to increase year-on-year oil demand in 2020 and producers will be keen for that to continue.

Summary

The election and subsequent result caused some market volatility, but had little overall impact as prices stayed around the \$40/b mark. At least in the short-term oil price direction will largely be determined by covid-19 demand destruction and OPEC+ policy. As the Biden presidency is enacted then the energy market will expect to see some impacts across the spectrum.

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