

For inquiries related to this article, please contact:

Alain.Marckus@bankfab.com

Christofer.Langner@bankfab.com

2 November, 2020

The European lockdown is coming just as oil supply is rising

◆ France, the UK and several other European countries have implemented national stay-at-home orders.

◆ The US is still not taking that action, but some states are hinting at new restrictive measures as transmission rates rise.

◆ Colder weather across the Northern Hemisphere points at more virus cases surfacing over the next two weeks.

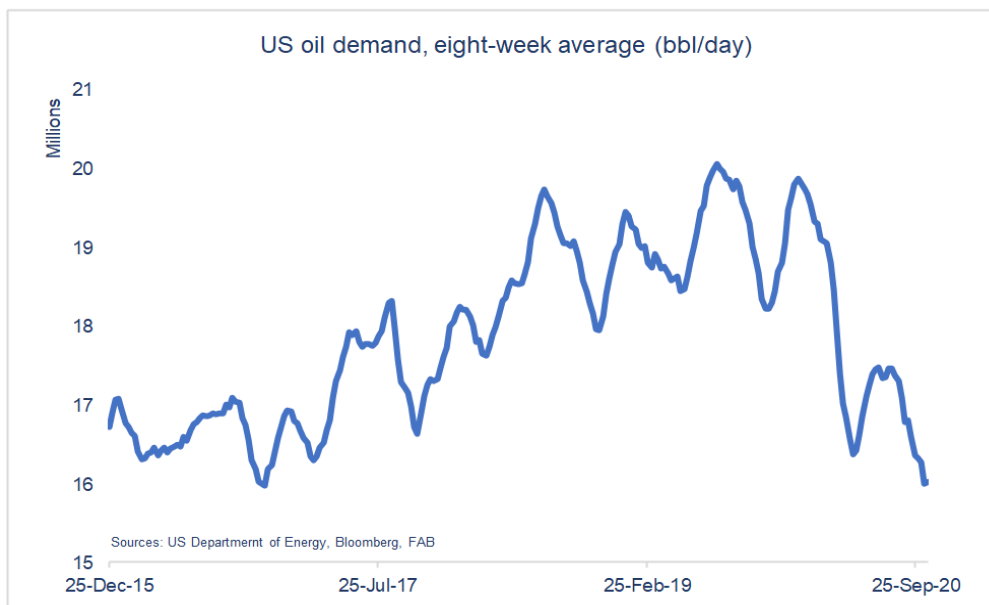
◆ Such measures are likely to cut oil demand just as Libya is returning to normal production.

◆ The FAB AAC remains slightly underweight in equities, and overweight in IG bonds and gold

It sounds like déjà vu all over again. Libya, one of the most important swing supply crude oil producers, has ramped up output to 800,000 barrels/day, after a truce in the country's civil war allowed it to restart production. While the news of the ceasefire is positive, the additional oil supply is coming at a difficult time for energy producers.

Lockdowns in the Northern Hemisphere amid rapidly rising Covid-19 transmission rates could reduce demand for oil in the coming weeks. The UK and France, two of the biggest economies in Europe have already issued national stay-at-home orders, and the heavyweight in the region, Germany, has done nearly that.

It is hard to predict the impact on oil, but according to the International Energy Agency, global crude demand fell to 83.23 million barrels/day at the end of June, from 101 million in December 2019.



The US Department of Energy, which puts out weekly numbers, offers a potentially more accurate read of what may be ahead. Average oil consumption in the US fell about 12% in the second quarter of 2020 compared to the same period last year. At the nadir, in the week ended 17 April, Americans consumed only 15 million barrels/day, compared to 18.6 million barrels/day a year earlier, a 19.2% drop.

Oil prices have started to reflect the possibility of a repeat of April's lower demand. Brent crude has fallen 8.2% in the past seven days, last traded at US\$37.1/barrel. The extent of the downside left for oil depends, naturally, of the outlook for both output and demand.

On the demand side, things may not be as bad, simply because demand never really recovered from the second quarter drop. Weekly demand rose to an average of 17.4 million barrels/day from May to August, compared to 16.8 million barrels/day in April in the US.

Oil demand dropped about 12% in the second quarter in the US compared to 2019

However, note that this was still nearly 10% below the 19.2 million barrels/day US demand in 2019. In simpler terms, while global oil consumption could still fall some 5%-10% depending on how serious the lockdowns are, much of the damage is simply a continuation of what has already been in place. Still, this scenario would reduce global demand to roughly 75 million barrels/day, when inventories remain high and the OPEC has started to talk about removing output curbs.

Those curbs are likely to stay in place and even increase, though. Bankruptcies of shale producers in the US have also erased nearly 2 million barrels/day of production. Still, it could be a rough ride ahead as investors try to figure out exactly where the oil output balance stands.

Investment Strategy Update

Disclaimer: This report has been prepared and issued by Products & Services - Elite & Private Banking ("P&S-EPB") of First Abu Dhabi Bank PJSC ("FAB") outlining particular services provided by P&S-EPB. This report is for general informational purposes and does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase or subscribe for, any shares in FAB or otherwise or a recommendation for a particular person to enter into any transaction or to adopt any strategy nor shall it or any part of it form the basis of or be relied on in connection with any contract therefore. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts.

This report is provided on a confidential basis for informational purposes only and is proprietary to P&S-EPB. This report may not be disclosed to any third party or used for any other purpose without the prior written consent of P&S-EPB. The manner of circulation and distribution may be restricted by law or regulation in certain countries, hence any unauthorised use or disclosure of this document is prohibited.

The information in this report reflects prevailing conditions and our views as of this date, which are accordingly subject to change. In preparing this report, we have relied upon and assumed, without independent verification, the accuracy and completeness of all the information available from public sources or which was otherwise reviewed by us. FAB PJSC makes no representation or warranty, expressed or implied, as to the accuracy, timeliness or completeness of the information in this report. FAB PJSC shall have no liability to the Customer or to third parties for the quality, accuracy, timeliness, continued availability or completeness of any data or calculations contained and/or referred to in this report nor for any special, direct, indirect, incidental or consequential loss or damage which may be sustained because of the use of the information contained and/or referred to in this report or otherwise arising in connection with the information contained and/or referred to in this report, provided that this exclusion of liability shall not exclude or limit any liability under any law or regulation applicable to FAB PJSC that may not be excluded or restricted.

Past performance is not a guarantee of future performance and should not be seen as an indication of future performance due to a variety of economic, market or other factors. The information contained in this report does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Any projections of potential risk or return are illustrative and should not be construed as limitations of the maximum possible loss or gain. Data included in this report may not take into account all potentially significant factors, such as market risk, liquidity risk and credit risk. Undue reliance should not be placed on forward looking statements in making an investment decision.

In addition, our analysis are not and do not purport to be appraisals of the assets, stock or business of the recipient and has been prepared without taking into account the objectives, financial situation or needs of particular person. Even when this presentation contains a kind of appraisal, it should be considered preliminary, suitable only for the purpose described herein and not be disclosed or otherwise used without the prior written consent of P&S-EPB. FAB clients may already hold positions in the assets subject to this report and may accordingly benefit from the buying or selling of such assets as referred to in this report. This document does not purport to set out any advice, recommendation or representation on the suitability of any investment, transaction or product (as referred to in this document or otherwise), for potential purchasers. In receiving this report, the client is fully aware that there are risks associated with investment activities. Potential purchasers should determine for themselves the relevance of the information contained in this document and the decision to purchase any investment contained herein should be based on such investigation and analysis as they themselves deem necessary. Before entering into any transaction potential purchasers should obtain the investment offering materials, which include a description of the risks, fees and expenses and ensure that they fully understand the potential risks and rewards of that transaction (including, without limitation, all financial, legal, regulatory, tax and accounting consequences of entering into the transaction and an understanding as to how the transaction will perform under changing conditions) and that they independently determine that the transaction is appropriate for them given their objectives, experience, financial and operational resources and other relevant circumstances. Potential purchasers should consider consulting with such advisers and experts as they deem necessary to assist them in making these determinations.

FAB is acting solely in the capacity of a potential arm's-length contractual counterparty and not as a financial adviser or fiduciary in any transaction unless we have otherwise expressly agreed so to act in writing. FAB does not provide any accounting, tax, regulatory or legal advice. FAB is licensed by the Central Bank of the UAE.

London: FAB London Branch is Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from FAB London branch on request. Registered in England & Wales: Company No: FC009142: VAT No: GB245 3301 91.

Paris: FAB Paris Branch is licensed by the French Prudential Control Authority as a credit institution. FAB Paris is registered in France under the company number: RCS Paris B 314 939 547.

Switzerland: This publication is for informational purposes only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. This report is for distribution only under such circumstances as may be permitted by applicable law. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions as well as any prices indicated are currently as of the date of this report, and are subject to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. At any time the First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee for its current or future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA expressly prohibit the distribution and transfer of this document to third parties for any reason. First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document.

Singapore: First Abu Dhabi Bank P.J.S.C., Singapore Branch is regulated by the Monetary Authority of Singapore and holds a Wholesale Bank license.

For more details relating the investment products, please refer to the Prospectus and/or offering document on <https://www.bankfab.ae/en/invest>. Please contact your relationship manager for information relating to subscription, redemption, dividends, client eligibility and/or any other information relating to the investment products.