

Oil bulls cut and run as US trade war derails market



Bloomberg/New York

Crude oil's biggest plunge in two years has money managers heading for the hills.

Hedge funds cut their net-long position – the difference between wagers on a price gain and bets on a drop – in Brent crude by the most since 2016. Bulls fled the market on concern that the escalating US-China trade war will imperil economic growth, denting oil demand amid signs of mounting supply from the US to Saudi Arabia.

“Extended trade tensions with China threaten global economic growth,” said Rob Thummel, managing director at Tortoise Capital Advisors LLC, which manages \$16bn in energy-related assets. An economic slowdown would “negatively impact global crude oil demand growth” as output from Saudi Arabia and Libya rises.

Oil has tumbled from a four-year high in May as President Donald Trump prepares to slap tariffs on \$500bn of Chinese goods. Though Trump also leaned on Saudi Arabia to lower

prices by pumping more, the kingdom said it will actually trim crude exports next month after bolstering production the most in three years in June.

Saudi Arabia "does not try to push oil into the market beyond its customers' needs," the Energy Ministry said in a statement on Thursday.

The world's largest oil exporter is fulfilling a pledge made in late June that the Organisation of Petroleum Exporting Countries and allies including Russia would boost output by about 1mn barrels a day.

Output from Libya rose last week as production from its eastern fields climbed, offsetting thousands of barrels in production lost from the partial shutdown of the country's biggest deposit after gunmen kidnapped workers there. "The return of Libya was a really big thing, and the addition from Saudi Arabia," said James Williams, president of London, Arkansas-based energy researcher WTRG Economics.

The Trump administration, meanwhile, was said to be considering tapping the nation's emergency oil supply to tame rising fuel prices before congressional elections in November, according to people familiar with the matter.

Hedge funds slashed their Brent net-long position by 21% in the week ended July 17 to 353,245 contracts, according to ICE Futures Europe data on futures and options released on Friday. That was the lowest level since August 2017.

Money managers' net-long position in West Texas Intermediate crude fell by 7.4% to 401,690 futures and options, the biggest decline since May, according to US Commodity Futures Trading Commission data released Friday. Longs also slipped 7.4%, while shorts fell 7.5%.

Though crude has recovered from lows reached in late June as Opec weighed an output boost, trade tensions have roiled the market. A measure of crude volatility soared last week to levels last seen almost a year ago.

US supply data, meanwhile, showed mixed signals for the market. Gasoline held in US storage tanks dropped by the most since May and fuel demand increased, according to government

data, overshadowing the biggest increase in American crude inventories since April.

US production gains have “caused some players who don’t have conviction to exit,” said Gene McGillian, manager of market research at Tradition Energy. “We saw some topping out of Brent around \$79 and the idea that the Saudis and Russians were willing to add oil back into the market.”

In the fuel market, money managers trimmed their net-long position in benchmark US gasoline by 9.1%, the first decline in three weeks. The net-bullish position on diesel slid 27%, the most since February.