The flexiweekly that reaches new heights - published on 19 May 2025

"OIL: IS IT POSSIBLE TO DRILL GOOD RETURNS?"

- Crude oil prices have fallen sharply, dropping below 50 dollars per barrel
- The futures curve, in backwardation, offers some interesting possibilities
- On the stock market, oil companies are showing strong resilience
- They continue to attract yield-seeking investors

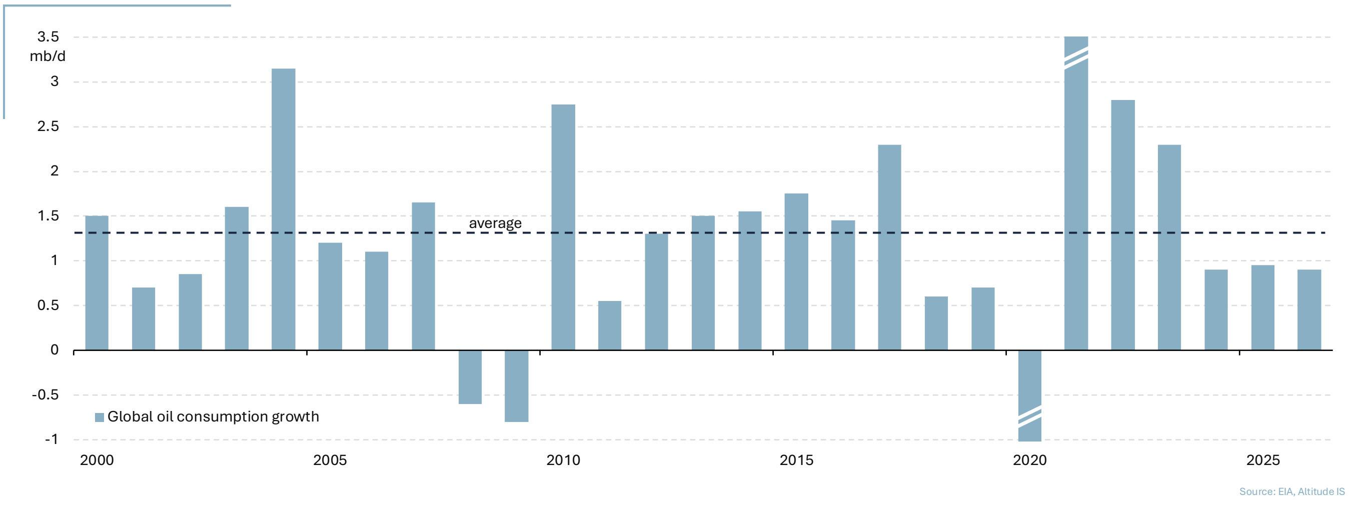
CHART OF THE WEEK: "The floor could not withstand the latest pressures"

Source: Bloomberg, Altitude IS

FINANCIAL MARKETS ANALYSIS

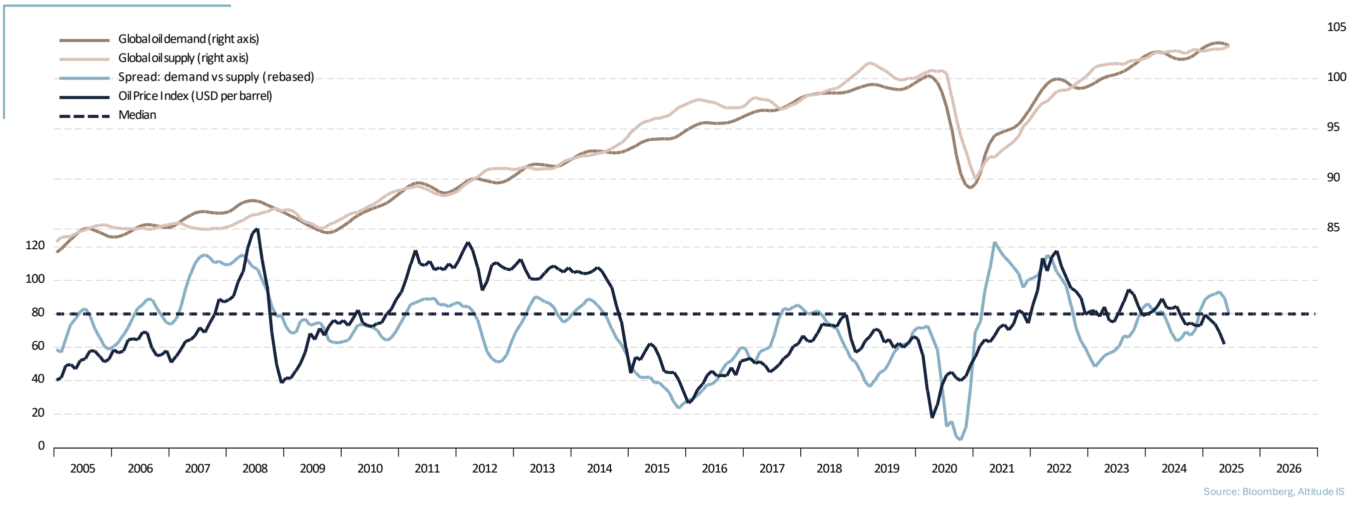
After two years of relative stability, the oil market suffered a major setback in April. WTI and Brent crude prices fell to $55 and $60 a barrel respectively (see Chart of the Week). Last Thursday, Donald Trump declared that the United States was moving closer to an agreement with Tehran on Iran's nuclear programme. Since this announcement, investors have been anticipating a significant oversupply of oil. This announcement is all the more important given that the 23 OPEC countries+ had already planned to increase their oil production. With the market already in an oversupply situation, investors instantly interpreted these two decisions as a bearish signal. Added to this is growing concern about sluggish demand. Leading indicators point to a slowdown in economic activity in Europe, Japan, China and the United States. The International Energy Agency (IEA) recently revised downwards its forecast for global oil demand growth in 2025, from 1 million to 740,000 barrels per day (see Fig. 2), a relatively slow pace compared with the last two decades.

Fig. 2 - Growth in oil consumption



This imbalance between growing supply and uncertain demand is fuelling a climate of nervousness on the commodity market, with WTI and Brent crude prices no longer able to maintain their equilibrium at around $80 (see Fig. 3). This downward adjustment could temporarily become more pronounced, particularly if the recession scenario were to gain momentum.

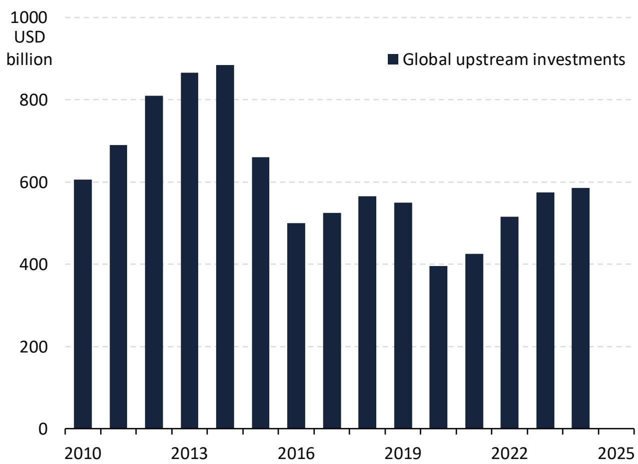
Fig. 3 - Impact of the imbalance between oil supply and demand on the price per barrel



Despite this mixed picture, several occasional factors are offering medium-term support for prices. Firstly, the dialogue between Beijing and Washington seems to be opening up again. Meeting in Geneva on 10 and 11 May, the Chinese and Americans agreed to suspend the customs duties applied to their respective imports. That was all it took to bolster demand for oil. Secondly, the relative weakness of the US dollar strengthened the purchasing power of crude-importing countries, particularly in Asia. Finally, persistent geopolitical tensions are putting pressure on energy prices, particularly in the Middle East, where the risk weighs directly on global logistics flows.

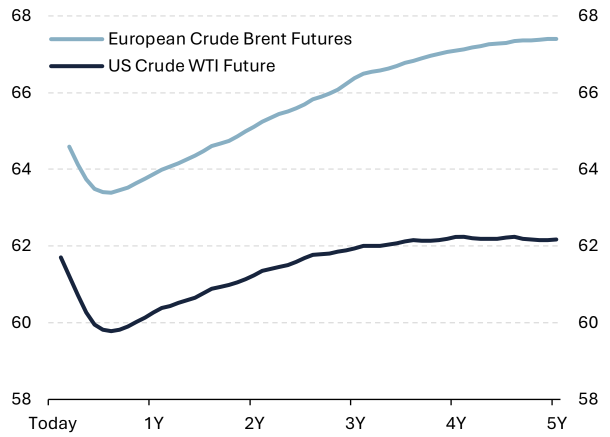
More structurally, chronic underinvestment in oil exploration is a factor of vulnerability for global supply. Since 2014, in order to adapt to the growing energy transition, companies in the sector have drastically reduced their spending on research and development of new fields (see Fig. 4). In the end, this transition is taking longer to implement than expected, given that the investment cycle in the oil sector is particularly long. Between the discovery of a deposit, geological studies, regulatory procedures, logistical investments and actual drilling, it often takes between 5 and 10 years before a well becomes fully operational. For example, the development of the Johan Sverdrup offshore field in the North Sea, discovered in 2010, did not produce oil until 2019. So, in the event of a rebound in demand or a shock to supply, the market's ability to react quickly is limited. This inertia creates an imbalance that feeds structural upward pressure on oil prices.

Fig. 4 - Field research and development



Source: Rystad Energy, Altitude IS

Fig. 5 - WTI and Brent futures prices



Source: Bloomberg, Altitude IS

The oil market can be read by the shape of its curve: when a distant contract is worth more than a nearby contract, we speak of a contango. This is the curve most commonly found on the futures market. The main cause of this phenomenon is the carrying costs. These costs include the cost of storing the commodity, the cost of obsolescence and the interest foregone on the money tied up. The contango situation can, in this case, be understood as a premium paid to the owner of the stock of the underlying product. It is often a sign that the storage will be profitable. Conversely**, backwardation occurs when the nearest contract is worth more than the distant maturities.** This exceptional situation reflects an immediate shortage and the fact that owning a barrel 'here and now' is a service to refiners and is paid for at a high price.

This is currently the case on the short side for both WTI and Brent, but the slope is much more negative on the US side (see Fig. 5). Stocks at the Cushing hub, the delivery point for WTI, have been flirting with the minimum technical threshold for months, so that a barrel delivered immediately provides an exceptional convenience yield. Stocks of Brent crude are also low, but sea freight offers greater flexibility in managing the shortage. In addition, US pipelines and terminals are operating at full capacity. These bottlenecks are increasing the pressure on WTI and attracting speculative funds, which are net buyers of oil in the short term. Brent, on the other hand, is a seaborne barrel with a large number of cheap tankers capable of rapidly redirecting supply to all the ports of Europe. The immediacy premium is lower, which limits the reverse slope.

To invest in the futures market, investors roll over their contracts. They sell their old contracts just before they expire and buy new contracts on the following expiry dates. In this way, they avoid the physical delivery of oil. In the classic case of contango, the prices of the new contracts will be higher than the previous ones and investors will suffer losses. Conversely**, in the case of backwardation, the prices of the new contracts will be lower than the previous ones and investors will make a capital gain. This is the case today.**

It is possible to obtain significantly higher returns by positioning oneself on WTI rather than Brent. There are several reasons for this. Firstly, the contract close to WTI remains quoted almost until delivery, whereas the Brent contract disappears from view almost two months earlier. Today, for example, the WTI front-month is still the June 2025 contract, while Brent has already switched to July 2025. On the US side, rolling therefore captures the part of the curve where backwardation is most pronounced. Secondly, because Brent 'jumps' faster, in practice only a segment of around ten months is rolled over in an annual cycle, whereas with WTI, the full twelve months can be exploited. Cumulative backwardation is therefore higher on the other side of the Atlantic. Thirdly, the WTI market (CME/NYMEX) is much more liquid than the Brent market on ICE Europe. With higher volumes, tighter spreads and lower transaction costs, the savings can be used to pay a more generous coupon or a more protective barrier. For all these reasons, structured participation products generally offer better terms when they are indexed to WTI rather than Brent.

Listed oil companies have suffered from the recent fall in oil prices but have remained relatively resilient. Although the MSCI World Energy sector index fell by more than 18% in early April, the worst shock since the spring of 2020, it has posted a very slightly positive performance since the start of the year (see Fig. 6). It has been buoyed by the recent rebound and solid results from a number of high-profile companies such as Marathon, Phillips 66, Valero and, to a lesser extent, ENI, ExxonMobil, Shell, Chevron and TotalEnergies.

ExxonMobil has surprised the market positively and has already returned a large part of its cash flow to shareholders through sustained dividends and a rapidly progressing share buyback programme. Chevron is also offering a generous return to investors while bringing the Ballymore field on stream, which is set to further reduce its cost base. TotalEnergies published robust results, raised its interim dividend and maintained the pace of its share buybacks. The company also gave the green light to the Papua liquefied natural gas project and completed the acquisition of a solar-storage portfolio in Spain, a sign that it is financing its transition without damaging its financial equilibrium. Shell has relaunched a major buyout programme following the sale of most of its onshore assets in Nigeria and is now focusing its investments on liquefied natural gas and on a Rotterdam-Rhineland hydrogen corridor. ENI is increasing its exposure to gas. A second floating liquefied natural gas facility in Mozambique is due to come on stream soon. In refining, Marathon Petroleum is relying on its midstream business, i.e. the storage, processing and transport of petroleum products. This has enabled it to maintain solid cash flow, despite the squeeze on margins. Phillips 66, meanwhile, has seen its production and earnings slashed by a major maintenance operation at its Los Angeles complex. This site is also the subject of a federal lawsuit for non-compliant wastewater discharges. The case is still pending, and the company has pleaded not guilty. Despite these two handicaps, shareholder returns, and debt reduction are on track.

Fig. 6 - Energy sector index

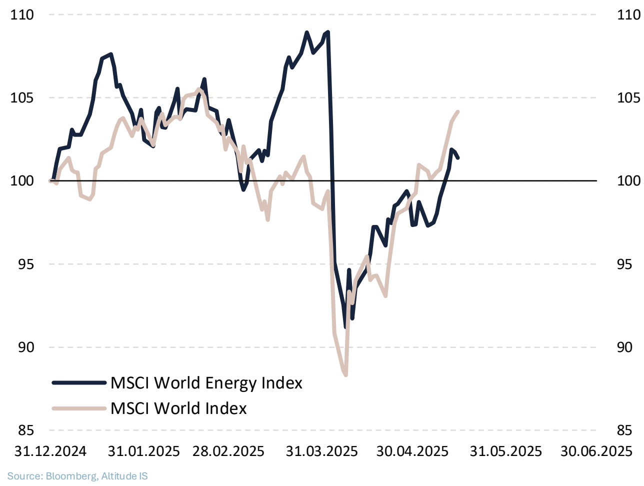
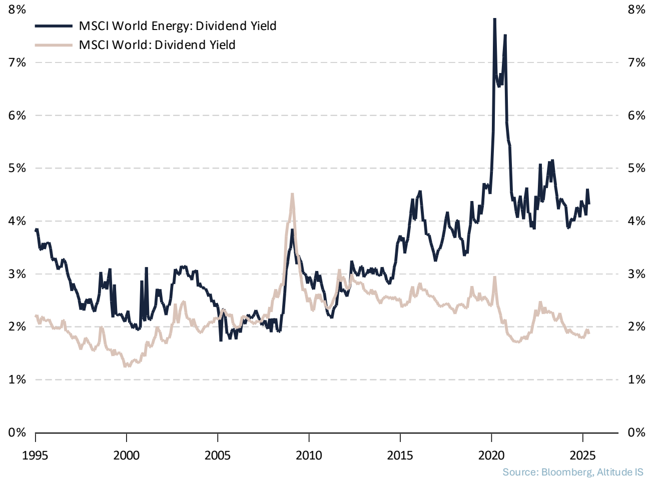


Fig. 7 - Dividend yield



On the whole, **oil groups** benefit from strong cash flow, controlled debt, massive share buyback programmes and very high dividends (see Fig. 7). They **therefore continue to attract yield-seeking investors.**

Conclusion:

The fiscal discipline maintained since 2020, combined with chronic under-investment in exploration, makes the oil companies sector attractive to investors. This will be all the more the case when oil prices once again hover above $65 a barrel.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	880.6	73.49	4.1%	11.6%	5.6%	18.0%	22.8%
USA (S&P 500)	5 958	69.76	5.3%	13.1%	1.8%	25.0%	26.3%
USA (Dow Jones)	42 655	63.51	3.5%	7.7%	0.9%	15.0%	16.2%
USA (Nasdaq)	19 211	70.89	7.2%	17.9%	-0.2%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	568.6	68.63	2.4%	10.7%	14.6%	10.2%	19.5%
UK (FTSE 100)	8 685	64.34	1.8%	5.5%	8.1%	9.6%	7.7%
Switzerland (SMI)	12 335	58.48	2.2%	7.2%	9.3%	7.5%	7.1%
Japan (Nikkei)	37 473	62.72	0.7%	11.3%	-4.5%	21.3%	31.0%
Emerging (MSCI)	1 172	72.21	3.1%	11.0%	10.2%	8.0%	10.2%
Brasil (IBOVESPA)	139 187	70.86	2.0%	8.5%	15.7%	-10.4%	22.3%
Mexico (IPC)	57 987	65.33	2.6%	10.5%	18.8%	-11.0%	22.4%
India (SENSEX)	82 291	64.42	3.7%	7.0%	5.7%	9.6%	20.3%
China (CSI)	3 875	58.32	1.2%	3.3%	-0.7%	18.2%	-9.1%
Com. Services (MSCI World)	132.0	69.90	5.3%	13.5%	6.2%	31.9%	38.1%
Cons. Discretionary (MSCI World)	422.4	70.32	5.6%	15.5%	0.7%	20.7%	29.5%
Cons. Staples (MSCI World)	295.8	55.88	0.4%	2.4%	9.7%	4.7%	3.2%
Energy (MSCI World)	243.7	58.77	2.8%	6.6%	2.9%	2.9%	6.0%
Financials (MSCI World)	200.4	74.53	3.1%	10.9%	13.0%	25.1%	16.4%
Health Care (MSCI World)	341.8	44.70	0.1%	-0.6%	-1.2%	1.5%	4.1%
Industrials (MSCI World)	421.7	78.34	4.0%	13.0%	12.9%	12.8%	22.5%
Info. Tech. (MSCI World)	772.5	74.20	7.5%	20.4%	0.7%	31.9%	51.4%
Materials (MSCI World)	329.0	65.75	1.5%	5.8%	8.6%	-7.7%	12.6%
Real Estate (MSCI World)	990	59.33	0.4%	5.0%	4.0%	-0.4%	5.3%
Utilities (MSCI World)	178.9	63.89	1.5%	4.8%	12.8%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.62%	47.44	-0.5%	-0.6%	4.2%	-1.7%	5.7%
USA (Sovereign)	4.27%	44.83	-0.3%	-0.6%	2.1%	0.6%	4.1%
Euro Area (Sovereign)	2.74%	53.11	0.0%	0.1%	0.1%	1.9%	7.1%
Germany (Sovereign)	2.30%	48.38	-0.2%	-0.6%	-0.9%	0.6%	5.6%
UK (Sovereign)	4.53%	46.87	-0.6%	0.1%	1.9%	-3.0%	5.6%
Switzerland (Sovereign)	0.44%	58.21	-0.2%	1.1%	0.3%	5.4%	7.9%
Japan (Sovereign)	1.18%	40.50	-0.6%	-1.1%	-1.5%	-2.1%	0.9%
Emerging (Sovereign)	6.90%	62.47	0.3%	1.8%	2.8%	7.0%	11.0%
USA (IG Corp.)	5.29%	52.43	0.4%	0.7%	1.7%	2.1%	8.5%
Euro Area (IG Corp.)	3.18%	59.44	0.3%	0.1%	1.0%	4.7%	8.2%
Emerging (IG Corp.)	6.68%	62.24	0.3%	1.5%	2.3%	7.0%	6.7%
USA (HY Corp.)	7.46%	70.25	0.1%	2.6%	2.4%	8.2%	13.4%
Euro Area (HY Corp.)	5.74%	70.46	0.1%	1.8%	1.8%	8.2%	12.1%
Emerging (HY Corp.)	8.45%	70.64	0.3%	2.8%	2.9%	14.9%	13.1%
World (Convertibles)	470.6	78.03	1.7%	7.1%	6.9%	9.4%	12.3%
USA (Convertibles)	624.3	72.80	2.2%	8.5%	4.3%	10.1%	14.6%
Euro Area (Convertibles)	274.2	73.39	0.5%	6.5%	17.8%	14.7%	7.3%
Switzerland (Convertibles)	274.4	58.72	-0.8%	2.3%	13.9%	-10.5%	5.8%
Japan (Convertibles)	228.5	63.42	0.4%	2.8%	0.8%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 596	73.18	n.a.	-0.3%	-0.9%	11.1%	7.8%
Macro	1 317	59.44	n.a.	-2.1%	-1.9%	7.4%	1.6%
Equity Long Only	2 136	61.58	n.a.	0.4%	-3.4%	12.0%	15.9%
Equity Long/Short	1 664	71.29	n.a.	0.6%	-0.7%	14.0%	7.7%
Event Driven	1 697	68.93	n.a.	-1.0%	-1.7%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 652	89.68	n.a.	-0.2%	0.0%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 645	71.56	n.a.	-3.2%	-1.2%	9.8%	7.8%
Credit	1 623	95.78	n.a.	0.3%	1.7%	8.5%	8.1%
Credit Long/Short	1 641	99.84	n.a.	0.0%	0.8%	10.0%	11.2%
Commodity	1 874	92.95	n.a.	2.7%	4.7%	14.7%	7.3%
Commodity Trading Advisors	1 278	48.35	n.a.	-3.5%	-4.7%	7.9%	-3.6%
Volatility							
VIX	17.24	36.10	-21.3%	-47.2%	-0.6%	39.4%	-42.5%
VSTOXX	16.36	37.43	-20.3%	-37.8%	-3.8%	25.3%	-35.0%
Commodities							
Commodities (CRB)	557.6	n.a.	2.2%	3.7%	3.9%	5.1%	-8.0%
Gold (Troy Ounce)	3 217	n.a.	-0.6%	-6.0%	22.6%	27.2%	13.1%
Silver (Troy Ounce)	32.39	n.a.	-0.7%	-0.9%	12.1%	21.5%	-0.7%
Oil (WTI, Barrel)	62.49	n.a.	2.4%	0.0%	-12.9%	0.1%	-10.7%
Oil (Brent, Barrel)	65.08	n.a.	2.6%	-3.7%	-12.2%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	100.79	50.33	-1.0%	1.4%	-7.1%	7.1%	-2.1%
EUR	1.1186	48.47	0.9%	-2.9%	8.0%	-6.2%	3.1%
JPY	145.20	50.16	2.2%	-3.0%	8.3%	-10.3%	-7.0%
GBP	1.3302	54.39	1.0%	-0.6%	6.3%	-1.7%	5.4%
AUD	0.6404	51.94	0.5%	-0.2%	3.5%	-9.2%	0.0%
CAD	1.3970	47.59	0.0%	-0.9%	3.0%	-7.9%	2.3%
CHF	0.8362	49.81	1.1%	-3.2%	8.5%	-7.3%	9.9%
CNY	7.2159	62.49	-0.1%	1.1%	1.2%	-2.7%	-2.8%
MXN	19.467	58.82	0.9%	1.4%	7.0%	-18.5%	14.9%
EM (Emerging Index)	1 815.5	77.39	0.3%	2.8%	5.1%	-0.7%	4.8%
XBT	102 937	n.a.	-0.6%	20.8%	9.8%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions — Total Return by asset class (Negative \ Positive Performance)

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