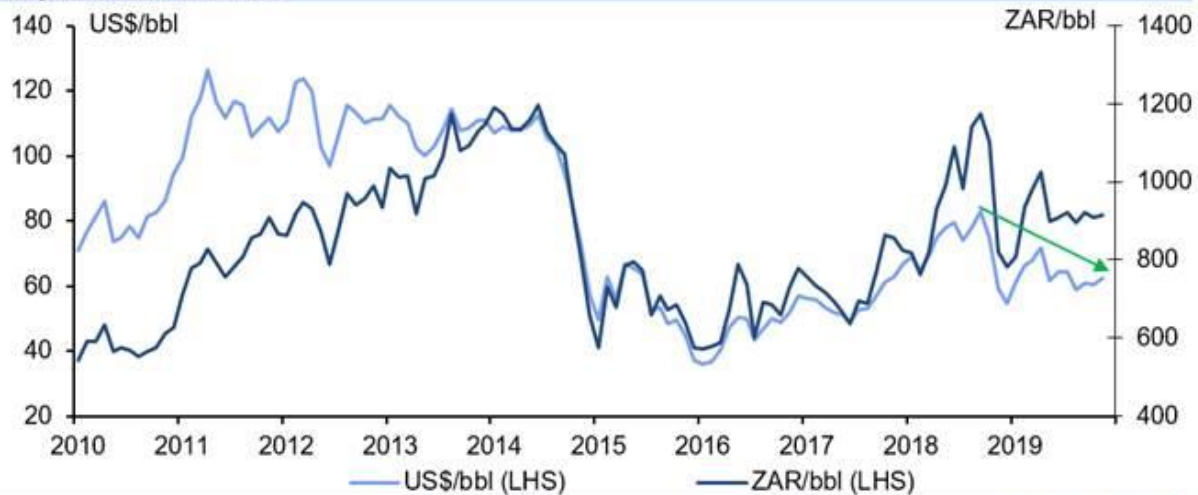


Oil Note

Wednesday 5 February 2020

Oil price drops as 2019-nCoV (coronavirus) sees China (the largest global oil importer and second largest refiner) cut oil imports as plants (and many factories) shut down and refineries reduce output. However, OPEC is likely to cut supply again

Oil price: Rand vs USD

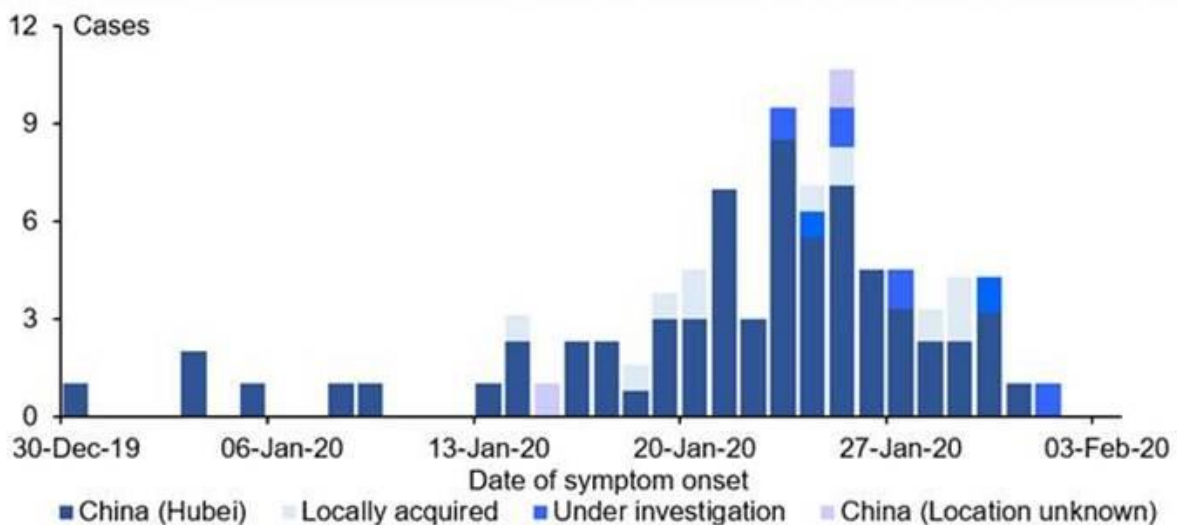


Source: Iress

- The oil price (Brent crude) closed at US\$53.84/bbl yesterday on the negative impact that the 2019 Novel Coronavirus (2019-nCoV) outbreak has had on oil demand and refining in China. Production cuts from OPEC are expected in response, aimed at halting the price slump in the oil market, with the 2019-nCoV still spreading rapidly.

- The number of deaths and infections from 2019-nCoV are still rising rapidly and the outbreak not stabilised, with the World Health Organisation (WHO) today reporting the latest confirmed cases of infection globally at 20 630 (versus 4 593 a week ago), and deaths at 426 (versus 106 a week ago) for 4th February.
- Last night, China's National Health Commission (which is a day ahead of WHO figures) put the death toll at 490 and 24 324 confirmed cases of infection in China only, up from the WHO figures published today (which are on yesterday's data) of 20 471 confirmed cases of infection and 425 deaths in China, showing the rapidity of the spread of the disease.
- The quantum of the reduction in demand for oil from China going forward is still unclear, and China remains a key importer of other commodities as well, contributing to the price decline in most commodity prices this month, but particularly those of food, metals and industrial products.
- Commodity currencies have also come under pressure, with the Australia and New Zealand dollars and Chilean peso around 4% weaker versus the end of last year, the Canadian dollar and Russian rouble around 2% weaker and the rand, Brazilian real and Norwegian krone around 5% weaker – all against the US dollar.
- While oil prices have recently recovered very slightly on the expectation of further OPEC production cuts, to US\$54.2/bbl for Brent crude, oil has not reversed its losses from US\$68.7/bbl at the start of the year when optimism for faster global growth resulting from the US trade agreements spurred commodity prices higher.
- OPEC and its allies are looking to implement larger quotas to support oil prices, on concerns that the 2019-nCoV could last for six months, with demand from China negatively impacted in this period. Substantial further cuts, of over 800 000 to a million barrels per day have been suggested to lift the oil price, with the cartel more comfortable at likely US\$65/bbl.

Epidemic curve of 2019-nCoV cases (n = 93) identified outside of China, by date of onset of symptoms and travel history, 4 February 2020



Source: World Health Organisation

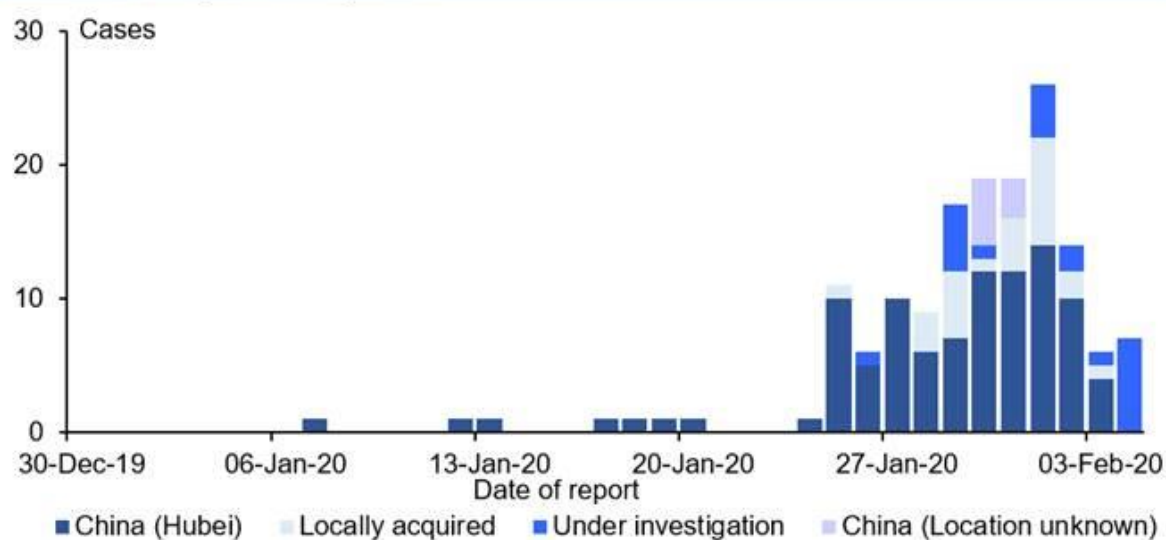
Note: Of the 159 cases reported outside China, 12 were detected while asymptomatic. For the remaining 147 cases, information on date of onset is available only for the 93 cases presented in the epidemiologic curve.

- With OPEC only previously scheduled to meet in March to discuss output cuts, an earlier meeting is anticipated to prevent a further slide in oil prices, with China purchasing the majority of its oil from OPEC

and its allies. A number of key oil producing countries are expected to face negative financial impacts if the current oil bear market persists.

- The Brent crude oil price currently averages US\$62.9/bbl to date this quarter, versus Q4.19's US\$62.4/bbl, but is likely to drop below US\$60/bbl during this month, and move towards US\$55/bbl for this quarter if the low oil prices persist, or drop further on a sustained basis, with the impact of the full coronavirus still unknown for China and so for oil demand.
- The latest WHO data shows 13 522 confirmed cases of 2019-nCoV in Hubei, while China has 20 471 overall (up from 4 537 a week ago) confirmed cases overall, Japan 20 (6 a week ago), Thailand 19 (14 a week ago), Singapore 18 (7), South Korea 16 (4), Australia 12 (5), Germany 12 (1), US 11 (5), Malaysia 10 (4) and UK 2 (0).
- Concerns also centre around the incubation period of the disease, which has been estimated up to two weeks before symptoms show (with transmission possible during this time). With the infection rate yet to peak, and anecdotal evidence already of a sharp slowing in some areas of Chinese economic activity, markets remain risk-averse.
- The World Bank has said it will lower its global growth forecast in H1.20 as a result of the severity of the coronavirus "in part due to the (effect on) China, in part due to the supply chains". "A lot of Chinese goods come out to the rest of the world in the belly of aircrafts that are carrying passengers."
- The G7 is reported to have agreed to "(a)n appropriate response to the virus can only be coordinated internationally and at European level because a virus knows neither borders nor nationalities", with the WHO saying the disease did not yet constitute a pandemic (a disease that is globally prevalent), although a number of experts highlight that the risk is high.
- The lower oil price is currently leading to a likely petrol price cut in March, currently estimated at 36c/litre, but the cut would be larger, estimated at closer to 60c/litre, if the rand had not depreciated significantly. The risk of a Moody's downgrade in March is also hanging over the rand, resulting in greater depreciation than many other EM currencies.

Epidemic curve of 2019-nCoV (n = 159) cases identified outside of China, by date of reporting and travel history, 4 February 2020



Source: World Health Organisation

