'OPEC curbs, supply risks to buoy oil prices in 2020'

NEW YORK: Oil prices will remain supported near current levels this year as persistent geo-political risks and OPEC-led output curbs help offset growing supply from other producers, a Reuters poll showed on Friday.

The survey of 50 economists and analysts, mainly conducted before the coronavirus outbreak, forecast benchmark Brent crude LCOc1 to average $63.48 per barrel in 2020. That compares with an average of $63.76 so far this year and last month's forecast of $63.07.

The 2020 outlook for West Texas Intermediate CLc1 rose to $58.22 a barrel from December's $57.70 forecast.

Oil prices surged earlier this month after a U.S. drone strike killed a top Iranian commander, but the rally was short-lived.

"Heightened tensions in the Middle East will keep upward pressure on prices, as the risk that U.S. and Iran could accidentally enter into a direct military conflict persists." Economist Intelligence Unit analyst Cailin Birch said.

Prices are now near their lowest since October however, on fears that the coronavirus epidemic might hit global growth and oil demand, but further downside should be capped by lower output from the Organization of Petroleum Exporting Countries (OPEC).

"OPEC will come close to balancing the market in 2020 and their deeper than expected cuts will provide a layer of support as oil markets remain fixated on the recent output increase with non-OPEC producers," OANDA analyst Edward Moya said.

Most poll respondents expect Organization of Petroleum Exporting Countries and its allies led by Russia, a grouping known as OPEC+, to extend their agreement to limit supply beyond the currently agreed end date at the end of March.

"The group will be forced to maintain the current cuts at least up to end-year as non-OPEC growth will probably grow quicker than global demand in 2020," Intesa Sanpaolo analyst Daniela Corsini said.

U.S. oil production is expected to rise to a record of 13.30 million barrels per day (mbpd) in 2020, the U.S. Energy Information Administration said.

Growing non-OPEC supply could also offset the price effect of a de-escalation in the U.S.-China trade dispute following the signing of a phase one deal, analysts said.

Under the deal, China pledged to buy over $50 billion more of U.S. energy products over two years.

A revival of the spat between the two countries remains a risk, with another escalation likely to slow demand growth, UBS analyst Giovanni Staunovo said.

"Considering Chinese crude imports of US barrels were zero in recent months, a small pick-up will push up the export volume, but otherwise no big impact is expected on prices."

Analysts expect global oil demand to grow by about 0.8-1.5 mbpd this year, which compares with the International Energy Agency's 1.2 mbpd outlook. **—Reuters**

Papua New Guinea scraps talks with Exxon on P'nyang gas project

TEXAS: Papua New Guinea on Friday called off negotiations with Exxon Mobil regarding the P'nyang gas project, casting a shadow on a $13 billion plan to double the country's gas exports by 2024.

The government said Exxon had refused to budge on the financial terms for developing the gas field and failed to come up with an offer that it could accept.

The P'nyang field was key to helping feed the expansion of Exxon's PNG LNG plant, which it operates with partners Total SA, Oil Search and Santos. The P'nyang agreement is one of two agreements needed for Exxon and its partners to go ahead with their $13 billion plan to expand LNG exports. The other agreement, the Papua LNG pact, was sealed with Total in September.

"Exxon Mobil's offer had barely changed from its opening offer presented last November," Prime Minister James Marape said in a statement, adding that it was not "substantially different" from a recent LNG agreement with Total. The country is hoping Total will still go ahead with its Papua LNG project, a person close to the negotiations said. **—AFP**

Shares struggle for footing after virus-battered week

LONDON: World shares were heading for their biggest weekly losses since August on Friday and oil and metals markets were showing even more brutal damage, as investors worried over the fallout from China's coronavirus epidemic.

A modestly positive start from Europe quickly soured as headlines of more cases and deaths, travel bans and factory shutdowns due to the virus were compounded further by disappointedly weak economic data.

The big blow was that both France and Italy's economies unexpectedly shrank at the end of last year, with Eurostat also confirming that the euro zone as a whole grew slower than analysts had forecast.

That pushed Paris and Milan down by 0.6% and 1.4% respectively. London and Frankfurt dropped 0.8% and 0.4% and with Wall Street pointing to similar falls later too [.N] the weekly global wipeout was already around $1 trillion.

"The coronavirus is outweighing everything else," said Francesca Fornasari, head of currency solutions at Insight Investments.

"We have seen quite a position unwind and ... whatever is coming out in terms of data is for the period when the virus hadn't become quite such a big issue."

The virus, which is centered on China, has spread to more than 20 other countries and regions. As of Friday China had reported 213 deaths and 9,800 cases, with number of people infected surpassing the total during the 2002-2003 SARS epidemic.

Britain reported its first two cases of the illness on Friday. The United States and other countries tightened their travel curbs and businesses said they were facing supply problems from China.

Asia-Pacific shares outside Japan extended their fall, dropping 0.4%, and appeared set for their worst weekly loss in a year, of 4.6%. Thursday's 2.3% dive was the sharpest one-day loss in six months.

Japan's Nikkei bounced 1%, but was off 2.6% for the week. Hong Kong's Hang Seng drifted 0.3% lower and has shed 9% in two weeks. Korea's Kospi had its worst week in 15 months, losing 5.6%.

Wall Street's S&P 500 futures were down 0.5% ahead of the New York restart having been briefly higher overnight.

That was given a boost when Amazon's sales blew past forecasts and sent its stock soaring 11% after hours, adding over $100 billion in market value.

Surveys showing Chinese manufacturing activity then came in much as expected in January while services actually firmed, though this was likely before the virus took full hold.

Indeed, reports that some Chinese provinces were asking companies not to re-start until Feb. 10 - extending the Lunar New Year holiday - suggested activity would take a hard knock this month.

More airlines curtailed flights into and out of China and companies temporarily closed operations, while the United States advised citizens not to travel to China.

JPMorgan shaved its forecast for global growth by 0.3% points for this quarter.

"Based on the patterns observed from other epidemics, we assume that the outbreak will likely run its course over 2-3 months, meaning the hit to activity happens in the current quarter," JPMorgan analysts said in a note.

"Also in line with historical experience, we expect a full recovery to follow."

Safe-haven bonds were well bid, with yields on U.S. 10-year Treasuries down 9 basis points for the week so far and near four-month lows.

The yield curve between three-month bills and 10-year notes has inverted twice this week, a bearish economic signal.

In currencies, sterling extended gains after jumping on Thursday when the Bank of England confounded market expectations by not getting anywhere near an interest rate cut.

The pound was last up 0.3% at $1.3119, a relatively perky performance given that Friday is the day the UK officially leaves the European Union after years of political turmoil.

The dollar was still flat after data the previous day showed the U.S. economy had grown at its slowest annual pace in three years and personal consumption weakened sharply.

It barely budged from 109 yen and $1.1040 to the euro on Friday. **—Reuters**

Wars and viruses: Are robots less prone to market panic?

LONDON: Widely blamed for volatile "flash crashes" in currencies and equities, high-frequency algorithms may also be why shock global events, including the current coronavirus, seem to have lost their power to spook markets for any length of time.

Whether stocks, bonds, currencies or commodities, asset prices seem less prone to any selloff for very long; the U.S. killing of an Iranian general and Iran's retaliatory missile attack are among potential catastrophes that triggered violent but surprisingly shortlived reactions just since the start of 2020.

In both cases, knee-jerk yen-buying and selling of equities faded within hours, allowing stocks to scale new record peaks.

Now even as China's coronavirus threatens to throttle economic growth, global stocks are not far off all-time highs.

Certainly, many factors are shaping the resilience, not least central bank money printing and rising global savings which boosted the value of world stocks by $25 trillion in the past decade.

Yet it is hard not to link the shift in reaction by financial markets to the rise of automated trading strategies. In the past six years, the share of algo-trading in the $6.6 trillion-a-day FX market has more than doubled to 27% among fund managers, a survey by Greenwich Associates found.

There is some reason to believe algos cause volatility, especially when trading thins and the humans overseeing them vanish, for instance during public holidays. That's what likely happened during the Wall Street flash crash of 2010 and dramatic but fleeting yen moves in Jan 2019.

But they also offer the advantage of being able to transact at lightening speed at any hour of the day or night, with razor-sharp accuracy and lower overall costs. But machines, they are also alien to the common human impulses of fear and greed that tend to take over.

"Human trading tends to be emotional but machine trading is very dispassionate," said Scott Wacker, global head of fixed income, currency and commodity e-sales at JP-Morgan, one bank at the forefront of the algo revolution.

"As a result, the reaction functions in currency markets to even major geopolitical news has considerably shortened."

In short, when left-field events hit, not only can algos scan and react swiftly to newsfeed, many now can gauge the potential asset price impact. The most sophisticated can be "trained" to learn from the experience before the next shock.

One currency trader familiar with algo use said a machine reading coronavirus cases would typically buy stocks if informed of "500 new cases, 10 deaths". "If it's '3000 new cases, 200 deaths' they might sell.

"The point being that as soon as a headline is out, the machine-led market is trading on it," the trader said, speaking on condition of anonymity.

But the machines had 'vol triggers', he said, meaning they can stop trading when the market moves beyond specified limits.

Simple first- and second-generation programs merely broke down large buy/sell orders into chunks to minimize market impact. Now algos can be hooked up to sophisticated language processing technology, to "read and analyze" news feeds, then react accordingly, all in the space of seconds, said Antony Foster, head of G10 FX trading at Nomura.

However this can "lead to overreaction in the first instance", Foster warned.

The impact in fast-moving markets can be outsized if the models rapidly push prices towards existing buy/sell order levels, trip them and

Japan's Nippon Steel to cut 10pc of crude steel capacity: Nikkei

TOKYO: Japan's Nippon Steel Corp, the world's third-biggest steelmaker, is likely to cut about a tenth of steelmaking capacity, the Nikkei business daily said on Friday, in what would be an unprecedented move for the steel industry.

Nippon Steel plans to close both blast furnaces at its Kure Works "within a few years" and may shut down the entire steelworks in the face of rising output in China, the Nikkei said, without citing a source.

Besides cheaper products from China, Japanese steelmakers face a future of stagnant domestic growth as the population declines and a construction boom from the Tokyo Olympics and rebuilding in areas hit by the 2011 quake and tsunami fades.

"This would be the first closure of an integrated steel mill in Japan of this magnitude," said Jefferies analysts Thanh Ha Pham and Sangin Yun in a note.

Nippon Steel acquired the Kure Works in the western region of Hiroshima when it completed its takeover of Nisshin Steel last year. Other industries in Japan, such as refining, have seen similar moves after mergers, as the population contracts. No decisions had been made on the matter, however, Nippon Steel said. "The report is not based on our announcement," it said in a statement. "We are continuously considering measures to strengthen competitiveness of our steel business and we will announce any decisions when they are formalized."

Japan's biggest steelmaker by output has seen its profits hit as slumping steel prices in Asia have dented its export margins and a series of suspensions at local facilities caused by typhoons and fires interrupted production. Last month, a senior executive said Nippon Steel may close more blast furnaces as part of plans to reduce domestic facilities and costs. Nippon Steel has 15 blast furnaces across Japan, with annual output of 52 million tonnes of crude steel. It has already said it plans to close one of two furnaces in the western city of Kure by about March 2024, as well as another at its Yawata Works in Kokura, on the island of Kyushu, by March 2021. **—Reuters**

Global funds prefer stocks despite risks still at play

BENGALURU: Funds increased their preference for stocks to a two-year high at the expense of bonds and cash holdings in their model global portfolio recommendations this month in a Reuters poll, despite world share markets struggling on the coronavirus breakout.

That cautious mood in markets lines up with responses to a separate question, which showed international long-term investors would either roughly maintain their current risk positioning or reduce their exposure to riskier assets and positions within the same asset class.

"We should consider that we are in a late (economic) cycle, and most of the cyclical acceleration in 2020 is expected in the first half. Therefore, we expect to reduce risk exposure at some point between Q2 and Q3," said Pascal Blanqué, chief investment officer at Europe's largest asset manager, Amundi, in Paris.

The latest Reuters poll was conducted amid mounting worries about the economic damage from a coronavirus outbreak in China that so far has led to more than 200 deaths, multiple travel bans, flight cancellations and factory shutdowns.

"While we acknowledge the increased risks represented by the coronavirus and rising Middle East tensions, the global economic landscape is notably more positive entering 2020," said Alan Gayle, president at Via Nova Investment Management.

"Moreover, earnings prospects are improving and central bankers intend to keep interest rates low, which supports a higher stock market. We plan to maintain our increased equity exposure at least over the near term."

The Jan. 17-31 poll of 37 asset managers showed global investors in search of better returns increased their exposure to equities to the highest since January 2018, to an average 49.7% from 47.0% in December.

"Equities look most attractive from a cross-asset point of view and remain one of the highest-yielding assets," said Benjamin Seuss, director at UBS Asset Management.

Funds suggested a cut to bonds holdings to 40.3% from 42.1% and cash levels to the lowest in two years to 4.3% from 4.6% in December.

"It is likely that global equities will outperform bonds in 2020 as investors remain committed to risk assets for their total return strategies," said Peter Lowman, chief investment officer at Investment Quorum in London.

"Nonetheless, its a question of 'what you own rather than just owning the market' given valuation distortions in parts of the equity market."

But many fund managers viewed the potential economic damage from the coronavirus and below-expectations earnings growth as the biggest risks to their current positioning.

"The hit to Chinese consumption from the coronavirus outbreak could delay or weaken the re-acceleration of global growth," said UBS's Seuss in Zurich.

"The market is priced for a sharp rebound in earnings over the next few months and any delay could cause some additional but modest volatility. Any pullback of around 5% or so will be a buying opportunity for equities," he added.

While equities in both developed and emerging markets were predicted to rise modestly this year, the conviction among fund managers was much stronger for developed markets equities, which had a banner year in 2019.

More than 80% of portfolio managers in response to an additional question said stocks in advanced economies would rise modestly.

But on emerging-market equities - which rallied late last month and earlier in January - they were more split, with around 60% predicting a rise and the remaining 40% expecting a decline in 2020. The regional breakdown showed developed-market stocks broadly rose at the expense of the emerging markets.

"We need to see earnings growth come through in 2020 to support equity markets following the large re-rating in 2019. Liquidity provided by the Federal Reserve has also calmed markets," said Craig Hoyda, senior quantitative analyst at Aberdeen Standard Investments in Edinburgh. **—Reuters**