



6 October 2017

## Update: Buy WTI / sell Brent; close INR/KRW

- Brent-WTI spread to narrow as US exports pick up
- Investor rotation from Korea to India not evident, market ignoring geopolitics
- Buy WTI / sell Brent and close long INR/KRW for small profit

### Asset class focus:

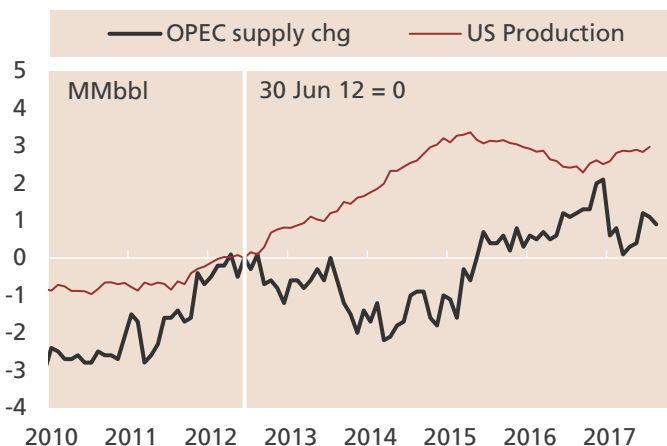
- Multi Asset
- Fixed Income
- Currencies
- Equities
- Commodities

The Brent-WTI spread has risen in the past few months as supply curbs in OPEC and Russia have been effective, and US production has increased. Hurricane Harvey also reduced demand from US refineries (which cut production), so when the IEA forecast higher global demand, Brent prices were most affected. The spread widened to almost \$7, its highest in two years.

US refineries are now getting back up to speed and the spread is now likely to narrow. US domestic demand should also begin to increase and rising US exports should ease global demand for Brent oil. We expect the spread to return to its 2016-17 range of around \$1-\$3.

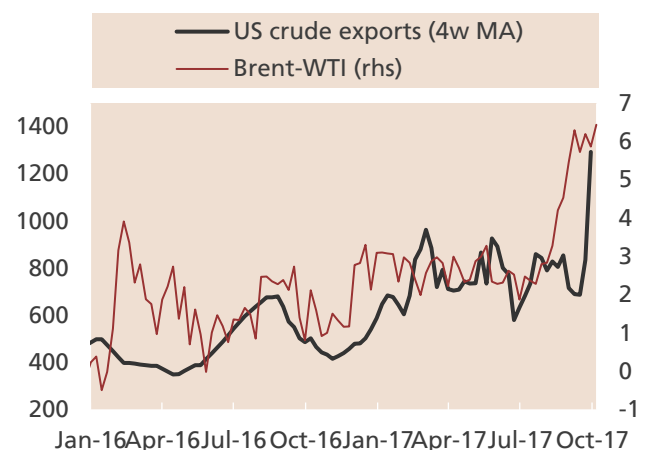
We sell Brent oil futures and buy WTI oil futures at a spread of \$6.50 with a target of \$3 and a stop-loss at \$8.

### OPEC supply cut, US supply rise



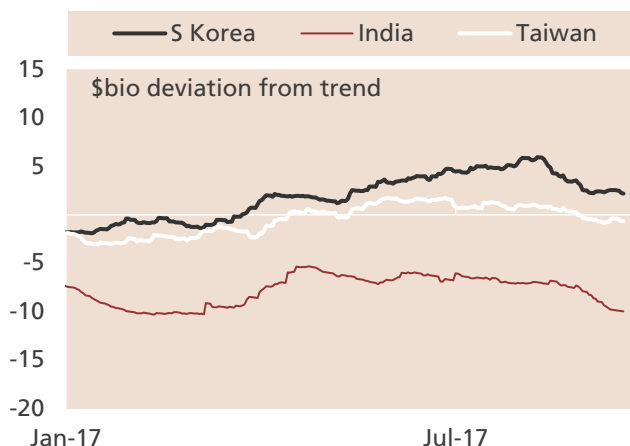
Source: Bloomberg, TS Lombard

### Rising US crude exports should narrow the spread



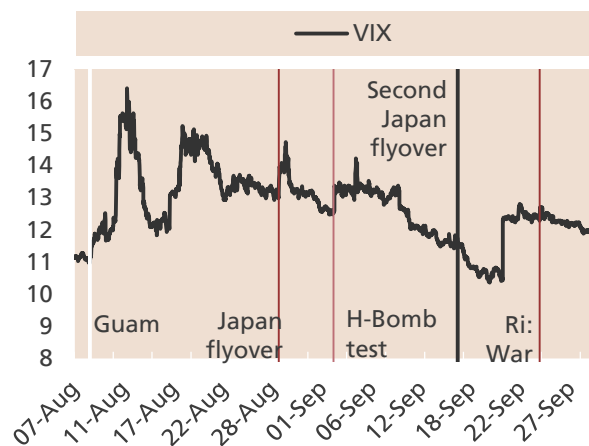
Source: Bloomberg, TS Lombard

## Korean outflows not going to India



Source: Bloomberg, TS Lombard

## Reaction to escalation is now minimal



Source: Bloomberg, TS Lombard

## EM investors shrugged off North Korea

On August 30<sup>th</sup> we entered into a long INR/KRW position, expecting that investors into Korea would rotate into less geopolitically-risk Indian investments. There has been a little outflow from Korea, but rotation has clearly not occurred. Moreover, investors have shrugged off escalating North Korean tensions with increasing speed. The half-life of market reactions to escalation is shrinking.

The INR/KRW position was long carry so it has paid for itself while we owned it, but we close today for around 30bp profit in light of the unchanged investment landscape in Korea.

**Oliver Brennan, Andrea Cicione**

[oliver.brennan@tslombard.com](mailto:oliver.brennan@tslombard.com), [andrea.cicione@tslombard.com](mailto:andrea.cicione@tslombard.com)

Disclaimer

## Current trade recommendations

Theme	Trade	Date opened	Entry level	Last	P&L	Target	Stop	Original rationale / comment
<b>Global reflation</b>								
	Long EM equity (EEM US)	21-Jun-17	41.10	45.52	10.7%	49.00	43.80	Benign inflation outlook, EM cheap and underinvested
	Long Russia RTSIS	02-Aug-17	1015.0	1133.1	11.6%	1200	1070	GEM tailwinds, US sanctions priced in, cheap valuations
<b>ECB Taper</b>								
	Long 10y UST / Short Bunds*	05-Apr-17	210bp	186bp	15bp	160bp	186bp	Spread too wide due to ECB asset purchase programme
	Long Itraxx XO / Short CDX HY	13-Sep-17	-97bp	-72bp	0bp**	-20bp	-140bp	EA HY to rise on ECB taper, US HY neutralises carry cost
	Short BTPs / Long Bunds	20-Sep-17	160bp	169bp	9bp	200bp	140bp	BTP risk from taper and potential Italy fiscal expansion
	Long EUR vs GBP, CHF, AUD, USD	04-Oct-17			0.5%			ECB taper and China growth rollover
<b>Monopol tightening</b>								
	Long USD/CAD 31Oct17 call spd	12-Jul-17	41bp	1bp	-40bp	n.a.	n.a.	CAD too strong to support Canadian growth
	Long USD/CAD 15Dec17 call spd	13-Sep-17	35bp	85bp	50bp	n.a.	n.a.	US-CA econ data tuming, CAD hiking fully priced
<b>Korea risks lead to rebalancing</b>								
	Long INR/KRW*	30-Aug-17	17.520	17.470	0.33%	18.10	17.20	NK-US risks lead to investor rebalancing away from Korea
<b>Oil price normalisation</b>								
	Long WTI / Short Brent futures	06-Oct-17	6.500			3.00	8.00	Brent-WTI spread to narrow as US exports rise

\*Closed out today \*\*Includes 25bp of XO and CDX roll

