

Investment Event

Oil prices go negative

WTI oil prices have fallen into negative territory amid a significantly oversupplied market and limited storage capacity

Contracts for delivery beyond June have held up relatively better

Our views

The unprecedented moves in oil markets reflects the significant challenges facing the global economy.

Nevertheless, for global equities, highly attractive relative valuations and policy support measures means we remain strategically overweight in our multi-asset portfolios

Oil prices slide further amid storage concerns

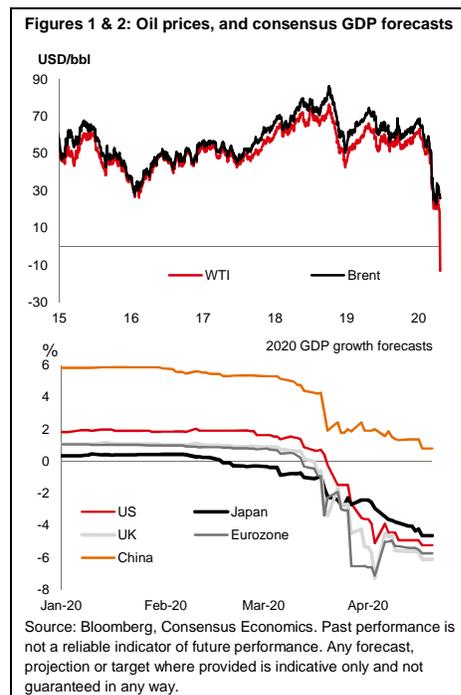
US West Texas intermediate (WTI), one of the main benchmark oil prices, dropped into single digits in trading on 20 April, and eventually into negative territory (Figure 1).

It is important to note the move into negative prices has been for the immediate front-end oil contract for May delivery that expires on 21 April. Declines in the WTI contract for June and later delivery have been significantly smaller, with prices remaining above the USD20 per barrel (bbl) level at the time of writing. Other benchmark oil prices, such as Brent, also remained above USD20/bbl on a spot and futures basis.

The collapse in the WTI oil benchmark relative to other international benchmarks reflects WTI being produced in landlocked areas, making excess production more dependent on land-based storage facilities that are close to full capacity. With limited scope to store oil, sellers are having to pay buyers to take delivery of barrels.

More generally, however, oil prices are exceptionally low reflecting a significant demand-supply imbalance:

- The COVID-19 pandemic and associated lockdown measures has hit oil demand extremely hard amid a worsening economic outlook (Figure 2). For example, the International Energy Agency (IEA) expects demand in April to be 29 million bbl/day lower than a year ago, down at a level last seen in 1995.
- OPEC and allied oil producers recently agreed an unprecedented cut to production of nearly 10 million bbl/day. Arguably, however, this does not go far enough to help rebalance the market in the short term, especially given the deal will apply only from 1 May onwards. There is also a major uncertainty around signatories' compliance with the agreement.



Investment implications

The collapse in oil prices may have important ramifications for the global economy. There are positives and negatives for different economies and sectors.

On the plus side, lower oil prices will help support consumers in many net-oil importing advanced and emerging economies by raising disposable incomes (less money spent on fuel) and reducing input costs into production. This will be especially important as containment measures are gradually lifted in the coming weeks.

Less positively, many economies that are major oil producers – including the US – will bear an economic hit from lower prices. Credit default rates within the US shale industry in particular are likely to pick up, weighing on the outlook for the US high-yield corporate bond sector.

Overall, the dramatic moves in the oil market reflect a very challenging economic outlook which sits alongside still-elevated levels of market volatility. There is also significant uncertainty about how the pandemic will evolve (in terms of case growth, the rollout of mass testing, and vaccination/treatment options), and thus the trajectory on any economic recovery.

Nevertheless, we think the case for a strategic, longer-term overweight in global equities in our multi-asset portfolios remains solid amid huge global policy support initiatives, and highly attractive relative valuations.



Important Information for Customers:

WARNING: THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited (the "Bank") in the conduct of its regulated business in Hong Kong and may be distributed in other jurisdictions where its distribution is lawful. It is not intended for anyone other than the recipient. The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document must not be distributed to the United States, Canada or Australia or to any other jurisdiction where its distribution is unlawful. All non-authorized reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings.

This document has no contractual value and is not and should not be construed as an offer or the solicitation of an offer or a recommendation for the purchase or sale of any investment or subscribe for, or to participate in, any services. The Bank is not recommending or soliciting any action based on it.

The information stated and/or opinion(s) expressed in this document are provided by HSBC Global Asset Management Limited. We do not undertake any obligation to issue any further publications to you or update the contents of this document and such contents are subject to changes at any time without notice. They are expressed solely as general market information and/or commentary for general information purposes only and do not constitute investment advice or recommendation to buy or sell investments or guarantee of returns. The Bank has not been involved in the preparation of such information and opinion. The Bank makes no guarantee, representation or warranty and accepts no responsibility for the accuracy and/or completeness of the information and/or opinions contained in this document, including any third party information obtained from sources it believes to be reliable but which has not been independently verified. In no event will the Bank or HSBC Group be liable for any damages, losses or liabilities including without limitation, direct or indirect, special, incidental, consequential damages, losses or liabilities, in connection with your use of this document or your reliance on or use or inability to use the information contained in this document.

In case you have individual portfolios managed by HSBC Global Asset Management Limited, the views expressed in this document may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Global Asset Management Limited primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.

The information contained within this document has not been reviewed in the light of your personal circumstances. Please note that this information is neither intended to aid in decision making for legal, financial or other consulting questions, nor should it be the basis of any investment or other decisions. You should carefully consider whether any investment views and investment products are appropriate in view of your investment experience, objectives, financial resources and relevant circumstances. The investment decision is yours but you should not invest in any product unless the intermediary who sells it to you has explained to you that the product is suitable for you having regard to your financial situation, investment experience and investment objectives. The relevant product offering documents should be read for further details.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Such statements do not represent any one investment and are used for illustration purpose only. Customers are reminded that there can be no assurance that economic conditions described herein will remain in the future. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We can give no assurance that those expectations reflected in those forward-looking statements will prove to have been correct or come to fruition, and you are cautioned not to place undue reliance on such statements. We do not undertake any obligation to update the forward-looking statements contained herein, whether as a result of new information, future events or otherwise, or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Investment involves risk. It is important to note that the capital value of investments and the income from them may go down as well as up and may become valueless and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Past performance information may be out of date.

Investment in any market may be extremely volatile and subject to sudden fluctuations of varying magnitude due to a wide range of direct and indirect influences. Such characteristics can lead to considerable losses being incurred by those exposed to such markets. If an investment is withdrawn or terminated early, it may not return the full amount invested. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavourable fluctuations in currency values, from differences in generally accepted accounting principles or from economic or political instability in certain jurisdictions. Narrowly focused investments and smaller companies typically exhibit higher volatility. There is no guarantee of positive trading performance. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. **Mutual fund investments are subject to market risks. You should read all scheme related documents carefully.**

Copyright © The Hongkong and Shanghai Banking Corporation Limited 2020. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

Issued by The Hongkong and Shanghai Banking Corporation Limited

Expiry: 20/10/2020