



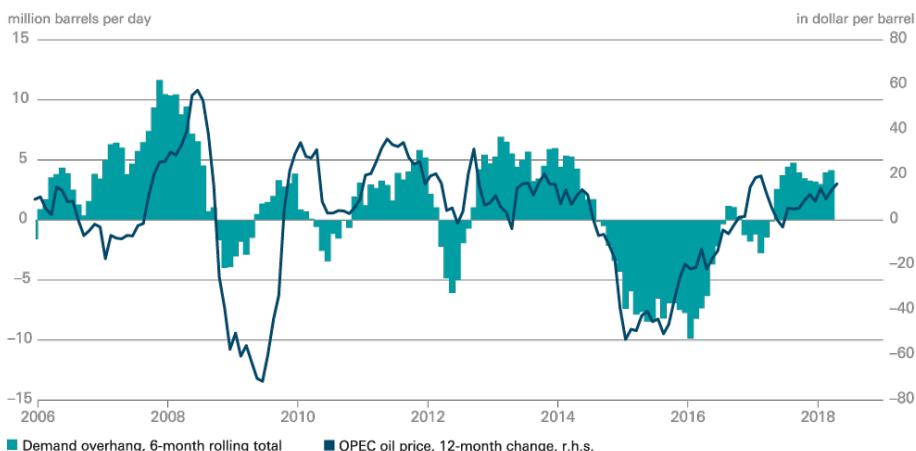
Chart of the week

Supply and demand dynamics, rather than geopolitics appear to explain what has lately been happening in oil markets

Geopolitical tensions are rising again. At the same time, oil prices are going up. A coincidence? Is the oil market discounting a further escalation in the Middle East?

One way to analyze oil-price moves is to look at supply and demand dynamics. In our "Chart of the Week", we plot global physical oil demand less supply, as published by the U.S. Department of Energy, next to the 12-month change in the oil price. In 2014, supply started to massively outstrip demand. The oil price reacted accordingly, declining from above \$100 per barrel to below \$30 in early 2016. Over the last 12 months, however, physical demand has exceeded supply again. Inventories are coming down, and oil prices are heading up.

So, even in the absence of a further geopolitical escalation, the oil price seems to be well supported here. Note, however, that positioning data indicates that the market is already positioned for rising prices. In addition, U.S. production has been expanding again. These factors make it unlikely that the oil price will be going through the roof.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 4/12/18

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