OPEC'S MOVE SPARKS PROFIT-TAKING AMONG LEVERAGED LONG OIL INVESTORS

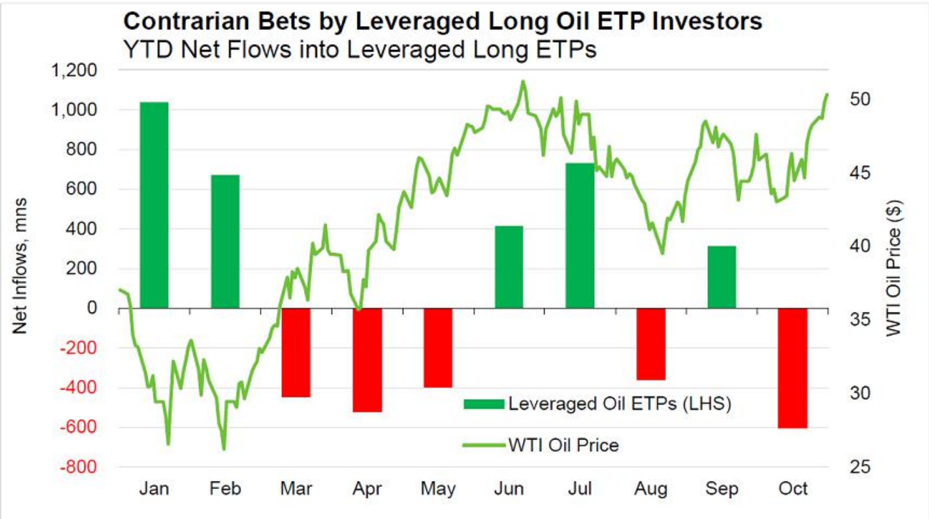
Wisdomtree EU
24 Oct 2016

Investors around the globe have jettisoned leveraged oil and switched to short the commodity following the announcement from the Organisation of Petroleum Exporting Countries (OPEC) that it will cut production, WisdomTree's latest Short & Leveraged report has found.

Oil markets have taken centre stage in recent weeks after OPEC confirmed in late September that its members had reached an agreement to curb production. The cut, scheduled for November, will be its first since the great oil price crash two years ago.

Prices have surged in reaction, with WTI Crude moving from $45 per barrel prior to the announcement, to trade at $51[1] by mid-October, up some 15%.

Leveraged long investors have used the spike to take profits, with some $850m withdrawn from leveraged long oil Exchange Traded Commodities (ETCs) globally tracking WTI since late September. Conversely, short positions have jumped, with $510m invested in short ETCs across the same period.



Source: WisdomTree

WisdomTree's Boost range has mimicked this trend, with £44m being withdrawn from long leveraged products in October alone, while its short WTI products have seen inflows of £19m month-to-date.

Nick Leung, Research Analyst at WisdomTree, said: "The OPEC announcement has sparked a very clear move by short and leveraged investors globally, with contrarian long investors using the jump in price to lock-in gains as short investors increase their bets." Since the announcement the oil price has shown few signs of weakness, but Leung said any further gains are likely to be capped by profit-taking by long investors and potentially increasing flows into short ETCs. "While long-only investors have benefited from the planned cut to production, seeing double-digit gains, we do not see this as the start of a prolonged bull market for oil," he said. "Instead, this is a recalibration for oil from very depressed levels. We would not expect oil prices to retreat from here significantly, but equally we do not see them surging back to levels seen prior to the great crash of 2014 when the commodity traded above $100 per barrel. There is still a glut of oil supply globally with significant inventory levels still needing to be drawn down, so until either demand jumps or production falls significantly, prices are unlikely to move sharply in either direction."

Sources

[1] According to Thomson Reuters data, via the FT, NYMEX Crude Oil Front Month moved from a close of $44.93 on 27/09/16, to $51.16 by close on 10/10/16.

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