

## China: Into a Legend Part 3 - In -37 world of Crude Oil Treasure

The week started with an epic oil crash on Monday (20 April), when the May West Texas Intermediate (WTI) futures contract hit as low as US\$40.32/barrel (Chart 1), one day before the contract expired on Tuesday. As the dust settled and the May WTI futures contract price recovered, Chinese investors that invested in Yuan You Bao (原油宝), which translate to Crude Oil Treasure was left on the hook. Crude Oil Treasure, an investment product that is linked to crude oil by Bank of China

Chart 1: May WTI futures plunged into negative territory.



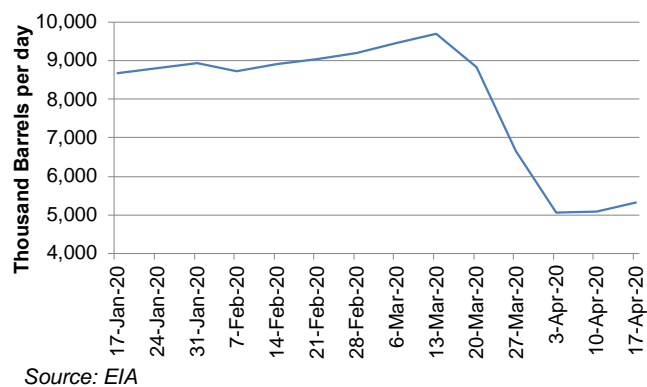
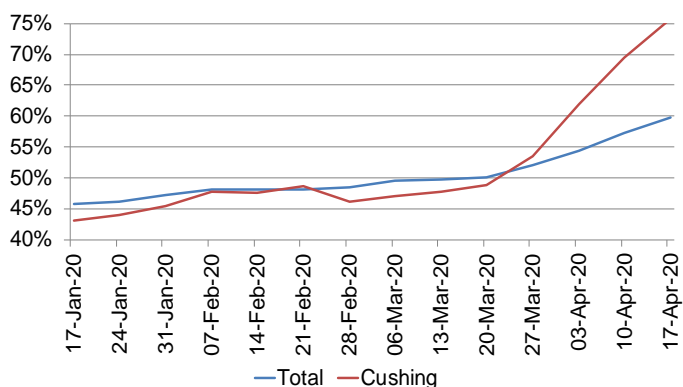
Source: Bloomberg

Bank of China was rolling over its WTI futures contract on Monday, unlike other Chinese banks who rolled over oil futures at earlier dates. Although the total outstanding for May WTI futures contract that needed to be rolled over was unclear, it was estimated that the retail investors may have lost US\$85mil when Bank of China announced that the underlying settlement value for the May WTI futures contract was -US\$37.63 where they have settled the contracts in accordance with guidelines previously disclosed to clients.

When non-commercial investors attempted to avoid taking delivery of physical oil shipments, this caused the Crude Oil Treasure to be slammed by the strained liquidity in energy trading on Monday. Looking at the crude oil storage utilization rate in US (Chart 2), albeit the utilization rate at Cushing, Oklahoma was picking up since end-March and currently recorded at 75% utilization rate while the total storage rate in US is at 60%. , We believe that there is still capacity to store physical delivery of oil, although the demand is weak currently. On the other hand, the petrol shipments in US also show an increasing trend since early-April (Chart 3). Although the “reverse oil shock” has settled down and oil prices are normalizing, we see a risk that WTI crude oil prices could swing negative again if algo and other technical traders recognize the novel possibility of negative prices.

Chart 2: Crude Oil Storage Utilization Rate in US

Chart 3: Petrol shipments in US



Source: EIA

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We believe that the impact of this negative May WTI Futures contract to our portfolio is minimal. Thus, we maintain our overweight view on China and retain our existing funds. We expect economic activities to further improve in April while Beijing will continue implement policy support to combat economic damages from COVID-19.

The table below indicates that there are no exposure to Bank of China for our model portfolio (Phillip Allocator April 2020: [Read More](#)) within China/ Hong Kong funds. We believe that investors are aware that Shariah-compliant funds cannot have exposure to conventional financial and banking stocks.

	Fund Name	Shariah	Remark
1	Aberdeen Standard Islamic World Equity A MYR	Yes	-
2	Affin Hwang AIIAMAN Asia (ex Japan) Growth	Yes	-
3	Affin Hwang Select Bond Fund	No	A global bond fund with Asian focus. Based on the fund house, there are no holdings on Bank of China.
4	Eastspring Investments Dinasti Equity	Yes	-
5	Pheim Asia Ex- Japan Islamic	Yes	-
6	RHB Islamic Global Developed Markets MYR	Yes	-

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