

Oil Market Monthly Report

June - 2019

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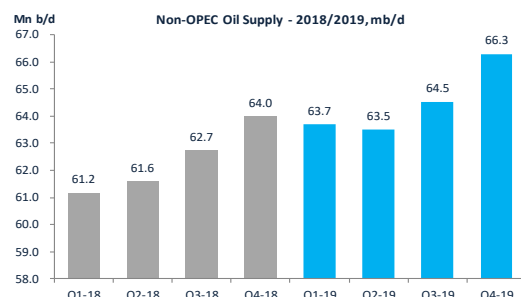
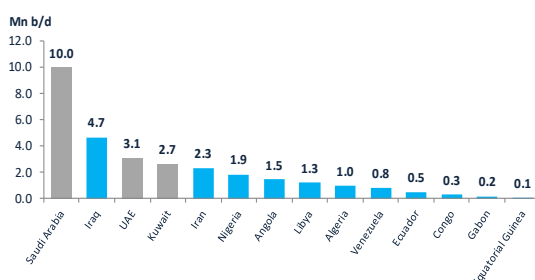
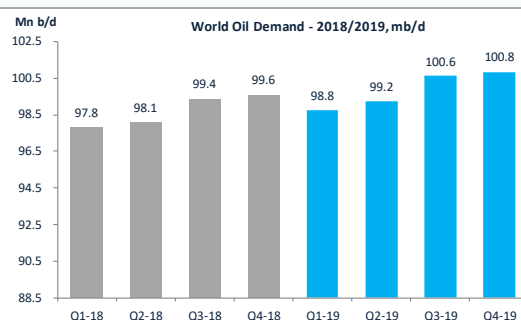
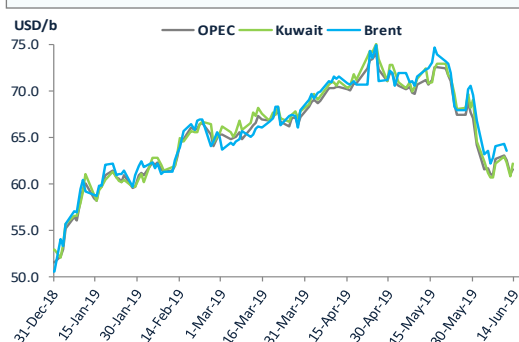
Deteriorating oil demand worries push prices downward despite Middle East tensions...

Oil prices failed to recover after a free fall that started last month pushing prices down to a four-month low level. The decline was mainly related to softer demand projections led by the US-China trade war coupled with increasing supplies from the US that continued to undermine OPEC's efforts. As a result, the OPEC+ producers are almost certain to extend the ongoing production cut agreement until year end to support prices and to balance the oil market. **In addition, last weeks tanker attacks in the Gulf of Oman had only a minimal and temporary impact on oil prices showcasing investor concerns about the persistent supply/demand gap in the market. Economic indicators continue to show signs of faltering growth as seen from the report from OECD as well as fresh signs of weakness in Chinese economy.**

In its monthly report, the IEA slashed global oil demand outlook for the second consecutive month highlighting escalating trade tensions. According to the report, world oil demand growth is now expected to reach 1.2 mb/d in 2019 and is expected to grow slightly to 1.4 mb/d in 2020. Demand trends this year were weak since the start of the year due to factors that include warmer winter in the northern hemisphere, slowdown in the petrochemicals industry in Europe and slow US gasoline and diesel demand. However, the IEA expects the second half of the year to show impressive demand growth backed by government incentives to boost economic growth. This concurred with Saudi Arabia's Energy Minister who recently said that higher seasonal oil demand during the second half of the year would help to balance the oil market.

On the other hand, in its latest Short Term Energy Outlook, the US EIA slashed oil price forecast for this year to an average of USD 67 per barrel, down USD 3 per barrel from its last month's forecast. The forecast for 2020 is also flat at USD 67 a barrel of Brent crude. The agency also lowered US oil production forecast by 140 tb/d for 2019 to reach 12.32 mb/d as output has remained stable at around 12 mb/d over the last few weeks. The agency's weekly report showed an increase in inventories in the US by 2.2 million barrels for the week ended 7-June-19. US crude inventories have risen by 19 million barrels over the last five weeks with four out of five weeks showing weekly increases.

Oil production by OPEC countries remained flat month-on-month primarily due to lower output in Iran along with Nigeria while production by Venezuela remained subdued at around 0.8 mb/d. Monthly production by the group stood at 30.26 mb/d in May-19, the lowest level since 2014. According to Bloomberg, OPEC+ compliance to the production cut agreement stood at 143% during May-19, a slight decline from the previous month. The group is expected to meet during the first week of July-19 to decide on the future course of the agreement. Saudi Arabia's Energy Minister expressed hope that the producers would be able to balance the market before next year.



Source for the above charts : OPEC and Bloomberg

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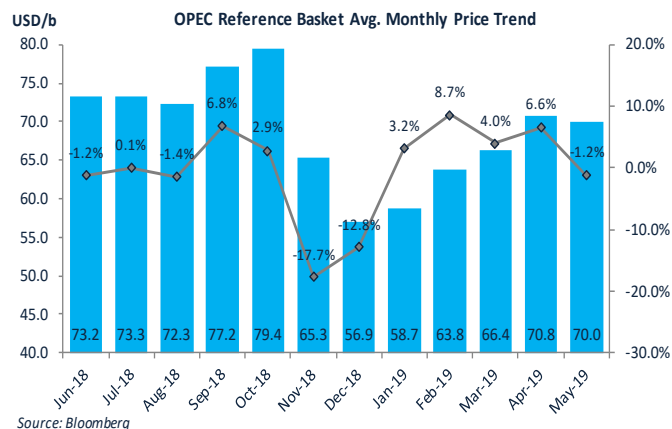
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Oil Prices

After touching yearly peak by mid-May-19, oil prices saw consecutive declines during the following weeks that continued during the first half of June-19 pushing prices to the lowest since Jan-19. Both supply and demand side factors affected prices during the month while the regional geopolitical issues in the MENA region only provided temporary support to prices. The pressure on the global economic front were reflected in a number of data released over the past few months that affected oil demand since the start of the year. Monthly manufacturing activity in the US dipped to the lowest in almost a decade as seen from PMI index. On the other hand, China's manufacturing contracted during May-19 as new orders declined due to the ongoing tariff war with the US. Germany's manufacturing PMI also dropped although the overall IHS Markit Eurozone Composite PMI rose in May-19 sending negative signal for oil demand in the near term.



Meanwhile, US oil drillers have also scaled back operations anticipating pressure on oil prices. According to a Bloomberg report, oil drilling in the Permian Basin was the lowest since early last year. This was also reflected in Baker Hughes weekly rig count data that showed a decline of one oil rig last week to reach 788 following a much larger decline of 11 rigs in the previous week. Nevertheless, worldwide rig count data continued to show growth during May-19 recording a month-on-month growth of 42 rigs in May-19 to reach 2,182 rigs. Average crude prices during May-19 showed decline across the board as first half gains were more than offset by declines during the second half of the month. Average OPEC crude prices dropped 1.1% m-o-m during May-19 to reach USD 70.0/b. Kuwait crude average price declined at a slightly higher pace of 1.6% to reach USD 70.1/b, while average Brent crude saw the smallest decline of 0.4% to reach USD 70.9/b.

Average Crude Oil Prices, USD/b	Apr-19	May-19	Change (USD)	YTD Avg 2018	YTD Avg 2019
OPEC Reference Basket	70.8	70.0	(0.8)	67.5	66.0
Arab Light	71.9	70.8	(1.1)	68.1	66.9
Basrah Light	70.5	69.8	(0.7)	66.3	65.6
Bonny Light	72.8	72.2	(0.6)	70.9	67.7
Djeno	68.6	68.3	(0.3)	67.7	63.7
Es Sider	70.5	70.3	(0.2)	68.8	65.5
Girassol	72.9	73.0	0.1	70.4	67.7
Iran Heavy	68.5	67.9	(0.7)	66.0	63.7
Kuwait Export	71.2	70.1	(1.1)	66.1	66.2
Merey	59.0	59.2	0.2	60.6	56.5
Murban	71.5	69.7	(1.8)	69.9	67.1
Oriente	67.6	65.6	(2.0)	64.3	62.5
Rabi	70.4	70.1	(0.3)	68.9	65.6
Saharan Blend	71.2	71.2	0.1	70.6	66.5
Zafiro	72.7	72.1	(0.6)	69.9	67.4
Other Crudes					
Brent	71.2	70.9	(0.3)	69.9	66.3
Dubai	70.9	69.6	(1.3)	67.0	66.2
Isthmus	70.3	69.0	(1.3)	67.9	65.6
LLS	70.7	69.0	(1.7)	68.6	65.4
Mars	68.9	66.7	(2.3)	65.2	63.9
Minas	67.6	67.5	(0.1)	62.1	60.8
Urals	71.9	71.7	(0.2)	68.1	66.9
WTI	63.9	60.7	(3.1)	65.1	57.9
Differentials					
Brent/WTI	7.3	10.1	2.8	4.8	8.4
Brent/LLS	0.5	1.8	1.4	1.3	0.9
Brent/Dubai	0.2	1.2	1.0	2.9	0.1

Source: OPEC Monthly Oil Market Report - Jun-19

World Oil Demand

OPEC lowered its world oil demand growth expectations in its latest monthly report. According to the new estimates, demand is expected to rise by 1.14 mb/d, a decline of 0.07 mb/d from last month's estimate, to reach 99.86 mb/d in 2019. The revision reflected a decline in demand in almost all the OECD countries during Q1-19. Demand data for OECD Americas was lowered by 0.15 mb/d due to sluggish oil demand data from the US and Canada in March-19 due to decline in gasoline requirements in the US and softening light distillate demand in Canada. Demand in OECD Asia Pacific was lowered 0.13 mb/d due to planned and unplanned petrochemical shutdowns during Q1-19. OECD Europe data was also lowered led by slower-than-expected oil demand from Germany, Italy, and Turkey. The monthly data for March-19 for the US showed declining gasoline demand resulting in a aggregate m-o-m decline of 1.8%. The decline was seen in the road

World Oil Demand - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	25.06	25.20	25.40	25.78	25.74	25.53	0.48	1.90
of which US	20.27	20.57	20.64	20.93	20.78	20.73	0.46	2.26
Europe	14.33	13.98	14.23	14.71	14.34	14.32	(0.01)	(0.10)
Asia Pacific	8.06	8.54	7.65	7.70	8.08	7.99	(0.07)	(0.89)
Total OECD	47.45	47.72	47.28	48.19	48.16	47.84	0.39	0.82
Other Asia	13.22	13.52	13.84	13.35	13.84	13.64	0.42	3.14
of which India	4.53	4.83	4.74	4.40	4.96	4.73	0.20	4.43
Latin America	6.51	6.35	6.48	6.81	6.47	6.53	0.02	0.31
Middle East	8.20	8.22	7.98	8.43	7.85	8.12	(0.08)	(0.98)
Africa	4.20	4.35	4.32	4.27	4.40	4.33	0.13	3.13
Total Developing Countries (DCs)	32.13	32.43	32.62	32.86	32.56	32.62	0.49	1.52
Former Soviet Union (FSU)	4.70	4.66	4.65	4.94	5.01	4.82	0.12	2.45
Other Europe	0.72	0.73	0.69	0.73	0.82	0.74	0.03	3.48
China	12.32	12.28	12.84	12.65	13.07	12.71	0.39	3.18
Total "Other Regions"	17.74	17.68	18.18	18.32	18.9	18.27	0.53	2.99
Total World	97.32	97.83	98.08	99.38	99.62	98.73	1.41	1.45

Source: OPEC Monthly Oil Market Report - Jun-19

transportation sector despite a growth in new car registrations. That said, demand during Q1-19 remained positive in the US as compared to last year. Preliminary data for April-19 and May-19 showed positive trend backed by higher demand for industrial fuels. Data until April-19 for the European Big 4 countries showed rising demand for a majority of petroleum products as compared to last year backed by colder weather conditions and a low base effect. Auto sales continue to remain sluggish in large part of Europe declining by 2.5% since the start of the year. In the OECD Asia Pacific region, Japan recorded the first monthly increase in April-19 on the back of higher jet/kerosene consumption led by higher airline activity and colder weather conditions. Gasoline demand remained flat as compared to last year after declining for 14 consecutive months while LPG recorded the biggest decline during the month. In the Non-OECD region, Chinese oil demand continue to remain positive increasing by 0.21 mb/d in April-19 led by higher demand for transportation fuels that increased due to higher mileage travelled during the Qingming Festival. That said, demand for diesel fuel declined during the month that partially offset overall gains. Vehicle sales in China continued to decline during April-19 by around 18%. The YTD-19 decline in auto sales stood at around 15% as compared to last year. India's oil demand witnessed a modest growth during April-19 growing by around 0.3% y-o-y.

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.53	25.29	25.65	26.07	26.01	25.76	0.23	0.88
of which US	20.73	20.69	20.86	21.21	21.03	20.95	0.22	1.05
Europe	14.32	13.97	14.19	14.69	14.31	14.29	(0.02)	(0.15)
Asia Pacific	7.99	8.40	7.60	7.67	8.04	7.93	(0.06)	(0.81)
Total OECD	47.84	47.66	47.44	48.43	48.36	47.98	0.14	0.29
Other Asia	13.64	13.91	14.21	13.72	14.22	14.01	0.38	2.77
of which India	4.73	5.03	4.93	4.58	5.15	4.92	0.19	4.05
Latin America	6.53	6.36	6.51	6.85	6.50	6.56	0.03	0.47
Middle East	8.12	8.25	8.01	8.47	7.88	8.15	0.03	0.37
Africa	4.33	4.45	4.42	4.36	4.50	4.43	0.10	2.31
Total Developing Countries (DCs)	32.62	32.97	33.16	33.40	33.10	33.16	0.54	1.65
Former Soviet Union (FSU)	4.82	4.75	4.74	5.03	5.11	4.91	0.09	1.87
Other Europe	0.74	0.75	0.71	0.75	0.84	0.76	0.02	2.69
China	12.71	12.63	13.19	13.00	13.43	13.06	0.35	2.77
Total "Other Regions"	18.27	18.13	18.64	18.78	19.38	18.74	0.46	2.53
Total World	98.73	98.76	99.24	100.61	100.84	99.87	1.14	1.15

Source: OPEC Monthly Oil Market Report - Jun-19

World Oil Supply

World oil supply increased marginally during May-19 by 0.04 mb/d to average at 98.26 mb/d. The increase was primarily on the back of non-OPEC supply that increased by 0.27 mb/d mainly in US, Kazakhstan, Azerbaijan, Canada and the UK. For the full year, non-OPEC oil supply estimates remained unchanged from last month with a growth of 2.14 mb/d to average at 64.51 mb/d although there were adjustments to estimates of individual countries. Oil supply estimates from the US was lowered by 13 tb/d led by smaller than expected output during Q1-19, in addition to downward revisions to supply figures for Norway (-24 tb/d) and Brazil (-23 tb/d) that are expected to show slower supply during the last two quarters of the year due to planned maintenance activity. These downward revisions were offset

Non-OPEC Oil Supply - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	21.48	22.89	23.35	24.53	25.15	23.99	2.51	11.69
of which US	14.40	15.53	16.22	17.17	17.70	16.66	2.26	15.69
Europe	3.82	3.94	3.79	3.70	3.89	3.83	0.01	0.16
Asia Pacific	0.39	0.40	0.38	0.42	0.44	0.41	0.02	4.49
Total OECD	25.69	27.24	27.52	28.66	29.47	28.23	2.54	9.87
Other Asia	3.62	3.62	3.57	3.51	3.51	3.55	(0.07)	-1.97
Latin America	5.15	5.17	5.22	5.12	5.26	5.19	0.04	0.82
Middle East	3.13	3.16	3.21	3.22	3.24	3.21	0.07	2.29
Africa	1.48	1.50	1.52	1.55	1.49	1.51	0.03	2.26
Total Developing Countries (DCs)	13.39	13.45	13.52	13.40	13.50	13.47	0.08	0.57
Former Soviet Union (FSU)	14.05	14.1	14.14	14.33	14.57	14.29	0.24	1.67
of which Russia	11.17	11.14	11.18	11.44	11.61	11.35	0.17	1.56
Other Europe	0.13	0.12	0.12	0.12	0.12	0.12	(0.01)	(4.58)
China	3.98	4.01	4.03	3.97	4.05	4.02	0.04	0.92
Total "Other regions"	18.16	18.23	18.29	18.42	18.74	18.42	0.27	1.46
Total Non-OPEC Production	57.24	58.92	59.33	60.47	61.72	60.12	2.88	5.03
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	59.45	61.16	61.58	62.72	63.97	62.37	2.91	4.9
OPEC NGLs and non-conventionals	4.94	4.92	4.96	4.98	5.06	4.98	0.04	0.81
OPEC Crude Oil Production	32.01	31.80	31.61	31.96	32.08	31.86	(0.15)	(0.47)
Total World Supply	96.40	97.88	98.15	99.66	101.11	99.21	2.81	2.91

Source: OPEC Monthly Oil Market Report - Jun-19

by upward revisions in supply data for China and the UK. Supply estimates from China was raised by 62 tb/d reflecting higher production during Q1-19 led by an increase in spending by Chinese oil companies as compared to last year. Overall, supply from the OECD region saw a downward revision of 38 tb/d as compared to last month's estimates. Oil supply from the OECD Europe region declined by 0.07 mb/d in April-19 primarily due to lower output from Norway by around 24 tb/d as compared to March-19 levels. For the full year, Norway's output was lowered by 0.02 mb/d as compared to last month's report highlighting field declines and technical outages. In the OECD Asia Pacific region, production in Australia is expected to be supported by new projects started last year. As a result, production in April-19 increased by 58 tb/d y-o-y.

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	23.99	24.95	24.96	25.91	26.76	25.65	1.66	6.93
of which US	16.66	17.77	18.11	18.64	19.45	18.50	1.83	11.01
Europe	3.83	3.82	3.66	3.71	3.96	3.79	(0.04)	(1.12)
Asia Pacific	0.41	0.43	0.46	0.48	0.51	0.47	0.06	14.51
Total OECD	28.23	29.20	29.08	30.09	31.23	29.91	1.68	5.95
Other Asia	3.55	3.53	3.44	3.46	3.46	3.47	-0.08	-2.28
Latin America	5.19	5.18	5.44	5.54	5.67	5.46	0.26	5.09
Middle East	3.21	3.21	3.24	3.22	3.22	3.22	0.02	0.53
Africa	1.51	1.54	1.56	1.59	1.62	1.58	0.07	4.31
Total Developing Countries (DCs)	13.47	13.45	13.68	13.81	13.98	13.73	0.27	1.97
Former Soviet Union (FSU)	14.29	14.55	14.21	14.19	14.58	14.38	0.1	0.67
of which Russia	11.35	11.53	11.38	11.61	11.61	11.53	0.19	1.65
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(1.08)
China	4.02	4.10	4.12	4.05	4.10	4.09	0.08	1.88
Total "Other regions"	18.42	18.77	18.45	18.36	18.80	18.59	0.17	0.92
Total Non-OPEC Production	60.12	61.43	61.21	62.26	64	62.23	2.11	3.52
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.25
Total Non-OPEC Supply	62.37	63.7	63.49	64.54	66.28	64.51	2.14	3.43

Source: OPEC Monthly Oil Market Report - Jun-19

OPEC Oil Production & Spare Capacity

According to oil production data from Bloomberg, OPEC crude production remained flat during May-19 at 30.26 mb/d. However, OPEC secondary sources showed a decline in OPEC production during the month by 236 tb/d to average at 29.88 mb/d. Iran reported the biggest drop in production during the month reaching 2.3 mb/d after declining by more than 200 tb/d during the month. The decline came after the US ended waivers granted to 8 countries to import oil from Iran. According to IEA, the US sanctions have pushed Iran's oil production to the lowest level since the 1980s. Production in Saudi Arabia is also said to have declined although Bloomberg data shows otherwise. OPEC's secondary sources and direct communication in addition to data from S&P Platts show a decline in the Kingdom's output that reached around 9.7 mb/d in May-19, the lowest in 4-years. The Kingdom continues to produce at a much lower level as

Production ('000 b/d)	Apr-19	May-19	Change		Capacity	Spare Capacity
Total OPEC-14	30,260	30,260	0	0.00%	34,615	4,355
Saudi Arabia	9,790	9,960	170	1.7%	11,500	1,540
Iraq	4,630	4,680	50	1.1%	4,700	20
UAE	3,070	3,070	0	0.0%	3,400	330
Kuwait	2,720	2,680	-40	-1.5%	3,000	320
Iran	2,550	2,320	-230	-9.0%	3,830	1,510
Nigeria	1,900	1,860	-40	-2.1%	1,900	40
Angola	1,380	1,450	70	5.1%	1,530	80
Libya	1,190	1,250	60	5.0%	1,200	-50
Algeria	1,020	1,010	-10	-1.0%	1,070	60
Venezuela	840	810	-30	-3.6%	1,230	420
Ecuador	520	520	0	0.0%	555	35
Congo	350	340	-10	-2.9%	330	-10
Gabon	180	200	20	11.1%	220	20
Equatorial Guinea	120	110	-10	-8.3%	150	40
Total OPEC-13	25,630	25,580	-50	-0.20%	29,915	4,335

Source: Bloomberg, OPEC

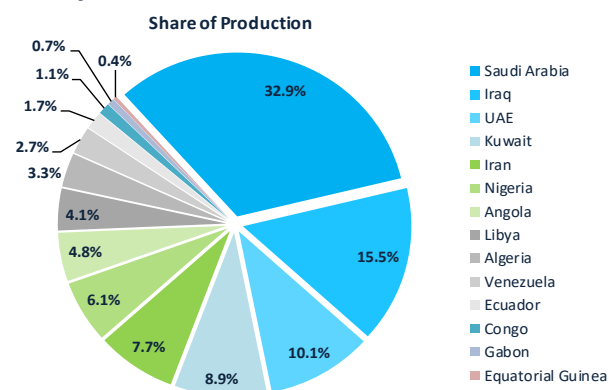
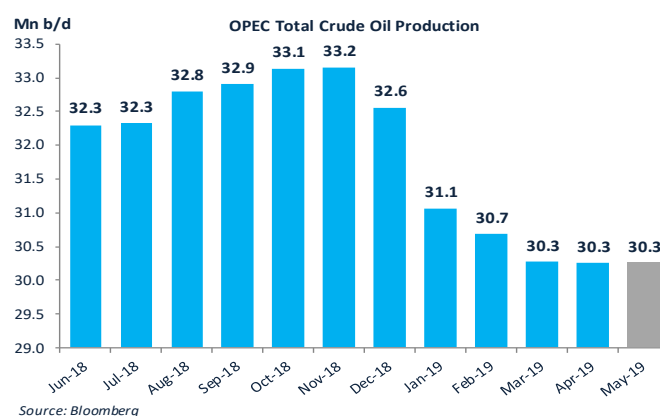
compared to its quota of 10.31 mb/d as per the OPEC+ supply agreement.

Nigeria also reported a decline in production by almost 40 tb/d as compared to previous month led by pipeline disruptions that affected the country's oil exports. Production was affected by a fire at the Trans Forcados crude pipeline, forcing a shut down affecting the export of the Bonny Light crude until mid-May-19.

Venezuela continued to face power cut issues that affected the country's oil production. Production stood at around 800 tb/d during May-19 led by US sanctions on the country. Oil exports from the country declined by almost 17% during the month as customers lowered purchases following sanctions.

Meanwhile, production in Angola increased by around 70 tb/d during May-19 as the country began shipments of new crude grade Mostarda. In order to increase oil production, the country has drawn plans for sizable investments in the oil sector in collaboration with international oil companies and has recently announced new oil block auctions.

Production and oil exports from Iraq also reportedly scaled up in recent months. The country's crude is replacing lost Iran oil to customers in Europe and to India and China since the start of the year. There are also plans to raise oil output from the West Qurna 1 oil field by around 50 tb/d in the coming days.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q2 19	Q3 19	Q4 19	Q1 20
Bank of Tokyo-Mitsubishi UFJ Ltd/The	11/Jun/19	67.5	63.7	67.2	69.1
Banco Santander SA	7/Jun/19	67.5	62.5	62.9	63.0
Commerzbank AG	6/Jun/19	68.0	66.0	70.0	70.0
Societe Generale SA	5/Jun/19	67.0	70.0	75.0	70.0
Emirates NBD PJSC	27/May/19	67.5	67.5	63.0	
Intesa Sanpaolo SpA	21/May/19	73.0	73.5	72.4	
Raymond James Financial Inc	17/May/19	73.0	78.0	83.0	97.5
Capital Economics Ltd	1/May/19	69.0	67.5	62.5	61.0
BNP Paribas SA	29/Apr/19	72.0	76.0	71.0	65.0
Raiffeisen Bank International AG	29/Apr/19	71.0	72.0	68.0	63.0
Westpac Banking Corp	23/Apr/19	65.3	63.0	60.7	59.3
Rabobank International	10/Apr/19	74.9	74.3	73.7	73.1
MPS Capital Services Banca per le Imprese SpA	9/Apr/19	72.0	70.0	70.0	66.0
Market Risk Advisory Co Ltd	2/Apr/19	67.0	65.0	66.0	67.0
Landesbank Baden-Wuerttemberg	1/Apr/19	70.0	70.0	70.0	70.0
CIMB	27/Mar/19	69.5	71.5	70.0	67.0
Bank of Nova Scotia/The	21/Mar/19	69.0	68.0	67.4	65.0
BBVA Research SA	23/Jan/19	63.7	62.6	61.8	60.4
Natixis SA	22/Jan/19	68.0	73.0	77.0	73.0
Lloyds Bank PLC	16/Jan/19	70.0	75.0	80.0	85.0
Itau Unibanco Holding SA	14/Jan/19	58.8	59.3	59.8	60.3
CIBC	9/Jan/19	68.0			
ABN AMRO Bank NV	18/Dec/18	70.0	70.0	70.0	73.0
Median		69.0	70.0	70.0	67.0
Mean		68.8	69.0	69.1	68.9
High		74.9	78.0	83.0	97.5
Low		58.8	59.3	59.8	59.3
Current Fwd		66.3	60.1	59.4	59.1
Difference (Median - Current)		2.7	9.9	10.6	7.9

Source: Bloomberg

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