

Oil Market Monthly Report

October - 2019

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US-China temporary truce offers hope as market continues to brush off geopolitics...

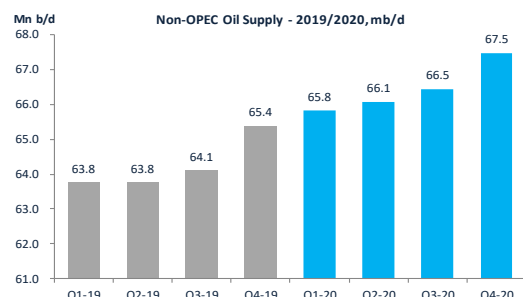
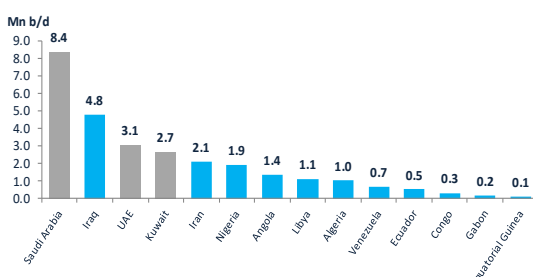
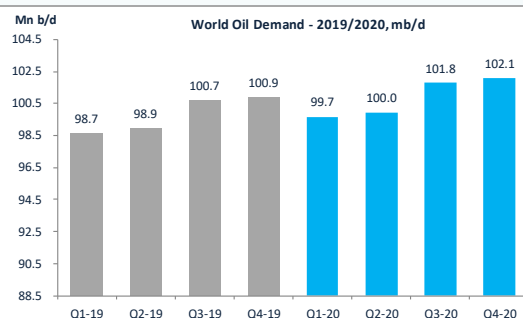
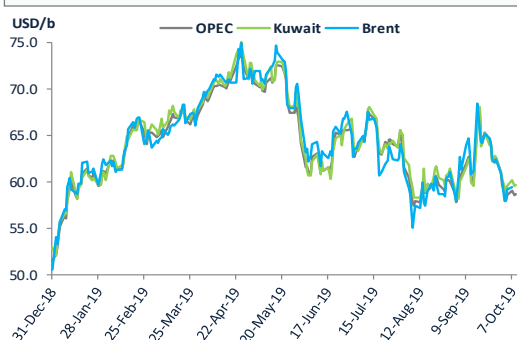
Oil prices failed to keep the surge that came as a result of the attacks on Saudi Arabian oil facilities last month as oil demand outlook weakened. In addition, last week's attack on Iranian tankers had only a minimal impact on oil prices with intraday prices surging 2%. This comes as the market continues to focus on demand weakness which continues to see downward revision every passing month. The latest monthly report from IEA further lowered oil demand projections by 50 tb/d for 2019 and by 100 tb/d for 2020. OPEC, in its monthly report, also lowered 2019 oil demand forecast by 0.04 mb/d.

A number of data points released recently pointed towards an imminent global economic slowdown that is affecting oil demand outlook. Gloomy sentiments were voiced by the IMF which said that the global economies are in a synchronized slowdown with slower growth expectations for nine out of ten countries globally. This was also evident in the global manufacturing slowdown for the fifth consecutive month, the longest stretch of contraction since 2002, tracked using the JPMorgan Global Manufacturing Index. Along the same line, WTO slashed growth expectations for world merchandise trade volume by more than 50% to 1.2% in 2019 as against 2.6% forecasted in April-19 and to 2.7% for 2020.

The ongoing US-China trade war was further supplemented by US imposing tariffs on USD 7.5 Bn worth of EU goods. In addition, the move by the US to blacklist Chinese companies along with talks of capital flow restrictions to China further made economic growth expectations murkier. However, last week's two-day meeting saw the two trading partners reaching a temporary truce in what was said as a "phase one deal". The final agreement is expected to be reached in the next five weeks that will keep oil prices volatile.

Oil prices reached a seven week low level at the start of October-19 after consistent declines post a 11% jump after the Saudi attacks. With lower expected demand and persistent supplies especially from the US, talks of an extended glut resurfaced in the oil market that reflected in prices. On the supply side, the latest Short Term Energy Outlook from the EIA showed that US crude oil production is expected to reach 13 mb/d by December-19 after a temporary decline in July-19 led by Hurricane Barry. The agency raised average oil production forecast for the US from 12.2 mb/d in the previous report to 12.3 mb/d in the October-19 report, whereas 2020 average production is expected to increase to 13.2 mb/d.

Nevertheless, the EIA acknowledged that US shale production growth will decelerate in the near term led by declining well productivity. This was evident in the financials for oil field services companies as well as spending budgets for drillers. Halliburton recently announced workforce reduction as a result of a decline in spending in shale production due to subdued oil prices. According to a report from Primary Vision Inc., the number of U.S. crews that frack wells has dropped 17% in 2019, although drillers are finding newer ways to cut costs.



Junaid Ansari

Vice President

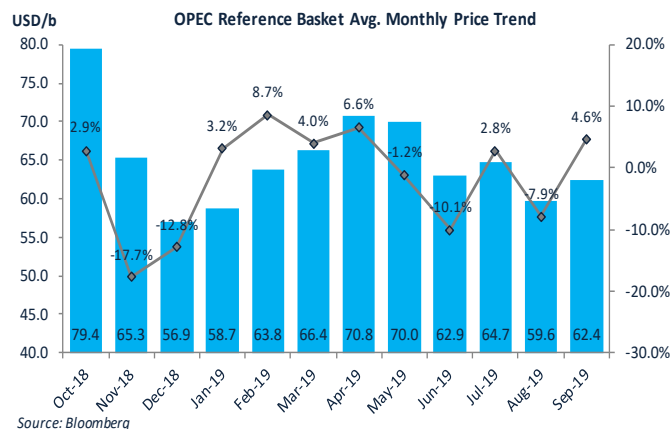
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Source for the above charts : OPEC and Bloomberg

Oil Prices

Oil prices got a temporary relief at the start of the month after the US released favorable data on unemployment rates in the country. However, the rally was short lived as speculations around the US China meeting last week started gaining prominence. Prices reached 7-week lows at the start of October-19 on rising inventory and subdued sentiments around oil demand. Brent crude traded below the USD 60/b mark by the second week of October-19, and was back in the broader range after seeing consistent declines during the second half of September-19. Nevertheless, the 11% jump in prices after the attacks resulted in higher average oil prices as compared to the August-19 Average OPEC crude prices increased by 4.6% m-o-m to regain the USD 60/b mark to reach USD 62.4/b during September-19. Brent crude increased at an even higher rate of 6.4% and averaged at USD 62.6/b. On the other hand, Kuwait crude recorded the smallest gain of the three crudes increasing by 3.0% to average at USD 62.2/b.



Oil inventories in the US have been on an uptrend for the last four weeks. The latest EIA report showed a rise of 2.9 million barrels bringing total increase to 9.5 million barrels over the last four weeks. The data concurred with rig count information released by Baker Hughes. The company's weekly report said that rig count was up for the first time after seven weeks of decline by two reaching 712 last week. A combination of higher output in the shale patch, faster than expected recovery in Saudi Arabia oil facilities and subdued sentiments has forced near term consensus oil price to one of lowest over the past few months. According to Bloomberg consensus estimates, median forecast for Q4-20 stood at USD 60.6/b as the market continues to remain in backwardation. EIA also steeply lowered its oil price outlook citing uncertainty around oil demand and the overall economy. The agency slashed Brent crude forecast by more than USD 5/b to USD 56.69/b for Q2-20.

Average Crude Oil Prices, USD/b	Aug-19	Sep-19	Change (USD)	YTD Avg 2018	YTD Avg 2019
OPEC Reference Basket	59.6	62.4	2.7	70.3	64.4
Arab Light	60.8	62.7	1.9	71.1	65.3
Basrah Light	59.2	61.9	2.7	69.1	64.0
Bonny Light	60.5	64.0	3.6	73.0	66.1
Djeno	56.2	60.0	3.7	69.5	61.9
Es Sider	58.4	62.3	3.9	70.7	63.9
Girassol	61.6	65.4	3.7	72.5	66.3
Iran Heavy	57.8	60.3	2.6	68.7	62.2
Kuwait Export	60.4	62.2	1.8	69.3	64.5
Merey	49.2	61.8	12.6	64.4	56.6
Murban	60.2	62.4	2.2	72.8	65.1
Oriente	56.1	57.5	1.4	67.1	60.7
Rabi	58.1	61.8	3.7	71.2	63.8
Saharan Blend	58.2	62.5	4.2	72.4	64.6
Zafiro	60.8	64.5	3.7	72.1	65.9
Other Crudes					
Brent	58.8	62.6	3.7	72.1	64.5
Dubai	58.9	61.1	2.2	70.1	64.0
Isthmus	58.7	62.1	3.4	69.0	63.9
LLS	58.6	60.4	1.8	71.1	63.4
Mars	57.1	58.4	1.3	67.6	61.8
Minas	57.4	60.2	2.8	66.6	60.3
Urals	60.0	61.7	1.7	70.8	64.7
WTI	54.8	56.9	2.0	66.9	57.1
Differentials					
Brent/WTI	4.0	5.7	1.7	5.2	7.5
Brent/LLS	0.2	2.2	2.0	1.0	1.2
Brent/Dubai	(0.1)	1.5	1.5	2.0	0.6

Source: OPEC Monthly Oil Market Report - Oct-19

World Oil Demand

World oil demand growth expectations for 2019 were once again lowered in OPEC's October-19 monthly report by 0.04 mb/d to a growth of 0.98 mb/d as demand is now expected to average at 99.80 mb/d. The revision reflected lower-than-expected oil demand data for both OECD America, Asia Pacific as well as the Other Asia region during 1H-19. This decline was partially offset by higher demand in Saudi Arabia during Q3-19 led by seasonal demand during the summer season for transportation and industrial fuels. Demand for the overall OECD region was lowered by 0.05 mb/d on the back of updated demand data for the OECD Americas and OECD Asia Pacific regions, especially during Q2-19. The US saw lower than expected demand for gasoline and diesel whereas Japan and South Korea reported lower requirements for petrochemical feedstock. Oil requirements in the US remain soft during July-19 but data for YTD-Sep-19, including

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.55	25.11	25.54	26.08	26.02	25.69	0.15	0.58
of which US	20.73	20.55	20.74	21.21	21.03	20.88	0.15	0.74
Europe	14.31	13.99	14.23	14.68	14.30	14.30	0.00	(0.03)
Asia Pacific	8.08	8.45	7.65	7.73	8.12	7.99	(0.09)	(1.14)
Total OECD	47.93	47.55	47.42	48.50	48.44	47.98	0.05	0.11
Other Asia	13.64	13.91	13.96	13.71	14.21	13.95	0.31	2.27
of which India	4.73	5.03	4.75	4.57	5.14	4.87	0.14	3.00
Latin America	6.53	6.36	6.58	6.83	6.49	6.57	0.04	0.62
Middle East	8.12	8.25	7.90	8.54	7.88	8.14	0.02	0.25
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	32.87	33.44	33.07	33.09	0.47	1.44
Former Soviet Union (FSU)	4.82	4.75	4.74	5.02	5.11	4.91	0.09	1.82
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	12.98	13.43	13.06	0.35	2.73
Total "Other Regions"	18.27	18.13	18.64	18.75	19.38	18.73	0.45	2.49
Total World	98.82	98.65	98.93	100.70	100.89	99.8	0.98	0.99

Source: OPEC Monthly Oil Market Report - Oct-19

preliminary weekly data, showed US oil demand increasing by 0.12 mb/d y-o-y. In terms of product categories, higher demand for NGLs/LPG, jet kerosene and diesel was partially offset by a decline in demand for gasoline, naphtha and residual fuel oil requirements. The remainder of the year, an expectation of warmer winter would be negative for winter fuels, although overall demand is expected to remain positive. Meanwhile, following months of muted growth, oil demand in Canada grew during July-19 backed by higher requirements for LPG, gasoline, jet/kerosene and diesel partially offset by a decline in naphtha and residual fuel requirements. For the OECD Europe region, a growth in demand was recorded during July-19 after two consecutive months of declines. Most of the countries in the region recorded higher demand during the month primarily in the UK, Sweden, Spain, Portugal and France partially offset by marginal decline in Netherlands, Germany and Belgium. Meanwhile, overall demand in China and India remained positive during August-19. Demand in Saudi Arabia increased by 16% y-o-y and was the highest y-o-y increase in the last five years led by higher demand for diesel.

For the year 2020, world oil demand growth expectations remained unchanged at 1.08 mb/d with demand expected to reach 100.88 mb/d.

World Oil Demand - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.69	25.33	25.72	26.24	26.19	25.87	0.18	0.69
of which US	20.88	20.73	20.88	21.33	21.18	21.03	0.15	0.71
Europe	14.30	13.94	14.20	14.66	14.28	14.27	(0.03)	(0.21)
Asia Pacific	7.99	8.37	7.56	7.66	8.05	7.91	(0.08)	(0.99)
Total OECD	47.98	47.63	47.48	48.56	48.52	48.05	0.07	0.14
Other Asia	13.95	14.27	14.32	14.09	14.60	14.32	0.37	2.66
of which India	4.87	5.20	4.90	4.73	5.32	5.04	0.16	3.37
Latin America	6.57	6.44	6.66	6.91	6.56	6.64	0.07	1.14
Middle East	8.14	8.30	7.95	8.62	7.97	8.21	0.07	0.86
Africa	4.43	4.53	4.52	4.46	4.59	4.52	0.09	2.00
Total Developing Countries (DCs)	33.09	33.54	33.44	34.07	33.72	33.70	0.60	1.83
Former Soviet Union (FSU)	4.91	4.83	4.81	5.11	5.19	4.99	0.08	1.65
Other Europe	0.76	0.76	0.72	0.76	0.85	0.77	0.01	1.54
China	13.06	12.91	13.50	13.28	13.77	13.37	0.31	2.37
Total "Other Regions"	18.73	18.50	19.03	19.15	19.82	19.13	0.40	2.15
Total World	99.80	99.68	99.95	101.78	102.06	100.88	1.08	1.08

Source: OPEC Monthly Oil Market Report - Oct-19

World Oil Supply

According to OPEC, world oil supply witnessed a steep decline during September-19 by 1.77 mb/d as compared to the previous month to average at 97.32 mb/d. The decline came primarily on the back of lower production in Saudi Arabia further supported by lower supply from Canada, Norway, Kazakhstan and Russia. As a result, OPEC market share was further lowered by 80 bps to 29.3% during September-19. According to IEA's calculations, world oil supply stood at 99.3 mb/d during September-19, a m-o-m decline of 1.5 mb/d.

For the full year 2019, non-OPEC oil supply growth forecast was lowered by 0.16 mb/d m-o-m to a growth of 1.82 mb/d with total supply expected to average at 64.26 mb/d. The downward revision reflected lower-than-expected oil production primarily in the US (-138 tb/d),

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	24.04	25.01	25.57	25.63	26.35	25.64	1.61	6.68
of which US	16.71	17.78	18.31	18.39	19.03	18.38	1.67	9.97
Europe	3.84	3.85	3.57	3.54	3.95	3.73	(0.11)	(2.90)
Asia Pacific	0.41	0.43	0.48	0.49	0.51	0.48	0.07	16.75
Total OECD	28.29	29.30	29.62	29.66	30.81	29.85	1.56	5.52
Other Asia	3.56	3.51	3.48	3.38	3.44	3.45	(0.11)	-2.98
Latin America	5.19	5.17	5.25	5.54	5.60	5.39	0.20	3.81
Middle East	3.21	3.22	3.22	3.22	3.20	3.21	0.00	0.09
Africa	1.50	1.51	1.51	1.53	1.61	1.54	0.04	2.58
Total Developing Countries (DCs)	13.47	13.41	13.46	13.67	13.85	13.60	0.13	0.99
Former Soviet Union (FSU)	14.29	14.55	14.16	14.28	14.23	14.3	0.01	0.08
of which Russia	11.35	11.53	11.36	11.42	11.34	11.41	0.07	0.58
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(1.74)
China	4.02	4.10	4.13	4.11	4.10	4.11	0.09	2.23
Total "Other regions"	18.43	18.77	18.41	18.51	18.45	18.53	0.10	0.54
Total Non-OPEC Production	60.19	61.48	61.48	61.84	63.11	61.98	1.79	2.98
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.24
Total Non-OPEC Supply	62.44	63.76	63.76	64.11	65.39	64.26	1.82	2.92
OPEC NGLs and non-conventionals	4.76	-	-	-	-	4.81	0.05	1.05
OPEC Crude Oil Production	31.86	30.48	29.98	29.31	-	-	-	-
Total World Supply	99.06	-	-	-	-	-	-	-

Source: OPEC Monthly Oil Market Report - Oct-19

Norway (-33 tb/d), the UK (-19 tb/d) and Malaysia (-17 tb/d) that was partially offset by upward revision to supply figures for Kazakhstan (+30 tb/d), China (+14 tb/d), Brazil and Indonesia. Supply expectations for the US was lowered following hurricane led outage in Gulf of Mexico in addition to controlled capital expenditure by drillers and lower rig count. With the current month changes, supply from the OECD region saw a downward revision of 199 tb/d and supply is now expected to grow by 1.56 mb/d in 2019.

For 2020, non-OPEC supply growth was also once again revised downward by 0.05 mb/d to a growth of 2.20 mb/d and supply is expected to reach 66.46 mb/d. The revision primarily reflected lower supply primarily from Kazakhstan (-65 tb/d) and Russia (-11 tb/d) partially offset by higher production mainly in China (+18 tb/d).

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.64	26.67	26.95	27.36	27.65	27.16	1.51	5.90
of which US	18.38	19.31	19.90	20.11	20.33	19.92	1.54	8.37
Europe	3.73	3.93	3.78	3.80	4.08	3.90	0.17	4.55
Asia Pacific	0.48	0.54	0.53	0.56	0.56	0.55	0.07	15.06
Total OECD	29.85	31.13	31.25	31.73	32.29	31.60	1.75	5.88
Other Asia	3.45	3.41	3.42	3.42	3.43	3.42	-0.03	-0.85
Latin America	5.39	5.62	5.59	5.60	5.74	5.64	0.25	4.55
Middle East	3.21	3.21	3.25	3.26	3.28	3.25	0.04	1.11
Africa	1.54	1.58	1.57	1.57	1.56	1.57	0.03	1.92
Total Developing Countries (DCs)	13.60	13.82	13.84	13.85	14.01	13.88	0.28	2.07
Former Soviet Union (FSU)	14.30	14.29	14.41	14.32	14.6	14.41	0.1	0.72
of which Russia	11.41	11.34	11.50	11.51	11.64	11.50	0.09	0.77
Other Europe	0.12	0.12	0.12	0.12	0.11	0.12	(0.01)	(4.92)
China	4.11	4.13	4.14	4.11	4.13	4.13	0.02	0.39
Total "Other regions"	18.53	18.54	18.66	18.54	18.85	18.65	0.11	0.61
Total Non-OPEC Production	61.98	63.49	63.75	64.12	65.15	64.13	2.15	3.47
Processing gains	2.28	2.33	2.33	2.33	2.33	2.33	0.05	2.37
Total Non-OPEC Supply	64.26	65.82	66.08	66.45	67.48	66.46	2.2	3.43

Source: OPEC Monthly Oil Market Report - Oct-19

OPEC Oil Production & Spare Capacity

Bloomberg data showed that OPEC production dropped by 1.6 mb/d to reach a multi-year low of 28.3 mb/d in September-19 as almost half of the producers showed a production decline, in addition to Saudi Arabia that saw a production decline of 1.47 mb/d. On the other hand, OPEC secondary sources showed a much smaller decline of 1.32 mb/d with Saudi Arabia production declining by 1.28 mb/d. According to some estimates, this was the biggest monthly decline in almost two decades recorded by OPEC. A rise in production in Libya partially offset overall decline during the month by 50 tb/d (+104 tb/d as per OPEC). Other noticeable producers that reduced production during the month included Iran and Venezuela that collectively slashed production by 160 tb/d. Monthly production in Iran reached 2.13 mb/d, one of the lowest on record led by US sanctions.

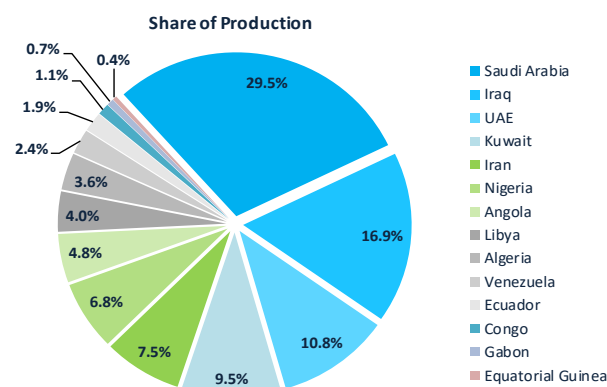
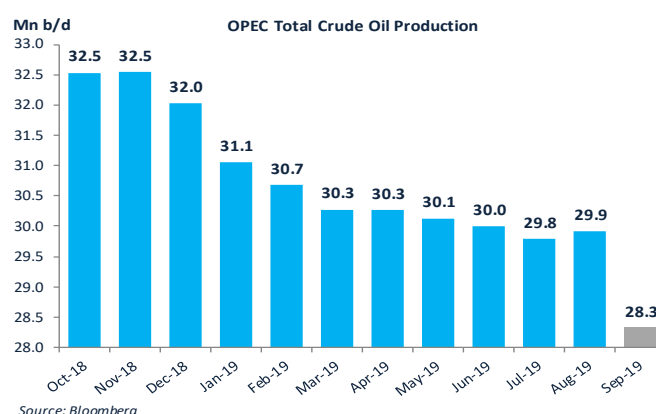
Production ('000 b/d)	Aug-19	Sep-19	Change		Capacity	Spare Capacity
Total OPEC-14	29,910	28,320	-1,590	-5.32%	34,360	6,040
Saudi Arabia	9,830	8,360	-1,470	-15.0%	11,300	2,940
Iraq	4,780	4,780	0	0.0%	4,800	20
UAE	3,070	3,070	0	0.0%	3,400	330
Kuwait	2,640	2,690	50	1.9%	3,075	385
Iran	2,210	2,130	-80	-3.6%	3,830	1,700
Nigeria	1,950	1,930	-20	-1.0%	2,000	70
Angola	1,400	1,360	-40	-2.9%	1,530	170
Libya	1,070	1,120	50	4.7%	1,200	80
Algeria	1,020	1,030	10	1.0%	1,070	40
Venezuela	760	680	-80	-10.5%	900	220
Ecuador	530	540	10	1.9%	555	15
Congo	330	320	-10	-3.0%	330	10
Gabon	200	190	-10	-5.0%	220	30
Equatorial Guinea	120	120	0	0.0%	150	30
Total OPEC-13	25,130	23,540	-1,590	-6.33%	29,560	6,020

Source: Bloomberg, OPEC

Meanwhile, Nigeria's production declined slightly to 1.93 mb/d during September-19. Recently, the producer reportedly increased its production quota as per the OPEC+ agreement by around 89 tb/d related to the start of the Egina oil field that it said was not a part of the pact.

Production in Iraq declined by 60 tb/d, according to OPEC, after the country witnessed local protests. According to reports, protests have reached Basra in Southern Iraq which is the backbone of Iraq's oil industry, and accounts for 90% of Iraq's oil exports from the Basra port.

The overall compliance to OPEC+ agreement was recorded at 138% with OPEC members achieving a much higher compliance of 152%, according to IEA. Moreover, in a recent interview, the head of OPEC said that all options are on table to achieve stable oil prices next year including deeper cuts. Geopolitical issues in the Middle East has made predicting oil production difficult for OPEC producers but consensus estimates shows a slowdown in output during Q4-19. Although, Saudi Arabia's production came back sooner than expected, the recent unrest in Iraq is likely to affect the country's oil production. Meanwhile, analysts are expecting lower oil output due to the conflict in Syria that could affect production in Kurdistan region in Iraq. Also, Ecuador declared a force majeure on crude exports after protests affected some oilfields.



Source: Bloomberg

Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q4 19	Q1 20	Q2 20	Q3 20
Bank of Tokyo-Mitsubishi UFJ Ltd/The	1/Oct/19	66.5	58.2	57.8	60.2
Market Risk Advisory Co Ltd	1/Oct/19	62.0	60.0	62.0	62.0
CIBC	30/Sep/19	57.5	57.5		
CIMB	27/Sep/19	67.0	64.0	62.0	60.0
BBVA Research SA	24/Sep/19	62.0	60.4	57.3	53.8
Capital Economics Ltd	23/Sep/19	61.5	61.0	63.0	
Westpac Banking Corp	19/Sep/19	62.0	61.0	59.0	58.0
Commerzbank AG	18/Sep/19	65.0	60.0	60.0	60.0
Societe Generale SA	17/Sep/19	58.0	57.5	59.0	60.0
MPS Capital Services Banca per le Imprese SpA	11/Sep/19	63.0	66.0		
Landesbank Baden-Wuerttemberg	9/Sep/19	60.0	60.0	60.0	57.5
Intesa Sanpaolo SpA	2/Sep/19	64.0	65.0	65.0	65.0
Banco Santander SA	30/Aug/19	60.0	60.0	60.0	60.0
ABN AMRO Bank NV	20/Aug/19	58.0	60.0	63.0	65.0
BNP Paribas SA	15/Aug/19	55.0	52.0	53.0	54.0
Rabobank International	29/Jul/19	74.0	73.5	73.0	72.5
Bank of China International UK Ltd	17/Jul/19	67.0	65.5	68.0	
Bank of Nova Scotia/The	27/Jun/19	63.1	60.0	61.0	63.0
Emirates NBD PJSC	24/Jun/19	63.0	65.0	60.0	58.0
Raymond James Financial Inc	17/May/19	83.0	97.5	105.0	100.0
Raiffeisen Bank International AG	29/Apr/19	68.0	63.0	61.0	64.0
Median		63.0	60.4	61.0	60.0
Mean		63.8	63.2	63.6	63.1
High		83.0	97.5	105.0	100.0
Low		55.0	52.0	53.0	53.8
Current Fwd		57.8	56.8	56.3	55.9
Difference (Median - Current)		5.2	3.6	4.7	4.1

Source: Bloomberg

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