

Oil Market Monthly Report

February - 2019

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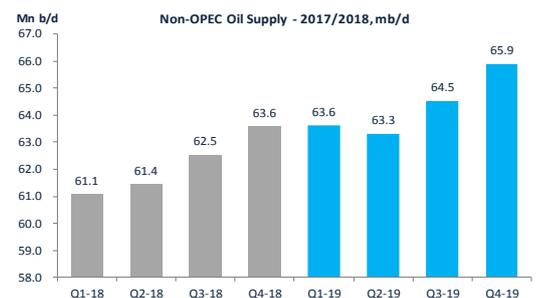
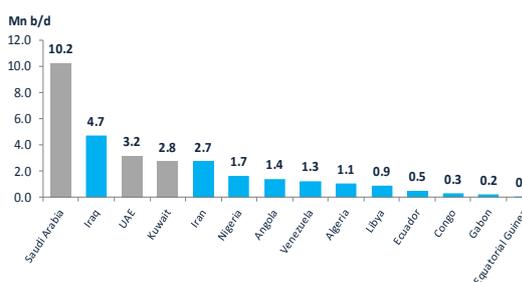
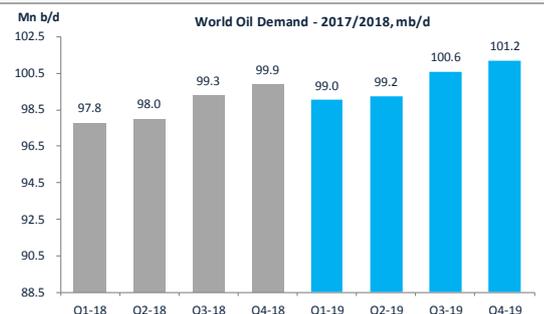
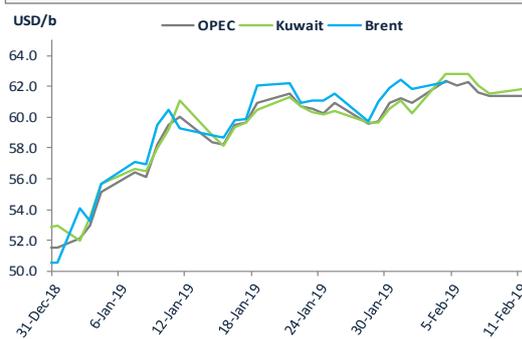
Trade tensions continue to steer oil market amid a positive push from sanctions...

Oil prices were on an uptrend in the new year after bottoming in December-18 with Brent and OPEC crude grades witnessing strong and consistent gains. However, the momentum soon faded after three weeks of gains and almost flattened with crude hovering above the USD 60/b mark during the first two weeks of February-19. The initial surge came amid a broad-based rally in almost all global markets and a majority of the asset classes globally. Oil prices particularly got support from the US sanctions on Venezuela that is expected to affect 0.5mb/d in crude exports from the OPEC member. The news of sanctions overshadowed rising production in the US and supported oil prices in a market which continues to doubt near term demand. That said, supply continued unabated from the US as it pumps crude at record pace denting the support that came after the OPEC+ countries implemented the cuts this year.

On the economic front, all eyes were on the looming deadline for the imposition of US tariffs on China at the start of next month as trade talks between the two trading partners are yet to see any announced resolution. Demand prospects for the oil market got a further blow when economic growth rates for the European region were slashed by the European Commission for the years 2019 and 2020. The report highlighted the ongoing trade tensions between the US and China and domestic challenges in some of the biggest European economies including Germany, France and Italy as factors affecting economic growth. Moreover, the greenback traded at a three month high that made crude costlier for oil importers while confusion over a repeat of US government shut down added to the pressure on oil prices which was later avoided after a tentative deal. On the other hand, key indicators from China were disappointing over the past few months. Positives on the demand side included an increase in demand for distillates in the US due to the extreme cold weather.

The story on the supply side continues to haunt the market indicating strict limits to any rally in oil prices beyond the current range. The US produced at a historical high level of 11.9 mb/d while inventories remained at more than 12-month high levels on the back of refinery outages at Cushing. US oil rig count went up for the second time in three weeks, although the trend looks flattening or even declining since the recent peak in late last year. On the other hand, Canada has also placed temporary curbs on production due to pipeline capacity constraints as well as a recent crude pipeline leak incident in Illinois, US.

OPEC oil production receded during January-19 after the implementation of the OPEC+ agreement. A Reuters report said that production during the month saw a steep decline as Saudi Arabia and its allies in the Gulf region over-delivered on their share of production cuts. On the other hand, production in Iran and Venezuela declined following US sanctions, while Libya continued to face weather conditions that disrupted the country's production.



Source for the above charts : OPEC and Bloomberg

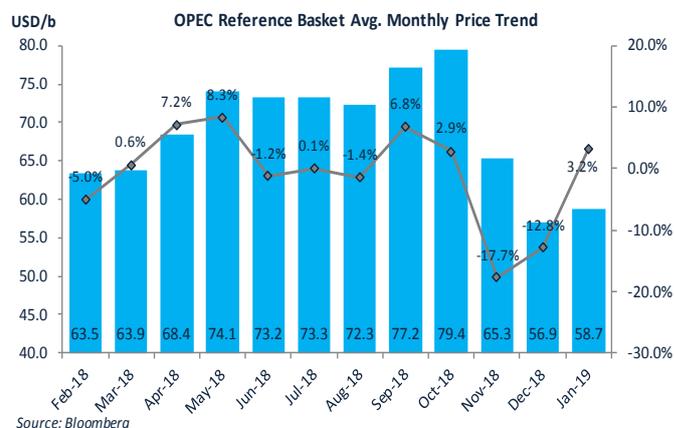
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Oil Prices

After two consecutive months of double digit declines, average OPEC crude prices gained 3.2% during January-19 to reach USD 58.74/b. Kuwait crude average price also gained but at a slightly smaller pace of 2.7% to average at USD 58.7/b. On the other hand, average Brent crude witnessed the biggest gain of the three crude grades during January-19 with its price up 4.2% to average at USD 59.4/b. Oil prices rallied during first few weeks of the year which saw OPEC crude peaking at USD 62.32/b with a surge of 21% from last years close. However, the momentum gradually flattened during the second week of February-19 led by reports of record production in the US, rising inventories and the slow progress related to trade talks between the US and China. Analyst consensus estimates for the near term also suggests marginal recovery in oil prices with the median prices at USD 63.0/b for Q1-19 that is expected to gradually increase to USD 70.0/b by the end of the year. Also, there was a deterioration in consensus numbers as compared to January-19 estimates with marginal decline in expectations for price expectations for the first two quarters of the year.

According to the latest EIA report, crude inventories in the US rose by 1.3 mb/d during the week ended 1-February-19. The data was in line considering record output in the US as well as rising oil rig count. The agency also published its Short Term Energy Outlook in which it raised US oil production forecast for 2019 by 2.8% to 12.41 mb/d as well as for 2020 by 2.6% to 13.2 mb/d. Oil price outlook for 2019 was raised marginally by 0.8% to USD 61.03/b for Brent crude while 2020 price outlook for the crude grade saw a bigger cut of 4.3% to USD 62/b. The weekly rig count data from Baker Hughes also concurred with the rise in production in the US. According to the latest report, 7 additional rigs came online leading to a total of 854 working rigs. This was the second increase in the last three weeks as drillers expand production eyeing rising oil prices.



Average Crude Oil Prices, USD/b	Dec-18	Jan-19	Change (USD)	YTD Avg 2018	YTD Avg 2019
OPEC Reference Basket	56.9	58.7	1.8	66.9	58.7
Arab Light	58.2	59.6	1.4	67.4	59.6
Basrah Light	56.1	58.2	2.1	66.1	58.2
Bonny Light	57.8	60.5	2.7	69.9	60.5
Djeno	54.4	56.8	2.4	67.4	56.8
Es Sider	55.7	58.3	2.6	68.2	58.3
Girassol	57.5	60.0	2.5	69.8	60.0
Iran Heavy	54.8	56.3	1.5	65.9	56.3
Kuwait Export	57.1	58.7	1.6	65.7	58.7
Merey	49.9	50.9	1.0	59.1	50.9
Murban	59.3	60.8	1.5	68.8	60.8
Oriente	51.3	55.1	3.8	63.5	55.1
Rabi	56.2	58.6	2.4	68.2	58.6
Saharan Blend	56.4	59.3	2.9	69.9	59.3
Zafiro	57.7	60.1	2.4	69.2	60.1
Other Crudes					
Brent	57.0	59.4	2.4	69.1	59.4
Dubai	57.3	59.1	1.8	66.2	59.1
Isthmus	55.6	58.1	2.6	67.6	58.1
LLS	55.9	58.5	2.6	67.8	58.5
Mars	53.3	56.7	3.4	64.1	56.7
Minas	50.3	51.7	1.4	60.9	51.7
Urals	57.2	60.3	3.1	68.7	60.3
WTI	49.5	51.6	2.1	63.7	51.6
Differentials					
Brent/WTI	7.4	7.7	0.3	5.4	7.7
Brent/LLS	1.1	0.9	(0.2)	1.3	0.9
Brent/Dubai	(0.3)	0.3	0.6	3.0	0.3

Source: OPEC Monthly Oil Market Report - February-19

World Oil Demand

After keeping it constant in the previous two months, world oil demand growth estimates for 2018 was lowered in the latest OPEC monthly report. According to the new estimates, world oil demand grew by 1.47 mb/d in 2018, a revision of 0.03 mb/d as compared to the previous estimates. Total demand is now expected to reach 98.76 mb/d after demand growth was slower-than-expected for OECD Europe, OECD Asia Pacific, Other Asia, Latin Americas and the Middle East during the last two quarters of 2018. Overall demand for the OECD countries was lowered by 0.1 mb/d. Demand estimates for the OECD Americas region was raised for Q4-18 led by better-than-expected demand for light and middle distillates and from the petrochemical and industrial sectors in the US resulting in a revision of 0.1 mb/d for Q4-18 demand figure for the country. For the OECD Europe region, demand growth estimates were lowered by 0.02 mb/d for

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	25.73	25.74	25.52	0.46	1.85
of which US	20.27	20.57	20.64	20.88	20.78	20.72	0.45	2.20
Europe	14.30	13.95	14.19	14.68	14.42	14.31	0.01	0.09
Asia Pacific	8.06	8.54	7.65	7.70	8.21	8.03	(0.04)	(0.46)
Total OECD	47.42	47.69	47.24	48.11	48.37	47.86	0.44	0.93
Other Asia	13.24	13.55	13.84	13.38	13.9	13.67	0.42	3.19
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	8.17	8.19	7.96	8.40	7.85	8.10	(0.07)	(0.89)
Africa	4.20	4.35	4.32	4.27	4.40	4.33	0.13	3.13
Total Developing Countries (DCs)	32.13	32.44	32.60	32.86	32.62	32.63	0.5	1.57
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	97.29	97.80	98.02	99.30	99.89	98.76	1.47	1.51

Source: OPEC Monthly Oil Market Report - February-19

2018 due to slower-than-expected demand especially during 2H-18 led by lagging economic activity, a decrease in petrochemical feedstock requirements and warmer weather conditions during Q4-18. In the OECD Asia Pacific region, lower-than-expected demand in South Korea's petrochemical sector in Q4-18 led to a downward revision of 0.01 mb/d for the full year. Non-OECD demand estimates were also lowered by around 0.02 mb/d primarily due to a downward revision of 0.03 mb/d in Q4-18 demand numbers for India led by lower-than-expected demand in November-18. The Middle East region also underwent a downward revision of 0.01 mb/d primarily reflecting lower demand from Saudi Arabia due to substitution effects, economic reform plans and subsidy reductions. World oil demand growth expectations for 2019 saw a bigger downward revision of 0.05 mb/d with demand now expected to grow by 1.24 mb/d to average at 100.00 mb/d for the year. The revision reflected an expected decline in economic growth in 2019 for some of the key global economies. OECD oil demand was revised down by 0.02 mb/d due to lower expected growth rate in OECD Americas during Q1-19 and OECD Europe for the full year. For the non-OECD countries, demand was lowered by 0.01 mb/d and 0.02 mb/d for Latin America and the Middle East regions, respectively.

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.52	25.43	25.64	26.01	26.00	25.77	0.25	1.00
of which US	20.72	20.79	20.85	21.14	21.02	20.95	0.23	1.12
Europe	14.31	13.97	14.18	14.69	14.42	14.32	0.01	0.06
Asia Pacific	8.03	8.53	7.61	7.68	8.18	8.00	(0.03)	(0.34)
Total OECD	47.86	47.94	47.43	48.38	48.61	48.09	0.24	0.49
Other Asia	13.67	13.91	14.21	13.75	14.28	14.04	0.37	2.71
of which India	4.73	5.03	4.93	4.58	5.15	4.92	0.19	4.05
Latin America	6.53	6.38	6.52	6.86	6.51	6.57	0.04	0.66
Middle East	8.10	8.23	7.99	8.45	7.89	8.14	0.04	0.49
Africa	4.33	4.46	4.42	4.36	4.50	4.44	0.10	2.33
Total Developing Countries (DCs)	32.63	32.98	33.15	33.42	33.18	33.18	0.55	1.70
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	12.61	13.18	12.99	13.42	13.05	0.34	2.67
Total "Other Regions"	18.27	18.11	18.63	18.77	19.37	18.72	0.45	2.46
Total World	98.76	99.02	99.21	100.57	101.16	100.00	1.24	1.26

Source: OPEC Monthly Oil Market Report - February-19

World Oil Supply

According to preliminary data, global oil supply declined for the second consecutive month during January-19. Supply went below the 100 mb/d mark for the first time since November-18 to reach 99.32 mb/d in January-19 led by a decline in non-OPEC supply to the tune of 0.23 mb/d to average at 68.52 mb/d primarily led by Canada, FSU and China along with a decline of 0.8 mb/d for the OPEC countries to reach 30.81 mb/d. OPEC's share of global crude production reached 31.0% in January-19, a decline of 50 bps as compared to the previous month. Non-OPEC supply growth projections for 2018 was once again revised upward by 0.11 mb/d and is now expected to grow by 2.72 mb/d during the year to average at 62.17 mb/d. The revision reflected higher estimated supply from the US, Canada,

Non-OPEC Oil Supply - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	21.49	22.93	23.36	24.51	24.89	23.93	2.44	11.33
of which US	14.40	15.53	16.22	17.17	17.62	16.64	2.24	15.53
Europe	3.83	3.92	3.73	3.63	3.80	3.77	(0.06)	(1.50)
Asia Pacific	0.39	0.40	0.38	0.42	0.44	0.41	0.02	4.49
Total OECD	25.71	27.25	27.47	28.56	29.13	28.11	2.40	9.32
Other Asia	3.61	3.6	3.55	3.48	3.53	3.54	(0.07)	-2.05
Latin America	5.15	5.15	5.20	5.10	5.23	5.17	0.02	0.32
Middle East	3.13	3.16	3.21	3.22	3.24	3.21	0.07	2.29
Africa	1.48	1.51	1.52	1.55	1.50	1.52	0.04	2.64
Total Developing Countries (DCs)	13.38	13.41	13.47	13.34	13.49	13.43	0.05	0.40
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	3.97	3.94	4.00	3.94	4.02	3.97	0.00	0.07
Total "Other regions"	18.15	18.17	18.25	18.39	18.71	18.38	0.23	1.28
Total Non-OPEC Production	57.24	58.83	59.2	60.29	61.33	59.92	2.68	4.68
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	59.45	61.07	61.44	62.54	63.58	62.17	2.72	4.57
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	31.59	31.94	32.09	31.86	(0.16)	(0.49)
Total World Supply	96.40	97.79	97.99	99.46	100.73	99.01	2.60	2.70

Source: OPEC Monthly Oil Market Report - February-19

Malaysia, China and the UK mainly during the last quarter of 2018 that was partially offset by a downward revision of 8 tb/d for supply estimates for Mexico and India. Supplies from the OECD countries were raised by 76tb/d from the previous estimates and are now estimated to have averaged at 28.11 mb/d in 2018. Of this, OECD Americas saw an upward revision of 66 tb/d of which Canada's supply estimates were raised by 35 tb/d, while OECD Europe numbers were revised up by 11 tb/d. Non-OPEC supply growth forecasts for 2019 was also revised upwards by 0.08 mb/d to 2.18 mb/d and supply is now expected to average at 64.34 mb/d. The upward revision primarily reflected updated production forecast for the US Gulf of Mexico following which US liquids supply forecast was revised upwards by 94 tb/d to an average of 18.44 mb/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	23.93	24.86	24.93	25.84	26.57	25.56	1.63	6.81
of which US	16.64	17.73	17.98	18.63	19.40	18.44	1.80	10.80
Europe	3.77	3.81	3.62	3.71	3.94	3.77	0.00	(0.01)
Asia Pacific	0.41	0.44	0.45	0.47	0.49	0.46	0.05	13.28
Total OECD	28.11	29.10	29.01	30.03	31.00	29.79	1.68	5.99
Other Asia	3.54	3.49	3.44	3.46	3.46	3.46	-0.07	-2.09
Latin America	5.17	5.37	5.42	5.51	5.73	5.50	0.34	6.51
Middle East	3.21	3.22	3.22	3.24	3.24	3.23	0.02	0.73
Africa	1.52	1.52	1.53	1.59	1.62	1.57	0.05	3.08
Total Developing Countries (DCs)	13.43	13.59	13.60	13.80	14.05	13.76	0.33	2.48
Former Soviet Union (FSU)	14.29	14.53	14.36	14.38	14.51	14.44	0.16	1.09
of which Russia	11.35	11.54	11.40	11.50	11.50	11.49	0.14	1.23
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(1.08)
China	3.97	3.99	3.94	3.93	3.95	3.95	(0.02)	(0.60)
Total "Other regions"	18.38	18.64	18.41	18.42	18.58	18.51	0.13	0.71
Total Non-OPEC Production	59.92	61.33	61.03	62.25	63.63	62.07	2.15	3.58
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.25
Total Non-OPEC Supply	62.17	63.61	63.3	64.53	65.91	64.34	2.18	3.5

Source: OPEC Monthly Oil Market Report - February-19

OPEC Oil Production & Spare Capacity

OPEC crude production, which now excludes Qatar, witnessed a steep decline during Jan-19 as the OPEC+ agreement was implemented by the producers. According to Bloomberg, production declined by 0.93 mb/d to reach 31.02 mb/d while OPEC secondary estimates put the decline at 0.8 mb/d to average at 30.8 mb/d. Saudi Arabia reported the biggest decline in production by 0.45 mb/d to average at 10.2 mb/d during January-19. Almost all the OPEC members reported a decline in output during the month. According to Reuters, some of the OPEC members took a bigger share of the cuts that resulted in a compliance level of 70% to the new OPEC+ agreement. In an interview, Saudi Arabia's Energy Minister said that the Kingdom plans to lower oil production to around 9.8 mb/d by March-19. It was also reported that Russia, which produced at a record pace in 2018, is yet to fully comply with the allocated production cuts and as a result it is

Production ('000 b/d)	Dec-18	Jan-19	Change		Capacity	Spare Capacity
Total OPEC-14	31,950	31,020	-930	-2.91%	35,245	4,225
Saudi Arabia	10,650	10,200	-450	-4.2%	11,500	1,300
Iraq	4,700	4,690	-10	-0.2%	4,700	10
UAE	3,260	3,150	-110	-3.4%	3,400	250
Kuwait	2,810	2,750	-60	-2.1%	3,000	250
Iran	2,890	2,740	-150	-5.2%	4,000	1,260
Nigeria	1,770	1,690	-80	-4.5%	1,900	0
Angola	1,470	1,410	-60	-4.1%	1,710	300
Venezuela	1,220	1,270	50	4.1%	1,440	170
Algeria	1,060	1,050	-10	-0.9%	1,150	100
Libya	1,000	900	-100	-10.0%	1,200	300
Ecuador	510	520	10	2.0%	555	35
Congo	320	330	10	3.1%	330	0
Gabon	170	210	40	23.5%	210	0
Equatorial Guinea	120	110	-10	-8.3%	150	40
Total OPEC-13	27,250	26,330	-920	-3.38%	30,545	4,215

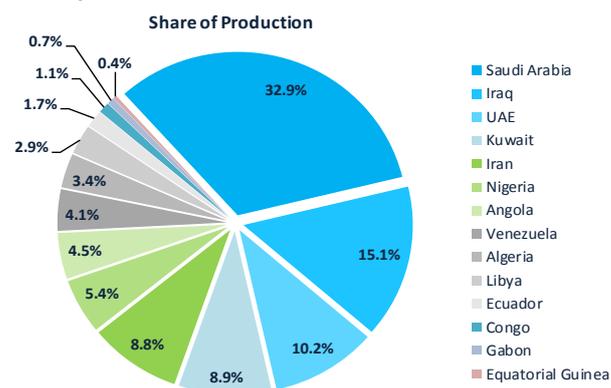
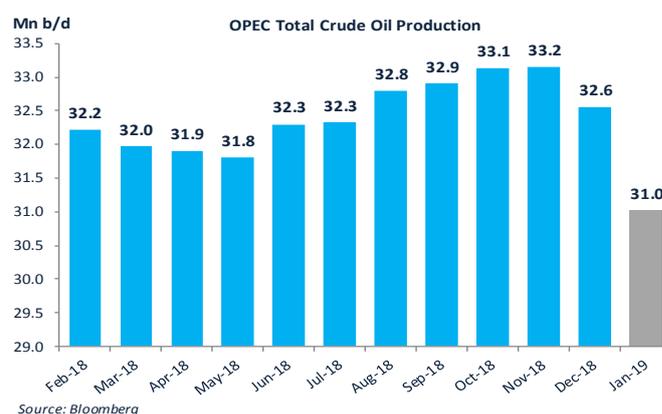
Source: Bloomberg, OPEC

affecting the compliance levels for the overall group. However, the producer is expected to gradually raise its compliance levels in the coming months as the Energy Minister said the country plans to cut 90-100 tb/d in Feb-19 as compared to Oct-18 levels.

Meanwhile, oil production in Libya was for the first time in five months reported below the 1 mb/d mark during January-19, to reach 0.9 mb/d as the country initially faced weather related issues that was followed by production disruptions at the country's largest oilfield. According to recent updates, the country's El Sharara oilfield, which produces at around 350 tb/d is ready to resume production. Oil production also declined in Nigeria during January-19 led by pipeline shutdown due to leakages as well as maintenance.

Oil production in Venezuela continued to remain subdued and with the recent sanctions from the US, the country is looking for buyers of its crude elsewhere. According to a report, Venezuela has turned to India, its second largest buyer after US, to double its sales from the current 0.3 mb/d.

KAMCO Research believes that the current level of prices adequately represents the supply/demand situation in the market. Positive factors continue to remain fragile as the market tightening is temporary even after considering the OPEC+ cuts as exempt producers have the potential to significantly dent the efforts.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q1 19	Q2 19	Q3 19	Q4 19
Commerzbank AG	6/Feb/19	60.0	63.0	67.0	70.0
BNP Paribas SA	5/Feb/19	63.0	69.0	73.0	67.0
Rabobank International	30/Jan/19	67.5	67.4	67.2	67.1
Intesa Sanpaolo SpA	29/Jan/19	67.0	75.0	77.0	80.0
MPS Capital Services Banca per le Imprese SpA	24/Jan/19	62.0	67.0	70.0	65.0
BBVA Research SA	23/Jan/19	64.5	63.7	62.6	61.8
Natixis SA	22/Jan/19	62.0	68.0	73.0	77.0
Societe Generale SA	17/Jan/19	60.0	62.0	65.0	70.0
Lloyds Bank PLC	16/Jan/19	66.0	70.0	75.0	80.0
Raymond James Financial Inc	14/Jan/19	62.0	66.0	75.0	85.0
Itau Unibanco Holding SA	14/Jan/19	58.3	58.8	59.3	59.8
Capital Economics Ltd	14/Jan/19	56.0	56.5	53.5	51.0
Raiffeisen Bank International AG	11/Jan/19	67.0	74.0	75.0	70.0
Emirates NBD PJSC	10/Jan/19	61.0	67.5	67.5	63.0
CIBC	9/Jan/19	63.0	68.0		
Market Risk Advisory Co Ltd	7/Jan/19	60.0	62.0	60.0	60.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	27/Dec/18	62.4	57.2	64.6	66.5
CIMB	20/Dec/18	63.0	66.0	70.0	71.0
ABN AMRO Bank NV	18/Dec/18	68.0	70.0	70.0	70.0
Westpac Banking Corp	17/Dec/18	63.9	65.0	63.7	62.3
Banco Santander SA	14/Dec/18	62.0	64.0	63.0	63.0
Australia & New Zealand Banking Group Ltd	13/Dec/18	70.5	77.0	78.5	76.5
Landesbank Baden-Wuerttemberg	12/Dec/18	57.0	57.0	60.0	60.0
Wells Fargo Securities LLC	10/Dec/18	62.0	64.0	68.0	70.0
Incrementum AG	10/Dec/18	63.0	65.0	71.0	78.0
Norddeutsche Landesbank Girozentrale	7/Dec/18	59.0	58.0	58.0	62.0
Oxford Economics Ltd	6/Dec/18	60.0	63.0	64.3	64.9
Bank of Nova Scotia/The	4/Dec/18	64.0	69.0	68.0	67.0
Guggenheim Securities LLC	4/Dec/18	74.0	76.0	78.0	76.0
Barclays PLC	20/Nov/18	75.0	71.0	70.0	73.0
Toronto-Dominion Bank/Toronto	19/Nov/18	78.0	80.0	80.0	80.0
DZ Bank AG	16/Oct/18	80.0	77.5	75.0	72.5
Deutsche Bank AG	2/Oct/18	80.0	78.0	78.0	76.0
HSBC Holdings PLC	11/Sep/18	75.0	80.0	80.0	85.0
Median		63.0	67.2	70.0	70.0
Mean		65.2	67.5	69.1	69.7
High		80.0	80.0	80.0	85.0
Low		56.0	56.5	53.5	51.0
Current Fwd		61.9	61.9	61.7	61.4
Difference (Median - Current)		1.1	5.3	8.3	8.6

Source: Bloomberg

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