

Oil Market Monthly Report

August-2020

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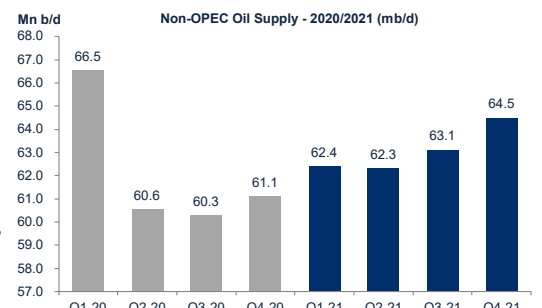
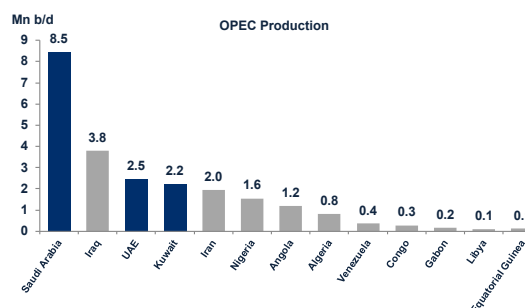
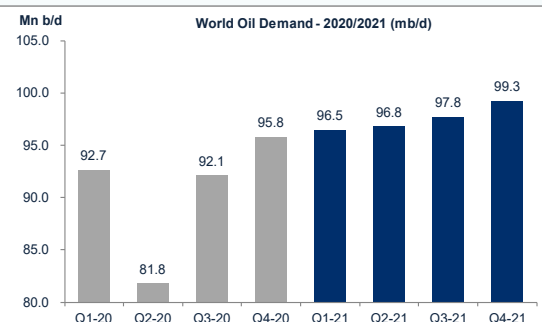
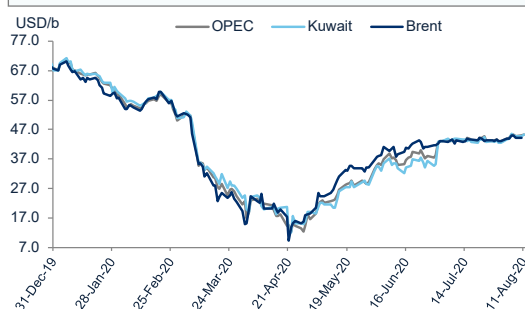
Brent gradually inches towards USD 45/b even as OPEC raises production...

Crude oil prices witnessed consistent modest gains over the last three months that pushed prices near the USD 45/b mark by the second week of August-2020, from sub-USD 20/b levels at the heart of the Covid-19 crisis. Gains came mainly on the back of improving demand outlook backed by an economic revival as markets open up post Covid-19 led lockdowns. The optimism more than offset fears of higher OPEC production after the producers decided to raise output in a meeting last month. Support also came from weaker USD making oil cheaper for oil importers. That said, lockdowns have also re-emerged in several countries as case counts have seen a spike.

A number of datapoints released this month pointed to positive trends globally that augurs well for oil demand and prices. European economic activity returned to growth last month with output growing for the first time since the lockdowns in March-2020. The composite PMI for the region reached 54.9, the highest activity in more than two years. Meanwhile, the manufacturing indicator the US showed the fastest growth since 2019 reaching 54.2 for July-2020. The US reported a fall in unemployment rates that reached 10.2% last month as compared to 11.1% during June-2020 after adding 1.8 million jobs. In addition, with stimulus packages being announced, the expectation of a faster economic revival is fast gaining pace that adds to the optimistic view of the oil market.

On the other hand, global covid-19 cases breached the 20 million mark recently with a number of countries reporting rising cases. The fears sent gold prices to a record high of over USD 2,000/Oz that eased only after a rise in US bond yields. The successful launch of a Covid-19 vaccine in Russia also helped to calm down some concerns about the pandemic.

In terms of oil demand, Saudi Aramco has reported that oil requirements from its Asian customers have almost reached pre-covid levels. In addition, the partial restart of commercial flights have also resulted in rising jet fuel demand as flight operations reach 50% of the last year's levels, despite the summer vacation season in the northern hemisphere. Demand for gasoline has also recovered to around 11% and 12% below last year's levels in the US and UK, respectively. Traffic data for China suggested normal levels as was the case with some capital cities in Europe and the Americas. Refinery utilization has also been positive across key locations but below historical levels as seen in the US where overall refinery utilization was 17 percentage points below last year's levels. That said, the optimistic view about the oil market from OPEC and IEA were toned down in the latest report. IEA lowered its demand forecast for 2020 by 140 tb/d led by rising covid-19 cases and weak aviation sector. 2021 demand forecast was also lowered by 240 tb/d also led by aviation weakness.



Sources : OPEC, EIA, Bloomberg

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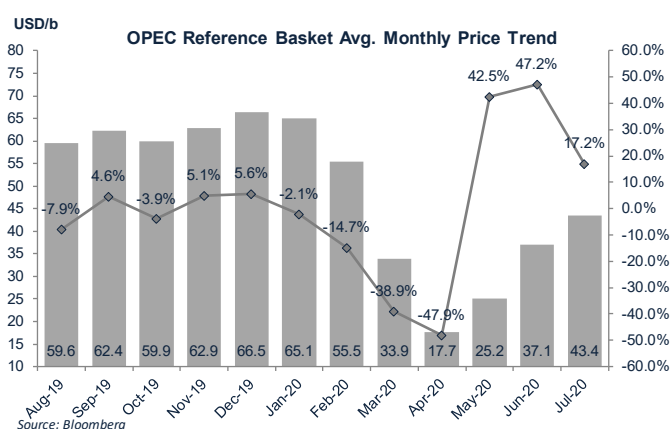
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Oil Prices

Spot crude prices reached a 5-month high level of around USD 45/b following consistent modest gains since mid-June-2020. The average OPEC crude price for July-2020 reached the highest since Feb-2020 at USD 43.42/b, a m-o-m increase of 17.2%. Brent crude prices averaged at USD 43.3/b in July-2020 as compared to USD 40.1 /b in June-2020 while Kuwait crude grade averaged at USD 43.25/b. According to the EIA's forecasts, Brent crude is expected to average at USD 41.42/b in 2020, 2.3% more than its previous forecast, and at USD 49.53./b in 2021.

According to reports, Occidental Petroleum reported a 95% decline in planned drillings with the driller having only one oil rig in the Permian Basin during 2H-2020. Some of the biggest companies in the region have forecasted a decline in production from the Permian basin, including Chevron and Exxon Mobil, and majority of the drillers don't expect to increase production from the current levels. According to reports, the two producers plan to operate around 14 rigs by the end of the year as compared to 70 rigs a year ago. The latest weekly report from Baker Hughes showed US oil rig count at 176, the lowest count since 2005. US rig count has shown growth only once in the last 21 weeks, according to historical weekly rig count data. A report from Rystad Energy showed that US rig count is not expected to materially recover by the end of the year with drilling permits at a 10-year low for a month in July-2020. The report stated that rig activity rebound is not likely to happen before 1H-2021 unless US crude oil prices reach USD 50/b mark in the next few weeks.

On the supply side, the US EIA, in its latest Short Term Energy Outlook, further slashed US production forecast for 2020 from its previous estimate of 11.63 mb/d to 11.26 mb/d, while the estimate for 2021 was raised from 11.01 mb/d to 11.14mb/d. The weekly inventory report from API showed higher-than-expected draw during the week ended 7-Aug-2020. The report showed crude inventories declining by 4.4 million barrels during the month. Gasoline inventories declined by 1.31 million barrels while distillate inventories were down by 2.95 million barrels.



Average Crude Oil Prices, USD/b	Jun-2020	Jul-2020	Change (USD)	Avg 2019	Avg 2020
OPEC Reference Basket	37.1	43.4	6.4	65.4	39.9
Arab Light	36.1	43.5	7.4	66.3	40.4
Basrah Light	37.2	44.6	7.4	65.0	39.5
Bonny Light	39.0	43.5	4.4	67.2	40.2
Djeno	32.6	35.8	3.2	63.1	35.5
Es Sider	38.7	42.2	3.5	65.0	38.8
Girassol	43.1	45.8	2.7	67.2	41.2
Iran Heavy	36.3	43.3	7.0	63.2	38.5
Kuwait Export	35.6	43.3	7.7	65.5	39.7
Merey	24.7	28.3	3.6	57.0	26.9
Murban	39.3	43.7	4.4	66.2	42.1
Rabi	40.7	43.6	2.9	64.9	38.4
Saharan Blend	40.5	44.1	3.6	65.9	40.9
Zafiro	40.8	43.8	3.0	66.9	39.8
Other Crudes					
Brent	40.1	43.3	3.2	65.7	40.3
Dubai	40.7	43.2	2.5	65.1	41.2
Isthmus	35.1	38.5	3.4	64.9	33.5
LLS	39.5	42.3	2.9	64.5	39.7
Mars	39.2	41.8	2.6	63.0	38.2
Minas	38.4	41.0	2.6	60.8	40.3
Urals	42.4	44.3	1.9	65.8	40.3
WTI	38.3	40.8	2.5	57.4	37.6
Differentials					
Brent/WTI	1.8	2.5	0.7	(8.3)	2.8
Brent/LLS	0.6	0.9	0.3	(1.2)	0.6
Brent/Dubai	(0.6)	0.1	0.7	(0.5)	(0.9)

Source: OPEC Monthly Oil Market Report - August-2020

World Oil Demand

Global oil demand estimate for 2020 was lowered by 0.1 mb/d to a decline of 9.1 mb/d in OPEC's latest monthly report. Oil demand is now expected to reach 90.63 mb/d in 2020 as compared to 99.69 mb/d in 2019. The downward revision reflected slower economic activity in certain non-OECD countries during Q2-2020 that was partially offset by better-than-expected demand estimates for the OECD Europe region. Data for Q1-2020 saw an upward revision due to stronger demand in China, OECD Europe and Asia Pacific. For 2H-2020, demand was revised lower due to slow economic growth, mainly in non-OECD emerging economies. The expectations for the remainder of the year assumes a rebound in economic activities along with partial and localized lockdowns which remains a major uncertainty factor. Higher-than-expected demand in the OECD Europe region pushed demand estimates for the OECD region higher by around 0.1 mb/d in

World Oil Demand - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.63	24.31	19.47	24.43	24.91	23.29	-2.35	-9.15
of which US	20.79	19.66	15.61	19.98	20.49	18.94	(1.85)	(8.90)
Europe	14.25	13.34	10.32	13.19	13.53	12.60	(1.66)	(11.61)
Asia Pacific	7.79	7.75	6.25	6.51	7.33	6.96	(0.83)	(10.64)
Total OECD	47.68	45.40	36.04	44.13	45.77	42.85	-4.83	-10.13
Other Asia	13.87	12.99	11.80	12.28	13.55	12.66	-1.21	-8.73
of which India	4.84	4.77	3.60	3.85	4.74	4.24	(0.60)	(12.44)
Latin America	6.59	6.11	5.66	6.17	6.08	6.01	(0.59)	(8.92)
Middle East	8.20	7.88	6.96	7.88	7.50	7.56	(0.65)	(7.87)
Africa	4.45	4.37	4.07	4.07	4.20	4.18	(0.27)	(6.08)
Total Developing Countries (DCs)	33.11	31.36	28.48	30.41	31.33	30.4	-2.71	-8.2
Former Soviet Union (FSU)	4.84	4.50	4.03	4.43	4.59	4.39	-0.45	-9.38
Other Europe	0.76	0.71	0.55	0.47	0.56	0.57	(0.19)	(25.17)
China	13.30	10.70	12.75	12.67	13.58	12.43	(0.87)	(6.55)
Total "Other Regions"	18.91	15.91	17.32	17.57	18.74	17.39	-1.52	-8.03
Total World	99.69	92.67	81.84	92.10	95.83	90.63	-9.06	-9.09

Source: OPEC Monthly Oil Market Report - August-2020

2020. In terms of product category, the demand for heating fuels in Germany and Italy was better than expected, whereas in the OECD Asia Pacific region, demand for transportation fuels and petrochemical feedstock were better-than-expected in South Korea that led to an upward revision in 1H20. China's economic rebound has supported oil demand from the country, however, according to a WSJ report, the country continues to see a hoard of tankers lining up at its ports as it continues to grapple with overfilled storage facilities. Demand data from India continue to show a downward trend with July-2020 data showing a y-o-y decline for a fifth consecutive month by 11.7%.

For 2021, world oil demand growth forecast was kept unchanged at 7.0 mb/d with demand expected to reach 97.6 mb/d backed by demand growth in both OECD and non-OECD countries. Nevertheless, oil demand estimates for the OECD Americas region includes the impact of the pandemic that would be managed with stimulus measures that are expected to support a rebound in economic development. The estimates includes uncertainties across sectors and mainly for the transportation sector but petrochemical feedstocks are expected to provide strong support for demand growth in 2021, according to OPEC.

World Oil Demand - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	23.29	24.71	24.85	25.49	25.42	25.13	1.84	7.90
of which US	18.94	20.28	20.02	20.68	20.86	20.46	1.52	8.02
Europe	12.60	13.76	13.67	13.96	13.83	13.81	1.21	9.59
Asia Pacific	6.96	7.92	7.16	7.06	7.57	7.43	0.47	6.69
Total OECD	42.85	46.39	45.68	46.51	46.82	46.36	3.51	8.20
Other Asia	12.66	13.62	13.95	13.55	14.33	13.86	1.21	9.55
of which India	4.24	5.29	4.58	4.66	5.39	4.98	0.74	17.46
Latin America	6.01	6.21	6.32	6.37	6.31	6.31	0.30	4.99
Middle East	7.56	8.07	7.69	8.19	7.75	7.93	0.37	4.89
Africa	4.18	4.46	4.25	4.27	4.39	4.34	0.17	3.95
Total Developing Countries (DCs)	30.40	32.36	32.21	32.39	32.78	32.44	2.04	6.72
Former Soviet Union (FSU)	4.39	4.64	4.49	4.60	4.72	4.62	0.23	5.16
Other Europe	0.57	0.79	0.68	0.59	0.68	0.68	0.11	19.58
China	12.43	12.31	13.77	13.70	14.33	13.53	1.10	8.86
Total "Other Regions"	17.39	17.75	18.94	18.89	19.73	18.83	1.44	8.28
Total World	90.63	96.50	96.82	97.79	99.33	97.63	7.00	7.72

Source: OPEC Monthly Oil Market Report - August-2020

World Oil Supply

After declining during the previous two months, world liquids production witnessed a growth in July-2020 by 1.29 mb/d and averaged at 88.75 mb/d. The increase came primarily on the back of higher OPEC production whereas non-OPEC output grew by 0.31 mb/d m-o-m to reach 65.58 mb/d mainly led by higher output in Canada and Norway. The share of OPEC crude in total global production increased by 70 bps to 26.1% during July-2020.

Non-OPEC oil supply estimates for 2020 saw an upward revision of 235 tb/d in OPEC's latest monthly report reflecting better-than-expected recovery in 2H-2020. Oil supply is now expected to decline by 3.03 mb/d to average at 62.11 mb/d during the year. The upward

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.76	26.59	23.13	23.30	23.51	24.13	(1.63)	(6.34)
of which US	18.41	19.05	16.34	16.40	16.60	17.09	(1.32)	(7.17)
Europe	3.71	4.03	3.87	3.94	4.07	3.98	0.27	7.27
Asia Pacific	0.53	0.53	0.55	0.59	0.59	0.57	0.04	7.63
Total OECD	29.99	31.16	27.55	27.83	28.16	28.67	(1.32)	(4.41)
Other Asia	3.52	3.47	3.26	3.36	3.36	3.36	(0.16)	-4.59
Latin America	6.05	6.34	5.81	6.19	6.41	6.19	0.14	2.27
Middle East	3.21	3.21	3.13	3.05	3.07	3.11	(0.10)	(3.01)
Africa	1.53	1.50	1.47	1.44	1.45	1.46	(0.07)	(4.46)
Total Developing Countries (DCs)	14.32	14.51	13.67	14.05	14.28	14.13	(0.19)	(1.32)
Former Soviet Union (FSU)	14.4	14.53	13	12.23	12.46	13.05	-1.34	-9.34
of which Russia	11.44	11.51	10.21	9.71	9.85	10.32	(1.13)	(9.84)
Other Europe	0.12	0.12	0.12	0.11	0.11	0.12	0.00	(3.14)
China	4.05	4.15	4.16	3.99	4.01	4.08	0.02	0.61
Total "Other regions"	18.57	18.80	17.27	16.33	16.58	17.24	(1.32)	(7.13)
Total Non-OPEC Production	62.88	64.47	58.49	58.21	59.03	60.04	-2.84	-4.51
Processing gains	2.26	2.07	2.07	2.07	2.07	2.07	(0.19)	(8.48)
Total Non-OPEC Supply	65.14	66.54	60.56	60.28	61.1	62.11	-3.03	-4.65
OPEC NGLs and non-conventionals	5.26	-	-	-	-	5.16	(0.10)	(1.90)
OPEC Crude Oil Production	29.34	28.26	25.60	-	-			
Total World Supply	99.74	-	-	-	-			

Source: OPEC Monthly Oil Market Report - August-2020

revision primarily reflected higher supply mainly from Canada (+132 tb/d), US (+46 tb/d) and Mexico (+33 tb/d) owing to higher-than-anticipated production in 2H20 to now show a decline of 1.32 mb/d y-o-y for OECD. The revision in Canada's liquids production estimate reflected higher output in June-2020 led by a monthly increase in Alberta's bitumen output, whereas the revision for US output reflected higher-than-anticipated production in 2H-2020. Non-OPEC liquids production growth forecast was revised up for 2021 by 66 tb/d. Production next year is expected to grow by 0.98 mb/d and average at 63.1 mb/d. The revision reflected a stronger production recovery in Canada (+120 tb/d) and Mexico (+10 tb/d) partially offset by a decline in production in China (-20 tb/d) and Australia (-30 tb/d).

Non-OPEC Oil Supply - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	24.13	23.91	24.01	24.72	25.52	24.55	0.42	1.73
of which US	17.09	16.82	17.10	17.40	18.00	17.33	0.24	1.38
Europe	3.98	4.10	4.00	4.03	4.30	4.11	0.13	3.33
Asia Pacific	0.57	0.58	0.57	0.60	0.59	0.59	0.02	3.78
Total OECD	28.67	28.59	28.59	29.36	30.41	29.24	0.57	1.99
Other Asia	3.36	3.37	3.34	3.39	3.38	3.37	0.01	0.3
Latin America	6.19	6.44	6.40	6.36	6.59	6.45	0.26	4.24
Middle East	3.11	3.13	3.14	3.15	3.16	3.14	0.03	0.97
Africa	1.46	1.45	1.44	1.43	1.42	1.44	(0.03)	(1.79)
Total Developing Countries (DCs)	14.13	14.39	14.33	14.34	14.56	14.41	0.28	1.96
Former Soviet Union (FSU)	13.05	13.08	13.07	13.07	13.06	13.07	0.02	0.15
of which Russia	10.32	10.36	10.36	10.36	10.36	10.36	0.04	0.39
Other Europe	0.12	0.11	0.11	0.11	0.11	0.11	(0.01)	(6.92)
China	4.08	4.04	4.03	4.07	4.14	4.07	(0.01)	(0.12)
Total "Other regions"	17.24	17.22	17.21	17.24	17.31	17.25	0.01	0.04
Total Non-OPEC Production	60.04	60.21	60.13	60.94	62.29	60.9	0.85	1.42
Processing gains	2.07	2.20	2.20	2.20	2.20	2.20	0.13	6.18
Total Non-OPEC Supply	62.11	62.41	62.33	63.14	64.49	63.1	0.98	1.58

Source: OPEC Monthly Oil Market Report - August-2020

OPEC Oil Production & Spare Capacity

OPEC crude oil production increased during July-2020 after declining by 5.9 mb/d and 2.02 mb/d during the previous two months. Average production during July-2020 stood at 23.4 mb/d, an increase of 0.9 mb/d as compared to previous month, according to data from Bloomberg. According to OPEC secondary sources, production coming from the group stood at 23.2 mb/d. The monthly increase in production came primarily on the back of higher output from Saudi Arabia, Kuwait and Nigeria that was partially offset by a decline in production reported by Angola and Gabon totaling 120 tb/d. The increase came before the implementation of the new OPEC+ curbs that are effective from 1-August-2020, indicating that the OPEC could see higher production in the coming month. Also, with the increase in production in July-2020, OPEC's spare capacity stood at 10.6 mb/d in July-2020 as compared to 11.4 mb/d at the end of June-2020.

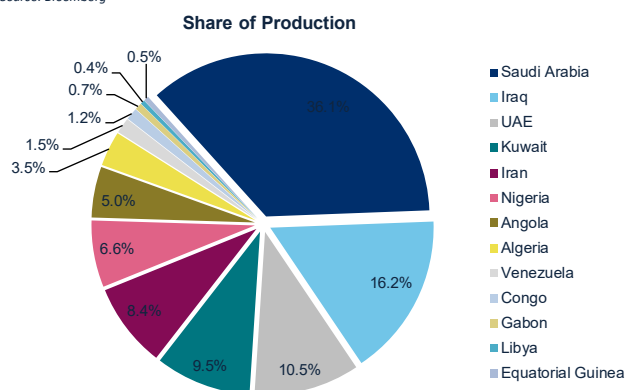
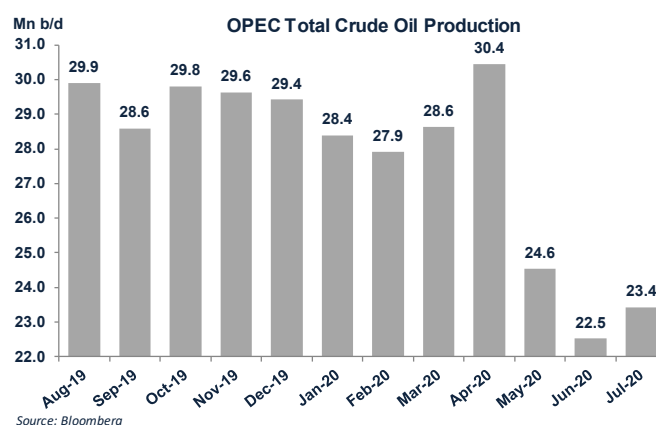
Production ('000 b/d)	Jun-20	Jul-20	Change		Capacity	Spare Capacity
Total OPEC-13	22,530	23,430	900	3.99%	34,035	10,605
Saudi Arabia	7,530	8,450	920	12.2%	11,500	3,050
Iraq	3,790	3,790	0	0.0%	4,800	1,010
UAE	2,430	2,450	20	0.8%	3,400	950
Kuwait	2,150	2,220	70	3.3%	3,075	855
Iran	1,940	1,960	20	1.0%	3,830	1,870
Nigeria	1,510	1,550	40	2.6%	2,000	450
Angola	1,240	1,180	-60	-4.8%	1,450	270
Algeria	810	810	0	0.0%	1,080	270
Venezuela	370	360	-10	-2.7%	900	540
Congo	300	280	-20	-6.7%	330	50
Gabon	220	160	-60	-27.3%	220	60
Libya	110	100	-10	-9.1%	1,300	1,200
Equatorial Guinea	130	120	-10	-7.7%	150	30
Total OPEC-12	18,740	19,640	900	4.80%	29,235	9,595

Source: Bloomberg, OPEC

Saudi Arabia increased its production by 0.92 mb/d and produced at an average rate of 8.45 mb/d. The Kingdom also increased OSPs for its fuel flows in September for its Asian and European customers, expecting higher demand in the near term backed by economic revival.

Production in Iraq remained flat during July-2020 at 3.79 mb/d but according to a recent report, the country has committed to cut its oil output by a further 400 tb/d in August-2020 and September-2020 to compensate for its overproduction in the past three months and comply with its share of cuts as per the OPEC+ accord. According to S&P Platts, the full implementation of the agreed upon compensatory cuts by Iraq, Nigeria, Angola and Kazakhstan would result in total cuts of 8.5 mb/d vs. the target of 7.7 m/d as per the last OPEC+ meeting.

Meanwhile, swing producers like Venezuela and Libya continue to struggle with production issues. According to reports, US sanctions have forced the last operating rig in Venezuela out of service resulting in no operating rigs currently in the country. On the other hand, oil production continued to decline in Libya due to export terminal blockades resulting in overfilled storage tanks at ports. A bloomberg report showed that the country is expected to export 1.2 million barrels of crude in August-2020, a 40% drop from July-2020 exports.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q3 20	Q4 20	Q1 21	Q2 21
Intesa Sanpaolo SpA	3/Aug/20	43.0	45.0	45.0	50.0
Citigroup Inc	31/Jul/20	43.0	48.0		
Landesbank Baden-Wuerttemberg	23/Jul/20	42.0	40.0	43.0	45.0
Capital Economics Ltd	21/Jul/20	41.5	43.5	46.0	48.5
MPS Capital Services Banca per le Imprese SpA	15/Jul/20	40.0	45.0	48.0	52.0
Emirates NBD PJSC	13/Jul/20	42.0	44.0	47.5	50.0
Commerzbank AG	9/Jul/20	37.0	40.0	42.0	45.0
BNP Paribas SA	6/Jul/20	43.0	49.0	61.0	54.0
Natixis SA	6/Jul/20	38.0	43.0	42.0	43.0
Market Risk Advisory Co Ltd	1/Jul/20	42.0	40.0	38.0	42.0
BBVA Research SA	25/Jun/20	38.5	42.9	44.5	50.8
Westpac Banking Corp	19/Jun/20	39.0	36.0	33.0	30.7
CIMB	17/Jun/20	40.0	45.0	48.0	50.0
Societe Generale SA	9/Jun/20	35.0	40.0	42.5	45.0
HSBC Holdings PLC	8/Jun/20	33.0	40.0	50.0	50.0
Deutsche Bank AG	29/May/20	35.0	40.0	40.0	45.0
Rabobank International	28/Apr/20	37.5	43.0	46.5	49.5
Bank of Nova Scotia/The	7/Apr/20	26.0	31.0	36.0	38.0
Banco Santander SA	1/Apr/20	31.0	37.2	38.0	40.0
Raymond James Financial Inc	30/Mar/20	39.0	49.0	55.0	55.0
ABN AMRO Bank NV	18/Mar/20	30.0	40.0	48.0	48.0
MUFG Bank	9/Mar/20	35.6	46.1	49.2	51.5
Median		38.7	43.0	45.0	48.5
Mean		37.8	42.2	44.9	46.8
High		43.0	49.0	61.0	55.0
Low		26.0	31.0	33.0	30.7
Current Fwd		44.3	45.7	46.7	47.3
Difference (Median - Current)		-5.5	-2.8	-1.7	1.2

Source: Bloomberg

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