

Oil Market Monthly Report

February-2020

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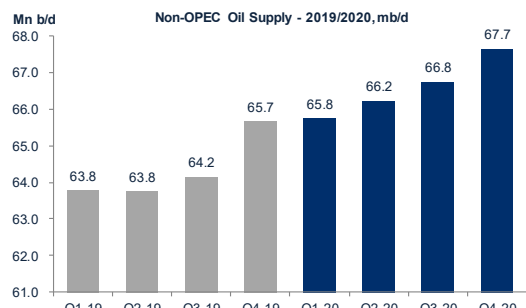
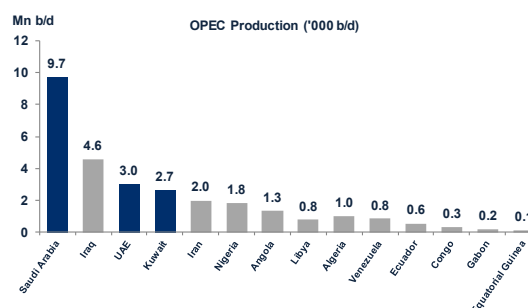
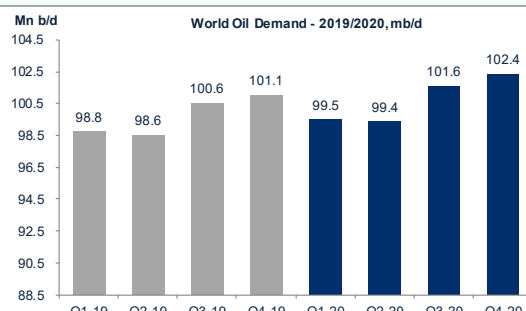
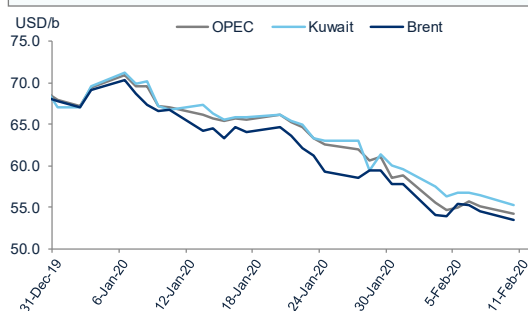
Oil falls to 13-month low as coronavirus outbreak affects demand offtake...

Brent crude spot reached a 13-month low level of USD 53.39/b during the second week of February-2020 as the outbreak of coronavirus affected prospects of higher demand in the near term. According to reports, the decline in demand was primarily seen in China, which has imposed travel restrictions in the country due to the virus outbreak. As a result, ChemChina reportedly closed down a 0.1 mb/d crude refinery in East China and reduced processing rates to 60% at two other plants that have a processing capacity of 0.3 mb/d. **The lower demand have also changed the oil market structure for both Brent and WTI into a temporary contango.** Furthermore, the virus outbreak also coincided with the two week long new year celebrations in China and impacted oil demand in the country which normally sees a seasonal uptick at the start of the year. On the other hand, China's already stretched commitment to purchase agricultural goods from the US this year under the new trade deal is also under doubts. The outbreak could also reschedule the forthcoming negotiations between the two countries.

The decline in oil demand forecast was recently echoed by a number of agencies. OPEC, in its monthly report, lowered oil demand growth forecast for 2020 by 0.23 mb/d to a growth of 0.99 mb/d and demand is expected to average at 100.73 mb/d during the year. The bulk of this growth is expected to come from non-OECD countries whereas OECD countries are expected to see marginal growth. **Meanwhile, in its Short Term Energy Outlook, the EIA also slashed its oil demand growth forecast for the year by 0.3 mb/d to 1 mb/d while also significantly lowering the price estimate for the year to USD 61.25/b as compared to its earlier forecast of USD 64.83/b for Brent spot crude. The IEA also lowered its demand growth forecast for 2020 to the lowest level since 2011. The agency cut its demand growth expectations by 365 tb/d to a growth of 825 tb/d for the year citing the impact of the virus outbreak.**

Supply side factors also reacted to the expected fall in demand this year. The EIA lowered US oil production growth forecast for 2020 from 1.06 mb/d growth in its previous report to 0.96 mb/d in the latest report. Production is now expected to reach 13.2 mb/d in 2020. For 2021, growth is expected to be much lower at 0.36 mb/d to reach 13.56 mb/d highlighting spending cuts announced by a number of US drillers for the current year. OPEC also slashed non-OPEC liquids production growth forecast for 2020 by 0.1 mb/d with growth expected to reach 2.25 mb/d to average at 66.6 mb/d.

OPEC Crude production witnessed a steep decline of 500 tb/d during January-2020 to reach the lowest level in four months. At 28.9 mb/d, the average monthly production was also the second lowest since 2009. Almost all the OPEC producers lowered production during the month, barring Venezuela, with Libya seeing a steep m-o-m decline of 320 tb/d, as per Bloomberg data.



Sources : OPEC, EIA, Bloomberg

Junaid Ansari

Vice President

+(965) 2233 6912

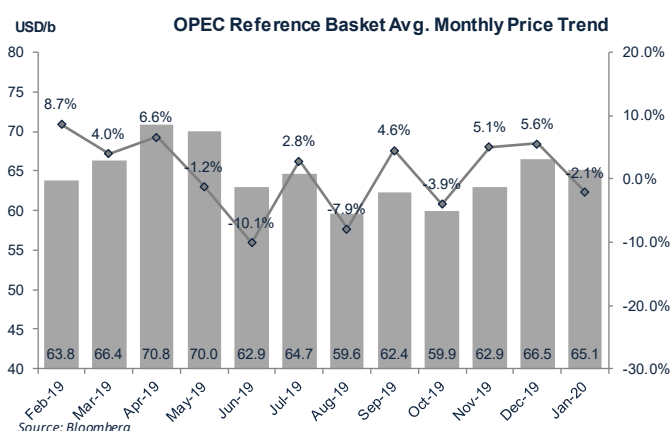
jansari@kamcoinvest.com

Oil Prices

Oil prices witnessed consistent declines since the outbreak of the coronavirus during the second half of January-2020. Spot Brent crude prices reached the lowest level since January-19 after seeing a YTD-20 decline of USD 14.4 a barrel of crude or more than 21% to reach USD 53.39/b on 10-Feb-20 with the bulk of the decline seen during the first two weeks of February-20. The decline in crude prices reflected the impact of the outbreak on both demand and supply side factors. Demand slowdown primarily came from China whereas supply cuts reflected an anticipated oversupply in the market.

Moreover, oil producers, especially shale players in the US, are increasingly finding it difficult to pump oil at current prices. This was evident in the production released by EIA that showed US output reaching 12.9 mb/d last week from recent peak of 13 mb/d. On the other hand, after declining consistently until the end of last year, oil rigs in the US seems to be stabilizing at recent levels. Data from Baker Hughes has shown an marginal increase in oil rigs in the US over the last two weeks. With an increase of 2 rigs last week, US oil rigs now stand at 678, a y-o-y decline of 179 rigs. Moreover, shale drillers in the US are also facing financial stress due to the consistent fall in prices of natural gas from the oversupply, as companies focus on drilling for oil with natural gas as a by product. As a result, companies are seen cutting their spending budget for the near term. Industry giants like ExxonMobil reported its worst quarterly profit in nearly four years while many other have booked impairment charges including companies like Chevron and Occidental Petroleum that wrote down shale assets in their recent filings.

Average monthly crude prices declined during January-2020 after increasing for two consecutive months. OPEC crude averaged at USD 65.1/b with a decline of 2.1%. Average Brent crude prices also declined but at significantly higher rate of 5.3% to reach USD 63.4/b, whereas Kuwait crude grade witnessed the smallest decline of 1.3% to average at USD 65.4/b in January-20.



Average Crude Oil Prices, USD/b	Dec-2019	Jan-2020	Change (USD)	Avg 2018	Avg 2019
OPEC Reference Basket	66.5	65.1	(1.4)	58.7	65.1
Arab Light	67.5	66.6	(0.9)	59.6	66.6
Basrah Light	65.8	64.1	(1.8)	58.2	64.1
Bonny Light	68.2	65.9	(2.3)	60.5	65.9
Djeno	66.1	63.0	(3.1)	56.8	63.0
Es Sider	67.6	63.6	(4.0)	58.3	63.6
Girassol	69.7	65.4	(4.3)	60.0	65.4
Iran Heavy	63.8	62.6	(1.2)	56.3	62.6
Kuwait Export	66.3	65.4	(0.9)	58.7	65.4
Merey	49.9	56.2	6.3	50.9	56.2
Murban	66.7	66.1	(0.6)	60.8	66.1
Oriente	67.5	64.4	(3.1)	55.1	64.4
Rabi	64.1	60.8	(3.3)	58.6	60.8
Saharan Blend	68.1	65.3	(2.8)	59.3	65.3
Zafiro	69.7	65.3	(4.4)	60.1	65.3
Other Crudes					
Brent	66.9	63.4	(3.5)	59.4	63.4
Dubai	64.9	64.1	(0.8)	59.1	64.1
Isthmus	60.3	55.9	(4.4)	58.1	55.9
LLS	63.6	61.5	(2.1)	58.5	61.5
Mars	60.8	59.0	(1.9)	56.7	59.0
Minas	62.8	62.1	(0.7)	51.7	62.1
Urals	67.1	62.9	(4.2)	60.3	62.9
WTI	59.8	57.6	(2.3)	51.6	57.6
Differentials					
Brent/WTI	7.1	5.8	(1.3)		5.8
Brent/LLS	3.3	1.9	(1.4)		1.9
Brent/Dubai	2.0	(0.7)	(2.8)		(0.7)

Source: OPEC Monthly Oil Market Report - Feb-2020

World Oil Demand

World oil demand growth estimates for 2019 was once again revised downwards by 0.02 mb/d to a growth of 0.91 mb/d with demand estimated to have averaged at 99.74 mb/d. The revision once again reflected a decline in demand primarily for the aggregate OECD region, mainly in OECD Americas, that was partially offset by an upward revision to demand data for the OECD Europe region. The revision for the OECD Americas region was mainly due to slower industrial fuel demand, smaller-than-expected gasoline demand as well as warmer weather conditions during Q4-19. Monthly data for November-19 for the US has shown a decline in oil demand by approximately 0.16 mb/d y-o-y. This combined with the preliminary data for December-19 shows an increase in oil demand in the US of around 0.1 mb/d for full year 2019. Meanwhile, oil demand for the OECD Europe region witnessed a steep decline of 0.35 mb/d during November-19, the

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.60	25.14	25.29	26.05	26.14	25.66	0.06	0.22
of which US	20.82	20.65	20.66	21.15	21.17	20.91	0.09	0.42
Europe	14.33	14.09	14.25	14.75	14.25	14.34	0.01	0.06
Asia Pacific	8.08	8.50	7.61	7.68	8.12	7.97	(0.10)	(1.27)
Total OECD	48.01	47.72	47.15	48.48	48.51	47.97	-0.04	-0.08
Other Asia	13.64	13.91	13.96	13.51	14.18	13.89	0.25	1.85
of which India	4.73	5.03	4.75	4.49	5.14	4.85	0.12	2.57
Latin America	6.53	6.35	6.58	6.87	6.53	6.58	0.06	0.87
Middle East	8.12	8.25	7.87	8.67	8.00	8.20	0.08	0.93
Africa	4.33	4.45	4.42	4.36	4.50	4.43	0.10	2.31
Total Developing Countries (DCs)	32.62	32.96	32.84	33.41	33.2	33.1	0.48	1.48
Former Soviet Union (FSU)	4.76	4.70	4.68	4.96	5.04	4.84	0.09	1.84
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	12.95	13.48	13.06	0.35	2.77
Total "Other Regions"	18.21	18.08	18.58	18.66	19.36	18.67	0.46	2.52
Total World	98.84	98.75	98.56	100.55	101.07	99.74	0.91	0.92

Source: OPEC Monthly Oil Market Report - Feb-2020

steepest monthly decline in six months. The decline was led by a fall in demand for naphtha mainly in Germany and the UK coupled with a decline in demand for gasoline and diesel for the transportation and residential segment. Oil demand in Europe's Big 4 i.e. Germany, France, Italy and UK, declined by 56 tb/d in December-19 primarily due to fall in requirement of fuel oil and other products while higher LPG and Diesel oil requirements partially offset the decline. Oil demand in China saw a steep increase in December-19 by around 0.78 mb/d bringing full year growth to 0.35 mb/d. On the other hand, demand in India remained flat during December-19 as higher LPG and Gasoline requirements were fully offset by a decline in demand for the rest of the product categories.

Oil demand growth expectations for 2020 was also lowered with a steeper revision of 0.23 mb/d to a growth of 0.99 mb/d. World oil demand this year is now expected to decline to 100.73 mb/d primarily reflecting the declining requirements in China due to the virus outbreak as well as declining requirements from India. Demand from OECD countries was also lowered by 0.08 mb/d primarily reflecting lower economic growth projections for the OECD Asia Pacific region in addition to lower heating fuel requirements owing to warmer-than-expected winter in the Northern Hemisphere.

World Oil Demand - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.66	25.34	25.47	26.23	26.33	25.84	0.18	0.72
of which US	20.91	20.82	20.80	21.29	21.34	21.07	0.15	0.74
Europe	14.34	13.99	14.20	14.73	14.23	14.29	(0.05)	(0.33)
Asia Pacific	7.97	8.34	7.43	7.57	8.05	7.85	(0.13)	(1.59)
Total OECD	47.97	47.67	47.09	48.53	48.61	47.98	0.01	0.02
Other Asia	13.89	14.18	14.24	13.86	14.57	14.21	0.32	2.31
of which India	4.85	5.14	4.85	4.64	5.32	4.99	0.14	2.82
Latin America	6.58	6.46	6.70	6.99	6.64	6.70	0.11	1.75
Middle East	8.20	8.34	7.96	8.78	8.12	8.30	0.10	1.28
Africa	4.43	4.53	4.52	4.46	4.59	4.52	0.09	2.00
Total Developing Countries (DCs)	33.10	33.51	33.41	34.09	33.93	33.73	0.63	1.90
Former Soviet Union (FSU)	4.84	4.80	4.78	5.07	5.15	4.95	0.11	2.19
Other Europe	0.76	0.76	0.72	0.76	0.85	0.77	0.01	1.54
China	13.06	12.77	13.37	13.17	13.84	13.29	0.23	1.74
Total "Other Regions"	18.67	18.33	18.87	19.00	19.85	19.02	0.35	1.85
Total World	99.74	99.51	99.36	101.62	102.38	100.73	0.99	0.99

Source: OPEC Monthly Oil Market Report - Feb-2020

World Oil Supply

According to preliminary data, world oil supply witnessed a m-o-m decline of 0.01 mb/d during January-2020 and averaged at 100.12 mb/d.

For the full year 2019, non-OPEC oil supply growth estimate was revised up by 20 tb/d to a growth of 1.88 mb/d with total supply expected to average at 64.36 mb/d. The revision reflected changes mainly to Q4-19 production data for US, Canada, Brazil and Latin America. Oil production for the OECD region was revised up by 0.01 mb/d for 2019 to an average of 29.92 mb/d. On the non-OECD side, crude oil production in Russia increased slightly by 0.02 mb/d during January-2020, according to preliminary data, and averaged at

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	24.08	25.07	25.59	25.68	26.50	25.71	1.63	6.77
of which US	16.71	17.78	18.29	18.36	19.11	18.39	1.68	10.03
Europe	3.84	3.84	3.57	3.55	3.90	3.72	(0.12)	(3.19)
Asia Pacific	0.41	0.43	0.48	0.51	0.55	0.49	0.08	20.52
Total OECD	28.33	29.34	29.64	29.74	30.94	29.92	1.59	5.62
Other Asia	3.56	3.51	3.46	3.34	3.41	3.43	(0.13)	-3.56
Latin America	5.19	5.17	5.25	5.53	5.73	5.42	0.23	4.39
Middle East	3.21	3.22	3.21	3.21	3.21	3.21	0.00	0.04
Africa	1.50	1.51	1.51	1.51	1.49	1.50	0.00	0.10
Total Developing Countries (DCs)	13.46	13.41	13.43	13.59	13.84	13.57	0.10	0.77
Former Soviet Union (FSU)	14.29	14.55	14.16	14.34	14.42	14.37	0.08	0.53
of which Russia	11.35	11.53	11.36	11.42	11.45	11.44	0.09	0.82
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(2.34)
China	4.02	4.10	4.13	4.10	4.08	4.10	0.08	2.10
Total "Other regions"	18.43	18.77	18.41	18.56	18.62	18.59	0.16	0.85
Total Non-OPEC Production	60.22	61.52	61.48	61.89	63.41	62.08	1.85	3.08
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.24
Total Non-OPEC Supply	62.47	63.8	63.76	64.17	65.68	64.36	1.88	3.01
OPEC NGLs and non-conventionals	4.76	-	-	-	-	4.80	0.04	0.75
OPEC Crude Oil Production	31.86	30.48	29.97	29.39	29.57	29.86	(2.00)	(6.29)
Total World Supply	99.10	-	-	-	-	99.02		

Source: OPEC Monthly Oil Market Report - Feb-2020

10.67 mb/d, whereas condensate and NGL output witnessed consistent growth over the last four months. On the other hand, China's liquids production declined during December-19 by 38 tb/d and averaged at 4.07 mb/d.

For 2020, supply growth forecast was revised downward by 0.1 mb/d to a growth of 2.25 mb/d and average at 66.6 mb/d during the year. Expected supplies from the US was revised down by 166 tb/d that was partially offset by higher expected supplies primarily from Norway and Brazil. According to the report, the lowered estimates for US highlighted a slowdown in shale output growth to 1.26 mb/d as compared to 2019.

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.71	26.45	26.78	27.32	27.58	27.04	1.32	5.15
of which US	18.39	18.97	19.60	19.92	20.11	19.65	1.26	6.87
Europe	3.72	4.06	3.91	3.96	4.18	4.03	0.31	8.37
Asia Pacific	0.49	0.55	0.54	0.58	0.58	0.56	0.07	14.22
Total OECD	29.92	31.06	31.23	31.86	32.34	31.62	1.71	5.70
Other Asia	3.43	3.38	3.39	3.39	3.38	3.38	-0.04	-1.28
Latin America	5.42	5.78	5.79	5.79	5.89	5.81	0.39	7.23
Middle East	3.21	3.24	3.25	3.26	3.28	3.26	0.04	1.35
Africa	1.50	1.50	1.55	1.54	1.54	1.53	0.03	1.69
Total Developing Countries (DCs)	13.57	13.90	13.98	13.98	14.08	13.98	0.42	3.07
Former Soviet Union (FSU)	14.37	14.23	14.45	14.37	14.65	14.42	0.06	0.38
of which Russia	11.44	11.27	11.50	11.51	11.64	11.48	0.04	0.37
Other Europe	0.12	0.12	0.12	0.12	0.11	0.12	(0.01)	(4.32)
China	4.10	4.12	4.13	4.10	4.13	4.12	0.02	0.53
Total "Other regions"	18.59	18.47	18.70	18.59	18.89	18.66	0.07	0.38
Total Non-OPEC Production	62.08	63.43	63.91	64.42	65.32	64.27	2.19	3.53
Processing gains	2.28	2.33	2.33	2.33	2.33	2.33	0.05	2.37
Total Non-OPEC Supply	64.36	65.76	66.24	66.75	67.65	66.6	2.25	3.49

Source: OPEC Monthly Oil Market Report - Feb-2020

OPEC Oil Production & Spare Capacity

OPEC crude oil production in January-2020 saw the biggest m-o-m decline since the September-19 attack on Saudi Arabian oil facilities. Bloomberg monthly data showed that average production for the group declined to 28.9 mb/d, the lowest production level since September-19 and the second lowest since 2009. The decline was broad-based as a majority of the producers lowered output during the month. The production level was almost in line with the output highlighted by OPEC's secondary sources. Libya witnessed the biggest decline during the month with production reaching 0.8 mb/d after declining by 0.32 mb/d in January-2020 as compared to December-19. According to reports, Libya's oil production has fallen to as low as 0.2 mb/d over the last two weeks due to force majeure at export terminals that immediately filled storage facilities and forced producers to halt production.

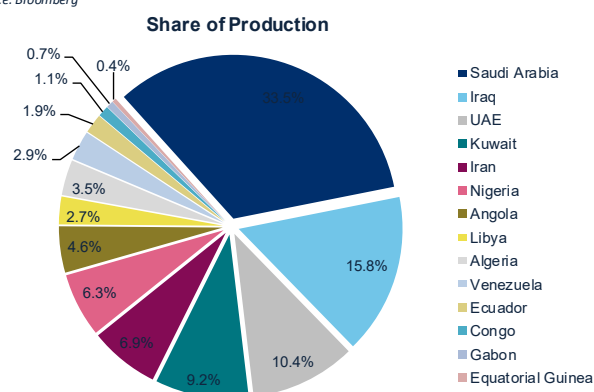
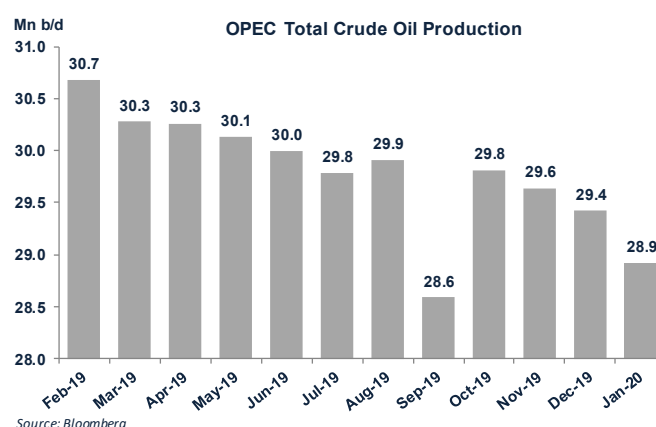
Production ('000 b/d)	Dec-19	Jan-20	Change		Capacity	Spare Capacity
Total OPEC-14	29,420	28,920	-500	-1.70%	34,585	5,665
Saudi Arabia	9,730	9,700	-30	-0.3%	11,500	1,800
Iraq	4,610	4,580	-30	-0.7%	4,800	220
UAE	3,040	3,010	-30	-1.0%	3,400	390
Kuwait	2,710	2,670	-40	-1.5%	3,075	405
Iran	2,080	1,990	-90	-4.3%	3,830	1,840
Nigeria	1,820	1,830	10	0.5%	2,000	170
Angola	1,390	1,320	-70	-5.0%	1,450	130
Libya	1,110	790	-320	-28.8%	1,300	510
Algeria	1,010	1,010	0	0.0%	1,080	70
Venezuela	730	840	110	15.1%	900	60
Ecuador	550	550	0	0.0%	550	0
Congo	310	310	0	0.0%	330	20
Gabon	210	200	-10	-4.8%	220	20
Equatorial Guinea	120	120	0	0.0%	150	30
Total OPEC-13	24,810	24,340	-470	-1.89%	29,785	5,445

Source: Bloomberg, OPEC

Venezuela was the only country that reported noticeable increase in production during January-2020 after Chevron ramped up production at its joint venture with the country's PDVSA and produced at the highest level in almost a year at 0.84 mb/d.

Production in Saudi Arabia was almost flat at 9.7 mb/d during January-2020, whereas Iran produced slightly below 2 mb/d mark, as per Bloomberg. It was recently reported that Saudi Arabia and Kuwait have announced trial production at the Khafji oil field in the neutral zone shared by the two countries and production is expected to reach full capacity by the end of this year.

The impact of the outbreak of the coronavirus was apparent from the oil demand figures coming from China. According to a report, China is expected to scale back oil consumption by around 25% y-o-y, equivalent to around 3% of global consumption. As a response to the falling prices and the declining demand, OPEC+'s joint technical committee recently suggested a further cut in oil production to the tune of 0.6 mb/d to a total of 2.7 mb/d during 1H-2020. On the other hand, it was reported that Russian oil companies that are a part of the OPEC+ production cut agreement are looking at extending the present curbs until the end of Q2-2020 rather than deepening the cuts.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q1 20	Q2 20	Q3 20	Q4 20
Landesbank Baden-Wuerttemberg	17/Jan/20	63.0	60.0	60.0	58.0
Natixis SA	15/Jan/20	64.0	62.0	62.0	65.0
Bank of Nova Scotia/The	14/Jan/20	60.0	60.0	65.0	67.0
Banco Santander SA	10/Jan/20	64.0	63.0	61.0	60.0
Market Risk Advisory Co Ltd	9/Jan/20	65.0	63.0	66.0	65.0
CIMB	8/Jan/20	68.0	69.0	67.0	68.0
Intesa Sanpaolo SpA	8/Jan/20	67.0	65.0	65.0	62.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	2/Jan/20	66.5	64.1	61.9	56.6
Citigroup Inc	31/Dec/19	63.0	59.0	55.0	57.0
MPS Capital Services Banca per le Imprese SpA	30/Dec/19	61.0	62.0	59.0	55.0
Raymond James Financial Inc	18/Dec/19	65.0	65.0	72.0	78.0
Westpac Banking Corp	17/Dec/19	61.2	58.7	56.7	55.3
Commerzbank AG	13/Dec/19	60.0	60.0	60.0	60.0
ABN AMRO Bank NV	12/Dec/19	60.0	58.0	55.0	58.0
CIBC	10/Dec/19	65.5	64.0	64.0	65.5
Emirates NBD PJSC	28/Nov/19	58.0	55.0	57.5	58.0
BNP Paribas SA	21/Nov/19	60.0	54.0	57.0	60.0
Capital Economics Ltd	4/Nov/19	65.5	66.5	69.0	72.5
Rabobank International	24/Oct/19	73.5	73.0	72.5	72.5
HSBC Holdings PLC	15/Oct/19	60.0	60.0	60.0	60.0
BBVA Research SA	24/Sep/19	60.4	57.3	53.8	56.0
Societe Generale SA	17/Sep/19	57.5	59.0	60.0	
Median		63.0	61.0	60.5	60.0
Mean		63.1	61.7	61.8	62.4
High		73.5	73.0	72.5	78.0
Low		57.5	54.0	53.8	55.0
Current Fwd		63.9	62.0	60.6	59.6
Difference (Median - Current)		-0.9	-1.0	-0.1	0.4

Source: Bloomberg

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Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : kamcoird@kamcoinvest.com

Website : www.kamcoinvest.com

Kamco Invest