KAMCO INVEST

Investment Strategy & Research

Oil Market Monthly Report

July-2022

In this Report...

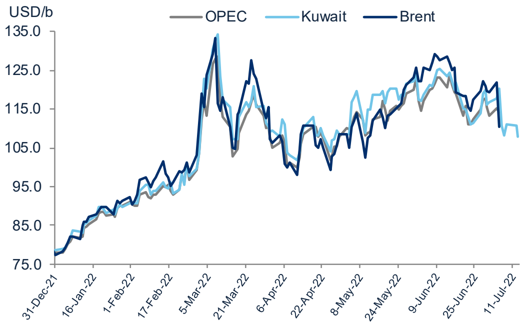
Oil falls below USD 100/b on demand worries despite tight markets...

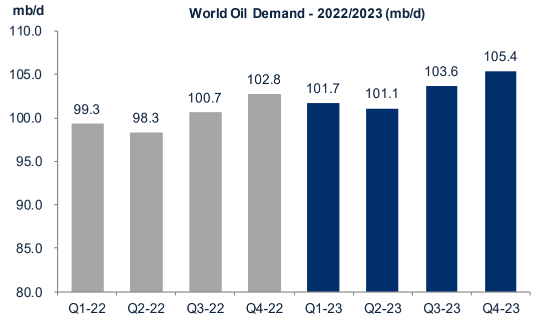
Crude oil witnessed consistent declines over the last two weeks as fears about demand recovery once again haunted the market. Brent crude oil futures closed below the USD 100/b mark for the first time in three months on 12-July-2022 led by a stronger USD as well as fresh Covid-19 related curbs in China. *The USD reached parity with the Euro for the first time in two decades, while the USD index also reached the highest level in 20 years against a basket of currencies. Moreover, the decline in oil prices came despite limited increase in supplies from the OPEC as well as from the US resulting in tighter markets, while sanctions on Russia continued to restrict oil flows from the region.*

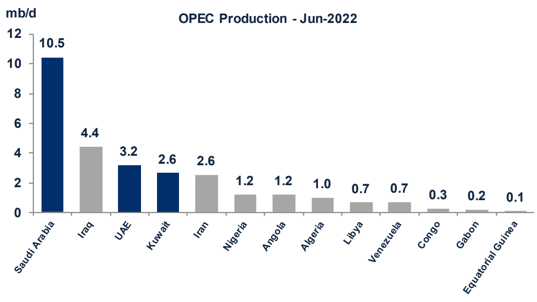
An expected slowdown in global economic growth also influenced the direction of oil market. *Fears of recession has forced hedge fund managers to sell oil-related derivatives to the tune of 201 million barrels over the last four weeks, according to position records published by ICE Futures and US CFTC. However, derivatives of refined products saw strong support due to limited refinery capacity as well as low inventory levels.* ***On the economic front, inflation in the US reached a 41-year high level during June-2022 at 9.1% resulting in expectations of another big interest rate hike in the coming months. Bulk of the increase in inflation was attributed to rising fuel costs that added 200 bps to inflation during the month, according to reports. This also forced the EIA to lower its gasoline demand outlook. In its latest short term energy outlook, the EIA lowered gasoline demand forecast for July-2022 to 9.07 mb/d reflecting the impact of higher fuel prices on driving habits.***

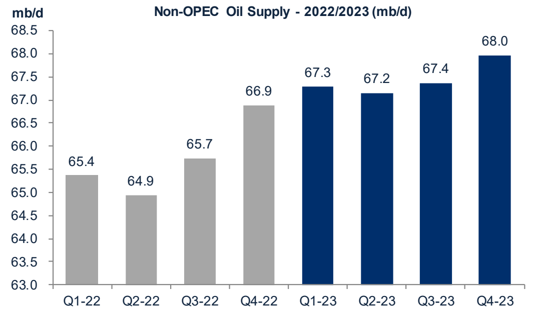
On the other hand, the spread of a new Covid-19 variation in China resulted in lockdowns in several cities along with heightened restrictions in a number of major cities. The restrictions implemented over the last few months resulted in the country's GDP growing at the slowest pace since the start of Covid-19 at 0.4% in Q2-2022. *Cases were also seen rising in other parts of the world, however, due to China's "dynamic zero-covid" policy, the impact on local demand was severe. The lockdowns affected imports of crude oil in China that reached a 4-year low during June-2022 with high crude inventories and low refinery run rates.*

On the supply side, OPEC monthly report showed a monthly increase of 234 tb/d during June-2022 to average at 28.7 mb/d. The increase came mainly on the back of higher production in Saudi Arabia that was partially offset by a steep fall in production in Libya. *Moreover, oil watchers were skeptical of further increase in production from the OPEC and doubted the slimming spare capacity with the group that stood at 4.8 mb/d at the end of June-2022, according to Bloomberg. The OPEC also published its first forecast for 2023 with non-OPEC liquids production growth expectation of 1.7 mb/d. The growth is expected to mainly come from the US with an expected increase of 1.1 mb/d.*









Sources : OPEC, EIA, Bloomberg

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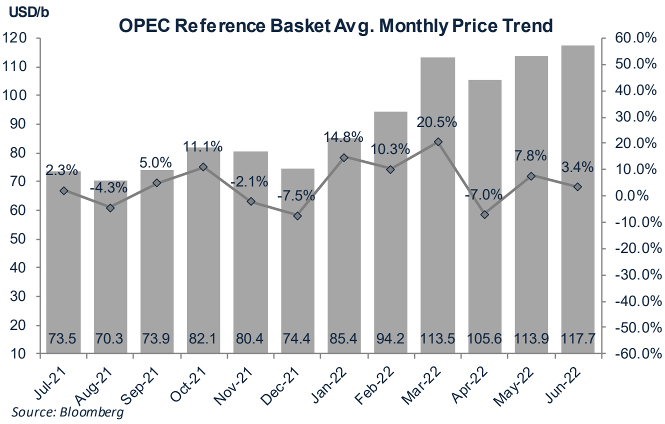
Oil Prices

The trend in crude oil prices remained volatile since last month with brent future prices peaking at USD 120.93 on 17-Jun-2022 followed by consistent declines that pushed prices down by more than USD 20/b to below the USD 100/b mark. Brent future prices dropped by 9.5% on 5-July-2022, the biggest single-day decline in four months led by fears of recession. Prices have declined by more than 18% over the last one month led by factors mainly on the demand side. Increasing inflation figures globally was a key factor that limited fuel demand in the road transportation sector although jet fuel demand remained strong. A strong USD that reached decades high level also lowered import of crude oil. In its latest monthly report, the IEA also highlighted worsening macroeconomic outlook and fears of recession that are impacting oil demand globally. On the other hand, physical markets remain constrained with continued steep refinery margins.



Source: Bloomberg

Crude oil production in the US increased to 12.1 mb/d at the end of June-2022 but a decline last week pushed production down to 12.0 mb/d. Inventories, on the other hand, increased by 3.3 mb/d in the US to reach 427.1 million barrels as against expectations of a modest draw in stocks. Meanwhile, despite minimal increase in production in the US, crude oil rig count has continued to show consistent increase with only one decline over the last 16 weeks. The latest increase of 2 oil rigs puts the total oil rig count at 597 during the week ended 8-July-2022, the highest since March-2020, according to data from Baker Hughes. Moreover, although the Permian basin continues to see higher output, underinvestment in the overall US oil industry is expected to limit production growth when compared to the pre-pandemic levels.

Oil price forecast was trimmed by the US EIA for 2022 and 2023. The agency expects brent crude to average at 104.05 per barrel in 2022, 3.1% lower than its June-2022 forecast. For 2023, Brent crude is expected to average at USD 93.75 per barrel, 3.6% lower than previous forecast. Average crude oil prices increased during June-2022. Average spot brent crude was up 9.2% m-o-m to reach USD 123.6 per barrel whereas OPEC crude basket gained 3.4% to reach USD 117.7 per barrel.

Average Crude Oil Prices, USD/b	May-2022	Jun-2022	Change (USD)	Avg 2021	Avg 2022
OPEC Reference Basket	**113.9**	**117.7**	**3.9**	**63.9**	**105.4**
Arab Light	116.4	117.3	0.8	64.5	106.0
Basrah Light	111.9	115.6	3.7	63.0	103.8
Bonny Light	115.1	125.2	10.2	64.6	109.3
Djeno	105.7	116.1	10.4	57.5	100.4
Es Sider	113.2	125.0	11.8	63.0	107.9
Girassol	114.0	127.0	13.1	65.3	109.9
Iran Heavy	115.5	115.9	0.4	63.6	105.1
Kuwait Export	**116.8**	**117.3**	**0.4**	**64.3**	**106.2**
Merey	88.1	92.3	4.2	46.1	81.4
Murban	110.0	117.5	7.6	64.0	104.3
Rabi	112.7	123.1	10.4	64.5	107.4
Saharan Blend	115.3	128.3	13.0	64.7	111.1
Zafiro	115.3	127.1	11.9	65.2	109.7
Other Crudes					
Brent	113.1	123.6	10.4	64.9	107.9
Dubai	107.8	112.9	5.1	63.6	101.9
Isthmus	108.3	113.9	5.5	61.3	100.2
LLS	111.5	115.5	4.1	64.2	103.8
Mars	106.7	108.2	1.4	62.3	99.2
Minas	109.8	115.1	5.3	62.9	102.8
Urals	81.2	91.6	10.4	63.9	86.7
WTI	109.9	114.4	4.5	62.2	101.9
Differentials					
Brent/WTI	3.3	9.2	5.9	2.8	5.9
Brent/LLS	1.7	8.0	6.4	0.8	4.1
Brent/Dubai	5.3	10.7	5.4	1.3	5.9

Source: OPEC Monthly Oil Market Report - Jul-2022

World Oil Demand

World oil demand growth forecast for 2022 was kept unchanged at 3.4 mb/d in OPEC's latest monthly report with total demand expected to average at 100.3 mb/d. There was upward revision to demand estimates for Q1-2022 due to better than expected demand in the main OECD countries. However, this growth was offset by downward revision to demand data for Q2-2022 mainly reflecting the impact of the resurgence of Covid-19 in China and the ongoing geopolitical uncertainties. The IEA, on the other hand, lowered demand growth forecast for 2022 to 1.7 mb/d to reach 99.2 mb/d from its previous growth forecast of 1.8 mb/d with demand of 99.4 mb/d. The report followed a trimmed gasoline demand forecast for July-2022 by 2.2% from the US EIA followed by curtailed consumption until October-2022 led by higher prices at fuel stations. The lowered forecast highlights below-seasonal demand this year when compared to previous summer driving seasons in the US.

World Oil Demand - 2021/2022, mb/d	2021	Q1-22	Q2-22	Q3-22	Q4-22	2022	Y-o-Y Growth	% Chg.
Americas	24.28	24.84	24.99	25.49	25.76	25.27	1.00	4.11
of which US	19.93	20.38	20.57	20.99	21.21	20.79	0.86	4.34
Europe	13.08	13.09	13.31	14.29	14.15	13.71	0.63	4.81
Asia Pacific	7.41	7.91	7.19	7.25	7.93	7.57	0.16	2.16
Total OECD	**44.77**	**45.83**	**45.49**	**47.03**	**47.84**	**46.55**	**1.79**	**3.99**
China	14.94	14.67	14.96	15.42	15.97	15.26	0.32	2.14
India	4.77	5.18	4.95	5.01	5.39	5.13	0.36	7.53
Other Asia	8.63	9.09	9.54	8.93	8.95	9.12	0.50	5.77
Latin America	6.23	6.32	6.28	6.53	6.42	6.39	0.16	2.63
Middle East	7.79	8.06	7.82	8.32	8.09	8.07	0.28	3.59
Africa	4.22	4.51	4.15	4.23	4.54	4.36	0.14	3.23
Russia	3.61	3.67	3.28	3.45	3.54	3.48	(0.13)	(3.58)
Other Eurasia	1.21	1.22	1.15	1.01	1.24	1.15	(0.06)	(4.71)
Other Europe	0.75	0.79	0.71	0.73	0.80	0.76	0.01	1.01
Total Non-OECD	**52.15**	**53.50**	**52.85**	**53.62**	**54.93**	**53.73**	**1.58**	**3.03**
Total World	**96.92**	**99.33**	**98.33**	**100.65**	**102.77**	**100.29**	**3.36**	**3.47**

Source: OPEC Monthly Oil Market Report - Jul-2022

In its first forecast for 2023, the OPEC expects world oil demand to reach 103.0 mb/d next year, registering an increase of 2.7 mb/d. Demand from the OECD region is expected to increase by 0.6 mb/d to grow above 2019 levels while the non-OECD countries will contribute with a growth of 2.1 mb/d. The forecasts assumes strong economic performance next year in all major oil consuming countries coupled with improved global geopolitical developments and containment of Covid-19 in China. In terms of product segments, demand for gasoline and diesel in the road transportation sector is expected to remain strong that would be further supported by strong demand in the industrial and petrochemical segment and a continued recovery in jet fuel demand due to higher demand for air travel across the globe. Demand in OECD Americas is expected to grow by 0.48 mb/d of which US consumption is expected to increase by 0.16 mb/d to reach pre-pandemic demand of 20.95 mb/d mainly led by recovery in transportation fuels and light distillates demand. In the non-OECD region, India and China are expected to be the biggest driver of growth next year led by a recovery in transportation fuels and firm industrial fuel demand, including petrochemical feedstock. Comparatively, the IEA expects oil demand in 2023 to grow at a relatively smaller pace of 2.1 mb/d to reach 101.3 mb/d.

World Oil Demand - 2022/2023, mb/d	2022	Q1-23	Q2-23	Q3-23	Q4-23	2023	Y-o-Y Growth	% Chg.
Americas	25.27	25.20	25.47	26.04	26.27	25.75	0.48	1.88
of which US	20.79	20.42	20.76	21.24	21.36	20.95	0.16	0.77
Europe	13.71	13.10	13.35	14.46	14.26	13.80	0.08	0.61
Asia Pacific	7.57	7.94	7.25	7.29	7.94	7.60	0.04	0.48
Total OECD	**46.55**	**46.24**	**46.07**	**47.78**	**48.47**	**47.15**	**0.60**	**1.28**
China	15.26	15.31	15.98	16.14	16.53	15.99	0.73	4.81
India	5.13	5.38	5.20	5.27	5.63	5.37	0.24	4.68
Other Asia	9.12	9.48	9.87	9.29	9.3	9.48	0.36	3.93
Latin America	6.39	6.48	6.41	6.69	6.56	6.54	0.15	2.30
Middle East	8.07	8.43	8.10	8.65	8.38	8.39	0.32	3.91
Africa	4.36	4.70	4.34	4.42	4.73	4.55	0.19	4.31
Russia	3.48	3.68	3.30	3.62	3.72	3.58	0.10	2.73
Other Eurasia	1.15	1.22	1.15	1.02	1.25	1.16	0.01	0.72
Other Europe	0.76	0.80	0.72	0.75	0.82	0.78	0.02	2.34
Total Non-OECD	**53.73**	**55.48**	**55.05**	**55.85**	**56.92**	**55.84**	**2.10**	**3.92**
Total World	**100.29**	**101.72**	**101.12**	**103.64**	**105.4**	**102.99**	**2.70**	**2.69**

Source: OPEC Monthly Oil Market Report - Jul-2022

World Oil Supply

Global liquids production recorded a monthly increase during June-2022 with preliminary data indicating a gain of 1.32 mb/d to reach an average of 99.82 mb/d. Monthly increase was mainly led by higher production in Russia and the US (+0.7 mb/d) while OPEC production increased by 0.2 mb/d.

Non-OPEC liquids supply growth forecast for 2022 was kept broadly unchanged by the OPEC in its latest monthly report at 2.1 mb/d to average at 65.7 mb/d. The forecast, however, showed upward revisions to supply forecasts for China (+38 tb/d) and Canada (+21 tb/d) that was completely offset by downward revision to supplies from Norway (-17 tb/d), Qatar (-13 tb/d) and Brazil (-12 tb/d).

Non-OPEC Oil Supply - 2021/2022, mb/d	2021	Q1-22	Q2-22	Q3-22	Q4-22	2022	Y-o-Y Growth	% Chg.
Americas	25.16	25.86	26.35	26.95	27.46	26.66	1.50	5.97
of which US	17.75	18.26	18.94	19.27	19.67	19.04	1.28	7.23
Europe	3.76	3.73	3.58	3.79	4.12	3.81	0.05	1.27
Asia Pacific	0.51	0.49	0.52	0.56	0.54	0.53	0.01	2.80
Total OECD	**29.43**	**30.08**	**30.45**	**31.30**	**32.12**	**30.99**	**1.56**	**5.31**
China	4.31	4.49	4.49	4.42	4.43	4.46	0.15	3.49
India	0.77	0.77	0.78	0.8	0.83	0.79	0.02	2.72
Other Asia	2.41	2.37	2.36	2.36	2.35	2.36	(0.05)	(1.90)
Latin America	5.95	6.14	6.22	6.21	6.43	6.25	0.30	4.96
Middle East	3.24	3.29	3.31	3.38	3.38	3.34	0.10	3.14
Africa	1.35	1.33	1.29	1.31	1.32	1.31	(0.03)	(2.55)
Russia	10.8	11.33	10.63	10.29	10.29	10.63	(0.17)	(1.57)
Other Eurasia	2.93	3.06	2.91	3.17	3.22	3.09	0.16	5.38
Other Europe	0.11	0.11	0.11	0.10	0.10	0.11	(0.01)	(6.36)
Total Non-OECD	**31.87**	**32.88**	**32.10**	**32.04**	**32.35**	**32.34**	**0.47**	**1.47**
Total Non-OPEC Production	**61.3**	**62.96**	**62.54**	**63.34**	**64.48**	**63.33**	**2.03**	**3.32**
Processing gains	2.29	2.40	2.40	2.40	2.40	2.40	0.11	4.90
Total Non-OPEC Supply	**63.59**	**65.36**	**64.94**	**65.74**	**66.88**	**65.73**	**2.15**	**3.37**
OPEC NGLs and non-conventionals	**5.28**	**-**	**-**	**-**	**-**	**5.39**	**0.11**	**2.08**
OPEC Crude Oil Production	**26.35**	**28.36**	**28.62**	**-**	**-**	**-**	**-**	**-**
Total World Supply	**95.22**	**-**	**.**	**-**	**-**	**-**	**-**	**-**

Source: OPEC Monthly Oil Market Report - Jul-2022

For 2023, non-OPEC liquids production is forecasted to grow by 1.7 mb/d to an average of 67.4 mb/d. Supplies from the OECD region is expected to increase by 1.4 mb/d to an average of 32.41 mb/d while non-OECD supplies are expected to increase by 0.2 mb/d to average at 32.57 mb/d. Liquids supplies from the US are expected to see the biggest growth next year by 1.1 mb/d followed by Norway (+0.24 mb/d), Brazil (+0.2 mb/d), Canada (+0.2 mb/d) and Guyana. Crude oil output in the US is expected to increase by 0.7 mb/d to average at 12.7 mb/d. OPEC NGLs and non-conventional liquids are forecasted to grow by 50 tb/d to average 5.44 mb/d in 2023. Comparatively, the IEA expects global oil supply to reach a record of 101.1 mb/d in 2023 with an increase of 1.0 mb/d.

Non-OPEC Oil Supply - 2022/2023, mb/d	2022	Q1-23	Q2-23	Q3-23	Q4-23	2023	Y-o-Y Growth	% Chg.
Americas	26.66	27.65	27.59	27.88	28.24	27.84	1.18	4.43
of which US	19.04	19.85	20.06	20.20	20.43	20.14	1.10	5.77
Europe	3.81	4.14	4.05	3.96	4.06	4.05	0.25	6.46
Asia Pacific	0.53	0.54	0.50	0.53	0.49	0.51	(0.01)	(2.20)
Total OECD	**30.99**	**32.32**	**32.15**	**32.37**	**32.79**	**32.41**	**1.41**	**4.56**
China	4.46	4.51	4.50	4.47	4.47	4.49	0.03	0.64
India	0.79	0.82	0.81	0.8	0.78	0.8	0.01	1.08
Other Asia	2.36	2.36	2.32	2.29	2.27	2.31	(0.05)	(1.96)
Latin America	6.25	6.40	6.60	6.69	6.75	6.61	0.36	5.82
Middle East	3.34	3.37	3.39	3.40	3.40	3.39	0.05	1.49
Africa	1.31	1.32	1.34	1.35	1.37	1.35	0.04	2.69
Russia	10.63	10.42	10.41	10.42	10.46	10.43	(0.20)	(1.93)
Other Eurasia	3.09	3.19	3.06	3.00	3.09	3.08	(0.01)	(0.27)
Other Europe	0.11	0.10	0.10	0.10	0.10	0.10	0.00	(2.83)
Total Non-OECD	**32.34**	**32.49**	**32.54**	**32.54**	**32.70**	**32.57**	**0.22**	**0.69**
Total Non-OPEC Production	**63.33**	**64.81**	**64.68**	**64.9**	**65.49**	**64.97**	**1.64**	**2.59**
Processing gains	2.40	2.47	2.47	2.47	2.47	2.47	0.07	2.96
Total Non-OPEC Supply	**65.73**	**67.28**	**67.15**	**67.37**	**67.96**	**67.44**	**1.71**	**2.60**

Source: OPEC Monthly Oil Market Report - Jul-2022

OPEC Oil Production & Spare Capacity

OPEC crude oil production increased by 234 tb/d during June-2022 to reach an average of 28.72 mb/d, the highest since April -2020, according to data from OPEC secondary sources. The increase, according to OPEC, was mainly led by higher production in Saudi Arabia, UAE, Iran, Kuwait and Angola that was partially offset by a decline in production mainly in Libya and Venezuela. By contrast, production data from Bloomberg showed a decline in output during the month by 120 tb/d to average at 28.6 mb/d.

Oil production in Saudi Arabia increased by 159 tb/d to reach 10.585 mb/d during June-2022 (10.45 mb/d as per Bloomberg), the second-highest production rate since December-2018. The increase in production comes after OPEC+ members pledged to increase output to tame rising fuel prices across the globe over the last few months. In addition, a recent report from Kuna said that Saudi Arabia and Kuwait are said to be in discussions to boost output from the Neutral Zone from the current 170-175 tb/d to 500 tb/d. However, S&P Global cited sources said that there are operational challenges that could limit the production to around 250-300 tb/d in the next five years.

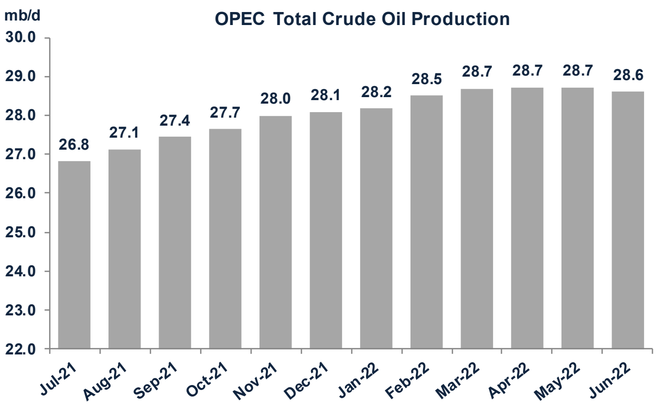
Production ('000 b/d)	May-22	Jun-22	Change		Capacity	Spare Capacity
Total OPEC-13	**28,720**	**28,600**	**-120**	**-0.42%**	**33,415**	**4,815**
Saudi Arabia	10,430	10,450	20	0.2%	11,500	1,050
Iraq	4,430	4,420	-10	-0.2%	4,800	380
UAE	3,100	3,190	90	2.9%	4,200	1,010
Kuwait	2,690	2,640	-50	-1.9%	2,715	75
Iran	2,580	2,550	-30	-1.2%	3,830	1,280
Nigeria	1,300	1,200	-100	-7.7%	1,600	400
Angola	1,160	1,200	40	3.4%	1,200	0
Algeria	1,020	1,020	0	0.0%	1,060	40
Libya	760	670	-90	-11.8%	1,200	530
Venezuela	680	710	30	4.4%	670	-40
Congo	260	270	10	3.8%	300	30
Gabon	220	190	-30	-13.6%	220	30
Equatorial Guinea	90	90	0	0.0%	120	30
Total OPEC-12	**24,290**	**24,180**	**-110**	**-0.45%**	**28,615**	**4,435**

Source: Bloomberg

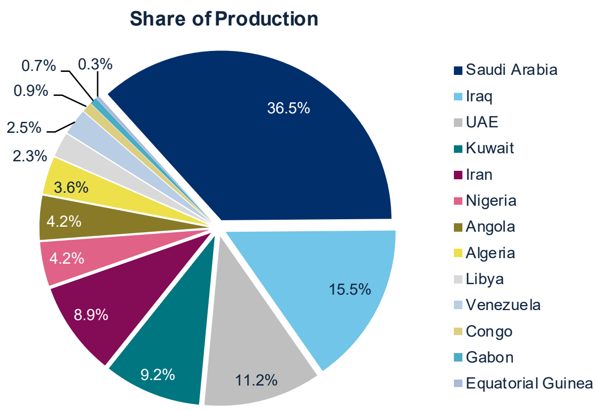
Meanwhile, UAE reported the second-biggest production increase in the OPEC during June-2022. The country increased production by 39 tb/d to an average of 3.08 mb/d. Data from OPEC secondary sources showed that the country has consistently produced above the 3.0 mb/d mark over the last three months.

Libya, on the other hand, posted the biggest production decline in OPEC during the month amidst a political turmoil that has resulted in closure of ports and oil fields. The country produced at 0.6 mb/d during June-2022, the lowest in 20 months, resulting in a decline of 78 tb/d as compared to the previous month. The state-run National Oil Corp. suspended shipments from the key ports of Es Sider and Ras Lanuf two weeks ago, according to Bloomberg.

With consistent increase in production since more than a year, spare capacity in the OPEC has declined to 4.8 mb/d, according to Bloomberg. Saudi Arabia and UAE boasted spare capacities of little over 1 mb/d each.



Source: Bloomberg



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q3-22	Q4-22	Q1-23	Q2-23
Commerzbank AG	11/Jul/22	100.0	95.0	95.0	90.0
Deutsche Bank AG	5/Jul/22	110.0	110.0	110.0	95.0
Goldman Sachs Group Inc/The	1/Jul/22	140.0	130.0	130.0	130.0
Citigroup Inc	30/Jun/22	99.0	85.0	78.0	72.0
Intesa Sanpaolo SpA	9/Jun/22	115.0	104.0	100.0	97.0
MPS Capital Services Banca per le Imprese SpA	20/May/22	99.0	93.0		
Banco Santander SA	10/May/22	99.0	88.9	83.0	80.0
Westpac Banking Corp	22/Apr/22	117.0	112.0	107.0	102.0
Natixis SA	7/Apr/22	113.0	98.0	90.0	86.0
Market Risk Advisory Co Ltd	4/Apr/22	95.0	92.0	73.3*	73.6*
MUFG Bank	1/Apr/22	141.0	112.0	110.0	98.5
Rabobank International	23/Mar/22	135.7	138.1	136.1	134.5
Emirates NBD PJSC	23/Mar/22	120.0	115.0		
Landesbank Baden-Wuerttemberg	3/Mar/22	95.0	90.0	85.0	80.0
Capital Economics Ltd	2/Mar/22	92.5	82.5	78.1	74.4
JPMorgan Chase & Co	7/Feb/22	67.0	66.0		
Median		**105.0**	**96.5**	**97.5**	**92.5**
Mean		**108.6**	**100.7**	**100.2**	**94.9**
High		**141.0**	**138.1**	**136.1**	**134.5**
Low		**67.0**	**66.0**	**78.0**	**72.0**
Current Fwd		**96.3**	**90.2**	**87.2**	**85.5**
Difference (Median - Current)		**8.7**	**6.3**	**10.3**	**7.0**

Source: Bloomberg

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