

Oil Market Monthly Report

March-2020

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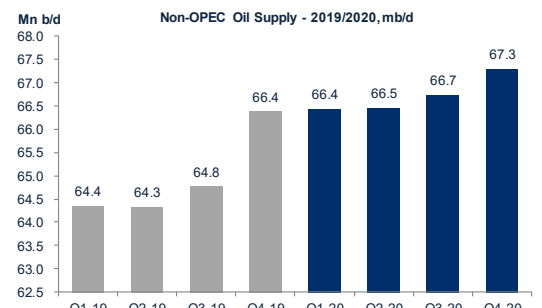
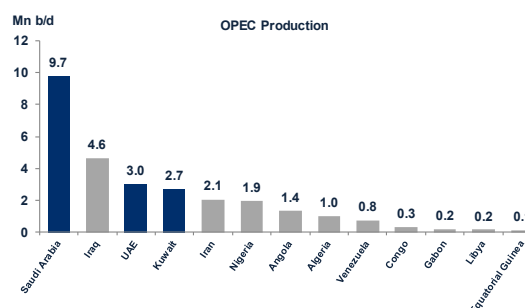
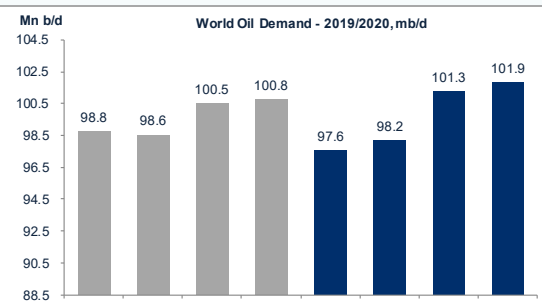
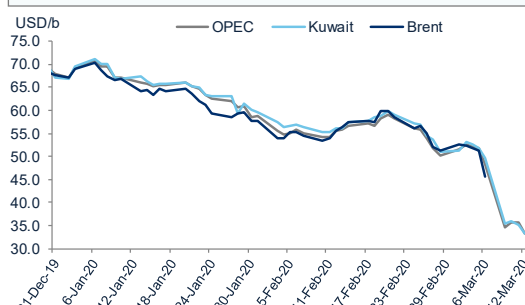
Oil price declines 50% from year's peak as OPEC+ dismantles...

Crude oil prices reached the lowest level since 2015 with the biggest one day drop since the 1991 Gulf War after OPEC+ members failed to reach an agreement to deepen oil production cuts in response to lackluster demand trends. The current events in the oil market came as a double blow for oil fundamentals as this time the decline prices was triggered by declining demand as well as an increase in crude oil production. The slowdown in oil demand was led by the rapid spread of the coronavirus outside of China that has triggered a global response in order to contain the situation. A majority of these measures came in the form of curb in travel and restriction on movement of goods and services; however, a few steps also focused on providing stimulus that led to a temporary rebound in economy as well as crude prices.

In terms of curbs, the US issued travel warning for its citizens and suspended all flights from Europe for the next 30 days, similar to restrictions placed by a number of other countries. **According to Bloomberg, this would affect 180 tb/d or 4% of global aviation fuel demand.** Domestic oil demand also took a hit with restricted movement of people within a majority of the affected countries. **Meanwhile, post rate cuts by US Fed and BoE, the US government is working on a payroll tax relief to support economic growth and increase disposable income, in addition to plans of providing emergency capital to small businesses.** The UK government announced a fiscal stimulus of GBP 12 Bn, whereas China is proposing further cuts in banking reserve ratio to support the SME sector. Meanwhile, the ECB didn't announce a rate cut, but announced a wide-ranging package of bond purchases and cheap loans to kickstart growth.

In view of the new realities facing the oil market, OPEC, in its latest monthly report, slashed oil demand forecast for 2020 by 920 tb/d and now expects flattish demand growth of merely 60 tb/d as compared to 2019. Meanwhile, the IEA said that it expects the first yearly drop in oil demand in 2020 since the 2009 financial crisis. The agency lowered its forecast for oil demand by 1.1 mb/d and now expects a decline of 90 tb/d in oil requirements in 2020. On the other hand, the US EIA forecasted the most optimistic of the demand expectations with an estimated growth of 0.37 mb/d in 2020.

On the supply front, Saudi Arabia is said to looking at raising oil output to more than 12 mb/d and a similar move was reported by UAE, which said it is positioned to increase production to 4 mb/d in April-2020. In terms of capacity, Saudi Arabia is accelerating its capacity build up from 12 mb/d to 13 mb/d. On the other hand, Russia can see a potential increase of as much as 0.5 mb/d. **Based on Feb-2020 production data, OPEC had a spare capacity of 6.1 mb/d Saudi Arabia, Kuwait and UAE accounting for 42% of this based on their existing capacities.**



Sources : OPEC, EIA, Bloomberg

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Vice President

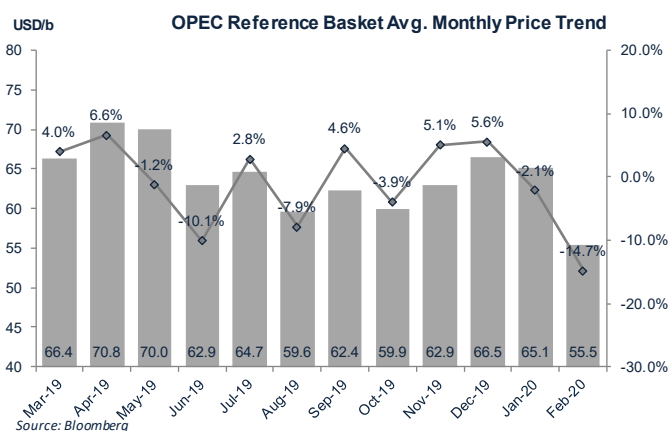
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Oil Prices

Oil prices plunged by more than 30% after the disagreement on the proposed OPEC+ production cuts that led to the dismantling of the agreement. Prices partially recovered during the day and closed the session with a loss of more than 25% for a majority of the crude grades. This was the biggest single day decline since the 1991 Gulf War that pushed prices to the lowest in almost five years. Crude prices showed marginal recovery in the following session but failed to keep the momentum in the subsequent trading sessions. As a result, as of 11-March-2020, oil prices had fallen 50% since the peak of 2020. Nevertheless, the crash in oil prices came as a silver lining for a majority of oil consuming countries and a number of sectors that could support prices in the near term. According to reports, after Saudi Arabia lowered its official selling price of crude, the demand has increased by almost 50% from some its top consumers. Crude shipments in the pipeline to the US Gulf Coast have also seen a steep spike. For European consumers, Saudi Arabian crude has seen a multifold increase in allocations. According to Bloomberg reports, the daily chartering cost of an oil tanker on the Middle East to China route has increased six times due to higher demand. In terms of sectoral consumption, the fall in crude prices have benefitted U.S. corn and soybean farmers across the Midwest that has led to an increase in demand for cheap diesel for the spring planting season. The rush can be seen in both the spot market as growers are filling fuel tanks as well as locking in prices for future prices. In addition, mining companies are also benefitting from lower oil prices as fuel is a key operating cost for these companies.

We expect oil prices to recover from the lows of Mar-2020 in two waves; the first when there is initial evidence on a renewed agreement on oil production levels being reached from OPEC+ countries, in particular Saudi Arabia and Russia. The second wave of gains in oil prices would come from early signaling of a recovery of global economic trade and other high frequency economic data when the impact of COVID-19 starts dissipating.



Average Crude Oil Prices, USD/b	Jan-2020	Feb-2020	Change (USD)	Avg 2019	Avg 2020
OPEC Reference Basket	65.1	55.5	(9.6)	61.2	60.5
Arab Light	66.6	56.8	(9.7)	62.1	61.9
Basrah Light	64.1	54.8	(9.3)	60.6	59.6
Bonny Light	65.9	57.8	(8.1)	62.7	62.0
Djeno	63.0	54.4	(8.6)	59.0	58.9
Es Sider	63.6	54.7	(9.0)	60.6	59.4
Girassol	65.4	57.3	(8.2)	62.5	61.5
Iran Heavy	62.6	52.9	(9.7)	58.7	58.0
Kuwait Export	65.4	55.9	(9.5)	61.2	60.9
Merey	55.9	36.0	(19.9)	53.3	46.4
Murban	66.1	57.1	(9.0)	63.1	61.8
Rabi	60.8	53.3	(7.5)	60.8	57.2
Saharan Blend	65.3	57.9	(7.4)	61.7	61.8
Zafiro	65.3	56.7	(8.7)	62.4	61.2
Other Crudes					
Brent	63.4	55.5	(7.9)	61.6	59.6
Dubai	64.1	54.3	(9.9)	61.6	59.4
Isthmus	55.9	47.5	(8.4)	60.8	51.9
LLS	61.5	54.0	(7.5)	60.8	57.9
Mars	59.0	51.5	(7.4)	59.2	55.4
Minas	62.1	53.4	(8.7)	54.2	58.0
Urals	62.9	55.1	(7.8)	62.1	59.2
WTI	57.6	50.6	(7.0)	53.2	54.3
Differentials					
Brent/WTI	5.8	4.9	(1.0)		5.4
Brent/LLS	1.9	1.5	(0.5)		1.7
Brent/Dubai	(0.7)	1.2	1.9		0.2

Source: OPEC Monthly Oil Market Report - Mar-2020

World Oil Demand

World oil demand growth estimates for 2019 was once again revised downwards by 0.08 mb/d to a growth of 0.83 mb/d with demand estimated to have averaged at 99.67 mb/d. The revision once again reflected lower-than-expected demand data for the OECD Americas region. The US recorded y-o-y decline in oil demand during December-19, whereas the latest available monthly data for Mexico for Jan-2020 showed a decline in overall demand as higher diesel usage was more than offset by fall in demand for gasoline and residual fuel oil. The OECD Europe region also showed softer demand trends during December-19 led by warmer weather across the region. The latest automobile fleet data for the Europe region showed a decline in new car registrations in January-2020 with primary impact in countries like Germany, France and Italy. In the OECD Asia Pacific region, Japan's January-2020 data showed a oil demand decline of 0.42 mb/d, 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	26.03	25.99	25.62	0.01	0.05
of which US	20.82	20.65	20.66	21.05	21.02	20.85	0.03	0.12
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	8.05	7.96	(0.12)	(1.49)
Total OECD	48.01	47.72	47.15	48.46	48.29	47.91	-0.1	-0.21
Other Asia	13.64	13.91	13.96	13.51	14.08	13.86	0.23	1.66
of which India	4.73	5.03	4.75	4.49	5.10	4.84	0.11	2.36
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	33.1	33.08	0.46	1.41
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	13.52	13.07	0.36	2.85
Total "Other Regions"	18.21	18.08	18.58	18.66	19.4	18.68	0.47	2.58
Total World	98.84	98.75	98.56	100.53	100.79	99.67	0.83	0.84

Source: OPEC Monthly Oil Market Report - Mar-2020

biggest decline since 2016. Demand growth estimates for the overall OECD region was lowered by 0.06 mb/d primarily for 2H-19 led by a decline in industrial fuels demand, weaker gasoline demand and warmer weather conditions in Q4-19. For the non-OECD region, demand was lowered by 0.02 mb/d reflecting a decline in demand from the Other Asia region during 2H-19.

Oil demand growth expectations for 2020 once again saw a steep downward revision 0.92 mb/d to a growth of 0.06 mb/d. With this marginal growth, world oil demand for 2020 is now expected to be lower than the 100 m/d mark at 99.73 mb/d. The revision reflected a decline in demand for the transportation and industrial fuels in China due to COVID-19 in addition to declining consumption from India, although the latter is showing signs of a consumption recovery post the decline in oil prices. India recorded a decline in oil demand for the second consecutive month in January-2020 owing to a fall in middle and heavy distillate consumption that was partially offset by growth in light distillate products. China showed a growth of 0.16 mb/d in Jan-2020, well below average monthly growth of last year. Expected demand growth from OECD countries was lowered by 0.32 mb/d with a majority of this decline expected to be seen during 1H-2020 while non-OECD demand was lowered by 0.6 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	25.62	25.24	25.37	26.14	26.11	25.72	0.10	0.39
of which US	20.85	20.74	20.72	21.14	21.14	20.94	0.09	0.43
Europe	14.34	13.89	13.90	14.72	14.22	14.18	(0.15)	(1.06)
Asia Pacific	7.96	8.14	7.13	7.55	7.96	7.70	(0.26)	(3.28)
Total OECD	47.91	47.27	46.39	48.41	48.29	47.59	(0.31)	(0.65)
Other Asia	13.86	13.98	14.04	13.75	14.38	14.04	0.17	1.23
of which India	4.84	5.09	4.80	4.59	5.23	4.93	0.09	1.80
Latin America	6.58	6.44	6.65	6.96	6.63	6.67	0.09	1.33
Middle East	8.20	8.24	7.91	8.75	8.11	8.25	0.06	0.70
Africa	4.43	4.52	4.51	4.45	4.58	4.51	0.08	1.77
Total Developing Countries (DCs)	33.08	33.18	33.10	33.91	33.71	33.47	0.39	1.19
Former Soviet Union (FSU)	4.84	4.80	4.77	5.06	5.15	4.95	0.10	2.11
Other Europe	0.76	0.76	0.72	0.76	0.85	0.77	0.01	1.54
China	13.07	11.57	13.22	13.11	13.85	12.94	(0.13)	(1.01)
Total "Other Regions"	18.68	17.13	18.71	18.93	19.85	18.66	(0.02)	(0.10)
Total World	99.67	97.58	98.20	101.25	101.85	99.73	0.06	0.06

Source: OPEC Monthly Oil Market Report - Mar-2020

World Oil Supply

According to preliminary data, world oil supply witnessed a m-o-m decline of 0.29 mb/d during February-2020 and averaged at 99.75 mb/d.

For the full year 2019, non-OPEC oil supply growth estimate was once again revised up by 91 tb/d to a growth of 1.99 mb/d with total supply expected to average at 64.97 mb/d. The revision mainly reflected upward changes to biofuel production estimates for Developing Countries to the tune of 67 tb/d coupled with higher than expected supply from OECD countries by 32 tb/d mostly in Q4-19. These increases were partially offset by downward revisions in supply figures for China's coal-to-liquid output as well as lower estimated

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	25.69	26.66	25.75	1.68	6.97
of which US	16.71	17.78	18.29	18.36	19.15	18.40	1.69	10.10
Europe	3.84	3.82	3.57	3.55	3.90	3.71	(0.13)	(3.40)
Asia Pacific	0.41	0.43	0.48	0.51	0.52	0.48	0.08	18.79
Total OECD	28.33	29.32	29.64	29.74	31.08	29.95	1.62	5.74
Other Asia	3.57	3.55	3.5	3.4	3.46	3.48	(0.09)	-2.47
Latin America	5.74	5.77	5.84	6.13	6.29	6.01	0.27	4.70
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)	14.02	14.04	14.06	14.25	14.46	14.20	0.18	1.31
Former Soviet Union (FSU)	14.29	14.55	14.16	14.34	14.42	14.37	0.08	0.55
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	3.98	4.05	4.08	4.05	4.03	4.05	0.07	1.87
Total "Other regions"	18.39	18.72	18.36	18.51	18.58	18.54	0.15	0.81
Total Non-OPEC Production	60.74	62.08	62.06	62.51	64.11	62.7	1.96	3.22
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.24
Total Non-OPEC Supply	62.99	64.36	64.34	64.78	66.39	64.97	1.99	3.15
OPEC NGLs and non-conventionals	4.76	-	-	-	-	4.80	0.04	0.75
OPEC Crude Oil Production	31.34	-	29.45	28.86	29.09	29.34	(2.01)	(6.41)
Total World Supply	99.10	-	-	-	-	99.10		

Source: OPEC Monthly Oil Market Report - Mar-2020

supplies from the UK and Australia. For 2020, supply growth forecast was revised downward by 0.49 mb/d to a growth of 1.76 mb/d and average at 66.74 mb/d during the year. Expected supply growth from the US was revised down by 0.36 mb/d to a growth of 0.9 mb/d. The US reported a decline in production during December-19 and estimates suggest a further decline of 80 tb/d each for January-2020 and February-2020. Nevertheless, production is expected to see a seasonal recovery in March-2020 and April-2020. For the overall OECD region, supply growth estimates were lowered by 0.41 mb/d to an average of 31.21 mb/d with an expected growth of 1.27 mb/d. Production estimate for OECD Europe shows a growth of 0.29 mb/d to reach 4 mb/d led by higher production in UK and Norway.

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.75	26.58	26.47	26.78	26.79	26.66	0.90	3.50
of which US	18.40	19.05	19.31	19.43	19.40	19.30	0.90	4.89
Europe	3.71	4.02	3.91	3.96	4.12	4.00	0.29	7.87
Asia Pacific	0.48	0.53	0.54	0.58	0.58	0.56	0.07	14.96
Total OECD	29.95	31.13	30.92	31.31	31.49	31.21	1.27	4.22
Other Asia	3.48	3.45	3.47	3.47	3.46	3.46	-0.02	-0.53
Latin America	6.01	6.43	6.35	6.33	6.40	6.38	0.37	6.11
Middle East	3.21	3.18	3.29	3.32	3.34	3.28	0.07	2.07
Africa	1.50	1.43	1.55	1.54	1.54	1.51	0.01	0.57
Total Developing Countries (DCs)	14.20	14.48	14.65	14.65	14.73	14.63	0.42	2.98
Former Soviet Union (FSU)	14.37	14.35	14.43	14.35	14.63	14.44	0.07	0.49
of which Russia	11.44	11.41	11.50	11.51	11.64	11.52	0.08	0.67
Other Europe	0.12	0.12	0.12	0.12	0.11	0.12	(0.01)	(4.32)
China	4.05	4.02	4.00	3.99	4.01	4.01	(0.05)	(1.12)
Total "Other regions"	18.54	18.49	18.55	18.45	18.75	18.56	0.02	0.10
Total Non-OPEC Production	62.70	64.11	64.13	64.41	64.96	64.4	1.71	2.72
Processing gains	2.28	2.33	2.33	2.33	2.33	2.33	0.05	2.37
Total Non-OPEC Supply	64.97	66.44	66.46	66.74	67.3	66.74	1.76	2.71

Source: OPEC Monthly Oil Market Report - Mar-2020

OPEC Oil Production & Spare Capacity

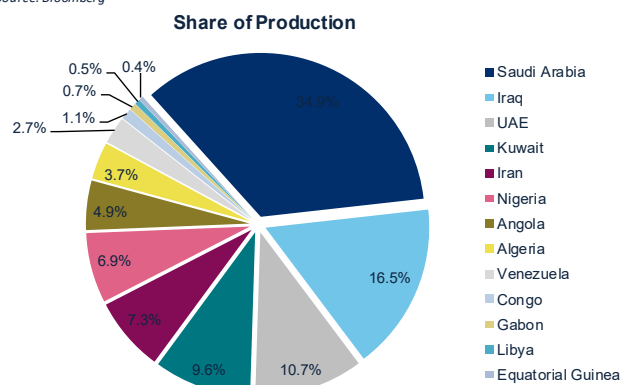
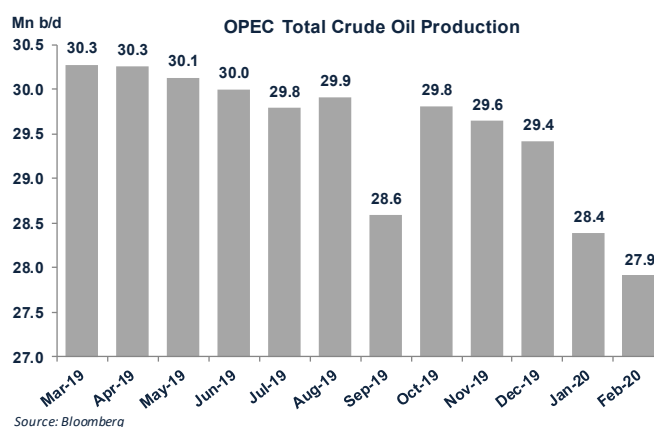
OPEC crude production witnessed a steep decline during February-2020 to reach a 10-year low level primarily led by a free fall in production in Libya that was partially offset by higher production primarily in Iraq and Nigeria. According to Bloomberg data, production in February-2020 stood at 27.9 mb/d, a decline of 480 tb/d from the previous month. OPEC secondary sources estimated the decline to be even steeper at 546 tb/d resulting in an average production of 27.8 mb/d during the month. OPEC's monthly production excluded data for Ecuador that is no more a member of the OPEC group. The decline in production in Libya was led by a blockade of ports and oilfields. The country produced at an average rate of 150 tb/d during February-2020, a decline from over 1 mb/d at the start of the year. Iraq increased production by 90 tb/d to 4.61 mb/d, while Nigeria raised average output by 100 tb/d to 1.93 mb/d.

Production ('000 b/d)	Jan-20	Feb-20	Change		Capacity	Spare Capacity
Total OPEC-13	28,390	27,910	-480	-1.69%	34,035	6,125
Saudi Arabia	9,730	9,740	10	0.1%	11,500	1,760
Iraq	4,520	4,610	90	2.0%	4,800	190
UAE	3,010	3,000	-10	-0.3%	3,400	400
Kuwait	2,670	2,680	10	0.4%	3,075	395
Iran	2,070	2,050	-20	-1.0%	3,830	1,780
Nigeria	1,830	1,930	100	5.5%	2,000	70
Angola	1,360	1,360	0	0.0%	1,450	90
Algeria	1,010	1,020	10	1.0%	1,080	60
Venezuela	770	750	-20	-2.6%	900	150
Congo	310	310	0	0.0%	330	20
Gabon	200	190	-10	-5.0%	220	30
Libya	790	150	-640	-81.0%	1,300	1,150
Equatorial Guinea	120	120	0	0.0%	150	30
Total OPEC-12	23,870	23,300	-570	-2.39%	29,235	5,935

Source: Bloomberg, OPEC

The failure to deepen and extend the OPEC+ agreement came as a big shock for the oil market as prices plunged on the news of the expected output growth that would worsen the supply glut. In the events that followed, Saudi Arabia's Energy Ministry asked Aramco to increase its production capacity, whereas ADNOC said it would increase production by 25% to 4 mb/d starting from next month. Saudi Arabia said it would hike its crude oil production to 12.3 mb/d from April-2020 and increase its capacity to 13 mb/d. In addition, according to reports, the neutral zone shared by Kuwait and Saudi Arabia has offered its first crude for export in April-2020 and the full production capacity of 550 tb/d is expected to be reached before the end of next year.

On the other hand, a number of shale players in the US announced to slash spending in the coming years due to depressed oil prices. A recent report said that 59% of shale producers need prices of more than USD 50/b to support new capital investment in 2020. A number of producers have also announced a reduction in drilling activity. Also, the latest announcement from the US government to buy 90 million barrels of oil to support prices had little impact on prices. We believe this would position OPEC producers in a better footing to take advantage of the expected recovery in demand during 2H-2020 that would also support prices.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q1 20	Q2 20	Q3 20	Q4 20
Westpac Banking Corp	13/Mar/20	53.0	41.0	38.0	47.0
MPS Capital Services Banca per le Imprese SpA	13/Mar/20	61.0	35.0	41.0	50.0
Commerzbank AG	12/Mar/20	53.0	35.0	43.0	50.0
Banco Santander SA	11/Mar/20	54.0	38.0	40.0	44.0
MUFG Bank	9/Mar/20	59.2	32.3	35.6	46.1
Intesa Sanpaolo SpA	9/Mar/20	50.0	40.0	45.0	50.0
ABN AMRO Bank NV	9/Mar/20	53.0	43.0	49.0	54.0
Citigroup Inc	2/Mar/20	54.0	50.0	53.0	58.0
Emirates NBD PJSC	17/Feb/20	58.0	55.0	57.5	58.0
Capital Economics Ltd	10/Feb/20	64.0	64.0	68.0	73.0
Rabobank International	4/Feb/20	63.5	67.5	67.5	67.5
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
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
Raymond James Financial Inc	18/Dec/19	65.0	65.0	72.0	78.0
CIBC	10/Dec/19	65.5	64.0	64.0	65.5
BNP Paribas SA	21/Nov/19	60.0	54.0	57.0	60.0
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		60.0	58.2	58.8	58.0
Mean		59.6	53.4	55.7	59.1
High		68.0	69.0	72.0	78.0
Low		50.0	32.3	35.6	44.0
Current Fwd		47.0	36.6	39.5	41.3
Difference (Median - Current)		13.0	21.6	19.2	16.7

Source: Bloomberg

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