

Oil Market Monthly Report

May-2020

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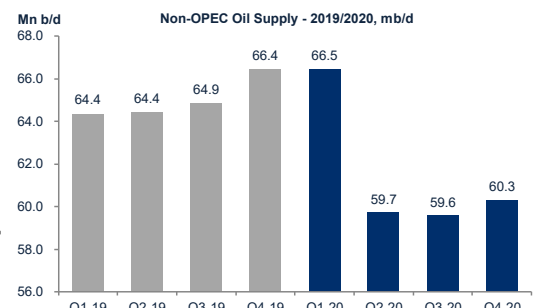
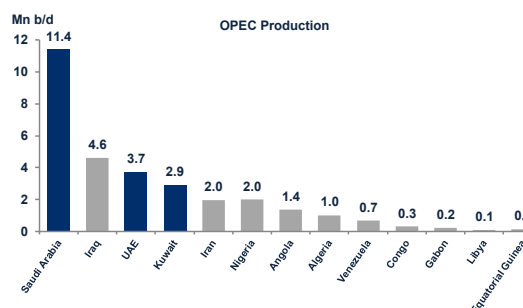
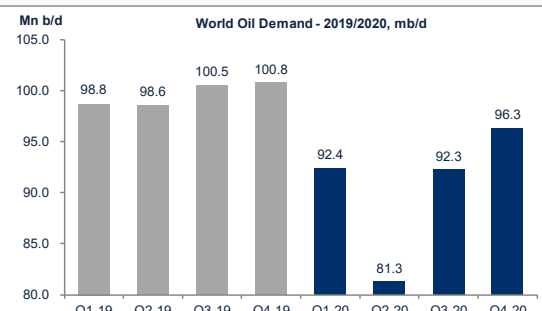
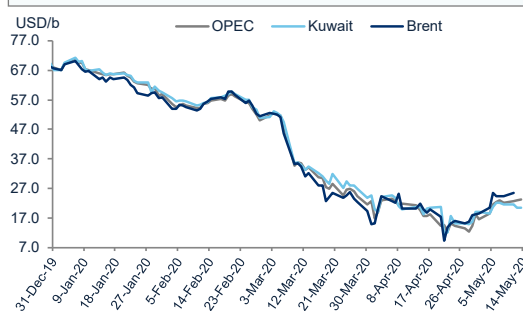
Output crash and demand revival provide hope to sagging oil market...

Oil prices showed signs of recovery from a 22-year low level towards the end of April-2020 after reports suggested a demand revival expected during the second half of year. Prices were also supported by extreme supply curbs implemented by OPEC producers, primarily Saudi Arabia, as well as a price-led decline in production seen in US shale patch. Moreover, the storage crunch-led price crash in the crude futures market that saw negative near month futures for the first time on record also eased led by increasing refinery runs and surprise stock drawdowns in the US.

In terms of oil demand, expectations for 2H-2020 remains unclear but estimates for Q2-2020 shows a y-o-y decline of around 20% in global oil demand, one of the biggest declines on record. That said, the estimates for the year have been revised positively from last month. As per the IEA, world oil demand is expected to improve to 91.2 mb/d in 2020 vs. previous expectation of 90.5 mb/d, which now represents a y-o-y decline of 8.6 mb/d. Moreover, the opening up of 23 states in the US that account for 40% of oil demand is expected to stabilize oil prices. In addition, India's oil demand is expected to increase by 20% or 0.65 mb/d in May-2020 after witnessing the worst monthly sales in more than 12 years. The increase is expected to be driven by the start of the planting season that results in higher diesel requirements.

Meanwhile, a new trend in China, which has restarted its economy, has seen a preference to use personal transport instead of public transport as a way of protection from the virus. This could see a higher than expected increase in oil demand in the near term and higher demand for gasoline. Traffic data for major cities also show congestions that were higher than the pre-pandemic levels. Also, refineries in China have ramped up operation recently recording a m-o-m increase of 11% during April-2020 marking a recovery from a 15-month low throughput. Higher margins due to the fall in crude prices has also prompted independent refiners in China, called 'tea pots', to ramp up production.

The recent rally in oil price was mainly led by supply cuts announced by OPEC and a fall in output from other producers as demand growth remained largely uncertain and was marred with downside risks. Saudi Arabia has pledged to reduce supply to the lowest in 18 years in June-2020, in addition to further cuts from other OPEC members including Kuwait, UAE, Iraq and Nigeria. Output from the non-OPEC group has declined at a faster-than-expected rate. According to IEA, non-OPEC production was down by 1.1 mb/d in April-2020 with Q2-2020 production expected to fall by 6.7 mb/d. The US is expected to see the biggest drop in output, according to the agency, with May-2020 production expected to decline by 1.2 mb/d which would further deepen to 2.8 mb/d by the end of the year. According to Baker Hughes, total world oil and gas rotary rig count declined by a cumulative 29% or 611 rigs in March and April-2020.



Sources : OPEC, EIA, Bloomberg

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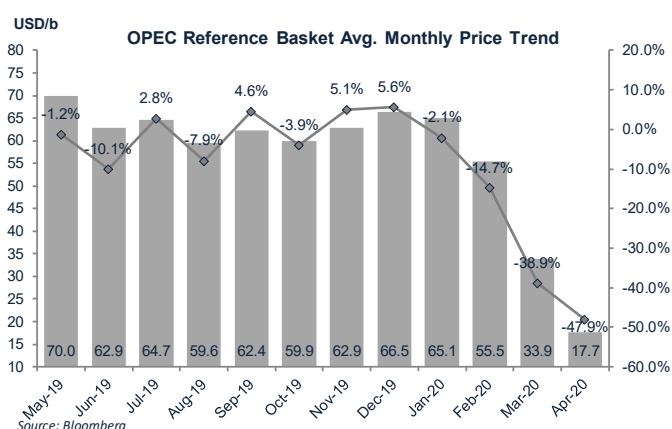
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Oil Prices

Spot crude prices traded at 6-week high levels reaching USD 23.3/b during the second week of May-2020 after trading below the USD 20/b mark for most part of April-2020. The surge was led by expectations of recovering demand in the near-term as well as announcements of steeper curbs in supplies across the globe. A decline in US crude inventories by 745 thousand barrels during the week ended 8-May-2020 also pushed prices up in the oil market. This was the first weekly decline in US crude inventories after increasing consecutively for the previous 15 weeks that saw a buildup of more than 100 million barrels in crude stocks. Nevertheless, despite the recent surge, crude prices have declined 66% since the start of the year. The average Brent crude prices during April-20 were the lowest since July-1999 at USD 18.47/b, a m-o-m decline for the third consecutive month by 42%. This was also one of the steepest declines in average crude prices on record. OPEC crude spot declined at a faster pace of 48% to average at USD 17.66/b while Kuwait crude averaged at USD 18.76/b after registering a decline of 46.6% from the previous month.



The consensus estimates for crude prices for the year continued to get downgraded over the last few weeks. EIA expects Brent to average at USD 34/b in 2020, a slight revision from last month's estimate of USD 33/b. The median estimate for Brent crude, according to Bloomberg, was at USD 37.8/b for 2020, USD 4.2/b lower than its previous forecast of USD 42/b last month. Prices are expected to gradually increase to USD 50.5/b in 2021. The price revisions comes as a response to recovering demand and lowering supplies globally. The US has seen one of the steepest downward revisions in its crude production forecasts. According to latest weekly rig count report from Baker Hughes, the US showed its ninth consecutive weekly decline in oil rig count. Oil rigs in the US declined by 34 last week to reach 258 rigs, the lowest level of oil rig count since July-2009. The number of rotary oil rigs in the US has declined by 425 over the last nine weeks and by more than two-thirds or 544 oil rigs over the last one year. This was reflected in the decline in crude production in the US that dropped to 11.6 mb/d last week as compared to a record level of 13.1 mb/d in March-2020. Weekly DOE data for the US has shown seven consecutive weeks of production decline aggregating to 1.5 mb/d until the week ended 8-May-2020. The steep pace of fall in crude production also came as a result of brimming crude oil storage facilities in the US.

Meanwhile, the economic damage led by the Covid-19 crisis was visible in Q1-2020 GDP figures for the Euro Area that showed a decline in all major economies. The GDP decline averaged at around 4% y-o-y for the region as economic stimulus packages failed to revive demand in the region. On the other hand, Germany has suggested that the worst impact of the crisis may have already passed as the country announced partial lifting of curfew and a gradual restart of the economy. However, as suggested by ECB chief economist, the speed and scope of the recovery will depend primarily on consumer confidence. Some improvement was also seen in China which reported an increase in industrial output in April-2020 for the first time since the crisis started. The US is also contemplating reopening of the economy with the CDC posting guidelines for opening some industries. Furthermore, as economies reopens, oil watchers would be eager to see the progress on key events like the Brexit deal and the trade deal between US and China that have seen little progress since the start of the pandemic.

Average Crude Oil Prices, USD/b	Mar-2020	Apr-2020	Change (USD)	Avg 2019	Avg 2020
OPEC Reference Basket	33.9	17.7	(16.3)	64.9	43.1
North Sea Dated	31.7	18.8	(12.9)	65.1	42.3
Dubai	33.8	21.3	(12.5)	65.3	43.4
LLS	29.1	19.8	(9.4)	64.4	41.0
Mars	28.0	18.7	(9.3)	63.1	38.8
Tapis	36.0	17.8	(18.2)	69.0	47.0
Urals	29.5	16.6	(12.9)	65.6	41.0
WTI	29.9	16.5	(13.4)	57.1	38.6

Differentials					
Brent/WTI	1.8	2.3	0.5	8.0	3.7
Brent/LLS	2.6	(0.9)	(3.5)	0.7	1.3
Brent/Dubai	(2.1)	(2.5)	(0.4)	(0.2)	(1.1)

Source: OPEC Monthly Oil Market Report - May-2020

World Oil Demand

World oil demand growth estimates for 2019 remained unchanged at 0.83 mb/d to an average of 99.67 mb/d during the year. For 2020, demand growth expectations were further lowered in the latest assessment by 2.23 mb/d and is now expected to decline by 9.07 mb/d to average at 90.59 mb/d during the year. The lowered estimates primarily reflected a steep fall in demand for transportation fuels during Q2-2020 led by the Covid-19 lockdowns with further weakness expected in demand for industrial fuels. Demand from OECD countries was revised lower by 1.20 mb/d to 42.71 mb/d, whereas non-OECD oil demand growth was adjusted down by 1.03 mb/d. The lowered estimates for the OECD region reflected bleak estimates for the transportation sector in OECD Americas and Europe at the beginning of Q2-2020. In OECD Europe, preliminary data from the European Automobile Manufacturers Association showed that new vehicle

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 - May-2020

registrations declined by more than 50% in the EU during March-2020 led by the COVID-19 outbreak.

In the non-OECD region, demand from China declined by more than 2 mb/d during March-2020 with both jet fuel and gasoline demand falling for the second consecutive month. Data showed a steep decline in passenger highway traffic during February-2020 and March-2020, whereas civil aviation activities were down by more than 70% during March-2020. Data from China Passenger Car Association and Haver Analytics showed car sales declining by more than 50% during March-2020. On the other hand, oil demand in India declined by a record 0.78 mb/d during March-2020 to around 4.1 mb/d. This decline included a drop in gasoline requirements by 0.12 mb/d, whereas diesel requirements declined by a steep 0.42 mb/d. The sale of passenger vehicles dropped by nearly 51% during the month as compared to last year. The decline in demand for diesel reflected slower construction and agricultural activities and a steep fall in the sale of commercial vehicles by 88% y-o-y during March-2020. In the Middle East region, March-2020 data for Saudi Arabia showed a decline in oil demand by around 0.14 mb/d led by lower requirements of transportation fuels. Estimates for the remainder of the year shows a steep drop in transportation fuels for the region.

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	24.47	18.95	24.48	25.16	23.28	(2.34)	(9.13)
of which US	20.85	20.26	15.22	20.04	20.64	19.05	(1.80)	(8.63)
Europe	14.34	12.95	9.67	13.25	13.68	12.40	(1.94)	(13.53)
Asia Pacific	7.96	7.88	6.25	6.64	7.40	7.04	(0.92)	(11.51)
Total OECD	47.91	45.30	34.87	44.37	46.25	42.71	(5.19)	(10.84)
Other Asia	13.86	13.15	12.20	12.40	13.66	12.85	(1.01)	(7.29)
of which India	4.84	4.74	3.90	3.94	4.83	4.35	(0.49)	(10.07)
Latin America	6.58	6.25	6.00	6.24	6.12	6.15	(0.43)	(6.54)
Middle East	8.20	7.81	7.01	7.94	7.62	7.59	(0.60)	(7.36)
Africa	4.43	4.41	4.25	4.05	4.20	4.23	(0.21)	(4.67)
Total Developing Countries (DCs)	33.08	31.62	29.46	30.62	31.60	30.83	(2.25)	(6.81)
Former Soviet Union (FSU)	4.84	4.50	3.88	4.45	4.61	4.36	(0.48)	(9.97)
Other Europe	0.76	0.71	0.54	0.47	0.56	0.57	(0.19)	(25.22)
China	13.07	10.27	12.55	12.37	13.28	12.12	(0.95)	(7.29)
Total "Other Regions"	18.68	15.47	16.97	17.29	18.45	17.05	(1.63)	(8.72)
Total World	99.67	92.40	81.30	92.28	96.30	90.59	(9.07)	(9.10)

Source: OPEC Monthly Oil Market Report - May-2020

World Oil Supply

World liquids production declined by 0.18 mb/d during April-2020 to average at 99.46 mb/d mainly led by a fall in production in the US, Canada, Ecuador, Brazil and Kazakhstan that was partially offset by higher production by OPEC producers. As a result, the share of OPEC crude in total global production increased by 190 bps to 30.6% during April-2020.

Non-OPEC oil supply growth estimates for 2019 was revised up marginally by 0.04 mb/d from previous estimate reflecting an upward revision in Australia's production data. Supply in 2019 is estimated to have grown by 2.02 mb/d to average at 65.03 mb/d.

Non-OPEC oil supply in 2020 was further lowered by almost 2.0 mb/d from the previous forecast. Supply in 2020 is now forecasted to

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	26.62	25.74	1.67	6.93
of which US	16.71	17.78	18.29	18.36	19.15	18.40	1.69	10.09
Europe	3.84	3.82	3.57	3.55	3.88	3.71	(0.13)	(3.48)
Asia Pacific	0.41	0.46	0.51	0.56	0.57	0.53	0.11	27.86
Total OECD	28.33	29.35	29.67	29.79	31.08	29.98	1.65	5.82
Other Asia	3.57	3.52	3.55	3.4	3.47	3.48	(0.08)	-2.27
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	1.52	1.52	1.53	1.53	1.52	1.53	0.01	0.43
Total Developing Countries (DCs)	14.04	14.03	14.13	14.27	14.49	14.23	0.20	1.40
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	60.76	62.1	62.16	62.58	64.15	62.75	2	3.28
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.24
Total Non-OPEC Supply	63.01	64.37	64.44	64.85	66.43	65.03	2.02	3.21
OPEC NGLs and non-conventionals	4.75	-	-	-	-	4.79	0.04	0.84
OPEC Crude Oil Production	31.34	-	29.45	28.86	29.10	29.34	(2.01)	(6.40)
Total World Supply	99.10	-	-	-	-	99.16		

Source: OPEC Monthly Oil Market Report - May-2020

decline by 3.5 mb/d to average at 61.5 mb/d during the year. The revisions reflected decline in supply coming primarily from the US, Russia and Canada totaling 3.16 mb/d further supported by decline in production in Kazakhstan, Oman, Azerbaijan, Malaysia and Mexico. These declines are expected to be partially offset by higher supplies coming from Norway (+0.29 mb/d), Brazil (+0.19 mb/d), Guyana and Australia. US liquids production growth forecast was lowered by 1.29 mb/d for this year and production is now expected to decline by 1.13 mb/d to 11.1 mb/d. Meanwhile, crude production in Canada is expected to decline by 0.42 mb/d in 2020 to average at 4.99 mb/d as a result of consistent decline in capex by major Canadian oil producers.

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.74	26.59	23.47	22.41	22.79	23.81	(1.94)	(7.52)
of which US	18.40	19.05	16.81	15.78	16.20	16.96	(1.44)	(7.84)
Europe	3.71	4.01	3.91	3.94	4.06	3.98	0.27	7.40
Asia Pacific	0.53	0.53	0.55	0.59	0.59	0.56	0.04	7.41
Total OECD	29.98	31.13	27.94	26.93	27.44	28.35	(1.62)	(5.41)
Other Asia	3.48	3.45	3.3	3.34	3.33	3.35	-0.13	-3.77
Latin America	6.01	6.30	5.97	6.15	6.37	6.20	0.19	3.17
Middle East	3.21	3.19	3.01	3.06	3.07	3.08	(0.13)	(4.07)
Africa	1.53	1.51	1.45	1.45	1.44	1.46	(0.06)	(4.06)
Total Developing Countries (DCs)	14.23	14.44	13.73	14.01	14.21	14.10	(0.13)	(0.94)
Former Soviet Union (FSU)	14.37	14.51	11.82	12.43	12.43	12.8	-1.57	-10.95
of which Russia	11.44	11.50	9.36	9.85	9.85	10.14	(1.30)	(11.38)
Other Europe	0.12	0.12	0.12	0.12	0.11	0.12	(0.01)	(4.32)
China	4.05	4.15	4.00	3.99	4.01	4.04	(0.01)	(0.35)
Total "Other regions"	18.54	18.78	15.94	16.53	16.55	16.95	(1.59)	(8.59)
Total Non-OPEC Production	62.75	64.36	57.61	57.47	58.2	59.4	-3.35	-5.34
Processing gains	2.28	2.10	2.10	2.10	2.10	2.10	(0.18)	(8.03)
Total Non-OPEC Supply	65.03	66.45	59.71	59.57	60.3	61.5	-3.53	-5.43

Source: OPEC Monthly Oil Market Report - May-2020

OPEC Oil Production & Spare Capacity

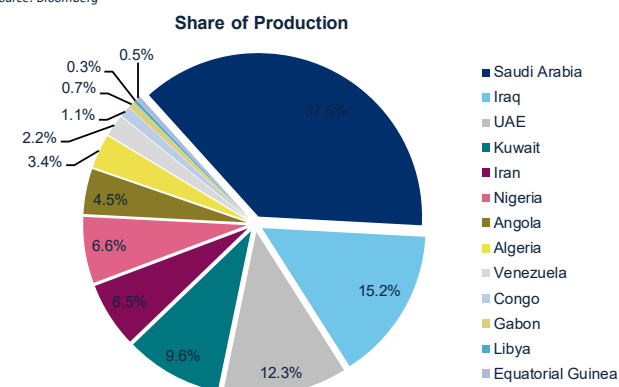
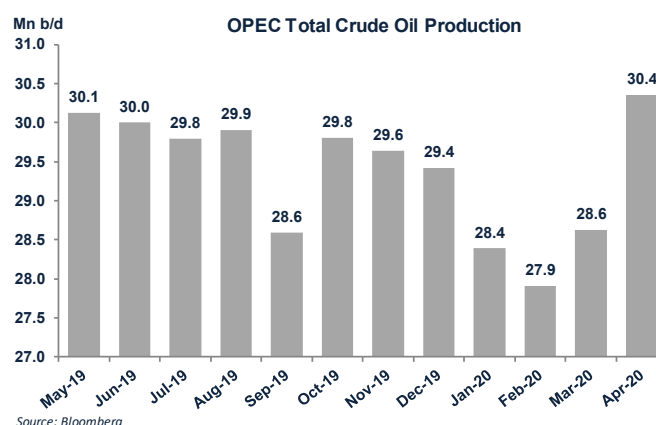
OPEC crude production witnessed one of the steepest growth in recent months in April-2020 after the initial disagreement over supply curbs led to higher output by most members of the group, primarily Saudi Arabia. Bloomberg data showed OPEC production increasing to the highest in 14 months to reach 30.36 mb/d after increasing by 1.73 mb/d as compared to March-2020. OPEC secondary sources showed an almost similar production level of 30.41 mb/d with a monthly increase of 1.8 mb/d. The increase came primarily on the back of higher production in Saudi Arabia, UAE and Kuwait that reported an aggregate increase of 1.84 mb/d, according to Bloomberg. Production in Saudi Arabia averaged at 11.4 mb/d during the month, the highest rate of production on record by the Kingdom. The production rate of UAE at 3.72 mb/d was also the highest on record by the country.

Production ('000 b/d)	Mar-20	Apr-20	Change		Capacity	Spare Capacity
Total OPEC-13	28,630	30,360	1,730	6.04%	34,035	3,675
Saudi Arabia	9,990	11,390	1,400	14.0%	11,500	110
Iraq	4,620	4,600	-20	-0.4%	4,800	200
UAE	3,430	3,720	290	8.5%	3,400	-320
Kuwait	2,750	2,900	150	5.5%	3,075	175
Iran	2,030	1,960	-70	-3.4%	3,830	1,870
Nigeria	1,930	1,990	60	3.1%	2,000	10
Angola	1,400	1,360	-40	-2.9%	1,450	90
Algeria	1,010	1,020	10	1.0%	1,080	60
Venezuela	750	660	-90	-12.0%	900	240
Congo	310	320	10	3.2%	330	10
Gabon	200	210	10	5.0%	220	10
Libya	100	90	-10	-10.0%	1,300	1,210
Equatorial Guinea	110	140	30	27.3%	150	10
Total OPEC-12	24,010	25,760	1,750	7.29%	29,235	3,475

Source: Bloomberg, OPEC

The agreed upon cuts of around 9.7 mb/d by the 23 producers of OPEC+ is said to be swiftly implemented and according to reports from traders, the cuts are even deeper than the agreed upon quotas. Bloomberg's tanker tracking data showed that Saudi Arabia and reduced exports by around 2.6 mb/d or 28% to 6.7 mb/d during the first two weeks of May-2020. Exports in June-2020 will also be slashed to the Kingdom's customers in Asia, US and Europe, a move that will be followed by Kuwait, UAE and Oman. Saudi Arabia's commitment to cut production by an additional 1 mb/d in June will push its output down to the lowest since 2002. Reports have also shown output being curbed by Russia at a surprisingly fast pace. Official data has shown production in Russia has already fallen to 8.75 mb/d, close to its commitment of 8.5 mb/d.

On the other hand, production in Iraq has reportedly fallen only marginally with shipments down by 190 tb/d. The country is expected to lower production by 1 m/d as per the agreement. Nevertheless, the country continues to face production disruptions and has recently announced plans to halt production from the southeastern oil field of Al-Ahdab due to protests that are blocking operations. The oil field has a production capacity of 68 tb/d. Meanwhile, Libya's oil production continued to remain subdued at 90 tb/d from more than 1.1 mb/d at the end of last year.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q2 20	Q3 20	Q4 20	Q1 21
Westpac Banking Corp	12/May/20	27.0	26.0	29.0	32.0
BNP Paribas SA	12/May/20	30.0	35.0	43.0	55.0
Market Risk Advisory Co Ltd	12/May/20	30.0	35.0	40.0	38.0
Citigroup Inc	30/Apr/20	17.0	35.0	45.0	
Rabobank International	28/Apr/20	31.3	37.5	43.0	46.5
Commerzbank AG	24/Apr/20	24.0	32.0	40.0	42.0
Intesa Sanpaolo SpA	22/Apr/20	22.7	35.0	42.3	
Deutsche Bank AG	21/Apr/20	25.0	25.0	35.0	35.0
CIMB	21/Apr/20	30.0	35.0	39.0	40.0
HSBC Holdings PLC	13/Apr/20	25.0	32.0	40.0	50.0
Bank of Nova Scotia/The	7/Apr/20	24.0	26.0	31.0	36.0
Capital Economics Ltd	6/Apr/20	24.0	27.5	37.5	46.5
Banco Santander SA	1/Apr/20	25.0	31.0	37.2	38.0
Raymond James Financial Inc	30/Mar/20	28.0	39.0	49.0	55.0
Landesbank Baden-Wuerttemberg	19/Mar/20	30.0	30.0	30.0	31.0
BBVA Research SA	18/Mar/20	30.5	40.9	44.5	50.8
Emirates NBD PJSC	18/Mar/20	35.0	38.0	48.0	50.0
ABN AMRO Bank NV	18/Mar/20	33.0	30.0	40.0	48.0
MPS Capital Services Banca per le Imprese SpA	13/Mar/20	35.0	41.0	50.0	55.0
MUFG Bank	9/Mar/20	32.3	35.6	46.1	49.2
Societe Generale SA	6/Mar/20	55.5	57.0	58.0	59.0
Natixis SA	15/Jan/20	62.0	62.0	65.0	68.0
Median		30.0	35.0	42.3	47.3
Mean		32.2	36.9	43.4	46.3
High		64.0	64.0	65.5	68.0
Low		17.0	25.0	29.0	31.0
Current Fwd		28.2	31.6	33.8	35.4
Difference (Median - Current)		1.8	3.4	8.5	11.9

Source: Bloomberg

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