

Oil Market Monthly Report

October-2021

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Oil at 3-year high as fuel switching supports price rally...

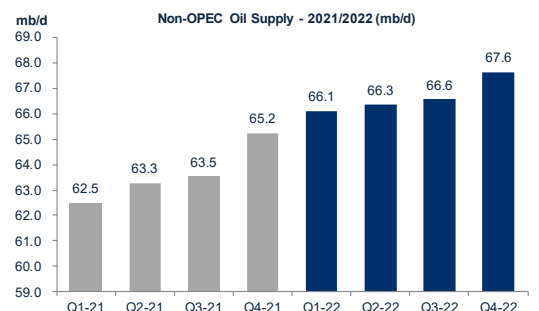
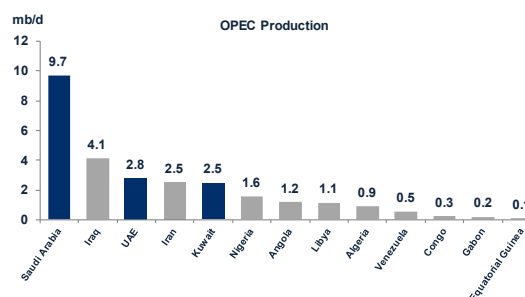
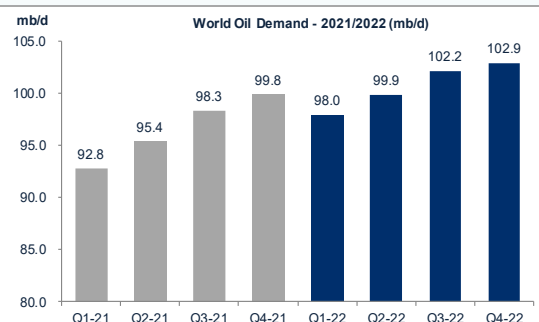
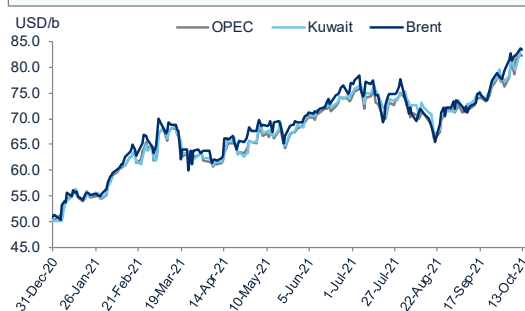
The global crude oil price rally gathered momentum in October-2021 as oil regained the USD 80/b mark for the first time in three years and traded little short of an 8-year high level. The rally was supported by higher demand as economic recovery picks pace. In addition, the record high gas prices in several parts of the world and a shortage of coal have prompted electricity generation companies to switch to crude-based fuel for generation, which further supported prices. Substitutes like diesel and fuel oil are seeing increasing demand, especially in the Asian market, which led to a shortage in Europe. A report from FGE said that global stockpiles of key oil products such as diesel and gasoline has dropped to the lowest since 2014. The IEA added that the spillover from gas to the oil market could boost oil demand by 0.5 mb/d over the next six months. Moreover, the arrival of winter season in the northern hemisphere in a month and the potential for colder-than-usual temperatures has led to an increase in storage of gas and heating oil.

On the other hand, supply remained under check as OPEC reported only marginal increase in production while US producers also showed restraint with only a modest growth in output. Our analysis shows that oil demand is yet to fully peak as some segments of consumption, for instance industrial fuels and jet fuel, are yet to reach pre-Covid-19 levels. This was reiterated in EIA's latest Short Term Energy Outlook which showed US fuel demand at 19.96 mb/d in September-2021, below pre-pandemic level of 20.25 mb/d in September-2019 while jet fuel demand stood at 88% of September-2019 levels.

The latest high-frequency data on air travel showed that European air traffic is yet to reach pre-pandemic levels and currently stands at 72%, whereas US air travel is almost back to normal with data showing travel at 90% of pre-pandemic level. The global average air traffic was recorded at 80% of 2019 levels. Road traffic, on the other hand, is almost back to normal globally, at over 90% in most markets.

Nevertheless, OPEC remained cautiously optimistic about growth in oil demand in the near term. In its latest monthly report, the agency said that although gas-to-oil switch would mean higher demand for crude oil, it could affect demand elsewhere, such as refining. While lowering 2021 demand growth expectation from 5.96 mb/d to 5.8 mb/d, OPEC advised producers to keep a close eye on oil fundamentals. According to the report, oil demand was lower-than-expected during 9M-2021 and that more than offset upward revision for demand in Q4-2021.

On the supply side, OPEC+ continued with its policy of gradually adding output by 0.4 mb/d until December-2021. OPEC production increased by 486 tb/d during September-2021, according to OPEC monthly report. Production in the US also increased marginally by 0.2 mb/d to 11.3 mb/d.



Sources : OPEC, EIA, Bloomberg

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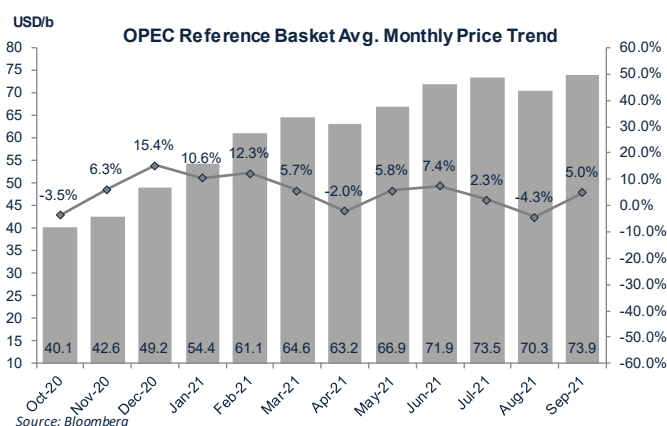
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Oil Prices

Oil price showed a strong upward trajectory during October-2021 that pushed prices above the USD 80/b mark for the first time since October-2018. Brent near-term futures traded comfortably above the market and traded at 3-year levels of USD 85/b by the second week of October-2021. The gains were mainly led by expectations of higher ongoing demand in the near-term coupled with additional demand for diesel and fuel oil from the gas-to-oil switch as a substitute fuel for electricity generation in Europe and Asian markets. Some analysts are now predicting oil to reach USD 100/b, although OPEC maintained a cautious view on the market pointing to offsetting forces in the end market. The median consensus of Brent crude prices now stands at USD 73/b for Q4-2021, according to Bloomberg and is expected to remain above USD 70/b over the next three quarters. The EIA also raised its

Brent crude price forecast by USD 2.8/b to an average of USD 71.38/b in 2021 and by USD 5.87/b to USD 71.91/b for 2022. Meanwhile, after seeing a decline in August-2021, OPEC crude monthly average recorded a m-o-m increase of 5.0% and averaged at a 3-year high average of USD 73.9/b in September-2021. Brent crude spot averaged at USD 74.4/b, recording a slightly higher m-o-m growth of 5.1% while Kuwait crude grade was up 5.4% during the month to average at USD 74.9/b.

In the US, crude oil rig count showed increase for the sixth consecutive month to reach 445 oil rigs, according to data from Baker Hughes. Meanwhile, to tame rising oil prices as local gasoline prices stood at 7-year highs, US energy secretary said the country has several options including the sale of crude oil from strategic reserve as well as a ban on crude oil exports. Similarly, China is also set to curb crude oil exports to use oil for domestic use with the exception of aviation fuel. A Bloomberg report also suggested that diesel and gasoline exports from China are expected to decline during Q4-2021. Furthermore, Chinese refineries are expected to see heavy maintenance in Q4-2021 that would provide a tail wind to diesel and gasoline prices during the quarter. In term of crude oil imports, the ongoing import quota restrictions in China, rising Covid-19 cases and flooding resulted in a drop in imports during September-2021.



Average Crude Oil Prices, USD/b	Aug-2021	Sep-2021	Change (USD)	Avg 2020	Avg 2021
OPEC Reference Basket	70.3	73.9	3.6	40.6	66.8
Arab Light	71.4	75.0	3.7	41.1	67.6
Basrah Light	70.4	73.8	3.4	40.5	67.0
Bonny Light	71.2	74.1	2.9	40.8	67.7
Djeno	63.4	67.0	3.6	35.5	60.4
Es Sider	69.5	72.8	3.3	39.4	66.0
Girassol	70.9	74.8	3.8	41.7	68.2
Iran Heavy	70.3	74.1	3.7	39.6	66.7
Kuwait Export	71.1	74.9	3.9	40.6	67.4
Merey	51.8	55.0	3.2	27.9	48.7
Murban	69.9	73.4	3.5	42.5	66.8
Rabi	70.3	73.9	3.6	39.1	67.4
Saharan Blend	71.1	73.9	2.8	41.4	67.7
Zafiro	70.4	74.0	3.6	40.5	68.0
Other Crudes					
Brent	70.8	74.4	3.6	40.8	67.8
Dubai	69.4	72.6	3.2	41.5	66.4
Isthmus	65.3	68.8	3.6	34.9	63.6
LLS	68.6	72.9	4.3	40.4	66.7
Mars	65.9	70.8	4.9	39.1	64.6
Minas	68.5	72.6	4.2	40.5	65.7
Urals	68.1	72.7	4.5	40.9	66.4
WTI	67.7	71.5	3.7	38.3	65.0
Differentials					
Brent/WTI	3.1	2.9	(0.1)	2.5	2.8
Brent/LLS	2.3	1.5	(0.7)	0.5	1.1
Brent/Dubai	1.4	1.8	0.4	(0.7)	1.5

Source: OPEC Monthly Oil Market Report - October-2021

World Oil Demand

OPEC lowered its estimate for world oil demand growth for 2021 by 140 tb/d to 5.8 mb/d and total yearly demand is now expected to reach 96.6 mb/d. The revision reflected lower-than-expected demand during 9M-2021 based on actual consumption data, partially offset by positive revision to demand data for Q4-2021. OPEC said that the recent development could lead to higher demand for fuel oil, diesel and naphtha for electricity generation, refining and petrochemical use. However, the record high natural gas prices has resulted in high electricity costs and as a result, refinery intakes and industrial production would be hampered, partially offsetting the upside potential. The demand during the last quarter of the year is expected to be supported by seasonal increase in petrochemical and heating fuel demand as well as the potential switch from natural gas to petroleum products given the record high prices of natural gas in some markets. The lowered forecast for the year was

World Oil Demand - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	22.60	22.77	24.56	25.15	24.73	24.31	1.71	7.55
of which US	18.51	18.69	20.21	20.53	20.46	19.98	1.47	7.96
Europe	12.44	11.90	12.60	13.71	13.69	12.99	0.55	4.42
Asia Pacific	7.14	7.67	7.04	7.17	7.57	7.36	0.22	3.10
Total OECD	42.18	42.34	44.19	46.03	45.99	44.66	2.48	5.87
China	13.20	13.15	14.32	14.63	15.02	14.28	1.08	8.17
India	4.51	4.94	4.50	4.77	5.57	4.95	0.44	9.70
Other Asia	8.13	8.36	8.98	8.49	8.62	8.61	0.48	5.93
Latin America	6.01	6.15	6.16	6.54	6.40	6.31	0.30	5.02
Middle East	7.55	7.95	7.77	8.24	7.97	7.99	0.44	5.84
Africa	4.06	4.35	4.06	4.16	4.44	4.25	0.19	4.66
Eurasia	3.37	3.57	3.42	3.61	3.74	3.58	0.22	6.44
of which Russia	1.07	1.18	1.24	1.14	1.28	1.21	0.14	12.70
of which other Eurasia	0.70	0.78	0.72	0.73	0.79	0.75	0.06	8.29
Total Non-OECD	48.60	50.44	51.17	52.30	53.83	51.94	3.34	6.87
Total World	90.79	92.77	95.36	98.33	99.82	96.6	5.82	6.41

Source: OPEC Monthly Oil Market Report - October-2021

reflected in demand figures for both OECD and non-OECD countries. However, downward revisions were made to 1H-21 demand data for OECD countries, whereas adjustments to non-OECD demand data were mainly made to Q3-2021 figures. In the OECD region, lower-than-expected demand from the transportation and industrial fuel segments resulted in the downward revisions for Q1-2021 and Q2-2021 demand data. As a result, demand for the region was lowered by 0.11 mb/d for the year. For the non-OECD region, demand was lowered by a much smaller 0.03 mb/d mainly on the back of lower-than-expected demand data for India and China during Q3-2021. Recent data showed that China's oil imports declined 4.8% q-o-q and 15% y-o-y during September-2021 to 10.03 mb/d. On the other hand, vehicle sales dropped for the fifth consecutive month during September-2021 by 19.6% led by ship shortage as well as production disruption caused by power crunch.

Oil demand growth expectations for 2022 was kept unchanged at 4.2 mb/d with demand expected to reach 100.8 mb/d. OPEC expects demand to be supported by healthy economic growth in key oil consuming countries further supported by emergence from Covid-19 pandemic. In terms of products categories, gasoline and diesel are expected to see strong demand growth backed by higher mobility and improving industrial activity.

World Oil Demand - 2021/2022, mb/d	2021	Q1-22	Q2-22	Q3-22	Q4-22	2022	Y-o-Y Growth	% Chg.
Americas	24.31	24.10	25.66	26.17	25.53	25.38	1.07	4.39
of which US	19.98	19.75	21.09	21.50	21.18	20.89	0.91	4.54
Europe	12.99	12.55	13.27	14.32	14.17	13.59	0.60	4.61
Asia Pacific	7.36	7.91	7.22	7.30	7.68	7.53	0.17	2.27
Total OECD	44.66	44.56	46.15	47.79	47.39	46.49	1.83	4.10
China	14.28	14.00	15.20	15.12	15.46	14.95	0.66	4.65
India	4.95	5.40	4.90	5.15	5.89	5.34	0.39	7.90
Other Asia	8.61	9.05	9.59	9.07	8.95	9.16	0.55	6.39
Latin America	6.31	6.39	6.34	6.69	6.56	6.50	0.18	2.89
Middle East	7.99	8.29	8.01	8.49	8.20	8.25	0.26	3.31
Africa	4.25	4.53	4.19	4.28	4.57	4.39	0.14	3.29
Eurasia	3.58	3.67	3.47	3.66	3.79	3.65	0.07	1.82
of which Russia	1.21	1.25	1.29	1.17	1.32	1.26	0.05	3.72
of which other Eurasia	0.75	0.80	0.73	0.74	0.81	0.77	0.02	2.18
Total "Other Regions"	51.94	53.39	53.73	54.38	55.54	54.26	2.32	4.46
Total World	96.60	97.95	99.88	102.16	102.93	100.76	4.15	4.30

Source: OPEC Monthly Oil Market Report - October-2021

World Oil Supply

World liquids production increased by 0.61 mb/d m-o-m during September-2021 to average at 95.93 mb/d. The increase reflected higher production from both OPEC and non-OPEC producers. Non-OPEC producers increased production by 0.12 mb/d to an average of 68.61 mb/d. The growth mainly reflected higher production in Russia whereas OECD producers lowered output.

Non-OPEC liquids supply growth for 2021 was lowered by 0.3 mb/d and supply is now expected to grow by 0.7 mb/d to an average of 63.64 mb/d. The lowered forecast mainly reflected downward adjustments to supply data for Q3-2021, specifically for August-2021 by 0.6 mb/d, led by production disruption in the US Gulf of Mexico caused by Hurricane Ida, maintenance in

Non-OPEC Oil Supply - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	24.70	24.10	25.17	24.98	25.58	24.96	0.26	1.07
of which US	17.61	16.63	17.93	17.63	18.01	17.55	(0.05)	(0.30)
Europe	3.90	3.95	3.51	3.86	4.02	3.83	(0.07)	(1.72)
Asia Pacific	0.52	0.50	0.45	0.53	0.54	0.51	(0.01)	(2.84)
Total OECD	29.12	28.55	29.13	29.36	30.14	29.30	0.18	0.62
China	4.16	4.30	4.34	4.32	4.28	4.31	0.15	3.56
India	0.77	0.76	0.75	0.75	0.74	0.75	(0.01)	(1.78)
Other Asia	2.51	2.52	2.45	2.4	2.48	2.46	(0.04)	(1.75)
Latin America	6.04	5.97	6.00	6.12	6.47	6.14	0.10	1.60
Middle East	3.19	3.22	3.23	3.25	3.30	3.25	0.06	1.77
Africa	1.41	1.36	1.35	1.34	1.31	1.34	(0.08)	(5.31)
Eurasia	10.59	10.47	10.74	10.8	11.11	10.78	0.19	1.80
of which Russia	2.91	2.96	2.89	2.79	3.01	2.91	0.00	(0.05)
of which other Eurasia	0.12	0.12	0.11	0.11	0.10	0.11	(0.01)	(6.16)
Total Non-OECD	31.71	31.66	31.85	31.89	32.83	32.06	0.35	1.10
Total Non-OPEC Production	60.83	60.21	60.99	61.25	62.96	61.36	0.53	0.87
Processing gains	2.15	2.28	2.28	2.28	2.28	2.28	0.13	6.03
Total Non-OPEC Supply	62.98	62.49	63.27	63.53	65.24	63.64	0.66	1.05
OPEC NGLs and non-conventionals	5.05	-	-	-	-	5.17	0.12	2.38
OPEC Crude Oil Production	25.65	25.16	25.53	26.92	-	-		
Total World Supply	93.68	-	-	-	-	-		

Source: OPEC Monthly Oil Market Report - October-2021

the Tengiz field in Kazakhstan and Caspian and force majeure at the Suncor oil sands site in Canada and at an offshore platform in Mexico. Supply forecast for the US was lowered to a decline of 0.1 mb/d for the full year 2021 as compared to expectations of a growth of 0.1 mb/d in its previous forecast due to the impact of the Hurricane.

For 2022, non-OPEC supply growth forecast was raised by 0.1 mb/d and supply is now expected to increase by 3 mb/d. Upward revisions were made to supply forecast for Kazakhstan (+39 tb/d) and the US (+21 tb/d) partially offset by downward revision to supply forecast from India (-20 tb/d). The EIA, in its latest STEO report, marginally raised US oil production forecast from 11.72 mb/d to 11.73 mb/d in 2022.

Non-OPEC Oil Supply - 2021/2022, mb/d	2021	Q1-22	Q2-22	Q3-22	Q4-22	2022	Y-o-Y Growth	% Chg.
Americas	24.96	25.76	25.88	25.96	26.38	25.99	1.03	4.14
of which US	17.55	18.12	18.45	18.31	18.65	18.38	0.83	4.73
Europe	3.83	4.03	3.93	3.98	4.31	4.06	0.23	6.02
Asia Pacific	0.51	0.55	0.54	0.54	0.54	0.54	0.04	6.97
Total OECD	29.30	30.33	30.35	30.49	31.22	30.60	1.30	4.44
China	4.31	4.31	4.31	4.35	4.43	4.35	0.04	1.01
India	0.75	0.75	0.77	0.8	0.82	0.79	0.03	4.25
Other Asia	2.46	2.47	2.44	2.42	2.4	2.43	(0.03)	(1.28)
Latin America	6.14	6.50	6.44	6.38	6.59	6.48	0.34	5.52
Middle East	3.25	3.34	3.34	3.36	3.36	3.35	0.10	3.09
Africa	1.34	1.29	1.26	1.23	1.20	1.25	(0.09)	(7.03)
Eurasia	10.78	11.51	11.83	11.88	11.88	11.78	1.00	9.24
of which Russia	2.91	3.09	3.11	3.15	3.22	3.14	0.23	7.86
of which other Eurasia	0.11	0.11	0.10	0.10	0.10	0.10	(0.01)	(7.22)
Total "Other regions"	32.06	33.36	33.61	33.68	34.01	33.67	1.61	5.01
Total Non-OPEC Production	61.36	63.7	63.95	64.16	65.23	64.27	2.91	4.74
Processing gains	2.28	2.39	2.39	2.39	2.39	2.39	0.11	4.91
Total Non-OPEC Supply	63.64	66.09	66.34	66.56	67.63	66.66	3.02	4.74

Source: OPEC Monthly Oil Market Report - October-2021

OPEC Oil Production & Spare Capacity

OPEC oil production was up for the fifth consecutive month in September-2021 after a broad-based production growth across most countries in the group. Bloomberg data showed OPEC production increased by 360 tb/d to reach a 17-month high average of 27.5 mb/d. Production growth as per OPEC secondary sources was higher at 486 tb/d to an average of 27.33 mb/d. Nigeria, Saudi Arabia and Iraq reported the biggest monthly increases in production during the month while declines were only marginal. Bloomberg data showed that OPEC producers have added close 2.25 mb/d in additional crude oil production over the last five months. And, as a result, spare capacity with the group now stands at 7.0 mb/d as compared to 9.2 mb/d at the end of last year. The top five producers in the group now hold a spare capacity of 5.8 mb/d based on production data for September-2021. The OPEC+ quota compliance at the end of September-2021 stood at 115%, as per Bloomberg.

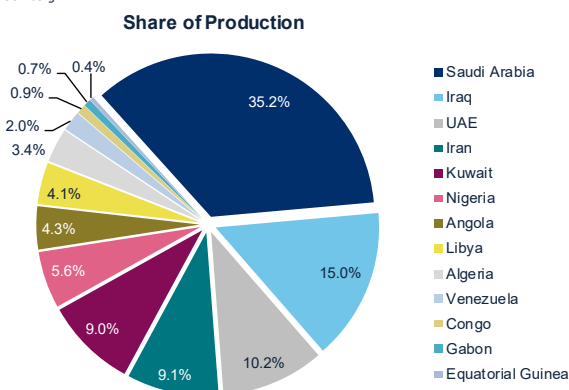
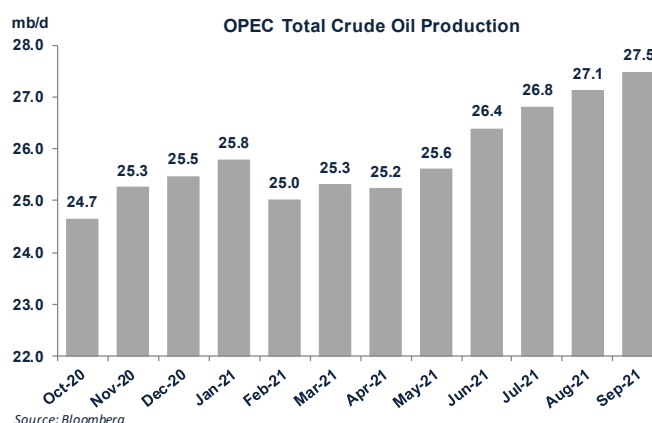
Production ('000 b/d)	Aug-21	Sep-21	Change		Capacity	Spare Capacity
Total OPEC-13	27,130	27,490	360	1.33%	34,535	7,045
Saudi Arabia	9,630	9,690	60	0.6%	11,500	1,810
Iraq	4,080	4,130	50	1.2%	4,800	670
UAE	2,770	2,800	30	1.1%	4,200	1,400
Iran	2,520	2,500	-20	-0.8%	3,830	1,330
Kuwait	2,450	2,480	30	1.2%	3,075	595
Nigeria	1,430	1,550	120	8.4%	2,000	450
Angola	1,110	1,170	60	5.4%	1,450	280
Libya	1,130	1,140	10	0.9%	1,300	160
Algeria	920	930	10	1.1%	1,080	150
Venezuela	540	540	0	0.0%	600	60
Congo	270	250	-20	-7.4%	330	80
Gabon	180	200	20	11.1%	220	20
Equatorial Guinea	100	110	10	10.0%	150	40
Total OPEC-12	23,050	23,360	310	1.34%	29,735	6,375

Source: Bloomberg, OPEC

Saudi Arabia increased production by 60 tb/d (139 tb/d as per OPEC secondary sources) to a 17-month high level of 9.7 mb/d during September-2021. Meanwhile, in response to the increase in oil prices recently, Saudi Arabia's energy ministers dismissed calls to increase production. He said that OECD oil inventories are on track to normalize at the end of 2021. Recently, the OPEC+ Joint Technical Committee said that it sees the oil market in a deficit this year by 1.1 mb/d in its base case scenario with a demand growth of 6.0 mb/d. For 2022, the committee expects the market to remain in surplus by 1.4 mb/d, a lowered estimate from its previous forecast of 1.6 mb/d, based on a demand growth of 4.2 mb/d.

Nigeria reported the biggest production increase during September-2021 adding 120 tb/d (156 tb/d as per OPEC secondary sources) following two consecutive months of declining output. Reports said that the country produces below its OPEC+ quota mainly due to underinvestment in the oil industry. Recently, a government official said that the country can increase oil output to 1.7 mb/d within two months and to 2 mb/d in six months.

Iraq also added additional barrels during the month and produced at 4.1 mb/d during September-2021. Recent reports showed that the producer is in talks with international oil companies and aims to boost oil production by 60% to 8 mb/d by the year 2027.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q4-21	Q1-22	Q2-22	Q3-22
MUFG Bank	1/Oct/21	82.8	80.1	74.7	72.4
Market Risk Advisory Co Ltd	1/Oct/21	74.0	73.0	68.0	68.0
Natixis SA	23/Sep/21	75.0	75.0	74.0	72.0
Intesa Sanpaolo SpA	21/Sep/21	73.0	74.0	75.0	75.0
Banco Santander SA	20/Sep/21	70.9	67.5	66.0	66.0
Commerzbank AG	16/Sep/21	75.0	70.0	70.0	70.0
Westpac Banking Corp	13/Sep/21	71.0	68.0	66.0	64.0
Rabobank International	13/Sep/21	77.6	77.8	78.1	78.6
Capital Economics Ltd	2/Sep/21	71.5	69.0	66.5	64.0
Landesbank Baden-Wuerttemberg	27/Aug/21	70.0	70.0	70.0	75.0
ABN AMRO Bank NV	19/Aug/21	65.0	65.0	63.0	61.0
Australia & New Zealand Banking Group Ltd	16/Aug/21	79.2	74.0	70.6	73.4
MPS Capital Services Banca per le Imprese SpA	13/Aug/21	74.0	72.0	65.0	
Deutsche Bank AG	29/Jul/21	72.0	70.0	60.0	65.0
Emirates NBD PJSC	23/Jun/21	70.0	70.0	70.0	65.0
Jefferies LLC	13/Apr/21	55*			
Toronto-Dominion Bank/Toronto	30/Mar/21	63*	65*	65*	67*
Barclays PLC	22/Mar/21	71*	73*	67*	71*
Median		73.0	70.0	70.0	69.0
Mean		73.4	71.7	69.1	69.2
High		82.8	80.1	78.1	78.6
Low		65.0	65.0	60.0	61.0
Current Fwd		82.7	80.5	78.6	76.9
Difference (Median - Current)		-9.7	-10.5	-8.6	-7.9

Source: Bloomberg

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