

Oil Market Monthly Report

September-2021

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Oil gains on hurricanes; strategic reserve deployed to temper prices...

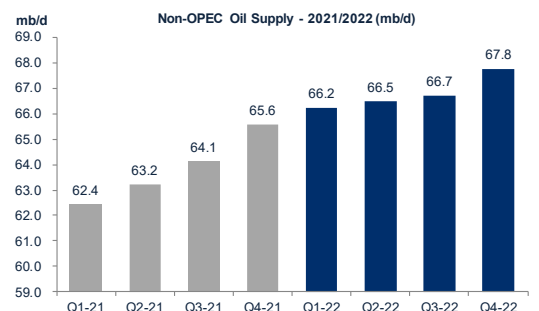
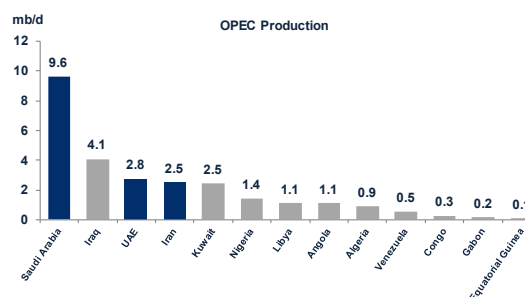
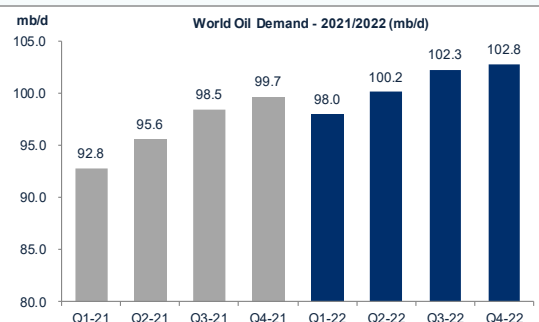
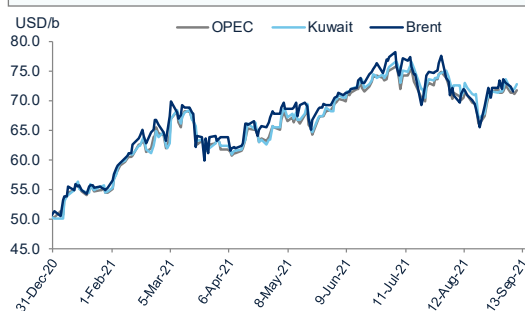
Crude oil regained the USD 70/b mark following the impact of Hurricane Ida, and more recently Hurricane Nicholas, after briefly trading below the key support level last month. However, despite elevated prices, the upward trend has recently softened led by disappointing economic data coming from two of the world's biggest crude oil consumers, the US and China, that affected sentiments around crude oil demand. Economic data released in the US highlighted some economies concerns as jobs creation weakened. On the other hand, fear of growth of Covid -19 cases in Asia also affected global oil demand expectations.

Hurricane Ida, which made landfall at the close of August-2021, had a severe impact on oil production, refining and oil pipelines. The category 4 storm affected around 94% of offshore Gulf of Mexico oil and gas production. Oil facilities remained offline for an extended period of time and only resumed partially during the first week of September-2021. The slow restoration process affected 1.72 mb/d in oil production and 2.01 billion cubic feet per day in natural gas production. The closure of refineries also led to higher domestic gasoline prices in the US.

In China, refinery throughput continued to slide due to the investigations related to oil quotas as well as led by the refinery maintenance season. On the other hand, reports suggested that Typhoon Chanthu affected port operations in Zhoushan that houses some of China's largest oil storage tanks and refineries. Economic data from China remained mixed as seen from higher exports in August-2021, but broadly negative pointing to a faltering recovery. **This was reflected in manufacturing activity data for August-2021 that recorded a slowdown to the lowest level since February-2020. The services sector had a more severe impact resulting in a contraction due to a recent outbreak of Covid-19 that affected overall economy. The economy is also affected by higher raw material prices and a slowdown in the property sector.**

In order to contain the elevated prices and its impact on domestic inflation, both US and China tapped their strategic crude oil reserves. The development was unprecedented in the case of China as the country released crude for the first time to lower prices. Moreover, the official statement pointed to continued intervention in the future in order to balance the market and stabilize supply and demand through open auctions.

Meanwhile, weekly oil production data from the EIA showed a record decline in crude output in the US led by the closures caused by Hurricane Ida. According to the report, US crude production dropped by 1.5 mb/d to 10 mb/d during the week ended 3-September-2021. This was the lowest production rate since the pandemic that affected production last year in February-2020. On the other hand, oil production by OPEC continued to rise for the fourth consecutive month to reach the highest in 16 months at 27.11 mb/d.



Sources : OPEC, EIA, Bloomberg

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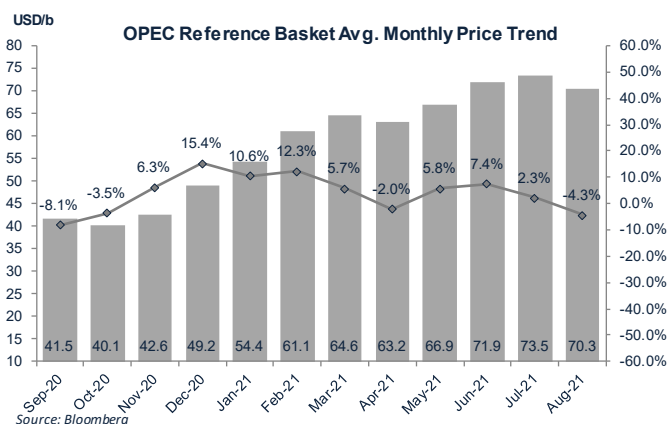
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Oil Prices

After posting the biggest weekly loss in nine months during the 3rd week of August-2021, crude oil prices witnessed consistent gains during the 4th week of August-2021 led by weaker USD and vaccine approval in the US that led to hopes of demand recovery in the near-term. Crude oil future prices were up more than 11% during the week ended 27-August-2021, the biggest gain since June-2020. These gains were also supported by the expected impact of Hurricane Ida hitting the US side of Gulf of Mexico. However, the price gains eased during September-2021 despite the supply impact from the hurricane as demand concerns from Asia reemerged as a result of lockdowns in several Asian countries to combat the delta variant of Covid-19. Markets considered the lowering of Asian crude official selling price (OSP) by Saudi Arabia as a sign of tepid demand growth in Asia, although prices for the Saudi Arabia's European and US customers remained steady. Nevertheless, despite a volatile month of trades, crude oil benchmarks averaged above the USD 70/b mark in August-2021. Brent crude oil basket monthly average stood at USD 70.8/b, registering a m-o-m decline of 5.6%, the biggest monthly decline in 11 months. The decline in OPEC crude and Kuwait crude grades were slightly smaller at 4.4% and 3.7% to average at USD 70.3/b and USD 71.1/b, respectively for the two crude oil grades.

Meanwhile, the impact of the Hurricane Ida was much severe than expected, even when compared to previous hurricanes. The record decline in US crude oil production during the week ended 3-September-2021 was accompanied by stockpiles withdrawals across product categories. The week also saw the biggest weekly decline in oil rig count in the US since May-2020. According to Baker Hughes, oil rig declined to 394 but a gain of 7 rigs during last week pushed the total count once again above the 400 mark to 401 oil rigs. According to official weekly data, gasoline inventories declined by more than 7 million barrels, whereas crude oil inventories dropped by 1.53 million barrels to 424 million barrels, the lowest level stock level since October-2019. The inventory levels follow fifth straight week of crude inventory draws and the 16th week of decline over the previous 19 weeks.



Average Crude Oil Prices, USD/b	Jul-2021	Aug-2021	Change (USD)	Avg 2020	Avg 2021
OPEC Reference Basket	73.5	70.3	(3.2)	40.5	65.9
Arab Light	74.2	71.4	(2.8)	41.0	66.6
Basrah Light	73.4	70.4	(3.0)	40.3	66.1
Bonny Light	75.4	71.2	(4.1)	40.8	66.9
Djeno	67.5	63.4	(4.2)	35.8	59.5
Es Sider	73.6	69.5	(4.2)	39.4	65.2
Girassol	75.5	70.9	(4.5)	41.8	67.3
Iran Heavy	73.0	70.3	(2.6)	39.3	65.7
Kuwait Export	73.8	71.1	(2.7)	40.4	66.4
Merey	54.5	51.8	(2.7)	27.9	47.9
Murban	73.6	69.9	(3.8)	42.5	66.0
Rabi	74.5	70.3	(4.2)	39.1	66.5
Saharan Blend	75.3	71.1	(4.3)	41.5	66.9
Zafiro	75.7	70.4	(5.3)	40.5	67.2
Other Crudes					
Brent	75.0	70.8	(4.2)	40.9	67.0
Dubai	72.8	69.4	(3.5)	41.5	65.6
Isthmus	69.6	65.3	(4.4)	34.5	62.9
LLS	73.2	68.6	(4.6)	40.3	65.9
Mars	70.6	65.9	(4.7)	38.9	63.8
Minas	72.2	68.5	(3.8)	40.6	64.8
Urals	73.1	68.1	(5.0)	40.9	65.6
WTI	72.6	67.7	(4.9)	38.2	64.2
Differentials					
Brent/WTI	2.4	3.1	0.7	2.7	2.8
Brent/LLS	1.8	2.3	0.4	0.6	1.1
Brent/Dubai	2.2	1.4	(0.7)	(0.7)	1.4

Source: OPEC Monthly Oil Market Report - September-2021

World Oil Demand

OPEC kept its world oil demand growth forecast unchanged for 2021 at a growth of 6 mb/d to average at 96.7 mb/d, although quarterly estimates underwent offsetting changes. According to the OPEC monthly report, demand estimates were raised for Q3-2021 based on resilient demand backed by positive mobility indicators mainly for the OECD region. Demand estimates for the region was revised up by 0.32 mb/d for Q3-2021 to 45.93 mb/d mainly backed by an upward revision of 0.21 mb/d for OECD Americas region, and 0.1 mb/d revision for the OECD Europe region. Demand estimates for the US was raised by 0.1 mb/d to 20.44 mb/d for Q3-2021. However, demand estimates for the Other Asia region for lowered for the quarter by 0.1 mb/d and for by 0.05 mb/d for the Latin America region. Downward revisions were also made to demand data for Q4-2021 mainly on the back of the increase in Covid-19 cases. Demand estimates for Q4-2021 was lowered by 0.12 mb/d for the OECD region in

World Oil Demand - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	22.54	22.77	24.73	25.05	24.72	24.33	1.79	7.94
of which US	18.44	18.69	20.11	20.44	20.45	19.93	1.49	8.07
Europe	12.44	11.91	12.73	13.71	13.61	13.00	0.56	4.52
Asia Pacific	7.14	7.67	7.13	7.17	7.52	7.37	0.23	3.24
Total OECD	42.12	42.34	44.59	45.93	45.85	44.7	2.58	6.14
China	13.19	13.15	14.27	14.83	15.02	14.32	1.13	8.56
India	4.51	4.94	4.42	4.91	5.61	4.97	0.46	10.27
Other Asia	8.13	8.36	8.98	8.49	8.56	8.6	0.47	5.75
Latin America	6.01	6.15	6.16	6.46	6.40	6.29	0.28	4.68
Middle East	7.55	7.95	7.77	8.24	7.97	7.99	0.44	5.84
Africa	4.08	4.39	4.06	4.16	4.48	4.27	0.19	4.64
Eurasia	3.37	3.57	3.42	3.57	3.74	3.57	0.21	6.14
of which Russia	1.07	1.18	1.24	1.14	1.28	1.21	0.14	12.59
of which other Eurasia	0.70	0.78	0.72	0.73	0.79	0.75	0.06	8.26
Total Non-OECD	48.61	50.48	51.04	52.52	53.85	51.98	3.37	6.94
Total World	90.73	92.82	95.62	98.46	99.7	96.68	5.96	6.56

Source: OPEC Monthly Oil Market Report - September-2021

addition to downward revisions of 0.03 mb/d each for the Other Asia and Latin America regions. As a result, OPEC lowered demand estimates for 2H-2021 that is now expected to be pushed in 1H-2022. The net impact of the aforementioned revisions at the full year level was an upward revision of 0.06 mb/d for demand in the OECD region.

For 2022, oil demand forecast witnessed a steep upward revision of 0.9 mb/d led by steady economic outlook for the world economy that is expected to result in stronger-than-expected growth in demand for crude oil. Demand is expected to grow by 4.2 mb/d and average above the 100 mb/d mark and breach pre-pandemic levels to reach 100.8 mb/d. The increase in vaccination rates is expected to be one of the key drivers of oil demand rates next year. Demand growth forecast for the OECD region was revised up by 0.3 mb/d to a growth of 1.8 mb/d to average at 46.53 mb/d in 2022. Demand growth expectations for the non-OECD region was revised by 0.6 mb/d to a growth of 2.3 mb/d and demand is expected to average at 54.3 mb/d for the region. The non-OECD region is expected to witness steady economic activity next year, particularly in the key demand centers of India, China and Other Asia. In terms of product category, transportation fuels are expected to see a significant improvement next year.

World Oil Demand - 2021/2022, mb/d	2021	Q1-22	Q2-22	Q3-22	Q4-22	2022	Y-o-Y Growth	% Chg.
Americas	24.33	24.10	25.84	26.08	25.52	25.4	1.07	4.39
of which US	19.93	19.80	21.04	21.46	21.17	20.88	0.94	4.74
Europe	13.00	12.55	13.40	14.32	14.09	13.60	0.60	4.61
Asia Pacific	7.37	7.91	7.31	7.30	7.63	7.54	0.17	2.27
Total OECD	44.70	44.56	46.55	47.69	47.25	46.53	1.83	4.10
China	14.32	14.00	15.15	15.32	15.46	14.98	0.66	4.64
India	4.97	5.40	4.82	5.29	5.93	5.36	0.39	7.86
Other Asia	8.60	9.05	9.59	9.07	8.89	9.15	0.55	6.40
Latin America	6.29	6.39	6.34	6.61	6.56	6.48	0.18	2.89
Middle East	7.99	8.29	8.01	8.49	8.20	8.25	0.26	3.31
Africa	4.27	4.57	4.19	4.28	4.61	4.41	0.14	3.27
Eurasia	3.57	3.67	3.47	3.62	3.79	3.64	0.07	1.83
of which Russia	1.21	1.25	1.28	1.17	1.32	1.25	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"	51.98	53.43	53.60	54.60	55.56	54.3	2.32	4.46
Total World	96.68	97.99	100.15	102.29	102.81	100.83	4.15	4.29

Source: OPEC Monthly Oil Market Report - September-2021

World Oil Supply

World liquids production declined marginally m-o-m by 0.03 mb/d during August-2021 to average at 95.69 mb/d. The decline mainly reflected a fall in non-OPEC production during the month by 0.18 mb/d to an average of 68.93 mb/d. The decline was primarily seen in the OECD region mainly due to the fall in production in North America led by the disruptions caused by Hurricane Ida. On the other hand, non-OECD production increased by 0.17 mb/d during August-2021. The higher production by OPEC resulted in a marginal growth in its market share that reached 28.0%.

Non-OPEC liquids supply growth forecast for 2021 was lowered by the OPEC in its latest monthly report by around 0.17 mb/d. Supply from the group is now expected to reach 63.85 mb/d this year with a yearly growth of 0.92 mb/d. The revision reflected

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	25.19	25.24	25.88	25.11	0.41	1.67
of which US	17.61	16.63	17.94	17.84	18.31	17.69	0.08	0.45
Europe	3.90	3.95	3.50	3.89	4.10	3.86	(0.04)	(1.03)
Asia Pacific	0.53	0.51	0.46	0.54	0.55	0.51	(0.02)	(3.41)
Total OECD	29.13	28.55	29.15	29.67	30.53	29.48	0.35	1.21
China	4.12	4.25	4.28	4.25	4.22	4.25	0.13	3.24
India	0.77	0.76	0.75	0.75	0.74	0.75	(0.01)	(1.78)
Other Asia	2.51	2.51	2.45	2.48	2.48	2.48	(0.03)	(1.17)
Latin America	6.04	5.96	6.00	6.24	6.47	6.17	0.13	2.07
Middle East	3.18	3.19	3.21	3.23	3.28	3.23	0.05	1.65
Africa	1.41	1.38	1.37	1.38	1.33	1.36	(0.05)	(3.60)
Eurasia	10.59	10.47	10.74	10.79	11.11	10.78	0.19	1.77
of which Russia	2.91	2.96	2.89	2.96	3.01	2.95	0.04	1.37
of which other Eurasia	0.11	0.11	0.11	0.10	0.10	0.11	(0.01)	(8.27)
Total Non-OECD	31.65	31.59	31.79	32.18	32.75	32.08	0.43	1.37
Total Non-OPEC Production	60.78	60.15	60.94	61.85	63.28	61.57	0.79	1.30
Processing gains	2.15	2.28	2.28	2.28	2.28	2.28	0.13	6.03
Total Non-OPEC Supply	62.93	62.43	63.22	64.13	65.56	63.85	0.92	1.46
OPEC NGLs and non-conventionals	5.05	-	-	-	-	5.17	0.12	2.38
OPEC Crude Oil Production	25.65	25.16	25.53	-	-	-		
Total World Supply	93.63	-	-	-	-	-		

Source: OPEC Monthly Oil Market Report - September-2021

a downward revision of 0.5 mb/d to supply data for Q3-2021 caused by the outages in North America following a fire on an offshore platform in Mexico as well as the outages caused by Hurricane Ida. Supply estimates for the US was lowered by 0.25 mb/d as compared to last month's forecast for Q3-2021 with a further downward revision of 0.14 mb/d for OECD Europe region. Q2-2021 estimates were revised upwards for OECD Americas region that was almost fully offset by downward revisions for the OECD Europe and OECD Asia Pacific regions. The estimates for production from the North Sea was also lowered for Q3-2021. On the other hand, non-OPEC supply growth forecast for 2022 was kept unchanged at 2.9 mb/d to average at 66.8 mb/d. The biggest revision was made to supply data for Malaysia led by changes in the NGLs and condensate supply forecast.

Non-OPEC Oil Supply - 2021/2022, mb/d	2021	Q1-22	Q2-22	Q3-22	Q4-22	2022	Y-o-Y Growth	% Chg.
Americas	25.11	25.88	26.00	26.09	26.50	26.12	1.01	4.03
of which US	17.69	18.23	18.56	18.42	18.76	18.49	0.81	4.57
Europe	3.86	4.07	3.96	4.02	4.34	4.09	0.24	6.12
Asia Pacific	0.51	0.56	0.55	0.55	0.55	0.55	0.04	7.49
Total OECD	29.48	30.51	30.52	30.66	31.39	30.77	1.29	4.37
China	4.25	4.25	4.25	4.29	4.37	4.29	0.04	1.02
India	0.75	0.77	0.79	0.82	0.84	0.81	0.05	6.90
Other Asia	2.48	2.47	2.44	2.42	2.4	2.43	(0.05)	(2.01)
Latin America	6.17	6.52	6.46	6.40	6.61	6.50	0.33	5.36
Middle East	3.23	3.31	3.32	3.33	3.33	3.32	0.09	2.89
Africa	1.36	1.30	1.28	1.25	1.22	1.26	(0.10)	(7.43)
Eurasia	10.78	11.51	11.83	11.88	11.88	11.78	1.00	9.27
of which Russia	2.95	3.09	3.11	3.15	3.22	3.14	0.19	6.35
of which other Eurasia	0.11	0.10	0.10	0.10	0.09	0.10	(0.01)	(7.35)
Total "Other regions"	32.08	33.32	33.57	33.64	33.98	33.63	1.55	4.82
Total Non-OPEC Production	61.57	63.83	64.09	64.3	65.37	64.4	2.83	4.60
Processing gains	2.28	2.39	2.39	2.39	2.39	2.39	0.11	4.91
Total Non-OPEC Supply	63.85	66.22	66.48	66.69	67.76	66.79	2.95	4.61

Source: OPEC Monthly Oil Market Report - September-2021

OPEC Oil Production & Spare Capacity

Oil production in OPEC showed gains for the fourth consecutive month after most of the producers raised production during the month as per the OPEC+ agreement. Bloomberg data showed OPEC production increased by 290 tb/d to reach a 16-month high level of 27.1 mb/d. Production growth as per OPEC secondary sources was much more modest at 151 tb/d to an average of 26.76 mb/d. Saudi Arabia and Iraq, the top two producers in the OPEC, reported the biggest monthly increases in production, while Nigeria reported the biggest decline. Bloomberg data showed that OPEC producers have added close to 1.9 mb/d in additional crude oil production over the last four months. And, as a result, spare capacity with the group now stands at 7.4 mb/d as compared to 9.2 mb/d at the end of last year. The top five producers in the group reported a spare capacity of 6 mb/d based on production data for August-2021.

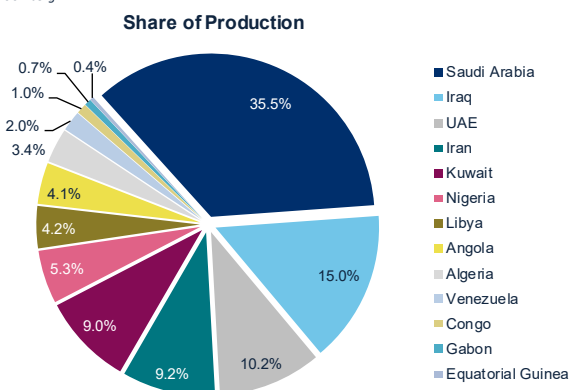
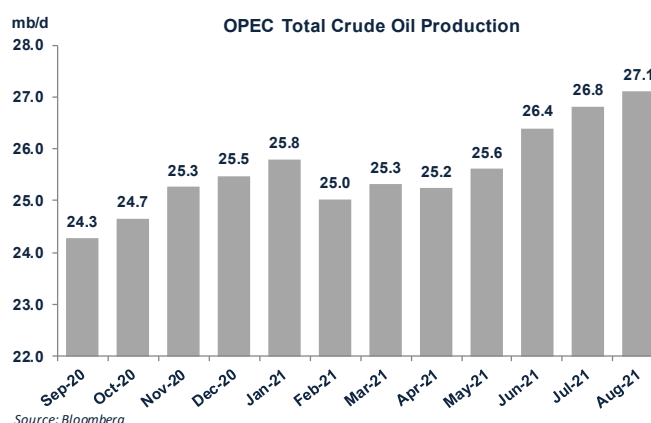
Production ('000 b/d)	Jul-21	Aug-21	Change		Capacity	Spare Capacity
Total OPEC-13	26,820	27,110	290	1.08%	34,535	7,425
Saudi Arabia	9,430	9,630	200	2.1%	11,500	1,870
Iraq	3,970	4,080	110	2.8%	4,800	720
UAE	2,750	2,770	20	0.7%	4,200	1,430
Iran	2,520	2,500	-20	-0.8%	3,830	1,330
Kuwait	2,410	2,450	40	1.7%	3,075	625
Nigeria	1,520	1,430	-90	-5.9%	2,000	570
Libya	1,170	1,130	-40	-3.4%	1,300	170
Angola	1,110	1,110	0	0.0%	1,450	340
Algeria	910	920	10	1.1%	1,080	160
Venezuela	490	540	50	10.2%	600	60
Congo	270	270	0	0.0%	330	60
Gabon	170	180	10	5.9%	220	40
Equatorial Guinea	100	100	0	0.0%	150	50
Total OPEC-12	22,850	23,030	180	0.79%	29,735	6,705

Source: Bloomberg, OPEC

August-2021 marked the first month of planned output increase of 400 tb/d each month to be implemented by OPEC producers until the end of the year. At a meeting at the start of September-2021, OPEC members announced that the group would stick to its original plan of raising crude oil production gradually each month to restore 2 mb/d by year end. This came despite a number of reports that said that the US has urged OPEC to raise production in order to contain prices.

Meanwhile, Saudi Arabia's move earlier this month to lower its crude oil OSP for Asian buyers was seen as a strategy to get customers to buy crude oil via contracts instead of the spot market. In addition, the Kingdom also is said to be in talks with Sudan to supply crude oil via a long-term contract. According to Bloomberg, Saudi Arabia has already begun fuel shipments to Sudan and a long-term supply agreement with Aramco is expected.

Meanwhile, the steep decline in Nigeria's oil production during August-2021 to 1.3 mb/d (as per OPEC) reportedly came after an oil spill near the Forcados export terminal that disrupted output growth. Oil production in Libya, that stabilized around 1.2 mb/d, was once again threatened after protests erupted last week at a number of key crude terminals. Although loading operations resumed at Es Sider and Ras Lanuf terminals late last week, export loadings at the Hariga terminal was blocked.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q3-21	Q4-21	Q1-22	Q2-22
Capital Economics Ltd	2/Sep/21	74.0	71.5	69.0	66.5
Landesbank Baden-Wuerttemberg	27/Aug/21	67.0	70.0	70.0	70.0
ABN AMRO Bank NV	19/Aug/21	70.0	65.0	65.0	63.0
Australia & New Zealand Banking Group Ltd	16/Aug/21	76.8	79.2	74.0	70.6
MPS Capital Services Banca per le Imprese SpA	13/Aug/21	73.0	74.0	72.0	65.0
Westpac Banking Corp	9/Aug/21	72.9	70.7	68.0	65.7
Deutsche Bank AG	29/Jul/21	72.0	72.0	70.0	60.0
Banco Santander SA	28/Jul/21	69.0	64.9	63.0	62.0
Commerzbank AG	23/Jul/21	75.0	75.0	70.0	70.0
MUFG Bank	1/Jul/21	73.9	69.5	58.4	60.7
Market Risk Advisory Co Ltd	1/Jul/21	74.0	70.0	68.0	66.0
Emirates NBD PJSC	23/Jun/21	70.0	70.0	70.0	70.0
Natixis SA	16/Jun/21	72.0	70.0	70.0	74.0
Intesa Sanpaolo SpA	14/Jun/21	72.0	73.0	74.0	75.0
Rabobank International	29/Apr/21	71.2	71.3	71.7	72.3
Jefferies LLC	13/Apr/21	53.0	55.0		
Toronto-Dominion Bank/Toronto	30/Mar/21	63.0	63.0	65.0	65.0
Barclays PLC	22/Mar/21	67.0	71.0	73.0	67.0
HSBC Holdings PLC	19/Mar/21	70.0	65.0		
Median		72.0	70.0	70.0	66.5
Mean		70.3	69.5	68.9	67.2
High		76.8	79.2	74.0	75.0
Low		53.0	55.0	58.4	60.0
Current Fwd		74.2	71.9	70.6	69.3
Difference (Median - Current)		-2.2	-1.9	-0.6	-2.8

Source: Bloomberg

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