

Oil Market Monthly Report

December - 2019

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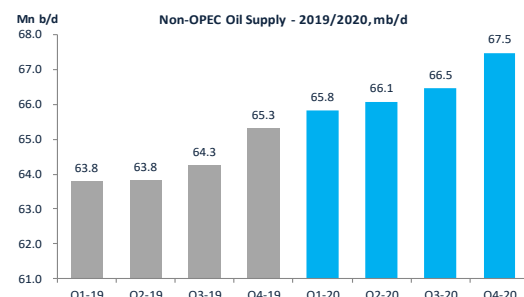
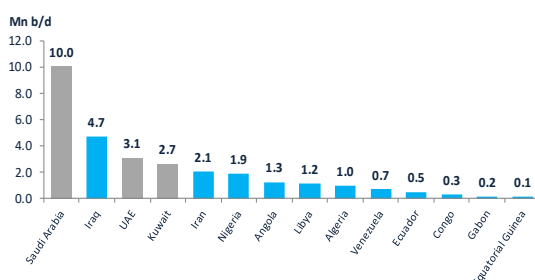
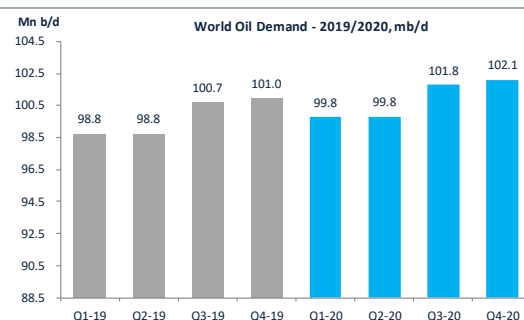
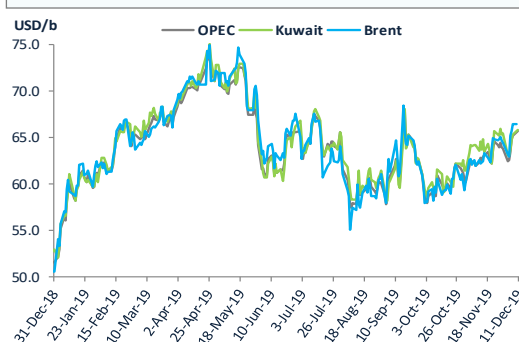
US-China trade deal gives hope for oil demand as OPEC+ deeper cuts support prices...

Oil prices reached a 3-month high after OPEC+ members agreed on deeper cuts in the meeting held during the first week of Dec-19. The group agreed to cut output by a further 0.5 mb/d in Q1-20, taking the total targeted curbs to 1.7 mb/d. Around 0.7 mb/d of cuts would be shared between Saudi Arabia and Russia at 0.4 mb/d and 0.3 mb/d, respectively, as communicated by their energy ministers. The Saudi minister said that the Kingdom would voluntarily cut an additional 0.4 mb/d above its quota which, along with compliance from other producers, which would help to increase cuts to around 2.1 mb/d.

A weekend 'phase one' deal between the US and China pressed the brakes on new tariffs that was set to be implemented on 15-Dec-19 and provided a much-needed hope to the oil market. As per the deal, the US agreed to waive off new tariffs and in return China agreed to import US agricultural produce and other products. Meanwhile, the impact of the delayed trade deal was seen in China's Nov-19 export figures that showed a decline for the fourth month in a row. On the other hand, US jobs data was upbeat for Nov-19, and the US Fed signaled no change in rates in 2020 affirming steady economic growth next year. **This, in addition to next year's US elections and with no confusion on Brexit after the elections, should keep oil demand steady.**

Meanwhile, an unexpected inventory build in the US led by higher gasoline and distillate stocks during the week ended 6-Dec-19 partly offset the positive oil price trend. The weekly EIA report showed an increase of 822 thousand barrels after declining by 4.9 million barrels during the previous week. Previous weekly data shows that US crude inventory has increased in 11 out of the last 13 weeks adding an aggregate increase of around 31.9 million barrels to total US crude inventory which stood at 447.9 million barrels. The EIA report also highlighted the steep decline in gasoline consumption that reached 8.8 mb/d, the lowest level since February-19. This also prompted refineries to curb utilization rates that fell by around 130 bps to 90.6% of total installed capacity.

On the supply side, the US EIA's latest Short Term Energy Outlook highlighted that the US will continue to produce at record pace next year, but the pace of growth would be less than previously expected. According to the report, US crude oil production is expected to reach 13.18 mb/d next year, showing an increase of 930 tb/d as against a growth expectation of 1 mb/d in the previous report. Production estimate for 2019 was also lowered to 12.25 mb/d from 12.3 mb/d in the previous report. OPEC, in its monthly report, was also confident of a supply cut impact next year that could result in a deficit. In its latest monthly report, the OPEC also said that the US shale producers have slowed down production more rapidly than previously expected and that global trade slowdown is expected to have bottomed, which would be positive for oil demand next year, a point seconded by the IEA in its monthly report.



Source for the above charts : OPEC and Bloomberg

Junaid Ansari

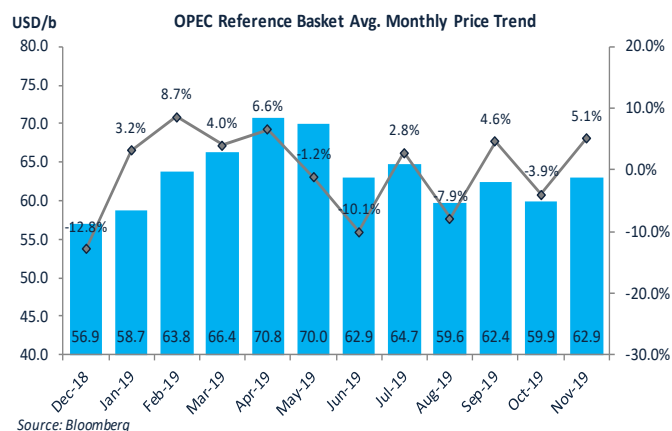
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Oil Prices

OPEC crude prices reached a 3-month high of USD 65.66/b on 10-Dec-19 after the OPEC+ producers announced deeper cuts in Q1-20. Prices were up for six consecutive sessions aggregating to a gain of 5.1% for OPEC crude. A similar trend was seen in Brent crude prices that reached USD 67.88/b by 12-Dec-19. The 'phase one' deal announced between the US and China over the weekend brings hope for higher demand over the coming years. In addition, a number of estimates released last week largely pointed to a favorable global economic growth next year that would support demand growth and oil prices. Average oil prices for November-19 saw the biggest gains since April-19, as the market contemplated deeper cuts from OPEC as well as the outcome of the trade talks. Brent crude traded above the USD 60/b during November-19 and averaged at USD 63.1/b, recording a m-o-m gain of 5.7%. Average OPEC crude prices witnessed a slightly lower gain of 5.1% to average at USD 62.9/b while Kuwait crude witnessed a gain of 5.3% to average at USD 63.7/b.



The IEA, in its latest monthly report, lowered global oil production growth forecast for next year by 0.2 mb/d to 2.1 mb/d but said that despite the additional OPEC cuts in Q1-20, global oil inventories are expected to rise during the quarter. The agency attributed the downward revision to the announced additional OPEC cuts in addition to lower production growth numbers expected for the US, Ghana and Brazil. On the positive side, the report painted a positive picture for global economic growth next year and stated that the slowdown in trade and economic activity may have come to an end in the last quarter of this year. Meanwhile, the EIA monthly report highlighted falling rig count in the US that led to slowdown in oil production growth and said it is expected to continue in 2020, although improving rig efficiency and well-level productivity has offset some of the impact of lower rig count.

Average Crude Oil Prices, USD/b	Oct-19	Nov-19	Change (USD)	YTD Avg 2018	YTD Avg 2019
OPEC Reference Basket	59.9	62.9	3.0	70.8	63.8
Arab Light	61.0	64.0	3.0	71.5	64.7
Basrah Light	59.5	62.5	3.0	69.6	63.4
Bonny Light	61.5	63.7	2.2	73.2	65.4
Djeno	57.1	61.4	4.3	69.7	61.4
Es Sider	59.8	63.5	3.7	70.8	63.5
Girassol	61.3	65.7	4.3	72.8	65.8
Iran Heavy	57.9	60.7	2.8	69.0	61.7
Kuwait Export	60.5	63.7	3.2	69.8	64.1
Merey	45.7	43.4	(2.3)	65.6	54.4
Murban	60.9	63.5	2.6	73.2	64.6
Oriente	54.6	63.0	8.4	67.2	60.3
Rabi	59.0	61.2	2.3	71.4	63.1
Saharan Blend	60.5	63.9	3.4	72.6	64.2
Zafiro	60.9	65.4	4.5	72.4	65.4
Other Crudes					
Brent	59.7	63.1	3.4	72.3	64.0
Dubai	59.5	61.9	2.5	70.6	63.4
Isthmus	59.1	61.7	2.6	69.7	63.3
LLS	57.1	61.8	4.8	71.2	62.6
Mars	54.8	58.2	3.5	67.9	60.8
Minas	57.4	60.3	2.9	66.6	60.0
Urals	59.3	64.4	5.2	71.1	64.1
WTI	54.0	57.3	3.3	66.4	56.8
Differentials					
Brent/WTI	5.8	5.9	0.1		7.2
Brent/LLS	2.7	1.3	(1.4)		1.3
Brent/Dubai	0.3	1.2	0.9		0.6

Source: OPEC Monthly Oil Market Report - Dec-19

World Oil Demand

World oil demand growth expectations for 2019 was kept unchanged in OPEC's latest monthly report at 0.98 mb/d with demand expected to average at 99.80 mb/d. Aggregate demand growth numbers for both the OECD and the non-OECD regions were also left unchanged. Monthly demand trend in the US remained subdued during November-19 especially for gasoline due to shrinking demand that reached the lowest level since February-19 led by fuel substitution and fuel efficiencies coupled with declining light vehicle sales. On the other hand, higher demand for NGL/LPG, jet/kerosene and distillate more than offset the slowdown seen in gasoline and to some extent residual fuel oil. A similar trend was seen in oil demand data for Canada and Mexico which recently reported softer demand for gasoline. Oil demand trend for the OECD Europe region has remained positive so far this year as compared to 2018 with y-o-y gains of around 0.6%.

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.55	25.22	25.38	26.03	26.02	25.66	0.12	0.46
of which US	20.79	20.67	20.66	21.25	21.02	20.90	0.12	0.57
Europe	14.31	13.99	14.23	14.68	14.30	14.30	0.00	(0.03)
Asia Pacific	8.08	8.45	7.64	7.73	8.12	7.99	(0.09)	(1.14)
Total OECD	47.93	47.65	47.26	48.44	48.44	47.95	0.02	0.04
Other Asia	13.64	13.91	13.96	13.66	14.21	13.93	0.3	2.18
of which India	4.73	5.03	4.75	4.49	5.14	4.85	0.12	2.57
Latin America	6.53	6.36	6.58	6.83	6.49	6.57	0.04	0.62
Middle East	8.12	8.25	7.90	8.64	7.95	8.18	0.06	0.78
Africa	4.33	4.45	4.42	4.36	4.50	4.43	0.10	2.31
Total Developing Countries (DCs)	32.62	32.97	32.87	33.49	33.14	33.12	0.5	1.53
Former Soviet Union (FSU)	4.82	4.75	4.74	5.02	5.11	4.91	0.09	1.82
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	12.98	13.43	13.06	0.35	2.73
Total "Other Regions"	18.27	18.13	18.64	18.75	19.38	18.73	0.45	2.49
Total World	98.82	98.76	98.76	100.69	100.95	99.8	0.98	0.99

Source: OPEC Monthly Oil Market Report - Dec-19

The October-19 demand numbers were positive for Germany, France and Italy that were partially offset by a decline in demand from the UK. In terms of product category, demand strengthened for gasoline, jet/kerosene and diesel for the transportation, industrial and residential sectors partially offset by decline in LPG, naphtha and residual fuel requirements. In the OECD Asia Pacific region, preliminary demand data for Japan showed declines during October-19 for all the product categories. On the non-OECD front, oil demand continued to remain strong in China rising by 0.35 mb/d y-o-y in October-19 primarily led by higher requirements for jet/kerosene, naphtha and diesel. A declining demand for gasoline partially offset the aforementioned growth. Vehicle sales continued to decline during October-19 falling by 4% y-o-y as rising SUV sales failed to offset decline in other categories. Oil demand numbers for India showed a decline during October-19 due to fall in demand for middle and heavy distillates that was partially offset by increase in LPG requirements.

Oil demand growth projections for 2020 was also left unchanged at 1.08 mb/d with demand expected to reach 100.88 mb/d. OECD demand is expected to increase by 0.07 mb/d while non-OECD demand is expected to increase by 1.01 mb/d primarily led by higher requirements from China.

World Oil Demand - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.66	25.43	25.56	26.19	26.18	25.84	0.18	0.69
of which US	20.90	20.85	20.80	21.37	21.17	21.05	0.15	0.71
Europe	14.30	13.94	14.20	14.66	14.28	14.27	(0.03)	(0.21)
Asia Pacific	7.99	8.37	7.56	7.66	8.05	7.91	(0.08)	(0.99)
Total OECD	47.95	47.73	47.31	48.51	48.51	48.02	0.07	0.14
Other Asia	13.93	14.27	14.32	14.04	14.60	14.31	0.37	2.66
of which India	4.85	5.20	4.90	4.65	5.32	5.02	0.16	3.39
Latin America	6.57	6.44	6.66	6.91	6.56	6.64	0.07	1.14
Middle East	8.18	8.30	7.95	8.72	8.04	8.25	0.07	0.86
Africa	4.43	4.53	4.52	4.46	4.59	4.52	0.09	2.00
Total Developing Countries (DCs)	33.12	33.54	33.44	34.12	33.79	33.73	0.60	1.82
Former Soviet Union (FSU)	4.91	4.83	4.81	5.11	5.19	4.99	0.08	1.65
Other Europe	0.76	0.76	0.72	0.76	0.85	0.77	0.01	1.54
China	13.06	12.91	13.50	13.28	13.77	13.37	0.31	2.37
Total "Other Regions"	18.73	18.50	19.03	19.15	19.82	19.13	0.40	2.15
Total World	99.80	99.78	99.79	101.78	102.12	100.88	1.08	1.08

Source: OPEC Monthly Oil Market Report - Dec-19

World Oil Supply

According to preliminary data, world oil supply witnessed a m-o-m growth of 0.41 mb/d during November-19 and averaged at 99.78 mb/d. The increase in production came primarily on the back of higher production in the US, Canada, Norway, the UK, Russia, Azerbaijan and OPEC NGLs. OPEC's market share declined by 30 bps m-o-m to 29.6% during November-19.

For the full year 2019, non-OPEC oil supply growth forecast was kept unchanged at a growth of 1.82 mb/d with total supply expected to average at 64.30 mb/d. However, regional revisions were made to demand data for the year with higher-than-expected oil production data for Thailand (+18 tb/d) and Russia (+3 tb/d) was fully offset by downward revisions to supply figures for the UK (-14 tb/d), Indonesia,

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	25.71	26.22	25.65	1.57	6.53
of which US	16.71	17.78	18.29	18.38	18.87	18.33	1.62	9.69
Europe	3.84	3.84	3.61	3.59	3.88	3.73	(0.11)	(2.77)
Asia Pacific	0.41	0.43	0.48	0.51	0.51	0.48	0.07	18.11
Total OECD	28.33	29.34	29.68	29.81	30.62	29.87	1.54	5.43
Other Asia	3.56	3.51	3.46	3.32	3.42	3.43	(0.13)	-3.58
Latin America	5.19	5.17	5.25	5.53	5.60	5.39	0.20	3.79
Middle East	3.21	3.22	3.22	3.22	3.20	3.21	0.00	0.09
Africa	1.50	1.51	1.51	1.53	1.61	1.54	0.04	2.40
Total Developing Countries (DCs)	13.46	13.41	13.44	13.60	13.83	13.57	0.11	0.81
Former Soviet Union (FSU)	14.29	14.55	14.16	14.34	14.37	14.35	0.06	0.44
of which Russia	11.35	11.53	11.36	11.42	11.41	11.43	0.08	0.73
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(2.34)
China	4.02	4.10	4.13	4.10	4.09	4.10	0.09	2.17
Total "Other regions"	18.43	18.77	18.41	18.56	18.58	18.58	0.15	0.79
Total Non-OPEC Production	60.22	61.52	61.53	61.98	63.03	62.02	1.79	2.98
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.24
Total Non-OPEC Supply	62.47	63.8	63.81	64.25	65.31	64.3	1.82	2.92
OPEC NGLs and non-conventionals	4.76	-	-	4.71	4.86	4.80	0.04	0.75
OPEC Crude Oil Production	31.86	30.48	29.97	29.39	-	-	-	-
Total World Supply	99.10	-	-	98.36	-	-	-	-

Source: OPEC Monthly Oil Market Report - Dec-19

India and Canada. Quarterly upward revisions for oil supply from the US was made for Q3-19 but this was offset by a downward estimate for the last quarter of the year. The declining trend in oil rigs in the US also supported the revised supply numbers. Nevertheless, after declining for seven consecutive weeks in a row, US oil rig count increased by 4 in the latest weekly report from Baker Hughes to reach 667 oil rigs.

For 2020, non-OPEC supply growth was also left unchanged at 2.17 mb/d with oil supply during the year expected to reach 66.46 mb/d. There were upward revisions to supply data for the UK (+14 tb/d), Indonesia, India and Canada but these were offset by downward revisions for Russia (-18 tb/d) and Thailand.

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.65	26.64	26.92	27.34	27.62	27.13	1.48	5.76
of which US	18.33	19.23	19.82	20.03	20.25	19.84	1.50	8.21
Europe	3.73	3.95	3.81	3.83	4.11	3.93	0.19	5.16
Asia Pacific	0.48	0.54	0.53	0.57	0.57	0.55	0.07	14.89
Total OECD	29.87	31.13	31.26	31.73	32.30	31.61	1.74	5.83
Other Asia	3.43	3.38	3.39	3.39	3.39	3.39	-0.04	-1.22
Latin America	5.39	5.62	5.59	5.60	5.74	5.64	0.25	4.61
Middle East	3.21	3.21	3.25	3.26	3.28	3.25	0.04	1.11
Africa	1.54	1.58	1.57	1.57	1.56	1.57	0.03	2.02
Total Developing Countries (DCs)	13.57	13.78	13.80	13.82	13.98	13.85	0.27	2.01
Former Soviet Union (FSU)	14.35	14.32	14.44	14.36	14.64	14.44	0.09	0.6
of which Russia	11.43	11.34	11.50	11.51	11.64	11.50	0.07	0.61
Other Europe	0.12	0.12	0.12	0.12	0.11	0.12	(0.01)	(4.32)
China	4.10	4.12	4.13	4.10	4.13	4.12	0.02	0.46
Total "Other regions"	18.58	18.57	18.69	18.58	18.88	18.68	0.10	0.54
Total Non-OPEC Production	62.02	63.49	63.75	64.12	65.15	64.13	2.11	3.41
Processing gains	2.28	2.33	2.33	2.33	2.33	2.33	0.05	2.37
Total Non-OPEC Supply	64.30	65.82	66.09	66.46	67.49	66.46	2.17	3.37

Source: OPEC Monthly Oil Market Report - Dec-19

OPEC Oil Production & Spare Capacity

OPEC production once again declined during November-19 after the recovery bounce seen during the previous month. According to Bloomberg data, OPEC production declined by 110 tb/d during the month on the back of lower production mainly in Angola (-60 tb/d) and Iran (-40 tb/d) that was partially offset by a gain in production mainly in Ecuador and Iraq totaling 80 tb/d. Excluding the steep fall in production during September-19 due to the attacks on Saudi oil facilities, production in November-19 was the lowest in six years, according to Bloomberg data. Meanwhile, OPEC secondary sources showed a slightly steeper decline in monthly production at 193 tb/d mainly led by fall in production in Saudi Arabia by 151 tb/d, Iraq by 59 tb/d and Iran by 45 tb/d, partially offset by higher production in Ecuador, Kuwait and Libya.

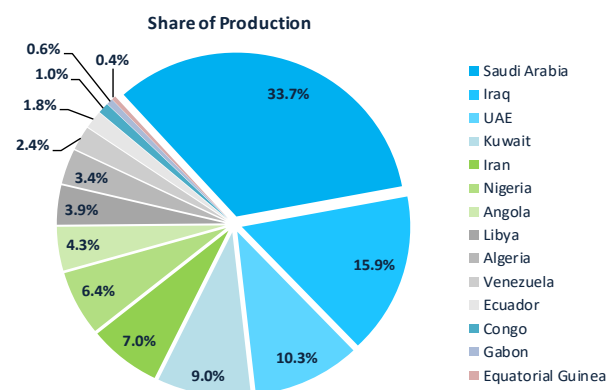
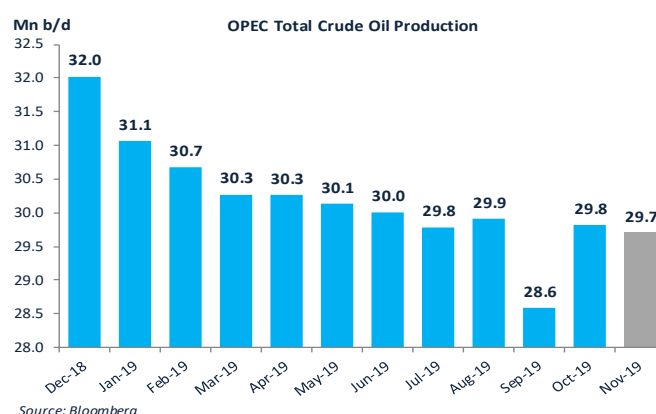
Production ('000 b/d)	Oct-19	Nov-19	Change		Capacity	Spare Capacity
Total OPEC-14	29,810	29,700	-110	-0.37%	34,590	4,890
Saudi Arabia	10,020	10,010	-10	-0.1%	11,500	1,490
Iraq	4,680	4,710	30	0.6%	4,800	90
UAE	3,070	3,070	0	0.0%	3,400	330
Kuwait	2,670	2,670	0	0.0%	3,075	405
Iran	2,110	2,070	-40	-1.9%	3,830	1,760
Nigeria	1,910	1,890	-20	-1.0%	2,000	110
Angola	1,340	1,280	-60	-4.5%	1,450	170
Libya	1,180	1,150	-30	-2.5%	1,300	150
Algeria	1,020	1,020	0	0.0%	1,080	60
Venezuela	690	700	10	1.4%	900	200
Ecuador	470	520	50	10.6%	555	35
Congo	330	310	-20	-6.1%	330	20
Gabon	200	180	-20	-10.0%	220	40
Equatorial Guinea	120	120	0	0.0%	150	30
Total OPEC-13	25,130	24,990	-140	-0.56%	29,790	4,800

Source: Bloomberg, OPEC

Meanwhile, the deeper cuts announced by the OPEC+ at the start of the month should see production at slightly below the current levels at least during Q1-20 as the full compliance to the new agreement would entail a production level of around 29.3 mb/d. On the other hand, according to data from IEA, the overall compliance from OPEC+ members stood at 125% during November-19. The bulk of the decline continues to come from OPEC members, especially from Saudi Arabia that continues to cut more than the required amount of crude production. According to IEA, OPEC compliance stood at 154% while non-OPEC members were yet to fully comply with the cuts, as seen from a compliance level of 61%.

The biggest monthly drop in production during November-19 was reported by Angola which produced at 1.3 mb/d. The decline comes on the back of maintenance, according to a Reuters report. The country has been producing below its OPEC target of 1.48 mb/d as it continues to see a lack of new oil fields coming online.

Oil production in Libya declined marginally during the month by 30 tb/d led by production disruption at the country's El Feel oilfield which produced at 77 tb/d during the last week of the month. Libya's NOC also declared a force majeure on Mellitah crude blend loadings last week led by continued disruptions at oil fields.



Source: Bloomberg

Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q4 19	Q1 20	Q2 20	Q3 20
CIBC	10/Dec/19	61.5	65.5	64.0	64.0
Intesa Sanpaolo SpA	28/Nov/19	62.0	62.0	65.0	65.0
Emirates NBD PJSC	28/Nov/19	63.0	58.0	55.0	57.5
BNP Paribas SA	21/Nov/19	62.0	60.0	54.0	57.0
Westpac Banking Corp	12/Nov/19	60.0	60.0	59.0	57.0
Capital Economics Ltd	4/Nov/19	60.5	60.0	61.0	
Rabobank International	24/Oct/19	70.0	73.5	73.0	72.5
HSBC Holdings PLC	15/Oct/19	62.0	60.0	60.0	60.0
Raymond James Financial Inc	14/Oct/19	60.0	65.0	70.0	80.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	1/Oct/19	66.5	58.2	57.8	60.2
Market Risk Advisory Co Ltd	1/Oct/19	62.0	60.0	62.0	62.0
CIMB	27/Sep/19	67.0	64.0	62.0	60.0
BBVA Research SA	24/Sep/19	62.0	60.4	57.3	53.8
Commerzbank AG	18/Sep/19	65.0	60.0	60.0	60.0
Societe Generale SA	17/Sep/19	58.0	57.5	59.0	60.0
MPS Capital Services Banca per le Imprese SpA	11/Sep/19	63.0	66.0		
Landesbank Baden-Wuerttemberg	9/Sep/19	60.0	60.0	60.0	57.5
Banco Santander SA	30/Aug/19	60.0	60.0	60.0	60.0
ABN AMRO Bank NV	20/Aug/19	58.0	60.0	63.0	65.0
Bank of China International UK Ltd	17/Jul/19	67.0	65.5	68.0	
Bank of Nova Scotia/The	27/Jun/19	63.1	60.0	61.0	63.0
Median		62.0	60.0	60.5	60.0
Mean		62.5	61.7	61.6	61.9
High		70.0	73.5	73.0	80.0
Low		58.0	57.5	54.0	53.8
Current Fwd		62.1	62.2	60.8	59.8
Difference (Median - Current)		-0.1	-2.2	-0.3	0.2

Source: Bloomberg

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