

Oil Market Monthly Report

July - 2019

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An oversupplied oil market ignores extension to OPEC+ agreement and Middle East tensions...

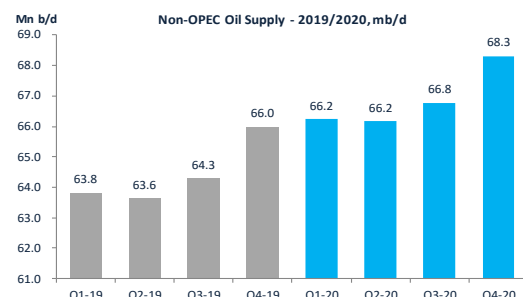
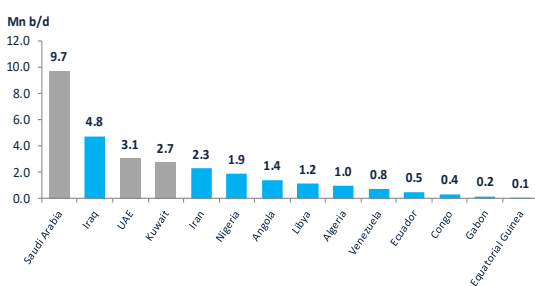
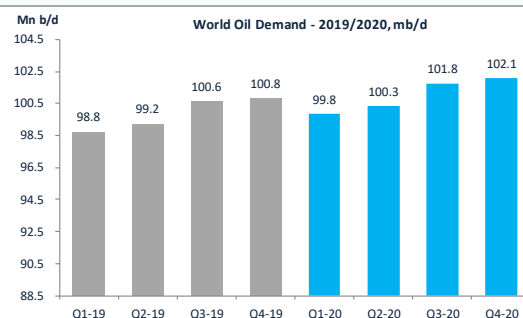
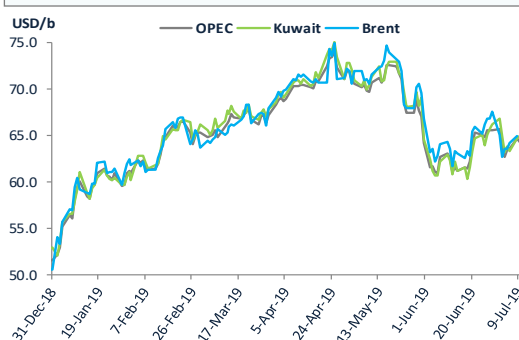
After the rout seen during the second half of May-19, oil prices remained range-bound during June-19 and the first half of July-19 led by factors that focused mainly on tackling the lower expected oil demand with curbing supplies. Prices remained subdued despite OPEC+ announcing a 9-month extension to the ongoing supply cut agreement, in addition to the tensions in the Middle East. These factors were almost completely countered by release of a number of datapoints that pointed to weak global economic growth rates in the near term with the US-China trade conflicts being one of the main factors for the dampened outlook.

Meanwhile, oil prices got a temporary relief over the past week due to a potential storm heading towards US oil facilities. Due to platform evacuations, the storm has reportedly affected 70% of Gulf of Mexico output, which accounts for 17% of US crude production. Furthermore, due to the summer driving season in the US, the demand for gasoline has increased. The higher refinery runs to fulfill gasoline demand has resulted in higher usage of crude inventories. This has led to declining oil inventories in the US for four weeks in a row, also supporting oil prices.

In its latest Short Term Energy Outlook, the US lowered global oil demand forecast for 2019 by 0.2 mb/d as compared to its previous forecast while retaining its forecast for oil demand in 2020. The OPEC, in its July-19 monthly report, kept global oil demand growth expectations unchanged for 2019 at 1.14 mb/d. The group also for the first time published demand forecast for 2020 in which it projected a constant rate of demand growth in 2020 at 1.14 mb/d.

In terms of oil supply, the US increased oil output to 12.3 mb/d during the first week of July-19, an increase of 0.1 mb/d as compared to the previous week. The latest forecast for US oil production was at 12.4 mb/d in 2019 that will increase to 13.3 mb/d in 2020, according to the EIA. On the other hand, OPEC continued to curb oil production with an output of 30 mb/d during June-19. IEA's latest report highlighted the ineffectiveness of OPEC+ efforts of lowering output and said that the oil market would remain in surplus in 2020. The report said that global oil supply exceeded demand by 0.9 mb/d during 1H-19.

On the economic front, datapoints continue to paint a bleak picture for future oil demand. The US has already flagged weak business sentiments and manufacturing slowdown that would almost certainly lead to a rate cut in the next meeting. New orders for U.S. factory goods also reportedly declined for the second consecutive month. China, on the other hand, has reported a 12 straight month of y-o-y decline in car sales during June-19 with a decline of almost 10%. Similarly, Indian car sales fell for eighth month in a row by 25% while passenger car sales declined by 18% in June-19. In Europe, the European Commission has slashed the Euro-Area GDP and inflation forecasts for next year citing rising downside risks.



Source for the above charts : OPEC and Bloomberg

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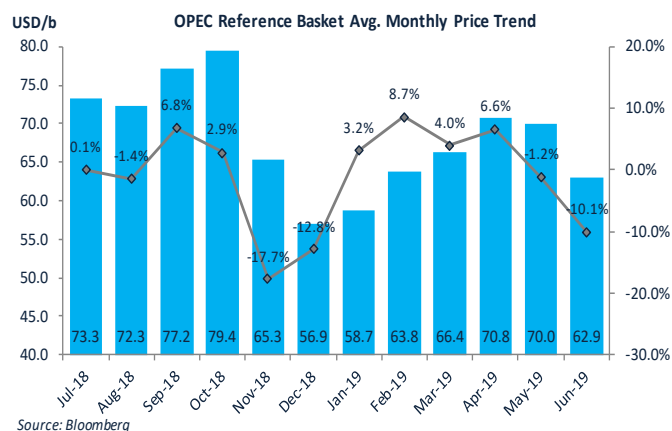
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Oil Prices

Oil prices reached a seven week high during the second week of July-19 on the back of supply outages in the US Gulf Coast caused by an approaching hurricane. The price of WTI breached the USD 60/b mark for the first time in two months while consecutive gains since the second day of the month pushed official Brent spot crude above the USD 65/b mark. The oil price rise was also helped by declining crude inventories in the US. Crude inventories declined for four consecutive weeks until 5-July-19 aggregating to 26.5 million barrels to reach 459 million barrels. Nevertheless, the market reaction to such events were much modest as compared to previous similar instances. Oil watchers continue to remain skeptical about any sustainable factor that could support oil prices. Especially, the economic trends highlighted by various government agencies recently have failed to provide any positive catalyst. A majority of the economists and agencies point to modest growth across the globe led by a slower pace of growth in global trade resulting in a decline in global manufacturing. These sentiments were reflected in EIA's latest outlook for oil demand growth in 2020. On the other hand, an oil price of USD 60/b is enough to compensate oil drillers in the US that are said to be going ahead with their investment plans. Oil rigs in the US has although declined recently, but the production has increased offsetting the efforts of OPEC+ countries that are curbing output. According to Baker Hughes' latest weekly report, oil rigs in the US was down for the second consecutive week and stood at 784 active rigs.

Average crude prices for a majority of crude grades recorded double digit declines during June-19 as gains towards the close of the month failed to offset declines since the start of the month. Average OPEC crude prices dropped 10.1% m-o-m during June-19 to reach USD 62.9/b. Kuwait crude average price declined at a slightly higher pace of 10.7% to reach USD 62.6/b, while average Brent crude saw a decline of 9.6% to reach USD 64.0/b, the lowest level since March-19.



Average Crude Oil Prices, USD/b	May-19	Jun-19	Change (USD)	YTD Avg 2018	YTD Avg 2019
OPEC Reference Basket	70.0	62.9	(7.1)	68.4	65.5
Arab Light	70.8	63.5	(7.3)	69.1	66.4
Basrah Light	69.8	62.7	(7.0)	67.2	65.1
Bonny Light	72.2	65.6	(6.7)	71.5	67.4
Djeno	68.3	61.4	(6.8)	68.2	63.4
Es Sider	70.3	63.6	(6.7)	69.4	65.2
Girassol	73.0	65.7	(7.3)	70.9	67.4
Iran Heavy	67.9	60.9	(7.0)	66.9	63.2
Kuwait Export	70.1	62.6	(7.5)	67.1	65.6
Merey	59.2	54.0	(5.2)	62.0	56.1
Murban	69.7	62.8	(7.0)	70.9	66.4
Oriente	65.6	58.6	(7.0)	65.2	61.9
Rabi	70.1	63.3	(6.8)	69.6	65.2
Saharan Blend	71.2	64.8	(6.4)	71.0	66.2
Zafiro	72.1	65.5	(6.6)	70.5	67.1
Other Crudes					
Brent	70.9	64.0	(6.8)	70.6	66.0
Dubai	69.6	61.6	(8.1)	68.1	65.5
Isthmus	69.0	63.0	(6.1)	68.4	65.2
LLS	69.0	61.3	(7.7)	69.5	64.8
Mars	66.7	59.5	(7.2)	66.0	63.2
Minas	67.5	59.8	(7.7)	64.5	60.6
Urals	71.7	62.5	(9.2)	69.0	66.2
WTI	60.7	54.7	(6.1)	65.5	57.4
Differentials					
Brent/WTI	10.1	9.4	(0.8)	5.1	8.6
Brent/LLS	1.8	2.7	0.9	1.1	1.2
Brent/Dubai	1.2	2.4	1.2	2.5	0.5

Source: OPEC Monthly Oil Market Report - Jul-19

World Oil Demand

World oil demand growth expectations for 2019 remained unchanged at 1.14 mb/d to average at 99.87 mb/d, according to OPEC's latest monthly report. The OPEC also published its first 2020 oil demand outlook in which it expects flat growth rate in oil demand during 2020 at 1.14 mb/d to average at 101.01 mb/d. The forecast suggested that in the OECD region, a growth in oil demand is expected only in the OECD Americas region, while OECD Europe and Asia Pacific are expected to show a decline in oil requirements in 2020. In the US, oil demand showed increase during April-19 after a decline in March-19 but preliminary numbers for May-19 and June-19 show a slight decline in demand led by falling residual fuel oil usage. In OECD Europe, improvement in economic growth has led to a slight improvement in oil demand in April-19 as compared to April-18. Preliminary data for May-19 shows a decline in Germany France and Italy while in UK

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.53	25.29	25.65	26.07	26.01	25.76	0.23	0.88
of which US	20.73	20.69	20.86	21.21	21.03	20.95	0.22	1.05
Europe	14.32	13.97	14.19	14.69	14.31	14.29	(0.02)	(0.15)
Asia Pacific	7.99	8.40	7.60	7.67	8.04	7.93	(0.06)	(0.81)
Total OECD	47.84	47.66	47.44	48.43	48.36	47.98	0.14	0.29
Other Asia	13.64	13.91	14.21	13.72	14.22	14.01	0.38	2.77
of which India	4.73	5.03	4.93	4.58	5.15	4.92	0.19	4.05
Latin America	6.53	6.36	6.51	6.85	6.50	6.56	0.03	0.47
Middle East	8.12	8.25	8.01	8.47	7.88	8.15	0.03	0.37
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	33.16	33.40	33.1	33.16	0.54	1.65
Former Soviet Union (FSU)	4.82	4.75	4.74	5.03	5.11	4.91	0.09	1.87
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	13.00	13.43	13.06	0.35	2.77
Total "Other Regions"	18.27	18.13	18.64	18.78	19.38	18.74	0.46	2.53
Total World	98.73	98.76	99.24	100.61	100.84	99.87	1.14	1.15

Source: OPEC Monthly Oil Market Report - Jul-19

there was an increase. For the non-OECD group, India would be the primary driver of growth followed by China. The region would contribute to 1.05 mb/d of growth during the year. Demand data for China has shown a growth during May-19 for most of the product categories. Demand increased 3% y-o-y during May-19 led by higher consumption of LPG, gasoline and kerosene while diesel demand dropped. However, car sales data for May-19 showed a drop of almost 18% y-o-y while MPVs and SUVs saw demand recede by 23% and 15% y-o-y, respectively. Oil demand in India witnessed marginal growth during May-19 as higher demand for diesel and gasoline were offset by steep fall in demand for heavy distillates, mainly bitumen. Car sales in India has also seen a steep decline for a year now with the June-19 sales falling by 17.54%, while passenger car sales dropped at an even higher rate of 24.1%.

The latest monthly report from the IEA showed that global oil demand grew at its slowest pace since 2011 during Q1-19 while a contraction in manufacturing activity, the first in seven years, lowered oil demand growth by a third than anticipated in Q2-19 to 0.8 mb/d. The agency kept its full year growth expectation at 1.2 mb/d for the full year, but said that it would require a demand growth of 1.8 mb/d during 2H-19 to achieve this target. For next year, the agency expects demand growth of 1.4 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	25.76	25.51	25.83	26.24	26.19	25.94	0.19	0.73
of which US	20.95	20.87	21.00	21.33	21.18	21.10	0.15	0.70
Europe	14.29	13.92	14.16	14.67	14.29	14.26	(0.03)	(0.21)
Asia Pacific	7.93	8.32	7.53	7.61	7.98	7.86	(0.07)	(0.87)
Total OECD	47.98	47.76	47.52	48.52	48.46	48.07	0.09	0.18
Other Asia	14.01	14.28	14.58	14.11	14.62	14.40	0.38	2.72
of which India	4.92	5.21	5.09	4.75	5.34	5.10	0.17	3.54
Latin America	6.56	6.45	6.60	6.94	6.59	6.64	0.08	1.30
Middle East	8.15	8.31	8.07	8.56	7.98	8.23	0.08	0.98
Africa	4.43	4.53	4.52	4.46	4.59	4.52	0.09	2.00
Total Developing Countries (DCs)	33.16	33.57	33.76	34.06	33.78	33.79	0.63	1.91
Former Soviet Union (FSU)	4.91	4.83	4.81	5.11	5.20	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	12.92	13.51	13.31	13.78	13.38	0.32	2.45
Total "Other Regions"	18.74	18.51	19.04	19.18	19.83	19.15	0.41	2.20
Total World	99.87	99.84	100.32	101.76	102.07	101.01	1.14	1.14

Source: OPEC Monthly Oil Market Report - Jul-19

World Oil Supply

According to OPEC, world oil supply increased at a much higher pace in June-19 as compared to the previous month by 0.47 mb/d to average at 98.56 mb/d. The increase was once again primarily on the back of non-OPEC supply that increased by 0.54 mb/d to average at 68.73 mb/d mainly coming from US, Brazil, Kazakhstan, Russia and China. Higher non-OPEC production pushed down OPEC market share by 20 bps to 30.3% during June-19. For the full year 2019, non-OPEC oil supply growth forecast was lowered by 95 tb/d to growth of 2.05 mb/d to average at 64.43 mb/d. The downward revisions reflected continued lower oil production for the non-OPEC members of the OPEC+ production curbs, in addition to downward revisions to Q2-19 production figures for Brazil and Norway. The revision more than

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	23.99	25.03	25.28	25.91	26.77	25.75	1.76	7.34
of which US	16.66	17.79	18.36	18.64	19.46	18.57	1.90	11.43
Europe	3.83	3.82	3.61	3.71	3.97	3.78	(0.05)	(1.34)
Asia Pacific	0.41	0.43	0.46	0.48	0.50	0.47	0.06	14.36
Total OECD	28.23	29.28	29.36	30.10	31.23	30.00	1.77	6.26
Other Asia	3.55	3.55	3.48	3.47	3.45	3.49	(0.07)	-1.87
Latin America	5.19	5.17	5.35	5.55	5.67	5.44	0.24	4.70
Middle East	3.21	3.22	3.22	3.20	3.20	3.21	0.00	(0.01)
Africa	1.52	1.54	1.55	1.59	1.62	1.58	0.06	3.89
Total Developing Countries (DCs)	13.47	13.48	13.59	13.82	13.95	13.71	0.24	1.76
Former Soviet Union (FSU)	14.29	14.55	14.17	13.92	14.3	14.23	-0.06	-0.4
of which Russia	11.35	11.53	11.36	11.34	11.34	11.39	0.05	0.40
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(1.15)
China	4.02	4.10	4.11	4.05	4.10	4.09	0.07	1.79
Total "Other regions"	18.43	18.77	18.41	18.09	18.52	18.44	0.01	0.08
Total Non-OPEC Production	60.13	61.53	61.35	62	63.7	62.15	2.02	3.36
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.24
Total Non-OPEC Supply	62.38	63.81	63.63	64.28	65.97	64.43	2.05	3.28
OPEC NGLs and non-conventionals	4.76	-	-	-	-	4.84	0.04	1.68
OPEC Crude Oil Production	31.86	30.47	29.95	-	-	31.86	(0.00)	(0.00)
Total World Supply	99.00	-	-	-	-	101.13	2.13	2.15

Source: OPEC Monthly Oil Market Report - Jul-19

offset an upward revision in output from the US by 70 tb/d. US continues to increase production as seen from the 0.32 mb/d m-o-m increase in liquids output during April-19. For 2020, non-OPEC supply is expected to grow at a slightly higher pace of 2.44 mb/d to average at 66.87 mb/d. The increase in supply comes primarily from the US, Brazil, Norway, and Canada that are expected to more than offset a decline in output from Mexico, Colombia, the UK, Indonesia and Thailand. Production in the US would be dominated by shale output that would get a boost, as the country removes the infrastructure bottlenecks in the Permian region with additional supply capacity of around 2.5 mb/d. Oil output from the OECD Europe region is expected to grow by 0.17 mb/d on the back of higher output from Norway partially offset by a decline in output from UK and Denmark.

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	26.89	26.89	27.53	28.25	27.39	1.64	6.37
of which US	18.57	19.64	19.96	20.39	21.06	20.26	1.70	9.13
Europe	3.78	3.98	3.83	3.85	4.13	3.95	0.17	4.47
Asia Pacific	0.47	0.53	0.52	0.56	0.56	0.54	0.07	15.76
Total OECD	30.00	31.40	31.25	31.94	32.94	31.88	1.88	6.28
Other Asia	3.49	3.44	3.46	3.45	3.46	3.45	-0.03	-0.99
Latin America	5.44	5.73	5.71	5.73	5.90	5.77	0.33	6.02
Middle East	3.21	3.20	3.24	3.25	3.27	3.24	0.03	0.93
Africa	1.58	1.61	1.60	1.59	1.59	1.60	0.02	1.33
Total Developing Countries (DCs)	13.71	13.98	14.00	14.02	14.21	14.05	0.34	2.51
Former Soviet Union (FSU)	14.23	14.29	14.4	14.31	14.59	14.4	0.16	1.14
of which Russia	11.39	11.34	11.49	11.50	11.63	11.49	0.10	0.86
Other Europe	0.12	0.12	0.12	0.11	0.11	0.11	(0.01)	(4.97)
China	4.09	4.11	4.07	4.07	4.12	4.09	0.00	0.07
Total "Other regions"	18.44	18.52	18.58	18.49	18.82	18.60	0.16	0.86
Total Non-OPEC Production	62.15	63.89	63.83	64.45	65.97	64.54	2.39	3.84
Processing gains	2.28	2.33	2.33	2.33	2.33	2.33	0.05	2.37
Total Non-OPEC Supply	64.43	66.23	66.16	66.78	68.3	66.87	2.44	3.79

Source: OPEC Monthly Oil Market Report - Jul-19

OPEC Oil Production & Spare Capacity

OPEC crude production declined slightly during June-19 primarily due to lower output coming from Iran. However, the overall compliance for the 11 members in OPEC to the OPEC+ production agreement declined to 104% during June-19 as compared to 117% during May-19, according to S&P Platts, as declines during the month came mainly from exempt members. The lower compliance came primarily on the back of an increase in production in Saudi Arabia, Nigeria and Iraq, according to the agency.

According to Bloomberg data, Iran lowered its production by 100 tb/d to 2.28 mb/d while OPEC secondary sources put the decline at 142 tb/d to reach an average production rate of 2.23 mb/d. According to a Reuters report, the country's oil exports have dwindled to less than 0.4 mb/d from more than 2.5 mb/d in April-18. Oil output in Venezuela has reportedly stabilized at around 0.75 mb/d and the

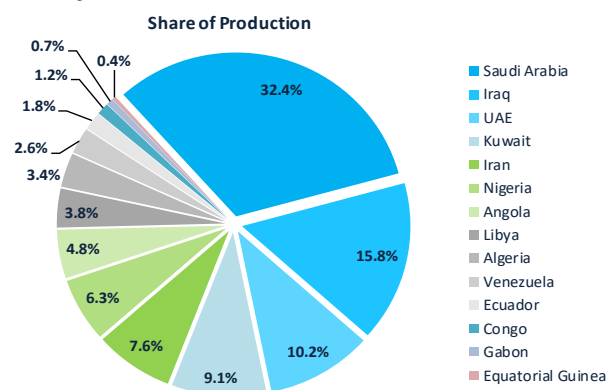
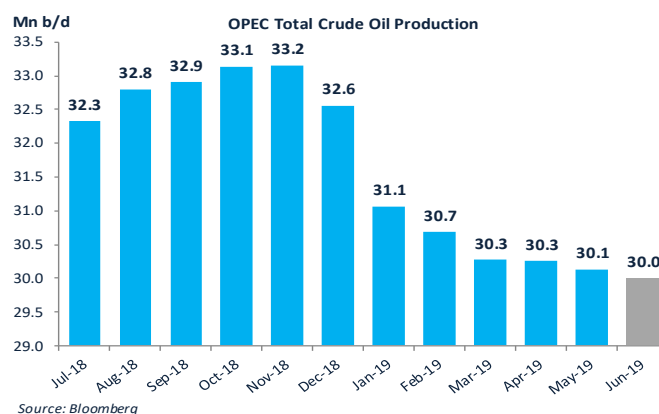
Production ('000 b/d)	May-19	Jun-19	Change		Capacity	Spare Capacity
Total OPEC-14	30,130	30,000	-130	-0.43%	34,685	4,685
Saudi Arabia	9,830	9,730	-100	-1.0%	11,500	1,770
Iraq	4,730	4,750	20	0.4%	4,750	0
UAE	3,070	3,060	-10	-0.3%	3,400	340
Kuwait	2,700	2,730	30	1.1%	3,000	270
Iran	2,380	2,280	-100	-4.2%	3,830	1,550
Nigeria	1,860	1,890	30	1.6%	1,900	10
Angola	1,450	1,440	-10	-0.7%	1,530	90
Libya	1,150	1,150	0	0.0%	1,200	50
Algeria	1,010	1,010	0	0.0%	1,070	60
Venezuela	780	770	-10	-1.3%	1,230	460
Ecuador	520	530	10	1.9%	555	25
Congo	340	350	10	2.9%	350	0
Gabon	200	200	0	0.0%	220	20
Equatorial Guinea	110	110	0	0.0%	150	40
Total OPEC-13	25,400	25,250	-150	-0.59%	29,935	4,685

Source: Bloomberg, OPEC

country has reportedly increased exports backed by current output and the backlog of inventories. Nevertheless, power outages continue to affect the country's production facilities with the latest one hitting its refining complex due to a failure in power plant.

Meanwhile, the biggest increase during the month came from Nigeria that produced at 1.89 mb/d as the country produced at the highest level since January-15. The increase was primarily led by the country's Egina deepwater oilfield that went online six months ago and is already producing at 200 tb/d. Furthermore, production by Saudi Arabia stood at 9.73 mb/d according to Bloomberg (9.81 mb/d according to OPEC secondary sources). A report from S&P Platts stated that the Kingdom is expected to produce below the 10 mb/d mark until August-19 and is expected to keep its crude exports below 7 mb/d eyeing the oversupplied oil market.

We believe that it is apparent that the glut in the oil market would extend until next year as US produces unabated and demand indicators pointing a bleak picture. KAMCO Research believes that OPEC output is expected to have bottomed and any increase in output from Iran and Venezuela can disrupt the current oil price levels. Nevertheless, positive US-China trade talks has the potential to support demand and prices as it can support an overall improvement in global economy.



Source: Bloomberg

Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q3 19	Q4 19	Q1 20	Q2 20
ABN AMRO Bank NV	9/Jul/19	70.0	70.0	73.0	75.0
Westpac Banking Corp	5/Jul/19	64.0	63.0	61.0	59.0
Market Risk Advisory Co Ltd	3/Jul/19	63.0	62.0	64.0	65.0
CIMB	2/Jul/19	71.5	70.0	67.0	68.0
Bank of Nova Scotia/The	27/Jun/19	64.0	63.1	60.0	61.0
BNP Paribas SA	27/Jun/19	76.0	71.0	65.0	66.0
CIBC	24/Jun/19	67.5	72.5		
Emirates NBD PJSC	24/Jun/19	67.5	63.0	65.0	60.0
Intesa Sanpaolo SpA	17/Jun/19	73.5	72.4		68.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	11/Jun/19	63.7	67.2	69.1	
Banco Santander SA	7/Jun/19	62.5	62.9	63.0	63.0
Commerzbank AG	6/Jun/19	66.0	70.0	70.0	70.0
Societe Generale SA	5/Jun/19	70.0	75.0	70.0	70.0
Raymond James Financial Inc	17/May/19	78.0	83.0	97.5	105.0
Capital Economics Ltd	1/May/19	67.5	62.5	61.0	63.0
Raiffeisen Bank International AG	29/Apr/19	72.0	68.0	63.0	61.0
Rabobank International	10/Apr/19	74.3	73.7	73.1	72.7
MPS Capital Services Banca per le Imprese SpA	9/Apr/19	70.0	70.0	66.0	
Landesbank Baden-Wuerttemberg	1/Apr/19	70.0	70.0	70.0	70.0
BBVA Research SA	23/Jan/19	62.6	61.8	60.4	
Natixis SA	22/Jan/19	73.0	77.0	73.0	78.0
Lloyds Bank PLC	16/Jan/19	75.0	80.0	85.0	87.0
Itau Unibanco Holding SA	14/Jan/19	59.3	59.8	60.3	60.7
Median		70.0	70.0	66.0	68.0
Mean		68.7	69.0	68.4	69.6
High		78.0	83.0	97.5	105.0
Low		59.3	59.8	60.0	59.0
Current Fwd		66.7	65.8	65.1	64.4
Difference (Median - Current)		3.3	4.2	0.9	3.6

Source: Bloomberg

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