

Oil Market Monthly Report

August - 2019

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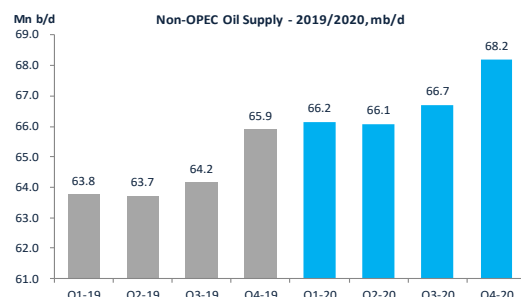
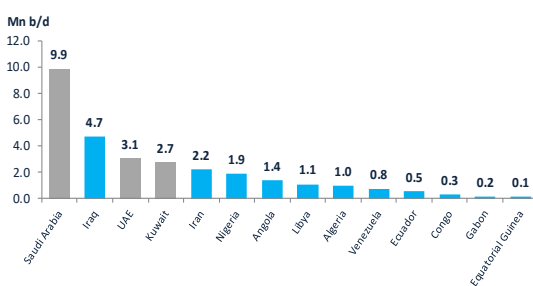
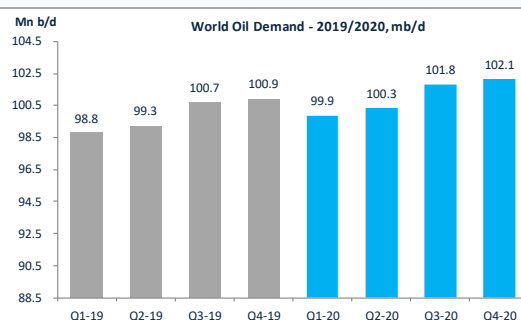
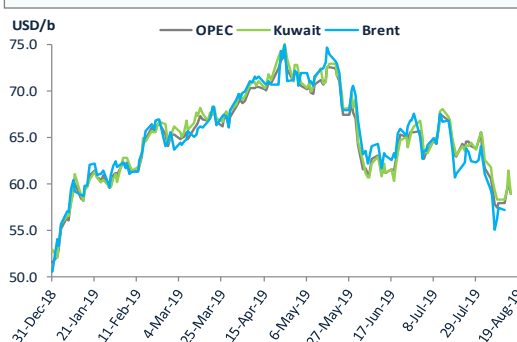
Cloud over global economic growth weighs on oil demand and prices...

In one of the longest running declining streaks in recent months, OPEC crude oil prices plunged 12.3% while Brent crude declined 15% during the first six trading sessions of August-19 led by intensifying trade dispute between the US and China. The month started with the US President announcing an additional 10% tariff on USD 300 Bn worth of Chinese imports starting from September-19, further exacerbating the mounting oil demand concerns while, the US continues to produce at elevated levels.

Recent data releases from various economic agencies across the globe has hinted to an imminent global economic slowdown. This has affected prospects of oil market rebalancing this year as was expected earlier and has forced forecasters to further lower oil demand outlook. On the other hand, the geopolitical issues in the Gulf region that supplies around a quarter of global crude oil has had minimal impact on oil prices as economic concerns weigh on prices.

On one hand there is the **unresolved US-China trade conflict that continues to cast a shadow over world economic growth.** On the other hand, the numbers became gloomier with several adverse data releases ranging from declining industrial output in China and lower vehicle sales in India to declining exports in Germany. The datapoints have led to investor concerns and a great deal of volatility in financial and commodity markets. **The most recent data released by China showed July-19 industrial production growing at the slowest rate in 17 years,** while both imports and retail sales have shown signs of declining local consumption as the government tries to tackle these with subsidies and lower lending rates by banks. **On similar lines, India's auto sector recorded an 18.7% decline in sale of passenger vehicles, the steepest monthly in 18 years.** In Europe, Germany is reportedly on the brink of a recession with its GDP declining during Q2-19, albeit marginally by 0.1%. And with Eurozone quarterly growth at 0.2%, the ECB is said to be preparing a stimulus package in September-19.

In terms of oil demand, the IEA further lowered its outlook for the year as it reported slowest demand growth since 2008 during the first five months of the year. According to the agency's latest monthly report, demand declined for the second time this year in May-19, and the aggregate demand growth during the first five months stood at 520 tb/d, due to weak demand from India and the US partially offset by higher demand from China. While stating that demand outlook stays fragile, the IEA lowered full year 2019 demand growth forecast by 100 tb/d to 1.1 mb/d and by 50 tb/d for 2020 to 1.3 mb/d. Nevertheless, the IEA expects a demand surge during 2H-19 that would significantly help in tightening the market. **In a similar move, the OPEC also lowered its 2019 non-OPEC demand growth forecast by 40 tb/d citing economic woes but said that supplies would be lesser than previous forecasts.** Meanwhile, OPEC continued to lower production during July-19 pumping at just below the 30 mb/d mark.



Source for the above charts : OPEC and Bloomberg

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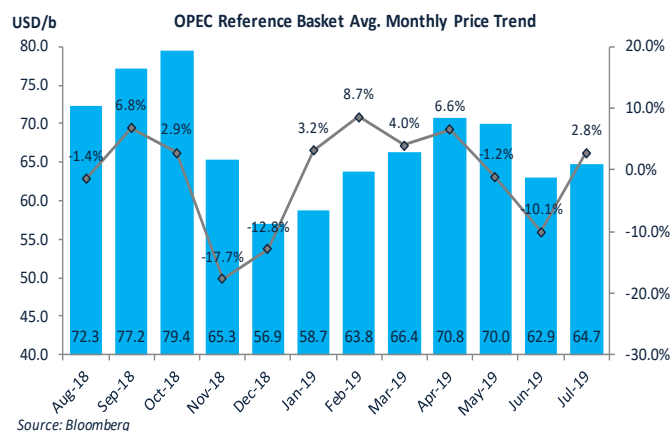
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Oil Prices

After seeing marginal m-o-m price improvement in July-19, oil prices plunged during the August-19 with Brent crude reaching as low as 55.03 per barrel as of 7-August-19 when it declined by 6.1% in a single day. Prices went below the USD 60/b mark for the first time since the end of January-19, with average prices for the first half of the month declining by more than 8% m-o-m. The rout since the start of the month was led by intensifying US-China trade war with the US imposing additional duties on Chinese goods. Furthermore, a bearish view from the IEA as well as to some extent from the OPEC in their respective monthly reports also supported the oil price decline. Concerns continue to weigh on the demand side of the oil market while supply continued to remain above the 100 mb/d mark during July-19 as per IEA report, which also said that it could further lower demand outlook numbers if the trade war continues. Meanwhile, the oil inventory build in the US during the last two weeks further added to pressure on oil prices. After declining for seven consecutive weeks, US crude stocks have gained over the last two weeks by a total 4.0 million barrels to reach 440.51 million barrels. The inventory data came in line with rig count data released by Baker Hughes. According to the latest weekly US rig count report, active oil rigs increased by 6 last week to reach 770 rigs. Nevertheless, despite lesser number of rigs as compared to last year, US oil production has continued to ramp up due to improving productivity in most of the oil basins this year.

Average crude prices witnessed slight improvement during July-19 as declines during mid-month was offset by gains during the first half and last week of the month. Average OPEC crude prices gained 2.8% m-o-m to reach USD 64.7/b while Kuwait crude averaged at USD 64.9/b recording a slightly higher m-o-m gain of 3.7%. On the other hand, Brent crude declined by -0.2% to average at USD 63.9/b during July-19.



Average Crude Oil Prices, USD/b	Jun-19	Jul-19	Change (USD)	YTD Avg 2018	YTD Avg 2019
OPEC Reference Basket	62.9	64.7	1.8	69.1	65.4
Arab Light	63.5	65.6	2.2	69.8	66.3
Basrah Light	62.7	64.4	1.7	67.9	65.0
Bonny Light	65.6	66.0	0.4	72.0	67.2
Djeno	61.4	61.3	(0.1)	68.6	63.1
Es Sider	63.6	63.4	(0.2)	69.8	65.0
Girassol	65.7	66.0	0.3	71.4	67.2
Iran Heavy	60.9	62.7	1.8	67.6	63.2
Kuwait Export	62.6	64.9	2.3	67.9	65.5
Merey	54.0	61.8	7.9	63.3	57.0
Murban	62.8	64.9	2.1	71.7	66.2
Oriente	58.6	61.5	2.9	65.8	61.8
Rabi	63.3	63.2	(0.1)	70.1	64.9
Saharan Blend	64.8	63.9	(0.9)	71.5	65.9
Zafiro	65.5	65.6	0.1	71.0	66.9
Other Crudes					
Brent	64.0	63.9	(0.1)	71.1	65.7
Dubai	61.6	63.2	1.6	68.8	65.1
Isthmus	63.0	63.6	0.6	68.6	64.9
LLS	61.3	62.7	1.4	70.0	64.5
Mars	59.5	62.1	2.7	66.5	63.0
Minas	59.8	61.6	1.7	65.8	60.8
Urals	62.5	63.7	1.3	69.6	65.8
WTI	54.7	57.5	2.8	66.3	57.4
Differentials					
Brent/WTI	9.4	6.4	(3.0)	-	8.3
Brent/LLS	2.7	1.2	(1.5)	-	1.2
Brent/Dubai	2.4	0.7	(1.7)	-	0.5

Source: OPEC Monthly Oil Market Report - Aug-19

World Oil Demand

World oil demand growth expectations for 2019 were lowered by 0.04 mb/d to a growth of 1.1 mb/d as demand is now expected to average at 99.92 mb/d, according to OPEC's latest monthly report. The revision reflected lower-than-expected oil demand growth estimates for the OECD region during Q1-19 with data being revised downward by 0.05 mb/d for the quarter due to lower demand during March-19 in OECD Americas. Demand growth numbers for the non-OECD region was also revised downward by around 0.13 mb/d for Q2-19 reflecting lower-than-expected demand data for the Other Asia and the Middle East regions. The revision in Other Asia was led by slower construction and economic growth that led to lower demand from India, Hong Kong, Taiwan and Singapore while the Middle East region witnessed the impact of fuel substitution and subsidy reduction policies.

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	25.25	25.66	26.08	26.02	25.76	0.21	0.83
of which US	20.73	20.69	20.86	21.21	21.03	20.95	0.22	1.05
Europe	14.31	13.97	14.18	14.68	14.30	14.28	(0.02)	(0.15)
Asia Pacific	8.07	8.47	7.71	7.74	8.11	8.01	(0.06)	(0.80)
Total OECD	47.92	47.68	47.55	48.51	48.44	48.05	0.13	0.26
Other Asia	13.64	13.91	14.09	13.72	14.22	13.99	0.35	2.55
of which India	4.73	5.03	4.83	4.58	5.15	4.90	0.17	3.53
Latin America	6.53	6.36	6.58	6.85	6.50	6.57	0.05	0.74
Middle East	8.12	8.25	7.96	8.47	7.88	8.14	0.02	0.22
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	33.06	33.40	33.1	33.13	0.51	1.57
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	98.82	98.79	99.25	100.69	100.91	99.92	1.10	1.11

Source: OPEC Monthly Oil Market Report - Aug-19

The latest monthly data for the US as of May-19 showed a decline in oil demand by 0.5% y-o-y as diesel fuel and fuel oil demand faltered due to high historical base and fuel substitution with natural gas while gasoline demand declined due to lower miles travelled and weak auto sales. Nevertheless, preliminary demand data for June-19 and July-19 showed positive demand trend led by rising diesel, jet kerosene and LPG/NGL requirements while gasoline demand continue to remain weak partly offsetting the growth. In OECD Europe, demand data for 1H-19 showed marginal decline in the European Big 4 countries led by weak demand from the road transportation sector as seen from the 3% decline in auto sales during 1H-19. In China, oil demand increased by 0.49 mb/d during June-19 backed by gasoline and jet fuel in the transportation sector, although auto sales witnessed a 12th consecutive month of decline during June-19.

Oil demand growth projections for 2020 remained unchanged at 1.14 mb/d with total demand expected to average at 101.05 mb/d. Nevertheless, with the ongoing economic pressure, the OPEC report said that next year's growth projections are subject to downside risks. Growth next year is expected to come primarily from non-OECD countries, primarily China and Other Asia, while in the OECD region, OECD Americas are expected to show demand growth while OECD Europe and Asia Pacific regions are forecasted to show demand decline.

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	25.48	25.85	26.25	26.20	25.95	0.19	0.73
of which US	20.95	20.87	21.00	21.33	21.18	21.10	0.15	0.70
Europe	14.28	13.92	14.15	14.66	14.28	14.25	(0.03)	(0.21)
Asia Pacific	8.01	8.39	7.63	7.68	8.05	7.94	(0.07)	(0.86)
Total OECD	48.05	47.78	47.63	48.59	48.53	48.14	0.09	0.18
Other Asia	13.99	14.28	14.46	14.11	14.62	14.37	0.38	2.72
of which India	4.90	5.21	4.99	4.75	5.34	5.07	0.17	3.56
Latin America	6.57	6.45	6.67	6.94	6.59	6.66	0.08	1.29
Middle East	8.14	8.31	8.02	8.56	7.98	8.22	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)	33.13	33.57	33.66	34.06	33.78	33.77	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	99.92	99.87	100.33	101.83	102.14	101.05	1.14	1.14

Source: OPEC Monthly Oil Market Report - Aug-19

World Oil Supply

According to OPEC, world oil supply continued to increase during July-19 adding 0.23 mb/d as compared to the previous month to average at 98.71 mb/d. The increase was once again primarily on the back of non-OPEC supply that increased by 0.48 mb/d to average at 69.11 mb/d mainly coming from Canada, Norway, The UK, Australia, India, Brazil and Azerbaijan. Higher non-OPEC production pushed down OPEC market share by 30 bps to 30.0% during July-19. For the full year 2019, non-OPEC oil supply growth forecast was once again lowered by 72 tb/d to a growth of 1.97 mb/d with total supply expected to average at 64.39 mb/d. The downward revisions reflected lower-than-expected oil production in the US (-35 tb/d), Brazil (-59 tb/d), Thailand (-28 tb/d) and Norway (-16 tb/d) during 1H-19 that

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	24.02	25.01	25.49	25.91	26.77	25.8	1.78	7.42
of which US	16.69	17.78	18.35	18.64	19.46	18.56	1.87	11.20
Europe	3.83	3.84	3.61	3.69	3.97	3.78	(0.06)	(1.47)
Asia Pacific	0.41	0.43	0.47	0.48	0.50	0.47	0.06	14.73
Total OECD	28.26	29.29	29.57	30.07	31.23	30.05	1.79	6.32
Other Asia	3.55	3.51	3.45	3.45	3.43	3.46	(0.09)	-2.65
Latin America	5.19	5.17	5.25	5.48	5.60	5.38	0.18	3.56
Middle East	3.21	3.21	3.22	3.20	3.20	3.21	0.00	(0.07)
Africa	1.52	1.54	1.55	1.59	1.62	1.58	0.06	3.89
Total Developing Countries (DCs)	13.47	13.43	13.46	13.73	13.86	13.62	0.15	1.09
Former Soviet Union (FSU)	14.29	14.55	14.16	13.92	14.3	14.23	-0.06	-0.43
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	4.13	4.05	4.10	4.09	0.08	1.90
Total "Other regions"	18.43	18.77	18.41	18.09	18.52	18.44	0.01	0.08
Total Non-OPEC Production	60.16	61.49	61.44	61.89	63.61	62.11	1.95	3.24
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.24
Total Non-OPEC Supply	62.41	63.77	63.72	64.16	65.88	64.39	1.97	3.16
OPEC NGLs and non-conventionals	4.76	-	-	-	-	4.84	0.04	1.68
OPEC Crude Oil Production	31.86	30.48	29.98	-	-	-	-	-
Total World Supply	99.03	-	-	-	-	-	-	-

Source: OPEC Monthly Oil Market Report - Aug-19

was partially offset by higher expected output from Canada (+56 tb/d) for the full year reflecting higher output in Q2-19 after the government of Alberta eased mandatory production adjustments. The revision to full year supply figures for Brazil reflected lower-than-expected output during Q2-19. Non-OPEC supply forecast for 2H-19 is 1.28 mb/d higher than the first half at 65.02 mb/d mainly reflecting completion of maintenance work in some countries, new pipelines in the Permian Basin, new projects in Brazil and higher expected output in Canada. For 2020, non-OPEC supply growth was also revised downward by 50 tb/d to a growth of 2.39 mb/d as supply is expected to reach 66.78 mb/d. The revision primarily reflected lower supply from Brazil which saw a downward revision of 0.06 mb/d for the full year 2020.

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.80	26.95	26.95	27.58	28.3	27.45	1.65	6.39
of which US	18.56	19.64	19.96	20.39	21.06	20.26	1.70	9.17
Europe	3.78	3.98	3.83	3.85	4.13	3.95	0.17	4.57
Asia Pacific	0.47	0.53	0.52	0.56	0.56	0.54	0.07	15.39
Total OECD	30.05	31.45	31.30	31.99	32.99	31.94	1.89	6.30
Other Asia	3.46	3.42	3.44	3.43	3.44	3.43	-0.03	-0.77
Latin America	5.38	5.62	5.59	5.60	5.74	5.64	0.26	4.81
Middle East	3.21	3.20	3.24	3.25	3.27	3.24	0.03	0.99
Africa	1.58	1.61	1.60	1.59	1.59	1.60	0.02	1.33
Total Developing Countries (DCs)	13.62	13.85	13.86	13.87	14.04	13.91	0.28	2.09
Former Soviet Union (FSU)	14.23	14.29	14.4	14.31	14.59	14.4	0.17	1.17
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	(0.04)
Total "Other regions"	18.44	18.52	18.58	18.49	18.82	18.60	0.16	0.86
Total Non-OPEC Production	62.11	63.82	63.75	64.36	65.85	64.45	2.34	3.76
Processing gains	2.28	2.33	2.33	2.33	2.33	2.33	0.05	2.37
Total Non-OPEC Supply	64.39	66.15	66.08	66.69	68.18	66.78	2.39	3.71

Source: OPEC Monthly Oil Market Report - Aug-19

OPEC Oil Production & Spare Capacity

OPEC crude production once again declined during July-19 reflecting continued efforts from OPEC countries to support prices. This was the eighth consecutive month of decline for the group which saw average monthly production declining by 2.7 mb/d. Production averaged at 29.87 mb/d with a decline of 130 tb/d according to Bloomberg data, while OPEC secondary sources showed average production rate of 29.61 mb/d with a m-o-m decline of 246 tb/d. Based on OPEC's production figures, the compliance to the OPEC+ agreement was around 144% during July-19. According to OPEC data, Saudi Arabia undertook a deep production cut of 134 tb/d and produced at 9.7 mb/d while Iran, Libya and Venezuela collectively lowered production by 121 tb/d during the month. Recently, an attack on Saudi Arabia's Shaybah field in the southeast led to a temporary spike in oil prices, but production remained unaffected in the facility.

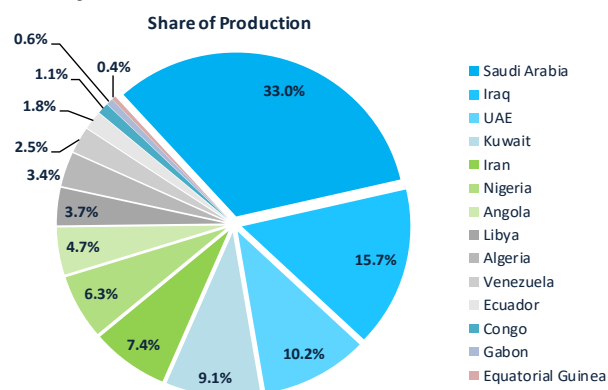
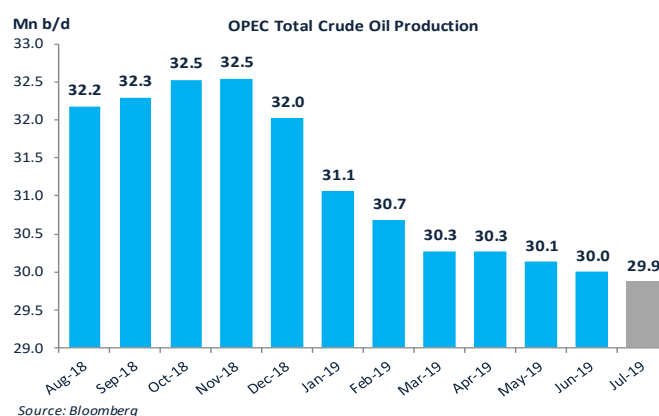
Production ('000 b/d)	Jun-19	Jul-19	Change		Capacity	Spare Capacity
Total OPEC-14	30,000	29,870	-130	-0.43%	34,615	4,745
Saudi Arabia	9,820	9,870	50	0.5%	11,500	1,630
Iraq	4,750	4,700	-50	-1.1%	4,700	0
UAE	3,060	3,060	0	0.0%	3,400	340
Kuwait	2,690	2,710	20	0.7%	3,000	290
Iran	2,280	2,210	-70	-3.1%	3,830	1,620
Nigeria	1,890	1,890	0	0.0%	1,900	10
Angola	1,410	1,390	-20	-1.4%	1,530	140
Libya	1,150	1,100	-50	-4.3%	1,200	100
Algeria	1,010	1,010	0	0.0%	1,070	60
Venezuela	770	760	-10	-1.3%	1,230	470
Ecuador	530	540	10	1.9%	555	15
Congo	330	320	-10	-3.0%	330	10
Gabon	200	190	-10	-5.0%	220	30
Equatorial Guinea	110	120	10	9.1%	150	30
Total OPEC-13	25,250	25,170	-80	-0.32%	29,915	4,745

Source: Bloomberg, OPEC

Meanwhile, the sanction-led decline in oil production in Iran and Venezuela reflected during July-19 output. Iran produced at an average rate of 2.2 mb/d as compared to 2.3 mb/d during the previous month while Venezuela produced at 760 tb/d according to Bloomberg. A Reuters report citing tanker data showed that oil exports from Iran have dropped to as low as 100 tb/d during July-19.

Oil production in Nigeria remained flat at around 1.9 mb/d, while the other swing producer, Libya, showed a decline of around 50 tb/d during July-19 after Libya's NOC declared force majeure on crude loadings at the Zawiya port due to a disruption at its Sharara oil field.

Oil production in Kuwait remained stable at around 2.7 mb/d, however, the country is reportedly in talks with Saudi Arabia to start production from the Neutral Zone which has a production capacity of around 0.5 mb/d. Similar talks are reportedly initiated between Kuwait and Iraq after the two signed a contract last month to conduct a technical study for joint frontier oilfields. Nevertheless, the oil minister of Kuwait said that the country is fully committed to the OPEC+ cuts with its share of compliance reaching as high as 160% during July-19. He added that the concerns regarding global economic slowdown are exaggerated and that oil demand would pick up during 2H-19 and would help reduce the glut of oil inventories gradually.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q3 19	Q4 19	Q1 20	Q2 20
Landesbank Baden-Wuerttemberg	2/Aug/19	65.0	62.0	60.0	60.0
Capital Economics Ltd	1/Aug/19	65.0	62.0	61.0	63.0
Rabobank International	29/Jul/19	74.8	74.0	73.5	73.0
Intesa Sanpaolo SpA	18/Jul/19	67.0	70.0	70.0	70.0
Bank of China International UK Ltd	17/Jul/19	72.0	67.0	65.5	68.0
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
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
Raiffeisen Bank International AG	29/Apr/19	72.0	68.0	63.0	61.0
MPS Capital Services Banca per le Imprese SpA	9/Apr/19	70.0	70.0	66.0	
Median		67.5	69.0	65.5	66.0
Mean		68.5	68.3	67.6	68.1
High		78.0	83.0	97.5	105.0
Low		62.5	62.0	60.0	59.0
Current Fwd		61.0	57.8	57.0	56.5
Difference (Median - Current)		6.5	11.2	8.5	9.5

Source: Bloomberg

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