

Oil Market Monthly Report

October - 2018

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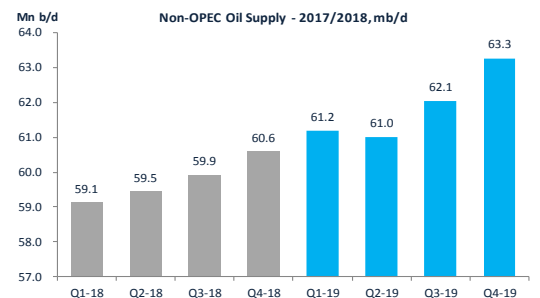
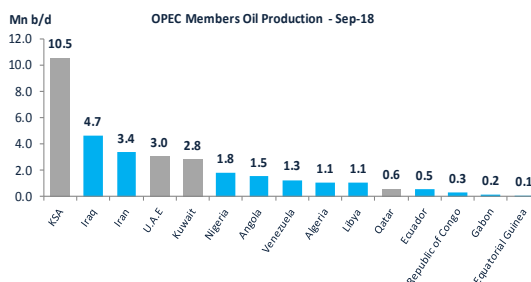
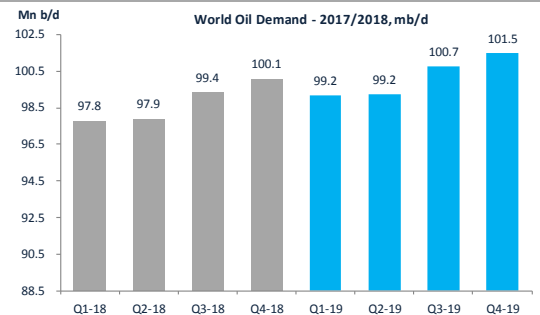
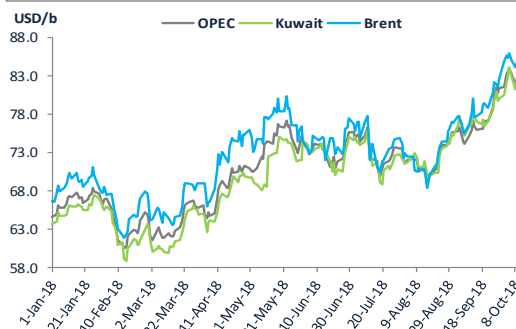
Oil prices firm near 4-year high amid tightening supplies...

Oil rally continued during October-18 pushing prices to a 4-year high level during the first week as the deadline for Iran sanctions started reflecting in exports figures from the country. Recent run up in crude prices, which was up almost 30% since the start of the year, also came from the onslaught of the Category 4 Hurricane Michael that affected almost 0.7 mb/d or 42% of Gulf of Mexico's production. Nevertheless, prices took a breather and declined after a broad-based weakness in the financial markets affected all asset classes in addition to reports of higher crude inventories in the US.

Concerns around tightening supply in the upcoming months was reinforced after the OPEC meeting last month ended with no comments on the future course of action related to the OPEC+ production agreement or any indication of raising output in the immediate near term. Both Saudi Arabia and Russia, two of the biggest members of the aforementioned agreement, said that there is no need to immediately raise output. Saudi Energy Minister highlighted that the Kingdom has spare capacity to the tune of 1.5 mb/d but based on OPEC's projection of oil demand and supply for 2019, it may not be required to raise output next year. A similar statement was made by OPEC Secretary General in a recent interview when he stated that prices are driven by perceptions of supply shortages and that the market continued to be well supplied. He added that discussions on the OPEC+ agreement are on and details will be discussed in the December meeting.

On the production side, OPEC's average crude production during September-18 stood at 32.8 mb/d, a m-o-m increase of 132 tb/d, according to OPEC secondary sources. The increase in production came despite declining production from Iran and Venezuela. As a consequence, compliance to OPEC+ agreement declined during the month. S&P Platts data suggested that compliance to the oil production cut agreement came down to 110% during September-18 as compared to 115% during August-18.

On the demand side, OPEC reduced global oil demand growth expectations for the third consecutive month by 50 tb/d to a growth of 1.36 mb/d citing weak global economy and volatile emerging markets. In addition, an IMF report that downgraded global economic growth expectations due to trade tensions and rising import tariffs also affected sentiment around outlook for future oil demand. On the other hand, positive economic development include the revision and reintroduction of NAFTA, now called USMCA, reduces some uncertainty related to trade between US and Canada, followed by declining unemployment rates in the US and Europe. Meanwhile, higher oil import bills is also said to have affected imports by India. According to reports, rising crude oil price coupled with stronger USD has made oil almost 50% more expensive for India and the world's 3rd biggest oil importer in now said to be relying on inventories by cutting down on imports.



Source for the above charts : OPEC and Bloomberg

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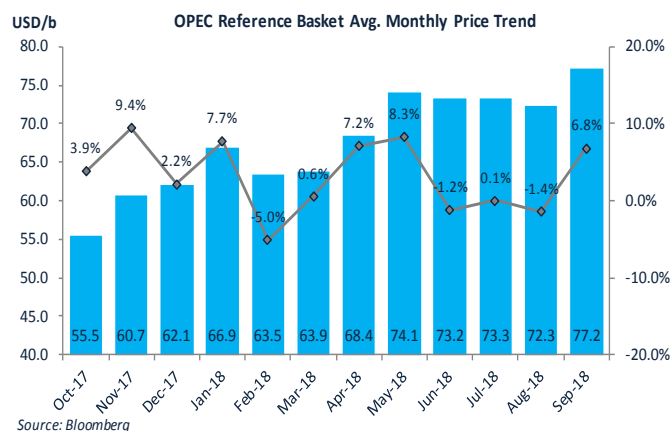
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Oil Prices

Crude prices reached the highest in 4-years during the first week of October-18 after recording extended gains in September-18. Brent Crude Spot FOB reached USD 86.07/b on 4-October-18 on the back of tightening supply but declined in the subsequent trading sessions on the back of higher reported oil inventories in the US coupled with a broad-based decline in global financial markets. The positive run during September-18 pushed average monthly prices to the highest level since October-14. Average OPEC crude for September-18 was recorded at USD 77.2/b, a m-o-m increase of 6.8%. Brent spot recorded an even higher growth of 8.5% to average at USD 78.8/b, while Kuwait crude increased by 7.0% to record USD 76.8/b. In terms of crude inventory, EIA's weekly report showed an increase of 6 million barrels slightly lower than API's estimate of an increase of 9.75 million barrels for the week ended 5-October-18. The US rig count data also reflected the higher inventory levels in the US. The latest report from Baker Hughes showed US oil rig count up for the first time in four weeks increasing by 8 to reach 869 rigs. Meanwhile, in its short term energy outlook, the EIA raised its average oil price forecast for the final quarter of 2018 by almost USD 5/b to USD 81/b.

IEA also joined IMF in reiterating threats to global economic growth and oil demand due to the rising oil prices. In its monthly report, the IEA lowered global oil demand growth forecast by 110 tb/d for both 2018 and 2019 to 1.3 mb/d and 1.4 mb/d due to economic weakness, strengthening USD against emerging economies as well as revision to Chinese data. According to the report, demand in 2019 will be led by China and India that would collectively account for 60% of the global increase in demand. On the supply side, the agency expects non-OPEC supply to increase by 2.2 mb/d and 1.8 mb/d in 2018 and 2019, respectively, primarily led by the United States. On inventory levels, the report pointed out that OECD commercial inventory increased by 15.7 million barrels in August-18 to reach the highest level seen in February-18 to 2,854 million barrels led by strong refinery output and LPG restocking.



Average Crude Oil Prices, USD/b	Aug-18	Sep-18	Change	YTD-2017	YTD-2018
OPEC Reference Basket	72.3	77.2	4.9	50.1	70.3
Arab Light	73.4	78.2	4.8	50.2	71.1
Basrah Light	71.1	76.2	5.1	49.6	69.1
Bonny Light	73.3	79.5	6.2	52.1	73.0
Djeno	69.7	76.2	6.5	50.3	69.5
Es Sider	70.7	77.1	6.4	50.3	70.7
Girassol	73.2	79.5	6.3	52.0	72.5
Iran Heavy	70.5	75.3	4.8	49.6	68.7
Kuwait Export	71.8	76.8	5.0	49.4	69.3
Qatar	72.5	76.5	4.0	50.8	69.9
Merey	67.4	69.3	1.9	45.5	64.4
Murban	74.9	78.8	3.8	52.7	72.8
Oriente	69.4	74.1	4.7	47.5	67.1
Rabi	71.9	78.0	6.2	50.8	71.2
Saharan Blend	72.6	79.6	6.9	51.6	72.4
Zafiro	72.7	79.1	6.4	51.6	72.1
Other Crudes					
Brent	72.6	78.8	6.2	51.8	72.1
Dubai	72.5	77.2	4.8	51.0	70.1
Isthmus	67.1	74.4	7.4	52.8	69.0
LLS	72.6	77.4	4.8	51.7	71.1
Mars	69.3	74.4	5.1	48.3	67.6
Minas	66.9	72.0	5.1	47.2	66.6
Urals	71.6	78.5	6.9	50.7	70.8
WTI	68.0	70.2	2.2	49.3	66.9
Differentials					
Brent/WTI	4.7	8.6	4.0	2.5	5.2
Brent/LLS	0.0	1.4	1.4	0.1	1.0
Brent/Dubai	0.2	1.6	1.4	0.8	2.0

Source: OPEC Monthly Oil Market Report - October-18

World Oil Demand

World oil demand growth was lowered for both 2018 and 2019. For the current year, demand growth was lowered by 80 tb/d to an estimated growth of 1.54 mb/d to reach a total demand for the year at 98.79 mb/d. The revision reflected most recent data for OECD Europe and Asia Pacific and slower economic momentum in the Middle East and Latin America. Demand for the overall OECD region was lowered by 30 tb/d led by lower-than expected consumption in OECD Europe and Asia Pacific that was partially offset by upward revision for America. Demand trends in the US continued to remain strong based on latest available monthly data until July-18 and preliminary weekly data for August-18 and September-18. Nevertheless, for the rest of the year, gasoline demand in the US is expected to be lower than previous expectations due to higher oil prices. OECD Europe saw lower diesel oil requirements during Q2-18 due to lower-than

World Oil Demand - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	25.02	25.20	25.40	25.43	25.44	25.37	0.35	1.40
of which US	20.23	20.57	20.64	20.58	20.58	20.59	0.36	1.77
Europe	14.30	13.95	14.19	14.78	14.47	14.35	0.05	0.35
Asia Pacific	8.06	8.54	7.65	7.72	8.31	8.06	(0.01)	(0.08)
Total OECD	47.38	47.69	47.24	47.93	48.22	47.77	0.39	0.83
Other Asia	13.24	13.55	13.84	13.43	13.96	13.70	0.45	3.40
of which India	4.53	4.83	4.74	4.40	5.02	4.75	0.22	4.76
Latin America	6.51	6.35	6.49	6.82	6.47	6.53	0.03	0.39
Middle East	8.17	8.19	7.98	8.56	7.90	8.16	(0.01)	(0.18)
Africa	4.20	4.35	4.32	4.27	4.38	4.33	0.13	3.01
Total Developing Countries (DCs)	32.13	32.44	32.63	33.08	32.71	32.72	0.59	1.83
Former Soviet Union (FSU)	4.70	4.66	4.50	4.89	5.21	4.82	0.12	2.45
Other Europe	0.72	0.73	0.69	0.73	0.82	0.74	0.03	3.48
China	12.32	12.28	12.84	12.71	13.12	12.74	0.42	3.40
Total "Other Regions"	17.74	17.68	18.03	18.33	19.15	18.30	0.56	3.15
Total World	97.25	97.80	97.90	99.35	100.08	98.79	1.54	1.58

Source: OPEC Monthly Oil Market Report - October-18

expected demand for automotive diesel and heating oil in Germany and France resulting in a downward revision of 20 tb/d. In terms of monthly data, European oil demand was positive y-o-y in July-18 although lower demand is expected for August-18 based on preliminary data for the European Big 4 (Germany, France, Italy and UK) mainly due to decline in diesel oil requirements due to shift towards gasoline-based vehicles, delay in winter stockings and low water levels in Rhine river that is limiting movement of barge. In OECD Asia Pacific, South Korea recorded lower demand in July-18 in addition to weak trends in Japan resulting in a total downgrade by 20 tb/d. Japan recorded a sixth consecutive month of drop in oil requirements that declined by 4.3% y-o-y in August-18. Non-OECD countries also witnessed downward revisions by almost 45 tb/d reflecting weaker-than-expected demand in Brazil, Argentina, Venezuela and Saudi Arabia. Demand continued to grow in China during August-18 backed by transportation and industrial sectors and primarily on the back of diesel oil requirements due to higher coal and steel production during the month.

For 2019, world oil demand growth was lowered by approximately 50 tb/d to 1.36 mb/d and total demand is now expected to reach 100.15 mb/d. The revision reflected lower expectations for Turkey, Brazil and Argentina.

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.37	25.46	25.63	25.71	25.69	25.62	0.26	1.01
of which US	20.59	20.81	20.84	20.84	20.81	20.82	0.23	1.12
Europe	14.35	13.99	14.20	14.81	14.49	14.37	0.03	0.18
Asia Pacific	8.06	8.53	7.61	7.70	8.28	8.03	(0.03)	(0.34)
Total OECD	47.77	47.98	47.44	48.21	48.47	48.03	0.25	0.53
Other Asia	13.70	13.93	14.23	13.81	14.35	14.08	0.39	2.81
of which India	4.75	5.04	4.95	4.60	5.23	4.95	0.21	4.36
Latin America	6.53	6.42	6.56	6.90	6.54	6.61	0.08	1.18
Middle East	8.16	8.26	8.05	8.64	7.97	8.23	0.07	0.91
Africa	4.33	4.46	4.43	4.37	4.48	4.44	0.11	2.45
Total Developing Countries (DCs)	32.72	33.07	33.27	33.73	33.36	33.36	0.64	1.96
Former Soviet Union (FSU)	4.82	4.75	4.59	4.98	5.31	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	12.74	12.62	13.20	13.07	13.48	13.09	0.36	2.79
Total "Other Regions"	18.30	18.12	18.49	18.79	19.64	18.77	0.47	2.54
Total World	98.79	99.17	99.21	100.74	101.46	100.15	1.36	1.38

Source: OPEC Monthly Oil Market Report - October-18

World Oil Supply

According to preliminary data, world oil supply increased by 0.23 mb/d during September-18 and averaged at 99 mb/d on the back of higher production from both OPEC and non-OPEC countries. Widening the gap between demand and supply, non-OPEC oil supply growth was revised upwards by as much as 0.20 mb/d for 2018 in OPEC's latest monthly report. Total supply is now expected to grow by 2.22 mb/d to reach 59.77 mb/d. The increase was led by revisions for historical production data for US, Canada, Russia, Colombia and Brazil, in addition to revisions to supply estimates for US, Canada, Colombia and Azerbaijan for Q4-18 led by higher production in Q3-18. On the other hand, downward revisions were made to supply data for Brazil, Kazakhstan, Mexico, Norway, Denmark and some Asian countries

Non-OPEC Oil Supply - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	21.49	22.93	23.35	23.69	24.17	23.54	2.05	9.52
of which US	14.40	15.53	16.22	16.68	16.70	16.29	1.89	13.09
Europe	3.83	3.92	3.73	3.79	3.97	3.85	0.02	0.58
Asia Pacific	0.39	0.40	0.38	0.41	0.45	0.41	0.02	4.49
Total OECD	25.71	27.25	27.46	27.89	28.58	27.80	2.09	8.11
Other Asia	3.59	3.58	3.51	3.46	3.51	3.51	(0.07)	(2.04)
Latin America	5.15	5.15	5.20	5.14	5.38	5.22	0.07	1.27
Middle East	1.24	1.21	1.25	1.26	1.22	1.23	0.00	(0.21)
Africa	1.50	1.52	1.53	1.55	1.53	1.54	0.03	2.13
Total Developing Countries (DCs)	11.48	11.45	11.50	11.41	11.65	11.50	0.02	0.19
Former Soviet Union (FSU)	14.05	14.10	14.14	14.30	13.96	14.13	0.08	0.53
of which Russia	11.17	11.14	11.18	11.44	10.98	11.19	0.02	0.14
Other Europe	0.13	0.12	0.12	0.12	0.12	0.12	(0.01)	(4.58)
China	3.97	3.94	3.99	3.95	4.03	3.98	0.00	0.10
Total "Other regions"	18.15	18.17	18.25	18.37	18.11	18.23	0.07	0.40
Total Non-OPEC Production	55.35	56.87	57.20	57.67	58.34	57.53	2.18	3.94
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	57.56	59.12	59.45	59.92	60.59	59.77	2.22	3.85
OPEC NGLs and non-conventionals	6.24	6.29	6.34	6.38	6.43	6.36	0.11	1.92
OPEC Crude Oil Production	32.62	32.39	32.19	32.56				
Total World Supply	96.42	97.80	97.98	98.86				

Source: OPEC Monthly Oil Market Report - October-18

thereby partially offsetting overall growth. Total OECD supply was raised by 157 tb/d and it is now expected to grow by 2.09 mb/d to average at 27.8 mb/d. In OECD Europe, expected oil supply from Norway was lowered by 0.01 mb/d for 2018 and is now expected to decline by 0.09 mb/d to average 1.88 mb/d. On the other hand, Russia reached a new record high crude production in September-18 after recording an increase of 0.15 mb/d to average at 11.54 mb/d.

For 2019, non-OPEC supply were also raised by almost 0.18 mb/d to reach 61.89 mb/d. However, due to base revision, supply growth was revised downwards by almost 0.03 mb/d to a growth of 2.12 mb/d. Downward revisions were made to supply figures for India, Malaysia and Egypt that were offset by upward revisions primarily in case of non-US Americas region and OECD Europe.

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	23.54	24.44	24.60	25.37	26.01	25.11	1.57	6.67
of which US	16.29	16.93	17.47	17.86	18.41	17.67	1.38	8.50
Europe	3.85	3.96	3.65	3.81	4.02	3.86	0.01	0.27
Asia Pacific	0.41	0.44	0.45	0.47	0.49	0.46	0.05	13.28
Total OECD	27.80	28.84	28.70	29.65	30.52	29.43	1.64	5.88
Other Asia	3.51	3.49	3.48	3.48	3.47	3.48	(0.04)	(1.00)
Latin America	5.22	5.47	5.50	5.56	5.81	5.58	0.36	6.99
Middle East	1.23	1.23	1.23	1.22	1.22	1.22	(0.01)	(0.90)
Africa	1.54	1.56	1.59	1.61	1.64	1.60	0.06	4.21
Total Developing Countries (DCs)	11.50	11.74	11.79	11.87	12.14	11.89	0.38	3.33
Former Soviet Union (FSU)	14.13	14.16	14.12	14.13	14.19	14.15	0.03	0.19
of which Russia	11.19	11.19	11.19	11.19	11.19	11.19	0.00	0.00
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(1.08)
China	3.98	4.06	4.01	4.00	4.03	4.02	0.04	1.13
Total "Other regions"	18.23	18.34	18.25	18.25	18.34	18.30	0.07	0.39
Total Non-OPEC Production	57.53	58.92	58.74	59.77	61.00	59.62	2.09	3.63
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.25
Total Non-OPEC Supply	59.77	61.20	61.02	62.05	63.28	61.89	2.12	3.54

Source: OPEC Monthly Oil Market Report - October-18

OPEC Oil Production & Spare Capacity

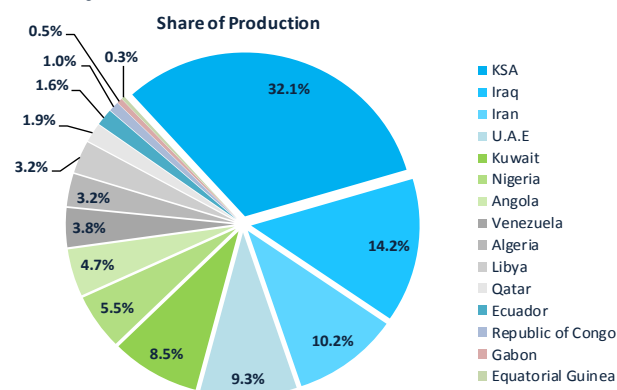
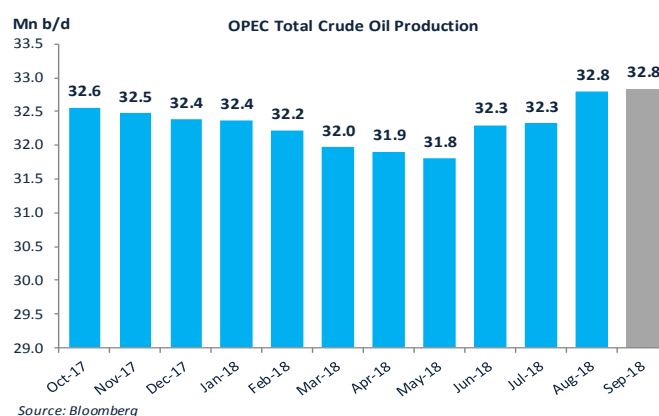
OPEC's average crude production during September-18 reached the highest level in 14 months at 32.8 mb/d, a m-o-m increase of 132 tb/d, according to Bloomberg data. The increase in production came despite declining production from Iran and Venezuela that totaled 210 tb/d. This decline was more than offset by higher production in Angola, Libya and Saudi Arabia totaling 250 tb/d. Production in Iran dropped by 140 tb/d to 3.4 mb/d, the lowest production rate in 30 months since March-16. Iran's oil exports is said to have witnessed a significant drop as importers limit purchase from Iran due to the looming sanctions that comes into effect from November 4, 2018. Production in Venezuela also continued to decline in September averaging at 1.26 mb/d, the lowest point in almost 60 years, according to reports. The country, which is undergoing economic issues, is reportedly trying to attract investments in the country by selling oil

Production ('000 b/d)	Aug-18	Sep-18	Change		Capacity	Spare Capacity
Total OPEC-15	32,800	32,830	30	0.1%	35,085	2,255
KSA	10,450	10,530	80	0.8%	11,500	970
Iraq	4,640	4,660	20	0.4%	4,700	40
Iran	3,500	3,360	-140	-4.0%	3,850	490
U.A.E	3,040	3,040	0	0.0%	3,150	110
Kuwait	2,830	2,800	-30	-1.1%	3,000	200
Nigeria	1,760	1,800	40	2.3%	1,700	0
Angola	1,440	1,530	90	6.3%	1,580	50
Venezuela	1,330	1,260	-70	-5.3%	1,500	240
Algeria	1,070	1,050	-20	-1.9%	1,080	30
Libya	970	1,050	80	8.2%	1,000	0
Qatar	620	610	-10	-1.6%	780	170
Ecuador	530	540	10	1.9%	555	15
Republic of Congo	330	320	-10	-3.0%	330	0
Gabon	180	170	-10	-5.6%	220	50
Equatorial Guinea	110	110	0	0.0%	140	30
Total OPEC-14	28,160	28,170	10	0.04%	30,385	2,215

Source: Bloomberg, OPEC

assets. In its latest effort, the country is planning to increase oil exports to China to 1 mb/d in the coming months from almost 0.7 mb/d levels currently.

On the other hand, Angola recorded the biggest increase in monthly production rate in September-18 adding 90 tb/d during the month to average at 1.53 mb/d. Furthermore, Saudi Arabia is also steadily increasing oil output and added an additional 80 tb/d during September-18 to reach the highest production rate in two years at 10.5 mb/d. Discussions are also ongoing between Kuwait and Saudi Arabia to resume oil production from the Neutral Zone. Increase in production was also reported by Libya which produced at more than 1 mb/d for the first time since February-18 with peak production during the month recorded at 1.3 mb/d. Nevertheless, recent reports suggested that there were production disruptions around the country's largest Sharara oil field that could affect current month's production. Iraq also produced at a historical high rate or 4.66 mb/d after restarting production at the country's Qayara oil field producing at 30 tb/d and plans in place to double that to 60 tb/d by year end. Recently, the country also restarted production from Ajil with an average output of 7 tb/d and a target of raising that to 17 tb/d by year end. Nigeria also raised Sep-18 output to 1.8 mb/d. According to Nigeria's NNPC, the country's peak output recently reached 2.7 million barrels.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q4 18	Q1 19	Q2 19	Q3 19
Commerzbank AG	9/Oct/18	85.0	80.0	75.0	73.0
Itau Unibanco Holding SA	8/Oct/18	83.0	84.2	82.9	81.7
Capital Economics Ltd	4/Oct/18	76.0	68.5	66.0	64.0
CIBC World Markets Inc	3/Oct/18	77.5	77.5		
Bank of Nova Scotia/The	27/Sep/18	80.7	77.0	82.0	81.0
Market Risk Advisory Co Ltd	27/Sep/18	78.0	74.0	70.0	68.0
CIMB	26/Sep/18	78.0	80.0	82.0	84.0
Citigroup Inc	25/Sep/18	79.0			
Emirates NBD PJSC	19/Sep/18	77.0	78.0	75.0	70.0
HSBC Holdings PLC	11/Sep/18	75.0	75.0	80.0	80.0
Societe Generale SA	11/Sep/18	78.0	73.0	70.0	73.0
Intesa Sanpaolo SpA	6/Sep/18	78.0	80.0	80.0	80.0
DZ Bank AG	4/Sep/18	76.0	76.0	74.0	72.0
BNP Paribas SA	3/Sep/18	80.0	85.0	82.0	77.0
Landesbank Baden-Wuerttemberg	30/Aug/18	75.0	77.5	80.0	80.0
Westpac Banking Corp	24/Aug/18	72.3	68.7	63.7	58.7
Banco Santander SA	13/Aug/18	69.7	68.0	67.0	67.0
ABN AMRO Bank NV	9/Aug/18	73.0	78.0	85.0	88.0
Toronto-Dominion Bank/Toronto	2/Aug/18	76.0	78.0	78.0	75.0
Promsvyazbank PJSC	31/Jul/18	59.1	55.0	53.1	52.7
Bank of China International UK Ltd	18/Jul/18	71.2	70.3	70.5	
Wells Fargo Securities LLC	28/Jun/18	72.0	75.0	80.0	85.0
Raiffeisen Bank International AG	27/Jun/18	76.0	74.0	72.0	69.0
Guggenheim Securities LLC	15/Jun/18	78.5	79.0	80.5	84.0
MPS Capital Services Banca per le Imprese SpA	4/Jun/18	72.0	68.0	65.0	
Natixis SA	25/May/18	74.0	74.0	78.0	82.0
Lloyds Bank PLC	14/May/18	74.0	76.0	76.0	76.0
HSH Nordbank AG	14/May/18	72.0	66.0	63.0	60.0
Median		76.0	76.0	75.5	75.5
Mean		75.6	74.7	74.3	74.2
High		85.0	85.0	85.0	88.0
Low		59.1	55.0	53.1	52.7
Current Fwd		82.7	81.9	81.2	80.3
Difference (Median - Current)		-6.7	-5.9	-5.7	-4.8

Source: Bloomberg

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