

Oil Market Monthly Report

July - 2018

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Trade concerns haunt oil market while production disruptions sway prices...

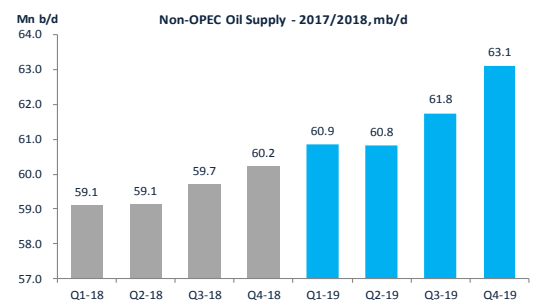
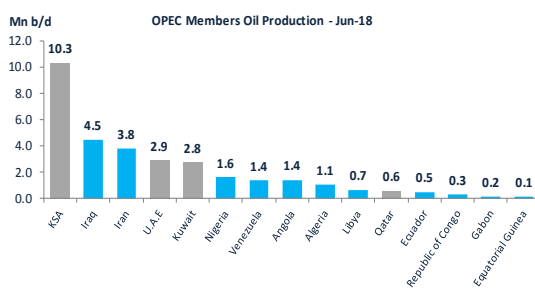
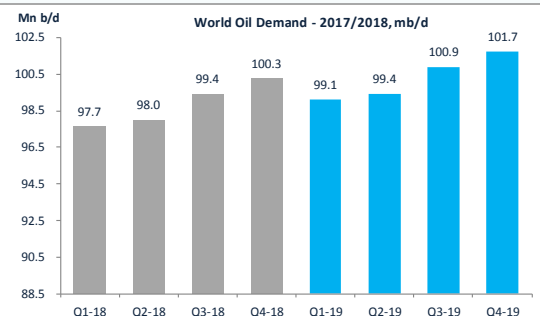
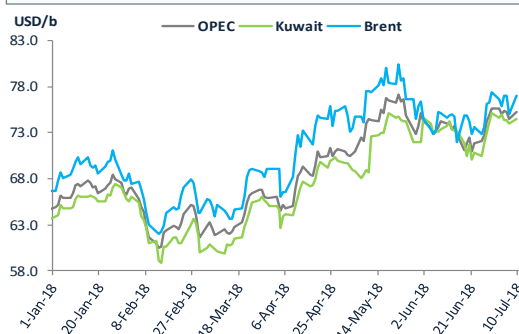
International trade concerns once again came to the fore after reports that the US could impose 10% tariffs on additional Chinese goods worth USD 200 Bn with an expected reciprocal reaction from China. The news affected markets across the globe, including Europe and Asia, however, expectations of a better earnings season and higher corporate profits in the US offset some of the negative mood in the market. Oil prices also receded, as a result, as an international trade dispute between two of the largest economies could depress oil demand.

The trend in oil prices reversed after remaining elevated over the last few weeks on the news that **the US could soften its stand on Iran sanctions and allow some countries to be exempt from sanctions to import crude from the OPEC-member.** In addition, Libya's oil production, which was suffering from a force majeure at several ports that halved the country's output, was reportedly back online. The aforementioned factors resulted in the biggest single-day drop in Brent crude in 2 years on 11-July-18.

Factors that supported oil prices primarily included production outages in key oil producing countries. A production disruption in Western Canada last month affected 10% of the country's production, although output is expected to come back online sooner-than-expected during Q3-18. In addition, a strike in Norway shut a North Sea oil field affecting around 23 tb/d of oil production. Moreover, Iran is said to have communicated to its Asian crude buyers, specifically with India, to continue trade with them beyond the November-18 deadline for the implementation of the sanctions. The country also lowered light oil price to Asia for the first time in four months.

Production by OPEC remained almost flat at 32.2 mb/d during June-18 after increase in oil production by Saudi Arabia was almost completely offset by a decline in production in Libya, Angola and Venezuela. The increase in the Kingdom's oil production came after it was decided in last month's OPEC meeting to modestly increase oil supplies from OPEC and non-OPEC producers by around 1 mb/d.

Meanwhile, the IEA, in its monthly update, highlighted a slowdown in oil demand in Q2-18, after a strong start during Q1-18, due to rising prices. According to the report, growth is expected to decline to 1.3 mb/d during 2H-18 after 1.5 mb/d during 1H-18. Growth during 1H-19 is expected to decline to 1.2 mb/d y-o-y due to high base effect and later increase to 1.6 mb/d during 2H-18. **In terms of US oil production, the US EIA kept production expectation for the current year unchanged at 10.79 mb/d with production reaching 11.29 mb/d in the last quarter.** However, the agency raised 2019 production forecast by 40 tb/d to an average of 11.8 mb/d with average production expected to breach the 12 mb/d mark during Q4-19 making it the top oil producer in the world. On the demand front, the agency lowered 2018 expected demand by 60 tb/d but increased 2019 demand outlook by 10 tb/d.



Source for the above charts : OPEC and Bloomberg

Faisal Hasan, CFA

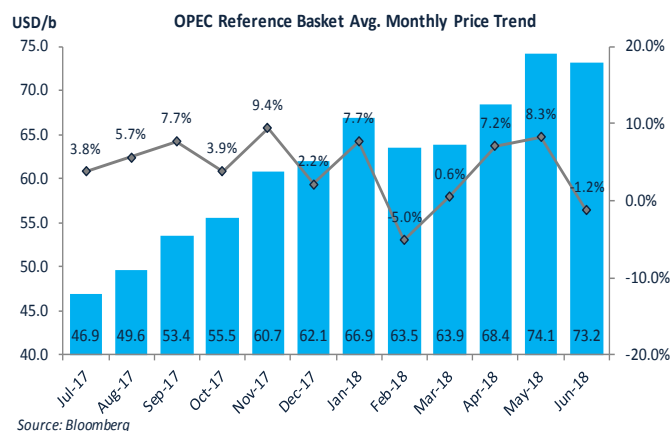
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Oil Prices

Crude prices witnessed extreme volatility during Jun-18 led by several key events during the month. The market kept a close eye on OPEC discussions aimed at raising output against a backdrop of US imposed sanctions on Iran. While at the same time the US-China trade war was being played threatening a global economic recovery that was often touted to revive oil demand. However, despite the decision to raise output, oil prices surged in consecutive sessions led by supply disruptions reported in key oil producing centers namely Libya as well as Iran sanctions. Average prices of Brent and OPEC crude declined for the first time in four months. Brent spot crude closed at a monthly peak of USD 77.44/b and averaged at USD 74.4/b for the month, a decline of 3.5% as compared to the previous month average. OPEC crude also declined but at a slightly lower pace of 1.2% to average at USD 73.22/b while Kuwait crude almost maintained the previous month average of USD 72.38/b.



Meanwhile, in its short term energy outlook, the US EIA said that gasoline demand in the US is set to decline for the first time in six years in 2018 by almost 10 tb/d compared to 2017 with overall consumption forecasted at 9.31 mb/d during the year. For 2019, gasoline demand in the US is expected to increase marginally to 9.36 mb/d, a decline of 0.02 mb/d from the previous expectation. In addition, according to EIA's latest weekly report, US crude oil inventory declined by 12.6 million barrels during the week ended 6-July-18, the largest draw in almost two years, sending crude inventory to its lowest since February-15. The drop came after three consecutive weeks of gains led by pressure on US allies to conform to Iran sanctions. The decline also came as a result of a decline in flows from Canada due to an outage at its Syncrude facility. The EIA report came a week after API reported a drop of 6.8 million barrels in US crude oil inventories. In terms of rig count, US continued to add oil rigs with an increase of five rigs to report 863 rigs for the week ended 6-July-18. Canada also added 10 rigs during the week to reach a total of 182 rigs.

Average Crude Oil Prices, USD/b	May-18	Jun-18	Change	YTD-2017	YTD-2018
OPEC Reference Basket	74.1	73.2	(0.9)	50.2	68.4
Arab Light	74.7	74.3	(0.4)	50.4	69.1
Basrah Light	72.8	71.9	(0.9)	49.6	67.2
Bonny Light	77.7	74.9	(2.9)	52.0	71.5
Djeno	73.8	70.6	(3.3)	49.7	68.2
Es Sider	75.3	72.3	(3.0)	50.1	69.4
Girassol	76.8	73.5	(3.2)	51.7	70.9
Iran Heavy	72.2	71.7	(0.5)	49.9	66.9
Kuwait Export	72.6	72.4	(0.2)	49.6	67.1
Qatar	73.4	72.9	(0.4)	51.1	67.9
Merey	68.3	69.3	1.0	45.2	62.0
Murban	76.7	76.2	(0.5)	53.1	70.9
Oriente	70.4	70.1	(0.3)	47.3	65.2
Rabi	75.9	73.1	(2.8)	50.6	69.6
Saharan Blend	77.3	73.4	(3.9)	51.4	71.0
Zafiro	76.7	73.8	(2.8)	51.3	70.5
Other Crudes					
Brent	76.9	74.2	(2.7)	51.7	70.6
Dubai	74.2	73.6	(0.6)	51.3	68.1
Isthmus	73.0	70.9	(2.1)	52.8	68.4
LLS	75.2	74.3	(0.9)	51.8	69.5
Mars	71.4	70.3	(1.1)	48.2	66.0
Minas	68.3	76.7	8.5	47.7	64.5
Urals	75.2	73.6	(1.7)	50.4	69.0
WTI	69.9	67.7	(2.2)	49.9	65.5
Differentials					
Brent/WTI	7.0	6.5	(0.5)	1.8	5.1
Brent/LLS	1.6	(0.1)	(1.8)	(0.1)	1.1
Brent/Dubai	2.7	0.6	(2.1)	0.4	2.5

Source: OPEC Monthly Oil Market Report - July-18

World Oil Demand

World oil demand growth estimates for 2018 was kept unchanged from previous month at 1.65 mb/d to average at 98.85 mb/d, although there were revisions within the regions. These internal adjustments in demand figures included upward revision in demand from OECD region by around 0.1 mb/d in Q1-18 led by better-than-expected data from OECD Americas, especially from the US for light and middle distillate products supported by healthy petrochemical sector and positive developments in industrial activities. Monthly data for oil demand in the US showed an increase of 0.38% for April-18, while preliminary data for May-18 and June-18 suggested robust growth in demand as compared to the previous year. For OECD Europe, oil demand data for April-18 suggested a y-o-y growth of 0.1 mb/d, while early indications for May-18 showed decline in demand in Germany, France, Italy and the UK. Downward revisions were done in the non-

World Oil Demand - 2016/2017, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	24.88	24.96	25.17	25.22	25.35	25.18	0.30	1.20
of which US	20.19	20.46	20.53	20.47	20.58	20.51	0.32	1.59
Europe	14.37	14.08	14.41	14.86	14.52	14.47	0.10	0.68
Asia Pacific	8.16	8.62	7.77	7.88	8.43	8.17	0.01	0.17
Total OECD	47.41	47.66	47.35	47.96	48.31	47.82	0.41	0.86
Other Asia	13.16	13.40	13.69	13.33	13.89	13.58	0.42	3.18
of which India	4.47	4.75	4.66	4.32	4.97	4.67	0.21	4.66
Latin America	6.51	6.37	6.58	6.89	6.55	6.60	0.09	1.39
Middle East	8.17	8.21	8.07	8.63	7.97	8.22	0.05	0.59
Africa	4.20	4.35	4.32	4.27	4.38	4.33	0.13	3.06
Total Developing Countries (DCs)	32.04	32.33	32.66	33.13	32.79	32.73	0.69	2.14
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	97.20	97.66	98.04	99.42	100.25	98.85	1.65	1.70

Source: OPEC Monthly Oil Market Report - July-18

OECD space by around 0.1 mb/d in Q2-18 led by lower-than-expected demand from Latin America and the Middle East. A nine-day strike by truckers in Brazil affected demand in Latin America while slower construction activities and subsidy reduction policies in the Middle East resulted in lower demand during the quarter.

In its latest monthly report, OPEC also published its initial projections for 2019. According to the report, world oil demand in 2019 is expected to grow by 1.45 mb/d as compared to 1.65 mb/d expected in 2018 and breach the 100 mb/d mark to reach 100.3 mb/d in 2019 led by steady growth in global economies. OECD oil demand is expected to grow by 0.27 mb/d led by higher demand from OECD Americas owing to higher demand for NGL and middle distillates. Demand in Europe is expected to see growth, although at a lower pace, while the OECD Asia Pacific countries are expected to see a decline in oil demand owing to the planned substitution programmes. For the non-OECD countries, demand growth is expected to remain better than their OECD counterparts at around 1.18 mb/d, although the y-o-y growth in demand would be less than the 1.25 mb/d expected in 2018. Higher demand in 2019 is expected to come from Latin America and the Middle East regions that would be offset by a slight decline in oil demand growth in China.

World Oil Demand - 2017/2018, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.18	25.22	25.40	25.50	25.60	25.43	0.26	1.01
of which US	20.51	20.70	20.73	20.72	20.81	20.74	0.23	1.13
Europe	14.47	14.14	14.44	14.90	14.57	14.52	0.05	0.31
Asia Pacific	8.17	8.61	7.73	7.85	8.40	8.15	(0.03)	(0.33)
Total OECD	47.82	47.97	47.57	48.26	48.57	48.09	0.27	0.57
Other Asia	13.58	13.78	14.08	13.71	14.28	13.96	0.39	2.84
of which India	4.67	4.96	4.87	4.52	5.18	4.88	0.21	4.43
Latin America	6.60	6.49	6.70	7.02	6.67	6.72	0.13	1.93
Middle East	8.22	8.30	8.16	8.73	8.06	8.31	0.09	1.14
Africa	4.33	4.46	4.43	4.37	4.49	4.44	0.11	2.45
Total Developing Countries (DCs)	32.73	33.03	33.37	33.84	33.51	33.44	0.71	2.18
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	98.85	99.12	99.43	100.90	101.72	100.30	1.45	1.47

Source: OPEC Monthly Oil Market Report - July-18

World Oil Supply

Non-OPEC supply growth projections for 2018 was once again revised upward by 0.18 mb/d to a growth of 2.0 mb/d and is expected to average at 59.54 mb/d. The upward revision primarily reflected higher supply from the US, in addition to an expected increase in supply from Russia during 2H-18. Supply from OECD was revised downward by 71 tb/d and is now expected to grow by 1.88 mb/d to average at 27.57 mb. Supply from OECD Americas was revised upward by 95 tb/d with higher supplies from the US and Canada partially offset by a decline in supply from Mexico. For OECD Europe, supply forecast for 2018 was lowered by 0.02 mb/d, as compared to the previous forecast due to extended outages during maintenance during May-18 and June-18.

Non-OPEC Oil Supply - 2016/2017, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	21.47	22.93	23.07	23.56	23.71	23.32	1.85	8.63
of which US	14.36	15.54	16.11	16.32	16.26	16.06	1.70	11.84
Europe	3.83	3.91	3.70	3.80	4.01	3.86	0.03	0.78
Asia Pacific	0.39	0.40	0.39	0.40	0.39	0.39	0.00	0.18
Total OECD	25.69	27.25	27.16	27.76	28.11	27.57	1.88	7.33
Other Asia	3.61	3.60	3.56	3.60	3.60	3.59	(0.02)	(0.65)
Latin America	5.14	5.11	5.17	5.32	5.46	5.27	0.13	2.51
Middle East	1.24	1.21	1.25	1.23	1.22	1.23	(0.01)	(0.70)
Africa	1.50	1.52	1.52	1.52	1.53	1.52	0.02	1.52
Total Developing Countries (DCs)	11.49	11.43	11.51	11.67	11.81	11.61	0.12	1.04
Former Soviet Union (FSU)	14.06	14.11	14.14	14.05	14.09	14.10	0.04	0.29
of which Russia	11.17	11.14	11.18	11.13	11.13	11.15	(0.02)	(0.22)
Other Europe	0.13	0.12	0.12	0.12	0.12	0.12	0.00	(2.76)
China	3.97	3.94	3.95	3.84	3.85	3.90	(0.08)	(1.98)
Total "Other regions"	18.16	18.17	18.22	18.01	18.07	18.12	(0.04)	(0.22)
Total Non-OPEC Production	55.33	56.85	56.88	57.44	57.98	57.29	1.96	3.55
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	57.54	59.10	59.13	59.69	60.23	59.54	2.00	3.48
OPEC NGLs and non-conventionals	6.25	6.30	6.35	6.39	6.44	6.37	0.12	1.92
OPEC Crude Oil Production	32.63	32.39	32.21					
Total World Supply	96.42	97.79	97.69					

Source: OPEC Monthly Oil Market Report - July-18

Non-OPEC oil supply in 2019 is expected to grow at broadly the same pace as in 2018 at around 2.1 mb/d. The increase is expected to come from higher production in North America and new project ramp up in Brazil partially offset by declines in Mexico, Norway and China led by lack of new projects and decline in productivity of mature fields. As per the report, the rate of growth of shale oil production is expected to slow down in 2H-18 that would continue into 2019 as the Permian basin faces take-away capacity constraints. In addition, some of the planned pipeline capacity additions have been delayed. Furthermore, rig count and well completions could see a slowdown coupled with a decline in well productivity as operators expand production beyond the current sweet spots. OPEC NGL production is expected to grow by 0.11 mb/d in 2019, a marginal decline from 0.12 expected in 2018.

Non-OPEC Oil Supply - 2017/2018, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	23.32	24.18	24.46	25.08	25.81	24.89	1.57	6.72
of which US	16.06	16.68	17.40	17.61	18.28	17.50	1.44	8.94
Europe	3.86	3.98	3.67	3.79	4.00	3.86	0.00	0.05
Asia Pacific	0.39	0.39	0.42	0.50	0.53	0.46	0.07	17.09
Total OECD	27.57	28.55	28.55	29.37	30.34	29.21	1.64	5.94
Other Asia	3.59	3.60	3.59	3.59	3.58	3.59	0.00	(0.04)
Latin America	5.27	5.46	5.52	5.60	5.88	5.62	0.35	6.64
Middle East	1.23	1.25	1.25	1.24	1.24	1.24	0.01	1.22
Africa	1.52	1.57	1.60	1.62	1.65	1.61	0.09	5.85
Total Developing Countries (DCs)	11.61	11.88	11.95	12.06	12.35	12.06	0.45	3.90
Former Soviet Union (FSU)	14.10	14.14	14.11	14.12	14.18	14.14	0.04	0.27
of which Russia	11.15	11.17	11.17	11.17	11.17	11.17	0.02	0.20
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(1.06)
China	3.90	3.88	3.83	3.82	3.85	3.84	(0.05)	(1.35)
Total "Other regions"	18.12	18.15	18.06	18.06	18.14	18.10	(0.02)	(0.09)
Total Non-OPEC Production	57.29	58.57	58.55	59.48	60.84	59.37	2.07	3.62
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.25
Total Non-OPEC Supply	59.54	60.85	60.83	61.75	63.11	61.64	2.10	3.53

Source: OPEC Monthly Oil Market Report - July-18

OPEC Oil Production & Spare Capacity

OPEC production during June-18 remained almost flat after it reported a marginal increase of 30 tb/d to reach 31.83 mb/d, according to Bloomberg while according to OPEC secondary sources, the m-o-m increase was 173.4 tb/d. During June-18, Republic of Congo was added as the 15th member of the OPEC group with a production level of 331 tb/d, according to data from OPEC secondary sources, thereby increasing OPEC production to 32.2 mb/d for June-18, resulting in a m-o-m increase of 40 tb/d. During the month, Saudi Arabia increased production by 330 tb/d after the OPEC meeting in which it was decided to raise OPEC and non-OPEC output by 1 mb/d, which is 1% of total global oil production, to offset the decline in production from Iran due to sanctions. The increase in production would come by way of lowering the compliance level as per the production cut agreement to 100%. Moreover, this increase would also include an

Production ('000 b/d)	May-18	Jun-18	Change		Capacity	Spare Capacity
Total OPEC-15	32,119	32,161	42	0.1%	36,065	3,904
KSA	9,970	10,300	330	3.3%	11,500	1,200
Iraq	4,480	4,500	20	0.4%	4,700	200
Iran	3,810	3,780	-30	-0.8%	4,000	220
U.A.E	2,870	2,890	20	0.7%	3,150	260
Kuwait	2,710	2,760	50	1.8%	3,000	240
Nigeria	1,560	1,620	60	3.8%	1,900	280
Venezuela	1,440	1,380	-60	-4.2%	1,900	520
Angola	1,530	1,410	-120	-7.8%	1,710	300
Algeria	1,020	1,050	30	2.9%	1,150	100
Libya	990	690	-300	-30.3%	1,000	310
Qatar	600	610	10	1.7%	780	170
Ecuador	520	520	0	0.0%	555	35
Republic of Congo	319	331	12	3.8%	350	19
Gabon	180	190	10	5.6%	220	30
Equatorial Guinea	120	130	10	8.3%	150	20
Total OPEC-14	27,639	27,661	22	0.08%	31,365	3,704

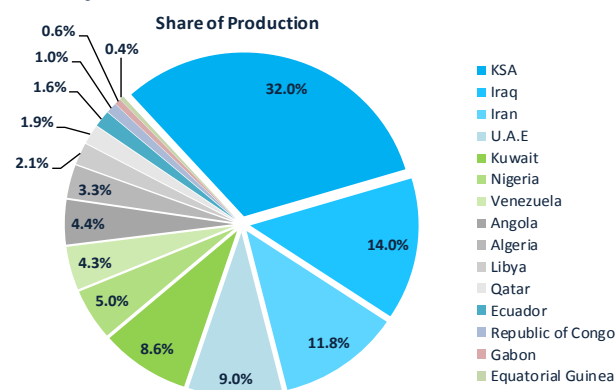
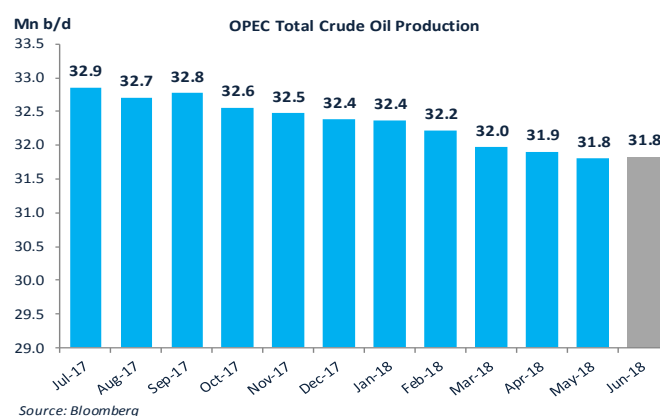
Source: Bloomberg, OPEC

increase of 200 tb/d from Russia, according to a statement from Russia's Energy Minister.

Saudi Arabia produced at a rate of 10.3 mb/d during June-18, the highest production in 18 months. However, this increase was almost fully offset by a steep decline of 0.3 mb/d in production from Libya that produced at the lowest pace since April-17. That said, according to recent reports, production in Libya is set to be restored after the NOC said that it would lift the force majeure on a number of major export terminals and resume shipments from the country. According to the estimates, around 0.7 mb/d of oil could be back in production.

Production in Angola also declined by almost 120 tb/d owing to technical problems in the country's maturing oil fields although there are plans to boost output by 250 tb/d by 2020 by attracting international oil majors through new energy legislations and more favorable investment terms.

Countries that reported higher oil production during June-18 included Nigeria (+60 tb/d), Kuwait, (+50 tb/d) while Venezuela reported a decline (-60 tb/d). Venezuela, which continues to face economic woes, is reported to have 26 operational oil rigs, down 23 rigs y-o-y, a new 15-year low for the country. Meanwhile, in Nigeria, oil exploration companies are now returning to existing fields to extract more oil as a counter to declining investments in new oil wells.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	Analyst	As Of	Q3 18	Q4 18	Q1 19	Q2 19
Societe Generale SA	M. Wittner	9/Jul/18	80.0	78.0	73.0	70.0
Commerzbank AG	E. Weinberg	6/Jul/18	70.0	65.0	63.0	61.0
Market Risk Advisory Co Ltd	N. Niimura	4/Jul/18	75.0	73.0	68.0	66.0
Capital Economics Ltd	T. Pugh	3/Jul/18	77.0	70.0	63.5	61.0
Wells Fargo Securities LLC	R. Read	28/Jun/18	77.0	72.0	75.0	80.0
Raiffeisen Bank International AG	H. Loacker	27/Jun/18	75.0	76.0	74.0	72.0
Landesbank Baden-Wuerttemberg	F. Schallenberger	26/Jun/18	75.0	75.0	78.0	80.0
Citigroup Inc	E. Morse	22/Jun/18	78.0	79.0		
Emirates NBD PJSC	E. Bell	21/Jun/18	70.0	68.0	67.5	65.0
Westpac Banking Corp	J. Smirk	20/Jun/18	75.1	73.1	68.7	62.3
Intesa Sanpaolo SpA	D. Corsini	20/Jun/18	75.0	78.0	80.0	80.0
Guggenheim Securities LLC	M. Lamotte	15/Jun/18	77.0	78.5	79.0	80.5
Itau Unibanco Holding SA	A. Passos	11/Jun/18	72.5	68.9	67.9	67.7
HSBC Holdings PLC	G. Gray	5/Jun/18	70.0	70.0	70.0	70.0
BNP Paribas SA	H. Tchilinguirian	25/May/18	84.0	82.0	79.0	85.0
Natixis SA	J. Hancock	25/May/18	77.0	74.0	74.0	78.0
Lloyds Bank PLC	C. Paraskevas	14/May/18	72.0	74.0	76.0	76.0
HSH Nordbank AG	J. Edelmann	14/May/18	76.0	72.0	66.0	63.0
DZ Bank AG	A. Herlinghaus	10/May/18	67.5	65.0	65.0	64.0
Societe Generale SA	C. Narayanan	4/May/18	68.0	64.0	66.2	
Citigroup Inc	A. Doshi	30/Apr/18	66.0	61.0		
Toronto-Dominion Bank/Toronto	B. Melek	26/Apr/18	70.0	70.0	70.0	70.0
Banco Santander SA	J. Kenney	13/Apr/18	59.0	58.2	58.0	57.0
Bank of Nova Scotia/The	M. Loewen	9/Apr/18	71.0	73.7	76.0	73.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	E. Khoman	3/Apr/18	62.2	61.4	60.2	
CIBC World Markets Inc	J. Pinto	23/Mar/18	63.0			
ABN AMRO Bank NV	H. Van Cleef	22/Mar/18	70.0	73.0	78.0	80.0
Norddeutsche Landesbank Girozentrale	F. Kunze	8/Mar/18	68.0	68.0	61*	
Nordea Bank Norge ASA	T. Saltvedt	1/Mar/18	66.0	67.0	67.0	67.0
Australia & New Zealand Banking Group Ltd/Melbourne	D. Hynes	27/Feb/18	70.0	67.0	68.0	68.0
DNB ASA	T. Kjus	21/Feb/18	62.0	62.0	69.0	69.0
Oxford Economics Ltd	D. Smith	2/Feb/18	65.0	65.0	65.0	65.0
Median			70.0	70.0	68.7	69.0
Mean			70.9	70.3	70.0	70.1
High			84.0	82.0	80.0	85.0
Low			59.0	58.2	58.0	57.0
Current Fwd			78.6	77.8	76.7	75.6
Difference (Median - Current)			-8.6	-7.8	-8.1	-6.6

Source: Bloomberg

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