

Oil Market Monthly Report

May - 2018

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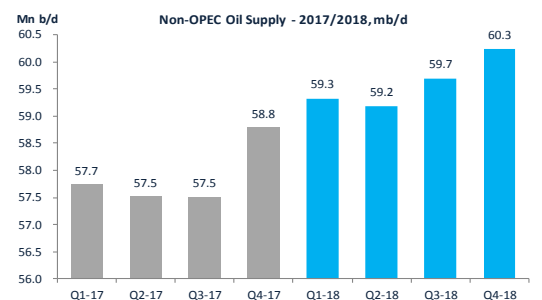
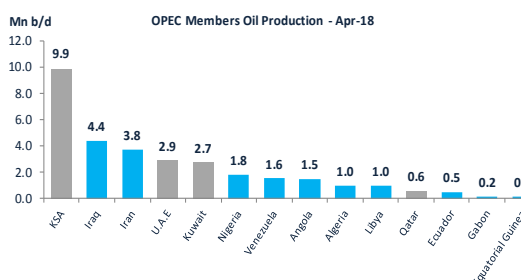
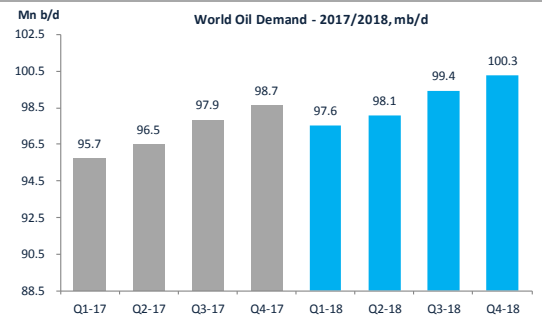
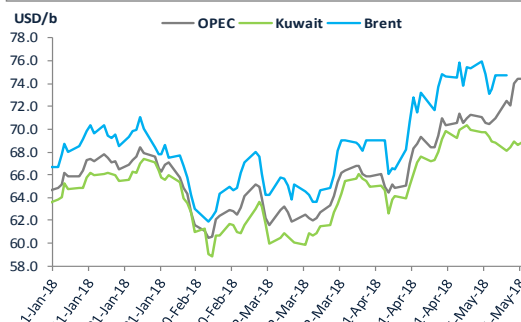
Crude prices remain elevated on Iran sanctions and higher OPEC compliance...

Oil prices reached a new multi-year high during late April-18 and the trend continued during the first two weeks of May-18, backed primarily by the looming sanctions on Iran with the US pulling out of the nuclear deal. This came in addition to the already strained geopolitical issues in the Middle East that has kept oil prices on the edge over the past few months. As a result, the spread between Brent and WTI widened to the highest level since May-15 with Brent trading at a premium of around USD 7.3/barrel, according to data from Bloomberg. The sanctions on Iran is expected to affect its oil shipments with the full impact estimated after November-18, unless there are agreements on some of the points raised by the US. According to some estimates, overall supply from Iran is expected to decline by 0.5 mb/d, a much lower pace of decline as compared to the previous sanction.

On the supply side, oil prices got support from the ongoing oil production cuts by OPEC and non-OPEC members that far exceeded the required compliance levels. According to Bloomberg, the compliance level stood at 166% in April-18, almost flat as compared to the revised figures for March-18 that was 167%. Nevertheless, rising oil prices have put pressure on the group to discuss the future course of the supply cut agreement beyond the current deadline that ends by the end of 2018, and is expected to be discussed in the June-18 meeting with OPEC members. Meanwhile, monthly OPEC oil production averaged at 31.9 mb/d, according to data from Bloomberg, the lowest level in the past 12 months.

On the other hand, oil output in the US continued to rise and partially offset ongoing market trends. US drillers took advantage of higher oil prices by adding new rigs while productivity of existing rigs has also seen significant improvement over the years that extends the life of existing rigs. Data from Baker Hughes showed a sixth consecutive rise in oil rigs in the US for the week ended 11-May-18 with 10 new rigs bringing the total count to 844, the highest level since March-15. Canada, however, saw a decline in oil and gas rigs during the week. On shale production, the US EIA predicted, in its monthly drilling productivity report, an increase of almost 145 tb/d in shale production to a record 7.18 mb/d in June-18.

Demand side factors included robust demand estimates primarily from Asian countries. This comes in addition to IMF's estimate of stable global economic growth in the coming years with support coming from Advanced Economies, especially in the Euro Area. According to China's statistics bureau, refinery throughput in China surged almost 12% in April-18 to reach 12.06 mb/d as compared to an all time high level of 12.1 mb/d in March-18. This came despite a fall in domestic oil production in China by 2.3% y-o-y to 15.51 million metric tons, indicating higher oil imports, especially from Middle East producers. The YTD-18 decline in production was at 2.1% as compared to the same period in 2017. The rise in China's oil demand comes in addition to strong demand growth from India in recent months.



Source for the above charts : OPEC and Bloomberg

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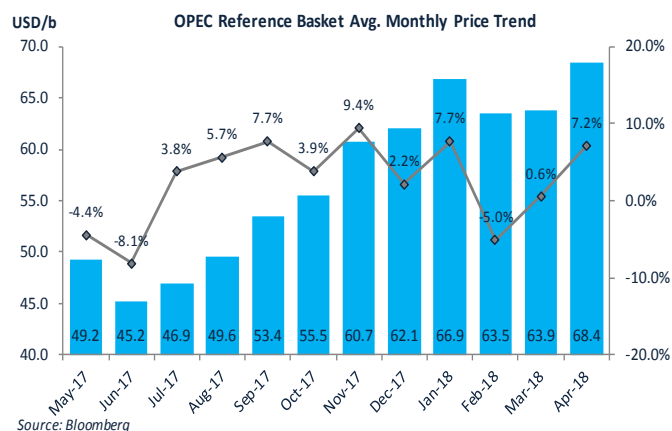
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Oil Prices

Oil prices have been on an uptrend after declining for the first few trading sessions in April-18 with the trajectory continuing in May-18. OPEC crude spot prices reached USD 74.46/b on 10-Apr-18, the highest level since November-14, while spot Brent crude reached USD 75.92/b on the final trading session of April-18, also the highest level since November-14. Average monthly oil prices recorded the biggest increase since January-18 with average monthly OPEC crude prices up by 7.2% to reach USD 68.4/barrel. Average monthly Brent price was up 8.6%, the biggest increase since November-17 to reach USD 71.6/b. Average monthly Brent spot prices breached the USD 70/b mark for the first time since November-14. Initial trends from May-18 also shows a continuous uptrend for all the crude grades, although prices declined on first two trading session. Meanwhile, the bullish sentiment in the oil market got a further boost when EIA reported a draw of 2.2 million barrels in US crude inventories. The report showed a decline across the board including gasoline and distillate inventories although production witnessed minimal changes during the week. As a consequence of declining inventories, OPEC in its reports said that oil inventories in OECD industrialized nations fell to 9 million barrels above the 5-year average level, a target that has guided the group's production cut efforts since its implementation. The excess inventory was almost 340 million barrels above the 5-year average in January-17.

On the contrary, although futures prices are showing one of the strongest surge in recent years, the physical market does not show such a promising picture. According to a Reuters report, a surge in US exports to more than 2 mb/d has saturated some markets (Nigeria and Azerbaijan grade crudes), followed by backlog of cargos in Europe and Chinese ports amid weak demand from refiners in China and clogged pipelines for some key US and Canadian oil grades. Nevertheless, there are also reports that the physical market backlog is due to seasonal maintenance and the expected turnaround in global growth would utilize the excess in the physical market.



Average Crude Oil Prices, USD/b	Mar-18	Apr-18	Change	YTD-2017	YTD-2018
OPEC Reference Basket	63.8	68.4	4.7	51.8	65.7
Arab Light	64.4	68.9	4.5	52.0	66.2
Basrah Light	62.3	67.1	4.8	51.2	64.5
Bonny Light	67.1	72.8	5.7	53.8	69.0
Es Sider	64.9	70.4	5.5	51.9	67.0
Girassol	66.9	71.8	4.9	53.5	68.7
Iran Heavy	62.2	66.6	4.4	51.6	64.3
Kuwait Export	62.2	67.0	4.8	51.2	64.3
Qatar	63.4	67.6	4.2	52.7	65.2
Merey	56.9	60.2	3.3	46.0	58.5
Murban	66.3	71.0	4.7	54.8	68.0
Oriente	61.2	65.4	4.2	48.5	62.6
Rabi	64.9	70.6	5.7	52.3	67.0
Saharan Blend	66.7	72.1	5.4	53.3	68.7
Zafiro	65.9	71.4	5.5	53.0	68.0
Other Crudes					
Brent	65.9	71.6	5.7	53.4	68.0
Dubai	62.8	68.3	5.5	52.9	65.0
Isthmus	65.4	68.1	2.7	54.2	66.5
LLS	65.1	69.5	4.3	53.4	66.8
Mars	62.1	66.5	4.4	49.6	63.5
Minas	58.9	63.5	4.6	49.5	60.4
Urals	63.6	69.2	5.5	52.1	66.2
WTI	62.8	66.3	3.6	51.6	63.8
Differentials					
Brent/WTI	3.1	5.3	2.1	1.8	4.2
Brent/LLS	0.8	2.1	1.4	0.1	1.2
Brent/Dubai	3.1	3.3	0.2	0.6	3.0

Source: OPEC Monthly Oil Market Report - May-18

World Oil Demand

World oil demand growth estimates for 2017 was kept unchanged at 1.65 mb/d to average at 97.2 mb/d, although there were adjustments within individual production numbers that netted to a flat estimates. There was an upward adjustment of 14 tb/d to demand figures for the OECD region, mostly in OECD Europe for all the four quarters of 2017, which was completely offset by downward revisions in OECD America and around 13 tb/d downward revision for non-OECD producers reflecting updated data for Latin America.

Demand expectations for 2018 was also revised marginally upward by 25 tb/d to around 1.65 mb/d to average at 98.85 mb/d primarily reflecting a 20 tb/d upward revision in Q1-18 for the OECD region due to better-than-expected data in OECD Americas (US) and OECD Asia Pacific. Factors that led to the upward revision in the aforementioned countries included higher middle distillate demand on the back of

World Oil Demand - 2016/2017, mb/d	2016	Q1-17	Q2-17	Q3-17	Q4-17	2017	Y-o-Y Growth	% Chg.
Americas	24.74	24.47	24.96	24.98	25.09	24.88	0.14	0.55
of which US	20.00	19.83	20.31	20.23	20.38	20.19	0.19	0.95
Europe	14.04	13.95	14.33	14.76	14.44	14.37	0.33	2.36
Asia Pacific	8.12	8.56	7.76	7.90	8.43	8.16	0.04	0.53
Total OECD	46.90	46.98	47.05	47.64	47.96	47.41	0.51	1.09
Other Asia	12.85	12.87	13.30	12.95	13.52	13.16	0.31	2.38
of which India	4.39	4.43	4.42	4.20	4.81	4.47	0.08	1.79
Latin America	6.47	6.26	6.49	6.80	6.46	6.51	0.04	0.57
Middle East	8.09	8.23	8.03	8.55	7.88	8.17	0.08	0.96
Africa	4.10	4.25	4.19	4.14	4.24	4.20	0.11	2.63
Total Developing Countries (DCs)	31.51	31.60	32.01	32.44	32.11	32.04	0.53	1.68
Former Soviet Union (FSU)	4.63	4.56	4.39	4.77	5.10	4.70	0.07	1.58
Other Europe	0.70	0.71	0.67	0.70	0.79	0.72	0.02	3.16
China	11.80	11.88	12.40	12.30	12.70	12.32	0.52	4.41
Total "Other Regions"	17.13	17.14	17.46	17.77	18.59	17.74	0.62	3.59
Total World	95.54	95.73	96.52	97.85	98.65	97.20	1.65	1.73

Source: OPEC Monthly Oil Market Report - May-18

industrial activity, colder-than-expected weather and strong mining activities. Oil demand data for the non-OECD countries was also revised upwards primarily reflecting better-than-expected data from Other Asia, India and Latin America. However, these upgrades were offset by a decline in demand from Middle East and Africa regions by 30 tb/d in Q1-18. Oil demand in India was reportedly up for the eight consecutive month in April-18 and reached 17.7 million tons from 16.9 million tons in April-17. Higher industrial activity pushed oil demand in India by 4.5% y-o-y on the back of higher sales of trucks and buses. Demand from China was also robust despite the maintenance season due to purchases for the Strategic Petroleum Reserves in addition to higher demand from small refiners (teapots) as well as an overall improvement in the country's economic performance. Moreover, the domestic crude oil production in China reached a seven-year low level. In the US, monthly data for February-18 confirmed the previously released preliminary data that showed healthy growth in demand with a y-o-y growth of 2.4% or 0.5 mb/d led by higher demand for natural gas plant liquids as feedstock to the petrochemical industry and consumption fuels for industrial and road transportation sectors. Preliminary data for March-18 and April-18 continue to show an upward trend. Q1-18 oil demand in Europe remained strong with a growth of 0.07 mb/d on the back of colder weather conditions, improving economy and better manufacturing activity.

World Oil Demand - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	24.88	24.84	25.17	25.22	25.35	25.15	0.27	1.08
of which US	20.19	20.16	20.53	20.47	20.58	20.43	0.25	1.22
Europe	14.37	14.07	14.41	14.86	14.52	14.47	0.10	0.68
Asia Pacific	8.16	8.62	7.77	7.88	8.44	8.18	0.01	0.17
Total OECD	47.41	47.54	47.35	47.96	48.31	47.79	0.38	0.80
Other Asia	13.16	13.35	13.69	13.33	13.89	13.57	0.41	3.10
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	6.59	6.90	6.56	6.60	0.10	1.51
Middle East	8.17	8.26	8.11	8.65	7.99	8.25	0.08	0.98
Africa	4.20	4.36	4.33	4.27	4.38	4.33	0.13	3.11
Total Developing Countries (DCs)	32.04	32.34	32.72	33.15	32.82	32.76	0.72	2.24
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	12.82	12.71	13.12	12.74	0.42	3.37
Total "Other Regions"	17.74	17.68	18.01	18.33	19.15	18.30	0.56	3.13
Total World	97.20	97.55	98.08	99.44	100.28	98.85	1.65	1.70

Source: OPEC Monthly Oil Market Report - May-18

World Oil Supply

Non-OPEC oil supply estimates for 2017 was revised down marginally by 0.01 mb/d to an average of 57.89 mb/d indicating a growth of 0.87 mb/d led by revisions in historical non-conventional that led to downward adjustments mainly in Brazil and upward revisions primarily for OECD Europe. Non-OPEC supply growth figures for 2018 were also revised upwards by 8 tb/d to a growth of 1.72 mb/d to reach an average of 59.62 mb/d. The revision reflected upward revisions in Q1-18 supply figures for US, Argentina, Colombia and China that were partially offset by downward adjustments to Canada, Mexico, Norway, UK and Brazil. Data also showed that global oil supply increased by 0.12 mb/d m-o-m and 2.3 mb/d y-o-y to reach 97.89 mb/d in April-18. Non-OPEC supply during the month witnessed a

Non-OPEC Oil Supply - 2016/2017, mb/d	2016	Q1-17	Q2-17	Q3-17	Q4-17	2017	Y-o-Y Growth	% Chg.
Americas	20.61	21.10	20.94	21.39	22.41	21.47	0.86	4.16
of which US	13.63	13.81	14.12	14.32	15.18	14.36	0.73	5.33
Europe	3.85	3.97	3.84	3.73	3.77	3.83	(0.03)	(0.73)
Asia Pacific	0.42	0.38	0.40	0.41	0.38	0.39	(0.03)	(7.70)
Total OECD	24.89	25.46	25.18	25.52	26.56	25.68	0.80	3.20
Other Asia	3.71	3.65	3.60	3.57	3.60	3.60	(0.11)	(2.91)
Latin America	5.07	5.13	5.14	5.13	5.15	5.14	0.07	1.30
Middle East	1.28	1.24	1.24	1.25	1.22	1.24	(0.04)	(3.21)
Africa	1.79	1.84	1.85	1.86	1.90	1.86	0.07	3.78
Total Developing Countries (DCs)	11.85	11.86	11.83	11.80	11.87	11.84	(0.02)	(0.13)
Former Soviet Union (FSU)	13.86	14.13	14.14	13.90	14.07	14.06	0.20	1.44
of which Russia	11.08	11.25	11.24	11.06	11.14	11.17	0.09	0.79
Other Europe	0.13	0.13	0.13	0.13	0.12	0.13	(0.01)	(3.87)
China	4.09	3.96	4.03	3.95	3.96	3.97	(0.12)	(2.85)
Total "Other regions"	18.08	18.22	18.30	17.97	18.15	18.16	0.08	0.43
Total Non-OPEC Production	54.82	55.53	55.31	55.30	56.58	55.68	0.86	1.56
Processing gains	2.19	2.21	2.21	2.21	2.21	2.21	0.02	0.77
Total Non-OPEC Supply	57.02	57.74	57.52	57.51	58.79	57.89	0.87	1.53
OPEC NGLs and non-conventionals	6.14	6.21	6.26	6.35	6.42	6.31	0.17	2.77
OPEC Crude Oil Production	32.64	32.11	32.28	32.71	32.38	32.37	(0.27)	(0.83)
Total World Supply	95.80	96.06	96.06	96.57	97.59	96.57		

Source: OPEC Monthly Oil Market Report - May-18

marginal m-o-m growth of 0.09 mb/d and averaged at 59.49 mb/d led by higher production in OECD Europe, OECD Asia Pacific, Latin America and China partially offset by a decline in OECD Americas, Other Asia, Africa and the FSU.

Oil production in the US increased by 0.26 mb/d in February-18 and preliminary data for March-18 suggested a growth 0.05 mb/d in US tight crude output. The US EIA has forecasted that between June-17 and June-18, U.S. crude oil production from seven major shale regions is forecast to rise by 1.78 mb/d to reach 7.18 mb/d. The production in May is expected to increase by 144 tb/d to reach 7.03 mb/d. In Canada, preliminary data for March-18 and April-18 showed a significant decline due to outages while Mexico also showed a decline during March-18.

Non-OPEC Oil Supply - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	21.47	22.75	22.86	23.41	23.62	23.16	1.69	7.89
of which US	14.36	15.49	15.84	16.05	16.17	15.89	1.53	10.64
Europe	3.83	3.90	3.78	3.77	3.99	3.86	0.04	0.92
Asia Pacific	0.39	0.40	0.40	0.40	0.39	0.40	0.00	0.88
Total OECD	25.68	27.05	27.04	27.58	27.99	27.42	1.73	6.75
Other Asia	3.60	3.61	3.60	3.60	3.59	3.60	0.00	(0.11)
Latin America	5.14	5.12	5.25	5.32	5.42	5.28	0.14	2.76
Middle East	1.24	1.21	1.23	1.23	1.21	1.22	(0.02)	(1.36)
Africa	1.86	1.90	1.91	1.91	1.92	1.91	0.05	2.60
Total Developing Countries (DCs)	11.84	11.84	11.99	12.06	12.14	12.01	0.17	1.43
Former Soviet Union (FSU)	14.06	14.13	13.92	13.85	13.90	13.95	(0.11)	(0.81)
of which Russia	11.17	11.16	11.04	10.98	10.98	11.04	(0.13)	(1.18)
Other Europe	0.13	0.12	0.13	0.12	0.12	0.12	0.00	(1.77)
China	3.97	3.94	3.87	3.84	3.85	3.88	(0.10)	(2.48)
Total "Other regions"	18.16	18.19	17.91	17.81	17.87	17.95	(0.21)	(1.18)
Total Non-OPEC Production	55.68	57.08	56.94	57.45	58.00	57.37	1.69	3.03
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	57.89	59.33	59.19	59.70	60.25	59.62	1.72	2.98

Source: OPEC Monthly Oil Market Report - May-18

OPEC Oil Production & Spare Capacity

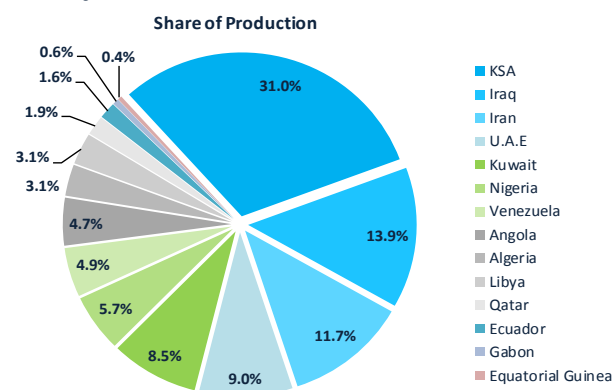
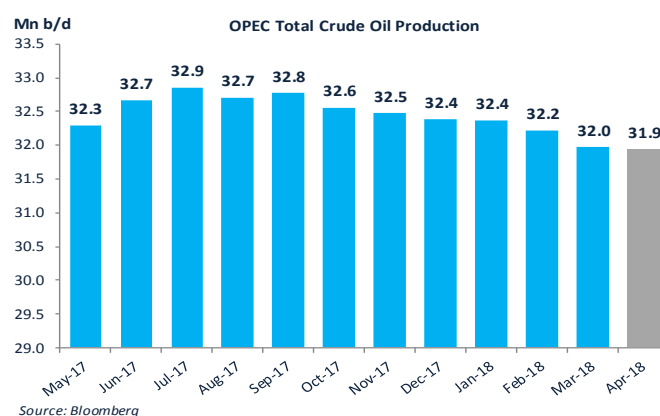
Monthly oil production by OPEC members averaged at 31.9 mb/d, according to data from Bloomberg and OPEC monthly report, the lowest level in the past 12 months. According to the OPEC report, there were minimal changes in production figures for most of the OPEC member countries. Changes in production during the month included a small increase in production by Saudi Arabia, Algeria and Iran that was partially offset by lower production primarily in Venezuela. Although there were minor differences between data from Bloomberg, OPEC direct communication and OPEC secondary sources, Saudi Arabia continued to produce below the 10 mb/d mark, which in addition to Venezuela's steep decline over the past few months pushed OPEC compliance levels to more than 160%. That said, the sanctions on Iran oil shipments has prompted reactions from a number of producers that are members of the pact to reduce production which makes

Production ('000 b/d)	Mar-18	Apr-18	Change		Capacity	Spare Capacity
Total OPEC-13	31,970	31,930	-40	-0.1%	35,715	3,785
KSA	9,870	9,900	30	0.3%	11,500	1,600
Iraq	4,430	4,430	0	0.0%	4,700	270
Iran	3,810	3,750	-60	-1.6%	4,000	250
U.A.E	2,860	2,860	0	0.0%	3,150	290
Kuwait	2,700	2,700	0	0.0%	3,000	300
Nigeria	1,810	1,810	0	0.0%	1,900	90
Venezuela	1,510	1,550	40	2.6%	1,900	350
Angola	1,540	1,500	-40	-2.6%	1,710	210
Algeria	1,000	990	-10	-1.0%	1,150	160
Libya	990	990	0	0.0%	1,000	10
Qatar	610	610	0	0.0%	780	170
Ecuador	520	520	0	0.0%	555	35
Gabon	190	190	0	0.0%	220	30
Equatorial Guinea	130	130	0	0.0%	150	20
Total OPEC-12	27,540	27,500	-40	-0.15%	31,015	3,515

the deal more vulnerable to changes in the near future. Saudi Arabia maintained its firm stand to stick to the agreement saying it is premature to discuss easing cuts in the June-18 meeting; however, Russia had a bearish tone when the energy minister said that production curbs could start easing before the end of the year. Although production caps on Iran are still not applicable, its oil minister said that there would be no need to extend the production cut pact if crude price continued to rise. Moreover, the size of impact of sanctions on Iran's oil export is estimated to be much less than the previous sanction. According to consensus estimates, the decline could be between 0.4 mb/d and 0.7 mb/d although the full sanctions would be announced by November-18.

The energy minister of UAE said that the prices of crude oil is not artificially high and reiterated that the all the OPEC and non-OPEC producers, including Russia, are committed to the supply cuts until the year end in order to correct and balance the market. In an interview to a German newspaper, he said that other oil producers should also join the pact.

Meanwhile, Angola reported a decline in production by 40 tb/d in April-18 due to lack of investment in offshore oil fields. According to Bloomberg, crude exports in June-18 is expected to fall to the lowest since 2008 that could further push OPEC compliance level in the coming months.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	Analyst	As Of	Q2 18	Q3 18	Q4 18	Q1 19
Westpac Banking Corp	J. Smirk	10/Apr/18	66.0	65.0	62.0	57.0
Wells Fargo Securities LLC	R. Read	6/Apr/18	62.8	58.8	61.0	
Toronto-Dominion Bank/Toronto	B. Melek	5/Apr/18	67.0	65.0	65.0	64.0
Market Risk Advisory Co Ltd	N. Niimura	3/Apr/18	65.0	64.0	65.0	66.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	E. Khoman	3/Apr/18	65.7	62.2	61.4	60.2
Citigroup Inc	E. Morse	30/Mar/18	58.0	60.0	52.0	
BNP Paribas SA	H. Tchilinguirian	29/Mar/18	66.0	73.0	69.0	64.0
Commerzbank AG	E. Weinberg	29/Mar/18	62.0	60.0	60.0	60.0
HSH Nordbank AG	J. Edelmann	28/Mar/18	72.0	75.0	66.0	62.0
Emirates NBD PJSC	E. Bell	27/Mar/18	59.0	58.0	55.0	
Societe Generale SA	M. Wittner	23/Mar/18	67.0	68.0	64.0	64.0
CIBC World Markets Inc	J. Pinto	23/Mar/18	67.5	63.0		
Intesa Sanpaolo SpA	D. Corsini	21/Mar/18	65.0	65.0	65.0	67.0
Itau Unibanco Holding SA	A. Passos	12/Mar/18	63.2	61.0		
Norddeutsche Landesbank Girozentrale	F. Kunze	8/Mar/18	68.0	68.0	68.0	61*
Banco Santander SA	J. Kenney	7/Mar/18	61.0	57.5	55.0	55.0
Natixis SA	J. Hancock	5/Mar/18	64.0	66.0	68.5	67.0
Capital Economics Ltd	T. Pugh	1/Mar/18	64.0	63.0	61.0	59.5
Nordea Bank Norge ASA	T. Saltvedt	1/Mar/18	65.0	66.0	67.0	67.0
Citigroup Inc	A. Doshi	28/Feb/18	58.0	54.0	52.0	
Australia & New Zealand Banking Group Ltd/Melbourne	D. Hynes	27/Feb/18	67.0	70.0	67.0	68.0
Landesbank Baden-Wuerttemberg	F. Schallenberger	26/Feb/18	65.0	65.0	68.0	72.0
DNB ASA	T. Kjus	21/Feb/18	62.0	62.0	62.0	69.0
DZ Bank AG	A. Herlinghaus	16/Feb/18	62.0	60.0	63.0	
Oxford Economics Ltd	D. Smith	2/Feb/18	69.0	65.0	65.0	65.0
Raiffeisen Bank International AG	H. Loacker	2/Feb/18	63.0	65.0	67.0	65.0
Guggenheim Securities LLC	M. Lamotte	26/Jan/18	69.0	74.0	77.0	77.0
HSBC Holdings PLC	G. Gray	26/Jan/18	65.0	65.0	67.0	
Raymond James & Associates Inc	M. Adkins	24/Jan/18	70.0	70.0	75.0	65.0
KLR Group LLC	J. Gerdes	23/Jan/18	65.0	65.0	65.0	
Incrementum AG	R. Stoeferle	23/Jan/18	63.0	74.0	80.4	77.0
Deutsche Bank AG	M. Hsueh	23/Jan/18	63.0	60.0	60.0	62.0
Bank of China International UK Ltd	X. Fu	10/Jan/18	64.0	64.0	60.0	
Median			65.0	65.0	65.0	65.0
Mean			64.6	64.6	64.6	65.3
High			72.0	75.0	80.4	78.0
Low			58.0	54.0	52.0	55.0
Current Fwd			71.1	69.9	68.5	67.2
Difference (Median - Current)			-6.1	-4.9	-3.5	-2.2

Source: Bloomberg

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