

Oil Market Monthly Report

September - 2018

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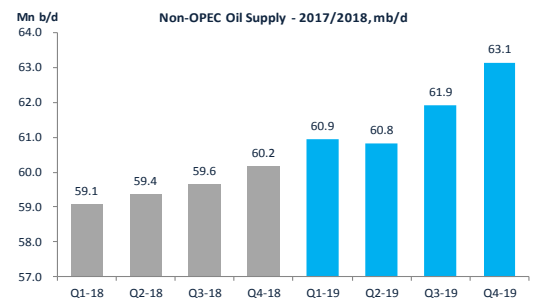
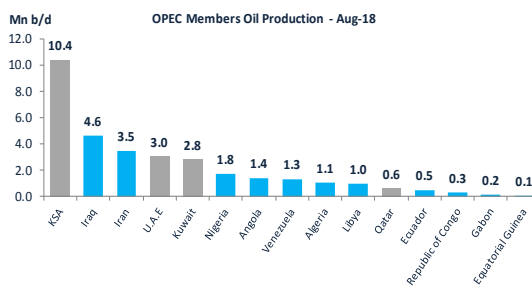
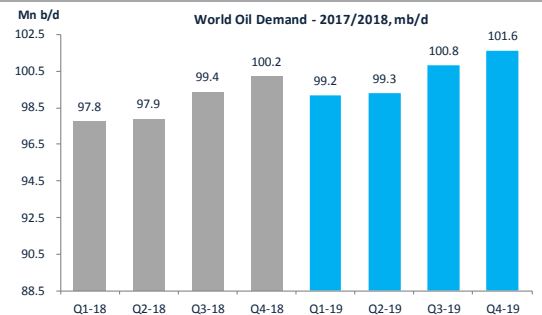
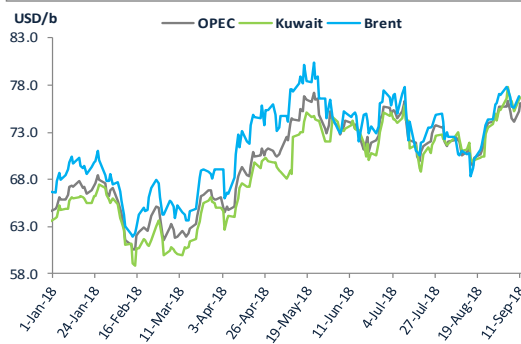
Oil prices rise on impending supply crunch and dwindling confidence in spare capacity...

Brent crude futures reached five-month high to breach the USD 80/b level for the first time since May-18 backed by a number of factors that included a higher-than-expected drop in crude inventories in the US, onslaught of Hurricane Florence and tropical storm Gordon in the US during the first half of September-18, the looming US sanctions on Iran and production disruptions in some key oil producing nations. On the other hand, the ongoing trade tensions between the US and China continues to rattle emerging markets across the globe, including oil prices. Talks of import duty on additional Chinese goods and its reciprocal reaction has put downward pressure on oil prices along with a broader weakness in the other emerging market benchmarks.

Supply side concerns also included the level of spare capacity with global oil producers in the face of Iran sanctions coupled with production disruptions elsewhere. According to recent data, OPEC production has increased at a lower-than-expected pace recently while producers like Venezuela and Libya continue to face production issues. According to the latest monthly report from the IEA, production in Venezuela could fall to 1 mb/d by the end of the year. Markets would now be looking at the indications from the upcoming Joint Ministerial Monitoring Committee between OPEC producers and their allies later this month that would set the course for future production agreement between OPEC+ members.

Oil traders also kept a close eye on Hurricane Florence that made a landfall on the US East Coast during the second week of September-18. Unlike the tropical storm Gordon that hit the US Gulf Coast during the first week of September-18 temporarily affecting oil production in the Gulf of Mexico, Hurricane Florence was not expected to affect oil production or supplies. However, the hurricane, even with its strength lowered from category 4 to category 2, is expected to result in a temporary increase in fuel purchases and its impact is only expected to be limited to gas pipelines in the affected region.

The most recent weekly US oil inventory data from API reported a higher-than expected drop in US crude inventories. According to the report, US crude inventories declined by 8.64 million barrels during the week ended 7-Sep-18 to reach 395.9 million barrels. The EIA weekly oil inventory report also showed a decline of 5.3 million barrels to reach 396.2 million barrels, the lowest level since February-15 and 3% below the 5-yr average inventory level. Reports also pointed to pipeline constraints, especially in the Permian Basin, that is limiting the flow of crude from the region and affecting production and has also resulted in a decline in drilling activity in the region. Separately, in its Short Term Energy Outlook, the EIA lowered its US crude production growth forecast for 2019 to a growth of 0.84 mb/d from 1.02 mb/d and production is now expected to average at 11.5 mb/d as against the previous forecast of 11.7 mb/d. On the other hand, the report forecasted a decline in oil demand growth in 2019 from 0.29 mb/d to 0.25 mb/d.



Source for the above charts : OPEC and Bloomberg

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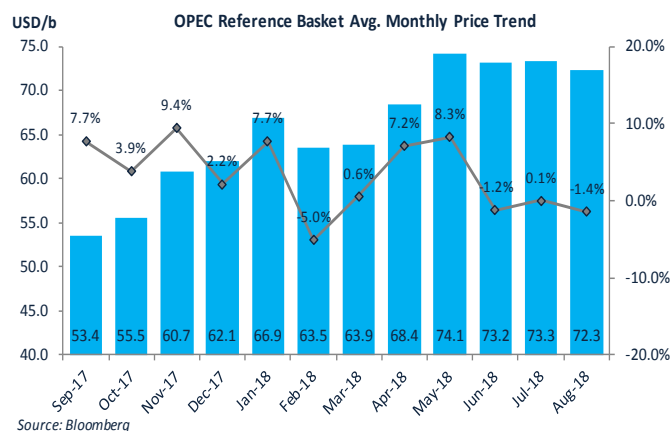
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Oil Prices

Oil prices witnessed an upward trend since the second half of August -18 offsetting the decline during the first half of the month backed by fear of a global oil supply constraint related to the implementation of US sanctions on Iran further supported by production disruptions in Iraq, Venezuela, Angola and Libya. The trend continued during September-18, supported by tropical storm Gordon and Hurricane Florence in the US only to ease temporarily after the first two trading sessions. Recent reports on the decline in US oil inventory levels and the revision in demand/supply forecast by the EIA also affected oil prices. Moreover, a strengthening USD which was up almost 6% since mid-April had little impact on oil prices during the month. Meanwhile, in its monthly report, the IEA said that oil prices could breach the USD 80/b mark if output from Iran and Venezuela continue to decline and other producers fail to replace the existing and expected loss of supply from these producers casting doubts on OPEC's ability to raise output to the required level to offset decline. In addition, the agency said that Q4-18 is expected to see higher global refinery runs that would further lower crude stocks, which stood at 50 million barrels below the five-year average level for the OECD countries at the end of July-18.

In the latest weekly rig count update, Baker Hughes reported an increase of seven oil rigs in the US to reach 867 rigs. US oil rig count has remained in a tight range over the past five month after increasing at phenomenal rate prior to May-18. The oil rig count has remained in the range of 859 rigs and 870 rigs since May-18 and guidance from some drillers suggest year-end count to remain in the current average range. Recent reports suggests that the Permian basin has reached its pipeline capacity that is limiting the drillers from going ahead with additional rigs. This could also result in a delayed spending by oil and gas companies as new capacity comes online amid higher costs associated with oilfield services.



Average Crude Oil Prices, USD/b	Jul-18	Aug-18	Change	YTD-2017	YTD-2018
OPEC Reference Basket	73.3	72.3	(1.0)	49.7	69.6
Arab Light	74.2	73.4	(0.8)	49.9	70.3
Basrah Light	72.0	71.1	(0.9)	49.2	68.3
Bonny Light	75.1	73.3	(1.8)	51.6	72.2
Djeno	70.9	69.7	(1.3)	49.6	68.7
Es Sider	72.4	70.7	(1.7)	49.8	69.9
Girassol	74.4	73.2	(1.2)	51.5	71.7
Iran Heavy	71.4	70.5	(1.0)	49.3	67.9
Kuwait Export	72.3	71.8	(0.5)	49.0	68.4
Qatar	73.1	72.5	(0.6)	50.5	69.2
Merey	70.4	67.4	(3.0)	45.0	63.8
Murban	76.0	74.9	(1.1)	52.4	72.1
Oriente	69.1	69.4	0.3	47.1	66.3
Rabi	73.1	71.9	(1.2)	50.3	70.4
Saharan Blend	73.9	72.6	(1.3)	51.0	71.6
Zafiro	74.1	72.7	(1.3)	50.9	71.3
Other Crudes					
Brent	74.3	72.6	(1.7)	51.3	71.3
Dubai	73.1	72.5	(0.6)	50.7	69.3
Isthmus	69.6	67.1	(2.6)	52.5	68.4
LLS	72.9	72.6	(0.3)	51.4	70.4
Mars	69.1	69.3	0.2	47.9	66.9
Minas	73.5	66.9	(6.6)	47.0	66.0
Urals	73.2	71.6	(1.6)	50.2	69.9
WTI	71.0	68.0	(3.0)	49.3	66.5
Differentials					
Brent/WTI	3.3	4.7	1.4	2.0	4.8
Brent/LLS	1.4	0.0	(1.4)	(0.1)	1.0
Brent/Dubai	1.2	0.2	(1.1)	0.6	2.1

Source: OPEC Monthly Oil Market Report - September-18

World Oil Demand

World oil demand growth estimates for 2018 was once again lowered by 20 tb/d to 1.62 mb/d and is expected to average at 98.82 mb/d. The revision primarily reflects lower-than-expected Q2-18 demand from non-OECD Latin America owing to decline in economic growth in the region as well as subsidy reduction and economic restructuring in the Middle East region. However, other non-OECD countries in the Other Asia group including India, Indonesia, Malaysia, Thailand and Singapore witnessed an upward revision in oil demand growth. On the other hand, the OECD region reported positive demand growth during 1H-18, led by higher demand especially in the Americas. Within the OECD region, The Americas witnessed upward revision of 20tb/d for 2018 led by positive revisions during 1H-18. The OECD Europe region witnessed weak demand trends during Q2-18 and saw first y-o-y decline since 2014 resulting in a downward revision of 25 tb/d for 2018

World Oil Demand - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	24.97	25.15	25.34	25.31	25.44	25.31	0.34	1.37
of which US	20.19	20.53	20.58	20.47	20.58	20.54	0.35	1.73
Europe	14.30	13.95	14.24	14.80	14.49	14.37	0.07	0.51
Asia Pacific	8.06	8.54	7.65	7.77	8.33	8.07	0.01	0.14
Total OECD	47.33	47.65	47.23	47.89	48.26	47.76	0.43	0.90
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	6.51	6.85	6.51	6.55	0.05	0.74
Middle East	8.17	8.19	7.98	8.61	7.94	8.18	0.01	0.10
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	32.65	33.16	32.79	32.76	0.63	1.97
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	97.76	97.91	99.38	100.20	98.82	1.62	1.67

Source: OPEC Monthly Oil Market Report - September-18

for the region. In OECD APAC region, higher demand from South Korea's petrochemical industry and increased mining activity in Australia resulted in a positive revision of 10 tb/d for the overall region. World oil demand growth for 2019 was also lowered slightly by 20tb/d to 1.41 mb/d and average at 100.23 mb/d for the year.

Oil demand data for the US since the start of the year, including preliminary data for the last two months, showed a demand increase of 0.6 mb/d, led by higher demand for NGLs/LPG, diesel oil and jet/kerosene, while demand for gasoline has seen some weakness. For Canada, the most recent data for June-18 showed a third consecutive m-o-m increase in demand primarily for residual fuel oil which more than offset decline in a majority of main petroleum products. The OECD Europe region recorded a y-o-y decline in demand growth during Q2-18, although strong gains during Q1-18 helped offset this decline to show a growth for 1H-18. Preliminary data for July-18 shows a decline. Recent trends in the region have pointed to higher demand for gasoline due to emission norms related to diesel usage which has seen a decline in demand from the road transportation sector. Meanwhile, oil demand in China continued to grow with the latest data for July-18 showing another healthy growth of 4.1% y-o-y while in India demand increased by an even stronger 7.4%.

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.31	25.41	25.57	25.59	25.69	25.57	0.26	1.01
of which US	20.54	20.77	20.78	20.72	20.81	20.77	0.23	1.13
Europe	14.37	14.01	14.27	14.85	14.53	14.42	0.05	0.32
Asia Pacific	8.07	8.53	7.61	7.75	8.30	8.05	(0.03)	(0.34)
Total OECD	47.76	47.95	47.45	48.19	48.53	48.03	0.27	0.57
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	6.55	6.45	6.61	6.96	6.61	6.66	0.11	1.63
Middle East	8.18	8.26	8.05	8.69	8.01	8.25	0.07	0.90
Africa	4.33	4.46	4.43	4.37	4.48	4.44	0.11	2.45
Total Developing Countries (DCs)	32.76	33.10	33.32	33.84	33.47	33.43	0.67	2.05
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	98.82	99.17	99.27	100.82	101.63	100.23	1.41	1.43

Source: OPEC Monthly Oil Market Report - September-18

World Oil Supply

Non-OPEC supply growth projections for 2018 was revised down by 64 tb/d to a growth of 2.02 mb/d and supply for the year is expected to average at 59.56 mb/d. The downward revision primarily reflects lower 2H-18 supply forecast for Brazil, the UK, China, India, and Malaysia that resulted in an overall yearly forecast revision of 0.15 mb/d. However, these declines were partially offset by higher expected supply from US, Canada, Denmark and Norway resulting in a total upward revision of 0.09 mb/d. Supply figures for the OECD region were revised up in OPEC's latest report by 87 tb/d, primarily due to a higher base in 2017. Within the OECD, both US and Canada showed higher supplies in the latest official data, while Mexico showed a decline y-o-y in July-18, while preliminary data for August-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	21.49	22.93	23.29	23.47	23.84	23.39	1.89	8.81
of which US	14.40	15.53	16.19	16.45	16.39	16.14	1.74	12.08
Europe	3.83	3.91	3.74	3.81	3.97	3.86	0.03	0.73
Asia Pacific	0.39	0.40	0.37	0.40	0.43	0.40	0.01	2.11
Total OECD	25.71	27.24	27.40	27.68	28.23	27.64	1.93	7.51
Other Asia	3.59	3.58	3.51	3.52	3.51	3.53	(0.06)	(1.65)
Latin America	5.14	5.11	5.16	5.17	5.31	5.19	0.05	0.96
Middle East	1.24	1.21	1.25	1.23	1.22	1.23	(0.01)	(0.70)
Africa	1.50	1.52	1.53	1.52	1.53	1.53	0.02	1.64
Total Developing Countries (DCs)	11.47	11.41	11.46	11.44	11.58	11.47	0.01	0.05
Former Soviet Union (FSU)	14.05	14.10	14.14	14.21	13.94	14.10	0.05	0.33
of which Russia	11.17	11.14	11.18	11.30	10.98	11.15	(0.02)	(0.18)
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	3.94	4.03	3.98	0.00	0.04
Total "Other regions"	18.15	18.17	18.25	18.28	18.09	18.20	0.04	0.24
Total Non-OPEC Production	55.33	56.82	57.11	57.39	57.90	57.31	1.98	3.58
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	57.54	59.07	59.35	59.64	60.15	59.56	2.02	3.50
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	32.63	32.38	32.19					
Total World Supply	96.41	97.74	97.88					

Source: OPEC Monthly Oil Market Report - September-18

showed flat output m-o-m due to a decline in the productivity of all producing oil fields except for the Ku-Maloob-Zaap that recorded a production rate of 0.85 mb/d. In OECD Europe, July-18 production data for Norway and UK showed higher y-o-y production primarily fields coming out of maintenance or due to less maintenance in the case of UK.

Supply figures for 2019 were also adjusted downward by 41 tb/d and is now expected to reach 61.71 mb/d primarily due to a downward revision in supply coming from the UK. In terms of y-o-y change, 2019 forecasted growth now stands at 2.15 mb/d, an upward revision of 0.02 mb/d from the previous forecast. The revision reflects an upward revision primarily in Norway and China totaling 37 tb/d, while supply projections for Canada, the UK, Denmark, and Russia were revised down by a total 29 tb/d.

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	23.39	24.20	24.40	25.21	25.82	24.91	1.53	6.53
of which US	16.14	16.71	17.34	17.73	18.28	17.52	1.38	8.53
Europe	3.86	3.96	3.65	3.81	4.02	3.86	0.00	0.04
Asia Pacific	0.40	0.42	0.44	0.46	0.47	0.45	0.05	11.67
Total OECD	27.64	28.58	28.49	29.47	30.31	29.22	1.58	5.70
Other Asia	3.53	3.54	3.54	3.53	3.52	3.53	0.00	0.14
Latin America	5.19	5.39	5.45	5.53	5.81	5.55	0.36	6.94
Middle East	1.23	1.25	1.25	1.24	1.24	1.24	0.01	1.22
Africa	1.53	1.57	1.60	1.63	1.66	1.62	0.09	5.69
Total Developing Countries (DCs)	11.47	11.76	11.83	11.93	12.23	11.94	0.47	4.07
Former Soviet Union (FSU)	14.10	14.14	14.10	14.11	14.17	14.13	0.04	0.25
of which Russia	11.15	11.17	11.17	11.17	11.17	11.17	0.02	0.18
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	0.05	1.19
Total "Other regions"	18.20	18.32	18.23	18.23	18.32	18.28	0.08	0.45
Total Non-OPEC Production	57.31	58.66	58.55	59.64	60.86	59.43	2.12	3.71
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.25
Total Non-OPEC Supply	59.56	60.94	60.82	61.91	63.14	61.71	2.15	3.61

Source: OPEC Monthly Oil Market Report - September-18

OPEC Oil Production & Spare Capacity

Production by OPEC members increased for the third consecutive month to 32.74 mb/d during August-18, an increase of 420 tb/d according to data from Bloomberg. However, OPEC secondary sources showed a smaller output increase of 278 tb/d to a monthly average of 32.57 mb/d. Libya accounted for the biggest jump during the month producing at an average rate of close to 1 mb/d that was offset by a steep decline in production in Iran with its exports down by almost a third to below the 2 mb/d mark. Other producers that added to the production increase during the month included Iraq, UAE, Kuwait and Nigeria adding a total of around 260 tb/d during the month. According to data from IEA, with the increase in production by OPEC, the compliance level for the OPEC+ members declined to 103% in August-18 as compared to a compliance of 97% in July-18. The increase came after non-OPEC members increased their

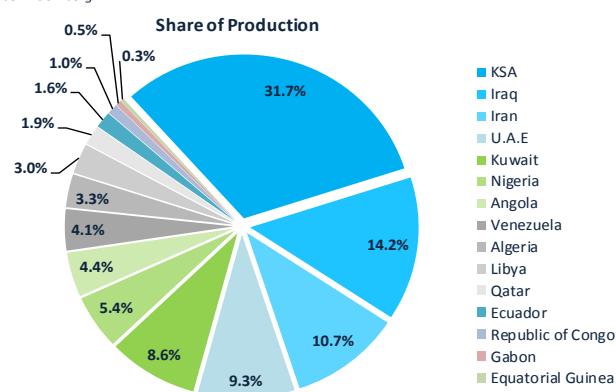
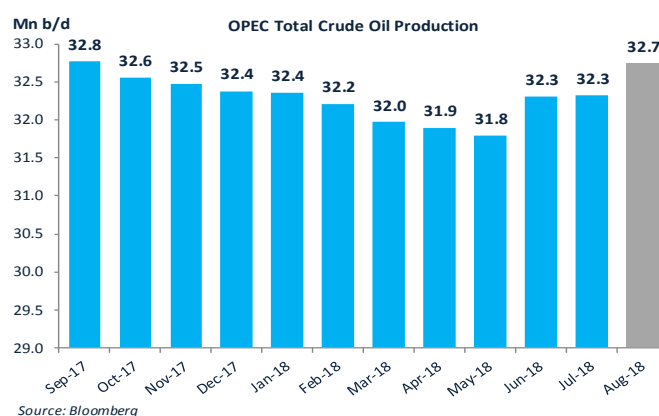
Production ('000 b/d)	Jul-18	Aug-18	Change		Capacity	Spare Capacity
Total OPEC-15	32,320	32,740	420	1.3%	35,085	2,345
KSA	10,370	10,390	20	0.2%	11,500	1,110
Iraq	4,560	4,640	80	1.8%	4,700	60
Iran	3,740	3,500	-240	-6.4%	3,850	350
U.A.E	2,960	3,040	80	2.7%	3,150	110
Kuwait	2,770	2,830	60	2.2%	3,000	170
Nigeria	1,720	1,760	40	2.3%	1,700	0
Angola	1,400	1,440	40	2.9%	1,580	140
Venezuela	1,310	1,330	20	1.5%	1,500	170
Algeria	1,060	1,070	10	0.9%	1,080	10
Libya	660	970	310	47.0%	1,000	30
Qatar	620	620	0	0.0%	780	160
Ecuador	520	530	10	1.9%	555	25
Republic of Congo	330	330	0	0.0%	330	0
Gabon	180	180	0	0.0%	220	40
Equatorial Guinea	120	110	-10	-8.3%	140	30
Total OPEC-14	27,760	28,100	340	1.22%	30,385	2,285

Source: Bloomberg, OPEC

compliance level from a mere 44% in July-18 to around 75% in August-18. On the other hand, OPEC members were 115% compliant to the agreement in August-18, a lower level as compared to 121% reported in July-18. In a related development, OPEC's secretary general said in an interview that the group is looking at ways to institutionalize the cooperation between OPEC and the non-OPEC allies on production levels.

Oil production in Iraq witnessed a sizable increase during August-18 despite protests in the Basra province that houses key oil production sites and ports. The protests led to the closure of its key port Umm Qasr for almost two days in September-18, although exports continued from the port as normal. Nevertheless, according to a report from S&P Global Platts, Iraq's oil production reached a record high level of 4.68 mb/d in August-18 led by higher exports through the Persian Gulf and through the Turkish port of Ceyhan.

Meanwhile, production in Libya was once again up and averaged almost 1 mb/d during August-18 after increase in oil production at its Amal oil field further supported by resumption of production at the As-Sarah oil field. However, production remains fragile in the country and disruptions could be expected in September-18 after recent reports of attacks on NOC's headquarter, although the state operator said that operations were normal throughout the country.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q3 18	Q4 18	Q1 19	Q2 19
Itau Unibanco Holding SA	7/Sep/18	75.1	73.4	71.7	71.3
Intesa Sanpaolo SpA	6/Sep/18	75.0	78.0	80.0	80.0
Capital Economics Ltd	4/Sep/18	74.5	67.5	63.5	61.0
DZ Bank AG	4/Sep/18	76.0	76.0	76.0	74.0
Citigroup Inc	31/Aug/18	75.0	79.0		
Landesbank Baden-Wuerttemberg	30/Aug/18	75.0	75.0	77.5	80.0
Westpac Banking Corp	24/Aug/18	73.6	72.3	68.7	63.7
Commerzbank AG	16/Aug/18	72.0	70.0	68.0	66.0
Banco Santander SA	13/Aug/18	71.5	69.7	68.0	67.0
CIBC World Markets Inc	13/Aug/18	72.5	72.5		
ABN AMRO Bank NV	9/Aug/18	72.0	73.0	78.0	85.0
Societe Generale SA	6/Aug/18	80.0	78.0	73.0	70.0
Toronto-Dominion Bank/Toronto	2/Aug/18	76.0	76.0	78.0	78.0
Promsvyazbank PJSC	31/Jul/18	68.6	59.1	55.0	53.1
Bank of China International UK Ltd	18/Jul/18	74.8	71.2	70.3	70.5
Emirates NBD PJSC	18/Jul/18	70.0	68.0	67.5	65.0
Market Risk Advisory Co Ltd	4/Jul/18	75.0	73.0	68.0	66.0
Wells Fargo Securities LLC	28/Jun/18	77.0	72.0	75.0	80.0
Raiffeisen Bank International AG	27/Jun/18	75.0	76.0	74.0	72.0
Guggenheim Securities LLC	15/Jun/18	77.0	78.5	79.0	80.5
HSBC Holdings PLC	5/Jun/18	70.0	70.0	70.0	70.0
BNP Paribas SA	25/May/18	84.0	82.0	79.0	85.0
Natixis SA	25/May/18	77.0	74.0	74.0	78.0
Lloyds Bank PLC	14/May/18	72.0	74.0	76.0	76.0
HSH Nordbank AG	14/May/18	76.0	72.0	66.0	63.0
Bank of Nova Scotia/The	9/Apr/18	71.0	73.7	76.0	73.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	3/Apr/18	62.2	61.4	60.2	
Median		75.0	73.0	73.0	71.6
Mean		74.0	72.8	71.7	72.0
High		84.0	82.0	80.0	85.0
Low		62.2	59.1	55.0	53.1
Current Fwd		76.9	78.2	77.3	76.4
Difference (Median - Current)		-1.9	-5.2	-4.3	-4.8

Source: Bloomberg

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