

Oil Market Monthly Report

May - 2019

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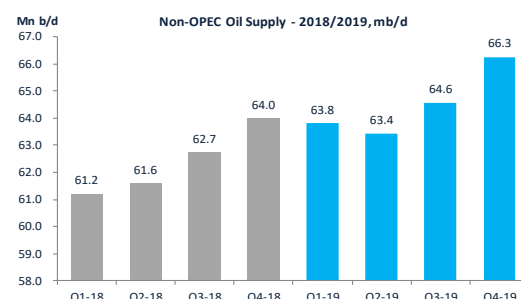
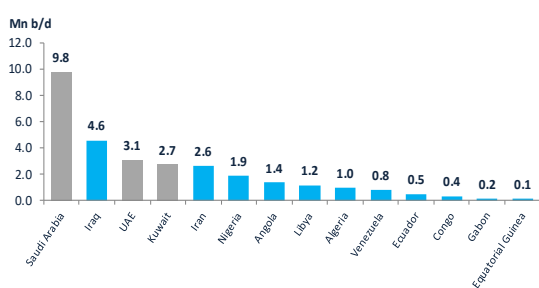
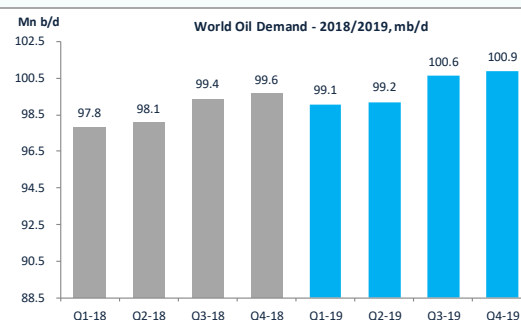
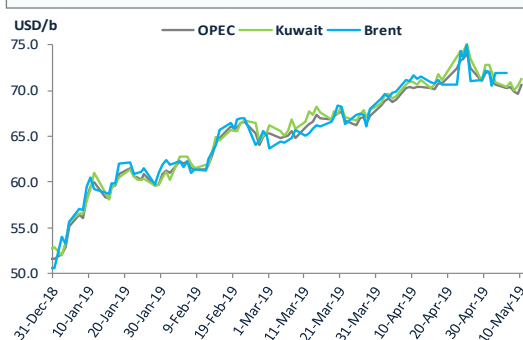
Oil prices spike on geopolitical issues offsetting downward pressure from US/China trade war...

A threat of tightening oil supplies led by geopolitical issues in the Gulf pushed oil prices up this week after seeing consecutive declines over the past two weeks. In addition, the hunt for replacement crude by oil importers as a result of sanctions on Iran without waivers and on Venezuela also supported spot oil prices for some specific crude grades from producers in the Gulf and Africa. On the other hand, the trade war between the US and China was renewed after apparently failed talks between the two trading partners. The US increased tariffs on USD 200 Bn worth of Chinese imports from 10% to 25% and is said to be mulling tariffs on all imports from China. This was met by retaliatory tariffs from China on USD 60 Bn worth of goods imported from the US starting June-19, although China has excluded crude imports from the US from the higher tariffs while increasing it on LNG imports.

Recent developments have affected both demand and supply side factors for the oil market. Demand side factors largely highlight the downside risks to oil prices in the near term. The renewed trade war has only spooked the market that has seen weakening economic indicators from key oil importers. These include the consecutive decline in vehicle sales in China and India in addition to expectations that the US market has peaked and is expected to scale back its growth numbers in the near term. The EIA as well as the IEA, in their latest monthly oil reports, marginally lowered world oil demand growth expectations. The IEA expects 2019 oil demand to grow by 1.3 mb/d. Also, oil prices, which has recently traded above the USD 65/b mark, is said to have a negative impact on demand from Asian buyers.

On the supply side, the expected increase in oil supply from the US has already been factored in the prices. However, a number of other factors seems to have an offsetting impact on higher oil supplies from the US. These include, the imposition of sanctions on Iran and Venezuela, and the decline in oil supply from Russia to Europe due to an oil pipeline issue. Europe is also seeing some pockets with higher demand for physical crude due to higher refinery runs expected in the coming months coupled with lower supply from heavy oil exporters with the required crude grades. These include lower supplies from the North Sea due to production outage, along with Nigerian and Angolan crude grades.

In addition, production curbs from other OPEC+ members continues as a decision would be taken in June -19 on future production policy of the group. During May-19, OPEC oil production remained flat m-o-m at 30.3 mb/d, according to data from Bloomberg, as Saudi Arabia continued to produce at 4-year low levels. On the other hand, production in Libya, although showing promising growth with new investments, remains fragile with a number of recent incidents that have affected oil facilities in the country. Russia's oil production is also said to be in compliance with the OPEC+ agreement that could also be as a result of the decline in supplies to Europe due to oil contamination.



Source for the above charts : OPEC and Bloomberg

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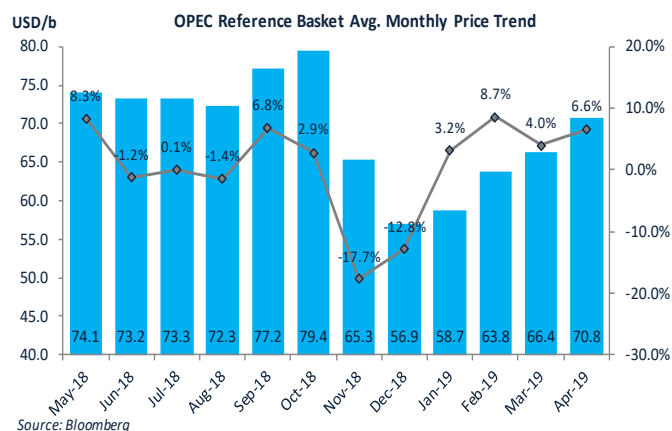
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Oil Prices

Oil prices have trended downward over the last two weeks after reaching the highest level since November-18 touching USD 75/b during the last week of April-19. The decline was seen across commodity markets due to the US China trade dispute that failed to reach any resolution. The surge in prices during April-19, which saw prices going up 6.3% as compared to March-19, came after statements from OPEC indicated a disciplined approach to raising crude output against a shortfall created by sanctions on Iran and Venezuela. However, reports of higher output from the US and rising inventories quickly dampened the price rise pushing it down more than 4% in the next trading sessions. The increasing pressure from the US on OPEC producers to raise output and lower oil prices also added to the decline in prices. Meanwhile, oil inventory in the US continued to rise unabated, especially during April-19, increasing by more than 27 million barrels in the last seven weeks until 3-May-19. However, a surprise draw of 3.96 million barrels in its latest weekly report supported prices. The most recent rig count data from Baker Hughes reflected the marginal slowdown in US oil production. According to the latest weekly report, US oil rig count declined by 2 rigs to reach 805 active oil rigs offsetting an equivalent increase in the previous week. The monthly rig count data published by Baker Hughes showed average US rigs at 1,012 (including gas rigs), a decline of 11 rigs as compared to March-19. On the other hand, international rig count was up by 23 during April-19 to reach 1,062 with the Middle East region adding the most number of rigs during the month.

Average crude prices for almost all the key crude grades were positive in April-19 as compared to March-19. Average OPEC crude prices gained 6.6% m-o-m during April-19 to regain the USD 70/b mark for the first time in six months to average at USD 70.8/b. This was also the fourth consecutive month of gain for oil prices. Kuwait crude average price gains were also recorded at 6.6% and averaged at USD 71.2/b, while average Brent crude gained 7.7% to reach USD 71.2/b.



Average Crude Oil Prices, USD/b	Mar-19	Apr-19	Change (USD)	YTD Avg 2018	YTD Avg 2019
OPEC Reference Basket	66.4	70.8	4.4	65.7	64.9
Arab Light	67.4	71.9	4.5	66.2	65.9
Basrah Light	66.1	70.5	4.4	64.5	64.4
Bonny Light	67.7	72.8	5.1	69.0	66.5
Djeno	63.5	68.6	5.1	66.0	62.5
Es Sider	65.4	70.5	5.1	67.0	64.3
Girassol	67.2	72.9	5.7	68.7	66.3
Iran Heavy	64.2	68.5	4.4	64.3	62.5
Kuwait Export	66.8	71.2	4.4	64.3	65.1
Merey	57.8	59.0	1.2	58.5	55.8
Murban	68.0	71.5	3.5	68.0	66.4
Oriente	63.7	67.6	4.0	62.6	61.6
Rabi	65.3	70.4	5.1	67.0	64.4
Saharan Blend	66.4	71.2	4.8	68.7	65.2
Zafiro	67.2	72.7	5.5	68.0	66.2
Other Crudes					
Brent	66.1	71.2	5.1	68.0	65.1
Dubai	66.9	70.9	4.0	65.0	65.3
Isthmus	66.5	70.3	3.8	66.5	64.6
LLS	65.6	70.7	5.1	66.8	64.4
Mars	64.9	68.9	4.1	63.5	63.1
Minas	59.6	67.6	8.0	60.4	58.9
Urals	66.2	71.9	5.7	66.2	65.6
WTI	58.2	63.9	5.7	63.8	57.1
Differentials					
Brent/WTI	7.9	7.3	(0.6)	4.2	8.0
Brent/LLS	0.5	0.5	(0.0)	1.2	0.7
Brent/Dubai	(0.8)	0.2	1.1	3.0	(0.2)

Source: OPEC Monthly Oil Market Report - May-19

World Oil Demand

World oil demand estimates for 2018 remained unchanged in OPEC's latest monthly forecast and demand is estimated to have grown by 1.41 mb/d to reach 98.7 mb/d. Demand growth expectation for 2019 also remained unchanged at a growth of 1.21 mb/d resulting in a total demand of 99.94 mb/d. However, there were changes in the estimated production levels of individual countries. Demand from OECD countries were raised slightly by 0.1 mb/d primarily reflecting higher demand in the US that was partially offset by a marginal demand decline in Europe for the rest of the year. The US continue to showcase strong demand trends as seen from monthly data until February-19 and preliminary data for March-19 and April-19. The main driver for higher demand was industrial and road transportation fuels, with higher usage of natural gas plant liquids, diesel fuel and gasoline. On the other hand, after recording strong demand in January-19,

World Oil Demand - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	25.06	25.20	25.40	25.78	25.74	25.53	0.48	1.90
of which US	20.27	20.57	20.64	20.93	20.78	20.73	0.46	2.26
Europe	14.30	13.95	14.19	14.68	14.32	14.29	(0.01)	(0.09)
Asia Pacific	8.06	8.54	7.65	7.70	8.08	7.99	(0.07)	(0.86)
Total OECD	47.42	47.69	47.24	48.16	48.14	47.81	0.39	0.83
Other Asia	13.24	13.55	13.84	13.38	13.87	13.66	0.42	3.14
of which India	4.53	4.83	4.74	4.40	4.96	4.73	0.20	4.43
Latin America	6.51	6.35	6.48	6.81	6.47	6.53	0.02	0.31
Middle East	8.20	8.22	7.98	8.43	7.85	8.12	(0.08)	(0.98)
Africa	4.20	4.35	4.32	4.27	4.40	4.33	0.13	3.13
Total Developing Countries (DCs)	32.16	32.46	32.62	32.89	32.59	32.64	0.49	1.52
Former Soviet Union (FSU)	4.70	4.66	4.65	4.94	5.01	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	12.65	13.07	12.71	0.39	3.18
Total "Other Regions"	17.74	17.68	18.18	18.32	18.9	18.27	0.53	2.99
Total World	97.32	97.83	98.05	99.38	99.63	98.73	1.41	1.45

Source: OPEC Monthly Oil Market Report - May-19

demand trends in OECD Europe was sluggish during February-19 and March-19 primarily due to lower usage of diesel and gasoline in the road transportation sector while jet kerosene continues to remain strong led by economic growth and consumption by airlines. The region recorded a decline in vehicle sales during Q1-19 and has seen a shift from diesel to gasoline usage for cars. For the non-OECD group, demand growth in 2019 is expected to be slightly lower as compared to last months estimates due to a downward revision in demand figures for Latin America and the Middle East led by weak Q1-19 demand data in addition to lowered economic growth expectations. Nevertheless, demand for China was revised slightly upwards highlighting better economic outlook. The country recorded higher demand during March-19 led by aviation driven growth in the transportation sector and positive development in the petrochemical sector. Demand for gasoline increased by 3% y-o-y during March-19 despite recording a decline in passenger car sales for the ninth consecutive month that reached around 2 million units, a drop of 7% y-o-y. Oil demand in India also grew during March-19 with consumption increasing by 1% y-o-y led primarily by higher demand for gasoline and LPG. The country reported a drop in passenger car sales but commercial vehicle sales were marginally higher. In the Middle East region, Saudi Arabia recorded a drop in oil usage in March-19 but Iraq recorded positive trend.

World Oil Demand - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	25.53	25.43	25.65	26.07	26.01	25.79	0.26	1.02
of which US	20.73	20.79	20.86	21.21	21.03	20.97	0.24	1.17
Europe	14.29	13.97	14.15	14.66	14.29	14.27	(0.01)	(0.10)
Asia Pacific	7.99	8.53	7.61	7.67	8.05	7.96	(0.03)	(0.41)
Total OECD	47.81	47.94	47.41	48.40	48.35	48.03	0.21	0.45
Other Asia	13.66	13.92	14.21	13.75	14.25	14.03	0.37	2.72
of which India	4.73	5.03	4.93	4.58	5.15	4.92	0.19	4.05
Latin America	6.53	6.36	6.51	6.85	6.50	6.56	0.03	0.47
Middle East	8.12	8.25	8.01	8.47	7.88	8.15	0.03	0.37
Africa	4.33	4.45	4.42	4.36	4.50	4.43	0.10	2.31
Total Developing Countries (DCs)	32.64	32.98	33.16	33.43	33.13	33.18	0.53	1.63
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	98.73	99.05	99.20	100.61	100.86	99.94	1.21	1.22

Source: OPEC Monthly Oil Market Report - May-19

World Oil Supply

According to preliminary data, global oil supply declined for the fifth consecutive month during April-19. Supply went further below the 100 mb/d mark and was estimated at 98.82 mb/d in April-19, a m-o-m decline of 0.07 mb/d. During the month, non-OPEC supply dropped by 0.07 mb/d led by a decline in production from Kazakhstan, Canada, China and Russia. For the full year 2018, non-OPEC supply growth estimates for 2018 was revised up marginally by 8tb/d and is now expected to have grown by 2.91 mb/d during the year to average at 62.37 mb/d. The revision mainly reflected higher output from Canada in Q4-18. Non-OPEC supply growth forecasts for 2019 was revised marginally downwards by 33 tb/d to 2.14 mb/d and supply is now expected to average at 64.52 mb/d. The revision

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	23.37	24.52	25.15	24	2.50	11.65
of which US	14.40	15.53	16.22	17.17	17.70	16.66	2.26	15.69
Europe	3.82	3.94	3.79	3.70	3.89	3.83	0.01	0.26
Asia Pacific	0.39	0.40	0.38	0.42	0.44	0.41	0.02	4.49
Total OECD	25.71	27.27	27.53	28.65	29.47	28.24	2.53	9.84
Other Asia	3.62	3.62	3.57	3.51	3.51	3.55	(0.07)	-1.97
Latin America	5.15	5.17	5.22	5.12	5.26	5.19	0.04	0.82
Middle East	3.13	3.16	3.21	3.22	3.24	3.21	0.07	2.29
Africa	1.48	1.50	1.52	1.55	1.49	1.51	0.03	2.26
Total Developing Countries (DCs)	13.39	13.45	13.52	13.40	13.50	13.47	0.08	0.57
Former Soviet Union (FSU)	14.05	14.1	14.14	14.33	14.57	14.29	0.24	1.67
of which Russia	11.17	11.14	11.18	11.44	11.61	11.35	0.17	1.56
Other Europe	0.13	0.12	0.12	0.12	0.12	0.12	(0.01)	(4.58)
China	3.98	4.01	4.03	3.97	4.05	4.01	0.03	0.87
Total "Other regions"	18.16	18.23	18.28	18.42	18.74	18.42	0.26	1.45
Total Non-OPEC Production	57.25	58.95	59.34	60.47	61.72	60.13	2.87	5.01
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	59.47	61.2	61.59	62.71	63.97	62.37	2.91	4.89
OPEC NGLs and non-conventionals	4.94	4.92	4.96	4.98	5.06	4.98	0.04	0.81
OPEC Crude Oil Production	32.01	31.80	31.61	31.96	32.08	31.86	(0.15)	(0.47)
Total World Supply	96.42	97.92	98.16	99.65	101.11	99.21	2.79	2.89

Source: OPEC Monthly Oil Market Report - May-19

primarily reflected lower-than-expected Q1-19 production in the US, Brazil and the UK with a downward revision totaling 180 tb/d that was partially offset by an upward revision of 55 tb/d for Q1-19 output from China. Supply from OECD countries was revised downward by 44 tb/d. The latest EIA report for week ending 3-May-19 showed a slight drop in US oil production. That said, the EIA expects US shale oil production to increase by almost 83 tb/d in June-19 to 8.46 mb/d with output from the Permian Basin expected to grow by 56 tb/d to reach 4.17 mb/d. The overall liquids supply for 2019 from the US was revised down by 0.02 mb/d due to revision to numbers for the first two months of this year. Supply from the OECD Europe region declined by 0.07 mb/d m-o-m during March-19 led by downward revision to supply figures from the UK.

Non-OPEC Oil Supply - 2018/2019, mb/d	2018	Q1-19	Q2-19	Q3-19	Q4-19	2019	Y-o-Y Growth	% Chg.
Americas	24.00	25.06	24.96	25.91	26.76	25.68	1.68	7.00
of which US	16.66	17.82	18.11	18.64	19.45	18.51	1.85	11.09
Europe	3.83	3.84	3.66	3.75	3.98	3.81	(0.02)	(0.60)
Asia Pacific	0.41	0.44	0.46	0.48	0.51	0.47	0.06	14.87
Total OECD	28.24	29.33	29.08	30.13	31.25	29.95	1.72	6.08
Other Asia	3.55	3.5	3.44	3.46	3.46	3.47	-0.09	-2.45
Latin America	5.19	5.17	5.44	5.58	5.72	5.48	0.29	5.51
Middle East	3.21	3.20	3.22	3.24	3.24	3.22	0.02	0.57
Africa	1.51	1.55	1.56	1.59	1.62	1.58	0.07	4.47
Total Developing Countries (DCs)	13.47	13.42	13.66	13.88	14.04	13.75	0.29	2.12
Former Soviet Union (FSU)	14.29	14.55	14.23	14.19	14.58	14.39	0.1	0.7
of which Russia	11.35	11.53	11.40	11.61	11.61	11.54	0.19	1.70
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	(1.08)
China	4.01	4.11	4.06	3.96	3.98	4.03	0.01	0.32
Total "Other regions"	18.42	18.78	18.41	18.26	18.69	18.53	0.11	0.61
Total Non-OPEC Production	60.13	61.53	61.15	62.27	63.98	62.24	2.11	3.52
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.25
Total Non-OPEC Supply	62.37	63.81	63.43	64.55	66.25	64.52	2.14	3.43

Source: OPEC Monthly Oil Market Report - May-19

OPEC Oil Production & Spare Capacity

OPEC crude production continued to remain subdued during April-19 reporting a marginal m-o-m increase of 25 tb/d to average at 30.3 mb/d, according to data from Bloomberg. Data from OPEC's secondary sources also showed flattish production figures but a much smaller aggregate average production of 30.03 mb/d during the month. There were minimal changes in production levels of individual producers in the group. According to Bloomberg, Saudi Arabia further lowered its production during the month by 30 tb/d to reach 9.79 mb/d, a 52-month low level. Other noticeable producers that reported decline included Iran and Angola with m-o-m declines at 80 tb/d and 60 tb/d, respectively. Angola's production further declined to a new 13-year low to reach 1.38 mb/d during the month due to outages and maintenance.

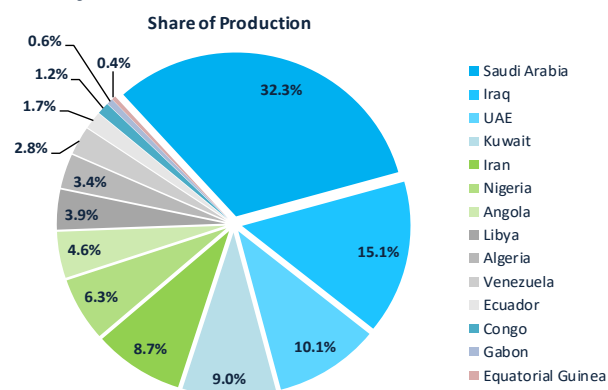
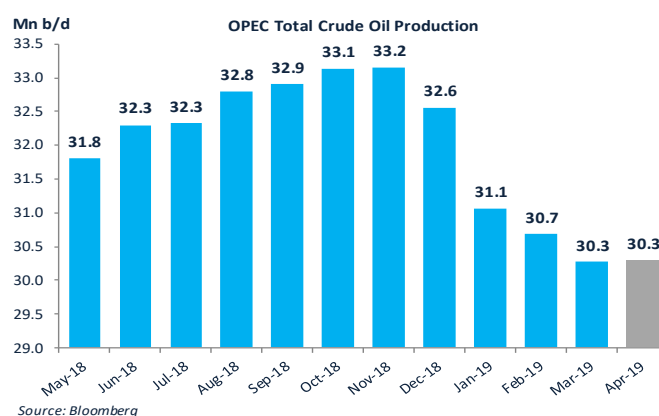
Production ('000 b/d)	Mar-19	Apr-19	Change		Capacity	Spare Capacity
Total OPEC-14	30,275	30,300	25	0.08%	34,995	4,695
Saudi Arabia	9,820	9,790	-30	-0.3%	11,500	1,710
Iraq	4,550	4,590	40	0.9%	4,700	110
UAE	3,050	3,070	20	0.7%	3,400	330
Kuwait	2,700	2,720	20	0.7%	3,000	280
Iran	2,710	2,630	-80	-3.0%	4,000	1,370
Nigeria	1,870	1,900	30	1.6%	1,900	0
Angola	1,440	1,380	-60	-4.2%	1,530	150
Libya	1,100	1,190	90	8.2%	1,200	10
Algeria	1,025	1,020	-5	-0.5%	1,070	50
Venezuela	830	840	10	1.2%	1,440	600
Ecuador	520	520	0	0.0%	555	35
Congo	350	350	0	0.0%	330	0
Gabon	190	180	-10	-5.3%	220	40
Equatorial Guinea	120	120	0	0.0%	150	30
Total OPEC-13	25,725	25,710	-15	-0.06%	30,295	4,585

Source: Bloomberg, OPEC

On the other hand, it was reported that with the ongoing sanctions, Iran continues to look for alternative buyers, especially in Europe and export at least 1.5 mb/d of its crude oil. According to a Reuters report, the country's oil exports have halved to less than 1 mb/d and could drop to as low as 0.5 mb/d starting from May-19.

Production in Venezuela continued to dwindle after it was reported that one of its heavy oil belt has suspended production. This comes after the country reported marginal growth in production during April-19. Meanwhile, the uncertainty over Libya's oil production continues after the government suspended operations of 40 foreign firms. The country is targeting an investment of USD 60 Bn in the oil sector to double its production by 2023. A similar drive is seen in Nigeria that plans to add more than 1 mb/d in additional crude and condensate production by 2025.

Recent oil demand related events has dimmed the prospects of OPEC raising output in the upcoming meeting. It was reported that OPEC is assessing the impact of raising output on the market and an increase would be driven by demand growth and would ensure a balanced market and adequate supply. Nevertheless, based on the current production, the group's spare capacity is now seen at 4.7 mb/d (incl. Venezuela) with more than a quarter of this with Saudi Arabia.



Source: Bloomberg

Brent Crude Oil Price Forecast by Various Research Houses

Firm	As Of	Q2 19	Q3 19	Q4 19	Q1 20
Capital Economics Ltd	1/May/19	69.0	67.5	62.5	61.0
BNP Paribas SA	29/Apr/19	72.0	76.0	71.0	65.0
Raiffeisen Bank International AG	29/Apr/19	71.0	72.0	68.0	63.0
Commerzbank AG	24/Apr/19	77.0	73.0	70.0	70.0
Westpac Banking Corp	23/Apr/19	65.3	63.0	60.7	59.3
Emirates NBD PJSC	17/Apr/19	67.5	67.5	63.0	
Rabobank International	10/Apr/19	74.9	74.3	73.7	73.1
MPS Capital Services Banca per le Imprese SpA	9/Apr/19	72.0	70.0	70.0	66.0
Market Risk Advisory Co Ltd	2/Apr/19	67.0	65.0	66.0	67.0
Landesbank Baden-Wuerttemberg	1/Apr/19	70.0	70.0	70.0	70.0
Societe Generale SA	29/Mar/19	67.0	70.0	70.0	72.0
CIMB	27/Mar/19	69.5	71.5	70.0	67.0
Bank of Nova Scotia/The	21/Mar/19	69.0	68.0	67.4	65.0
Banco Santander SA	15/Mar/19	64.0	63.0	63.0	
Intesa Sanpaolo SpA	14/Mar/19	70.0	73.5	72.4	
BBVA Research SA	23/Jan/19	63.7	62.6	61.8	60.4
Natixis SA	22/Jan/19	68.0	73.0	77.0	73.0
Lloyds Bank PLC	16/Jan/19	70.0	75.0	80.0	85.0
Raymond James Financial Inc	14/Jan/19	66.0	75.0	85.0	100.0
Itau Unibanco Holding SA	14/Jan/19	58.8	59.3	59.8	60.3
CIBC	9/Jan/19	68.0			
Bank of Tokyo-Mitsubishi UFJ Ltd/The	27/Dec/18	57.2	64.6	66.5	
ABN AMRO Bank NV	18/Dec/18	70.0	70.0	70.0	73.0
Australia & New Zealand Banking Group Ltd	13/Dec/18	77.0	78.5	76.5	74.5
Wells Fargo Securities LLC	10/Dec/18	64.0	68.0	70.0	
Incrementum AG	10/Dec/18	65.0	71.0	78.0	74.0
Norddeutsche Landesbank Girozentrale	7/Dec/18	58.0	58.0	62.0	69.0
Oxford Economics Ltd	6/Dec/18	63.0	64.3	64.9	64.9
Guggenheim Securities LLC	4/Dec/18	76.0	78.0	76.0	75.0
Barclays PLC	20/Nov/18	71.0	70.0	73.0	
Toronto-Dominion Bank/Toronto	19/Nov/18	80.0	80.0	80.0	78.0
Median		69.0	70.0	70.0	69.5
Mean		68.4	69.7	69.9	70.2
High		80.0	80.0	85.0	100.0
Low		57.2	58.0	59.8	59.3
Current Fwd		70.8	68.1	66.8	65.9
Difference (Median - Current)		-1.8	1.9	3.2	3.6

Source: Bloomberg

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