

Oil Market Monthly Report

September-2020

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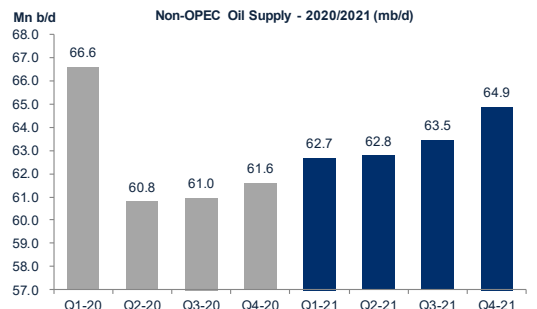
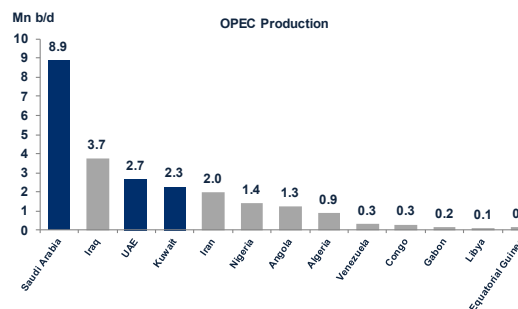
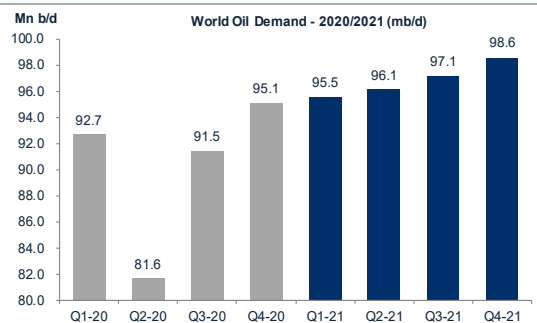
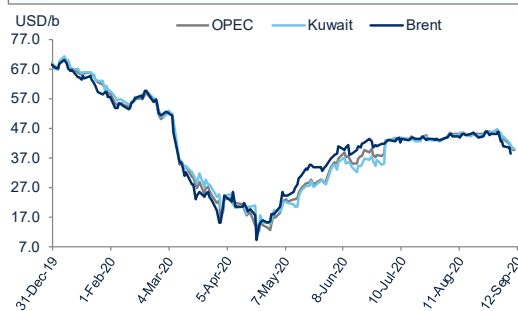
Weak demand outlook disrupts oil rally...

After consistent modest gains over the last three months, the oil price trend was back in the red led by expectations of a delayed demand recovery from the Covid-19 led slowdown. Crude oil traded below the USD 40/b mark for the first time since the last week of June-2020, also reflecting signs of revival in shale output from the US. Economic data from some of the biggest oil consumers were also not promising in terms of demand growth, including from India that has so far seen weaker-than-expected recovery in oil demand and consumption.

The only bright spot for economic recovery was from China, which showed promising growth in retail sales as well as oil requirements. The latest data from China showed a full recovery from the slump in oil demand with August showing a demand growth of 9.9% to reach 13.51 mb/d whereas YTD-2020 demand grew by 3.3% to an average of 12.54 mb/d. Nevertheless, the sluggish and uneven recovery in most of economies across the world posts an uncertain near-term recovery for China. IEA noted that crude buying by China has seen a sharp slowdown as seen from the deliveries for September and October-2020.

In the latest monthly report, the OPEC once again lowered its oil demand outlook for 2020 by 0.4 mb/d citing continued rise in Covid-19 cases that is affecting the recovery in oil demand. The view was seconded by IEA that trimmed its oil demand outlook by 0.3 mb/d. The IEA said that it expects oil demand recovery to decelerate during 2H-2020, due to delayed economic recovery, weak aviation sector, the threat of a second wave of Covid-19 cases as seen in Europe and the chances of curbs on mobility through local lockdown measures and remote working. The IEA highlighted that the current and expected weak refinery margins are dissuading crude oil purchases and, as a result, oil traders are looking at chartering ships to store oil. Highlighting the impact of teleworking, the agency slashed its gasoline demand outlook by 450 tb/d and diesel demand by 260 tb/d for Q4-2020.

On the supply side, OPEC raised production for the second consecutive month by 550 tb/d led by a broad-based increase in output reported by a majority of the producers in the group. However, overall compliance to the OPEC+ agreement stood at 97%, according to IEA, as some producers compensated by cutting production for earlier non-compliance. Meanwhile, oil production in the US once again regained the 10 mb/d mark during the week ended 4-September-2020 with a weekly gain of 300 tb/d. The higher production was reflected in US crude oil inventory data with the EIA reporting the first weekly US crude stock build in 7 weeks, adding more than 2 million barrels. However, the production is expected to once again falter due to the onset of Hurricane Sally during this week that would affect around 21% of production from the Gulf of Mexico.

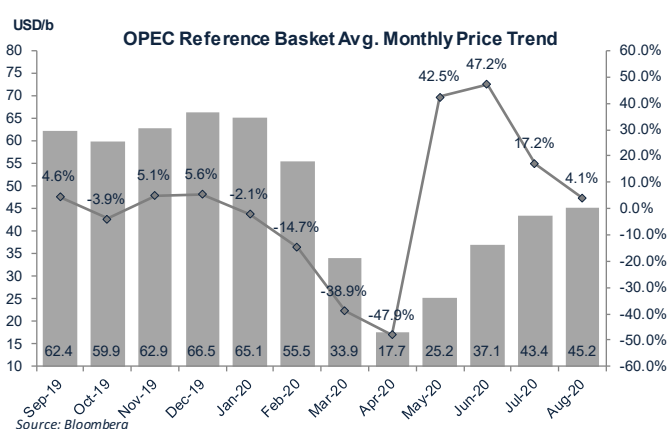


Sources : OPEC, EIA, Bloomberg

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Oil Prices

After reaching a six-month high at the end of August-2020, spot crude oil prices recorded two consecutive weeks of decline during September-2020 that was led by concerns over oil demand recovery for the remainder of the year and in 2021. The onset of Hurricane Sally in the US had minimal impact on oil prices as the rising Covid-19 cases, especially in Europe, kept sentiments lower in the market. OPEC crude prices had breached the USD 46/b level on the last day of August but has since lost 14% and has slipped below the USD 40/b mark. Brent crude prices also traded below USD 40/b during the second week of September-2020. That said, the EIA marginally raised its average spot crude oil forecast for Brent to USD 41.9/b and for WTI to 38.99/b for 2020. For next year, the average price forecast was lowered slightly to USD 49.07/b of Brent crude and USD 45.07/b for WTI.



Gains during August-2020 pushed average OPEC crude price to USD 45.2/b, up for the fourth consecutive month by 4.1%. Gains in average Kuwait crude were in line with OPEC crude and averaged at USD 45.1/b, whereas Brent crude prices gained 3.5% to average at USD 44.8/b.

Meanwhile, there were signs of recovery in US shale output that added to the decline in oil prices. According to the weekly data, US crude production stood at 10 mb/d during the week ended 4-September-2020. The weekly oil rig count data from Baker Hughes showed an increase of 1 oil rig in the US to reach of 181 rigs by the week ended 4-September-2020. According to data from Rystad Energy, the increase in production comes primarily on the back of production from wells that were drilled but uncompleted. Highlighting the resilience of the US shale production, the report said that the Permian Basin, the epicenter of fracking oil, can still accommodate 13 months of activity at last month's pace. The report added that even if drilling operations in the basin stops completely, production from the basin can continue until the first half of next year before requiring new drilling.

Average Crude Oil Prices, USD/b	Jul-2020	Aug-2020	Change (USD)	Avg 2019	Avg 2020
OPEC Reference Basket	43.4	45.2	1.8	64.6	40.5
Arab Light	43.5	45.3	1.8	65.6	41.0
Basrah Light	44.6	46.1	1.5	64.3	40.3
Bonny Light	43.5	45.4	1.9	66.3	40.8
Djeno	35.8	37.3	1.5	62.2	35.8
Es Sider	42.2	43.7	1.5	64.1	39.4
Girassol	45.8	45.8	0.1	66.5	41.8
Iran Heavy	43.3	45.1	1.8	62.5	39.3
Kuwait Export	43.3	45.1	1.8	64.8	40.4
Merey	28.3	35.2	6.9	56.0	27.9
Murban	43.7	45.5	1.8	65.4	42.5
Rabi	43.6	43.8	0.2	64.0	39.1
Saharan Blend	44.1	45.6	1.5	64.9	41.5
Zafiro	43.8	45.2	1.4	66.1	40.5
Other Crudes					
Brent	43.3	44.8	1.5	64.8	40.9
Dubai	43.2	43.9	0.7	64.3	41.5
Isthmus	38.5	41.2	2.8	64.1	34.5
LLS	42.3	44.1	1.7	63.7	40.3
Mars	41.8	43.8	2.0	62.2	38.9
Minas	41.0	42.8	1.8	60.3	40.6
Urals	44.3	45.0	0.8	65.1	40.9
WTI	40.8	42.4	1.6	57.1	38.2
Differentials					
Brent/WTI	2.5	2.4	(0.1)	7.7	2.7
Brent/LLS	0.9	0.7	(0.2)	1.1	0.6
Brent/Dubai	0.1	0.9	0.8	0.5	(0.7)

Source: OPEC Monthly Oil Market Report - September-2020

World Oil Demand

The ongoing uncertainty over Covid-19 cases and impact on oil demand revival was once again reflected in OPEC's latest demand estimates. The agency once again lowered demand expectations for 2020 to 90.23 mb/d from 90.63 mb/d in its previous forecast. World oil demand is now expected to contract by 9.5 mb/d vs. 9.1 mb/d in the previous forecast. The revision primarily reflected lower demand expectations for the non-OECD region, particularly in India, that is expected to spill over to 1H-2021. On the other hand, demand estimates for the OECD region was raised by 0.1 mb/d to 42.9 mb/d reflecting lower-than-expected decline in demand in all sub-regions of the OECD during Q2-2020. Nevertheless, the report stated that OECD demand will be affected by the slower recovery in the transportation fuel requirements. The most recent weekly data showed gasoline demand in the US declining during the first week of

World Oil Demand - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.63	24.31	19.57	24.23	24.71	23.21	-2.42	-9.45
of which US	20.79	19.66	16.11	19.78	20.29	18.97	(1.83)	(8.78)
Europe	14.25	13.35	10.62	13.19	13.53	12.68	(1.58)	(11.07)
Asia Pacific	7.79	7.75	6.45	6.51	7.33	7.01	(0.78)	(10.01)
Total OECD	47.68	45.41	36.64	43.93	45.57	42.9	-4.78	-10.02
Other Asia	13.87	12.99	11.30	11.88	13.05	12.31	-1.56	-11.26
of which India	4.84	4.77	3.50	3.55	4.34	4.04	(0.80)	(16.59)
Latin America	6.59	6.11	5.61	6.17	6.08	5.99	(0.60)	(9.11)
Middle East	8.20	7.88	6.91	7.88	7.50	7.54	(0.66)	(8.02)
Africa	4.45	4.37	3.77	4.07	4.20	4.10	(0.34)	(7.76)
Total Developing Countries (DCs)	33.11	31.36	27.58	30.01	30.83	29.95	-3.16	-9.56
Former Soviet Union (FSU)	4.84	4.50	4.03	4.38	4.54	4.36	-0.48	-9.9
Other Europe	0.76	0.71	0.55	0.47	0.56	0.57	(0.19)	(25.17)
China	13.30	10.70	12.85	12.67	13.58	12.45	(0.85)	(6.36)
Total "Other Regions"	18.91	15.91	17.42	17.52	18.69	17.39	-1.52	-8.03
Total World	99.69	92.68	81.64	91.45	95.08	90.23	-9.46	-9.49

Source: OPEC Monthly Oil Market Report - September-2020

September-2020 due to the hurricane and labor day holiday, whereas air traffic in Europe were below expectations. Data for the week earlier showed that road traffic in some key European countries has reached 90% of the pre-pandemic levels whereas Beijing and Berlin have shown full recovery. According to OPEC, OECD Americas showed less-than-expected decline in demand led by stable petrochemical feedstock requirements whereas heating fuel restocking was steady in the OECD Europe region, thereby supporting demand in the region. The OECD Asia Pacific region also showed positive demand trends with South Korea showing higher demand in Q2-2020 led by steady industrial activity that resulted in higher diesel and petrochemical feedstock requirements. Oil demand estimates for the non-OECD region was affected by lower than expected demand revival in India, Indonesia, Thailand and the Philippines which was partially offset by higher demand coming from China during Q2-2020.

Demand estimates for 2021 were also lowered by 0.4 mb/d and demand is now expected to increase by 6.6 mb/d to reach 96.9 mb/d. The estimates reflect higher requirements for light distillates and diesel backed by improving industrial activity whereas the petrochemical sector would support demand in the US and China, partially offset by higher fuel efficiency gains in the transportation sector, oil substitution programmes in the power generation sector and subsidy reduction policies.

World Oil Demand - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	23.21	24.41	24.85	25.29	25.22	24.95	1.74	7.50
of which US	18.97	19.98	20.42	20.48	20.66	20.39	1.42	7.50
Europe	12.68	13.57	13.92	13.96	13.83	13.82	1.15	9.04
Asia Pacific	7.01	7.82	7.31	7.06	7.57	7.44	0.43	6.11
Total OECD	42.90	45.81	46.08	46.31	46.62	46.21	3.32	7.73
Other Asia	12.31	13.22	13.15	13.15	13.83	13.34	1.03	8.41
of which India	4.04	4.89	4.18	4.36	4.99	4.61	0.57	14.03
Latin America	5.99	6.21	6.27	6.37	6.31	6.29	0.30	5.00
Middle East	7.54	8.07	7.64	8.19	7.75	7.91	0.37	4.89
Africa	4.10	4.46	3.95	4.27	4.39	4.27	0.17	4.03
Total Developing Countries (DCs)	29.95	31.96	31.01	31.99	32.28	31.82	1.87	6.24
Former Soviet Union (FSU)	4.36	4.64	4.49	4.55	4.67	4.59	0.23	5.19
Other Europe	0.57	0.79	0.68	0.59	0.68	0.68	0.11	19.58
China	12.45	12.31	13.87	13.70	14.33	13.56	1.10	8.85
Total "Other Regions"	17.39	17.75	19.04	18.84	19.68	18.83	1.44	8.28
Total World	90.23	95.52	96.12	97.14	98.58	96.86	6.62	7.34

Source: OPEC Monthly Oil Market Report - September-2020

World Oil Supply

World liquids production increased for the second consecutive month during August-2020 by 1.32 mb/d and averaged at 89.88 mb/d. The increase was led by higher output of both OPEC and non-OPEC liquids as well as OPEC NGLs. Non-OPEC output grew by 0.56 mb/d m-o-m to reach 65.83 mb/d mainly led by higher output in Russia and Canada. However, the relatively higher growth in OPEC output during August-2020 increased the group's share by 50 bps to 26.8% during the month.

Non-OPEC oil supply estimates for 2020 saw an upward revision of 360 tb/d reflecting higher-than-expected production in the US during June-2020 by around 1 mb/d supported by higher output in Texas. As a result, non-OPEC supply is now expected to contract by 2.7 mb/d

Non-OPEC Oil Supply - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.77	26.59	23.52	23.73	24.01	24.46	(1.31)	(5.09)
of which US	18.43	19.05	16.80	16.89	17.10	17.46	(0.97)	(5.26)
Europe	3.71	4.03	3.86	3.89	4.05	3.96	0.25	6.70
Asia Pacific	0.52	0.53	0.54	0.56	0.62	0.56	0.04	6.98
Total OECD	30.00	31.16	27.91	28.18	28.67	28.98	(1.03)	(3.42)
Other Asia	3.54	3.46	3.25	3.25	3.34	3.32	(0.21)	-5.96
Latin America	6.06	6.36	5.85	6.24	6.42	6.21	0.15	2.54
Middle East	3.19	3.18	3.18	3.09	3.04	3.12	(0.07)	(2.19)
Africa	1.53	1.48	1.48	1.45	1.40	1.45	(0.08)	(5.02)
Total Developing Countries (DCs)	14.32	14.49	13.76	14.03	14.20	14.12	(0.20)	(1.42)
Former Soviet Union (FSU)	14.4	14.53	13	12.35	12.46	13.08	-1.31	-9.13
of which Russia	11.44	11.51	10.21	9.74	9.85	10.32	(1.12)	(9.78)
Other Europe	0.12	0.12	0.12	0.11	0.11	0.12	0.00	(3.14)
China	4.05	4.15	4.16	4.13	4.01	4.11	0.06	1.50
Total "Other regions"	18.57	18.80	17.27	16.60	16.58	17.31	(1.26)	(6.77)
Total Non-OPEC Production	62.89	64.44	58.94	58.8	59.45	60.4	-2.49	-3.96
Processing gains	2.26	2.15	1.85	2.15	2.15	2.07	(0.19)	(8.47)
Total Non-OPEC Supply	65.15	66.59	60.79	60.95	61.6	62.47	-2.68	-4.11
OPEC NGLs and non-conventionals	5.26	-	-	-	-	5.15	(0.11)	(2.09)
OPEC Crude Oil Production	29.34	28.28	25.61	-	-			
Total World Supply	99.75	-	-	-	-			

Source: OPEC Monthly Oil Market Report - September-2020

in 2020 to average at 62.5 mb/d. According to the report, non-OPEC supply is expected to gradually recover by 0.2 mb/d in Q3-2020 and by 0.7 mb/d in Q4-2020. Supply estimates for the US for full year 2020 was revised upwards by 360 tb/d followed by China and Brazil by 36 tb/d and 35 tb/d. Supply estimates for Oman and Kazakhstan were also raised by a total 37 tb/d whereas that of Thailand, India, Canada, Colombia and Ghana were lowered collectively by 95 tb/d.

Non-OPEC supply growth estimates for 2021 were also raised by 371 tb/d with oil supply now expected to reach 63.47 mb/d recording a yearly growth of 1 mb/d.

Non-OPEC Oil Supply - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	24.46	24.32	24.62	25.2	26.08	25.06	0.60	2.45
of which US	17.46	17.24	17.70	17.88	18.55	17.85	0.39	2.23
Europe	3.96	4.07	3.97	4.00	4.27	4.08	0.12	3.12
Asia Pacific	0.56	0.57	0.56	0.59	0.58	0.57	0.01	2.17
Total OECD	28.98	28.96	29.14	29.79	30.93	29.71	0.74	2.54
Other Asia	3.32	3.35	3.32	3.37	3.36	3.35	0.03	0.8
Latin America	6.21	6.45	6.41	6.37	6.60	6.46	0.25	3.95
Middle East	3.12	3.10	3.11	3.13	3.14	3.12	0.00	(0.11)
Africa	1.45	1.40	1.39	1.37	1.35	1.37	(0.08)	(5.45)
Total Developing Countries (DCs)	14.12	14.30	14.23	14.23	14.45	14.31	0.19	1.34
Former Soviet Union (FSU)	13.08	13.08	13.07	13.07	13.06	13.07	-0.01	-0.08
of which Russia	10.32	10.36	10.36	10.36	10.36	10.36	0.03	0.32
Other Europe	0.12	0.11	0.11	0.11	0.11	0.11	(0.01)	(6.92)
China	4.11	4.04	4.03	4.07	4.14	4.07	(0.04)	(1.00)
Total "Other regions"	17.31	17.22	17.21	17.24	17.31	17.25	(0.06)	(0.35)
Total Non-OPEC Production	60.40	60.49	60.59	61.27	62.69	61.27	0.87	1.43
Processing gains	2.07	2.20	2.20	2.20	2.20	2.20	0.13	6.17
Total Non-OPEC Supply	62.47	62.69	62.79	63.47	64.89	63.47	0.99	1.59

Source: OPEC Monthly Oil Market Report - September-2020

OPEC Oil Production & Spare Capacity

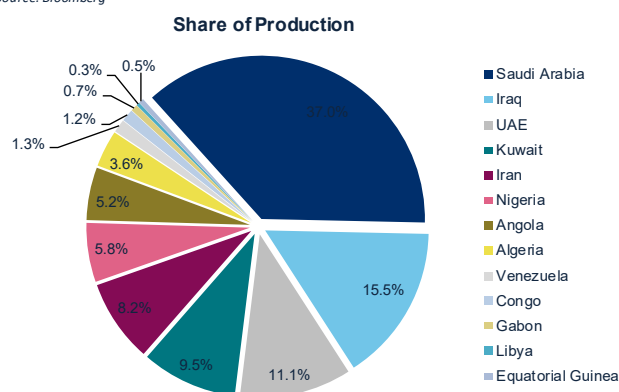
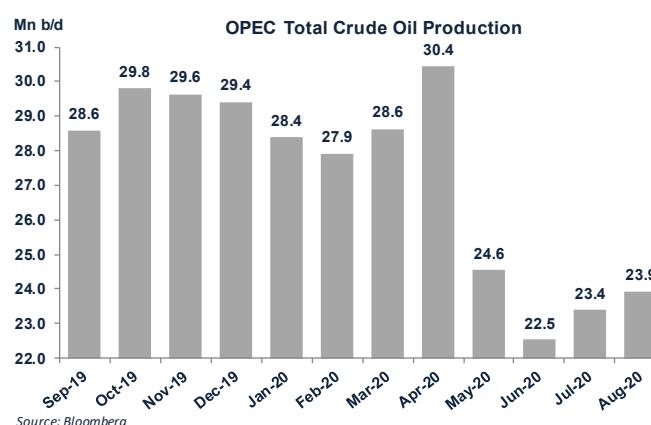
OPEC crude oil production increased for the second consecutive month during August-2020 adding 550 tb/d and averaged at 23.94 mb/d, according to data from Bloomberg. According to OPEC secondary sources, production coming from the group was slightly higher at 24.05 mb/d registering a m-o-m increase of 763 tb/d. The monthly increase in production came after the OPEC+ implemented the renewed relaxed curbs on the overall output that was partially offset by the compensatory cuts that few producers, including Iraq and Nigeria, had to implement starting from August-2020. The monthly increase in production once again was primarily on the back of higher output from Saudi Arabia for the second consecutive month. The Kingdom raised production by 410 tb/d to a 4-month high level of 8.86 mb/d. Other producers including UAE, Angola, Algeria and Kuwait also increased production by at total 380 tb/d. These increases

Production ('000 b/d)	Jun-20	Jul-20	Change		Capacity	Spare Capacity
Total OPEC-13	23,390	23,940	550	2.35%	34,035	10,095
Saudi Arabia	8,450	8,860	410	4.9%	11,500	2,640
Iraq	3,790	3,720	-70	-1.8%	4,800	1,080
UAE	2,450	2,650	200	8.2%	3,400	750
Kuwait	2,220	2,270	50	2.3%	3,075	805
Iran	1,960	1,960	0	0.0%	3,830	1,870
Nigeria	1,510	1,400	-110	-7.3%	2,000	600
Angola	1,180	1,250	70	5.9%	1,450	200
Algeria	810	870	60	7.4%	1,080	210
Venezuela	360	310	-50	-13.9%	900	590
Congo	280	290	10	3.6%	330	40
Gabon	160	160	0	0.0%	220	60
Libya	100	80	-20	-20.0%	1,300	1,220
Equatorial Guinea	120	120	0	0.0%	150	30
Total OPEC-12	19,600	20,220	620	3.16%	29,235	9,015

Source: Bloomberg, OPEC

partially offset a decline in production in Nigeria by 110 tb/d as the producer lowered output to comply with OPEC+ curbs. Iraq also lowered production for the same reason and produced at 3.72 mb/d during August-2020, a m-o-m decline of 70 tb/d. The producer had pledged to implement additional production cuts in August-2020 and September -2020 by 0.4 mb/d, over and above its share of curbs at 0.85 mb/d. However, there were reports that the country is looking at being exempted from the production cuts in Q1-2021 as it reels under budget pressure led by the decline in oil prices. Iraq has also reportedly slashed its crude oil exports by 6% to 2.567 mb/d during August-2020 vs. 2.763 mb/d during July-2020.

Libya and Venezuela reported further declines in output during August-2020. Venezuela's output stood at 310 mb/d, one of the lowest on record due to the sanctions. On the other hand, Libya's production went below the 100 tb/d to reach 80 tb/d, the lowest monthly average since 2011, due to political issues in the country. However, it was reported that the deadlock was easing and the country is expected to reopen ports this week. A resumption of production would mean additional oil of around 1.1 mb/d flowing in the oil market from Libya. Meanwhile, the excess capacity in OPEC stood at more than 10 mb/d, which we expect to be tweaked by OPEC as demand recovers but would result in subdued crude oil prices.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q3 20	Q4 20	Q1 21	Q2 21
Westpac Banking Corp	11/Sep/20	41.0	38.0	35.7	33.0
Commerzbank AG	4/Sep/20	43.0	40.0	42.0	45.0
Capital Economics Ltd	3/Sep/20	41.5	43.5	46.0	48.5
MUFG Bank	2/Sep/20	44.9	48.4	49.2	54.6
Citigroup Inc	31/Aug/20	43.0	48.0		
Rabobank International	27/Aug/20	42.0	43.0	44.5	45.5
ABN AMRO Bank NV	26/Aug/20	38.0	40.0	48.0	48.0
Santander UK PLC	21/Aug/20	43.7	46.3	46.0	46.0
Landesbank Baden-Wuerttemberg	20/Aug/20	44.0	45.0	45.0	47.0
Intesa Sanpaolo SpA	3/Aug/20	43.0	45.0	45.0	50.0
MPS Capital Services Banca per le Imprese SpA	15/Jul/20	40.0	45.0	48.0	52.0
Emirates NBD PJSC	13/Jul/20	42.0	44.0	47.5	50.0
BNP Paribas SA	6/Jul/20	43.0	49.0	61.0	54.0
Natixis SA	6/Jul/20	38.0	43.0	42.0	43.0
Market Risk Advisory Co Ltd	1/Jul/20	42.0	40.0	38.0	42.0
BBVA Research SA	25/Jun/20	38.5	42.9	44.5	50.8
CIMB	17/Jun/20	40.0	45.0	48.0	50.0
Societe Generale SA	9/Jun/20	35.0	40.0	42.5	45.0
HSBC Holdings PLC	8/Jun/20	33.0	40.0	50.0	50.0
Deutsche Bank AG	29/May/20	35.0	40.0	40.0	45.0
Bank of Nova Scotia/The	7/Apr/20	26.0	31.0	36.0	38.0
Banco Santander SA	1/Apr/20	31.0	37.2	38.0	40.0
Raymond James Financial Inc	30/Mar/20	39.0	49.0	55.0	55.0
Median		41.0	43.0	45.0	47.5
Mean		39.4	42.8	45.1	46.9
High		44.9	49.0	61.0	55.0
Low		26.0	31.0	35.7	33.0
Current Fwd		42.6	40.9	42.4	43.6
Difference (Median - Current)		-1.6	2.1	2.6	3.9

Source: Bloomberg

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