Oil & Petrochemicals Monthly

Petrochemicals Sector I July 2020

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Petrochemical prices move up in July; Aramco slightly increases butane and propane prices for August.

- **Naphtha, propane, butane prices rose:** Prices of naphtha, propane and butane increased 5.3%, 2.9% and 3.0% to USD 400, USD 360 and USD 340 per ton, respectively in July. Aramco slightly increased propane and butane prices for August to USD 365 per ton and USD 345 per ton, respectively.
- **End product and intermediates prices increased; Basic products were directionless:** PP prices were flat M/M at USD 910 per ton in July. Propylene prices rose 6.1% M/M to USD 785 per ton. HDPE and LDPE prices jumped 10.6% and 10.1%, respectively to USD 940 per ton and USD 980 per ton. Polystyrene prices were up 1.1% to USD 930 per ton in July, due to 2.3% rise in Styrene prices to USD 665 per ton. Meanwhile, PVC prices rose 3.8%, while MEG (Asia) prices increased 1.2%, to USD 430 per ton. Ethylene prices fell 6.1% M/M to USD 765 per ton. Methanol-China prices rose 3.1% to USD 165 per ton. Titanium dioxide's weighted average price inched up by 1.3% M/M to USD 3,212 per ton. Ammonia prices gained 2.4% to USD 215 per ton, while urea prices were up 4.4% to USD 235 per ton in July. DAP prices rose 1.7% to USD 305 per ton in July.

Crude oil prices advanced in July driven by EU recovery fund and weak US dollar; US stimulus hopes support prices in August

- **Crude oil prices increase in July:** In first week of July, oil prices gained on account of lower supply. However, prices retreated in the second week due to increase in inventories and record-breaking number of new coronavirus cases in the US. In second half of the month, oil prices were under pressure due to escalating tension between US and China, surging COVID-19 cases, and OPEC's decision not to extend additional cuts beyond July. However, EUR 750bn recovery fund agreed upon by EU leaders and weakness in US dollar enabled the commodity to register monthly gains.
- **Brent-WTI gain in July:** Brent and WTI prices increased 5.6%, and 4.6% M/M, ending at USD 43.3 and USD 40.3/ bbl, respectively. The Brent-WTI spread increased to USD 3.0/ bbl in July from USD 2.5/ bbl in June. Natural gas prices at Henry Hub grew 20.3% M/M to USD 1.8/ mn British thermal units (mmBtu).
- **Fall in US inventory and weak US dollar hold oil up in early August:** In early August, weak US dollar continued to support oil prices, further supported by decline in US inventories. Moreover, expectations of US economic stimulus also bolstered prices in the second week.

Table 1: Petchem Prices – July FY20

Name	Price (USD pet ton)	M/M %	YTD %
Naphtha	**400**	5.3%	-32.2%
Saudi Propane	**360**	2.9%	-18.2%
Butane-Saudi	**340**	3.0%	-25.3%
Ethylene	**765**	-6.1%	4.8%
Propylene-Asia	**785**	6.1%	1.9%
HDPE	**940**	10.6%	11.9%
LDPE	**980**	10.1%	11.4%
LLDPE	**860**	7.5%	3.6%
PP-Asia	**910**	0.0%	-1.1%
Styrene-Asia	**665**	2.3%	-23.6%
Polystyrene-Asia	**930**	1.1%	-11.4%
Tio2*	**3,212**	1.3%	1.0%
PVC-Asia	**820**	3.8%	-2.4%
MEG (Asia)	**430**	1.2%	-23.2%
Methanol-China	**165**	3.1%	-26.7%
DAP-Gulf	**305**	1.7%	-1.6%
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MTBE-Asia	**420**	-4.5%	-39.6%
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Butyl-A	**1,080**	0.0%	-8.5%
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Acetic Acid-AA	**335**	4.7%	0.0%
EVA	**1,125**	5.1%	-21.9%
Vinyl Acetate Monomer-VAM	**660**	3.1%	-22.4%

Source: Argaam, Reuters Eikon, AlJazira Capital Research

*The weighted average price of Tio2

Table 2: Economic Calendar

Date	Country	Event
August 05,12,19,26	US	Weekly Petroleum Status Report
20-Aug	KSA	CPI YoY
20-Aug	US	Initial Jobless Claims
27-Aug	US	GDP Annualized QoQ
27-Aug	KSA	M3 Money Supply YoY
27-Aug	KSA	SAMA Net Foreign Assets SAR
3-Sep	US	Trade Balance
3-Sep	KSA	IHS Markit Saudi Arabia PMI
4-Sep	US	Unemployment Rate
9-Sep		EIA Short-term Energy Outlook
11-Sep	US	Monthly Budget Statement
14-Sep		OPEC Monthly Oil Market Report
15-Sep		IEA Oil Market Report
30-Sep	KSA	Unemployment Rate (Saudis)
30-Sep	KSA	GDP Constant Prices YoY

Source: Bloomberg, IEA, EIA, OPEC

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Key comments from international energy agencies

IEA – Oil Market Report (Published on August 13)

- Global demand is forecast to reduce by 8.1 mbpd Y/Y in FY20 (earlier estimate: decline of 7.9 mbpd Y/Y), first decline since FY09. Global oil demand in FY21 revised down by 240,000 bpd to 97.1 mbpd due to weakness in aviation sector.
- The global oil supply increased by 2.5 mbpd in July to 90.0 mbpd.
- In FY20, global refining throughput is estimated to decrease by 6.9 mbpd Y/Y, while it is expected to rise by 4.5 mbpd Y/Y in FY21.
- OECD industry stocks increased 16.2mn barrels to 3,235mn barrels in June. Commercial stocks in the US in June declined by 18.2 mbpd.

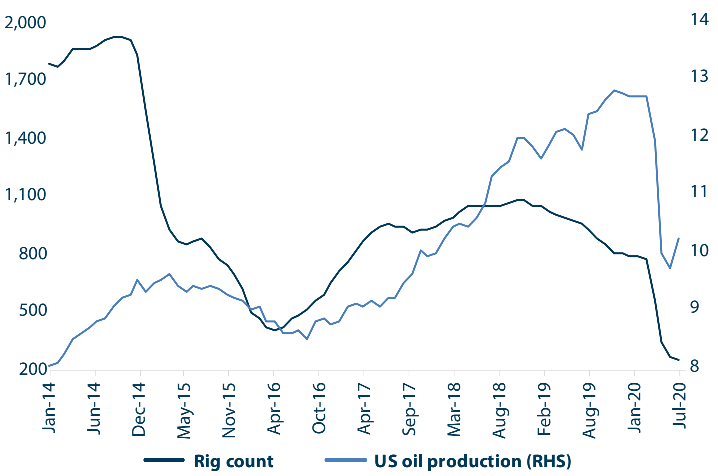
OPEC – Monthly Oil Market Report (Published on August 12)

- Oil consumption is expected to decline by 9.1 mbpd in FY20 (up 0.1 mbpd from the previous month's estimate). In FY21, oil consumption is expected to grow by 7.0 mbpd.
- OPEC's oil production increased 0.98 mbpd M/M to average 23.2 mbpd in July, according to secondary sources.
- Non-OPEC supplies are forecast to rise by 0.98 mbpd in FY20 (66,000 bpd higher than the previous month's estimate), due to higher-than-expected recovery in production in Canada.
- OECD's commercial oil stocks rose 24.3mn barrels M/M to 3,240mn barrels in June; 291.2mn barrels above the latest five-year average with a forward cover of 73.4 days.
- For FY20, OPEC demand is estimated at 23.4 mbpd (5.9 mbpd lower than FY19), revised down by 0.4 mbpd from previous month's estimate. FY21 OPEC demand is forecast at 29.3 mbpd, revised down by 0.5 mbpd.

EIA – Short-Term Energy Outlook (Published on August 11)

- EIA forecasts Brent spot prices will average USD 43 per barrel in H2-20 (USD 2 per barrel higher than previous month's forecast) and USD 50 per barrel in FY21.
- EIA projects Henry Hub's natural gas spot prices to average USD 2.03/mmBtu in FY20, up USD 0.10/mmBtu from earlier estimate. EIA forecasts the spot prices to increase to average of USD 3.14/mmBtu in FY21 due to lower natural gas production.
- Natural gas inventories in the US forecasted to reach 4.0tn cubic feet by the end of October, the most on record.
- OPEC average crude production is expected to decrease to 25.8 mbpd in FY20 from 29.3 mbpd in FY19.
- Global consumption of petroleum and other liquid fuels is projected to decrease by 8.1 mbpd in FY20 (up 0.1 mbpd from the previous month's estimate) and increase 7.0 mbpd in FY21.
- Non-OPEC production is projected to decrease by 2.4 mbpd in FY20, while rise by 1.7 mbpd in FY21.
- On average, OPEC members are estimated to produce 23.5 mbpd of crude oil in Q3-20 and 25.6 mbpd in Q4-20.
- OPEC's unplanned oil supply disruptions averaged 4.29 mbpd in July (up 4.26 mbpd from May).
- OECD inventories are projected to decrease to 2.9bn barrels by end-2020 (against the previous month's estimate of 3.0bn barrels) and to 2.8bn barrels in FY21 (vs. previous month's estimate 2.9bn barrels).

Figure 1: US Oil Production versus Rig Count



Source: US EIA, AlJazira Capital Research

US oil production averaged 10.26 mbpd in July 2020. Production increased 5.2% M/M from 9.75 mbpd in June and fell 13.2% Y/Y from 11.82 mbpd in July 2019.

In the week ended July 31, the rotary rig count in the US stood at 251 (unchanged W/W). The average number of rigs fell 6.7% in July vis-à-vis a drop of 21.4% in June. The average rig count was down 73.3% Y/Y in July. Of the total 244 rigs on August 14, 172 (down 4 W/W) were used to drill for oil and 70 (up 1 W/W) for natural gas. In the US, oil exploration plunged 77.7% Y/Y, while gas exploration dropped 57.6% Y/Y.

Table 3: World Oil Demand and Supply

(mbpd)	FY19				FY20E				FY19	FY20E	FY21E
World Crude Oil & Liq. Fuels Supply	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**			
OPEC Supp.	35.41	34.94	33.90	34.36	33.57	30.38	28.19	30.34	34.65	30.61	34.09
Non-OPEC Suppl.	64.89	65.50	66.22	67.32	67.17	61.46	62.19	63.64	65.99	63.61	65.28
Total World Supply	**100.30**	**100.44**	**100.12**	**101.68**	**100.74**	**91.84**	**90.38**	**93.98**	**100.64**	**94.22**	**99.37**
World Crude Oil & Liq. Fuels Cons.											
OECD Cons.	47.48	46.81	48.03	47.64	45.22	37.50	43.29	44.80	47.49	42.71	45.72
Non-OECD Cons.	52.84	53.97	54.11	54.07	49.55	47.51	51.67	52.94	53.75	50.43	54.45
Total World Cons.	**100.32**	**100.78**	**102.14**	**101.71**	**94.77**	**85.01**	**94.96**	**97.74**	**101.25**	**93.14**	**100.16**
OECD Comm. Inventory (mn barrels)	2,860	2,921	2,932	2,893	2,983	3,170	3,005	2,859	2,893	2,859	2,757
OPEC Surplus Crude Oil Prod. Cap.	2.52	2.51	3.24	2.91	3.67	4.13	n/a	n/a	2.80	n/a	n/a

Source: EIA STEO May 2020, AlJazira Capital Research

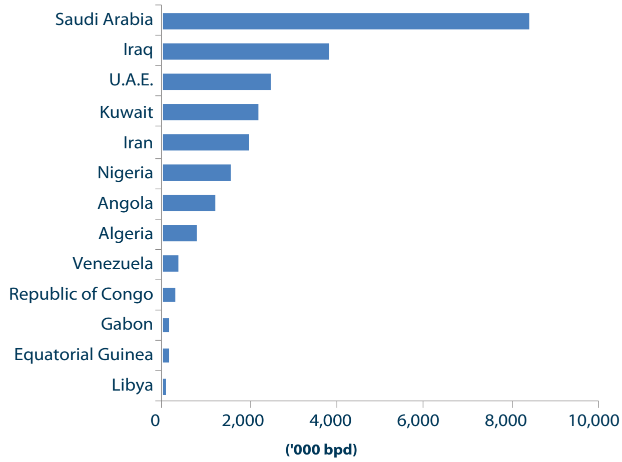
- The gap between crude consumption and supply is estimated to contract to 4.58 mbpd in Q3-20 (higher consumption than supply) from 6.83 mbpd in Q2-20 (higher supply than consumption).
- OECD's crude inventories are expected to be 3.01bn barrels in Q3-20.

Table 4: OPEC Monthly Oil Production

Prod. ('000bpd)	Cap.	April	May	Jun	Jul	% M/M Chg.
Equatorial Guinea	150	140	100	130	120	-7.7%
Gabon	220	210	190	220	160	-27.3%
Republic of Congo	330	320	290	300	280	-6.7%
Venezuela	900	660	550	370	360	-2.7%
Algeria	1,080	1020	820	810	810	0.0%
Libya	1,300	90	90	110	100	-9.1%
Angola	1,450	1,360	1,270	1,240	1,180	-4.8%
Nigeria	2,000	1,910	1,630	1,510	1,550	2.6%
Iran	3,830	1,960	1,950	1,940	1,960	1.0%
Kuwait	3,075	2,900	2,290	2,150	2,220	3.3%
U.A.E.	3,400	3,680	2,500	2,430	2,450	0.8%
Iraq	4,800	4,600	4,210	3,790	3,790	0.0%
Saudi Arabia	11,500	11,590	8,660	7,530	8,450	12.2%
Total OPEC	**34,035**	**30,440**	**24,550**	**22,530**	**23,430**	**4.0%**

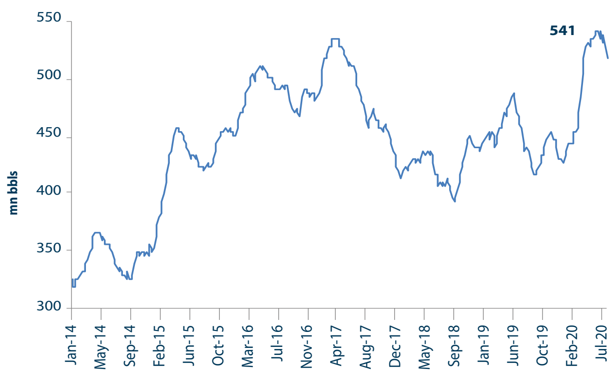
Source: Bloomberg

Figure 2: OPEC July Oil Production



Source: Bloomberg

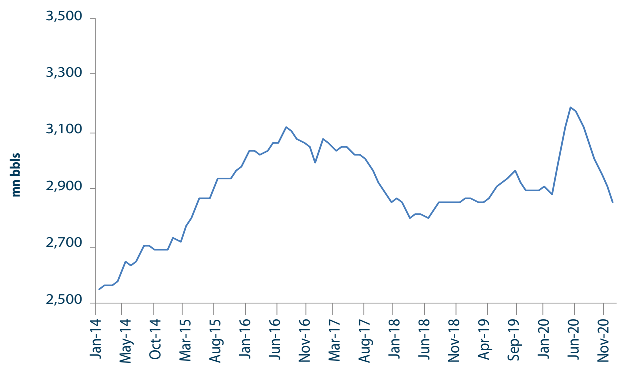
Figure 3: US Weekly Oil Inventories



- US weekly oil inventories fell 1.4% W/W to 518.6 mbpd for the week ended July 31, while they decreased 2.8% M/M in July 2020.

Source: US EIA, AlJazira Capital Research

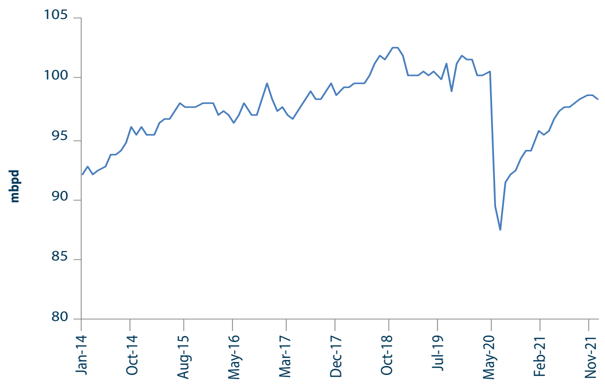
Figure 4: OECD Monthly Oil Inventories



- OECD oil inventories are projected to decrease to 2,859mn barrels by the end of FY20 from 2,893mn barrels at the end of FY19.

Source: US EIA, AlJazira Capital Research

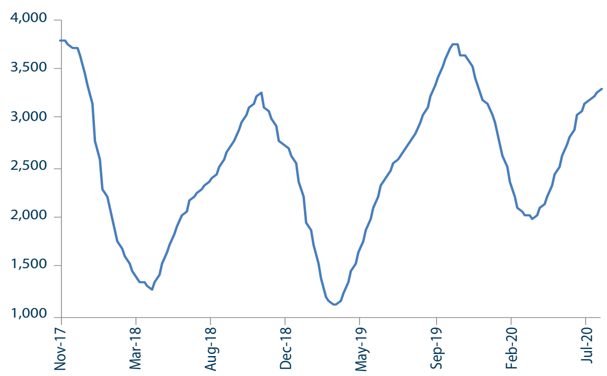
Figure 5: World Oil Production and consumption



- World oil production forecasts for FY20 were at 93.99 mbpd, while those for FY21 stood at 98.37 mbpd.

Source: US EIA, AlJazira Capital Research

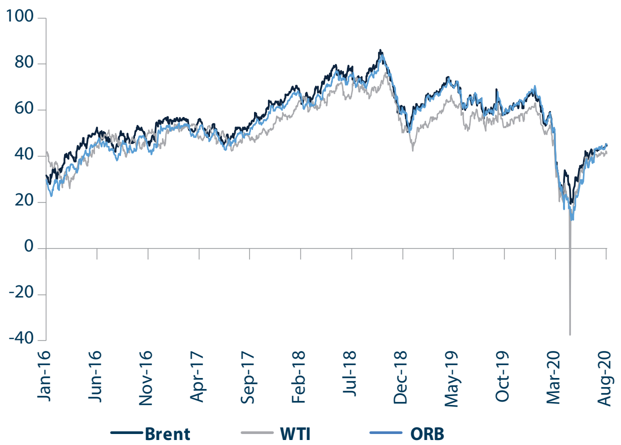
Figure 6: US Weekly Natural Gas Storage



- US weekly natural gas storage increased 1.0% W/W to 3,274 bcf in the week ended July 31, while rose 6.4% M/M.

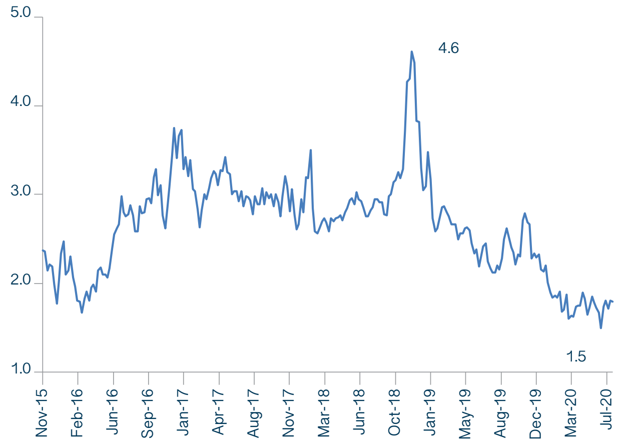
Source: US EIA, AlJazira Capital Research

Figure 7: Oil and Gas Price Trends (USD per Barrel)



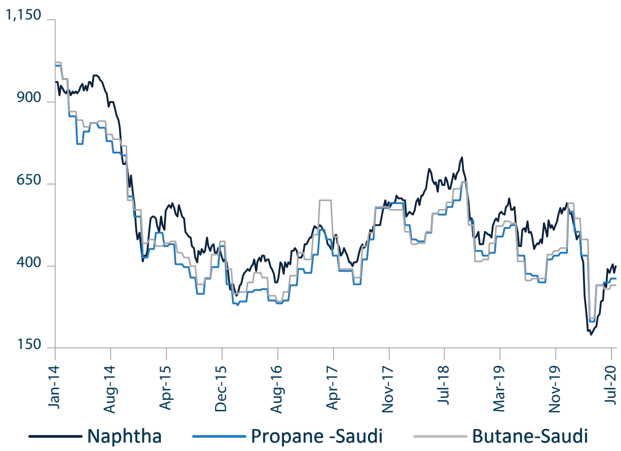
Source: Reuters Eikon, AlJazira Capital Research

Figure 8: Henry Hub Natural Gas (USD per MMBTu)



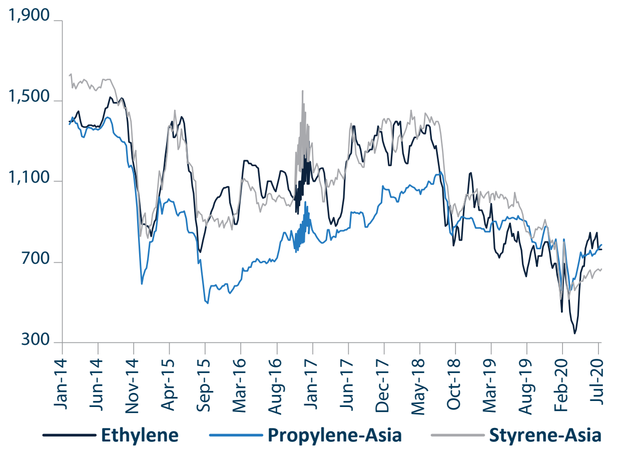
Source: OPEC, AlJazira Capital Research

Figure 9: Feedstock Price Trends (USD per Ton)



Source: Argaam, AlJazira Capital Research

Figure 10: Basic Petrochemicals Price Trends (USD per Ton)

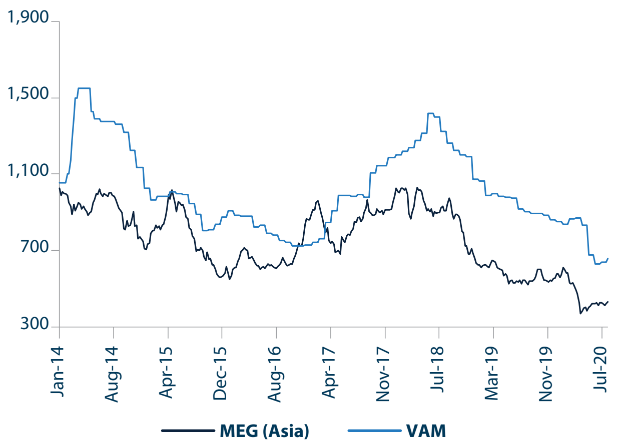


Source: Argaam, AlJazira Capital Research

Figure 11: End Products Price Trends (USD per Ton)

Source: Argaam, AlJazira Capital Research

Figure 12: Intermediate Products Price Trends (USD per Ton)



Source: Argaam, AlJazira Capital Research

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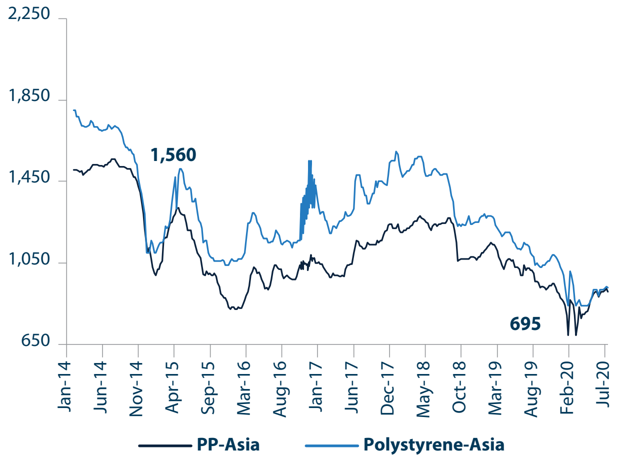
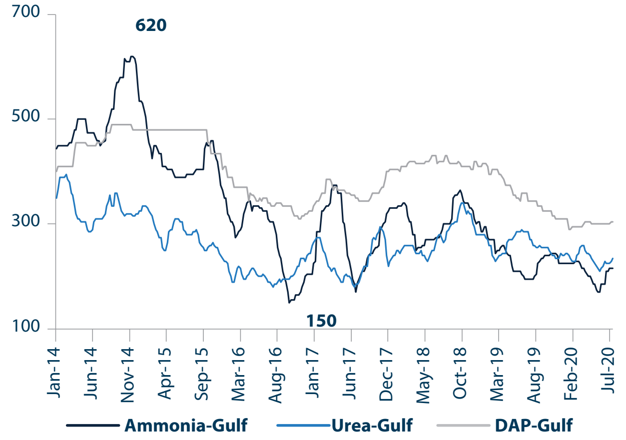
Figure 13: Polypropylene & Polystyrene



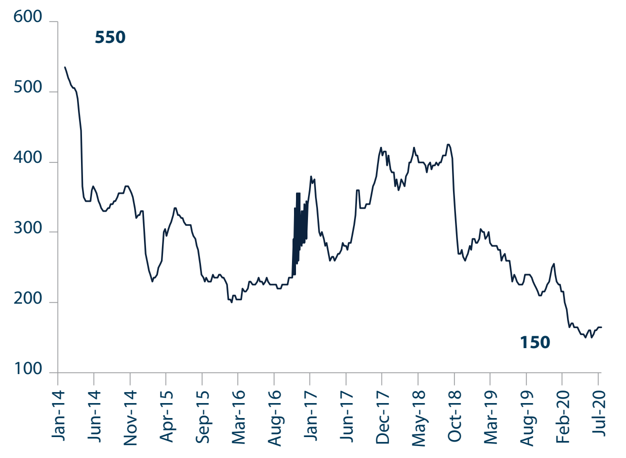
Source: Argaam, AlJazira Capital Research

Figure 14: Ammonia, Urea & DAP



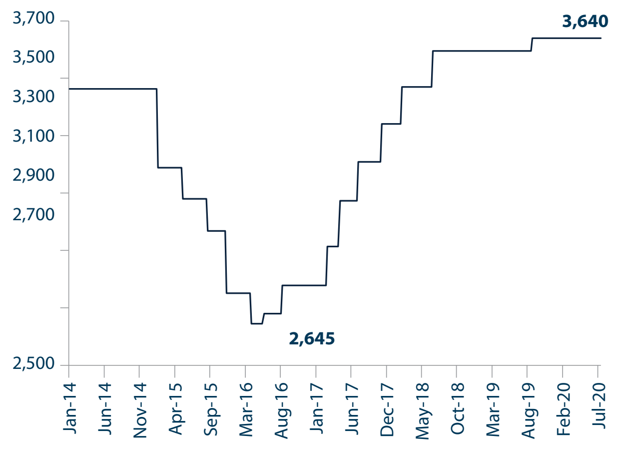
Source: Argaam, AlJazira Capital Research

Figure 15: Methanol-China (USD per Ton)



Source: Argaam, AlJazira Capital Research

Figure 16: TiO2 US

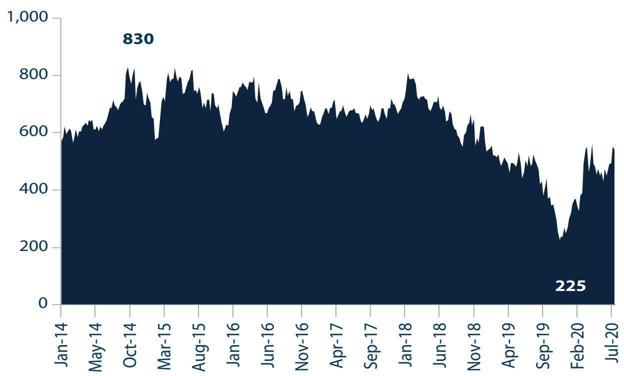


Source: Argaam, AlJazira Capital Research

Petchem Spreads

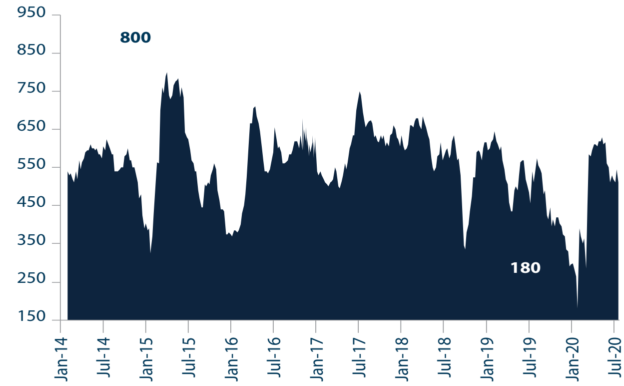
- Naphtha prices averaged USD 394 per ton in July, up from USD 364 per ton in June. Polypropylene average prices increased to USD 915 per ton in July from 901 per ton in June.
- The HDPE-naphtha spread increased to USD 519 per ton in July as against USD 456 per ton in June. The PP-naphtha spread fell to USD 521 per ton from USD 538 per ton during the previous month.
- The HDPE-ethylene spread expanded to USD 128 per ton in July against USD 53 per ton in June.
- The PP-propane spread rose to USD 555 per ton, while the PP-butane spread also increased to USD 575 per ton in July.
- The polystyrene-benzene spread increased to USD 510 per ton in July from USD 488 per ton in June.
- The PVC-EDC spread decreased to USD 561 per ton in July from USD 563 per ton in June.

Figure 17: HDPE-Naphtha



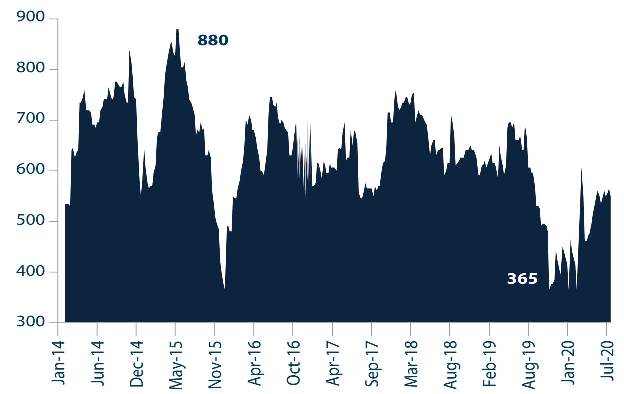
Source: Argaam, AlJazira Capital Research

Figure 18: PP-Naphtha



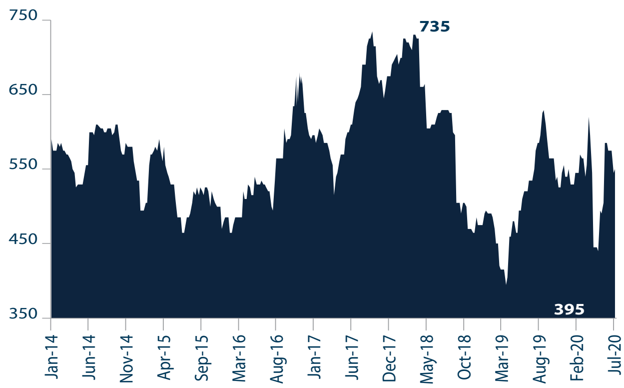
Source: Argaam, AlJazira Capital Research

Figure 19: PP-Propane (Saudi)



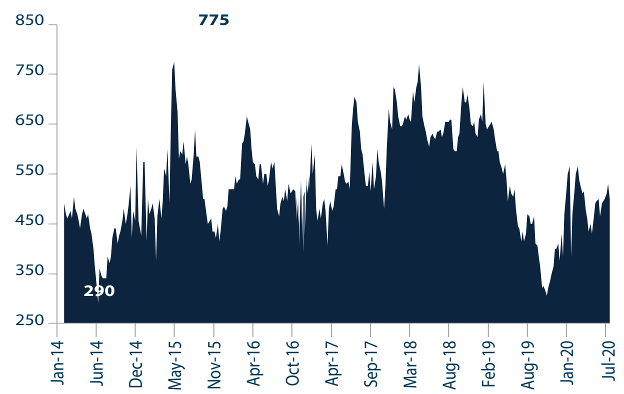
Source: Argaam, AlJazira Capital Research

Figure 20: PVC-EDC



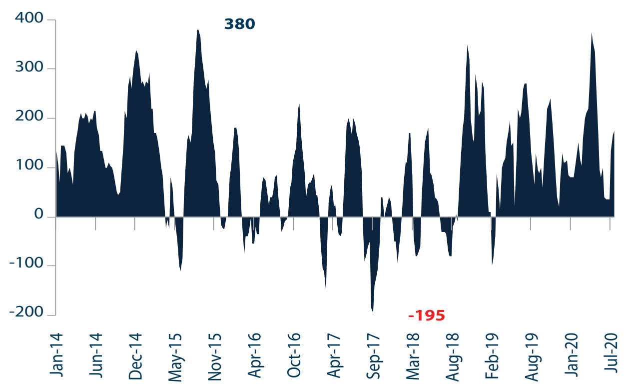
Source: Argaam, AlJazira Capital Research

Figure 21: Polystyrene-Benzene



Source: Argaam, AlJazira Capital Research

Figure 22: HDPE-Ethylene



Source: Argaam, AlJazira Capital Research

Table 5: Petchem Price Performance

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LLDPE	860	7.5%	28.4%	-7.0%	3.6%
PP-Asia	910	0.0%	16.7%	-14.2%	-1.1%
Styrene-Asia	665	2.3%	18.8%	-35.1%	-23.6%
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PVC-Asia	820	3.8%	32.3%	-4.1%	-2.4%
MEG (Asia)	430	1.2%	11.7%	-21.1%	-23.2%
Methanol-China	165	3.1%	0.0%	-28.3%	-26.7%
DAP-Gulf	305	1.7%	1.7%	-11.6%	-1.6%
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MTBE-Asia	420	-4.5%	121.1%	-35.4%	-39.6%
EDC	265	23.3%	43.2%	-20.9%	-11.7%
Butyl-A	1,080	0.0%	13.7%	-11.5%	-8.5%
BPA	1,050	-23.6%	-1.9%	-8.7%	-6.3%
Acetic Acid-AA	335	4.7%	6.3%	-24.7%	0.0%
EVA	1,125	5.1%	-6.3%	-18.5%	-21.9%
Vinyl Acetate Monomer-VAM	660	3.1%	-21.0%	-27.1%	-22.4%

Source: Argaam, AlJazira Capital Research
Note: * Prices as of Jul 26, 2020 *the weighted average price of Tio2

Table 6: Petrochemical Products by Saudi Petrochemical Companies

Company	Finished Products
SABIC	Polyethylene, polypropylene, poly styrene, ethylene glycol (MEG), methyl tert-butyl ether (MTBE), benzene, urea, ammonia, PVC, and PTA
SAFCO	Urea, ammonia
YANSAB	Polyethylene, polypropylene, MEG, MTBE, and benzene
Tasnee	Polyethylene, polypropylene, and propylene (TiO2)
Saudi Kayan	Polyethylene, polypropylene, MEG, polycarbonate, and bisphenol A
Petro Rabigh	Polyethylene, polypropylene, propylene oxide, and refined petroleum products
Petrochem	Polyethylene, polypropylene, and polystyrene
Sahara Petrochemicals (Sipchem)	Polyethylene, polypropylene, Methanol, butanol, acetic acid, and vinyl acetate monomer
Saudi Group	Styrene, benzene, cyclohexene, and propylene
Advanced	Polypropylene
Alujain	Polypropylene
CHEMANOL	Formaldehyde – improvers concrete
NAMA	Epoxy resin, hydrochloric acid, liquid caustic soda, and soda granule
MAADEN	Ammonia and DAP

Source: Argaam Plus

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer