

Oil Market Monthly Report

July-2020

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Oil remains elevated on demand revival; OPEC+ discuss tapering cuts...

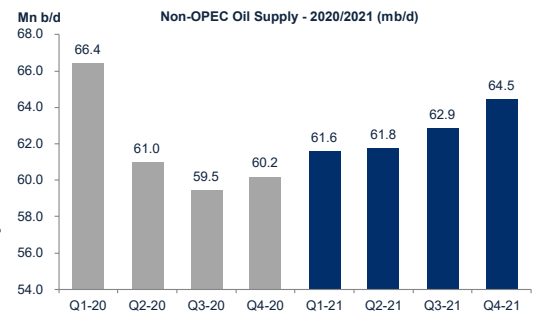
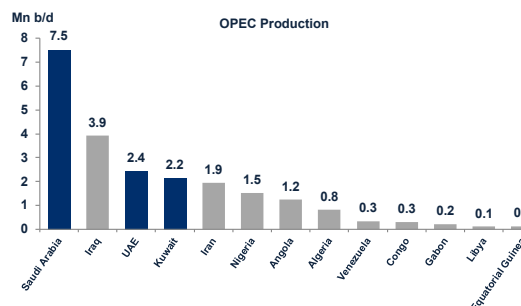
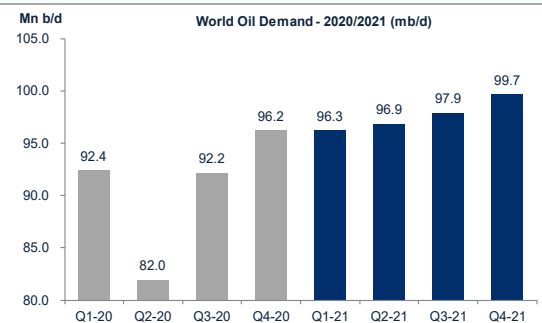
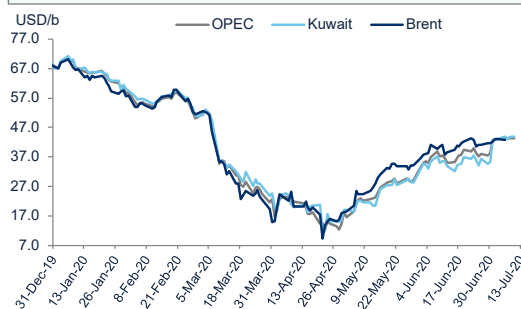
Brent crude traded comfortably above the USD 40/b mark during July-2020 as demand grew across key markets after the Covid-19 led lockdowns started easing. A number of countries, including in the Middle East, partially resumed economic activity that supported oil demand although prices are still down 36% since the start of the year. The economic revival comes despite the number of new Covid-19 cases starting to rise in a number of states in the US and in Asia as vaccine trials continue across the globe.

A number of airlines have partially started operations and countries have now started accepting international tourists. According to a Bloomberg report, US jet fuel requirements has gradually increased to 50% of last years rate. PMI numbers for June-2020 highlighted a number of countries now showing industrial growth during the month, with PMI above 50 and remaining countries witnessing a recovery from their Q2-2020 lows and slowly inching towards the growth threshold.

In terms of oil demand, oil requirements are gradually recovering to pre-pandemic levels. Italy recently reported that its oil requirements are 85%-90% of pre-pandemic levels, while China's crude oil imports increased by 10.9% m-o-m during June-2020. Oil flows from the Middle East to Asian markets have seen strong demand resulting in gulf exporters increasing their official selling prices for these crude grades.

In its monthly report, the IEA once again raised its Q2-2020 oil demand estimates by 1.5 mb/d saying that demand destruction was less severe than expected during the quarter. For the full year 2020, the agency revised global demand decline to 7.9 mb/d or 8% as compared to a previously expected decline of 8.3 mb/d. Talks of oil demand reaching above the 100 mb/d mark has started resurfacing with IEA chief asserting that he wouldn't be surprised if demand reaches 100 mb/d while S&P Platts analytics said that oil demand may go above the 100 mb/d mark in 2021.

OPEC+'s JMMC met on Wednesday and decided to gradually lower the cuts to 7.7 mb/d starting August-2020. However, the Saudi energy minister said that the increase in supply would be offset by increase in domestic demand as well as compensatory cuts by countries that did not comply with the cuts during May and June-2020. Data from IEA showed global oil supply reaching a 9-year low of 86.9 mb/d in June-2020 backed by OPEC+ cuts coupled with output fall in the U.S. and Canada led by decline in investments and reduced drilling activity. According to the latest data from US EIA, oil production dropped to 10.5 mb/d in June-2020, the lowest in two years with oil rigs falling to one of the lowest on record. Shale production during June-2020 reached 7.6 mb/d, a decline of 2.5 mb/d from March-2020 levels. Oil rig count in the US has consistently declined since mid-March-2020 but the weekly decline has now tapered to single digits to reach 181 oil rigs for the week ended 10-July-2020.



Sources : OPEC, EIA, Bloomberg

Junaid Ansari

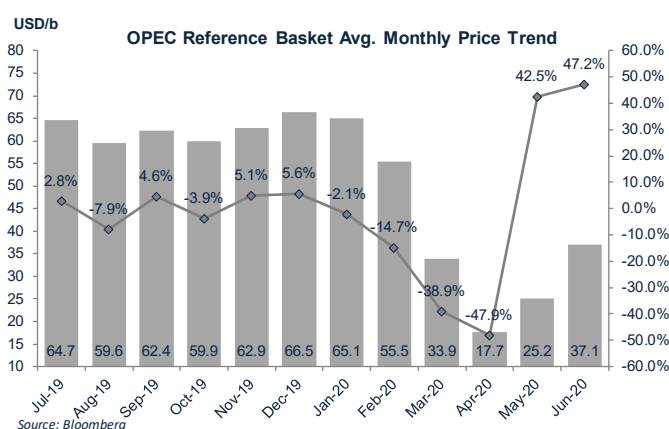
Vice President

+(965) 2233 6912

jansari@kamcoinvest.com

Oil Prices

Spot crude prices stabilized at 4-month high levels of around USD 43/b since the start of July-2020 and traded in a very tight range above the USD 40/b mark backed by expectations of a faster demand recovery coupled with historical cuts adopted by OPEC+ producers. Spot prices of Brent crude reached USD 43.2/b at the start of the month following reports of higher compliance by OPEC+ producers that resulted in production reaching one of the lowest on record. Moreover, the expected tapering of production cuts in the coming months by OPEC+ producers is already factored in the current oil prices indicating that a surprise volatility may not ensue post the meeting. The average Brent crude prices during June-2020 reached USD 40.1/b, an increase of almost 40%. OPEC crude spot and Kuwait grade crude increased at a slightly higher pace of 47.2% and 45.0% to average at USD 37.1/b and USD 34.5/b, respectively.



The weekly inventory report from the US EIA showed higher drawdowns during the last week of June-2020 but once again surged by 5.7 million barrels during the first week of July-2020. The recent report from API, an early indicator of inventory in the US, showed a steep drawdown of 8.32 million barrels last week, giving a subtle support to prices.

Meanwhile, demand from Asian buyers, especially China skyrocketed during June-2020 with the country importing record oil as it prepares for a post Covid-19 recovery as well as taking advantage of low oil prices. According to Bloomberg, the number of oil tankers at China's ports has seen a steep spike with almost 200 ships expected during the rest of the month. Shipping data showed Saudi Arabia as the biggest supplier to China followed by Russia. Nevertheless, with crude stocks at 70% of the capacity, imports may fall in the coming months. In terms of oil production, Rystad Energy said in a report that new drilling activity has declined to the lowest on record this year and the agency does not expect it to reach last year's levels in its forecast. Oil E&P companies have curbed new investments that has led to this historical drop in drilling activity.

Average Crude Oil Prices, USD/b	May-2020	Jun-2020	Change (USD)	Avg 2019	Avg 2020
OPEC Reference Basket	25.2	37.1	11.9	65.5	39.2
Arab Light	25.0	36.1	11.1	66.4	39.9
Basrah Light	24.7	37.2	12.5	65.1	38.6
Bonny Light	24.9	39.0	14.2	67.4	39.6
Djeno	21.4	32.6	11.3	63.4	35.5
Es Sider	24.6	38.7	14.1	65.2	38.2
Girassol	28.6	43.1	14.5	67.4	40.4
Iran Heavy	23.6	36.3	12.7	63.2	37.7
Kuwait Export	24.5	35.6	11.0	65.6	39.0
Merey	16.3	24.7	8.4	56.1	26.6
Murban	28.2	39.3	11.1	66.4	41.8
Rabi	26.1	40.7	14.6	65.2	37.5
Saharan Blend	26.3	40.5	14.2	66.2	40.3
Zafiro	26.8	40.8	14.0	67.1	39.1
Other Crudes					
Brent	28.8	40.1	11.3	66.0	39.8
Dubai	30.4	40.7	10.4	65.5	40.9
Isthmus	25.2	35.1	9.9	65.2	32.7
LLS	31.6	39.5	7.9	64.8	39.3
Mars	30.4	39.2	8.8	63.2	37.6
Minas	29.7	38.4	8.8	60.6	40.1
Urals	30.7	42.4	11.7	66.2	39.6
WTI	28.6	38.3	9.7	57.4	37.0
Differentials					
Brent/WTI	0.2	1.8	1.5	8.6	2.8
Brent/LLS	(2.8)	0.6	3.3	1.2	0.5
Brent/Dubai	(1.5)	(0.6)	0.9	0.5	(1.1)

Source: OPEC Monthly Oil Market Report - July-2020

World Oil Demand

World oil demand growth was revised up by 0.1 mb/d for 2020 to now show a slightly smaller decline of around 8.9 mb/d and average at 90.72 mb/d during the year. The upward revision was based on higher-than-expected demand data for the OECD region for Q2-2020 that more than offset downward revision to demand data for the non-OECD region for the quarter that was led by lower-than-expected data for the Other Asia region. Demand estimates for the OECD region was revised by 1 mb/d from the previous expectations led by better-than-expected diesel requirement data in OECD Europe and Asia Pacific, as well as for petrochemical feedstock in OECD Americas. For the non-OECD region, demand data was revised lower by 0.2 mb/d Q1-2020 and 0.4 mb/d for Q2-2020 and by 0.1 mb/d for the full year 2020 highlighting lower-than-expected demand in the Other Asia region during 1H-2020. Weak manufacturing activity and slowdown in the

World Oil Demand - 2019/2020, mb/d	2019	Q1-20	Q2-20	Q3-20	Q4-20	2020	Y-o-Y Growth	% Chg.
Americas	25.62	24.44	19.27	24.39	25.06	23.3	-2.31	-9.04
of which US	20.81	19.86	15.51	20.04	20.49	18.99	(1.82)	(8.76)
Europe	14.33	13.30	10.19	13.25	13.61	12.59	(1.74)	(12.13)
Asia Pacific	7.93	7.73	6.43	6.64	7.46	7.06	(0.87)	(10.92)
Total OECD	47.88	45.47	35.89	44.29	46.13	42.96	-4.92	-10.28
Other Asia	13.87	13.05	11.90	12.40	13.67	12.76	-1.11	-8.01
of which India	4.84	4.74	3.70	3.94	4.83	4.31	(0.54)	(11.10)
Latin America	6.59	6.20	5.81	6.24	6.15	6.10	(0.49)	(7.47)
Middle East	8.20	7.83	7.01	7.93	7.62	7.60	(0.60)	(7.36)
Africa	4.45	4.38	4.17	4.07	4.20	4.20	(0.24)	(5.49)
Total Developing Countries (DCs)	33.11	31.46	28.88	30.65	31.64	30.66	-2.45	-7.4
Former Soviet Union (FSU)	4.84	4.50	4.08	4.45	4.61	4.41	-0.43	-8.94
Other Europe	0.76	0.71	0.55	0.47	0.56	0.57	(0.19)	(25.18)
China	13.07	10.27	12.55	12.37	13.28	12.12	(0.95)	(7.29)
Total "Other Regions"	18.68	15.48	17.17	17.29	18.46	17.1	-1.58	-8.45
Total World	99.67	92.41	81.95	92.22	96.22	90.72	-8.95	-8.98

Source: OPEC Monthly Oil Market Report - July-2020

transportation sector in countries like India, Indonesia, Thailand and Singapore was steeper than expected resulting in a bigger decline in industrial and transportation fuels.

OPEC also released its expectations for 2021 demand growth with an assumption that another major Covid-19 outbreak will not occur that would require another wave of lockdowns. Oil demand is expected to recover partially in 2021 and grow by 7 mb/d, one of the biggest historical yearly growth, to reach 97.7 mb/d during the year. The steep y-o-y growth is expected primarily due to the low base effect, in addition to the expected economic recovery post the Covid-19 pandemic as countries gradually end the lockdowns. Growth in 2021 is expected to be equally split into OECD and non-OECD countries and in terms of product category, gasoline and diesel are expected to see the biggest growth. The OECD Europe region is expected to growth in the above product categories and jet fuel is expected to rebound, albeit marginally due to a pressure to reduce international and intercontinental flight operations. Petrochemical sector is also expected to show higher requirements led by a resumption of economic activity. In the non-OECD space, China is expected to see a rebound in oil demand led by higher demand in transportation, petrochemical and industrial sectors.

World Oil Demand - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	23.30	24.84	24.65	25.46	25.57	25.14	1.84	7.89
of which US	18.99	20.48	19.92	20.74	20.86	20.50	1.52	8.00
Europe	12.59	13.72	13.54	14.03	13.91	13.80	1.21	9.59
Asia Pacific	7.06	7.90	7.34	7.19	7.69	7.53	0.47	6.59
Total OECD	42.96	46.47	45.53	46.67	47.17	46.47	3.51	8.18
Other Asia	12.76	13.68	14.05	13.67	14.45	13.96	1.21	9.47
of which India	4.31	5.27	4.68	4.75	5.48	5.05	0.74	17.20
Latin America	6.10	6.31	6.47	6.44	6.38	6.40	0.30	4.92
Middle East	7.60	8.01	7.74	8.24	7.87	7.97	0.37	4.86
Africa	4.20	4.47	4.35	4.27	4.39	4.37	0.17	3.93
Total Developing Countries (DCs)	30.66	32.47	32.61	32.63	33.09	32.70	2.04	6.66
Former Soviet Union (FSU)	4.41	4.64	4.54	4.62	4.74	4.64	0.23	5.13
Other Europe	0.57	0.79	0.68	0.59	0.68	0.68	0.11	19.58
China	12.12	11.88	13.57	13.40	14.03	13.22	1.10	9.09
Total "Other Regions"	17.10	17.31	18.79	18.61	19.45	18.54	1.44	8.42
Total World	90.72	96.25	96.93	97.92	99.71	97.72	7.00	7.71

Source: OPEC Monthly Oil Market Report - July-2020

World Oil Supply

World liquids production further declined in June-2020 by 2.95 mb/d to average at 86.29 mb/d. The decline was once again mainly led by decline in production by the OPEC+ producers, whereas non-OPEC liquids production declined by 1.06 mb/d to average at 64.02 mb/d in June-2020. OECD producers lowered production by 0.88 mb/d while non-OECD producers lowered output by 0.18 mb/d as compared to May-2020 levels. As a result, the share of OPEC crude in total global production declined by 130 bps to 25.8% during June-2020.

Non-OPEC oil supply growth for 2020 witnessed a minor downward revision of 30 tb/d and supply is now expected to decline by 3.26 mb/d to average at 61.76 mb/d. The latest estimates reflect an upward revision to US production growth by 68 tb/d and China by 28 tb/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	25.75	26.59	23.74	22.59	22.71	23.9	(1.84)	(7.17)
of which US	18.40	19.04	17.12	15.92	16.07	17.03	(1.37)	(7.42)
Europe	3.71	4.02	3.89	3.94	4.07	3.98	0.27	7.38
Asia Pacific	0.53	0.53	0.57	0.59	0.59	0.57	0.04	8.43
Total OECD	29.98	31.14	28.20	27.12	27.36	28.45	(1.53)	(5.09)
Other Asia	3.48	3.43	3.24	3.32	3.32	3.33	(0.16)	-4.48
Latin America	6.01	6.30	5.74	6.16	6.37	6.14	0.13	2.17
Middle East	3.21	3.21	3.11	3.05	3.07	3.11	(0.10)	(3.16)
Africa	1.53	1.50	1.45	1.44	1.45	1.46	(0.07)	(4.83)
Total Developing Countries (DCs)	14.24	14.44	13.55	13.97	14.20	14.04	(0.20)	(1.41)
Former Soviet Union (FSU)	14.37	14.51	12.93	12.2	12.43	13.02	-1.35	-9.42
of which Russia	11.44	11.51	10.20	9.71	9.85	10.31	(1.13)	(9.87)
Other Europe	0.12	0.12	0.12	0.11	0.11	0.12	0.00	(3.14)
China	4.05	4.15	4.11	3.99	4.01	4.07	0.01	0.35
Total "Other regions"	18.54	18.78	17.16	16.31	16.56	17.20	(1.34)	(7.25)
Total Non-OPEC Production	62.76	64.36	58.92	57.4	58.12	59.69	-3.07	-4.89
Processing gains	2.26	2.07	2.07	2.07	2.07	2.07	(0.19)	(8.48)
Total Non-OPEC Supply	65.02	66.43	60.99	59.47	60.19	61.76	-3.26	-5.02
OPEC NGLs and non-conventionals	5.26	-	-	-	-	5.16	(0.10)	(1.90)
OPEC Crude Oil Production	29.34	28.26	25.63	-	-	29.34	0.00	0.00
Total World Supply	99.62	-	-	-	-	96.26		

Source: OPEC Monthly Oil Market Report - July-2020

that was more than offset by downward revisions to production data for Guyana -24 tb/d, India -19 tb/d, Colombia -17 tb/d and Ghana, Canada, Argentina and Ecuador by 42 tb/d. The estimates for 2021 shows a growth of 0.92 mb/d to average at 62.68 mb/d reflecting a recovery in production rather than new investment. The higher production is expected to come from the US (0.24 mb/d), Brazil, Norway, Canada, Australia, Ecuador, and Qatar. In terms of new projects, Norway is expected to add the biggest capacity in 2021 with almost six new projects in pipeline. From the existing projects, additional output of around 2.42 mb/d is expected, according to data from Rystad Energy, resulting in total additional output of 2.72 mb/d from existing and new projects in 2021.

Non-OPEC Oil Supply - 2020/2021, mb/d	2020	Q1-21	Q2-21	Q3-21	Q4-21	2021	Y-o-Y Growth	% Chg.
Americas	23.90	23.17	23.5	24.5	25.55	24.19	0.29	1.21
of which US	17.03	16.38	16.88	17.47	18.32	17.27	0.24	1.39
Europe	3.98	4.11	4.01	4.04	4.31	4.12	0.14	3.42
Asia Pacific	0.57	0.62	0.61	0.64	0.63	0.62	0.05	9.33
Total OECD	28.45	27.90	28.12	29.18	30.49	28.93	0.48	1.68
Other Asia	3.33	3.34	3.31	3.36	3.35	3.34	0.01	0.29
Latin America	6.14	6.40	6.36	6.32	6.55	6.41	0.26	4.27
Middle East	3.11	3.13	3.14	3.15	3.16	3.14	0.03	1.12
Africa	1.46	1.45	1.44	1.43	1.42	1.43	(0.03)	(1.81)
Total Developing Countries (DCs)	14.04	14.31	14.24	14.25	14.48	14.32	0.28	2.00
Former Soviet Union (FSU)	13.02	13.04	13.04	13.04	13.03	13.04	0.02	0.17
of which Russia	10.31	10.36	10.36	10.36	10.36	10.36	0.04	0.42
Other Europe	0.12	0.11	0.11	0.11	0.11	0.11	(0.01)	(6.92)
China	4.07	4.05	4.04	4.08	4.15	4.08	0.02	0.38
Total "Other regions"	17.20	17.20	17.19	17.22	17.29	17.23	0.03	0.17
Total Non-OPEC Production	59.69	59.41	59.55	60.66	62.26	60.48	0.79	1.32
Processing gains	2.07	2.20	2.20	2.20	2.20	2.20	0.13	6.18
Total Non-OPEC Supply	61.76	61.61	61.75	62.86	64.46	62.68	0.92	1.48

Source: OPEC Monthly Oil Market Report - July-2020

OPEC Oil Production & Spare Capacity

OPEC crude oil production continued to decline for the second consecutive month reaching one of the lowest average levels since the 1991 Gulf War. Production declined by 1.93 mb/d during June-2020 to reach an average of 22.62 mb/d, according to data from Bloomberg. OPEC secondary sources showed a slightly lower production of 22.27 mb/d during June-2020. Production decline over the last two months was at 7.8 mb/d, according to Bloomberg data, that came as a result of higher compliance with the agreed cuts by OPEC+ countries, especially during June-2020. Saudi Arabia lowered its production by 1.13 mb/d and produced at an average rate of 7.53 mb/d in June-2020, an 18-year low for the Kingdom. The country has reportedly reduced the amount of crude it will supply in August-2020 by 10% to 40% to seven refiners in Asia.

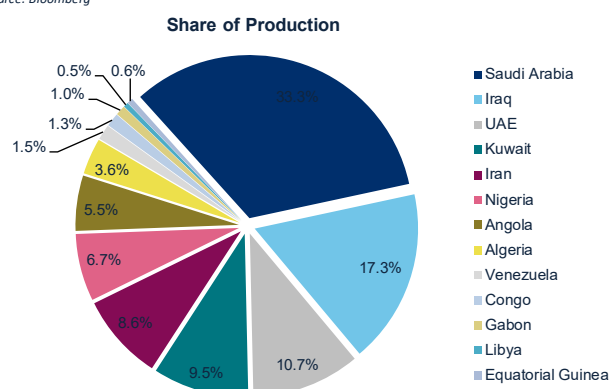
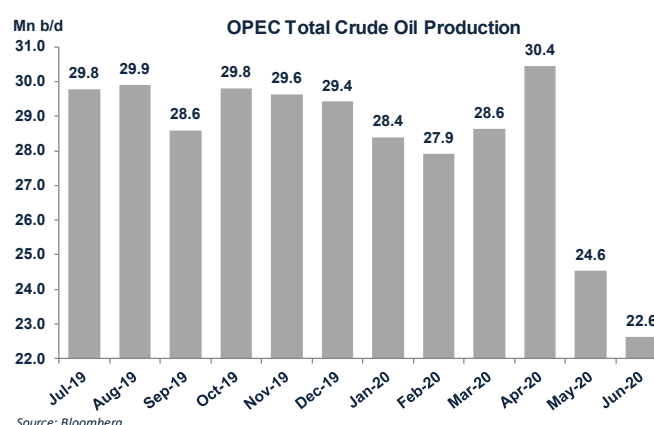
Production ('000 b/d)	May-20	Jun-20	Change		Capacity	Spare Capacity
Total OPEC-13	24,550	22,620	-1,930	-7.86%	34,035	11,415
Saudi Arabia	8,660	7,530	-1,130	-13.0%	11,500	3,970
Iraq	4,210	3,910	-300	-7.1%	4,800	890
UAE	2,500	2,430	-70	-2.8%	3,400	970
Kuwait	2,290	2,150	-140	-6.1%	3,075	925
Iran	1,950	1,940	-10	-0.5%	3,830	1,890
Nigeria	1,630	1,510	-120	-7.4%	2,000	490
Angola	1,270	1,240	-30	-2.4%	1,450	210
Algeria	820	810	-10	-1.2%	1,080	270
Venezuela	550	340	-210	-38.2%	900	560
Congo	290	300	10	3.4%	330	30
Gabon	190	220	30	15.8%	220	0
Libya	90	110	20	22.2%	1,300	1,190
Equatorial Guinea	100	130	30	30.0%	150	20
Total OPEC-12	20,340	18,710	-1,630	-8.01%	29,235	10,525

Source: Bloomberg, OPEC

Iraq also lowered its output below the 4 mb/d mark and produced at a 5-year low level of 3.91 mb/d, a m-o-m decline of 300 tb/d. The country is reportedly slashing exports to some of its Asian buyers in order to meet its targeted curbs. Venezuela's production also declined to one of the lowest recorded levels of 0.34 mb/d, a decline of 210 tb/d as compared to previous month's production. Nigeria's also curbed its output to comply with the agreed cuts and produced at 1.51 mb/d in June-2020, a decline of 120 tb/d from May-2020 levels, and the lowest since the start of 2017. The country has committed to implement full compliance which was expected to be 1.412 mb/d in May and June and increasing to 1.495 mb/d in 2H-2020. Nigeria has committed to compensate for the shortfall in May and June months by curbing production in July, August and September.

Meanwhile, Libya's crude production was marginally up in June-2020 and the country's NOC was expecting to end the ongoing force majeure at the start of July-2020. However, a blockade one again led to the imposition of force majeure on exports.

In the meeting on Wednesday, the OPEC+ countries decided to lower cuts to 7.7 mb/d from 9.6 mb/d. In the meeting, the Saudi Energy minister said that exports from the kingdom would not be increased as the growth in production would be offset by around 0.5 mb/d increase in domestic demand.



Source: Bloomberg

Brent Crude Oil Price Forecast

Firm	As Of	Q3 20	Q4 20	Q1 21	Q2 21
Emirates NBD PJSC	13/Jul/20	42.0	44.0	47.5	50.0
Commerzbank AG	9/Jul/20	37.0	40.0	42.0	45.0
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
Citigroup Inc	30/Jun/20	39.0	48.0		
Intesa Sanpaolo SpA	29/Jun/20	38.0	42.3	45.0	50.0
BBVA Research SA	25/Jun/20	38.5	42.9	44.5	50.8
Westpac Banking Corp	19/Jun/20	39.0	36.0	33.0	30.7
Landesbank Baden-Wuerttemberg	18/Jun/20	37.0	40.0	42.0	45.0
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
Capital Economics Ltd	2/Jun/20	40.0	44.0	46.0	49.0
Deutsche Bank AG	29/May/20	35.0	40.0	40.0	45.0
MPS Capital Services Banca per le Imprese SpA	26/May/20	35.0	40.0	45.0	
Rabobank International	28/Apr/20	37.5	43.0	46.5	49.5
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
ABN AMRO Bank NV	18/Mar/20	30.0	40.0	48.0	48.0
MUFG Bank	9/Mar/20	35.6	46.1	49.2	51.5
Median		37.8	41.2	45.0	48.5
Mean		36.8	41.8	44.7	46.6
High		43.0	49.0	61.0	55.0
Low		26.0	31.0	33.0	30.7
Current Fwd		43.0	43.6	44.3	44.9
Difference (Median - Current)		-5.2	-2.5	0.7	3.6

Source: Bloomberg

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KAMCO INVEST

Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : kamcoird@kamcoinvest.com

Website : www.kamcoinvest.com

Kamco Invest