جدوى للإستثمار
Jadwa Investment

October 2019

Quarterly Oil Market Update

Oil Demand Growth Continues to Decline

Summary

- OPEC cut its 2019 oil demand growth projections by 4 percent month-on-month, to just under 1 million barrels per day (mbpd) in its most recent monthly oil report, with 2020 growth forecasted at 1.08 mbpd. According to OPEC, the downwardly revised forecast is reflective of a deteriorating outlook on the global economy.

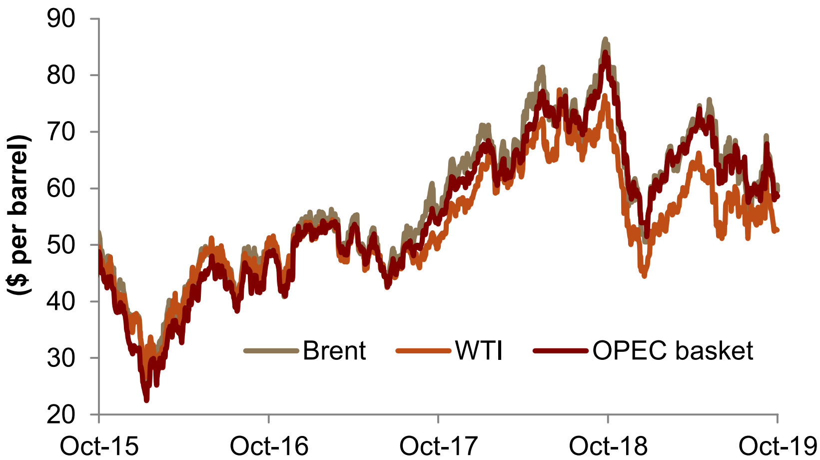
- On the supply side, oil output from OPEC averaged 29.3 mbpd in Q3 2019, the lowest level of output since 2011 and a sizable 3.7 mbpd (11 percent) lower than October 2018's output. OPEC oil production in Q3 was partly affected by involuntary declines in Saudi crude oil production due to the attack on the Abqaiq oil processing facility and Khurais oil field in September.

- Brent oil prices dropped by 11 percent quarter-on-quarter in Q3 2019 to an average of $62 per barrel (pb) despite rising steeply after the attacks on Abqaiq and Khurais in mid-September. Since then, however, Brent oil prices have retreated.

- Whilst part of the decline in oil prices has been due to the quicker than anticipated restoration in Saudi oil production and capacity, prices have also dropped as a result of global trade related issues, and, more broadly, how such issues are clouding the outlook for oil demand growth.

- Overall, whilst a continued and prolonged escalation in regional geo-politics could result in a more lasting risk premium for oil prices, the weaker outlook for oil demand and rising commercial oil stock levels remain the overwhelming determinants of oil prices for the foreseeable future.

Figure 1: Brent oil prices around $60 per barrel



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Released: October-13-2019, 17:00 UTC+3

OPEC cut its 2019 oil demand growth projections by 4 percent month-on-month, to just under 1 mbpd…

... with 2020 growth forecasted at 1.08 mbpd.

The current projections represent the lowest level of annual growth in oil demand since at least 2012.

The downwardly revised forecast is reflective of a deteriorating outlook on the global economy.

US liquid consumption was flat year-on-year in Q3 2019…

...with year-to-date growth also showing no growth over the same period last year.

The EIA expects gasoline demand to remain flat in 2020, with NGLs being the main driver of liquid consumption growth.

Oil demand growth becoming a serious concern:

OPEC cut its 2019 oil demand growth projections by 4 percent month-on-month, to just under 1 mbpd in its most recent monthly oil report, with 2020 growth forecasted at 1.08 mbpd. The current projections represent the lowest level of annual growth in oil demand since at least 2012 (Figure 2). According to OPEC, the downwardly revised forecast is reflective of a deteriorating outlook on the global economy with ongoing slowdown in the US and the Euro-zone, along with continued US-China trade tensions, and developments related to Brexit being the key uncertainties.

US, India & China demand:

Partly as a result of the above reasons, OPEC now expects to see oil demand growth from US, China and India declining on a yearly basis in 2020. Whereas in 2018 as a whole, the above three countries' contribution to yearly demand growth made up 78 percent of the total, and they are expected to make up 60/58 percent in 2019/2020. OPEC sees a recovery in demand in both Latin America and Middle East compensating for some of the lower growth from the three major consuming nations.

Latest data from the Energy Information Administration (EIA) shows that overall US liquid consumption was flat year-on-year in Q3 2019, with year-to-date growth also showing no growth over the same period last year. The largest contributor to overall demand, gasoline (44 percent of total demand) was down 0.5 percent in the year-to-September, despite pump prices being 6 percent lower ($2.69 vs. $2.85 per gallon) and US total vehicle miles traveled rising marginally by 1 percent. Part of the decline in gasoline consumption may reflect the rise in the number of electric vehicles (EV) sales in the US, which, according to EV Volumes data, rose by 150,000 in H1 2019, year-on-year. Currently, EV's make up around 1.8 percent of total US vehicles, but the International Energy Agency (IEA) sees this rising to 8 percent by 2030, under its 'New Policy Scenario'.

Looking ahead, the EIA expects gasoline demand to remain flat in Q4 2019 and in 2020 as well, with natural gas liquids (NGLs), which are overwhelmingly used in the petrochemical sector, being the main driver of liquid consumption growth next year (Figure 3).

Figure 2: Yearly global oil demand growth comparable to lows of 2012/13

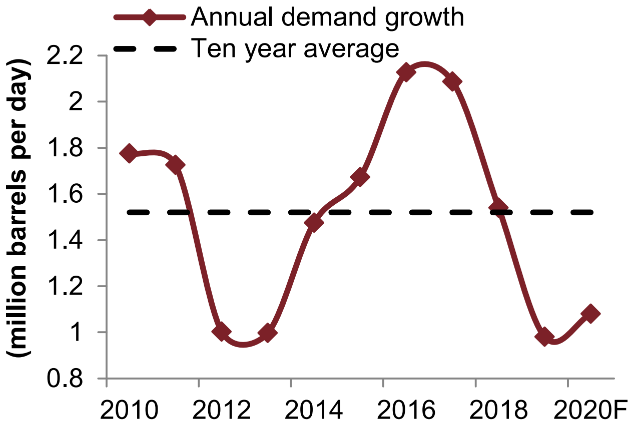
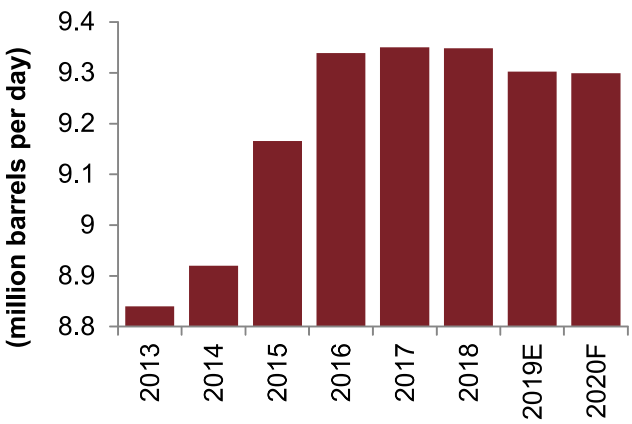


Figure 3:US gasoline demand growth expected to be flat in 2019/20



China's crude oil imports are expected to have grown by a sizable 11 percent year-on-year in Q3 2019.

China's crude oil imports are expected to have grown by a sizable 11 percent year-on-year in Q3 2019 even as domestic crude oil production increased 2 percent year-on-year in the year-to-July (Figure 4). The rise in imports are likely, in part, due to build up of strategic crude oil reserves, especially so prior to the application of a 5 percent import tariff on US crude oil from September onwards. Additionally, higher oil imports are also likely reflective of rising demand for refinery intake, with exports of refined products up around 5 percent in the year-to-August, compared to the same period in 2018.

Looking ahead, Chinese oil demand is expected to grow marginally at around 2.4 percent in the 2020…

...main risks relate to a slowing of the economy as well as various policies that support the reduction of transportation fuel consumption

Looking ahead, Chinese oil demand is expected to grow marginally at around 3 percent in the Q4 2019, with annual average growth of 3.2 percent in 2019 as a whole (vs. 2.8 percent in 2018). The outlook for 2020 is even lower, with OPEC forecasting oil demand growth at 2.4 percent. According to OPEC, the main risks relate to a slowing of the economy as well as various policies that support the reduction of transportation fuel consumption (*please refer to our April 2019 Quarterly Oil Update for more details*).

Indian crude oil imports were down 1 percent in the year-to-August 2019.

The decline in oil imports is primarily a result of economic slowdown which, in turn, is impacting India's automobile industry.

Indian crude oil imports were down 1 percent in the year-to-August 2019, compared to the same period last year. The decline in oil imports is primarily a result of economic slowdown which, in turn, is impacting India's automobile industry. The sale of passenger vehicles has declined for ten consecutive months, with August's sales almost a third lower than last year. Despite lower oil imports, OPEC expects Indian demand to grow by 3 percent for 2019 as a whole. Beyond 2019, oil imports may actually rise due to a lack of development in India's upstream activity. The current Indian administration had targeted to reduce both oil and gas imports by 2022, but the reverse has happened in the last five years. Currently, more than 84 percent of oil consumption came from imports, compared to circa 80 percent in 2014, whilst gas imports made up 43 percent of total consumption, up from 31 percent over the same period.

OPEC + output remains low, but what next?:

OPEC crude oil production was down 9 percent year-on-year and 2 percent quarter-on-quarter in Q3 2019...

OPEC crude oil production was down 9 percent year-on-year and 2 percent quarter-on-quarter in Q3 2019 as a moderation in output was maintained as per an agreement outlined late last year. Total oil output from the organization averaged 29.3 mbpd in Q3 2019, the

Figure 4: Chinese crude oil imports and oil output are rising year-on-year

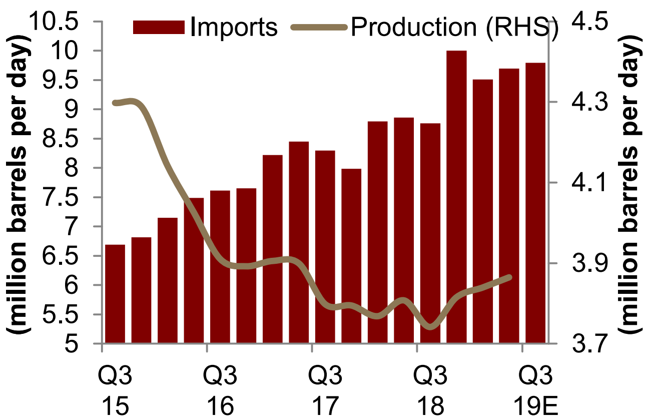
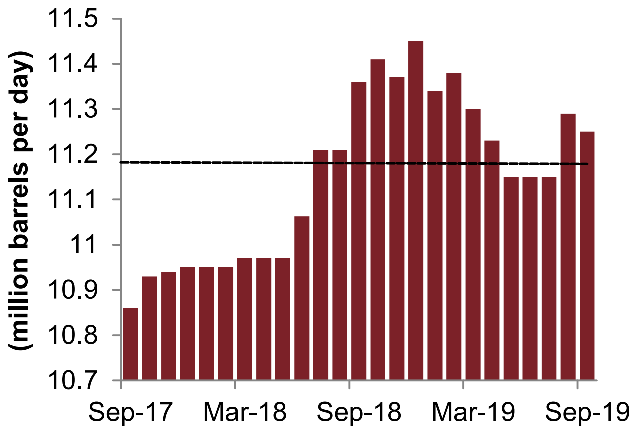


Figure 5: Russian crude oil production currently above agreed levels



...as a moderation in output was maintained as per an agreement outlined late last year.

lowest level of output since 2011 and a sizable 3.7 mbpd (11 percent) lower than October 2018's output (Box 1). Meanwhile, Russian oil production averaged 11.23 mbpd in Q3 2019, equal to 79 percent compliance to the agreed 228 thousand barrels per day (tbpd) reduction over October 2018's level (Figure 5).

OPEC oil production was also partly affect by involuntary declines in Saudi output as a result of Abqaiq's and Khurais outages.

Box 1. Saudi Crude Oil Production

OPEC oil production in Q3 was partly affect by involuntary declines in Saudi crude oil production due to the attack on Abqaiq's oil processing facility and Khurais oil field in September. Saudi Arabia's oil output averaged 9.5 mbpd, down 3 percent quarter-on-quarter, in Q3 2019. A quicker than expected rebound in Saudi oil production meant that output averaged 9.13 mbpd in September after almost 5.7 mbpd of capacity had been knocked off line mid-September.

Looking ahead, the argument for another roll-over in a production agreement beyond March 2020…

...at even lower level than currently, is becoming evident…

...with OPEC expecting demand for its crude oil to average 29.6 mbpd in 2020, down from 30.7 mbpd in 2019.

As we highlighted previously, the argument for another roll-over in a production agreement beyond March 2020, at even lower level than currently, is becoming evident (*please see our Quarterly Oil Update published July 2019*). In fact, OPEC expects demand for its crude oil (or the call on OPEC) to average 29.6 mbpd in 2020, down from 30.7 mbpd in 2019 (Figure 6). Of course, any extension to the OPEC+ agreement will need Russia's collaboration, and, despite the Russian government seeing an additional $100 billion in revenue as a result of being part of the agreement, its continued participation is not assured. More specifically, some large Russia oil producers have voiced concerns over the loss of market share, particularly to US shale oil producers, as result of the OPEC+ agreement.

US to become a net oil exporter by 2020?:

According to EIA data, US crude oil production hit 12.3 mbpd in Q3 2019, with 13 mbpd expected to be reached by year end. Looking into 2020, the EIA expects total US oil output to rise by 910 tbpd, or 7 percent year-on-year, to an average of 13.1 mbpd.

A continuous rise in oil production in recent years has helped steadily raise the level of US oil and refined product exports.

A continuous rise in oil production in recent years has helped steadily raise the level of US oil and refined product exports. In fact, US oil and refined exports have more than doubled in the last four and half years, rising from an average of 4.1 mbpd in 2014 to 8.3 mbpd in the year-to-July 2019, and hitting a record monthly average of 8.7 mbpd in June 2019. Despite the substantial rise in exports the

Figure 6: Call on OPEC vs. OPEC output

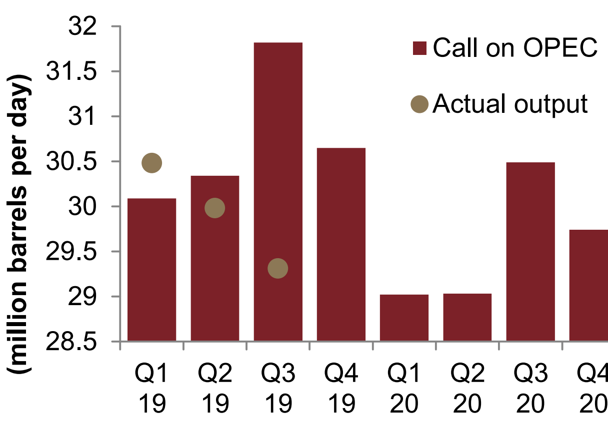
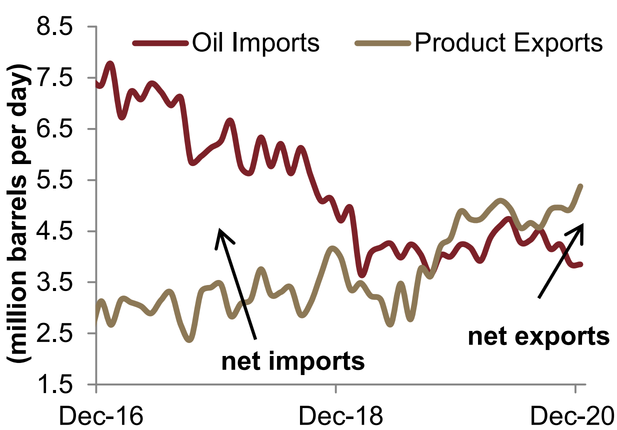


Figure 7: US to become a net exporter by 2020



A rise in exports and a reduction in imports will mean the US becomes a net oil exporter by 2020.

US is currently a net importer of oil. That said, according to EIA forecasts, a rise in volume of refined products exports together with a reduction in level of imports is expected to push the US into becoming a net oil exporter by the turn of the year (Figure 7).

Oil price outlook:

Overall, the weaker outlook for oil demand and rising commercial oil stock levels...

Brent oil prices dropped by 11 percent quarter-on-quarter in Q3 2019 to an average of $62 pb, despite an 8 percent month on month rise in September due to attacks on the world's largest oil processing facility at Abqaiq and Khurais oil field. Whilst Brent oil prices shot up initially after the attacks in mid-September, they have now retreated to levels even below that seen prior to 14th September (Figure 8). Whilst part of the decline has been due to the quicker than anticipated restoration in Saudi oil production and capacity (Box 1), prices have also dropped as a result of global trade related issues, and, more broadly, how such issues are clouding the outlook for oil demand growth.

...remain the overwhelming determinants of oil prices for the foreseeable future.

Overall, whilst a continued and prolonged escalation in regional geo-politics could result in a more lasting risk premium for oil prices, the weaker outlook for oil demand and rising commercial oil stock levels (Figure 9), remain the overwhelming determinants of oil prices for the foreseeable future.

Figure 8: Brent oil prices have declined since Abqaiq outages

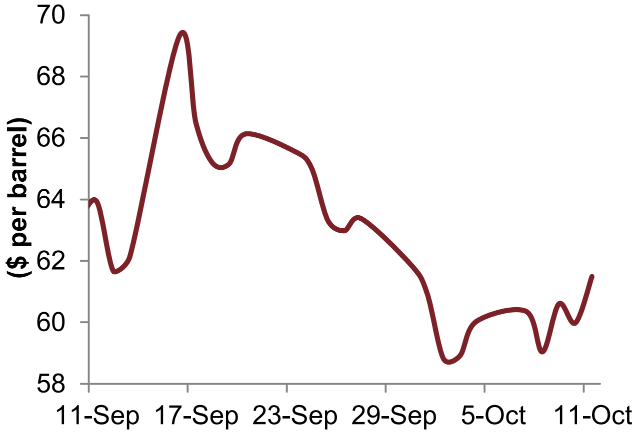
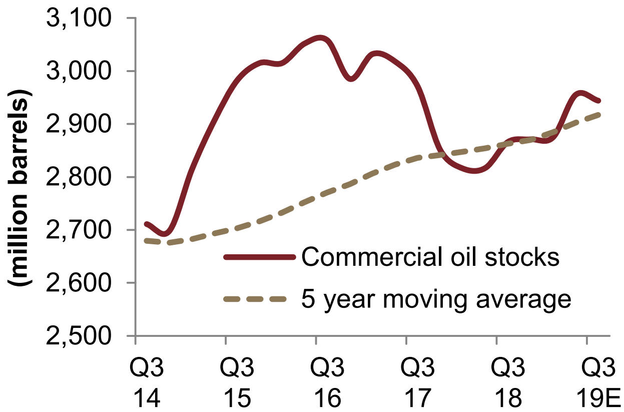


Figure 9: OECD commercial oil stocks rising



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