

Monthly Oil Market Update

Key Highlights

- OPEC production declined by 510,000bpd in January to 28.86mbpd
- Threats to global growth dominated crude oil demand, arising initially from US-Iran tension and outbreak of coronavirus
- OPEC+ Joint Technical Committee recommended a cut to production by additional 600,000bpd beginning in April in addition to the existing 1.7mbpd
- EIA expects Brent crude oil price will average \$58/barrel in H1 2020 before rising to average \$64/barrel in H2 2020, with full year 2020 forecast of \$61/barrel.

Saudi Arabia Oil Output Surprised in January

The OPEC Monthly Oil Market Report for February released yesterday showed that the cartel's production declined by 510,000bpd in January to 28.86mbpd (excluding condensates), according to secondary sources. The decline stemmed largely from Libya (down 344,000bpd) due to the blockade of export terminals by forces loyal to Commander Khalifa Haftar, in protest of Turkish intervention in support of the country's UN-recognised Government of National Accord. As a result, production is estimated to have averaged 796,000bpd in January from 1.14mbpd in December, with sources suggesting the outages became severe in February with Libya producing less than 0.2mbpd. Other members also recorded declines during the month, but Nigeria and Saudi Arabia recorded output increases of 25,000bpd and 57,000bpd respectively. While Saudi Arabia had consistently produced below its quota and pledged another 500,000bpd cut, the higher output in January suggests the Kingdom produced just 400,000bpd below its quota.

Figure 1: OPEC crude oil production based on secondary sources, tb/d

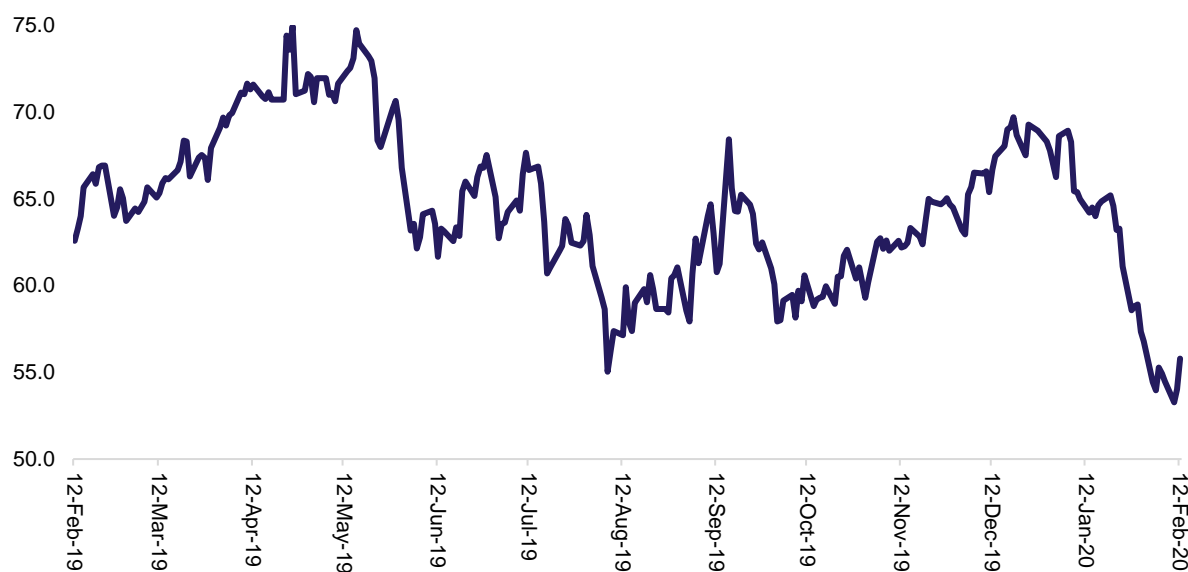
	Jan-19	Mar-19	May-19	Jul-19	Sep-19	Nov-19	Dec-19	Jan-20	Quota
Algeria	1,019	1,018	1,029	1,027	1,020	1,027	1,017	1,012	1,013
Angola	1,444	1,454	1,474	1,395	1,399	1,283	1,408	1,374	1,481
Congo	315	344	326	325	335	314	327	29	311
Ecuador	520	524	530	535	548	535	541	537	508
Eq. Guinea	112	124	112	121	122	120	121	124	122
Gabon	195	214	214	204	197	198	220	196	179
Iran, I.R.	2,731	2,698	2,367	2,218	2,164	2,107	2,095	2,086	-
Iraq	4,712	4,522	4,745	4,736	4,732	4,641	4,569	4,501	4,462
Kuwait	2,723	2,709	2,710	2,670	2,658	2,707	2,709	2,665	2,669
Libya	883	1,098	1,170	1,078	1,160	1,183	1,140	796	-
Nigeria	1,733	1,733	1,726	1,780	1,848	1,782	1,751	1,776	1,753
Saudi Arabia	10,179	9,794	9,687	9,687	8,796	9,868	9,676	9,733	10,144
UAE	3,075	3,059	3,060	3,074	3,083	3,110	3,063	3,034	3,012
Venezuela	1,151	732	750	755	644	719	732	733	-
Total OPEC	26,027	25,495	25,613	29,605	28,706	29,594	29,369	28,596	25,654

Source: OPEC Monthly Oil Market Report

Brent Crude Oil Price Declined \$11.98/barrel Year-to-Date

The Brent crude oil price settled at \$55.79/barrel (\$56.79/barrel at the end of January) on February 12, 2020, a decrease of \$11.98/barrel from December 31, 2019. Oil prices so far in 2020 and January specifically were rattled by both geopolitical crisis and threats to global economic growth. Brent price touched \$70/barrel on January 6 (the highest level since May 2019) following U.S. drone strike which resulted in the death of General Qassem Soleimani (a top Iranian commander) and necessitated expectation of possible supply disruptions from a retaliatory attack by Iran. However, following the easing of the tension between both countries, crude oil prices reversed the earlier rally. However, the downside for crude oil prices was further magnified by the outbreak of coronavirus in China and WHO report suggesting a likely escalation. Also affecting crude oil demand in January were the warmer-than-normal temperatures across much of the northern hemisphere, which EIA suggested resulted in reduced heating oil consumption. To salvage the downside in crude oil prices, the OPEC+ Joint Technical Committee had an extraordinary meeting between 4-6 February 2020 and recommended a cut to production by additional 600,000bpd beginning in April in addition to the existing 1.7mbpd cut shared by OPEC, Russia and nine other non-OPEC countries. However, OPEC+ is yet to reach a consensus on the recommendation, especially Russia and Kazakhstan.

Figure 2: Brent oil price in 2020 (\$/bbl.)



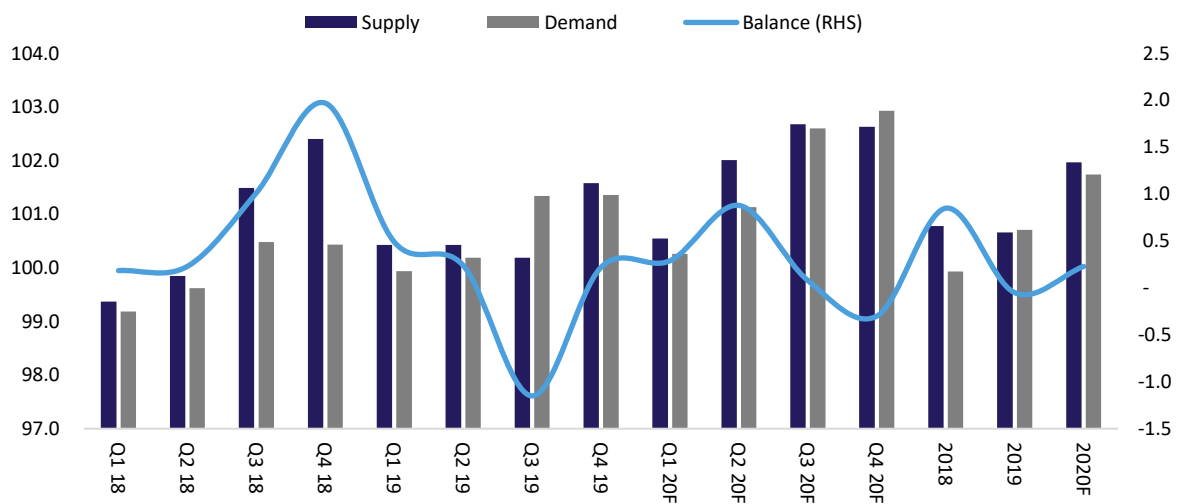
Source: Bloomberg

Threats to Global Growth Dominates Crude Oil Demand

For the rest of the year, both OPEC and the EIA (in its Short-Term Energy Outlook) revised lower forecast for global oil demand in 2020 with EIA citing the uncertainty of the magnitude and duration of the coronavirus's effects. OPEC revised 2020 oil demand growth lower to 0.99 mbpd (year average of 100.73 mbpd) from 1.22 mbpd (year average of 100.98 mbpd) growth estimate in January, due to revised outlook for both Organisation for Economic Co-operation and Development (OECD) and non-OECD demand growth to 0.01mbpd and 0.98mbpd (from January forecast of 0.09mbpd and 1.13mbpd) respectively. The larger revision to non-OECD growth is related to the outbreak of the Coronavirus in China.

Elsewhere, EIA acknowledged significant uncertainty in forecasting global oil inventory and crude oil price changes amid both ongoing disruptions in crude oil supply and reductions in oil demand. EIA now forecasts global consumption will increase by 1.0mbpd (January forecast of 1.3mbpd) reflecting decrease liquid fuels consumption in China as a result of the travel restrictions that began in mid-January. EIA expects liquid fuels consumption in China to average 14.8mbpd from February through April, lower by 0.4mbpd when compared to January forecast. It also lowered its expected liquid fuels consumption for the rest of Asia (excluding China) by 0.1mbpd for February through April period compared with its January forecast. EIA assumes that OPEC will reduce crude oil production by 0.5mbpd in addition to existing OPEC cuts in March through May in response to concerns over oil demand growth. As such it expects that some of the effects of lower oil consumption early in 2020 will be offset by reduced production from OPEC. Accordingly, EIA expects Brent crude oil price will average \$58/barrel in H1 2020 before rising to average \$64/barrel in H2 2020, with full year 2020 forecast average of \$61/barrel (January forecast: \$65/barrel).

Figure 3: Historical and Forecast Oil demand and supply (mbpd)



Source: EIA, NOVA Research