

# Monthly Oil Market Update

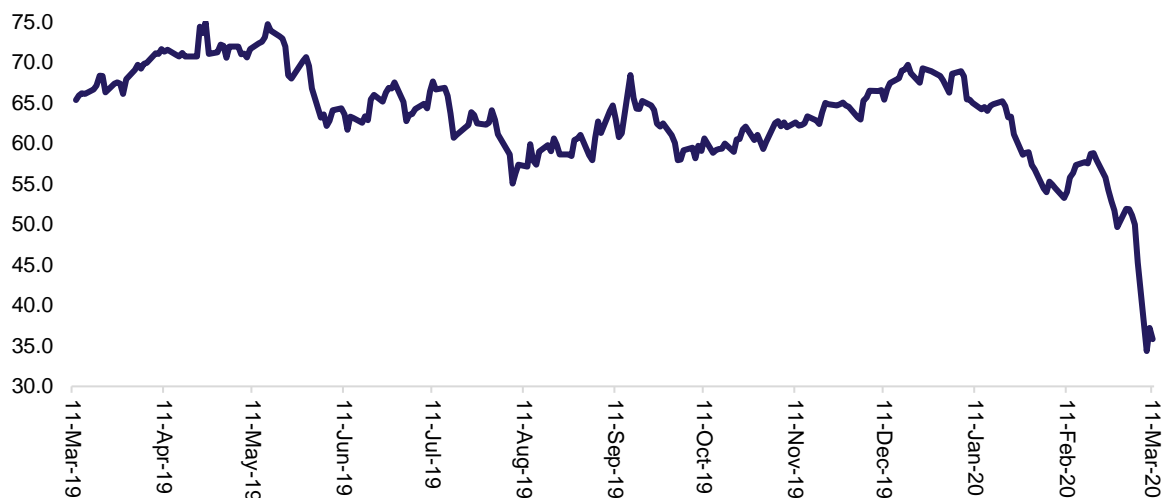
## Key Highlights

- Fall out of OPEC+ coalition pushed oil prices lower to \$34.36/barrel
- OPEC production declined by 548,000bpd in February to 27.77mbpd
- Saudi Arabia, Russia and UAE threatened to increase output by 1.76mbpd in April as price war begins.
- Higher output by OPEC and other producers is expected to increase world supply to an average of 102.57mbpd over Q2 and Q3 (from 100.55mbpd in Q1).
- EIA expects Brent crude oil price will average \$44/barrel in H1 2020 and \$43/barrel in H2 2020, with full year 2020 forecast of \$43.30/barrel.

## Saudi Arabi Vs. Russia: Everyone Paying the Price

Beyond the ravaging impact of Covid-19, the unusual fallout between the OPEC+ coalition further magnified the downside for crude oil prices over the last few weeks. Specifically, while OPEC had recommended additional output cut of 1.5mbpd (split 1mbpd for OPEC and 500,000bpd for non-OPEC) in response to reduced oil demand stemming from the COVID-19 virus, the main non-OPEC partner in the coalition (Russia) refused to sign on to a conditional output cut. Accordingly, the fallout in negotiation resulted in a drive for market share and a neglect of the prevailing 1.7mbpd cut which is expected to end in March. Further on market share expansion, Saudi Aramco announced a price slash of its crude exports for April, including a cut for Arab Light crude for Asia. In response, crude oil prices declined 32% at the opening of trading on Monday (Mar. 09, 2020) to \$34.36/barrel, it however increased to \$35.81/barrel at the end of trading on Wednesday.

Figure 1: Brent oil price in 2020 (\$/bbl.)



Source: Bloomberg, NOVA Research

### Libya Continues to Magnify OPEC Cut

The continued blockade of export terminals in Libya further magnified OPEC's output cut in February. The OPEC Monthly Oil Market Report for March released yesterday showed that the cartel's production declined by 548,000bpd in February to 27.77mbpd (excluding condensates) compared to a decline of 553,000bpd in January, according to secondary sources. Libya standalone lost total production of 647,000bpd, with production declining to 146,000bpd. According to Libya National Oil Corporation, estimated production loss was 1.11mbpd as at March 8, with cumulative financial losses of \$2.93 billion since the declaration of force majeure on January 18. Elsewhere, compared to the surprise increase in Saudi Arabia in January, the country's production pared in February with a decline of 56,000bpd. Production in Nigeria maintained the upward trend, with an increase of 29,000bpd in February, with Iran also pushing production by 86,000bpd.

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

	Feb-19	Jun-19	Sep-19	Dec-19	Jan-20	Feb-20	Quota
Algeria	1,026	1,005	1,020	1,019	1,012	1,007	1,013
Angola	1,448	1,403	1,399	1,408	1,375	1,390	1,481
Congo	321	337	335	319	294	308	311
Equatorial Guinea	121	115	122	122	125	123	122
Gabon	204	221	197	222	192	191	179
Iran, I.R.	2,726	2,260	2,164	2,093	2,082	2,080	Exempt
Iraq	4,647	4,713	4,732	4,568	4,508	4,594	4,462
Kuwait	2,709	2,674	2,658	2,710	2,658	2,662	2,669
Libya	902	1,118	1,160	1,140	793	146	Exempt
<b>Nigeria</b>	<b>1,723</b>	<b>1,808</b>	<b>1,848</b>	<b>1,750</b>	<b>1,760</b>	<b>1,789</b>	<b>1,753</b>
Saudi Arabia	10,118	9,829	8,796	9,671	9,739	9,683	10,144
UAE	3,068	3,070	3,083	3,117	3,027	3,040	3,012
Venezuela	1,021	785	644	735	756	760	Exempt
<b>Total OPEC</b>	<b>25,385</b>	<b>25,175</b>	<b>28,158</b>	<b>28,874</b>	<b>28,321</b>	<b>27,773</b>	<b>25,146</b>

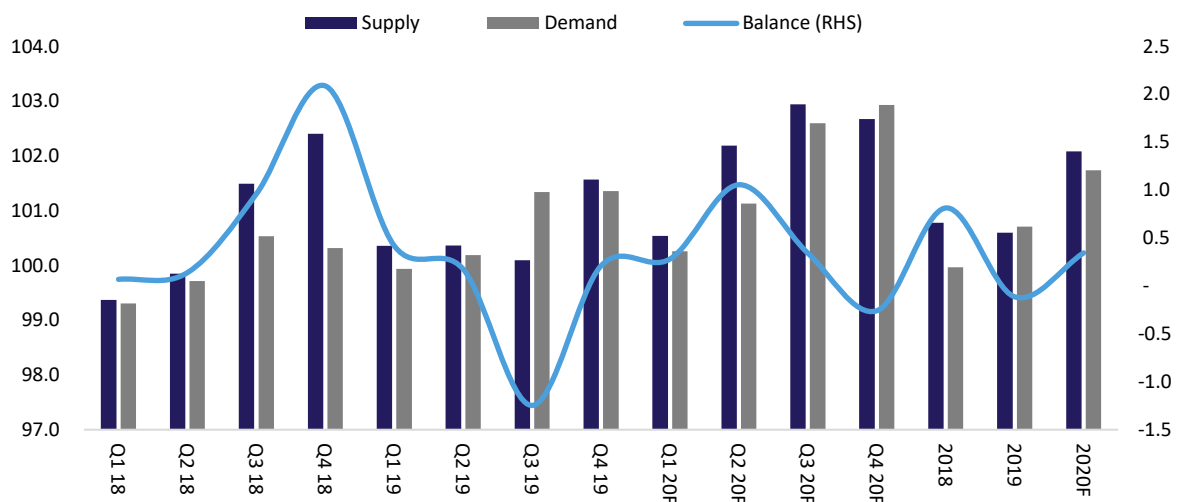
Source: OPEC Monthly Oil Market Report, NOVA Research

### Material Revisions to Crude Oil Demand Amidst Threats of Higher Output

U.S. Energy Information Administration (EIA) in its March Short-Term Energy Outlook (STEO) revised its 2020 forecast for global oil demand growth lower to 0.4mbpd from its February growth estimate of 1.0mbpd and 1.3mbpd earlier in January. The cut in forecast largely reflects material adjustments to China oil demand growth to 0.1mbpd from a forecast of 0.5mbpd in January. Also, adjustments were implemented across Japan, South Korea, and Italy. The current forecast by EIA assumes the demand effects from COVID-19 will diminish by Q3 2020, with a pickup in production over Q4 2020. Although minimal, OPEC also slashed its crude oil demand forecast growth for 2020 to 0.06mbpd compared to its February estimate of 0.99mbpd growth estimate. Beyond lower production in China, OPEC also estimates that oil demand will fall short in various other countries and regions, such as Japan, South Korea, OECD Europe and some Middle Eastern countries, as well as in the US. OPEC now estimates total global oil demand at 99.73mbpd in 2020, compared to February estimate of 100.73mbpd. Similar to EIA, OPEC expects consumption would be higher in H2 20 than in H1 20.

On supply, following threats of higher output by Russia, Saudi Arabia and even UAE, the outlook for production has become more uncertain than ever. Also, the current output cut by OPEC+ is due to end by the end of March, without a replacement deal in place yet and all members expected to load as much as they can into the market. Following the fallout of discussions, Saudi Arabia has threatened to raise production from 9.75mbpd in Q1 2020 to 10.25mbpd in the Q2 2020. Russia in the same vein indicated its willingness to increase output by 300,000bpd within three months. Also, Abu Dhabi National Oil Company (ADNOC) signalled its intention to boost its supply to the market to over 4mbpd in April from 3.04mbpd in February. Reflecting the heightened tensions, EIA now expects OPEC output will average 29.1mbpd over Q2 and Q3 2020, up from 28.7mbpd in Q1 2020. However, a resolution in Libya could raise the number higher to by an additional 1.0mbpd. The higher output by OPEC and other producers is expected to increase total world supply to an average of 102.57mbpd over Q2 and Q3 (from 100.55mbpd in Q1).

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



Source: EIA, NOVA Research

### Market Glut Favors Persistent Low Prices

In all, with the balance of demand and supply indicating a glut in the global oil market to the tune of 0.34mbpd over 2020 compared to a deficit of 0.11mbpd in 2019, the EIA forecasts Brent crude oil prices will average \$43/barrel in 2020, down from a forecast of \$65/barrel in the January. For us, we believe a swift resolution and negotiation by OPEC and allies could result in an upward adjustment in prices from the estimated level. Also, if the Covid-19 outbreak is brought under control in China by the end of Q1 and minimal infection rate across other countries could result in a rebound in oil demand with upside potential for prices. However, an escalation into Q2 2020 could further worsen the outlook for crude oil demand and a free-fall in prices. Another downside risk for us is the resumption of production in Libya, which could add additional 1.0mbpd to current output.