

# Monthly Oil Market Update

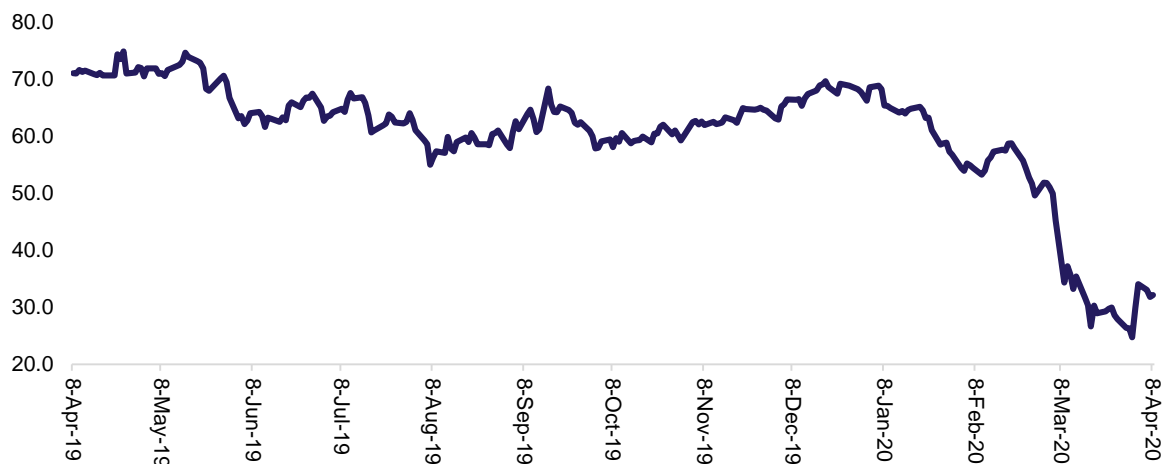
## Key Highlights

- Fall out of OPEC+ coalition pushed oil prices lower to \$31.92/barrel in March, with Q1 20 averaging \$50.47/barrel.
- In March standalone, consumption was at an historic low of 89.4mbpd compared to February level of 95.7mbpd. As a result, the global crude oil market net surplus was at an historic high of 9.6mbpd compared to 4.4mbpd in February.
- EIA forecasts Brent crude oil to average \$23/barrel in Q2 20. As non-OPEC crude oil production begins declining due to lower prices and liquid fuels demand increases, prices will increase gradually to average \$33/barrel in 2020.

## Oil Prices Takes a Hit at Both Ends

Beyond the ravaging impact of Covid-19, the unusual fallout between the OPEC+ coalition further magnified the downside for crude oil prices. Specifically, while OPEC had recommended additional output cut of 1.5mbpd (split 1mbpd for OPEC and 500,000bpd for non-OPEC) earlier in March in response to reduced oil demand, the main non-OPEC partner in the coalition (Russia) refused to sign on to a conditional output cut. The fallout in negotiation resulted in a drive for market share with Saudi Aramco announcing 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 with March average of \$31.92/barrel. In March, the global crude oil market net surplus was at an historic high of 9.6mbpd compared to 4.4mbpd in February. Over the first quarter of 2020, the market average net surplus position was 5.7mbpd (compared to a net surplus of 249k bpd recorded in Q4 19) following a faster pace of decline in demand than supply, with crude oil prices declining 20% QoQ to \$50.47/barrel over Q1 compared to \$63.30/barrel over Q4 19.

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

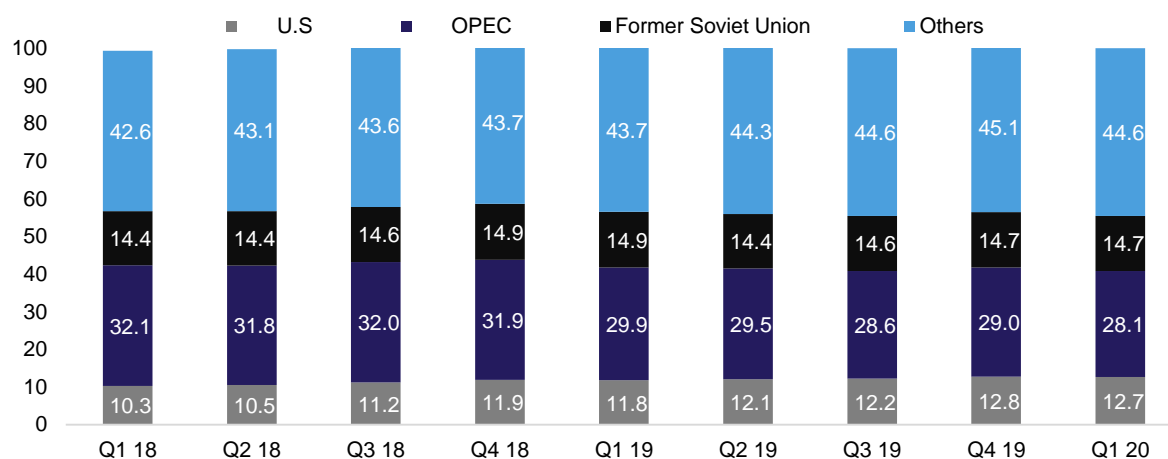


Source: Bloomberg, NOVA Research

### Voluntary and Involuntary Cuts Magnify Lower Output

In Q1 20, global crude oil supply declined by 1.5mbpd to 100.1mbpd relative to 101.6mbpd in Q4 19. The decline in supply over the period stemmed from both voluntary and involuntary cuts from OPEC producers by 922k bpd (to average 28.1mbpd compared to average of 29.0mbpd in Q4 19) and decline in shale production over the period by 56k bpd to 12.7mbpd from 12.9mbpd in Q4 19. Reflecting the pressured demand amidst rising global inventory and the further decline in Libya's production, output declined in March to 99.0mbpd from 100.1mbpd in February.

**Figure 2: World Petroleum and Other Liquids Production (mbpd)**



Source: EIA, NOVA Research

Among the Cartel, majority of the cut was due to shut down of operation in Libya (-823k bpd to average 343k bpd) and voluntary cuts by Saudi Arabia of 667k bpd with output averaging 9.8mbpd. Irrespective of the combined cut by both Saudi Arabia and Libya, average production by OPEC exceeded the planned production cutback of 25.1mbpd due to noncomplying members like Nigeria, Iraq, UAE and Kuwait. Meanwhile, Russia (the key OPEC+ ally), fell short of its agreed quota of 10.3mbpd with output averaging 11.52mbpd in Q1 20 relative to 11.50mbpd in Q4 19.

**Figure 3: OPEC crude oil production based on secondary sources, tb/d**

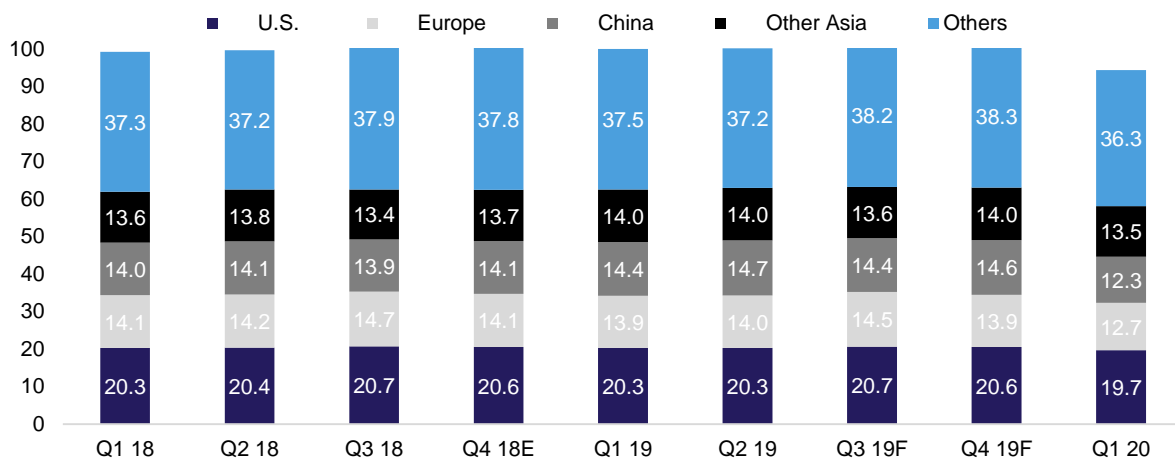
	Mar-19	Sep-19	Dec-19	Jan-20	Feb-20	Mar-20	Quota
Algeria	1,018	1,020	1,019	1,012	1,007	1,010	1,013
Angola	1,454	1,399	1,408	1,375	1,390	1,350	1,481
Congo	344	335	319	294	308	305	311
Equatorial Guinea	124	122	122	125	123	120	122
Gabon	214	197	222	192	191	200	179
Iran, I.R.	2,698	2,164	2,093	2,082	2,080	2,000	Exempt
Iraq	4,522	4,732	4,568	4,508	4,594	4,500	4,462
Kuwait	2,709	2,658	2,710	2,658	2,662	2,710	2,669
Libya	1,098	1,160	1,140	793	146	100	Exempt
<b>Nigeria</b>	<b>1,733</b>	<b>1,848</b>	<b>1,750</b>	<b>1,760</b>	<b>1,789</b>	<b>1,750</b>	<b>1,753</b>
Saudi Arabia	9,794	8,796	9,671	9,739	9,683	9,800	10,144
UAE	3,059	3,083	3,117	3,027	3,040	3,200	3,012
Venezuela	732	644	735	756	760	650	Exempt
<b>Total OPEC</b>	<b>24,971</b>	<b>28,158</b>	<b>28,874</b>	<b>28,321</b>	<b>27,773</b>	<b>27,695</b>	<b>25,146</b>

Source: OPEC Monthly Oil Market Report, EIA, NOVA Research

## Social Distancing and Supply Chains Disruption Takes a Toll on Global Demand

Global oil demand declined 6.9mbpd over Q1 20 to 94.4mbpd relative to 101.3mbpd in Q4 19. In March standalone, consumption was at an historic low of 89.4mbpd compared to February level of 95.7mbpd. The marked fall in demand stemmed from COVID-19 travel restrictions and significant disruptions to business and economic activity. Particularly, consumption among OECD and non-OECD countries declined by 3.0mbpd and 3.9mbpd to average 44.5mbpd and 49.9mbpd respectively over Q1 20. For OECD, most of the decline stemmed from Europe (-1.3mbpd), USA (-870kbpd) and Canada (-205kbpd), which combined accounted for 77% of the total decline in OECD during the period. Also, the disruptions to manufacturing necessitated cut in demand in Japan (-187kbpd) and Other OECD (-497kbpd). For the non-OECDs, China alone accounted for 60% of the total decline in oil consumption over Q1. The delay in the signing of the Phase One Trade Deal, saw China consumption decline almost 800kbpd MoM in January. With the outbreak of Covid-19, China oil consumption declined further by 3.1mbpd in February alone, with a slower rate of decline in March of 133kbpd. Also, demand in Other Asia (including India), Eurasia and Other Non-OECD declined by 439kbpd, 345kbpd and 753kbpd respectively.

**Figure 4: World Petroleum and Other Liquids Consumption (mbpd)**

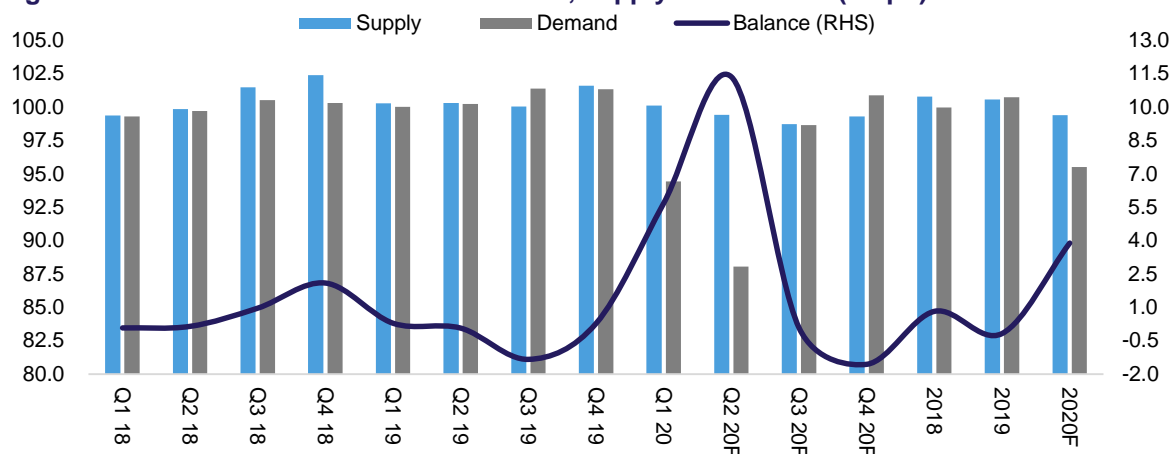


Source: EIA, NOVA Research

## Material Revisions to Crude Oil Demand

In its April Short-Term Energy Outlook (STEO), the EIA recanted its optimism of a growth in global crude oil consumption and now expects a decline relative to 2019. From its revised global oil demand growth of 0.4mbpd in March, EIA now expects global consumption to decline by 5.2mbpd to average 95.5mbpd from 100.8mbpd in 2019, largely based on the assumption that the demand effects from COVID-19 will diminish by Q2 2020, with a pickup in consumption over Q3 2020. Compared to the prior estimate, demand in both OECD and non-OECD regions is now expected to decline by 3.4mbpd and 1.8mbpd to 43.9mbpd and 51.6mbpd respectively. In the OECD region, the decline is dominated by US (-1.3mbpd to average 19.1mbpd) and Europe (-1.1mbpd to average 13.0mbpd). Also, Canada, Japan and Other OECD are expected to record declines in demand by 1.0mbpd to average 11.7mbpd in 2020 compared to 12.7mbpd in 2019. For the non-OECD, demand in China is expected to decline by 857kbpd in 2020 despite ongoing stabilization as evident by the March manufacturing PMI.

**Figure 5: Historical and Forecast Oil demand, supply and balance (mbpd)**



Source: EIA, NOVA Research

On supply, following threats of higher output by Russia, Saudi Arabia and even UAE, the outlook for oil production has become more uncertain than ever. The 1.7mbpd OPEC+ production cut initiated in January ended in March with compliance falling short. Without a replacement deal in place yet, all members are expected to load as much as they can into the market starting in April. However, EIA forecasts that low oil prices will immediately reduce U.S (50 states) crude oil production in the second quarter of 2020 as drilling activity slows significantly, with production expected to average 18.9mbpd in 2020 compared to 19.5mbpd in 2019. Reflecting the heightened tensions, EIA now expects OPEC output (including other liquids) will average 33.7mbpd compared to prior estimate of 33.2mbpd. However, a resolution in Libya could raise the number higher to by an additional 1.0mbpd. The expected lower price informed voluntary cut in production and domestic disruptions (like in Libya) are expected to result in decline in total world supply to an average of 99.4mbpd in 2020 relative to 100.6mbpd in 2019.

### 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 3.9mbpd over 2020 compared to a deficit of 185kbpd in 2019, the EIA forecasts Brent crude oil to average \$23/barrel in the second quarter of 2020. As non-OPEC crude oil production begins declining due to lower prices and liquid fuels demand increases, prices will increase gradually. EIA forecasts Brent crude oil will increase from the lows of the second quarter to average \$33/barrel in 2020. 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 Europe and US by the end of Q2 and minimal infection rate across other countries could result in a rebound in oil demand with upside potential for prices. However, an escalation beyond Q2 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.