

## Monthly Oil Market Update

### Key Highlights

- OPEC production increased by 2.16mbpd to 30.41mbpd in April compared to average of 28.24mbpd in Q1 and 1.8mbpd higher than the level in March of 28.62mbpd
- Brent crude oil price fell by \$7.74/barrel to \$27.38/barrel in April, down from March average of \$35.12/barrel.
- Gradual reopening of some economies and series of planned production cuts by OPEC+ members (even out of quota cuts) lifted price from April lows of \$19.33/barrel
- With a massive surplus of 22.8mbpd in April alone, Q2 surplus will average 11.5mbpd, with a switch to deficit of 3.1mbpd in Q3 and a wider deficit of 4.6mbpd in Q4.
- EIA forecasts Brent crude oil price will increase from the lows of Q2 to average \$30/barrel in Q3 and \$34/barrel in Q4.

### OPEC Members Test the Depth Crude of Oil Reserves

The OPEC Monthly Oil Market Report for April released yesterday showed that the cartel's production increased by 2.16mbpd to 30.41mbpd (excluding condensates) compared to average of 28.24mbpd in Q1 and 1.8mbpd higher than the level in March of 28.62mbpd. Following the expiration of the OPEC+ production cut agreement at the end of March and the inability to replace it with a new agreement, the month of April allowed top OPEC members the opportunity to test the depth of their crude oil reserves.

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

	Feb-19	Apr-19	Jan-20	Feb-20	Mar-20	Apr-20	New Quota
Algeria	1,026	1,023	1,012	1,009	1,030	1,007	814
Angola	1,448	1,397	1,375	1,387	1,402	1,312	1,177
Congo	321	341	294	305	294	281	250
Equatorial Guin.	121	112	125	122	122	127	98
Gabon	204	192	192	194	202	193	144
Iran, I.R.	2,726	2,597	2,082	2,070	2,022	1,969	Exempt
Iraq	4,647	4,640	4,508	4,604	4,571	4,521	3,583
Kuwait	2,709	2,698	2,658	2,670	2,873	3,132	2,163
Libya	902	1,172	793	147	91	82	Exempt
<b>Nigeria</b>	<b>1,723</b>	<b>1,825</b>	<b>1,760</b>	<b>1,788</b>	<b>1,844</b>	<b>1,777</b>	<b>1,408</b>
Saudi Arabia	10,118	9,764	9,739	9,671	9,997	11,550	8,470
UAE	3,068	3,058	3,027	3,065	3,507	3,839	2,439
Venezuela	1,021	776	756	760	660	622	Exempt
<b>Total OPEC</b>	<b>25,385</b>	<b>25,050</b>	<b>28,321</b>	<b>27,792</b>	<b>28,615</b>	<b>30,412</b>	<b>20,546</b>

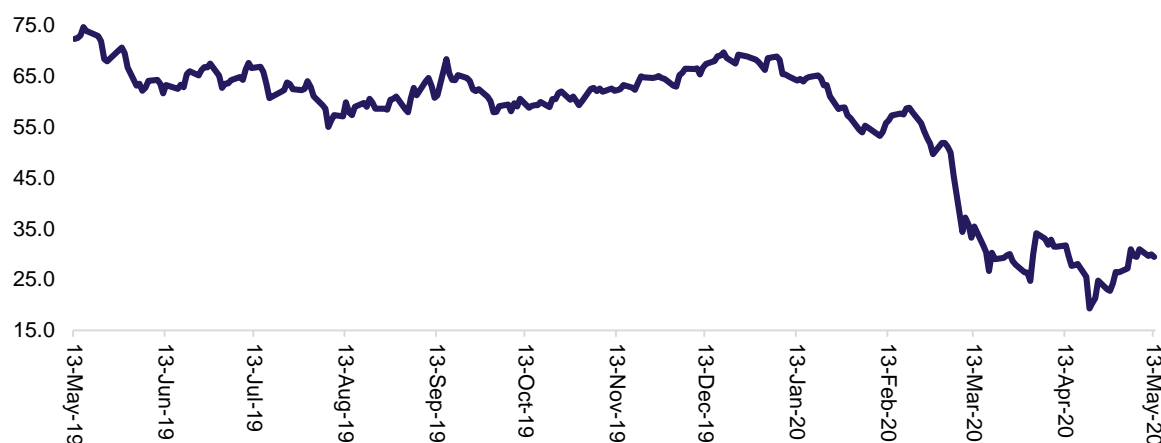
Source: OPEC Monthly Oil Market Report, NOVA Research

For context, after producing largely below its quota over Q1 2020 with average of 9.8mbpd, Saudi Arabia increased production by 1.8mbpd in April to reach 11.6mbpd. Also UAE and Kuwait increased production by 639kbpd and 398kbpd respectively in April. The cartel's output during the month was further moderated by declines in Venezuela (as the US sanctions hit harder) and continued blockade of export terminals in Libya. Excluding declines in exempted countries like Venezuela, Libya and Iran, OPEC 10 production surged 2.62mbpd in April to 27.74mbpd compared to Q1 average of 25.12mbpd.

### Collapse of OPEC+: Everyone Paid the Price

The fallout of OPEC+ agreement which resulted in a drive for market share amidst Covid-19 impact on demand created a precedence for the crude oil market in the month of April. Reflecting the lower demand from industrial activities as a result of lockdown measures to contain COVID-19, crude oil consumption declined by 11.8mbpd in April to 76.34mbpd. On the other hand, global production only declined marginally by 1.5mbpd to 99.15mbpd leaving the market with a net surplus of 22.81mbpd. As a result, global inventories reached their peak in April, with market participants (especially in the U.S) unable to take physical delivery of maturing contracts and resorted to selling the maturing futures contracts at negative prices (in effect paying a counterparty to take hold of the contracts). Accordingly, West Texas Intermediate (WTI) crude oil front-month futures prices fell below zero dollars per barrel, trading at -\$40.32/b the day before the May contract expired, to mark the first time the price for the WTI futures contract fell below zero since trading began in 1983. Overall, Brent prices averaged \$27.38/barrel in April, down \$7.74/barrel from March average of \$35.12/barrel.

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



Source: Bloomberg, NOVA Research

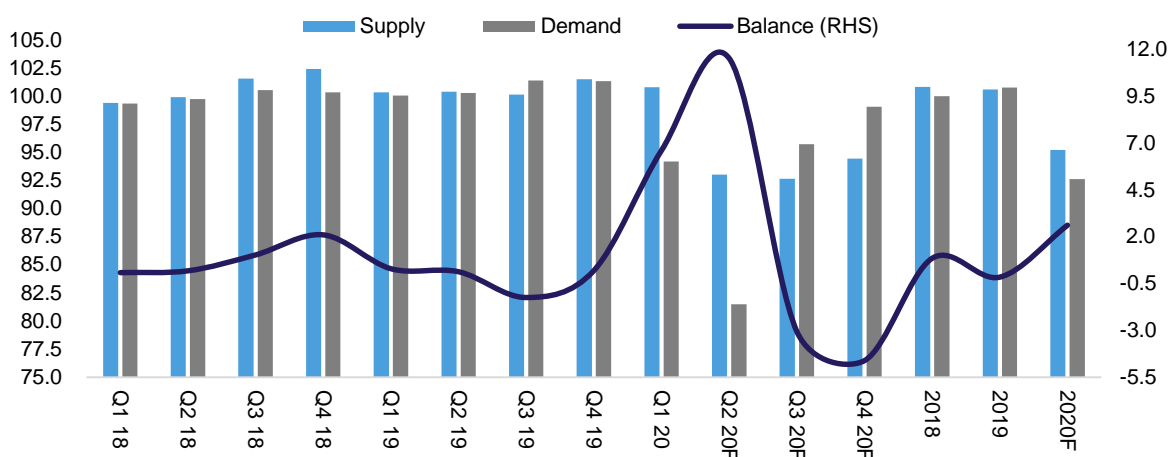
While the oil market exhibited unusual volatility in the first three weeks in the month of April (with Brent price touching a low of \$19.33/barrel on 21 April), prices have steadily recovered to reach \$29.44/barrel at the close of trading yesterday. On the back of the uptick in prices, Saudi Arabia official oil pricing template for June, offered Arab light delivery to Asia at a discount of \$5.90/ barrel (compared to discount of \$7.3/barrel in May) to the Oman/Dubai average, U.S delivery at a premium of \$0.75/barrel (discount of \$0.75/barrel in May) versus ASCI and a discount of \$3.50/barrel (discount of \$10.25/barrel in May) to ICE Brent for delivery to Northwestern Europe. The price gains have largely rallied on the back of gradual reopening of some economies and series of planned production

cuts by OPEC+ members, even out of quota cuts. Beyond the agreed quota, Saudi Arabia, UAE and Kuwait recently announced plans to take additional voluntary cuts of 1mbpd, 100kbpd and 80kbpd respectively, starting June.

### Covid-19 Induced Slowdown to Weigh on Global Oil Demand

After affirming its forecast for a decline in global oil demand in 2020 in its April Short-Term Energy Outlook (STEO), the EIA now expects global oil consumption to contract further by 8.1mbpd to average 92.6mbpd from 100.7mbpd in 2019 according to the May STEO. The outlook largely centered on lower economic growth, less air travel, and stay-at-home orders. However, EIA expects the demand effects from COVID-19 will diminish by Q2 2020, with a pickup in consumption over Q3 2020. Consumption in both OECD and non-OECD regions is now expected to decline by 5.1mbpd and 3.1mbpd to 42.3mbpd and 50.3mbpd respectively. In the OECD region, the decline is dominated by US (-2.2mbpd to average 18.3mbpd) and Europe (-1.5mbpd to average 12.6mbpd). Also, Canada, Japan and Other OECD are expected to record declines in demand by 1.4mbpd to average 11.3mbpd in 2020 compared to 12.7mbpd in 2019. For the non-OECD, demand in China is expected to decline by 887kbpd in 2020 despite ongoing stabilization.

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



Source: EIA, NOVA Research

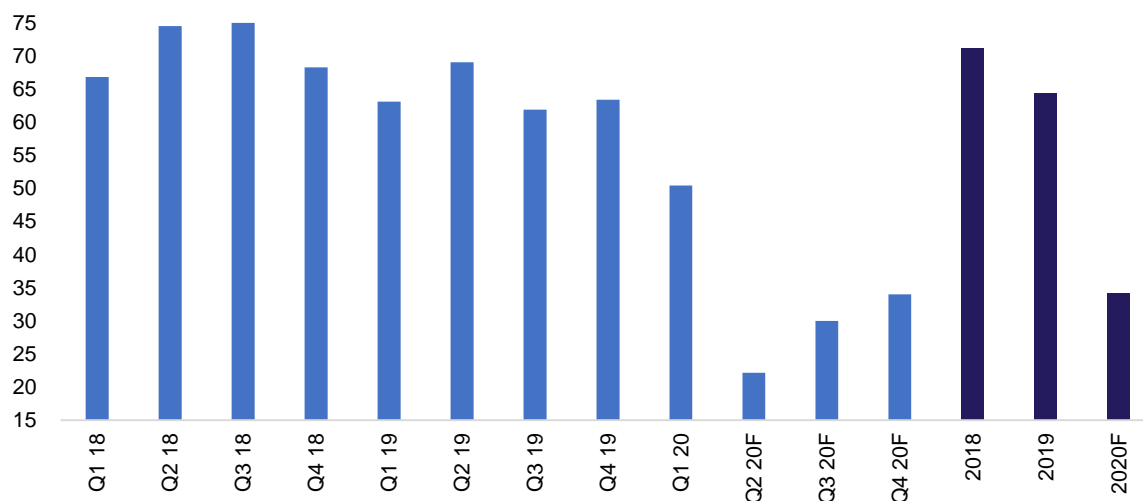
With the OPEC+ cuts and voluntary production management by other members taking effect in May, we see a change in market balance over the second half of 2020. Following the recently implemented production cuts by non-OPEC participants, EIA now expects a steeper decline in crude oil production by 2.3mbpd over 2020 to 63.6mbpd, falling below 61mbpd in June. Compared to average production of 67.2mbpd in Q1, production starting in May is expected to decline by 6.1mbpd. The largest declines are expected in Russia (-819kbpd to 10.7mbpd), the United States (-769kbpd to 18.7mbpd) and Canada (-447kbpd to 5.1mbpd). The declines in Russia will largely be in line with the agreed compliance to OPEC cut, that of US will result from reductions in drilling in price-sensitive tight oil regions, while Canada production will largely reflect government-ordered production cuts in Alberta and economic shut-ins because of the effect of low oil prices. For OPEC countries, crude oil production is estimated to fall below 24.1mbpd in June, a 4.2mbpd and 6.3mbpd decline from Q1 and

April production respectively. Adjusting for additional voluntary cuts by Saudi Arabia, UAE and Kuwait of 1.2mbpd, production could fall below 23mbpd in June which would be OPEC's lowest level of production since March 1995. Overall, total world supply is expected to fall to a low of 89.8mbpd in June (2020 average of 95.2mbpd relative to 100.6mbpd in 2019), a 10.7mbpd and 9.1mbpd decline from Q1 and April production respectively.

### Switch in Market Balance to Lift Prices from the Lows of Q2

In all, with a massive surplus of 22.8mbpd in April alone, Q2 surplus will average 11.5mbpd, with a switch to deficit of 3.1mbpd in Q3 and a wider deficit of 4.6mbpd in Q4. With the deeper surplus in Q2, the EIA forecasts Brent crude oil to average \$23.2/barrel in the quarter. 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 Q2 to average \$30/barrel in Q3 and \$34/barrel in Q4, with average of \$34.4/barrel over 2020 compared to average of \$64.4/barrel in 2019. For us, we believe the gradual opening of key economies and minimal infection rate across could result in a rebound in oil demand with upside potential for prices. Also, the planned voluntary cuts by OPEC+ members could further neuter the market surplus in Q2 and magnify market deficit over Q3-Q4. However, an escalation in Covid-19 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 and Venezuela, which could add additional 1.7mbpd to current output.

**Figure 4: Historical and Forecast Brent Price (\$/barrel)**



Source: EIA, NOVA Research