



HONEYGUIDE
ENERGY PARTNERS

Oil & Gas Monthly Report

August/September* 2018

*Data as of August through September 16, 2018

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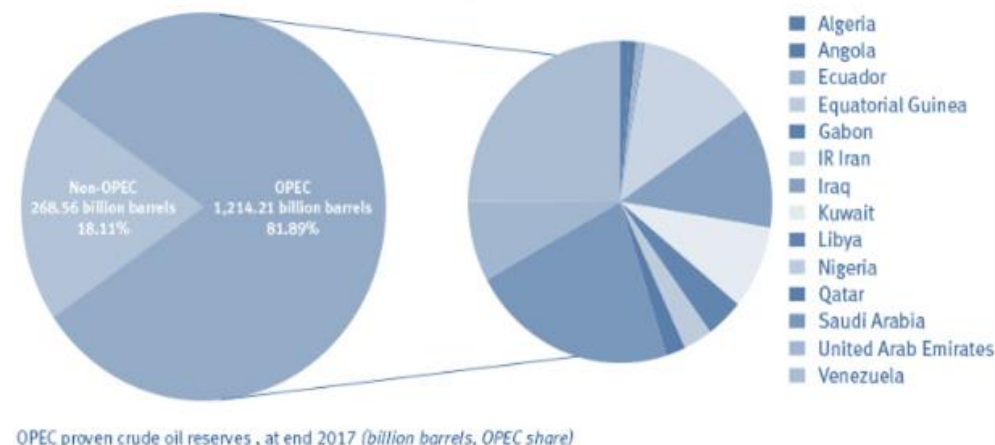
MARKET DEFINITIONS

- This research analyzes the Global Crude Oil and Gas Market, its major categories (West Texas Intermediate (WTI), Brent Blend and OPEC Basket), its present status, current trends, demand drivers, demand restraints and forecast outlook.
- Crude oil is a natural resource; it is a petroleum product which is composed of hydrocarbon deposits and organic materials. Crude oil is a fossil fuel which is refined to produce various products, for instance, gasoline, diesel and other petrochemicals. Crude Oil is a nonrenewable resource, i.e. it cannot be replaced naturally at the rate of its consumption and is hence is a limited resource.¹
- There are more than 160 different oils traded on the market, however for or the scope of this study, we will focus on three primary oils that dominate the news and the markets, which are - West Texas Intermediate (WTI), Brent Blend and OPEC Basket.²

GEOGRAPHIC LOCATION: 3 MAJOR CRUDE OIL GRADES



OPEC SHARE OF WORLD CRUDE OIL RESERVES, 2017



¹ Crude Oil <https://www.investopedia.com/terms/c/crude-oil.asp#ixzz5ljGgvYoH>

² <https://oilprice.com/Energy/Crude-Oil/A-Detailed-Guide-On-The-Many-Different-Types-Of-Crude-Oil.html>

GLOBAL TRENDS IN OIL & GAS INDUSTRY

- According to data released by OPEC, world crude oil production is increased in the month of August to 98.88 million barrels per day. Total OPEC production stood at an average 32.56 million barrels per day and Non-OPEC stood at an average 59.56 million barrels per day.
- U.S. refineries processed a record crude in the month of July. For the **first time it has surpassed an average of 18 million barrels a day**.³
- World Oil demand was slightly recorded lower as compared to previous month's estimate mainly due to less than expected performance by Middle East and Latin America.
- Crude oil prices in the month of August were recorded lower but prices are gaining momentum in the month of September and are expected to rise. US natural gas prices saw an increase of average 0.2 US\$/mbtu and stood at average 3 US\$/mbtu.
- Geopolitical tensions pressured the crude oil prices downwards due to worries of low demand primarily driven by US China trade war and sanctions imposed on Iran.
- United States has clearly stated other countries to cut oil imports to zero by November 4, 2018 or countries will face strongest action from US⁴. Iran is a major oil exporter for many countries and sanctions on Iran are impacting other countries.
- Concerning US, on September 12, API reported a large crude oil withdrawal of 8.6 MMBbl, along with gasoline and distillate builds of 2.1 MMBbl and 5.8 MMBbl respectively.
- In regards to commodity futures markets, Open interest (OI) saw an increase in August for natural gas and precious metals while crude oil saw a decrease.
- According to the latest CFTC report, bulls increased long positions 18,754 contracts while the Managed Money short positions decreased a less i.e. 750 contracts. Also, Merchant short positions increased 20,652 contracts as future prices were locked in by producers.
- Crude oil production by Saudi Arabia unexpectedly declines to 10,363 thousand barrels per day in July and further saw an increase by 38 thousand barrels per day in the month of August.
- Mexican president-elect's Andrés Manuel López Obrador plans to enhance country's oil and gas sector. It would reduce demand for U.S. oil exports.

Price – WTI/Brent
Julv
August



Geopolitics



Demand



Supply



Dollar



³ <https://www.houstonchronicle.com/business/article/U-S-refineries-hit-record-level-of-consumption-13152020.php>

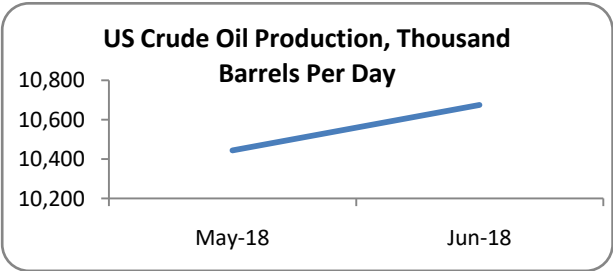
⁴ <https://economictimes.indiatimes.com/news/international/business/prepared-to-take-strongest-action-for-not-complying-with-iranian-sanctions-us/articleshow/65805503.cms>

WORLD CRUDE OIL AND NATURAL GAS SUPPLY SNAPSHOT

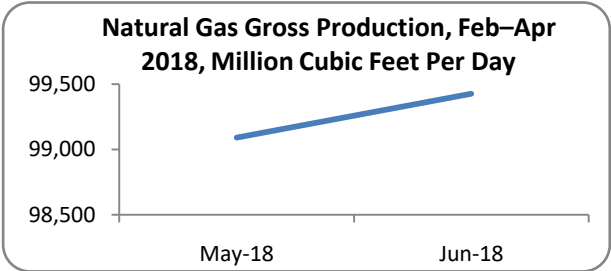
As per OPEC, total crude oil supply was recorded at avg. 98.8 million barrels per day in August 2018, an increase by 0.49 mb/d as compared to previous months.

US Oil & Gas Production

- US crude oil production was recorded at 10,674 thousand barrels per day in June 2018, which is 2.2 % higher than May 2018, as per the data published by U.S Energy Information Administration
- US natural gas production saw a rise in month of June 2018 (as per latest data available) and stood at 98,428 million cubic feet per day



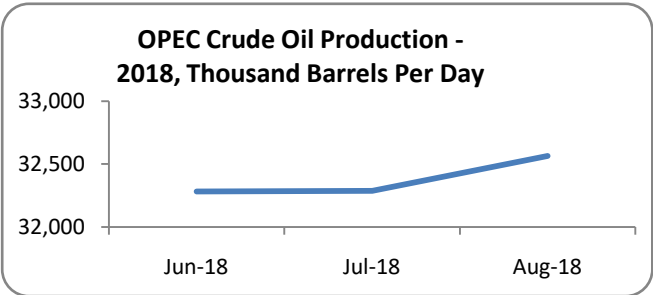
Source: EIA 914 US Energy Information



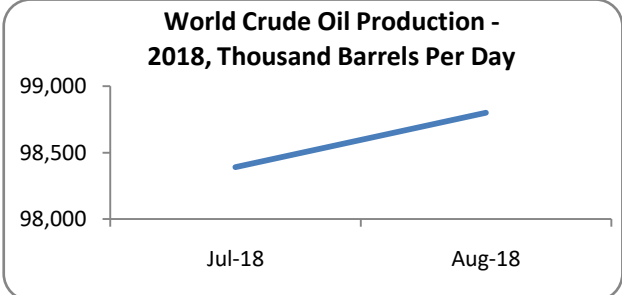
Source: EIA 914 US Energy Information

OPEC Crude Oil Production

- The average total OPEC crude oil production was 32.56 Million barrels per day in Aug, 2018. Production increased in Libya, Saudi Arabia, Iraq and Nigeria but reduced in Iran, Venezuela & Algeria.



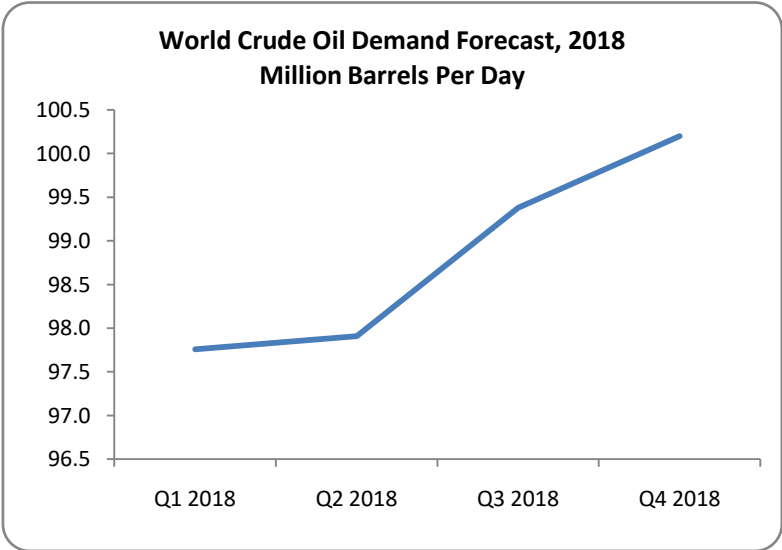
Source: OPEC monthly report – September 2018



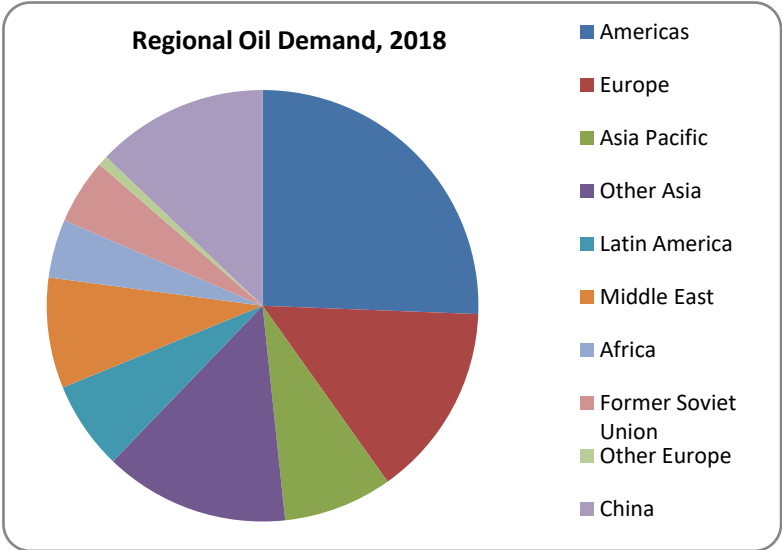
Source: OPEC monthly report – September 2018

WORLD CRUDE OIL DEMAND SNAPSHOT

- According to OPEC, World Oil demand for 2018 is forecasted to grow by 1.62 million barrels per day lower than last month projection by OPEC due to slow economic performance from Latin America and subsidy reduction (part of economic restructuring) in Middle East. Total oil demand is reduced by OPEC as compared to last month and expected to reach at 98.82 million barrels per day
- Better performance from industrial and petrochemical sectors in US has led to an upward revision in OECD (Organization for Economic Co-operation and Development) Americas
- Non OECD oil demand was recorded lower than expected. Positive revisions in Asia and China were balanced out by downward revisions in Middle East and Latin America
- OECD Asia Pacific region shown a positive trend in oil demand due to growth in petrochemical industry of South Korea and more mining activities in Australia
- Oil demand in Europe saw a first time decline as compared to year 2014 but next quarters will still have positive impact considering a steady economy



Source: OPEC Oil Report. September. 2018

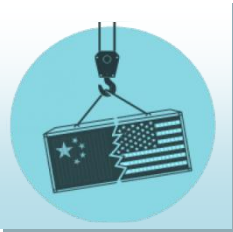


Source: OPEC Oil Report. September. 2018

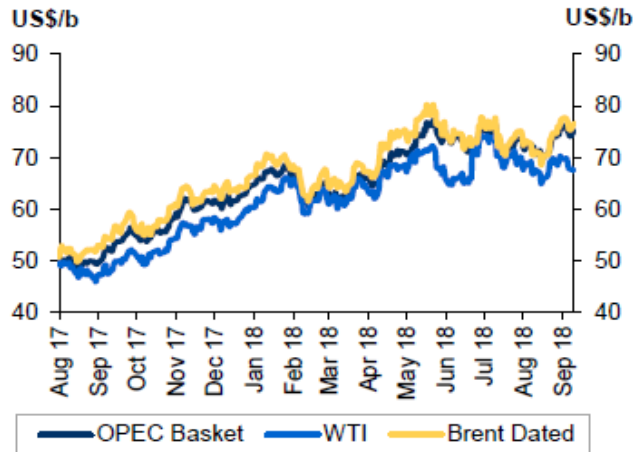
GEOPOLITICAL ISSUES

• Trump Trade War

The on-going trade tensions between USA and China doesn't seem to ease. A total \$34 billion Chinese goods were affected by US sanctions effective July 6, 2018. China too imposed tariffs on US goods of approximate similar amount. US published list of 279 goods for which a tariff of 25% was imposed on August 8. On August 22, Chinese Commerce Vice Minister Wang Shouwen and US Treasury Under Secretary David Malpass had a meeting in Washington on intensifying trade war but there was no resolution to the discussions. Crude oil could continue to decrease amid the trade tensions between China and the US according to Oil and gas ministries of Bahrain and Oman.⁵China could find new suppliers from other countries, for importing crude oil, possibly Middle East. As per OPEC, crude oil and Oil futures prices in August were declined due to US-China trade tensions. Commodities prices also continue to decline amid ongoing trade dispute. On September 16, WTI was trading at \$68.99/b and Brent Crude was trading at \$78.09/b.

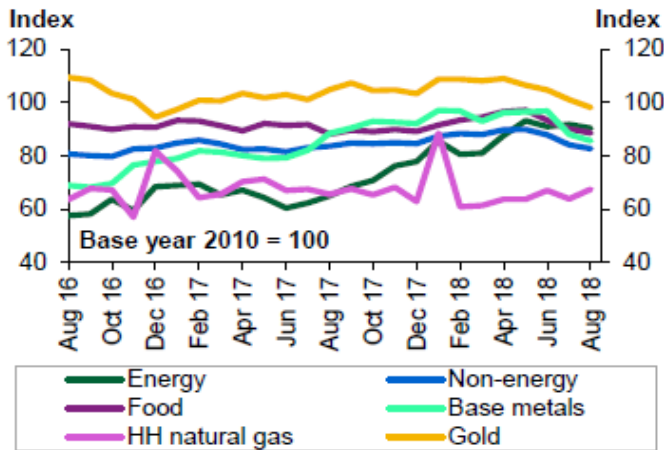


Graph 1 - 1: Crude oil price movement



Sources: Argus Media, OPEC Secretariat and Platts.

Graph 2 - 1: Major commodity price indices



Sources: World Bank: Commodity price data, S&P Goldman Sachs, Haver Analytic and OPEC Secretariat.

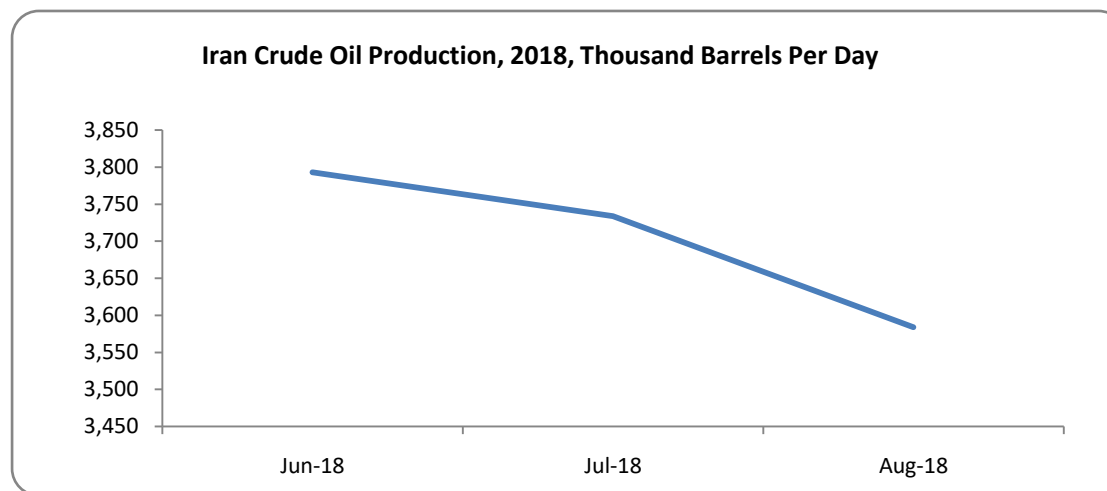
⁵ <https://sputniknews.com/analysis/201809041067742170-china-us-oil/>

- **Approaching Deadline of November 4: US Sanctions on Iran**



US has clearly stated other countries to cut oil imports to zero by November 4, 2018 or they will face strongest action from US⁶. Iran is a major oil exporter for many countries and sanctions on Iran are impacting other countries. Countries mostly affected by Iran sanctions are China, India, Japan, South Korea and Europe. All major countries have started to reduce their supplies from Iran before the deadline of November 4.

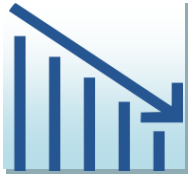
Countries like India are in extensive talks with US on a possible waiver as zeroing import could drastically impact countries economy. In long term, prices of crude oil could soar in case the demand outpaces the supply. There is still uncertainty in the market that how much oil will be eradicated from the market when sanctions on Iran get imposed on November 4. It would be interesting to see if **“demand worries”** overrides the **“supply cut speculations”**.



Source: OPEC monthly report – September 2018

⁶ <https://economictimes.indiatimes.com/news/international/business/prepared-to-take-strongest-action-for-not-complying-with-iranian-sanctions-us/articleshow/65805503.cms>

- **Turkish Currency Crises:**



Low saving rate and appetite for borrowing of hard currency has led towards high current account deficit and inclination towards inflation. Lack of competence of finance minister was also speculated as a source of volatility⁷. It was believed that interest rate could have been increased much earlier by the President of Turkey but it has not been done. This also has lowered the investors confidence in country's economy. A steady rise of dollar has also led to the decline in "Lira" – currency of Turkey. Further, the US China trade dispute has created a negative impact on the currency.

However, on 13th September, Central Bank of Turkey has raised interest rates to 24% and it was welcomed by international financial markets⁸. Turkish currency has seen a rise after interest rate decision by Central Bank.

- **Iraq Crisis, Protests! :**



As per the news, oil production in Iraq is at risk as protests in the country are turning violent. 12 protestors were killed and other 200 got injured in a clash with security forces. Iraq is OPEC's second largest oil producer and its production disruption could create a global impact on crude oil.⁹ These protests were started in July due to contaminated drinking water. Approximate 17000 Basra citizens were reported symptoms of cholera, diarrhea and colic. Oil exports and facilities are currently under risk as there is now sign slowdown in protests. Protestors threaten to shut down access to production facility of Basra's West Qurna 1 oil field.

There were also attempts to shut down production facility at Qurna 2 oil field.

⁷ <https://www.livemint.com/Opinion/QVzVq7cB26TP2GSmiTdWTP/Opinion--Suddenly-another-emerging-market-currency-crisis.html>

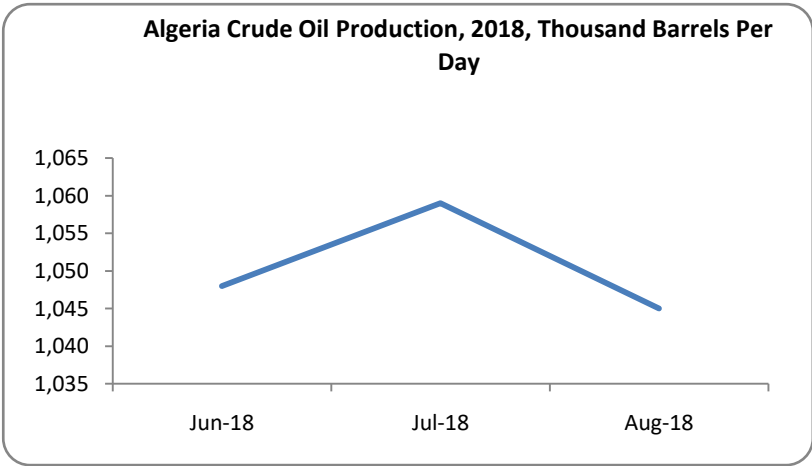
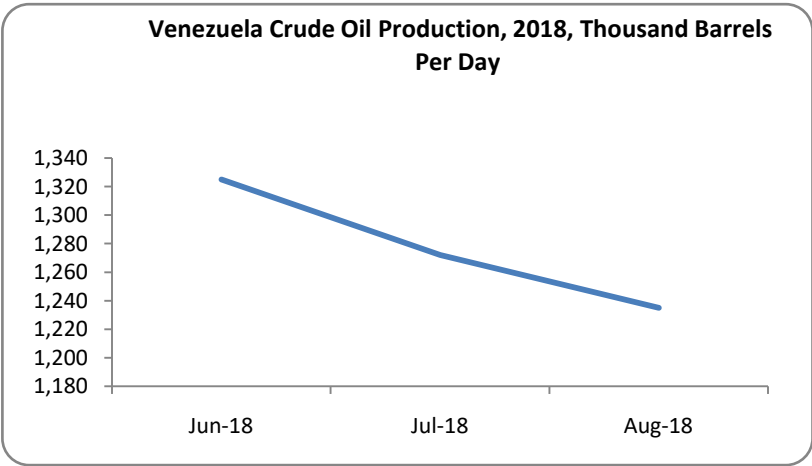
⁸ <https://www.forbes.com/sites/kenrapoza/2018/09/13/turkey-central-bank-plays-catch-up-and-market-applauds/#393193ce7473>

⁹ <https://www.cnn.com/2018/09/13/oil-production-at-risk-as-violent-protests-rock-iraqs-basra-province.html>

Decline in Venezuela & Algeria Production :

Oil production in Venezuela and Algeria saw a decline based on last three month data published by OPEC. South dock of Venezuelan port was partially shut down when two tankers collided.

However, Venezuela signs deal to hand over seven oil fields to companies in an effort to boost production.¹⁰ Also, Algeria stated to boost production from the month of August.



¹⁰ <https://www.reuters.com/article/us-venezuela-oil-exclusive/exclusive-venezuela-signs-oil-deals-similar-to-ones-rolled-back-under-chavez-document-idUSKCN1LQ2FQ>

ECONOMIC FACTOR

- **US emerged as dominant Oil Supplier**

The trade spat between US and China has led the China to impose retaliatory import tariffs on US goods. China imposed tariffs on US goods in June but later it excluded the crude oil in the final list published in August, 8 2018¹¹. This indicates that China has realized the **supremacy of US being dominant** crude oil producer and critical alternative supply source which has the capability to meet the huge demand of the top importer China, which is seeking to diversify its oil purchases supply.

Removing crude imports, worth roughly \$8 billion annually came as a relief to state oil firms and is expected to also give China some room to maneuver in future negotiations with the US, especially as it may soon lose some Iranian oil shipments due to re-imposed U.S. sanctions. The main importer the Sinopec Group is Asia's largest refiner and biggest buyer of U.S. oil, which suspended new bookings until at least October over worries that a 25% tariff would prohibit it from finding buyers in China.¹²

The second round of list of tariffs imposed by China on goods just included Liquefied Natural Gas among the products which are subjected to a 10% tariff. This could reduce access to key market for US LNG exporters. The tariff, which comes on the heels of a spike in LNG shipments from the U.S. to China, is lower than the originally planned rate of 25%. During the 12 months that ended in July, the U.S. exported \$686 million of LNG to China.

- **Hurricane Florence, Oil & Gas Jumped!**

Hurricane *Florence*, a Category 1 storm, is expected to hit Carolinas. *Florence* has a potential to cause fuel flow disruptions.¹³ A positive price movement was seen on speculations of a possible supply disruption. Another tropical Storm - *Isaac* is flashing in headlines and can have a more impact on Oil and gas than *Florence*, if it runs across Yucatan oil operations or if it head into the Gulf of Mexico. A third storm is currently being watched out and its impact cannot be determined with certainty. NGL prices increased on the news of production drops resulting from the storm.

- **Pipeline woes continues in Permian Basin**

Infrastructure issues are still prevailing in Permian basin as existing pipelines are full and new pipelines would take time. However, new pipeline capacity could soon be functional by end of 2019 and significant growth could return to the Permian soon.

¹¹ <https://www.cnn.com/2018/08/08/reuters-america-update-2-china-to-slap-additional-tariffs-on-16-bln-of-u-s-goods.html>

¹² <https://in.reuters.com/article/us-usa-trade-china-oil/china-move-to-drop-crude-off-tariff-list-a-relief-for-sinopec-idINKBN1KV08M>

¹³ <https://www.marketwatch.com/story/oil-ticks-higher-after-worst-day-in-a-month-heads-for-weekly-gain-2018-09-14>

PRICE DRIVERS AND RESTRAINTS



Geopolitics: Geopolitical tensions pressured the crude oil prices downwards primarily driven by US China trade war and sanctions imposed on Iran. Geopolitical tensions created worries of lower demand .



Dollar Value: Strengthening Dollar created a negative impact on crude oil prices and led to a downward movement. Dollar Strengthened particularly against emerging markets.



Supply: Reported increase in supply led to a brief downward trend in prices.



Demand: Global demand shows a weakening trend and demand was weakened mainly in Middle East and Latin America. Also, there are speculations of lower demand amid trade dispute between US and China.



Traders Sentiments: Traders sentiment had a neutral impact on price.



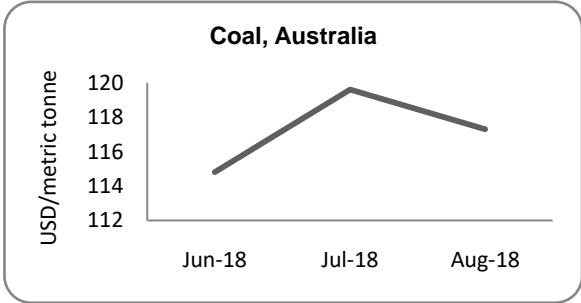
Refiners: Refinery Margin in US saw a rise as outages in Latin America led to product market tightening. Isla refinery of Venezuela was recorded with minimum processing due to mechanical issues. Autumn maintenance season and closure of Trinidad and Tobago's refinery led to a positive impact on US refinery margins.

COMMODITY PRICE TRENDS



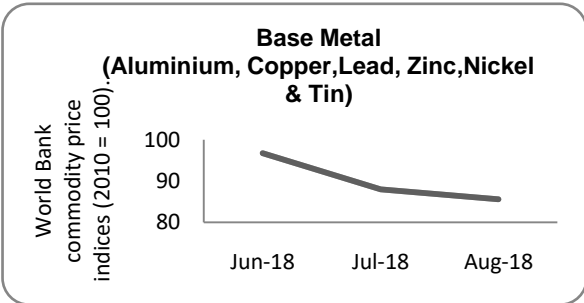
Coal

Average Thermal Coal Prices decreased to \$117.3/mt in August but still close to last month prices. Last month prices achieved a five year high. Prices were supportive due to rise in power generation demand in East Asia.



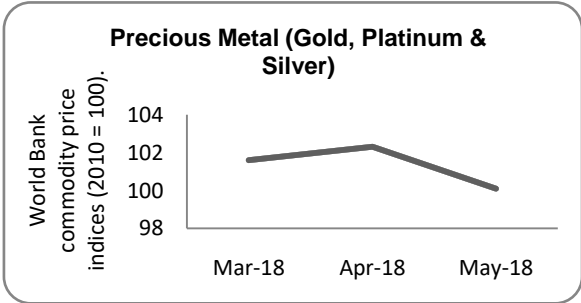
Based Metal

Average base metal prices saw a decline as compared to previous month. Weakened prices were due to slower growth in global manufacturing, trade tensions between US & China and threats of supply disruption. Almost all base metal prices saw a decline.



Precious Metal

Average gold prices decreased by 2.9% due to rise in interest rates in US. Further, average Platinum prices were down by 2.1% and Silver prices were declined by 4.7%.



Source: World Bank, Commodity price data.