

Oil & Gas Monthly Report



HONEYGUIDE
ENERGY PARTNERS

February 2019

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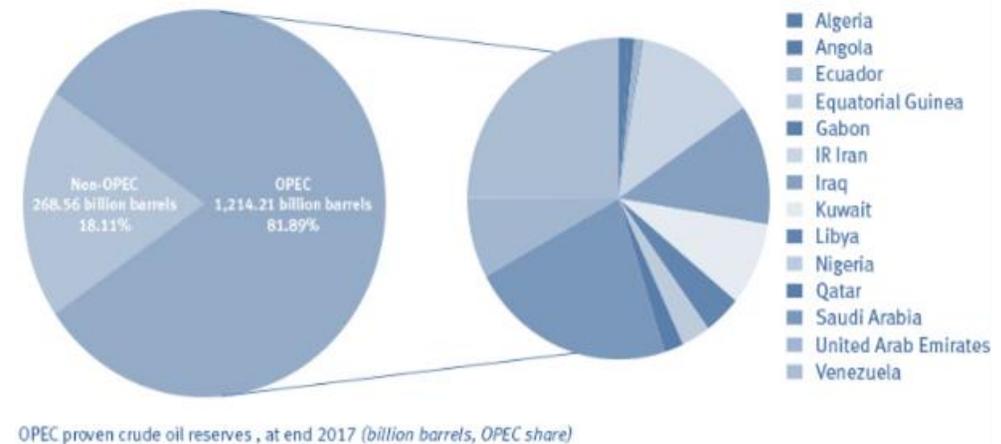
MARKET DEFINITIONS

- 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



¹Crude Oil <https://www.investopedia.com/terms/c/crude-oil.asp#ixzz5ljGqvYoH>

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

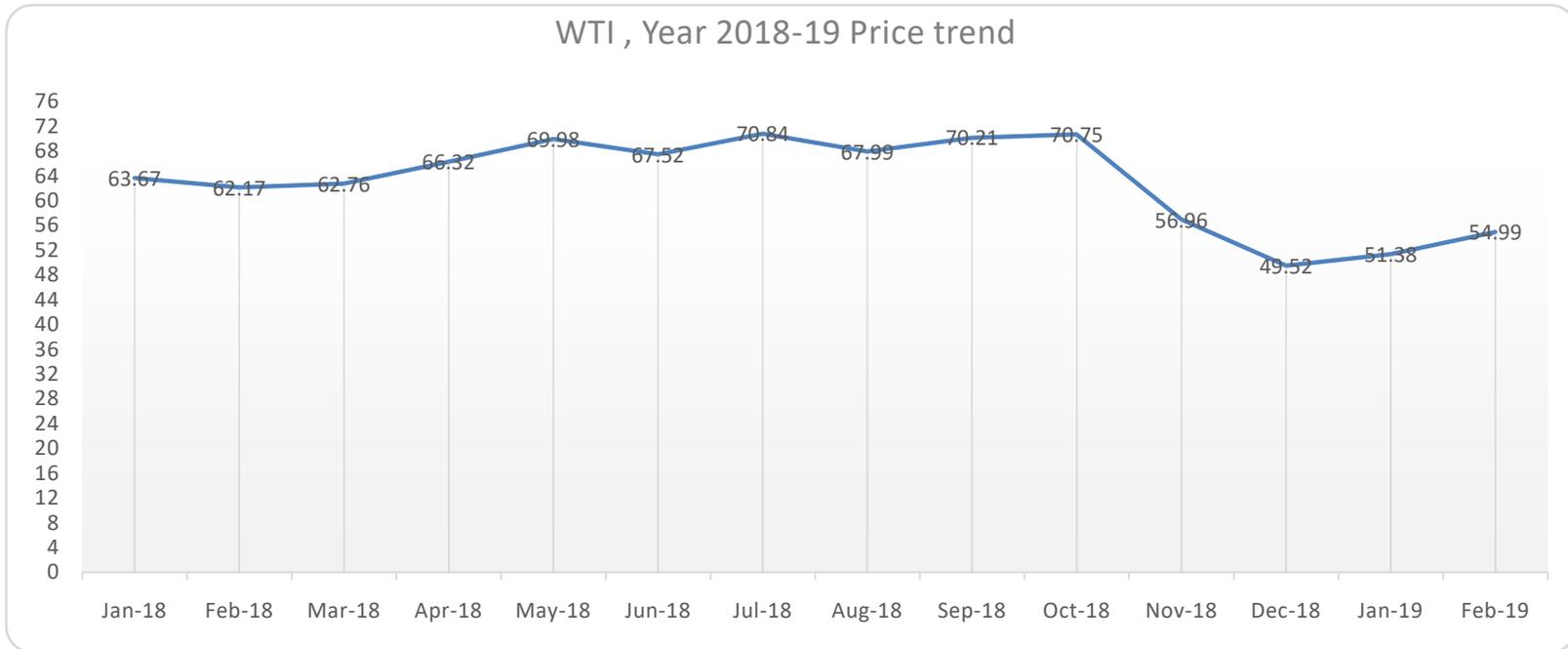
- OPEC, Russia and other non-member producers reduced output by 1.2 million bpd from January 2019 for six months supporting oil prices which are up about 25% this year at \$68 a barrel.
- US shale industry continues in its attempts to counter OPEC supply cuts to stabilize crude oil prices. According to the U.S. Energy Information Administration (EIA) in December 2014, U.S. shale oil production stood at 5.23m barrels per day. By December 2018 this production figure had risen to over 8m barrels per day.³
- BP, ExxonMobil and Chevron are rushing into the shale industry. Chevron has announced plans to invest \$3.6 billion in the Permian and \$1.6 billion in other shale and tight oil plays throughout 2019.
- Increasing levels of industrialisation and power demand in Asia and Africa, continued coal-to-gas switching (especially in China) and the increasing availability of low-cost supplies from North America, Australia and the Middle East. Over the next decade, US is expected to surpass every other nation to become the world's largest natural gas producer.
- U.S. LNG export capacity is set to double by the end of 2019. Elsewhere in the world, Africa has two LNG projects worth watching in 2019 including the \$20 billion Mozambique LNG project, and the Fortuna LNG project situated offshore Equatorial Guinea. Russia is also securing its future as a gas-exporting giant with the development of the massive \$25.5 billion Arctic LNG 2 project which is situated close to the currently operational Yamal LNG project.⁴
- The relative recovery in oil prices, improved break-even prices and the opening up of new leases offshore the Gulf of Mexico, West Africa and other global locations have once again made capital-intensive deepwater projects an attractive proposition to the majors. Projects such as Mad Dog Phase 2, ACG, Tortue and Bonga Southwest are expected to grow in prominence. Rystad Energy estimate that from 2019 through to 2022 investments will break the \$230 billion per year mark.⁵
- Iran's exports of crude oil were higher than expected in January which shipments are averaging 1.25 million barrels per day (MMbbl/dd) in February. While US plans to reduce Iranian oil exports under 1 million bpd, it is expected to continue allowing waivers to the 8 countries with reduced import limits in 2019.
- According to OPEC report, Mexico's oil supply in 2019 is forecast to decline by 0.13 mb/d to average 1.94 mb/d in a continuation of the annual natural decline, as well as outages occurring during maintenance.

³ <https://www.reuters.com/article/us-oil-opec-report/opec-stresses-need-for-2019-oil-supply-cuts-as-rivals-pump-more-idUSKCN1QV1OF>

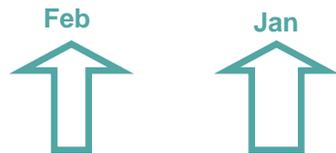
⁴ <https://www.fircroft.com/blogs/the-top-oil-and-gas-industry-trends-to-watch-in-2019-93316204914>

⁵ [https://www.hartenergy.com/news/despite-sanctions-irans-oil-exports-rise-early-2019-sources-](https://www.hartenergy.com/news/despite-sanctions-irans-oil-exports-rise-early-2019-sources-177614?mkt_tok=eyJpIjoiWldGaU1UTXlZV0UxWVdJMlIsInQiOiJEOGpxWGJiNHM0NmRka3ViYitStkFJcXZSb1h6SDVMaTNvOHhNak5yUkNwa0hJQmxUR1o1UEF2c1N5NUpWQ09DalBIVDIQbVwvaXh)

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Price – WTI/Brent



Geopolitics



Demand



Supply



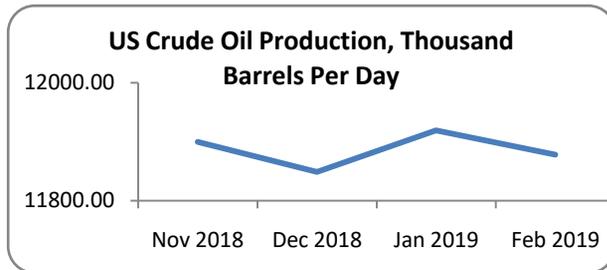
Dollar



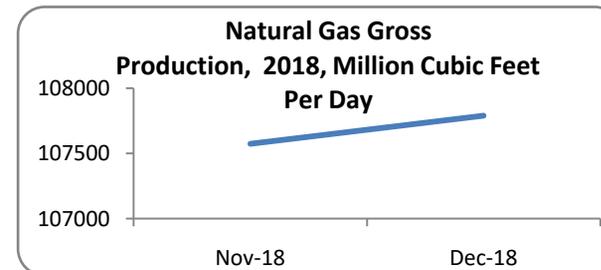
WORLD CRUDE OIL AND NATURAL GAS SUPPLY SNAPSHOT

US Oil & Gas Production

- US crude oil production was recorded at 11877.91 thousand barrels per day in Feb 2019, decreasing since Jan 2019, as per the data published by U.S Energy Information Administration.
- US natural gas production saw a rise in month of Dec 2018(as per latest data available) and stood at 107,790 million cubic feet per day.



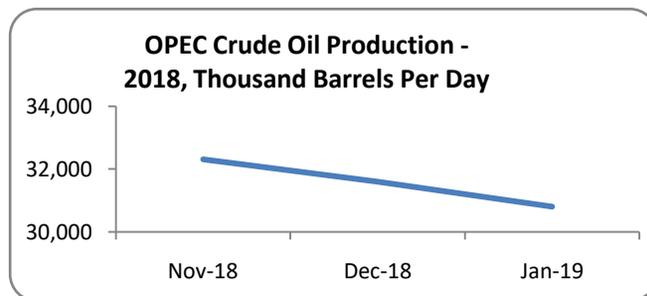
Source: EIA 914 US Energy Information



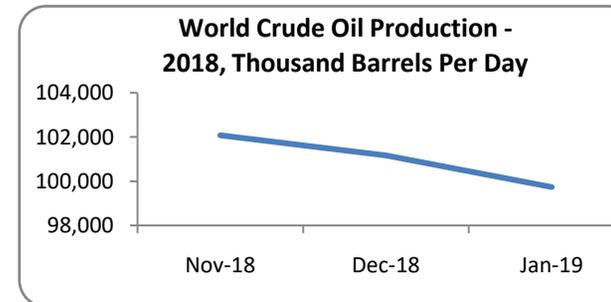
Source: EIA 914 US Energy Information

OPEC Crude Oil Production

- The average total OPEC crude oil production was 30.81 Million barrels per day in Jan 2019 as per the secondary sources. averaged 30.81 mb/d in January, a decrease of 797 tb/d over the previous month. Crude oil output decreased mostly in Saudi Arabia,UAE, Kuwait and Angola, while production increased in Nigeria.



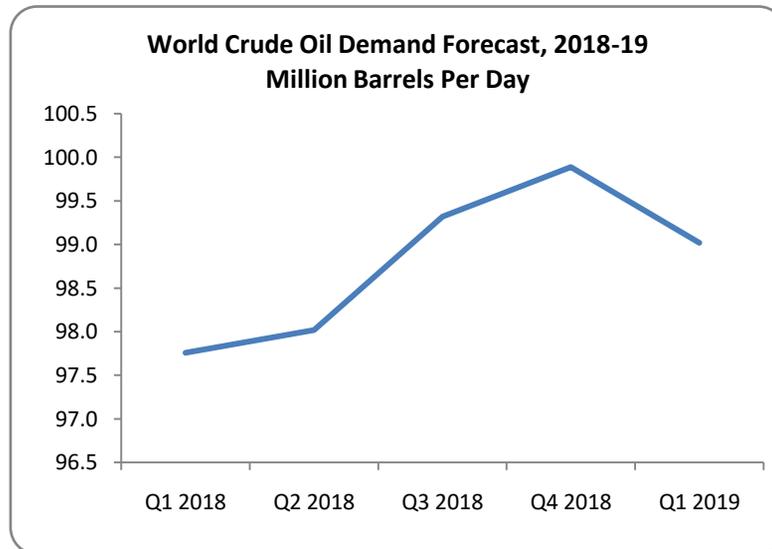
Source: OPEC monthly report – Feb 2019



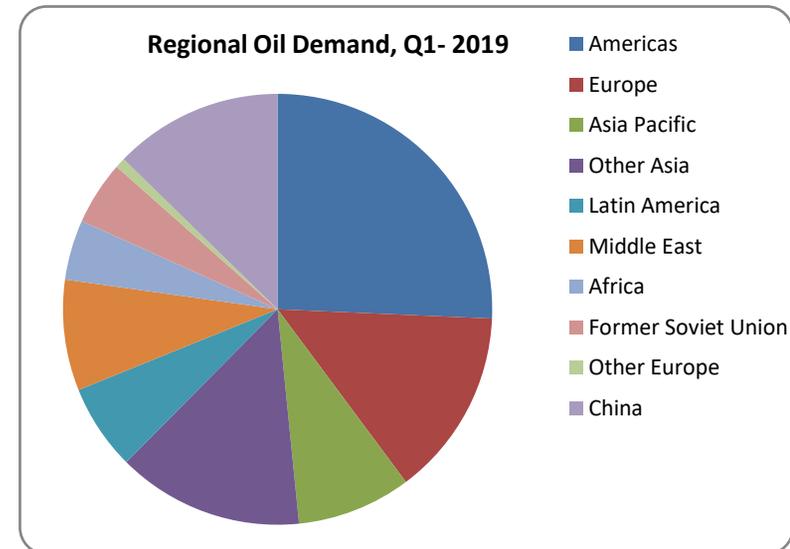
Source: OPEC monthly report – Feb 2019

WORLD CRUDE OIL DEMAND SNAPSHOT

- According to OPEC, in 2019, world oil demand growth was revised lower by 0.05 mb/d and is now forecast at 1.24 mb/d, as a result of slow economic growth of major countries.
- The easing of China-US trade tensions is expected to increase the demand. China's oil demand is expected to grow by 0.34 mb/d in 2019, compared to a 0.39 mb/d increase seen in 2018.
- In the OECD, oil demand was revised down by 0.02 mb/d due to lower economic projections for OECD Americas in 1Q19 and OECD Europe for the whole of 2019.
- Hedge funds and other money managers increased their bullish positions in January, following three consecutive months of decline. Money managers exhibited cautious optimism due to a more balanced global oil market and amid geopolitical tensions that could disrupt crude supply.
- World oil demand as per OPEC is now projected to average 100.08 mb/d in 2019 which is unchanged from previous month's estimates.



Source: OPEC Oil Report. Feb. 2019



Source: OPEC Oil Report. Feb. 2019

GEOPOLITICAL ISSUES

- **U.S.-China Trade War deescalates**



The US China trade war turned a corner as President Trump delayed plans to increase tariffs on \$200 billion in Chinese goods to 25 percent from 10 percent, citing "substantial progress" in the latest talks with Beijing. After no U.S. crude volumes were recorded going into China from October 2018 to January 2019 according to China customs, Reuters reported an oil tanker carrying U.S. crude oil is offloaded its cargo at a Chinese port on March 1st, 2019.⁶

- **OPEC production and supply cuts²**



Oil prices have risen more than 20 percent so far in 2019 after OPEC and non-member producer allies agreed to cut output for six months starting in January to avoid the build-up of a global surplus particularly as U.S. crude production booms. Saudi Energy Minister Khalid al-Falih said the group may need to extend its agreement to curb output until the end of 2019 after Russia favoured the disciplinary cuts in production.

U.S. tried to balance the supply and crude output has set record highs for last two weeks of February, hitting 12.1 million bpd last week, according to government data. While President Trump's tweet urging OPEC to "take it easy" on the production cuts did result in a 3% percent decline in oil prices, OPEC seems undeterred in increasing oil prices. February 2019 saw Khalid al-Falih pledging that Saudi Arabian production will be 500,000 barrels below its OPEC quota. This is in light of the Saudi crown Prince's expenditures running a \$25 per barrel deficit. Saudis need an oil price of \$90 and seem determined to raise oil prices by lowering global stocks to 2.75 billion barrels.⁷

⁶ <https://www.reuters.com/article/us-usa-china-trade-oil/china-to-import-first-u-s-oil-cargo-in-3-months-sources-refinitiv-idUSKCN1QI43Q>

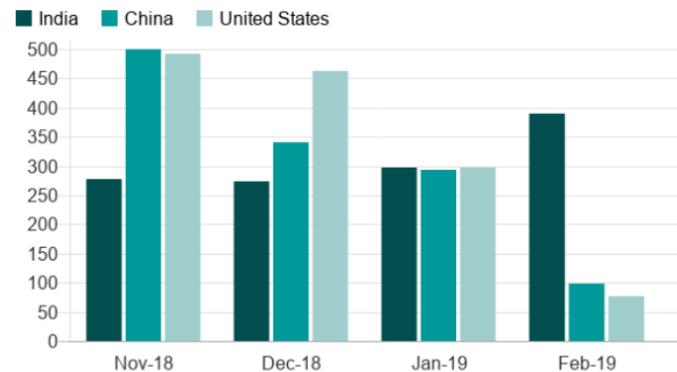
⁷ <https://in.reuters.com/article/global-oil/oil-prices-rise-as-opec-resists-trump-pressure-to-ease-supply-cuts-idINKCN1QG043>

- Venezuela struggles to find its feet**

More than eight million barrels of Venezuelan crude oil is sat in tankers as U.S. sanctions tightened in Jan 2019. Amid pressures of unavailability of refineries to improve the quality of its oil exports without the help of US, Venezuela has been trying to find new importers and expects to double its exports to India in 2019. However, transportation and the quality of the final product are still hurdle the South American country to earn new exporters. After securing exclusive rights to produce oil and gas in Syria, the Putin government has jumped in the civil and political problems Venezuela grapples with, providing a financial lifeline to cash strapped Caracas and especially state-controlled energy company PDVSA in full support of socialist President Maduro. Russia has shown itself willing to be a creditor of last resort for Maduro. In exchange for moderate loans, cash advances, bail outs and arms over the last five years since Maduro came to power, Moscow has secured significant interests in five of Venezuela’s largest oil fields. The Maduro regime has also signed over almost half of its downstream, refinery and infrastructure business Citgo to Russian state-controlled oil giant Rosneft for \$1.5 billion in urgently needed funds. That includes giving Moscow indirect interests in Citgo’s U.S. refining assets.⁸

Where is Venezuela exporting oil?

(Measured in thousands of barrels per day)



Source: Kpler



⁸ <https://www.bbc.com/news/world-latin-america-47239060>

- **US Sanctions on Iran**



US sanctions on Iran, the fifth largest producer of crude oil have forced it to drop its production to 1 million barrels per day despite the waivers granted to its 8 customers. The waivers are to be revisited by the US in May 2019 and as Iran refuses to budge on Tehran's nuclear aspirations, it is unlikely to regain its global market.

During the most recent period of sanctions, Kirkuk oil - along with Russian oil - became an alternative to Iranian oil because of a similar chemical profile. In 2019, Kirkuk oil's share in Iraq oil exports is likely to increase edging Iran out of the global picture.⁹

- **Intensification of the Libyan unrest**

Libya's claim to doubling its oil production by 2020 seems to be severely tested as political unrest deepens in the country. While on one hand, Libyan officials have stated that the control of the El Sharara oilfield, the *largest* in the country, has been handed over by LNA forces to Libyan oil security forces, the state controlled oil guards and the UN expects both LNA and GNA leaders to consent to national elections by the end of the year, LNA leader Haftar's increasing control in the region backed by the support of all Arab countries except Qatar, on the other hand makes it difficult for a deal to develop and a new military confrontation between Haftar's allies and Tripoli cannot be ruled out.¹⁰

⁹ <https://in.reuters.com/article/iraq-kurdistan-oil/iraq-restarts-some-kirkuk-oil-exports-after-year-long-halt-idINKCN1NL2PP>

¹⁰ <https://oilprice.com/Geopolitics/Africa/The-End-Game-For-Libyas-Oil-Crescent.html>

- **India-Pakistan Kashmir conflicts 2019**

Following India's retaliation against Pakistan post Pulwama attacks, the Middle Eastern geopolitics has severed. While Israel openly supported India in its anti-terrorism stance, even believed as a manufacturer of the bombs used in the aerial strike by India, confusion prevailed as Saudi Arabia struggled to maintain a stance. The Crown Prince signed US\$20 billion worth of deals in Pakistan, including US\$8 billion for an oil refinery in the city of market with the fastest growing exporter of oil. With shared interests, Saudi encouraged the countries to defuse the situation.

An interesting stance was taken by President Trump, who maintained that India enjoyed its benefits to GSP while increasing trade barriers for US based companies, and continuing to import Venezuelan and Iranian oil.¹¹

"Despite intensive engagement India has failed to take the necessary steps to meet the GSP criterion," Donald Trump. As tensions subsided in the area, India's import of oil from the US is expected to increase.¹²

¹¹ <https://www.rt.com/op-ed/453536-india-pakistan-trump-trade-war/>

¹² <https://oilprice.com/Energy/Energy-General/Kashmir-Conflict-Has-Riyadh-On-Edge.html>

ECONOMIC FACTOR

- **Polar Vortex in US¹**

The drastic shifts in weather in the US have affected the demand for oil. The decline in demand was anticipated by oil refineries reporting lesser refinery utilization. Although oil prices increased in the previous weeks, the US inventory levels rose slower than expected. As US is the highest consumer of crude oil in the world, a declining demand could foster negative sentiments in oil prices.¹³

- **Nigeria expected to undertake 20 African Projects in 7 years**

Nigeria is expected to attract \$48.04 billion or 24.8% of an estimated \$194 billion total oil and gas investment slated to be made in Africa within the next seven years according to the Nigerian National Petroleum Corporation. The country would account for 20 out of the 93 projects to be funded across the continent's oil and gas industry. With vast untapped oil reserves, Nigeria is expected to bolster production for the African continent while grappling with capability issues and accidents including a 0.15-million-barrel capacity oil pipeline explosion in Nembe.¹⁴

- **New Mexico's pending bill on fracking**

With crude oil being the most exported commodity of New Mexico and plans of production to increase in 2019, the economy will suffer drastically if the grass roots movement started against hydraulic fracturing would lead to passing a bill creating a four-year moratorium on any new state permits for hydraulic fracturing until 2023.¹⁵

¹³ <https://www.businessinsider.in/the-polar-vortex-may-be-affecting-oil-prices/articleshow/67877594.cms>

¹⁴ <https://www.hellenicshippingnews.com/nigeria-to-attract-48bn-of-194bn-oil-investment-in-africa/>

¹⁵ <https://www.lcsun-news.com/story/news/local/new-mexico/legislature/2019/02/05/nm-public-health-gas-oil-business-bill-will-stop-fracking-permits-2023/2777275002/>

- **US complex refineries suffer in the light of Venezuelan sanctions¹⁶**

As Venezuela struggles under the US sanctions, the complex refineries which are meant to refine crude into a marketable product are also facing distress. Venezuelan crude is heavy and sour with large amounts of sulfur and relied on the US complex refineries for export. Complex refineries cost about 50% more to build and are also more expensive to operate. The US refineries are faced with a shortage of crude post Venezuelans sanctions and almost 90% of US imports in early 2019 were heavy crude.

Based on their proximity, Canada and Mexico are best import options for US. However, due to delays in the construction of the Keystone XL pipeline and other pipelines that may eventually run from the northern border to the Gulf Coast, there's no easy way to replace the blocked shipments from Venezuela.

While Canada is shipping more heavy crude by rail, this approach is much more expensive. It costs about \$20 per barrel to ship heavy crude from Canada by rail, versus an estimated \$12.50 per barrel via pipelines. Mexico's challenge is its decline in heavy crude production over the years. Mexico now imports light crude, as well as gasoline and other refined products from the U.S.

US refineries have been operating at full capacity, an increase in the import prices of heavy crude would be followed by an increase in the price of diesel for the US consumers.

Idle U.S. oil refinery capacity

U.S. refineries are operating at nearly full capacity.

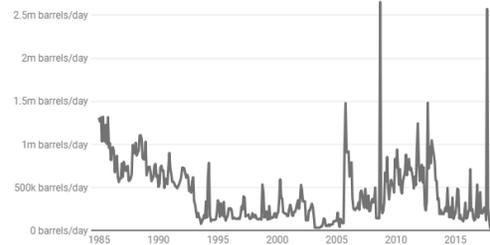


Chart: The Conversation, CC-BY-ND • Source: U.S. Energy Information Administration • Get the data

¹⁶ <http://theconversation.com/us-sanctions-on-venezuelan-oil-could-cut-the-output-of-refineries-at-home-11086>

PRICE DRIVERS AND RESTRAINTS



Geopolitics: Geopolitical tensions pressured the crude oil prices upward primarily driven by global oil supply cuts by the OPEC and Russia.



Dollar Value: Dollar weakened at the start of 2019 negatively impacting oil exporters including US.



Supply: Global Oil Supply saw a decrease in the month of January by 1.03mb/d and stood at an average of 99.32mb/d .



Demand: Global demand shows a weakening trend due to slow economic growth of emerging economies like China and India. Demand for India also suffered as it exported 80% of Iran oil which is now impeded due to US sanctions.



Traders Sentiments: Bullish sentiments prevailed through OPEC's supply cuts due to the deescalation of the US China trade war and Trump tweets to OPEC.



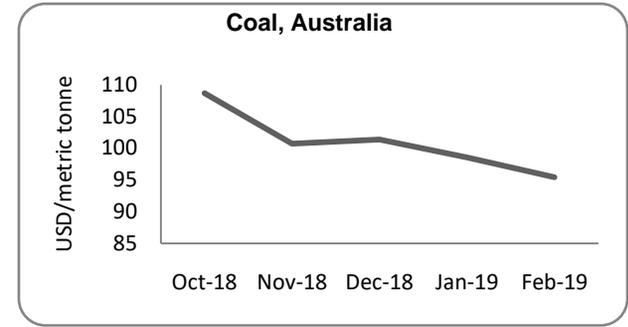
Refiners: Refinery margin in US saw a rise supported by draw from jet fuel inventory and high demand. US WTI margin was \$13.31/b in January which is down by \$0.21 month on month

COMMODITY PRICE TRENDS

Coal

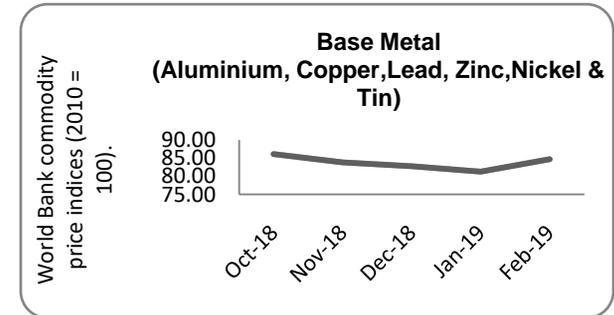


Average Thermal Coal Prices decreased to \$95.42/mt in February falling continuously since June 2018. Demand continues to lower due to slow economic growth globally, decreased demand for steel and EU initiation of plans to limit/eliminate coal-fired electricity generation.



Base Metal

International demand for base metals strengthened in 2019 which increased the prices for base metals. Further, the softening of US dollar helped boost sentiments in the industrial sector and a subsequent positive sentiment for base metals.



Precious Metals

Gold, silver and platinum grew at an average of 2.75%, 3.5% and 1.69% respectively in 2019. As the US Fed maintained the interest rates and a Brexit deal remained out of reach, precious metals continue to be a successful alternative investment.

