

Oil & Gas Monthly Report



HONEYGUIDE
ENERGY PARTNERS

October/November* 2018

*Data as on 26 Nov 2018

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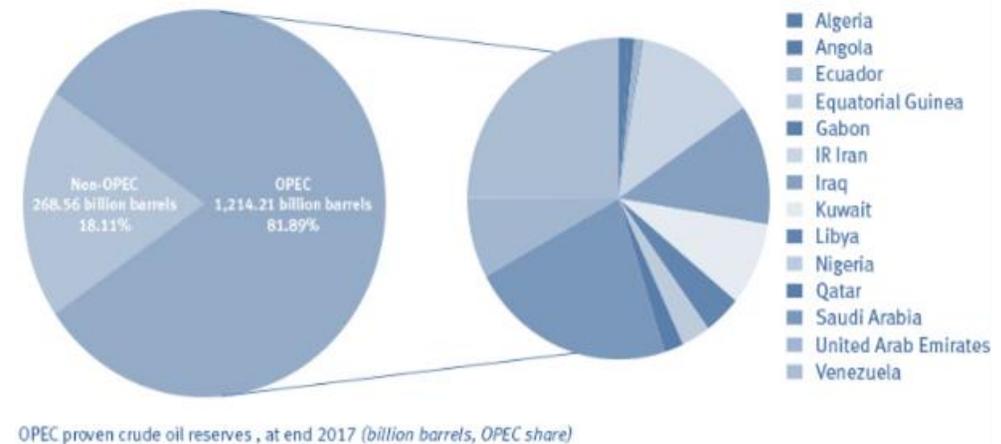
MARKET DEFINITIONS

- 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](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

- As per analysis by IEA, U.S. Could become Single Largest Oil & Gas Producer.³
- US exempts eight countries from imposing crude oil from Iran namely: India, China, Italy, Greece, Japan, South Korea, Taiwan and Turkey.
- As per the data published by research firm Globaldata, "US leads new-build capex outlook globally across oil & gas value chain". Total capital expenditure of \$3.6tn is expected to be spent globally by US across oil and gas value chain on planned and announced projects during 2018 to 2025.⁴
- As per World Energy Outlook published by IEA, Natural gas could overtake crude oil as the second most popular energy source for power generation.
- As per Reuters, U.S. shale firms offer \$100 million to aid Texas, New Mexico⁵
- Drillers in US added 12 oil rigs in November bringing the total rig count to 886. Further, Inventory levels of Crude Oil is getting piled up and witnessed a less draw.
- Based on the statement from India's Foreign Secretary Vijay Gokhal, India is ready to import more crude oil and liquefied natural gas (LNG) from the United States to expand bilateral trade,⁶
- China and Philippines have signed an agreement for exploration of Oil and Gas.⁷
- Based on the news published by S&P Platts, Japan's Inpex-operated Ichthys project is expected to make its first LPG shipment in coming days. This would add to growing LPG supply in Asia following the rush of arrivals from the US since 2014 driven by the shale boom⁸
- China (world's second largest LNG importer) getting prepared for the upcoming winter season by early procurement plans and new gas infrastructure projects.
- Libya has pumped a record oil since June 2013 post operation of Wintershall fields.
- Argentina to commence its first ever LNG exports in next year as it plans to start exporting gas from Vaca Muerta shale play.
- The Trump administration is considering adding Venezuela to its list of countries sponsoring terrorism.
- China passes Japan to become world's largest natural gas importer.⁹

³ <https://www.iea.org/newsroom/news/2018/november/world-energy-outlook-2018-examines-future-patterns-of-global-energy-system-at-a-t.html>

⁴ <https://www.offshore-technology.com/comment/us-leads-new-build-capex-outlook-globally-across-oil-gas-value-chain/>

⁵ <https://www.reuters.com/article/us-usa-shale-consortium-exclusive/exclusive-u-s-shale-firms-offer-100-million-to-aid-texas-new-mexico-idUSKCN1NN0EY?rpc=401&>

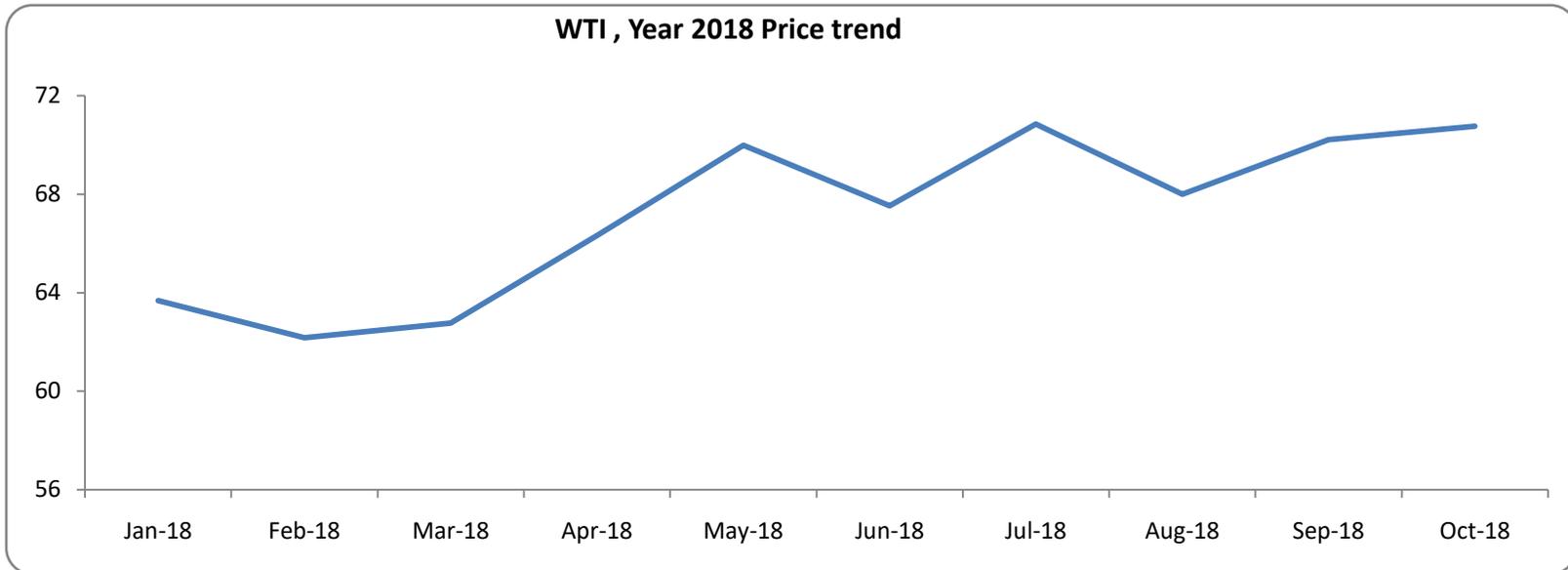
⁶ <https://www.mea.gov.in/media-briefings.htm?dtl/30590/Transcript+of+Media+Briefing+by+Foreign+Secretary+on+Prime+Ministers+meeting+with+Vice+President+of+USA+during+his+visit+to+Singapore>

⁷ <https://www.scmp.com/news/china/diplomacy/article/2174213/china-philippines-sign-oil-and-gas-exploration-deal-xi-jinping>

⁸ <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/11518-inpex-operated-ichthys-project-in-australia-set-for-first-lpg-shipment-sources>

⁹ <https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/110918-analysis-china-passes-japan-to-become-worlds-largest-natural-gas-importer>

- China October crude imports rise to all-time high on record teapot buying¹⁰
- India's IOC getting closer to start production of IMO compliant fuel oil.¹¹
- Russia pumps oil at 30-year high in October as per energy ministry data¹²
- Vietnam's Oil Production To Drop 10% Annually By 2025¹³



Price – WTI/Brent



Geopolitics



Demand



Supply



Dollar



¹⁰ (<https://www.reuters.com/article/china-economy-trade-crude/china-october-crude-imports-rise-to-all-time-high-on-record-teapot-buying-idUSB9N1UG02G?rpc=401&>)

¹¹ (<https://www.spglobal.com/platts/en/market-insights/latest-news/shipping/111918-indias-ioc-inches-closer-to-start-producing-imo-compliant-fuel-oil>)

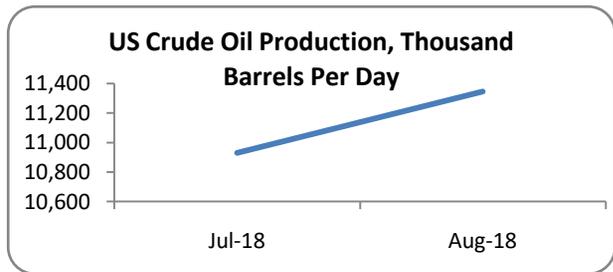
¹² (<https://www.reuters.com/article/russia-oil/update-1-russia-pumps-oil-at-30-year-high-in-october-energy-ministry-data-idUSL8N1XD0QD>)

¹³ (<https://uk.reuters.com/article/vietnam-energy/vietnam-crude-oil-output-to-fall-10-pct-a-year-through-2025-petrovietnam-idUKL3N1X42HG>)

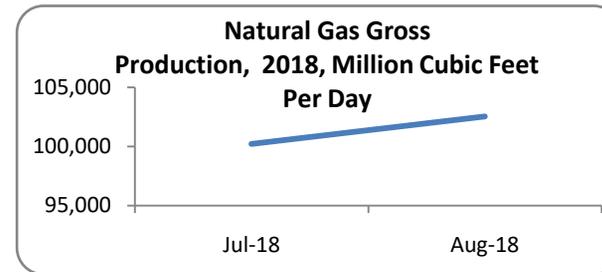
WORLD CRUDE OIL AND NATURAL GAS SUPPLY SNAPSHOT

US Oil & Gas Production

- US crude oil production was recorded at 11,936 thousand barrels per day in Aug 2018, which is 3.8 % higher than July 2018, as per the data published by U.S Energy Information Administration
- US natural gas production saw a rise in month of Aug, 2018 (as per latest data available) and stood at 102,543 million cubic feet per day.



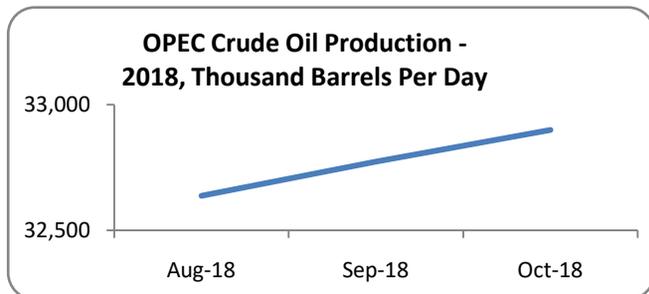
Source: EIA 914 US Energy Information



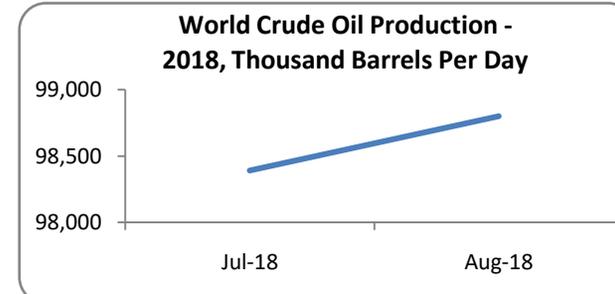
Source: EIA 914 US Energy Information

OPEC Crude Oil Production

- The average total OPEC crude oil production was 32.90 Million barrels per day in Aug, 2018 as per the secondary sources. A drastic rise in production by Saudi Arabia, UAE led to the increased OPEC production. Production saw decrease in Iran, Venezuela, Algeria & Kuwait.



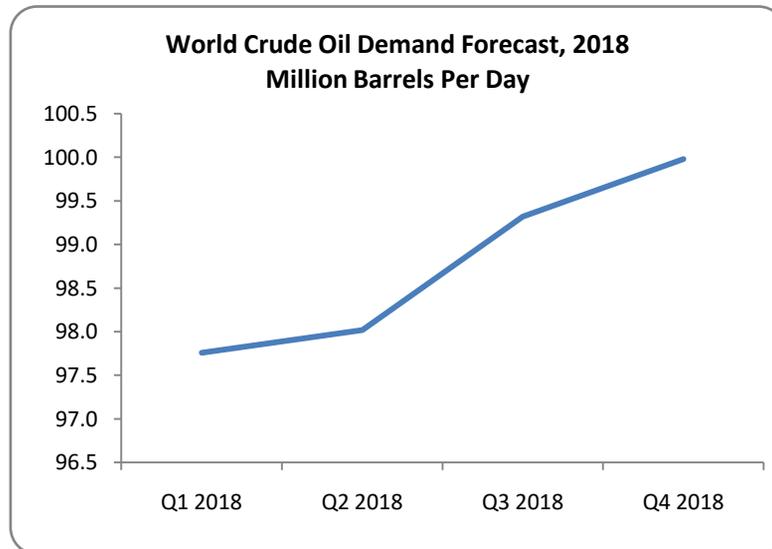
Source: OPEC monthly report – Nov 2018



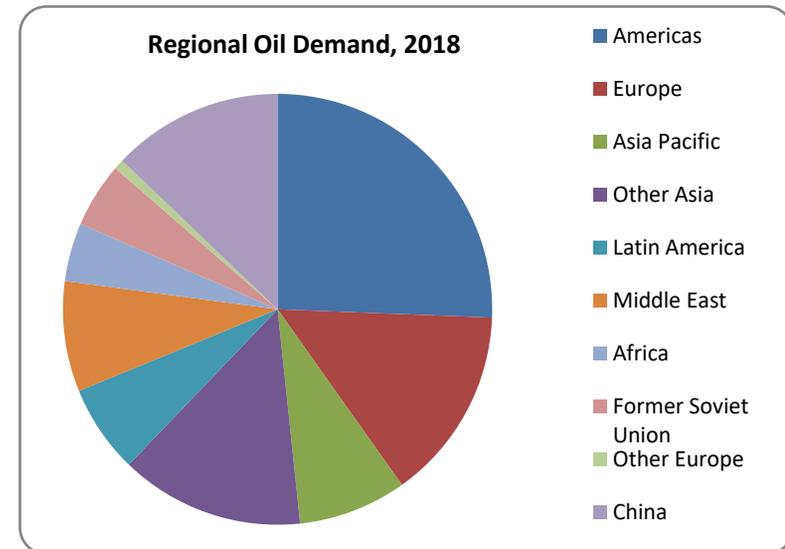
Source: OPEC monthly report – Nov 2018

WORLD CRUDE OIL DEMAND SNAPSHOT

- According to OPEC, World Oil demand for 2018 is forecasted to grow by 1.50 million barrels per day lower than last month projection by OPEC due to weak demand from Middle East and China. Total oil demand is reduced by OPEC as compared to last month and expected to reach at 98.79 million barrels per day
- China-US trade tensions and a weaker demand for emerging countries raised worries over global oil demand. India and China showed a slight downward trend the economic growth.
- Hedge funds and other money managers slashed their combined speculative net length positions related to both Brent and WTI.
- OECD oil demand growth saw an upward trend and its revised higher by 50 tb/d in 2018, due to better performance in OECD America. Robust petrochemical sector and positive development in industrial activities were the key factors supporting the positive trend in the US during 3Q18.
- World oil demand as per OPEC is now projected to average 100.08 mb/d in 2019.



Source: OPEC Oil Report. Nov. 2018



Source: OPEC Oil Report. Nov. 2018

GEOPOLITICAL ISSUES

- **Update on US and China Trade Tensions :**



Although China has not imposed sanction on import of crude oil from US but Chinese buyers are not taking chance and halted purchase of US crude oil. Permian basin oil producers of West Texas and Mexico are feeling the pain from ongoing trade tensions between US and China.

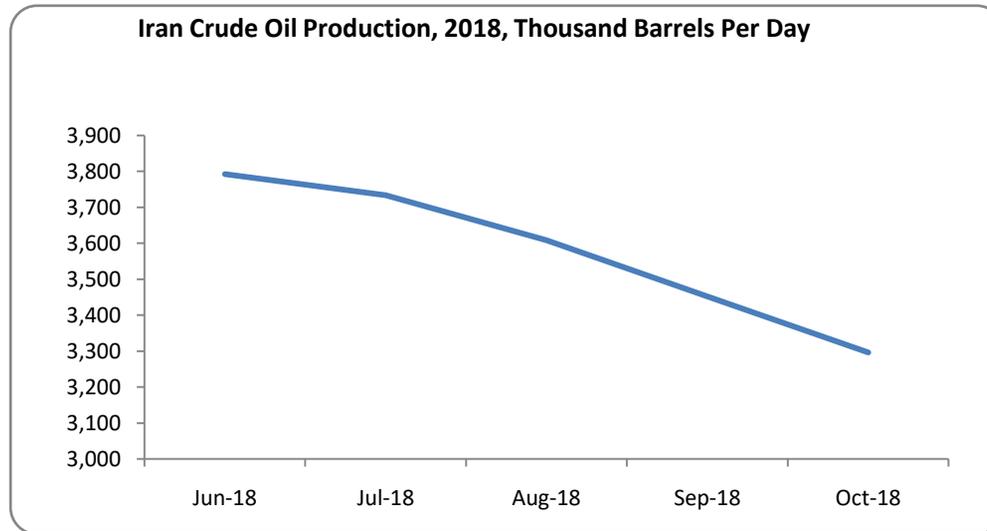
Despite Trump recent assurance to hold a dialogue with China on a possible deal, stock markets continue to show losses.

- **Iran Sanctions and Waivers to eight countries :**



Sanctions on Iran didn't helped prices much in short term as crude oil import waiver was given to eight countries (China, India, Japan, Italy, Greece, Turkey, South Korea, and Taiwan). OPEC and Russia had agreed in June to enhance the Crude Oil production in order to balance the anticipated declines on Iranian sanctions. Decision of US to waive these countries led a bearish sentiment in the market and market anticipated global supply glut. Saudi Arabia and Russia have increased production and US production has also increased to historical rise which has contributing to the supply surplus.

US has officially imposed sanctions on Iran. Despite US sanctions, Iran has not shown any interest in halting the nuclear program. Approximate 3 million workers are not able to find work due to Sanctions. It is speculated that unemployment rate in Iran could increase drastically. Crude Oil production in Iran has seen a drastic reduction as per the OPEC monthly oil report.



- **Russia and OPEC clash over supply cut :**

OPEC has indicated a need for crude oil production cut however Russia wants to stay away from the supply cut and feels the current production is optimum based on the crude oil price. Putin said that crude oil price of \$70/b is suitable for Russia. The difference in opinion for production cut between OPEC and Russia may lead to clash between two countries and further impact crude oil prices. OPEC will be holding meeting in Vienna on December 6 to discuss its regarding next plan of potential supply cuts.

- **Oil Thieves Wreak Havoc On Oil and Gas Industry of Nigeria:**

Crude Oil production in Nigeria saw a decline of 17 thousand barrels per day in October 2018 and 1751 thousand barrels per day due to increased sabotage attacks on oil infrastructure by oil thieves.

- **Venezuela's Oil Production :**

Venezuela's crude production continues to see decline and could soon fall below 1 million barrels per day (bpd), as per the International Energy Agency's Executive Director Fatih Birol. A deep economic and social crisis has seen reduced output as millions flee the South American country.

Venezuela's Central bank is preparing to provide economic data to IMF to avoid possible exclusion from IMF. Venezuela hasn't provided data to IMF since 2016.

- **Libya Sanctions:**

UN has extended Sanctions on Libya until year 2020.

The UN Security Council "condemns attempts to illicitly export petroleum, including crude oil and refined petroleum products, from Libya, including by parallel institutions which are not acting under the authority of the Government of National Accord," it said in a statement.

- **Trump Tweets:**

President Donald Trump is shaking the oil and gas industry with his recent tweets. In a recent tweet, Trump urged Saudi Arabia and OPEC to stay the track and keep the pace of crude oil production as is to keep the oil prices down.

- **New possible payment system by Russia and China**

To stop heavily relying on US dollar, Russia and China are planning to introduce a new payment system to boost their own currencies. Russian Prime Minister Dmitry Medvedev, during his visit to China said the two nations were discussing the launch of a new cross-border system for direct payment of trade invoices in the yuan and the rouble.

"The Chinese should protect their system while Russia should protect its own system," Medvedev said earlier this month, ahead of the 22nd regular meeting of Russian and Chinese heads of government "In this respect, this kind of cooperation is very useful because in this situation no one will be able to block the development of financial traffic," he said, predicting that China-Russia bilateral trade would reach US\$200 billion in 2020, double the US\$100 billion level in 2014.

ECONOMIC FACTOR

- **Snow and Cold in US**

Natural gas prices surged to a more than four-year high as there is panic and volatility after the latest cold weather forecasts raised fears that the U.S. is heading for a potentially colder-than-expected winter with very less gas supply.¹⁴

- **India's Import from US:**

India is looking for a consortium arrangement to get concession from US on import of crude oil.

“There was a lot of discussions on energy. This is a new sector in Indo-US relations. We have begun importing oil and gas from the US worth about \$4 billion this year. We expressed our readiness to import more oil and gas from the US as a way of expanding our trade,” India’s Foreign Secretary Vijay Gokhale said after Prime Minister Narendra Modi and US Vice President Mike Pence met on the sidelines of the East Asia Summit held in Singapore a few days ago

- **US Shale Exports:**

Three years after a ban on crude oil exports was lifted, some U.S. shale producers are doing a new thing that they have not done before - lock in prices for their barrels that will find a home overseas. “Previously, all of our sales would be really tied to domestic indices,” said Todd Scruggs, vice president and treasurer of WPX Energy. “The fact that we can have our barrels sold internationally is a new thing - and we’re happy to take advantage of that.”

¹⁴ <https://www.cnbc.com/2018/11/14/natural-gas-prices-surge-jumping-as-much-20-percent-in-wild-trading.html>

PRICE DRIVERS AND RESTRAINTS



Geopolitics: Geopolitical tensions pressured the crude oil prices upward primarily driven by global oil supply concerns and low US Oil inventories mainly in Oklahoma and Cushing.



Dollar Value: Strengthening Dollar created a negative impact on emerging markets like India.



Supply: Global Oil Supply saw an increase in the month of October by 0.44mb/d and stood at an average of 99.76mb/d.



Demand: Global demand shows a weakening trend and demand was weakened mainly in Middle East and China. Demand for India was also revised downward due to slight slow growth.



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



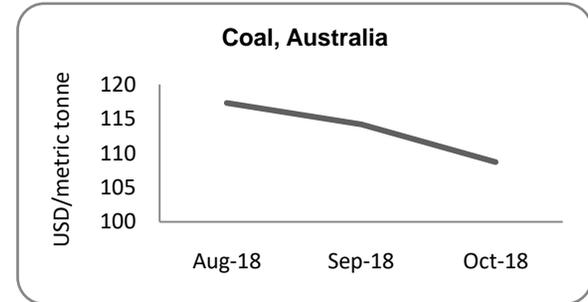
Refiners: Refinery margin in US saw a rise supported by draw from jet fuel inventory and high demand. US WTI margin was \$16.15 /b in October which is high by \$1.02 month on month

COMMODITY PRICE TRENDS



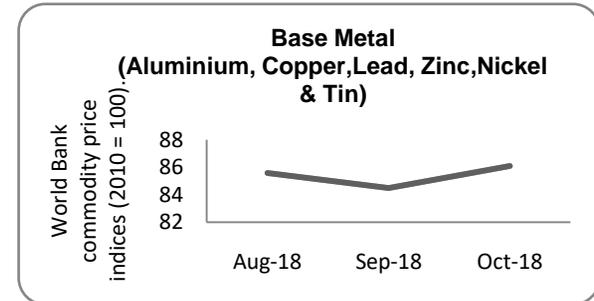
Coal

Average Thermal Coal Prices decreased to \$108.7/mt in October which is lowest since May 2018. Low demand was due to heat wave in Asia and Import restrictions imposed by China.



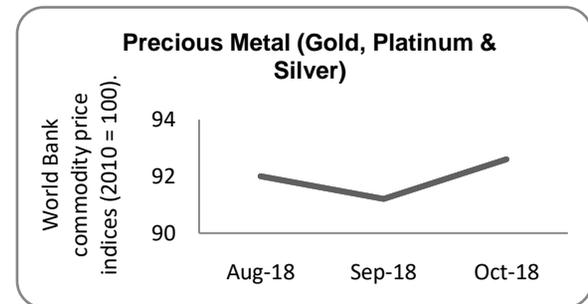
Based Metal

Average base metal prices saw a mixed response. Some metals are getting support in price s since Sep 2018 due to tight inventories and a possible deal between US and China. Slowdown in China’s manufacturing was still a concern.



Precious Metal

Average Precious metal prices saw a good recovery from previous months losses. Gold prices revised by 1.4%, and silver prices saw an increase by 2.3%.



Source: World Bank, Commodity price data.