

# Oil Market Report

**Latest Update**

**OMR 14 Nov 2013**



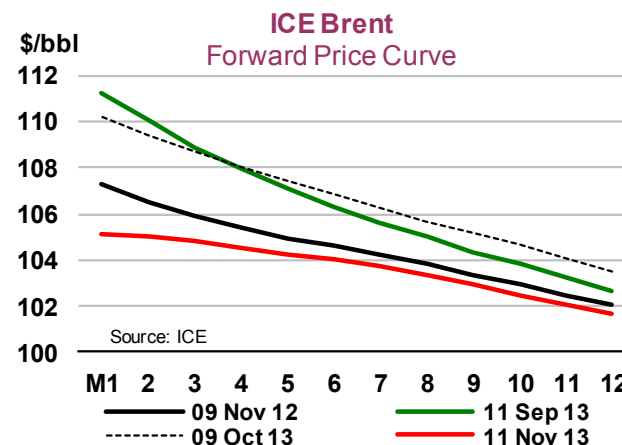
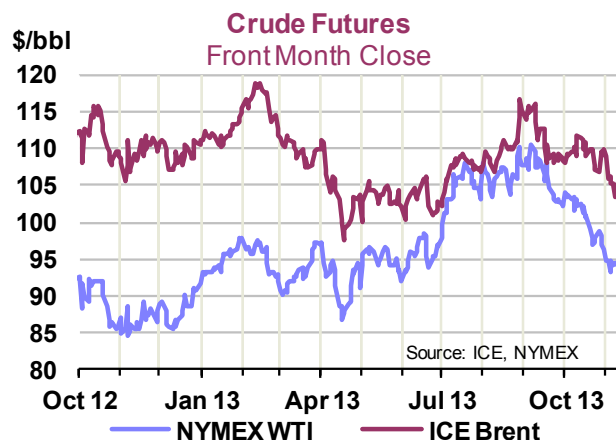
**International  
Energy Agency**



# Prices

# Oil Prices Hit Four Month Lows

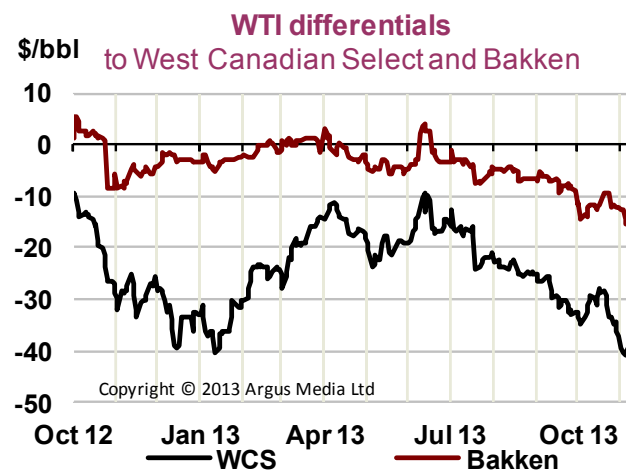
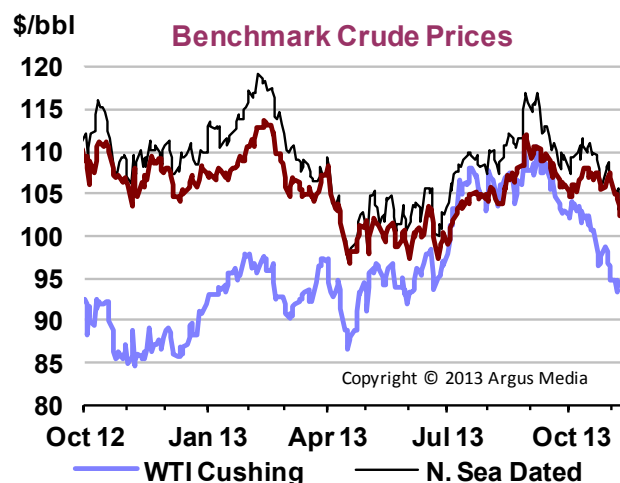
*WTI Downturn Far Outpaced Brent Losses*



- **Futures prices trended lower in October and early November**, with benchmark crudes hovering near four-month lows
- **Markets appeared well supplied in October**, with refinery runs at seasonal lows amid extensive plant maintenance
  - WTI down over \$15/bbl in Oct and early Nov, due in part to high stocks
  - Brent off \$3/bbl, supported by loss of Libya barrels in Europe
- **Winter heating season** in Northern Hemisphere & turmoil in Libya and Iraq may support prices in the near term

# Diverging Market Dynamics

## *On Either Side of the Atlantic Basin*



- **WTI prices under pressure from rising stocks, rising LTO supplies** -- knock-on effect on all US & Canadian crudes
- **Differentials to benchmark WTI especially hard hit**, especially inland crudes and imports from Canadian
  - **Western Canada Select (WCS) discount to WTI deepened** by around \$7.80/bbl to a near \$40/bbl in early November compared with \$32/bbl in October and around \$29/bbl in September





# Demand

# Modest Acceleration in Global Oil Demand Growth Forecast for 2014

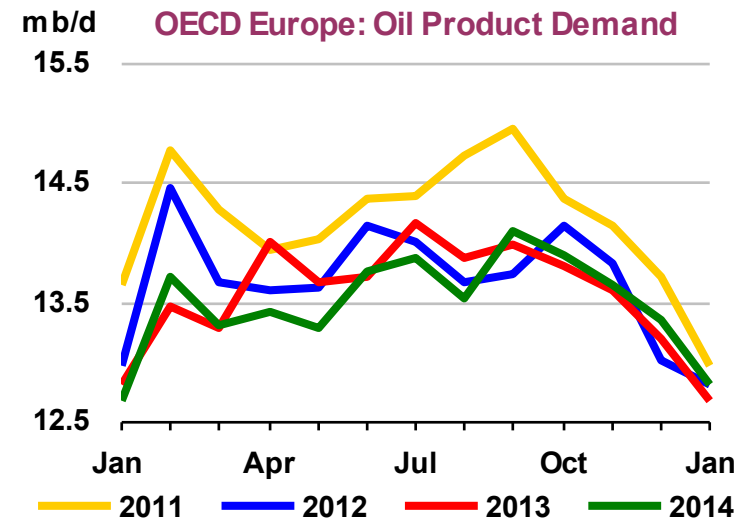
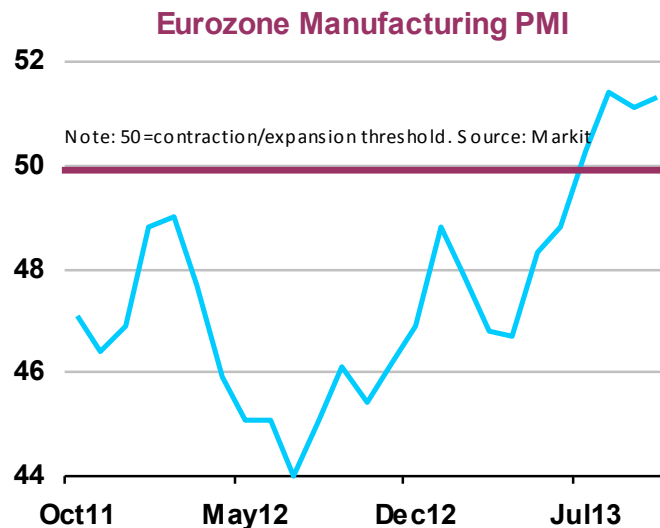
## Global Oil Demand (2012-2014)

(million barrels per day)

	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014
Africa	3.6	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.8	3.8	3.9	4.0	4.0	4.1	4.0
Americas	29.5	30.0	30.3	30.3	30.0	30.1	30.3	30.6	30.3	30.3	30.1	30.5	30.7	30.5	30.5
Asia/Pacific	29.9	29.1	29.2	30.6	29.7	30.6	29.6	29.5	30.8	30.1	31.0	30.1	30.2	31.4	30.7
Europe	14.3	14.5	14.5	14.4	14.4	13.8	14.5	14.7	14.3	14.3	13.9	14.2	14.5	14.3	14.2
FSU	4.3	4.4	4.6	4.6	4.5	4.3	4.5	4.8	4.7	4.6	4.4	4.6	4.9	4.9	4.7
Middle East	7.3	7.8	8.2	7.5	7.7	7.5	7.9	8.4	7.8	7.9	7.7	8.1	8.6	8.0	8.1
<b>World</b>	<b>89.0</b>	<b>89.4</b>	<b>90.4</b>	<b>91.1</b>	<b>90.0</b>	<b>90.1</b>	<b>90.6</b>	<b>91.8</b>	<b>91.7</b>	<b>91.0</b>	<b>91.0</b>	<b>91.5</b>	<b>92.8</b>	<b>93.1</b>	<b>92.1</b>
Annual Chg (%)	0.7	1.8	0.6	1.5	1.2	1.2	1.3	1.5	0.6	1.2	1.1	1.0	1.1	1.6	1.2
Annual Chg (mb/d)	0.6	1.6	0.6	1.3	1.0	1.0	1.2	1.4	0.6	1.0	0.9	0.9	1.0	1.5	1.1
Changes from last OMR (mb/d)	-0.01	0.00	0.00	0.01	0.00	0.06	0.04	0.13	-0.04	0.05	-0.06	0.06	0.02	0.04	0.02

- **Global oil demand growth is forecast to accelerate modestly in 2014**, to 1.1 mb/d, after rising by around 1.0 mb/d in 2013
  - Supported by widely anticipated macroeconomic strengthening, although less so than forecast last month as *IMF* curbs GDP numbers
- **Base data raised** on higher August/September numbers
  - 3Q13 demand estimate raised by 135 kb/d, to 91.8 mb/d
    - Stronger European demand, up 1.4% y-o-y, its highest growth rate since the previous post-recessionary bounce of 2010
  - Which raised the total 2013 estimate 45 kb/d, to 91.0 mb/d
- **Lower IMF GDP projections** – although still showing a global acceleration in 2014 – curbed the demand growth forecasts for 4Q13 and 2014

## Europe Bounce Supports Short-Term Demand



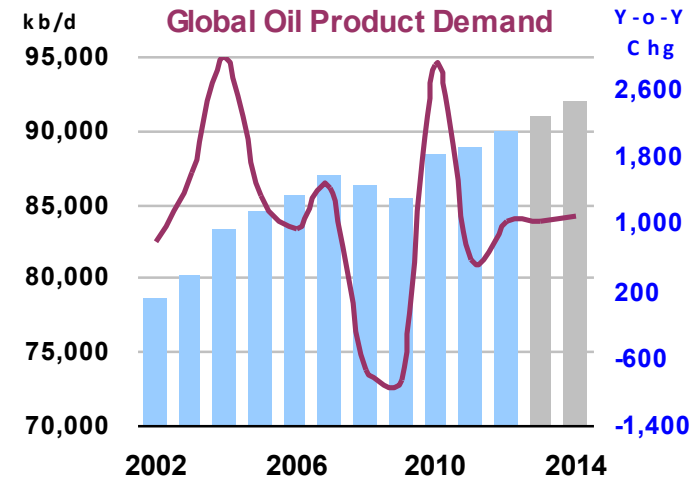
- **The pace of the European demand decline** has eased in recent months, from string of steep drops in recent years
  - +1.4% y-o-y 3Q13, +0.1% 2Q13
  - -2.4% 5-year average, 2008-2012
  - Economic outlook has improved
- **European demand still seen in structural decline** -- post-recessionary bounce likely brief
  - -0.7% 2014, after -0.8% in 2013 (-3.8% 2012)

# IMF GDP Downgrades Trim The Strength of 2014 Growth Forecast

## Economic Outlook, 2014 IMF projections

% change	Oct-13	Jul-13
<b>WORLD</b>	<b>3.6</b>	<b>3.8</b>
US	2.6	2.7
Germany	1.4	1.3
France	1.0	0.8
Italy	0.7	0.7
Spain	0.2	-
UK	1.9	1.5
Canada	2.2	2.2
Japan	1.2	1.2
China	7.3	7.7
India	5.1	6.3
Brazil	2.5	3.2
Russia	3.0	3.3

Source: IMF



- **IMF revisions to 2013-2014 forecast outweighs stronger-than-expected 3Q13**
  - October's *World Economic Outlook* trims 2013 global GDP outlook to 2.9%, from 3.2% (July)
  - Global economic growth forecast to accelerate in 2014, to 3.6%, vs 3.8% in previous forecast
  - North America, non-OECD Asia, Latin America & FSU take brunt of the downgrade
- **Lower global GDP numbers trimmed the potential upside in the 2014 demand forecast**

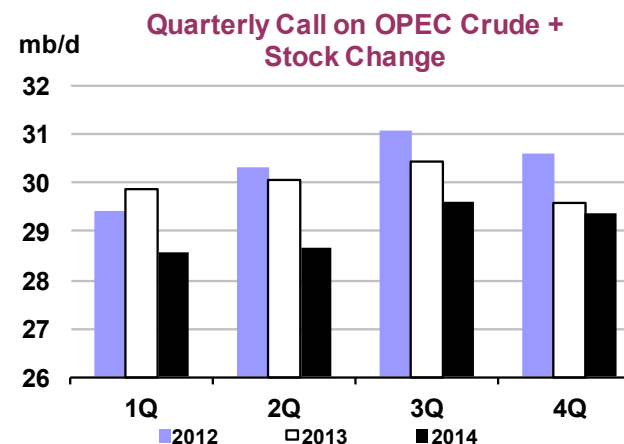
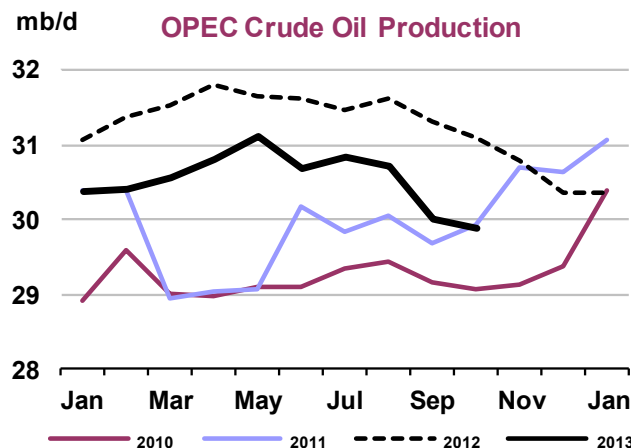




# Supply

# OPEC Output Lower in October

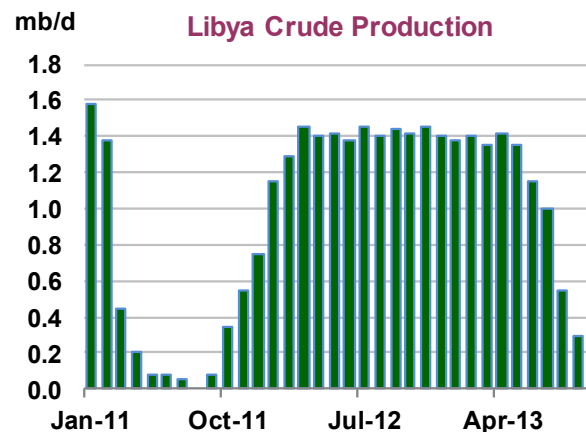
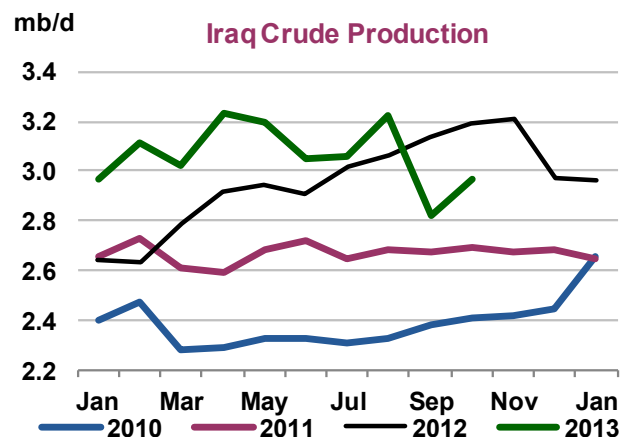
## *Saudi Output Cut Leads Downturn*



- **OPEC crude oil supply down for 3<sup>rd</sup> month running in October**, by 105 kb/d to 29.89 mb/d – driven by Saudi cutback
  - **OPEC output below 30 mb/d ceiling for the 2<sup>nd</sup> consecutive month** – Saudi production down 370 kb/d to 9.75 mb/d
- **OPEC ministers meet 4 December in Vienna to discuss the market outlook** – non-OPEC growth widely seen to constrain demand for OPEC crude
- **'Call on OPEC crude and stock change' was unchanged** for 4Q13 and full-year 2013, at 29.6 mb/d and 30 mb/d, respectively

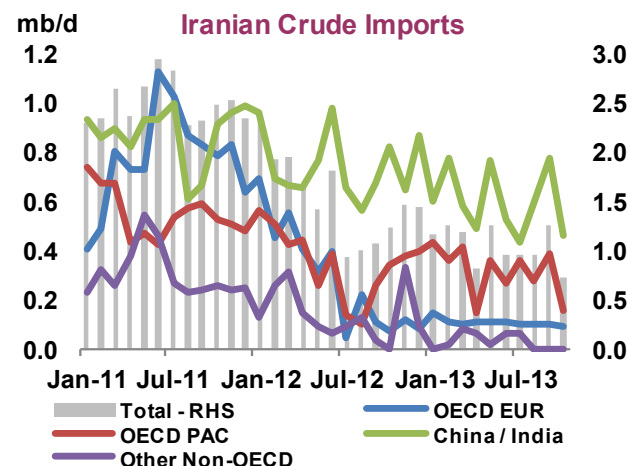
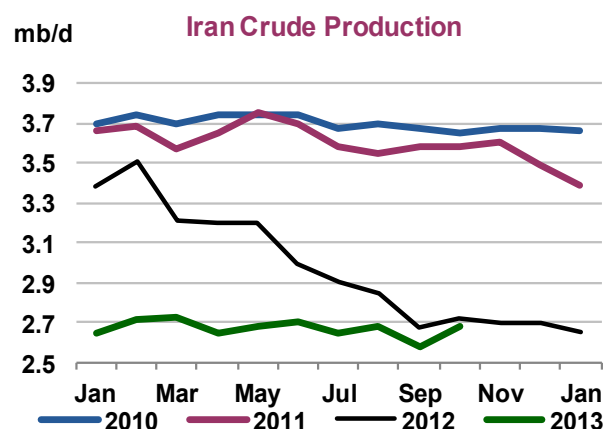
# Iraq & Libya Recover but Problems Remain

*Civil Unrest and Security Issues Worsen*



# Iran Discounts Oil Sales

## *Amid Bid for Sanctions Relief*

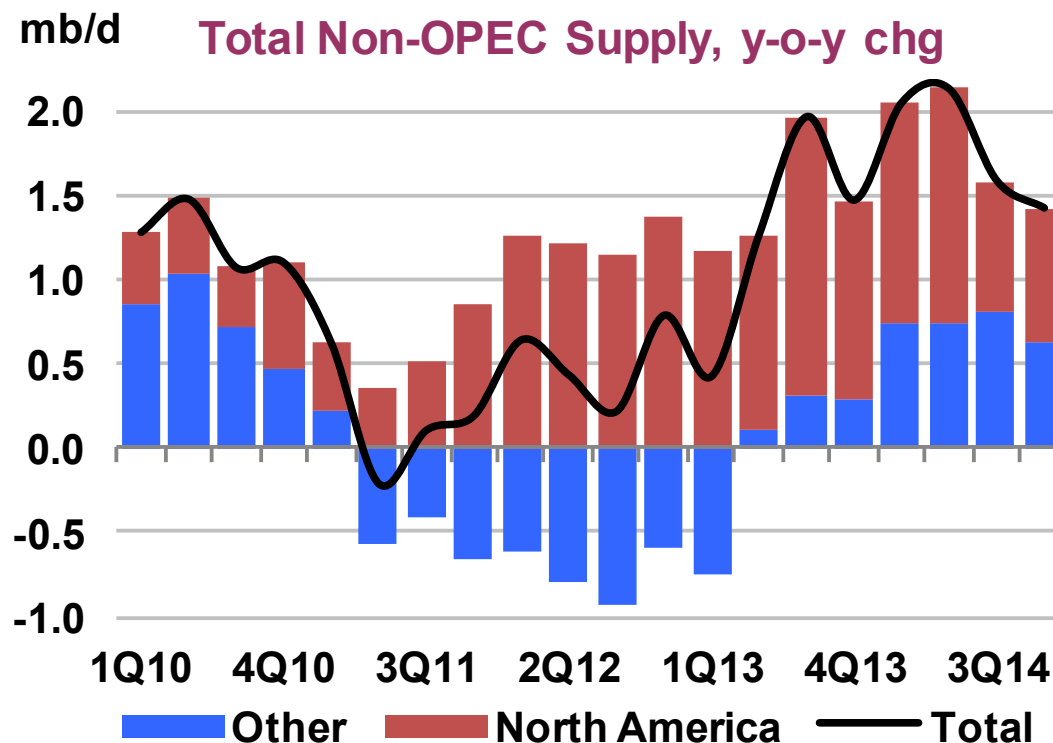


- **First steps toward interim agreement to freeze Iran's nuclear programme stumbled in Geneva on 9 November**
  - Status of talks fluid and unpredictable
- **Iran's crude supply up 100 kb/d to 2.68 mb/d in October** but signs emerging that National Iranian Oil Company (NIOC) is having an increasingly hard time placing barrels against the backdrop of sanctions
  - **Preliminary data show total crude imports from Iran declined by a steep 45% in October**, falling to the lowest level since January 2012, when the stricter sanctions regime was first implemented



## Non-OPEC Supply Jumps 740 kb/d in October, 3Q13 Non-OPEC Supply Up 1.97 mb/d y-o-y

- 4Q13 expected to be up 675 kb/d q-o-q

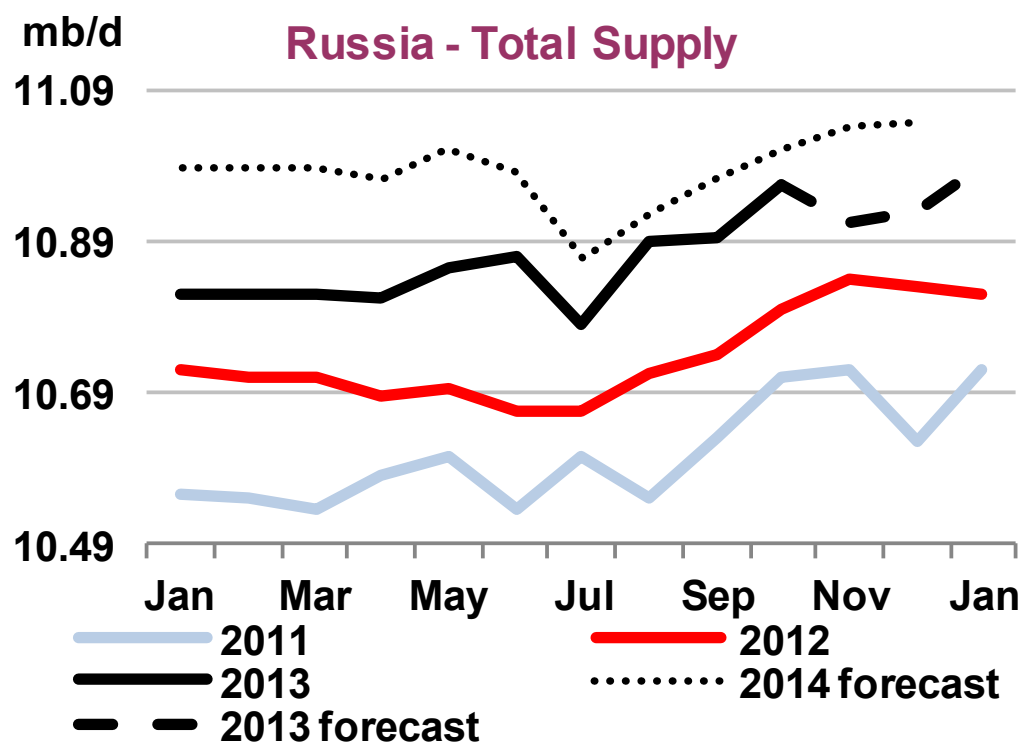


- **Non-OPEC supply ex-N. America** seen flat in 4Q13, then up steeply y-o-y in 1Q14
- **Forecast for 2014 up to 1.8 mb/d** as further US, Russian growth offsets slight downward revisions elsewhere

## Russia Is a Mainstay of Non-OPEC Growth

*Although Increases Small in Percentage Terms*

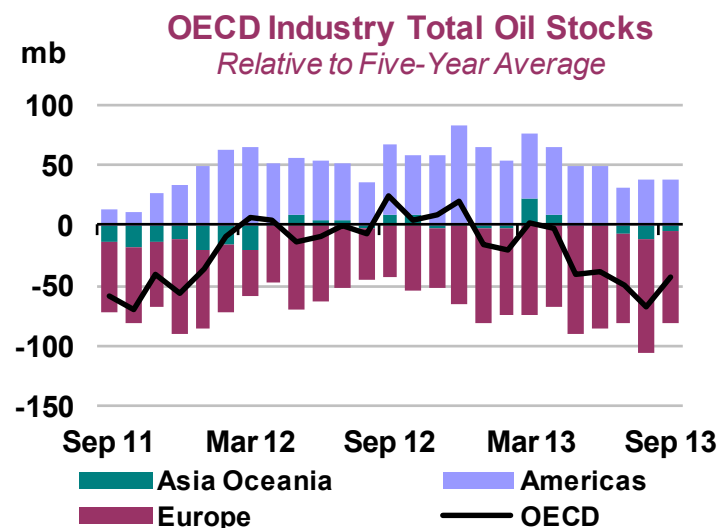
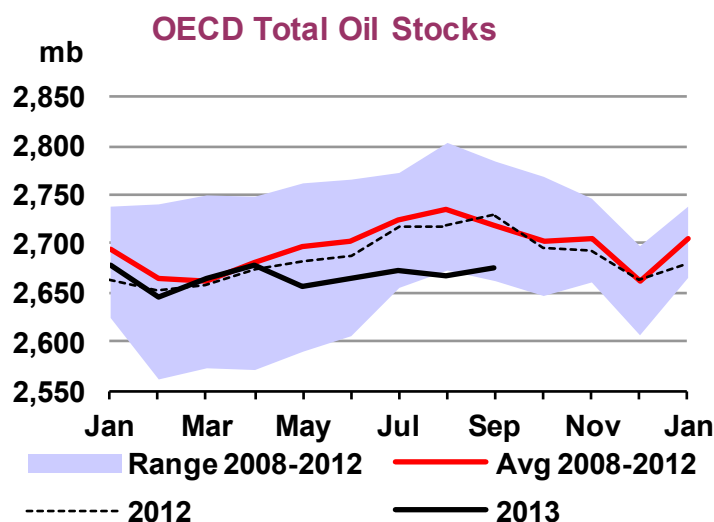
- **Y-o-y production growth 80 kb/d in 2013; 40 kb/d in 2014**
- **Most large Russian companies** continue to make sufficient investment to slow natural declines at mature fields in West Siberia and bring on greenfield production, particularly in East Siberia





# OECD stocks

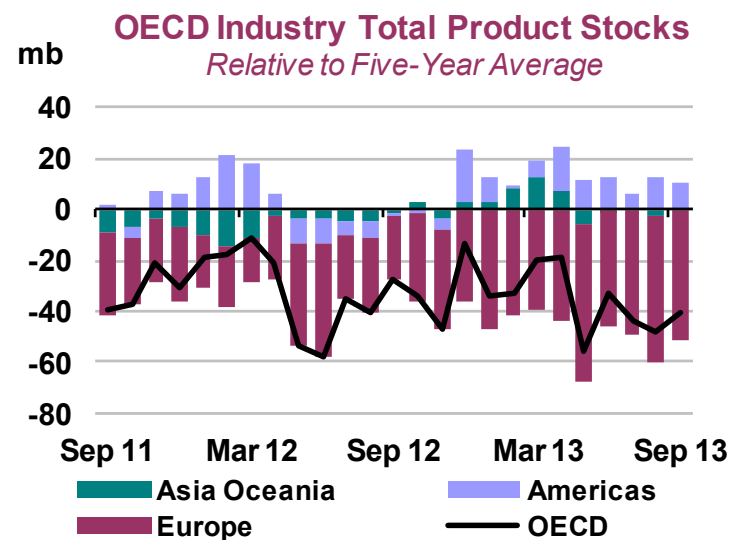
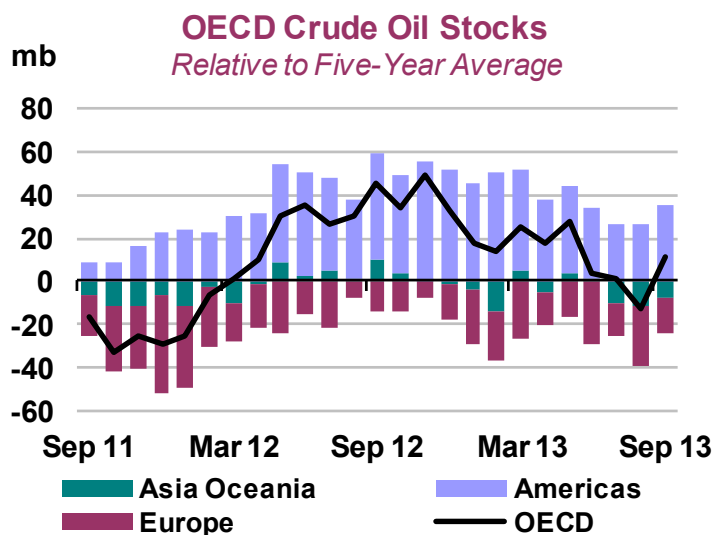
## OECD Stock Deficit vs 5-yr Average Narrowed in September



- **OECD commercial oil stocks built counter-seasonally by 8.6 mb to 2 676 mb at end-Sep**
  - Stock deficit to 5-year average narrowed to 42.9 mb, from 67 mb at end-August.
  - Inventories remain 53 mb below a year ago
- **Crude oil surged counter-seasonally by 18.2 mb** as refining throughputs plunged on seasonal maintenance and poor margins
- **Refined products cover 30.8 days** of forward demand
- **3Q13 inventories built** by 12.5 mb or 140 kb/d

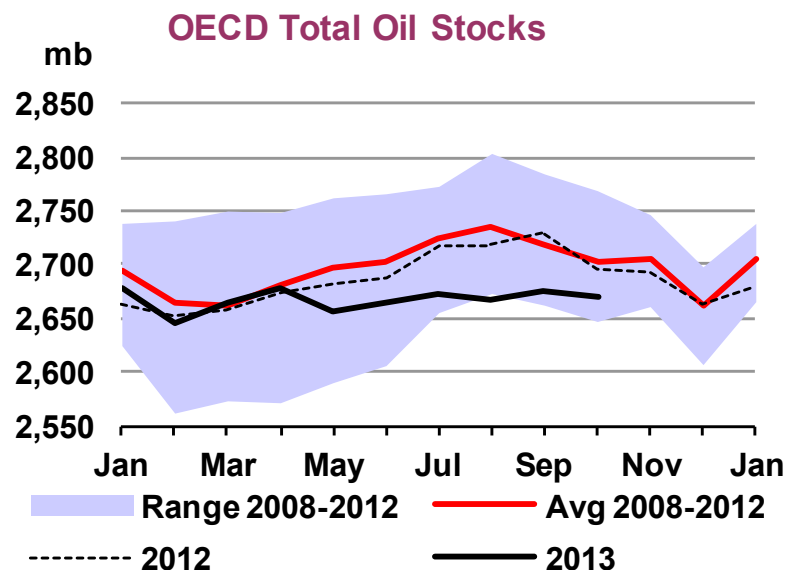


# OECD Lag to 5-Yr Average Concentrated in Refined Products



- **Products at 40.9 mb deficit to 5-yr average, led by Europe**
  - OECD Europe 51 mb in deficit
- **Crude oil at 11 mb surplus, led by Americas**
  - OECD Americas 35 mb in surplus as domestic crude production soars
- **NGLs and refinery feedstocks 13 mb in deficit**

## Unusually Weak October Draw Based on Preliminary Data



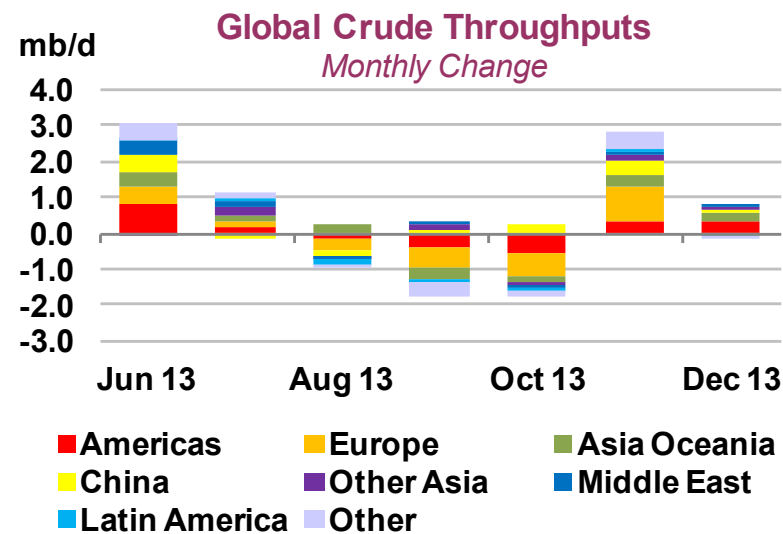
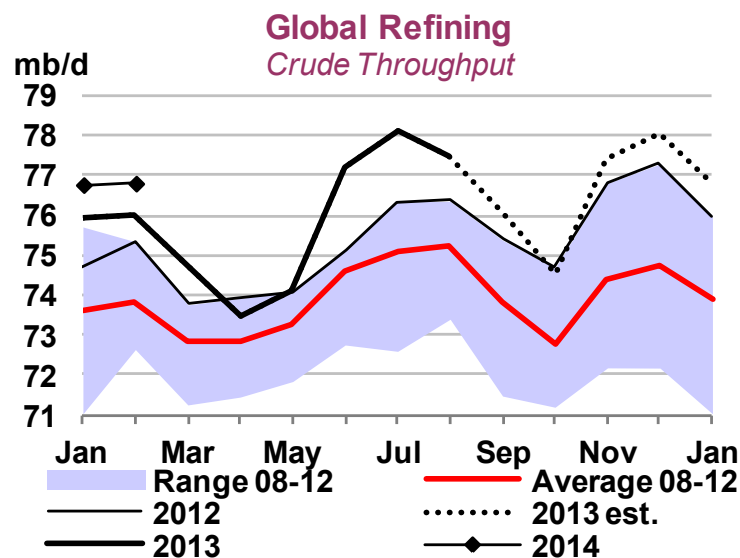
- **October OECD inventories slipped by 7.6 mb**
  - weaker than the 16.0 mb seasonal draw
- **Crude stocks soared by a further 25.6 mb** on weak OECD refining activity
- **Refined products drew by steep 35.8 mb**
- **Deficit to 5-yr average narrowed further to 34.5 mb**



# Refining

# Global Refinery Runs Plummet in October

*Throughputs down 3.6 mb/d since July peak*

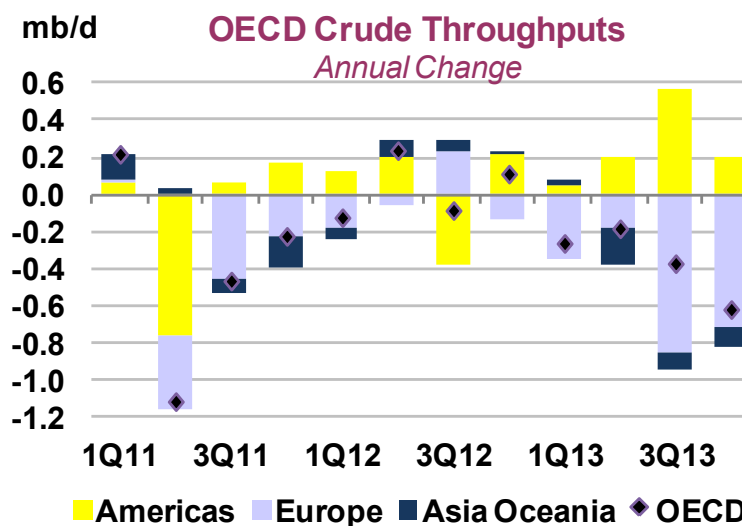
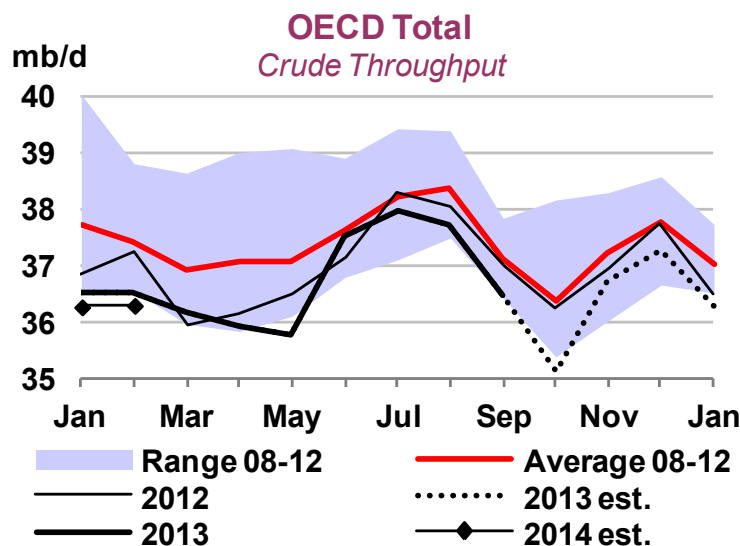


- **Global refinery crude throughputs plunge** by 1.4 mb/d in September and 1.5 mb/d and October
- **Year-on-year gains**, of an average 1.6 mb/d seen in June-August period, **eroded by October**
- **Collapse in refinery margins** amplify seasonal maintenance curbs
- **4Q13 global crude runs revised down by 550 kb/d** since last month's Report, to 76.7 mb/d, falling from 77.2 mb/d in 3Q13.
- Annual growth slows from 1.2 mb/d in 3Q13 to 0.4 mb/d in 4Q13



# OECD Refiners Drive Runs Lower

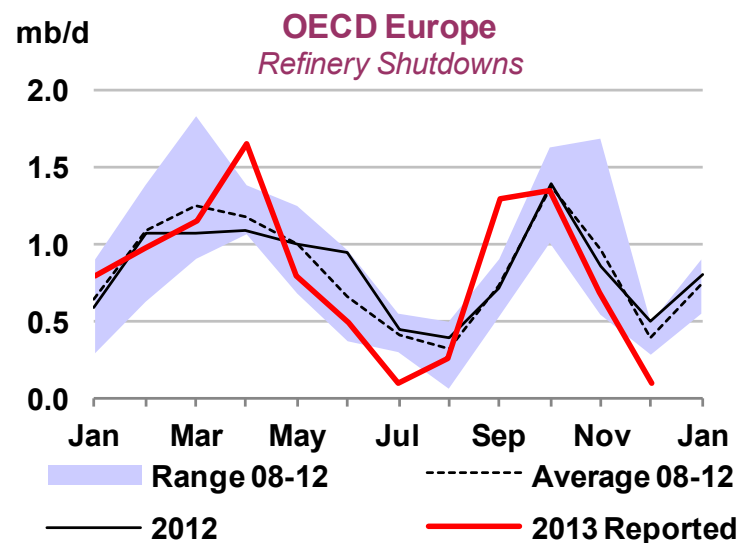
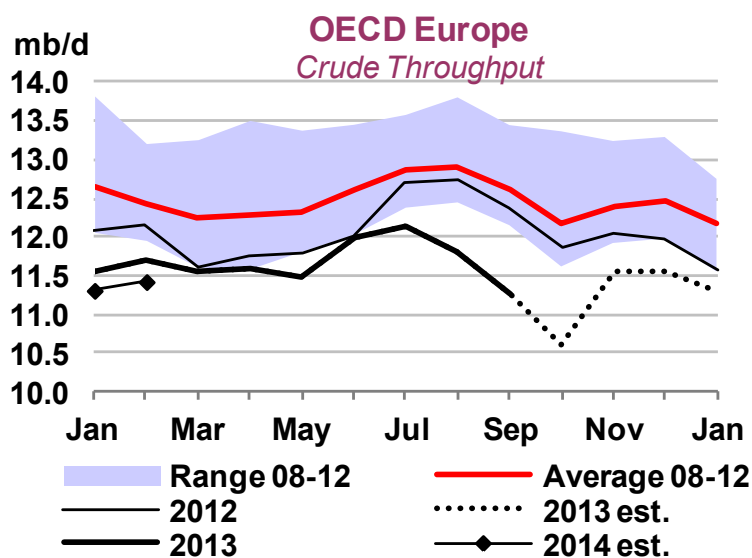
## European Crude Intake Plunge to Lowest in 22 Years



- **OECD crude runs plunged 2.6 mb/d** over September and October, steeper than the normal seasonal downturn
- **All OECD regions were lower**, on heavy maintenance and as margins plunged
- **Total OECD runs below year-earlier levels**, despite robust US throughputs
- European refiners continue to struggle

# European Fall Steeper than Offline Capacity

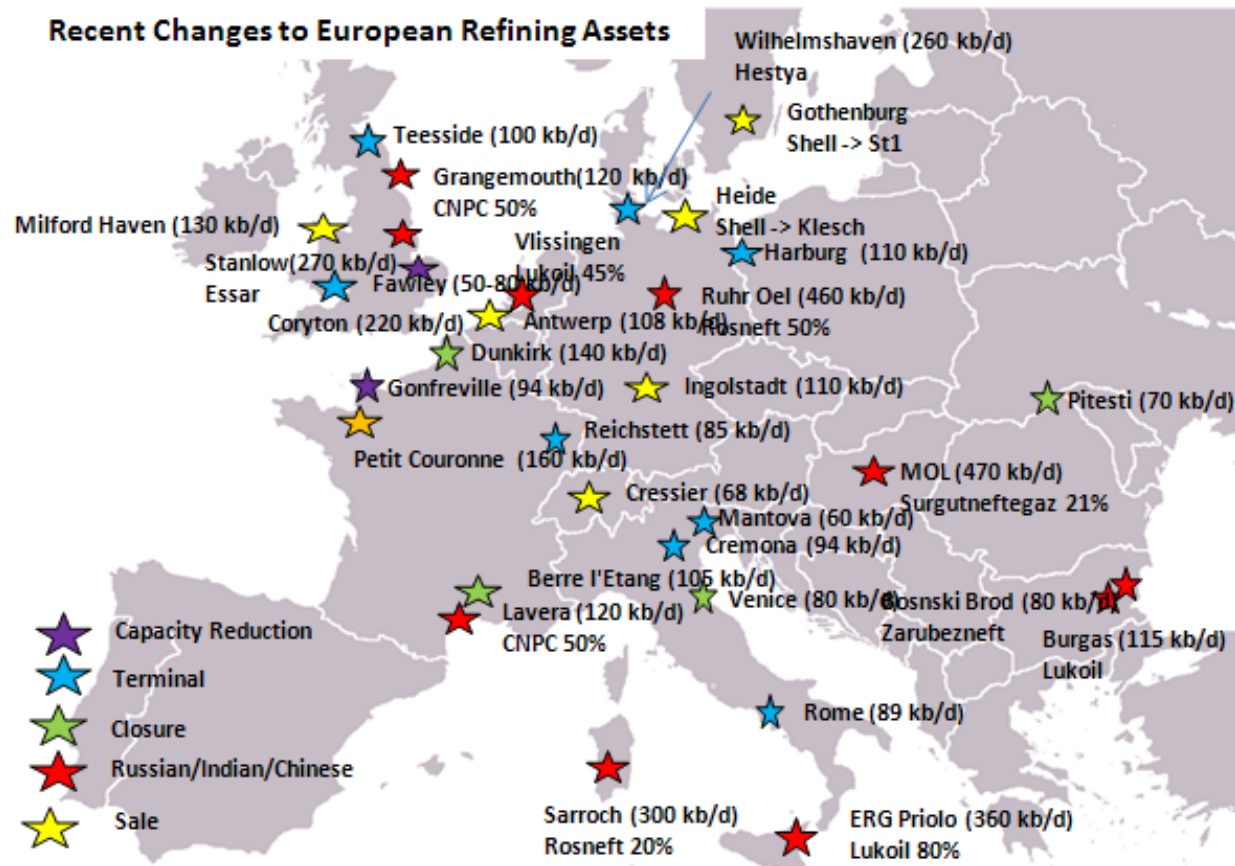
*Weak margins exacerbate drop*



- **Rates lowest since 1991 in September and 1989 in October?**
- Drop in runs exceed planned and unplanned refinery outages
- Surplus capacity exist despite significant refinery closures to date

# Surplus Capacity Exist Despite Closures

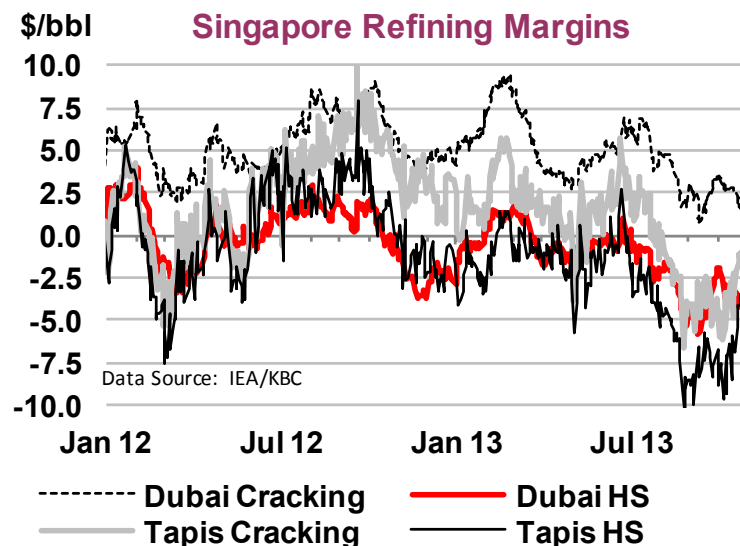
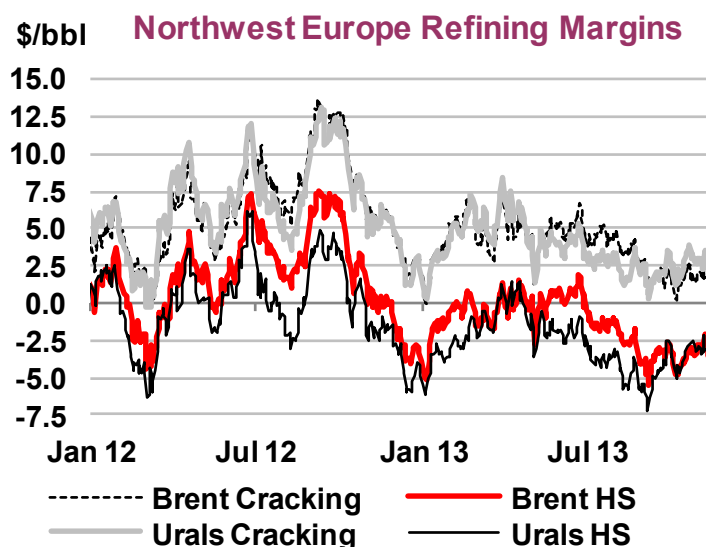
*MOL's Mantova Refinery in Italy, 17<sup>th</sup> to shut*



- **1.3 mb/d of capacity already shed**, 500 kb/d in 2011 and 500 kb/d in 2012
- **350 kb/d shut this year, for a total of 1.7 mb/d**
- In addition, lot of ownership changes, with Russian, Chinese, Indian players entering the market, as well as trading companies (Vitol, Gunvor)

# Dismal Refining Margins Lead to Cuts

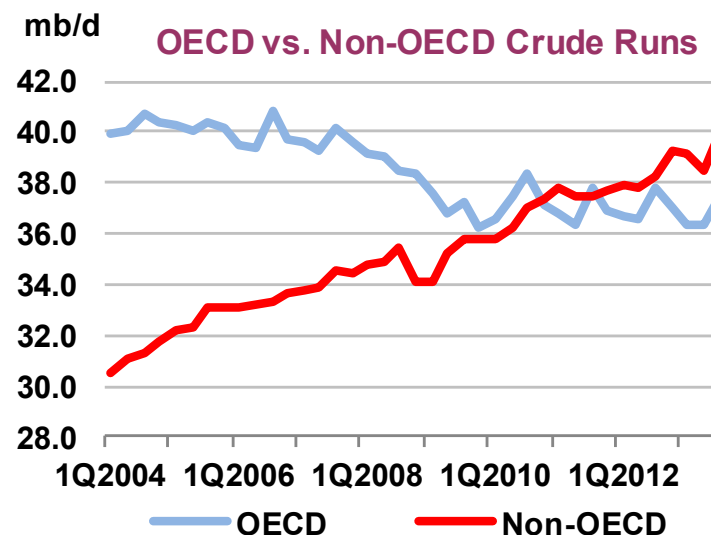
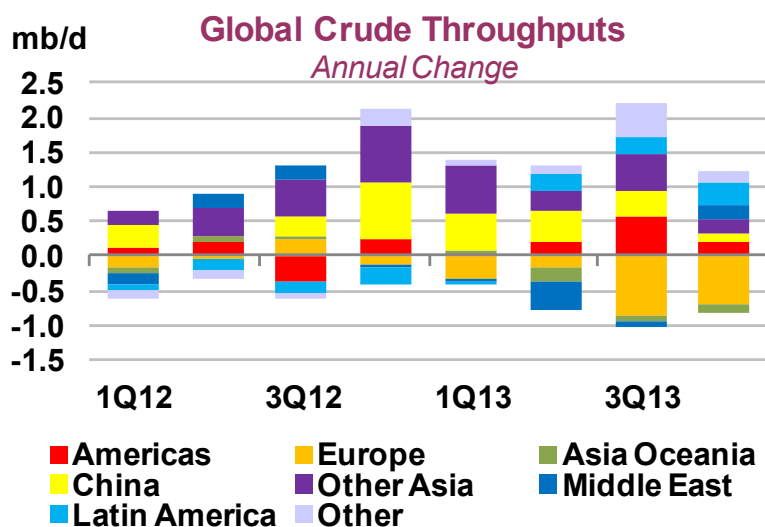
*But improve in October as lower runs bite*



- **Surplus refining capacity causes margins to fall** – even in the peak maintenance season
- As refiners cut runs, and crude prices come off summer peaks, margins improve
- Simple margins remain negative and complex margins low
- September European margins \$9.95/bbl than year earlier on average. October \$5.85/bbl lower than same month in 2012
- Singapore margins no better, with simple margins firmly negative



## Non-OECD Continues to Drive Growth



- **Non-OECD refinery runs up 1.6 mb/d y-o-y in 3Q13, and 1.0 mb/d in 4Q13**
- Non-OECD Asia is largest contributor to growth, led by China
- Russia, Brazil also at record levels through summer
- Middle East sees the start-up of 400 kb/d Jubail refinery in Saudi Arabia in September
- China, India to add new capacity by year-end