
Worries about excess supplies and lower demand outlook to keep oil prices lower

WORRIES ABOUT EXCESS SUPPLIES AND LOWER DEMAND OUTLOOK TO KEEP OIL PRICES LOWER

- Crude oil bounced on a smaller build relative to American Petroleum Institute (API) and rising tensions in the Middle East after Yemen's Houthi rebels said Wednesday that they had intercepted a Saudi F-15 warplane. Crude oil rallied more than 3% following this news. But sentiments are still weak and crude oil prices are moreover clammed from geopolitical issues. Oil prices to remain under pressure from the increasing supply in the US and weakening demand outlook from the US-China trade war. The US-China trade dispute continued to cast a shadow on the global economy and affecting oil demand.

US oil production; inventory and rig count

- The US is now top oil producer leaving behind Saudi Arabia and Russia. Crude oil production in the US rose to an all-time high in October, peaking at 12.6 million barrels per day last month and continuing to grow to 12.8 million barrels per day as of November 8.
- Oil production is increasing consistently throughout 2019, up from January's peak of 11.9 million barrels per day, crossing the 12 million barrel-per-day threshold in March. By the end of August, production was about 12.5 million barrels per day but dipped slightly to 12.4 million by the end of September.
- According to official data released by Energy Information Administration (EIA), Crude inventories in the United States increased by 1.4 million barrels against market expectation of 1.6 million barrels for the week ending November 15. The EIA crude supply numbers are basically in line with expectation, but not as high as the large build reported by the API on Tuesday.
- US oil production and inventory are increasing despite a significant drop in US oil rig. Count of active oil rigs have dropped by 100 in 3 Months and a drop of 214 rigs year on year. The total number of active oil rigs in the United States now stands at 674, according to the survey report by Baker Hughes.
- Rising crude oil production in the US and lower demand is leading to build in crude oil inventory and preventing oil prices from rallying beyond a point.

Money manager position in Crude oil

- Money managers increased their net long US crude futures and options positions in the week to November 12. According to the CFTC Commitments of Traders report net long for crude oil futures gained +18,457 contracts to 4, 24,597. Speculative long positions declined -25,944 contracts while shorts slumped -44, 401 contracts. CFTC data are indicating an indecisive trend in crude oil as both net long and net short positions were reduced.

Saudi oil production and Exports

- Saudi Arabia's crude oil exports dipped to a 22-month low of 6.67 million BPD in September after the attack on Aramco on September 14. This attack knocked 5 per cent of global daily supply offline for weeks.
- According to Joint Organizations Data Initiative (JODI) database, Saudi crude oil exports in September declined by 211,000 BPD from August, and OPEC's total production slumped by 1.318 million BPD from August to 28.491 million BPD in September. In October, Saudi Arabia's output recovered and jumped by nearly 1 million BPD in October compared to September. Now, Saudis restored production to pre-attack levels, but they have been cutting total exports to below the 7-million-BPD mark for several months to balance the oil market.

Iran oil discovery

- Iran has discovered a new oil field in the country's south with over 50 billion barrels of crude. The new oil field could become Iran's second-largest field after one containing 65 billion barrels in Ahvaz. According to 2018 OPEC estimates, approved oil reserves in Iran were at 155.60 billion barrels. Iran's oil discovery will lead to a significant amount of oil availability at low cost without political challenges if US sanctions are removed.
- The latest OPEC monthly report published November 14 says that Iran's oil production fell in the first ten months of 2019. Iran's oil production in October decreased by 18,000 barrels, reaching 2,146,000 barrels per day. Iran was producing 3.8 million BPD before the United States imposed sanctions in November 2018.

World Oil demand

- In the latest report for November, OPEC has downgraded global oil demand growth for the medium term and long term and blaming it on slower global growth. OPEC has lowered its outlook numbers for global oil demand growth, to 104.8 million barrels per day (b/d) by 2024, and 110.6 million b/d by 2040. In another report from the International Energy Agency (IEA), Global oil demand will be almost 400,000 bbl lower in 2020 if the current tariffs on trade between the US and China remain in place. The IEA also cut global oil demand by 100,000 to 1 million barrels per day on average by 2025. Increasing fuel-efficiency and the use of electric vehicles could reduce dependency on fossil fuel more significantly post 2025.

OPEC meeting next month

- OPEC, Russia and other producers have since Jan'19 implemented a deal to cut oil output by 1.2 million BPD to support the market. Brent has rallied about 15% this year, supported by this pact. OPEC and Russia are meeting again in Vienna on December 5-6 to talk about extending the supply cuts. We believe that Russia is unlikely to agree to deepen cuts in oil output; however, it could commit to extending existing curbs to support Saudi Arabia.

Geopolitical issue

- Oil found some support from rising tensions in the Middle East, since one-fifth of the world's oil flows through the Strait of Hormuz. Also protesters in Iraq have blocked a commodities port. We can see calmness in oil despite challenges in critical oil-producing nations such as US sanctions on Iran and Venezuela, attack on an oil facility in Saudi Arabia, and unrest in Iraq. We see it as an indication of a disconnect between the price and geopolitics. The key reason behind is the availability of American shale oil.

Outlook

- Oil prices to remain under pressure due to anaemic global growth forecasts and disappointment over US-China trade news. The supply glut shows no sign of abating and world demand could deteriorate if the trade war continues in its current stage further. Eyes are on OPEC meeting next month, and if OPEC fails to bring any additional supply curbs, then we may see more declines in crude oil prices in coming months.

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