Oil market update

August 2019

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Market Summary

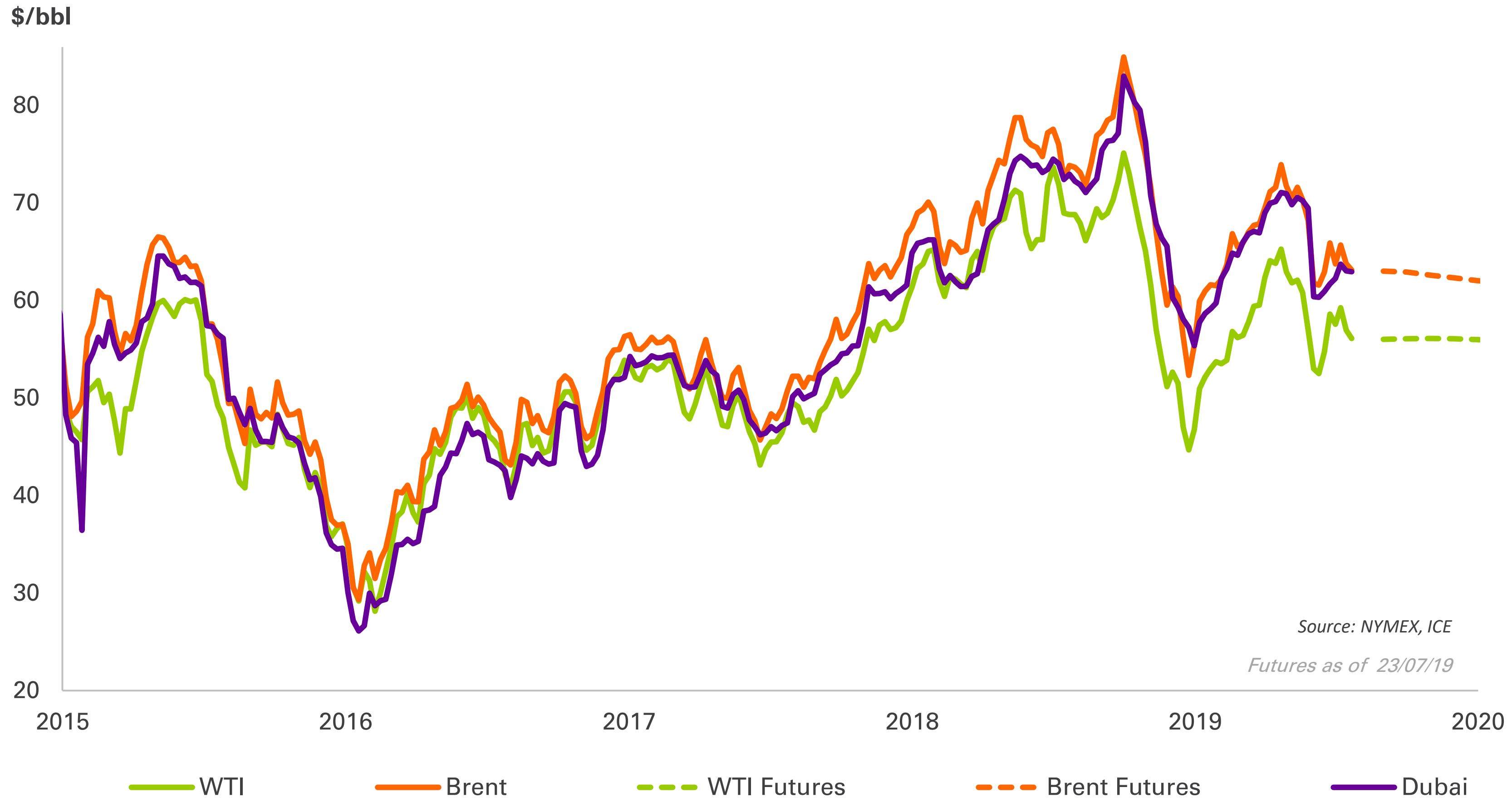
- **Brent** is currently trading around \$62/bbl, after falling over 7% on 1st August 2019 in response to the US unexpectedly announcing a 10% tariff on an additional \$300 billion worth of Chinese imports from 1st September 2019. The announcement comes amid a weaker macroeconomic environment, with the market largely expecting lower oil demand growth in 2019.
- Shortly after the G20 meeting in July 2019, where the US and China had initially called a truce on imposing additional tariffs, the **Vienna Alliance** of OPEC and non-OPEC producers met and agreed to extend current output cuts, initially implemented from January to June 2019, to the end of March 2020. The decision to continue restricting output by a combined total of 1.2 mbd comes against a backdrop of sustained increases in US oil supply.
- Deliveries of Urals crude to Europe via the **Druzhba** pipeline resumed in June 2019, following organic chloride contamination in late April 2019. However, due to the complexity and scale of the incident, disruptions are ongoing with some contaminated crude still remaining in the network.
- **Refining margins** had a volatile Q2 2019, reaching highs of \$18/bbl to lows of \$11/bbl. The global RMM strengthened in July 2019 to around \$15/bbl, largely supported by higher gasoline cracks.

Source: BP Internal, ICE, IEA

Crude prices remain volatile as fundamentals play tug of war with market sentiment

After a strong start to the year crude prices have felt downward pressure following evidence of slower economic growth amid ongoing global trade tensions. Early June 2019 saw Brent fall sharply by almost $10/bbl across just three trading days (to $61/bbl) as sentiment deteriorated. After recovering to above $65/bbl in July 2019, Brent once again fell sharply on 1st August in response to the announcement that the US would impose a 10% tariff on an additional $300 billion worth of Chinese imports from 1st September 2019.

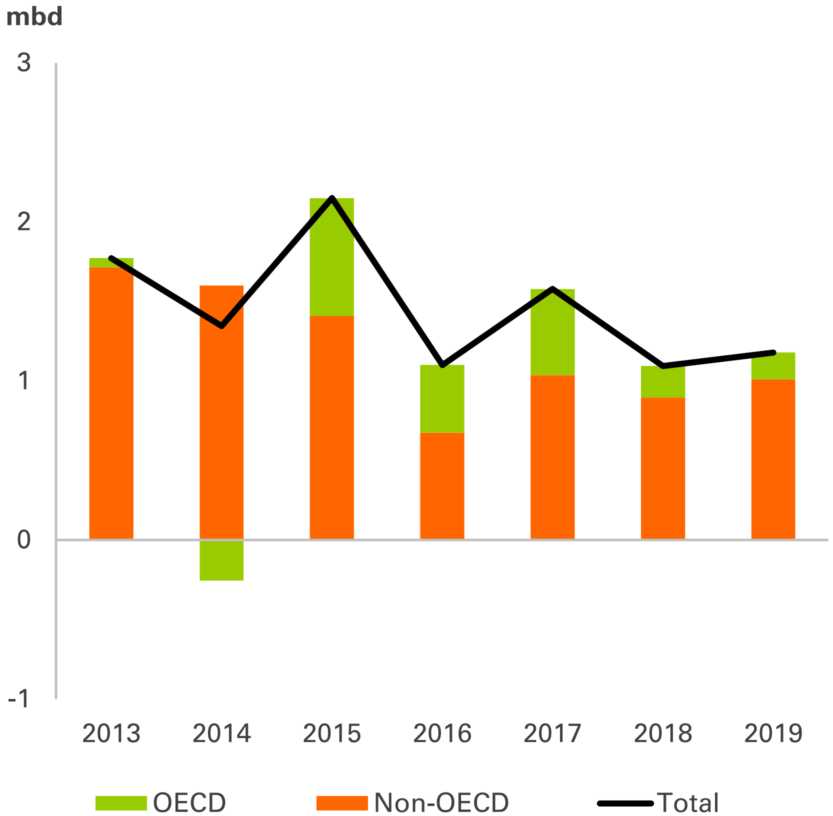
Global Crude Prices



Oil demand growth has been relatively low so far this year

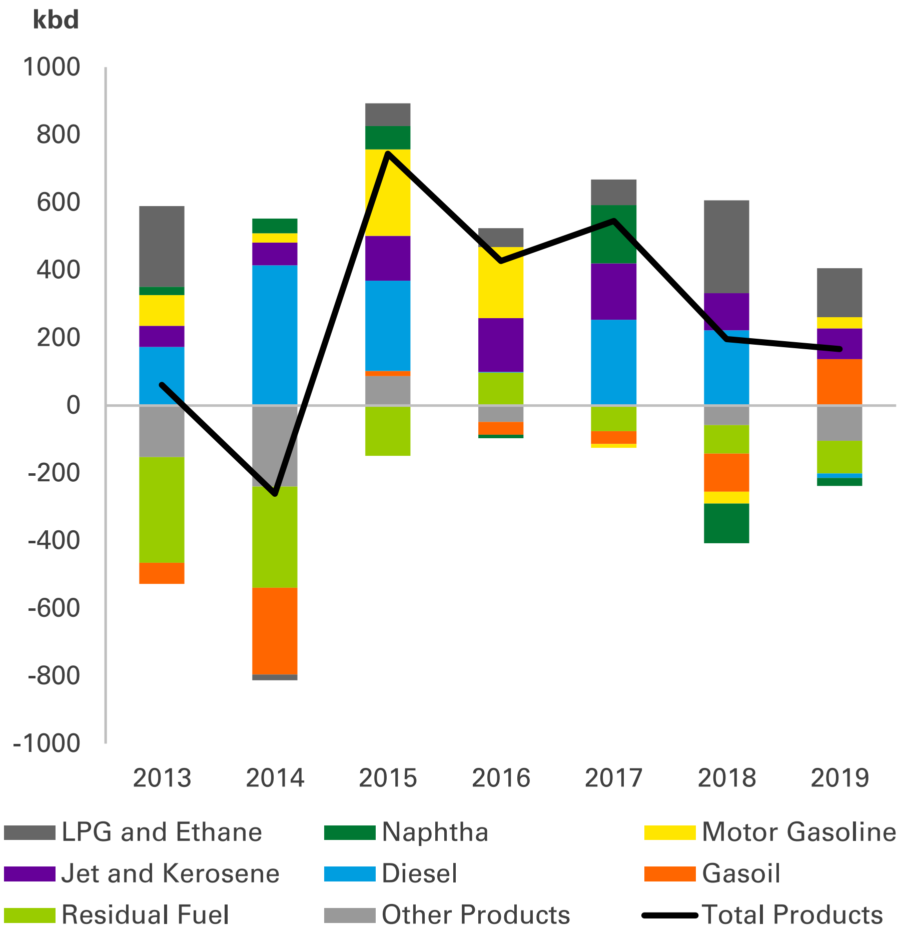
The IEA recently revised down their forecast for 2019 oil demand growth by a further 100 kbd to 1.1 mbd vs 1.4 mbd at the start of the year, citing weakness in the global economy and in particular China. IEA figures indicate that demand growth recovered to 810 kbd in 2Q 2019, from lows of 310 kbd in 1Q 2019, as OECD economies boosted LPG/ethane and jet/kerosene use.

Y/Y total oil demand growth



2019 total of 1.2 mbd is subject to latest available data from the IEA and was subsequently revised to 1.1 mbd

Y/Y OECD products demand growth

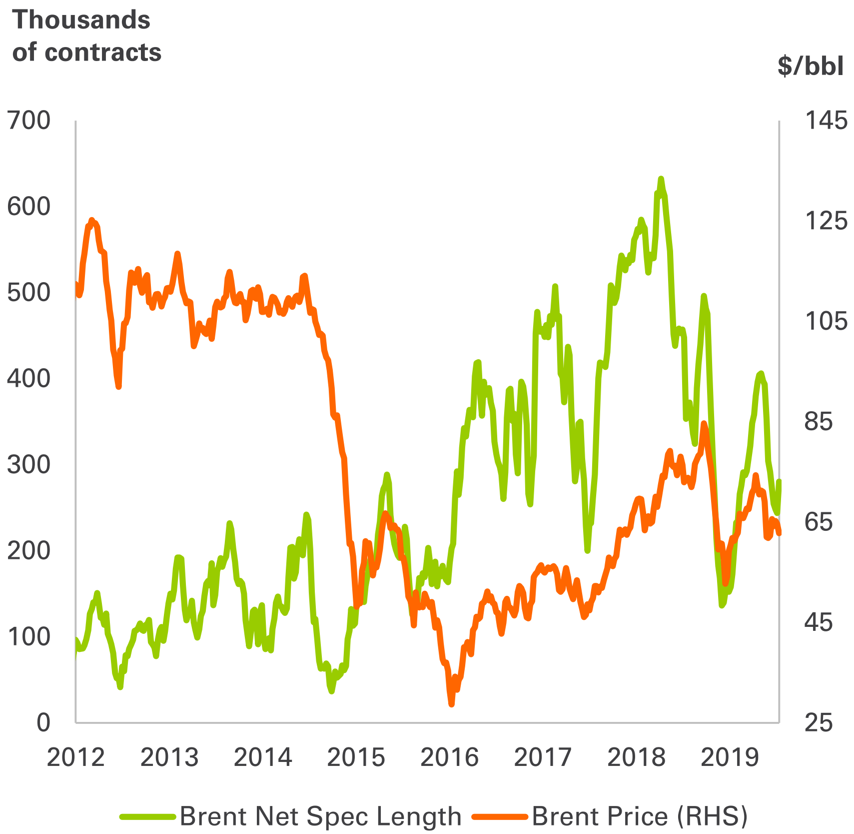


Source: IEA

Net speculative length has fallen sharply from recent highs

After reaching over 400 thousand contracts in May 2019, net speculative length fell sharply throughout June 2019, with the initial fall largely exacerbating the sell-off in Brent seen early in the month. After steadying at around 250 thousand contracts for a number of weeks, net speculative length increased modestly in late July 2019. However, the contracts volume remains low relative to average levels observed in 2017 and 2018.

Net Speculative Length (2012-2019)



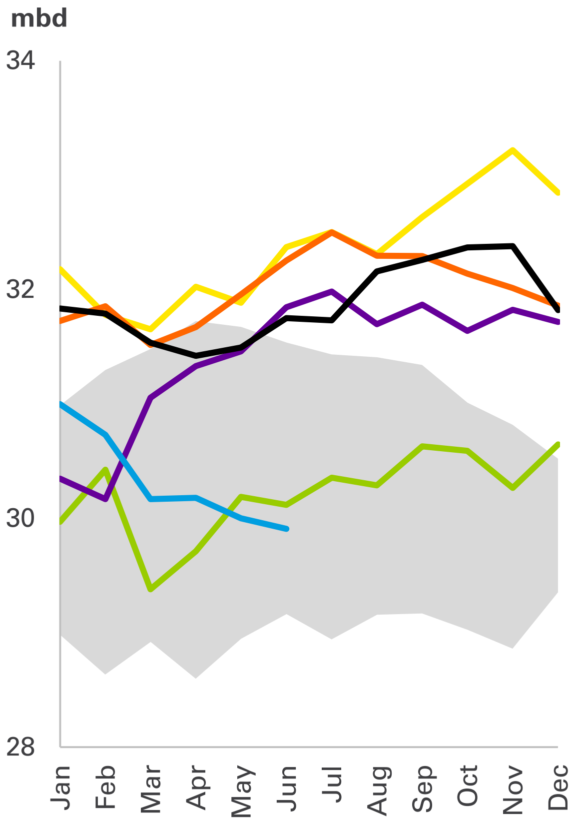
Net Speculative Length (2017-2019)

Source: ICE

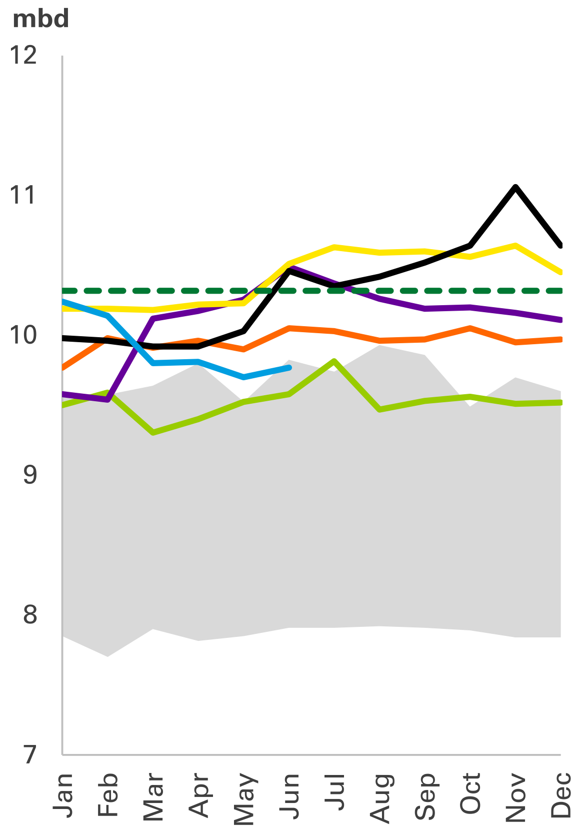
OPEC+ agreed to extend their 1.2 mbd production cut until March 2020

The announcement by OPEC+ came largely in line with market expectations and hence provided limited price support. The group has previously shown high compliance to the cuts, which have been in place since January 2019, as they seek to counter non-OPEC supply growth and prevent a build up of global inventories. OPEC production stood at 29.1 mbd in June 2019, down from 31.8 mbd in June 2018.

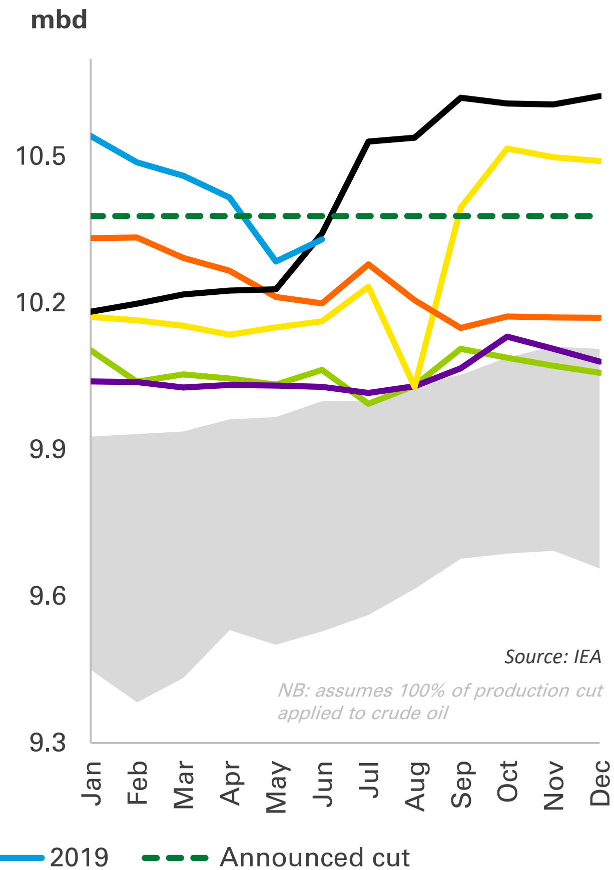
OPEC Crude Supply



Saudi Crude Supply



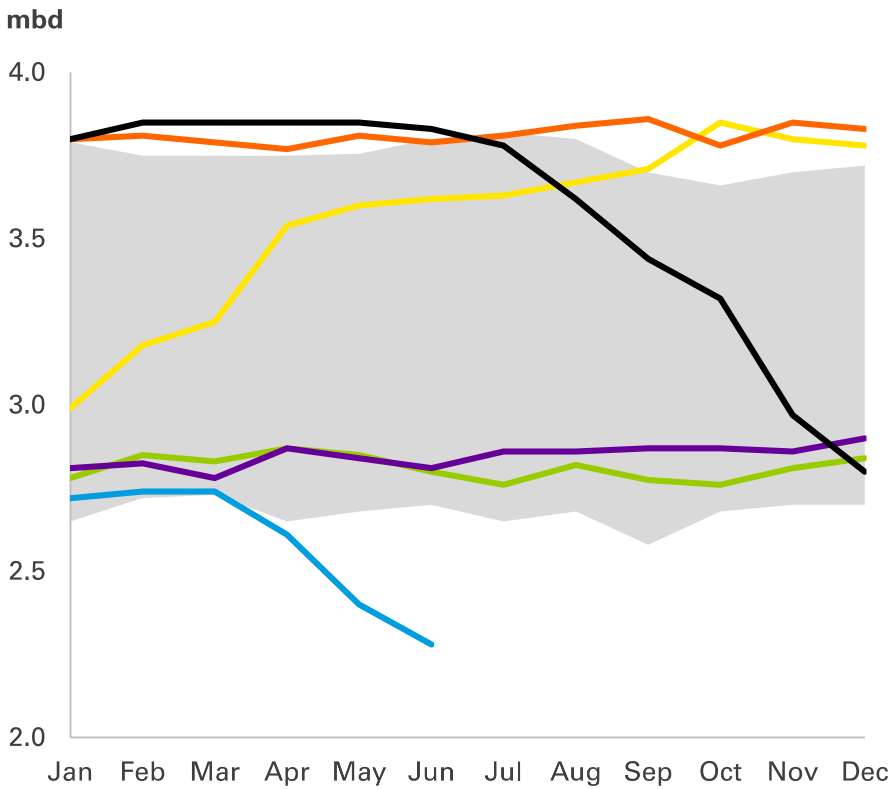
Russia Crude Supply



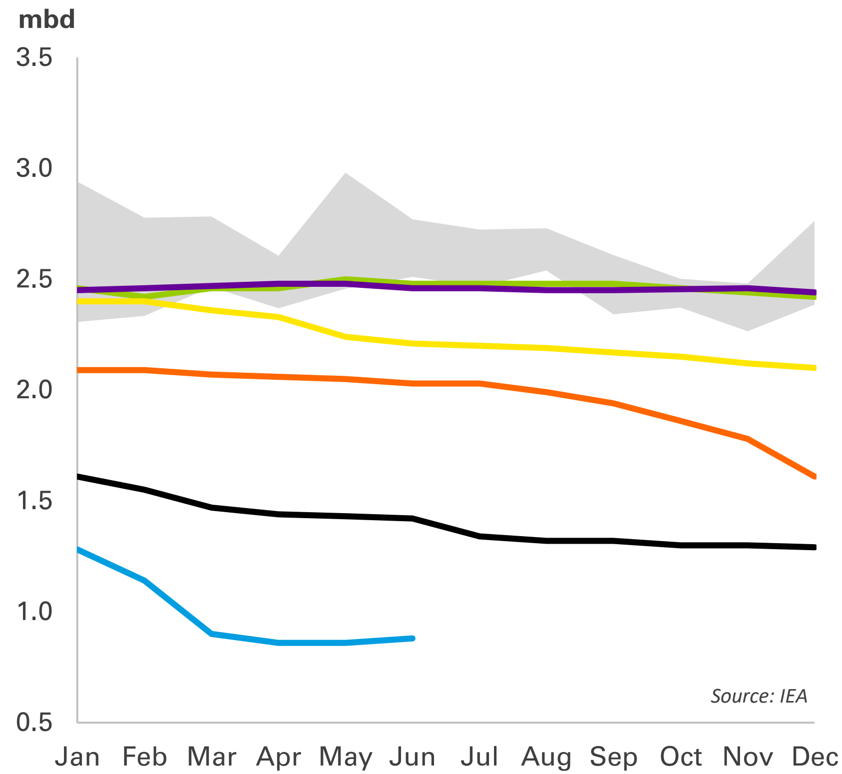
Iranian production has declined significantly due to the full imposition of US sanctions, whilst Venezuelan output also remains low

Iranian crude supply fell by over 450 kbd from March to June 2019 as the US removed sanctions waivers, suppressing the country’s oil exports. Iranian crude exports stood at 530 kbd in June 2019, down from 2.7 mbd in June 2018. Venezuelan crude supply also continues to be impacted by sanctions and economic unrest, with output hovering below 1 mbd since March 2019.

Iran Crude Supply



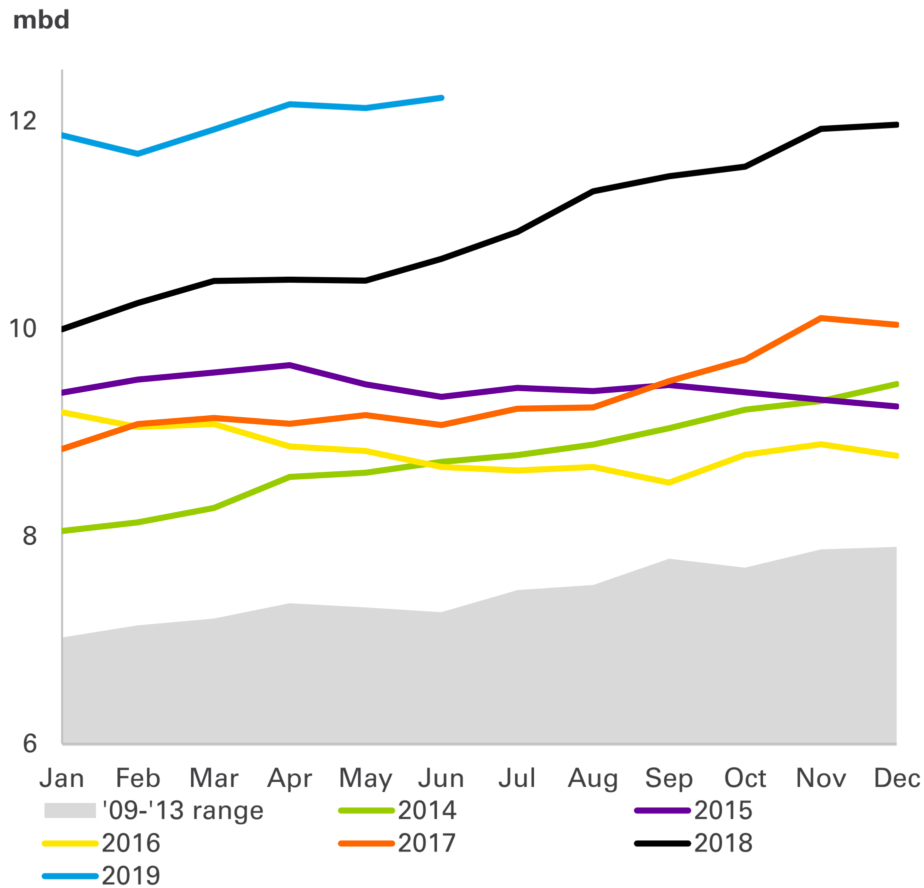
Venezuela Crude Supply



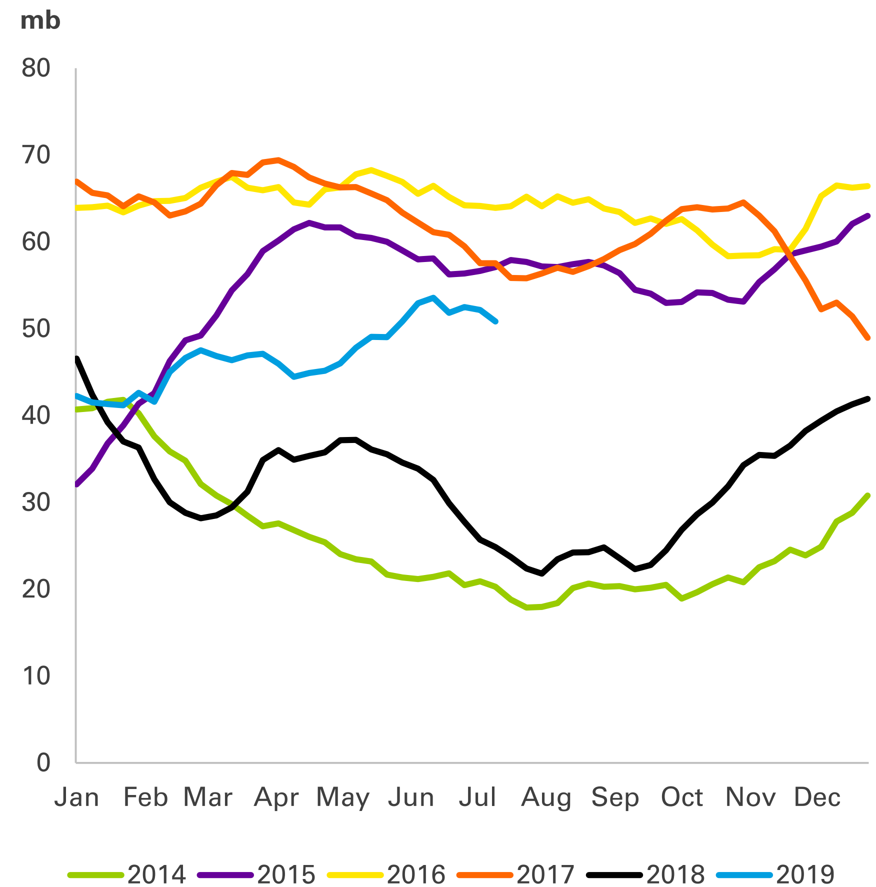
However, US production growth continues to offset losses elsewhere

US crude supply continues to reach new highs, hitting over 12.2 mbd in June 2019. Extreme weather in the Gulf of Mexico resulted in some supply disruption in early July 2019, however production has largely recovered since. Stocks remain elevated as a result of pipeline bottlenecks although recent weeks have seen draws at Cushing supporting the WTI benchmark.

US Crude Supply



Cushing Stocks

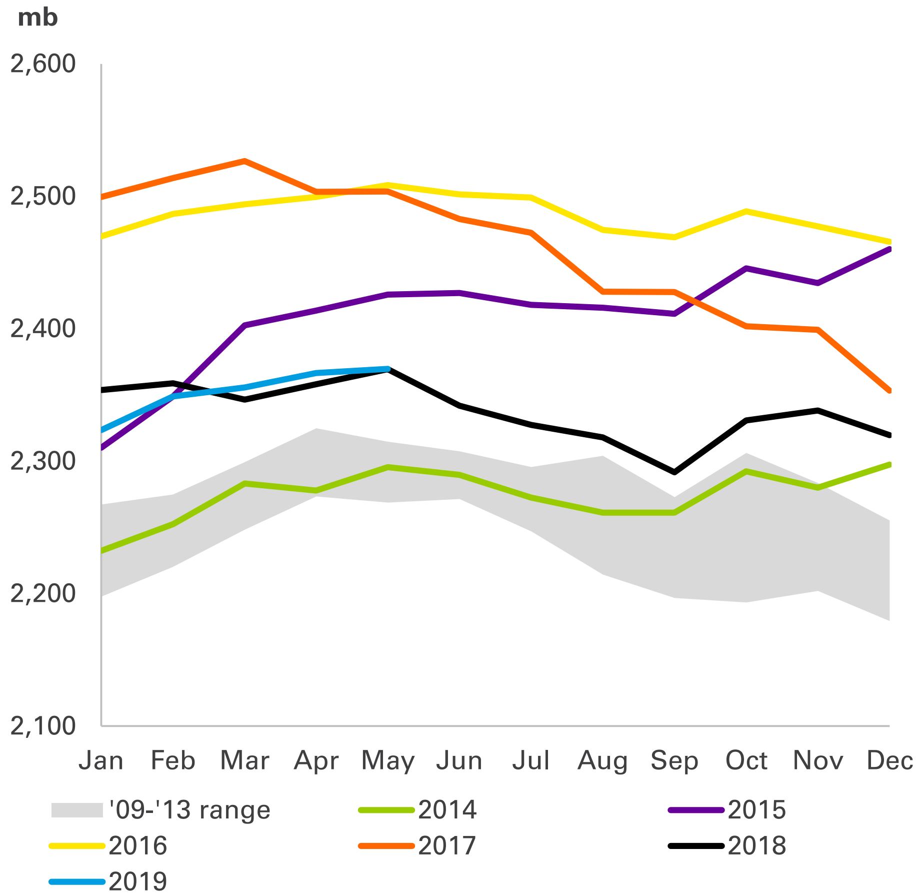


Source: IEA, EIA

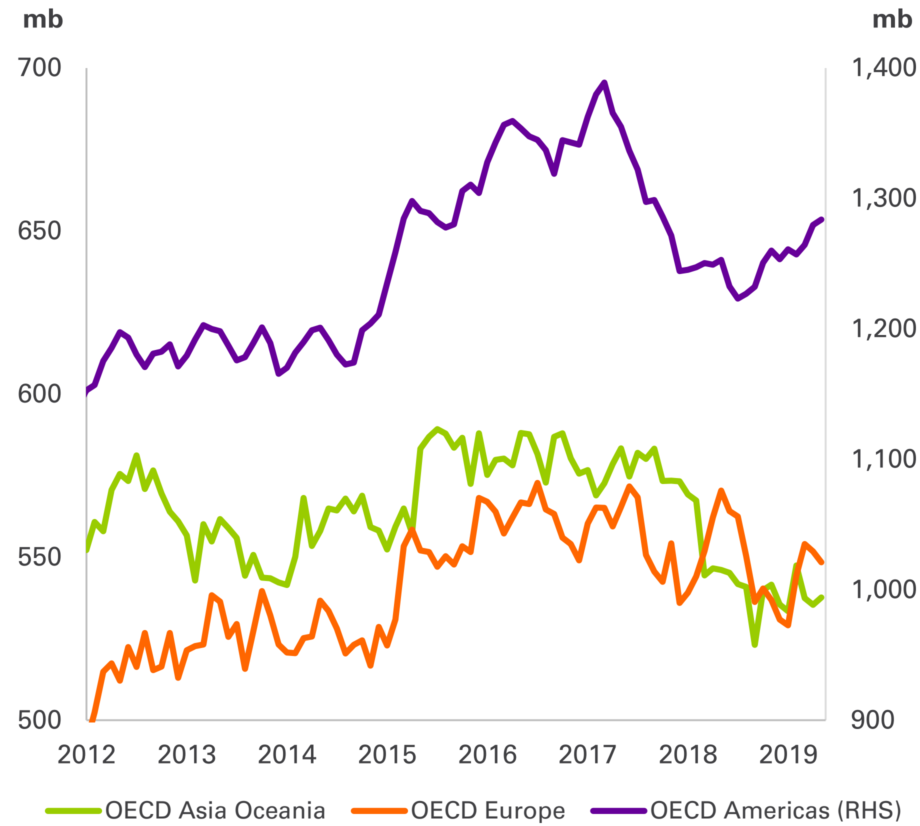
Total OECD crude stocks have built since the beginning of 2019, largely driven by OECD Americas

OECD crude stocks built by over 45 mb from January to May 2019, returning to the level they were at 12 months earlier. OECD Americas was the key driver, with stocks building by over 20 mb across the period.

Total OECD Crude Stocks



Regional OECD Total Crude Stocks



Source: IEA

WTI finds price support relative to Brent

The Brent-WTI differential recently narrowed from $11/bbl in May 2019 to around $7/bbl in July 2019 as WTI found some strength from significant stock draws at Cushing, the major trading hub for the US benchmark. From late June 2019, the fire and subsequent closure of the Philadelphia Energy Solutions refinery in the US tightened the gasoline market and therefore gave an additional boost to WTI, which has a high gasoline yield.

Brent-WTI spread

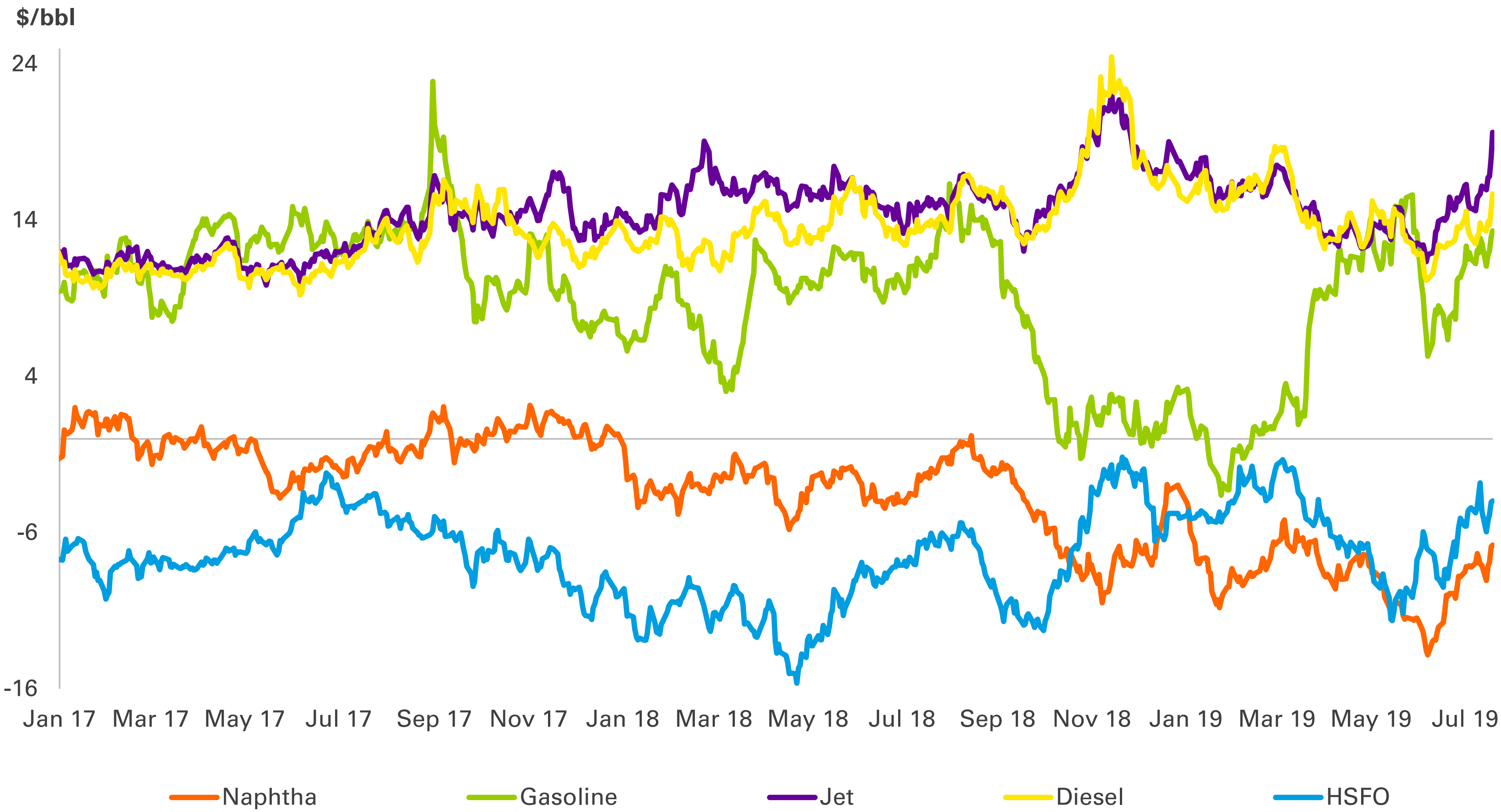
Futures as of 23/07/19

Source: NYMEX, ICE, S&P Global Platts ®

European product markets strengthen as peak demand season takes hold

European cracks all rose from June to July 2019. Jet and fuel oil rallied in response to high demand whilst peak demand season for gasoline also coincided with the PES refinery fire, boosting US imports of gasoline thus providing further price support. Naphtha fell to lows of -$14/bbl in early June 2019 on weak demand but has since recovered somewhat.

Product Cracks (NWE FOB)

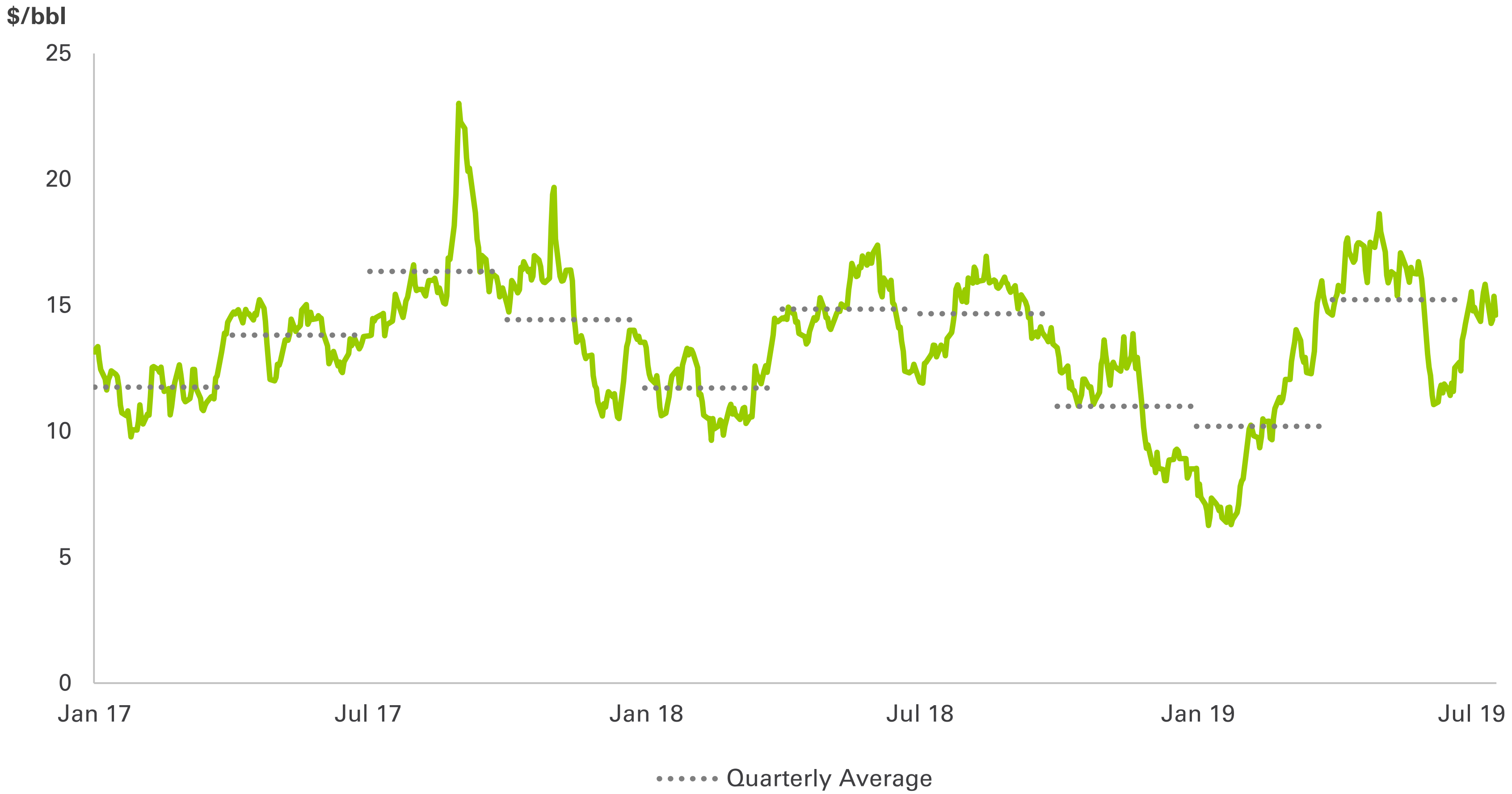


Source: S&P Global Platts ®

Refinery margins have fluctuated in line with volatile gasoline markets

Global refinery margins fell by over $5/bbl at the start of June 2019 to lows of $11/bbl as gasoline cracks dropped by over 60%. The subsequent recovery in gasoline values is reflected in the RMM, which in late June 2019 rose back towards Q2 2019 average levels of around $15/bbl.

BP Global Refining Marker Margin (RMM)



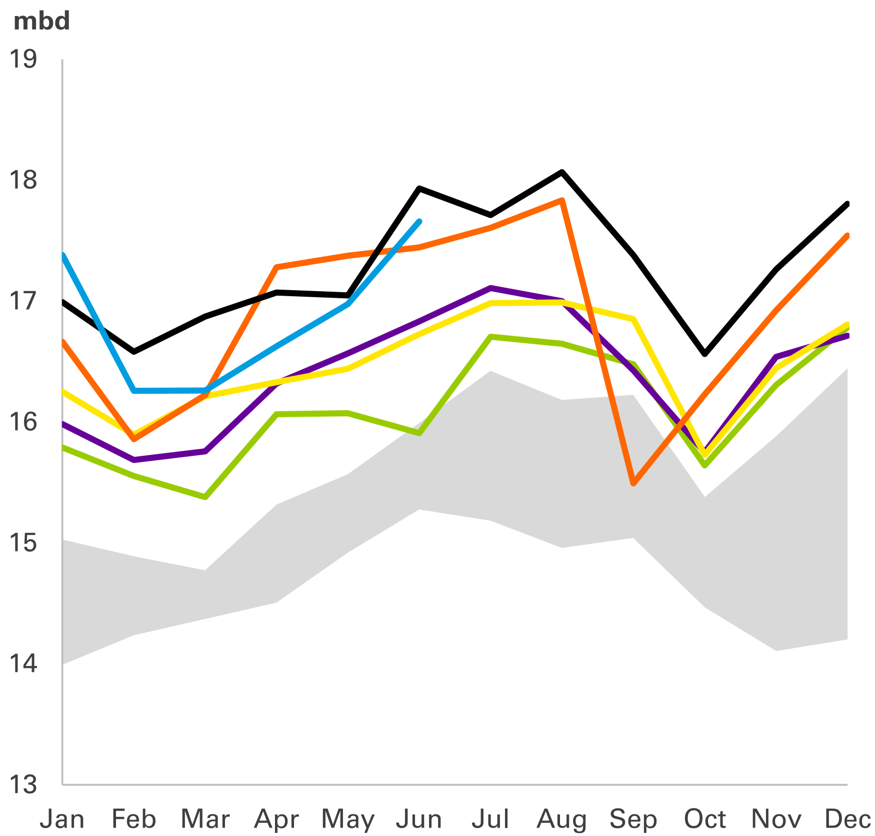
The BP Global Refining Marker Margin (RMM) is a simplified indicator that reflects the margins achieved on gasoline and diesel only. The RMM may not be representative of the margin achieved by BP in any period because of BP's particular refinery configurations and crude and product slates.

Source: BP Analysis

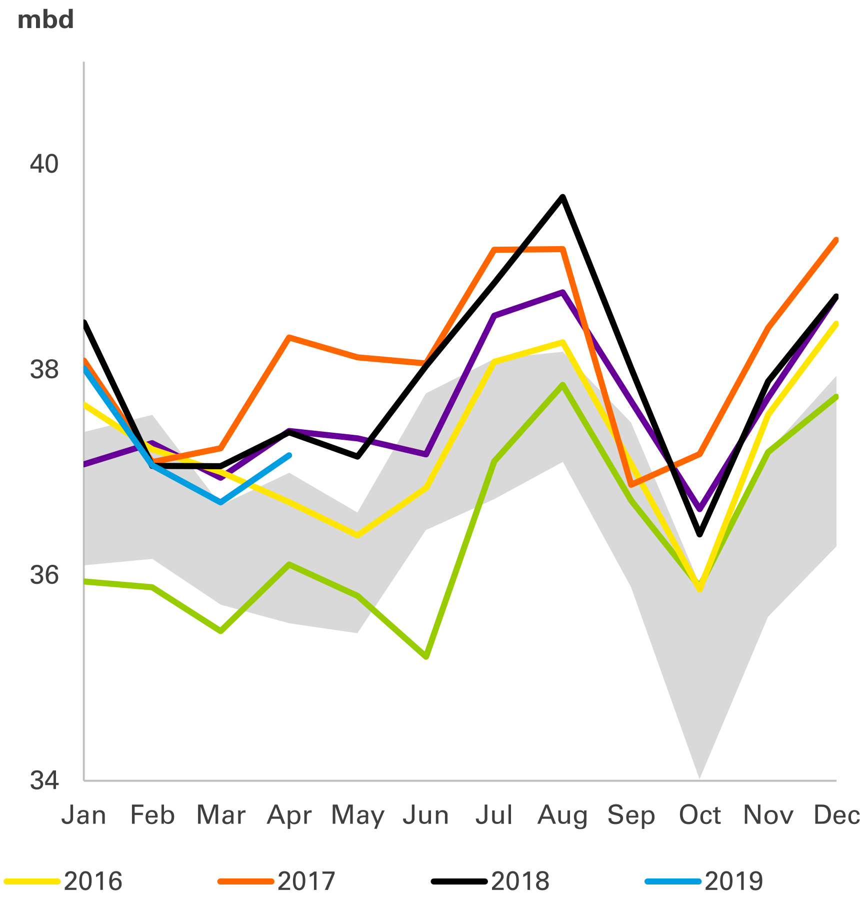
OECD refinery runs have been impacted by higher than average TARs in 2019

US crude runs in Q2 2019 were over 250 kbd lower year-on-year, despite rising seasonally, with the fire and subsequent closure of the 335 kbd PES refinery affecting runs from late June 2019. Total OECD crude runs have also fallen year-on-year, down by over 250 kbd on average from January to April 2019.

US crude runs



OECD crude runs



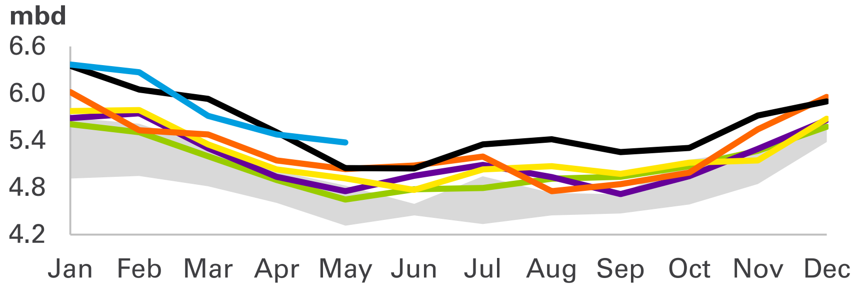
Source: EIA, IEA

OECD product demand presents a mixed story

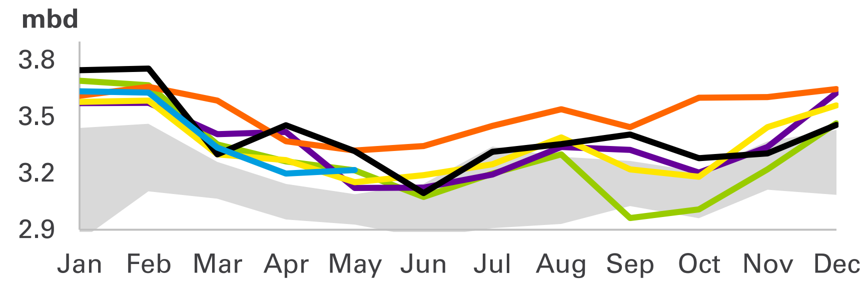
Across the first five months of 2019 for which data is available, OECD product demand has been mixed. Naphtha, gasoline and residuals have all seen a fall in demand year-on-year, whilst LPG & ethane and distillate demand has grown moderately year-on-year.

OECD Product Demand

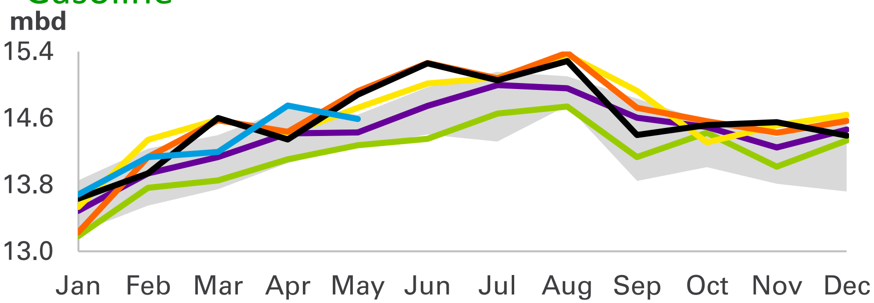
LPG & Ethane



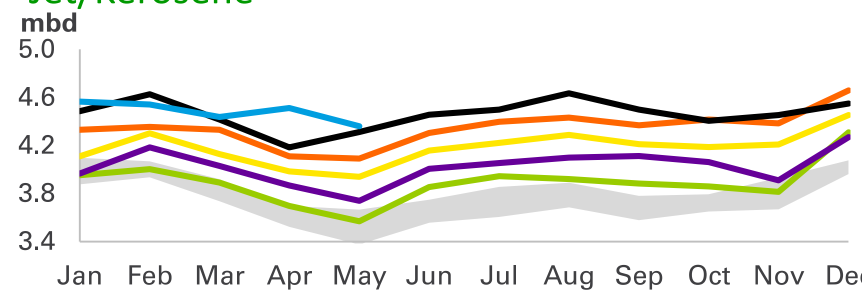
Naphtha



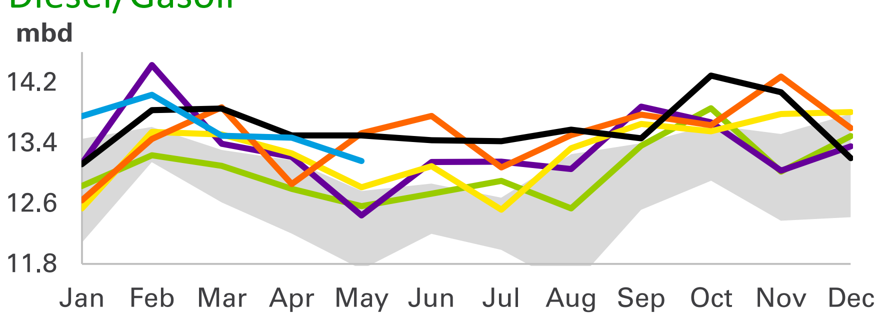
Gasoline



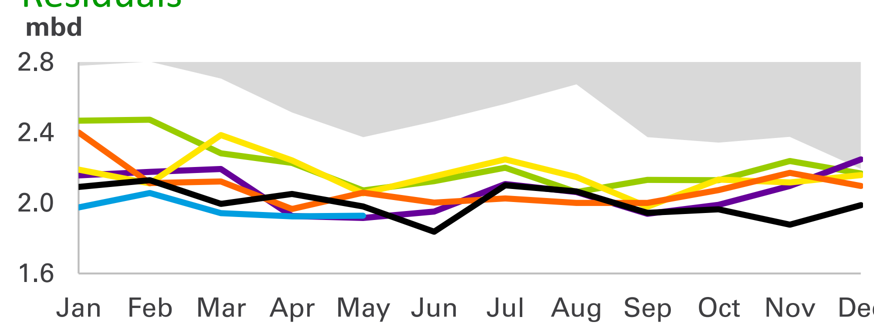
Jet/Kerosene



Diesel/Gasoil



Residuals



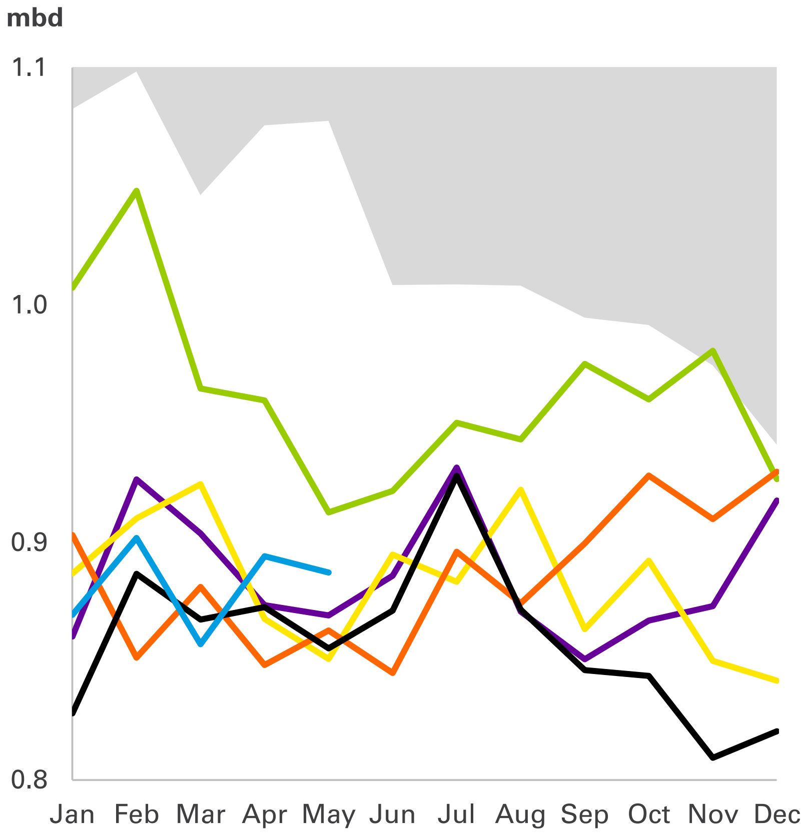
'09-'13 range 2014 2015 2016 2017 2018 2019

Source: IEA

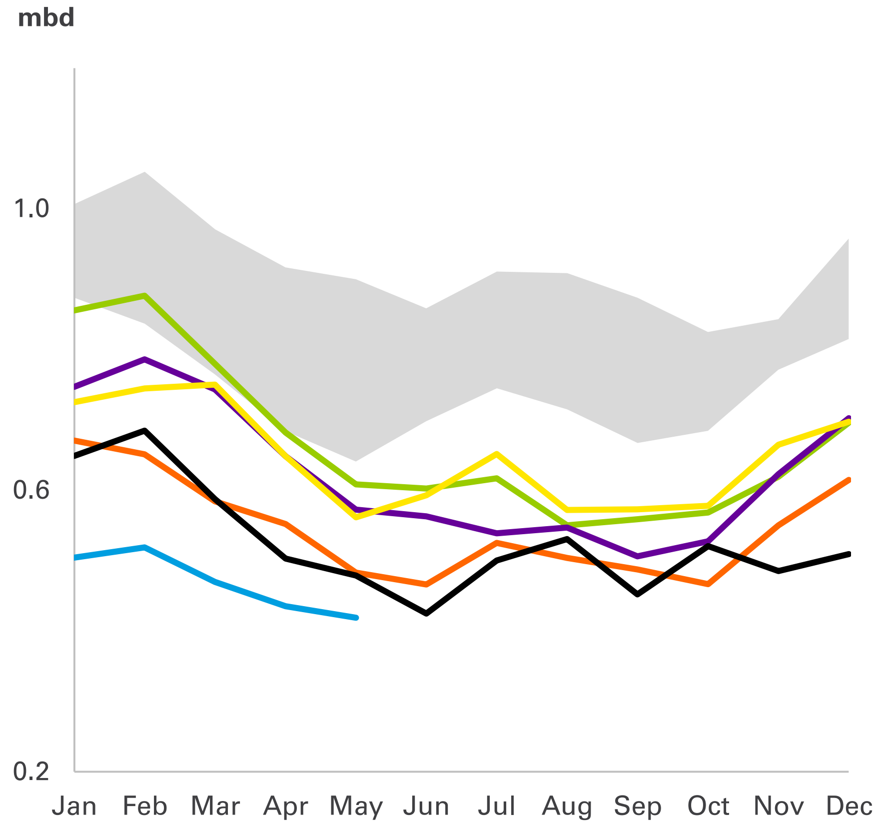
Healthy residuals demand in OECD Europe comes in contrast to weak OECD Asia Oceania

The fall in total OECD demand for residuals so far this year can be attributed to weakness in OECD Asia Oceania. Whilst OECD Europe has seen robust demand, OECD Asia Oceania saw demand fall by 100 kbd from February to May 2019 largely driven by low bunker demand in the region.

OECD Europe Residuals Demand



OECD Asia Oceania Residuals Demand



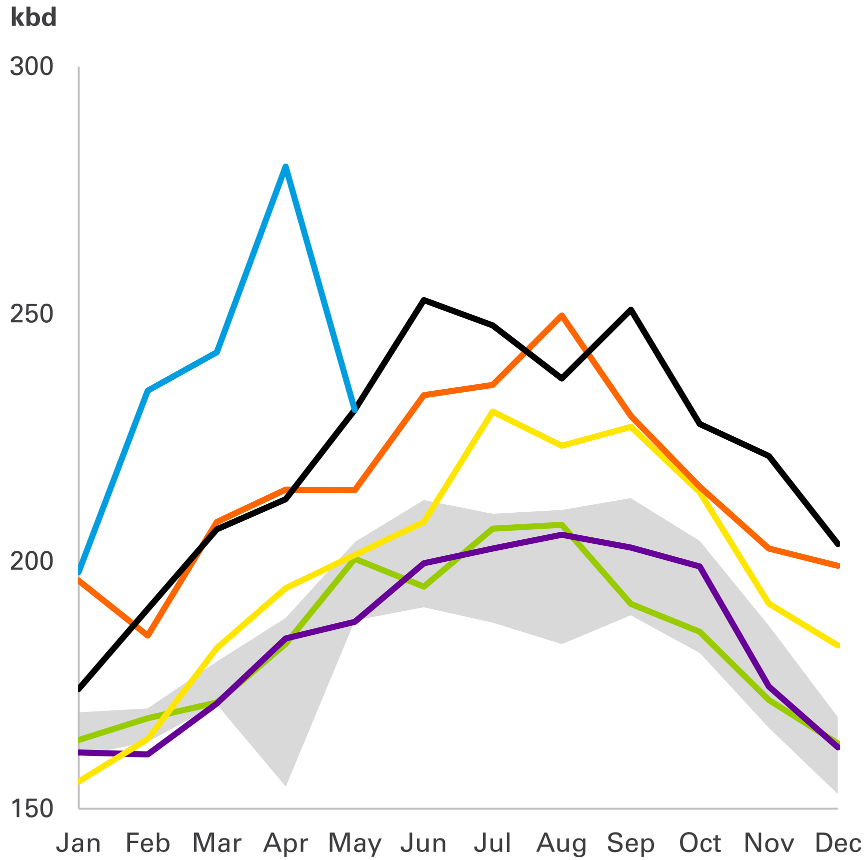
'09-'13 range 2014 2015 2016 2017 2018 2019

Source: IEA

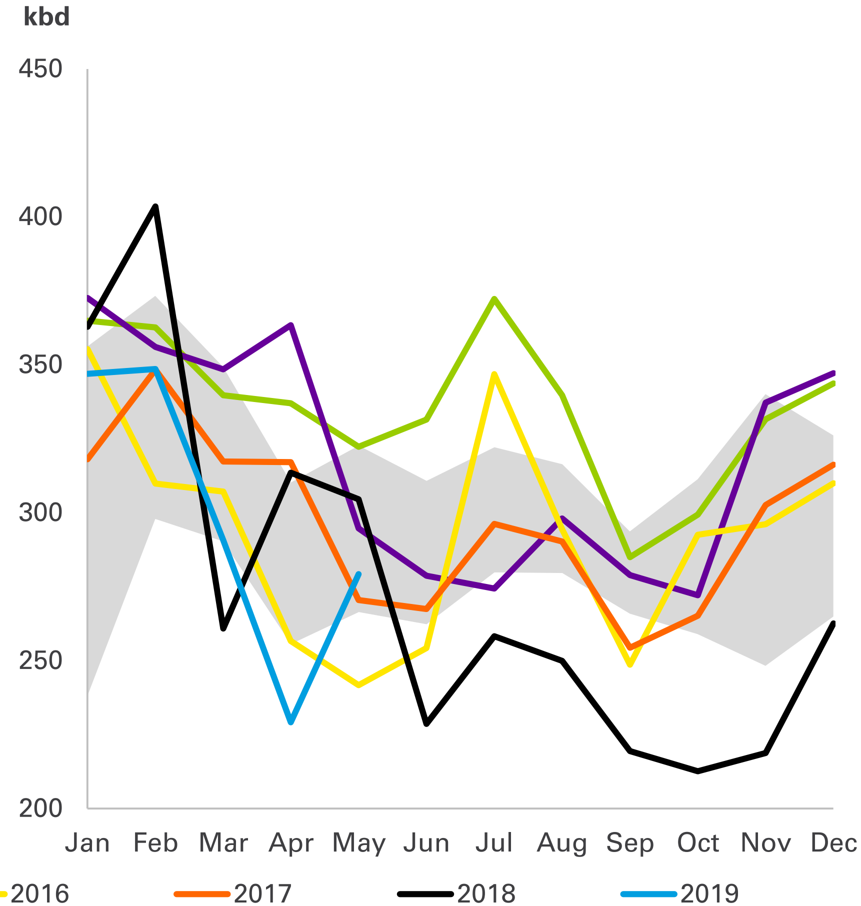
German jet demand spikes whilst naphtha demand falters

German jet/kerosene demand spiked to 280 kbd in April 2019, before subsequently falling 50 kbd in May 2019. Overall, jet/kerosene demand in Germany has been 35 kbd higher year-on-year from January to May. Conversely, German naphtha demand declined sharply from February to April 2019 to lows of 230 kbd, before recovering to 280 kbd in May 2019.

Germany Jet/Kerosene Demand



Germany Naphtha Demand

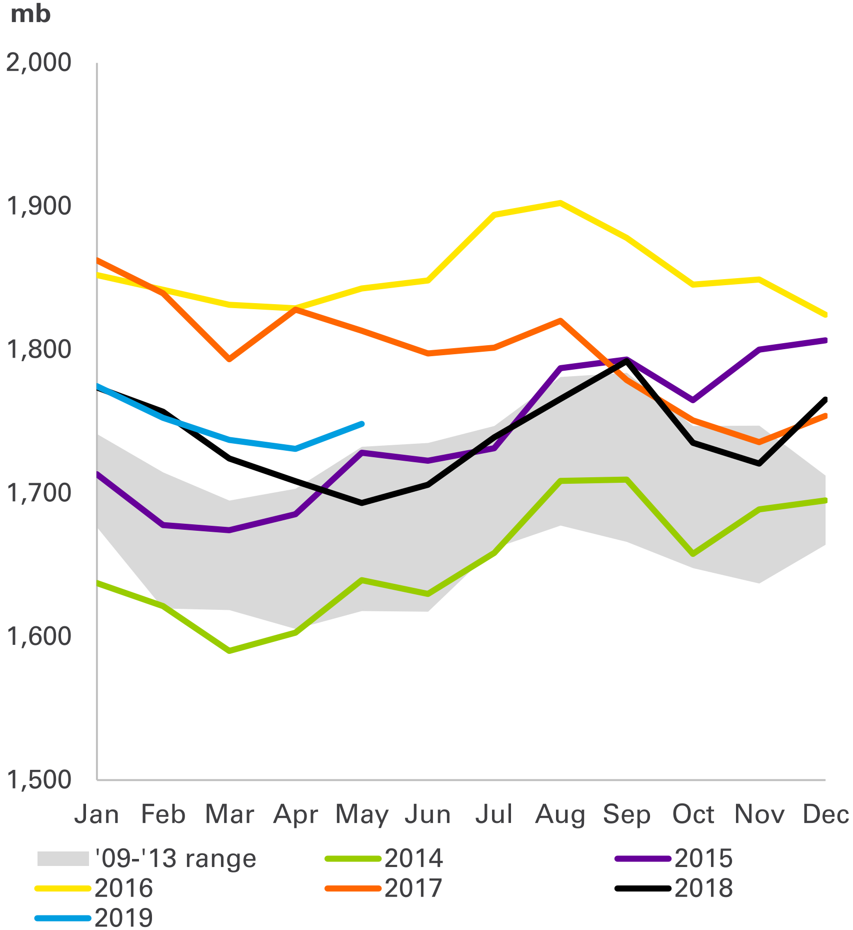


Source: IEA

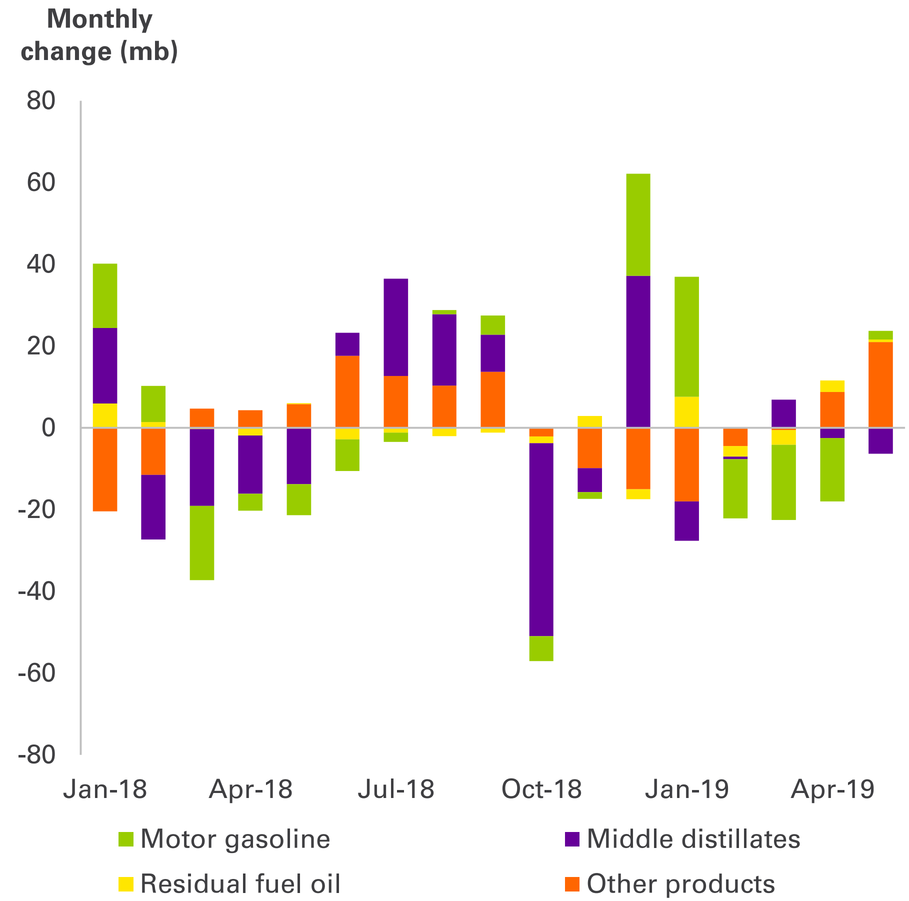
OECD product stocks build after steady monthly draws between January and April 2019

OECD product stocks built by almost 20 mb from April to May 2019, regaining some of the 45 mb draw that occurred in the first four months of the year. In May 2019, middle distillates were the only product to draw month-on-month, and gasoline stocks built after three consecutive month-on-month draws.

OECD Total Product Stocks



OECD Total Product Stock Change



Source: IEA

Upcoming events

- The 45th G7 summit is scheduled for 24th-26th August 2019, in Biarritz, Nouvelle-Aquitaine, France.
- OPEC are due to meet in Vienna on 5th December 2019, and will be joined by other members of OPEC+ on 6th December 2019.
  - The meeting will provide an opportunity to assess the extent to which their production cut has succeeded in rebalancing the market.
- IMO 2020: new 0.5% sulphur limit on bunker fuels to come into force on 1st January 2020.