



Oil Market Update

July 2020

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Market Summary



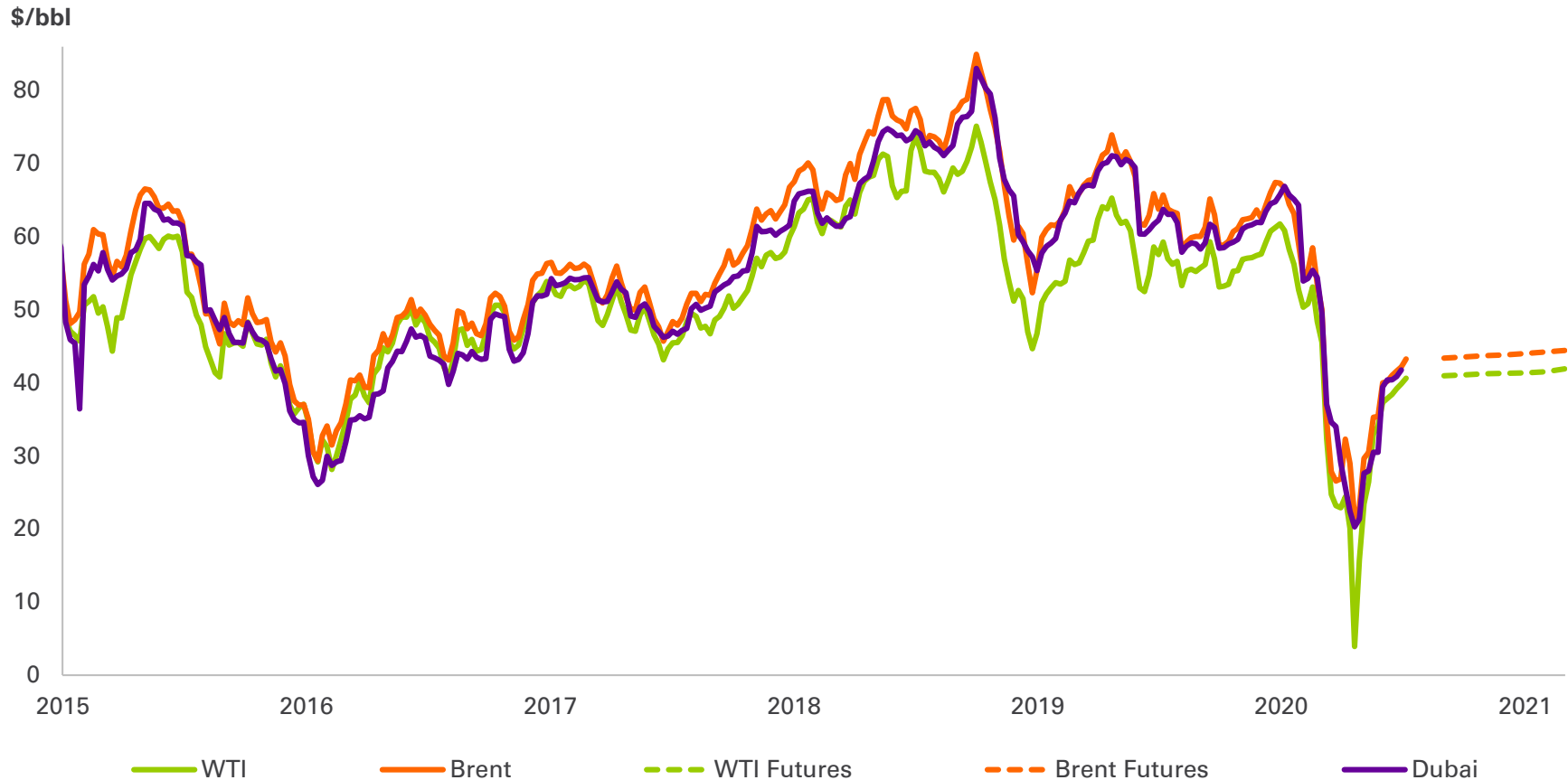
- At the time of writing, **Brent** is currently trading around **\$43/bbl**, supported by OPEC+ production cuts, lower US crude supply and higher demand (relative to Apr-20 levels). Brent traded at lows of \$20/bbl in Apr-20 following significant COVID-19 related demand destruction.
- On 20th April, the **WTI May-20** futures contract hit historic lows at **-\$37/bbl** the day before expiry due to concerns around storage capacity. Cushing inventories have since fallen significantly, and the Brent-WTI spread has averaged **\$2.30/bbl** since mid-May.
- **Global oil demand** fell by a record **16.4mbd** in 2Q20 as global travel restrictions were introduced to control the COVID-19 pandemic. Apr-20 was the peak of demand destruction in 2Q20, recording a 21.7mbd YoY fall in demand.
- The **Vienna Alliance** of OPEC and non-OPEC producers met for an emergency meeting on 9th April as prices continued to fall as a result of the COVID-19 crisis. **Unprecedented production cuts** were agreed of **9.7mbd** for May-Jun 2020, **7.7mbd** for Jul-Dec 2020, and **5.8mbd** for the 16 months thereafter, ending Apr-22. OPEC+ met again on **5th June** and agreed to the **9.7mbd of production cuts** to the end of **July 2020**. On **16th July** it was announced that cuts for Aug-20 would be **7.7mbd** as previously agreed.
- **OECD crude oil and product inventories** both increased significantly in Apr-20 and May-20. In May-20, OECD crude inventories remained below 2016 levels, while product stocks were above historical highs.

Crude prices rise due to demand recovery and extension of record OPEC+ supply cuts to the end of July



- Brent pricing has more than doubled since lows of \$20/bbl in Apr-20 to **\$43/bbl** at the time of writing, but remains approximately \$20/bbl below the 2019 average.
- Crude prices fell to record lows in Apr-20 due to unprecedented demand weakness as widespread travel restrictions were introduced to control the spread of COVID-19.
- Record OPEC+ cuts have supported prices, with the initial **9.7mbd** supply cut for May and Jun-20 being extended to the end of July. Cuts for Aug-20 will be 7.7mbd as previously agreed by OPEC+

Weekly Global Crude Prices



The Brent-WTI price differential narrowed in Q2 2020 as Cushing inventories fell from Apr-20 levels



- On 20th April, WTI traded at a negative price for the first time in history; the May-20 futures contract, expiring the next day, fell to a low of $-\$37/\text{bbl}$ and ended trading at $\$0.65/\text{bbl}$. Prices fell sharply due to concerns around lack of storage capacity in May, when the crude was due for delivery from the expiring contract.
- Following the spike in the Brent-WTI differential in Apr-20, the weekly Brent-WTI spread has averaged **$\$2.30/\text{bbl}$** since mid-May as Cushing inventories fell rapidly. In Jun-20 Cushing inventories fell below Jun-19 levels.

Weekly Brent-WTI Spread

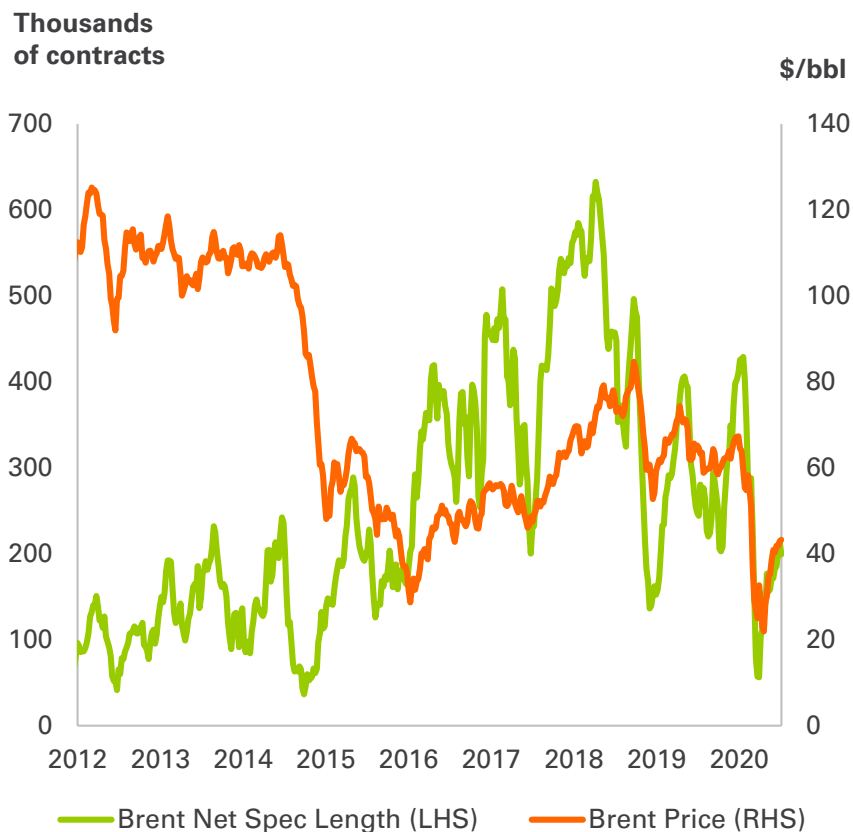


Net speculative length increases with higher crude prices

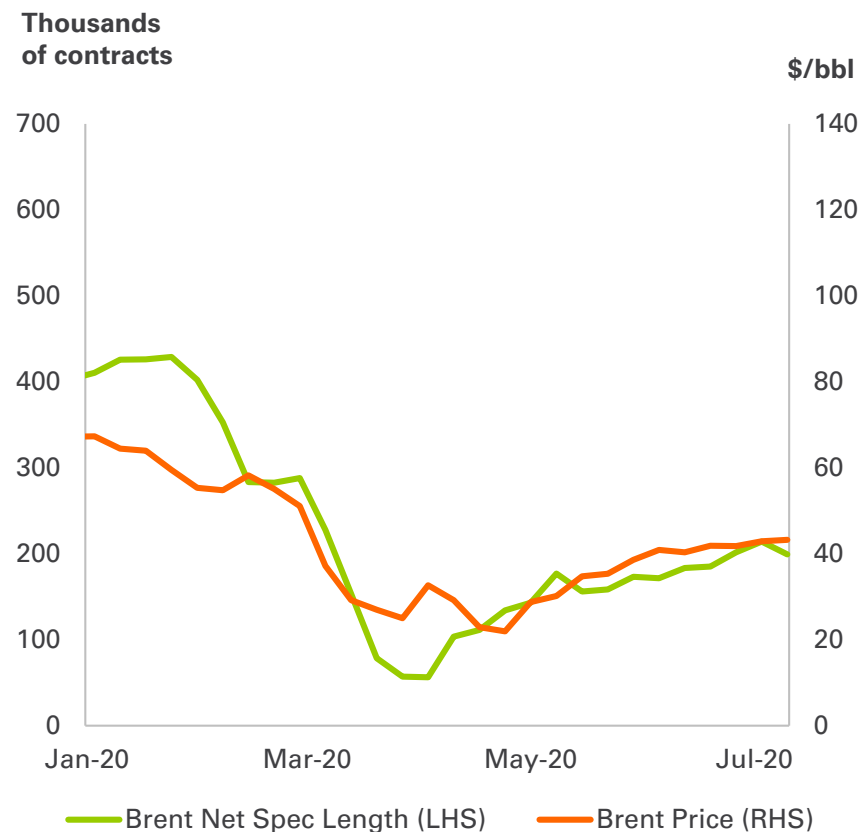


- NSL fell rapidly during 1Q20, reaching lows of 55k contracts at the end of March (the lowest level since 2014).
- NSL increased from **100k** contracts in Apr-20 to nearly **200k** contracts in late Jun-20. The increase mirrored the recovery in Brent pricing, from \$22/bbl in Apr-20 to \$43/bbl in late Jun-20.
- Despite this modest recovery, NSL remains significantly below Jan-20 levels of **400k** contracts.

Net Speculative Length (2012-2020)



Net Speculative Length (2020)

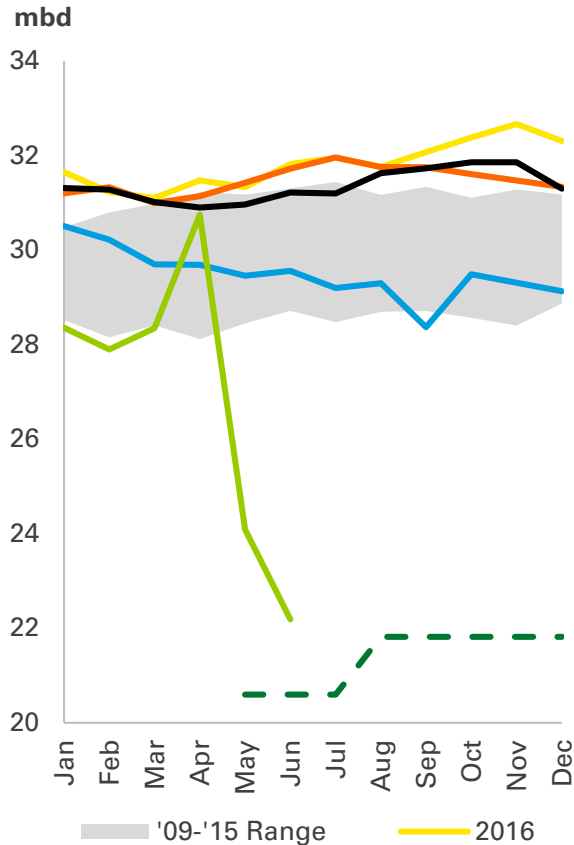


OPEC+ extends 9.7mbd of cuts to the end of July 2020

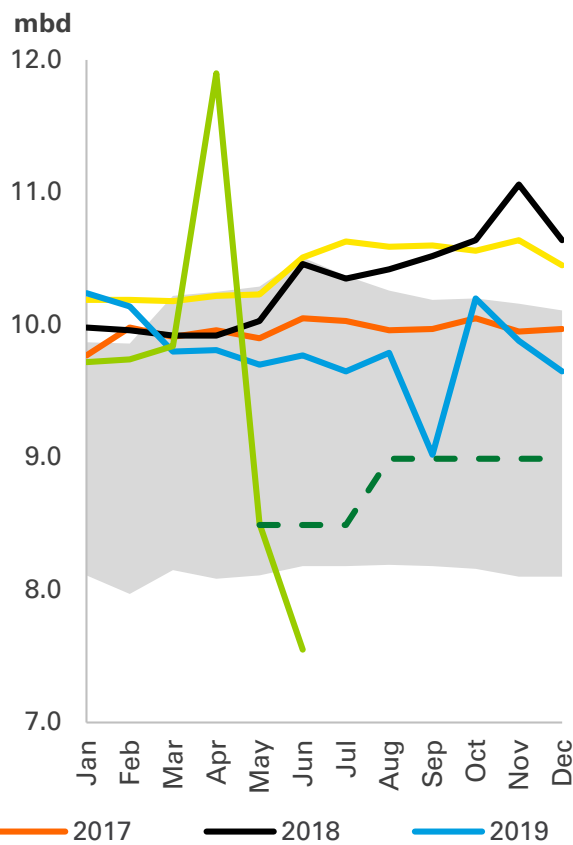


- Following continued low oil prices, OPEC+ producers met on the 9/10th April and agreed an unprecedented **9.7mbd** total production cut for May-Jun 2020, **7.7mbd** for Jul-Dec 2020, and **5.8mbd** for the 16 months after, ending in Apr-22.
- However, after sustained demand destruction during April and May, OPEC+ met on 5th June and agreed to extend their unprecedented production cuts of 9.7mbd to the end of July 2020. In a subsequent meeting on 15/16th July it was announced that cuts for Aug-20 would be **7.7mbd** as previously agreed.
- Reuters recently reported overall OPEC+ compliance at 107% in Jun-20, up from 85% in May-20.

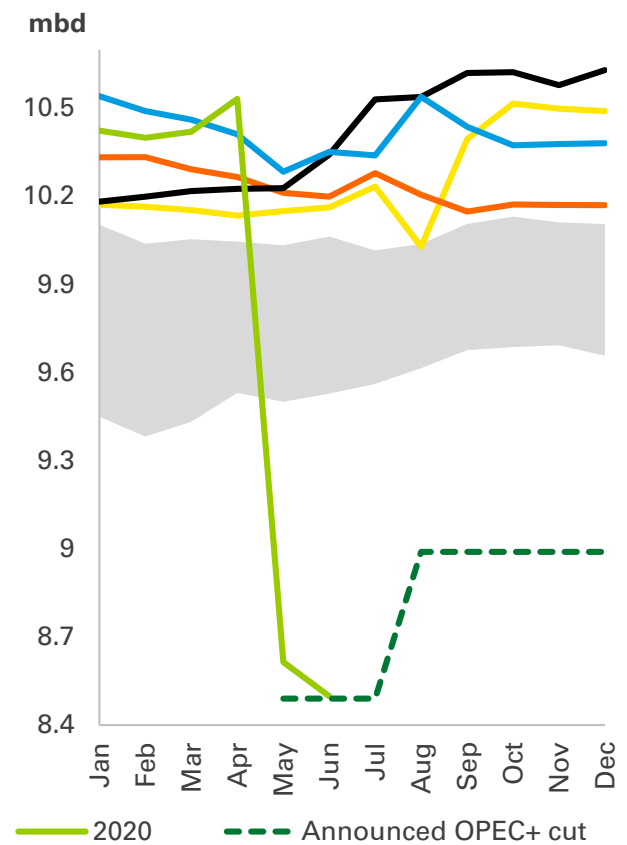
OPEC Crude Supply



Saudi Crude Supply



Russia Crude Supply

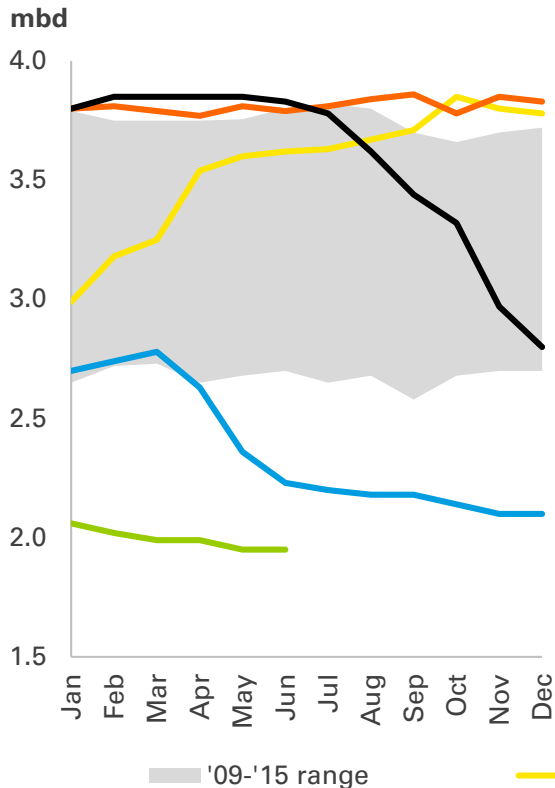


Iranian, Libyan and Venezuelan output remains low

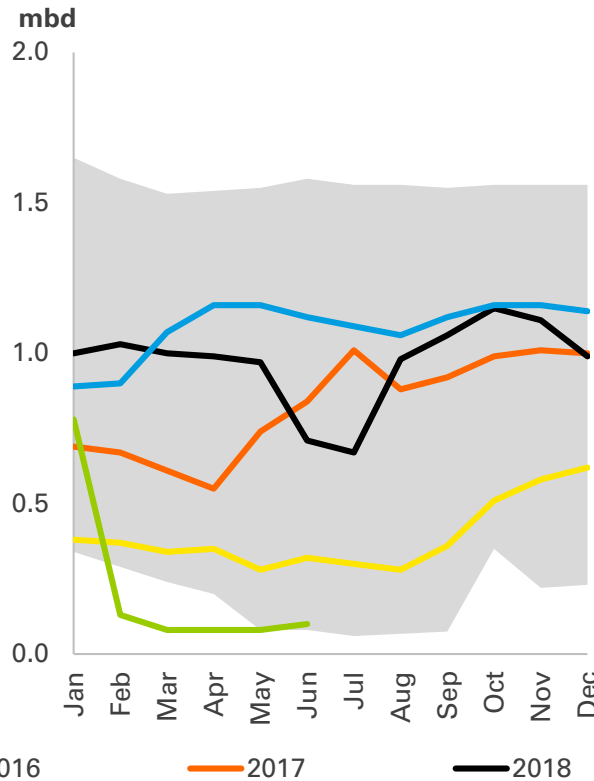


- Libya lifted force majeure on all oil exports on the 10th July for the first time since Jan-20. However, the next day (11th July) further oil exports were halted, and force majeure was declared again. Libyan crude supply has declined 700kbd since Jan-20.
- Iranian crude supply remained low at **2mbd** in Jun-20, as US sanctions suppressed the country's oil exports.
- Venezuelan output decreased to **300kbd** in Jun-20, due to ongoing operational difficulties and the pressure of international sanctions.

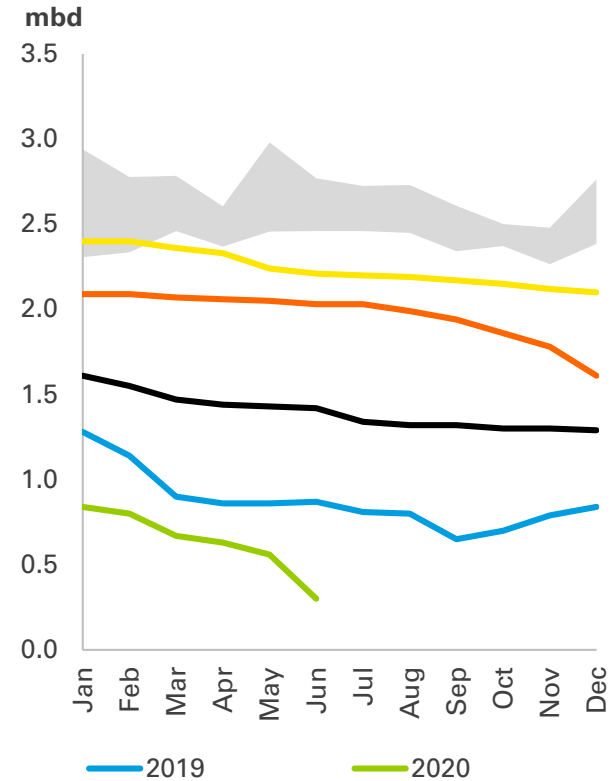
Iran Crude Supply



Libya Crude Supply



Venezuela Crude Supply

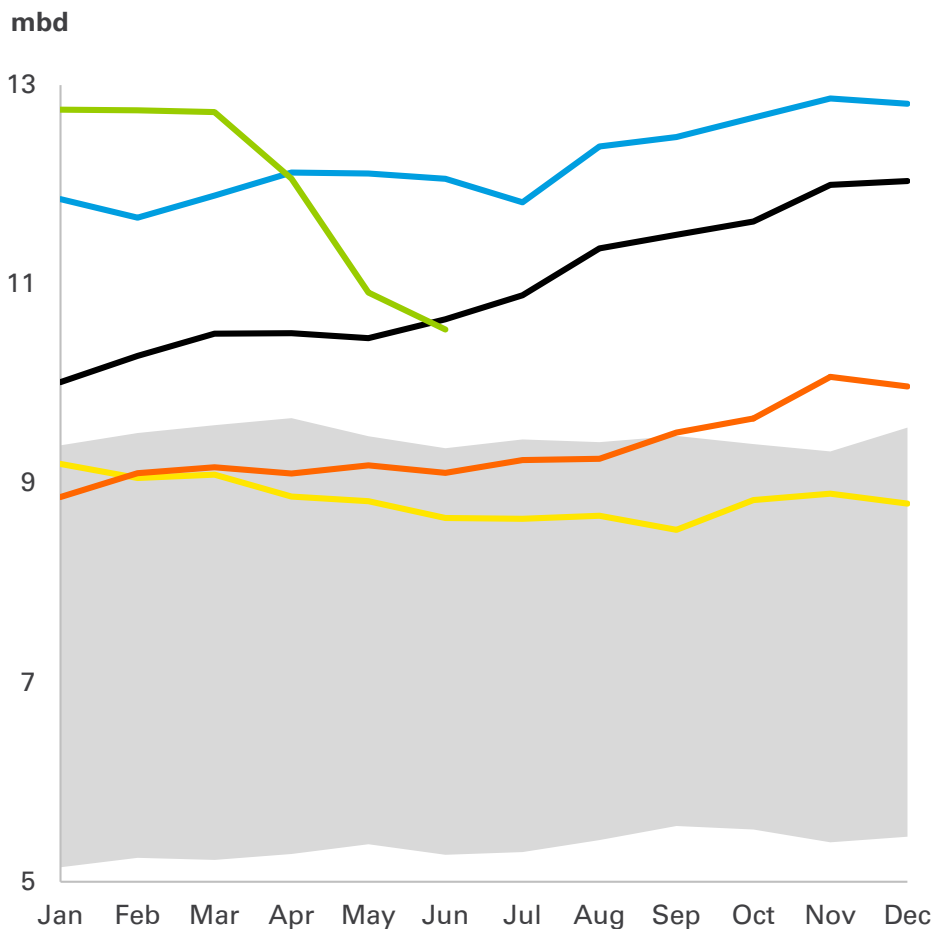


US crude production fell below 2018 levels in Q2 2020



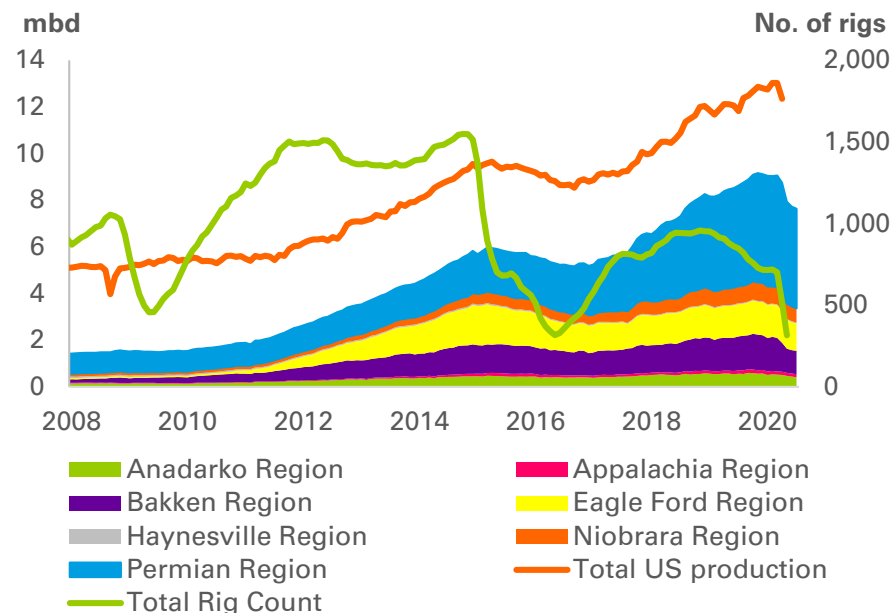
- US crude supply fell by over 2mbd in 2Q20, from 12.7mbd in Mar-20 to **10.5mbd** in Jun-20. US drilling companies have cut budgets and drilling plans in response to low oil prices.
- Baker Hughes reported a rig count of **181** for 10th July, down **71%** from late Mar-20 (624).

US Crude Supply

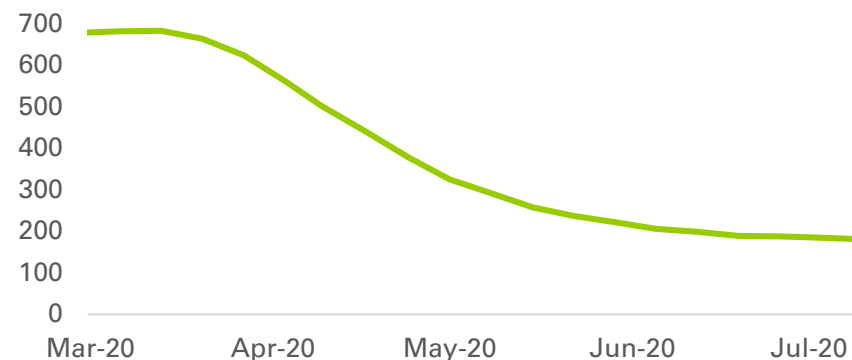


■ '09-'15 range ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020

Rig count vs. crude production



Rig count (2020)



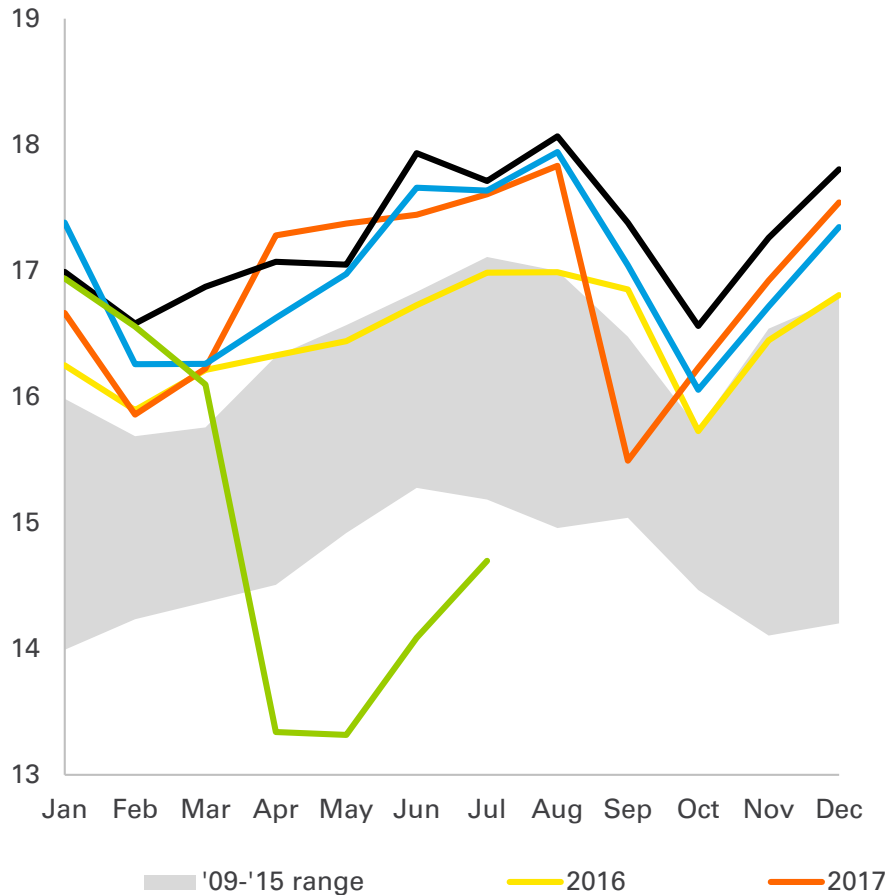
US refinery runs increased in June 2020 but remained ~3.6mbd lower than June 2019 levels



- US crude runs collapsed to 13.3mbd in May-20 before increasing to **14.1mbd** in Jun-20. As of mid Jul-20, runs have increased further to 14.7mbd but remain **2.3mbd** lower than the start of the year.
- OECD crude runs dramatically fell to **30.5mbd** in Apr-20 (the last data point available). This represents a **7.3mbd** YoY decline.

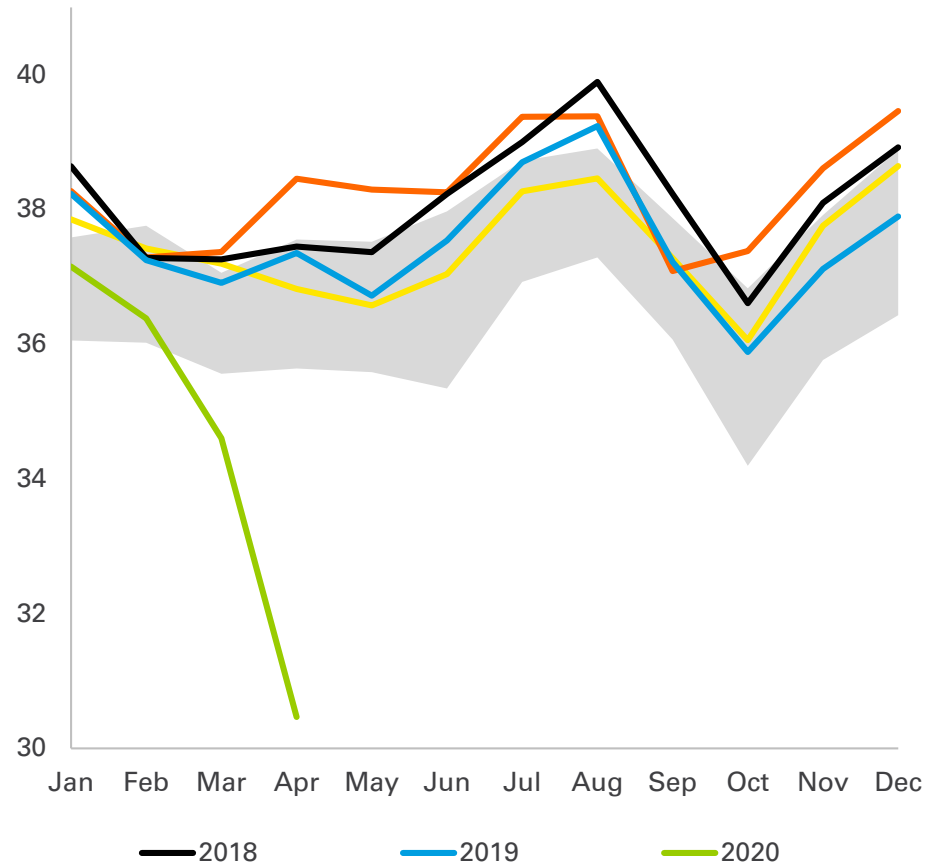
US crude runs

mbd



OECD crude runs

mbd

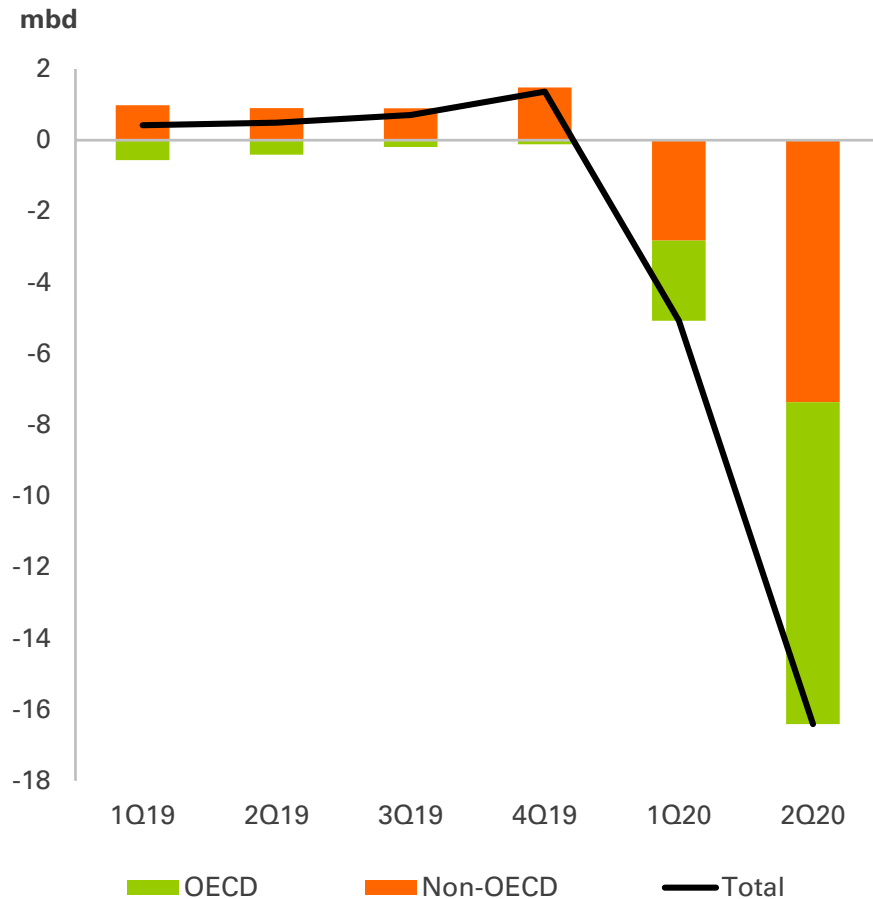


Global oil demand fell by a record 16.4mbd in 2Q20

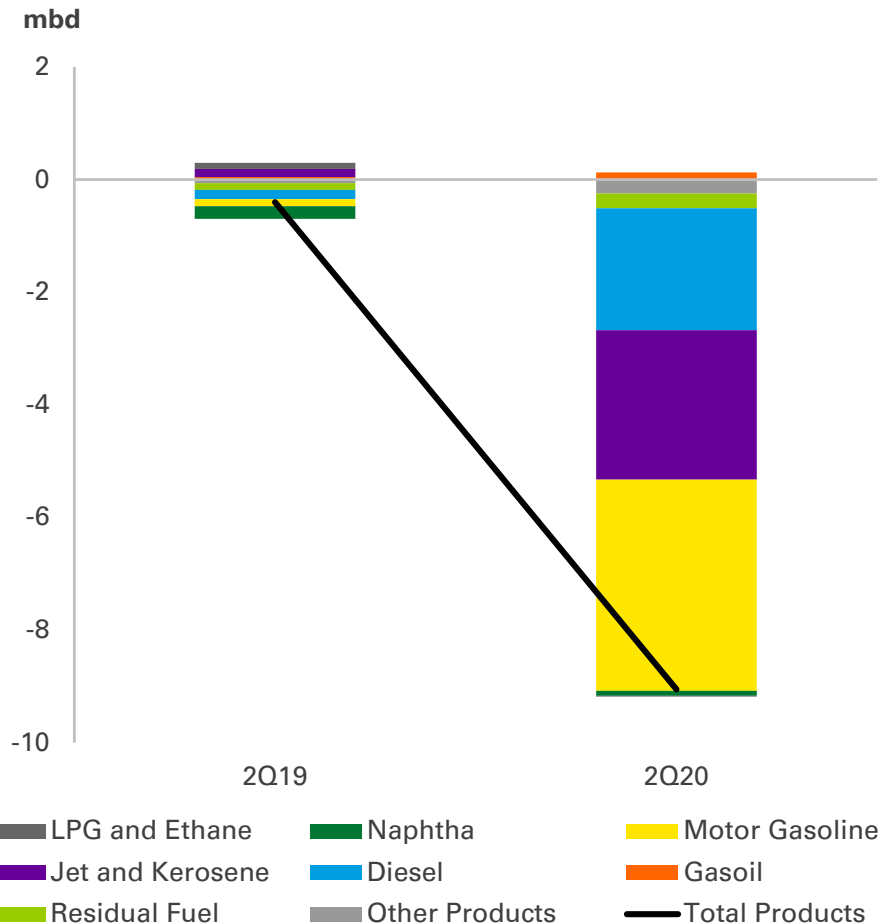


- Oil demand fell significantly as global travel restrictions were introduced to control the COVID-19 pandemic. Apr-20 was the peak of demand destruction in 2Q20, at **21.7mbd**.
- 2Q20 oil product demand averaged **82.9mbd**, a **16.4mbd** reduction since 2Q19 and **11mbd** reduction on 1Q20.
- In 2Q20, gasoline, jet/kero and diesel fell 3.8mbd, 2.7mbd and 2.2mbd YoY respectively due to lockdowns imposed to prevent the spread of COVID-19.

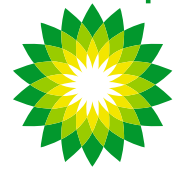
YoY Global oil products demand growth



YoY OECD oil products demand growth

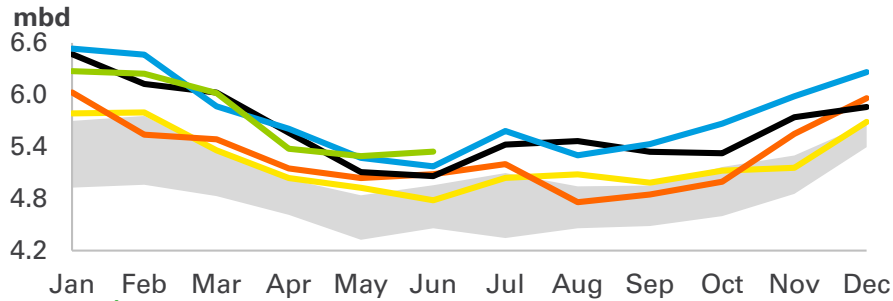


OECD product demand somewhat recovered in May and June 2020 from the lows recorded in April

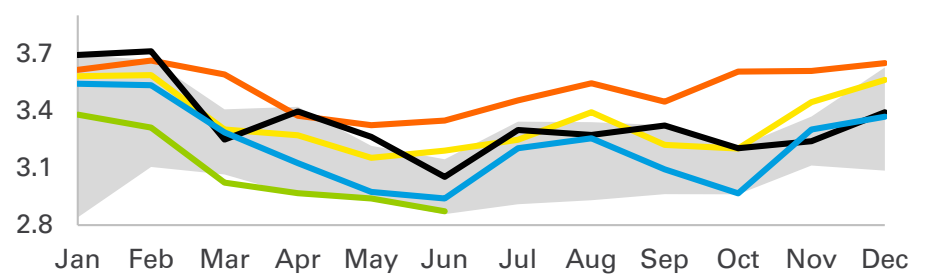


- Fuels used predominantly in transport, such as gasoline and jet, saw dramatic demand declines in 2020 as governments introduced travel restrictions and flight cancellations increased. Ethane/LPG and naphtha demand were more resilient than other products driven by non-transport (e.g. petrochemical) use.
- Despite product demand recovery, Jun-20 total product demand was still **13%** lower than Jan-20 levels.

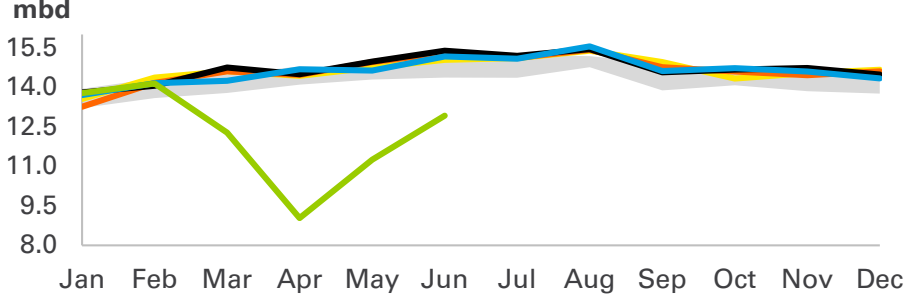
OECD Product Demand Ethane and LPG



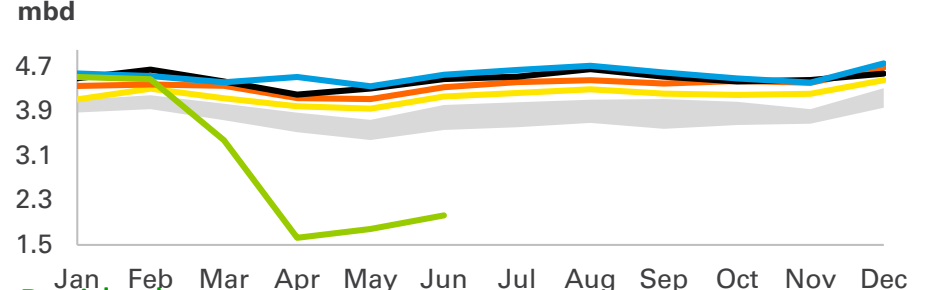
Naphtha



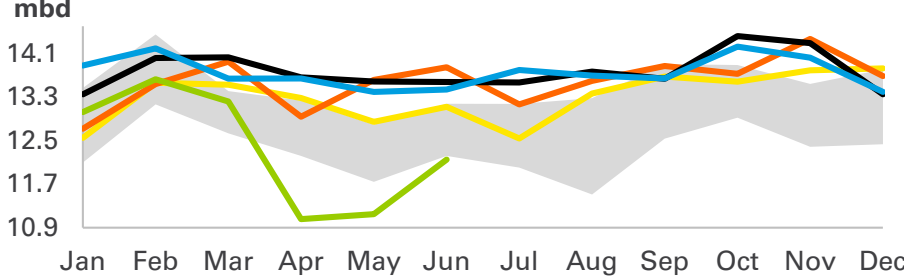
Gasoline



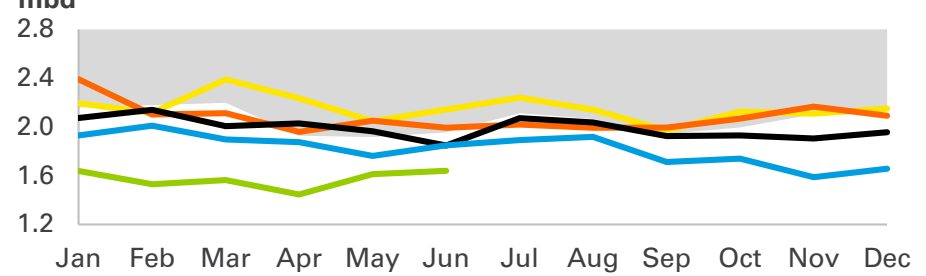
Jet/Kerosene



Diesel/Gasoil



Residuals



■ '09-'15 range ■ 2016 ■ 2017

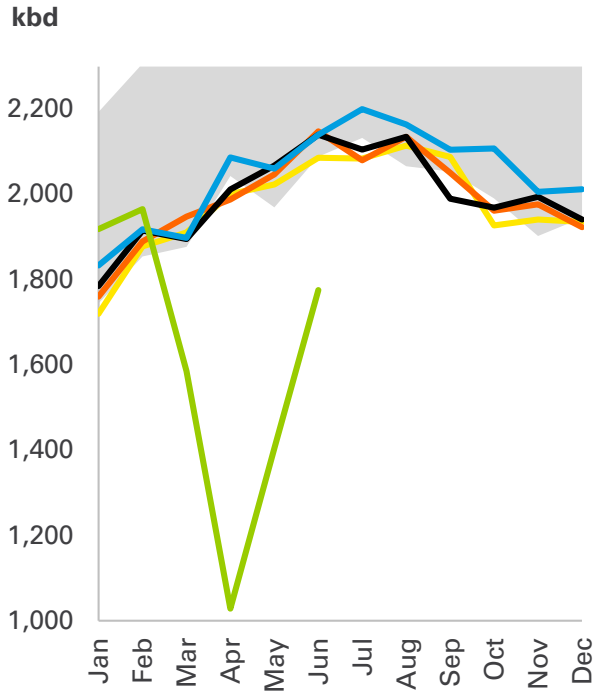
■ 2018 ■ 2019 ■ 2020

After an unprecedented decline in Apr-20, gasoline demand partially recovered in May and June 2020 as travel restrictions were eased

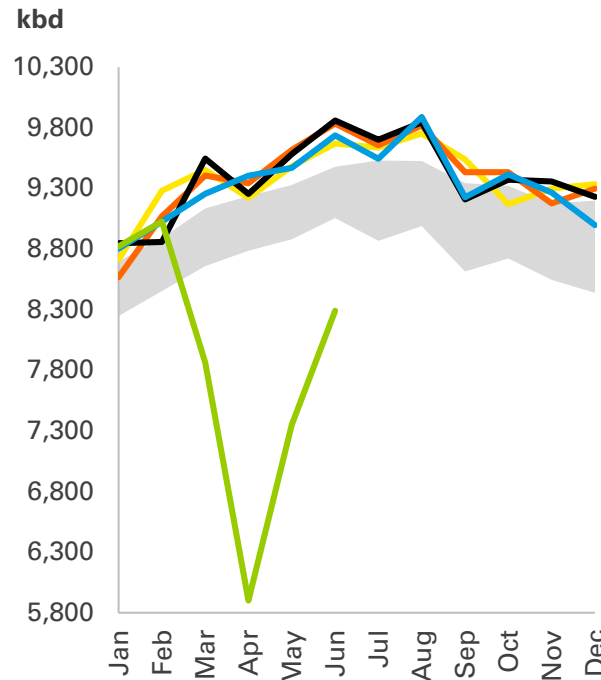


- Gasoline is almost exclusively used in road transport, and COVID-19 containment measures resulted in OECD demand falling from **14.1mbd** in Feb-2020 to **9.0mbd** in Apr-20. In Jun-20 OECD demand was recorded at **12.9mbd**.
- Jun-20 mobility data indicates that recovery in mobility has been uneven and is largely dependent on local government policy. For example, German gasoline demand in Jun-20 was only **2% lower** YoY.
- US gasoline demand collapsed to **5.9mbd** in Apr-20 from **9.0mbd** in Feb-20 but has since increased; Jun-20 US gasoline demand was down **15% YoY**.

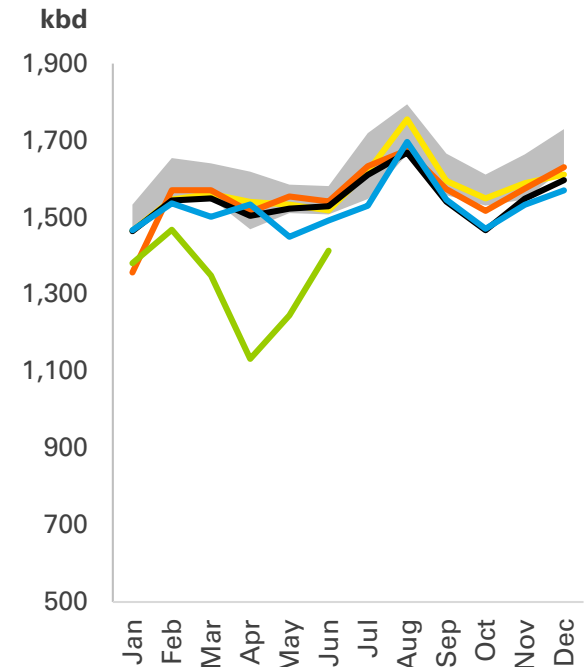
OECD Europe Gasoline Demand



US Gasoline Demand



OECD Asia and Oceania Gasoline Demand



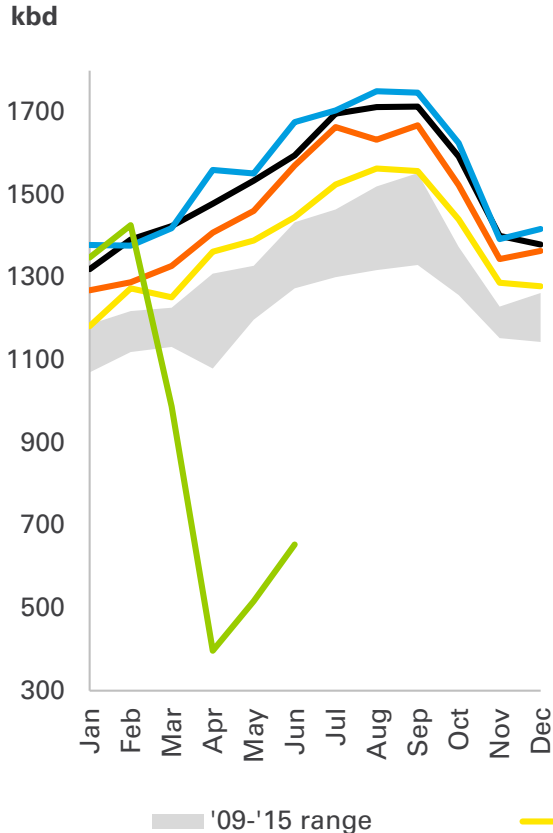
Legend: '09-'15 range (grey shaded area), 2016 (yellow), 2017 (orange), 2018 (black), 2019 (blue), 2020 (green)

Jet demand is yet to materially recover from Apr-20 lows as flight cancellations remain high bp

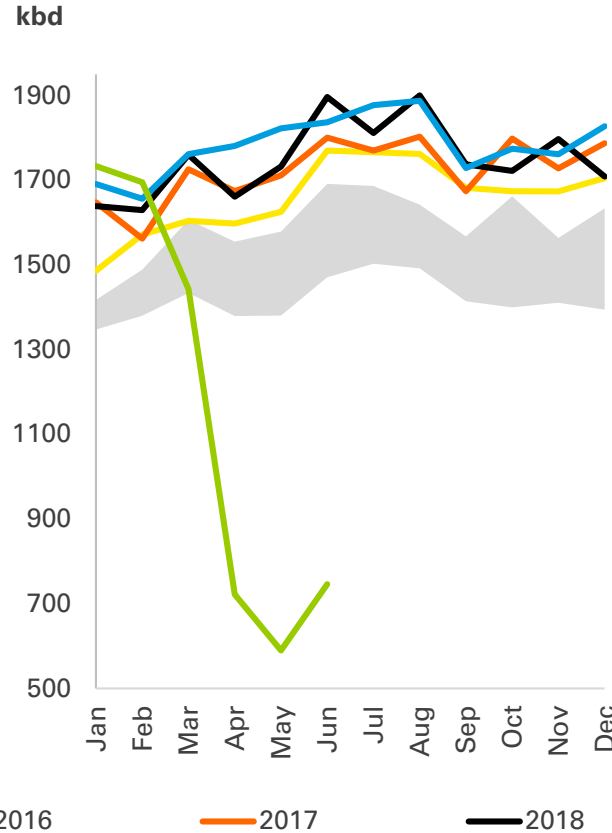


- OECD jet/kero demand fell from **4.5mbd** in Feb-20 to **1.6mbd** in Apr-20 as widespread travel restrictions were introduced to contain the COVID-19 pandemic. Although some local travel restrictions were eased towards the end of 2Q20, flight cancellations remained elevated. OECD jet/kero demand recovered slightly to 2.0mbd in Jun-20.
- In Apr-20, OECD Europe and the US saw a YoY fall in jet/kero demand of 75% and 59% respectively. In Jun-20, demand remained 61% and 59% down YoY respectively.

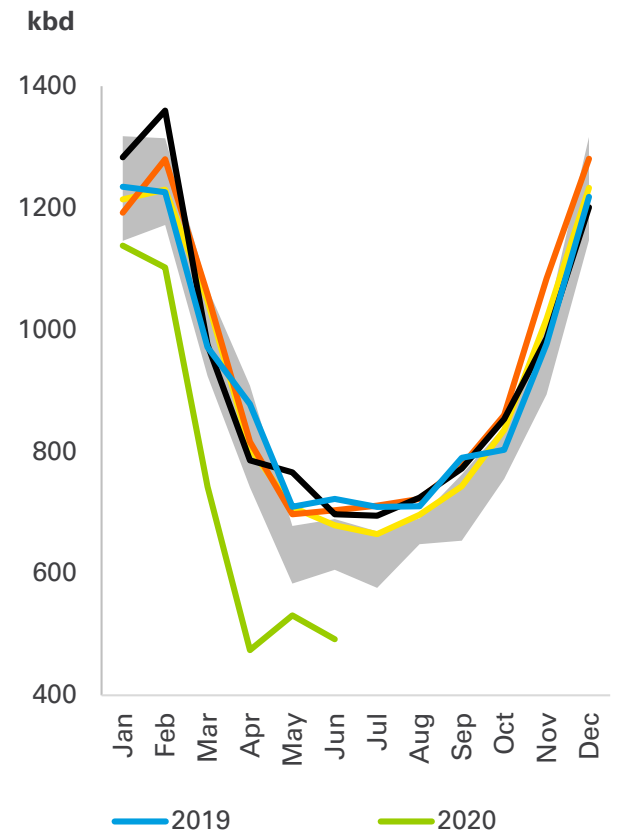
OECD Europe Jet/kero Demand



US Jet/kero Demand



OECD Asia and Oceania Jet/kero Demand

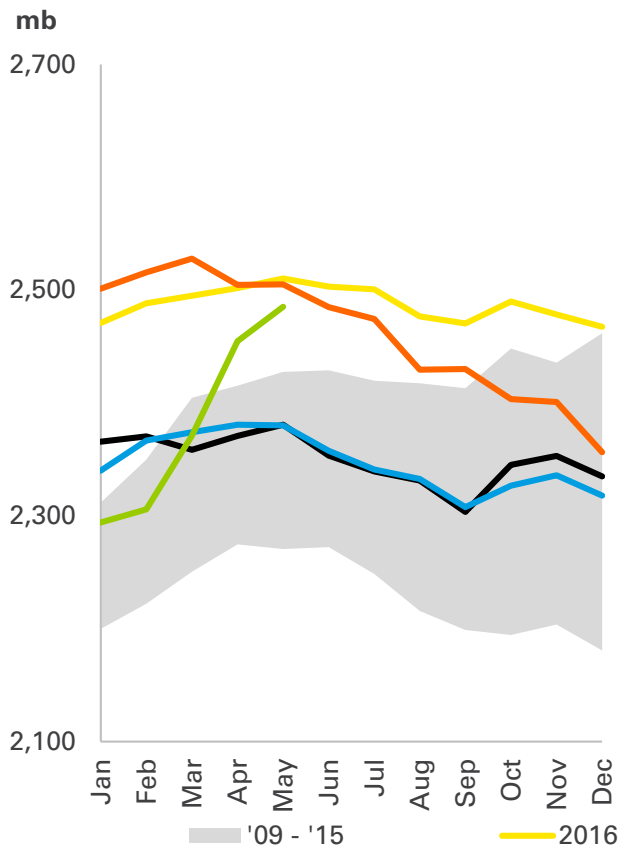


OECD crude oil stocks built rapidly between Mar-20 and May-20

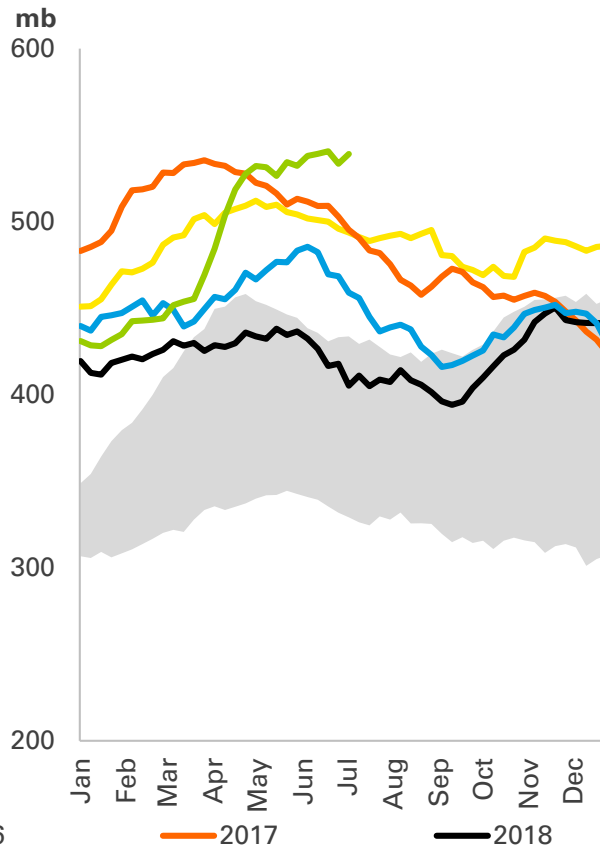


- Crude oil stocks built rapidly between Mar-20 and May-20 as the dramatic reduction in demand outstripped falls in crude supply.
- OECD crude inventories have built by **190mb** since the start of the year, reaching nearly **2500mb** in May-20 (the latest data point available).
- Between May-20 and Jul-20, US crude inventories built by **7mb**, compared to a **75mb** build between Mar-20 and mid Apr-20.
- Cushing inventories peaked at the beginning of May-20 at **65mb**, but have since decreased to **48mb** in Jul-20.

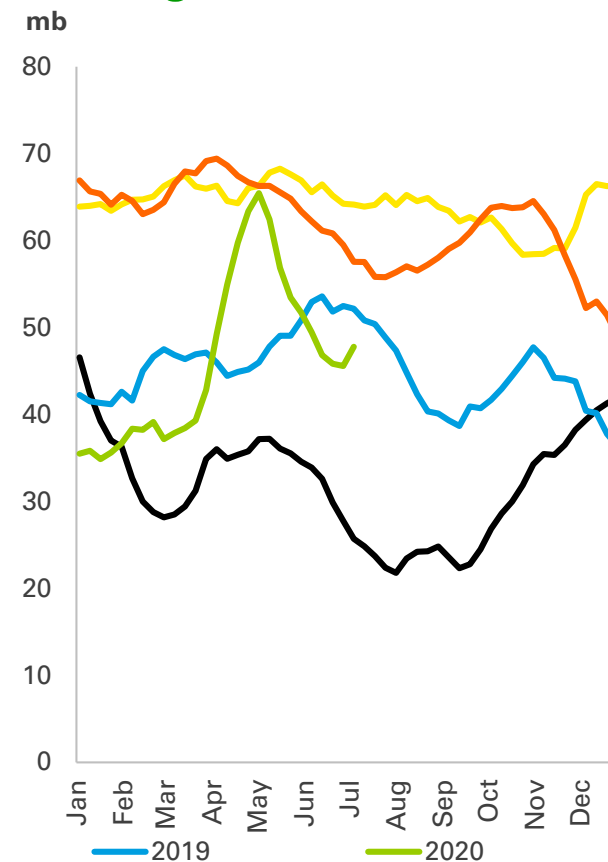
OECD Crude inventories



US Crude inventories



Cushing inventories

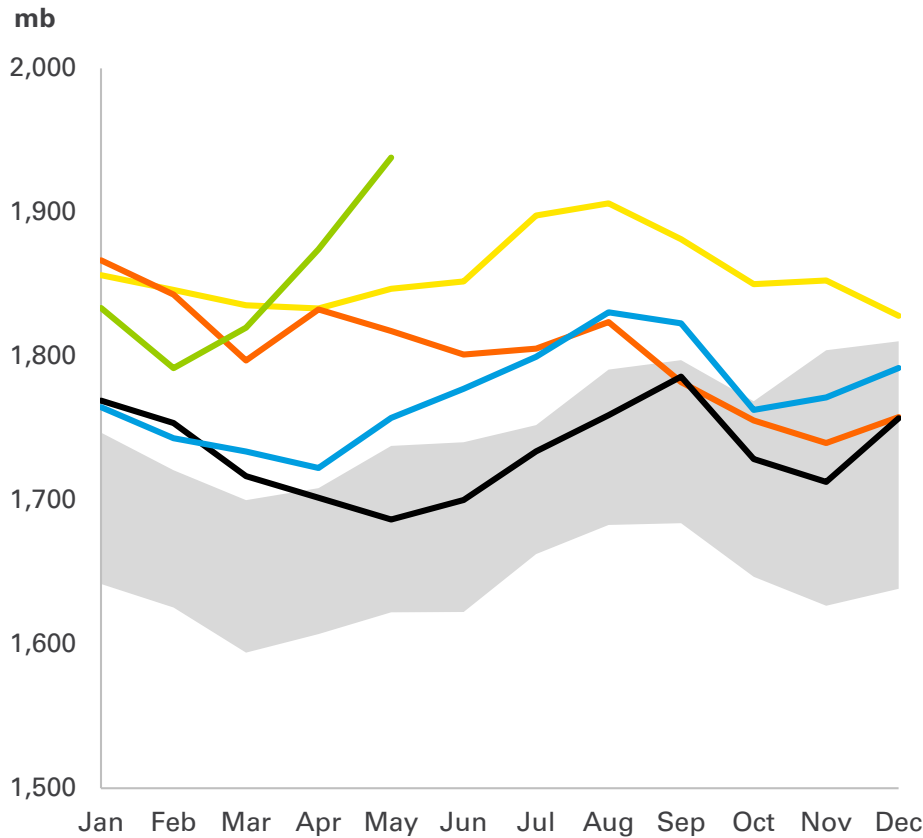


OECD product stocks built above historical highs in May-20

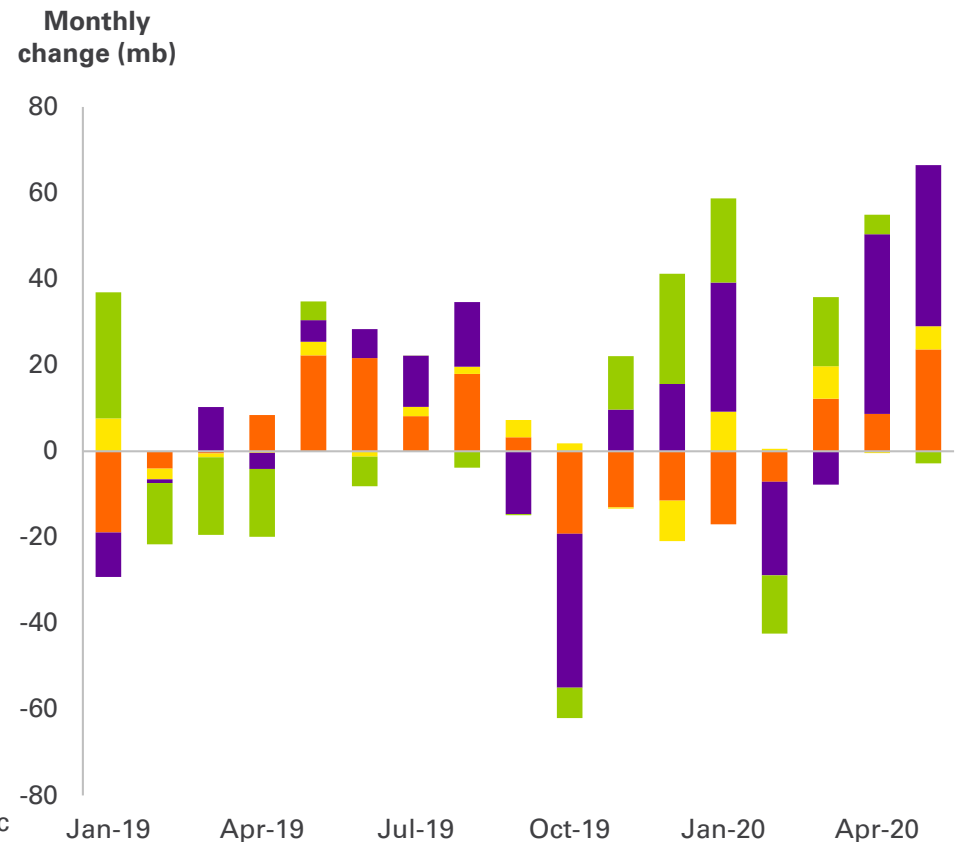


- Product stocks built rapidly during 2020 as COVID-19 countermeasures led to substantial demand destruction.
- OECD product stocks rose to a historic high of **1950mb** in May-20 (**100mb** build since the start of the year).
- Middle distillates make up the majority of the product stock builds in Apr-20 and May-20, as Jet/Diesel demand for transport declined.

OECD Total Product Stocks



OECD Total Product Stock Change



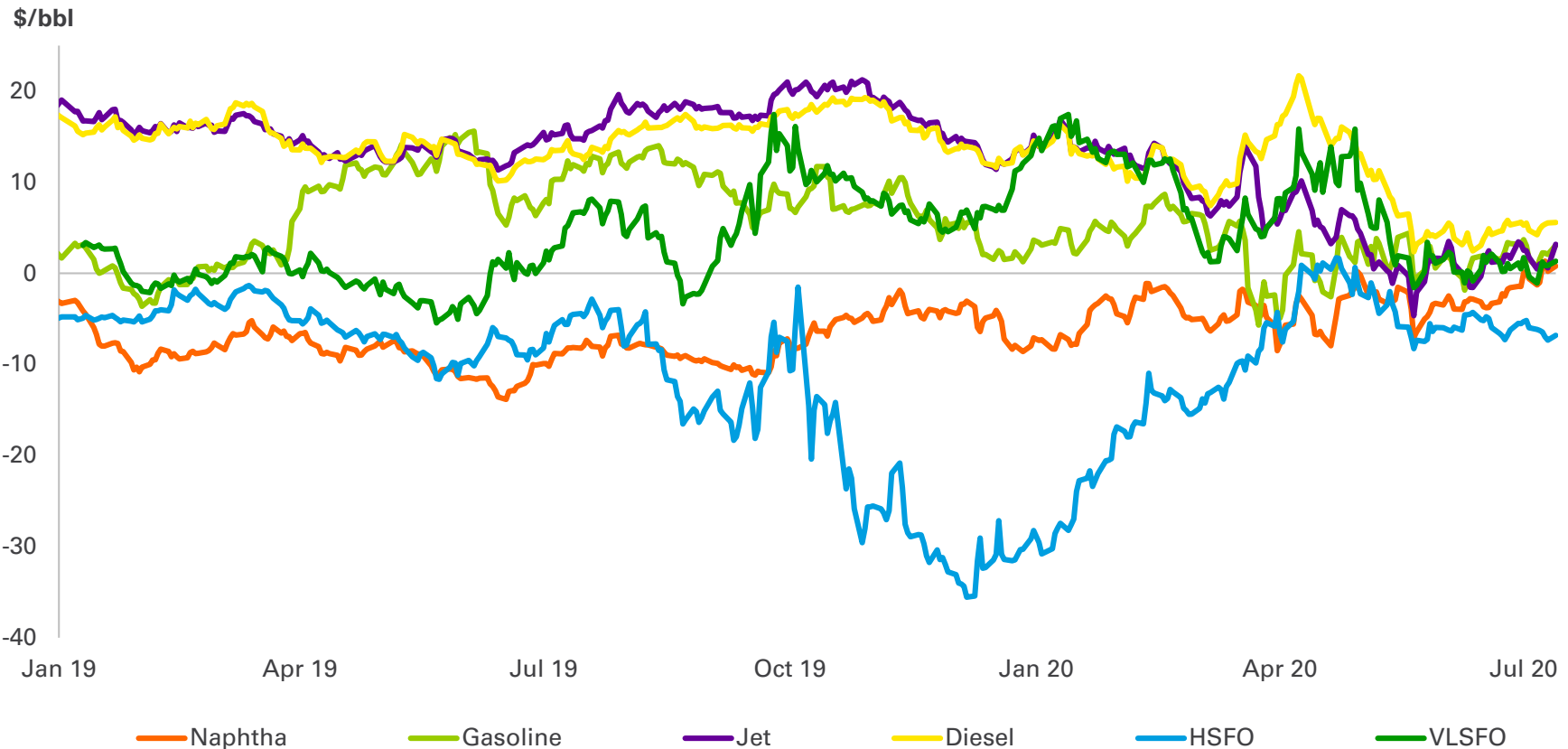
'09-'15 range
 2016
 2017
 2018
 2019
 2020
 Motor gasoline
 Middle distillates
 Residual fuel oil
 Other products

European products cracks remain compressed



- Gasoline is currently trading at **+\$4/bbl**, similar to the weak levels observed in 1Q19. Naphtha cracks have trended upwards recently and are trading at **-\$1/bbl** driven by increased gasoline blending and steam cracker demand, and low refinery runs limiting supply.
- Jet averaged **+\$2/bbl** in 2Q20, from a 2Q19 average of **+\$13/bbl**, as commercial flight cancellations reached record highs in April and May-20.
- Diesel has been consistently trading above Jet since Mar-20, and averaged **+\$8/bbl** in 2Q20. Diesel is currently trading at **+\$5/bbl**. VLSFO cracks have fallen to **+\$1/bbl** driven by weak bunker demand as a result of the current crisis.

Product Cracks (NWE FOB)



Note: Prices and cracks as of 13th July 2020

Source: S&P Global Platts® 17

Refinery margins averaged \$5.90/bbl in 2Q20, the lowest quarterly average since 2002



- Global Refinery Marker Margins (RMM) fell dramatically in Mar-20 as demand for oil products deteriorated rapidly. RMM spiked on 20th April as a result of WTI trading at negative pricing, temporarily lifting US diesel and gasoline cracks to around **+\$50/bbl**.
- 2Q20 average RMM was **\$5.90/bbl**, the lowest quarterly average in nearly two decades (4Q02). 2Q20 was the 4th consecutive quarter of decline in refinery margins.

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.