



# Oil Market Update

May 2020

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# Market Summary



- At the time of writing, **Brent** is currently trading around **\$25/bbl**, falling following the unfortunate outbreak and global spread of the COVID-19 pandemic.
- **Crude oil inventories** have been building as supply has exceeded very low demand. On 20<sup>th</sup> April, the WTI May-20 futures contract hit historic lows at **-\$37/bbl** the day before expiry due to concerns around storage capacity in Cushing, Oklahoma.
- Initially, in an effort to balance the oil market amidst COVID-19 demand weakness, the **Vienna Alliance** of OPEC and non-OPEC producers met on the 6<sup>th</sup> March to discuss further production cuts. However, they were unable to reach an agreement and Saudi Arabia subsequently announced substantial discounts on its Official Selling Prices (OSPs) for April and stated that it would increase production to **record highs of 12.3mbd**. Brent and WTI prices subsequently fell almost 25% on 9<sup>th</sup> March.
- **OPEC and non-OPEC producers** met for an emergency meeting on 9<sup>th</sup> 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 April 2022.
- Despite OPEC+ intervention, prices subsequently fell as the extent of the **demand destruction** from COVID-19 countermeasures became apparent. OECD transport fuel demand has rapidly decreased, with Mar-20 jet/kero demand down 20% YoY.

# Crude prices fall as COVID-19 spreads



- Brent has fallen by approximately 65% since highs of \$71/bbl recorded on 6<sup>th</sup> Jan-20.
- Crude prices fell to record lows in Apr-20 due to unprecedented demand weakness as travel restrictions have been introduced globally to control the spread of COVID-19.
- On 20<sup>th</sup> April, WTI traded at a negative price for the first time in history at -\$37/bbl.
- On 27<sup>th</sup> April, the Jun-20 Brent and WTI futures contracts traded at **\$20/bbl** and **\$13/bbl** respectively.

## Global Crude Weekly Prices

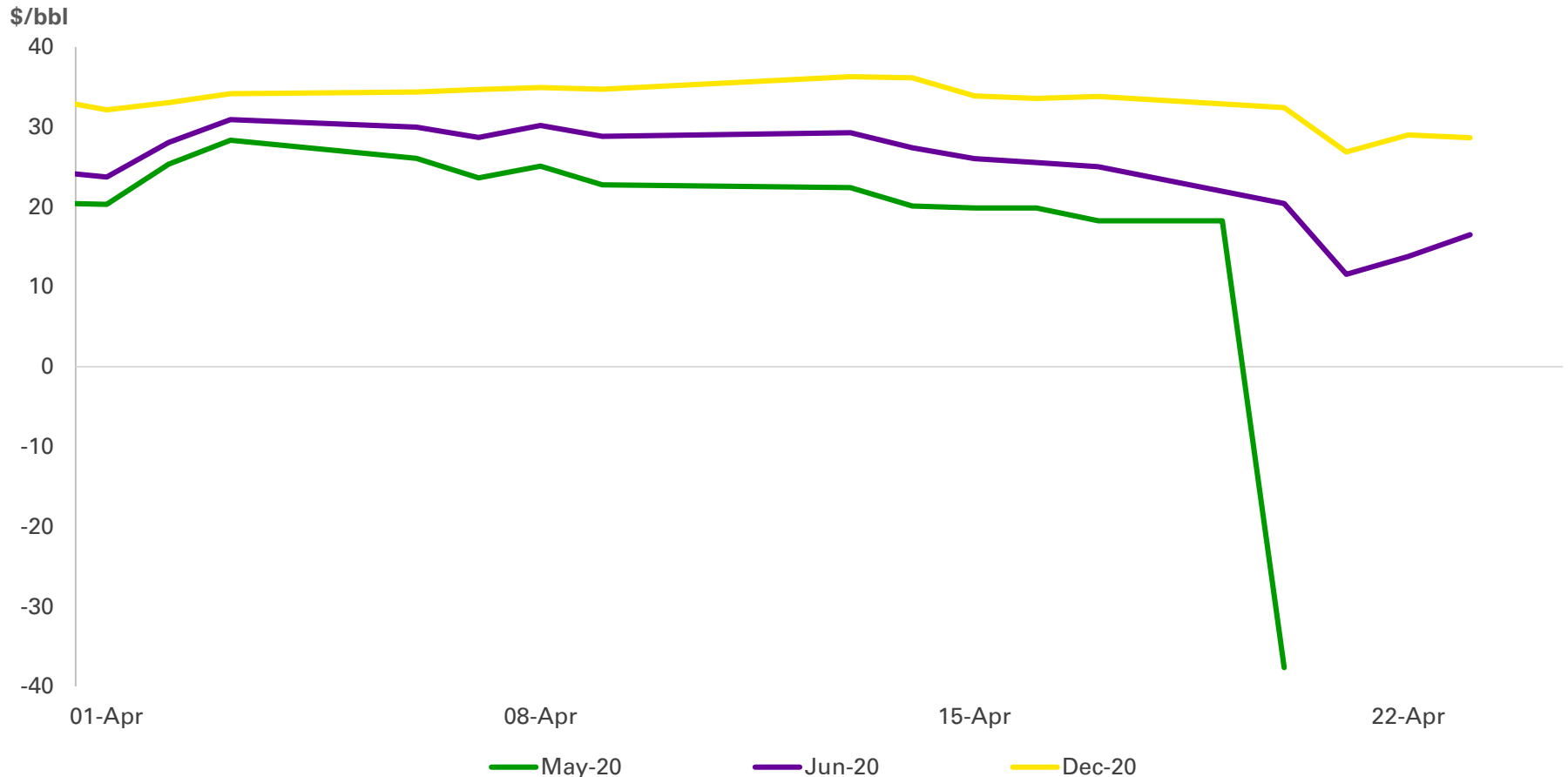




# WTI traded at **-\$37/bbl** on 20<sup>th</sup> April 2020

- On 20<sup>th</sup> 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/bbl**.
- Prices fell sharply due to concerns around Cushing storage capacity in May-20, when the crude was due for delivery from the expiring contract.
- The May-20 WTI contract ended trading at **\$0.65/bbl**.
- The Jun-20 contract fell to \$11/bbl and, on 27<sup>th</sup> April, is trading at **\$13/bbl**. The Dec-20 contract is trading at **\$27/bbl**.

## WTI Futures contracts

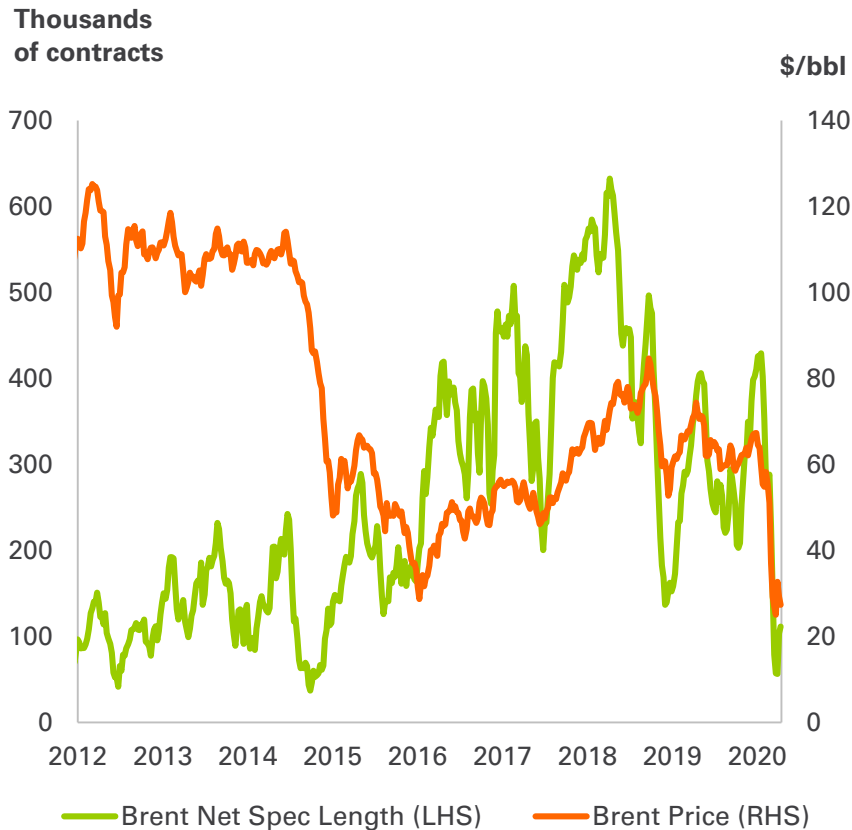


# Net speculative length falls with crude price

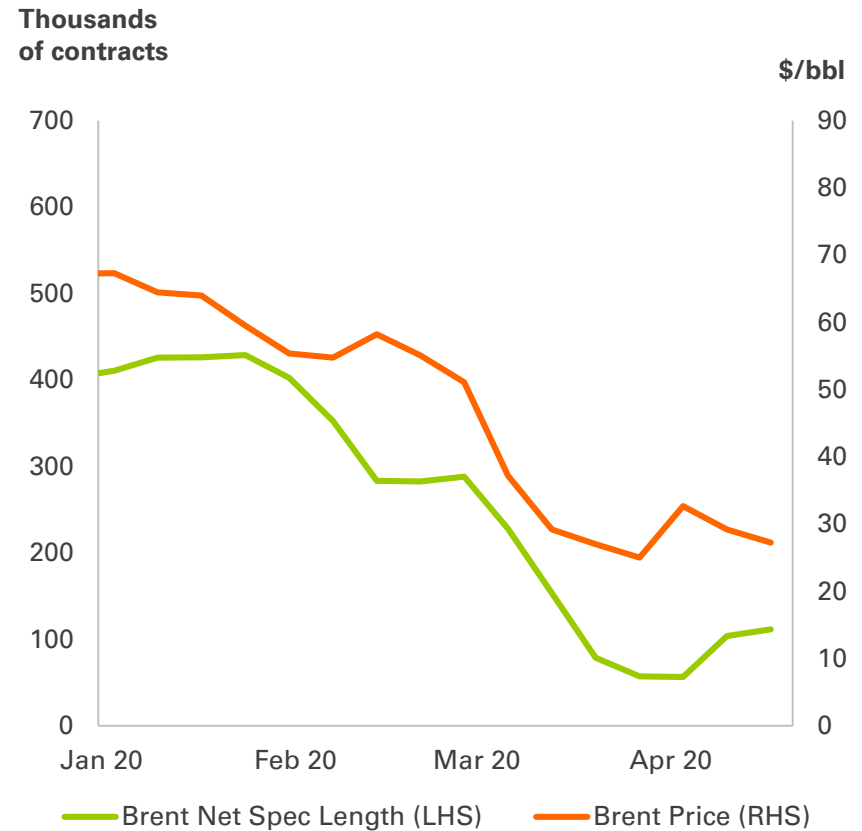


- NSL fell rapidly during 1Q20, reaching lows of 55k contracts, the lowest level since 2014.
- NSL recovered slightly by mid-April, at 100k contracts. However, contracts are still 300k lower than since the start of the year.

## Net Speculative Length (2012-2020)



## Net Speculative Length (2020)

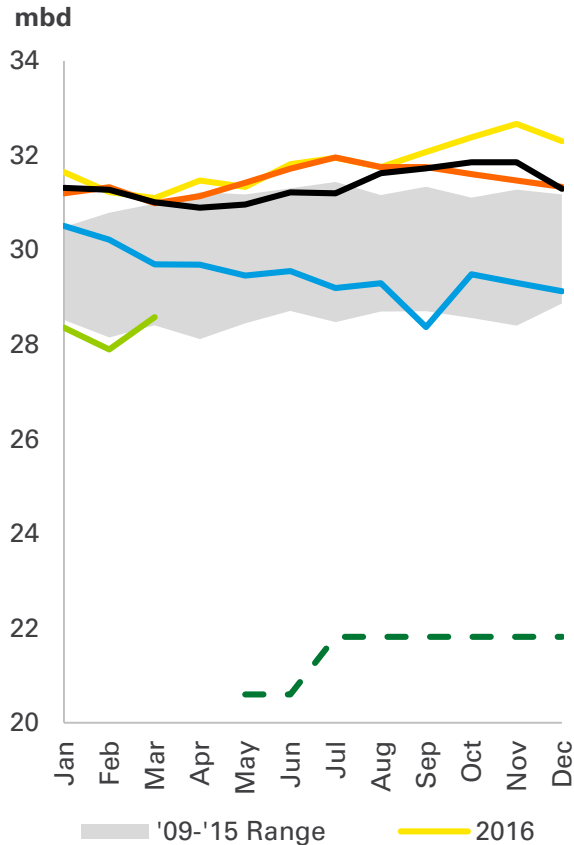


# OPEC+ agree 9.7mbd of cuts on 9<sup>th</sup> April 2020

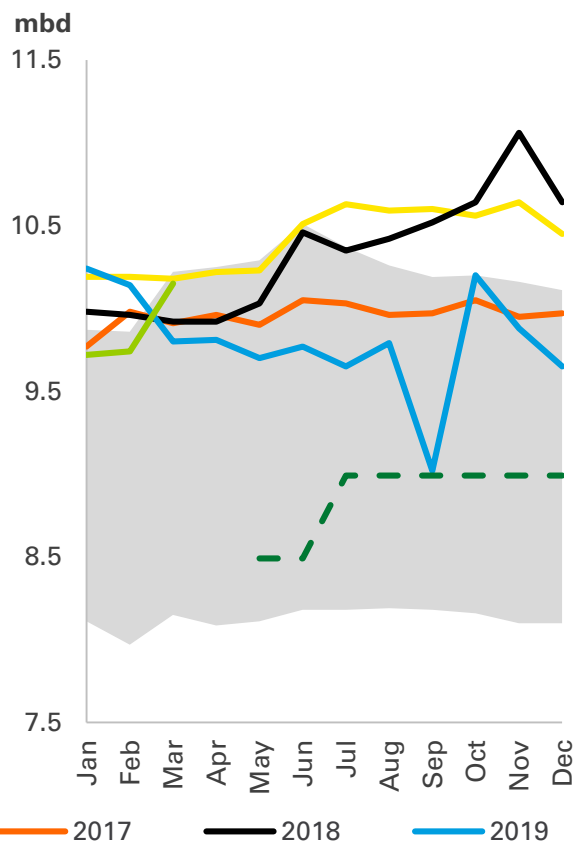


- Brent and WTI prices fell almost 25% on 9<sup>th</sup> March after OPEC and non-OPEC producers were unable to reach an agreement on further production cuts on 6<sup>th</sup> March. Saudi Arabia announced substantial discounts to its official selling prices for crudes in April, and made commitments to increase production to record highs of **12.3mbd** (having produced **9.7mbd** of crude oil in Feb-20).
- Following continued low oil prices, OPEC and non-OPEC producers met on the 9/10<sup>th</sup> 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 Apr-22.
- If cuts are fully complied with, 2H20 production from current OPEC members to be approximately **25% less** than 2H19.

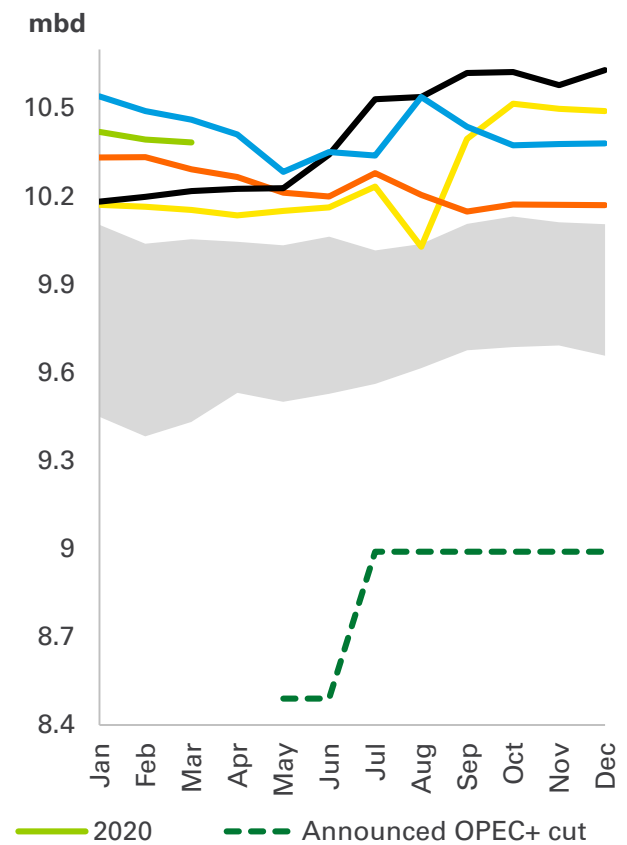
## OPEC Crude Supply



## Saudi Crude Supply



## Russia Crude Supply

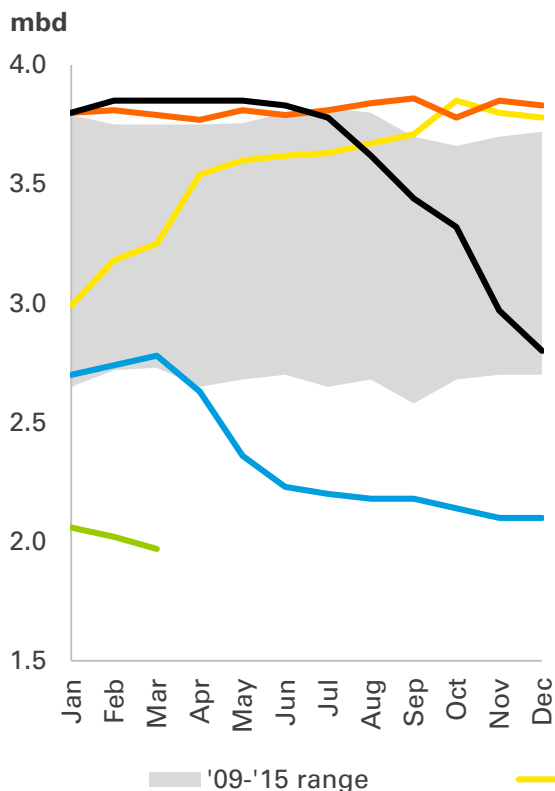


# Iranian, Libyan and Venezuelan output remains low

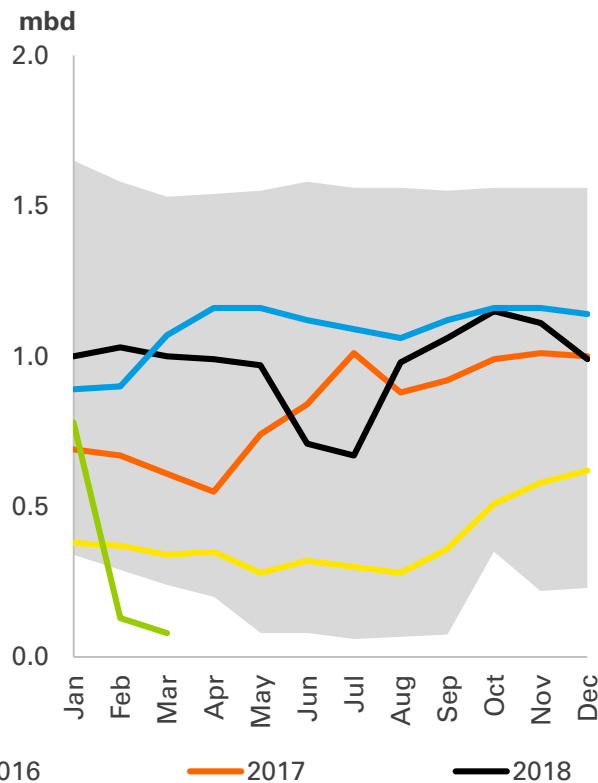


- Iranian crude supply remained low at **2mbd** in Mar-20, as US sanctions suppressed the country's oil exports.
- Libyan crude supply has declined 700kbd since Jan-20 to **80kbd** in Mar-20 as production disruptions continue.
- Venezuelan output decreased slightly to **670kbd** in Mar-20, due to ongoing operational difficulties and the pressure of international sanctions.

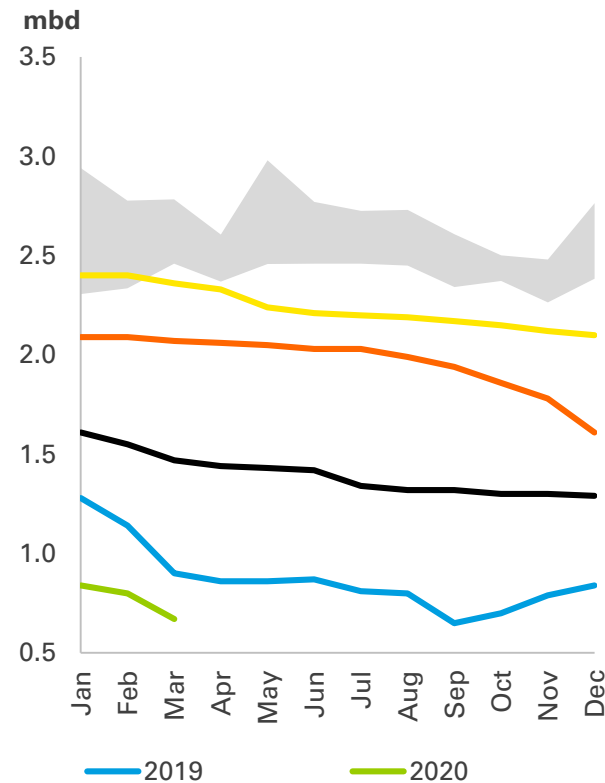
## Iran Crude Supply



## Libya Crude Supply



## Venezuela Crude Supply



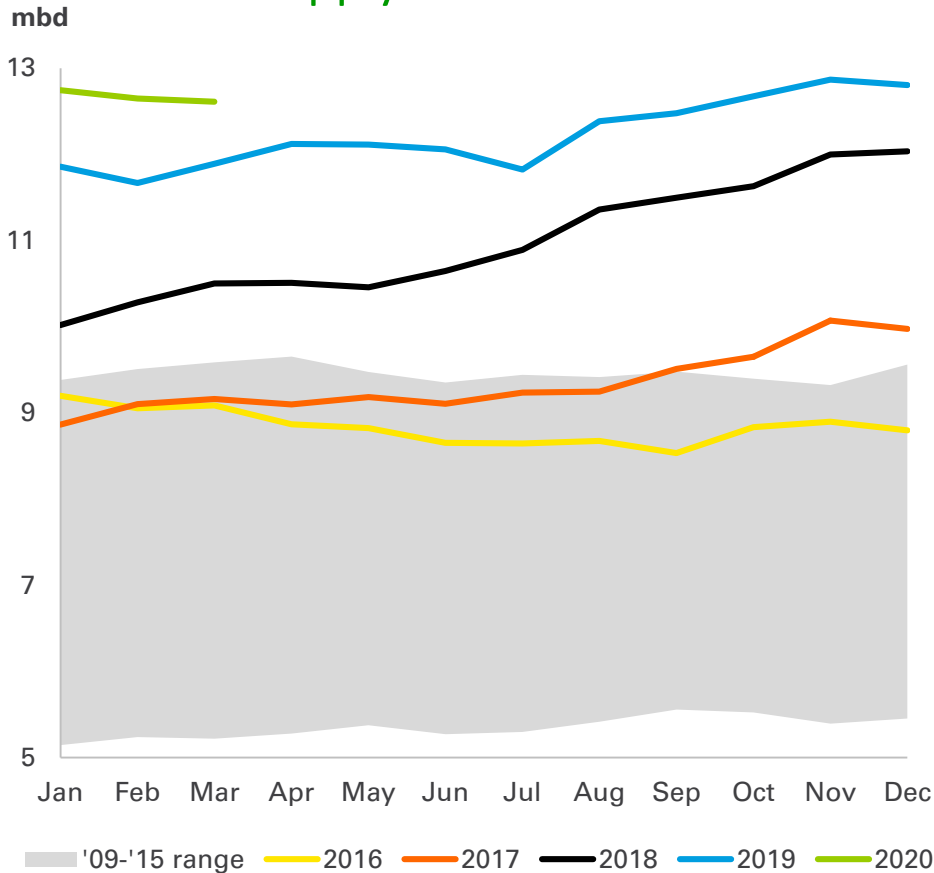


# US crude production fell in Q1 2020

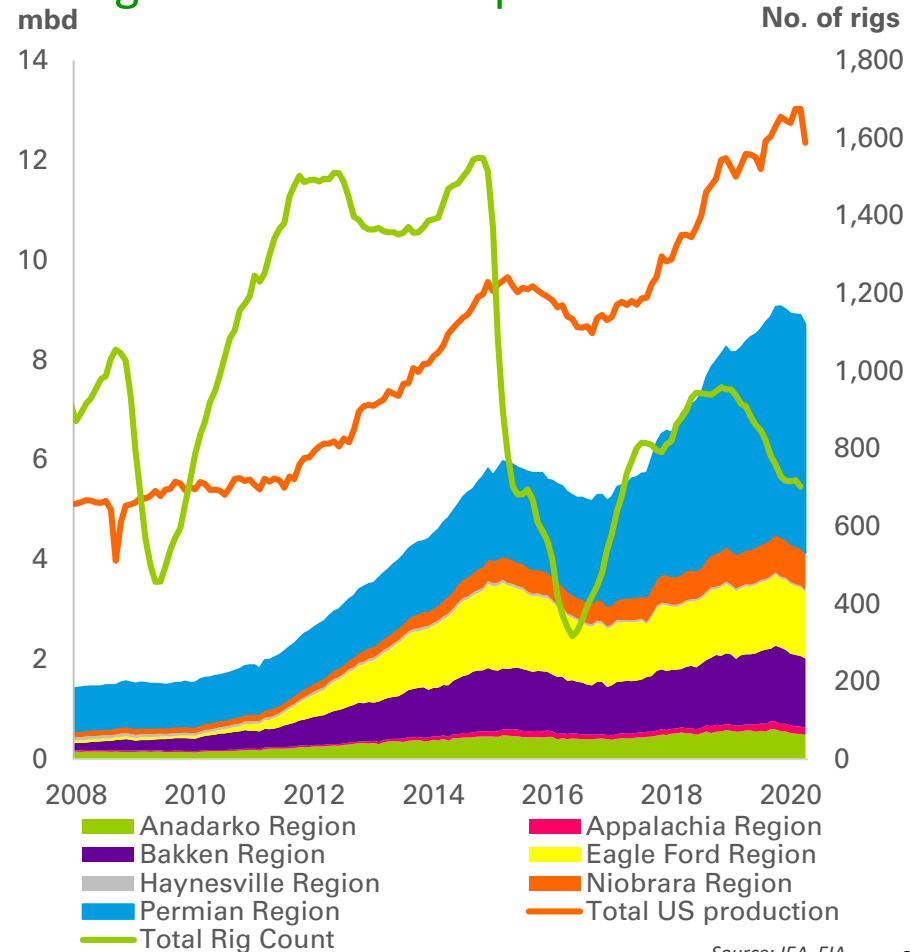


- US crude supply fell slightly in 1Q20, from 12.8mbd in Dec-19 to 12.6mbd in Mar-20. The latest weekly DOE statistics (week ending 17<sup>th</sup> April) report US crude supply at **12.2mbd**.
- US drilling companies have cut budgets and drilling plans as a response to low prices.
- The EIA recorded the rig count at **702** in Mar-20, however, further declines have materialised in Apr-20. Baker Hughes reported a rig count of **465** for 24th April, down 64 week on week and a **34% decrease** from Mar-20.

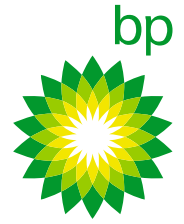
## US Crude Supply



## Rig count vs. crude production

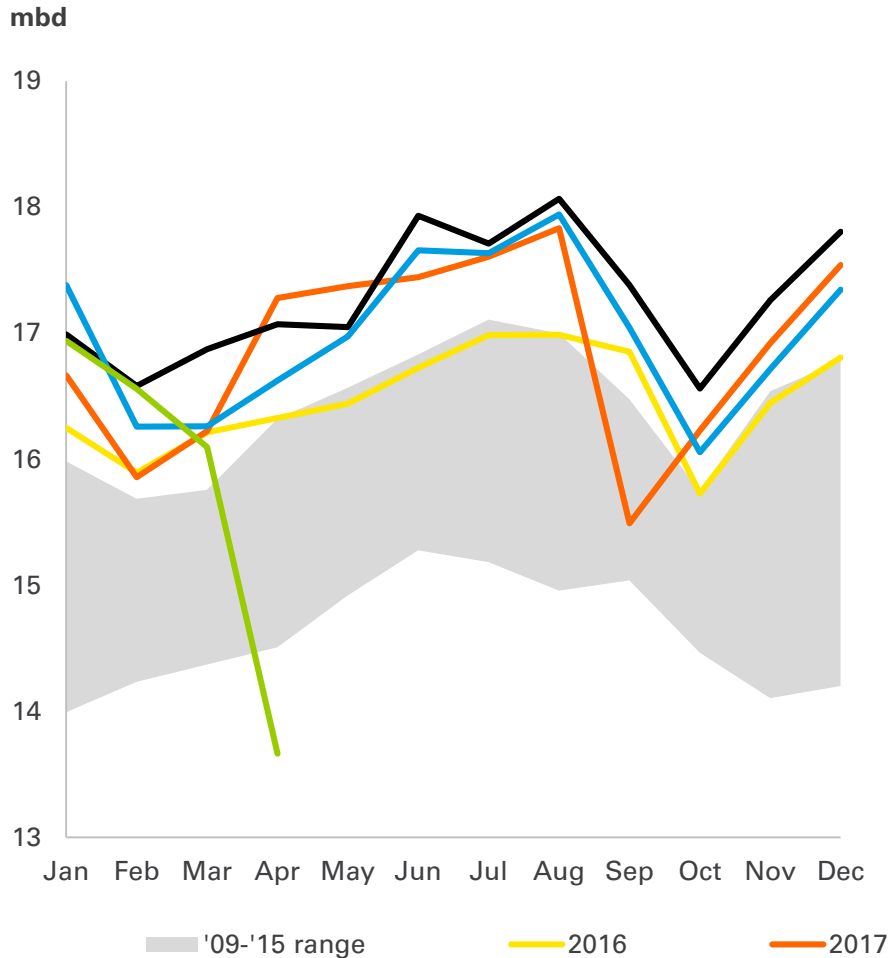


# US refinery runs drop sharply as product cracks fall

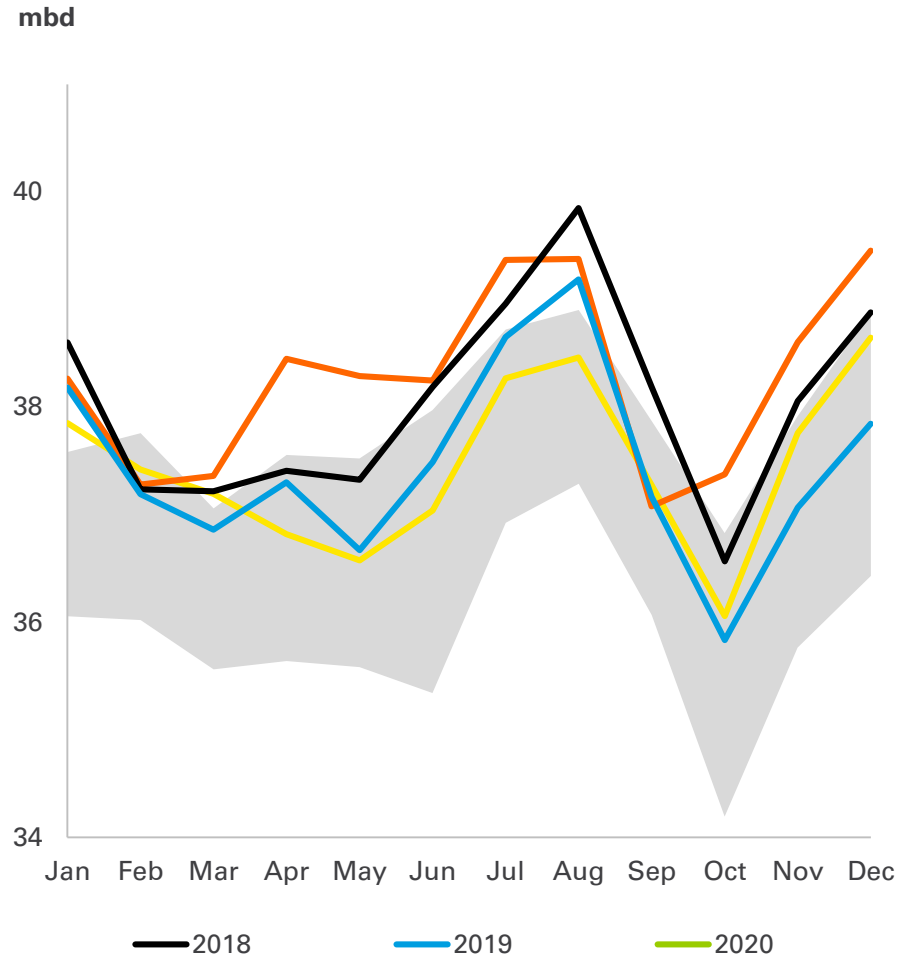


- US crude runs have decreased sharply in Apr-20, with current average throughput data from the EIA at **13.6mbd** for Apr-20, **2.4mbd** lower than Mar-20.
- OECD crude runs were in line with averages at **37mbd** in Jan-20, the last data point available.

## US crude runs



## OECD crude runs

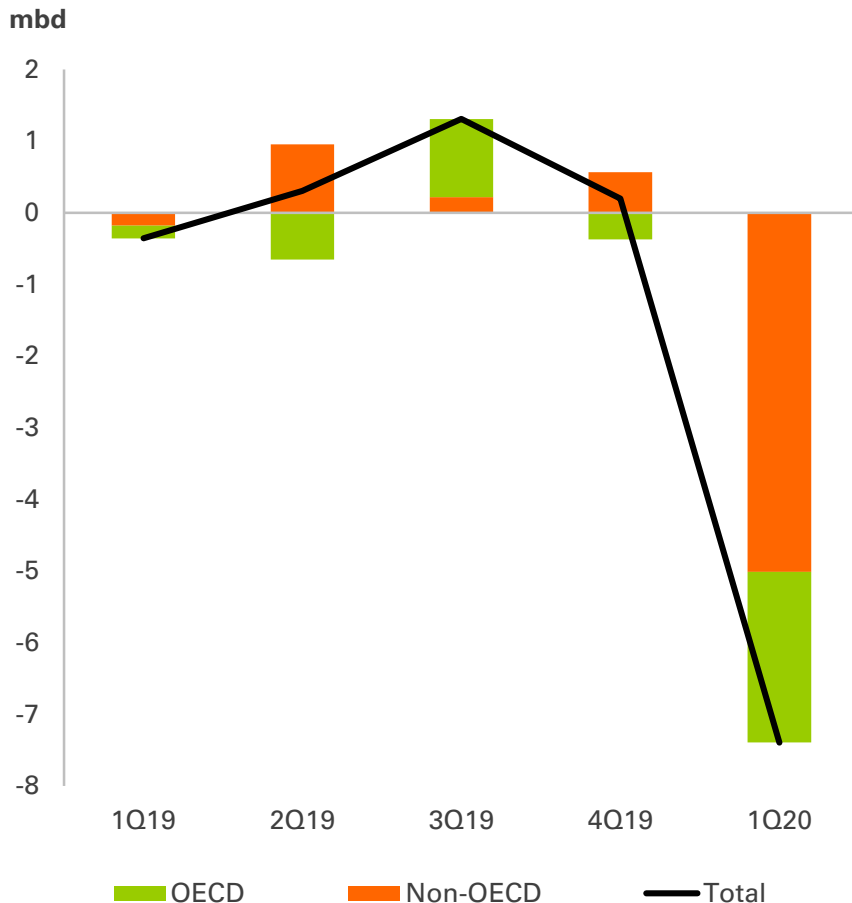


# Global oil demand fell by a record 7.4mbd in 1Q20

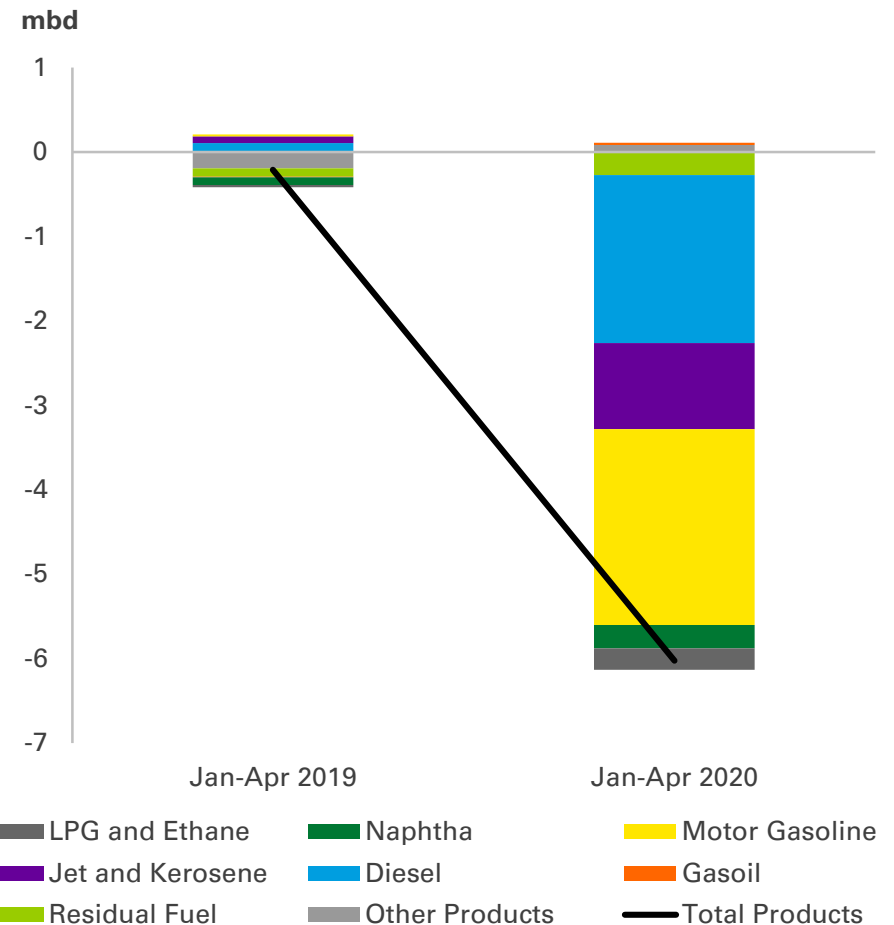


- Oil demand has fallen significantly as global travel restrictions have been introduced to control the COVID-19 pandemic.
- 1Q20 oil product demand was **93.3mbd**, a **5.6mbd** reduction since 1Q19 and **7.4mbd** reduction quarter on quarter.
- The IEA forecasts the largest demand destruction in Apr-20 (**29mbd** lower YoY). Demand in Apr-20 is forecast to be similar to 1995 demand levels.

## Global QoQ oil products demand growth

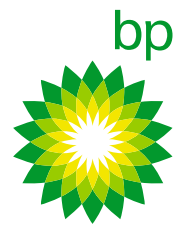


## QoQ OECD oil products demand growth



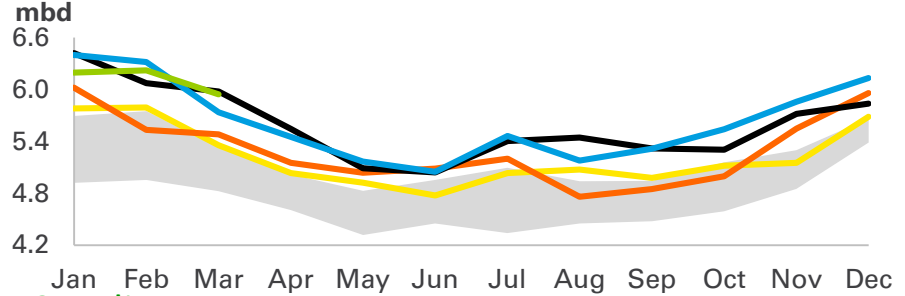
Note: April 2020 demand numbers are IEA forecasts

# OECD product demand was exceptionally weak in March

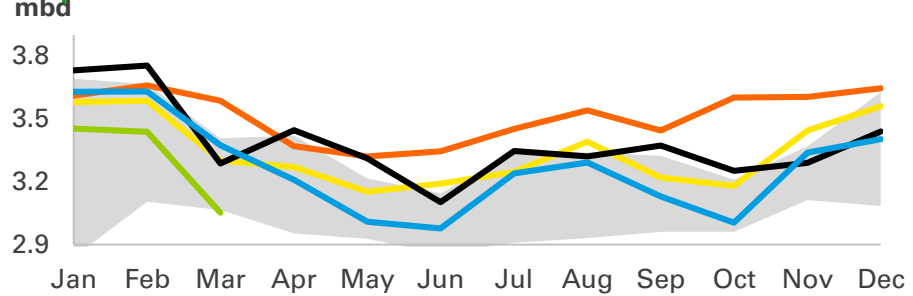


- Fuels used predominantly in transport, such as gasoline and jet, saw dramatic demand declines in Mar-20 as governments introduced travel restrictions and flight cancellations increased.
- Jet demand dropped 20% in Mar-20 YoY, and the IEA forecasts jet demand in Apr-20 to drop by more than 50% YoY as flight cancellations reach record highs.

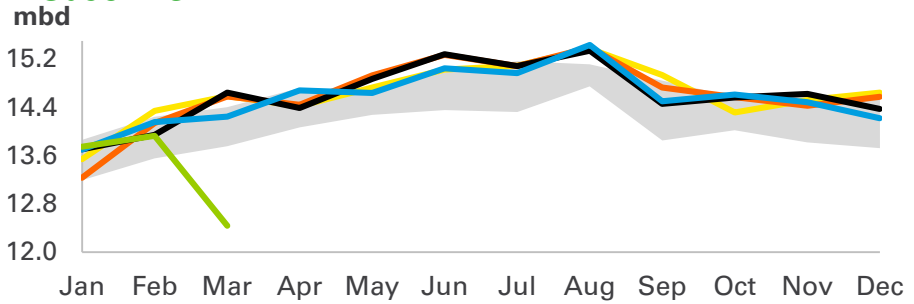
## OECD Product Demand Ethane and LPG



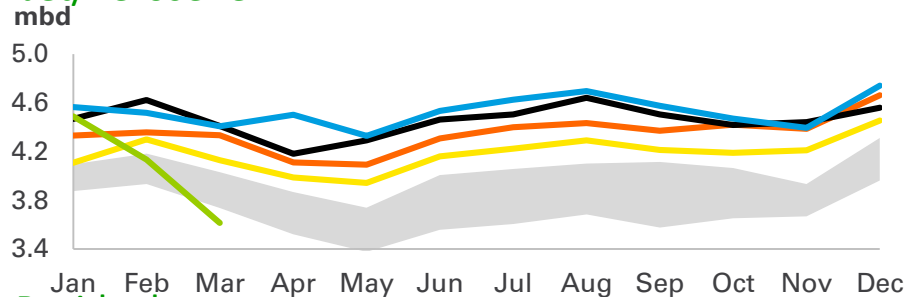
## Naphtha



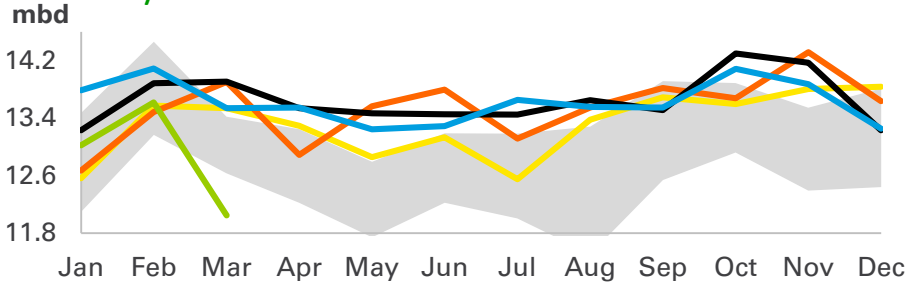
## Gasoline



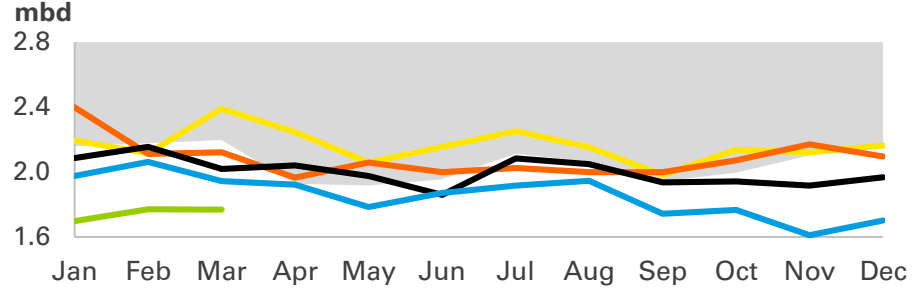
## Jet/Kerosene



## Diesel/Gasoil



## Residuals



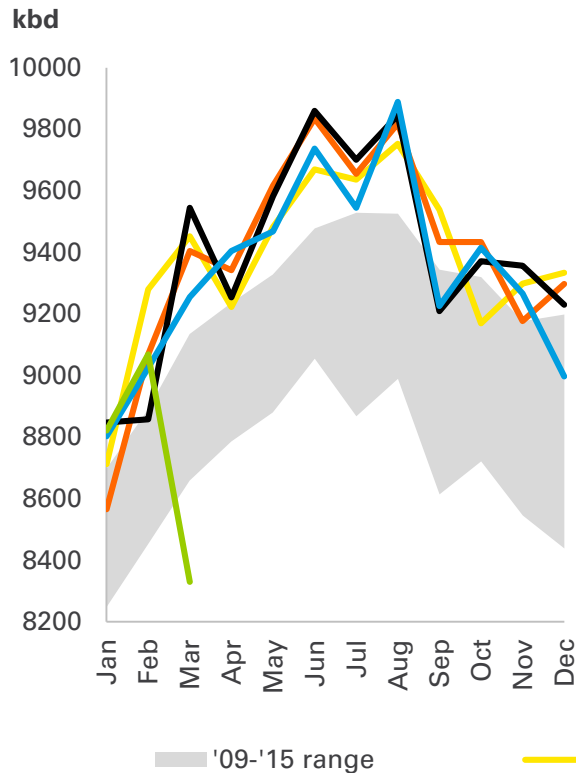
Legend: '09-'15 range (grey shaded area), 2016 (yellow line), 2017 (orange line), 2018 (black line), 2019 (blue line), 2020 (green line)

# Gasoline demand collapses as travel restrictions take effect bp

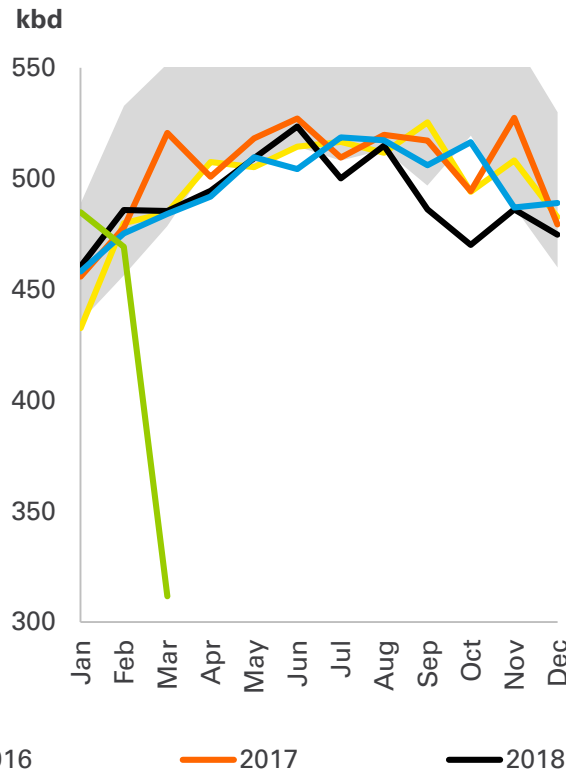


- COVID-19 containment methods has significantly impacted gasoline demand as it is almost exclusively used in transportation
- To date, the current crisis has impacted gasoline demand more than other oil products (on an absolute basis).
- Gasoline demand dropped 13% or **2mbd** in Mar-20 YoY, and the IEA forecasts gasoline demand in Apr-20 to fall **11.2mbd**. The forecast Apr-20 demand decrease would be the largest monthly decline ever recorded.

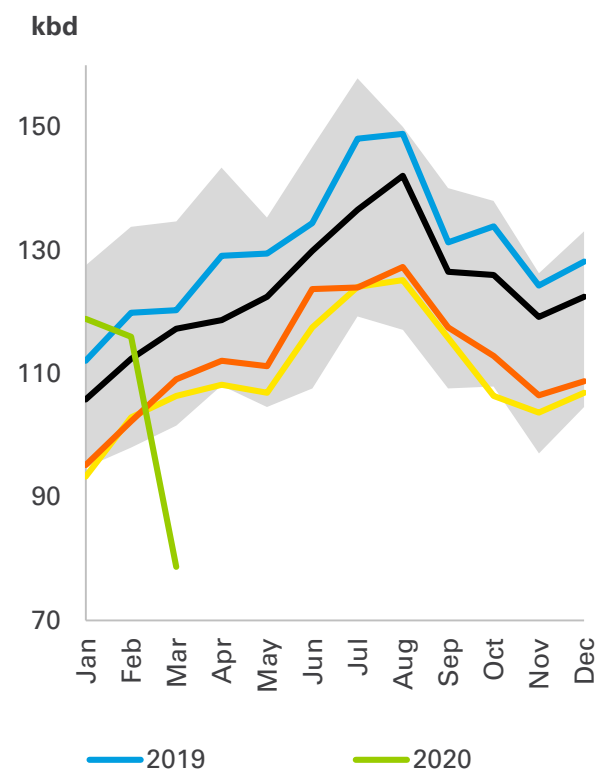
## US Gasoline demand



## Germany Gasoline demand



## Spain Gasoline demand

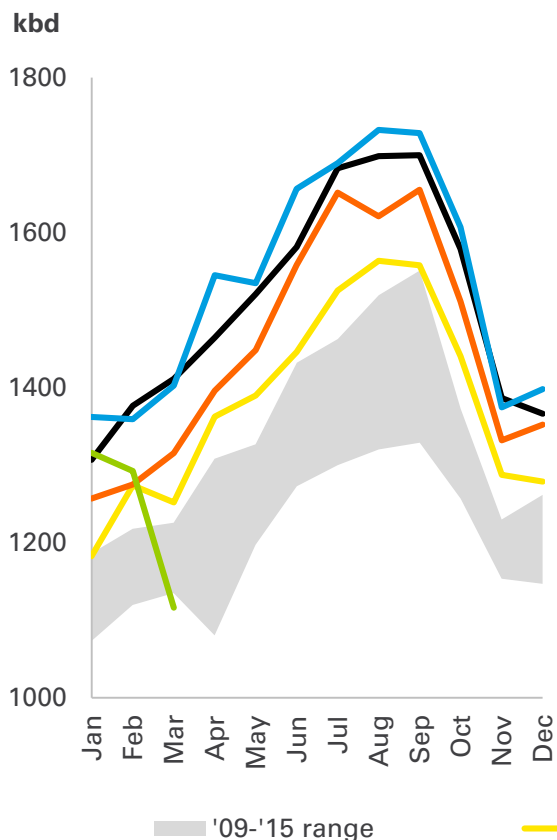


# Jet demand falls globally as flight cancellations surge

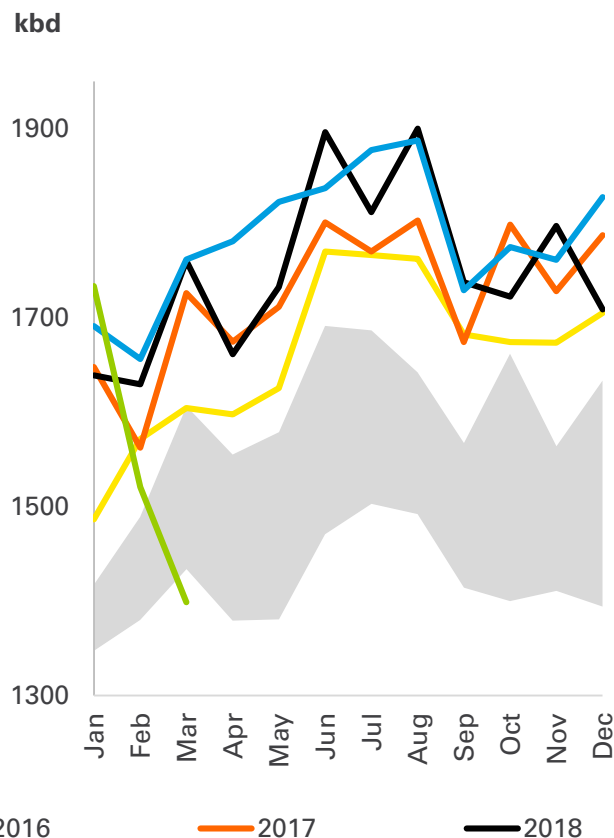


- As the COVID-19 crisis has developed, travel restrictions have been introduced across the globe to contain the pandemic.
- In Mar-20, OECD Europe and the US saw a month on month fall in jet/kero demand of 14% and 8% respectively.
- Global jet demand fell 20% in Mar-20 YoY, and the IEA forecasts jet demand in Apr-20 to drop by more than 50% YoY.

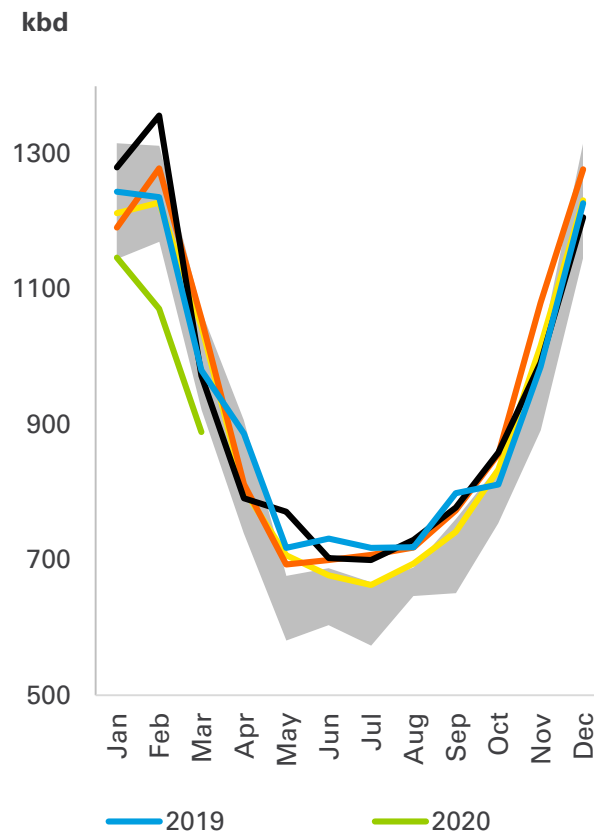
## OECD Europe Jet/kero Demand



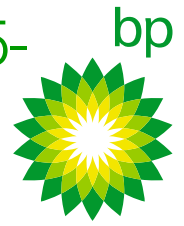
## US Jet/kero Demand



## OECD Asia and Oceania Jet/kero Demand

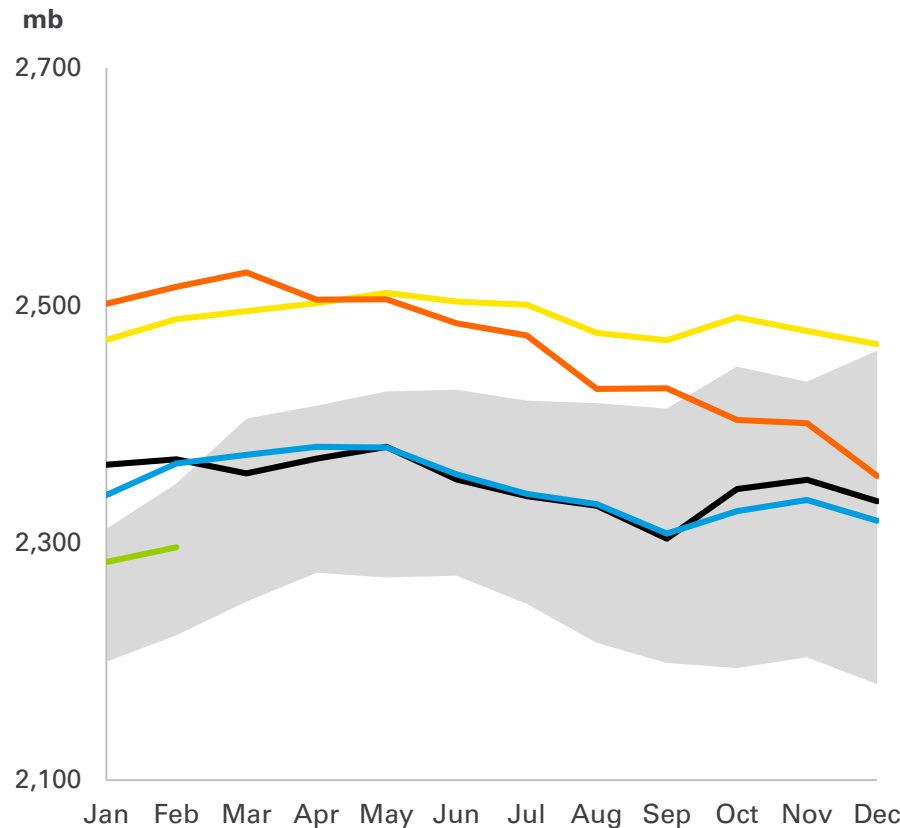


# February 2020 OECD crude stocks were lower than 2015-2019 levels

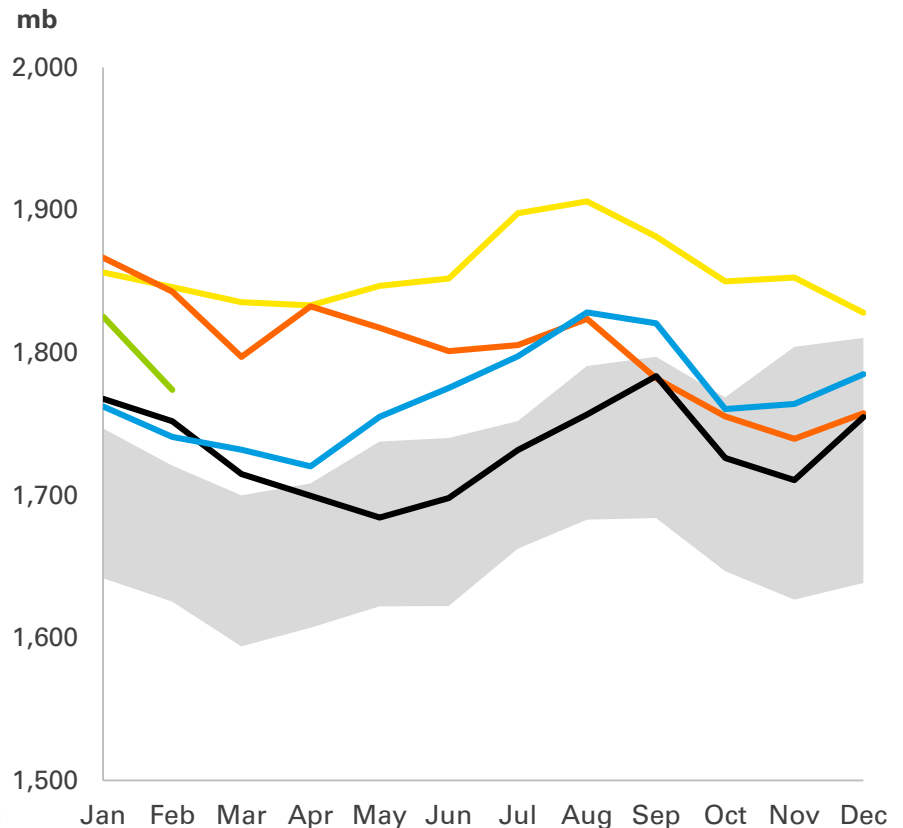


- Before the full impact of the global COVID-19 pandemic materialised, OECD crude stock levels were below 2015-2019 levels in Feb-20, while product stocks were slightly above 2019 levels.
- OECD crude stocks built by **22mb** from Dec-19 to Feb-20, but remained below the 5 year average in Feb-20.
- OECD product stocks fell by **50mb** between Jan-20 and Feb-20, trending in line with seasonal norms.

## Total OECD Crude Stocks



## Total OECD Product Stocks



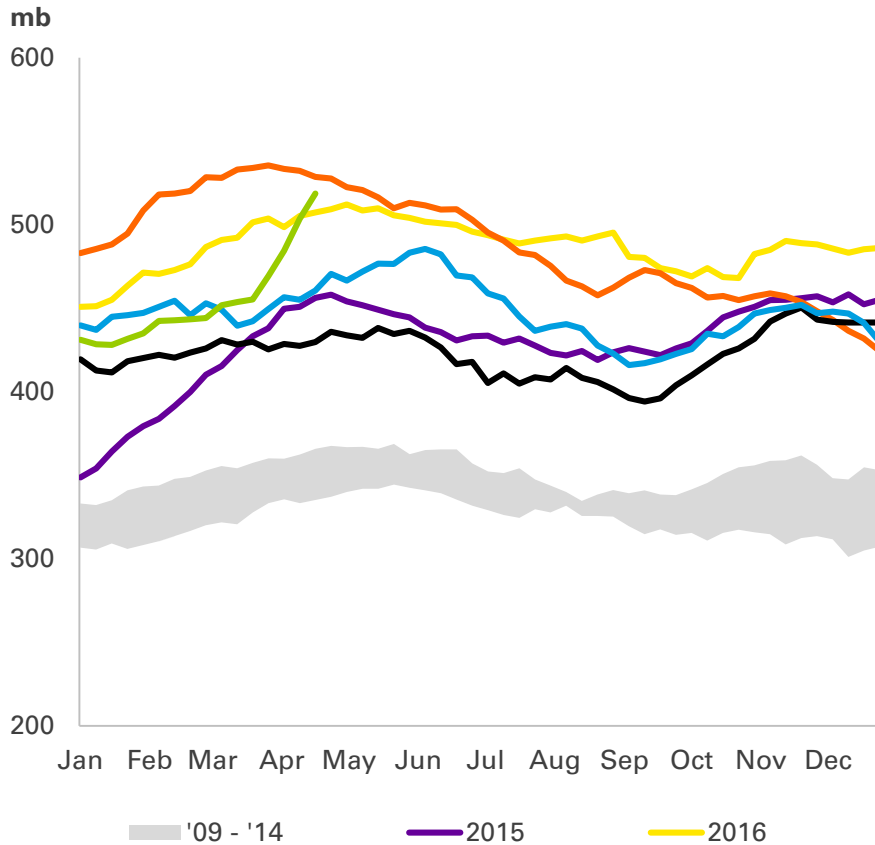
Legend: '09-'15 range (shaded grey), 2016 (yellow), 2017 (orange), 2018 (black), 2019 (blue), 2020 (green)

# A dramatic increase in US crude stocks was recorded in April 2020

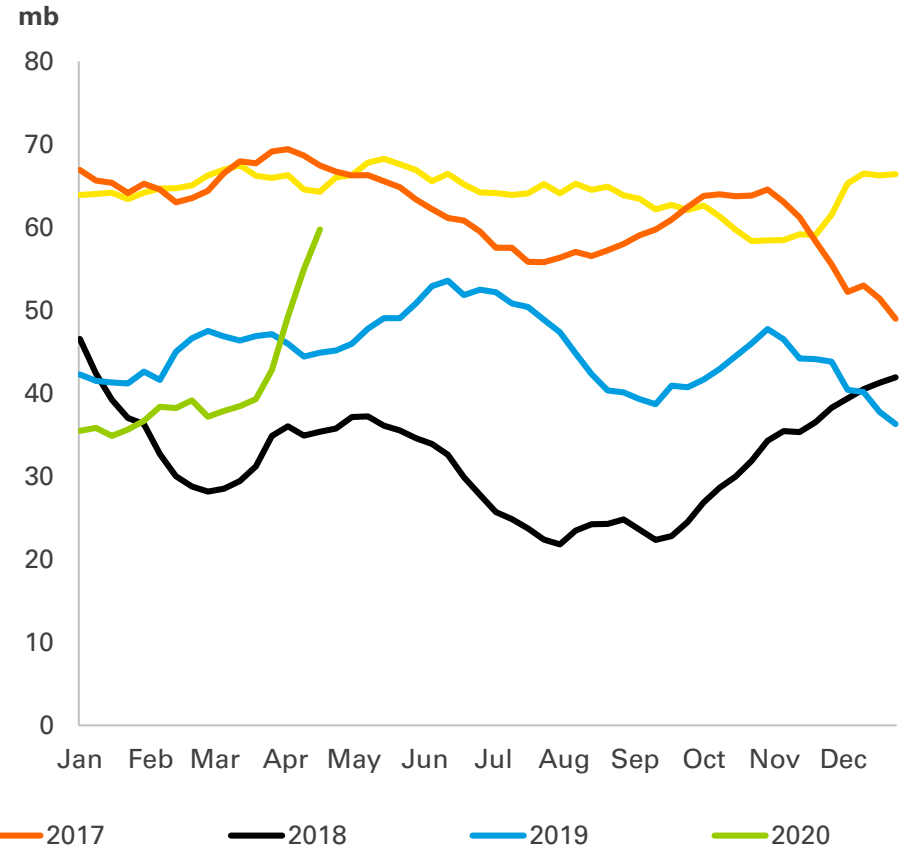


- US crude oil stocks built rapidly during Mar-20 and Apr-20 as the dramatic reduction in demand outstripped falls in crude supply
- The latest EIA Apr-20 data shows a build of **75mb** since the beginning of Mar-20.

## US Crude inventories



## Cushing inventories





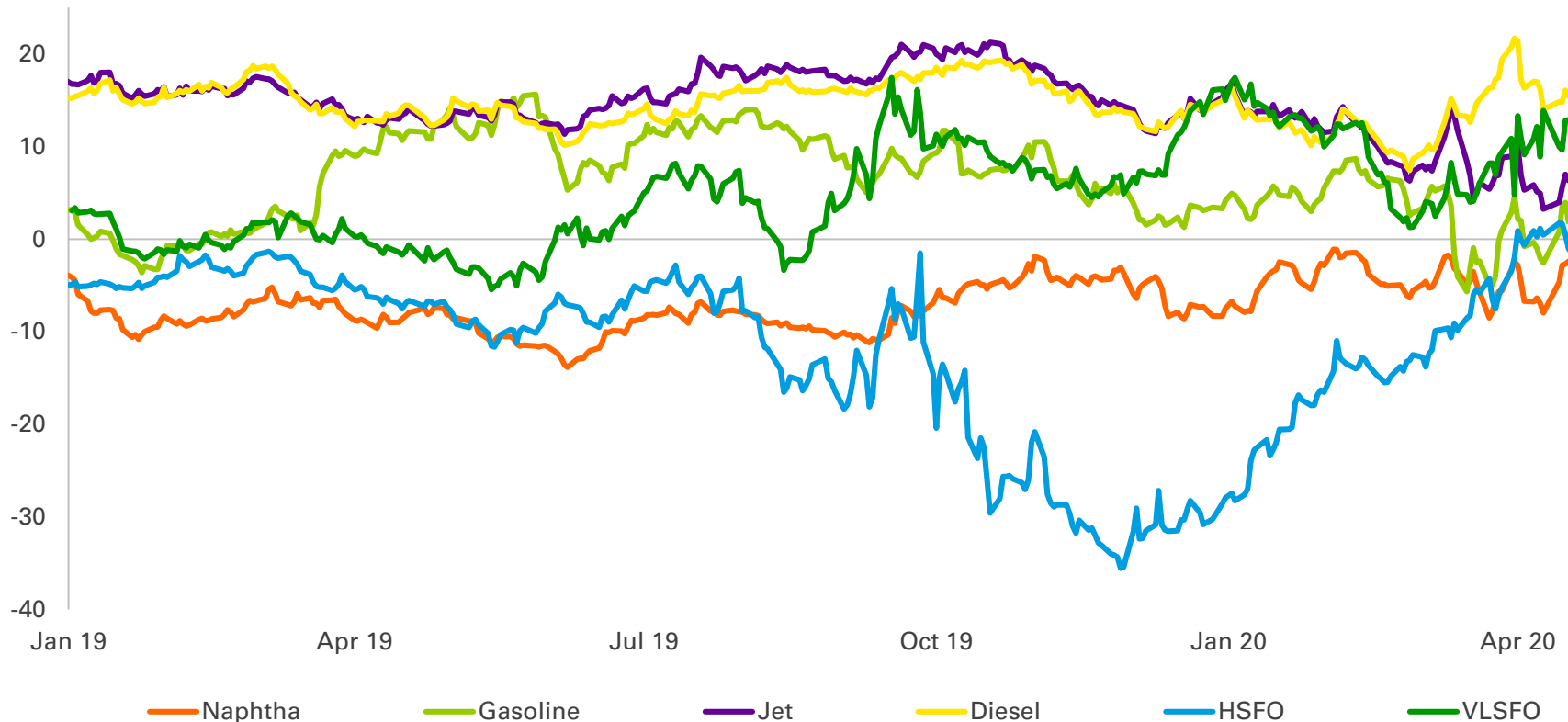
# European products markets were volatile in March/April 2020 as the global crisis unfolded



- Jet fell to **+\$2/bbl** from a 4Q19 average of **+\$17/bbl**, as commercial flight cancellations reached record highs.
- The jet-diesel price differential is currently much wider than historical norms at **~\$9/bbl** (diesel is currently trading at **+\$11/bbl**). Diesel/gasoil has a wide range of applications, such as passenger and commercial transport, heating, industry and agriculture, and market fundamentals have been somewhat stronger than gasoline or jet.
- Gasoline is currently trading at **+\$3/bbl**, similar to the exceptionally weak levels observed in 1Q19.
- HSFO cracks have risen to trade around Brent parity. Global refinery run cuts and falling HSFO supply from Russia have supported values despite the COVID-19 pandemic and the implementation of the IMO-2020 sulphur regulations.

## Product Cracks (NWE FOB)

\$/bbl



Note: Prices and cracks as of 27<sup>th</sup> April 2020

Source: S&P Global Platts® 17

# Refinery margins reached a low of \$1.4/bbl on 13<sup>th</sup> April 2020



- Global Refinery Marker Margins (RMM) fell in Mar-20 as demand for oil products deteriorated rapidly.
- 1Q20 average RMM was **\$8.75/bbl**, the lowest quarterly average for over a decade (4Q09). Mar-20 averaged **\$7/bbl**.
- RMM spiked on 20<sup>th</sup> April as a result of WTI trading at negative pricing, temporarily lifting US diesel and gasoline cracks to around **+\$50/bbl**.

## BP Global Refining Marker Margin (RMM)

\$/bbl



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.

# Upcoming events



- OPEC+ are due to meet on 10th June 2020 via webinar
  - The meeting will provide an opportunity to assess the extent to which their production cut has succeeded in rebalancing the market and to discuss production plans.
- United States presidential election is scheduled for November 2020.