



# Oil Market Update

November 2020

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## Market Summary



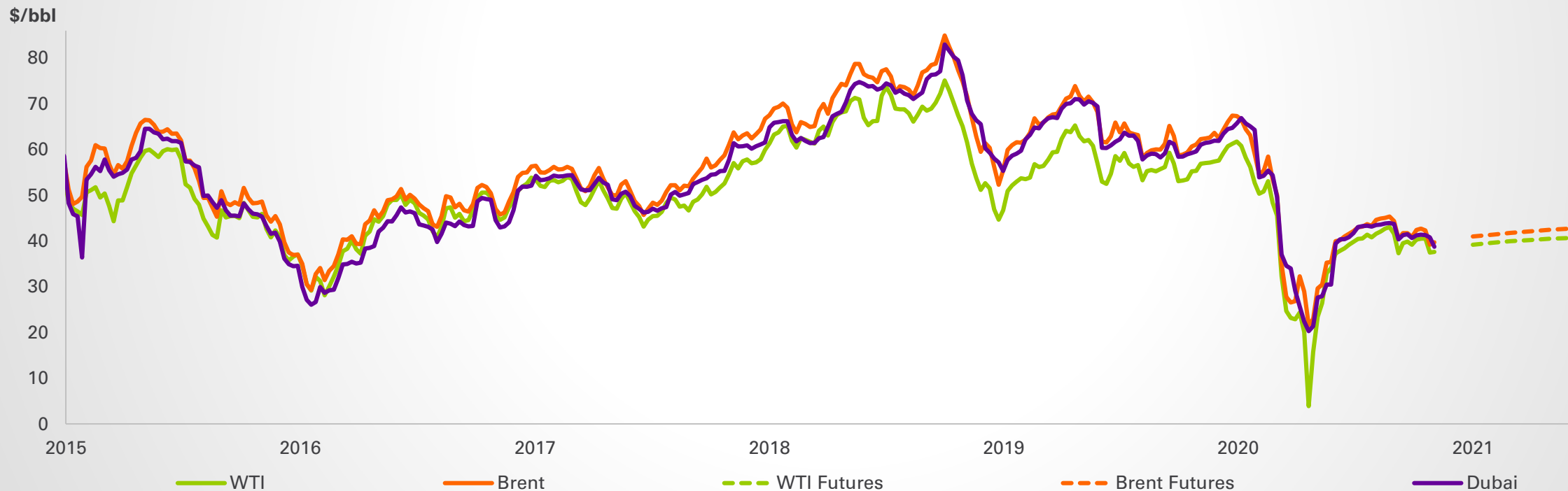
- At the time of writing, **Brent** is currently trading around **\$43/bbl**, supported by OPEC+ production cuts, lower US crude supply and demand recovery from the COVID-19 crisis vs. April 20. The market also recently experienced optimism with a more solid potential of a COVID-19 vaccine on the horizon.
- **3Q20 global oil demand increased significantly** from the lows seen in 2Q20, caused by less strict COVID-19 control measures and seasonal trends supporting transport fuel demand. Despite this recovery, 3Q20 oil demand still averaged a **YoY decrease of 7.3mbd**.
- The **Vienna Alliance** of OPEC and non-OPEC producers in Apr-20 agreed to **unprecedented production cuts** of **9.7mbd** for May-Jun 2020, **7.7mbd** for Jul-Dec '20, and **5.8mbd** for the 16 months thereafter, ending Apr-22. OPEC+ met again in **Jun-20** and agreed to extend the **9.7mbd of production cuts** to the end of **Jul-20**. There have been **no recent revisions** to the agreed OPEC+ cuts, currently at **7.7mbd** for Aug-Dec '20. However, OPEC+ supply decreased in Sep-20, with a m-o-m fall of **360kbd**, as the compliance rate improved for members previously not meeting targets.
- Additional supply risks have materialised with the **return of Libyan crude supply** from Sep-20 after an eight-month blockade. Force majeure was lifted on 19<sup>th</sup> Sep on crude loadings at ports where foreign militias are not present.
- **OECD crude oil inventories** fell slightly in 3Q20 but remain significantly higher than previous years (4% higher than Aug-19). **OECD product inventories** continued to build at historically high levels in 3Q20 although the rate was slower than 2Q20.
- **Refinery margins** remained at low levels throughout 3Q20. 3Q20 average Global Refinery Marker Margin (RMM) was **\$6.1/bbl**, less than half that the 3Q19 average of **\$14.7/bbl**.

# Crude prices stabilised in 3Q20; weak oil demand was broadly offset by OPEC+ supply cuts



- Brent and WTI contracts averaged **\$43.3/bbl** and **\$40.8/bbl** respectively in 3Q20. Price volatility was significantly lower than earlier in the year with Brent recording highs of **\$46/bbl** and lows of **\$39/bbl** for 3Q20.
- However, Brent pricing briefly fell below **\$40/bbl** in Sep-20 for the first time since Jun-20, due to demand concerns from increasing rates of COVID-19 infections.
- OPEC+ cuts continued to support prices in 3Q20; OPEC+ target cuts were **9.7 mbd** in July and **7.7mbd** for August and September. OPEC+ cuts of **7.7mbd** are planned to remain unchanged until the end of 2020.

## Weekly Global Crude Prices



# The Brent-WTI price differential remained narrow in 3Q20



- The Brent-WTI price differential remained within a narrow range in 3Q20 with an average weekly spread of **\$2.5/bbl**. The spread narrowed after the spike in Apr-20 when WTI prices fell sharply due to concerns around lack of Cushing storage capacity in May-20.
- Mid Sep-20 saw the weekly Brent-WTI differential narrow below **\$2/bbl** for the first time since May-20 as US stock draws were further supported by the impact of Hurricane Sally on the US Gulf Coast.

## Weekly Brent-WTI Spread

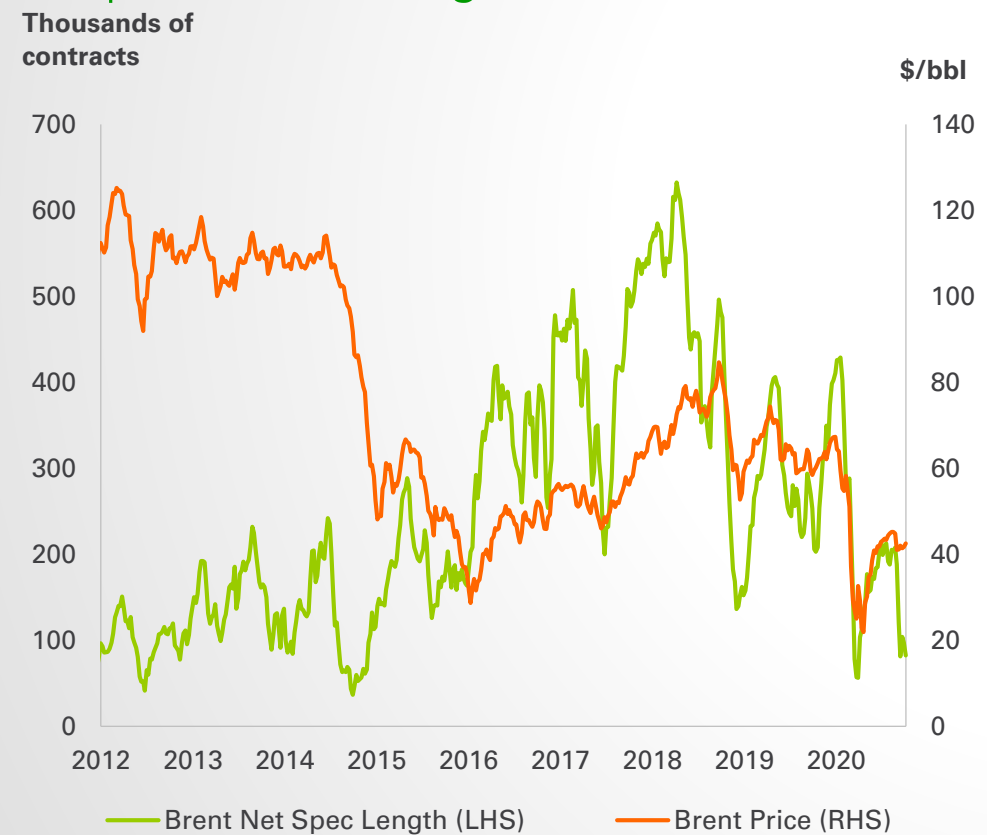


# Net speculative length decreased in Sept-20 as oil demand recovery slowed



- The end of 2Q20 saw NSL recover to nearly **200k** contracts in late Jun-20 mirroring the recovery of Brent pricing. The number of contracts remained approximately unchanged throughout Jul-20 and Aug-20.
- In the middle of Sep-20 oil demand recovery slowed and sentiment deteriorated, resulting in NSL falling rapidly. The number of contracts dropped below **100k** for the first time since Apr-20.

## Net Speculative Length (2012-2020)



## Net Speculative Length (2020)

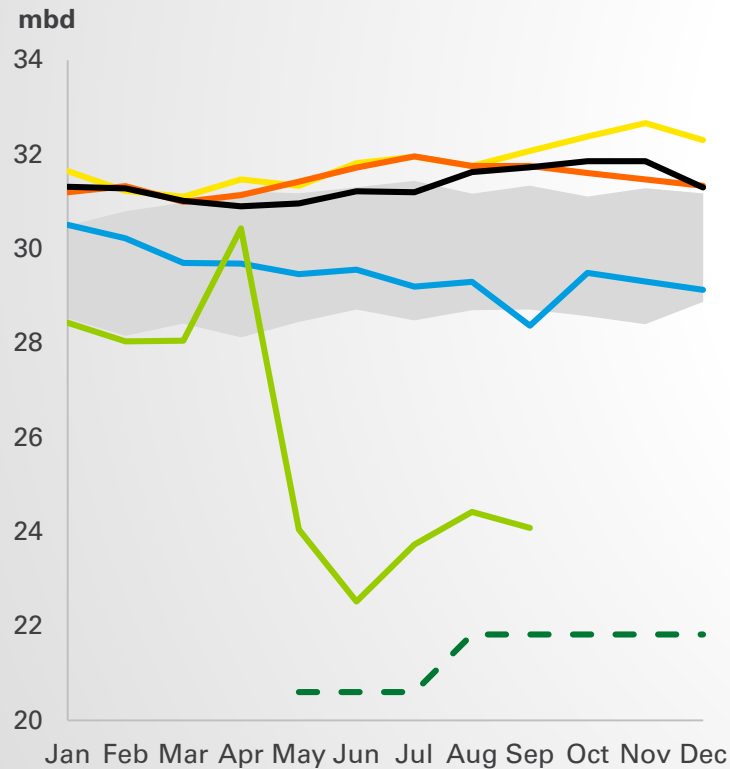


# OPEC+ production cuts were reduced from 9.7mbd in Jul-20 to 7.7mbd from Aug-20

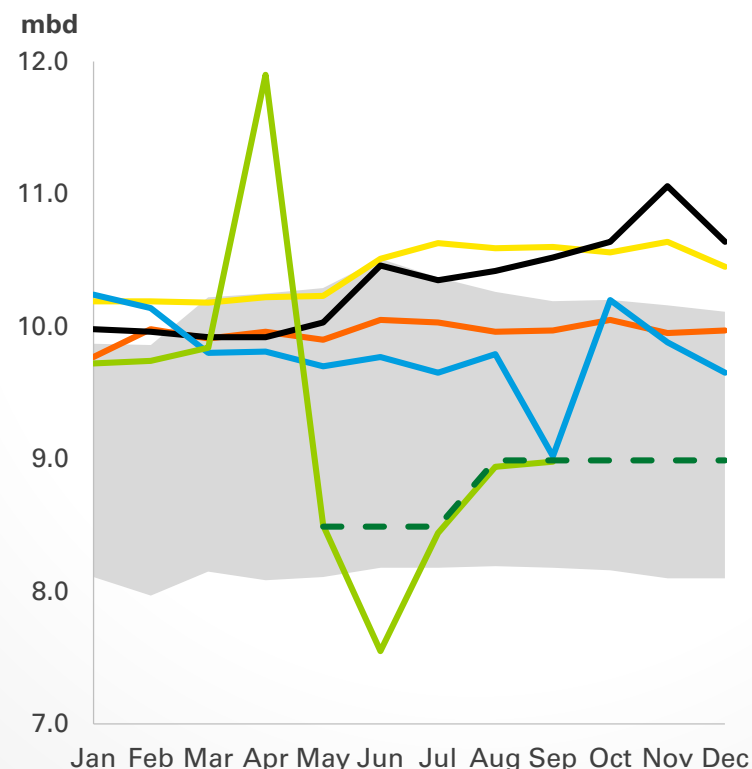


- OPEC+ producers agreed in Apr-20 to increase cuts to unprecedented total production cut of **9.7mbd** for May-Jun '20 which, after sustained demand destruction, was extended to the end of Jul-20.
- As of Aug-20, the total production cut has been lowered to **7.7mbd** with further easing expected in Jan-21 to **5.8mbd**.
- OPEC crude supply decreased in Sep-20, with a m-o-m change of **360kbd**, as the compliance rate improved. Reuters recently reported that OPEC compliance in Sep-20 was at 105%, while non-OPEC compliance was at 97%.

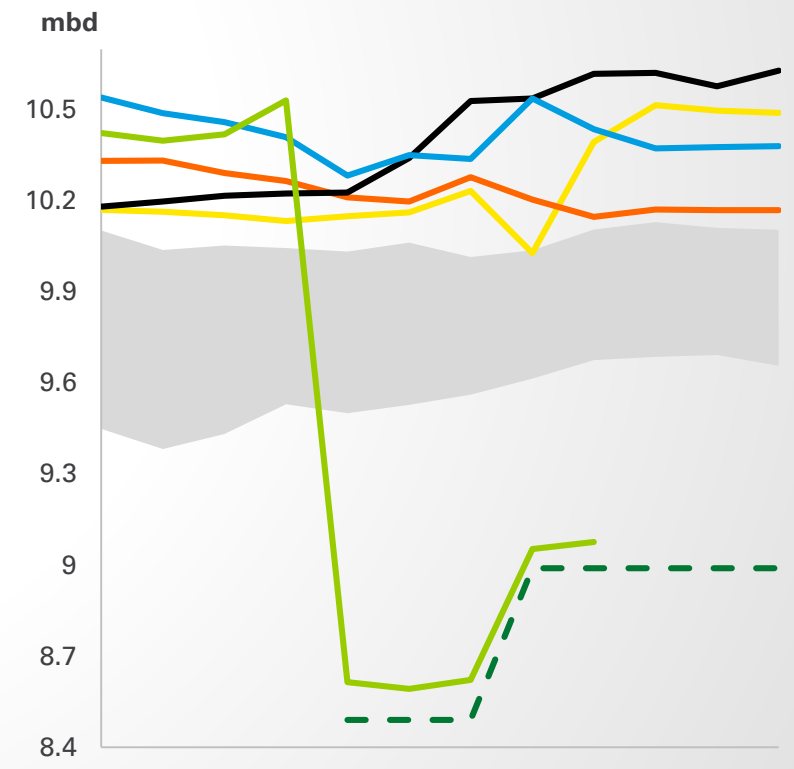
## OPEC Crude Supply



## Saudi Crude Supply



## Russia Crude Supply



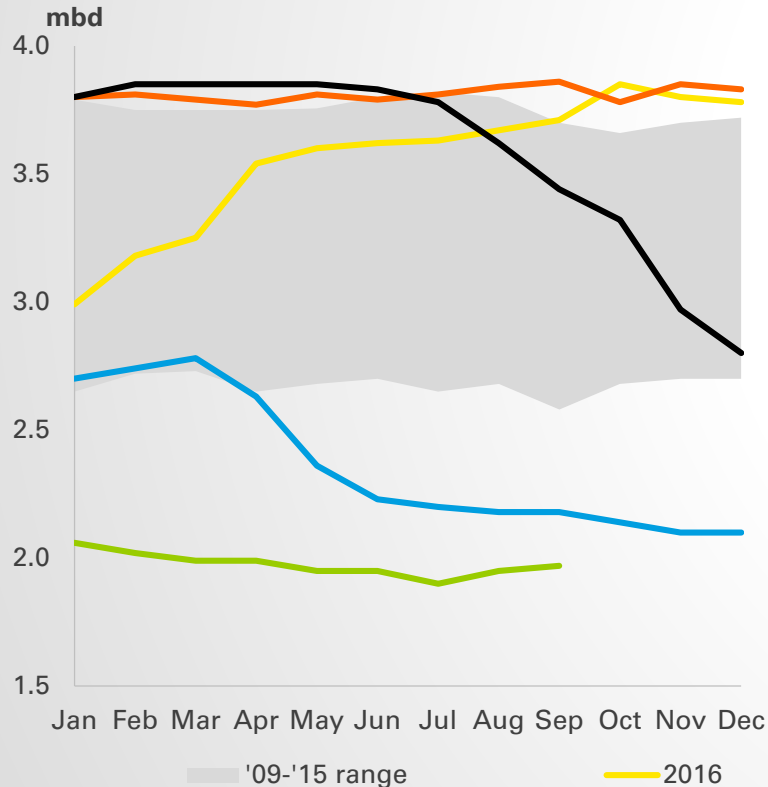


# Libyan crude production has recently resumed after an eight-month blockade as force majeure is lifted

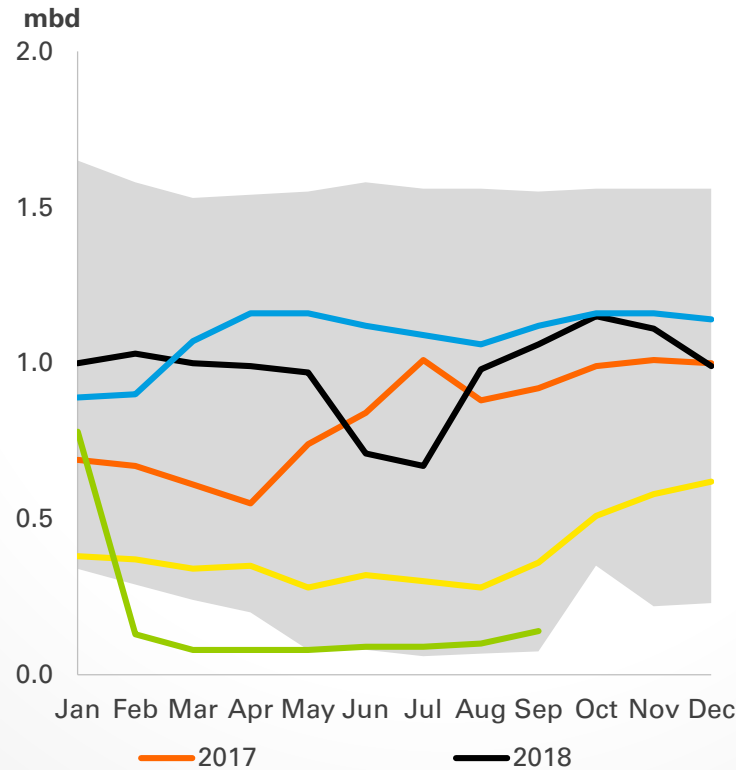


- Libya previously attempted to lift force majeure on all oil exports on the 10<sup>th</sup> July, however, the next day force majeure was declared again and further exports were halted.
- Force majeure was successfully lifted on 19th Sep on crude loadings at ports where foreign militias are not present.
- Iranian and Venezuelan crude supply remained low at **2mbd** and **440kbd** respectively in Sep-20.

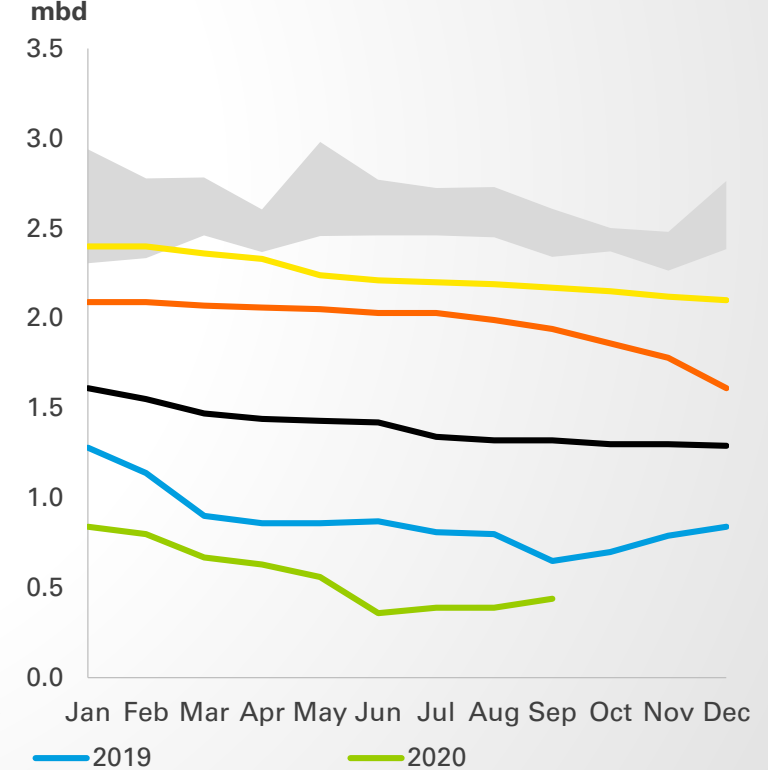
## Iran Crude Supply



## Libya Crude Supply



## Venezuela Crude Supply



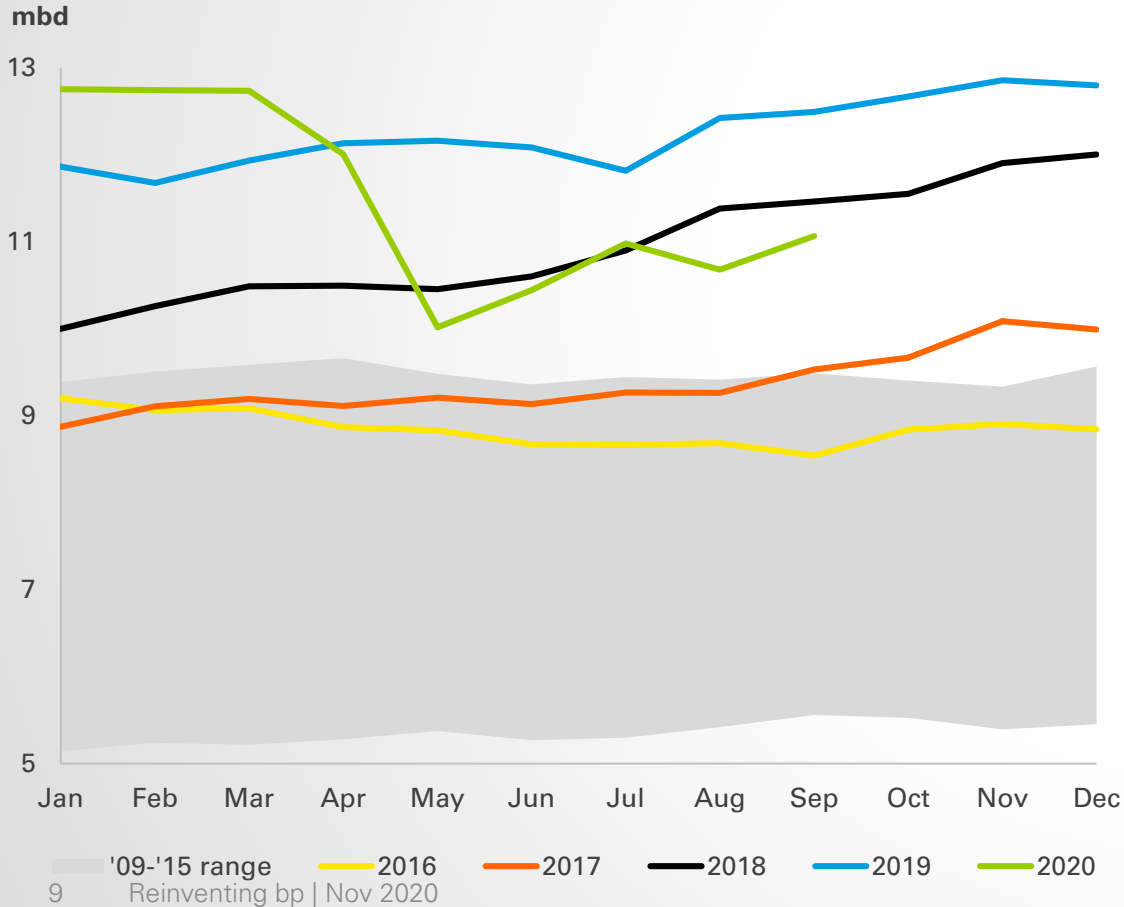


# Relatively low crude pricing and an active hurricane season impacted US crude supply in 3Q20

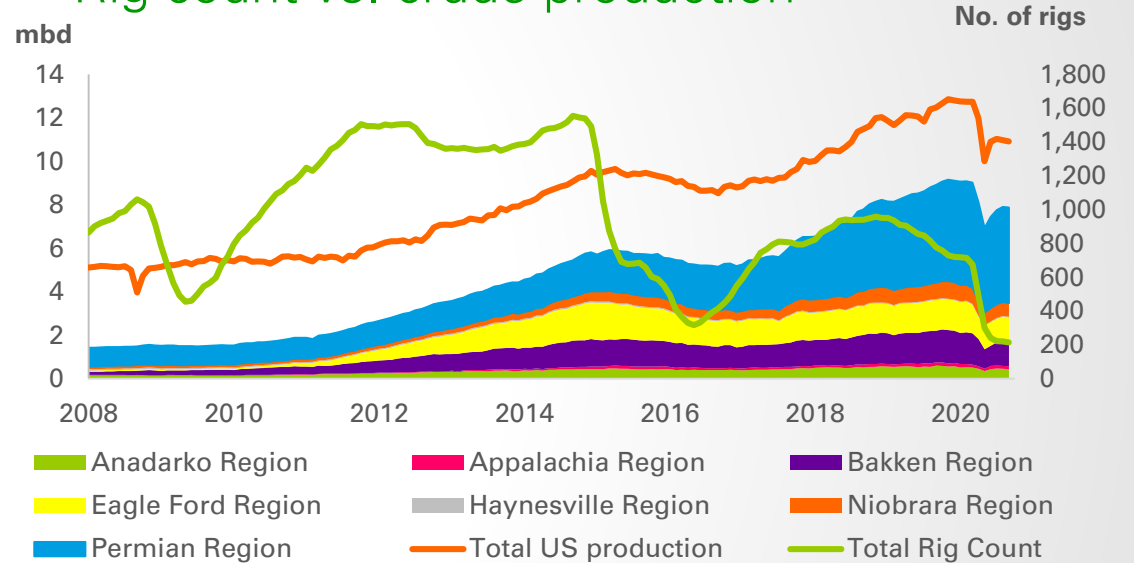


- US crude supply recovered to **11mbd** in Sep-20 from lows of **10mbd** in May-20.
- The recovery was muted by a combination of low crude prices and a particularly active hurricane season in 3Q20 for the US Gulf Coast with hurricanes Laura and Sally contributing to increased US shut-ins and leading to a modest decrease in US crude supply in Aug-20.
- Rig count remained stable throughout 3Q20 with Baker Hughes reporting a rig count of **183** for 25th September (corresponding to a YoY decrease of 74%).

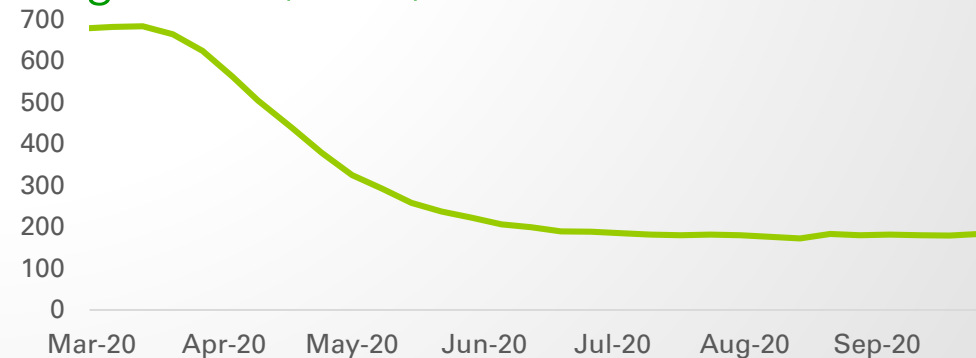
## US Crude Supply



## Rig count vs. crude production



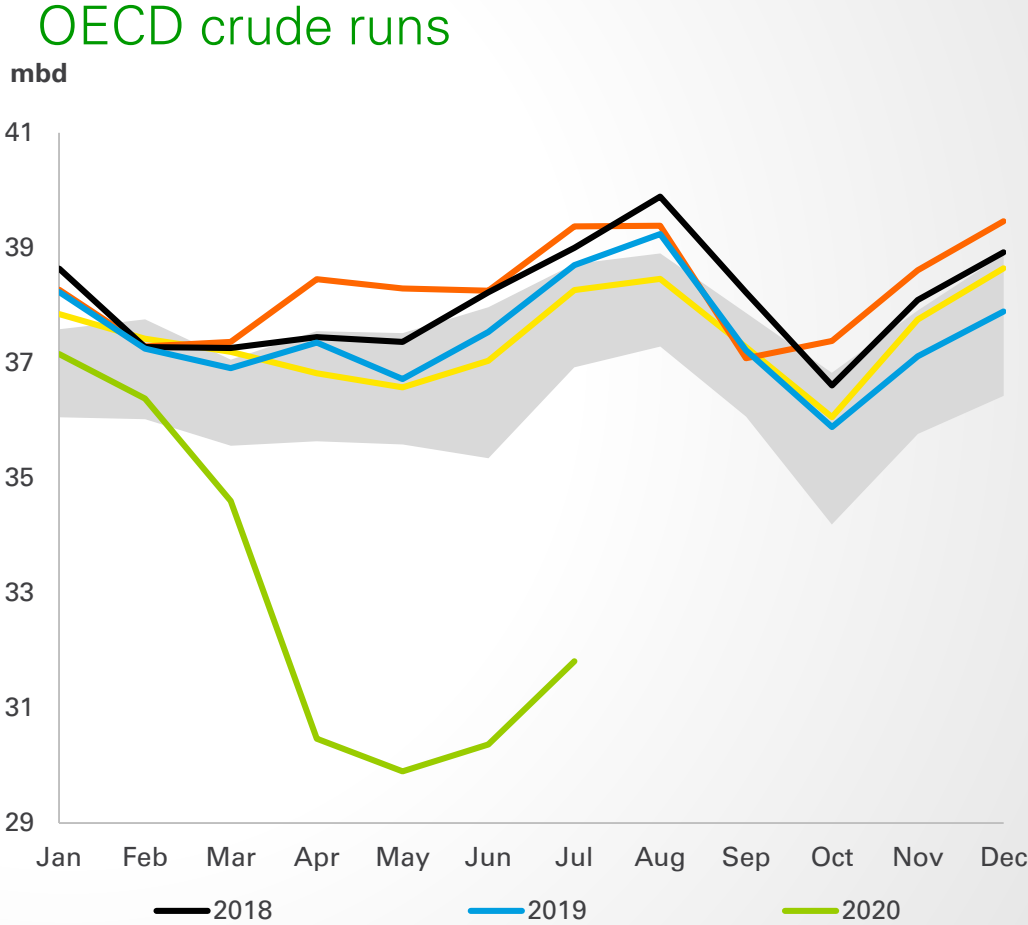
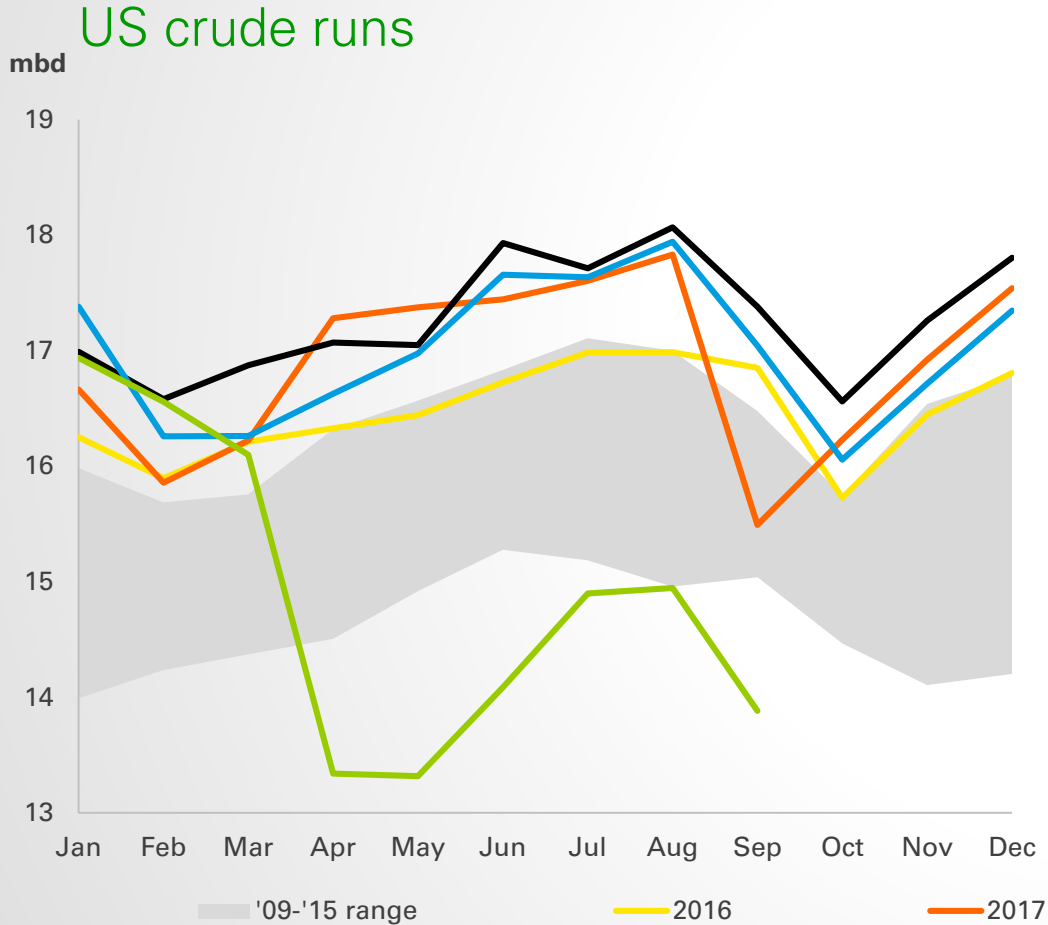
## Rig count (2020)



# US refinery runs fall in September 2020 due to disruption from Hurricanes Laura and Sally



- US crude runs collapsed to **13.8mbd** in Sep-20 after increased refinery shut-ins from damage caused by Hurricane Laura and Sally.
- OECD crude runs increased to **31.8mbd** in Jul-20 (the last data point available). This represents a **6.9mbd** YoY decline.



# Oil demand recovered somewhat in 3Q20 as Covid-19 restrictions were eased

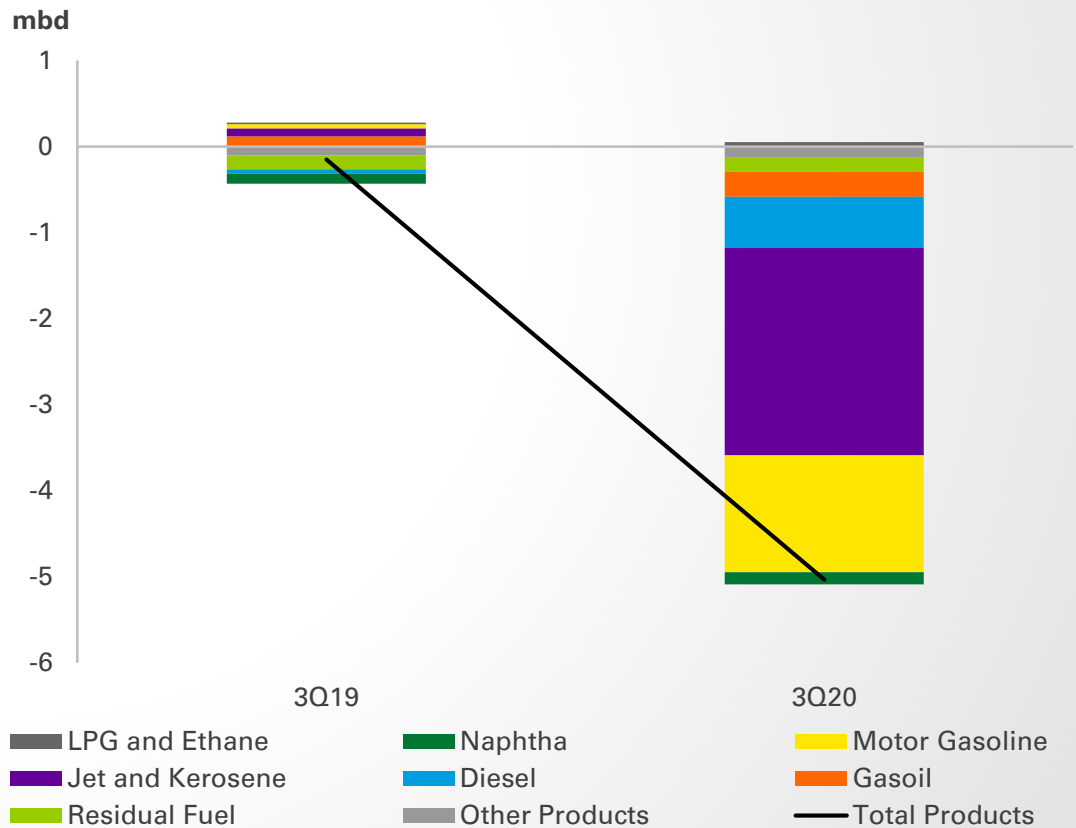


- 3Q20 saw global oil demand increase significantly from the lows seen in 2Q20, caused by less strict COVID-19 control measures and summer holidays supporting transport fuel demand. 3Q20 OECD oil product demand averaged **43.2mbd**, a **5.6mbd** increase from 2Q20.
- Despite stronger demand, 3Q20 recorded a YoY demand decrease of **7.3mbd**. Demand recovery stalled in Sep-20 with jet/kero demand remaining very weak relative to 2019 levels.
- In 3Q20, gasoline, jet/kero and diesel demand fell 1.4mbd, 2.4mbd and 0.6mbd YoY respectively as some restrictions continued to be imposed to prevent the spread of COVID-19.

## YoY Global oil products demand growth



## YoY OECD oil products demand growth

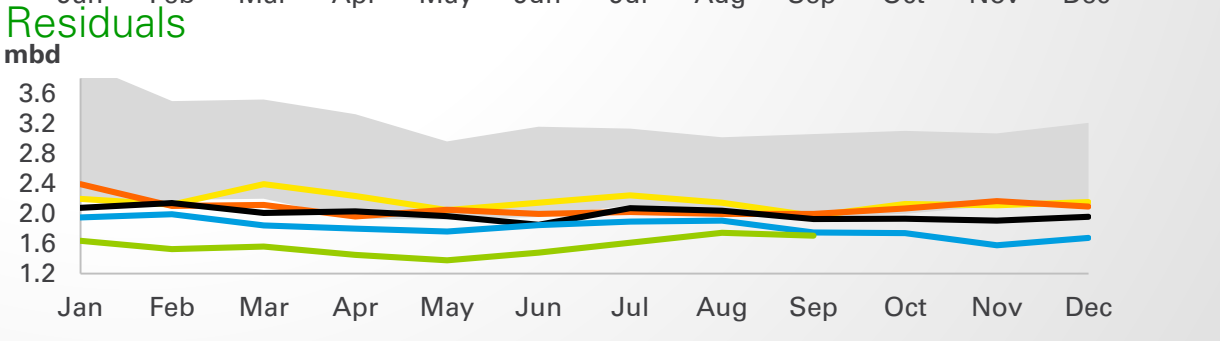
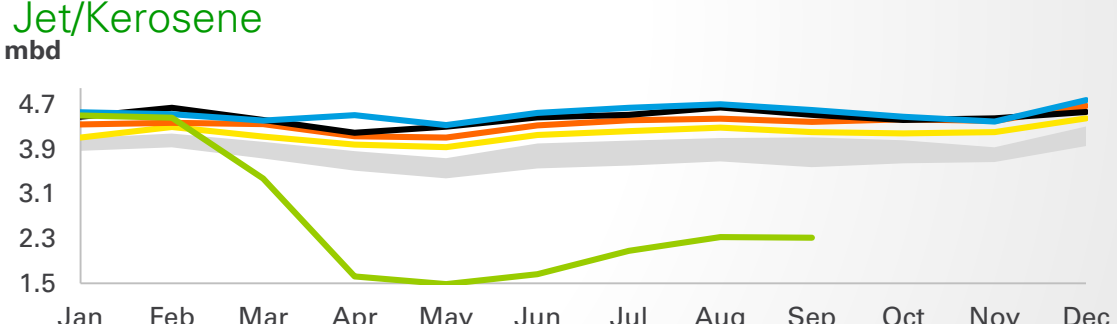
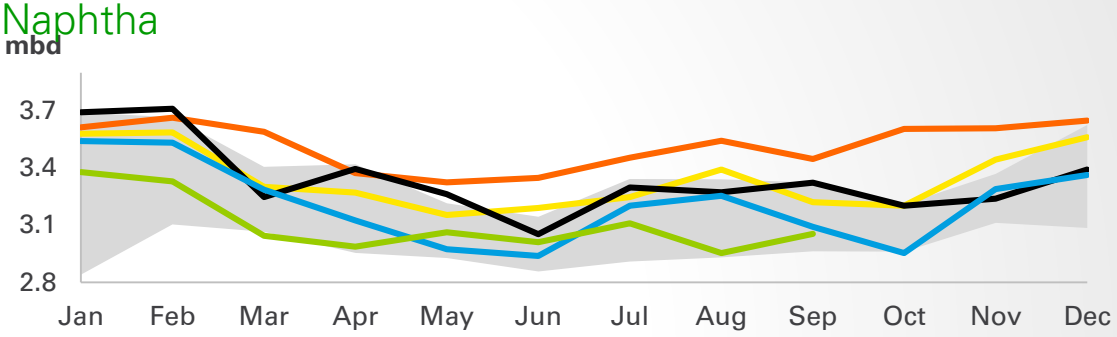
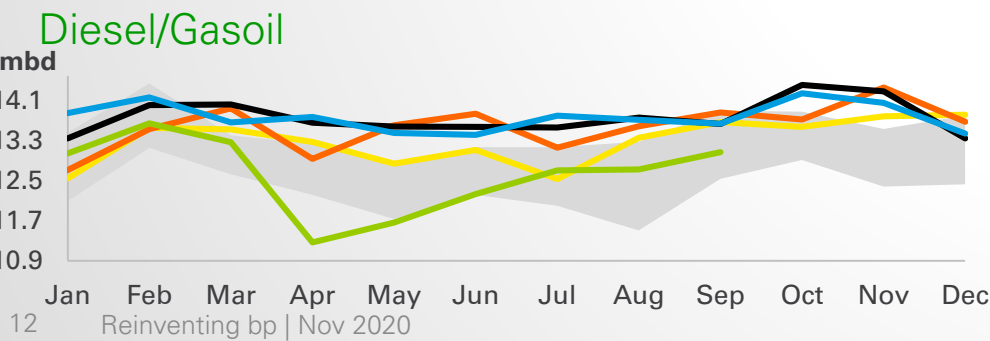
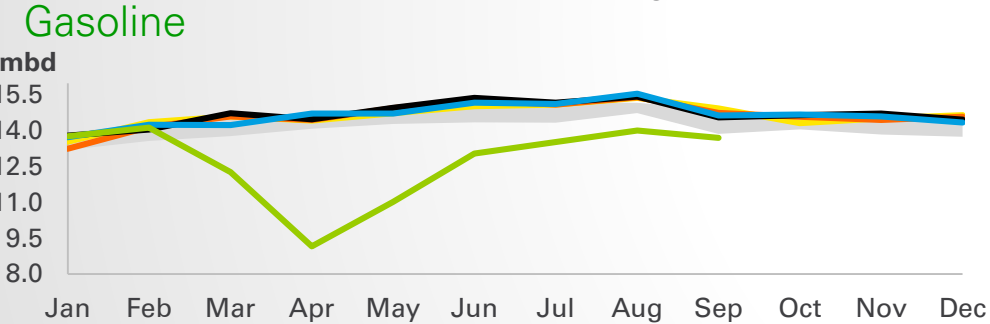
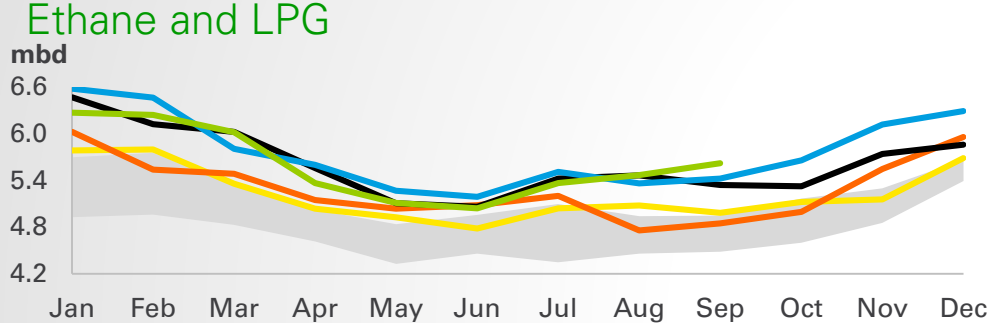


# OECD product demand continued its recovery into 3Q20



- Summer holidays and reduced COVID-19 restrictions supported recovery for gasoline and diesel which saw dramatic declines in 2Q20. Jet demand continued to suffer due to significant restrictions on international travel. Ethane/LPG and naphtha demand continued to prove more resilient than other products driven by non-transport (e.g. petrochemical) use.
- Despite product demand recovery, Sep-20 total product demand remained **5%** lower than Jan-20 levels.

## OECD Product Demand



Source: IEA

# Gasoline demand recovery slowed in 3Q20 with many countries reporting monthly declines in Sep-20

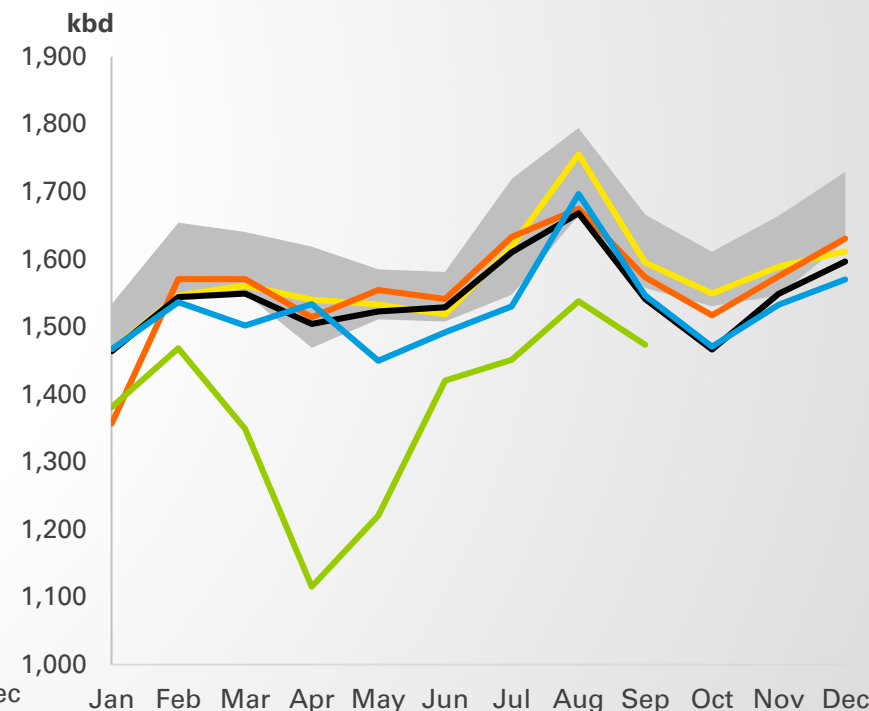
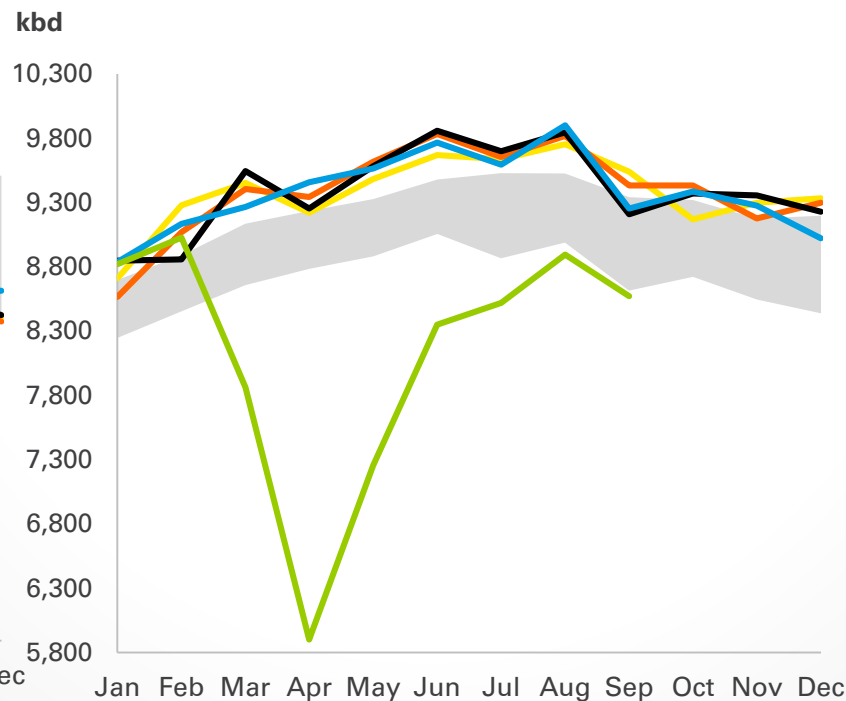
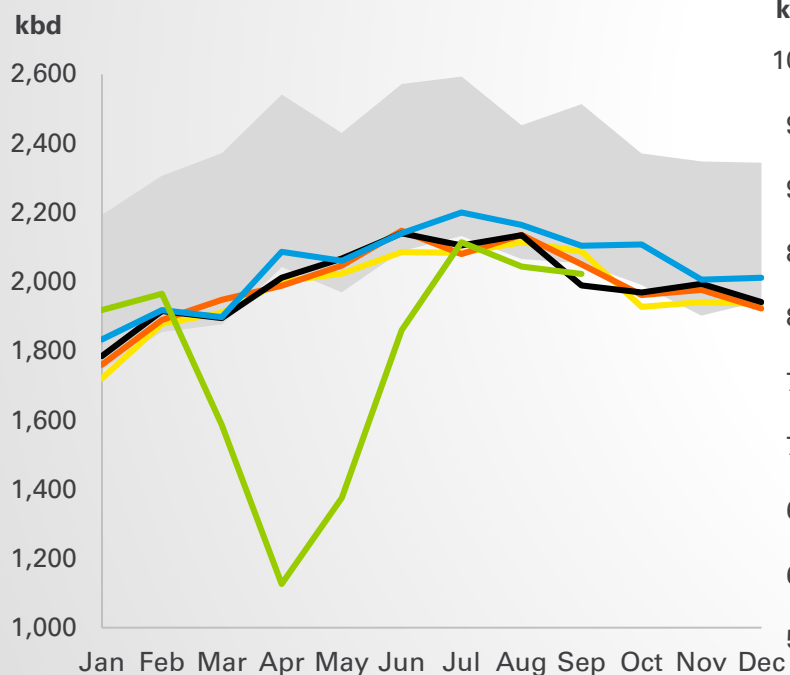


- In Jul-20 and Aug-20 gasoline demand continued to recover, though at a much slower pace than that seen in May/Jun-20.
- As gasoline is used almost exclusively as a transport fuel, it is intrinsically linked with mobility data. Though mobilisation varies greatly by country as it is largely dependent on local government policy, in general there has been a decline in Sep-20 following increases in COVID-19 cases across the globe.
- OECD gasoline demand collapsed to **9.2mbd** in Apr-20 but increased to average of **13.8mbd** across 3Q20; Sep-20 OECD gasoline demand was down **6%** YoY.

## OECD Europe Gasoline Demand

## US Gasoline Demand

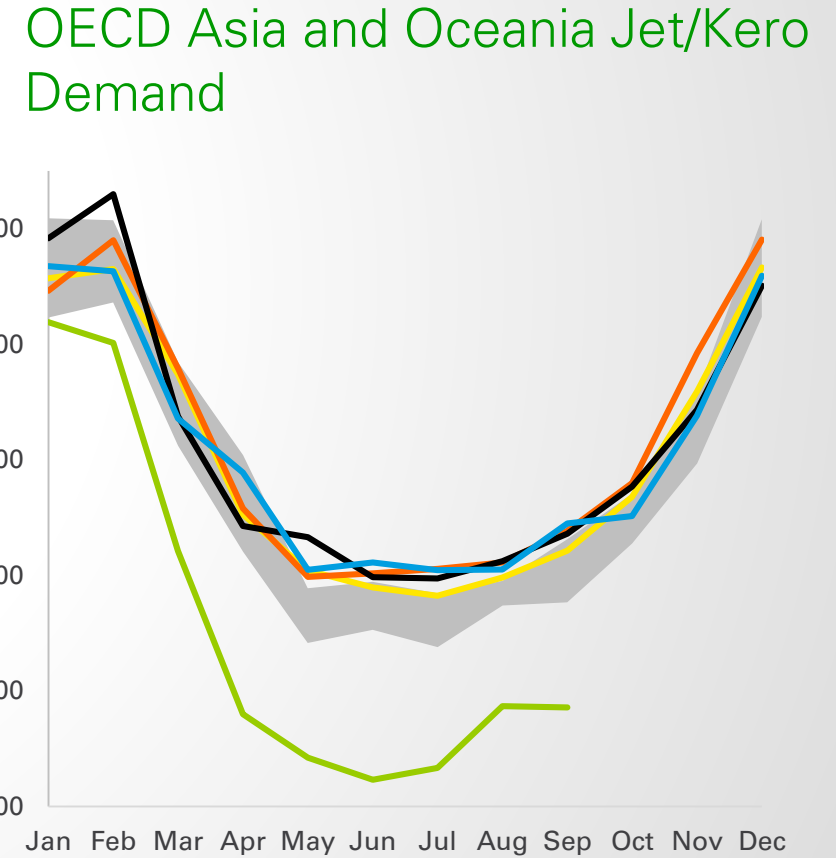
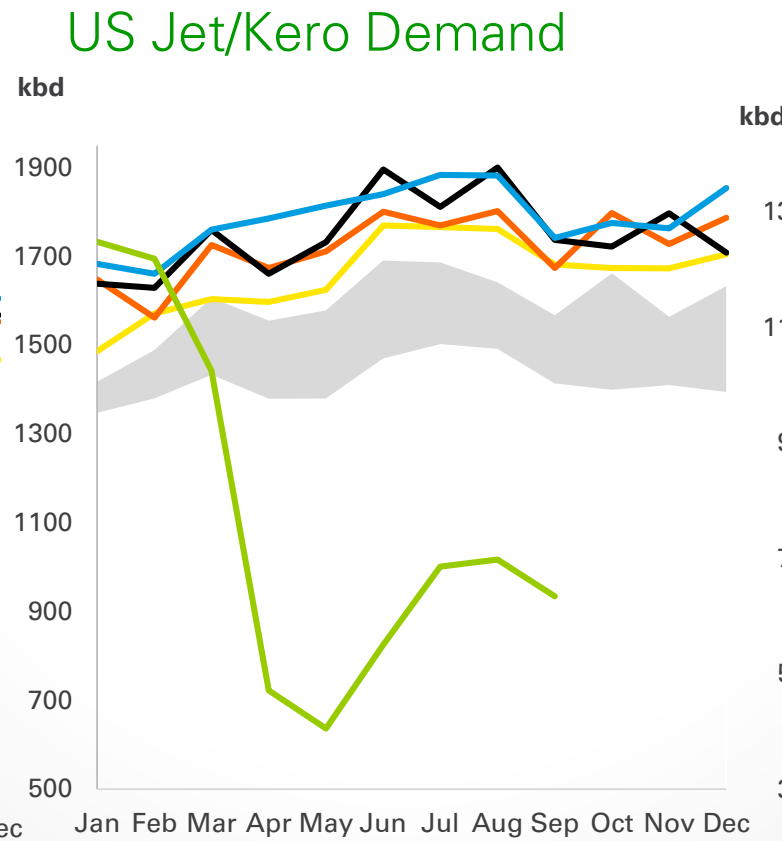
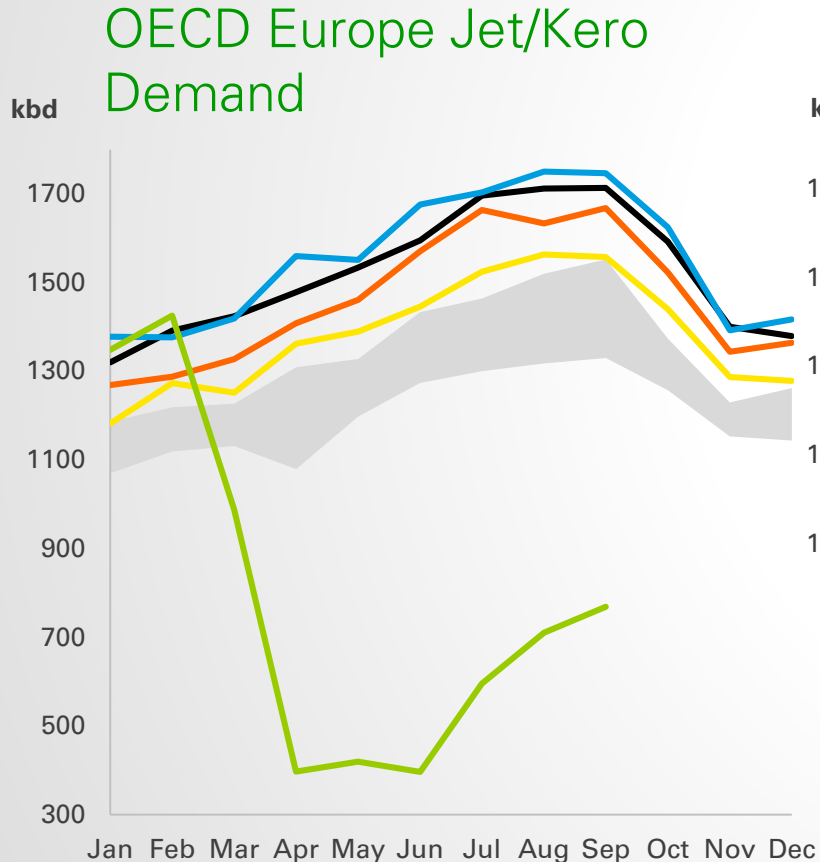
## OECD Asia and Oceania Gasoline Demand



# Jet/Kero demand remained significantly below 2019 levels in 3Q20



- Slight easing of COVID-19 travel restrictions and the summer holiday season supported some recovery in OECD jet/kero demand, increasing from an average of 1.6mbd in 2Q20 to 2.2mbd in 3Q20. Flight cancellations remained high with the continued uncertainty brought by the COVID-19 pandemic.
- In Sep-20, OECD Europe and the US saw a YoY fall in jet/kero demand of 56% and 46% respectively. In May-20, demand remained 73% and 65% down YoY respectively.



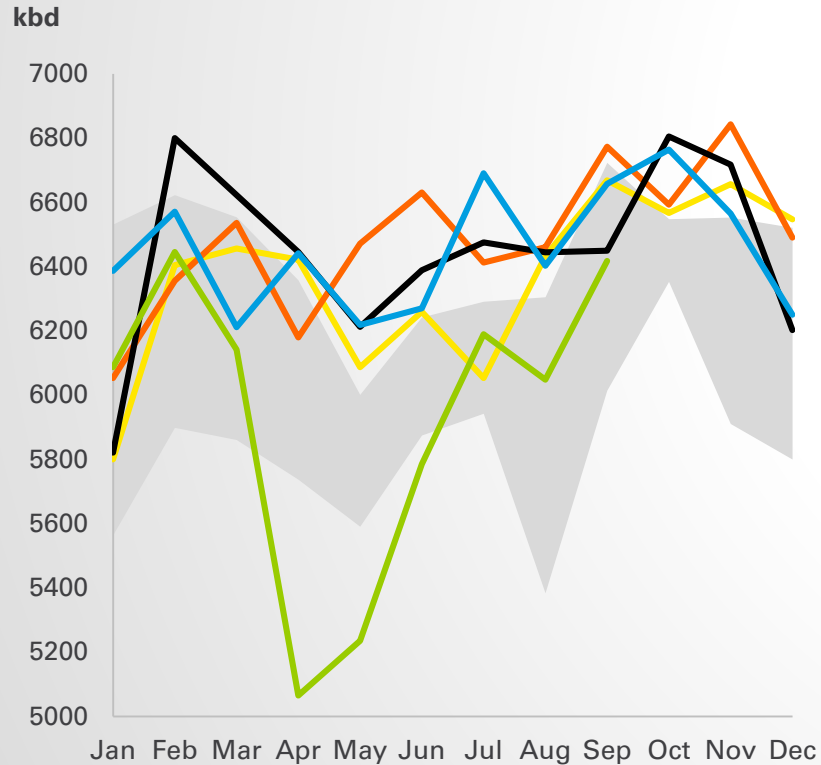


# Diesel/Gasoil demand continued its recovery through 3Q20

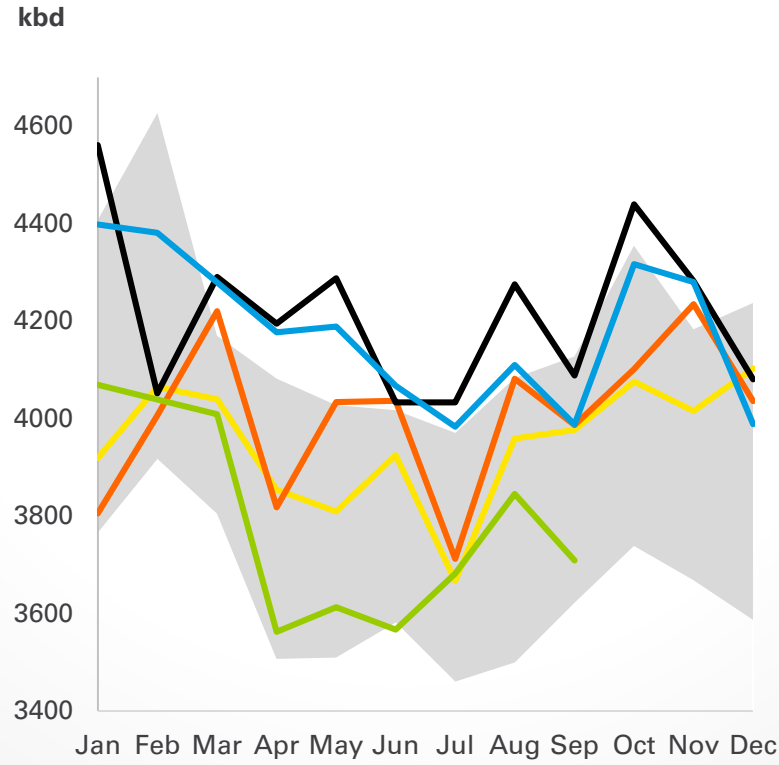


- Holiday season, an ease in COVID-19 restrictions and some signs of colder weather all supported diesel/gasoil demand in 3Q20.
- OECD diesel/gasoil demand reached **13.1mbd** in Sep-20 with an average of **12.8mbd** across 3Q20, a **10%** increase compared to the average in 2Q20.
- In Sep-20, OECD Europe and the US saw a YoY fall in diesel/gasoil demand of 4% and 7% respectively. In May-20, demand was 16% and 14% down YoY respectively.

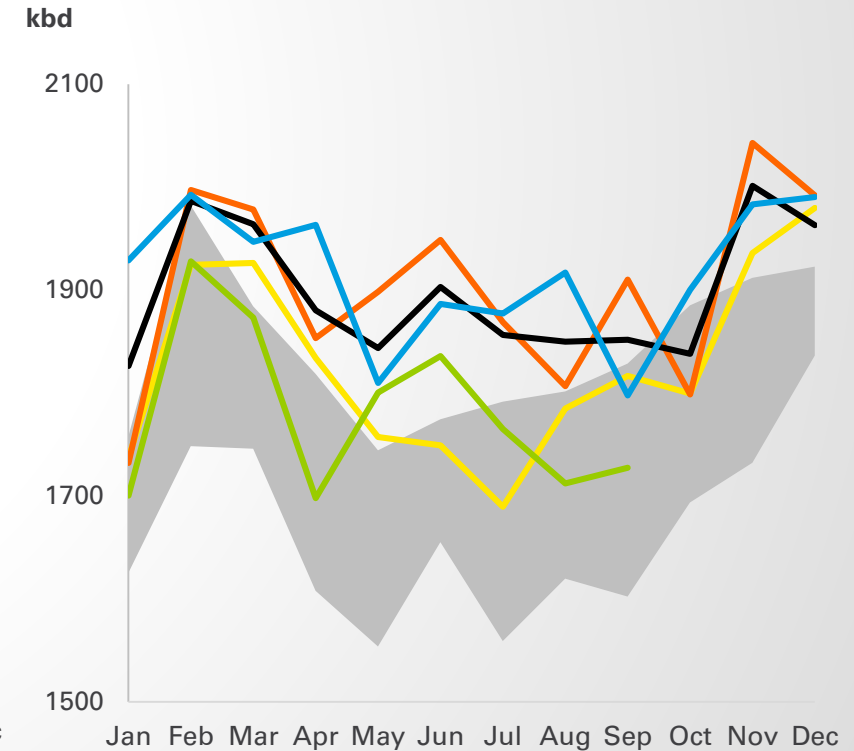
## OECD Europe Diesel/Gasoil Demand



## US Diesel/Gasoil Demand



## OECD Asia and Oceania Diesel/Gasoil Demand



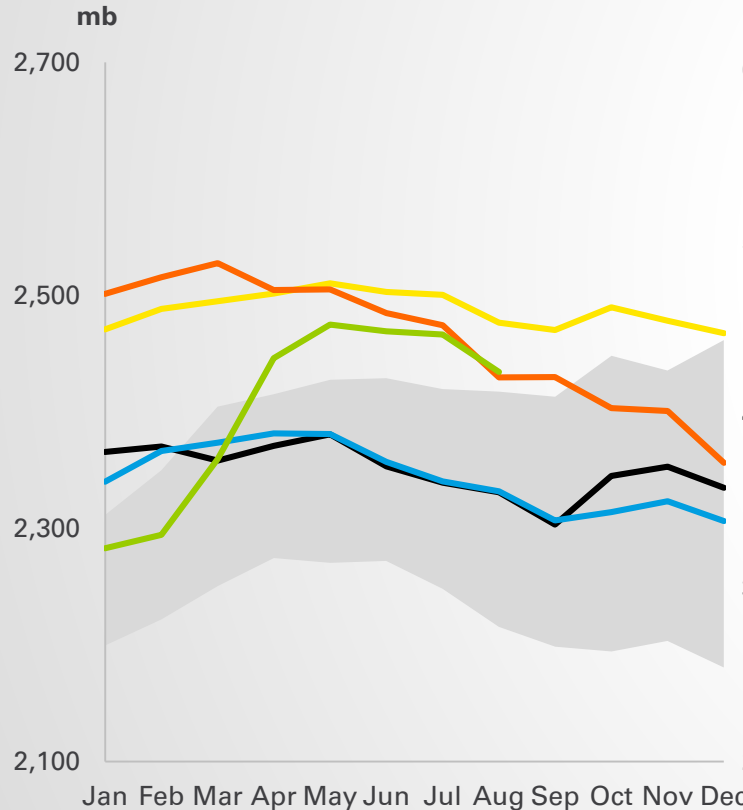


# OECD crude oil stocks fell slightly in 3Q20 but remain considerably higher than 2019 levels

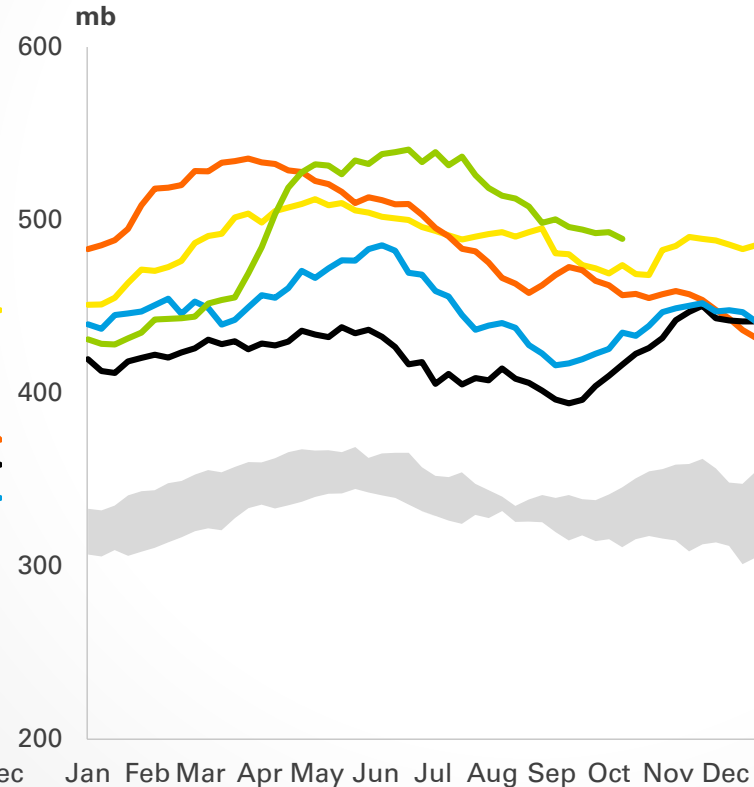


- With demand continuing to recover in 3Q20 and OPEC+ supporting high production cuts to restrict supply, OECD crude inventories decreased modestly in Aug-20.
- OECD crude inventories have fallen by **35mb** since Jun-20, reaching just over **2400mb** in Aug-20 (the latest data point available), **4%** higher than inventory levels in Aug-19.
- Between Jul-20 and Sep-20, US crude inventories dropped by **47mb**, compared to a **75mb** build between Mar-20 and mid Apr-20.

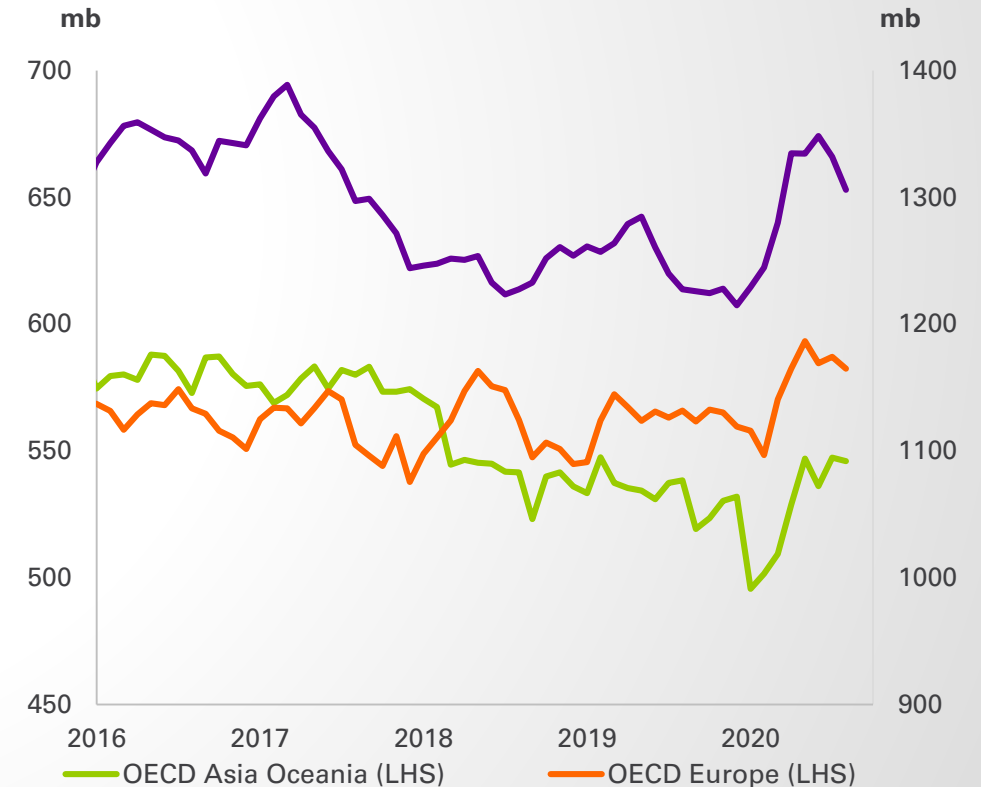
## OECD Crude Inventories



## US Crude Inventories



## Regional OECD Total Crude Inventories

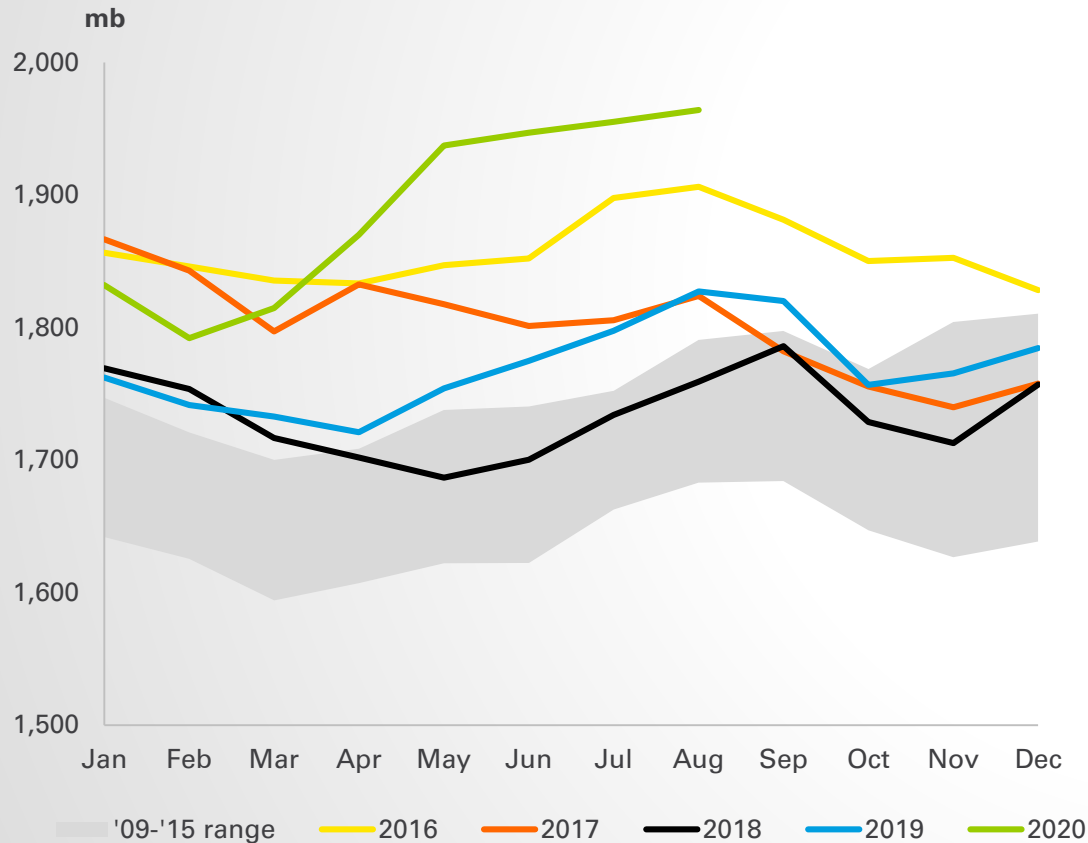


# OECD product stocks continued to build at historically high levels

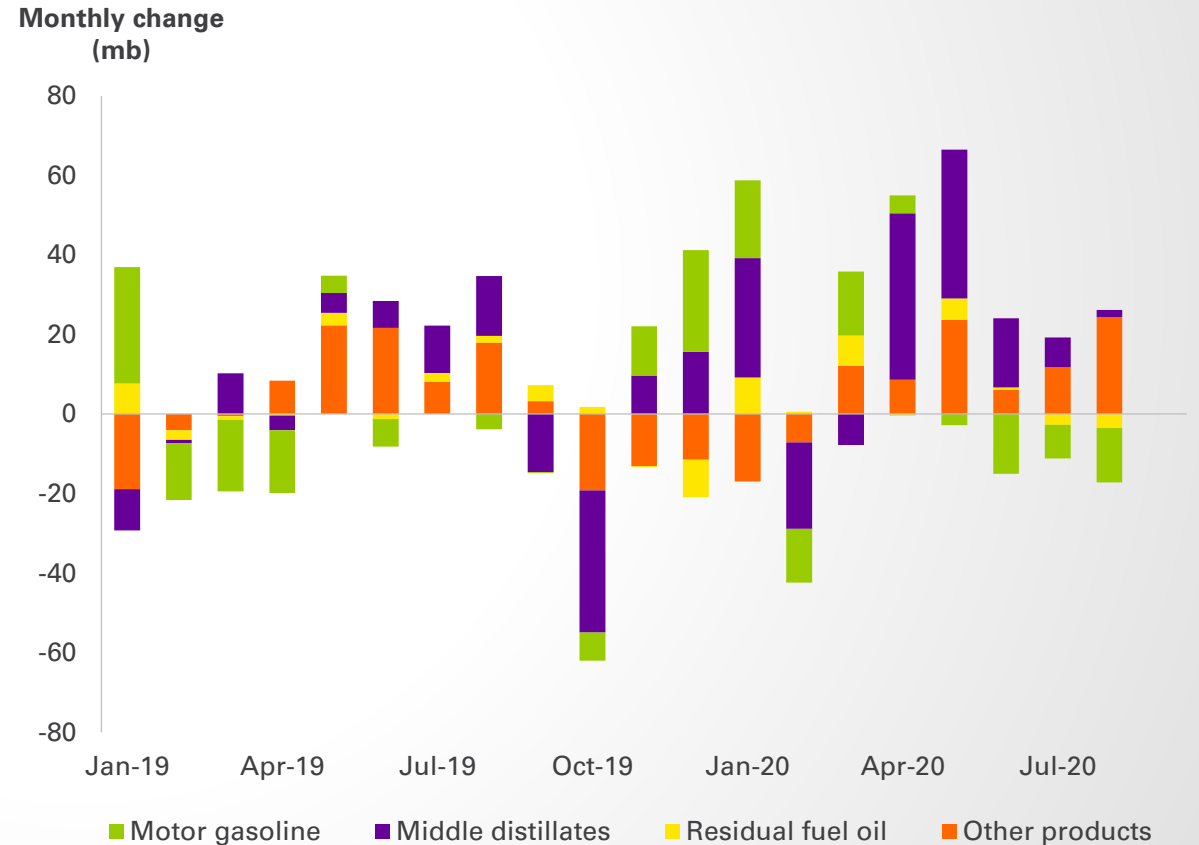


- Product stocks continued to build in 3Q20, but at a slower rate than 2Q20.
- OECD product stocks rose **17mb** between Jun-20 and Aug-20 compared to a build of **123mb** between Mar-20 and May-20.
- Gasoline and residual fuel oil stocks fell in Jul-20 and Aug-20, while the stock build for middle distillate was less material than in 2Q20.

## OECD Total Product Stocks



## OECD Total Product Stock Change

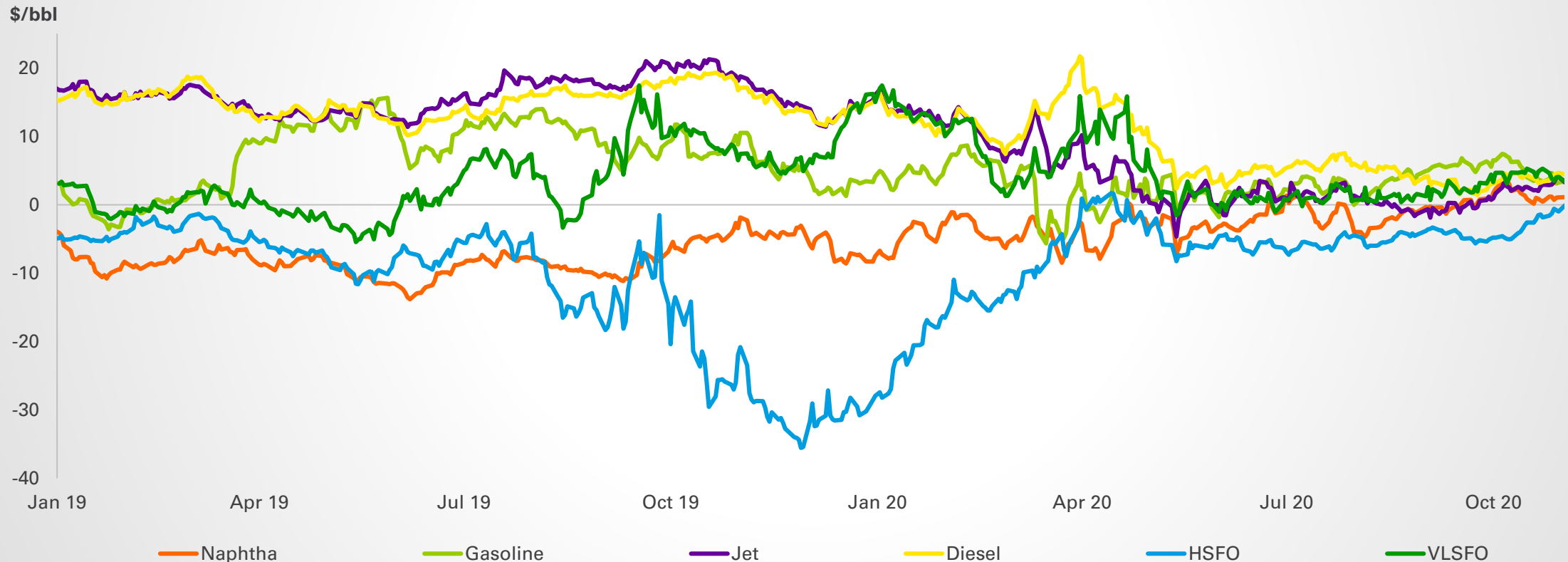


# European products cracks remain compressed



- Gasoline is currently trading at **+\$3/bbl**. Naphtha cracks have trended upwards recently and are trading at **+\$1/bbl** driven by increased gasoline blending, steam cracker demand and low refinery runs limiting supply.
- Jet averaged **+\$0.4/bbl** in 3Q20, from a 3Q19 average of **+\$18/bbl**, as commercial flight cancellations remain very high.
- Diesel has been consistently trading above Jet since Mar-20, and averaged **+\$5/bbl** in 3Q20. Diesel is currently trading at **+\$2/bbl** as demand recovery stalled towards the end of 3Q20.
- VLSFO cracks are currently at **+\$4/bbl** supported by low refinery runs and recovering bunker demand.

## Product Cracks (NWE FOB)



# Refinery margins averaged \$6.1/bbl in 3Q20, showing little change from the previous quarter



- Global Refinery Marker Margins (RMM) fell dramatically in Mar-20 as demand for oil products deteriorated rapidly and has remained at these low levels throughout 3Q20
- 3Q20 average RMM was **\$6.1/bbl**, only slightly higher than the 2Q20 average RMM of **\$5.90/bbl**, and less than half that the 3Q19 average of **\$14.7/bbl**.

## BP Global Refining Marker Margin (RMM)

