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Oil Market Update

June 2020

A Look-back at events

HIGHLIGHTS	COMMENTS	TREND
OPEC & RUSSIA AGREE TO EXTEND OIL SUPPLY CUTS	On June 02, oil prices rose as market players were hoping a potential extension of record production curbs by OPEC+ as physical markets showed renewed signs of tightness. On June 07, OPEC & Russia had agreed to extend their record oil production cuts for a further month as crude recovers to near $40 a barrel. Saudi Arabia & Russia would continue to take the bulk of the nearly 10 million a barrels per day, but the two countries emphasized they wanted to see stronger compliance from rest of their allies.	BULLISH
GLOBAL OIL INVENTORIES FALL	According to the US Energy Information Administration (EIA), the largest declines in U.S. oil consumption have already happened in the wake of the COVID-19 (coronavirus) pandemic and demand is expected to rise over the next 18 months. The prices rose as global oil demand was higher than expected and amid high adherence to planned production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+). Furthermore, production fell in the US as a result both of shut-ins and reduced drilling activity.	BULLISH
OIL DEMAND RECOVERY	On June 19, oil prices rose sharply after Brent Crude price structure flipped to backwardation signaling a tightening of the physical oil market. Backwardation is the market situation that typically occurs at times of market deficit and in it, prices for front-month contracts are higher than the ones further out in time.	BULLISH
EASING OF LOCKDOWN, RESUMES ECONOMY	Oil prices rose on June 09, boosted by hopes for a swift recovery in fuel demand as coronavirus lockdown measures are eased across the globe. Refineries in the Asia-Pacific were raising run rates while demand was gradually picking up as lockdown measures are eased, resulting in increased imports. However, many countries still struggling to bring the coronavirus under control.	BULLISH
INCREASING US CRUDE OIL INVENTORIES	According to the US Energy Information Administration's reports, US commercial crude oil inventories increased in three out of the four weeks of the month June 2020. The decrease in crude implies stronger demand and is bullish for crude prices. However, crude oil inventories decreased in fourth week by 7.1 million barrels per day which had eventually balance out.	NEUTRAL

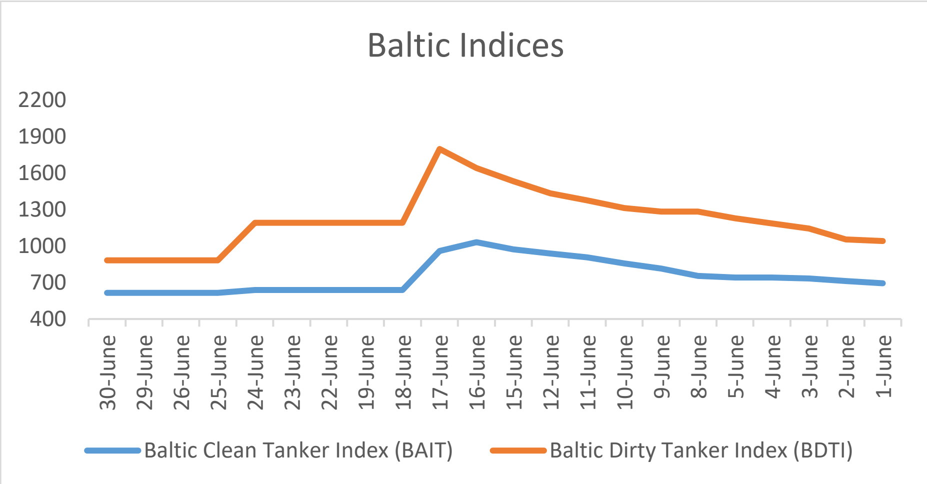
OIL MARKET OUTLOOK - BULLISH

Crude Futures are unable to rise above $41 as rising US coronavirus cases continue to threaten the nation's fuel-demand recovery. The U.S. Energy Information Administration (EIA) has raised its Brent and West Texas Intermediate (WTI) oil price forecasts in their July Short Term Energy Outlook (STEO) report. The EIA now expects the Brent spot price to average $40.50 per barrel in 2020 and $49.70 per barrel in 2021. The WTI spot price is expected to average $37.55 per barrel this year and $45.70 per barrel next year.

Oil prices rose in June as numerous regions worldwide began to lift stay at home orders and as global oil supply fell as a result of production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+). High inventory levels and surplus crude oil production capacity will limit upward price pressures in the coming months. However, rise in cases of COVID-19, however, dulled near-term prospects for energy demand, keeping a lid on price gains. South Korea has declared itself in the midst of "second wave," Germany also saw its rate of infection rise as the World Health Organization reported a record increase in global cases.

Overall, experts & analysts still were suggesting that crude, after taking a beating in March and April, and even falling into negative territory, may be primed to show improved uptake as economies see some signs of recovery from the pandemic, even if infections have been rising. Oil prices improved recently as the Organization of the Petroleum Exporting Countries and its allies, in a group known as OPEC+, agreed to extend a global cut of 9.7 million barrels a day to the end of July.

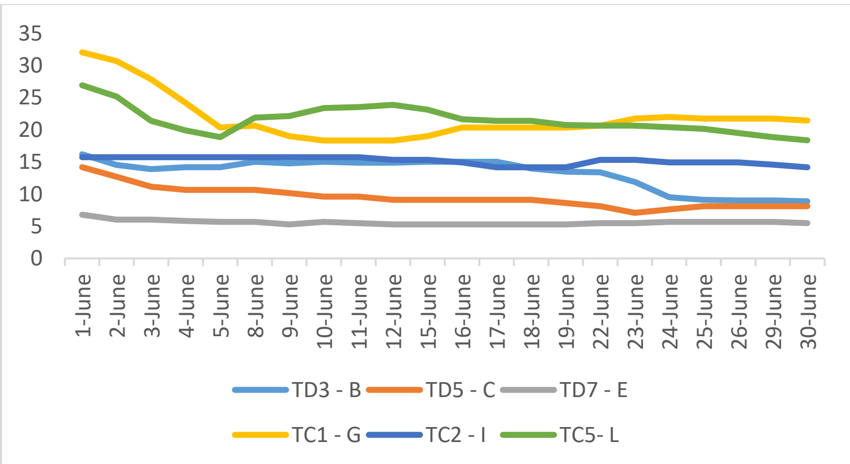
SHIPPING DATA



A clean tanker ships refined products without heavy residual components, while a dirty tanker ships crude oil, vacuum gas oil, heavy fuel oil, unrefined condensates or other products with heavy, sour, "dirty" components. Subgroups of the BCTI consider 7 main shipping routes and collect the cost of time charter of product and chemical tankers. Subgroups of the BDTI consists of 17 main shipping routes and collect the cost of time charter for four classes of ships - VLCC, Suezmax, Aframax and Panamax.

Source: Lloyd's List Intelligence

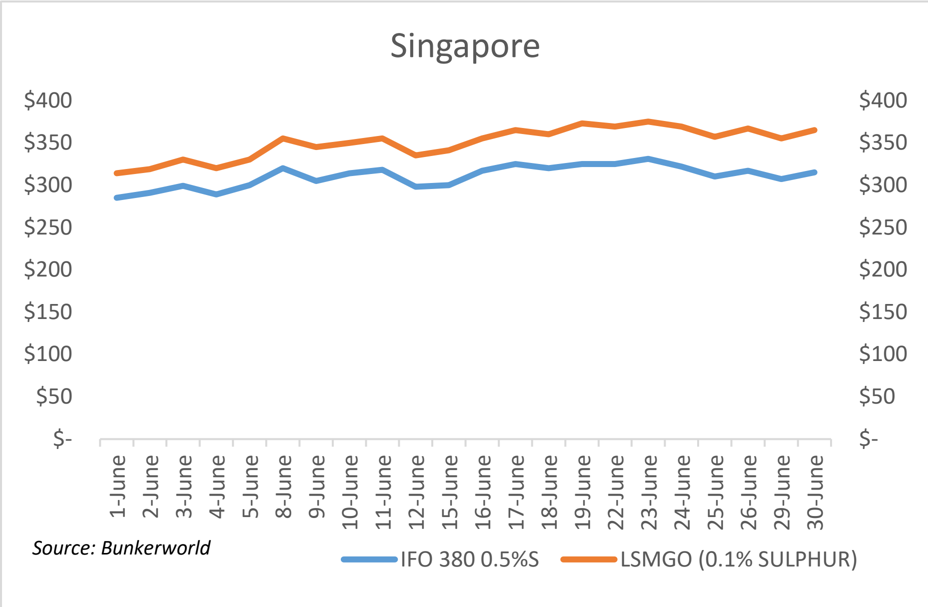
Main Shipping Routes (Dirty and Clean Tanker)	
TD3	**Arabian Gulf - Japan**
TD5	**West Africa to U.S. Atlantic Coast**
TD7	**UK North Sea to Continent**
TC1	**Ras Tanura, Saudi Arabia, to Yokohama, Japan**
TC2	**Europe to US Atlantic Coast**
TC5	**Arabian Gulf to Japan**



Source: Reuters

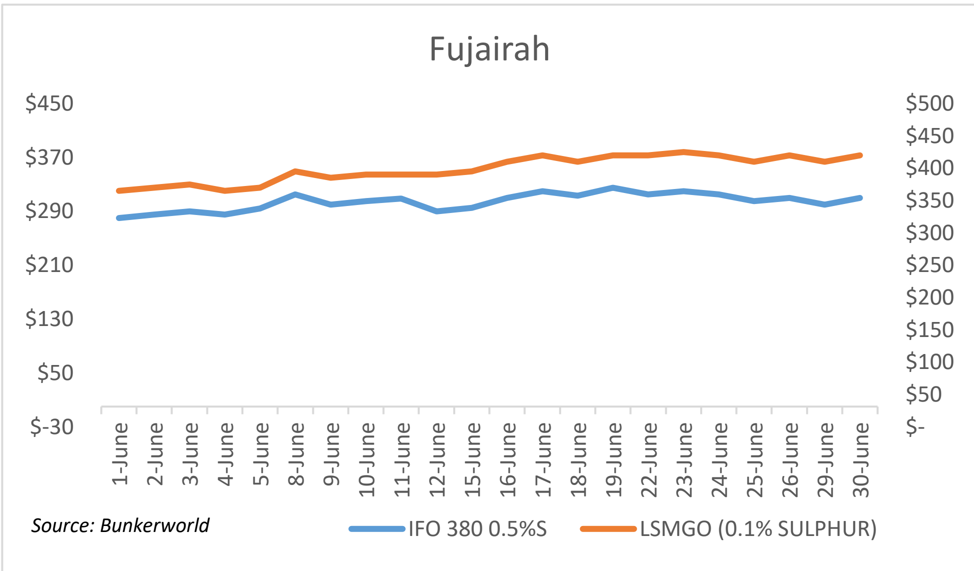
PORT UPDATES

ASIA



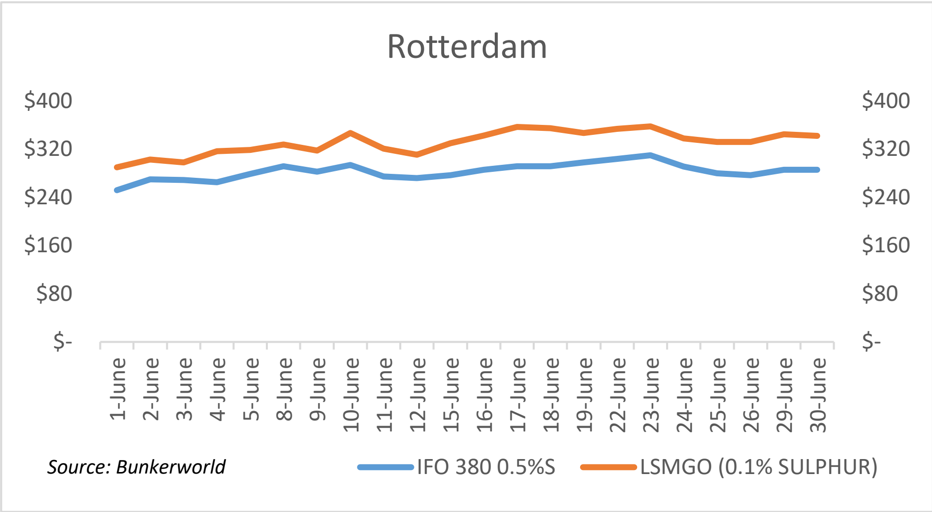
Bunker demand was weak even though several countries in the region have eased their lockdown. Market players were hoping to see some demand recovery in June but there is still ample supply, so buyers were waiting to see if bunker prices will decrease further. Total low sulfur bunker fuel sales decreased 0.11% on the month to 2.711 million mt in June. On the other hand, sales of MFO 380 CST increased 8.68% on the month to 744,700 mt in June. This was the highest sales recorded in 2020 so far. For Singapore-delivered marine fuel 0.5%, most indications were at $315-320/mt. The grade was assessed at $315/mt, up $8/mt on day.

MIDDLE EAST:



Bunker demand had improved as market participants said they received more inquiries during the day but emphasized that overall demand remains lacklustre. Some traders said they were receiving inquiries for June-July deliveries. For Fujairah-delivered 380 CST bunker fuel, few indications were located. For Fujairah-delivered 380 CST bunker fuel, indications were at $259-$265/mt. The grade was assessed at $259/mt, down $1/mt on the day.For Fujairah-delivered marine fuel 0.5%S, indications were at $320-$335/mt. The grade was assessed at $325/mt, unchanged on the day.

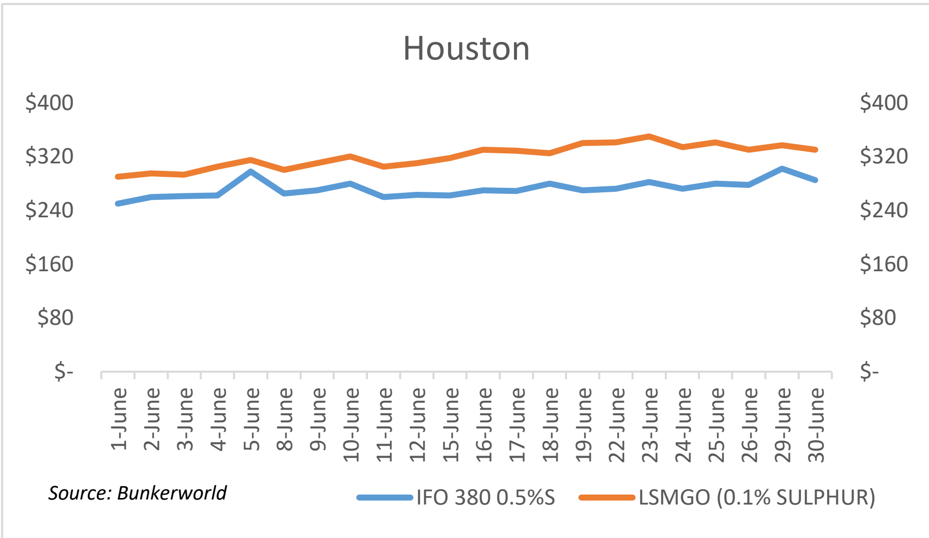
EUROPE:



Bunker market was good on the last trading day of the month June. The port experienced limited availability of high sulfur fuel oil. German cruise line AIDA Cruises will resume sailing from August, after the coronavirus pandemic triggered an industry-wide pause on operations for four months. The first of the company's cruise liners is set to sail from Hamburg on August 5 followed by one from Rostock-Warnemunde on August 12 and another from Keil on August 16. The cruise ship sector -- equating to 6% of global bunker demand, was expected to see an 83% year-on-year reduction in activity during the third quarter. On the supply side, stocks of fuel oil in the Amsterdam-Rotterdam-Antwerp hub fell 3% to 1.485 million mt in the seven days to June 30.

AMERICAS:

Bunker demand was steady on the last trading day of the month June. West Coast markets were also generally priced higher on support from a stronger US crude segment in the absence of influence from Asia, which saw relevant Singapore markets closed for the day. lacklustre demand for bunker fuels along the US Gulf Coast to close the week ending June 30. Marine gasoil in Houston stepped higher on support from bullish crude and heating oil futures markets. Houston MGO rose $5/mt day on day to be assessed at $371/mt ex-wharf. Ex-wharf spot pricing for 0.5%S in Vancouver rose $5 to $335/mt, with value talked in a range of $335-$340/mt to close the week June 30.



OPEC+ & RUSSIA AGREE TO EXTEND OIL SUPPLY CUTS

On June 02, oil prices rose as market players were hoping a potential extension of record production curbs by OPEC+ as physical markets showed renewed signs of tightness. On June 07, OPEC & Russia had agreed to extend their record oil production cuts for a further month as crude recovers to near $40 a barrel. Saudi Arabia & Russia would continue to take the bulk of the nearly 10 million a barrels per day, but the two countries emphasized they wanted to see stronger compliance from rest of their allies. The current output cut, which was to terminate at the end of June, is part of the measures taken by the cartel to help rebalance the oil market. The agreement to this deal by all member countries, precedes today's meeting of the alliance, which is currently underway through a video conference. The group has agreed to maintain its current output cut of 9.7 million barrels per day till the end of July as against the 7.7 million barrels per day that was initially planned. This was a victory for Saudi Arabia and Russia, who had been trying to persuade other members of the alliance to implement these cuts.

The Algerian Oil Minister, who is also the President of OPEC, praised the efforts of Saudi Arabia, United Arab Emirates, Kuwait and Oman for offering voluntary additional cuts for the month of June amounting to a total of 1.2 million barrels per day. He said that by the first half of 2020, oil stocks are expected to increase by an unprecedented 1.5 billion barrels. Nigeria had, a few hours earlier, reconfirmed its commitment under the existing agreement of 9.7 million barrels per day output cut. It had also committed to making additional oil output cuts from July to September to compensate for producing more than its quota in May and June. This was confirmed in a tweet post from the Federal Ministry of Petroleum Resources on its official twitter handle.

The news of the agreement had made positive impact on crude oil prices. The Brent crude went up by more than 5 percent. This is the highest in about 3 months. The American WTI crude went up by more than 5 percent as well. Many analysts beleived that the OPEC+ agreement to extend by one month record oil production cuts should accelerate market rebalancing. The OPEC+ countries have made radical production cuts in the stress scenario, but it may be more difficult to reach a consensus when the worst of the crisis is over. And it is unclear whether the recovery in oil prices to date is sustainable. Furthermore, demand and production in non-OPEC+ countries, notably the US, will continue to have a significant impact on the supply-demand balance and prices. Crude oil prices rose significantly in May and continued to improve in early June, because the surplus has been reduced materially. A price differential between the physical and financial markets has disappeared, pointing to crude oil market tightening.

The OPEC+ cuts were the major contributor to market rebalancing. OPEC+ countries reduced production by around 7.5 million bpd in May compared to March. The cumulative OPEC+ cuts should exceed 9 million bpd in June as Saudi Arabia, Kuwait and UAE have committed to cut an additional 1.1 million bpd, while Iraq and Nigeria, which underperformed in May, have promised to improve compliance in June. A resumption of production in Libya, which is not subject to the OPEC+ deal, may increase supply but should be more than offset by additional cuts elsewhere.

Overall, OPCE+ extension bought a bullish trend for oil prices, on the other hand, production fell in the US as a result both of shut-ins and reduced drilling activity by almost 2 million bpd at end-May compared to March. Estimates suggest crude oil demand increased in May compared to April, and we believe it will improve further from June due to the gradual lifting of lockdown restrictions.

GLOBAL OIL INVENTORIES FALL

According to the US Energy Information Administration (EIA), the largest declines in U.S. oil consumption have already happened in the wake of the COVID-19 (coronavirus) pandemic and demand is expected to rise over the next 18 months. The prices rose as global oil demand was higher than expected and amid high adherence to planned production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+). Furthermore, production fell in the US as a result both of shut-ins and reduced drilling activity almost 2 million bpd at end-May compared to March, while Canada cut around 1 million bpd. The number of active drilling rigs in the US declined by 64 percent compared to the beginning of the year. Production in North America may continue to shrink for a while, but the pace is likely to decelerate due to increased prices. Estimates suggest crude oil demand increased in May compared to April, and we believe it will improve further from June due to the gradual lifting of lockdown restrictions.

The EIA released Tuesday (June 9) the Short-Term Energy Outlook for June that shows spot prices for international benchmark Brent crude oil rose $11 to an average of $29 per barrel in May, from April. The prices are expected to be an average of $37 per barrel in the second half of 2020 and to rise to an average of $48 per barrel in 2021. The prices will rise as global oil inventories fall in the second half of 2020 and through 2021. High inventories are expected to limit the price increases, but as inventories fall into 2021, prices are expected to rise. Demand for global petroleum and liquid fuels is expected to fall by 16.6 million barrels per day to an average of 83.8 million barrels per day in the second quarter, from the same period in 2019. The lower demand can be attributed to the shutdowns as a result of the COVID-19 pandemic. As restrictions are eased, liquid fuels consumption is expected to rise to 94.9 million barrels per day in the third quarter, down 6.7 million barrels per day from the same period in 2019. The consumption is projected to be an average of 92.5 million barrels per day in 2020, down 8.3 million barrels per day from 2019, and it will rise by 7.2 million barrels per day in 2021.

According to Baker Hughes, US crude oil production decreased to 11.4 million barrels per day in May, from a record level of 12.9 million barrels per day in November. The production is expected to continue to fall to 10.6 million barrels per day in March 2021 before starting to rise through the end of 2021. Also, the OPEC+ cuts are the major contributor to market rebalancing. Estimation is the OPEC+ countries reduced production by around 7.5 million bpd in May compared to March. The cumulative OPEC+ cuts should exceed 9 million bpd in June as Saudi Arabia, Kuwait and UAE have committed to cut an additional 1.1 million bpd, while Iraq and Nigeria, which underperformed in May, have promised to improve compliance in June. A resumption of production in Libya, which is not subject to the OPEC+ deal, may increase supply but should be more than offset by additional cuts elsewhere.

According to OPEC Monthly Oil Market Report for the month of June, OPEC crude oil production averaged 22.27 million bpd in June 2020 on the back of reduced output in Saudi Arabia, Iraq, Venezuela, UAE, and Kuwait. This is down by 1.89 million bpd on a m/m basics. The strong growth in Brent prices in the month of June was supported by the recovery in global demand for crude following the gradual easing of COVID-19 lockdown measures by countries across the globe as well as OPEC+ production cuts which contributed to a gradual rebalancing of the global oil market. The spread between ICE Brent and West Texas Intermediate futures continued to narrow in June for the second consecutive month. According to OPEC, this was driven by an easing of supply overhang around Cushing, Oklahoma, a key refining centre in U.S and the delivery point for WTI and reduced production this year. Data from Baker Hughes indicated a sharp decline in drilling activity in the US, with the number of active oil and gas rigs falling for 16 consecutive weeks.

OIL DEMAND RECOVERY

On June 19, oil prices rose sharply after Brent Crude price structure flipped to backwardation signalling a tightening of the physical oil market. Backwardation is the market situation that typically occurs at times of market deficit and in it, prices for front-month contracts are higher than the ones further out in time. Oil's price structure for Brent and U.S. crude has caused storage to be drawn down, signalling a recovery in global markets and tighter supplies as major producers cut output to compensate for demand loss due to the coronavirus pandemic. Brent moved into backwardation, where oil for immediate delivery costs more than supply later. The premium at which Brent crude futures for August delivery are trading above September were as high as 15 cents on June 19.

Short-term Brent swaps in the North Sea market, contracts for differences, have also moved into backwardation, suggesting a stronger physical market. That has encouraged storage to be drawn down. Senior oil market analyst Rystad Energy has said that the floating storage, in particular in the (U.S.) Gulf Coast is already decreasing as buyers are opting for taking out the floating tankers rather than engaging into a new booking. The extension of output cuts by OPEC+ helped the market to find its balance after months. The Organization of the Petroleum Exporting Countries and allies, known as OPEC+, have been cutting output since May by a record 9.7 million barrels per day (bpd), 10 percent of global supply. The new oil price structure marks a turnaround from earlier when the coronavirus outbreak had pushed oil prices into the opposite structure, when prompt prices fell below forward prices, known as contango.

Bullish predictions about the demand recovery from oil trading giants Vitol and Trafigura, who told Bloomberg that they see a rapid recovery had also helped a more optimistic sentiment. Demand for crude oil and petroleum fuels has fallen worldwide because of the coronavirus pandemic, nowhere more so than in China. China is the globe's largest oil importer and a major driver of global demand. A global downturn in demand from transportation, not least in air travel, has eroded demand further. On the supply side, an uneasy partnership between OPEC and Russia had turned into a bitter breakup. The resulting war for market share had flooded the world with oil.

Overall, global production cuts had helped to balance out market. However, the impact of the pandemic remains as the risk remains. Hopes have increased as demand is normalising at a faster pace than we had initially anticipated and this is being reflected in shrinking refinery outages, firming crack spreads and rising crude throughput.

EASING OF LOCKDOWN, RESUMES ECONOMY

Oil prices rose on June 09, boosted by hopes for a swift recovery in fuel demand as coronavirus lockdown measures are eased across the globe. Refineries in the Asia-Pacific were raising run rates while demand was gradually picking up as lockdown measures are eased, resulting in increased imports. However, many countries still struggling to bring the coronavirus under control.

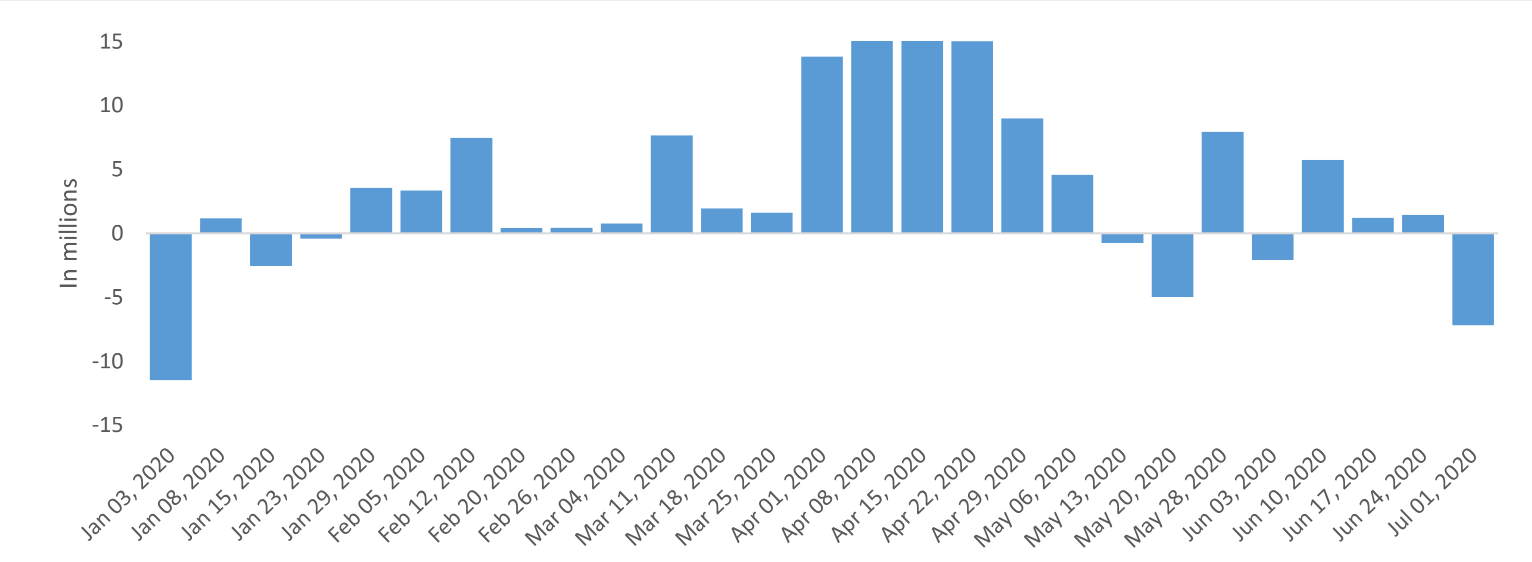
Top trading houses Vitol SA and Trafigura Group said global oil demand is recovering rapidly from its nadir in April, with Trafigura estimating it's at 90 percent of pre-virus levels. Goldman Sachs raised its 2020 oil price forecasts, with Brent now seen at $40.40 a barrel and WTI at $36 a barrel, but it warned that prices would likely pull back in the coming weeks due to demand uncertainty and an inventory overhang.

The gains came as the United States city, New York hardest hit by the novel coronavirus outbreak, began reopening on June 09 after about three months, potentially spurring fuel demand. According to Reuters, US crude and gasoline inventories are estimated to have fallen by 1.5 million barrels and about 100,000 barrels respectively in the week to June 5. Fuel demand in the United States has been gradually increasing in recent weeks, clawing back over half of the consumption lost during the first couple of weeks of lockdowns. Gasoline demand has been rising since early April as lockdowns eased and people started driving more. Distillate fuel and jet fuel demand, however, is still struggling, especially jet fuel. Gasoline production has also risen since April lows, but growth has been much slower than the pace of consumption recovery, suggesting that there are still sizeable fuel stocks that refiners need to sell first before ramping up crude processing rates and capacity utilization to pre-crisis levels. Refiners across the U.S. are not rushing to quickly increase processing rates, leaving the market to first draw down the fuel oversupply.

European Union health experts has said that the risk of a second wave of COVID-19 infections big enough to require European lockdowns to be re-imposed is moderate to high and depends on the gradual easing of restrictions and how people stick to them. A pandemic risk assessment by the European Centre for Disease Prevention and Control (ECDC) also predicted a moderate pick-up in infection rates in the coming weeks, although it said transmission has passed its peak in most European countries. She said that while there are decreasing trends of COVID-19 infections across Europe, efforts are still needed to limit the spread of the disease.

Overall, a rise in the infection rate across several US states remains for this concern. With economies across Europe also starting their own re-opening processes, markets now look to be much more focussed on the risk of a rise in re-infection rates, and a second wave, as countries try to go back to some semblance of normal. Refinery capacity utilization is rising much slower as refiners and the market have to draw down excess fuel inventories that surged at the start of the lockdowns. US refinery capacity utilization has been slowly creeping up over the past weeks, by less than 1 percentage point each week, to reach 74.6 percent in the week to June 19, from a low of 67.6 percent in the third week of April. To compare, in the third week of June last year, refinery utilization was 94.2 percent as demand was soaring with the start of driving season. Typically, U.S. capacity utilization is around 95 percent in the summer season. If refiners continue operating at much lower-than-normal utilization rates, they could help draw down the excess fuel stocks faster.

INCREASING US CRUDE OIL INVENTORIES



Source: Investing.com

According to the EIA's (US Energy Information Administration) report on June 10, 2020, US crude oil refinery inputs averaged over 13.5 million barrels per day during the week ending June 05, 2020, which was 178,000 barrels per day more than the previous week's average. Refineries operated at 73.1 percent of their operable capacity during the period. US commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 5.7 million barrels from the previous week. At 538.1 million barrels, US crude oil inventories are about 14 percent above the five-year average for this time of year.

The weekly petroleum status report released by the EIA on June. 17, 2020, U.S. commercial crude oil inventories increased by 1.2 million barrels from the previous week. At 539.3 million barrels, US crude oil inventories are about 15 percent above the five-year average for this time of year.

Release Date	Actual	Forecast	Previous
Jul 01, 2020	-7.195M	-0.710M	1.442M
Jun 24, 2020	1.442M	0.299M	1.215M
Jun 17, 2020	1.215M	-0.152M	5.720M
Jun 10, 2020	5.720M	-1.728M	-2.077M
Jun 03, 2020	-2.077M	3.038M	7.928M
May 28, 2020	7.928M	-1.944M	-4.983M
May 20, 2020	-4.983M	1.151M	-0.745M
May 13, 2020	-0.745M	4.147M	4.590M

Source: Investing.com

According to the EIA's report on June. 24, 2020, US crude oil refinery inputs averaged about 13.8 million bpd during the week ending June 19, 2020, which was239,000 barrels per day more than the previous week's average. Refineries operated at 74.6 percent of their operable capacity. US commercial crude oil inventories increased by 1.4 million barrels from the previous week.

The weekly petroleum status report released by the EIA on July 01, 2020, showed US commercial crude oil inventories decreased by 7.2 million barrels from the previous week. At 532.3 million barrels, US. crude oil inventories are about 15 percent above the five year average for this time of year.

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