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Oil Market Update
April 2020

A Look-back at events

HIGHLIGHTS	COMMENTS	TREND
DEEPEST FALL IN DEMAND: NEGATIVE OIL PRICE	On April 20, an unprecedented collapse of the oil price took place, a key international oil benchmark, West Texas Intermediate (WTI), has plunged to less than zero amid the deepest fall in demand in 25 years. The WTI price fell to minus $40 a barrel as a result of a sharp drop in demand because of the coronavirus pandemic. The oil markets' meltdown was growing as the producers run out of places to store unwanted crude oil reserves. It means they were paying buyers to take oil off their hands.	BEARISH
IMPACT ON FINANCIAL & OIL MARKET DUE TO COVID-19	Economic turmoil associated with the Covid-19 pandemic has wide-ranging and severe impacts upon financial & oil market. Major events included a described Russia–Saudi Arabia oil price war after failing to reach an OPEC+ agreement that resulted in a collapse of crude oil prices and a stock market crash. The effects upon markets are part of the coronavirus recession and among the many socio-economic impacts of the pandemic.	BEARISH
OPEC+ DEAL LEND SUPPPORT TO GLOBAL OIL OVERSUPPLY	The OPEC and its allies locked in a historic oil supply after Saudi Arabia, under pressure from the US threatened to escalate a price war in the midst of the coronavirus crisis. The deal would see the 23-country OPEC+ alliance rein in 9.7 million barrels per day of crude oil production for May and June. It is the biggest coordinated supply contraction covered by an international deal. Total global oil supply cuts could come to 20 million barrels per day, around 20 per cent of global supply.	BULLISH
US SHALE OIL OUTPUT CUTS	Due to the combined effect of the Covid-19 pandemic and the low oil prices, US shale operators are reducing spending, production and overall activity in 2020. Reductions in spending and activities weigh in, the fourth quarter of 2020, which was projected to see a year-on-year oil production increase of 650,000 barrels per day, is now instead forecast to see a reduction of 1.5 million bpd. In other words, production for the quarter will be lower by some 2.15 million bpd compared to what was expected before the Covid-19 crisis.	BULLISH
INCREASING US CRUDE OIL INVENTORIES	According to the US Energy Information Administration's reports, US commercial crude oil inventories increased in all the four weeks of the month April 2020. The increase in crude implies weaker demand and is bearish for crude prices.	BEARISH

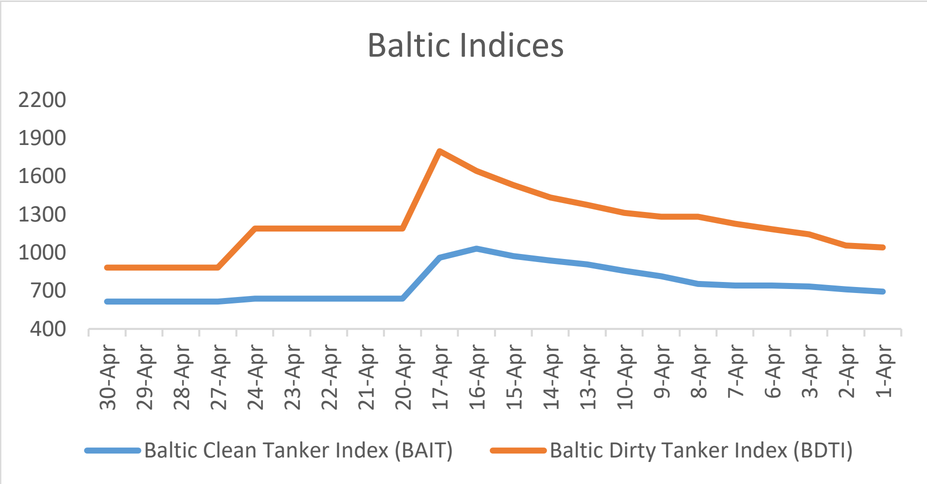
OIL MARKET OUTLOOK - BULLISH

Month of April marked the most historic month for oil prices ever. The price of America's West Texas Intermediate (WTI), which had stood at $18.27 a barrel on Friday 17 April, went negative, to the tune of up to $40 a barrel. In other words, producers and traders holding oil contracts were paying market players including storage companies to take crude off their hands. The good news is that WTI had bounced back into positive territory and in morning trading on 24 April. The immediate cause of the recovery has been President Donald Trump's threat to respond to alleged harassment in the Persian Gulf of US vessels by Iran with military force. Storage concerns continue to weigh on markets with the International Energy Agency (IEA) warning that global capacity could reach its maximum by mid-June and that energy demand could slump by a record 6 percent in 2020 due to lockdowns.

As of May 05, countries like Italy, Spain, Nigeria and India, as well as some US states including Ohio, have begun opening from locked down. However, the International Monetary Fund predicted the "Great Lockdown" recession would be the steepest in almost a century and warned the world economy's contraction and recovery would be worse than anticipated if the coronavirus lingers or returns. In its first World Economic Outlook report since the spread of the coronavirus and subsequent freezing of major economies, the IMF estimated that global gross domestic product will shrink 3 percent this year. That compares to a January projection of 3.3 percent expansion and would likely mark the deepest dive since the Great Depression.

The Organization of Petroleum Exporting Countries (OPEC) and its allies, known as OPEC+, agreed earlier this month to a new supply pact from May 1. Signs that producers would cut output in reaction to collapsed demand on coronavirus lockdown and start of OPEC+ 9.7 million bpd reduction from 1 May, revived optimism and prompted market speculators into fresh buying that inflated oil prices.

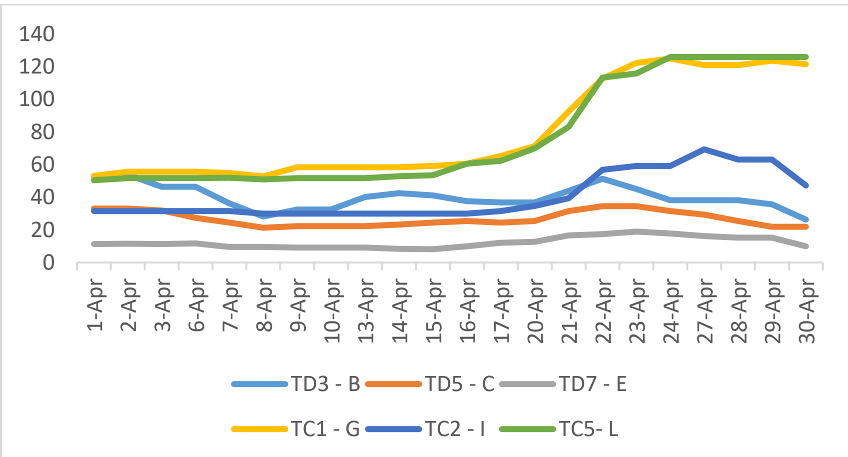
SHIPPING DATA



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

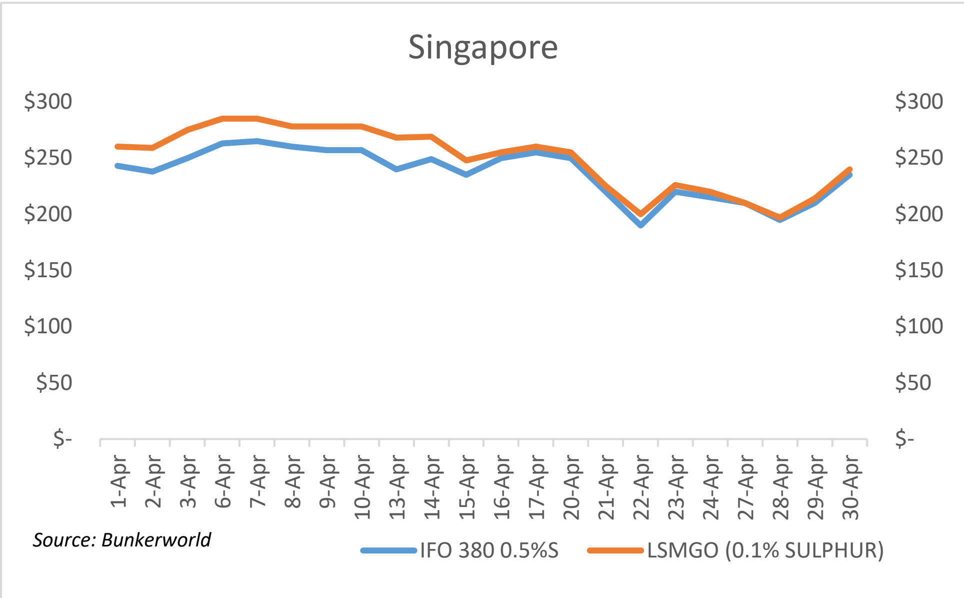
Main Shipping Routes (Dirty and Clean Tanker)	
TD3	**Arabian Gulf - Japan**
TD5	**West Africa to U.S. Atlantic Coast**
TD7	**UK North Sea to Continent**
TC1	**Ras Tanura, Saudi Arabia, to Yokohama, Japan**
TC2	**Europe to US Atlantic Coast**
TC5	**Arabian Gulf to Japan**



Source: Reuters

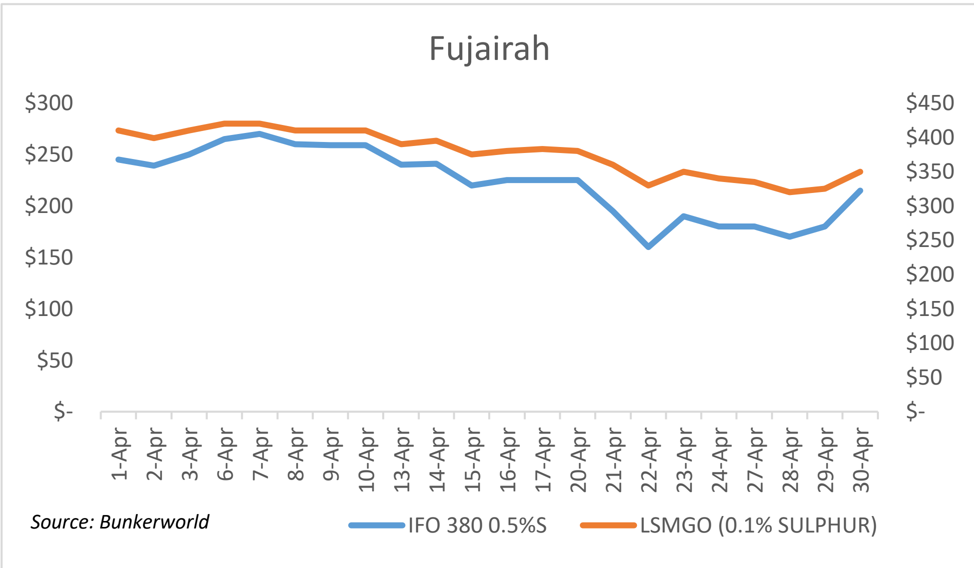
PORT UPDATES

ASIA



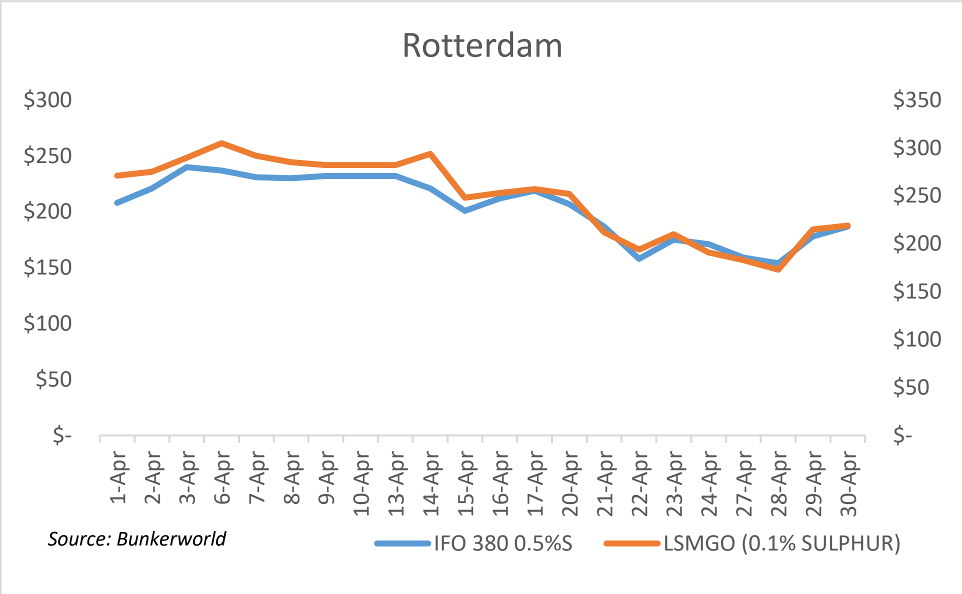
Bunker demand had picked up in the last week of the April. Market players observed that demand for low sulfur marine gasoil, or LSMGO, picked up as prices were at parity to low sulfur bunker fuel. Meanwhile, the Maritime and Port Authority of Singapore said it would provide financial support of about S$27 million as part of a "MaritimeSG Together Package" for the maritime industry, which is grappling with the adverse impact of the global coronavirus pandemic. For Singapore-delivered 380 CST bunker fuel, indications were at $152-$158/mt. The grade was assessed at $150/mt, up $19.25/mt on day. For Singapore-delivered marine fuel 0.5%, most indications were at $237-$245/mt. The grade was assessed at $235/mt, up $25/mt on day.

MIDDLE EAST:



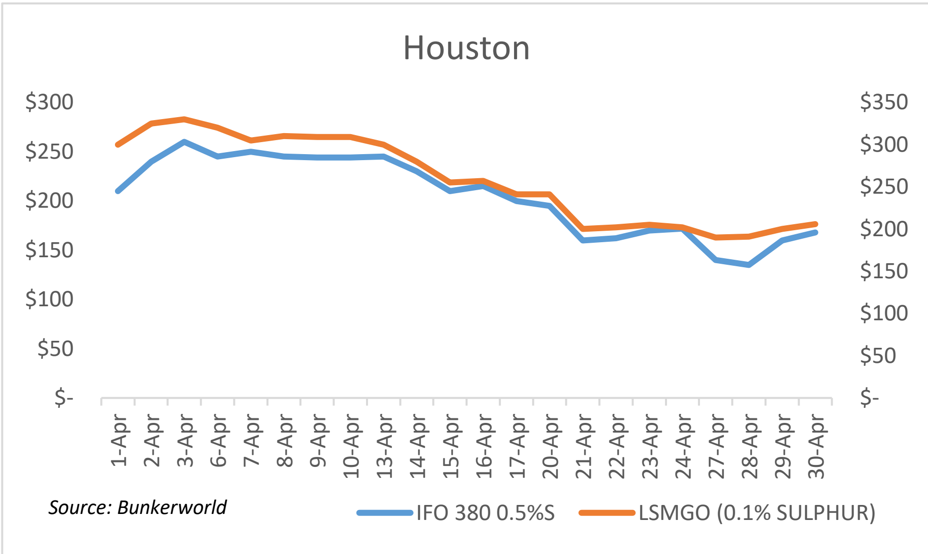
Bunker demand had gradually picked up over the last week of April as buyers were looking to stock up inventories following the easing of the movement restrictions in the emirate. Some traders said they were receiving inquiries for end-May deliveries. The market structure was still in contango, so they want to secure some volumes first. For Fujairah-delivered 380 CST bunker fuel, indications were at $125-$140/mt. The grade was assessed at $125/mt, up $10/mt on day. For Fujairah-delivered marine fuel 0.5%, most indications were at $220-$225/mt. The grade was assessed at $215/mt, up $35/mt on day.

EUROPE:



Bunker market was firm on the last trading day of the month April. The port experienced limited availability of high sulfur fuel oil. Rotterdam 0.5%S marine fuel barges were assessed at $152.00/mt an $11.50/mt premium over jet. The inversion of the two products was a significant example of the demand fallout for transport fuels, with jet seen at a $195.50/mt premium over fuel oil this time last year. Meanwhile, the contango market structure for fuel oil had brought the viability of storage to centre stage for much of the market. The fuel oil curve sees the steep contango largely limited to the prompt, with pricing between the front and second months (May and June) at minus $18.00/mt.

AMERICAS:



Bunker demand was weak on the last trading day of the month April. According to few suppliers, they were hearing "nothing" in the region, echoing recent sentiment citing limited liquidity and weak demand. Ex-wharf spot pricing for 0.5%S marine fuel in New York rose $6 to $202/mt, below an indication of $204/mt ex-wharf. Demand in Montreal was also heard to be "still weak overall" amid rising indications in that port. On the West Coast, spot values rose on notional support from key global energy indicators. Demand in Los Angeles was talked weak, with spot value for 0.5%S rising $2 day on day to $208/mt delivered on notional support from the gains in the US crude market. US Gulf Coast markets were also assessed higher on the day, with the ex-wharf Houston spot price of MGO closing $6 higher at $206/mt. Spot pricing for 0.5%S in Houston rose $3 to $163/mt ex-wharf.

DEEPEST FALL IN DEMAND: NEGATIVE OIL PRICE

On April 20, an unprecedented collapse of the oil price took place, a key international oil benchmark , West Texas Intermediate (WTI), has plunged to less than zero amid the deepest fall in demand in 25 years. The WTI price fell to minus $40 a barrel as a result of a sharp drop in demand because of the coronavirus pandemic. The oil markets' meltdown was growing as the producers run out of places to store unwanted crude oil reserves. It means they were paying buyers to take oil off their hands.

For the first time in history, the West Texas Intermediate crude for May delivery fell below zero. On April 21, the massive selling spread to the WTI June contract, which also plunged 42 per cent to $11.79 a barrel. The spreading of this crash to futures that are still far from their expiry date, revealed the gravity of the oil market crisis. Storage facilities, including pipelines, tanks and super-tankers, are overwhelmed by a huge oversupply, which is caused by a drastic demand shortage. As the world is locked down to slow the coronavirus spread, flights remain cancelled, people stay at home and parts of the economy, which consume a lot of energy, have been shut down. All these wiped out the world's demand for oil. A severe imbalance between oversupplied oil, as oil producers continued to pump crude from their wells, and the biggest slump in demand in history.

What do the lowest oil prices, or better say negative prices, mean? As the oil storage facilities are limited and already full, oil producers are forced to pay buyers to take the unwanted barrels off their hands. Although this has never happened before, it does not mean it couldn't happen again given the state of the market. Storing today's oil should deliver a profit. That's true. If you could store today's oil and the price of oil remains stable or perhaps goes up towards the end of the year you have a locked-in profit but then you have to pay a massive premium at the moment for storing the oil. Buyers should consider that storage cost is surpassing financial crisis levels. They would need to factor the cost of transportation and a storage facility where they may need to hold it. If you were thinking about chartering a super-tanker for holding your oil, rates have more than doubled from a month ago, which is a massive cost.

The expression "contango" or "super contango" in relation to current oil prices is what we wear these days, lets understand. After the US WTI futures slumped, the spread between the current contract and contracts expiring later is much wider than usual. This is often referred to as contango, where longer-dated futures prices are much higher than the current spot prices or nearest futures contract. This can often signal, as with oil-a lack of demand in the short term and oversupply. According to Michael Lynch, president of Strategic Energy & Economic Research, "the historic contango is a reflection of physical barrels that can't easily find buyers and are being sold at distressed prices. The implication is that storage might be more full than thought, or that buyers expect it to be very soon."

Organization of Petroleum Exporting Countries (OPEC) and OPEC+ organisation of various oil-producing countries have agreed to cut almost 10 million barrels of oil per day in production by mid-May. when the next set of futures contracts expire in May, therefore, price volatility may continue for next month as well, depending on the storage system and on the demand side.

IMPACT ON FINANCIAL & OIL MARKET DUE TO COVID-19

Economic turmoil associated with the Covid-19 pandemic has wide-ranging and severe impacts upon financial & oil market. Major events included a described Russia–Saudi Arabia oil price war after failing to reach an OPEC+ agreement that resulted in a collapse of crude oil prices and a stock market crash. The effects upon markets are part of the coronavirus recession and among the many socio-economic impacts of the pandemic.

As coronavirus put Europe and the United States in virtual lockdown, financial economists, credit rating and country risk experts have scrambled to rearrange their assessments in light of the unprecedented geo-economic challenges posed by the crisis. M. Nicolas Firzli, a director of the World Pensions Council (WPC) and advisory board member at the World Bank Global Infrastructure Facility, refers to it as "the Greater Financial Crisis" and says it is bringing to the surface many pent-up financial and geopolitical dysfunctions. On 20 April 2020 the oil price made history. The US benchmark oil contract – known as West Texas Intermediate (WTI), ended the day at minus $37 per barrel, entering negative territory for the first time. So much oil was available, with so little demand for it from a global economy in lockdown, and barely any space left to store it, that producers and traders had to pay buyers to take it off their hands. Lockdown measures put in place to contain the spread of COVID-19 represent an unprecedented shock to global oil demand. The International Energy Agency (IEA) forecasts that the drop in global demand in April will be as much as 29 million barrels per day year-on-year (around 30 percent of demand), followed by another significant year-on-year fall of 26 million barrels per day in May. The world has returned to oil demand levels last seen in the 1990s. As a result of this unprecedented fall in demand, oil-storage facilities in the US have filled-up quickly, rising at an average of 16 million barrels per week over the last three weeks. The oil glut is also evident in Cushing (Oklahoma), with total oil storage capacity of 80 million barrels, Cushing now has only 20 million barrels of free storage left, which is now fully booked and likely to be completely utilised by the end of May.

Chinese demand slump resulted in a meeting of the Organization of Petroleum Exporting Countries (OPEC) to discuss a potential cut in production to balance the loss in demand. The cartel initially made a tentative agreement to cut oil production by 1.5 million barrels per day (bpd) following a meeting in Vienna on 5 March 2020. Meanwhile, analytics firm IHS Markit predicted a fall global demand for crude to fall by 3.8 million bpd in the first quarter of 2020, largely due to the halt to Chinese economic activity due to the virus. The finances of many oil-producing nations suffered severe stress. Iraq, which gets 90 percent of its budget from oil revenue and could profitably extract oil as long as it was above $60 a barrel, announced that it would have a $4.5 billion monthly shortfall starting in May. Other oil exporters, including Mexico, Venezuela, Ecuador, and Nigeria are expected to contract economically or struggle to manage the fiscal fallout. Countries such as Saudi Arabia and Russia have cash reserves measured in years, but their leadership remain concerned

Overall, the halt in Chinese economy has already started to affect the global oil demand as China is the world's largest oil importer and therefore the global demand for oil has been significantly affected. Now with United States & Europe emerging as epicentre of the pandemic, the global world economy is affected significantly. Oil companies that filed for bankruptcy during the pandemic include Whiting Petroleum (on April 1) and Diamond Offshore (on April 27)

OPEC+ DEAL LEND SUPPORT TO GLOBAL OIL OVERSUPPLY

The OPEC and its allies locked in a historic oil supply after Saudi Arabia, under pressure from the US threatened to escalate a price war in the midst of the coronavirus crisis. The deal would see the 23-country OPEC+ alliance rein in 9.7 million barrels per day of crude oil production for May and June. It is the biggest coordinated supply contraction covered by an international deal. Total global oil supply cuts could come to 20 million barrels per day, around 20 per cent of global supply.

After four days of wrangling, OPEC, Russia and other oil-producing nations, a group known as OPEC+, agreed on Sunday to cut output by a record amount of 9.7 million barrels per day, representing around 10 per cent of global supply to support oil prices amid the pandemic. Kuwait's oil minister said that the effective reduction in oil supply by OPEC+ and other G20 countries would be roughly 20 million bpd. Rystad Energy also added by saying that If G20 adds about another 10 million bpd, then the world is meeting the total imbalance from May and this would be a massive relief. The leaders of the world's top three oil producers, Russian President Vladimir Putin, U.S. President Donald Trump and Saudi Arabia's King Salman, all supported the OPEC+ deal to cut global crude output. Trump praised the deal, saying it would save jobs in the U.S. energy industry. Saudi Arabia, Kuwait and the UAE volunteered to make cuts even deeper than those agreed, which would effectively bring the OPEC+ supply down by 12.5 million bpd from current supply levels. At the G20 meeting Friday, the US did not offer any voluntary production cuts, but only a vague commitment to use its Strategic Petroleum Reserve to lock away barrels that would otherwise exacerbate the oil glut. Several US senators from oil producing states, facing a wave of layoffs and bankruptcies, also held a tense phone call Saturday with senior Saudi officials, including energy minister Prince Abdulaziz bin Salman, to pressure the kingdom into making a deal with its OPEC+ counterparts, suggesting a withdrawal of US military aid if no supply agreement materialized.

Worldwide fuel consumption is down roughly 30 per cent, due to the COVID-19 pandemic caused by the novel coronavirus that has killed more than 100,000 people worldwide and kept businesses and governments on lockdown. The deal could boost prices whose values have more than halved since the start of the year, before major effects from the pandemic began to sink in. OPEC+ outlined plans to cut output by more than a fifth, or by 10 million barrels per day (bpd), but Mexico balked at the production cuts it was asked to make, delaying the signing of a final deal. OPEC+ has also said it wanted producers outside the group, such as the United States, Canada, Brazil and Norway, to cut a further 5 per cent or 5 million bpd. Canada and Norway signalled a willingness to cut. The United States, where anti-trust legislation makes it hard to act in tandem with cartels such as OPEC, has said that its output would fall by as much as 2 million bpd by itself this year because of low prices.

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 has flooded the world with oil.

Overall, Worldwide fuel consumption is down roughly 30 percent, due to the COVID-19 pandemic caused by the novel coronavirus that has killed more than 100,000 people worldwide and kept businesses and governments on lockdown. A deal like this should definitely help to reduce the global glut of oil supply in the market amid the dampening of global demand.

US SHALE OIL OUTPUT CUTS

Due to the combined effect of the Covid-19 pandemic and the low oil prices, US shale operators are reducing spending, production and overall activity in 2020. Reductions in spending and activities weigh in, the fourth quarter of 2020, which was projected to see a year-on-year oil production increase of 650,000 barrels per day, is now instead forecast to see a reduction of 1.5 million bpd. Although the country's oil production was previously poised for annual growth of 8.1 percent, based solely on interpretation of operators' guidance, Rystad Energy is projecting a decline of at least 2.7 percent year-on-year. In other words, production for the quarter will be lower by some 2.15 million bpd compared to what was expected before the Covid-19 crisis.

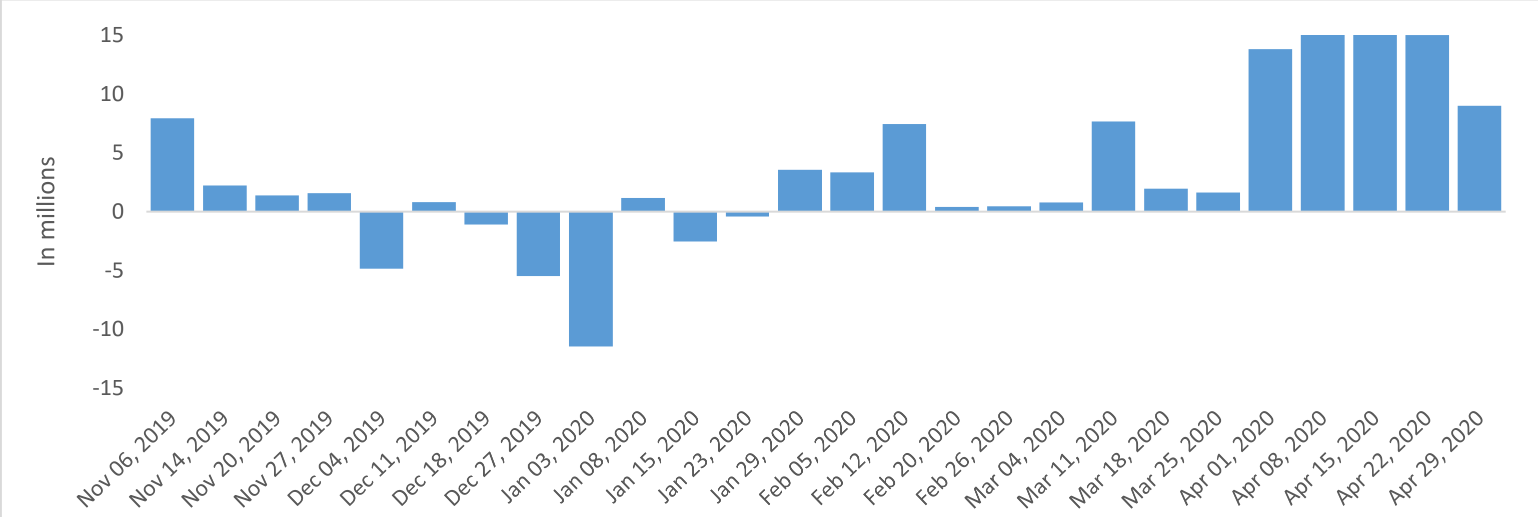
US oil production in the fourth quarter of 2019 averaged around 10.4 million bpd. For all of 2020, it is now expected to fall to about 9.6 million bpd from 9.9 million bpd in 2019. Rystad Energy Vice President North American Shale and Upstream Veronika Akulinitseva said that the production slide in 2020 may accelerate even further, as private operators are likely to respond faster with decisions of additional activity cuts. Also, production curtailments that could be implemented by a larger number of operators could lower the actual oil output even more. Rystad Energy has registered additional capital budget reductions communicated by a number of US shale operators. In total, all revised US shale producers combined have so far reported plans to slash 38 percent off their previously announced 2020 capital budgets, which implies a cut of nearly 42 percent compared to 2019 spending. Some of the producers have clearly communicated new expected oil production volumes for the year, while the potential impact for the others has been estimated by Rystad Energy's shale team.

The latest weekly government data shows production of 12.2 million barrels last week, the lowest level since July. That's off 100,000 barrels in a week and down from a record high of 13.1 million barrels a day just a month ago. Imports fell to 4.9 million barrels from 5.7 million barrels a week earlier, and exports trickled off to 2.9 million barrels a day from 3.4 million. The growth in U.S. oil production was at the heart of the dispute earlier this year between Russia and Saudi Arabia, when the world's second- and third-largest producers walked away from a more than 3-year-old production pact. OPEC and Russia have since agreed to cut 9.7 million barrels a day as of May 1. The U.S. did not officially join the pact, but U.S. production had been expected to drop off.

Producers from Texas to North Dakota are shutting in wells and curtailing plans to drill new ones. The oil industry is facing the twin crises of oversupply and a shocking lack of demand due to the economic shutdown in response to the coronavirus pandemic. The U.S. production cuts have been dramatic and swift, more than half of what some analysts have been forecasting for this year. IHS Markit expects U.S. production could decline by 2.9 million barrels a day from the high by year-end. The EIA expects U.S. shale oil production to drop next month to 8.526 million barrels per day in the seven most prolific shale basins in the United States. The forecast for May for a 182,673-average barrel per day drop in oil production is expected to be the second largest drop dating back to 2007.

Overall, Oil demand and oil prices have declined sharply in recent months, with global oil demand destruction thought to be somewhere near 30-35 million bpd. The EIA expects the Permian basin, responsible for more than half of the reported shale production, will see a dip of 75,700 bpd in May, to 4.5 million barrels per day. The second largest basin, the Eagle Ford, should see a drop of 34,790 barrels per day, to 1.3 million bpd. All basins are expected to see a production drop for May.

INCREASING US CRUDE OIL INVENTORIES



Source: Investing.com

According to the EIA's (US Energy Information Administration) report on April 08, 2020, US crude oil refinery inputs averaged over 13.6 million barrels per day during the week ending April 03, 2020, which was 1.3 million barrels per day less than the previous week's average. Refineries operated at 75.6 percent of their operable capacity during the period. US commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 15.2 million barrels from the previous week. At 484.4 million barrels, US crude oil inventories are about 2 percent above the five-year average for this time of year.

The weekly petroleum status report released by the EIA on Apr. 15, 2020, U.S. commercial crude oil inventories increased by 19.2 million barrels from the previous week. At 503.6 million barrels, US crude oil inventories are about 6 percent above the five-year average for this time of year.

Release Date	Actual	Forecast	Previous
Apr 29, 2020	8.991M	10.619M	15.022M
Apr 22, 2020	15.022M	15.150M	19.248M
Apr 15, 2020	19.248M	11.676M	15.177M
Apr 08, 2020	15.177M	9.271M	13.834M
Apr 01, 2020	13.834M	3.997M	1.623M
Mar 25, 2020	1.623M	2.774M	1.954M
Mar 18, 2020	1.954M	3.256M	7.664M
Mar 11, 2020	7.664M	2.266M	0.785M

Source: Investing.com

According to the EIA's report on Apr. 22, 2020, US crude oil refinery inputs averaged about 12.5 million bpd during the week ending Apr. 17, 2020, which was 209,000 barrels per day less than the previous week's average. Refineries operated at 67.6 percent of their operable capacity. US commercial crude oil inventories increased by 15.0 million barrels from the previous week.

The weekly petroleum status report released by the EIA on Apr. 29, 2020, showed US commercial crude oil inventories increased by 9.0 million barrels from the previous week. At 527.6 million barrels, US. crude oil inventories are about 10% above the five year average for this time of year.

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