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Oil Market Update
February 2020

A Look-back at events

HIGHLIGHTS	COMMENTS	TREND
COVID-19: IMPACT ON THE GLOBAL ECONOMY	The ongoing spread of the new coronavirus has become one of the biggest threats to the global economy and financial markets. According to the World Health Organization, the virus, first detected in the Chinese city of Wuhan last December, has infected more than 110,000 people in at least 110 countries and territories globally, of those infected, more than 4,000 people have died. To contain the COVID-19 outbreak, Chinese authorities locked down cities, restricted movements business operations, that have slowed down the world's second-largest economy and dragged down the global economy along the way.	BEARISH
RISK OF A GLOBAL RECESSION	Oil prices have been quite volatile over past few months. Despite a series of bullish events - the US airstrike targeting Qasem Soleimani, Iran's retaliation attack on US troops in Iraq, the shutdown of almost the entire Libyan production and the US's tightening the screws on Venezuela, oil prices are now substantially lower than before these events. This massive change in sentiment happened as the Coronavirus situation in China unfolded.	BEARISH
IMBALANCE: DEMAND VS SUPPLY	The oil market was not prepared for the unexpected impact of the coronavirus. The uncertainty is depressing prices and that situation appears to be now priced in for the first quarter. Oil demand in China has fallen more than expected due to curtailment on travel and trade. Oil markets were already in a state of oversupply this year as output from US shale has grown much faster than demand was expected to.	BEARISH
LIBYAN OIL OUTPUT SINKS	On February 17, the Libyan National Oil Company (NOC) said that oil production was down to just under 136,000 bpd because of the blockade on ports and pipelines. That represents a financial loss of over $1.6 billion. Libya is a key supplier of crude to Mediterranean refineries with aframax tankers loading 80% of all shipments in 2019. January exports dropped 710,000 bpd, the lowest since July 2018, because of the conflict.	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 February 2020. The increase in crude implies weaker demand and is bearish for crude prices.	BEARISH

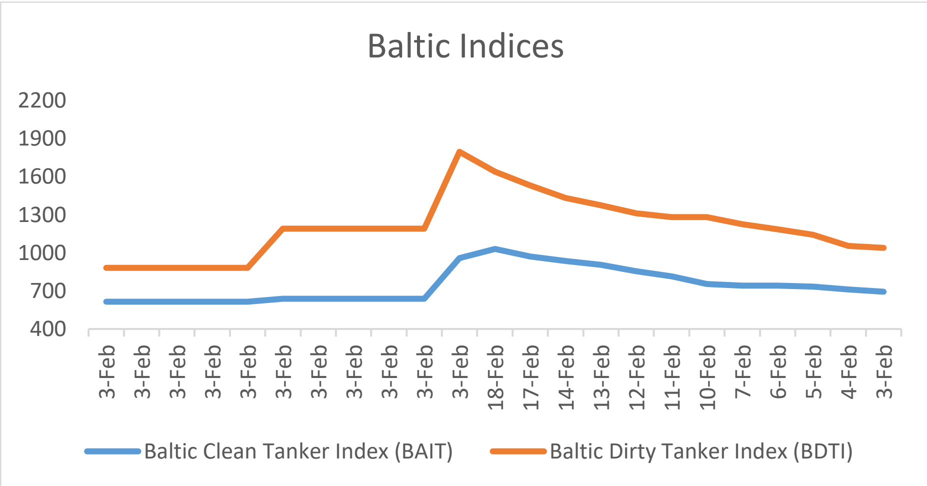
OIL MARKET OUTLOOK - BEARISH

Oil prices have been under tremendous pressure for the month of February because of the Covid-19 virus that shuttered Chinese business for weeks and forced flight cancellations around the world. According to a senior analyst at S&P Global Platts, even if the Organization of Petroleum Exporting Countries (OPEC) cuts production by 600,000 barrels a day, oil prices could remain weak until April. That's mainly because inventories are rising amid lower oil demand due to the outbreak.

As the economic impact of the coronavirus unfolded, the Organization of the Petroleum Exporting Countries slashed its global oil demand outlook. For China, where the outbreak began, OPEC revised its demand forecast down by 0.2 million barrels a day for the first half of the year. OPEC's Joint Technical Committee met over three days in early February and reportedly recommended a cut of 600,000 barrels a day. In a weekly report by the Energy Information Administration, the government agency lowered its 2020 expectations for US crude-oil production by 1.6 percent from its previous forecast to 12.99 million barrels a day.

Saudi Arabia, the de facto leader of the Organization of the Petroleum Exporting Countries, unveiled plans to boost oil-production capacity to a record 13 million barrels a day. And OPEC member United Arab Emirates said its state-owned Abu Dhabi National Oil Co. will lift its production by 1 million barrels a day to more than 4 million barrels a day next month. Russia, which is not a member of OPEC, said that it would increase output to respond to signals Saudi Arabia was preparing to boost production. The price war between the major producers in the expectations of a slowdown in oil demand as the spread of COVID-19 is only hurting global economic growth.

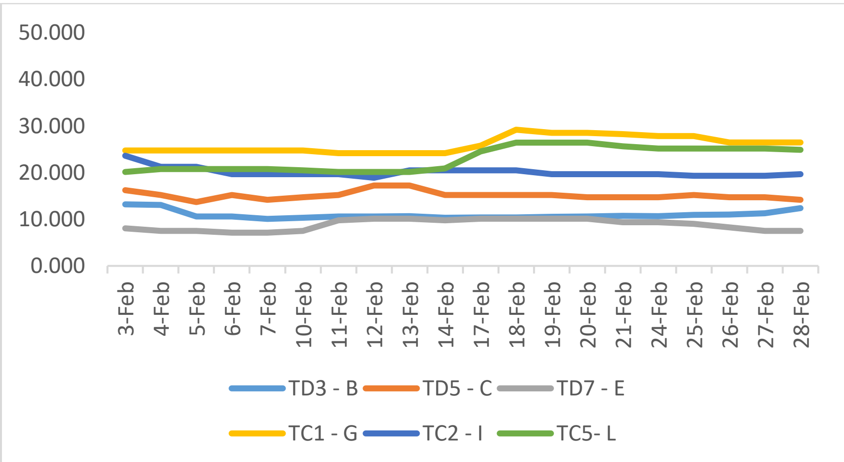
SHIPPING DATA



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

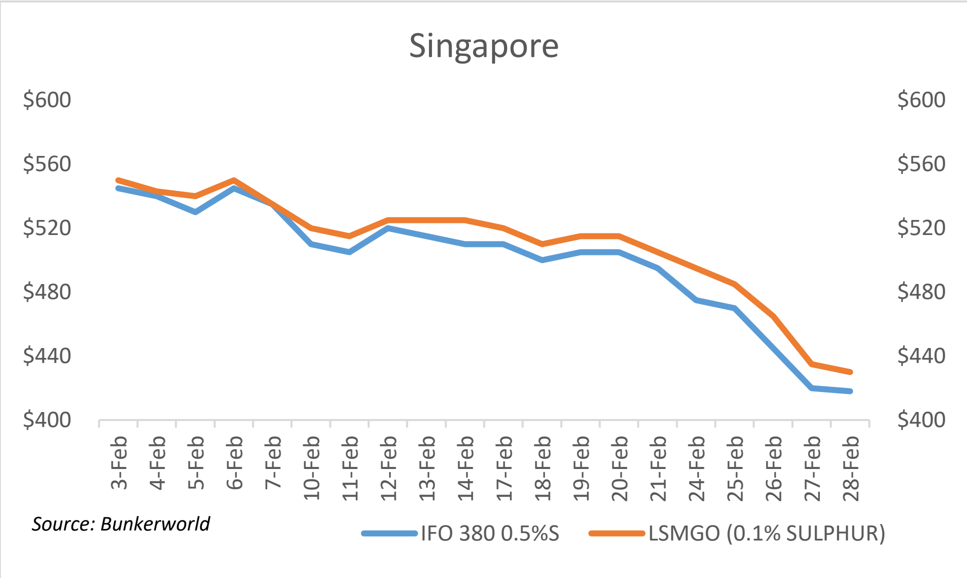
Main Shipping Routes (Dirty and Clean Tanker)	
TD3	**Arabian Gulf - Japan**
TD5	**West Africa to U.S. Atlantic Coast**
TD7	**UK North Sea to Continent**
TC1	**Ras Tanura, Saudi Arabia, to Yokohama, Japan**
TC2	**Europe to US Atlantic Coast**
TC5	**Arabian Gulf to Japan**



Source: Reuters

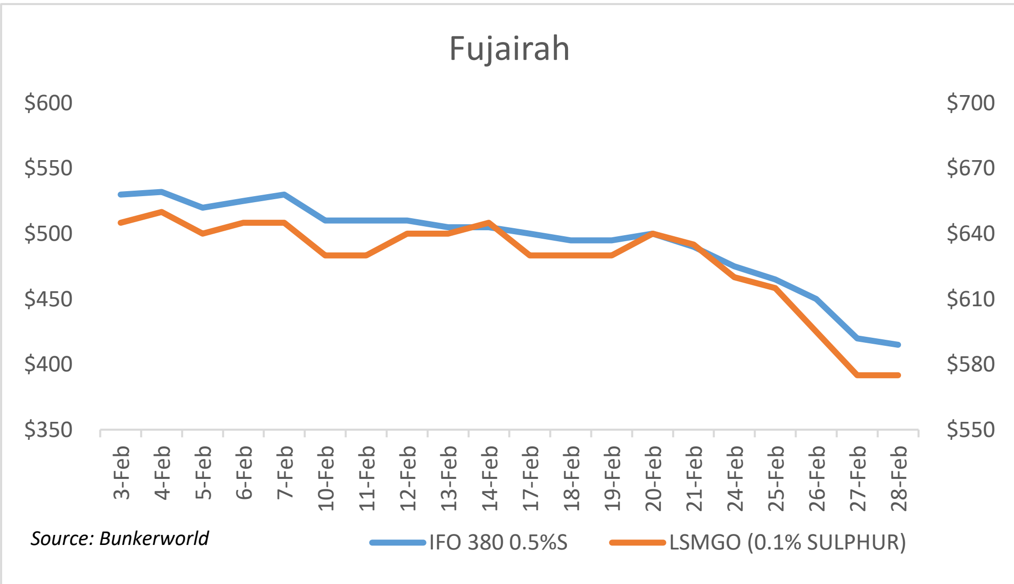
PORT UPDATES

ASIA



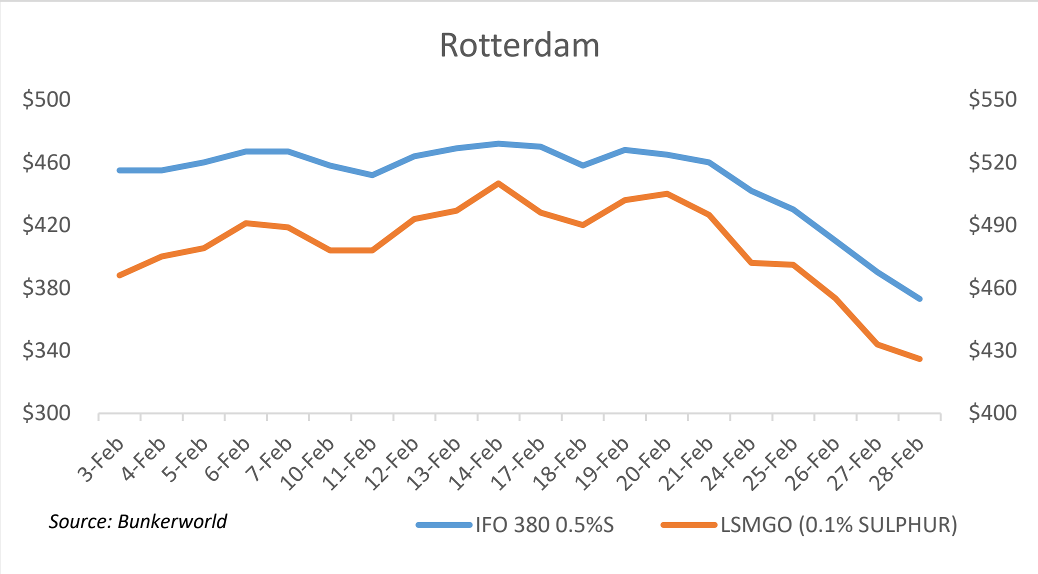
Bunker demand for low sulphur 380 CST bunker was sluggish on the last trading day of February. While the number of new coronavirus cases in Singapore did not see a drastic increase, market participants highlighted that Europe and the Middle East are just starting to see the virus spread. As the coronavirus spreads in Middle East & Europe, market sources were anticipating more shipping voyages to be cancelled in the near-term. Consequently, suppliers reported that the number of inquiries received had decreased day-on-day. For Singapore-delivered 380 CST bunker fuel, offers were located at $286-$287/mt. The grade was assessed at $283/mt, down $2/mt day on day. For Singapore-delivered marine fuel 0.5%S, indications were heard at $420-$430/mt. The grade was assessed at $418/mt, down $2/mt day on day.

MIDDLE EAST:



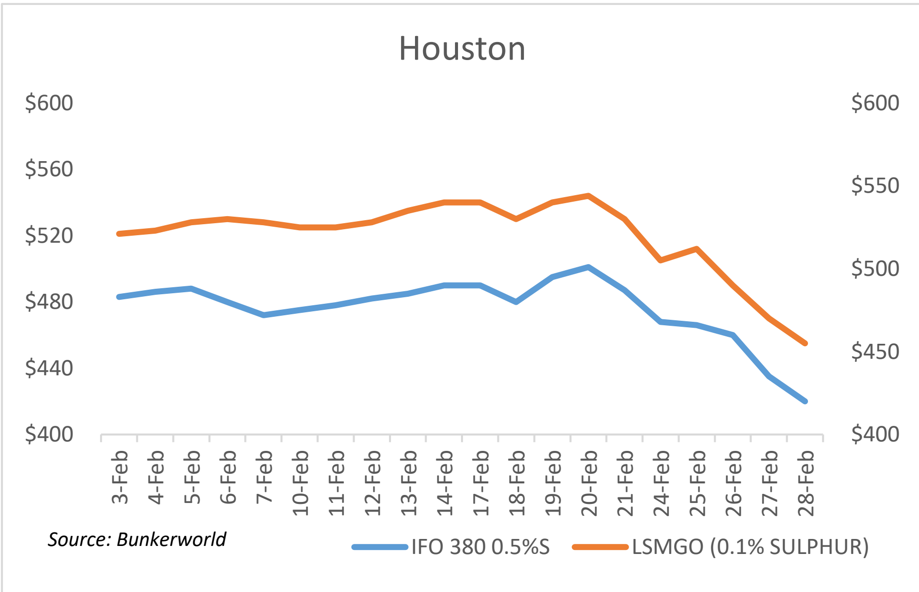
Bunker demand was very weak on the last trading day of February. Sluggish demand has prompted some suppliers to lower their price indications for bunker fuel. Fujairah delivered marine fuel 0.5%S decreased $5/mt day on day to hit a fresh record low at $415/mt on the last trading day of the month, from the previous low reached the day before at $420/mt, as the coronavirus outbreak curtails demand. For Fujairah-delivered 380 CST bunker fuel, few indications were located. The grade was assessed at $290/mt, up $7/mt day on day. For Fujairah-delivered marine fuel 0.5%S, indications were at $415-$435/mt. The grade was assessed at $415/mt, down $5/mt day on day.

EUROPE:



Bunker demand was sluggish mostly at all European ports on the last trading day of the month February. Some market participants had pointed to the coronavirus as an explanation for dampened global shipping and bunkering demand. premium of very low sulphur fuel oil over its high sulphur equivalent in Northwest Europe plunged to a seven-month low, as ample availability of VLSFO adds to dampened shipping demand from the coronavirus outbreak. In Rotterdam, the premium of 0.5% sulfur bunker fuel and its 3.5% product was assessed at $99/mt on Feb. 28, its lowest levels since July. The differential has shrunk over 40% during February, and over 60% since January 1. Bunker buyers continue to weigh up product options in the evolving IMO 2020-compliant marine fuel market, keeping an eye on premiums as some deliberate over how to power their vessels. A narrow premium point toward a longer investment payback period for scrubber installations. For delivered marine fuel 0.5% S was assessed at $373/mt, down $17/mt day on day.

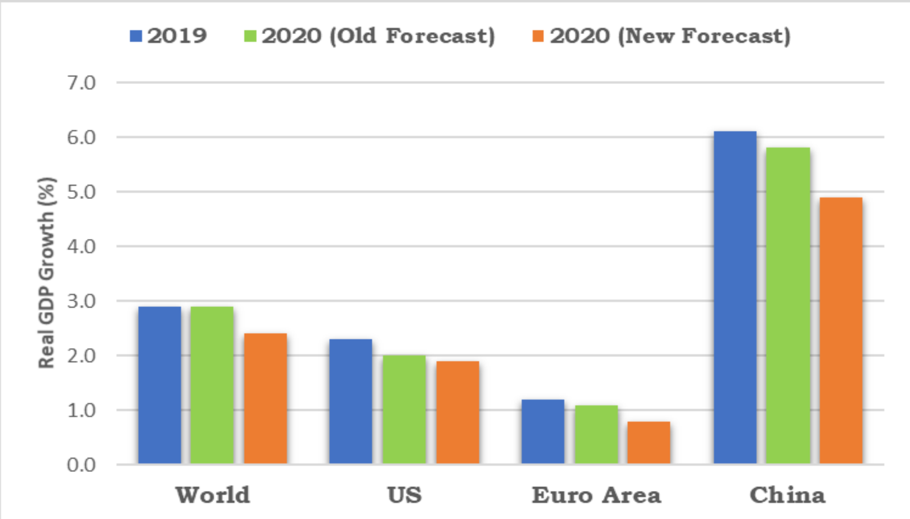
AMERICAS:



Bunker demand continued to be weak on the last trading day of the month February. In the Northwest ports as well, port activities had reduced, and demand was low. On the last trading day of the month, Platts assessed ex-wharf Marine Fuel 0.5%S in Houston at $420/mt, a $15 decline from the previous day. There was no activity in the Platts Market on Close assessment process. In the Louisiana port of New Orleans, ex-wharf 0.5%S was valued at $425/mt on price indications at that level for March 5-10 deliveries. The marine gasoil segment, with an up to 0.1%S content, saw similar declines, falling $15 in Houston to $455/mt. In New Orleans, it also shed $15 to be assessed at $470/mt. Both are on an ex-wharf basis, before barging costs. The fall was based on indications heard during the last trading day. Ex-wharf IFO 380 in Houston was assessed at $320/mt, down $4 day on day. In New Orleans, the high sulfur fuel was valued at $330/mt, a $9 fall day on day.

COVID-19 IMPACT ON THE GLOBAL ECONOMY

The ongoing spread of the new coronavirus has become one of the biggest threats to the global economy and financial markets. According to the World Health Organization, the virus, first detected in the Chinese city of Wuhan last December, has infected more than 110,000 people in at least 110 countries and territories globally, of those infected, more than 4,000 people have died. To contain the COVID-19 outbreak, Chinese authorities locked down cities, restricted movements business operations, that have slowed down the world's second-largest economy and dragged down the global economy along the way. the disease is spreading rapidly around the world, with countries like Italy, Iran and South Korea reporting more than 7,000 cases each. Other European countries like France, Germany and Spain have also seen a recent spike beyond 1,000 cases. Head of global macro research at Oxford Economics said that from an economic perspective, the key issue is not just the number of cases of COVID-19, but the level of disruption to economies



SOURCE: OECD Economic Outlook Report

The outbreak has led major institutions and banks to cut their forecasts for the global economy. One of the latest to do so is the Organisation for Economic Co-operation and Development. The Organization for Economic Co-operation and Development (OECD) downgraded its 2020 real GDP growth projections for almost all countries.

Since January, the spread of the coronavirus has sent global stock markets tumbling and reversed nearly all the positive momentum in oil prices over the past four months, doubling down on a pessimistic oil demand outlook despite numerous short-term risks to supply.

Coronavirus affects the oil market in two ways. First, travel restrictions due to containment efforts limit the use of oil, and supply chains slow and industrial activity declines as companies send workers home, meaning less oil and oil-based products are being used and produced. Second, the stock market reaction to the effect of the coronavirus on the global economy builds a projection of global oil demand over the long-term. As broader market sentiment about the health of the global economy declines, so do projections decline.

Overall, the long term spread of reported coronavirus cases beyond China to South Korea, Iran, and, most recently, Italy and California, highlight the challenges associated with containment and further delay projections of when the outbreak might peak. The continued spread of the virus at this stage seems inevitable, which will severely draw down oil consumption in the near term, and increasingly effect expectations for economic growth and the oil market.

RISK OF GLOBAL RECESSION

Oil prices have been quite volatile over past few months. Despite a series of bullish events - the US airstrike targeting Qasem Soleimani, Iran's retaliation attack on US troops in Iraq, the shutdown of almost the entire Libyan production and the US's tightening the screws on Venezuela by sanctioning Rosneft and potentially refusing to renew waivers to US companies stating in April , oil prices are now substantially lower than before these events. This massive change in sentiment happened as the Coronavirus situation in China unfolded. Significant impact has been on Chinese oil demand from the massive travel restrictions in China recent moves in oil prices is reflecting expectations for a significant slowdown in global economic growth.

Let’s understand how such an event affects the market. there is a strong correlation between inventories and time-spreads. When inventories are low, the oil curve tends to trade in backwardation (near-dated prices are above deferred prices). When inventories are high, the curve is in contango (near-dated prices are below deferred prices). The reason for this is that when inventories are low, consumers of a commodity are willing to pay a premium for immediate delivery rather than delivery at some point in the future. If oil is an input good in the production process, running out of the input good is much more costly than paying the premium as the alternative would be to shut down production. For example, jet fuel is an input good for an airline. Running out of jet fuel is very costly, hence, when inventories are generally low, airlines are willing to pay more for immediate jet fuel deliveries. The curve becomes backwardated.

We ended 2019 with relatively low global petroleum inventories, and hence, the Brent curve was backwardated. The low inventory situation came amidst strong US shale production growth and weak global demand. Our bearish 2020 balance was driven mostly by strong production forecasts. This bullishness didn't last long. the Brent forward curve went from steep backwardation to contango. This sell-off is entirely driven by the outbreak of the Coronavirus in China. While there is a significant immediate impact on oil demand. Chinese petroleum demand is roughly 13 million barrels per day (Mb/d), making it the second largest consumer in the world after the United States. Moreover, manufacturing has come to an almost standstill in about 70% of the country. In the workplace setting, the COVID-19 outbreak has prompted companies and employees to limit face-to-face interaction to minimise the risk of exposure. This results in delayed meetings, cancelled conferences, and a general production slowdown both locally and globally. As the production of companies slows down, their revenue will also take a hit because they have lesser products to sell.

The longer the pandemic lasts, and the more dramatic the efforts are to contain it, the more profound the effects will be for the global economy. In China, which has been slammed the hardest by the outbreak, activity plunged in February, setting the country up for its first economic contraction since the 1970s. But as the number of global cases ticks up above 100,000, and governments outside China announce more restrictions, economists have begun to weigh a more severe gut punch to the global economy. With each day that passes, the odds are rising.

The collapse in Chinese oil consumption has started to get affected across the global energy market, with sales of crude slowing down and benchmark prices to fall. Sales of Latin American oil cargoes to China came to a halt, while sales of West African crude, a traditional source for Chinese refineries, are also slower than usual.

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. Uncertainty induces people to postpone spending and businesses to defer or scrap investment plans. Lower output means lower income. Lower income means lower spending, which means unemployment and sinking profits

IMBALANCE: DEMAND VS SUPPLY

The oil market was not prepared for the unexpected impact of the coronavirus. The uncertainty is depressing prices and that situation appears to be now priced in for the first quarter. Oil demand in China has fallen more than expected due to curtailment on travel and trade. Oil markets were already in a state of oversupply this year as output from US shale has grown much faster than demand was expected to.

Saudi Arabia, the world's second-biggest oil producer behind the U.S., has reportedly floated a proposal to stop oil's free fall that it plans to put before its fellow OPEC members at the organization's next meeting. It would ask the group, which controls about 40% of global oil production, to cut its combined output by 1 million barrels per day. That's more than twice as large as the 400,000 daily barrels cut that was proposed in early February, but the tightening of supply is viewed as a necessity given the fears that demand will crater as more countries take actions to impede the spread of COVID-19. The consortium's members have agreed to cut output a number of times in recent years to stem oil price declines and re-establish some certainty in the markets. The plan, which was discussed during a visit by OPEC secretary-general Mohammad Barkindo to Riyadh in recent days, is designed to show oil producers can respond to the sharp reduction in demand created by a virus that has paralysed global supply chains and stifled international travel. Under the proposal, Saudi Arabia would account for the bulk of the new 1m b/d cut, while Kuwait, the United Arab Emirates and Russia would split the rest. The deal has not yet been agreed, however, with Moscow still hesitant to participate in a substantial cut when the full extent of the coronavirus impact is not yet known.

Brent crude, the international oil benchmark, has fallen to a year-low of close to $50 a barrel this week, dropping more than 10 per cent as coronavirus outbreaks have spread to northern Italy, South Korea and parts of California. Oil traders fear demand for fuel will be severely curtailed if western governments decide to impose further lockdowns on towns and cities affected by outbreaks. China's consumption slumped by about a quarter earlier this month at the peak of the country's quarantines and travel restrictions. OPEC, which has been co-operating with Russia since 2016, has been struggling to respond to the collapse in oil demand. Prices had been trading as high as $70 a barrel as recently as early January. Analysts have become increasingly gloomy about global oil demand growth this year, with some predicting it will flatline. Earlier forecasts predicted an expansion of at least 1 per cent, or more than 1m b/d. Adding a further 1m b/d to existing production cuts would take the OPEC+ group's total reduction to more than 3.1m b/d, its biggest curtailment since 2008, following the global financial crisis.

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.

LIBYAN OIL OUTPUT SINKS

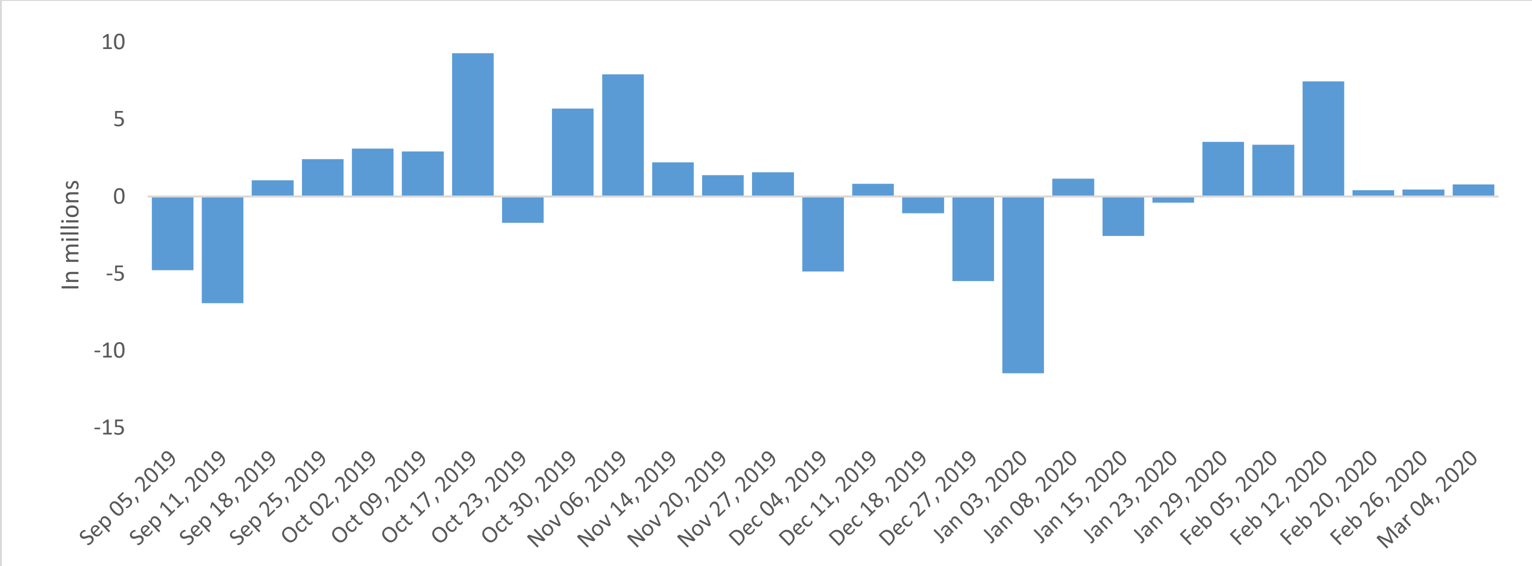
On February 17, the Libyan National Oil Company (NOC) said that oil production was down to just under 136,000 bpd because of the blockade on ports and pipelines. That represents a financial loss of over $1.6 billion. Libya is a key supplier of crude to Mediterranean refineries with aframax tankers loading 80% of all shipments in 2019. January exports dropped 710,000 bpd, the lowest since July 2018, because of the conflict. OPEC oil output as well fell to the lowest in over a decade as Libyan supply collapsed due to a blockade of ports and oilfield. On average, the 13-member Organization of the Petroleum Exporting Countries pumped 27.84 million barrels per day (bpd) last month, down 510,000 bpd from January's figure.

The chairman of the National Oil Corporation, Mustafa Sanalla said recently that the United States should step in and help lift the blockade of Libyan oil ports that has decimated the country's oil production. OPEC and its allies will not just have oil demand concerns to digest when they meet in Vienna this week. They will also be closely following the situation in fellow member Libya, whose production has been almost decimated by the civil war in the country, where oil has increasingly been used as a weapon. The 23-country producer coalition, dubbed OPEC+, is on the verge of undertaking hefty production cuts to neutralize the sharp fall in demand brought about by the COVID-19 virus outbreak. Sources have told S&P Global Platts that OPEC is concerned that the return of Libyan crude to the market would thwart its future production strategy. The removal of more than 1 million b/d of Libyan oil from the market since mid-January has barely had an impact on oil prices, which have in fact crashed by almost 25% on fears that COVID-19 could substantially reduce oil demand this year. Any deepening of the coalition's production cuts could be undone by the return of Libya's oil, reduced by around 1 million b/d at present by blockades at the country's key oil terminals. Sources also said that the international community has not put enough pressure on Khalifa Haftar's Libyan National Army, which has orchestrated the oil blockade, to reopen the country's terminals. Some of Haftar's key allies are Russia, the UAE and Saudi Arabia, which are part of the OPEC+ coalition.

Haftar's plans of effectively switching off Libya's oil aligns somewhat with the OPEC+ strategy to prop up oil prices. Most analysts have said OPEC+ needs Libyan oil to be offline for the first half of this year for the deeper cuts to have substantive effects, as this would help keep global stockpiles low. Libya's crude production, as high as 1.22 million b/d before the latest blockade, has plummeted to 120,000 b/d, the lowest level since late-2011, when a civil war tore the country apart and led to the downfall of Moammar Qadhafi. According to state-owned NOC, output could fall even further to just 72,000 b/d in the coming days, with exports already limited to only offshore terminals.

Overall, OPEC and its allies, will be hoping that Libya's oil production will not rebound just as it decides to further slash its output.

INCREASING US CRUDE OIL INVENTORIES



Source: Investing.com

According to the EIA's (US Energy Information Administration) report on February 12, 2020, US crude oil refinery inputs averaged over 16.0 million barrels per day during the week ending February 07, 2020, which was 48,000 barrels per day more than the previous week's average. Refineries operated at 88.0 percent of their operable capacity during the period. US commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 7.5 million barrels from the previous week. At 442.5 million barrels, US crude oil inventories are about 2 percent below the five-year average for this time of year.

The weekly petroleum status report released by the EIA on Feb. 20, 2020, U.S. commercial crude oil inventories increased by 400 thousand barrels from the previous week. At 442.9 million barrels, US crude oil inventories are about 2 percent below the five-year average for this time of year.

Release Date	Actual	Forecast	Previous
Mar 04, 2020	0.785M	2.644M	0.452M
Feb 26, 2020	0.452M	2.005M	0.414M
Feb 20, 2020	0.414M	2.494M	7.459M
Feb 12, 2020	7.459M	2.987M	3.355M
Feb 05, 2020	3.355M	2.831M	3.548M
Jan 29, 2020	3.548M	0.482M	-0.405M
Jan 23, 2020	-0.405M	-1.009M	-2.549M
Jan 15, 2020	-2.549M	-0.474M	1.164M

Source: Investing.com

According to the EIA's report on Feb. 26, 2020, US crude oil refinery inputs averaged about 16.0 million bpd during the week ending Feb. 21, 2020, which was 202,000 barrels per day less than the previous week's average. Refineries operated at 87.9 percent of their operable capacity. US commercial crude oil inventories increased by 500 thousand barrels from the previous week.

The weekly petroleum status report released by the EIA on Mar. 04, 2020, showed US commercial crude oil inventories increased by 800 thousand barrels from the previous week. At 444.1 million barrels, US. crude oil inventories are about 4 percent below the five-year average for this time of year.

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