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Oil Market Update
March 2020

A Look-back at events

HIGHLIGHTS	COMMENTS	TREND
RUSSIA-SAUDI ARABIA OIL PRICE WAR	On March 08, Saudi Arabia initiated a price war with Russia, facilitating a 65 percent quarterly fall in the price of oil. The price war was triggered by a breakup in dialogue between the Organization of the Petroleum Exporting Countries (OPEC) and Russia over proposed oil production cuts in the midst of the 2019–20 coronavirus pandemic. This led to Russia walking out of the agreement, leading to the fall of the OPEC+ alliance. Oil prices had already fallen 30% since the start of the year due to a drop-in demand. The price war led to one of the major causes of global stock market crash as well.	BEARISH
IMPACT OF COVID-19 PANADEMIC ON GLOBAL ECONOMY	Oil prices and global oil demand had been down for the month of March for the most as the outlook for fuel demand worsened with travel and social lockdowns due to coronavirus pandemic. In a note Goldman Sachs said that the oil demand collapse from the spreading coronavirus looks increasingly sharp. Larger economies are set to release trillions of dollars to reduce the fallout from the Covid-19 outbreak. Many nations are also imposing social restrictions of levels not seen since the Second World War.	BEARISH
FEARS OF OVERSUPPLY IN OIL MARKET	The oil market is under pressure from both diminishing demand and growing supply. Much lower economic activity due to the unprecedented lockdowns in much of Europe, the US and many other countries is significantly reducing oil consumption. At the same time, in March, the OPEC+ countries' failure to agree output cuts meant that OPEC members removed production quotas from April, indicating increase supply.	BEARISH
US FEDERAL RESERVE RATE CUT	On March 16, United States Federal Reserve cut to near zero on its benchmark interest rate during the second emergency meeting held in a month to support the economy. The Federal Open Market Committee (FOMC) decided to lower the target range for the federal funds rate by 100 basis points to 0%-0.25% and launched a $700 billion quantitative easing program to support the American economy against the negative impact of coronavirus.	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 March 2020. The increase in crude implies weaker demand and is bearish for crude prices.	BEARISH

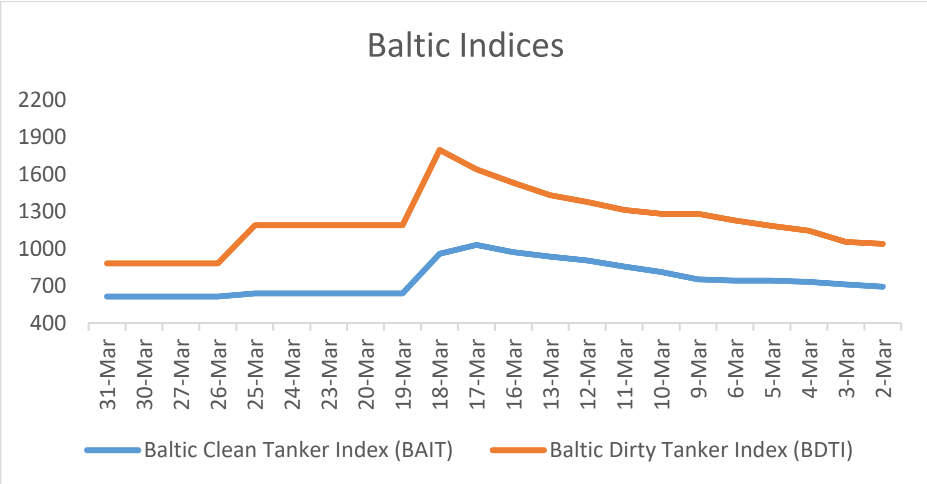
OIL MARKET OUTLOOK - BULLISH

Organization of Petroleum Exporting Countries and its alliances known as OPEC+ made a historic agreement. The price wars between Saudi Arabia and Russia are over, and this supported the oil. Due to this oil prices jumped 5 percent almost on promises of major oil producers to sharply reduce oil supplies in the coming months. This sustainable output cut strategy will last until April 2022, starting with a reduction of 10 million bpd during May and June, additionally some Gulf countries promise to voluntarily remove another 2 million barrels, G20 countries and the rest about 7 million more. The move points to the alliance seeking to balance the oil market over the medium-term rather than working on a short-lived recovery. Big countries-consumers may announce the start of oil purchases to their strategic reserves soon to support the market further and use the situation to buy at historically low prices. It represents a commitment to a full two years of output cuts that will be closely monitored by OPEC's Joint Ministerial Monitoring Committee (JMMC) and assisted by the Joint Technical Committee (JTC) and the OPEC Secretariat.

Over the short term, the market will see a more tangible impact as the cuts gradually absorb the glut as lockdowns are lifted around the world, and as inventories deplete.

In Asia-Pacific, Virus infections appear on rise especially in Singapore in recent days. Similarly, the Chinese city of Harbin has had to delay some relaxation measures due to a fresh flare-up of the virus. Some observers see rolling shutdowns as the next phase in combatting COVID-19 that are more targeted than the national closures. However, the overall, pace of increase in the number of coronavirus cases worldwide seems to be decreasing.

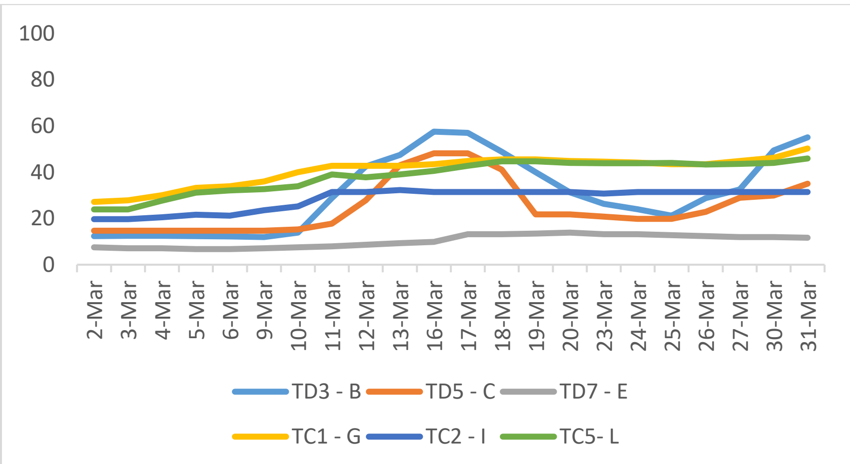
SHIPPING DATA



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

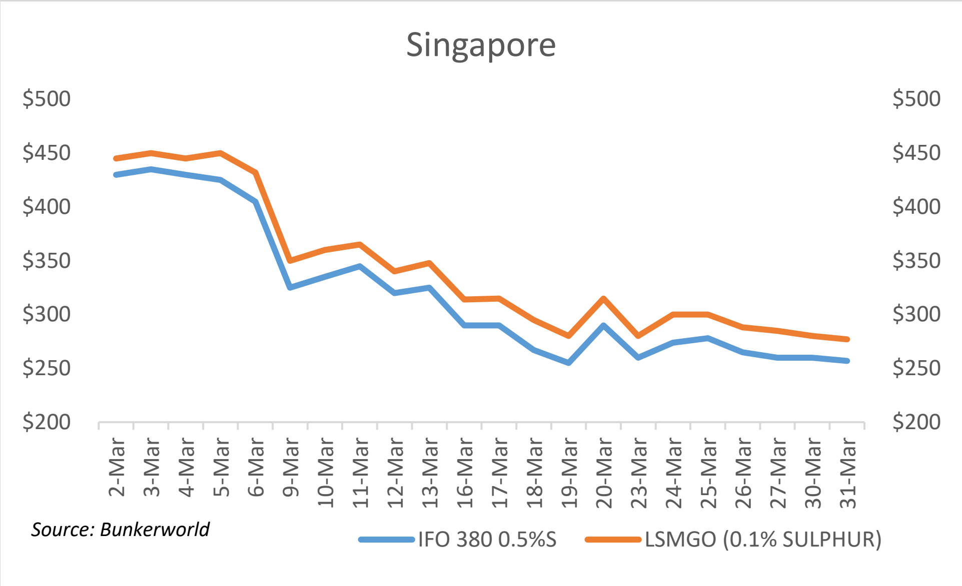
Main Shipping Routes (Dirty and Clean Tanker)	
TD3	**Arabian Gulf - Japan**
TD5	**West Africa to U.S. Atlantic Coast**
TD7	**UK North Sea to Continent**
TC1	**Ras Tanura, Saudi Arabia, to Yokohama, Japan**
TC2	**Europe to US Atlantic Coast**
TC5	**Arabian Gulf to Japan**



Source: Reuters

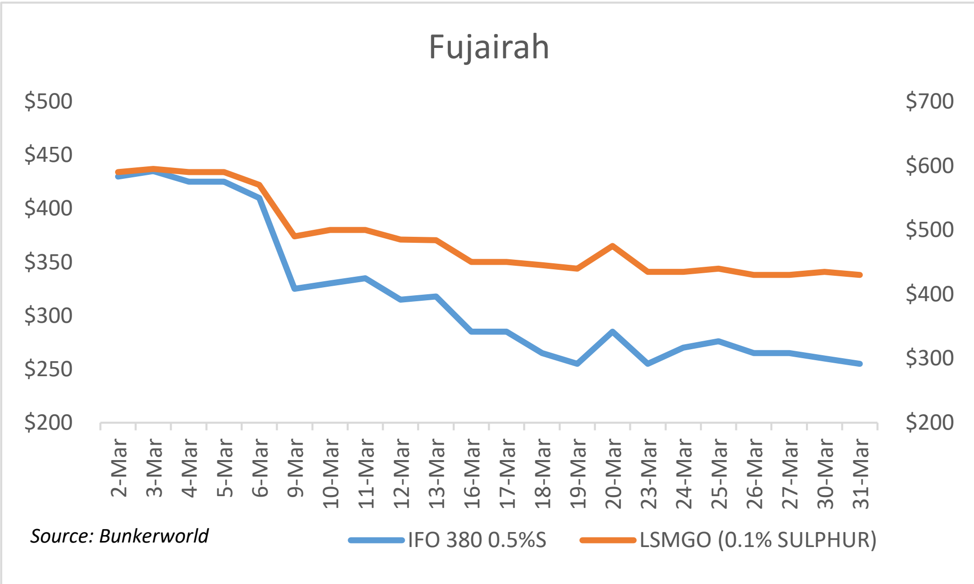
PORT UPDATES

ASIA



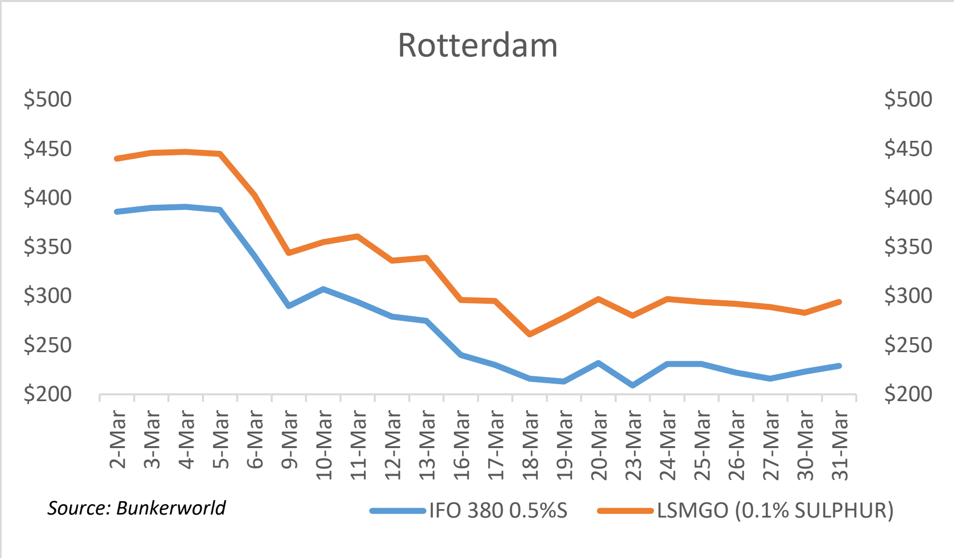
Bunker demand was affected for the month of March due to coronavirus pandemic. Market players were looking ahead to the Organization of Petroleum Exporting Countries (OPEC) & its alliances namely OPEC+ meeting. According to sources, there were suppliers who are not keen to offer because they are probably saving their stock till after the OPEC meeting. For Singapore-delivered IFO 380 CST bunker fuel, indications were at $170-$175/mt. The grade was assessed at $174/mt, up $4/mt day on day. For Singapore-delivered marine fuel 0.5%S, indications were heard at $255-$260/mt. The grade was assessed at $257/mt, down $3/mt day on day.

MIDDLE EAST:



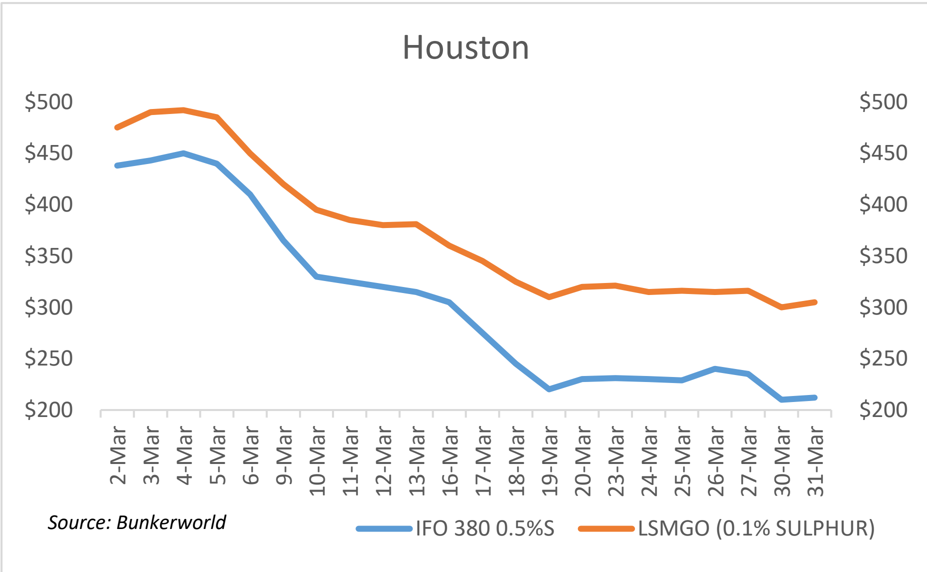
Bunker demand was stable on the last trading day of March. Sluggish demand has prompted some suppliers to lower their price indications for bunker fuel. Fujairah delivered marine fuel 0.5%S decreased $5/mt day on day to $255/mt on the last trading day of the month. The price differential between high sulphur fuel oil and low sulphur fuel oil has decreased due to coronavirus outbreak curtails demand. For Fujairah-delivered 380 CST bunker fuel, few indications were located. The grade was assessed at $200/mt, up $4/mt day on day. For Fujairah-delivered marine fuel 0.5%S, indications were at $255-$260/mt. The grade was assessed at $255/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 March. Bunker demand was dampened due to coronavirus for 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. The global shipping market was also preparing for the tough quarter end, with the global slowdown resulting from the coronavirus outbreak creating a range of logistical issues. Over the course of the first quarter, the market saw ports shut down, with shelter-in-place regulations coming into force and a dip in import demand, which left carriers trying to manage the fall in rates with a raft of void sailings. For Rotterdam-delivered 380 CST bunker fuel, few indications were located. The grade was assessed at 140/mt, up $9/mt day on day. For marine fuel 0.5%S, indications were at $230-$235/mt. The grade was assessed at $229/mt, up $6/mt day on day.

AMERICAS:



Bunker demand was sluggish on the last trading day of the month March as the market was set to see tough quarter end. In the Northwest ports as well, port activities had reduced, and demand was low. According to few suppliers, they dint see any enquiries coming in. On the last trading day of the month, Platts assessed Marine Fuel 0.5%S in Houston at $212/mt, a $2 up from the previous day. There was no activity in the Platts Market on Close assessment process. Prices were mixed on the US Gulf Coast, with rising wholesale 3%S barge values in the Gulf pulling their retail counterparts up slightly. Global Platts assessed spot IFO 380 bunkers in both Houston and New Orleans up $1 to $196/mt and $206/mt ex-wharf, respectively. Those were the highest IFO 380 prices in those ports since mid-March. However, lower-sulphur grades took another tumble to start the week, coming off three-week highs. New Orleans 0.5%S bunkers were also assessed down $15/mt on source indications.

RUSSIA-SAUDI ARABIA OIL PRICE WAR

On March 08, Saudi Arabia initiated a price war with Russia, facilitating a 65 percent quarterly fall in the price of oil. The price war was triggered by a breakup in dialogue between the Organization of the Petroleum Exporting Countries (OPEC) and Russia over proposed oil production cuts in the midst of the 2019–20 coronavirus pandemic. This led to Russia walking out of the agreement, leading to the fall of the OPEC+ alliance. Oil prices had already fallen 30% since the start of the year due to a drop-in demand. The price war led to one of the major causes of global stock market crash as well.

Beginning in 2014, US shale oil production increased its market share as other producers continued producing oil, prices crashed from above $114 per barrel in 2014 to about $27 in 2016. In September 2016, Saudi Arabia and Russia agreed to cooperate in managing the price of oil, creating an informal alliance of OPEC and non-OPEC producers that was dubbed "OPEC+." By January 2020, OPEC+ had cut oil production by 2.1 million barrels per day (bpd), with Saudi Arabia making the largest reductions in production. As a result of the 2019–20 coronavirus pandemic, factory output and transportation demand fell, bringing overall demand for oil down as well, and causing oil prices to fall. On 15 February 2020, the International Energy Agency announced that demand growth would fall to the lowest rate since 2011, with growth falling by 325,000 barrels per day to 825,000 barrels per day, and a contraction in consumption by 435,000 barrels per day. Although demand for oil was falling globally, a drop in demand in China's markets, the largest since 2008, triggered an OPEC summit in Vienna on 5 March 2020. At the summit, OPEC agreed to cut oil production by an additional 1.5 million barrels per day through the second quarter of the year (a total production cut of 3.6 million bpd from the original 2016 agreement), with the group expected to review the policy on 9 June during their next meeting. OPEC called on Russia and other non-OPEC members of OPEC+ to abide by the OPEC decision. On 6 March 2020, Russia rejected the demand, marking the end of the unofficial partnership, with oil prices falling 10 percent after the announcement.

Earlier in February 2020, the Trump administration had put sanctions on Russia's largest oil company Rosneft. Russia may have seen the oil war as a way to retaliate against US sanctions. On 8 March 2020, Saudi Arabia announced unexpected price discounts of $6 to $8 per barrel to customers in Europe, Asia, and the United States. The announcement triggered a free fall in oil prices and other consequences that day, with Brent crude falling by 30 percent, the largest drop since the Gulf War. The West Texas Intermediate, a grade of crude oil used as a benchmark in oil pricing fell 20 percent. On 9 March 2020, stock markets worldwide reported major losses in part to a combination of price war and fears over the coronavirus pandemic. As demand continued to fall dramatically, oil prices went down further, reaching a 17-year low on 18 March. Oil prices remained depressed for the rest of March.

On 2 April, US President Donald Trump claimed that a reduction of 10-15 million barrels in production would be possible, citing negotiations between Russia and Saudi Arabia. The following day, Russian President Vladimir Putin ordered energy minister Alexander Novak to prepare an extraordinary OPEC meeting and stated that global production could be cut by 10 million barrels. However, even with a 10 million bpd cut, the International Energy Agency estimated that global oil stockpiles will still increase by 15 million bpd. IEA's director, Fatih Birol, stated that 50 million jobs related to oil refining and retail was at risk globally. US oil prices increased by 25% on 2 April, the biggest one-day increase in history.

IMPACT OF COVID-19 PANDEMIC ON GLOBAL ECONOMY

Oil prices and global oil demand had been down for the month of March for the most as the outlook for fuel demand worsened with travel and social lockdowns due to coronavirus pandemic. In a note Goldman Sachs said that the oil demand collapse from the spreading coronavirus looks increasingly sharp. Larger economies are set to release trillions of dollars to reduce the fallout from the Covid-19 outbreak. Many nations are also imposing social restrictions of levels not seen since the Second World War.

The Covid-19 death toll has increased to more than 7,900 globally. A total of more than 198,000 confirmed cases and 81,000 recoveries are confirmed as of the end of 17 March. The World Health Organization had called for countries in South-East Asia to implement 'aggressive' measures to fight the COVID-19 pandemic. Case numbers were now growing faster outside China than within. Europe was considered the epicentre of the virus, and several countries had enacted travel bans. These include the US banning travel from Europe, lowering kerosene demand. The Virus spread from China to at least 50 countries across the globe. Consequences of the outbreak have the potential to deliver long-lasting disruption to the global economy.

The pace that COVID-19 is spreading much faster than prior epidemics (SARS, swine flu) in a limited time frame. China has been working to see an economic recover from a tepid 2019 and the first wave of trade negotiations with the US were just underway. The effect of imports to China have directly affected the export economy of countries around the world. This has an immediate effect within oil and other industry. In oil, we have seen demand from China, the largest net importer of crude oil, take away nearly ten percent of global demand in January. In 2019, China was bringing in a total of 10.12 million barrels per day, so far this year we have seen this number fall to 7 million barrels per day in January and February. The director of International Energy Association's Faith Birol, has stated that the revision for 2020 oil demand will numerate to the lowest in a decade.

The pandemic has also affected the financial markets indicating the world is moving towards potential recession. First time the US Federal Reserve has acted outside the normal Fed meeting announcement and with such a large cut (50bps) since the financial crisis in 2008. Additionally, there have been statements from President Trump that more cuts should be considered. The deepest cut to the Asian regional economies remains with China. Japan continues to find solid footing and this outbreak has pushed it off course. For what it's worth, Japan continues to fall upon unfortunate timing, as it was looking for a boost from the 2020 Olympics. South Korea's recent rash of cases poses another threat to the once strong oil and natural gas market. Imports of crude oil have hit a wall that will take months to recover. Local Chinese refiners are seeing credit lines pulled in fears that they will not be able to make payments.

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.

FEARS OF OVERSUPPLY IN OIL MARKET

The oil market is under pressure from both diminishing demand and growing supply. Much lower economic activity due to the unprecedented lockdowns in much of Europe, the US and many other countries is significantly reducing oil consumption. At the same time, in March, the OPEC+ countries' failure to agree output cuts meant that OPEC members removed production quotas from April, indicating increase supply.

Demand for crude oil and petroleum fuels has fallen worldwide because of the coronavirus pandemic, nowhere more so than in China. Locking down millions of people closed factories, cut supply chains and reduced transport at home and abroad via trade. 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. OPEC and Russia first got together in 2016 to cut production and raise prices against a river of new oil from shale drilling in the United States. But at a meeting on March 6, the Saudis proposed yet another cut to counter muted demand from the coronavirus' effect on the economy. Russia said it would elevate production instead, and the Saudis responded by saying they would, too. A few days later, the United Arab Emirates said it would also boost output to record levels and accelerate plans to increase capacity. Russia's calculus that it could gain market share against shale companies by boosting output was likely accurate, but it probably didn't include the Saudi-UAE response. Russian officials have said companies can probably raise production by around 200,000 to 300,000 barrels per day in the short term, with the Kremlin claiming 500,000 barrels a day later in 2020. The coronavirus outbreak, which has infected at least 174,000 people and killed around 6,700, already has caused oil prices to plummet by 50% this year. Many forecasters have lowered estimates on crude demand, as the virus disrupts business activity, travel and daily life. With Saudi Arabia and Russia pledging to boost production estimates were made that oversupply of oil could come to 800 million to 1.3 billion barrels, double or triple what existed in late 2015 to early 2016, when the Organization of the Petroleum Exporting Countries pumped more oil to combat the growing U.S. shale industry.

Current situation is that Political factors could affect oil prices. President Donald Trump confirmed that US officials could meet their counterparts from Saudi Arabia and Russia to discuss ways to stabilise the global oil market. Saudi Arabia and Russia, the main parties to OPEC+, could eventually restart their own production cuts talks as very low oil prices negatively affect both countries' economies. However, their ability to support or raise prices in the very short term could be limited given rapidly declining demand. According to US energy index analysts, in the near term, investors have every reason to be worried. We project 2020 oil demand will fall 2.8 million barrels per day (2.8 percent), the largest single-year drop in nearly 40 years. Because oil producers cannot adjust overnight, global oil markets are likely to be oversupplied on the order of 3.3 million barrels per day in 2020, which dwarfs the excess seen in the 2014-16 downturn. In China, where the virus began, daily refinery throughputs dropped 4.8 percent in the first two months of the year, sliding to the lowest level since December 2018.

US FEDERAL RESERVE RATE CUT

On March 16, United States Federal Reserve cut to near zero on its benchmark interest rate during the second emergency meeting held in a month to support the economy. The Federal Open Market Committee (FOMC) decided to lower the target range for the federal funds rate by 100 basis points to 0 percent -0.25percent and launched a $700 billion quantitative easing program to support the American economy against the negative impact of coronavirus. The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States. Global financial conditions have also been significantly affected. The rate cut marked the second time the central bank lowered its benchmark interest rate after March 3 when it decreased its interest rate by 50 basis points.

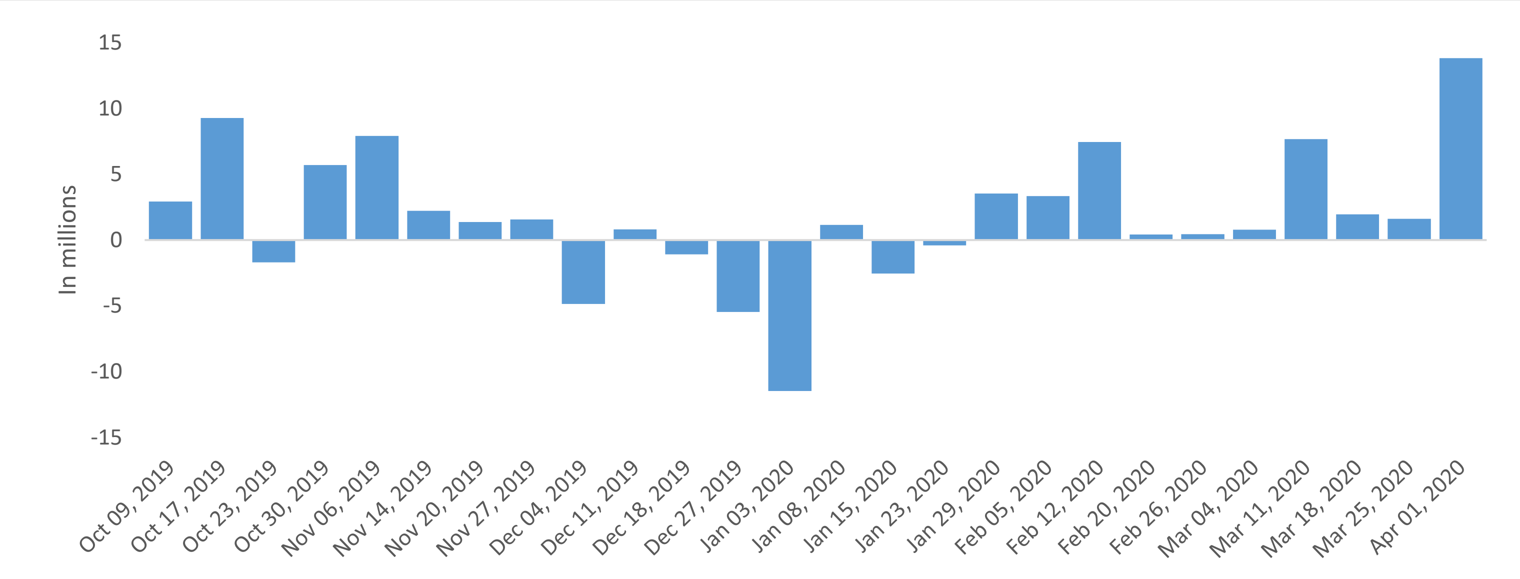
By cutting rates, borrowing costs decrease which prompts businesses to take out loans to hire more people and expand production. When interest rates change , there are real-world effects on the ways that consumers and businesses can access credit to make necessary purchases and plan their finances. As the threat of COVID-19 keeps millions of Americans locked down at home, businesses and financial markets are suffering. For example, a survey of small-business owners found that 51 percent did not believe they could survive the pandemic for longer than three months. In response to this havoc, the U.S. Federal Reserve (the Fed) is taking unprecedented steps to try and stabilize the economy.

Global investors sell their investments denominated in their local currencies in exchange for US dollar-denominated investments. The result is a stronger exchange rate in favour of the US dollar. The federal funds rate is the rate banks charge each other for lending their excess reserves or cash. And therefore, by reducing the rate, it makes more attractive for the consumers for lending money.

The coronavirus pandemic which originated in China, has spread more than 50 countries and has killed more than 5000 people globally. Other central banks have also promised monetary support. Also, G7 finance ministers will discuss how to cushion the economic impact of the outbreak. Oil stockpiles in the United States, the world's biggest crude producer and consumer has increased in all four weeks of March, while refined product inventories are forecast to fall. Analysts also noted the

Overall, cutting the rate cut by US Federal Reserve brings in relief for the consumers and the economy in a situation where the world is affecting and moving towards a potential recession due to coronavirus pandemic. However, crude prices remained down despite the cut to near zero to support the economy.

INCREASING US CRUDE OIL INVENTORIES



Source: Investing.com

According to the EIA's (US Energy Information Administration) report on March 11, 2020, US crude oil refinery inputs averaged over 15.7 million barrels per day during the week ending March 06, 2020, which was 5,000 barrels per day more than the previous week's average. Refineries operated at 86.4 percent of their operable capacity during the period. US commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 7.7 million barrels from the previous week. At 451.8 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 Mar. 18, 2020, U.S. commercial crude oil inventories increased by 2.0 million barrels from the previous week. At 453.7 million barrels, US crude oil inventories are about 3 percent below the five-year average for this time of year.

Release Date	Actual	Forecast	Previous
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
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

Source: Investing.com

According to the EIA's report on Mar. 25, 2020, US crude oil refinery inputs averaged about 15.8 million bpd during the week ending Mar. 20, 2020, which was 18,000 barrels per day more than the previous week's average. Refineries operated at 87.3 percent of their operable capacity. US commercial crude oil inventories increased by 1.6 million barrels from the previous week.

The weekly petroleum status report released by the EIA on Apr. 01, 2020, showed US commercial crude oil inventories increased by 13.8 million barrels from the previous week. At 469.2 million barrels, US. crude oil inventories are near the five-year average for this time of year.

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