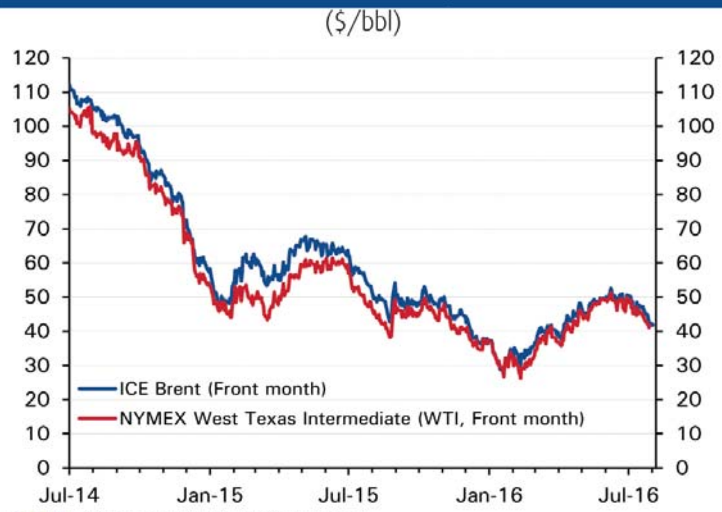
Oil market turns bearish on supply gains and stock builds

OPEC output surges to 32.8 mb/d in June

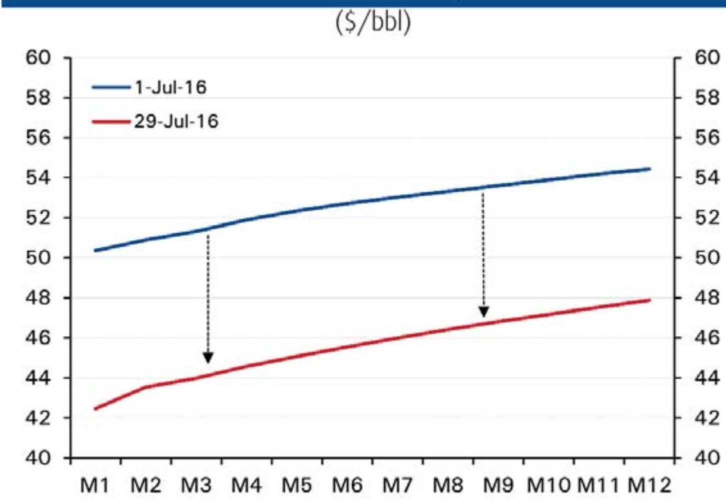
NBK ECONOMIC REPORT

Chart 1: Crude oil prices
($/bbl)



Source: Thomson Reuters Datastream

Chart 2: Brent forward price curve
($/bbl)



Source: Thomson Reuters Datastream

KUWAIT: A month is a long time in the oil markets. Since hitting a year-high of $52.5 per barrel (bbl) in June, Brent crude, the international benchmark, fell by almost 20 percent during July. By 2 August, markets had entered bear territory, with Brent breaching the 20 percent decline level from its June high to $41.8/bbl and West Texas Intermediate (WTI), the US crude marker, falling by almost 23 percent from its June high to $39.5/bbl. The recent trend bears a striking resemblance to the behavior of the oil markets last summer when prices fell by 21 percent from their June highs over the same period. That drop, of course, marked the commencement of a downturn that would continue for the remainder of the year.

In the futures markets, hedge funds turned noticeably less bullish in July. 56 million barrels of short positions were added in Brent and WTI futures in the week ending 26 July. Indeed, shorts in Brent futures are at their highest since the start of the year. The forward price curve for Brent crude over the next 12 months has moved downwards by $6-8/bbl during July.

Supply glut

Once again, concerns about the persisting supply glut are weighing on market sentiment. Having seemingly recovered from the shock of 'Brexit' in late June, markets have had to digest several data releases indicating that the much anticipated rebalancing of supply and demand that was expected before year-end would be delayed until 2017. Dominating traders' thoughts is the return to the market of previously disrupted supplies, from Canada, Kuwait and Nigeria, for example, that had helped to offset increasing supplies from Iran-the largest source of output growth in 2016.

Similarly eye-catching has been the recent performance of US shale production, which posted output gains in four of the last five weeks after enduring a year's worth of declines. The resumption of US oil drilling, as evidenced by the upturn in rig counts since May, has neatly coincided with the increase in US crude output. The rise in oil prices since February, coupled with efficiency gains in shale oil extraction, has rendered the whole production process far more cost effective than even a year ago.

Moreover, with demand from refiners slipping from the robust levels of recent months, crude inventories have accumulated further. OECD commercial crude and refined product stock figures for May from the International Energy Agency (IEA) show stocks topping 3 billion barrels, a historical high, for the seventh month in a row. (Chart 3.) The rate of increase, at 5.8 percent year-on-year (y/y), however, is noticeably slower than the double-digit increases of late 2015 and early 2016.

A strengthening US dollar was also a factor in oil's decline since June. The US dollar index is up 6 percent since May. A stronger dollar renders oil, which is priced in dollars, more costly for importers using currencies not linked to the dollar.

Surplus narrows

Oil surplus narrowed in 2Q16, but market balance pushed further into 2017 on slowing demand growth and rebounding non-OPEC supply.

Global oil demand and supply have, nevertheless, moved closer to equilibrium. According to the IEA, the excess of supply over demand fell to a mere 100,000 barrels per day (b/d) in 2Q16. Considering that the surplus was 2.2 mb/d in the same period last year, this is a significant unwinding.

The IEA expects global oil demand to grow by an average of 1.4 mb/d in 2016 to 96.1 mb/d before slowing to 1.2 mb/d in 2017. India's oil demand is expected to be the world's most rapidly growing in 2017, followed by China.

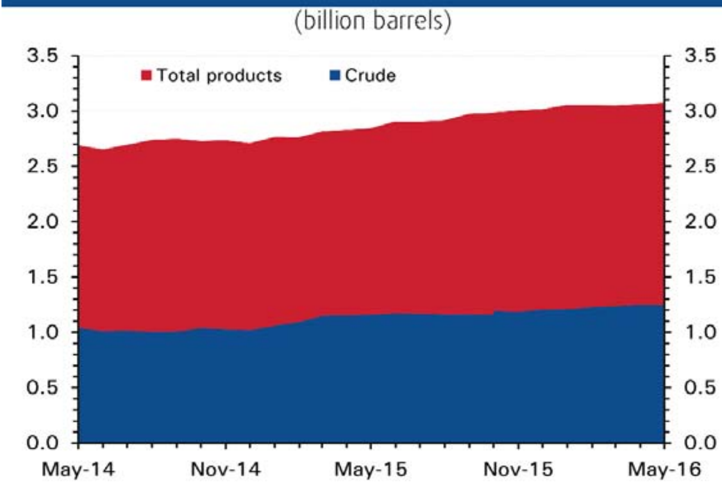
On the supply side, the IEA has left its forecast for non-OPEC supply growth in 2016 largely unchanged from its previous report. For 2016, the agency has supply contracting by 0.9 mb/d to 56.5 mb/d. For 2017, supply is expected to rise slightly by 0.2 mb/d. OPEC output surges in June after the return of previously disrupted supplies OPEC output rose by 476,000 b/d to 32.8 mb/d in June, according to OPEC secondary source data. While Gabon's re-admission to OPEC accounted for just under half of that increase (214,000 b/d), Nigeria, Iran, Saudi Arabia, the UAE and Kuwait all turned on the taps to bring additional volumes of crude to the market.

Nigeria's output climbed by 97,000 b/d in June to 1.5 mb/d after repairs and fewer militant attacks allowed for a partial recovery of the country's oil production from near 30-year lows. (Chart 7.) In Saudi Arabia, the onset of the hot summer season saw crude output increase by 66,000 b/d to meet increased demand for air conditioning.

Kuwait output

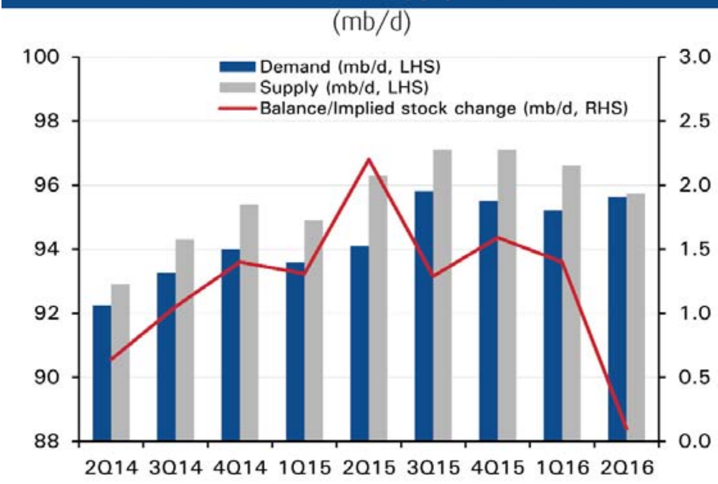
Kuwait's crude output reached 2.8 mb/d in June-its highest level in almost two years-after the country pumped an additional 40,000 b/d. Kuwait also signed enhanced technical service agreements (ETSAs) with BP and Shell to continue optimizing production at its oilfields.

Chart 3: OECD commercial oil stocks
(billion barrels)



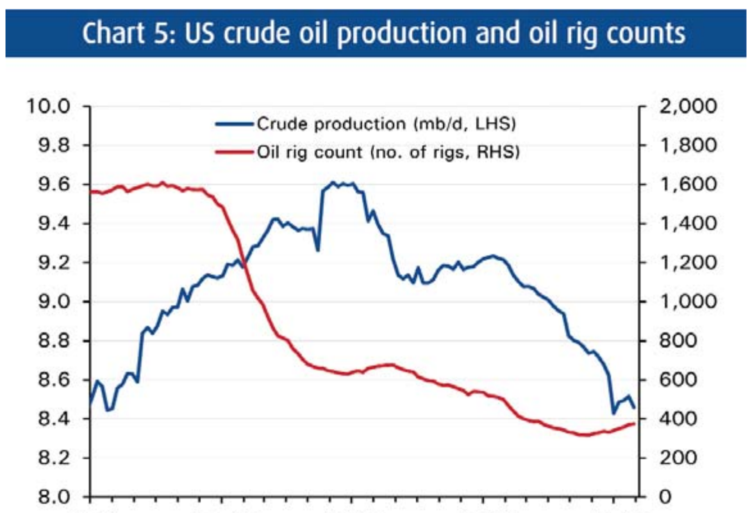
Source: International Energy Agency (IEA)

Chart 4: Balance of supply and demand
(mb/d)



Source: IEA

Chart 5: US crude oil production and oil rig counts



Source: US Energy Information Administration (EIA), Baker Hughes

Iran, meanwhile, continued to chase its production capacity target of 4 mb/d, ramping up output by 77,000 b/d in June to 3.6 mb/d. Iran's determination to regain lost market share has seen its exports double since sanctions were lifted in January. The Islamic Republic is hoping to attract at least $70 billion worth of investment to develop its oil industry under a new Iran Petroleum Contract (IPC).

Oil trades near $45 as glut overshadows hope

LONDON: Oil traded around $45 a barrel yesterday as concern about a supply glut countered forecasts for a drop in US inventories and speculation of producer action to prop up prices.

Total US crude inventories were expected to fall by 1 million barrels in weekly reports, although market intelligence firm Genscape has reported a rise of more than 307,000 barrels at the Cushing, Oklahoma US crude delivery hub, traders said. Brent crude for October was down 29 cents at $45.10 a barrel by 1252 GMT, after rising $1.12 on Monday. The global benchmark fell nearly 15 percent in July. US crude for September was down 17 cents at $42.85.

"One can only wonder how long this enthusiasm will last considering the oversupplied fundamental backdrop," said Tamas Varga of oil broker PVM. "Current oil price strength does not feel justified." OPEC comments helped fuel the gain on Monday. Its president Qatar, in a rare statement issued by the group's Vienna headquarters, said the market was on the path to rebalancing and the drop in prices would be temporary.

OPEC sources have been saying since June that renewed talks about a global output freeze could take place in September, when most members, plus non-members such as Russia, are expected to attend an International Energy Forum meeting in Algeria. The oil minister for cash-strapped Venezuela sought to keep alive the prospect of producer action to boost prices, saying on Monday a meeting between OPEC and non-OPEC countries may take place "in the coming weeks".

But Russia said it does not see grounds for new talks with OPEC yet. Iran, which refused to join an initiative discussed earlier this year to freeze output levels, has not said whether it would cooperate with any new effort. Some analysts are skeptical any producer action will result, just as the earlier attempt at an output freeze collapsed in April, scuppered by tension between Saudi Arabia and Iran.

"The discussions are likely to prove to be nothing but empty talk, with OPEC sticking with its policy of defending its market share," said Eugen Weinberg, analyst at Commerzbank.

Later yesterday, the latest round of US inventory reports will be in focus. Analysts in a Reuters poll forecast that US crude stockpiles fell by 1 million barrels last week. The American Petroleum Institute, an industry group, is due to release its inventory update at 2030 GMT, ahead of the government's report today. —Reuters

Oil short-selling cycle may be at or near turning point

LONDON: The enormous concentration of bearish short positions in US crude oil futures and options contracts by hedge funds and other money managers left the market ripe for a short-covering rally. The rebound in futures prices, with the September WTI contract up by 10 percent since Aug 2, has all the characteristics of a short-covering rally ("Hedge fund short covering probably accounts for oil rally", Reuters, Aug 8).

Price moves in the next few trading sessions should give some indication about whether hedge funds have embarked on the liquidation phase of the shorting cycle or are extending their short positions even further. By Aug 2, the most recent data available, hedge funds and other money managers had accumulated short positions equivalent to 248 million barrels in the main futures and options contracts linked to WTI. The number of short positions had increased from a recent low of just 71 million barrels on May 31, according to an analysis of data published by the US Commodity Futures Trading Commission.

The accumulation of an additional 178 million barrels of short positions coincided with a decline in WTI futures prices of just over $10 per barrel from $49.93 to $39.51. CFTC data shows there have been three previous cycles of short-selling by hedge funds since the start of 2015 and they now appear to be well into a fourth.

The accumulation and then liquidation of short positions during each cycle on NYMEX has corresponded roughly with the fall and then rise in WTI prices. The current short-selling already appeared fairly mature by Aug 2 which raised the prospect of an imminent turning point.

During the three previous cycles, hedge funds had amassed their maximum short position after 11 weeks, 13 weeks and 13 weeks, respectively. The current short-selling cycle is already nine weeks old.

In the three previous cycles, hedge fund short positions in NYMEX WTI peaked at 178 million barrels, 163 million and 201 million. The current short position has already exceeded these and hit 219 million barrels. The current cycle of short-selling is still less mature than previous cycles when they hit their turning point and switched from accumulation to liquidation of short positions.

Short position

But it has also been more aggressive with a record short position in NYMEX WTI established at a much faster pace than during the previous cycles. As the number of short positions has increased in the fourth cycle, WTI prices have declined, falling at much the same rate as seen during the second and third cycles. Prices might have been expected to fall even further and even faster, given the accompanying rapid accumulation of a record short position.

The persistence of many hedge funds with long positions probably explains why prices have been stronger than during previous cycles when a roughly similar number of short positions has been established.

From a price perspective, the current cycle of short selling appears less mature than previous cycles, which would suggest it could have another 2-4 weeks before peaking. But the current cycle appears to have developed on an accelerated timetable compared with prior cycles so it may already have reached or be very near its turning point. —Reuters

OPEC oil price at $41.10 pb

VIENNA: OPEC daily basket price rose $1.02 on Monday and stood at $41.10 a barrel compared with $40.08 last Friday, the organization's bulletin reported yesterday. Price of the crude, produced by the Organization of Petroleum Exporting Countries, averaged $45.84 pb in June, $42.68 pb in July and $39.10 pb in August.

The new OPEC Reference Basket of Crudes (ORB) is made up of the following: Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Rabi Light (Gabon), Minas (Indonesia), Iran Heavy (Islamic Republic of Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (Libya), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela). —KUNA

EXCHANGE RATES

Al-Muzaini Exchange Co.

CURRENCY	BUY	SELL
ASIAN COUNTRIES		
Japanese Yen	2.961	
Indian Rupees	4.527	
Pakistani Rupees	2.897	
Srilankan Rupees	2.083	
Nepali Rupees	2.837	
Singapore Dollar	225.620	
Hongkong Dollar	39.054	
Bangladesh Taka	3.862	
Philippine Peso	6.465	
Thai Baht	8.698	
GCC COUNTRIES		
Saudi Riyal	80.816	
Qatari Riyal	83.249	
ani Riyal	787.162	
Bahraini Dinar	804.840	
UAE Dirham	82.512	
ARAB COUNTRIES		
Egyptian Pound - Cash	34.498	
Egyptian Pound - Transfer	29.990	
Yemen Riyal/for 1000	1.217	
Tunisian Dinar	137.370	
Jordanian Dinar	427.640	
Lebanese Lira/for 1000	2.019	
Syrian Lira	2.0160	
Morocco Dirham	31.389	
EUROPEAN & AMERICAN COUNTRIES		
US Dollar Transfer	302.900	
Euro	337.280	
Sterling Pound	395.280	
Canadian dollar	230.690	
Turkish lira	101.990	
Swiss Franc	309.870	
Australian Dollar	232.630	
US Dollar Buying	301.700	
GOLD		
20 Gram	268.840	
10 Gram	137.340	
5 Gram	69.510	

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	303.000
Canadian Dollar	230.310
Sterling Pound	397.170
Euro	337.375
Swiss Frank	297.645
Bahrain Dinar	801.000
UAE Dirhams	82.725
Qatari Riyals	83.940
Saudi Riyals	81.520
Jordanian Dinar	426.955
Egyptian Pound	34.024
Sri Lankan Rupees	2.083
Indian Rupees	4.529
Pakistani Rupees	2.890
Bangladesh Taka	3.855
Philippines Pesso	6.450
Cyprus pound	159.680
Japanese Yen	3.965
Syrian Pound	2.405
Nepalese Rupees	3.830
Malaysian Ringgit	75.755
Chinese Yuan Renminbi	45.845
Thai Bhat	9.610
Turkish Lira	101.170

Bahrain Exchange Company

CURRENCY	BUY	SELL
Europe		
British Pound	0.386795	0.401795
Czech Korune	0.004413	0.016413
Danish Krone	0.041064	0.046064
Euro	0.0330024	0.0339024
Norwegian Krone	0.031717	0.033917
Romanian Leu	0.086875	0.086875
Slovakia	0.009027	0.019027
Swedish Krona	0.031220	0.036220
Swiss Franc	0.301282	0.312282
Turkish Lira	0.097323	0.107623
Australasia		
Australian Dollar	0.222722	0.234722
New Zealand Dollar	0.209584	0.219084
America		
Canadian Dollar	0.224266	0.233266
Georgina Lari	0.136781	0.136781
US Dollars	0.298750	0.303450
US Dollars Mint	0.299250	0.303450
Asia		
Bangladesh Taka	0.003390	0.003974
Chinese Yuan	0.044005	0.047505
Hong Kong Dollar	0.036975	0.039725
Indian Rupee	0.004330	0.004719
Indonesian Rupiah	0.000019	0.000025
Japanese Yen	0.002875	0.003055
Kenyan Shilling	0.003115	0.003115
Korean Won	0.000263	0.000278
Malaysian Ringgit	0.072108	0.078108
Nepalese Rupee	0.002856	0.003026
Pakistan Rupee	0.002716	0.003006
Philippine Peso	0.006326	0.006626
Sierra Leone	0.000067	0.000073
Singapore Dollar	0.219563	0.229563
South African Rand	0.016282	0.024782
Sri Lankan Rupee	0.001658	0.002238
Taiwan	0.009569	0.009749
Thai Baht	0.008340	0.008890
Arab		
Bahraini Dinar	0.796746	0.805246
Egyptian Pound	0.025276	0.030394
Iranian Riyal	0.000084	0.000085
Iraqi Dinar	0.000181	0.000241
Jordanian Dinar	0.422995	0.431995
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000146	0.000246
Moroccan Dirhams	0.019639	0.043639
Nigerian Naira	0.001249	0.001884
Omani Riyal	0.780203	0.785883
Qatar Riyal	0.082374	0.083824
Saudi Riyal	0.079673	0.080973
Syrian Pound	0.001283	0.001503
Tunisian Dinar	0.133601	0.141601
Turkish Lira	0.097323	0.107623
UAE Dirhams	0.081030	0.082730
Yemeni Riyal	0.001369	0.001449