

# OIL DROPS ON CRUDE STOCKS, US SHALE OUTPUT

## NBK ECONOMIC REPORT

**KUWAIT:** Oil prices fell to their lowest level in more than 3 months in March amid swelling global crude stocks and rising US shale production. March saw oil prices finally break out of their narrow trading range and fall to their lowest level in more than three months. By the end of March, Brent, the international benchmark, had fallen by 5.0 percent to \$52.8 per barrel (bbl) and West Texas Intermediate (WTI), the US marker, had declined by 6.3 percent to \$50.6/bbl. At one point, around mid-month, Brent looked likely to reverse all the gains it had posted since 30 November, the date of the symbolic OPEC/non-OPEC production cut agreement. WTI actually breached its 3.5-month floor, dropping to a low of \$47.3/bbl on the 21 March.

Triggering the decline were doubts about OPEC's capacity to materially reduce the still sizeable overhang of crude inventories, especially in the US, where crude stocks were hitting record highs for 9 consecutive weeks amid a resurgence in light tight oil (LTO, or shale) production. The positive sentiment that had propelled oil prices more than 20 percent since the eve of the OPEC agreement quickly turned bearish, with many of the hedge fund managers and speculators that had amassed record long bets in futures and options contracts reversing course and unwinding their positions.

Markets were especially alarmed when Saudi Arabia disclosed that it had officially increased crude production in February to 10 million barrels per day (mb/d). The rise was a sizeable 260,000 b/d on January's figure, and more than offset the entire volume decrease by the other OPEC members working towards their reduced output targets, as per the OPEC agreement. Moreover, Saudi Arabia, seemed to be signaling to its OPEC and non-OPEC counterparts that it was losing patience with non-compliant producers—those who had yet to bring crude output down to within their allotted quotas.

### Saudi burden of OPEC production

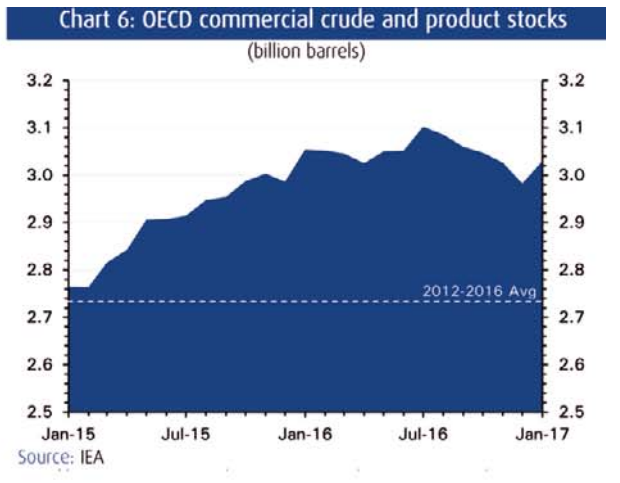
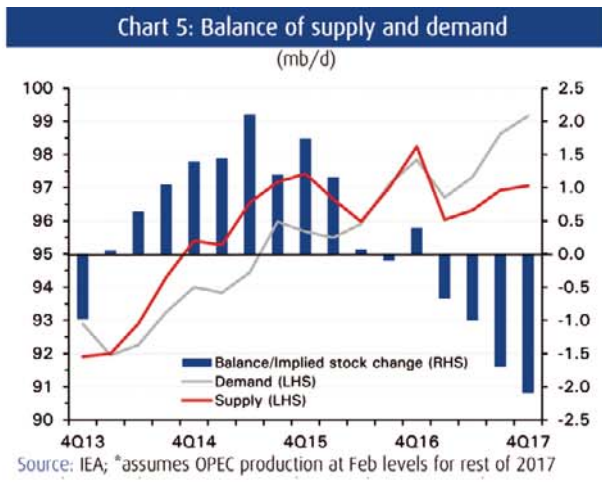
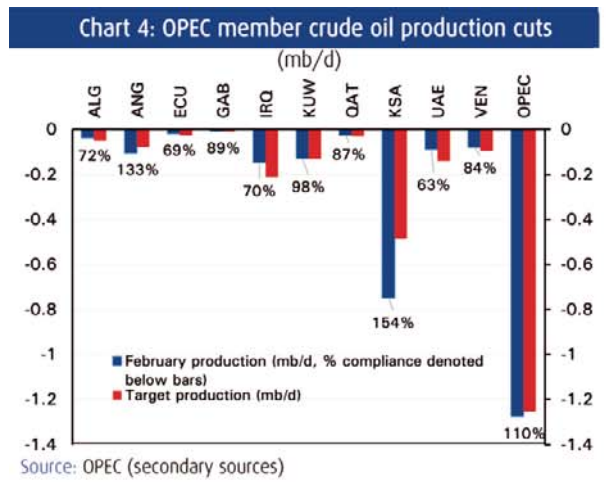
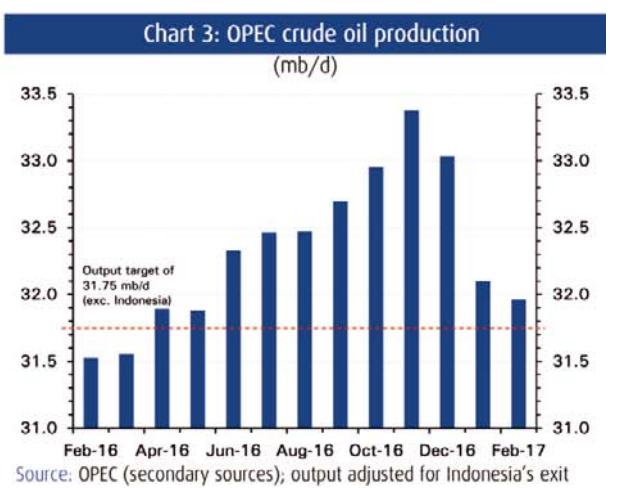
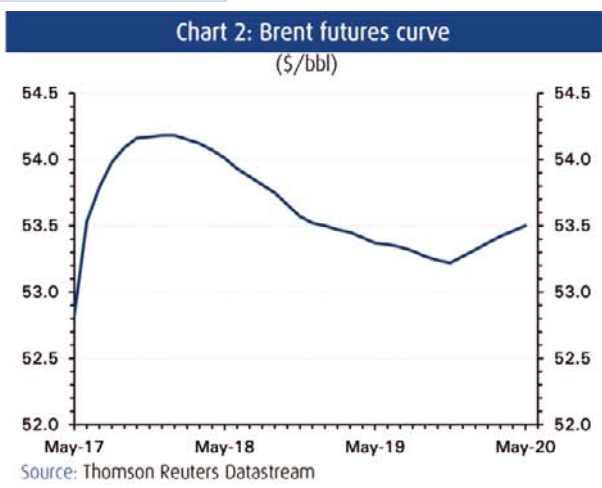
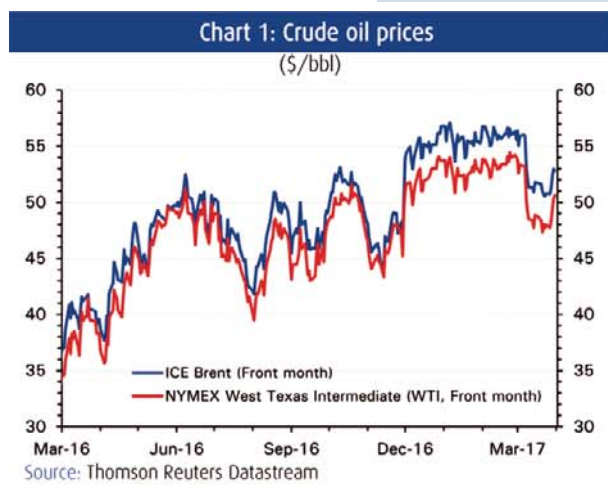
Saudi Arabia, which had, as of February, overachieved by cutting 150 percent of its target amount, according to OPEC secondary source data, has effectively been shouldering the burden for all but one of its members (Angola). Compliance among the 10 OPEC members subject to production cuts was 110 percent in February, with Kuwait close behind Angola at 98 percent. But combined OPEC output, at 31.96 mb/d, was still 210,000 b/d above the group's target thanks to increased production from the three members, Libya, Nigeria and Iran. The three are exempt from cuts.

Meanwhile, among the 11 non-OPEC producers party to the agreement, compliance was at 44 percent in February, according to International Energy Agency (IEA) figures. Russia, Mexico, Kazakhstan and a host of smaller nations had pledged to cut output collectively by 558,000 b/d. As of February, these producers had only brought production down by 248,000 b/d. Only Oman and Brunei have met their obligations.

### OPEC output cut deal

Were OPEC and non-OPEC producers to make good on their promises by the time the agreement expires in June, then around 1.8 mb/d of crude could be withdrawn from the oil markets. In tandem with an expected acceleration in global demand growth this year, to a high of 1.5 mb/d in 3Q17, the demand-supply balance should remain in deficit for at least the first half of this year—and likely all of 2017 if OPEC/non-OPEC decide to extend the production cut agreement beyond the summer.

Such a prospect is looking increasingly likely given the



- Oil prices fell by at least 5% in March on concerns that OPEC/non-OPEC supply cuts were not effectively reducing crude stocks amid rising US shale output.
- Despite commendable OPEC production cut compliance in Feb, total output is still 200 kb/d above the group's target of 31.7 mb/d.
- OPEC is expected to extend the output cut agreement beyond June in order to bring down stubbornly high global crude stocks; OECD stocks topped 3 billion barrels in January.
- US production reached 9.1 mb/d in March, recovering 60% of its peak-to-trough supply loss in the span of 8 months.

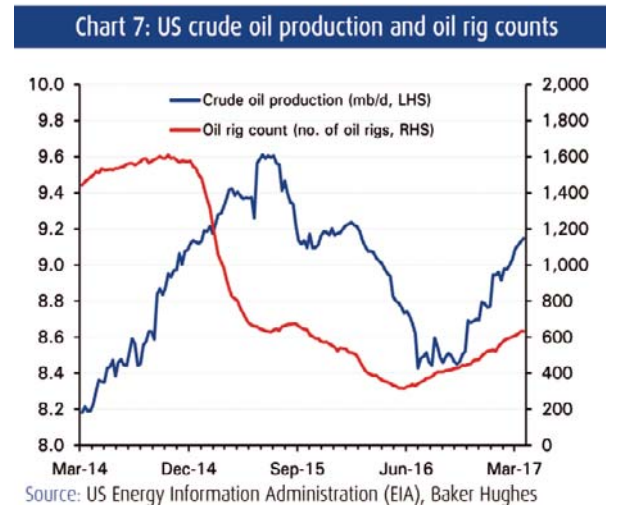
slower-than-expected unwinding of global crude stocks. The drawdown in commercial crude and petroleum product stocks, which had been gaining momentum in the second half of 2016, abruptly ended in January with a 48 million barrel inventory build. The rise, which came after US crude stocks reached another record high, pushed total OECD stocks back over the symbolic 3 billion barrel level again. (Chart 6.) Stocks are at least 270 million barrels above their 5-year average of 2.75 billion barrels, which is the level that OPEC appears to be targeting.

While Kuwait was the first among OPEC members to call

for an extension to the 6-month agreement, Saudi Arabia and several others including non-OPEC Oman are likely to wait until the next OPEC committee meeting before making a decision. Russia, for its part, has yet to commit to the idea, preferring to wait on its own assessment.

### US shale growth

Meanwhile, US production continues its remarkable shale-led resurgence, catalyzed by higher oil prices and efficiency gains. Crude output was back up to 9.1 mb/d by the end of March, a gain of 4.3 percent in 2017. Since its



nadir in July 2016 at 8.4 mb/d, production is up by 700,000 b/d, or 8.5 percent. Indeed, in the span of 8 months, the US has managed to claw back around 60 percent of the 1.2 mb/d of 'lost' peak-to-trough production.

Shale's remarkable resurgence is proving especially awkward for OPEC and its efforts to manage global supply. The group is well aware that firmer oil prices, thanks to supply cuts, are an incentive for further US shale gains which ultimately undermines oil prices. It is a new reality that oil producers, traditional and unconventional alike, must come to terms with.

## ALGERIA EDGES TOWARDS ISLAMIC FINANCE AS ENERGY INCOME DIPS

### ISLAMIC FINANCE MAY HELP TAP HUGE INFORMAL ECONOMY

**ALGIERS:** When experts in Islamic banking gathered earlier this year at a state-run hotel in Algiers to share their experiences on sharia-compliant finance, no one from the government showed up. But despite this hesitancy - government officials are reluctant even to refer to Islamic finance by that name - Algeria is edging slowly towards offering banking services to suit more religiously conservative investors.

The object is to attract funds from a huge pool of cash held outside the formal banking system as Algeria looks for more ways to offset the sharp fall in oil prices and its energy revenues. Finance Minister Hadji Baba Ammi has already announced plans for the country's first local bond that is interest-free, complying with sharia law which forbids interest payments - although he called the scheme "participative" rather than Islamic.

Now six state-run banks plan to start Islamic financial services by the end of the year or in early 2018, and a national sharia board that would over-

see Islamic banking is also planned by the end of 2017, banking and government sources told Reuters. Algeria's Islamic finance plan still faces huge barriers. It lacks a legal framework and technical expertise, and officials must navigate sensitivities over any perceived revival of political Islam after a 1990s war with armed Islamist militants in which 200,000 people died.

On top of such concerns, any kind of reform is often delayed in Algeria by heavy bureaucracy and inertia, but bankers are keen to push ahead with the idea. "Financial institutions must be more dynamic and aggressive in the market by allowing Islamic products to grow," said Nasser Haider, head of Bahrain-owned Al-Salam Bank Algeria. "Regulation has not been a hurdle for Islamic finance in Algeria, but a legal framework would help its development."

With the economy emerging from decades of centralized control, Algeria badly needs alternatives to the energy revenues that have traditionally financed 60 percent of the budget.

The plunge in global crude prices from mid-2014 halved earnings from exports of oil and gas. In 2015 the budget deficit shot up to 16 percent of Algeria's annual gross domestic product (GDP) and the government is estimated to have narrowed the gap only to 15 percent last year.

A state fund intended to cover such deficits plunged 59.5 percent over the course of last year while foreign exchange reserves are estimated to have dropped to \$114 billion by the end of 2016 from \$178 billion in 2014. The government has approved a 14 percent cut in spending for 2017 and higher taxes.

Algeria issued a conventional, interest-bearing bond on the domestic market last year. But the amount raised, \$5.86 billion, fell short of expectations after religious leaders - and even the government's own ministry of religious affairs - gave the operation a chilly reception. One well-known preacher told the finance minister: "You will suffer inside your tomb." —Reuters

## BURGAN BANK TO ANNOUNCE WINNER OF ITS VALUE ACCOUNT DRAW FOR EXPATRIATES

**KUWAIT:** Borgan Bank will soon be announcing the winner of its Value Account Draw, who will be taking home a cash prize of KD 4000. The draw rewards customers who transfer their salary to Borgan Bank for a chance to win KD4,000 every quarter.

The Value account provides attractive features and benefits that have been designed for expatriates living in Kuwait. Value account customers can benefit from a wide range of merchant discounts and enjoy an automatic entry into a quarterly draw for KD 4,000, whereby each KD 10 shall give the account holders one chance to enter the draw. Value account customers can also obtain a free credit card for the first year and a monthly instalment fees of KD 2.5 thereafter.

For more information on opening a Value account or about the quarterly draw, customers are urged to visit their nearest Borgan Bank branch and receive all the details, or simply by calling the bank's call center on 1804080 where customer service representative will be delighted to assist with any questions on the Value account or any of the bank's products or services.

Established in 1977, Borgan Bank is the youngest commercial Bank and second largest by assets in Kuwait, with a significant focus on the cor-

porate and financial institutions sectors, as well as having a growing retail, and private bank customer base. Borgan Bank has majority owned subsidiaries in the MENAT region supported by one of the largest regional branch networks. The Bank has continuously improved its performance over the years through an expanded revenue structure, diversified funding sources, and a strong capital base.

The adoption of state-of-the-art services and technology has positioned it as a trendsetter in the domestic market and within the MENA region. Borgan Bank's brand has been created on a foundation of real values - of trust, commitment, excellence and progression, to remind us of the high standards to which we aspire. 'People come first' is the foundation on which its products and services are developed. The bank was re-certified with the prestigious ISO 9001:2008, making it the first bank in the GCC, and the only bank in Kuwait to receive such accreditation for the third consecutive year. The Bank also has to its credit the distinction of being the only Bank in Kuwait to have won the JP Morgan Chase Quality Recognition Award for twelve consecutive years. Borgan Bank, a subsidiary of KIPCO (Kuwait Projects Company), is a strongly positioned regional Bank in the MENA region.

## EXCHANGE RATES

### AL-MUZAINI EXCHANGE CO.

#### ASIAN COUNTRIES

Japanese Yen	2.793
Indian Rupees	4.733
Pakistani Rupees	2.915
Sri Lankan Rupees	2.010
Nepali Rupees	2.967
Singapore Dollar	219.010
Hongkong Dollar	39.355
Bangladesh Taka	3.784
Philippine Peso	6.191
Thai Baht	8.872

#### GCC COUNTRIES

Saudi Riyal	81.614
Qatari Riyal	84.059
Omani Riyal	794.828
Bahraini Dinar	812.670
UAE Dirham	83.327

#### ARAB COUNTRIES

Egyptian Pound - Cash	19.500
Egyptian Pound - Transfer	16.885
Yemen Riyal/for 1000	1.228
Tunisian Dinar	134.440
Jordanian Dinar	431.320
Lebanese Lira/for 1000	2.039
Syrian Lira	2.181
Morocco Dirham	30.832

#### EUROPEAN & AMERICAN COUNTRIES

US Dollar Transfer	306.850
Euro	326.340
Sterling Pound	383.840

Canadian dollar	230.400
Turkish lira	83.520
Swiss Franc	305.240
Australian Dollar	230.760
US Dollar Buying	304.650

#### GOLD

20 Gram	258.700
10 Gram	132.270
5 Gram	66.980

### DOLLAR EXCHANGE CO. LTD

Rate for Transfer	Selling Rate
US Dollar	305.500
Canadian Dolla	229.800
Sterling Pound	382.835
Euro	325.565
Swiss Franc	309.310
Bahrain Dinar	810.285
UAE Dirhams	83.570
Qatari Riyals	84.795
Saudi Riyals	82.360
Jordanian Dinar	430.787
Egyptian Pound	17.071
Sri Lankan Rupees	2.011
Indian Rupees	4.727
Pakistani Rupees	2.914
Bangladesh Taka	3.816
Philippines Pessso	6.162
Cyprus pound	168.590
Japanese Yen	3.790
Syrian Pound	2.425

Nepalese Rupees	3.950
Malaysian Ringgit	69.875
Chinese Yuan Renminbi	44.720
Thai Bhat	9.845
Turkish Lira	82.960

### BAHRAIN EXCHANGE COMPANY

CURRENCY	BUY	SELL
<b>Europe</b>		
British Pound	0.374919	0.3834919
Czech Korune	0.004162	0.016162
Danish Krone	0.039566	0.044565
Euro	0.318581	0.327581
Norwegian Krone	0.031537	0.036737
Romanian Leu	0.084764	0.084764
Slovakia	0.009167	0.019167
Swedish Krona	0.029732	0.034732
Swiss Franc	0.296878	0.307878
Turkish Lira	0.077121	0.087421
<b>Australasia</b>		
Australian Dollar	0.220771	0.232771
New Zealand Dollar	0.206018	0.215518
<b>America</b>		
Canadian Dollar	0.223877	0.232877
Georgina Lari	0.138139	0.138139
US Dollars	0.301750	0.306150
US Dollars Mint	0.302250	0.306150
<b>Asia</b>		
Bangladesh Taka	0.003429	0.004013
Chinese Yuan	0.042853	0.046353

Hong Kong Dollar	0.037349	0.040099
Indian Rupee	0.004193	0.004881
Indonesian Rupiah	0.000018	0.000024
Japanese Yen	0.002711	0.002891
Kenyan Shilling	0.003042	0.003042
Korean Won	0.000257	0.000272
Malaysian Ringgit	0.065352	0.071352
Nepalese Rupee	0.002961	0.003120
Pakistan Rupee	0.002730	0.003020
Philippine Peso	0.006040	0.006340
Sierra Leone	0.000068	0.000074
Singapore Dollar	0.212886	0.222888
South African Rand	0.016144	0.024644
Sri Lankan Rupee	0.001641	0.002221
Taiwan	0.009791	0.009971
Thai Baht	0.008518	0.009068

<b>Arab</b>		
Bahraini Dinar	0.804702	0.813202
Egyptian Pound	0.014701	0.020609
Iranian Riyal	0.000085	0.000086
Iraqi Dinar	0.000196	0.000256
Jordanian Dinar	0.426024	0.435024
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000158	0.002528
Moroccan Dirhams	0.020121	0.044121
Nigerian Naira	0.001268	0.001903
Omani Riyal	0.787994	0.793674
Qatar Riyal	0.083198	0.084648
Saudi Riyal	0.080473	0.081773
Syrian Pound	0.001297	0.001517
Tunisian Dinar	0.129427	0.137427
Turkish Lira	0.077121	0.087421
UAE Dirhams	0.081847	0.083547
Yemeni Riyal	0.000994	0.001074