Production cut keeps oil prices steady

KAMCO oil market monthly report

KUWAIT: Oil prices remained elevated since the start of the year on the back of better than expected compliance to the agreed production cuts by OPEC and non-OPEC producers. According to the IEA, compliance by OPEC producers stood at 90 percent as larger-than-agreed cuts by Saudi Arabia was partially offset by higher production from Libya and Nigeria, which are exempt from the agreement. The production rate by OPEC during the month stood at 32.3 mb/d, lowest level in 14-months, according to Bloomberg, whereas OPEC's monthly report puts the number at 32.139 mb/d, according to secondary sources. In the non-OPEC camp, the cuts were estimated to have reached 269 tb/d during January-17 as compared to levels seen during the last quarter of 2016 for the eleven producers that have agreed to slash productions, including Russia and Kazakhstan. This is almost 50 percent of the agreed upon cuts of around 558 tb/d for the non-OPEC producers.

Meanwhile, the optimism related to lower output was almost balanced by rising oil output in the US as seen from the rising rig count. According to Baker Hughes, US oil companies added the highest number of rigs since 2012 over the past four weeks with an increase of more than 60 rigs taking the total count to 591 active rigs. This is also the highest rig count since October-15 as drillers added rigs in 14 out of 15 weeks. According to Reuters data, oil production in the US has increased by almost 528 tb/d since the last quarter of 2016 as oil firms pumped more oil to take the advantage of higher prices.

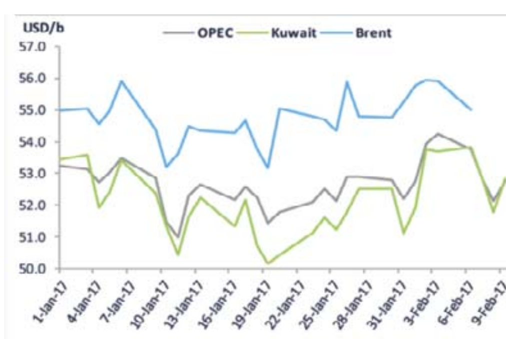
On the other hand, demand side factors are also said to have been positive over the last quarter of 2016, especially in Europe due to colder weather conditions. For 2017, oil demand is expected to benefit from higher consumption in China and other non-OECD countries coupled with expectations of higher economic growth led demand in Europe. Both IEA and the OPEC monthly reports have pointed at higher oil demand during 2017 with IEA predicting a demand growth of 1.4 mb/d (an increase of 0.1 mb/d as compared to its previous forecast) and OPEC expecting a slightly lower demand growth of 1.2 mb/d (up 35 tb/d from its previous forecast). One of the key markets for oil, India, is expected to remain strong in the long run, however, we believe that the recent policy initiatives have affected demand during the last quarter of 2016 that spilled over to 2017. According to the country's Oil Ministry, India's monthly oil demand declined the most since May-03 with fuel consumption down 4.5 percent during January-17.

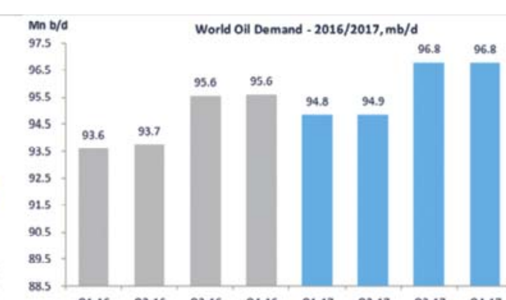
The opposing forces of positive demand and higher supply resulted in oil trading within a very tight range during the month. Average OPEC crude price during January-17 stood at USD 52.4/b, a marginal increase of 1.4 percent as compared to the previous month. Brent crude and Kuwait crude also traded higher as compared to the previous month with average prices up by 1.1 percent and 1.9 percent, respectively. KAMCO Research expects oil price to remain range bound in the near term until the production cuts remain in effect. Beyond June-17, we expect additional pressure on prices as producers emerge from the temporary cuts.

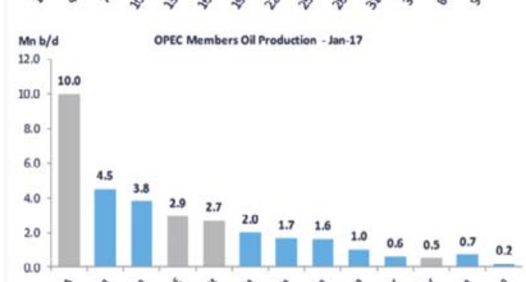
Oil Prices

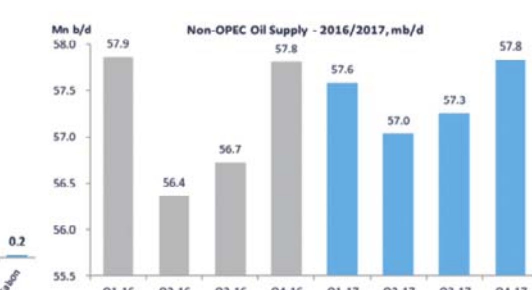
OPEC and Brent crude reached a new high of $54.24/b and $55.94 /b, respectively, during Feburary-17 after three consecutive sessions of gains at the start of the month as a result of reported decline of 46 tb/d in US crude production, according to EIA. According to the agency's Short Term Energy Outlook, the oil market is expected to balance sooner than previously expected after the increase in world oil inventories over the past few years comes to a halt and higher economic growth in both developed and emerging markets drive higher global oil demand over the next two years. The report included an upward revision to Chinese oil consumption and supply as well as demand outside the OECD countries. Nevertheless, the agency also expects US oil production to reach a 48-year high level of 9.53 mb/d in 2018 as domestic shale oil producers benefit from higher oil prices as a result of OPEC production cuts.

This was also reflected in the weekly rig count data by Baker Hughes that reported an increase in rig count in 14 out of 15 weeks. According to Baker Hughes, US oil companies added the highest number of rigs since 2012 over the past four weeks with an increase of more than 60 rigs taking the total count to 591 active rigs, the highest rig count since October-15. Furthermore, oil prices also got support from USD weakness that traded at a two month low level against a basket of currency, although the trend seemed to have reversed during the second week of February-17 after hopes that US tax cuts would drive corporate profits and investments in the US lifted the greenback.









Average OPEC crude price during January-17 stood at $52.4/b, a marginal increase of 1.4 percent as compared to the previous month as crude traded within a very tight range during the month. Brent crude and Kuwait crude also traded higher as compared to the previous month with average prices up by 1.1 percent and 1.9 percent, respectively, for the two grades of crude oil. The trend during the first half of February-17 was also positive with marginal increase in average prices. We expect oil price to remain range bound in the near term until the production cuts remain in effect. Beyond June-17, we expect additional pressure on prices as producers emerge from the temporary cuts.

World oil demand

Higher oil demand in OECD Europe and Asia Pacific, especially during 4Q-16, continued to positively impact OPEC's demand projections for 2016. According to its latest monthly report, OPEC raised its world oil demand growth expectations for 2016 by 70 tb/d to 1.32 mb/d on the back of colder-than-expected weather in the aforementioned regions. Demand from US was raised by 50 tb/d for 3Q-16 and 4Q-16 with growth emanating primarily from the road transportation sector triggered by the low oil price environment. According to the latest monthly data for demand in the US, growth in November-16 was led by healthy economic growth and colder weather conditions, in addition to higher demand in the road transportation sector. OECD Europe also witnessed positive revision for all the four quarter of 2016 with higher-than expected demand growth in Poland, Spain, Sweden, Turkey and the UK on the back of better economic conditions, increased vehicle sales and colder-than-expected weather conditions in Q4-16. The OECD Asia Pacific region, on the other hand, witnessed its first demand growth since 2012 after a positive adjustment of 20 tb/d to its 2016 demand projection. On the other hand, demand outlook for the non-OECD growth remained largely unchanged despite internal revisions as positive changes to demand figures for India and China were completely offset by downward revisions for LatAm and the Middle East and Africa regions. For 2017, after marginal upgrade in its previous report, OPEC raised demand growth expectations by 35 tb/d to 1.19 mb/d and full year demand is now expected to reach 95.81 mb/d. This increase is primarily expected to be driven by colder weather conditions and higher vehicle sales in OECD Europe, further supported by higher expectations for petrochemical feedstock requirements in OECD Asia Pacific that resulted in upward revision of 40 tb/d in Q1-17 and 20 tb/d for Q2-17. The colder weather conditions resulted in upward revisions of 50 tb/d for Q1-17 and 30 tb/d for Q2-17. Economic development in Europe and some of the Asian countries, including the Middle East, are expected to be the key driver of demand in 2017 that would be partially impacted by fuel substitution effect in some pockets (Japan and Mexico).

World oil supply

Non-OPEC supply predictions for 2016 was revised upward by 50 tb/d and is expected to contract by 0.66 mb/d to reach year-end supply expectation of 57.2 mb/d. The upward revision mainly reflected higher-than-expected supply growth in Q4-16 in the US, Canada, Norway, Russia and China that was partially offset by downward revisions in Kazakhstan, Australia and Malaysia. The final quarter saw m-o-m supply growth of a strong 1.08 mb/d reflecting higher production in response to strengthening oil prices. On the other hand, the overall contraction during the year was primarily on the back of lower production in OECD, China and Developing Countries, which were partially offset by higher production in Russia. The decline in the US was primarily from US onshore fields while the drop in output in China were primarily as a result of mature oil fields and lower investment by local oil companies. Non-OPEC supply forecast for 2017 were raised by 120 tb/d and is now expected to grow by 0.24 mb/d to average at 57.44 mb/d. The increase in expectations primarily reflected increased drilling activity and higher investment in the US, leading to higher onshore crude oil and NGLs production. US and Brazil are expected to make the highest contribution to supply growth during 2017, with a combined increase of almost 0.5 mb/d during the year followed by Canada (+0.18 mb/d) and Kazakhstan (0.14mb/d). That said, the expected decline in production as agreed between OPEC and non-OPEC countries would help to offset some of the oil glut. Evidently, the agreement resulted in global supply decline of 1.29 mb/d during January-17 to averaged at 95.82 mb/d.

OPEC Oil Production & Spare Capacity

OPEC production reached the lowest level in 14 months and averaged at 32.3 mb/d during January-17 after witnessing a month-on-month decline of 0.84 mb/d, according to Bloomberg. The decline was primarily on the back of 0.5 mb/d drop in production undertaken by Saudi Arabia followed by 160 tb/d decline in the UAE and 150 tb/d decline in Kuwait. Venezuela and Algeria also curbed production by a combined 140 tb/d. These declines were partially offset by higher production in Nigeria, Iran and Libya that added a combined 270 tb/d during the month. In terms of production cuts, the oil minister of Kuwait said that the compliance in OPEC was as high as 92 percent by the end of January-17. In addition, UAE has expressed hopes that the output cuts could even rise in the coming months as the impact of lower oil output reflects in higher prices. It was reportedly reiterated that Saudi Arabia has undertaken a higher than agreed share of the production cuts to below the 10 mb/d mark, although the Kingdom was touted to slash output by 486 tb/d.

Meanwhile, after two consecutive months of marginal decline totaling 30 tb/d, Iran increased production during January-17 by 70 tb/d to reach 3.8 mb/d, a level which we believe the producer intends to maintain in the near term. However, in the longer run, the country needs to attract investment in oil infrastructure as the current production comes primarily from aging fields. Moreover, it was also reported that Iran has extended the deadline for submitting bids for oil and gas projects from its original deadline of January-17 to mid-February-17 and has been working on introducing better contract terms to attract more investors in the sector. Nigeria also added 140 tb/d after two consecutive months of decline, although the production level of 1.64 mb/d still remains low as compared to the country's peak level of 2.2 mb/d. Libya also added 60 tb/d during the month to 690 tb/d (700 tb/d according to OPEC report), the highest level in 3 years as it plans to increase production to 1 mb/d by the end of the year. We believe that a production recovery in Nigeria and higher production in Libya could dampen the prospects of oil market rebalancing during 2H-17, unless larger OPEC producers and non-OPEC players take a bigger share.

S Korean prosecution again seeks Samsung chief's arrest

SEOUL: South Korea's special prosecutor's office said yesterday it would again seek a warrant to arrest Samsung Group chief Jay Y. Lee, a suspect in a graft investigation that may topple President Park Geun-hye. Lee, the third-generation leader of the country's top conglomerate, was questioned for more than 15 hours by the special prosecutor's office on Monday. The prosecutor also seeks the arrest of Samsung Electronics Co Ltd executive Park Sang-jin.

"We have filed for an arrest warrant for Vice Chairman Lee Jae-yong and President Park Sang-jin today," the prosecution office said in a statement, referring to the 48-year-old Samsung Group chief by his Korean name. Last month, the Seoul Central District Court rejected the prosecution's first request for a warrant to arrest the Samsung chief.

If Lee is arrested it would deal a serious blow to Samsung, the world's biggest maker of smartphones, memory chips and flat-screen televisions, potentially hampering strategic decision-making such as new investments and acquisitions. The prosecution office said the charges the two executives would face included bribery, embezzlement and hiding assets overseas. The prosecution also said it would also bring an additional charge of perjury against for Lee in the latest arrest warrant request. The office declined to elaborate, saying it would give a briefing on the details today. Lee and the Samsung Group have denied wrongdoing. The Samsung Group declined to make either executive available and a group spokeswoman did not immediately comment on the accusations against the executives. The Seoul court said it would hold a hearing on the arrest warrants request at 10:30 am (0130 GMT) tomorrow. The head of corporate analysis firm CEO Score, Park Ju-gun, said if Lee was arrested it would affect some long-term operating decisions as well as his plans to consolidate management control of the group. But the impact on Samsung firms' near-term earnings would be limited because they are run by professional managers.

Looking at links

In its unsuccessful attempt last month to arrest Lee, the special prosecutor accused Lee of pledging payments to a company and organizations backed by Park's confidant, Choi Soon-sil, to win support for a 2015 merger of two Samsung affiliates. Park was impeached by parliament in December after accusations that she colluded with Choi to pressure big businesses to donate to two foundations set up to back the president's policy initiatives.

Park, 65, and the daughter of a former military ruler, remains in office but has been stripped of her powers while the Constitutional Court decides whether to uphold the impeachment. If the Constitutional Court rules to uphold the impeachment vote, Park would be South Korea's first elected leader to be forced from office and a presidential election would be held.

The special prosecutor has focused on Samsung Group's relationship with Park, previously accusing Lee in his capacity as Samsung chief of pledging 43 billion won ($38 million) to win support for the 2015 merger of Samsung C&T Corp and Cheil Industries Inc. Proving illicit dealings between Park, or those linked to her, and the Samsung Group is critical for the special prosecutor's case that ultimately targets Park, analysts have said. Earlier on Tuesday, special prosecutor's spokesman Lee Kyu-chul told reporters the office had told parliament it needed to prolong its investigation. The office can seek a 30-day extension to its current deadline of Feb. 28. — Reuters

China's credit growth poses challenge, tightening gradual

BEIJING: Chinese banks kept up a strong pace of lending at the start of the year, even with signs of tightening by the central bank, highlighting the challenge Beijing faces as it tries to deflate asset bubbles without risking a blow to economic activity.

January's new yuan loans were the second-highest on record as banks stepped up lending, indicating policymakers' efforts to rein in risks have not reduced bank credit being extended to China's highly-indebted corporate sector. A spike in off-balance sheet lending also showed demand for credit remained strong, while inflation picked up to multi-year highs, though analysts expect any tightening to be gradual as China's economic recovery is fragile. "This is not across the board or broad tightening that we normally see...we think the recovery momentum is driven by the recovery in prices, especially PPI, rather than any real return of real demand," said Betty Wang, senior China economist at ANZ in Hong Kong.

"We do not think the economy is solid enough to counter broad-based or aggressive tightening." Much of the increase in consumer prices in January was due to a seasonal rise in food and travel costs ahead of the Lunar New Year holiday, while producer price gains slowed by half on-month. Analysts say the People's Bank of China (PBOC) is raising rates on some primary money rates to signal to markets that it is keeping an eye on financial risks, but will keep liquidity ample, which includes continued expansion of credit.

Chinese banks added a net 2.03 trillion yuan ($295.74 billion) in new loans in January, while credit growth including non-bank lending rose 3.74 trillion yuan. The expansion in broad M2 money supply was stable while growth in outstanding credit was also on trend at 12.8 percent, supporting views the central bank will keep monetary conditions basically stable, with some marginal tightening targeting specific sectors such as property.

LIAOCHENG: This picture taken on February 12, 2017 shows a Chinese poultry farmer loading eggs at a farm in Liaocheng, east China's Shandong province. — AFP

Indeed, to help cool the heated housing market, banks in some big Chinese cities have already started to lower discounts on lending rates for first-time home buyers, the China Securities Journal reported earlier this month. Chinese banks usually "front load" loans early in the year after the government renews their credit quotas, so data over the next few months will provide a better picture for credit growth trends this year. Higher rates and increased volatility in debt markets have curtailed corporate bond issues, with net issues negative for a second month in a row in January, pushing more firms into non-traditional lending such as trust loans, which spiked. The rapid rise in off-balance sheet lending could prompt more tightening measures, ANZ economists said in a research note, with the bank expecting the PBOC to raise the 7-day repo rate by another 15 basis points by the end of June.

Support for yuan

Analysts say the PBOC has tightened policy partly to support the yuan, which faces depreciation pressure against the dollar as the US Federal Reserve is expected to continue to raise interest rates. "They want to reign in some potential risks...as well as try to stabilise the RMB exchange rate expectation," said Nomura economist Yang Zhao. But in recognition of the caution towards further tightening, Zhao does not expect the PBOC to raise interbank rates again for the first half of this year.— Reuters

Small Brazilian town embraces universal income experiment

MARICA, Brazil: Does being handed money every month-no strings attached-sound attractive? The residents of a small town in Brazil are finding out. Governments and think-tanks around the world are increasingly fascinated by the idea of a universal basic income, where citizens are given cash to spend as they want.

In Marica, a seaside town of about 150,000 people near Rio de Janeiro, the left-wing municipal government has spent the last year finding out how it works. "We are a laboratory for the Brazilian left," says Washington Quaqua, who introduced the experiment as mayor in December 2015 before stepping down. He was replaced by another candidate from the leftist Workers' Party, Francisco Horta.

The idea of a universal basic income isn't new, but long-considered as a potential tool for social equality and redistribution of wealth. The concept has gained traction more recently among high-powered business thinkers, especially in Silicon Valley, as they ponder how society will cope with the ever-expanding role of automation-a trend some futurists believe may create mass unemployment.

In Marica-a surviving Workers' Party bastion in increasingly right-leaning Brazil-the basic income idea fits in well with the leadership's socialist fervor.

Just about every public building is decorated in socialist red and Quaqua's office sports portraits of communist revolutionary Che Guevara, whose name is also soon to be given to a new hospital.

"The world lacks creativity and Marica is giving the example of a town that knows how to redistribute its riches," Quaqua says with pride about his pet project.

Modest reality

Despite his claims, Marica is only taking baby steps. Inconclusively tried around the world for decades, the experiment is currently getting a high-profile rollout in Finland. The left-wing French presidential candidate Benoit Hamon, backed by the star economist Thomas Piketty, has also made the basic income part of his platform. However, if Finland is handing out payments of about $590 a month-and only to a test group of unemployed people for now-the amount in Marica is a measly 10 reais, or about $3.20. The new mayor hopes to raise the amount to $32 in 2017.

Only the town's 14,000 poorest families are currently being given the income, which is denominated in Mumbucas, a virtual currency created to pay welfare under Quaqua three years ago. The 10 reais is added to the 85 reais ($27) monthly welfare check for families whose income doesn't top three times the minimum wage. The extra money is also given to poorer people aged between 14 and 29 and pregnant women already receiving other benefits. There's another limitation: only 131 local businesses-less than 10 percent of the total-accept payment in Mumbucas, the mayor's office says. The currency, which physically exists only on specially issued red magnetic cards, is unpopular with business owners because they must wait more than a month after purchases are completed for the government to convert payments into reals.

Feasible or fantasy?

Opposition politician Filippe Poubel denounces what he calls an attempt to addict the people of Marica to welfare. Handing out an income, he says, will backfire. "People want to work, they want to earn their income with dignity. They would be a lot happier if the mayor would create jobs and offer them decent hospital care." Horta dismisses such criticism saying a basic income will in fact create jobs, "stimulating the local economy." And he says that the town, which draws revenues from off-shore oil exploitation, can afford to boost the program "in an exponential way over the next 10 years." "The rich love it when they get millions in tax breaks," Quaqua says of his project's opponents. "But they are furious when we give a few hundred reais to the poor." — AFP