KAMCO Oil Market Monthly Report

Oversupplied oil market ignores extension to OPEC+ agreement

Weak global economic growth rates dampen oil market outlook

KUWAIT: After the rout seen during the second half of May-19, oil prices remained range-bound during June-19 and the first half of July-19 led by factors that focused mainly on tackling the lower expected oil demand with curbing supplies. Prices remained subdued despite OPEC+ announcing a 9-month extension to the ongoing supply cut agreement, in addition to the tensions in the Middle East. These factors were almost completely countered by release of a number of data that pointed to weak global economic growth rates in the near term with the US-China trade conflicts being one of the main factors for the dampened outlook.

Meanwhile, oil prices got a temporary relief over the past week due to a potential storm heading towards US oil facilities. Due to platform evacuations, the storm has reportedly affected 70 percent of Gulf of Mexico output, which accounts for 17 percent of US crude production. Furthermore, due to the summer driving season in the US, the demand for gasoline has increased. The higher refinery runs to fulfill gasoline demand has resulted in higher usage of crude inventories. This has led to declining oil inventories in the US for four weeks in a row, also supporting oil prices.

In its latest Short Term Energy Outlook, the US lowered global oil demand forecast for 2019 by 0.2 mb/d as compared to its previous forecast while retaining its forecast for oil demand in 2020. The OPEC, in its July-19 monthly report, kept global oil demand growth expectations unchanged for 2019 at 1.14 mb/d. The group also for the first time published demand forecast for 2020 in which it projected a constant rate of demand growth in 2020 at 1.14 mb/d.

In terms of oil supply, the US increased oil output to 12.3 mb/d during the first week of July-19, an increase of 0.1 mb/d as compared to the previous week. The latest forecast for US oil production was at 12.4 mb/d in 2019 that will increase to 13.3 mb/d in 2020, according to the EIA. On the other hand, OPEC continued to curb oil production with an output of 30 mb/d during June-19. IEA's latest report highlighted the ineffectiveness of OPEC+ efforts of lowering output and said that the oil market would remain in surplus in 2020. The report said that global oil supply exceeded demand by 0.9 mb/d during 1H-19.

On the economic front, data points continue to paint a bleak picture for future oil demand. The US has already flagged weak business sentiments and manufacturing slowdown that would almost certainly lead to a rate cut in the next meeting. New orders for US factory goods also reportedly declined for the second consecutive month. China, on the other hand, has reported a 12 straight month of y-o-y decline in car sales during June-19 with a decline of almost 10 percent. Similarly, Indian car sales fell for eighth month in a row by 25 percent while passenger car sales declined by 18 percent in June-19. In Europe, the European Commission has slashed the Euro-Area GDP and inflation forecasts for next year citing rising downside risks.

Oil prices

Oil prices reached a seven week high during the second week of July-19 on the back of supply outages in the US Gulf Coast caused by an approaching hurricane. The price of WTI breached the $60/b mark for the first time in two months while consecutive gains since the second day of the month pushed official Brent spot crude above the $65/b mark. The oil price rise was also helped by declining crude inventories in the US. Crude inventories declined for four consecutive weeks until 5-July-19 aggregating to 26.5 million barrels to reach 459 million barrels. Nevertheless, the market reaction to such events were much modest as compared to previous similar instances. Oil watchers continue to remain skeptical about any sustainable factor that could support oil prices. Especially, the economic trends highlighted by various government agencies recently have failed to provide any positive catalyst. A majority of the economists and agencies point to modest growth across the globe led by a slower pace of growth in global trade resulting in a decline in global manufacturing. These sentiments were reflected in EIA's latest outlook for oil demand growth in 2020. On the other hand, an oil price of $60/b is enough to compensate oil drillers in the US that are said to be going ahead with their investment plans. Oil rigs in the US has although declined recently, but the production has increased offsetting the efforts of OPEC+ countries that are curbing output. According to Baker Hughes' latest weekly report, oil rigs in the US was down for the second consecutive week and stood at 784 active rigs. Average crude prices for a majority of crude grades recorded double digit declines during June-19 as gains towards the close of the month failed to offset declines since the start of the month. Average OPEC crude prices dropped 10.1 percent m-o-m during June-19 to reach $62.9/b. Kuwait crude average price declined at a slightly higher pace of 10.7 percent to reach $62.6/b, while average Brent crude saw a decline of 9.6 percent to reach $64.0/b, the lowest level since March-19.

World oil demand

World oil demand growth expectations for 2019 remained unchanged at 1.14 mb/d to average at 99.87 mb/d, according to OPEC's latest monthly report. The OPEC also published its first 2020 oil demand outlook in which it expects flat growth rate in oil demand during 2020 at 1.14 mb/d to average at 101.01 mb/d. The forecast suggested that in the OECD region, a growth in oil demand is expected only in the OECD Americas region, while OECD Europe and Asia Pacific are expected to show a decline in oil requirements in 2020.

In the US, oil demand showed increase during April-19 after a decline in March-19 but preliminary numbers for May-19 and June-19 show a slight decline in demand led by falling residual fuel oil usage. In OECD Europe, improvement in economic growth has led to a slight improvement in oil demand in April-19 as compared to April-18. Preliminary data for May-19 shows a decline in Germany France and Italy while in UK there was an increase. For the non-OECD group, India would be the primary driver of growth followed by China. The region would contribute to 1.05 mb/d of growth during the year. Demand data for China has shown a growth during May-19 for most of the product categories. Demand increased 3 percent y-o-y during may-19 led by higher consumption of LPG, gasoline and kerosene while diesel demand dropped.

The latest monthly report from the IEA showed that global oil demand grew at its slowest pace since 2011 during Q1-19 while a contraction in manufacturing activity, the first in seven years, lowered oil demand growth by a third than anticipated in Q2-19 to 0.8 mb/d. The agency kept its full year growth expectation at 1.2 mb/d for the full year, but said that it would require a demand growth of 1.8 mb/d during 2H-19 to achieve this target. For next year, the agency expects demand growth of 1.4 mb/d.

World oil supply

According to OPEC, world oil supply increased at a much higher pace in June-19 as compared to the previous month by 0.47 mb/d to average at 98.56 mb/d. The increase was once again primarily on the back of non-OPEC supply that increased by 0.54 mb/d to average at 68.73 mb/d mainly coming from US, Brazil, Kazakhstan, Russia and China. Higher non-OPEC production pushed down OPEC market share by 20 bps to 30.3 percent during June-19. For the full year 2019, non-OPEC oil supply growth forecast was lowered by 95 tb/d to growth of 2.05 mb/d to average at 64.43 mb/d. The downward revisions reflected continued lower oil production for the non-OPEC members of the OPEC+ production curbs, in addition to downward revisions to Q2-19 production figures for Brazil and Norway. The revision more than offset an upward revision in output from the US by 70 tb/d.

US continues to increase production as seen from the 0.32 mb/d m-o-m increase in liquids output during April-19. For 2020, non-OPEC supply is expected to grow at a slightly higher pace of 2.44 mb/d to average at 66.87 mb/d. The increase in supply comes primarily from the US, Brazil, Norway, and Canada that are expected to more than offset a decline in output from Mexico, Colombia, the UK, Indonesia and Thailand. Production in the US would be dominated by shale output that would get a boost, as the country removes the infrastructure bottlenecks in the Permian region with additional supply capacity of around 2.5 mb/d.

Oil output from the OECD Europe region is expected to grow by 0.17 mb/d on the back of higher output from Norway partially offset by a decline in output from UK and Denmark.

OPEC oil production & spare capacity

OPEC crude production declined slightly during June-19 primarily due to lower output coming from Iran. However, the overall compliance for the 11 members in OPEC to the OPEC+ production agreement declined to 104 percent during June-19 as compared to 117 percent during May-19, according to S&P Platts, as declines during the month came mainly from exempt members. The lower compliance came primarily on the back of an increase in production in Saudi Arabia, Nigeria and Iraq, according to the agency. According to Bloomberg data, Iran lowered its production by 100 tb/d to 2.28 mb/d while OPEC secondary sources put the decline at 142 tb/d to reach an average production rate of 2.23 mb/d.

We believe that it is apparent that the glut in the oil market would extend until next year as US produces unabated and demand indicators pointing a bleak picture. KAMCO Research believes that OPEC output is expected to have bottomed and any increase in output from Iran and Venezuela can disrupt the current oil price levels. Nevertheless, positive US-China trade talks has the potential to support demand and prices as it can support an overall improvement in global economy.

Under its expansion policy in Kuwait

"Best Al-Yousifi Electronics" Opens New Showroom at the Avenues Mall

Easa Husain Al-Yousifi & Sons Co. recently opened a new Best Al-Yousufi Electronics showroom at the Avenues Mall – The Forum. This is one of the modern electronics showrooms in Kuwait, being the Fifteenth outlet in Best Electronics chain in Kuwait. The event was attended by company owners & corporate Managers, prominent figures and guests, interested customers, media workers and the press.

The company announced that the opening of its new showroom at the Avenues Mall is part of its strategy aimed at meeting its customers' needs to provide the best services and shopping facilities. Best Al-Yousufi Electronics Co., by expanding the number of its showrooms open to the public, with this showroom' being the number 15 , seeks to enhance its service level and make them available to the largest possible customer base. Al-Yousufi opened the first location of Best Al-Yousufi Electronics Showroom in Hawally on September 29, 2009. Best Al-Yousufi Electronics also plans to join forces with other international brands for its future showrooms.

To celebrate the new showroom opening, Best Al-Yousufi Electronics threw in a special opening festivity at the Avenues Mall to all its guests and customers and launched special offers and excellent prices deals for new products.

The welcome speech was presented by General Manager of the Electronics group, Mr. Wael Deeb, who said that this new showroom comes as part of the company expansion policy to please all clients in, also promised of more new showrooms in the coming future.

The opening ceremony also featured musical performances and a variety of entertainments in a distinctive atmosphere where the audience expressed their happiness. In addition to the Robot amazing show which was brought for the first time from Spain especially for the opening of Best showroom.

Easa Husain Al-Yousifi & Sons Co., through its retail network has undoubtedly emerged as the preferred partner for a number of internationally renowned brands, making it the natural choice for international companies wishing to put their products in the Kuwaiti market.