S&P Global Platts Business Analysis

Crude supply under threat after Saudi attack; tensions run high

KUWAIT: The events in Saudi Arabia have ratcheted up tensions in the Middle East to a new level raising concerns about supply security. While in the short-term the direct physical impact on the market might be limited, this should move the market away from its bearish macroeconomic cycle and raise the risk premium in the market as funds reduce their short positions, says Chris Midgley, Global Head of Analytics, S&P Global Platts.

While some commentators may call for triple digit oil prices we would suggest that the sudden change in geopolitical risk warrants not only an elimination of the $5-10/Bbl discount on bearish sentiment, but adds a potential $5-10/Bbl premium to account for now-undeniably high Middle Eastern dangers to supply and the sudden elimination of spare capacity. As such prices are likely to break out of the current $55-65/Bbl options range, to test the high $70s as currently supported by fundamentals. Price could move higher if Saudi production is confirmed to be curtailed for a more substantial period which is not our current assumption."

Attacks on Saudi Arabia's pivotal Abqaiq processing facility and Khurais oil field have raised questions over the kingdom's-and also the world's-security of crude supply, according to Paul Hickin, Editor - Claudia Carpenter, Singapore.

The kingdom confirmed over the weekend the temporary loss of 5.7 million b/d of oil production after disruption at its facilities but said export customers would continue to be supplied from inventories. Abqaiq is the single most important facility in Saudi's oil industry, while Khurais is the second biggest oil field.

The attack is an escalation in severity after a number of strikes on key oil infrastructure and transit routes in the Middle East this year. Flows had been temporarily halted through Saudi Arabia's main oil transport pipeline to terminals and refineries on the Red Sea, while oil tankers have been attacked in the Strait of Hormuz maritime chokepoint.

"The sudden change in geopolitical risk warrants not only an elimination of the $5-10/b discount on bearish sentiment, but adds a potential $5-10/b premium to account for now-undeniably high Middle Eastern dangers to supply and the sudden elimination of spare capacity," S&P Global Platts Analytics said.

HIGHLIGHTS

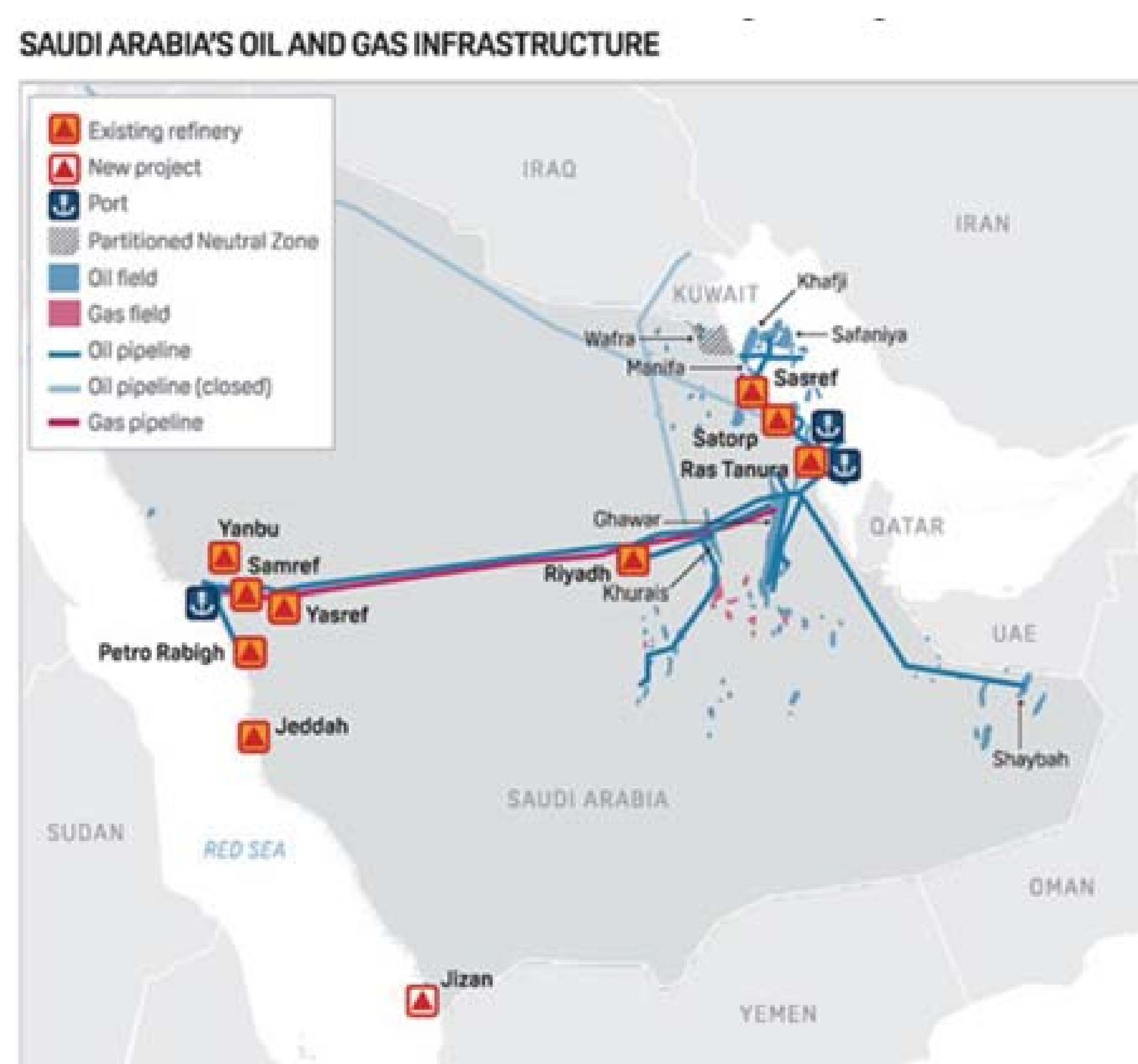
- This incident signals a significant escalation by Iran-backed groups, who until now have demonstrated awareness of critical infrastructure such as the East-West pipeline and Strait of Hormuz, while limiting impact.
- The timing of the attack could be significant, on a weekend, just one week after the announcement of Prince Abdulaziz as Energy Minister, fracturing of Yemeni government forces and UN accusing US, UK, and France of being complicit of war crimes in Yemen.
- The reported 5 MMB/D disruption indicates an alarming level of effectiveness and sophistication, and more importantly a change in tactic towards a more direct and serious offensive.
- In the short term Saudi Arabia will be able to maintain exports and use reserves to ensure supply security, but any evidence of prolonged disruption of production would heavily impact OPEC spare capacity and the ability of IEA to use Strategic Petroleum Reserves to shore up the market.
- The US Administration and IEA have both raised concerns around supply security, with Secretary of State, Pompeo laying blame on Iran, which is likely to put an end to any likelihood of an agreement and return of oil from Iran in medium term.
- Higher oil prices would add to the headwinds facing the global economy which could tip it into recession which would itself limit any prolonged period of excessively high oil prices as demand rebalances the market.

S&P Global Platts Factbox INFRASTRUCTURE

- Saudi Arabia, OPEC's biggest and most influential member, produced 9.77 million b/d in August, according to the latest Platts survey and exports around 7 million b/d.
- Located in the kingdom's eastern province, plants in Abqaiq process around 7 million b/d of crude.
- The Abqaiq facility is Saudi Aramco's largest oil processing facility and processed about 50% of the company's crude oil production in 2018.
- Khurais, about 250 km southwest of Dhahran, is the second-largest oil field in Saudi Arabia with capacity to pump around 1.5 million b/d of mainly Arab Light crude.
- Output from the 5m b/d Ghawar field, Shaybah and Khurais fields is all processed at Abqaiq.
- Saudi Arabia's East-West Pipeline to the Red Sea has a nameplate capacity of about 5 million b/d, with current movements estimated at about 2 million b/d. The East-West pipeline runs from Abqaiq to the Yanbu Port on the Red Sea.
- Saudi Arabia ships about 10% of its total crude exports to Europe through the line to the Red Sea. The line is also critical to Saudi Arabia's own Red Sea refineries, which are mainly supplied with crude oil produced in its eastern region shipped from the Persian Gulf.
- Saudi crude is generally a mix of heavy to medium sour oil, which is generally high in sulfur and yields a decent amount of residual fuel and vacuum gasoil.
- The oil is particularly popular with complex refineries in Asia, US and Europe which can crack heavy sulfurous crudes, and still yield distillate products due to the refiners having complex secondary units.
- The key export grades are Arab Heavy, Arab Medium, Arab Light and Arab Extra Light.

OIL PRICES

- Platts Analytics noted prices are likely to break out of the $55-65/b options range, more likely testing the high $70/b it previously forecast, if not higher.
- Platts Analytics added that any additional risk premium "could see prices test $80/b despite Saudi Arabia today claiming production and exports will not be significantly impacted."
- On Friday, NYMEX front-month crude settled 24 cents lower at $54.85/b, while ICE front-month Brent settled 16 cents lower at $60.22/b.



Source: S&P Gobal Platts, EIA

TRADE FLOWS

- Saudi Arabia stockpiles totalled 187.9 million barrels in June, according to the Joint Organization Data Initiative. This implies that the kingdom has 26.8 days of cover, assuming zero crude production.
- Saudi Arabia holds crude in storage in domestic tanks as well at sites in Eqypt, Japan and the Netherlands.
- The country's largest oil export terminals are in the port of Ras Tanura which can handle about 6.5 million b/d, according to the EIA. All of Saudi's key crude oil grades load from here along with condensate and products.
- The port comprises three terminals: Ras Tanura terminal, Ju'aymah crude terminal, and Ju'aymah LPG export terminal. The Ras Tanura crude terminal has a 33 million barrels storage capacity.
- The other key crude export terminal is the King Fahd terminal in Yanbu on the Red Sea, which has a loading capacity of 6.6 million b/d.
- Total crude oil storage capacity at the terminal is 12.5 million barrels. Only Arab Light crude oil grade is loaded at the Yanbu terminal.
- Platts Analytics estimates that global spare capacity is currently 2.3 million b/d, but more than 1.6 million b/d is in Saudi Arabia, showing how vulnerable the market is to supply-side risks.
- The US could move as much as 2.12 million b/d of SPR crude to global markets, but as much as 1.74 million b/d of addition marine distribution capacity would likely be needed in the event of an Abqaiq attack, according to a 2016 DOE report.
- As of Friday, the SPR held 644.8 million barrels of crude in four sites in Texas and Louisiana, including 250.3 million barrels of sweet crude and 394.5 million barrels of sour crude, according to DOE.
- IEA consumer countries are required to hold emergency oil stocks equivalent to 90 days' worth of net imports and the agency sent a note over the weekend saying oil markets remain well supplied.

—Gulf Intelligence

Large US banks sweating the move to lower interest rates

NEW YORK: President Donald Trump's attacks on the US Federal Reserve make financial markets cringe, but his demand for zero interest rates makes banks sweat. As the Fed reverses course and is poised to cut the benchmark lending rate a second time on Wednesday, large US banks have signaled they expect a bigger hit to their bottom line.

Banks including JPMorgan Chase and Wells Fargo last week trimmed their 2019 forecasts for profits tied to interest rates as central banks around the world loosen monetary policy in response to a weakening global growth outlook. Lower interest rates mean less profits on loans made by the banks, especially if they have offered higher returns on deposits to attract customers.

Moody's warned in a report Thursday that lower interest rates would crimp bank profitability in general and prompt more mergers in the industry. JPMorgan Chase Chief Executive Jamie Dimon last week said the bank now expects full-year net interest income of around $57 million-another downgrade to the forecast that was $58 billion earlier in the year.

The Federal Reserve in July cut the key interest rate-which drives the cost of all types of borrowing-for the first time in more than a decade, after four rate increases last year.

The reversal came amid Trump's bitter trade war with China which has increased uncertainty and undermined the global economy, fueling a slowdown in manufacturing and investment.

Trump has relentlessly demanded the Fed cut rates further to catch up to moves by the European Central Bank and others, calling for zero or even negative rates. But most economists view that as highly unlikely and Dimon said he still does not expect such a drastic move. "I don't think we'll have zero rates in the United States," Dimon said. "We were thinking about how to be prepared for it, just in the normal course of risk management." The possible responses include cost-cutting, as well as charging consumers account fees.

Overestimating the impact

Yet some banking experts say the interplay between interest rates and bank profits is overestimated in importance and more complex than is commonly understood.

"The downturn in interest rates is manageable if we don't have a recession," said Marty Mosby, who directs bank and equity strategist at Vining Sparks, a broker-dealer. And some banks already have put in place strategies to mitigate interest rate risk.

History shows that while bank profits may fall incrementally after Fed interest rate cuts, they do not crumble completely, said analyst Dick Bove, who points to numerous instances where profits rose amid low interest rates. "They are conglomerates and there are many ways of making money," he said, including charging premiums to corporate clients due to increased recession risks.

Conversely, Bove said investors also make too much of the boost when rates are rising, and said profits were diluted during the Fed's recent rate-hike cycle by large deposit payments.

The benchmark closely watched is "net interest income," which essentially reflects the difference in bank revenues tied to the loans it makes and interest payments to depositors.

Wells Fargo also lowered its estimate for net interest income, projecting a $1.8 billion drop in the second half of 2019 compared with the year-ago period. The bank could place more of its own assets in longer-run investment vehicles if it expects rates to stay lower for longer, an outlook that depends on "the perceived probability of recession," said Wells Fargo Chief Financial Officer John Shrewsberry.

"If you do go into some sort of deeper economic decline and rates are going to remain low or go lower from here ... you think about protecting the downside," he said. "I don't think we're quite there yet."

Some banks pulled the plug on efforts to woo more deposits with higher interest rates than those offered by competitors. "We've dropped off the high rate screens," said PNC Financial Services Chairman William Demchak, adding that the company has decided to not "pick a fight on deposits." —AFP

EXCHANGE RATES

Al-Muzaini Exchange Co.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.500
Euro	340.430
Sterling Pound	383.820
Canadian dollar	231.650
Turkish lira	54.860
Swiss Franc	310.710
US Dollar Buying	297.300
ASIAN COUNTRIES	
Japanese Yen	2.818
Indian Rupees	4.298
Pakistani Rupees	1.967
Srilankan Rupees	1.684
Nepali Rupees	2.680
Singapore Dollar	223.400
Hongkong Dollar	38.939
Bangladesh Taka	3.594
Philippine Peso	5.883
Thai Baht	10.045
Malaysian ringgit	77.877
GCC COUNTRIES	
Saudi Riyal	81.254
Qatari Riyal	83.688
Omani Riyal	791.423
Bahraini Dinar	809.090
UAE Dirham	82.959
ARAB COUNTRIES	
Egyptian Pound - Cash	21.500
Egyptian Pound - Transfer	18.584
Yemen Riyal/for 1000	1.223
Tunisian Dinar	110.730
Jordanian Dinar	430.270
Lebanese Lira/for 1000	0.203
Syrian Lira	0.000
Morocco Dirham	32.325

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	304.190
Canadian Dollar	230.813
Sterling Pound	373.865
Euro	337.075
Swiss Frank	301.815
Bahrain Dinar	808.955
UAE Dirhams	83.220
Qatari Riyals	84.460
Saudi Riyals	82.015
Jordanian Dinar	430.328
Egyptian Pound	18.398
Sri Lankan Rupees	1.683
Indian Rupees	4.233
Pakistani Rupees	1.944
Bangladesh Taka	3.602
Philippines Pesso	5.861
Cyprus pound	18.097
Japanese Yen	3.850
Syrian Pound	1.590
Nepalese Rupees	2.648
Malaysian Ringgit	73.505
Chinese Yuan Renminbi	43.110
Thai Bhat	10.935
Turkish Lira	54.175
Singapore dollars	218.554

BAHRAIN EXCHANGE COMPANY WLL

CURRENCY	BUY	SELL
Europe		
British Pound	0.361522	0.375422
Czech Korune	0.004911	0.014211
Danish Krone	0.040748	0.045748
Euro	0. 326670	0.340370
Georgian Lari	0.102185	0.102185
Hungarian 0.000921	0.000111	
Norwegian Krone	0.029446	0.034646
Romanian Leu	0.053707	0.070557
Russian ruble	0.004553	0.004553
Slovakia	0.009113	0.019113
Swedish Krona	0.027000	0.032000
Swiss Franc	0.302004	0.313004
Australasia		
Australian Dollar	0.197930	0.209930
New Zealand Dollar	0.186462	0.195962
America		
Canadian Dollar	0.223108	0.232108
US Dollars	0.300600	0.306900
US Dollars Mint	0.301100	0.306900
Asia		
Bangladesh Taka	0.002935	0.003736
Chinese Yuan	0.041197	0.044697
Hong Kong Dollar	0.036756	0.039506
Indian Rupee	0.003694	0.004466
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002787	0.002967
Korean Won	0.000241	0.000258
Malaysian Ringgit	0.068858	0.074858
Nepalese Rupee	0.002681	0.003021
Pakistan Rupee	0.001342	0.002112
Philippine Peso	0.005758	0.006058
Singapore Dollar	0.213713	0.223713
Sri Lankan Rupee	0.001320	0.001900
Taiwan	0.009589	0.009769
Thai Baht	0.009617	0.010167
Vietnamese Dong	0.000013	0.000013
Arab		
Bahraini Dinar	0.802070	0.810130
Egyptian Pound	0.018656	0.022016
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000210	0.000270
Jordanian Dinar	0.424856	0.433856
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.021407	0.045407
Omani Riyal	0.786297	0.794198
Qatar Riyal	0.083037	0.083871
Saudi Riyal	0.080167	0.081467
Syrian Pound	0.001292	0.001512
Tunisian Dinar	0.102042	0.110042
Turkish Lira	0.046147	0.055992
UAE Dirhams	0.082325	0.083153
Yemeni Riyal	0.000991	0.001071