Commodity outlook

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Key Highlights -

- Indian macroeconomic outlook majorly depends on how crude prices move. During 2018, sharp rally in crude prices internationally impacted Rupee and subsequently Indian equity market also fell. And once crude started falling, Indian equity market too gradually started inching up.
- **Crude oil prices started the year on healthy note with rising global growth** fueled with stimulus from US and prices moving up from $60/bbl at the start of the year to almost $76.9/bbl on 3rd October 2018 however, in the second half of the year we saw prices slipping to $42/bbl on worries over slowdown in global growth creating a surplus scenario in oil.
- Crude oil prices declined in the second half of 2018 as the global growth expectation remained fragile along with fiscal challenges having worrisome effects on the future demand for oil. The downgrade of global growth put the brake on rising crude oil prices on increasing trade tension, monetary tightening in US and geopolitical worries and after US planned to remove its sanctions on oil supply on some oil importing countries on temporary basis.
- Looking at the global demand supply table of oil, the balance of demand supply is estimated to show a surplus of 0.1 mbpd in 2018 from the deficit of 0.8 mbpd in the previous year and as per our expectation.
- US waivers granted to some oil importing countries will expire in the month of May. There are high changes of US President Trump would not consider extending waivers in May as oil prices have fallen drastically from November. **Iran's oil production declined from 3.8 mbpd in June 2018 to below 3.0 mbpd in November 2018**. If the US denies on extending waivers, we might see a huge fall in Iran's oil production in 2019.
- **Brent crude first went up from $66/bbl to $86/bbl and subsequently fell to $53/bbl during 2018**. Balance of demand supply moved from deficit of 0.8 mbpd in 2017 to 0.1 mbpd surplus in 2018. Going forward in 2019, balance of demand supply is expected to remain in surplus of 0.26 mbpd as growing oil production in US will keep the supplies sufficient in the market offsetting any reduction in oil output from OPEC. Although, any unexpected large reduction in OPEC output will reverse the trend and put a floor on oil prices in 2019. Important here is to also see what happens in the month of May when US waivers to selected Oil importing countries from Iran sanction expires.
- Global oil demand has increased from 97.25 mbpd in 2017 to 98.79 mbpd in 2018, and is set to increase by another 1.3% in 2019. Inventory though lower than at the end of 2017, remains higher than five year average. **During the first half of 2019, Brent crude price is likely to move in the range of $ 48- $60/bbl**. Some bounce back in January can come on account of expected lower supplies from Canada and OPEC planned production cut.

Research Analyst
Sakina Mandsaurwala
Sakina.mandsaurwala@narnolia.com
Dhwanik Shah
Dhwanik.Shah@narnolia.com

	2017	2018	1Q 19	2Q 19	3Q 19	4Q 19
Global Demand(a)	*97.25*	*98.79*	*99.1*	*99.26*	*100.64*	*101.29*
Non-OPEC supply	*57.53*	*60.03*	*61.01*	*61.06*	*62.63*	*64.01*
Open NGL's	*6.24*	*6.36*	*6.42*	*6.43*	*6.46*	*6.45*
Total Non-OPEC supply(b)	*63.8*	*66.37*	*67.43*	*67.49*	*69.1*	*70.5*
Difference(a-b)c	*33.45*	*32.42*	*31.67*	*31.77*	*31.54*	*30.79*
OPEC crude oil production(d)	*32.62*	*32.52*	*31.8*	*31.8*	*31.6*	*31.6*
Balance(d-c)	*-0.83*	*0.1*	*0.13*	*0.03*	*0.06*	*0.81*

OPEC Production

OPEC members along with non-Opec countries like Russia, met in Vienna on Dec 6th 2018 and agreed to reduce the oil output by 1.2 mbpd in total with Venezuela, Iran and Libya have been exempted from cutting its oil production. OPEC shared to cut the oil production by 0.8 mbpd while the other non-Opec countries agreed to contribute to cut by 0.4 mbpd. The cuts were in response to increasing facts that oil markets could become oversupplied in 2019. Before this cut, OPEC members had agreed to raise its oil production by close to 1.0 mbpd in June meeting on expectation of tightening in oil markets due to loss of Iranian production on upcoming US sanctions.

At present, Opec oil production averaged near 32.96 mbpd in November 2018 slightly down from the last month on lower Iran oil output. And going into the next year, the OPEC oil put is set to reduce in 2018 ahead of planned output cuts. The reduction in output will be reflected slowly in the months to come and will be seen in the drawdown of global inventories, helping oil prices bounce back in the Q2 2019.

Three Big Oil Movers - United States, Saudi Arabia and Russia

Together all three nations closely produce around 40% of the global oil supply. With United States, one of the world's largest producer, producing near record high due to shale revolution is expected to increase its oil output to 12.06 mbpd in 2019 while the other two nations - Saudi Arabia and Russia produces closely around 11 mbpd, work closely together and swing output one way or the other. United States also being one of the largest consumer of oil, lower oil prices always remains an advantage.

US imports have drastically fallen from 11 mbpd in 2008 to almost 7.2 mbpd this year. This lower import has been due to higher domestic oil production. The oil production in the country has increased to such an extent that it became the net exporter of oil during the week for the first time since 1991

Inventory Scenario

The total OECD Commercial stocks stands at 2,880 million barrels in 2018, which are 41 million barrels lower than the last year average however, higher by 4 million barrel than the five year average. US commercial crude oil inventory rose in November currently standing at 443.2 million barrels, which is 2% above the last year average and 5.5% above the five year average. The distillate stocks are standing at 125.6 million barrels, which are 10% below the five year average levels. On the contrary, gasoline inventory levels stands at 226.3 million barrels which are close to the last year and five year average levels.

Outlook

To conclude, we believe that the current oil surplus scenario will take time to ease with no immediate demand to arrive in early 2019. The slowdown in the world-wide economic growth and tensions between US and China is also weighing on oil prices. During the first half of 2019, we expect WTI crude prices to move higher towards $52-$55/bbl on lower output from Canada and OPEC as it starts to reduce its oil supply from January 2019. We anticipate this reduction in oil output to reflect after few months and any breakthrough in the US-China trade war would bring a quick sentimental revival in oil prices. On the contrary, towards the end of the year, the growing US oil supply will keep the upside in crude oil prices limited.

We expect global demand supply of oil to remain slightly in surplus during the year 2019 as growing oil production in US will keep the supplies sufficient in the market offsetting any reduction in oil output from OPEC. Although, any unexpected reduction in OPEC output will reverse the trend and put a floor on oil prices in 2019 and may see the market approach balance by end 2019.

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

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