

## Tightening supplies propel oil prices to best quarterly performance since 2009

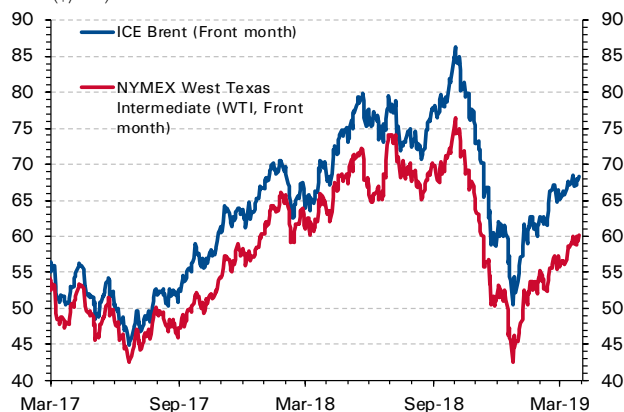
### Highlights

- Oil prices up by at least 27% in 2019, with Brent (\$68.4/bbl) and WTI (\$60.1/bbl) posting their best quarterly performance in 1Q19 since 2009.
- OPEC achieves 106% compliance in February (OPEC+ at 88%), led by Saudi Arabia, Kuwait and the UAE.
- Projections for global oil demand growth in 2019 remain unchanged at 1.4 mb/d, up from 1.3 mb/d in 2018.
- Balance of risks in 2Q-3Q19 to the upside, with uncertainty surrounding extension of Iran sanctions waivers by the US.

### Oil posts best quarterly performance in 10 years

Oil prices closed out March with their best quarterly performance since 2009, with Brent and WTI rising by 27% and 32%, respectively, in 1Q19. Benchmark Brent crude ended March at \$68.4/bbl, having traded sideways in the \$66-68 range for most of the month. The US marker, West Texas Intermediate (WTI), hit \$60 last week for the first time since November 2018. (Chart 1.)

▶ **Chart 1: Crude oil prices**  
(\$/bbl)



Source: Thomson Reuters Datastream

Oil prices have been buoyed by signs that the market is tightening, with Saudi Arabia, especially, taking the lead in cutting oil production aggressively to drain any excess supply that could put downward pressure on the price. Russia, its non-OPEC partner, also recently reaffirmed its commitment to the Vienna Agreement by indicating that it was on track to meet its quota obligation by the end of March or the beginning of April.

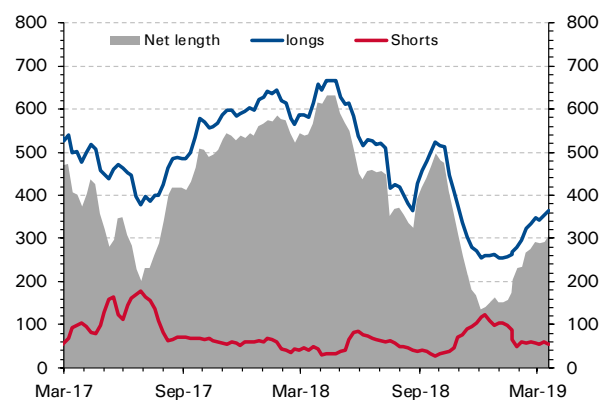
Furthermore, OPEC's efforts have been augmented by falling output from Iran and Venezuela due to political turmoil, mismanagement and US sanctions as well as by lower supplies from Canada and Libya. Iranian production was down 28% y/y

at 2.74 mb/d in February, according to OPEC secondary sources, while its exports over the same period were almost halved to 1.3 mb/d, Bloomberg reported. In Venezuela, crude production was at around a 28-year low of 1.0 mb/d in February, according to OPEC data.

Even in the US, the data has been less bullish of late. While US crude production continues to break new ground, reaching 12.1 mb/d in the week-ending 22 March, the number of oil drilling rigs has fallen for six consecutive weeks, by a cumulative 69, or 7.8% in 2019 to 816, according to Baker Hughes.

As a measure of market optimism, hedge fund managers have increased wagers on oil prices rising to the highest since October 2018. Money manager net length (the ratio of long to short positions) reached 308,606 combined futures and options contracts as of 19 March. (Chart 2.)

▶ **Chart 2: Money manager net length (Brent)**  
(thousand contracts)



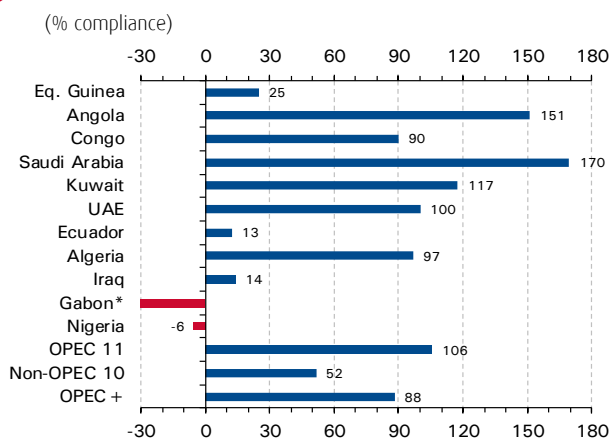
Source: Bloomberg, ICE

### OPEC-11 compliance tops 100% after only 2 months

Led by Saudi Arabia, which appears determined to prop up oil

prices (allegedly targeting \$70 barrel), OPEC-11 compliance (Iran, Venezuela and Libya are excluded) reached 106% in February, with aggregate production falling by 812 kb/d from the Vienna Agreement partners' reference level to 25.9 mb/d (30.6 mb/d for OPEC-14). GCC oil exporters Saudi Arabia and notched up a second consecutive month of overcompliance, while the UAE reached its production quota target for the first time. (Chart 3.) Non-OPEC compliance, meanwhile, improved to 52% in February from 25% in January. Russia reiterated last week that it intends to fully comply soon.

**Chart 3: OPEC and non-OPEC compliance in February 2019**



Source: OPEC, IEA; (-) value denote output above baseline level; \*Gabon (-267%)

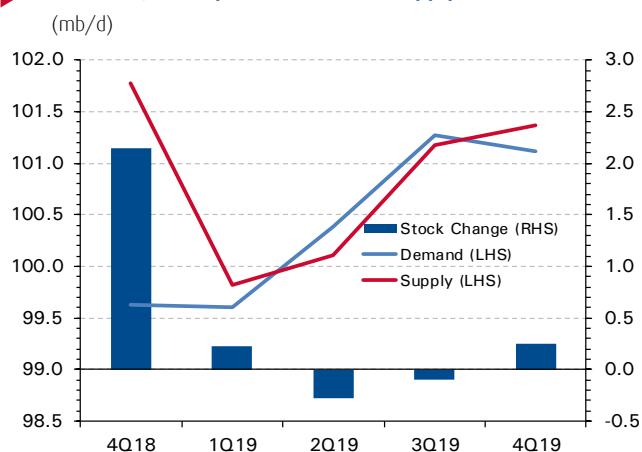
### Oil supply/demand balances indicate tighter market

The International Energy Agency (IEA) has left unchanged its global oil demand growth estimate for 2019 at 1.4 mb/d, a slight increase on 2018's estimate of 1.3 mb/d, but with a synchronized global growth slowdown, this could be revised down. Assuming that OPEC-11 continues on its current trajectory of overcompliance (and production in Iran/Venezuela/Libya stays at February levels) and factoring in the IEA's projection for non-OPEC supply growth of 1.8 mb/d this year, then the demand/supply balance should flip into a deficit over 2Q-3Q19. It should then revert back to a slight surplus in 4Q19. (Chart 4.)

Oil prices might be expected to thus firm up over 2Q-3Q19, which seems to be the consensus at the moment. Of course, the oil price outlook rests on several moving parts, not all of which will come into play to the extent envisaged or at all during the remainder of the year. Of those that could affect prices positively, the expiration and non-renewal of the 180-day US sanctions waivers on Iran in early May might be expected to have the greatest impact, possibly shaving another few hundred thousand barrels per day off global crude supply. But it is not clear yet what the Trump administration intends to do in this regard. On the one hand, Mr. Trump will want to honor his pledge to be tough on Iran but on the other he will want to keep gasoline prices low for the US consumer and to improve his re-election chances in 2020. A more aggressive response vis-à-vis Iran in the context of falling Venezuelan production could lead to an even tighter market, especially in heavy crude, and propel

crude prices above what the president would be comfortable with. Extending the waivers for another six months or slowly tightening the criteria, by reducing the list of countries eligible for waivers, for instance, might be an attractive middle way.

**Chart 4: Quarterly oil demand and supply balance in 2019**



Source: IEA, NBK estimates; assumes full OPEC compliance

Downside risks to oil prices could include: (i) greater-than-expected US shale-led supply gains; (ii) termination of the OPEC+ supply agreement in June, or under-compliance by a few members; and (iii) a further weakening of global economic growth. The former is looking less likely at the moment, however, with reports of pipeline blockages in Texas, slowing-to-stalling average monthly production, and a sixth-consecutive week of declining rig counts. Indeed, in early March the US Energy Information Administration (EIA) cut both its 2019 and 2020 oil production forecasts, by 110 kb/d to 12.3 mb/d in 2019 and by 170 kb/d to 13.03 mb/d in 2020, respectively. Drilling in the smaller shale plays has become more circumspect amid a focus on shareholder returns.

### Enter the IMO 2020 regulations as the wildcard

Looming over the horizon is the International Maritime Organization's (IMO) 2020 regulations on ships' sulphur emissions. These will come into force on 1 January 2020 and require all ships to reduce sulphur dioxide emissions from 3.5% to 0.5%. To comply, ships will be forced to switch from high sulphur fuel oil (HSFO)—which are among the residual products of the refining process—to low sulphur diesel/gasoil or install scrubbers to remove the sulphur.

Demand for oil from maritime shipping accounts for 3% of the market (5 mb/d), and the phasing out of HSFO is expected to put upward pressure on diesel prices and crude oil prices indirectly in late 2019 and early 2020. But the oil price impact could be asymmetrical, with upward price pressure on light sweet crudes such as Brent, which are low in sulphur, and downward pressure on heavier sour crudes such as Dubai and Iraqi crudes, which yield higher levels of sulphur in comparison. Much will depend on how prepared global refineries are for the change, and it may take until 2H19 for the situation to become clearer.

## Head Office

### Kuwait

National Bank of Kuwait SAKP  
Abdullah Al-Ahmed Street  
P.O. Box 95, Safat 13001  
Kuwait City, Kuwait  
Tel: +965 2242 2011  
Fax: +965 2259 5804  
Telex: 22043-22451 NATBANK  
[www.nbk.com](http://www.nbk.com)

## International Network

### Bahrain

National Bank of Kuwait SAKP  
Zain Branch  
Zain Tower, Building 401, Road 2806  
Seef Area 428, P. O. Box 5290, Manama  
Kingdom of Bahrain  
Tel: +973 17 155 555  
Fax: +973 17 104 860

National Bank of Kuwait SAKP  
Bahrain Head Office  
GB Corp Tower  
Block 346, Road 4626  
Building 1411  
P.O. Box 5290, Manama  
Kingdom of Bahrain  
Tel: +973 17 155 555  
Fax: +973 17 104 860

### United Arab Emirates

National Bank of Kuwait SAKP  
Dubai Branch  
Latifa Tower, Sheikh Zayed Road  
Next to Crown Plaza  
P.O.Box 9293, Dubai, U.A.E  
Tel: +971 4 3161600  
Fax: +971 4 3888588

National Bank of Kuwait SAKP  
Abu Dhabi Branch  
Sheikh Rashed Bin Saeed  
Al Maktoom, (Old Airport Road)  
P.O.Box 113567, Abu Dhabi, U.A.E  
Tel: +971 2 4199 555  
Fax: +971 2 2222 477

### Saudi Arabia

National Bank of Kuwait SAKP  
Jeddah Branch  
Al Khalidiah District,  
Al Mukmal Tower, Jeddah  
P.O Box: 15385 Jeddah 21444  
Kingdom of Saudi Arabia  
Tel: +966 2 603 6300  
Fax: +966 2 603 6318

### Jordan

National Bank of Kuwait SAKP  
Amman Branch  
Shareef Abdul Hamid Sharaf St  
P.O. Box 941297, Shmeisani,  
Amman 11194, Jordan  
Tel: +962 6 580 0400  
Fax: +962 6 580 0441

### Lebanon

National Bank of Kuwait  
(Lebanon) SAL  
BAC Building, Justinien Street, Sanayeh  
P.O. Box 11-5727, Riad El-Solh  
Beirut 1107 2200, Lebanon  
Tel: +961 1 759700  
Fax: +961 1 747866

### Iraq

Credit Bank of Iraq  
Street 9, Building 187  
Sadoon Street, District 102  
P.O. Box 3420, Baghdad, Iraq  
Tel: +964 1 7182198/7191944  
+964 1 7188406/7171673  
Fax: +964 1 7170156

### Egypt

National Bank of Kuwait - Egypt  
Plot 155, City Center, First Sector  
5th Settlement, New Cairo  
Egypt  
Tel: +20 2 26149300  
Fax: +20 2 26133978

### United States of America

National Bank of Kuwait SAKP  
New York Branch  
299 Park Avenue  
New York, NY 10171  
USA  
Tel: +1 212 303 9800  
Fax: +1 212 319 8269

### United Kingdom

National Bank of Kuwait  
(International) Plc  
Head Office  
13 George Street  
London W1U 3QJ  
UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7224 2101

National Bank of Kuwait  
(International) Plc  
Portman Square Branch  
7 Portman Square  
London W1H 6NA, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7486 3877

### France

National Bank of Kuwait  
(International) Plc  
Paris Branch  
90 Avenue des Champs-Elysees  
75008 Paris  
France  
Tel: +33 1 5659 8600  
Fax: +33 1 5659 8623

### Singapore

National Bank of Kuwait SAKP  
Singapore Branch  
9 Raffles Place # 44-01  
Republic Plaza  
Singapore 048619  
Tel: +65 6222 5348  
Fax: +65 6224 5438

### China

National Bank of Kuwait SAKP  
Shanghai Office  
Suite 1003, 10th Floor, Azia Center  
1233 Lujiazui Ring Road  
Shanghai 200120, China  
Tel: +86 21 6888 1092  
Fax: +86 21 5047 1011

## NBK Capital

### Kuwait

NBK Capital  
38th Floor, Arraya II Building, Block 6  
Shuhada'a street, Sharq  
PO Box 4950, Safat, 13050  
Kuwait  
Tel: +965 2224 6900  
Fax: +965 2224 6904 / 5

### United Arab Emirates

NBK Capital Limited - UAE  
Precinct Building 3, Office 404  
Dubai International Financial Center  
Sheikh Zayed Road  
P.O. Box 506506, Dubai  
UAE  
Tel: +971 4 365 2800  
Fax: +971 4 365 2805

## Associates

### Turkey

Turkish Bank  
Valikonagl CAD. 7  
Nisantasi, P.O. Box. 34371  
Istanbul, Turkey  
Tel: +90 212 373 6373  
Fax: +90 212 225 0353