

Oil markets

Oil Prices retreat as OPEC production hits new highs

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Highlights

- Oil prices retreated in June despite a lower US rig count, driven by higher OPEC production.
- The IEA expects world oil demand to grow by 1.4 mb/d in 2015.
- OPEC crude oil production topped 31.0 mb/d for the third month in May, with Saudi Arabia, Iraq and Nigeria recording gains in output.
- The IEA forecast for non-OPEC oil supply has been raised to 1.0 mb/d, from 0.83 mb/d in last month's report.

Oil prices jittery amidst Grexit fears and Iran's nuclear talks

International oil prices retreated in June as OPEC continues to ramp up production, putting pressure on prices. Although oil prices were jittery ahead of the deadline for a final agreement over Iran's nuclear program as well as the unfolding of the Greek debt crisis, dated Brent, the international benchmark retreated to \$60.65/bbl. It was down by \$2.92 (5%) from last month, compared to a slightly better performance by West Texas Intermediate (WTI) that slipped by \$0.77 (1%) from previous month to \$59.84/bbl.

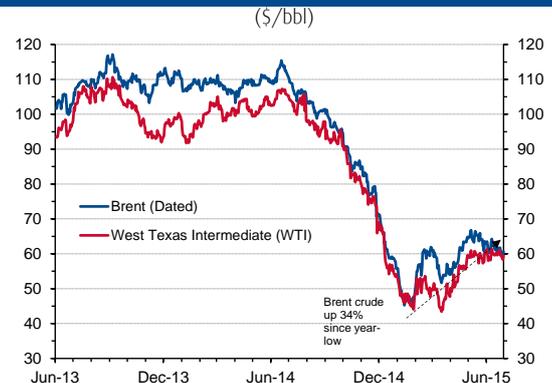
The international market seems more focused on US rig counts and shale oil production than on OPEC's production levels. Brent started the month slowly with a muted reaction to the OPEC June meeting, as OPEC decided to maintain output at 30 mbd, though it is currently producing 1 mbd above target. From OPEC's perspective, its strategy of maintaining high production has proved to be successful since lower oil prices appear to have spurred demand growth.

The market rather took cues from the rig counts data and advanced by \$2.2 (4%) on June 9th, the biggest daily gain in June. Baker Hughes indicated that the oil-directed rig counts were down by 4 from the previous week, and down 60% from their peak of 1,609 rigs in October 2014. By mid-month, oil prices started to retreat as worries over a possible Greek debt default mounted, hindering the fragile EU growth outlook and squeezing oil demand. By June 30th, Greece was in arrears to the IMF and the Iran nuclear talks were extended into July.

Brent futures continued to trend lower in June. Prices for delivery in December 2015 through to December 2017 declined by 3% and 2% respectively from a month earlier. Brent futures for December 2015 and December 2016 ranged between \$64.4/bbl and \$71.3/bbl.

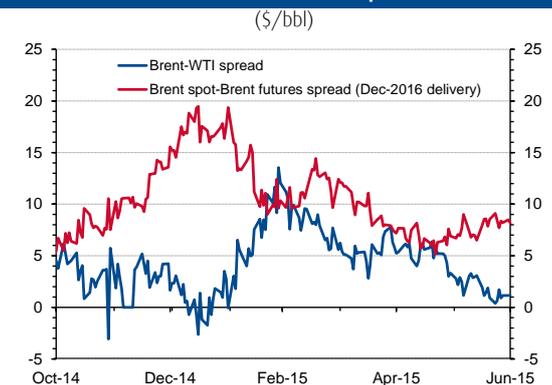
WTI was almost flat for the month, narrowing further the spread between the two crudes. The spread fell below \$2/bbl on June 15th and almost reaching parity on June 22nd. Continuous decline in US commercial stocks supported WTI prices. According to the Energy Information Administration, the US commercial crude stock fell by more than expected to 462.99 million barrels during the third week of June then increased slightly the

Chart 1: Crude oil spot prices



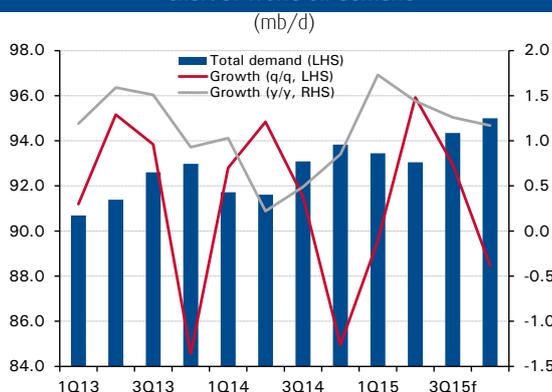
Source: Thomson Reuters Datastream

Chart 2: Brent futures prices



Source: Thomson Reuters Datastream

Chart 3: World oil demand



Source: International Energy Agency (IEA)

week after to 465.38 million barrel.

World oil demand gets a boost from colder winter temperatures in 1Q15 and an improving global economy

World oil demand growth increased by 1.7 mb/d y/y during 1Q15 according to the International Energy Agency (IEA). (Chart 3.) This was largely a reflection of colder winter temperatures (stimulating demand for heating) and improving global economic activity. Consequently, demand growth for 2015 as a whole has been revised up by 1.4 mb/d, double the increase in 2014.

World supply flat: OPEC supply tops 31.0 mb/d but non-OPEC supply falls

Total OPEC crude oil supply increased by 493,000 b/d to 31.80 mb/d in May.* (Chart 4.) This is the third consecutive month that OPEC output has topped 31.0 mb/d and the highest production level reached since September 2013. At its June 5 meeting, the organization agreed to maintain its official production ceiling at 30.0 mb/d; a cut in production was highly unlikely given the recent upward trajectory of oil prices. There had been talk beforehand of raising the production ceiling above 30.0 mb/d to better reflect the reality of rising volumes of Iraqi and Libyan crude, as well the possibility of returning Iranian crude. However, none of that materialized. Indeed, discussion of Iran's possible return to the oil markets in the event of a nuclear agreement was notably absent from the meeting.

In any case, Iran has made it clear that it expects OPEC to accommodate its return to the market, and that it will not be bound by any quotas once sanctions are lifted.

Saudi Arabian production reached a record high of 10.33 mb/d in May as the kingdom responded to burgeoning international demand for its crude oil and geared up for peak domestic energy usage in the summer. Output of refined products from the kingdom's two newest refineries, the 400,000 b/d SATORP and 305,000 b/d YASREF refineries has increased.

Iraqi production increased by 112,000 b/d from April to reach 3.29 mb/d in May. (Chart 5.) This is the third month in a row that Iraq has sustained output above 3.0 mb/d. The UAE, Angola and Nigeria also recorded notable gains in output.

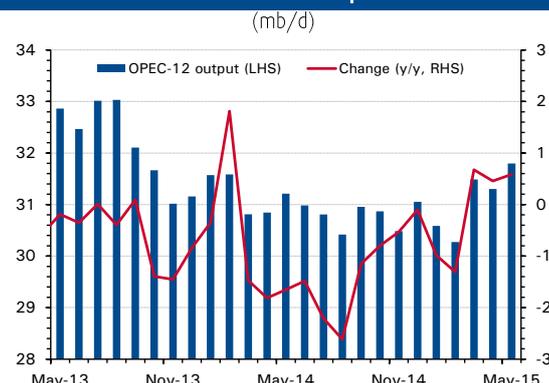
Kuwait, in contrast, saw its production fall by 30,000 b/d to 2.83 mb/d. The closure of the 220,000 b/d Wafra field, which Kuwait shares jointly with Saudi Arabia, was the most likely reason.

Meanwhile, non-OPEC supplies contracted in May after supply outages affected a number of countries. Nevertheless, the IEA has raised its forecast for non-OPEC supply growth has been raised to 1.0 mb/d from 0.83 mb/d in last month's report.

World supply growth was flat quarter-on-quarter (q/q) in 1Q15, having increased by 1.1 mb/d during the last quarter of 2014. (Chart 6.) On a year-on-year basis, however, world oil supply grew by a sizeable 3.1 mb/d during 1Q15.

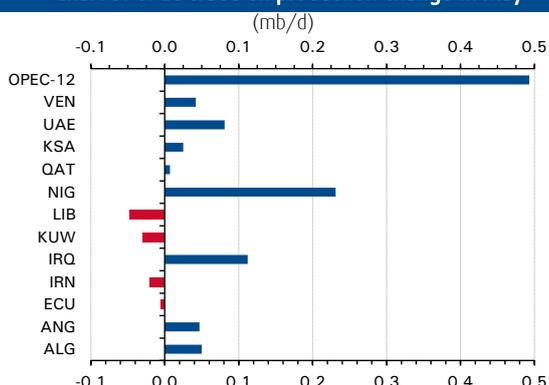
* OPEC data obtained via direct communication with national authorities with the exception of Libya, where data from secondary sources has been used as a substitute for April and May.

Chart 4: OPEC crude oil production



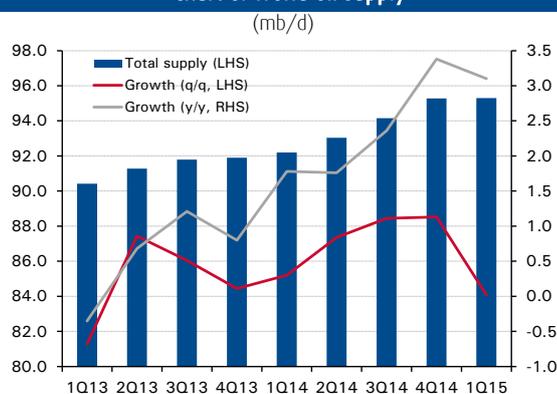
Source: OPEC

Chart 5: OPEC crude oil production change in May



Source: OPEC

Chart 6: World oil supply



Source: International Energy Agency (IEA)

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