

SPECIAL REPORT ON CRUDE OIL

Geopolitical tensions Igniting Crude oil



Overview and Outlook

Few days back only OPEC+Russia were talking about to go for a dip cut to balanced the demand –supply equilibrium of crude oil and to bring back the oil in comfortable category. With some dropdown in inventories, some positive talk between US and China amid some improvement in data's boosted up Brent prices from the low of nearly \$56. In the year 2019, there were many incidents of which we can be named as geopolitical tensions such as drone attack by Iran, attacks on tankers occurred which gave instant rise in crude prices and they prices traded with premium. Most of the times prices get normalize as market is well supplied amid slow down concern and continuous downward revision of GDP.

Recent attack Saudi Arabian oil facility removed about 5% of global supplies has given massive shock to the world and Brent crude prices jumped over to near \$72 from the low of \$59 per barrel. London's Brent futures jumped almost \$12 in the seconds after the open, the biggest intraday advance in dollar terms since they were launched in 1988 where as WTI saw a surge of around \$8 today. State energy producer Saudi Aramco lost about 5.7 million barrels per day of output on Saturday after 10 unmanned aerial vehicles struck the world's biggest crude-processing facility in Abqaiq and the kingdom's second-biggest oil field in Khurais.

Impact: For oil markets, it's the single worst sudden disruption ever, surpassing the loss of Kuwaiti and Iraqi petroleum supply in August 1990, when Saddam Hussein invaded his neighbor. Nevertheless the attack was severe and raises the concern vulnerability of Saudi infrastructure to attacks, prices saw a cool down soon. As per official of Saudi Arabia, it can restart a significant volume of the halted oil production within days but cant dent the possibilities to unable to fulfill contracts on some international shipment if it takes long to resume the oil production in full capacity. Furthermore US President Donald Trump has declared that he has authorized the release of oil from its reserve to keep oil prices under control. It will help keep the crude prices in a range. If we

see the overall growth story, it is not painting the rosy picture though recent dropdown and geopolitical tensions will cushion up the prices. The World Bank revised down its forecast for global GDP growth to 2.6%, creeping back up to a still meager 2.7% in 2020 and 2.8% in 2021. The US Energy Information Administration has also cut back its forecast for growth in global liquids consumption this year from 1.0 million b/d to 0.89 million b/d. Growth in 2020 is forecast at 1.4 million b/d. This has to be set against growth in non-OPEC supply of 2.18 million b/d in 2019 and 2.21 million b/d in 2020. As regards US and China trade war the longer the trade war goes on, the deeper the economic damage becomes.

Moreover OPEC delivered a downbeat oil market outlook for the rest of 2019, as economic growth slows and highlighted challenges in 2020 as rivals pump more, building a case to keep up an OPEC-led pact to curb supply. The bearish outlook due to slowing economies amid the U.S.-China trade dispute and Brexit could press the case for OPEC and allies including Russia to maintain a policy of cutting output to support prices. Furthermore investors are worried about the prospects for global oil demand especially amid trade tensions between the U.S and China, the world's two biggest economies and oil users.

No doubt that now trading range has been elevated and it may trade between \$54 to 69 with some upside bias and for Brent trading range should be of \$54-75.

On domestic bourses crude oil prices will also remain on upside path and price can test the upside resistance of 4500-4600 by taking support near 3800-3950.

Geopolitical tensions in Middle East

Saudi Arabia, the world's largest oil exporter, had cut back on production of crude and other energy products as part of an OPEC effort to boost prices. The kingdom produces approximately 10% of the total global supply of 100 million barrels per day. Saturday's coordinated drone strikes on key Saudi Arabian oil facilities disrupted about half of the kingdom's oil capacity, or 5% of the daily global oil supply. The location is the world's largest oil processing plant. Saudi Energy Minister Prince Abdulaziz bin Salman said that 5.7 million barrels a day of crude oil and gas production have been affected. But the attack also constrained Saudi Arabia's ability to use the more than 2 million bpd of spare oil production capacity it held for emergencies. The attack on Saudi oil facilities on Saturday not only knocked out over half of the country's production, it also removed almost all the spare capacity available to compensate for any major disruption in oil supplies worldwide. The kingdom has for years been the only major oil producing country that has kept significant spare capacity that it could start up quickly to compensate for any deficiency in supply caused by war or natural disaster.

Apart from Saudi Arabia another OPEC member Libya is in the middle of a civil war, which threatens its ability to continue pumping oil. Another big Libyan disruption would add to the shocks and highlight the lack of spare capacity.

Iran warns U.S. after drone attacks on Saudi refineries

Iran has warned the U.S. that its bases and aircraft carriers are within range of its missiles after Tehran was blamed for drone attacks on two oil refineries in Saudi Arabia. The attacks on Saturday—which knocked out half of Saudi Arabia's oil output and caused massive fires—were claimed by Yemen's Houthis, a rebel group aligned with Iran and currently fighting a war against the Saudi-led coalition which has seen a spate of similar attacks. But U.S. Secretary of State Mike Pompeo blamed Tehran late on Saturday, arguing that there was "no evidence"

that the attacks came from Yemen. A commander in Iran's revolutionary guard hit back on Sunday, warning that U.S. bases within 2,000 kilometres of the country were "within range of our missiles". He was also quoted as saying that Iran "has already been ready for a fully-fledged war." Iran-aligned Houthi fighters have also launched attacks over the border, hitting Shaybah oilfield with drones last month and two oil pumping stations in May. Both attacks caused fires but did not disrupt production.

Aramco's IPO Plans

Aramco is preparing to float shares as part of efforts to diversify the economy of the world's top oil exporter away from crude. The IPO is part of Crown Prince Mohammed bin Salman's efforts to modernize the economy and diversify the nation's revenue from oil, including turning the bourse into a gateway for foreign investment. Prince Mohammed in 2016 valued Aramco at about \$2 trillion, which means floating 1% would be valued at about \$20 billion. But Saudi Aramco's best-laid IPO plans just suffered a drone strike. The strikes on Aramco's Abqaiq and Khurais facilities are a major escalation of previous Houthi drone launches, which were mostly directed at Saudi energy infrastructure and airports.

Speed of Saudi Oil Recovery In Focus After Record Supply Loss

All eyes are on how fast Saudi Arabia can restore production after the recent devastating strike on key facilities, which knocked out roughly 5% of global supply and triggered a record surge in oil prices. Significant volumes could come back within days but it could still take weeks to restore full capacity.

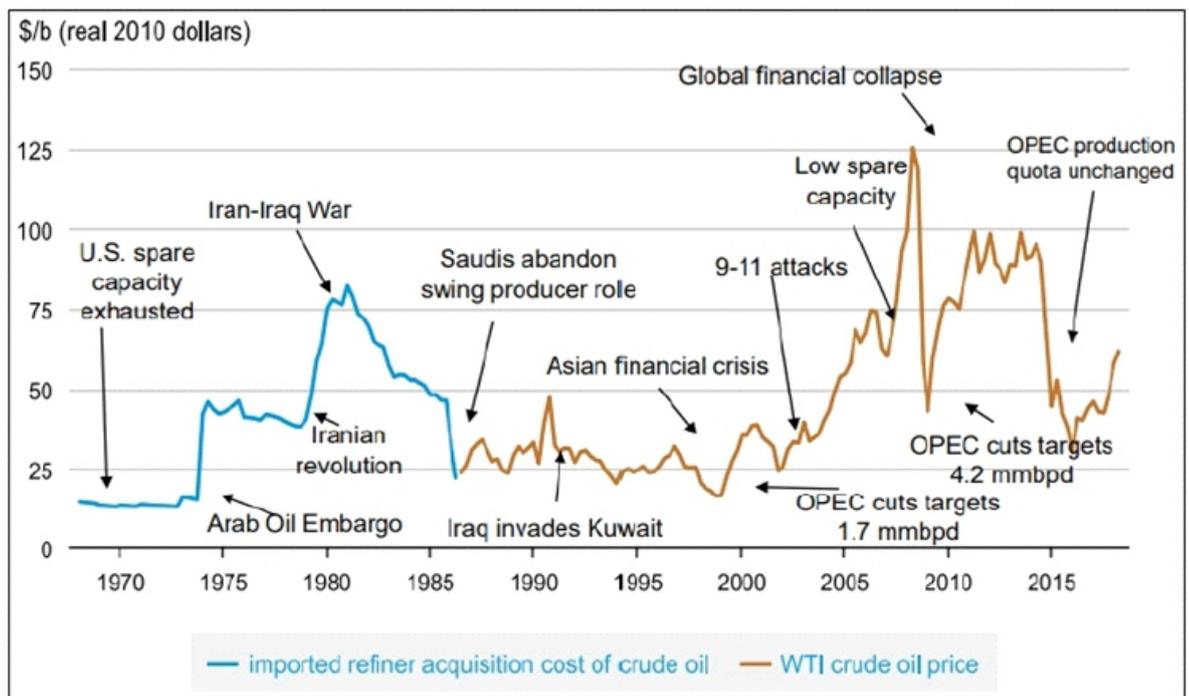
US ready to use its reserve

US President Donald Trump authorized the use of oil from the country's emergency reserve. In a series of tweets, Trump said that he had ordered that oil from the Strategic Petroleum Reserve, or SPR, be used "if needed." He said he would use enough oil "to keep the markets well-supplied." The SPR contains 645 million barrels — the world's largest backup oil supply.

Historical Oil disruptions chart

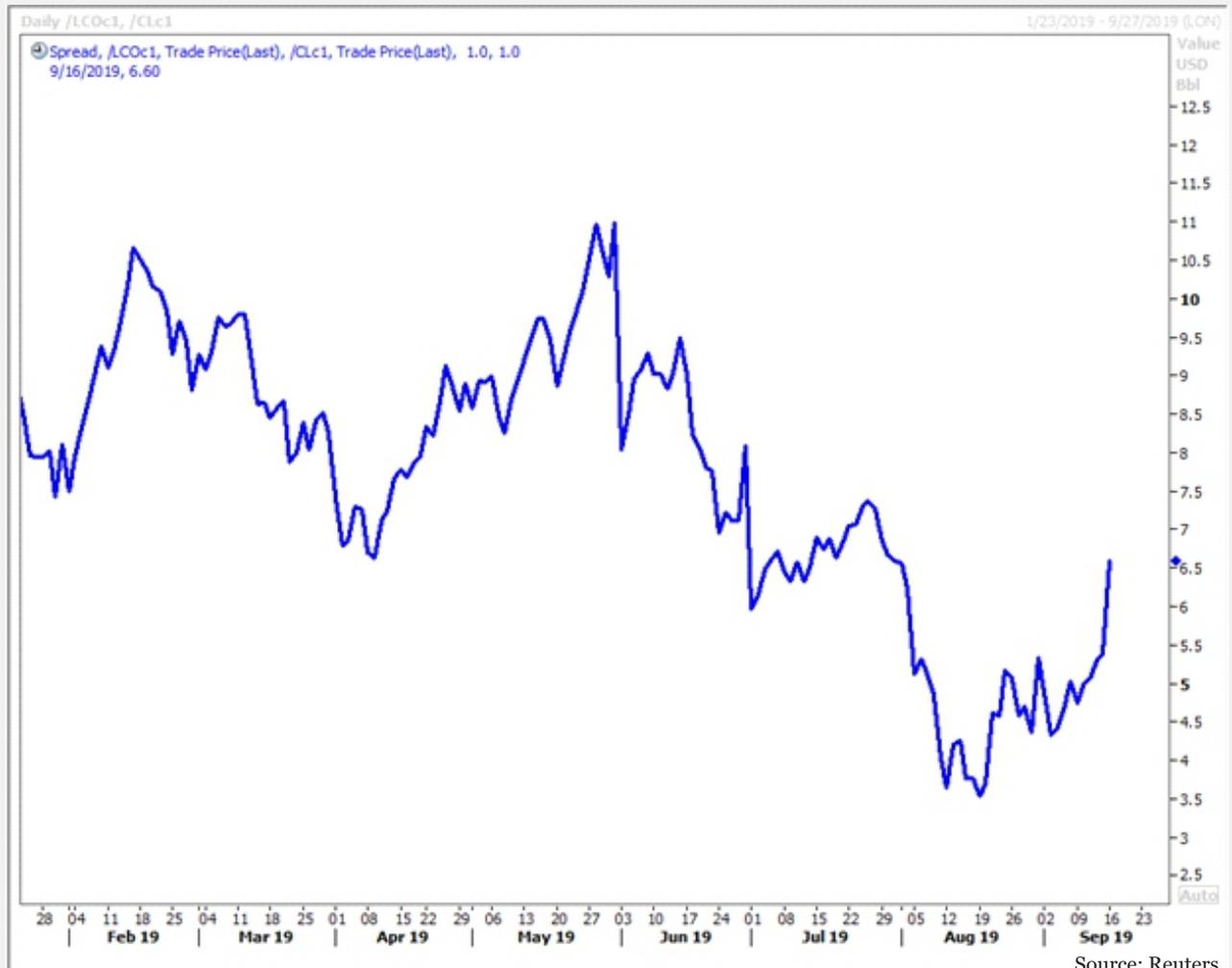


Crude Oil Prices React to a Variety of Geopolitical and Economic Events



Source: U.S. Energy Information Administration, *What Drives Crude Oil Prices?*, slide presentation, September 11, 2018, https://www.eia.gov/finance/markets/crudeoil/reports_presentations/crude.pdf.

Brent WTI Spread



Analysis:

Brent crude oil which is mostly effected by any geopolitical tensions especially in middle east because major gulf countries export Brent crude oil whereas WTI crude oil is traded in US and does not have direct impact amid middle east tensions. Brent WTI crude oil spread recently widened from 4 to above 6.5 on heightened tensions in Middle East. Rising Brent WTI spread is generally considered positive for global crude oil prices. This spread can widen towards \$8.5-9 in near term.

Technical analysis on Crude oil

Weekly chart of WTI Crude oil



Weekly chart of Brent Crude oil



Weekly chart of NSE Brent Crude oil



Source: Investing.com

Weekly chart of MCX Crude oil



Source: Investing.com

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