Russian rouble and stocks slide on new sanctions fears

The Russian rouble and shares in some of Russia's biggest companies slid lower on Monday, dragged down by the threat of new US sanctions and lower oil prices.

Volatility on the Russian market has soared since Washington imposed fresh sanctions against Moscow on April 6, targeting major Russian companies and some of the country's most prominent businessmen.

Dangers of a direct military confrontation between Russia and the United States eased over the weekend after Western missiles fired at Syria over a suspected poison gas attack steered clear of any Russian troops on the ground.

But Washington said on Sunday it would impose further sanctions against Russia on Monday over Moscow's support for Syrian President Bashar al-Assad.

At 0740 GMT, the rouble was 0.36 percent weaker against the dollar at 62.27 and had lost 0.37 percent to trade at 76.80 versus the euro.

Russia's dollar-denominated RTS index was down 0.57 percent to 1,098.26 points, while the rouble-based MOEX Russian index was 0.18 percent lower at 2,171.28 points. (RTRS)

protesters at Starbucks chant company is 'anti-black'

About two dozen chanting protesters took over a Philadelphia Starbucks on Monday, days after two black men were arrested there when store employees called 911 to say they were trespassing.

"We don't want this Starbucks to make any money today. That's our goal," said Abdul-Aliy Muhammad, one of the protest's organizers and co-founder of the Black and Brown Workers Collective.

The protesters gathered outside the store in the pouring rain before 7:00 am, while inside it looked like business as usual. However, most people drinking coffee at the tables were regional leaders for the company's corporate side.

Just before 7:30 am, the protesters moved inside and stood in front of the counter, some holding banners reading "End Stop and Frisk", chanting slogans like, "A whole lot of racism, a whole lot of crap, Starbucks coffee is anti-black."

Speeches decried police brutality and gentrification.

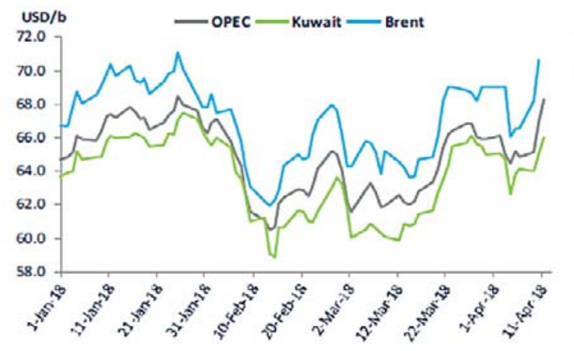
Starbucks regional vice-president Camille Hymes attempted to talk to the protesters, but was shouted down.

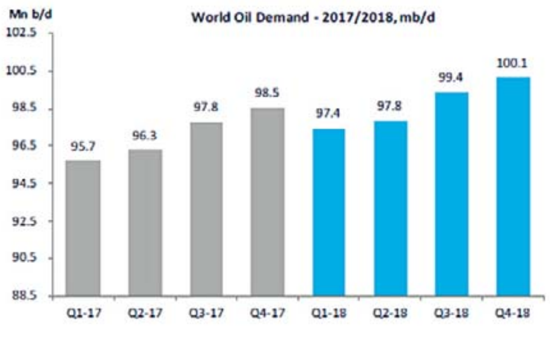
Over the weekend, demonstrators called for the firing of the employee who contacted police, who arrested the men on Thursday. (AP)

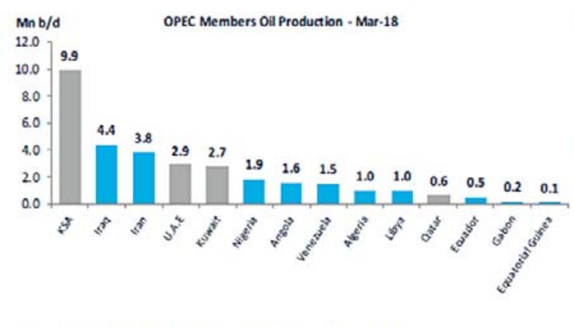
oil market monthly report

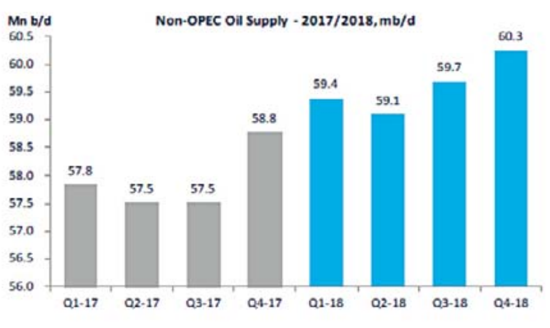
KAMCO Research

Geopolitical events push oil prices above $70/b

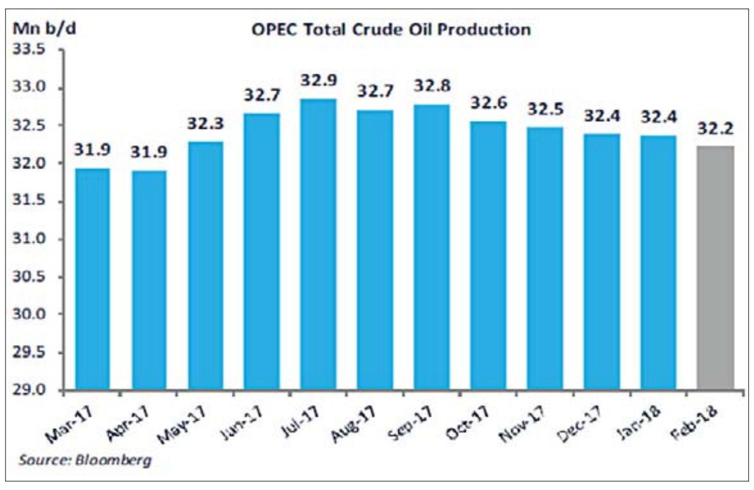


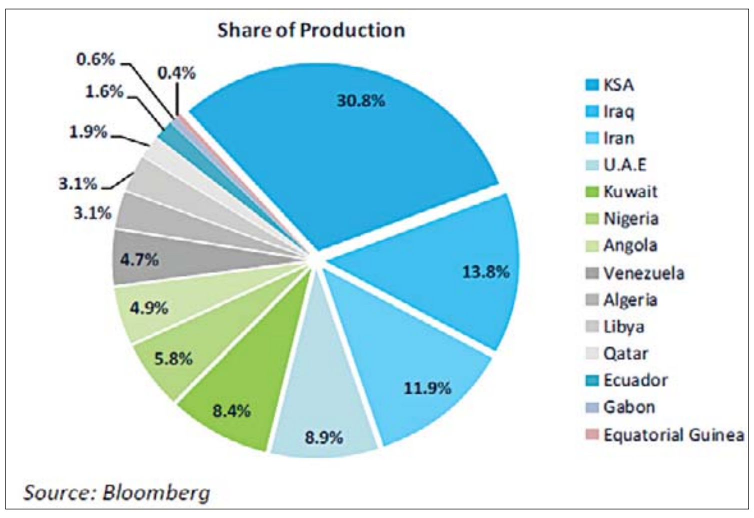






Source for the above charts : OPEC and Bloomberg





Oil prices were the ultimate beneficiary from a number of geopolitical events that took place over the past few weeks that led to increased volatility in the oil market and making oil the only asset class to scale new highs in 2018. The first push came from the ongoing US/China trade talks with the two countries trying to restrict flow of goods and services between these countries by way of tariff impositions. This initially resulted in a trade war like situation and by the end of March-18 pushing oil prices down as it would've threatened global economic growth, but positive attempts were made in the last week to diffuse the situation resulting in a positive impact on oil prices. IEA, in its monthly report, also highlighted the risk on oil demand coming from the US/China trade tariffs. These concerns also impacted gold prices, as prices moved closer to the highest level witnessed in two years.

Meanwhile, the geopolitical situation in the Middle East escalated to new high since the start of April-18 sending shockwaves across the oil market. Prices reached the highest level since 2014 after news of US intervention in the region led to Brent crude surpassing the $72/b mark. The market is also looking at whether the US and the European Union would reimpose sanctions on Iran with a possible decision sometime in May-18 that has the potential to result in supply disruptions in the oil market.

In terms of OPEC supply, the group lowered the production even further by 201 tb/d, according to OPEC secondary sources, while Bloomberg data showed a decline of 170 tb/d while producing at an average rate of 32.04 mb/d, the lowest level since May-17. The decline came primarily on the back of lower production in Venezuela, Libya, Algeria and Angola partially offset by higher production in UAE and Nigeria. This pushed up OPEC compliance to the ongoing production cuts to a record 163% for the fifth consecutive month, according to IEA.

Moreover, the recent oil price rise was not just led by supply-side factors. Oil demand is also said to have risen, especially from the OECD countries, according to OPEC monthly report. This prompted an upward revision in oil demand growth for 2018 by 30 tb/d, as compared to last month's forecast, to a growth of 1.63 mb/d. On the other hand, although IEA kept its global oil demand growth forecast for 2018 unchanged at 1.5 mb/d, the agency also highlighted strong demand in OECD during Q1-18 led by cold weather in the US and the start-up of a petrochemical project.

As highlighted in our previous reports, KAMCO Research reiterates that the current surge in oil prices are backed by numerous fragile factors. We see that fundamentals have taken a backseat currently and markets are moving on external factors. Also, higher oil prices makes the production cut agreement more susceptible to opposition from members seeking to take advantage of the prices rather than allowing the US to produce unabated.

Oil Prices

Average monthly oil prices were almost flat m-o-m during March-18 after healthy gains during the third week of the month were offset by declines towards the close of the month led by trade conflicts between US and China. The weakness extended during the initial trading days in April-18 but geopolitical concerns in the Middle East coupled with signs of healthy oil demand and continued low supply pushed prices up during the second week. Average OPEC crude grade prices were recorded at $63.8/barrel while Kuwait crude and Brent Spot were at 62.23/barrel and $65.9/barrel, respectively.

Crude oil inventories in the US continued to fluctuate on a weekly basis with the latest report pointing to a build as against analyst expectations of a small draw. Production in the US reached another record high of 10.5 mb/d which along with higher imports resulted in higher inventory levels. API reported an inventory build of 1.8 million barrels during the week ended 6-April-18 while EIA weekly report showed an almost double inventory build of 3.3 million barrels. Nevertheless, average inventories for the last four weeks were reportedly stable as compared to the same period last year.

On the other hand, the IEA kept its global oil demand growth estimates for 2018 unchanged at 1.5 mb/d after higher demand from OECD countries and from India was offset by a downward revision to demand data for non-OECD countries, including China. According to the monthly report, global oil supply declined by 120 tb/d during March-18 led by higher compliance from OPEC producers, although rising US output partially offset this decline. In one of the significant developments, the IEA report said that OECD commercial stocks declined by 26 million barrels to reach 2,841 million barrels, merely 30 million barrels above the five-year average, the indicator used to gauge the effectiveness of OPEC's production cuts. It is expected that the average could be reached by May-18, post which the direction on the future cuts would be expected.

World Oil Demand

World oil demand growth estimates for 2017 was revised up by 30 tb/d to 1.65 mb/d reflecting updated data for OECD and non-OECD regions. Oil demand data for Q4-17 was updated for OECD Europe with an upward revision of 0.12 mb/d reflecting data for Turkey, Poland and France driven by higher middle distillates requirements. For the same quarter, data for China and Other Asia in the non-OECD group was also revised upwards by 20 tb/d each backed by positive oil demand growth in these regions.

Demand expectations for 2018 was also revised up by an equivalent amount to a growth of 1.63 mb/d to reach 98.7 mb/d with Q4-18 demand expected to reach a historical significance level of 100 mb/d. The revision reflected better-than-expected data from OECD countries for Q1-18 with an increase of 0.13 mb/d on the back of higher industrial activity, colder-than-expected weather conditions and strong mining activity in OECD Americas (US) and OECD Asia Pacific (Japan, South Korea and Australia). On the non-OECD side, the Other Asia region saw a demand upgrade of 30 tb/d for Q1-18 reflecting better-than-expected demand from industrial and transportation sectors.

Downward adjustments were made in demand growth figures for the Middle East region by 30 tb/d for Q1-18 highlighting lowerthan-expected regional oil demand developments. In the US, gasoline demand was reportedly up in January-18 after a two month slump based on latest available figures backed by higher mileage. The increase in diesel demand was even higher by 0.6 mb/d or 16.2% y-o-y on the back of higher demand in transportation and industrial sectors coupled with colder weather in large parts of the country. Preliminary data for February-18 and March-18 also showed a continued trend of increasing oil demand in the US, although at a slightly lower pace supported by road transportation and industrial fuels segments.

In OECD Europe, average oil demand data for the first two months of the year remained positive as a decline in January-18 was offset by a bigger growth in February-18, on the back of positive economic developments in large parts of OECD Europe and strong vehicle sales. Oil demand in China was also positive during February-18 led by higher gasoline and jet fuel usage in the road transportation sector and LPG demand in the petrochemical sector.

World Oil Supply

According to preliminary data, global oil supply increased by 0.18 mb/d m-o-m to reach 98.15 mb/d in March-18 (including OPEC NGLs) as a result of higher non-OPEC oil supply to the tune of 0.38 mb/d to average 66.2 mb/d. In terms of individual producers, US, Norway, UK, Bahrain, Brazil, Latin America, Russia and China increased production during the month that was partially offset by decline in production in Colombia, Oman and Kazakhstan.

Non-OPEC oil supply estimates for 2017 was revised upwards by 0.03 mb/d to an average of 57.9 mb/d indicating a growth of 0.9 mb/d led by revisions in historical production data for Canada to show a growth of 0.9 mb/d for the full year. Non-OPEC supply growth figures for 2018 were also revised upwards by 0.08 mb/d to a growth of 1.71 mb/d to reach an average of 59.61 mb/d led by higher-than expected supply from Russia and the US during Q1-18. Revisions to supply estimates included Canada (+51 tb/d), the US (+36 tb/d), Malaysia (+28 tb/d), Brunei (+20 tb/d), Russia (+19 tb/d) and China (-35 tb/d). Non-OPEC supply during March-18 witnessed a m-o-m growth of 0.38 mb/d, based on preliminary numbers, to average at 59.74 mb/d.

The month saw higher production in all the regions except in Other Asia and Russia. The higher supply estimates for Canada was due to the starting and ramping of several new projects that will also be reflected in the coming months, although Q2-18 will see heavy maintenance activity. Brazil is also expected to raise production in 2018 by around 0.21 mb/d led by installation of eight new FPSOs this year.

OPEC Oil Production & Spare Capacity

OPEC production during March-18 was the lowest since May-17 after recording a decline of 170 tb/d to record a production rate of 32.04 mb/d, according to data from Bloomberg. According to OPEC secondary sources, the decline was even higher at 201 tb/d and averaged at 31.958 mb/d resulting in a share of 32.6% in total global production for the OPEC countries. The decline came primarily on the back of lower production in Venezuela (-100 tb/d), Libya (-60 tb/d), Algeria (-40 tb/d) and Angola (-30 tb/d) partially offset by higher production in UAE (+60 tb/d) and Nigeria (+50 tb/d). Production in Saudi Arabia was recorded at 9.87 mb/d, according to Bloomberg, the lowest production rate since January-17. The lower OPEC production during March-18 also resulted in another record compliance to the ongoing production cut agreement at 163%, according to IEA.

Oil production in Iran declined by 20 tb/d during March-18 as the country faces economic issues, especially on the exchange rate front. Moreover, there is a looming threat of new economic sanctions on Iran from the US and European Union and decision is expected in May-18.

Oil production in Libya declined by 60 tb/d to 990 mb/d in March-18 due to a continuing outage at its El Feel oilfield since late February-18 that produces at 70 tb/d, in addition to a force majeure on crude loadings at the Mellitah oil terminal due to protests. Meanwhile, Nigeria raised production by 50 tb/d to 1.85 mb/d. The country aims to start work on a new oilfield with an average investment of $10 Bn over the next three years.

Oil production in Venezuela reached a new low during March-18 at 1.5 mb/d, according to OPEC secondary sources, as economic and political crisis crippled the country's oil sector. It was reported that the government is trying to halt the slide in output with the help of new measures that includes reorganization of operations and minimization of bureaucracy.

A MEED report said that Iraq, which produced at 4.43 mb/d in March-18, has slashed its near term production target of 7 mb/d by 2022 to 6.5 mb/d as a number of oil projects in the country have seen slower progress hindered by financial and political problems. The number of active oil projects in Iraq was reported at $84 bn, a 17% drop from February-17.

Moody's expects crude prices to remain volatile

Higher oil prices won't have significant impact on GCC sovereigns

LONDON, April 16: Gulf Cooperation Council (GCC) countries' creditworthiness will remain driven by government responses to economic, fiscal and external challenges rather than the recent rise in oil prices, Moody's Investors Service said in a report published this past week.

"Our expectations for the evolution of sovereign credit profiles has not changed with higher oil prices in recent months," said Thaddeus Best, a Moody's Analyst and co-author of the report. "The sovereign ratings and outlooks depend on the ability of GCC sovereigns to address structural vulnerabilities and diversify their economies and fiscal revenue sources away from hydrocarbons."

Moody's expects oil prices to remain volatile, ranging between $45-65 per barrel, and forecasts average prices of $60 per barrel in 2018 and 2019 before softening to $55 per barrel beyond that. The recent rise in oil prices will lead to a short-term reduction of pressures on GCC governments' balances sheets by reducing fiscal deficits and slowing the build-up of government debt. Lower current account deficits (or larger surpluses) due to higher hydrocarbon exports will improve external liquidity and slow the drawdown of foreign-exchange reserves and sovereign wealth fund assets.

However, the changes in fiscal and external balances, especially after excluding oil and gas revenues, are not significant enough to change Moody's assessment of fiscal strength or external vulnerability. Moody's forecasts that Kuwait and Qatar will post budget surpluses of 5.0% (including investment income) and 2.7% of GDP this year respectively, up from 2.8% and 0.8% under Moody's previous assumption that oil prices would average $55 per barrel.

Conversely, Saudi Arabia, Bahrain and Oman will run large fiscal deficits of 5.8%, 10.2% and 9.4% of GDP respectively, despite the greater tailwind from higher oil prices. Moody's also forecasts that the UAE will run a small deficit.

Moody's expects fiscal strength will continue to erode in Oman, Bahrain and Saudi Arabia, reflecting continued accumulation of government debt. Conversely, Qatar and Kuwait are likely to experience improvements in their governments' net asset positions, while the UAE's debt metrics should stabilise.

High fiscal break-evens mean that most GCC countries — with the exception of Kuwait and Qatar — would need to cut government expenditure further or raise non-oil revenue in order to stem a further erosion in their fiscal positions. As such, governments' commitment to sustained fiscal and structural reform aimed at reducing their vulnerability to volatile oil prices will be a key credit driver over the medium-term.

Moody's believes there is a risk that higher oil prices could slow the reform momentum in the GCC countries. Such slowdown would be most credit negative in Bahrain and Oman, where the fiscal challenges are most acute.

Oil at $60 per barrel will reduce gross borrowing requirements across the GCC. However, sovereign external issuances will remain high in Oman, Bahrain and Saudi Arabia reflecting a limited scope of funding budget deficits domestically.

Technology has potential to reduce costs and time in cross-border transactions: Moody's

Blockchain disruptions to have mixed credit implication for banking system

LONDON, April 16: Blockchain technology has the potential to significantly reduce the costs and time involved in cross-border banking transactions, increasing banks' efficiency but putting pressure on their fees and commissions, Moody's Investors Service said in a report today.

While making cross-border transactions faster and less expensive would be credit positive for banks, these efficiencies could also compress their fees and commissions, a credit negative.

Moody's report focuses on two specific areas in order to assess the potential disruption that Blockchain could cause: cross-border transactions and fee and commission income. The report notes that these are just two of the channels through which the technology is likely to impact bank operations.

"Blockchain has the potential to substantially change how a wide range of financial services are executed," said Colin Ellis, Moody's Managing Director — Credit Strategy and the report's co-author. "Banks could benefit significantly from the development and implementation of blockchain technologies in terms of enhanced efficiency, cost savings and risk reduction.

"But the adoption of these technologies will also limit processing fees, commissions and gains on foreign exchange transactions, which will pressure revenue."

Swiss banks would be most exposed to reductions in fees and commission, with 50% of their revenue coming from that source. Italian, Canadian, and Israeli banks follow at around 35%. Meanwhile, banks in Asia Pacific, as well as some smaller European periphery countries, are relatively less prone to relying on fees and commissions in generating total revenue.

Banking systems with significant cross-border transactions — including those in the United Kingdom, Belgium and Switzerland — may see the most disruption from the technology that underpins cryptocurrencies such as Bitcoin.

The report, "Banking — Global, Blockchain efficiencies could streamline transactions but reduce banks' fee income", is available on www.moodys.com. Moody's subscribers can access the report using the link at the end of this press release. The research is an update to the markets and does not constitute a rating action.