

Pace of growth in crude production in US expected to be lower than expected

# Oil prices reach 5-month high led by tightening OPEC supplies

Report prepared by KAMCO Research

The supply cut-led oil price rally that started at the start of the year got further support this month as OPEC produced at pre-oil crisis levels. Spot crude prices reached the critical \$70/b mark by the end of last week but the rally was somewhat halted by the weekly US oil inventory report.

The latest EIA report showed US oil inventories increasing by more than 7 mb/d, exceeding analyst expectations, and reached a 17-month high level of 456.55 million barrels. The increase in inventory came after the US produced at a record pace of 12.2 mb/d making it the biggest oil producer ahead of Russia and Saudi Arabia.

However, a steep decline in gasoline stocks provided support to oil prices as the excess crude inventory could be sucked up by refineries ahead of the peak summer driving season in the US.

The shrinking supply-demand gap recently has led to consistent gains in oil prices. However, the market tightening is primarily led by supply-side factors. During March-19, production by OPEC members reached multi-year lows and was reported at 30.4 mb/d as almost all the producers slashed production based on their respective quotas, in addition to the plunge in production in Venezuela.

As a result, OPEC compliance to the agreed limits of the OPEC+ agreement reached 155% in March-19 as compared to 104% in Feb 19. Non-OPEC countries including Russia and Kazakhstan also contributed to the supply cuts although these producers face pressure from local companies on raising output post June-19.

There are also talks reportedly hinting at a modified version of the supply cut agreement if production in Iran and Venezuela continue to decline in the coming months and price of crude remains elevated.

Meanwhile, the pace of growth in crude oil production in the US is expected to be lower than previously expected. According to Rystad Energy, E&P spending in the US is expected to decline by 6% this year. This is especially the case with smaller E&P companies as compared to well funded larger players. However, the impact of lower spending on output would only be reflected in the next year's production. This was reflected in IEA's latest forecast for oil production growth in the US. The agency raised production forecast for the current year but lowered it slightly for the 2020. Another report said that oil discoveries in the US is declining at a faster pace.

### Oil Prices

Oil prices surged passed the \$70/b mark during the second week of April-19 after an overall positive performance during March-19. Spot Brent prices were up more than 40% by 9-April-19 compared to its recent low in December-18 after crude spot prices recorded three consecutive weeks of gain by last week. Average crude prices for almost all the crude grades were positive in March-19 as compared to February-19. Average OPEC crude prices gained 4.0% m-o-m during March-19 to reach \$66.4/b, marking the third consecutive month of growth. Kuwait crude average price gains were slightly higher at 4.5% and averaged at \$66.8/b, while average Brent crude gained 3.3% to reach \$66.1/b.

Nevertheless, a steep increase in US crude inventory temporarily disrupted the oil rally. According to the latest EIA weekly report, crude inventories in the US increased for the third consecutive week by 7 million barrels during the week ended 5-April-19 after increasing by an aggregate 10 million barrels during the previous two weeks. In its latest forecast, the EIA raised its US crude oil production to 1.43 mb/d in 2019 to average at 12.39 mb/d as compared to its previous growth forecast of 1.35 mb/d. Due to the higher base, production in 2020 is forecasted to increase at a slightly slower pace of 0.71 mb/d to reach 13.1 mb/d as compared to last months 13.03 mb/d. The EIA kept demand growth outlook unchanged for 2019 at 0.36 mb/d and raised 2020 demand growth to 0.25 mb/d. The declining trend in oil rigs in the US reversed this week.

### World Oil Demand

World oil demand estimates for 2018 was once again lowered in OPEC's latest monthly forecast by 0.02 mb/d and demand is estimated to have grown by 1.41 mb/d to reach 98.7 mb/d. The lowered estimates reflected a revision of 0.06 mb/d to demand estimates for the OECD Asia Pacific region led by lower-than-expected oil demand in Japan and South Korea.

Demand growth expectation for 2019 was also lowered by 30 tb/d to a growth of 1.21 mb/d resulting in a total demand of 99.91 mb/d. The revision reflected a decline in expectations of economic growth for the OECD region during the year. The latest monthly demand data for the US showed the first y-o-y decline January-19, albeit marginally, owing to higher base line effect. Preliminary data for February-19 and March-19 indicated strong growth in demand primarily led by higher demand for with road diesel, gasoline and petroleum gas plant liquids.

### World Oil Supply

According to preliminary data, global oil supply declined for the fourth consecutive month during March-19. Supply continued to remain below the 100 mb/d mark and was estimated at 99.26 mb/d in February-19, a m-o-m decline of 0.14 mb/d. During the month, non-OPEC supply increased by 0.39 mb/d led by higher supply mainly from the US and Brazil. However, this increase was more than offset by a steep decline in OPEC production.

Non-OPEC supply growth estimates for 2018 was once again revised upward by 0.16 mb/d and is now expected to have grown by 2.9 mb/d during the year to average at 62.37 mb/d. The revision mainly reflected higher output from UK, Brazil and China to the tune of 137 tb/d. Supply from OECD countries was revised upward by 94 tb/d with the biggest revision coming from OECD Europe at 71 tb/d primarily on the back of upward revision of production data for UK by 73 tb/d.

### OPEC Production

OPEC oil production reached multi-year lows during March-19 as producers continued to slash production during the month. Average monthly production was slightly above the 30 mb/d mark during the month as Saudi Arabia lowered production by 0.3 mb/d. The economic sanctions on Iran and Venezuela also dented overall OPEC production. As a result, production from the group was down more than 5% or close to 2.2 mb/d since its recent peak in November-18 with Saudi Arabia reducing its output by 11.3% or 1.3 mb/d as the Kingdom produced close to 0.5 mb/d below its agreed-upon target. The decline in Saudi Arabia's oil production also indicates that it may not further lower its oil production from the current levels which is currently at a 4-year low level.

Venezuela's crude oil production reached a 16-year low level of 732 tb/d recording a m-o-m decline of almost 30% due to the month-long blackouts that crippled oil production facilities and ports in the country. The shortfall in Venezuelan oil supply to its European customers is said to have been replaced with Russian oil which offers similar grade of crude oil.

Meanwhile, Libya and Nigeria were the only OPEC producers that reported sizable increase in production during the month. However, recent news of violence in Libya is said to have pushed down production severely and fears of it reaching previous lows has resurfaced, as acknowledged by the head of NOC in an interview. Nigeria, on the other hand, pushed up production to above 1.9 mb/d during March-19, according to Bloomberg data and is said to be sitting on significant spare capacity. Additional investment is said to be pouring in the country that will further boost its crude oil production capacity.

Oil production in Iran continued to slide and reached 2.7 mb/d during March-19 with further decline expected in April-19 led by flooding near oil fields. Nevertheless, the overhang continues over whether the waivers granted by the US to some of Iran's biggest customers would continue beyond May-19.

Meanwhile, aggregate spare capacity for the OPEC group reached almost 5 mb/d, according to data from Bloomberg. Saudi Arabia and Iran together accounted for almost two-thirds of OPEC's spare capacity while Venezuela, with its lowered capacity, accounted for around 11%.

## AAOIFI honors KFH

KUWAIT CITY, April 15: AAOIFI honored Kuwait Finance House Group (KFH) in recognition of its sponsorship of the AAOIFI 17th Annual Shari'ah Boards Conference held for two days in the Kingdom of Bahrain.

The conference brought together several Shari'ah scholars and senior representatives from central banks, regulatory authorities, supreme Islamic Financial Institutions (IFIs), accounting and auditing firms, legal firms, universities, higher learning institutions, as well as media representatives.

On behalf of Kuwait Finance House Group, Abdulhakeem Al-Khayyat, Managing Director and CEO of KFH-Bahrain expressed receiving the honorary shield. He said: "We are pleased to continue to collaborate with the AAOIFI Conference, which sets Shari'ah Standards for Islamic Financial Institutions."

This partnership comes in line with the Bank's strategy, which focuses on elevating the standards of Islamic Banking in the Kingdom of Bahrain."

The conference shed light on vital topics related to the future of the Islamic financial industry including: 'Importance of Regulatory Requirement of Mandatory Adoption of Shari'ah Standards by Islamic Financial Institutions', 'Regulatory Imposition of Obligatory Reduction of the Amount of Debt Due to Prepayment', 'Validation of Defective Contracts and its Impact on Stability of Transactions and its Modern Applications', 'Coordination Amongst Central Shari'ah Boards', 'Sukuk Listing in Global Financial Markets and Compatibility of Listing Requirements with Shari'ah Structures', 'Methods of Safeguarding Against Risks Associated with Ownership in Ijarah Muntahia Bittamleek Financing Mode'.

Established in 1991 and based in Bahrain, AAOIFI is the leading international not-for-profit organization primarily responsible for the development and issuance of standards for the global Islamic finance industry. The body has issued a total of 100 standards in the areas of Shari'ah, accounting, auditing, ethics and governance for international Islamic finance. AAOIFI is supported by several institutional members, including central banks and regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. Its standards are currently followed by all the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonization of international Islamic finance practices.



Abdulhakeem Al-Khayyat receiving the honorary shield.



ACK students pose with management of ACK after their victory in the Injaz 'Company Program' competition.

### Second consecutive victory for ACK students

## ACK team win Injaz 'Company Program'

Khazaal wins KD 10,000 grand prize

## AUB 'announces' winners of Al Hassad weekly draw

KUWAIT CITY, April 15: Ahli United Bank announced on the 10th of April 2019 the winners of its weekly draw of Al Hassad Islamic account which is the very first draw account in Islamic banking in Kuwait that has reshaped the lives of thousands lucky winners. Al Hassad has have over 850 prizes, over a 12 month period.

The weekly draw announced the grand prize winner of KD 10,000 as Mishaal Saad Khazaal.

20 other winners won prizes of KD 1,000 and are as follows: Ali Mohammad Al Mutairi, Dalal Abdullah Al Duaij, Mona Khaled Al Fadhli, Lamees Ahmed Al Shabab, Fatima Mohd Abdulla, Battah Abdullah Al Enezi, Alaa Ali Ghareeb, Faisal Zaid AL Zaid, Mohammad A Al Mousa, AbdulAziz Khaled Al Khateeb, Sabekah Abdulaziz Essa, Eman Khaled Abd AlRasoul, Jehad Ahmad Humadi, Nabil Zaki El Issa, Mekhled Matar Al Huraiji, Hanan Mohamed Hasan, Abdulmir Hasan Habib, Ahmad Makki Ali, Badreya Hasan Ali and Ali Mohamed Safar.

Al-Hassad Islamic Account presents also 4 quarterly mega prizes of KD 250,000 that will help the lucky winners achieve their dreams and aspirations in addition the monthly draw to win a prize of KD 100,000.

One powerful new aspect of the Al-Hassad Islamic Account is the prize draws on the holy occasion of both Eid ul Fitr and Eid Al Adha, when the winning customers will receive the eid prizes of KD 100,000 each. May the Eid always bring prosperity and bless-

ings to the Islamic nation. Al-Hassad Islamic Account presents also 21 weekly prizes comprised of a grand prize of KD 10,000 and 20 prizes of KD 1,000 each.

In addition to the highly attractive package of the prizes, there will be the annual expected profits on, which makes the Al Hassad account a useful tool; for family and other savings, both for the short term and for the longer term - a fact which well appreciated by a large multitude of new and old customers.

To be eligible to participate in the draw, the customer should have a minimum balance of KD 100, whereby the customer has two chances to participate, with a maximum of 30,000 chances per draw, in addition to annual profits for all participants. Every KD 50 invested for at least 15 days entitles the customer to one chance in the each draw. The longer the customer keeps his balance the bigger the changes of participation in the draw. Draws are held every Wednesday at AUB Kuwait or AUB Bahrain depending on the draw plan.

On the occasion Ahli United Bank congratulate its winning customers, and commented that there are many chances to win waiting for our customers.

For more information on Ahli United Bank's products and services, customers are invited to visit any of the Bank's branches or dial the customer service "Hayakom" on 1812000, or log on the Bank's website www.ahliunited.com.kw



A flyer of Al Hassad Islamic account draw.

### Worth KD 240mn

CBK issues bonds, 'related' Tawarruq

KUWAIT CITY, April 15: The Central Bank of Kuwait (CBK) announced the most recent issues of CBK Bonds and related Tawarruq at a total value of KD (240) millions for (3) months with Rate of Return (3.000%).

ACK Mentor Ms Rupali Bhagat commented that the "team's continuous commitment from day one, their passion to create something innovative and their belief in themselves helped them to overcome each challenge and survive successfully till the end. Each team member has been able to develop life skills which will help them to succeed in future. ACK will now represent Kuwait in the Regional Competition to be held in November, 2019 in Oman.

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