

Business

KAMCO Invest Oil Market Monthly Report

Demand growth expectations continue to buoy oil market

Surge in COVID cases in India partially dents demand growth story

KUWAIT: Oil prices remained elevated during May-2021 gradually marching towards the \$70/b mark after touching a 9-week high level led by expectations of higher demand in the near-term backed by economic recovery in key regions as vaccinations picked up. Other factors that supported prices included the gasoline shortage in the US, fall in US crude exports, promising oil demand data from China and a general commodity price boom. In addition, supplies remained curtailed as OPEC+ producers continue to stick to their voluntary production cuts.

Nevertheless, the surge in COVID-19 cases in India and the reimposition of stricter restrictions in Singapore and Taiwan partially dented the oil demand growth story. Global COVID-19 vaccine administrations have picked up pace over the last few weeks averaging above the 20 million per day mark. The US and China remain led the way, with China reportedly administering close to 14 million doses a day recently while the US and Europe administered close to 2.7 million doses and 5 million doses, respectively.

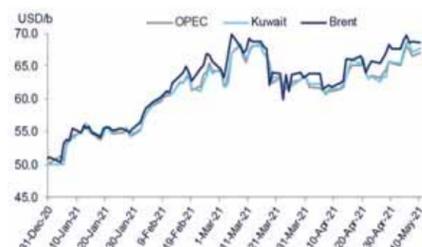
In terms of oil demand, the US witnessed higher domestic demand for crude oil that led to a decline in exports to around 1.8 mb/d, the lowest since October-2018, according to data from EIA. Furthermore, the economic growth story remains upbeat in China with the country recording 9.8 percent y-o-y growth in industrial output in April-2021 and a 17.7 percent y-o-y growth in retail sales. This comes after record economic expansion during Q1-2021. This was also reflected in the crude oil market in China with record amount of crude oil processed during the first four months of the year as new refineries went online coupled with a rebound in fuel demand. Monthly data for April-2021 showed China's oil demand increasing by 9.7 percent y-o-y to 12.96 mb/d, whereas YTD-2021 demand was up 16.26 percent, according to Bloomberg.

Recently released oil demand estimates from OPEC and IEA showed promising trends by the end of the year, but the IEA slashed demand forecast for 2021 by 0.27 mb/d to a smaller growth of 5.4 mb/d. The revision reflected lower-than-expected demand growth in the Americas and Europe during Q1-2021 as well as lowered estimates for requirements from India during Q2-2021 as the country struggles from the pandemic. The IEA said that demand is expected to outstrip supplies for the remainder of the year even after considering a return of Iran with higher output. Higher crude oil demand also resulted in a fall in OECD commercial crude oil inventory which stood at 1.7 mb/d above its 5-year average during March-2021.

On the supply side, estimates suggest that US crude output is expected to decline despite the elevated prices. According to the EIA, oil production in the US is expected to average at 11.02 mb/d in 2021 vs. 11.04 mb/d in its previous forecast. OPEC believes that the decline in capex would be the key reason for lower output, in addition to hedging at lower prices that offers little incentive for producers to raise output, as per IEA.

Oil prices

The trend in oil prices remained mixed during the first half of May-2021 but generally positive after several reports pointed to improving oil demand. Brent crude futures peaked at above the \$69/b mark, a two-month high, after the rate of vaccinations picked up globally coupled with positive demand outlook and controlled supply. Prices were also supported by the hacking incident at the largest US fuel pipeline company that led to shortages of gasoline across the fuel pumps along the US East Coast. The Colonial Pipeline, which carries 2.5 mb/d of gas, jet fuel and diesel, was hacked shutting supplies for six days. The hack resulted in excess refined products at the refiners end that were stored in oil tankers. As refiners were mulling curtailing run rates to deal with excess fuel after the hacking, there were also speculation that Brazil and



Mexico would be able to access cheaper gasoline due to the excess supplies. Nevertheless, the rising Covid-19 case count in India continued partly dented expectations of a strong global oil demand recovery in 2021.

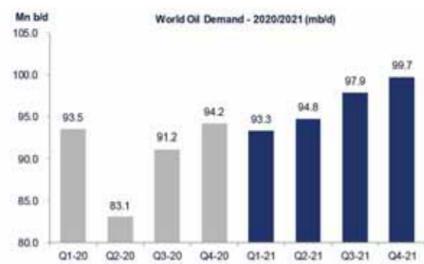
Data on crude oil inventory in the US also supported the recent increase in oil prices. US crude oil inventory declined by 0.4 mb/d in EIA's latest inventory data, a second consecutive week of decline. Total inventory has declined by 17.1 million barrels since the start of April-2021. On the other hand, rig count in the US has remained largely unchanged over the last three weeks at 344 oil rigs.

The average price for OPEC crude basket declined after touching a 14-month high in March-2021. The crude oil basket averaged at \$63.2/b during April-2021, registering a monthly decline of 2.0 percent. Kuwait crude grade witnessed a slightly smaller decline of 1.7 percent and averaged at \$63.8/b whereas Brent spot crude averaged at \$64.5/b. The consensus estimates for Brent underwent a wave of positive revisions and now shows the crude grade consistently above the \$65/b mark over the next six quarters.

World oil demand

World oil demand estimates for 2020 remained unchanged with a decline of 9.5 mb/d to average at 90.5 mb/d. The forecast for 2021 also remained unchanged with the year expected to show a demand growth of 6.0 mb/d to average at 96.5 mb/d. However,

there were revisions within quarters with Q1-2021 estimated to have shown smaller-than-expected growth in oil demand, especially in the OECD Americas region. The demand trend for Q2-2021 is expected to be affected by the resurgence of COVID-19 cases in India and Brazil that would affect the demand forecast for 1H-2021. These declines are expected to be offset by a stronger-than-expected demand revival during 2H-2021. According to the OPEC monthly report, higher demand during 2H-2021 is expected to come from an increase in transportation fuel requirements in the US coupled with faster vaccine administration in multiple regions that would result in higher oil requirements. The return to normalcy is expected to especially reflect in oil demand data for the Middle East and Other Asia regions during 2H-2021.



Oil demand from two of the world's biggest consumers, India and China, took differing paths recently based on how severely the COVID-19 pandemic affected the two nations. Official data from India showed that fuel demand declined by 9.4 percent m-o-m during April-2021 to 17.01 million tons from 18.77 million tons in March-2021 led by COVID-19 lockdowns in several states, in addition to record high fuel prices in the country. Sale of gasoline declined by 13 percent during the month to 2.38 million tons while that of diesel declined by 7.5 percent to 6.67 million tons. The trend during the first half of May-2021 showed demand for road transport fuel down by a fifth vs. April-2021. India's oil demand forecast was slashed by 28 percent recently by S&P Global Platts which now expects demand growth to come in at 0.35 mb/d in 2021 from its earlier forecast of 0.485 mb/d. That said, the agency expects 2H-2021 demand to see a growth 0.65 mb/d vs. 1H-2021 demand driven by a broad-based pickup in economic activity led by vaccine rollouts. On the other hand, demand from China remained elevated, although the refinery maintenance season led to a decline in oil imports during April-2021.

World oil supply

World liquids production showed a marginal monthly decline of 0.15 mb/d during April-2021 to average at 93.06 mb/d. The decline reflected a fall in

output from non-OPEC producers that was partially offset by higher production coming from OPEC. Non-OPEC producers lowered production by 0.18 mb/d and produced at an average rate of 67.97 mb/d. The decline was mainly due to a fall in production in Canada and Norway by around 0.5 mb/d due to planned maintenance. On the other hand, OPEC producers increased output marginally by 26 tb/d to 25.08 mb/d, according to OPEC secondary sources. The marginal increase in output by OPEC producers resulted in a 0.1 percent increase in OPEC's market share during the month to 27.0 percent.

Non-OPEC oil supply estimates for 2020 remained unchanged showing a contraction of 2.5 mb/d with an average supply of 62.9 mb/d. For 2021, non-OPEC supply forecast was revised down by 0.23 mb/d and supply is now expected to grow by 0.7 mb/d to average at 63.6 mb/d. The revision mainly reflected lower forecast for supply from Norway (-79 tb/d) and Canada (-24 tb/d) due to extensive seasonal maintenance, in addition to lowered forecast for the US (-229 tb/d) led by supply disruptions caused by the winter storm and the cold snap in February-2021 that resulted in 2.2 mb/d in production outages.

OPEC oil production & spare capacity

OPEC crude oil production remained flat during April-2021 after witnessing growth during March-2021. Monthly production averaged at 25.27 mb/d, registering a m-o-m decline of 50 tb/d, according to Bloomberg. OPEC's secondary sources showed a marginal increase in production by 26 tb/d to an average of 25.08 mb/d. The overall compliance to OPEC+ cuts have made sure that OPEC production remained in a tight range over the last six months to average at around the current rate of production. This comes despite volatile production from some of the swing producers in OPEC. During April-2021, Iran reportedly raised production to a 2-year high level of 2.4 mb/d, while Nigeria raised production to around 1.6 mb/d. These increases were offset by a fall in production in Libya and Venezuela (as per OPEC secondary sources). The group's biggest producer, Saudi Arabia, produced at 8.1 mb/d during the month recording a marginal change as compared to last month.

Iran raised production during the month to become the fourth biggest producer in OPEC overtaking Kuwait. The increase came as the country prepared for a lifting of sanctions as talks on the nuclear deal with the US continue in the positive direction. According to reports, Iran can reach pre-sanction production levels of around 4 mb/d in three months, however, Iran's OPEC envoy said that buyer reluctance and removal of hurdles would mean a more gradual return of production. Nevertheless, in a recent report, IEA said that with the increasing pace of vaccinations globally, the resultant demand would be large enough to absorb the increase in supply from Iran.



The Mercedes-Benz Vito: A reliable partner for 25 years

DUBAI: More than a quarter of a century ago, the production of the mid-size Vito van started at the Mercedes-Benz works in Vitoria in northern Spain. The first van generation didn't just mark the beginning of a new era for light commercial vehicles from the brand with the three-pointed star, but also saw the historically important factory in the Basque capital of Vitoria-Gasteiz enjoy a renaissance: with this fundamental modernization, annual production capacity rose to 80,000 vehicles then. Thanks to the extension of the factory, a new logistics center and a high level of automated manufacturing processes, one of the most modern European Mercedes-Benz sites was created.

The first generation: With four-cylinder diesel and petrol engines mounted transversely

In 1996 Mercedes-Benz introduced the compact Vito, a van in the 2.6 to 2.8 ton class which was of a completely new design and which heralded the start of a new age for light-weight commercial vehicles. Its very name underscores this new era: instead of using a combination of letters and numbers the new arrival was given the name Vito - a direct reference to its "birthplace", the van production plant steeped in tradition in the Basque capital, Vitoria-Gasteiz.

Introduced in Spain and Portugal at the end of 1995, this new development combined an attractive design with compact dimensions. With a vehicle height of 1.89 meters the midsize van fit in every garage. However the cargo area of 3.6 m² provided a loading capacity of almost 5 m³ so that the Vito could also transport bulky cargo without problem. With a pay-

load of one ton, the front-wheel drive vehicle was also suited to carrying heavy goods. The four-cylinder engines required minimum installation space while boasting low fuel consumption and an attractive driving performance. Industry experts and trade professionals applauded the new vehicle immediately and voted it "Van of the Year 1996". Thanks to the facelift in 1999 demand for the Vito continued to remain high. By 2003 Mercedes-Benz had sold almost 473,000 first-generation vehicles.

The second generation: With rear-wheel drive, greater comfort and greater variety

A new generation was launched in July 2003. Completely re-designed, all of the Vito variants now relied on rear-wheel drive rather than front-wheel drive. Furthermore an all-wheel drive variant added to the model diversity, opening the way for the robust van to operate off the beaten track. There was also a range of more powerful engines to choose from: while the top-of-the-range diesel engine boasted an output of 224 hp, the top performing V6 petrol engine now provided 258 hp.

Depending on the model variant, the vehicle length was extended by up to 58 centimeters to a maximum 5.24 meters. For the first time ever the new Vito was available in three different body lengths, two roof heights, with five different engines and was better equipped than ever to fulfil the diverse range of demands from a multitude of sectors. This huge leap in evolution paid off: in 2005 the European jury voted the Vito "Van of the Year."

The second generation of Vito vans also set a standard with regard to electrification: at a very early stage Mercedes-Benz intensified the development of alternative drives and in 2010 already began producing a small series of 100 Vito E-CELL vehicles. The battery-driven van was equipped with a 70-kW (95-hp) electric motor and a lithium-ion battery with a capacity of 32 kWh. Following the testing phase, the first purely electric vans left the factory for delivery in

April 2011.

The second-generation Vito surpassed its outstanding predecessor and in its most successful sales year was sold almost 80,000 times. In total Mercedes-Benz sold almost 750,000 of the second-generation mid-size van.

Third generation

In May 2014, the third generation of the Vito celebrated its premiere. Thanks to a new design, this new addition was extended by up to 13 centimeters in length to a maximum 5.37 meters although the wheel-



base remained unchanged and thus offered more space for both cargo and passengers. Furthermore customers now had a greater choice with regard to the drive system: in addition to the rear-wheel and all-wheel drive, front-wheel drive was once again available in conjunction with the entry diesel engine in two output stages. In 2016, the engine portfolio was extended with the introduction of the four-cylinder turbo-charged petrol engine which boasts 211 hp. This variant has seen great success in the Middle East region and become the most sought engine version.

Not only has the range of conventionally driven midsize vans grown; the offering for electric vehicles

has too: the purely electric eVito has been on the market since 2018. Since 2014 more than 600,000 of the current Vito variants have been sold.

2020 technical updates and facelift

Following a new look and technical update in 2020, the Vito is more attractive than ever thanks to new four-cylinder diesel engines and a well-balanced price-performance ratio. Innovations in the current generation of Vito vans include the upgraded infotainment portfolio, the 9G-Tronic automatic transmission, AIRMATIC air suspension for increased driving com-

fort and further safety systems. An update for design details both on the exterior and interior completes the facelift. Just as it celebrates the 25th anniversary of its market launch, the versatile van is now available with Rear Cross Traffic Alert in combination with Blind Spot Assist without additional charges. In line with the 2020 facelift, Mercedes-Benz Vans introduced further safety and driver assistance systems for the Vito: namely DISTROTRONIC, Active Brake Assist and a digital inside rearview mirror.

Reliable, robust and safe: it's now a quarter of a century since the Mercedes-Benz Vito first established itself as a spacious and flexible van in many sectors.