AFFINITY OIL WEEKLY REPORT

21 November 2017

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OIL MARKET COMMENT

Oil prices are stalling, with the market now awaiting the outcome of Opec's meeting in just nine days' time. Over the past few weeks and months, a number of the more notable participants, including Saudi Arabia, have publicly declared their support for extending the Opec/non-Opec cut beyond its current March 2018 end-date, with the end of 2018 regularly mooted as the new deadline. "The majority of members support the extension of the plan, but the final decision should be taken at the next Opec meeting," Bijan Zanganeh, the Iranian oil minister, was quoted as saying on Monday. However, having pledged its involvement, Russia, arguably the most important producer involved in the deal, cannot guarantee that it will maintain its 300,000 fewer bpd crude output.

A meeting last Wednesday of representatives from Russia's most eminent oil and gas companies was called by Russian Energy Minister Alexander Novak. The reasoning behind it was to generate harmony ahead of the Russia's expected participation in the extension. However, a number of those in the meeting made clear their feelings about the idea of limiting production for another 13 months and it concluded without any real resolution. Another meeting has been scheduled for Wednesday.

Russia's hesitation is coinciding with a growing feeling that perhaps the Opec/non-Opec producers should wait until next year before making a final decision. Novak himself, despite publicly voicing his support for the extension, has suggested as such.

However, announcing a delay from Vienna on 30 November would almost certainly weaken oil prices, in which such an extension has already been priced. Russia's oil companies already feel that their actions are proving to be most beneficial for others, most notably the US.

But pressure is back on prices as the US is continuing to make itself felt on the supply side of the market. According to the EIA's latest numbers, the US has pumped a second consecutive weekly high. And that is despite a stagnant rig count. Predictions that US shale is set to explode over the next few years has done little to settle the nerves.

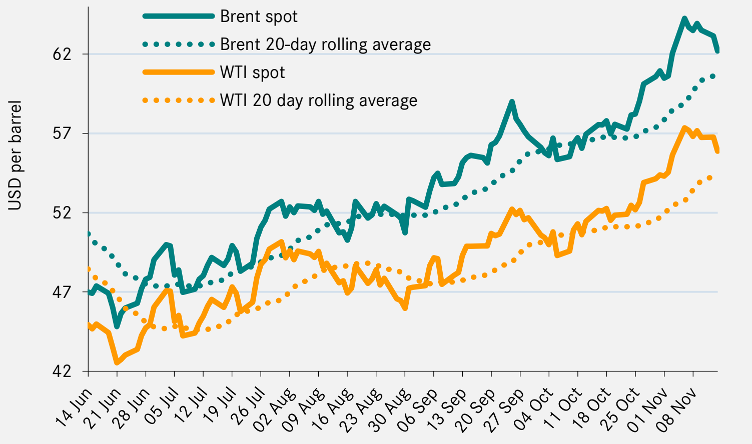
High levels of long positions for both crude and products are also having an adverse effect. Last week, CFTC data revealed a record high of long positions on RBOB gasoline. Prices as a result find themselves vulnerable to a large-scale sell-off, something which a disappointing outcome from Opec's meeting may trigger.

Meanwhile, Nebraska has approved the final stage of the Keystone XL pipeline, which was the final, significant regulatory hurdle. TransCanada will soon be able to construct the pipeline, although the route approved is longer than the preferred option. The pipeline is set to transport 830,000 bpd from Alberta, Canada down to Steele City in Nebraska, from where oil can be easily transported to storage in Cushing, Oklahoma or the refineries in Illinois and the Gulf Coast.

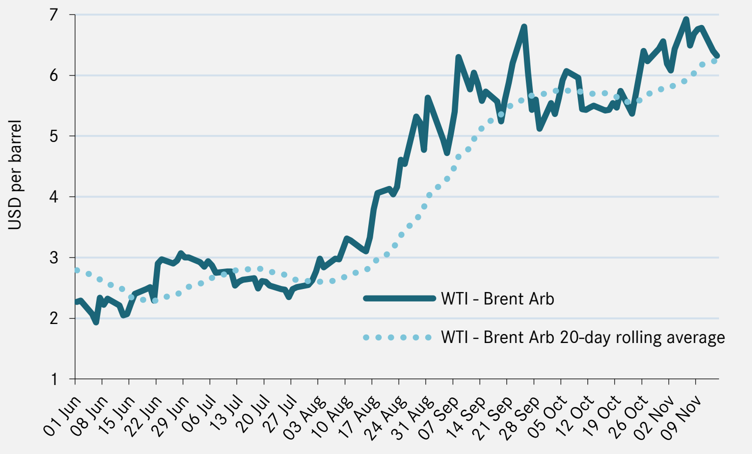
OIL PRICES (at 1530h BST on date of publication)

Brent (US Dollars)	62.66	WTI (US Dollars)	57.13

Front Month Prices



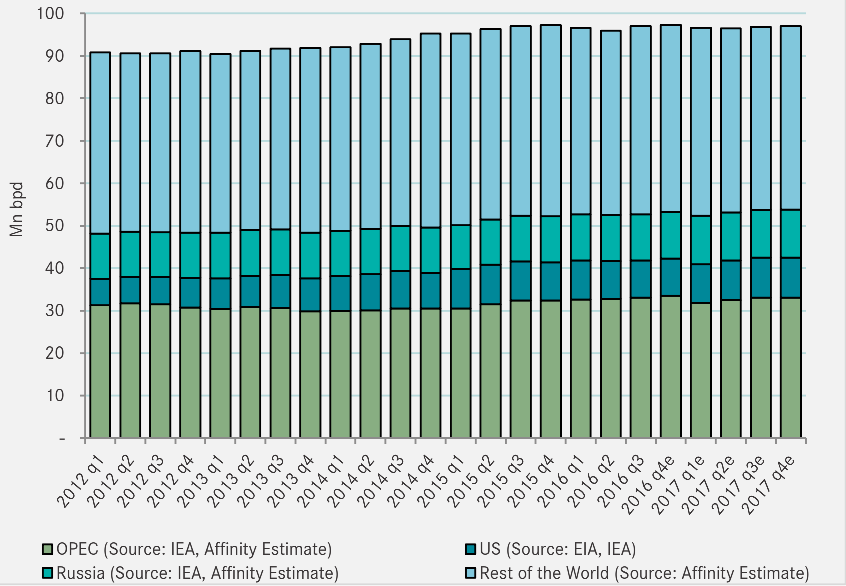
Atlantic Oil Arb



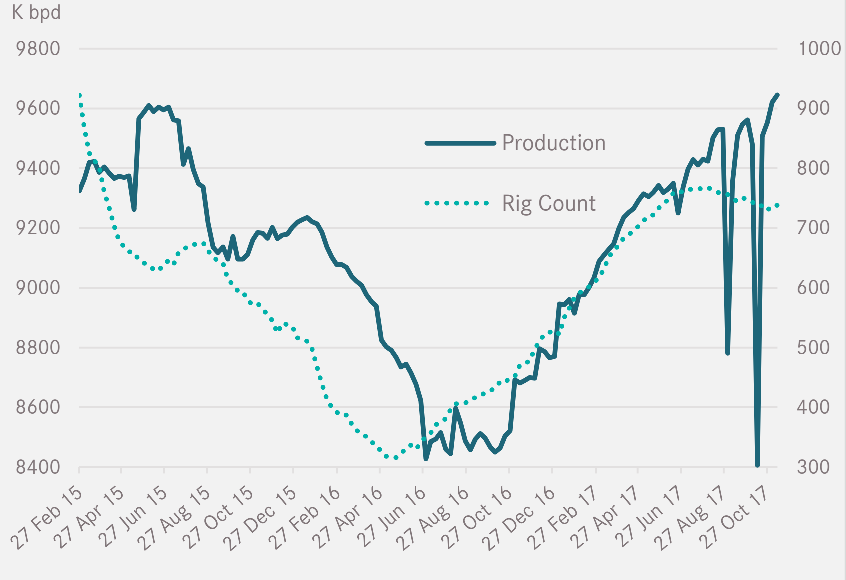
SUPPLY: GLOBAL VIEW FOR 2017 & BEYOND

- The US is once again taking centre stage; for the second consecutive week, the US has pumped out a record weekly volume of crude oil. According to the EIA, total US output was 9.645 Mn bpd during the week ending 10 November, a new high following on from the previous week's 9.62 Mn bpd.
- This higher output coincided with a period during which the oil rig count fell, suggesting that efficiency is well and truly improving among US shale drillers. According to Baker Hughes' most recent data, the oil rig count was unchanged during the week ending 17 November.
- According to the IEA's Oil 2017 report, US shale production will rocket over the coming decade, from 6.5 Mn bpd in 2015 to over 10 Mn bpd by 2020, before peaking at 11.6 Mn bpd by 2025 through to 2030.
- Meanwhile, the IEA estimates that global crude production rose by 0.1 Mn bpd to 97.5 Mn bpd in October, as non-Opec producers increase output, most notably the US. Still, this is 0.47 Mn bpd below October 2016's levels. The IEA is forecasting non-Opec supply to rise by 0.7 Mn bpd this year, before surging to 1.4 Mn bpd in 2018, driven by, you guessed it, the US.
- Opec output fell by 0.08 Mn bpd to 32.53 Mn bpd in October, with supply dropping from Algeria, Iraq, Nigeria, and Venezuela. Production is down 830,000 bpd on October 2016, with compliance among the group at 96 per cent, taking the annual average up to 87 per cent.
- According to Reuters, Iraqi exports from the Kirkuk region have averaged just 250,000 bpd so far in November, which is down roughly 200,000 bpd from October's average, as Baghdad continue to wrestle with taking back control of the oilfields in northern Iraq.
- Nevertheless, Iraqi exports have stepped in to fill the gap left by Venezuela's falling production. Venezuelan production is set to fall by an average of 250,000 bpd this year, before that decline is accelerated to 300,000 bpd in 2018. In the meantime, Iraq has stepped up its exports to Venezuela's key customers, notably India and the US.
- Meanwhile with Shell exiting the major Iraqi Majnoon field by the end of June 2018, Iraqi officials have said that BP and Eni are among the oil companies who have said that they are interested in developing the field.

Global Oil Production



US Oil Rig Count v Production



DEMAND: GLOBAL VIEW FOR 2017 & BEYOND

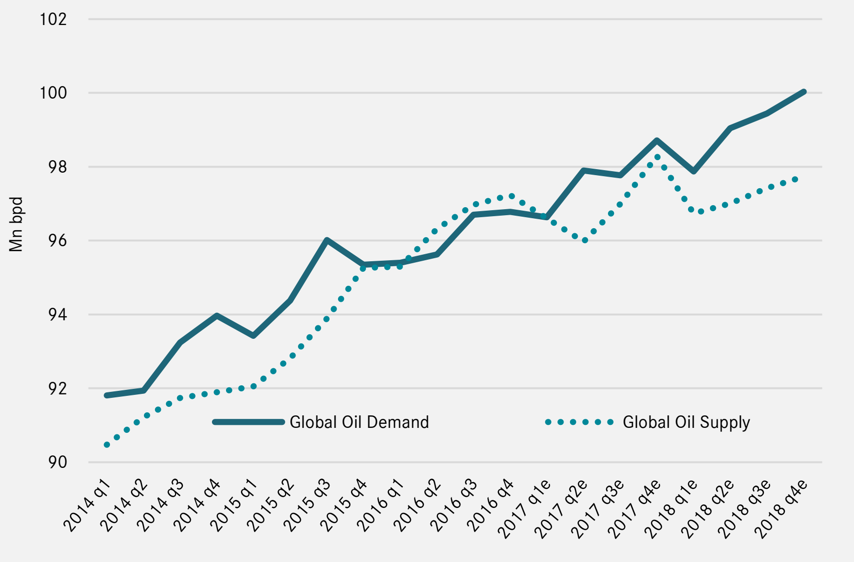
The IEA has revised down its demand forecasts by 0.1 Mn bpd for both 2017 and 2018, owing to mild winter temperatures. The result is expected growth of 1.5 Mn bpd in 2017 and 1.3 Mn bpd in 2018, resulting in total demand of 97.7 Mn bpd and 98.9 Mn bpd respectively. We'll have to wait another year before we see demand exceed the 100 Mn bpd mark.

In the IEA's 2017 *World Energy Outlook*, it makes clear that even in the "Low Oil Price Case", even a sharp acceleration in the growth of electric vehicles will not have a strong impact on oil demand until the mid-2020s.

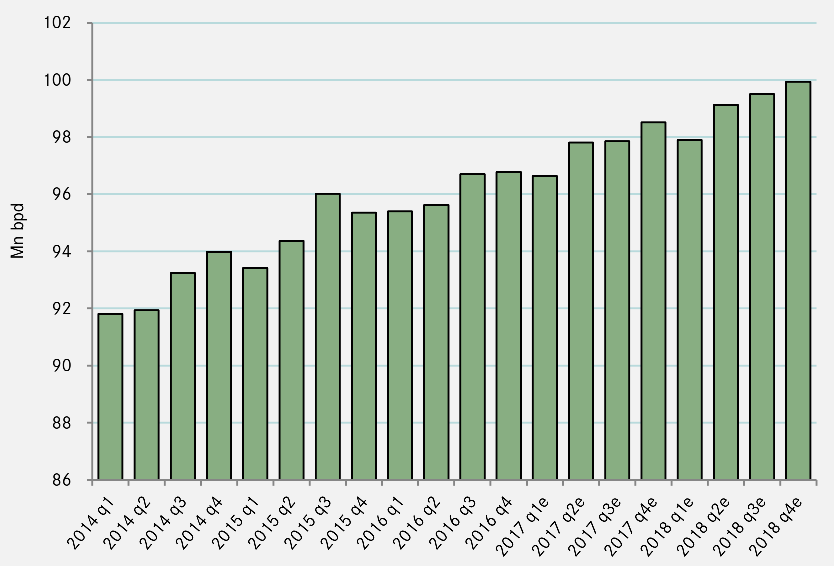
MARKET BALANCE

The supply deficit in the oil market is apparently making itself felt, at least in terms of oil prices. However, looking forward, much (again) depends on the outcome of the Opec meeting on 30 November.

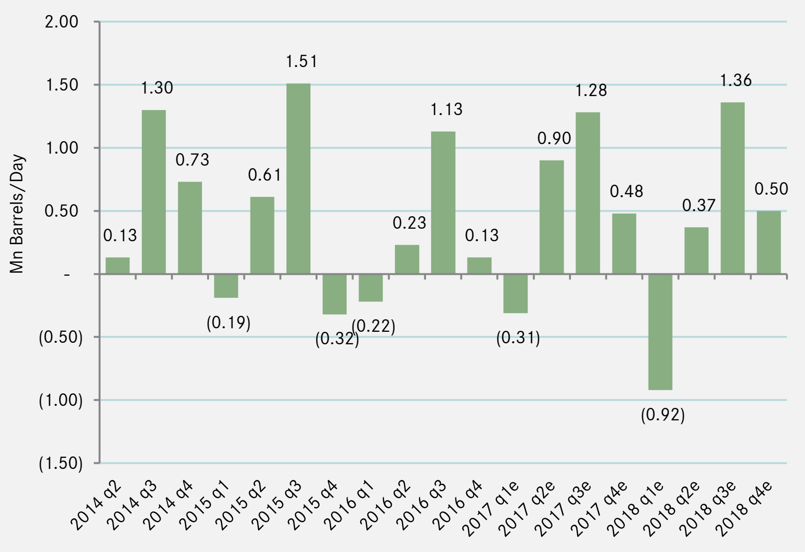
Oil Market Balance



Global Oil Demand



Quarterly Global Demand Change



COUNTRY PROFILE: VENEZUELA

The crude oil output of the oil-dependent country hit a 28-year low earlier this month, having fallen below 2 Mn bpd. This is the lowest level in nearly three decades, according to Opec's recent reports.

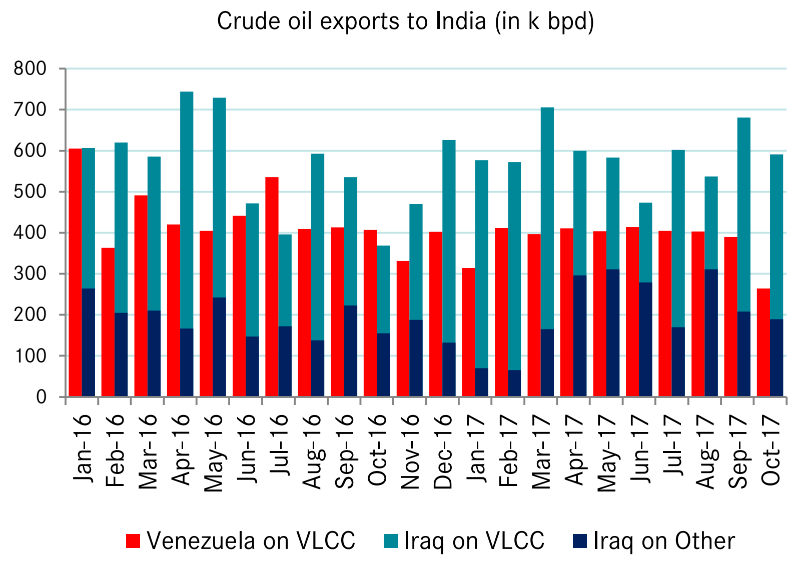
The timing is extremely bad for Venezuela, with the country's economy in crisis and the socialist government struggling to pay back its foreign debt. The government's efforts have been to renegotiate its debt with creditors to avert a default. Russia agreed with restructuring USD 3.15 Bn of sovereign debt, which allowed Caracas to meet obligations to third-party creditors. Venezuela has already been declared in default by ratings agencies on many of its international bonds, worth more than USD 60 Bn overall.

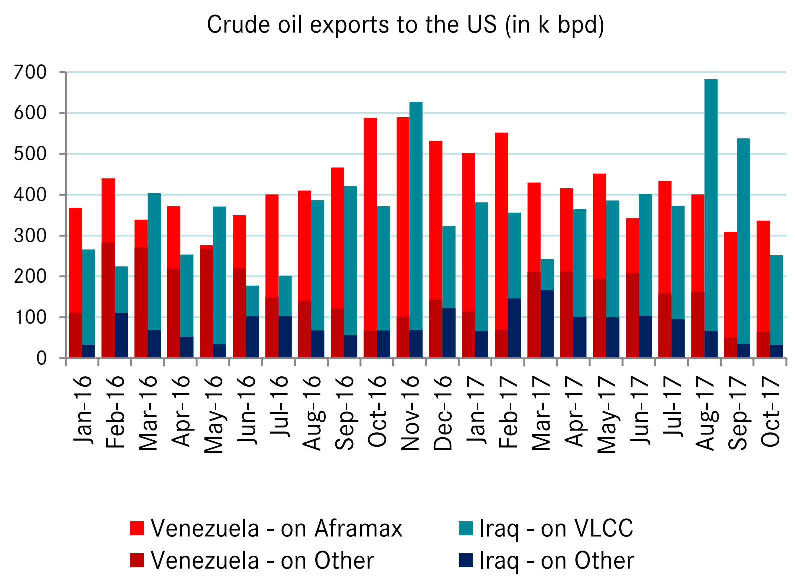
In the meantime, Rosneft has loaned PDVSA around USD 6 Bn in payments guaranteed by oil supplies and a 49.9 per cent stake in Citgo, the Venezuelan oil company's US subsidiary. The company earlier confirmed it had received "several hundred million dollars" in repayments that were being serviced on schedule. Rosneft is negotiating with PDVSA to swap the Citgo stake with other assets, such as oilfield rights, due to concerns in the US about the Russian company holding the stake. Even if PDVSA were excluded from the agreement with Russia, its bonds have been trading higher than similar bonds issued by the sovereign. This comes as PDVSA faces a much lighter repayment schedule this year and next, having been a vital source of earnings for Caracas. PDVSA has been considered the money-maker, which Caracas wants to keep safe. But the issue is quite complex.

China's interests have mainly been commercial, as the country has loaned USD 60 Bn to Caracas over the past decade and wants continued access to the country's energy reserves. Moreover, all of Venezuela's foreign bonds are governed by New York law, but the presence of Russia and China at the table add to the complication of a restructuring to be conducted outside the IMF or the Paris Club of creditors, to which Russia participates but China does not.

Opec's data show Venezuela's crude oil production was 1.955 Mn bpd in October, against 2.085 Mn in September. Secondary sources suggest even lower levels, close to 1.863 Mn bpd in October. Venezuela depends on oil for more than 95 per cent of hard currency export revenues. Its annual oil output was 2.373 Mn bpd in 2016 and 2.654 Mn in 2015, based on Opec numbers. Iraq, another Opec member, took the first steps to fill the gap created by Venezuela's fall, with a monthly rate of decline this year at 20 k bpd.

Iraq, producing heavy oil similar to Venezuela's grade, increased its shipments to key, former Venezuelan clients, such as India and the US. Since the start of 2017, Iraq has increased its heavy crude exports to India by around 80,000 bpd, while Venezuelan shipments to India fell by 84,000 bpd. Iraq's crude oil shipments to the US increased by 201,000 bpd between January and October, while Venezuelan cargoes to the US fell by 90,000 bpd. Venezuela's oil production is on track to fall by at least 250 k bpd in 2017, due to the US sanctions and the lack of capital hobble operations. Some Opec members expect the fall to accelerate in 2018, potentially surpassing 300,000 bpd. At a recent Opec meeting, questions were raised by Saudi Arabia and other Opec members to Venezuela to present a clearer picture on the production status and decline. The topic could come up again later this month at the next meeting. Countries, such as Iraq and non-Opec producers like Canada and Brazil will aim to continue replacing Venezuelan barrels to key customers.





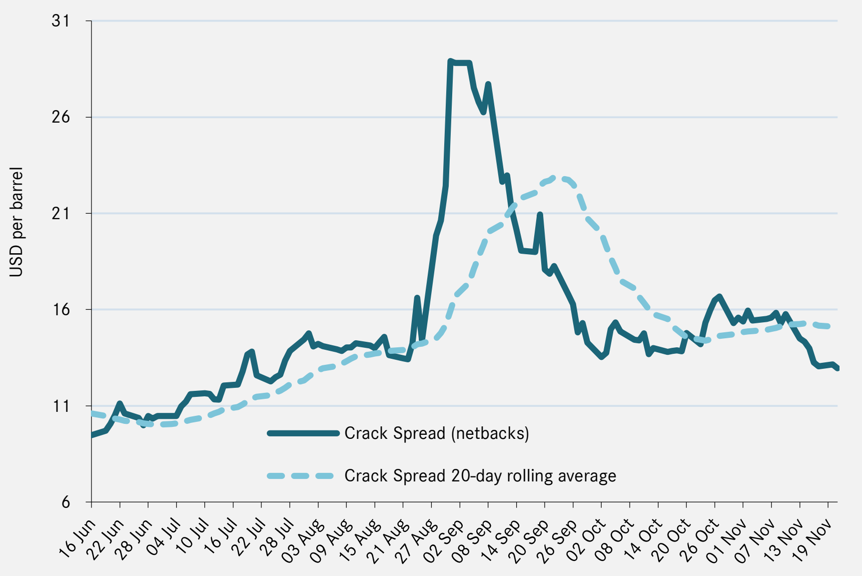
DOWNSTREAM:

REFINERY MARGINS

In what is turning out to be a somewhat negative report (at least if you're one of those with a net long position on oil), the IEA has already decreased its refining throughput estimate for Q4 2017, which implies weaker crude demand. Refinery runs are now estimated to be 80.8 Mn bpd . However, throughput is expected to rise at the beginning of 2018, increasing by 1.1 Mn bpd year-on-year in both January and February.

For now, though, margins are at just USD 12.96 per barrel, with gasoline and diesel prices falling as inventories build.

Refinery Margins



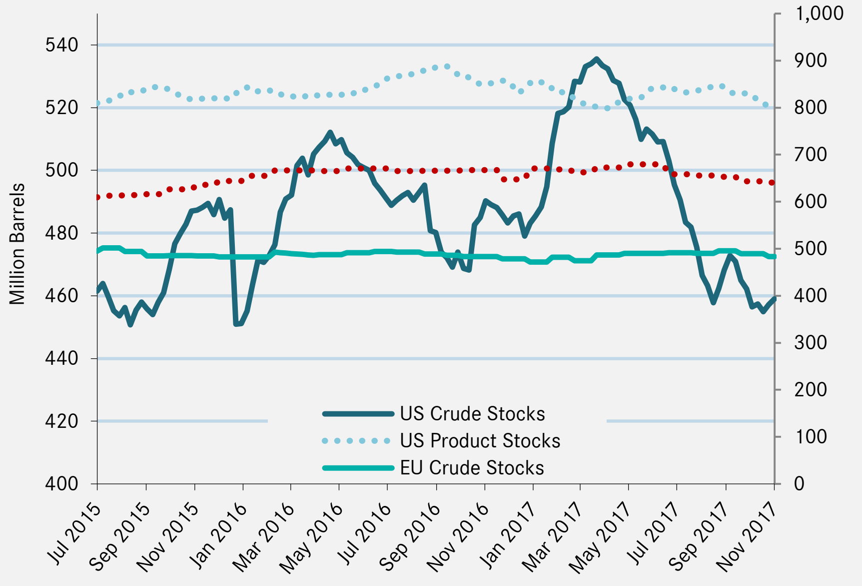
INVENTORIES

US crude inventories have built for the second consecutive week to 459 Mn barrels; it is the first time since September that stocks have recorded two successive weekly builds. Once again, the rise defied industry expectations. Product inventories also rose, albeit marginally, with falls in distillate fuel oil and LPG offset by rising gasoline, residual fuel oils and other oils.

The IEA notes that Hurricane Harvey was largely responsible for the fall in OECD industry stocks in September, which slipped below 3,000 Mn barrels for the first time in two years. Global stocks declined by 63 Mn barrels in Q3 2017, which is only the second quarterly draw since 2014.

	Mn bbl	Change	Change %
US Crude (Weekly)	459.00	1.85	0.4%
US Products (Weekly)	800.77	0.90	0.1%
EU Crude (Monthly)	483.48	-5.84	-1.2%
EU Products (Monthly)	640.52	-2.72	-0.4%

Oil Inventories



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