Saudi Arabia sets the stage for a high stake market share battle – 09 March 2020

Refinitiv Oil Research

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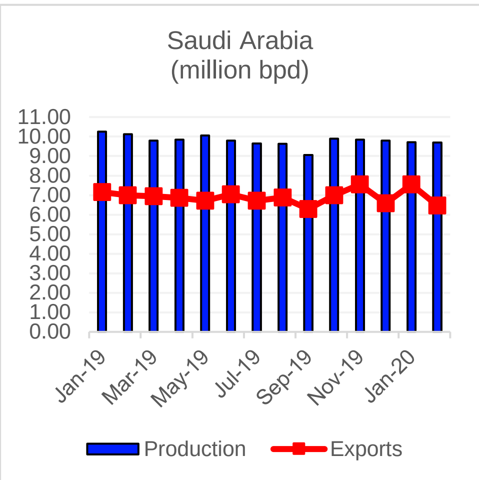
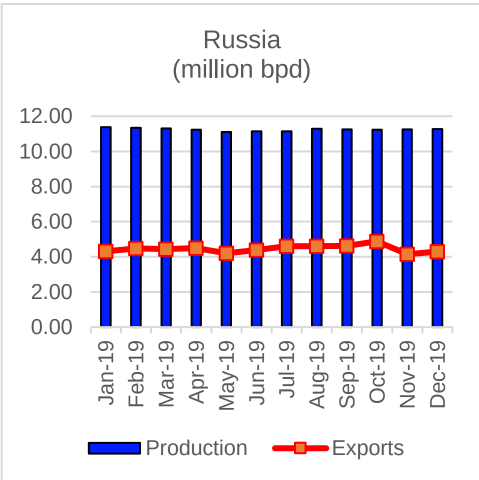
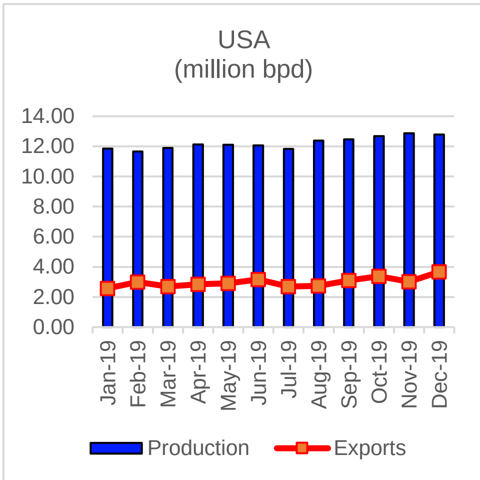
Benchmark crude prices went into a tailspin on Monday morning trade following OPEC and its allies including Russia failing to agree on extending and deepening the output cut which expires at the end of this month. Oil prices closed on Friday with Brent down by 10.4% and WTI down by 7.8% w-o-w. As of 07:30 GMT this morning, Brent crude was at $33.93/MT, down by 25%, the largest single day drop since the Gulf War in 1991, while WTI was down by 26.8% at $30.22/MT. On market opening, prices dropped to an intra-day low of $31.29/MT for Brent and $27.37/MT for WTI.

Oil exports- A tale of 3 countries:

Saudi Arabia, Russia and USA together contribute more than 30% of global oil supply and in terms of exports while Saudi Arabia and Russia have had significant control on the market, USA backed by growing shale oil production has seen a surge in exports. In 2019, USA exported on an average, 24% of every barrel of oil produced. Russia on the other hand exports on an average, 40% of its total crude oil production, while Saudi Arabian seaborne exports have typically ranged around 70% of production although the export ratio since 2015 has ranged from a minimum of 61% to a max of 78% of production volumes. The reliance on oil exports and the resultant income is significant for Saudi and Russia. Following Russia's decision to not participate in further supply cuts, Saudi Arabia has been reported to have announced to increase their production beyond 10 million bpd for the month of April with a possibility to touch 11 million bpd. With the ensuing battle for opening up the cap on production, other key OPEC producers who have been limited by the quotas and compliance over the past three years are also likely to increase production and cut prices in a bid to maintain market share.







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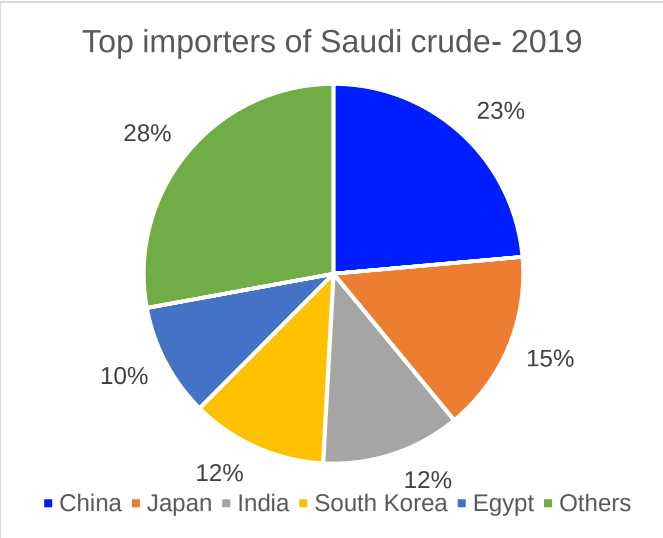
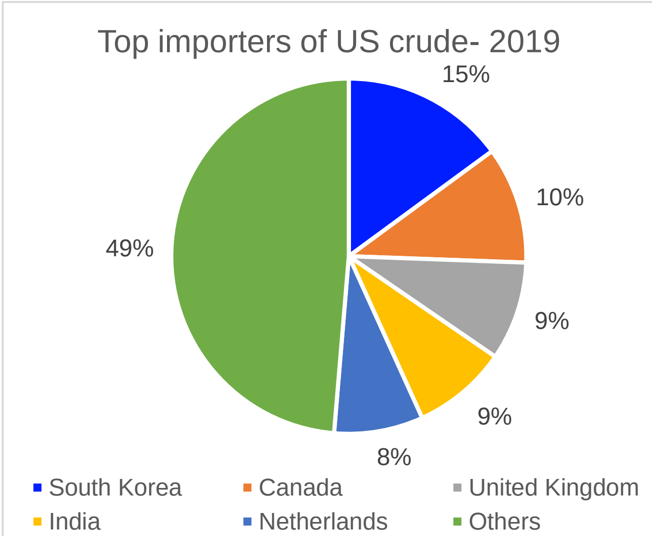
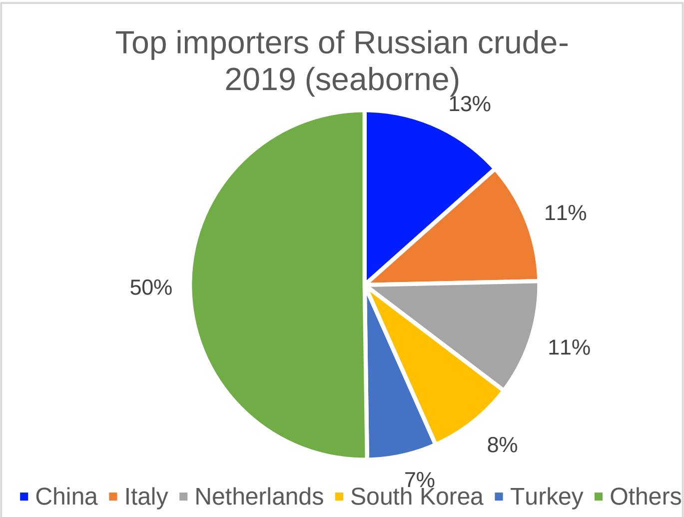
Key Demand Centres:







A scenario analysis of key Middle Eastern exporters:

Besides Saudi Arabia - Iraq, UAE and Kuwait are the three key exporters from the Middle East who have spare capacity and the potential to ramp up production when the supply cut agreement ends in March. Of these three countries, Iraq has the least spare capacity and has been prone to internal conflicts which reduces the reliability of spare capacity, while Kuwait and the UAE can be expected to ramp up production with a high degree of confidence. It may be noted that Kuwait and Saudi Arabia have also restarted production from the Neutral Zone area in February which is expected to have the potential to reach 500 kbpd by the end of this year and could cater to refineries that have specific demand for heavy sour crude oil. Refinitiv Oil Research has analysed the potential increase in exports that could be added to the market based on three scenarios – (i) Low Case: Lowest exports to production ratio since 2015; (ii) Base Case: Exports to production ratio since 2019; (iii) High Case: Highest exports to production ratio since 2015.

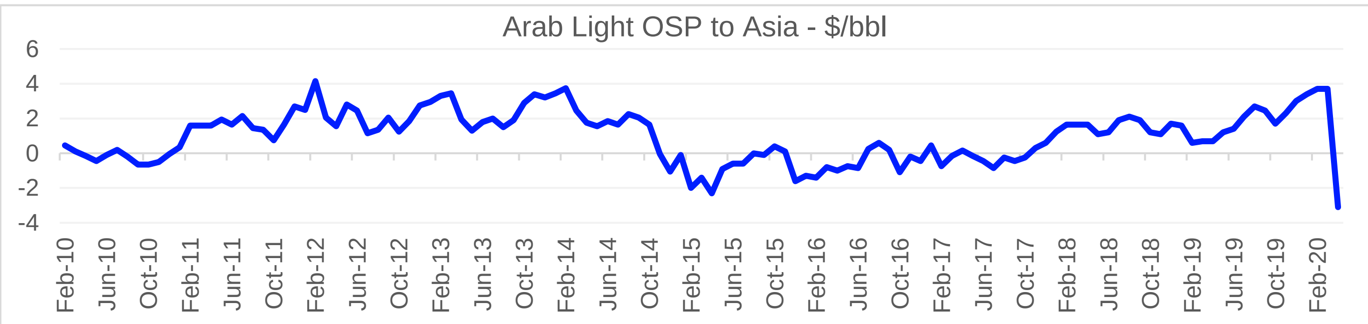
IRAQ	**Oil production increase (million bp**	**Exports increas Low case (million bpd)**	**Exports increase Base case (million bpd)**	**Exports increase High case (million bpd)**
	0.10	0.07	0.08	0.09
	0.20	0.13	0.16	0.19
KUWAIT	**Oil productic increase (million bp**	**Exports increas Low case (million bpd)**	**Exports increase Base case (million bpd)**	**Exports increase High case (million bpd)**
	0.25	0.16	0.19	0.22
	0.35	0.22	0.26	0.31
	0.50	0.31	0.38	0.44
	0.75	0.47	0.56	0.66
UAE	**Oil production increase (million bp**	**Exports increas Low case (million bpd)**	**Exports increase Base case (million bpd)**	**Exports increase High case (million bpd)**
	0.25	0.18	0.24	0.29
	0.35	0.25	0.33	0.40
	0.50	0.36	0.47	0.57

Other players who could add more volumes:

Libya, Iran and Venezuela were exempted from the earlier supply cuts on account of struggling production and exports, sanctions and internal strife. While Iran and Venezuela are under sanctions, Refinitiv Oil Research does not foresee an immediate reversal on these decisions and thereby little or no possibility of a ramp in exports from these countries. Libya on the other hand has seen exports dropping in February, largely on account its key export terminals being blocked by rebel forces. The exports from the country have fallen by nearly 700,000 bpd from January levels. This is a potential volume that can be brought back to the market should the disruptions end, and the rival factions come to an agreement.

Impact on pricing:

With demand remaining uncertain considering the economic impact caused by the coronavirus, any significant increase in supply would mean producers have to compete amongst each other to retain/increase market share. This has historically led to price cuts and the first semblance of price cuts returning to the market was witnessed over the weekend when Saudi Arabia cut the Official Selling Prices (OSP) for April sales of crude oil to all key demand markets in the range of $5-8/bbl. This has already led to reported interest from a few Asian buyers who are looking at the possibility of increasing sourcing of crude oil from the region as prices are set to fall. Russia, with pipeline access to China and USA with the advantage of trade deal negotiations have a competitive advantage for supply into the key Chinese market and hence Middle Eastern producers would need to be extremely competitive on their pricing while also focussing on other key Asian consumers. Other regional producers are expected to follow suit on their pricing and target market.



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