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University of Guyana's Institute for Energy Diplomacy

ENERGY COMMENTS

2019 BRENT PRICE

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2019 Brent Price (Month to Month)

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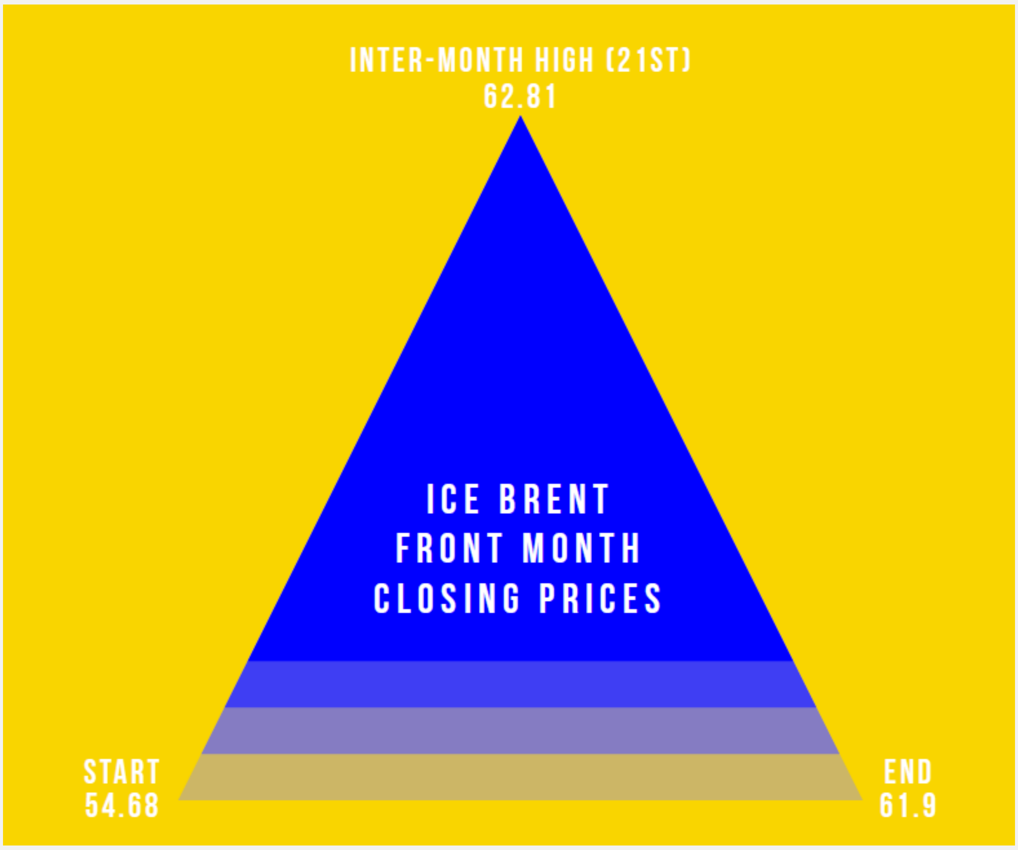
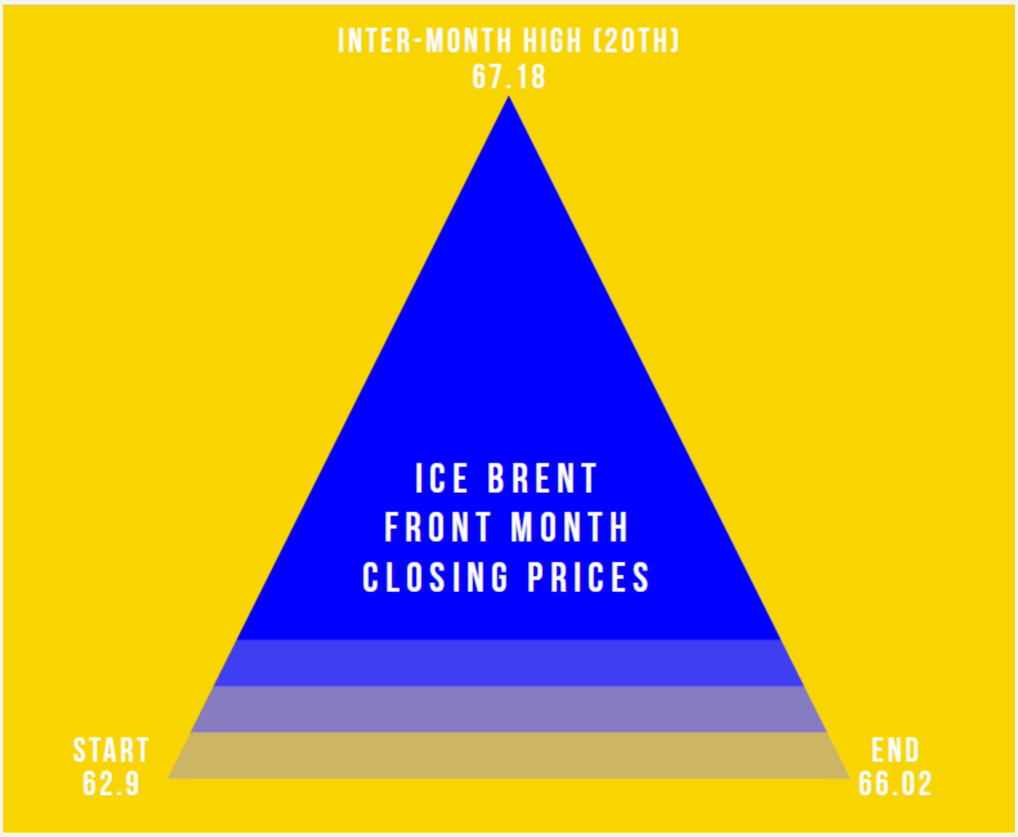
January



January 2019 set an upward trend for Q1 Brent price and experienced a surge in the first half of the month reminiscent of December 2016 gains, a circa 11% increase from the close on Jan 1st to Jan 15th. The early part of the long-awaited rally was fuelled by expectations of supply discipline from the December 2018 OPEC + production cut decision. It was also supported by stronger demand factors such as a possible US-China trade deal in January after the December 13th decision to delay new tariffs. Other market considerations in support of a higher price included possible supply-side shocks from Iran, Libya and Venezuela. Libya's oil production slumped to under 1 million bpd due to the ongoing civil war. Recovery has commenced with oil majors reinvesting alongside the country's National Oil Company (NOC). In December the country's largest oil field, El Sharara, was shut down due to an armed protest. An attempt was launched in January, by General Khalifa Haftar of the Libyan

National Army, to regain control of the circa 300,000 bpd field with hopes to improve Libya’s output. Analysts have contended that an aggressive move on the oil field will likely prolong its re-opening. The second half of January was influenced by Venezuela’s political crisis. In the trading week ending January 25th, the US recognised Juan Guaidó as the Interim-President following the May 2018 election fallout. The widely regarded “rigged elections” declared Nicolás Maduro as the winner of another term in office. The US and other countries such as Canada and the UK backed Juan Guaidó in the face of electoral fraud, suggesting a possible regime change. The US expanded sanctions on Venezuela and targeted the NOC, PDVSA, in late January. The month closed at $61.90, up from the $54.68 close on January 2nd.

February

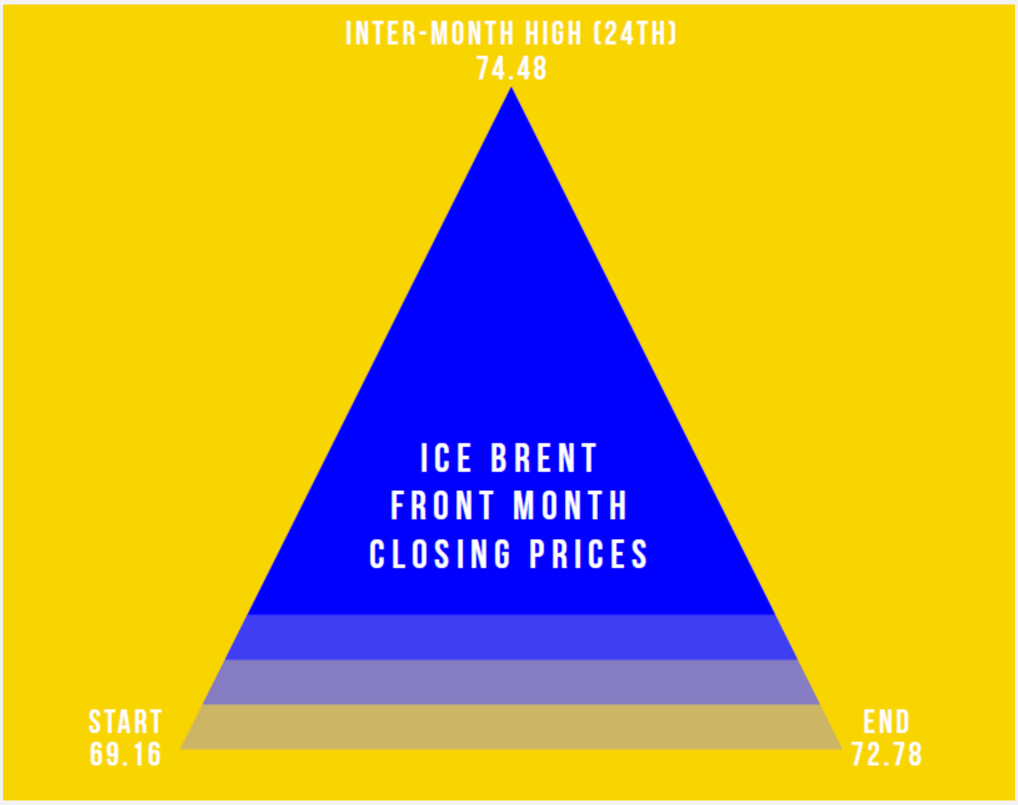


The first week of Brent price in February 2019 displayed a downward trend, which was reversed in the remainder of the month. The decline was caused by enhanced concerns over the global growth outlook, largely due to the lack of progress on the US-China trade deal, and signs that General Haftar's success in controlling the El Sharara oil field will lead to a sooner than expected return of production to the market. The downward pressure on price was also kept by the surging US production of crude. The EIA on February 12th updated their forecast of 2019 production by 300,000 bpd to 12.4 million bpd. In the trading week ending February 15th, price began a surge from $61.58 at the close on February 11th to $67.18 at the close on February 20th. A leading reason for the rally was evidence of execution on the OPEC + production cuts, agreed in December 2018, with OPEC disclosing that production fell by nearly 800,000 bpd in January 2019 against the previous month. The looming March 1st, 2019 deadline set by President Trump for the possible US-China trade deal influenced price. In the final week of February, the US President while noting substantial progress on trade talks between the two countries, extended the deadline and thus, paused the planned tariffs over the March no-deal scenario. President Trump's informal statements warning OPEC over the risk of high oil prices to global growth and his view that oil prices were getting too high on the back of their production cuts contributed to a decline in price on February 25th. However, the EIA fuelled price recovery to the month-end close at $66.02 after revealing a decline in US inventory in significant excess of analysts' expectation for the week ending February 22nd.

March

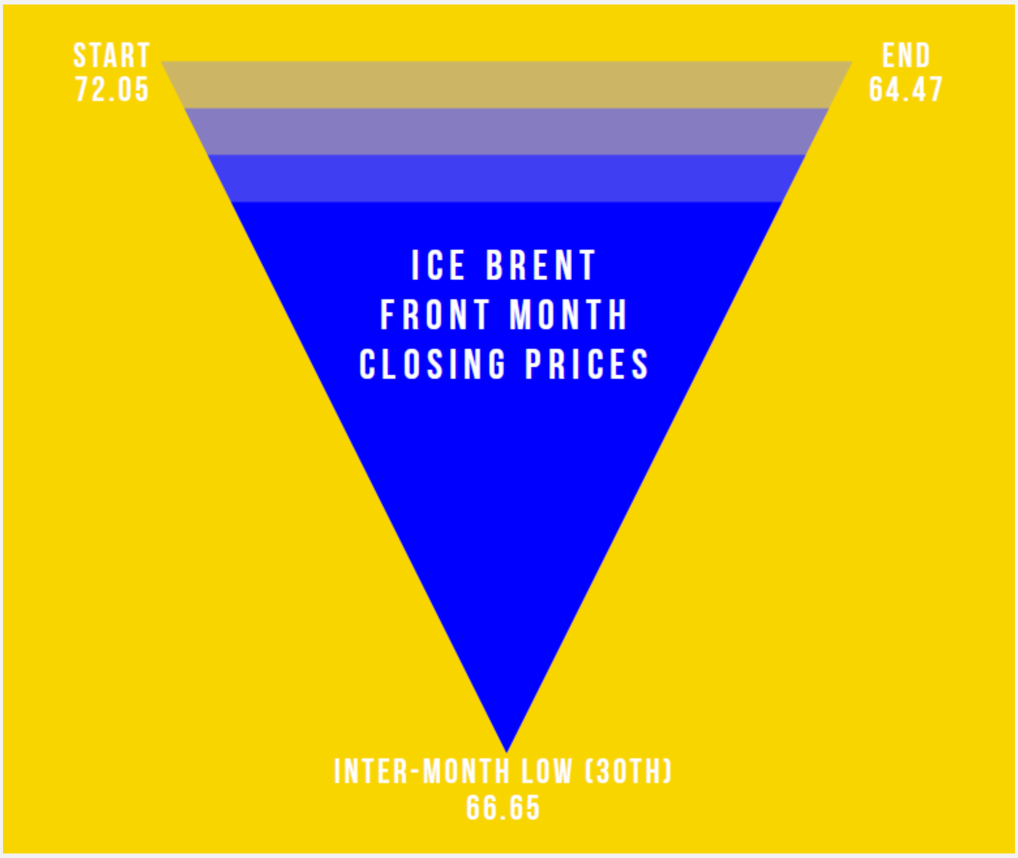
The upward trend in Brent price continued in March 2019. The daily closing prices averaged in the mid-60s, placing Brent closer to the $70 mark. Official data released by the EIA on March 8th confirmed that US oil production rose at the fastest observed pace, a record previously held by 2014. The upward price march was possible due to diminished concerns over the supply glut. US inventory drawdown data did not align with projections by analysts such as the 3.9 million decline in crude stock versus the 2.7 million expected for the week ending March 8th. Price was supported by the sanction-hit Venezuela. Production continued to decline and, in the week, ending March 15th, the IEA warned that further disruptions could threaten the 1.2 million bpd. The public unrest in Alegria continued over the need for political reform and the weight of a possible supply shock from Alegria remained on price. The tail end of the month witnessed declines to price on the back of a weaker global demand outlook. European manufacturing data, particularly in Germany and France, was a main contributor to the weaker outlook with Eurozone manufacturing experiencing a five-year low. The month closed 6.4% higher than its start and placed crude price at $69.1 for April 1st.

April



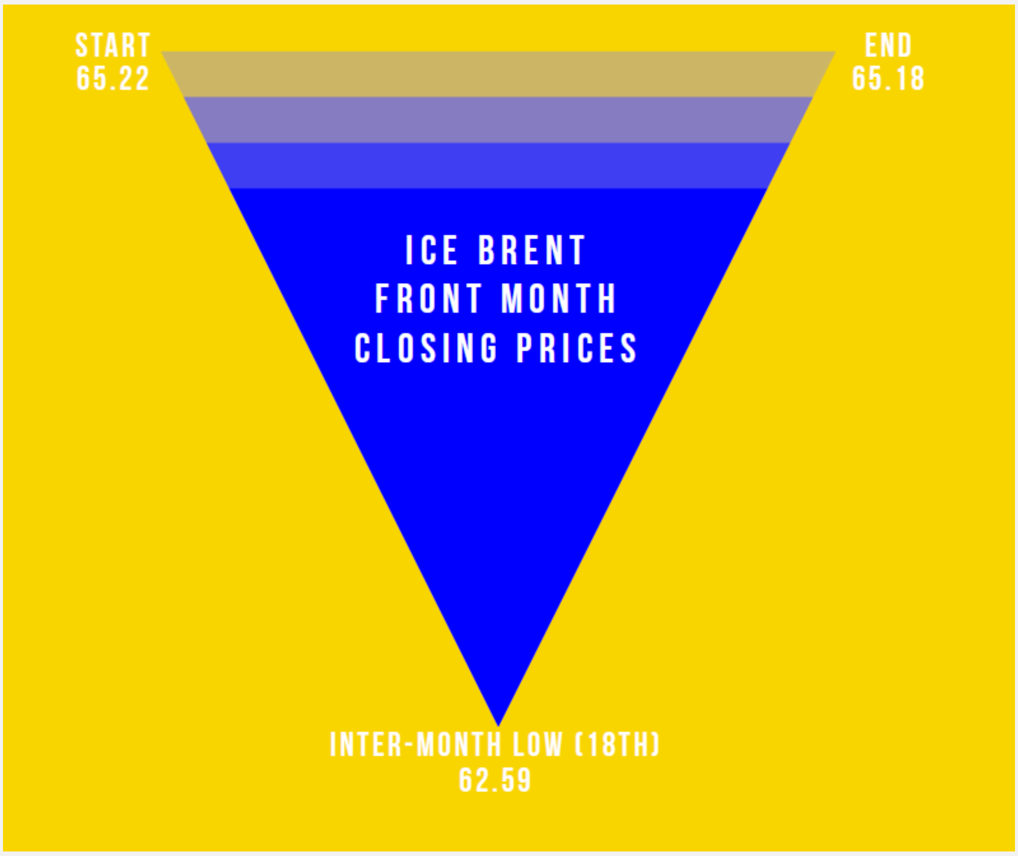
Brent price continued its rise fuelled by stronger economic data on US and China in the first half of April 2019. The promising demand outlook and the expectation that OPEC + will extend its production cuts eased concern over the continued supply surplus experienced and suggested that demand may outpace supply later in the year. The IEA's closely monitored monthly report on April 11th refers to a possible tightening of supply in Q2 2019. Potential shocks to production in Venezuela, Iran and Algeria supported the rise. The US's announcement of its decision to end sanction waivers on major countries that import from Iran, inclusive of India and China, among others, and the restatement of the US intent to cripple Iran's exports to zero ignited a rapid growth of Brent price in the second half of April. From April 22nd to April 25th, the price surged, causing Brent to breach the $75 mark (high) for the first time in six months. Analysts including academics from Oxford University and Columbia University, among others, saw the right conditions building for price to approach the infamous $100 mark. The price regressed before mild improvements to a month-end close of $72.78. An unexpected build-up of US crude inventory and the reduced risk of a severe production decline, due to failed efforts of ousting Venezuela's Nicolas Maduro, underscored the price decline.

May



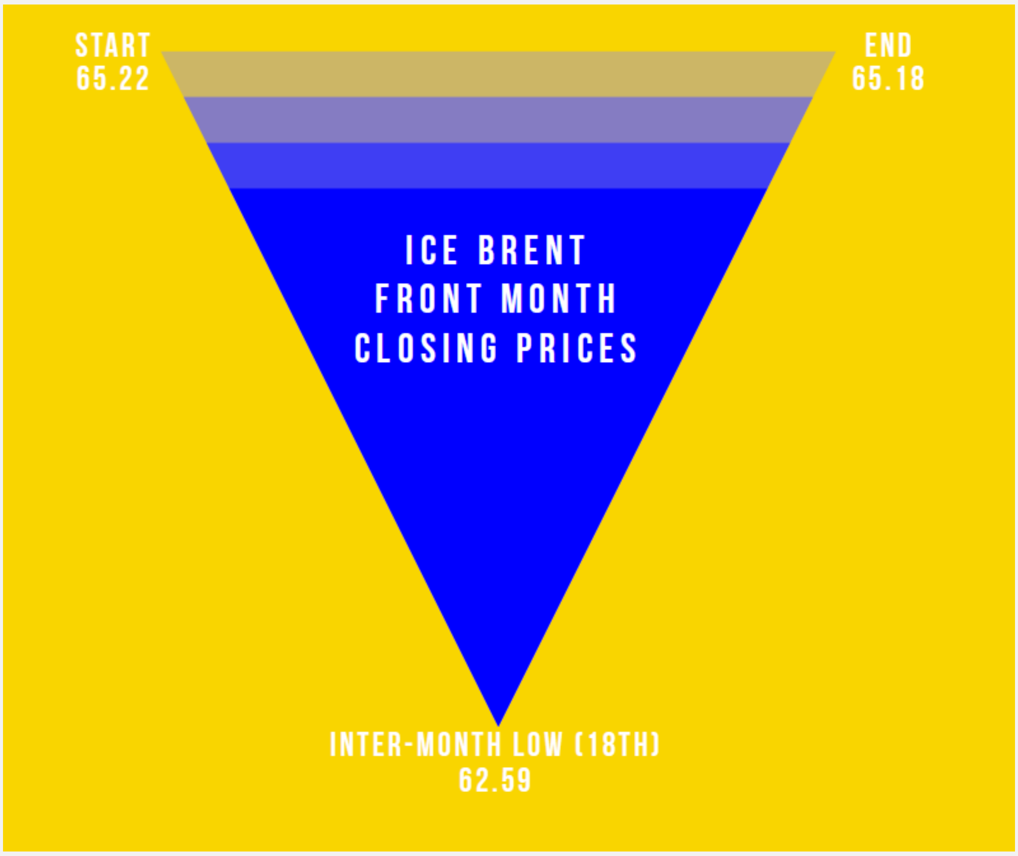
Brent price movement in May 2019 ranged from a high of $72.77 to a low of $64.47 at the month's close. In a month with production risks in Iran and Venezuela due to US sanctions and uncertainty over the Strait of Hormuz, Brent crude seemed to have all the right ingredients for a sustained price surge above $70. The main downforces to price were the surging US shale production, the high level of US crude inventory and the US-China trade war developments. The first sizeable inter-month drop occurred on May 2nd as both the US and Russian production and the US stockpile continued to increase. Saudi Arabia's oil infrastructure was attacked on May 12th by the Yemeni Houthi rebels, a conduit of Iran. While the damage was limited, a second attack followed on May 14th against four oil tankers off the coast of Fujairah, U.A.E, in close proximity to the Strait of Hormuz. Oil price received further support of Saudi Arabia's Energy Minister indicating on May 20th that OPEC + had a consensus on continuing production cuts. The oversupplied state mitigated the potential for a prolonged spike. The continued growth of the US crude inventory, the largest level accumulated since 2018, and the concerns over the global economy underscored the tail end decline in price. From May 28th to May 31st, the Brent price declined by circa 8% to a close of $64.47.

June



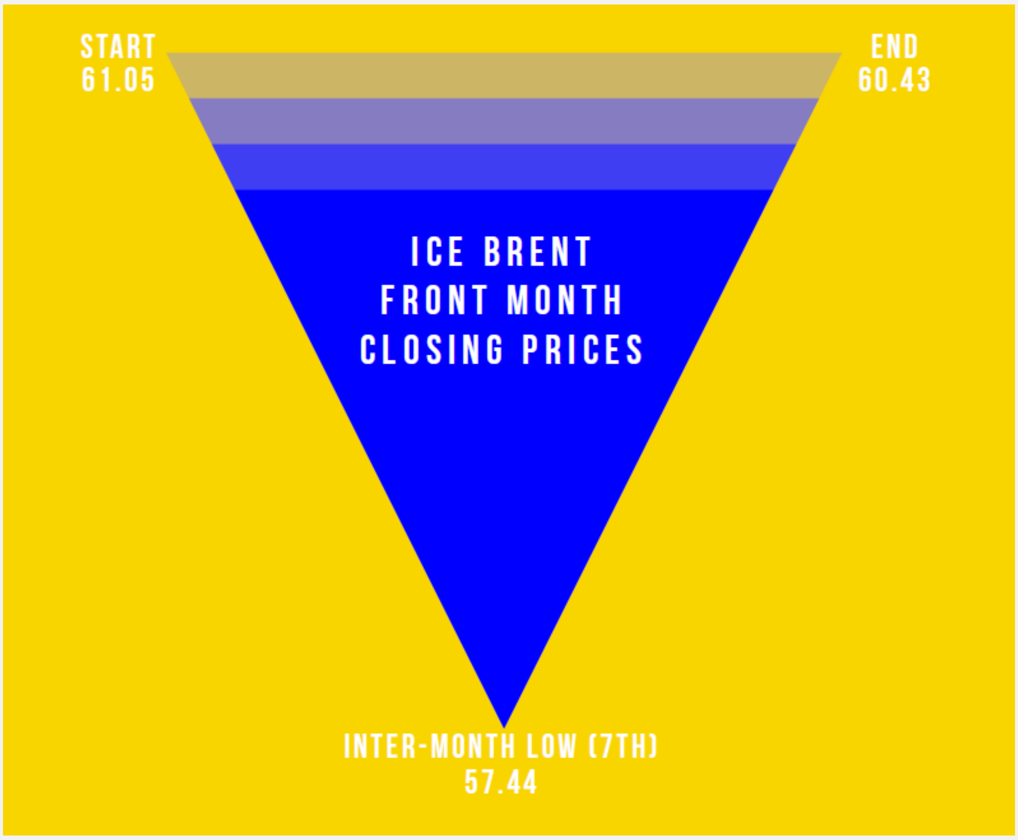
The first ten-days of June displayed marginal Brent price movements with an upward trend, followed by a slump in price to June 12th. Speculative demand shock contributed to the decline. The American Petroleum Institute and EIA informed the market in the week ending June 14th that US inventory rose by over 2 million barrels against forecasts expecting a decline. The unexpected inventory gain, a downward force on price, was followed by a supply shock from Middle East tensions. On June 13th, two oil tankers were attacked in the Strait of Hormuz and the US Secretary of State promptly blamed Iran for the attacks. The Brent price increase from the attacks was not sustained due to the demand concerns, particularly slower than expected industrial growth in China. The IEA released its first comments on the 2020 market in the June Monthly Oil Report. The June 14th report notes the continued downward pressure on price from the diminished effectiveness of OPEC + supply cuts due to surging US shale production and the acceleration of non-OPEC supply. US-Iran tensions flared following a US surveillance drone being shot down on June 20th by Iran. The US administration claimed the drone was flying over the Strait of Hormuz while Iranian officials claimed that it was in the country's airspace. The market braced for a retaliation from the US, however, the planned retaliation did not materialise. The market received positive price news that Saudi Arabia and Russia informally agreed, ahead of the OPEC + Vienna meeting in July, on an extension of production cuts. Brent price increased by 7% from the close on June 19th to $66.51 on June 28th.

July



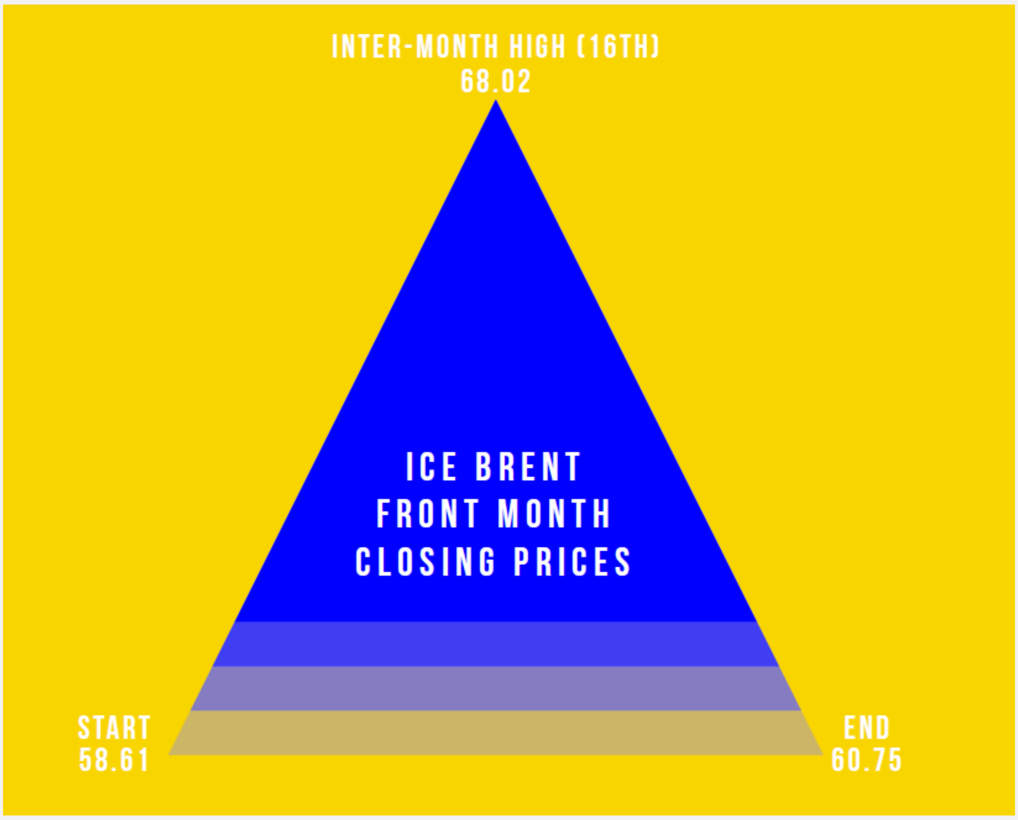
OPEC + announced on July 2nd that their voluntary production cuts made in December 2018 will remain in place to March 31st, 2020. The decision to extend their production cut to support price was received by a slide in price, demonstrating concerns of weakening demand and continued oversupply. Shocks to speculative demand, crude stock demand associated with forward-looking behaviour of the market participants, placed upward pressure on price in the first half of July 2019 Brent pricing. Data from the American Petroleum Institute and the EIA on US crude stockpiles caught analysts and traders off guard for the week ending June 28th and July 5th. The fourth consecutive weekly drop in US inventory was registered on July 5th, the stockpile declined by nearly 10 million barrels against a market expectation of less than 3 million barrels drawdown. Brent price declined from $67 on July 12th to $62.59 on July 18th. The decline in the face of lower US inventories was underscored by promising news on Middle East tensions. The US Secretary of the State referenced Iran’s willingness to discuss its nuclear weapons programme, the root of US-Iran tension. On July 22nd the Iranian Revolutionary Guard seized a British-flag oil tanker in the Strait of Hormuz. Early in July, the UK seized an Iranian oil tanker on the grounds that it was suspected of carrying oil to Syria, a violation of EU’s sanctions against the country. Larger than expected decline in US stockpile was also realised for the week ending July 26th. The Brent price recovered for a month-end price of $65.18, roughly on par with July’s start. Participants were largely less worried about a price collapse in the upcoming month due to OPEC + supply commitments, unexpected declines to US inventory, increased Middle East tensions and production risks in Venezuela and Libya.

August



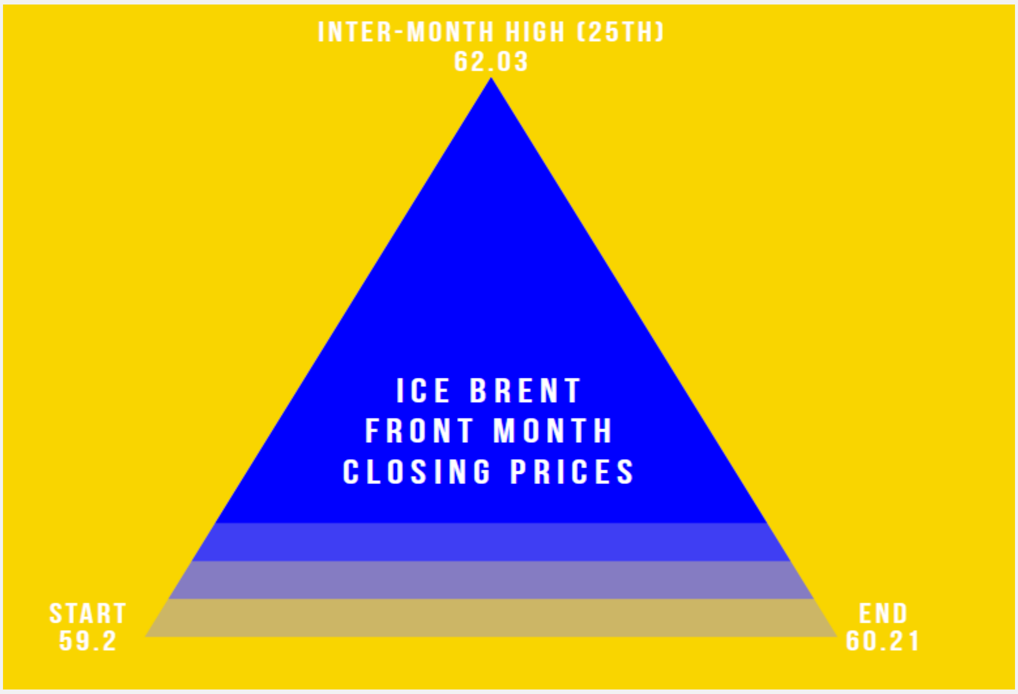
Brent price was primarily driven in August 2019 by demand-side developments. The month started with negative news on the US-China trade war front. The US announced plans for a 10% tariff on billions of additional Chinese goods, excluding the $250 billion subject to a 25% tariff. The diminished demand outlook on China was compounded by EIA data on a rise of US crude inventory that surpassed market expectations. The deteriorating state of Venezuela's production was further impacted by the August 5th executive order expanding US sanctions on Venezuela, freezing government assets in the US and preventing transactions with Venezuelan Authorities. On August 23rd, China responded to the planned enforcement of the new tariff by announcing further tariffs ranging from 5% to 10% on an estimated $75 billion of US imports. The global demand outlook diminished following the trade announcements, placing downward pressure on price. Price collapsed from the July's month close of $65.18 to $57.44 by August 7th. Supply-side considerations such as the impact of sanctions imposed on Iran and Venezuela, storms in the Gulf of Mexico and OPEC + production cuts were largely muted by the grim demand outlook. Further, China's continued importation of crude from Iran has mitigated the sanction pressure on price. The month closed circa 7% lower when compared to the close at the start of the month, $61.05.

September



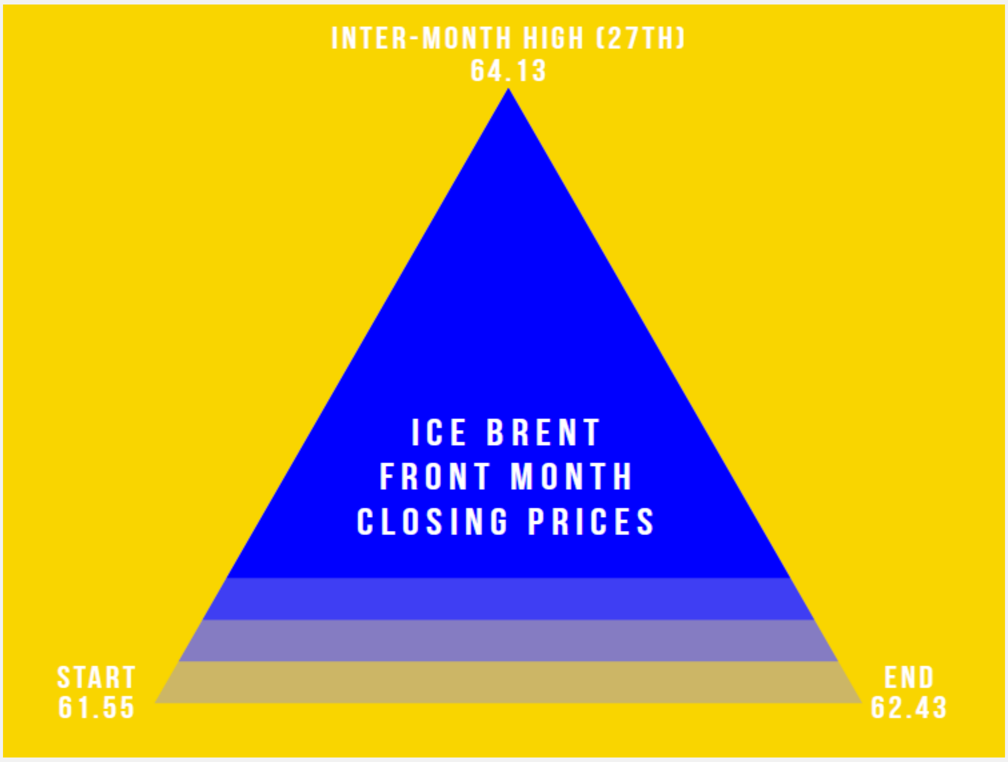
Promising economic data on China lifted Brent price in the first week of trading. The US administration's removal of their National Security Advisor, John Bolton, due to several disagreements such as on the US-China trade talks, was positively received by the market as well as the supply-relevant first public comments by Saudi Arabia’s new energy minister, Prince Abdulaziz bin Salman, on maintaining production cuts and supporting price. The September 2019 Brent Crude Market experienced one of the worse loss of output from a single incident. On September 14th two major Saudi Arabia oil facilities were engulfed in flames following drone attacks. The US squarely placed blame for the incident on Iran, via their alignment with the Houthi rebels, and labelled it as an unprecedented attack on global energy supply. The exogenous shock sent Brent price near to the short term $70 ceiling from a below $60 start to the month. The uncertainty over the extent and length of supply disruption sustained the rise with early estimates suggesting that the attack impacted over 5 million bpd or circa 5% of world supply. Despite the enhanced risk to Saudi Arabia’s oil infrastructure and attacks in the Strait of Hormuz, the market’s decreasing worry on the supply impact given the pre-existing oversupply situation, Saudi Arabia’s inventory and ability to recover, among others, was reflected in the retreat of price. The month closed on a less than 1% change from its opening price of circa $60.

October



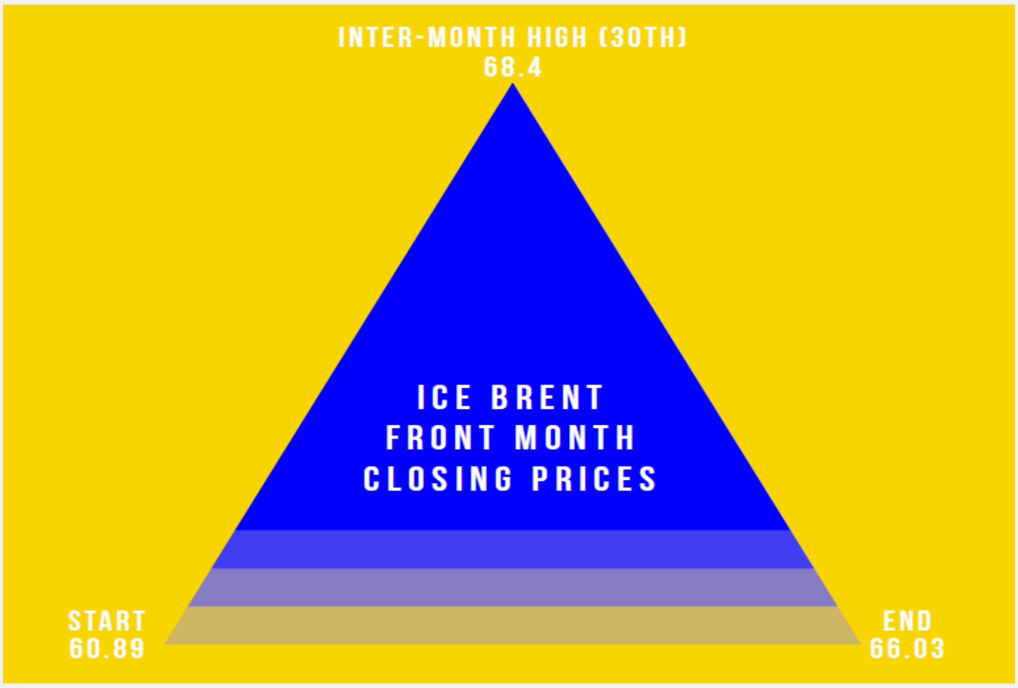
The market absorption of the September attacks and return to the pre-existing level continued in the first days of October 2019. Saudi Arabia on October 3rd disclosed that oil production was restored to the near 10 million bpd while total production capacity stood at 11.3 million bpd against the 12 million bpd pre-attack level. The quick return to business-as-usual price demonstrates the market-based determination of price versus the days of OPEC price control where a similar attack would have caused a deeper ripple in price movements. Monthly reports from the IEA and OPEC corroborated concern over the demand outlook by trimming forecasts. The US-China trade war and the Brexit deal impacted price. Poor data on China's economic performance and a build-up of US inventory towards the month-end weighed Brent price down in the final week of October trading. The IMF on October 28th negatively revised its economic growth projections for the Gulf states due to lower production, among others. Supply-side attention on the market focused on the OPEC + upcoming meeting and actions that may be taken. The month-end Brent price closed marginally above the $60 mark.

November



The Brent price in November 2019 gradually increased from circa $60 to $65. On November 1st news of England's moratorium on fracking drove fear into US shale investors over a similar future scenario. England's Oil and Gas Authority placed the indefinite halt due to safety concerns. Shale investors in the US face the likelihood of a shift in policy due to the US's 2020 Presidential Election, several democratic candidates are opposed to fracking. ExxonMobil cautioned that a US ban to fracking would divert significant energy investments away from the country. Surging US shale production has been a primary supply-side factor for the current oversupplied state of the market. The fracking policy scare supported price, coupled with promising demand-side developments from the US-China trade agreement. Market participants responded in the first week to US trade representative's, Robert Lighthizer, official statement on constructive talks towards a trade deal. The mid-month enhanced concern over the US-China trade dispute shaved off price gains while a tail end trim to the month's gain occurred because of the uncertainty of the OPEC + meeting in early December. The November 29th Brent price close stood at $62.43.

December



Favourable demand and supply developments underscored the general upward trend in the December 2019's Brent price. Saudi Arabia and OPEC + dominated market reaction in the first ten days. The Kingdom led talks for a deeper production cut to address the supply glut. It was also vital to ensure the best price environment for the Initial Public Offering of Saudi Aramco. The OPEC + meeting occurred on December 5th and 6th. The outcome of the two-day meeting was an additional 500,000 bpd cut to the existing 1.2 million bpd reduction. Saudi Arabia pledged to a further 400,000 bpd cut above their quota, resulting in a total output reduction from OPEC + of 2.1 million bpd until late March 2020. The second wave of good news came in the form of an improved outlook on flow demand. The US administration announced on December 12th that it agreed on terms for a trade deal with China, averting the additional intended tariffs. Market participants were concerned about the implementation of additional tariffs, circa $160 billion on China's consumer goods, on December 15th. The month closed with Brent above its mid-60s average. The oversupplied state of the market overshadows 2020, specifically the shale production growth, uncertainty from slowing global demand and crude imports from China.