بنك الإمارات دبي الوطني
Emirates NBD

Commodities
14 February 2017

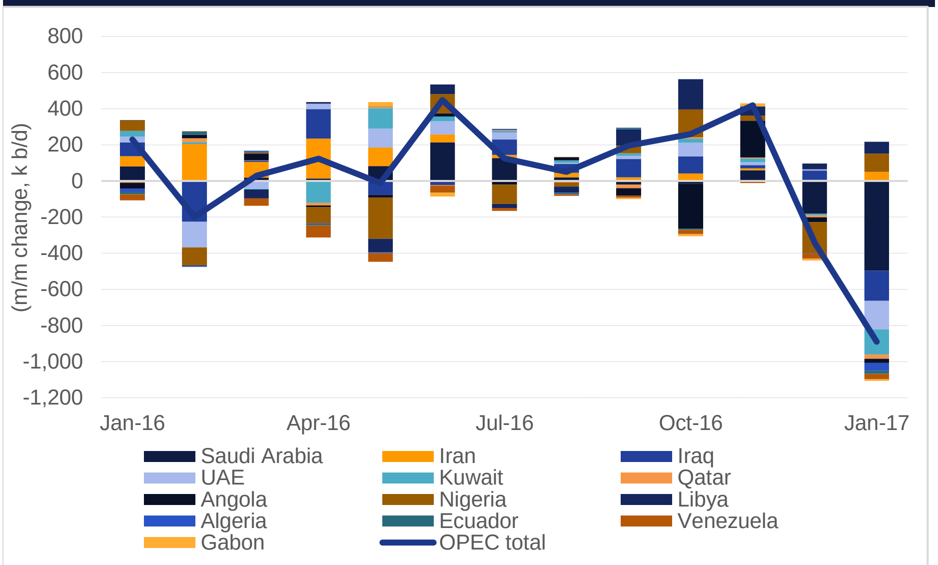
OPEC output update

One month in to its agreement to cut production, OPEC has managed to achieve a high level of compliance. For the countries that are party to the agreement, they managed to cut collective output month on month by 1.06m b/d in January, coming close to full compliance with the targeted output level. Previous deals to limit output have been plagued by generally poor adherence by OPEC members as producers have incentive to cheat if prices do rise and face little consequence if they over-produce. With only one month down out of at least six, it will still take some time to determine if cutting production was indeed the right strategy to help balance markets.

Collective compliance appears high but the distribution between OPEC members is varied. Saudi Arabia has taken a larger than required cut (598k b/d from its baseline level compared with 486k b/d required by the agreement), once again playing the role of a swing producer. Angola also 'over-cut' although we would expect this to reverse as new oilfields will come online ahead of schedule. Qatar, Kuwait and Algeria all came close to hitting their cut targets and we would expect compliance to remain strong among the GCC producers. Iran also contributed to limiting output by missing the higher level it was allowed to reach.

However, some producers have ground to make up. Most notable is Iraq where output fell 85k b/d, compared with its target cut of 210k b/d and the UAE where output fell just 82k b/d from baseline levels compared with pledged cuts of 139k b/d. The UAE's under-performance in this regard follows on from production hitting a plateau at the end of last year and plans to hit mandated levels as an average over the duration of the agreement, rather than in one month.

OPEC slams the brakes on output



Source: OPEC Monthly Oil Market Report, Emirates NBD Research.

Has OPEC cut too much too soon?

On aggregate, OPEC managed to remove more than 1.35m b/d from the market from its baseline level, although the size of the cut is just 441k b/d when including the output of Nigeria and Libya who have been excused from the deal. The size of the initial cut, however, and burden that Saudi Arabia and some of its partners in the GCC have taken in absorbing most of the cuts makes us cautious about whether sustained month-on-month declines in production can be achieved. OPEC has set a rod for its own back to ensure production stays at the current low levels as for many producers the only direction of travel would be higher. Even in Saudi Arabia, where we would expect the highest degree of compliance with the deal, production may start to climb from April in line with seasonal trends of higher oil demand in the summer months.

The oil market has held reasonably steady so far in 2017 with Brent futures trading in a range between USD 54-58/b. The level of OPEC compliance has served to reinforce this range, rather than push prices higher, which highlights to us the importance of factors beyond OPEC's monthly production levels.

Edward Bell
Commodity Analyst
+971 4 230 7701
edwardpb@emiratesnbd.com

www.emiratesnbdresearch.com

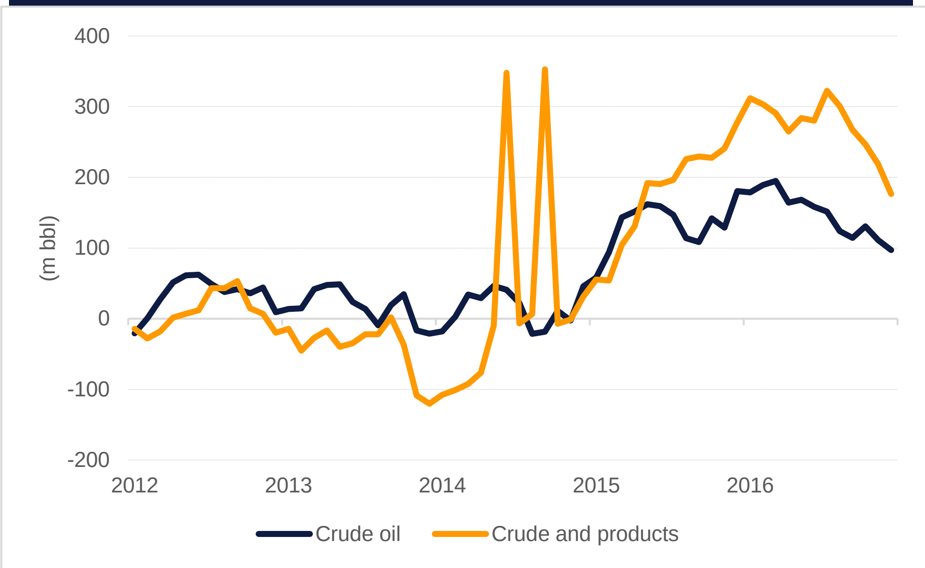
Output from non-OPEC producers, particularly other national oil companies—in Russia, Mexico or Oman for example—had been pledged to decline in coordination with the OPEC deal and so far signs are good that some major producers are following suit. Russian production fell 100k b/d in January, its largest decline since August, meeting slightly less than a third of its agreed cuts. Data out of Oman has yet to be released but we would expect at least some initial compliance in line with its GCC peers.

The paucity of data coming from OPEC and other NOC producers means that some of the direction for prices is surrendered to the nearest available source of oil market data: the US. Crude production there has been on a consistently upward trend since October 2016 and is now within sight of hitting 9m b/d. The outlook for US production has also been steadily revised higher: the EIA has recently revised up its forecasts for production in 2017 and expects output to average around 9m b/d—which looks to be an underestimate in our view. Producers in the US had been able to take advantage of a generous contango structure in WTI to hedge forward production and the potential of changes to corporate tax structures in the US may see WTI surge to a premium over Brent, potentially extending the timeline for production growth from the US.

Inventories yet to give ringing endorsement of OPEC deal

While OPEC has little control over whether other oil producers limit their own production, a key objective of the deal was to help markets rebalance by forcing a drawdown of the excessive inventories that have built up in crude and product markets since 2014. Data from IEA showed that OECD inventories were indeed tempering at the end of 2016 although they were still at exceptionally wide levels when compared with their five-year averages.

OECD stocks remain well above average



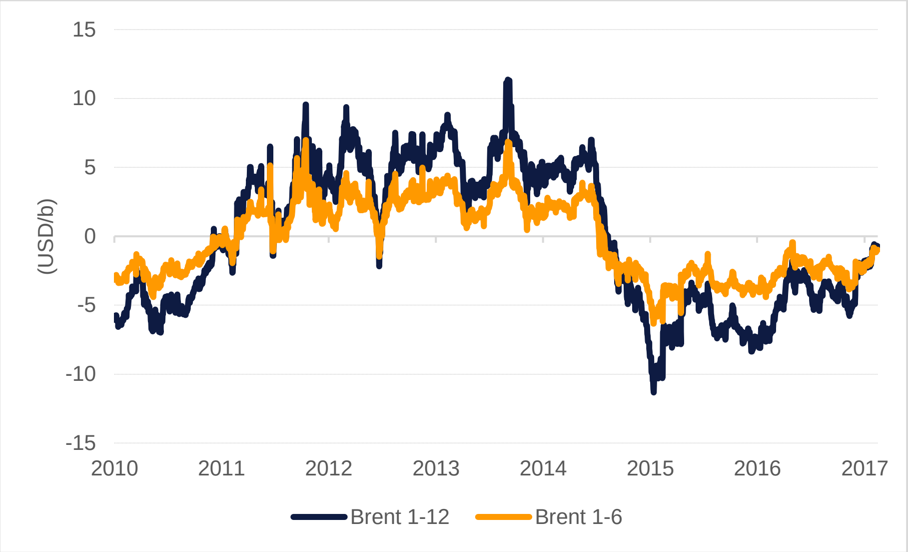
Source: IEA, Emirates NBD Research. Note: Difference between monthly level and five year rolling average.

OECD inventory data is only available on a monthly basis, and with several months delay, meaning that full January inventory figures won't be available until March from the IEA. That leaves market surveys of stockpiles as the most readily available indicator and looking to the US, the numbers are pointing in the wrong direction. US crude stocks have built steadily in 2017 and are now within sight of re-touching their maximum level of 512m bbl. Beyond the overall level, the trajectory of inventories has been steadily higher, including the second highest weekly build ever—13.8m bbl—reported in early February.

European inventories give an impression of a tighter market than their level for most of 2016 although the weekly numbers are highly choppy. Gasoil (diesel) futures for delivery in in the ARA region remain in contango which would give an indication of ample inventories. Gasoil time spreads have narrowed from their wide levels in late 2015 but the contango appears to have stabilized since about the middle of 2016.

A flip of the oil futures curve into a more assured backwardation would send a stronger signal that inventories are indeed tightening at a fast pace and curbing the excess in the market. So far December Brent spreads for 2017 into the next two years have flipped into what we could describe as a tentative backwardation, holding below USD 1.50/b. Prior stretches of backwardation saw long dated spreads as wide as USD 11/b. If indeed the backwardation deepens thanks to rising near term prices (against which OPEC producers price their exports compared with independent producers who are more likely to hedge further down the curve) then we could more confidently view the OPEC deal to cut output as a success.

Brent backwardation yet to give passing grade to OPEC



Source: Bloomberg, Emirates NBD Research.

Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.

Emirates NBD Research& Treasury Contact List

Emirates NBD Head Office
12thFloor
Baniyas Road, Deira
P.OBox777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Group Treasurer & EVP Global Markets & Treasury
+971 4 609 3000
aazark@emiratersnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Shady Shaher Elborno
Head of Macro Strategy
+9714 2012300
shadyb@emiratesnbd.com

Jean Paul Pigat
Senior Economist
+9714 230 7807
jeanp@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Mohammed Al-Tajir
Manager, FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Aditya Pugalia
Analyst
+9714 230 7802
adityap@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com