



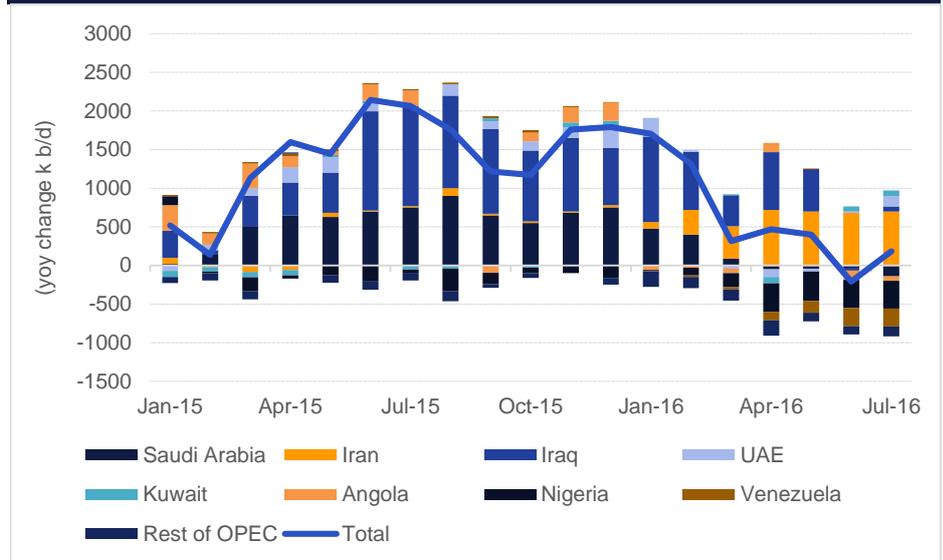
بنك الإمارات دبي الوطني  
Emirates NBD

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# OPEC output update

OPEC crude oil production managed to eke higher in July to 33.2m b/d, 130k b/d more than in June. The increase was despite output in Nigeria and Libya falling back due to persistent political instability and militant attacks. Total production now includes volumes from Gabon (210k b/d) which returned to the producers' bloc after withdrawing in 1995. Production from the GCC members of OPEC dipped by 30k b/d as an unseasonal decline in Saudi Arabia's production offset gains from the UAE and steady levels elsewhere.

## OPEC output rebounds in July



Source: Bloomberg, Emirates NBD Research

Over the back end of the year we expect volumes to creep higher from OPEC. In Libya several major oil export terminals that have been shut due to the civil war in the country are due to be reopened which should help to remove one bottleneck constraining Libyan production. A more substantial wildcard is Nigeria. The government has reinstated payments to ex-militants to provide security for some of the country's oil infrastructure but have not yet achieved a ceasefire with another group that has attacked facilities this year.

Oil markets have entered into a bear market since hitting year-to-date peaks in early June but we doubt that this will push OPEC countries to seriously consider cutting volumes. A replay of the 'freeze' talks is possible but markets may see through any talk as an effort to push up prices that ultimately won't be matched in physical volumes. The next OPEC meeting is several months down the line and we suggest that bloc's concern will turn more toward outlook for demand.

## Low price boost to demand fading out of market



Source: IEA Oil Market Report, Emirates NBD Research

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The IEA is expecting oil demand to expand by 1.3m b/d in 2017, a slowdown from 1.4m b/d in 2016. But as oil consumers are facing their choice of supplier at the moment—OPEC, Russia, US exports or inventory draws—the battle to preserve export destinations will remain fierce for OPEC countries. India is major glimmer of hope for oil markets in 2017 with the IEA projecting it will grow by the fastest pace among major consumers. The country has been running tight on most product inventories for much of the year and appears particularly tight on naphtha and fuel oil when compared against their average demand levels of the past five years.

However, as refining margins remain squeezed by product overhangs we expect OPEC members will need to be more accommodative to secure export destinations. Saudi Arabia recently cut its official selling price for Arab light volumes to Asia by the largest amount this year, selling at a discount of USD 1.10/b to benchmark oil from the AG.

If demand does indeed perform as expected, oil prices are unlikely to react as if there was substantial tightness in the market. During the second quarter as front month Brent futures rose 25% the back end of the curve encountered significant resistance at USD 55/b as market attention turned to the elevated inventory levels at major trading locations.

### Back end of the curve struggles to move past 55



Source: Bloomberg, Emirates NBD Research.

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