Event Note

Event - OPEC to hold its 12-member meet on December 4, 2015 in Vienna

Key Points:

- IEA: Crude oil demand growth forecast to slow to 1.2mn bpd in 2016 from 1.8mn bpd witnessed in 2015, the fastest in last five years on account of global economic slowdown
- Global oil demand growth likely to have peaked at 2.1mbpd in Q3 of 2015 and is expected to ease to 1.5mbpd in Q4 of 2015 and slow further to 1.2mbpd in 2016
- Global oil supplies breached 97mbpd in October 2015 from 96.6mbpd in September as non-OPEC output recovered from the lower levels of the previous month
- OECD commercial stocks at almost 3 billion barrels to provide cushion against supply shocks even at sub-$50 per barrel
- Libyan committee to resolve issues to restart the export terminals and crude supply from Sharara and Elephant which have a combined capacity of 440,000bpd
- Iran to present plan at the meeting with proposal to adjust its 500,000bpd of expected increase in supply after removal of sanctions
- Expectation of mild winter in the northern hemisphere along with a slow demand growth in 2016 could provide cushion to any supply disruption on the back of huge built-up in stocks

1) Soft Demand growth forecast

	3Q2014	4Q2014	2014	1Q2015	2Q2015	3Q2015	4Q2015	2015	1Q2016	2Q2016	2016
Africa	3.9	4	4	4.1	4.1	3.9	4.1	4	4.2	4.2	4.2
Americas	31.3	31.5	31	30.9	30.9	31.7	31.6	31.3	31.1	31.1	31.4
Asia/Pacific	29.9	31.5	30.8	32.1	31.5	31.4	32.5	31.9	32.9	32.3	32.4
Europe	14.5	14.1	14.1	14.6	14.2	14.8	14.3	14.4	14.2	14.4	14.4
FSU	5.1	5.1	4.9	4.6	4.9	5.1	4.9	4.9	4.7	4.8	4.9
Middle East	8.4	7.9	8.1	7.7	8.3	8.5	8.1	8.1	7.9	8.4	8.3
World	93.2	94	92.7	93.5	93.9	95.3	95.5	94.6	94.9	95.1	95.8
Annual Change (% change)	0.8	1.2	0.9	1.9	2.1	2.2	1.6	2	1.5	1.3	1.3
Annual Change (bpd)	0.7	1.1	0.8	1.7	1.9	2.1	1.5	1.8	1.4	1.2	1.2

A strong demand growth in Europe and non-Organisation for Economic Cooperation and Development (OECD) Asia in the third quarter of 2015 took demand for crude oil to a high of 2.1 million barrel per day (mbpd), led by a surge in gasoline demand. However, with the global growth rate expected to weaken in Q42015 and a warmer than normal winter in the northern hemisphere, the global growth is forecast to slow to 1.5mbpd in Q42015, falling further to 1.2mbpd in 2016 as demand supports of lower crude oil prices in Asia and a post-recessionary bounce demand from some countries would settle.

(2) Slowdown in OECD and gasoline demand

The OECD demand is expected to slowdown with US oil demand already decelerated. The US August oil demand growth was 415 kb/d, at four-month low triggered by a slowdown in gasoline demand as growth in vehicle usage eased to the nine-month low as incentive from lower oil prices faded.

The strong European demand witnessed in Q12015 would fail to be repeated as strong demand from post-recession bounce from some countries and cold winter in Q12015 supported demand growth.

Japan's demand is expected to remain static in Q42015 with an overall demand expected to be 4.2m b/d declining by further 85kb/d in 2016 as Japan reactivated its second nuclear plant for commercial operations along with early warmer winter forecast from Japanese meteorological department.

(3) Non-OECD demand growth to ease in 2016

China's crude oil demand growth is unlikely to prove sustainable going forward as China's industrial growth rate and construction sector have been faltering. Caixin Manufacturing PMI plummeted to 6 ½ low of 47, below 50 signifying net pessimism, while China's monthly industrial production too dipped to 5.6% at yearly low, far cry from 7.7% in October 2014.

China's crude oil demand growth expected to be at 5.3% in 2015 is forecast with lower growth rate of 2.9% based on weak economical indicators and as benefits of lower oil prices at the start of 2015 got diminished.

India posted the sharpest gains of almost 15.3% in September YoY in a decade gaining on lower fuel prices and recovery in industrial production which showed a gain of 6.4% YoY in August 2015. Also, large increase was on account of lower base number. The yearly demand growth having risen by 6.6% in 2015 is expected to ease to 4.6% in 2016.

4) OPEC oil supply steady, still above the quota

Country/mbpd	Aug-15	Sep-15	Oct-15	Spare supply capacity	Q22015	Q32015	2014
Algeria	1.13	1.12	1.11	0.03	1.11	1.12	1.12
Angola	1.73	1.77	1.79	0.01	1.76	1.77	1.66
Ecuador	0.53	0.53	0.53	0.04	0.55	0.53	0.55
Iran	2.87	2.88	2.88	0.72	2.85	2.87	2.81
Iraq	4.17	4.3	4.2	-	3.94	4.24	3.33
Kuwait	2.78	2.79	2.71	0.09	2.72	2.76	2.61
Libya	0.37	0.37	0.43	0.07	0.46	0.38	0.46
Nigeria	1.77	1.86	1.9	0.02	1.77	1.8	1.9
Qatar	0.65	0.65	0.67	0.03	0.66	0.64	0.71
Saudi Arabia	10.26	10.18	10.23	2.01	10.29	10.27	9.53
UAE	2.93	2.91	2.89	0.05	2.87	2.92	2.76
Venezuela	2.4	2.38	2.38	0.11	2.43	2.4	2.46
Total OPEC	31.63	31.78	31.76	3.18	31.5	31.74	30.28

The OPEC supply in October 2015 inched down by 20kbpd as fall in output of from Iraq and Kuwait was filled by a slight surge from Saudi Arabia, Libya and Kuwait. Saudi Arabia has bolstered its production by almost 50kbpd in October over September in a run-up to important OPEC meet on December 04. Riyadh had led the decision to maintain crude production and defend output in last November 2014 even though crude oil prices crashed from $115 to almost $80 per barrel since then. Saudi Arabia is showing no signs of giving up its market share while Saudi Arabia and Iraq both have increased their production by almost 500kbpd while the group's spare capacity has been lifted to 2.37mbpd from 2.35mbpd with Saudi Arabia having 85% of the spare capacity.

The OPEC has been pumping oil at 31.76mbpd, higher than 30mbpd decided in its June 2015 meeting while in the upcoming meeting, Indonesia is expected to join as the 13th member. Interestingly, Indonesia had quit the membership in 2008 when it became net importer of oil, and thus some realignment is expected in oil production ceiling of the OPEC group.

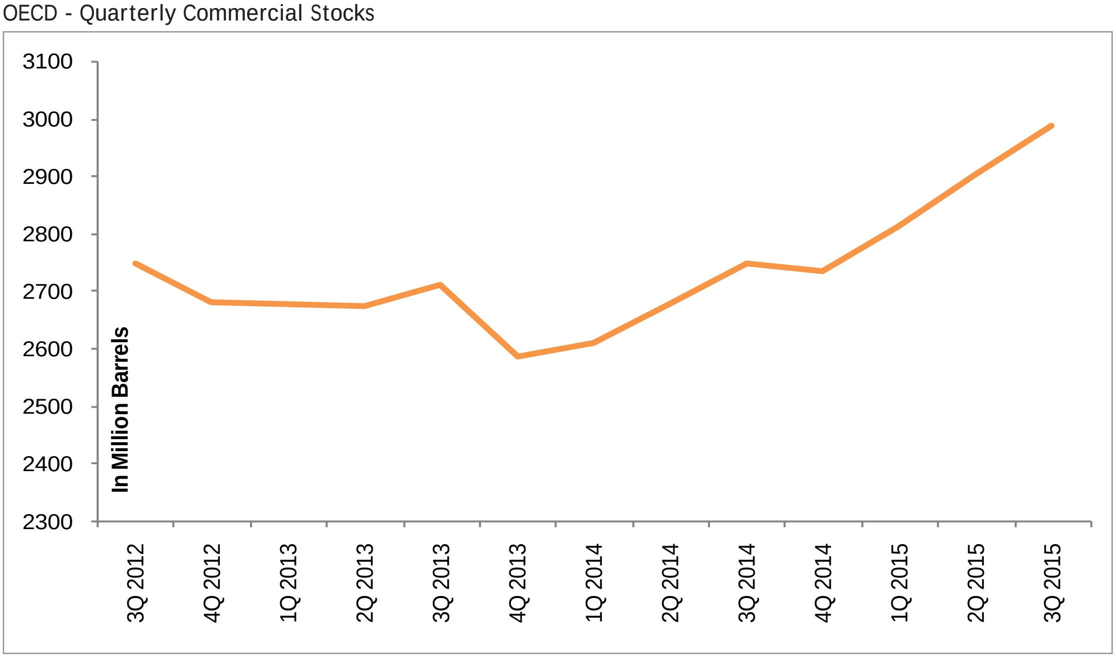
Iran has proposed optimistically to raise its output following easing of international sanctions by almost 0.5mbpd. Production during October was at 2.88mbpd from 3.6mbpd which pumped pre-tightening by the USA and European Union. The International Energy Agency (IEA) estimates that Iran has the capacity to regain its previous output capacity to 3.6–3.8mbpd within six months of sanctions being suspended.

5) Non-OPEC supply to remain tight

Area	Aug-15	Sep-15	Oct-15	Q2 2015	Q3 2015	Q4 2015	2014
OECD							
Americas	20.03	19.42	19.68	19.52	19.82	19.77	19.04
Europe	3.36	3.35	3.39	3.5	3.39	3.42	3.32
Asia Oceania	0.51	0.5	0.51	0.44	0.51	0.5	0.51
Total OECD	23.91	23.27	23.57	23.46	23.72	23.69	22.87
Non OECD							
Former USSR	13.88	13.92	14	13.97	13.91	13.98	13.87
Asia	7.94	8.04	8	7.96	7.96	8.01	7.71
Europe	0.14	0.13	0.13	0.14	0.14	0.13	0.14
Americas	4.61	4.51	4.62	4.54	4.54	4.55	4.4
Middle East	1.21	1.21	1.2	1.22	1.22	1.19	1.31
Africa	2.25	2.27	2.26	2.29	2.27	2.25	2.3
Total Non OECD	**30.03**	**30.09**	**30.22**	**30.11**	**30.03**	**30.11**	**29.73**
Processing gains	**2.24**	**2.24**	**2.24**	**2.24**	**2.24**	**2.24**	**2.21**
Global Biofuels	**2.69**	**2.66**	**2.66**	**2.39**	**2.63**	**2.39**	**2.19**
Total Non OPEC	**58.87**	**58.26**	**58.69**	**58.2**	**58.62**	**58.44**	**57**

As per IEA, amongst the non-OPEC output, supply from the US shale oil is expected to dip by 0.6mbpd in 2016 on account of closure of rigs and lower viability, however output outside the USA, non-OPEC's second biggest supplier produced 10.78mbpd in October. As per IEA, non-OPEC output is expected to end year at 58.3mbpd, almost 1.3mbpd higher from the previous year while the production forecast for 2016 has been at 57.70mbpd.

OECD - Quarterly Commercial Stocks



6) Record oil stocks-Rise in OECD commercial stocks

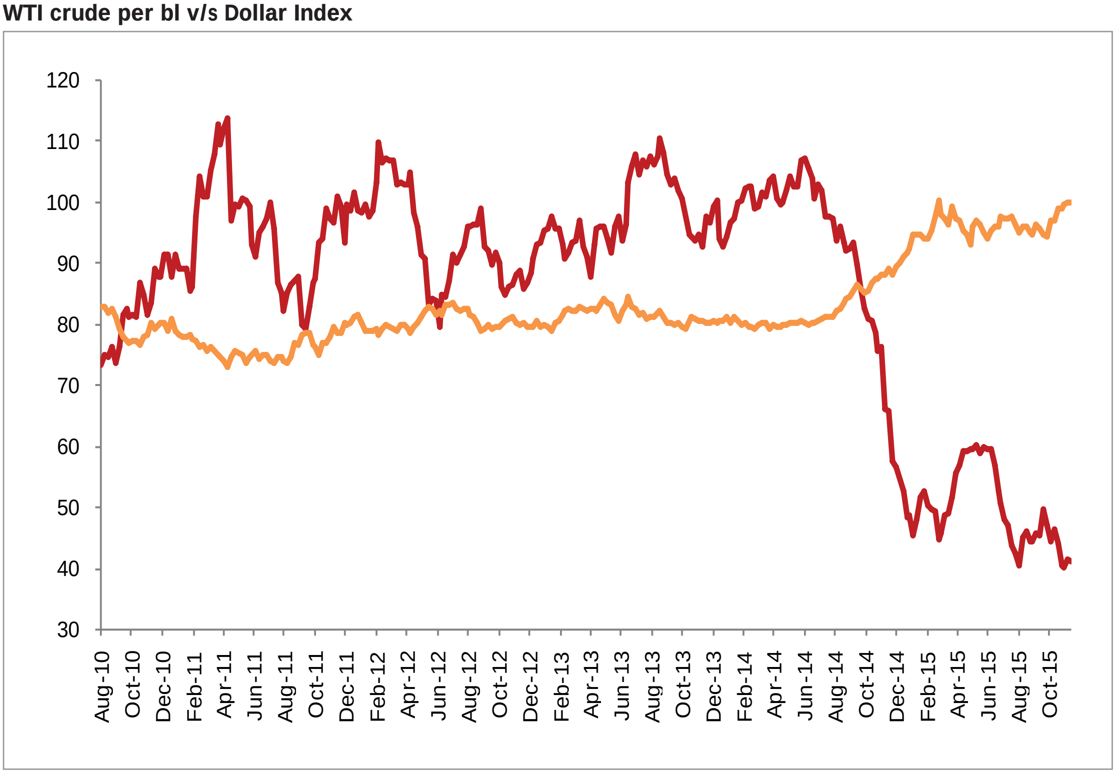
The OECD crude oil stockpiles are massive at approximately 3 billion stocks in 3Q 2015, up by almost 240 million barrel from 3Q 2014 level. The stockpile overhang which started from the USA in the previous two quarters has spread to the whole OECD in the third quarter. However, the pace of global stock building slowed to 1.6mbpd during the third quarter from 2.3mbpd is seen in the second quarter while OECD accounted for almost 60% (0.90mbpd) of the global stock building in 3Q 2015.

7) Forecasts of warmer climate

Most of North America and Canada are expected to experience mild winters as per current winter outlook due to the formation of El Nino conditions, while forecasts are for colder winter in south in US. As per EIA's (STEO) short term oil report , less severe winter is expected hence less demand for Heating oil in 2015-16 winter.

8) Strength in US Dollar

WTI crude per bl v/s Dollar Index



As we move close to the FOMC meet scheduled on December 15 and 16, the probability of a Fed rate hike in nearly a decade rose with stronger economic data seen mostly in October. As such, US Dollar has gained against most of the currency on the back of the divergent monetary policy amongst the central banks with Fed moving towards tightening while the Bank of Japan and ECB will continue with loose monetary policy to stimulate inflation and growth.

The dollar index gauge of US dollar's strength against a basket of six major currencies has surged near its 10-year high at 100 level. The US Dollar and crude oil has generally negative co-relation as stronger dollar makes risk assets expensive for consuming and importing nations, simultaneously weaker producer nations' currency lower the cost of production.

Outlook on crude oil

Crude oil prices dived sharply since November 2014 OPEC meet when Saudi Arabia, leader of OPEC consortium, decided to hold on production and maintain market share instead of reducing supplies to counter the rising American shale oil production when crude oil was at $80 per barrel. Although, the strategy has worked with US shale oil production seemed to peak in 2015, it has come with a cost, in terms of sharply lower oil price currently trading at $40 per barrel (WTI grade).

The current crude oil factors remain bearish for the price outlook, however, in today's meet if OPEC comes to consensus on minor production cut to contain glut or imposes strict quota, a strong reversal in price cannot be ruled out. We expect a sharp movement in crude oil price in coming days. If OPEC continues with its current rate of supply we expect the price to test $34 per barrel, thus providing a selling opportunity with a stop loss above $44. On MCX, we expect a price target of Rs2,400 per barrel on breakdown on continuance of supply with a protective stop loss above Rs2,980, while any meaningful cut in production could see price testing at $47 per barrel on the higher side with a protective stop loss below $37.50. On MCX, we expect bounce to test Rs3,100 while a stop loss can be maintained below Rs2,520.

In all probability, OPEC's upcoming production decision is going to lead to sharp moves in crude oil one way or the other. This note is on the same lines and we would generate a sell or buy call on crude oil as per the OPEC's decision.