Crude Oil : Tough Road Ahead

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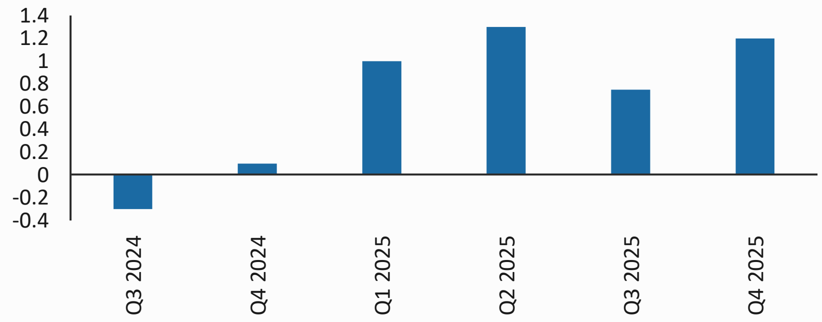
2024 : Recap

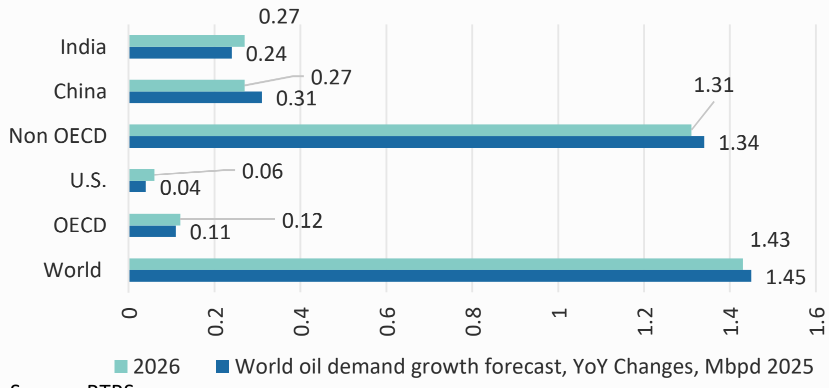
- Oil prices have undergone a massive consolidation with peaking ~$90 in April 2024, later dropping to $73 by the year end, a broad range fluctuation, marking narrowest range since 2019
- Supply and Demand Dynamics:
  - ❖ Sluggish global oil consumption growth, driven by weak demand in China, contributed to lower prices
  - ❖ Increased oil production, particularly from non-OPEC countries like the United States, contributed to a well-supplied market
  - ❖ Gradual increases in production combined with relatively weak global oil demand growth will increase global oil inventories in the 2025, placing downward pressure on prices
  - ❖ Global production of liquid fuels will increase by 1.9Mbpd in 2025 and because of a combination of supply growth from countries outside of OPEC+ and relaxation of OPEC+ production cuts
- Geopolitical Influences:
  - ❖ Conflicts in Middle East, including Israel-Hamas war, heightened concerns about potential supply disruptions, providing support to prices
  - ❖ Voluntary production cuts by OPEC+ members, notably Saudi Arabia and Russia, aimed to stabilize the market amid fluctuating demand

Gluts awaits this year
Full year of OPEC+ curbs won't avert surplus (Mbpd)



Source: RTRS

World oil demand growth forecast, YoY Changes, Mbpd



Source: RTRS

Facts and Figures

Demand and supply 2025

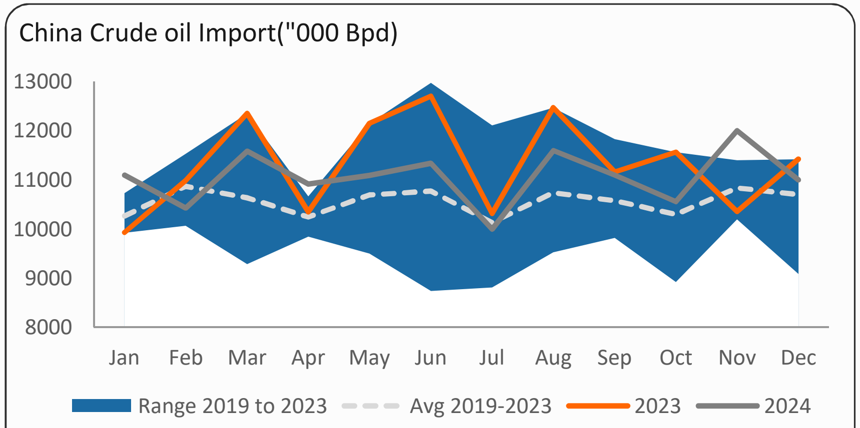
Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Production (Mbpd)												
World total	103.10	103.52	103.32	103.75	104.19	104.74	105.07	105.21	105.13	105.32	105.80	105.56
World total	103.10	103.52	103.32	103.75	104.19	104.74	105.07	105.21	105.13	105.32	105.80	105.56
OPEC total (b)	32.64	32.52	32.41	32.55	32.59	32.61	32.65	32.68	32.72	32.76	32.79	32.83
Non-OPEC total	70.46	71.01	70.91	71.21	71.60	72.13	72.41	72.53	72.41	72.56	73.01	72.73
Consumption (Mbpd)												
World total	102.77	105.17	103.69	103.02	103.56	104.71	104.48	104.18	104.74	103.39	104.12	105.92
Non-OECD total	57.35	58.81	58.06	57.82	58.25	58.94	58.19	57.82	58.60	57.14	58.24	59.33
Balance Surplus/ Deficit	**0.33**	**-1.65**	**-0.38**	**0.73**	**0.64**	**0.03**	**0.59**	**1.03**	**0.39**	**1.94**	**1.68**	**-0.36**

US-China Tensions Certain, But Deal Also Possible

- China's oil demand has likely peaked due to EV adoption and LNG trucking, reducing reliance on oil
- Trump proposed 10% tariffs on Chinese goods, escalating trade tensions.
- Beijing retaliated with 10% tariffs, worsening US-China relations and impacting the global economy
- China's crude oil imports in 2024 likely dropped by 1.9% (210,000 bpd), averaging 11.07 Mbpd, down from 11.28 Mbpd in 2023
- Slower economic growth, rising EV adoption, and increased LNG use in trucking contributed to weaker crude imports
- China's reduced oil imports continue to influence Asia's overall crude demand
- A potential trade compromise exists as China's weak economy and property crisis may push it to avoid a trade war.

What to Watch:

- Are Trump's aggressive tariff proposals a concrete plan or a negotiating tactic to try to get a better deal for the US?
- How aggressively will trading partners retaliate against such measures?
- Will burgeoning US energy exports be hit by retaliatory measures or see a boost as consumers increase imports to curry favour with Trump?



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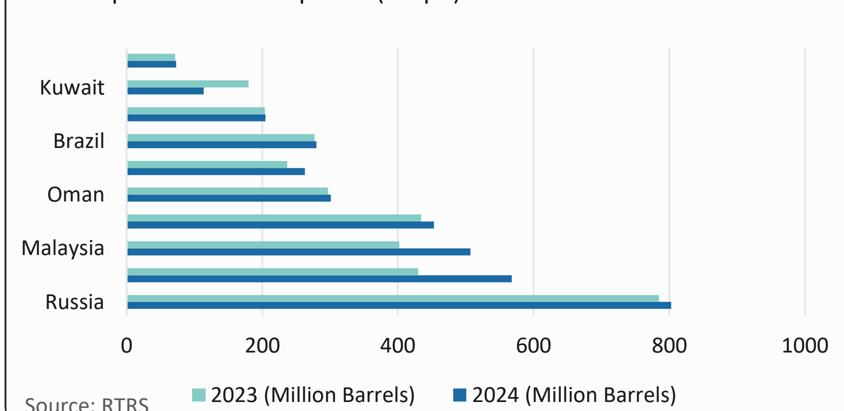

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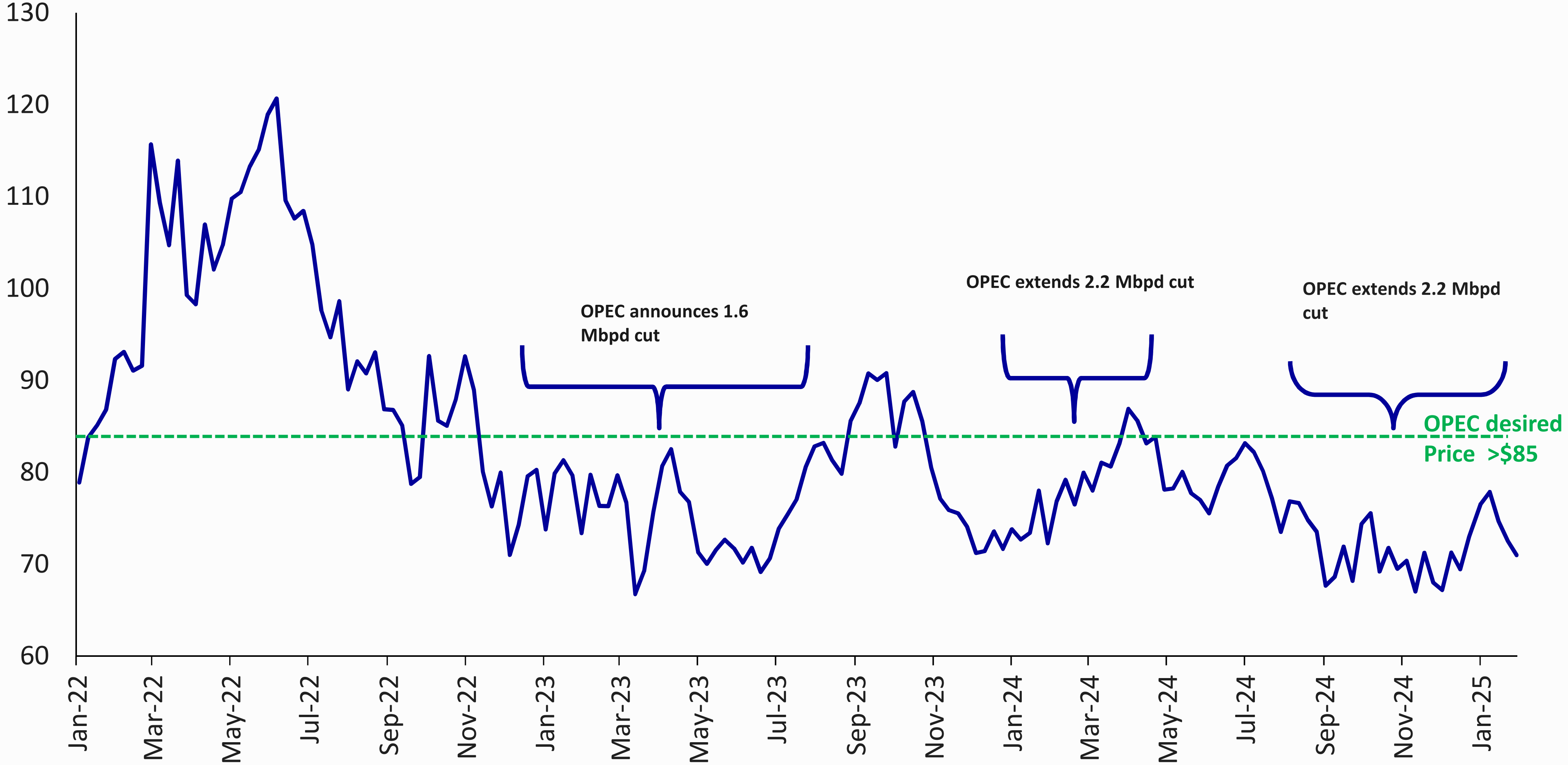
OPEC+ is supporting prices, repeatedly cutting /delaying production



OPEC+ to Continue Flexible Approach Amid Uncertainties

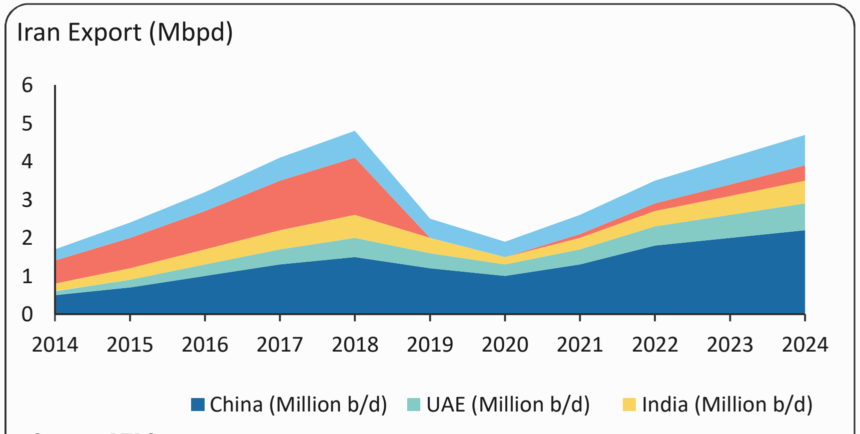
- Saudi Arabia and OPEC+ extended production limits to prevent higher inventories and lower prices
- OPEC+ deferred production increases to maintain tighter inventories
- The strategy failed to raise prices but helped prevent a sharper price decline
- This approach came at the cost of reducing OPEC+ market share
- OPEC+ prioritized price stability over production dominance
- Producers face challenges in unwinding over 5 Mbpd of cumulative production curbs, including 2.2 Mbpd of voluntary cuts
- Demand growth and non-OPEC+ supply remain critical factors, requiring close monitoring
- OPEC+ is expected to make short-term production adjustments, maintaining flexibility for unwinding cuts when conditions improve
- While not targeting a specific price range, member states focus on protecting revenue amid market uncertainties.

What to Watch:

- Will the group start unwinding its voluntary cuts from April as planned?
- How will extended cuts – and new compensation cuts – affect compliance in 2025?
- Will Non-OPEC+ supply expand as projected or fall short of expectations?
- Will demand growth continue to soften, stabilize or rebound?
- How will potential trade tensions from the incoming US administration impact demand?
- How will changing US policy on sanctions (Iran, Venezuela, Russia) impact the supply outlook?
- Will Libyan production be a wild card?
- Will some group members continue to press for higher production quotas?

Geo - Politics

- Geopolitical tensions have escalated since the Ukraine invasion, with the Hamas-Israel conflict adding instability
- Conflicts and uncertainty made oil markets unpredictable in 2024. Iran's OECD exports fell to zero during Trump's first term
- A 1 Mbpd drop in Iranian oil supply is expected due to tighter sanctions, though likely smaller than in 2018-2019
- The impact of geopolitics on oil markets depends on the available "safety cushion" in the system
- Spare capacity refers to oil production that can be activated within 30 days and sustained for at least 90 days
- US support for Israel is a key policy factor affecting oil markets
- Stronger US support for Israel could lead to supply disruptions from Iran, temporarily raising oil prices
- Broad tariffs from a Trump administration could push oil prices lower in the medium term
- Geopolitical events will heavily influence oil markets, but their exact impact remains uncertain.



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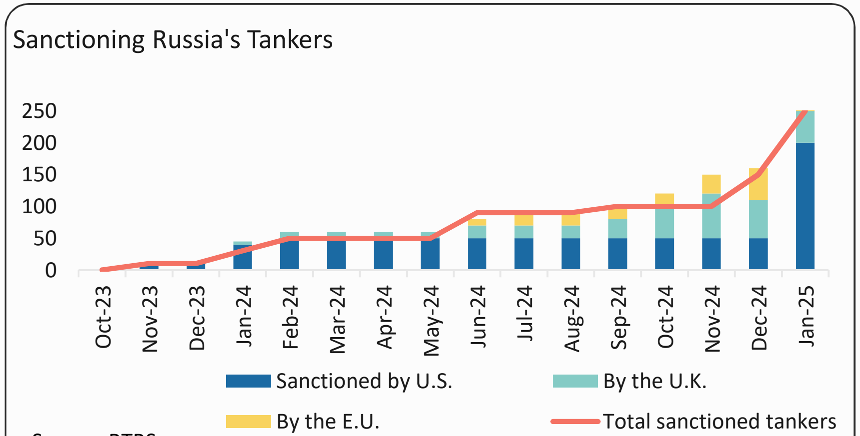

Source: RTRS

Russia-Ukraine War Faces Shake-Up Under Trump

Ukraine Scenarios, 2025	
Negotiated Deal	Russia, the US and Ukraine enter negotiations as the economic and human costs of conflict rise
	Trump's election and growing strains in Europe make the West eager for a deal.
	This makes a negotiated conclusion more likely than at any point since the conflict's early days
	Yet, the two sides remain far apart. Moscow will drive a hard bargain demanding security guarantees and territorial concessions, likely to be unacceptable to the West initially.
	A temporary cease-fire is unlikely, meaning fighting may continue until a more permanent settlement is reached.
Pressure Rises, Tensions Escalate	If Russia fails to compromise, Trump has proposed raising pressure on Moscow for leverage.
	This could see Trump pressure Congress to agree another military assistance package to Ukraine and/or impose new sanctions
	Trump will push Europe to contribute more to Ukraine's defence
	In this scenario, there is a strong likelihood that political and military tensions escalate
Ukraine Support Dwindles	Growing scepticism in the US and Europe limits the scope of future aid, regardless of Russia's negotiating position.
	Russia, now helped by North Korea, pushes on with its grinding offensive, gaining more momentum.
	Military advances pick up, putting a weakened Ukraine at a growing disadvantage. In an extreme version of this scenario, Ukrainian resistance collapses.


OPPOSE TRADE BARRIERS!
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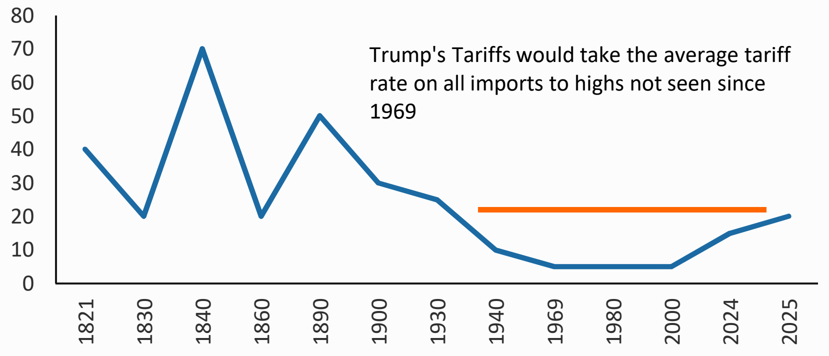
TARIFFS
DISCRIMINATORY SUBSIDIES
EXPORT CONTROLS

Source: FT

Tariffs!

- U.S.-Canada Oil Trade
  - ❖ A 62% of U.S. crude oil imports come from Canada
  - ❖ A 10% tariff on Canadian oil has been implemented
- New tariffs include 25% on Canada, 25% on Mexico, and 10% on China, adding to existing China tariffs from the previous trade war
- Mexico's Export Dependence as exports make up 40% of Mexico's GDP, with 80% going to the U.S.
- High U.S. Reliance as 16% of Mexico's national value-added is exported to the U.S., the highest among major trading partners
- Many exports come from maquiladoras near the U.S.-Mexico border, heavily dependent on the U.S. market
- Mexico is more exposed to U.S. policies than diversified economies like Germany
- A 25% tariff on Mexican exports to the U.S. could significantly harm Mexico's economy
- Economic decline in Mexico may increase illegal immigration to the U.S., contradicting U.S. policy goals

Average rate on all imports Tariff Rate (%)



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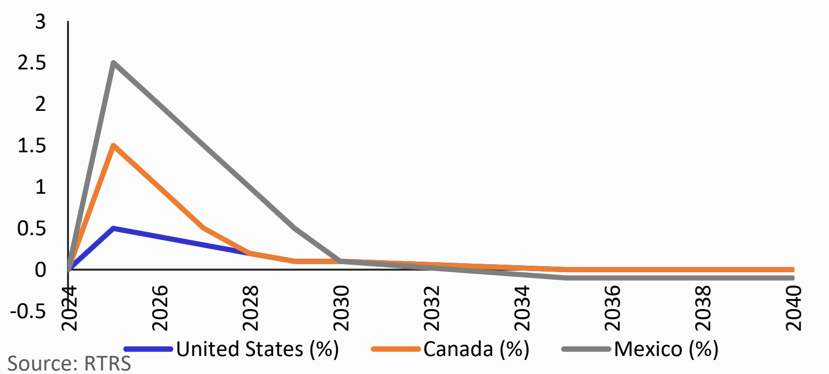
Tariffs could lower GDP and higher inflation

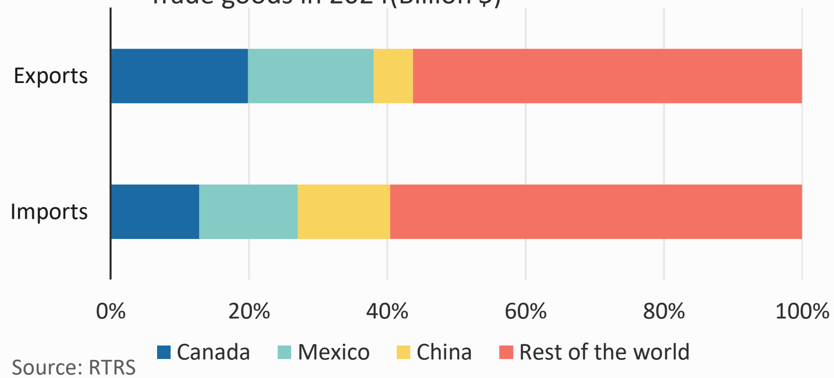


Source: RTRS

Tariffs!

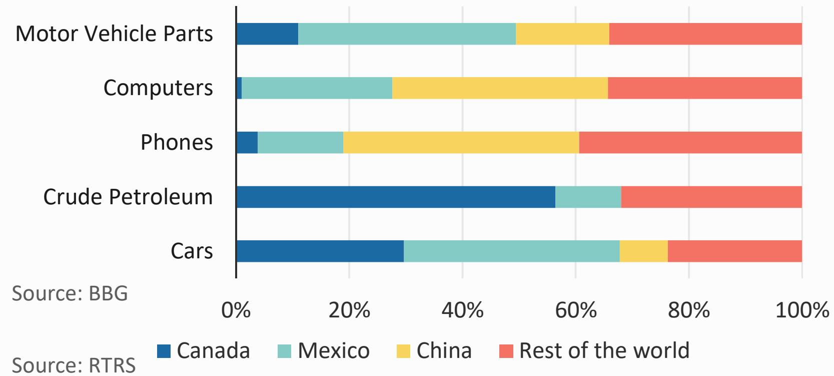
- President Trump threatened to impose tariffs on Canada and Mexico, but announced a pause in imposing steep tariffs till April
- These tariffs will have huge implications on Canada and Mexico in particular
- Imports from Canada and Mexico only reflect ~14% and 15% of US imports, respectively
- On the other hand, they reflect nearly 80% of exports from both Canada and Mexico
- At a high level, these tariffs function like a TAX on goods coming into the U.S. Simply put an example, $100 of goods coming into the U.S. from Canada/Mexico will now "cost" $125.
- The US imported $910 billion from Canada/Mexico in 2024
- Many of these goods will cost 25% more to import
- Roughly ~40% of ALL US imports come from China, Canada, and Mexico
- Auto industry imports from Canada and Mexico total $80 billion per year.
- $97 billion of crude oil comes from Canada each year, and $55 billion in phones from China.

China Mexico and Canada make up nearly half of U.S. Trade goods in 2024(Billion $)



Source: RTRS

Which U.S. imports could be Most Affected?(Billion $)



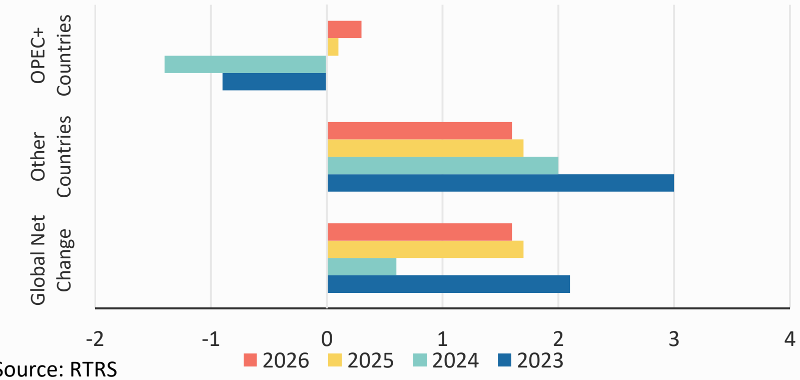
Source: BBG

Source: RTRS

Global oil production

- Global liquid fuels production is expected to rise in 2025 and 2026 due to OPEC+ easing production cuts and non-OPEC growth
- Production is forecasted to increase by 1.7 million bpd in 2025, up from 0.6 million bpd in 2024
- OPEC+ output is set to rise by 0.1 million bpd in 2025, after a 1.3 million bpd decline in 2024, followed by a 0.6 million bpd increase in 2026
- Voluntary production cuts will gradually unwind, but remain below targets to limit inventory growth
- U.S. oil producers are boosting efficiency, maintaining production levels despite lower prices
- Average U.S. crude futures fell to $76 per barrel in 2024, down from $102 in 2022
- Lower 48 oil production (excluding Gulf of Mexico) hit 11.3 Mbpd in October 2024, up 0.5 Mbpd from October 2023
- U.S. rig count fell to 491 per week in 2024, down from 574 in 2022
- Efficiency gains drove 4%+ annual production growth, with longer horizontal wells and industry consolidation
- OPEC+ maintained output cuts to balance markets as U.S. production remained strong.

Global Liquid Fuels Production Growth(Mbpd)



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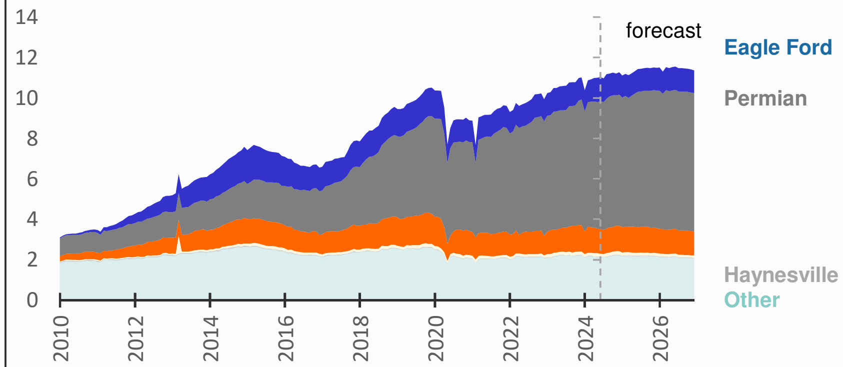
Monthly U.S. crude oil production by region Mbpd



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2025 : Uncertainty

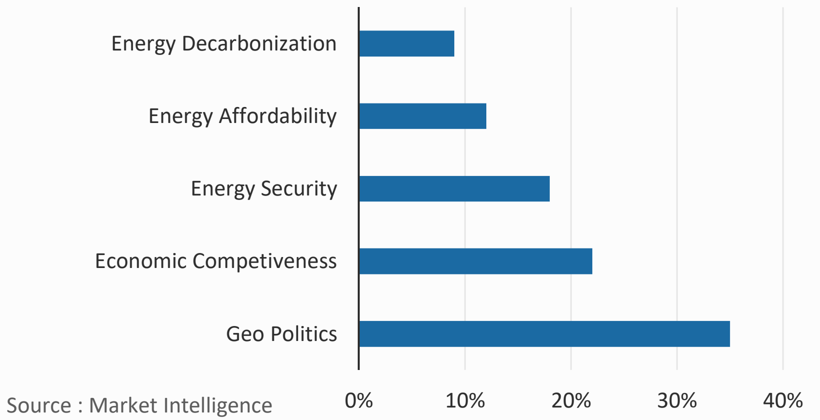
- Geopolitical events like conflicts, sanctions, and tariffs will strongly influence oil market sentiment and pricing
- Trump's policies could escalate global tensions or lead to major agreements, affecting markets, the low-carbon transition, and corporate strategies
- Resolving the Ukraine war will be a key priority, though Russia is expected to take a tough stance
- Israel and China may cautiously navigate U.S. trade and conflict policies
- Trump's support for oil and gas may slow U.S. clean energy progress, while China advances in solar, wind, and electric vehicles
- Trade barriers, new alliances, and climate diplomacy will shape the energy transition
- Israel, emboldened by military campaigns and Trump's potential re-election, must navigate U.S. tolerance for conflict
- Hezbollah faces uncertainty over its influence in Lebanon after military setbacks.

What to watch :

- How will cease-fires in Lebanon and Gaza play out?
- How will the political transition in Syria develop?
- How will Iran respond to the weakening of its "Axis of Resistance"?
- How hard will the US press Iran with sanctions enforcement? Will the two discuss or reach a deal?
- Will Iraq's fragile political stability survive, given the influence of Iran-aligned militias?
- How will Trump approach the Houthis' ongoing attacks in the Red Sea?

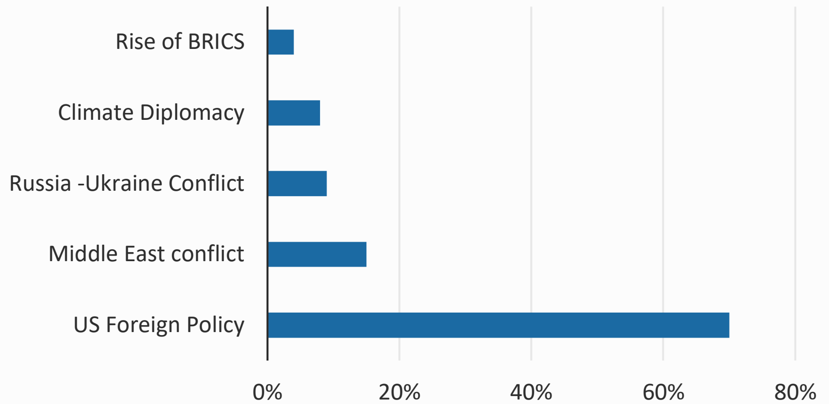
Trends!

Which issue will most define the energy debate in 2025?



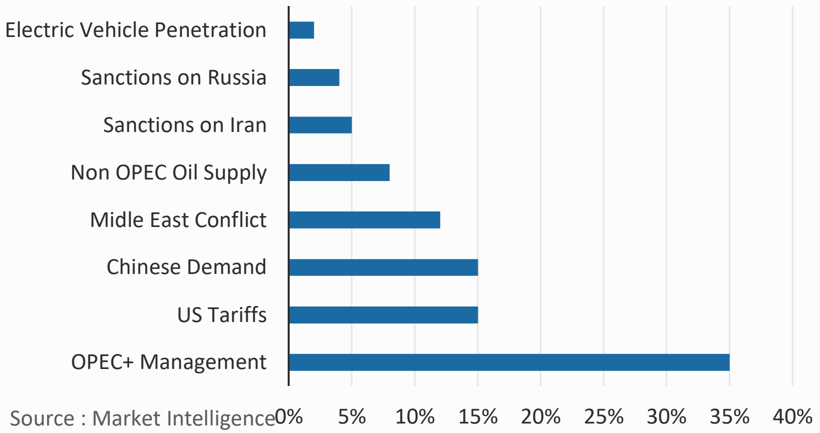
Source : Market Intelligence

What will be the most impactful geopolitical issue for energy industry in 2025?



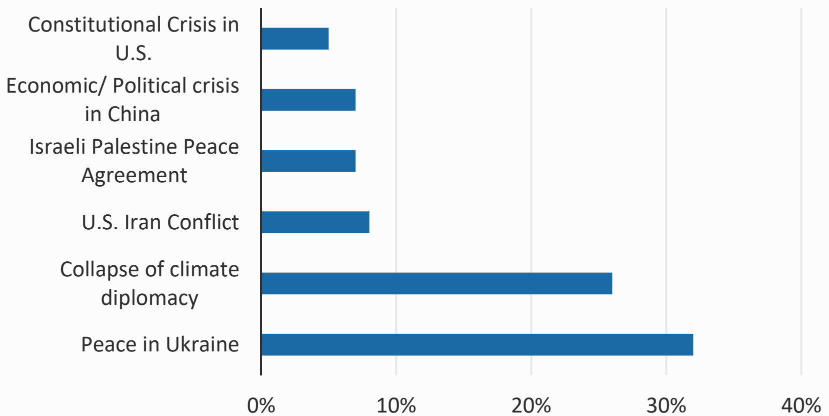
Source : Market Intelligence

Which factors will most influence oil prices in 2025?



Source : Market Intelligence

Which of these events is most likely in 2025?



Source : Market Intelligence

Outlook : Tough Road Ahead

- Oil prices are experiencing a tug-of-war between China's economic strategies, geopolitical tensions, Trump's energy policies, and OPEC's supply decisions
- Trump's policies are bearish for crude prices due to likely swift action on tariffs and a focus on keeping energy prices low
- His administration is expected to ease regulations to boost U.S. oil and gas production
- These factors have kept Brent crude oil prices within a narrow range in 2024, balancing supply growth with geopolitical and demand uncertainties
- Weak oil demand growth and strong non-OPEC supply could lead to market oversupply
- OPEC+ may delay production increases beyond Q1 2025 to prevent further price drops
- Risks to lower prices include a worsening Chinese economy, U.S. trade tariffs, and rising U.S. oil output
- Oil prices are expected trade in range of Rs.5400 – Rs.6800 on domestic front and on WTI, $64-$80 range

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