Crude Oil : Bumpy Ride

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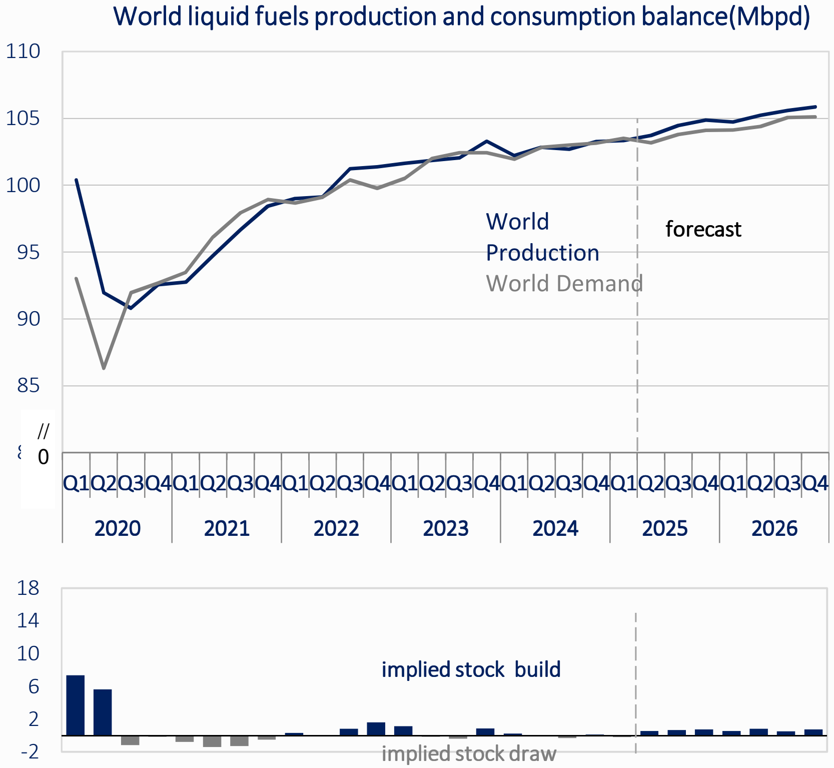
Review

- Oil prices touched four year lows as energy markets were roiled by a barrage of trade tariff announcements in early April
- Prices faced growing pressure from weakening fundamentals, slower demand growth and crude oil oversupply
- Slowdown fears continued to rattled market from U.S., Europe and Asian economies, namely China
- Major forecast namely EIA cut 2025 global oil demand growth forecast to just 900,000
- IEA trimmed its estimate even further to 730,000 bpd—the weakest pace since 2019
- Geo political risk-on and off from War escalation continued to move markets in different directions
- Decision by some OPEC+ members to accelerate the unwinding of extra voluntary production cuts added to the bearish momentum
- Sanctions and OPEC+ compliance efforts offered some support to prices
- Mixed news from Iran, sanctions and nuclear war agreement continue to shake market sentiments
- President Trump applied maximum pressure on Iran, targeting Chinese refiners and tougher enforcement signals from U.S. Treasury, rekindling concerns over reduced Iranian supply
- Product inventories continue to be overlooked by the market, but the demand remained strong
- Shale industry continue to see slowdown pressure as lower prices are not beneficial for producers



Source: EIA

Trade War

US-China 2018/19 trade war contributed to lower than 0.6% reduction of global GDP growth

Pre Trade war

Trump 1. accused China of unfair trade practices causing the US China trade deficit to increase

President launched a formal investigation into China's trade practices under Sec on 1 of the Trade Act, citing unfair practices that hurt US businesses

During the course of 2017 and early 2018 , both the US and China announced plans of tariffs towards each other and specific products such as aluminium, washing machines and soybeans received tariffs

First Wave of tariffs (Mid 2018)

First US tariffs hits billion worth of Chinese goods in July 2018 , and was swiftly retaliated by China

In August 2018 , about a month after the first tariffs, the US released a list of 1 billion of Chinese goods to be taxed by 25%and China retaliated with 25% duties on 1 billion of U.S. goods

A10% tariffs on $200 billion of Chinese imports took effect in September 2018 with plans to raise it to 25% by 1 January 2019

In response, China imposed tariffs on $60 billion worth of US goods

Second wave of tariffs(Mid 2019)

Trump announced 10% tariffs on $300bn, again

China retaliated some time after with tariffs on $75 bn worth of US goods. These tariffs came online in Aaugust 2019 .

Tensions began to ease towards the end of 2019 ,culminating in the Phase 1 agreement

China pledged to buy an additional 2 billion in US goods and services over two years, while the US pledged to halve and remove some of their new tariffs.

Trade war impact

- Trade war contributed to slow down U.S. GDP growth from 3% in 2018 to 2.6% in 2019, a 13% slowdown
- Chinese GDP slowed from 6.7% in 2018 to 6% in 2019, a 10% decline
- Oil demand growth slowed from 2.1% in 2017 to 0.3% in 2019

Source: EIA

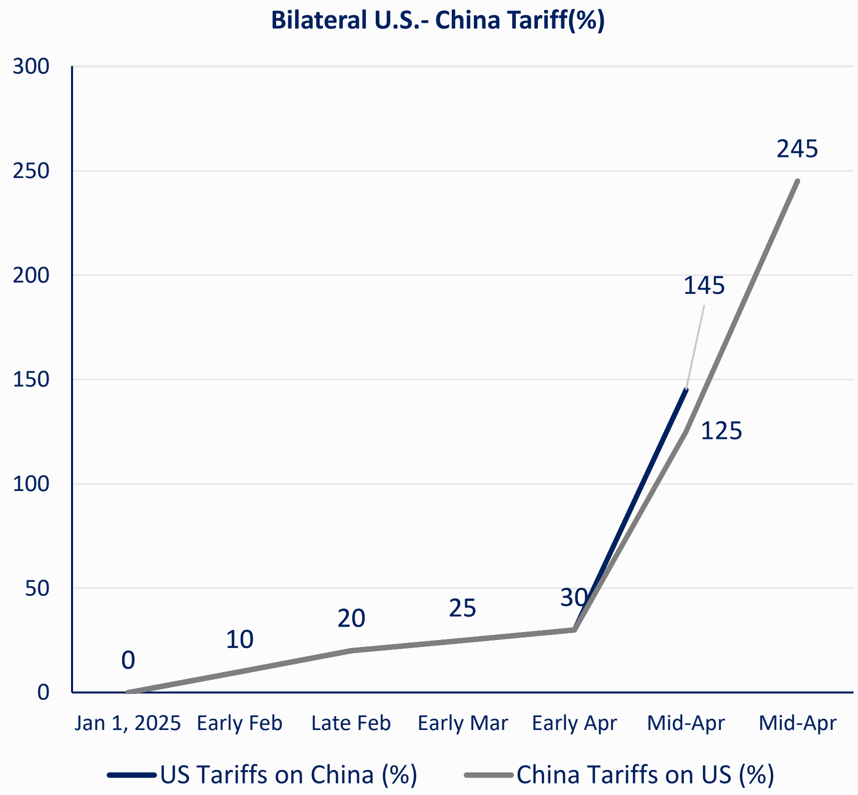
Tariffs and trade continue to take centre stage

China retaliates; others (seek to) negotiate

- China has been the quickest to respond to US tariff
- China has enacted 125% tariff on all imported US goods, while the US has enacted 145% tariff on all imported Chinese goods
- The high rate of tariff will likely limit trade between the US and China on most energy products,
- China has also placed limits on critical minerals exports.
- These could heavily impact the, energy and defence sectors if alternative available
- EU was prepared to retaliate but has since paused, ostensibly to negotiate a more lasting trade deal
- Energy (specifically US LNG) could be a key area of ongoing negotiations

Tariff whipsaw introduces uncertainty

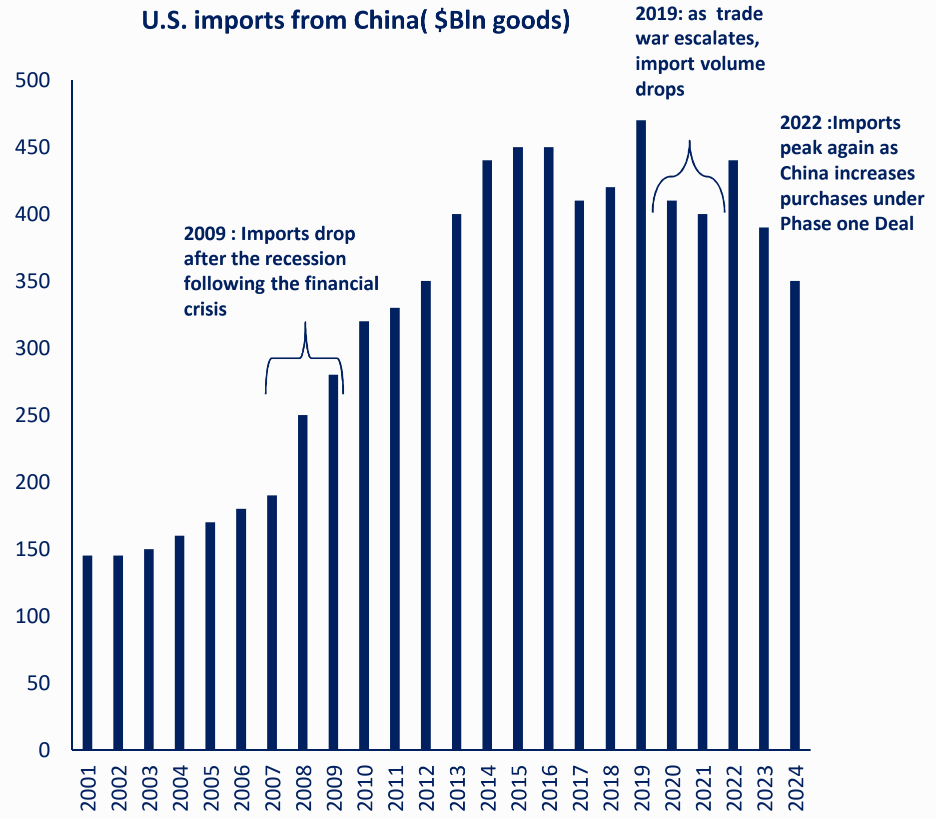
- Country-specific reciprocal tariffs have been paused for 90 days, replaced by a flat 10% rate in most cases.
- US tariffs imposed on China, not subject to the pause, have spiked to 245%,
- It remains unclear if certain technology sectors will be exempted from the tariffs
- US auto tariffs have also come into effect at 25% on imported vehicles and associated auto parts
- Most imported vehicles come from Canada, Mexico, South Korea, and Japan, auto parts mostly come from China.



Source: EIA

Trump’s boldest bet

- President Donald Trump’s second-term trade policy represents a significant escalation in the use of tariffs as a tool of economic strategy and diplomacy
- 2025 tariff plan is broader, more assertive and closely tied to national security, fiscal policy and geopolitical positioning, particularly with respect to China
- Trump administration estimates that tariffs could generate more than $1 trillion over the next decade
- The main idea is to reduce the trade deficit, help balance the budget and reduce the national debt, and all of that without touching income taxes
- However, the tariffs could slow growth at a time when the economy is already on fragile footing
- Trump’s global trade tariff is hastening an existing shift in geopolitics away from the dollarization of the global economy
- Whether they can deliver on all these fronts, without triggering economic blowback and political backlash remains to be seen
- While oil were given exemptions, concerns that measures could stoke inflation, slow economic growth and intensify trade disputes weighed on oil prices
- With negotiations and countermeasures still ongoing, the situation is fluid and substantial risks remain

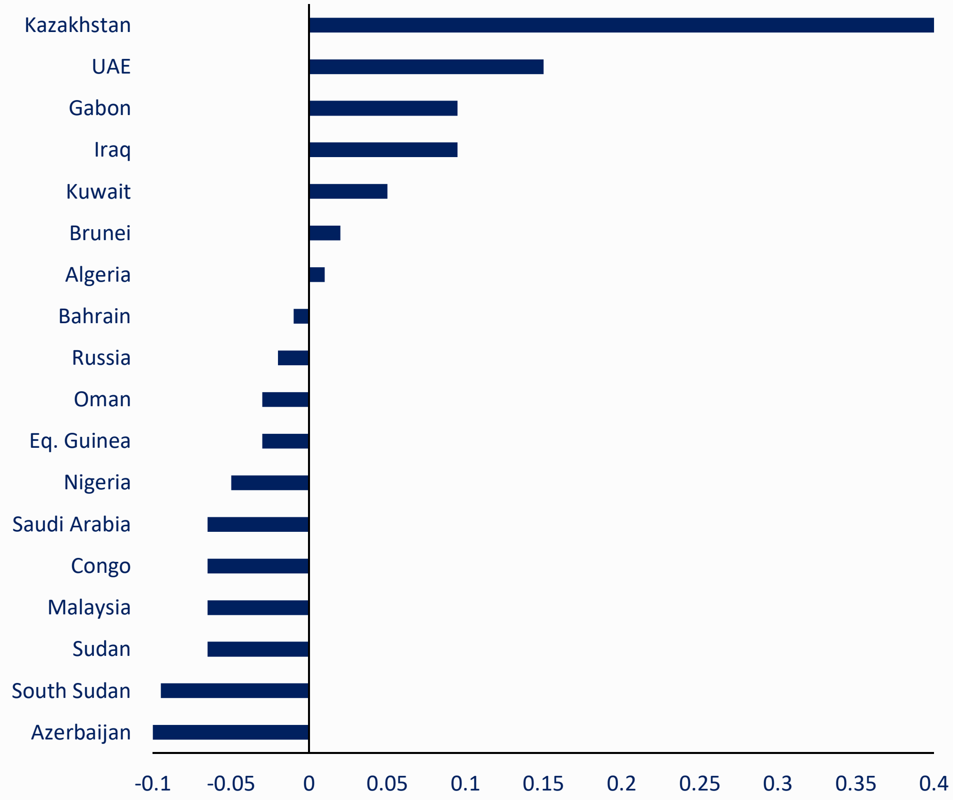


Source: FT

OPEC – Disciplinary mode on

- The downward spiral in oil prices was also fuelled by the surprise decision to triple their scheduled production target increases for May to 411 kb/d.
- Angola faced a $200 million margin call tied to bond-backed oil financing, while Nigeria is redrafting fiscal plans as revenues fall short
- Producers like Saudi Arabia and UAE are also confronting reality that current prices are well below budgetary break-even levels many rely on
- Actual production rise may be smaller as Kazakhstan, UAE, and Iraq are already over target
- Iraq, Kazakhstan, and five others submitted revised plans to compensate for 2.2 Mb/d in prior overproduction
- Iraq and Kazakhstan to make largest compensation cuts: 1.934 Mb/d and 1.299 Mb/d respectively
- UAE to compensate 386 kb/d cumulatively after exceeding quota, aided by a 300 kb/d baseline increase in April
- OPEC+ has secured deeper commitments to improve compliance and stabilize markets
- OPEC+ expected to produce below targets in 2025 to avoid inventory build-up
- Crude output projected to stay flat vs. 2024; modest 0.5 Mb/d increase likely only in 2026
- This will be a solid support for oil prices to not slip way lower as OPEC producers still have capacity to tweak policy when required

Compliance issues, Over/Under Quota(Mbpd)

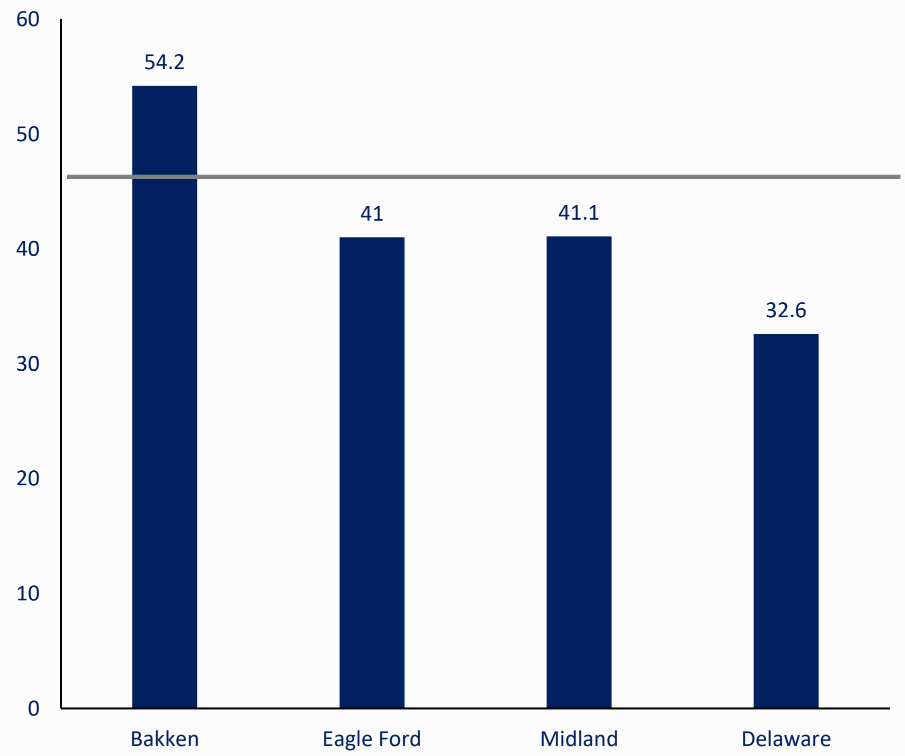


Source: Reuters

Breakeven : Exporters under strain

- Oil prices have fallen 16% since Trump's "liberation day" tariff announcement, sparking fears industry could be forced to idle rigs
- The significant drop in oil prices rattled the US shale patch, with firms arguing they need $65/bbl on average to profitably drill new light tight oil wells
- Rig counts remain soft, down 5%, but production is still expected to climb to 13.5 Mbpd next year, with operators leaning into capital discipline, not expansion
- US shale producers have started to throttle back drilling/completion activity and delaying capex
- New tariffs may also make it more expensive to buy steel and equipment, further discouraging drilling
- US crude oil production shows recent weakness, with only two exit plans going forward: 1) sell themselves or 2) let production decline
- While $60 per barrel would still support robust oil production, there will likely be some reduced investor pay-outs
- US producers will struggle to defend lower margins in the current pricing environment, which will in turn, threaten US oil production growth
- This will act as consistent support for oil prices, as slowdown for Shale means less competition for Gulf producers
- This goes against the very agenda Trump had for production increase and lower oil prices

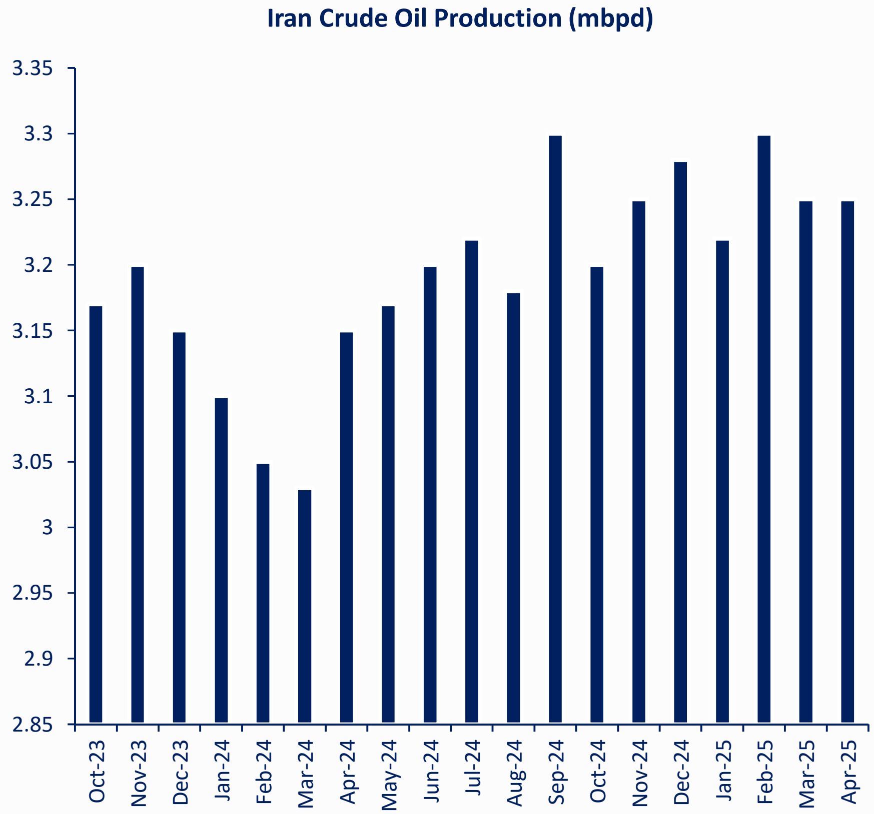
Breakeven for Oil Price



Source: Reuters

Sanctions! The only Wildcard

- President Trump has played sanctions card quite effectively by sanctioning Iran, Russia and Venezuela, increasing price volatilty
- US sanctioned a Chinese refinery for purchasing over $1 billion in Iranian crude oil
- US's unrelenting tariff war on China could lead to more imports of Iranian LPG and a faster de-dollarization process
- Trump administration is committed to driving Iran's illicit oil exports, including to China, to zero.
- US vows to hold Iran and its sanctions evasion partners accountable.
- The sanctions were announced the same day Iran confirmed upcoming nuclear talks with the US in Rome
- China's embassy in U.S. criticized the sanctions as disruptive to international trade and infringing on Chinese companies' rights
- US export license revocations and secondary tariffs now threaten over 300,000 bpd of Venezuelan crude exports, tightening heavy crude supply
- China independent refineries, primary recipients of discounted, sanctioned barrels, face mounting margin pressure, tighter government quotas
- Should Chinese refiners step back from Venezuelan barrels, due to enforcement risk, up to 500,000 bpd of supply will get affected
- The sanctions are playing a key role in keeping prices supported at lower end, and the maximum pressure campaign is providing a floor to prices



Source: Reuters

Forecast – " Slowdown"

- IEA downgraded its global oil demand growth forecast for 2025
- Oil demand to rise by 1.03MBpd to 103.91Mbpd in 2025, down from a projected rise of 1.10Mbpd forecasted before
- OPEC kept its oil demand growth forecasts unchanged for 2025 at 1.45Mbpd
- EIA cut its demand forecasts by 10,000 b/d to 1.26Mbpd

Oil Forecast						
	IEA		OPEC		EIA	
Category	2024	2025	2024	2025	2024	2025
Demand	102.88	103.91	103.75	105.20	102.86	104.13
Demand growth	0.83	1.03	1.51	1.45	1.02	1.26
Non-Opec supply	70.21	71.71	53.2	54.4	70.39	71.82
Opec NGLs	5.54	5.67	5.48	5.61	5.65	5.73
Call on Opec	27.13	26.52	42.26	44.98	26.83	26.58

Outlook

Our View:
There are mixed set of news, growth slowdown Vs Geo Politics Risk
Prices are expected extremely volatile but downward trend is likely to remain in place.

$80-$85 - Too Optimistic

- **Triggers**
- Full fledge recovery, Rate Cuts
- OPEC Cuts
- Negotiations: US & China
- China Recovery
- SPR Buy - China and US

$58-$72 Certain

- **Triggers**
- US avoid recession
- OPEC+ supply rises only modestly
- Negotiation: US & China
- Shale Slowdown
- Rate Cuts
- OPEC discipline
- Geo Political Tensions

$40 - Challenging

- **Triggers**
- US – China Tariff Escalation
- Full unwind of OPEC cuts
- Global Slowdown
- SHALE Oversupply
- SPR Buying delay
- Recession

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