

Oil & Gas Sector

Sector Update

June 19, 2024

IEA sees demand slowdown amid weak margins

Key Points: We discuss KTAs from IEA's latest Oil Market Report and Indian petroleum data.

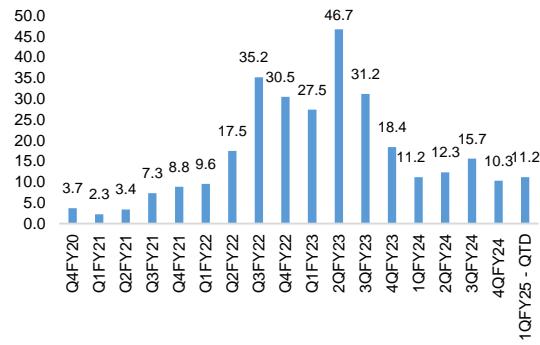
- Weak refining margins and tepid retail pump margins imply weak 1QFY25 for OMCs. The roll-back of the cut in March'23 looks slim, at least for now. States raising VAT as done by Karnataka is an added worry that could hamper OMCs' price hikes or Union Government raising excise duty to mop up additional revenue.
- Spot LNG prices have spiked by ~7% QoQ in 1QFY25 due to anticipated increase in power demand for cooling amid rising summer temperatures. Further, the outage in an Australian LNG production unit is likely to keep Asian LNG prices buoyant.
- **Slowdown in global oil demand growth.**
- IEA expects a slowdown in global oil demand growth – CY24 growth is estimated at 960 kb/d, which is 100 kb/d below last month's forecast. Weak OECD deliveries resulted in global demand witnessing a narrow YoY contraction in March'23. IEA also expects subpar oil demand growth of 1mn bpd in CY25 – tempered by a muted global economy and accelerating deployment of clean energy technology.
- **Oil supply looks benign.**
- Global oil supply increased by 520 kb/d in May'24 to 102.5mn bpd as Brazilian ethanol output saw a seasonal surge. In CY24, IEA expects production to increase by 690 kb/d, led by gains of 1.4mn bpd in non-OPEC+ supply. OPEC+ supply is set to fall by 740 kb/d if voluntary cuts are maintained.
- In CY25, global supply is forecast to increase by 1.8mn bpd as non-OPEC+ output is likely to increase by 1.5mn bpd.
- **Refining under pressure**
- Asian refining margins retreated to 3-year lows in May'24, which is close to levels that could force cut in refinery operating rates. China is already seeing a cut in run-rate this year.
- US Gulf Coast refining profitability slipped to 6-month lows but remains above European levels.
- IEA forecasts global refining run-rate at 83.5mn bpd and 84.2mn bpd respectively for CY24 and CY25 – this is 100 kb/d higher than the forecast in IEA's May'24 report. Stronger OECD 2QCY24 refining throughput outpaced the still-weak Chinese run-rate, which had slumped to Covid-era lows in April'24.
- Indian petroleum demand declined by 1% YoY in May'24 while 1QFY25-QTD demand is up by 2.4% YoY. Demand for MS is up 2.4%/7.8% for May'24/1QFY25-QTD while HSD demand is up 1.8%/1.6%.

Trend in Brent and crack spreads

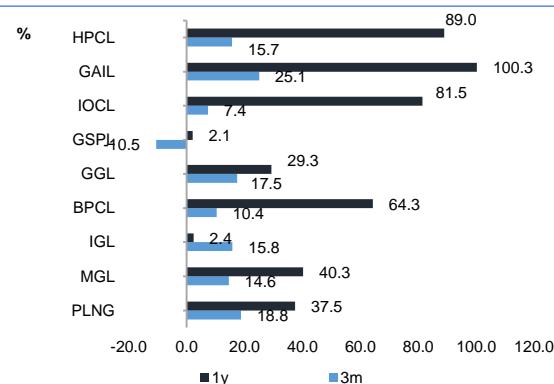
US\$/bbl	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25-QTD	FY24
Brent	78.4	86.7	84	83.1	84.9	82.1
Dubai	77.4	83.7	83.8	81.6	85.2	82.4
MS spread	15.5	15.2	9.5	17.5	14.6	15.4
HSD spread	15.1	25.9	27.2	24.9	17.3	23.4
Singapore HC GRM	4.7	10.0	6.1	8.6	4.9	7.4

Source: Bloomberg; Nirmal Bang Institutional Equities Research; HC -hydrocracker

LNG(US\$/mmbtu)-JKM



Source: Bloomberg; Nirmal Bang Institutional Equities Research



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Margins in US and Asia at 3-year low

The latest bout of demand weakness shows up in refining margins in Asia and the US, retreating to 3-year lows in May'24. Singapore margins are nudging figures close to un-cut territory, especially since gasoline cracks are weak. On the other hand, Europe is hanging on to the recent strength in refining margins as jet/kerosene cracks have improved. Meanwhile, Chinese refinery runs plunged to Covid-era levels in April'24. The 8.7% YoY decline in Chinese crude oil imports in May'24 suggests subdued refinery runs last month.

Oil inventories

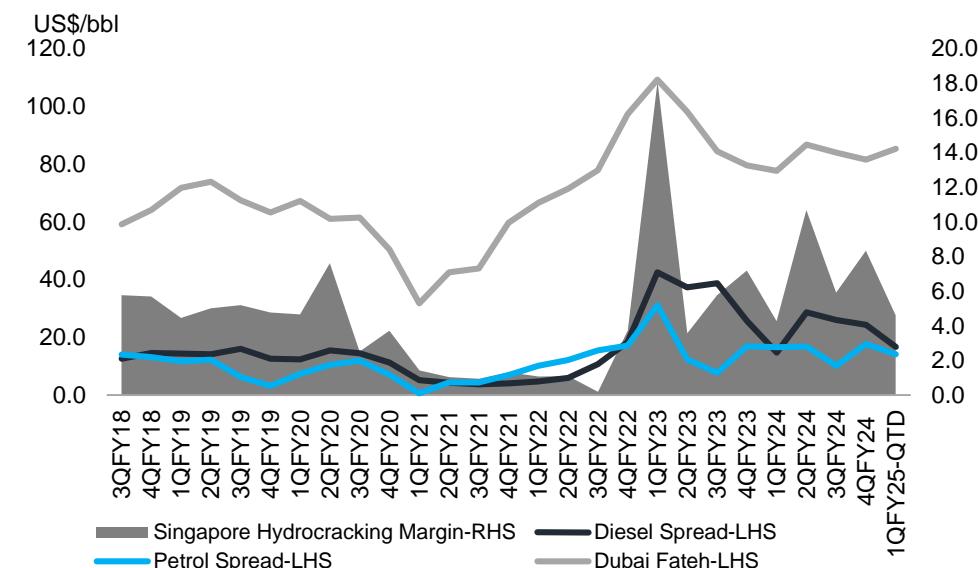
Global observed oil inventories increased by 19.3mn bbl in April'24; on-land stocks surged by 83.5mn bbl after eight months of draws while oil on water plunged by 64.2mn bbl. This follows 112.6mn bbl of increases in the previous two months. OECD industry stocks increased by 32.1mn bbl - its first monthly rise since Oct'23. IEA's preliminary data indicates a further 48.2mn bbl build in May'24.

Exhibit 1: Retail margins under pressure

	1QFY24	2QFY24	3QFY24	4QFY24	Apr, 2024	May, 2024	June 1-15, 2024	Latest
	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl	US\$/bbl
Dubai Fateh crude	77.4	83.7	86.3	80.3	89.4	83.6	80.2	82.6
MS Crack spread	16.9	17.8	9.5	17.5	17.7	12.4	10.7	10.9
HSD Crack spread	15.1	26.3	27.2	24.9	18.0	15.4	16.4	20.4
MS	4.8	0.9	3.4	2.5	-4.7	1.3	4.0	2.5
HSD	8.2	-0.8	-3.1	1.3	-2.1	2.3	3.4	0.1
Blended margin Rs/litre	7.4	-0.4	-1.5	1.6	-2.8	2.0	3.6	0.7

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 2: Singapore complex refining margin and fuel spread trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

ANNEUXURE -1: Trend in Indian Gas and Petroleum demand and Global Petchem, LPG & LNG prices
Exhibit 3: Trend in Indian gas demand

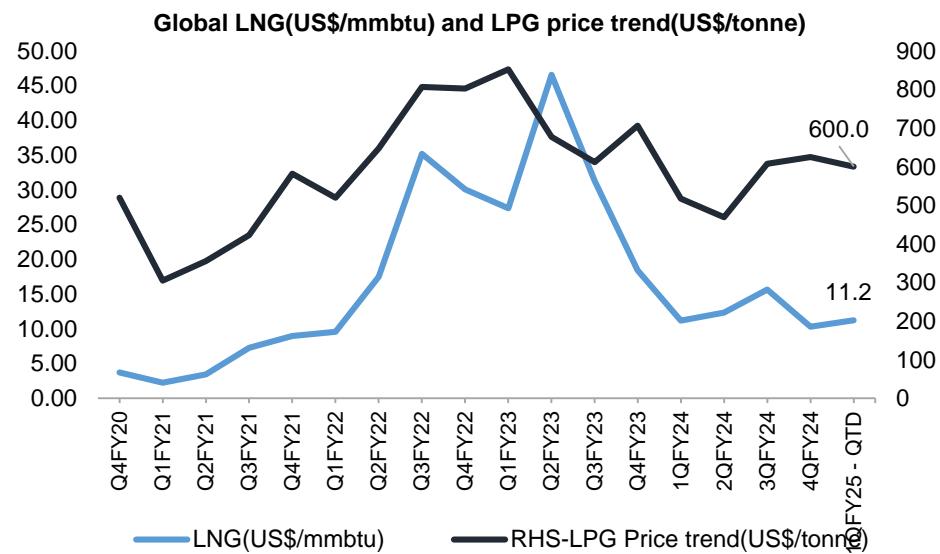
Segment	Vol. (mmscmd)		Growth YoY	Vol. (mmscmd)		Growth YoY	Vol. (mmscmd)		Growth YoY	mmscmd	Growth YoY
	FY22	FY23		4QFY23	4QFY24		Apr'23	Apr'24		FY24	
Fertilizer	49.5	54.5	7.3	54.8	57.7	5.2	53.7	54.6	1.7	57.5	5.5
Power	24.9	20.7	-8.7	21.1	23.5	11.3	24.4	31.5	28.9	24.7	19.2
Citygas	33.3	33.4	-0.8	33.9	38.9	14.7	34.7	40.2	16.0	37.0	10.7
Refinery	14.3	10.6	-26.4	10.0	18.4	84.9	11.2	20.9	86.6	15.9	50.0
Petchem	7.2	5.0	-29.0	6.4	7.3	14.6	8.5	3.9	-54.3	7.3	45.6
Other+ losses	33.8	33.4	7.7	34.7	49.6	42.7	34.9	46.3	32.6	45.5	36.3
Total	162.9	157.6	-1.4	160.9	195.4	21.4	167.4	197.3	17.9	187.9	19.2

Source: PPAC, Nirmal Bang Institutional Equities Research

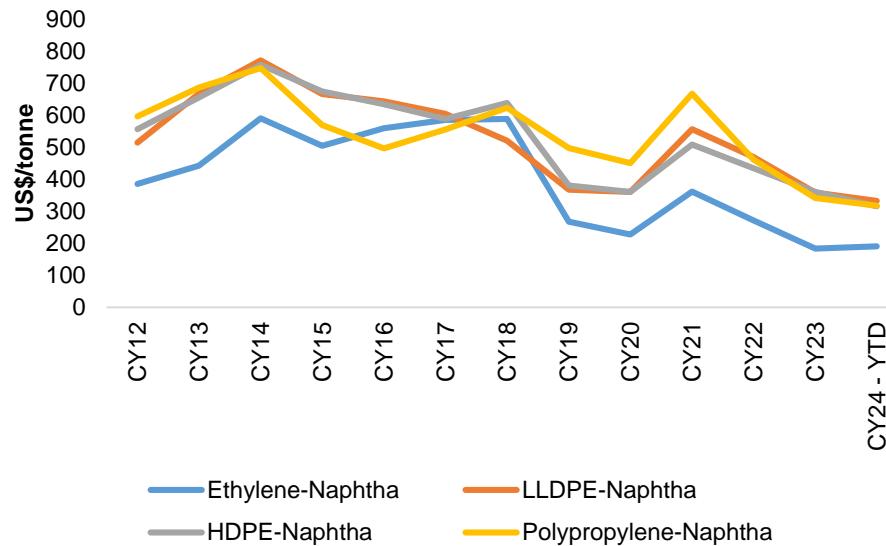
Exhibit 4: Indian petroleum consumption - monthly

Products ('000 tonnes)	May-24	Chg YoY %	Chg MoM %	YTD FY25	Chg YoY %	Chg vs YTD FY21 %
LPG	2,393	2.0	1.5	4,751	5.5	7.8
Naphtha	1,065	-7.9	-7.9	2,221	-2.1	20.4
MS	3,429	2.4	4.4	6,713	7.8	144.7
ATF	743	10.8	0.1	1,485	11.9	796.9
SKO	25	-39.8	-6.5	52	-28.0	-83.3
HSD	8,365	1.8	5.5	16,290	1.6	86.2
LDO	62	-10.5	21.4	113	-13.0	14.6
Lubricants & Greases	331	2.5	11.5	628	5.2	93.4
FO & LSHS	530	-11.6	8.8	1,017	-14.1	33.5
Bitumen	816	-5.5	-1.8	1,647	-5.4	112.0
Petroleum coke	1,630	-10.1	-2.5	3,301	3.4	0.7
Others	1,096	-11.4	6.5	2,125	0.2	61.3
TOTAL	20,485	-1.0	3.2	40,343	2.4	62.8

Source: PPAC, Nirmal Bang Institutional Equities Research

Exhibit 5: Global LNG and LPG price trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Long term trend in Ethylene and Polymer spreads


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: Quarterly analysis of Petrochemical spreads

US\$/te	4QFY24	4QFY23	YoY%	3QFY24	QoQ%	1QFY24	1QFY25 - QTD
Ethylene-Naphtha	211	167	26.1	197	6.9	202	167
HDPE-Naphtha	311	364	-14.5	318	-2.4	386	320
LLDPE-Naphtha	323	372	-13.2	316	2.2	381	344
Polypropylene-Naphtha	308	370	-16.6	301	2.4	360	327
MEG-Naphtha	-136	-173	-21.6	-166	-18.1	-127	-153
Paraxylene-Naphtha	337	328	2.7	347	-2.9	391	349

Source: Bloomberg, Nirmal Bang Institutional Equities Research

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