Benchmark oil futures prices finish strongly in 2017

www.abhafoundation.org

Abdullah Bin Hamad Al-Attiyah International Foundation For Energy And Sustainable Development

WEEKLY OIL MARKET REVIEW

Benchmark oil futures prices are finishing the year 2017 strongly, with price levels not seen since June 2015. The Brent gained on the week more than 3% while the WTI increased by almost 2%, as bullish factors outpaced significantly the bearish ones.

The set of bullish factors included: the continuous outage at the Forties pipeline system, the Opec+ deal extension and strong Opec/non-Opec compliance, announcements about potential exit strategy after the Opec+ deal expiry, US crude oil stocks continued fall combined to a balanced US oil supply system, geopolitical tension in the Middle East, and a strike in the Nigerian oil and gas industry.

The factors that weighed negatively on prices were mainly: the sustained increase in US crude oil production, a firm US oil rig count, the rise in US gasoline and distillate stocks, and an expected restart of the Forties pipeline planned for early January 2018.

US crude oil inventories continued to fall in the week to December 15, with another decline of 6.5mn barrels reaching 436mn barrels, which is the lowest level since October 2015.

While US gasoline & distillate stocks rose modestly by 1.2 and 0.8mn barrels respectively, US crude production hit a new record of 9.8mn barrels per day (mbpd), cruising comfortably to the 10.0 mbpd record of the 1970's, a level that would make it on par with Saudi Arabia and just below the 11.0 mbpd of Russia.

The US refinery utilisation rate reached 94.1% reflecting a healthy product demand, and offsetting the robust domestic crude production. US crude exports increased to 1.86 mbpd with a four-week average of 1.42 mbpd, while US net crude imports fell by 0.3 mbpd according to the EIA data. The US oil rig count remained unchanged at 747 in the week to December 22, according to BHGE data.

Since the closure of the Forties pipeline on December 11, repairs are underway and the manufactured replacement piece is on its way to the maintenance site (Reuters).

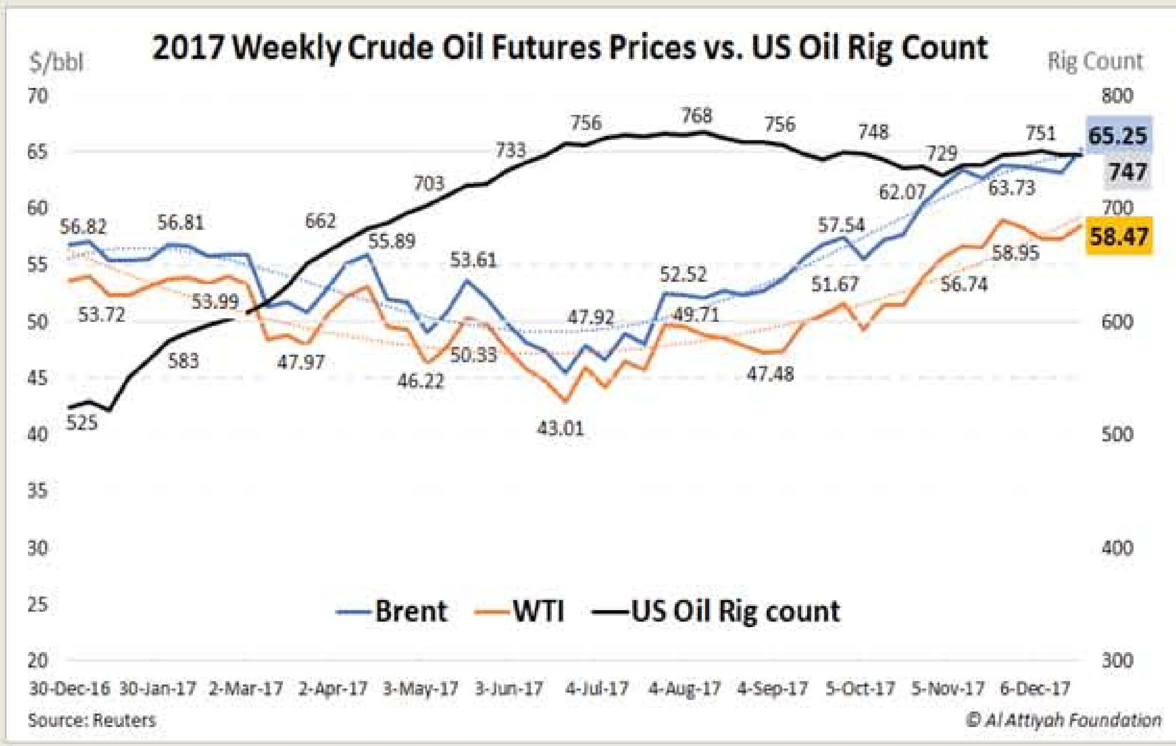
The maintenance works on the pipeline system are expected to continue over the Christmas period, for an estimated restart in early January with a progressive back to normal situation, according to the pipeline operator Ineos.

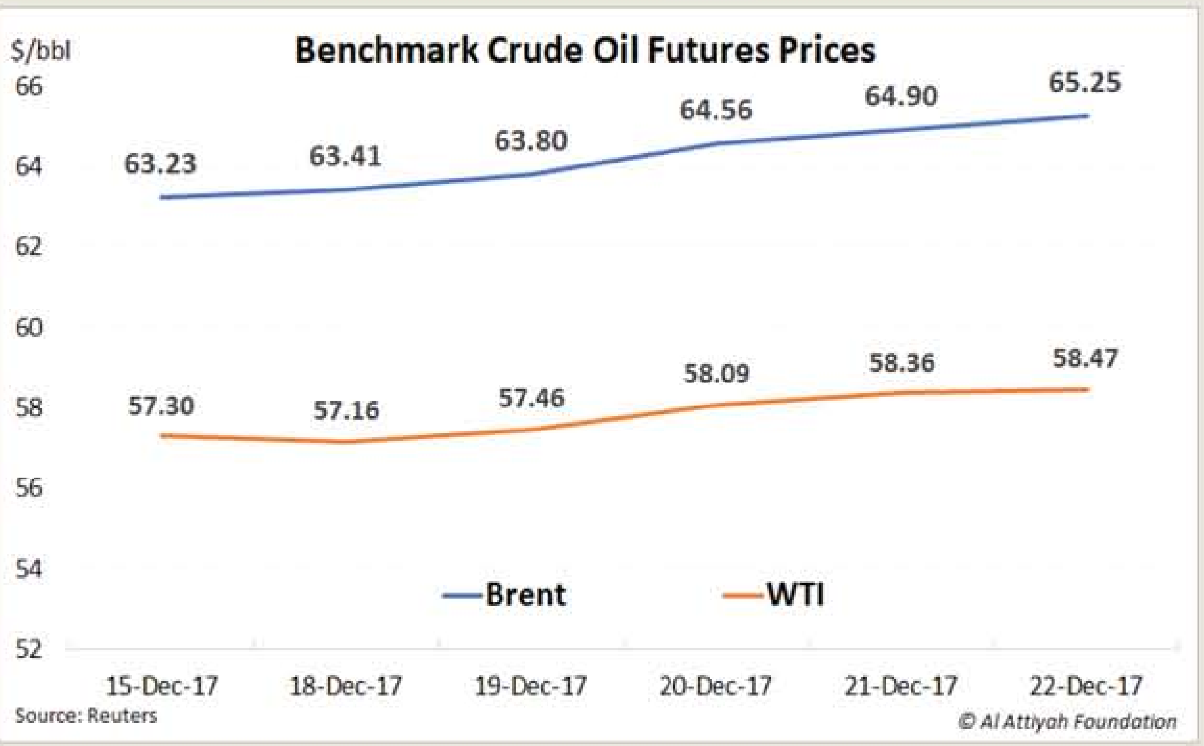
Regarding the 2018 market outlook, the International Energy Agency sees a supply surplus of about 0.2 mbpd in the 1st half of next year, a view shared by the US EIA which also indicated a supply overhang of 0.17 mbpd for the whole year.

While, Saudi Energy Minister said the market rebalancing was unlikely to happen until the 2nd half of 2018, with an almost flat or a build in inventories for the first few months of 2018 due to seasonality reasons (Reuters).

As we argued in a previous report that the oil market needs to know the exit strategy from the Opec+ deal, it looks like that plans and different options are now under discussion between the Opec members and their partners to avoid any hard exit that could damage the interests of everyone. The exit options would likely mean that the cuts would be extended and reduced through a tapering process depending of course on the market situation and its corresponding assessment.

Additionally, Saudi Arabia and Russia pledged last Friday that any exit from the output cut deal would be gradual (Reuters), and not abrupt that could lead to a dog fight.





Qatar banks need to prepare for Basel IV requirements: KPMG

■ Qatar's banks may need to increase their capital once Basel IV is rolled out: Steve Punch

Banks in Qatar need to prepare now for the introduction of revised standards recently released by the Basel Committee, said KPMG in Qatar, noting that Basel IV will have a significant impact on capital ratios, strategy, pricing, processes and disclosure.

Given the Qatar Central Bank's (QCB) proactive adoption of Basel III, it is likely that Basel IV will be adopted over time, KPMG in Qatar said.

KPMG's director and head (Financial Risk Management) across MESA Steve Punch said, "These new Basel IV rules will redefine how banks manage risk, particularly credit risk. This is significant and relevant in countries like Qatar, where the QCB requires them to calculate regulatory capital using the Basel standardised approaches."

Punch was in Qatar to address senior finance and risk professionals from the financial services industry as part of KPMG in Qatar's 'Freshly brewed' seminar series.

He noted that the Basel IV standardised approaches will require banks to review their lending portfolios to identify higher risk customers and that generally, higher risk usually contributes to higher interest rates and capital charges. "The way that banks calculate regulatory capital is expected to change completely under Basel IV and they will need to collect specific customer information regularly to asses and mitigate risks. There is an increased focus on enhanced due diligence across all lending portfolios, and additional data requirements are needed more frequently, which will be a further burden on banks.

"For example, banks will be required to undertake regular valuations for collateral to determine the loan-to-value (LTV) ratio to calculate risk weights. If you have a low LTV, the capital required to be held against that loan is now lower than exposures with high LTV."

Punch believes that there is value for the QCB to carry out an impact assessment study, particularly to assess the impact of Basel IV on capital adequacy ratios.

In response to the first draft of Basel IV, the Basel Committee's conducted a Quantitative Impact Study, which estimated that banks may have to increase their capital base by 50-70%. In the second draft, the requirement seemed to indicate a 25-30% increase.

"This means we can deduce that Qatar's banks may need to increase their capital by similar amounts once Basel IV is rolled out," Punch noted.

"Given that Basel IV will significantly increase risk-weights and therefore lower the Capital Adequacy Ratio (CAR), it's important for banks to plan in advance and avoid operating below the minimum capital requirements set by the central bank.

An impact assessment will determine the capital implications and allow the QCB and banking sector to better determine their additional capital needs," Punch added.

Omar Mahmood, partner at KPMG in Qatar and head (Financial Services in the Middle East and South Asia) said, "The financial sector is a driver of Qatar's economy and, by keeping up with the latest global developments, the government and regulators are demonstrating their commitment to ensuring that the country's banks continue to grow in a safe and sustainable way."

Steve Punch at the KPMG seminar in Doha.

Iraq invites bids to build new Kirkuk export pipeline

Reuters
Baghdad

Iraq has given foreign energy companies a month to signal their interest in building a new export pipeline from the Kirkuk oilfields in the north of the country.

The new pipeline will replace an old and severely damaged section of the Kirkuk-Ceyhan pipeline. It will start from oilfields near Kirkuk and extend to the Fish-Khabur border area with Turkey.

Iraq's oil ministry set January 24 as the deadline for companies to submit letters of interest in building the new pipeline, the ministry said in a statement.

The 350km pipeline which will have the capacity to transport more than 1mn barrels per day and will be run under an investment model known as "build-operate-transfer," oil ministry spokesman Asim Jihad said.

Under the project terms, the interested companies or consortia should also build a gas pipeline, pumping stations and facilities for crude storage.

Jihad said interested companies must pay the project costs and can then recover them after operating the project for an agreed period of time.

Exports from oilfields in Kirkuk have been on hold since Iraqi government forces took control of them from the Kurds last month in retaliation for a Kurdish referendum on independence which was widely opposed by Turkey, Iran and Western powers.

Meanwhile Iraq has reached an initial deal with China's state-run Zhenhua Oil to develop the southern portion of the East Baghdad oilfield, the oil ministry spokesman said yesterday.

Iraq is seeking the help of Zhenhua Oil to increase production from East Baghdad oilfield to 40,000 barrels per day within five years as of the start of the development operations, Asim Jihad said in a statement.

Iraqi oil officials have estimated the East Baghdad field, a "super giant" with around 8bn barrels of crude reserves, has the potential to produce 120,000 barrels of oil per day.

Under the initial deal with Zhenhua Oil, which will be announced in formal ceremonies to be held in Baghdad today, the Chinese firm will commit to building an "oil residential complex", the statement said. Oil ministry officials said increasing East Baghdad crude production would help feed nearby refineries and power stations and free up more oil for exports from the southern region.

Iraq produces and exports the bulk of its crude from the southern region.

QSE index continues to remain above 8,600 levels

By Santhosh V Perumal
Business Reporter

Qatar Stock Exchange yesterday opened the week weak but overall it continued to remain above 8,600 levels.

Although gainers outnumbered decliners, the 20-stock Qatar Index was down 0.25% to 8,600.2 points. QNB was seen trading on the special market.

Local and Gulf retail investors were seen bullish in the bourse, whose year-to-date losses were at 17.6%.

Islamic equities were however seen gaining vis-à-vis an overall bearish market, whose capitalisation shrank 0.24% to QR474.61bn.

Trade turnover expanded amidst lower volumes in the bourse, where telecom, banking and industrials sectors together accounted for about 86% of the total volume.

The Total Return Index shed 0.25% to 14,422.03 points and All Share Index by 0.18% to 2,463.99 points, while Al Rayan Islamic Index gained 0.23% to 3,408.95 points.

The banks and financial services index declined 0.79%, while insurance gained 0.48%, industrials (0.3%), telecom (0.31%), realty (0.22%), transport (0.22%) and consumer goods (0.12%).

Major gainers included Gulf Warehousing, Industries Qatar, Vodafone Qatar, Mazaya Qatar, Barwa, Qatar First Bank, United Development Bank and Salam International Investment; whereas QNB, Commercial Bank, Nakilat, Milaha and Qatari Investors Group were among the losers.

Local individuals turned net buyers to the tune of QR4.97mn against net sellers of QR12.81mn the previous trading day.

Non-Qatari retail investors were also net buyers to the extent of QR4.71mn compared with net sellers of QR3.05mn last Thursday.

The Gulf individual investors' net buying increased perceptibly to QR0.31mn against QR0.08mn on December 21.

Domestic funds' net selling declined considerably to QR1.18mn compared to QR3.09mn the previous trading day.

However, the Gulf institutions turned net profit takers to the tune of QR7.48mn against net buyers of QR7.06mn last Thursday. Non-Qatari institutions were also net sellers to the extent of QR1.28mn compared with net buyers of QR11.82mn on December 21.

Total trade volume fell 9% to 15.68mn shares, while value rose 29% to QR512.17mn despite 37% lower deals to 2,698. The insurance sector reported 97% plunge in trade volume to 0.05mn equities and 99% in value to QR0.95mn but on 4% jump in transactions to 58.

The transport sector's trade volume plummeted 33% to 0.37mn stocks, while value was up 5% to QR11.2mn despite 56% shrinkage in deals to 146.

There was 25% shrinkage in the industrials sector's trade volume to 2.93mn shares, 45% in value to QR28.07mn and 34% in transactions to 699. The real estate sector's trade volume tanked 15% to 1.45mn equities, value by 3% to QR22.23mn and deals by 16% to 463.

However, the banks and financial services sector saw 19% surge in trade volume to 5.01mn stocks to more than double value to QR392.65mn but on 42% slippage in transactions to 800.

The telecom sector's trade volume soared 18% to 5.53mn shares, whereas value declined 20% to QR45.93mn and deals by 60% to 274.

The market witnessed 6% expansion in the consumer goods sector's trade volume to 0.34mn equities but on 12% fall in value to QR11.12mn despite 11% higher transactions to 258.

In the debt market, there was no trading of treasury bills and sovereign bonds.