

Where is crude oil headed?

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Production

Crude oil production in India during May 2021 declined by 6.3% YoY to 2,438 Thousand Metric Tonnes (TMT), while cumulative production for initial two months of FY22 declined by 4.2% YoY to 4,931 TMT. Oil and Natural Gas Corporation (ONGC) which contributed ~2/3rd of the total crude oil production in May 2021 declined 9.6% YoY to 1,553 TMT, due to the adverse climatic conditions created by the cyclone Tauktae, which hit the Indian west coast (mainly Maharashtra and Gujarat) in mid-May. Oil India Ltd (OIL) which contributed 10.3% of total crude oil production during May 2021, declined by 1.3% YoY to 253 TMT due to less than planned contribution from workover wells, drilling wells and old wells. The blockades by local people and associations after the Baghjan blowout also capped the production levels. Crude oil production by Pvt/JVs companies in the PSC (Production Sharing Contract) regime was 631 TMT, which is higher by 0.7% YoY. Reasons for shortfall in production are lower consumer demand, infectivity issues in few wells, along with workovers and water knockouts.

Processing

Crude oil processed during May 2021 was 18,970 TMT, which was higher by 16% YoY. On a cumulative basis, total crude oil processed was 38,855 TMT, which was higher by 25% YoY during April – May 2021. In the initial two months of the ongoing financial year, of the total crude oil processed by PSU/JV refineries, 85.7% was imported while in case of private refineries, it was 94.9% and balance was indigenous.

Imports

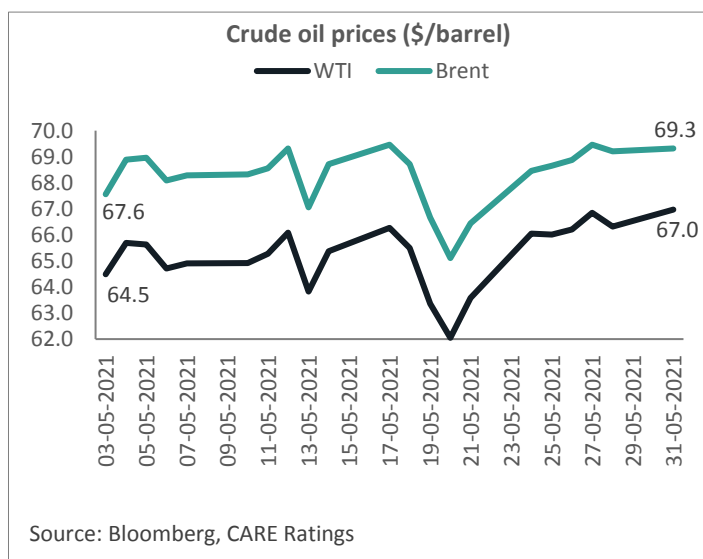
In May 2021, crude oil imports grew 18.2% YoY to 17,259 TMT, while in April-May 2021 it grew 14% YoY to 35,516 TMT. Top regions from which India imported crude oil were Middle East (61.5% share), Africa (15.9% share) and North Africa (13.2% share), followed by Eurasia, South America and others. Imports from the OPEC countries had 72.8% share.

Global crude oil prices

The monthly average prices of WTI and Brent in May 2021 rose 6% and 5% respectively on sequential basis, reaching multi-months high. The fall in covid-19 cases and resultant reduction in movement restrictions supported the rise in prices this month.

Refiners in Asia Pacific and Europe showed higher buying interests on the expectation of further recovery of oil demand in the approach of the summer driving season. Alongside, the continued recovery in refinery runs and declining crude stock in US lent support to prices.

Chinese refiners showed an increase in buying interest for crude in the Atlantic Basin, while India witnessed an ease in the COVID-19 cases by the end of May 2021. Furthermore, the decision of OPEC and participating non-OPEC producers to gradually adjust their production until July-end, lent support to the oil prices.



Outlook

Economic recovery varies across countries, as some nations have successfully managed to contain the spread of covid-19 virus and vaccinate a significant proportion of their population, while others haven't. The resurgence of infections and renewed lockdowns in large economies like Europe, Japan and India, created a hindrance in path to recovery in H1-CY2021. However, the ongoing vaccination drives and rise in recovered cases has created optimism that the ongoing pandemic may not exceed beyond few months.

Global oil demand is expected to gain pace in H2-CY2021, with improving mobility in major economies supporting transportation fuels demand. Improvements in pandemic containment efforts and seasonal summer demand will add to the growth. China and India will be key drivers in the Asian market supported by rise in industrial fuel demand, among others.

Global crude oil prices, have recently breached its two years high mark of \$75/barrel. The OPEC+ oil producers are expected to stick to the existing pace of gradually easing supply curbs, with an aim to balance the expectations of a growth in demand. Though the uncertainties in the global economic recovery, due to the resurgence of COVID-19 infections and renewed lockdowns in key economies cannot be overlooked. Hence, global crude oil prices are expected to hover in the range of \$75-80/barrel until at least September 2021, but may revert to \$75/barrel in case of higher Iranian supply and OPEC countries.

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