SectorVector

October 2024

Reading the topical trends

The September skid

Recession fears, slack demand cull crude amid lower geopolitical tensions

Crude oil prices declined to $74.3 per barrel in September amid recession fears

Crude oil prices declined a sharp 8.1% on-month in September, settling at $74.3 per barrel (bbl) on average.

The decline was mainly due to subdued demand from major economies. Demand in China, a major consumer, grew sequentially but declined on-year. Moreover, geopolitical tensions, which had driven up the prices in July, saw a temporary easing.

As a result, consumers and businesses felt less pressured to make substantial purchases, which diminished oil demand. Between January and September, dated Brent averaged ~$82.7 per bbl, up a marginal 1% on-year.

That said, the recent flareup in the geopolitical tensions is limiting the decline and the prices are expected to stay in the $75-79 per bbl range in the fourth quarter of calendar 2024. Developments in the Israel-Iran conflict are a key monitorable.

Demand growth subdued

Crude oil demand clocked a marginal growth of ~1% both sequentially and on-year in September.

Demand rose ~6% on-month in China and showed positive signs in Europe, but was partially offset by a slowdown in Japan.

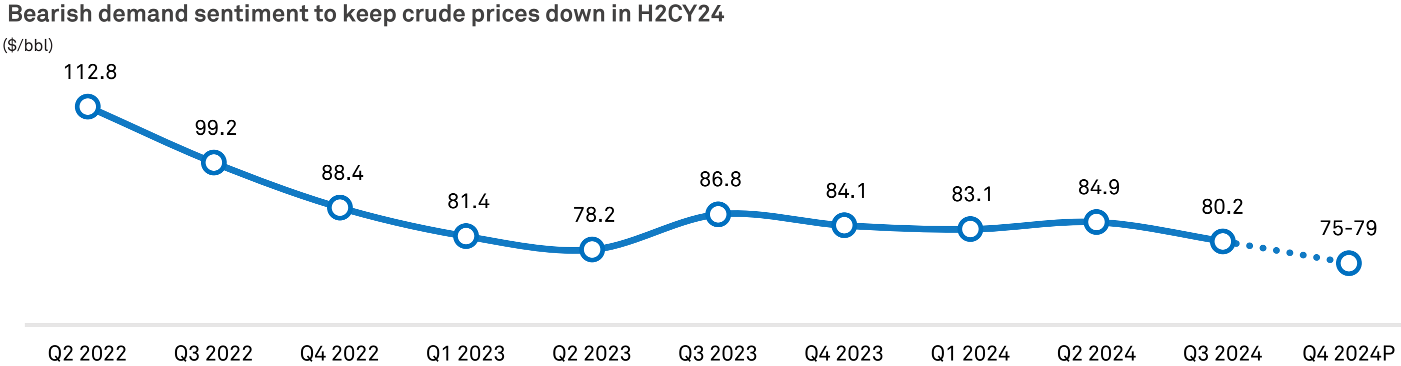
Supplies lag on OPEC+ delay

Overall crude oil supply during the month declined 1% on-year, mostly owing to a fall in supply from OPEC nations, especially Libya, where the output hit its lowest mark since 2021 with the country's central bank in turmoil.

Iraq's attempts to adhere to the pledged cutbacks also dragged down supplies.

OPEC+ has also deferred plans to increase production by a few months as the members delay phasing out of their voluntary cuts.

Bearish demand sentiment to keep crude prices down in H2CY24



($/bbl)

Particulars (September-24)	y-o-y (% change)	m-o-m (% change)
Dated Brent (% change)	($74.3 per bbl) -21%	-8%
Global demand (% change)	1%	1%
Global supply (% change)	-1%	-1%

Price uncertainty amid geopolitical turmoil

In September, oil prices declined amid some easing in geopolitical tensions. However, this month, they have been on a cliff on mounting fears of a direct conflict between Israel and Iran, which accounts for 4% of the global oil supply. Any Israeli attack on the oil infrastructure of Iran can disrupt its crude supplies.

That said, the spare production capacity in the Middle East – more than 5 mbpd – can replace this cut in output. Besides, the US and other member nations of the International Energy Agency (IEA) hold ~3,700 million barrels of crude oil and its products in their inventory (as of June). This could be also released if the conflict escalates.

Nevertheless, prices could spike as any escalation would disrupt Gulf oil supply to major importing countries as Iran could choke the Strait of Hormuz, in a potential repeat of the Red Sea crisis.

The Strait of Hormuz is a crucial transit route for oil careers to Asian countries. It accounted for ~21% of the global crude oil flow in 2022.

The Red Sea crisis that started in November 2023 had doubled shipping costs as vessels were forced to re-route to avoid attacks from the Houthis of Yemen.

As of now, the impact of the conflict is limited given the bearish sentiment owing to subdued demand growth in China.

What if the Israel-Iran conflict escalates?

Timeline of key events

April 2

Attack on multiple refineries over two weeks (20-25% of capacity)

April 14

Iran launches missiles and drones against Israel

July 31

Assassination of Hamas political chief, for which Hamas and Iran blames Israel

September 23-27

Israel launches more than 650 air strikes on 1,600 Hezbollah targets

October 1

Iran launches some 200 missiles against Israel in two waves

First fortnight of October

Escalation in the conflict, with Israel attacking Hamas, Hezbollah and their allies

Potential risks and monitorables

Israel attack on Iranian refineries

Can impact 4% of global crude oil supplies

Disruptions in Strait of Hormuz

Would affect this major chokepoint accounting for ~21% of global oil flows

Spare capacity with OPEC nations

More then 5 bpd will offset the cut in supplies

Demand from major economies

Demand from China is expected to face continued slowdown

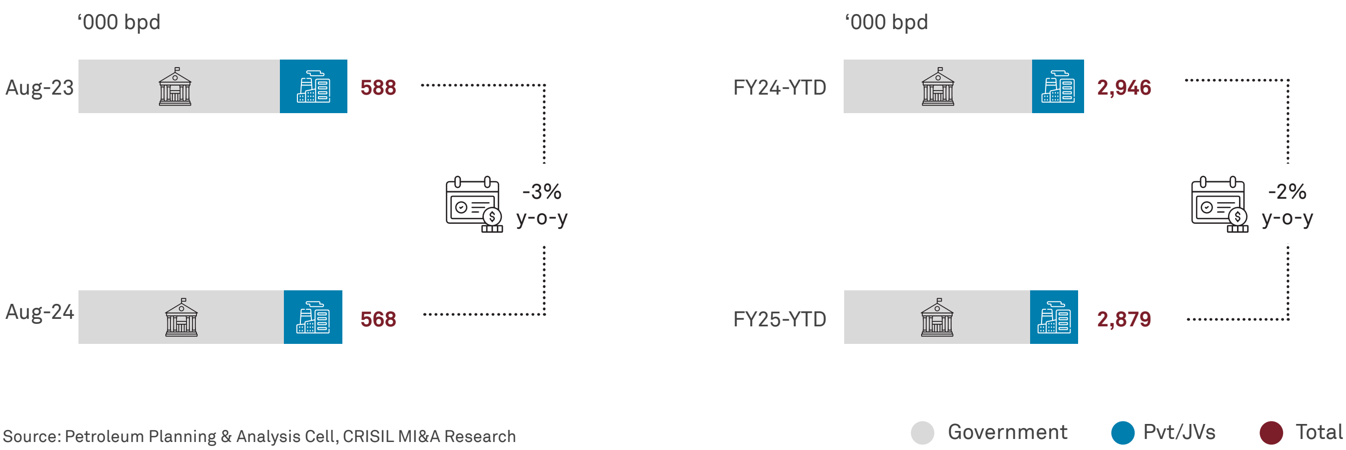
Source: Industry, CRISIL MI&A Research

Domestic crude production falls on account of operational issues

Domestic crude oil production declined in August

Domestic crude oil production in August stood at ~5,68,000 barrels per day (tbd), down 3% on-year. ONGC's output declined 2% owing to a fall in output from ageing fields. Output from fields of other majors such as Vedanta and Reliance Industries also declined during the month.

Domestic crude production declined in August



Source: Petroleum Planning & Analysis Cell, CRISIL MI&A Research

Russia enjoys major share in import pie

Indian refiners replace expensive Middle Eastern oil with Russian and US produce

Share of Russian crude in India's import basket increased to 45% in July; volumes from Saudi Arabia drop by 9% in July'24

Overall oil realisations of India stood at ~$85.1 per bbl in July. Higher realisations of the partners Saudi Arabia have prompted Indian refiners to increase imports from Russia.

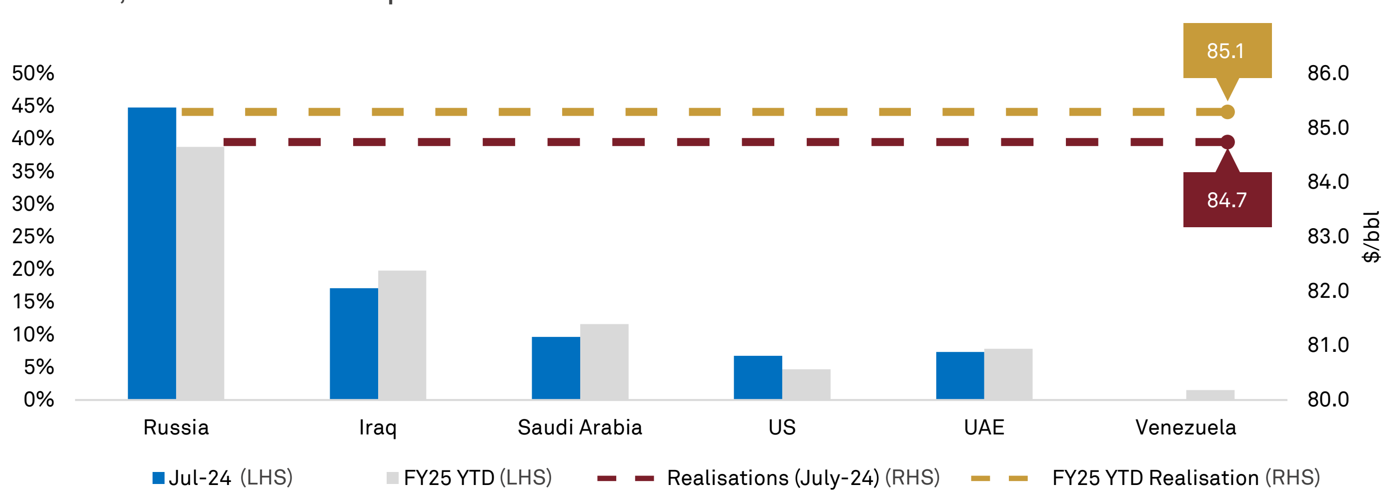
Lower imports of Russian oil by Chinese refiners resulted in healthy availability.

Over April-July, share of Russian crude declined to 39%

During April-July, share of Russian crude oil declined to ~39% from 40% a year ago, while that of Iraq rose to 20% from 19%.

Adoption of Russian oil helped India reduce oil realisations by ~$1.8 per bbl, saving $80-100 million for domestic refiners in July.

Venezuelan, Mexican crude softens price shocks for Indian refiners



Source: Ministry of Commerce and Industry, CRISIL MI&A Research
Note: YTD refers to April-July

Demand for petroleum products declines on muted industrial activity

Consumption of petroleum products fell ~2% on-year in September

Petroleum products consumption rise a marginal 1% on-month

Demand for transportation fuels remained stable on-year but declined ~3% on-month as vehicle sales slowed down and because of increased adoption of alternative fuels.

Industrial demand declined 2% on-month due to a significant 12% drop in naphtha consumption.

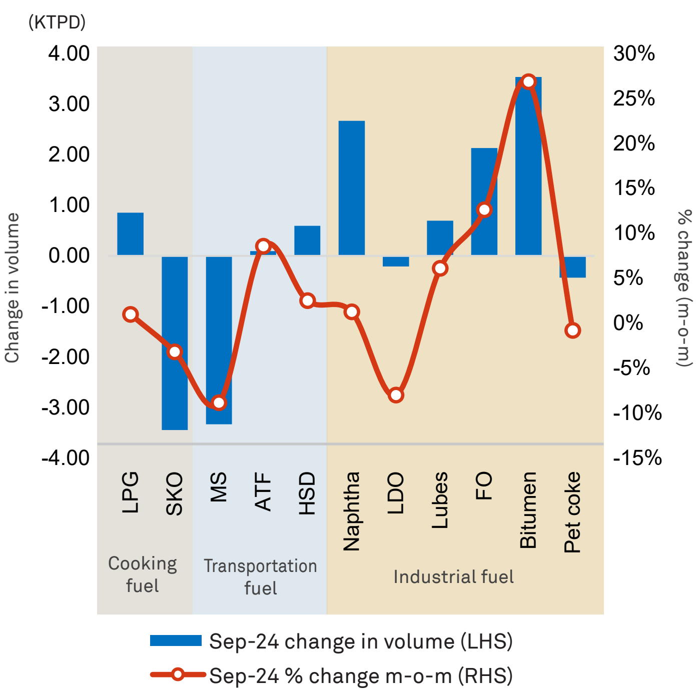
Cooking fuel demand declined a marginal ~2% because of a 2% shrinkage in LPG consumption.

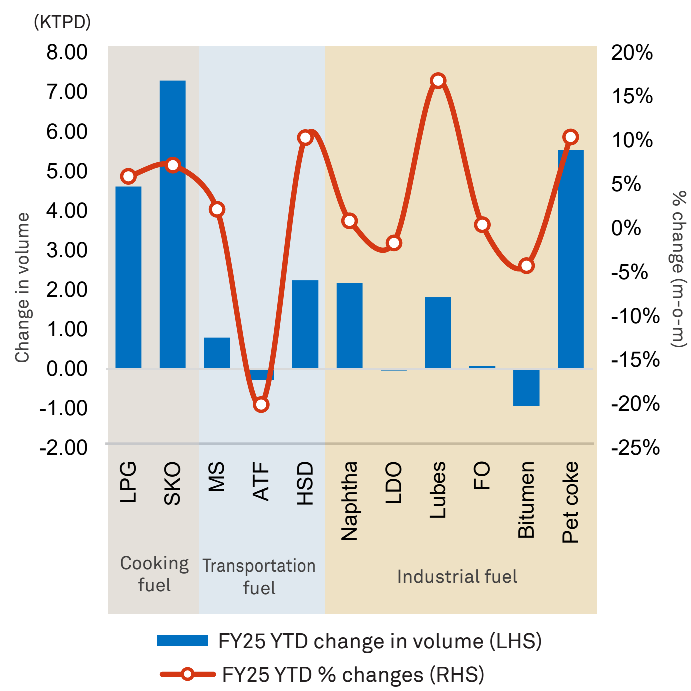
Petroleum products demand rose ~3% on-year over April-September

Demand for transportation fuels rose 3% during April-September despite a decline in August. The growth was led by motor spirit (up 7%) and aviation turbine fuel (10%).

Industrial demand grew 5% on-year owing to stable consumption of petcoke and naphtha despite a decline in bitumen consumption.

Robust LPG demand kept cooking fuel consumption growth at 6% during the period.





Source: Petroleum Planning & Analysis Cell, CRISIL MI&A Research
Note: YTD refer to April-September

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