

August 27, 2012

Commodities Research

# Crude Oil Report

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## COMMODITY RESEARCH

### MARKET OUTLOOK

US crude oil futures rose 1.20% to US dollars 96.99 per barrel from US dollars 95.84 per barrel the day earlier. Consistent with the price trend, the RSI jumped to 66.04 and the recommendation is to sell on strength as the price further trends upwards. The price at US dollars 96.99 breached past all the 4-, 9- and 18- day moving averages of 96.73, 96.31 and 94.41 respectively. Also the price at 96.99 is situated between the upper Bollinger band and moving average of 99.54 and 93.85 respectively.

### CHINA'S JULY FUEL OIL IMPORTS FALL 11% ON YEAR TO 1.88 MIL MT

China's imports of fuel oil in July fell 11.2% year on year to 1.88 million mt, with Venezuela displacing Russia as the top supplier, data released last week from the General Administration of Customs showed.

Buyers had been cautious about booking July-delivery cargoes amid bearish demand in China, a Guangzhou-based importer said Friday. Fuel oil imports -- classified by the customs

#### Market Watch

(Prices in US dollars per barrel)

**Close 96.99**

(US Nymex crude oil (WTI) futures price as of August 27, 2012)

Time	Forecast Price (US\$)	Return (%)	Annualized Return
1 year	100.97	4.10%	4.10%
5 years	120.00	23.73%	4.35%
10 years	144.96	49.45%	4.10%
15 years	170.93	76.24%	3.85%
20 years	227.29	134.34%	4.35%
30 years	323.78	233.83%	4.10%

12 Months Price Projection			
	High	Average	Low
Jul-12	121.64	97.32	72.99
Aug-12	122.05	97.64	73.23
Sep-12	122.46	97.97	73.48
Oct-12	122.87	98.30	73.72
Nov-12	123.28	98.63	73.97
Dec-12	123.70	98.96	74.22
Jan-13	124.11	99.29	74.47
Feb-13	124.53	99.62	74.72
Mar-13	124.95	99.96	74.97
Apr-13	125.37	100.29	75.22
May-13	125.79	100.63	75.47
Jun-13	126.21	100.97	75.72

#### Conclusion:

- Based on fundamental analysis, we recommend buy on weakness
- Based on technical indicators, we recommend sell on strength

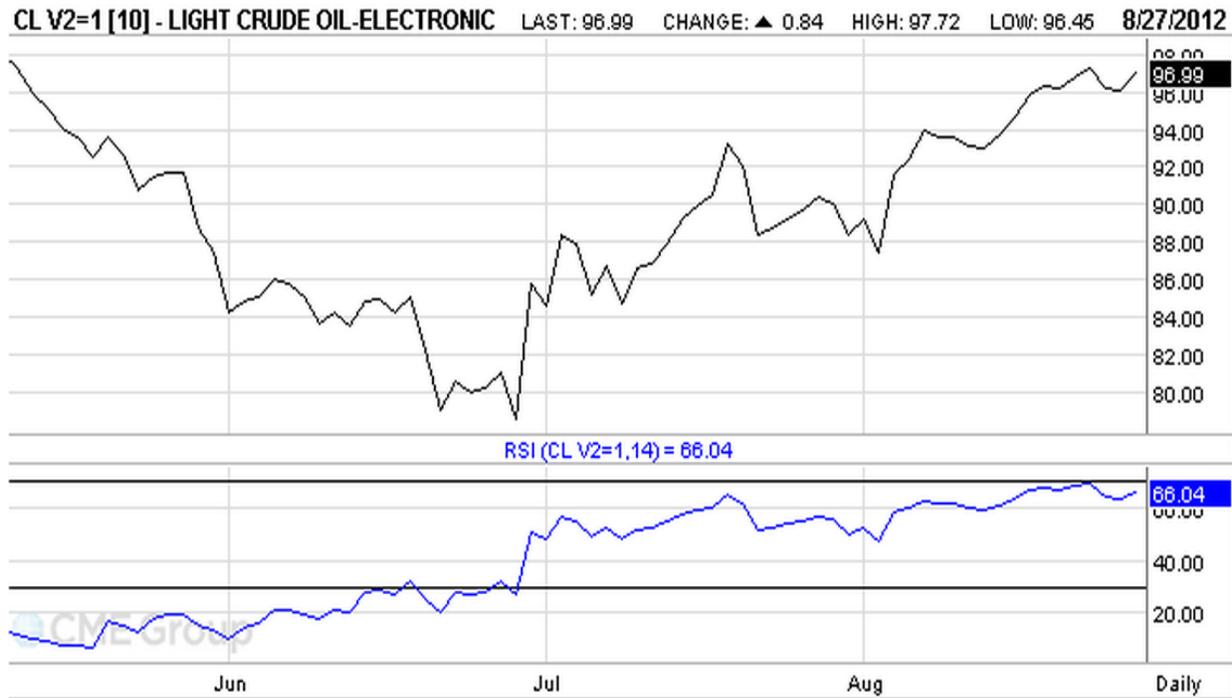
#### Assumptions:

- On average the market prices grew 11.48% per year over the last 15 years
- Crude Oil production and prices are strongly affected by energy demands of industry and end consumers
- Crude oil prices are directly impacted by political developments in the Middle East and OPEC member states' decisions regarding price setting and production contraction or expansion

#### References:

- Statistics Bureau, Platts, Bloomberg, Barclays, , Reuters, Index Mundi

department as No. 5-7 fuel oil -- from China's top suppliers in July all fell compared with the same month last year, the data showed. Chinese importers typically book their July-arrival cargoes in June, but lower prices in June failed to draw buyers as they expected prices to drop further. "Lower outright benchmark fuel oil prices in Singapore in June strongly dampened buying interest from China, as many buyers chose to wait for prices to fall further and bottom out before getting into the market," the Guangzhou trader said.



### Long-term price forecasts vs. forward prices\*

	Unit	2012	vs. fwd	2013	vs. fwd	2014	vs. fwd	2015	vs. fwd	2016	vs. fwd	2017	vs. fwd
<b>CRUDE OIL</b>													
Nymex WTI	\$/b	97.2	12%	94.4	8%	105.0	21%	110.0	29%	114.0	34%	118.0	39%
ICE Brent	\$/b	111.3	11%	105.0	8%	110.0	16%	115.0	25%	119.0	32%	123.0	38%
Dubai	\$/b	108.7	11%	101.5	7%	106.0	15%	111.0	22%	115.0	29%	119.0	35%
<b>Oil forecasts</b>													
Mb/d		2011	1Q 12	2Q 12f	3Q 12f	4Q 12f	2012f	1Q 13f	2Q 13f	3Q 13f	4Q 13f	2013f	
OECD demand		45.6	45.5	44.5	45.5	45.6	45.3	45.5	44.4	45.2	45.5	45.2	
Non-OECD demand		43.5	43.9	44.6	45.3	45.5	44.8	45.1	46.0	46.7	46.5	46.1	
World demand		89.2	89.5	89.2	90.8	91.1	90.1	90.6	90.4	91.9	92.0	91.2	
*Non-OPEC supply		52.7	53.3	52.8	53.2	53.8	53.3	53.9	53.9	54.1	54.4	54.1	
*OPEC NGLs		5.8	6.1	6.1	6.3	6.3	6.2	6.4	6.4	6.5	6.5	6.4	
*OPEC crude		29.8	31.2	31.8	31.5	31.0	31.4	30.5	30.8	31.5	30.8	30.9	
World supply		88.3	90.5	90.8	91.0	91.1	90.9	90.8	91.0	92.1	91.7	91.4	
Stock change		-0.9	1.1	1.6	0.2	0.0	0.7	0.2	0.7	0.2	-0.3	0.2	
WTI NYMEX (\$/bbl)		95.11	102.93	95.95	97.50	92.50	97.22	92.50	87.50	100.00	97.50	94.38	
Brent ICE (\$/bbl)		110.90	118.35	111.83	110.00	105.00	111.30	105.00	100.00	110.00	105.00	105.00	

Source: Historical data – IEA. Forecasts – SG Cross Asset Research. Note: IEA historical data from 11 May 2012 monthly Oil Market Report (OMR).  
\*Non-OPEC supply includes processing gains and biofuels.

Benchmark Singapore fuel oil prices hit a 16-month low on June 22, with the front-month 180 CST high sulfur fuel oil swaps at \$567.45/mt and 380 CST at \$556.90/mt, according to Platts data. Furthermore, demand from end-users in China continued to fall as the economy weakened amid poor exports and manufacturing activity. "Bearish economic figures have limited [shipping] activity and consequently demand for bunker fuel from shipping companies," a bunker trader said. Imports from Venezuela in July dropped 14.38% year on year to 448,113 mt, but was still up 23.9% month on month -- this is roughly the equivalent of two VLCC cargoes. Venezuelan 380 CST fuel oil is mainly used as bonded bunker fuel or refining feedstock by independent teapot refiners. But only one VLCC from Venezuela was heard scheduled to arrive in July, said a trader at ChinaOil, the main importer of Venezuelan fuel oil. "One cargo which arrived in late June might have only shown up in customs data in July, making it two VLCCs," explained the source. He added that no Venezuelan cargoes have been booked for August.

With the higher volumes in July versus June, Venezuela displaced Russia as the top supplier. Russian imports fell 7% year on year but were up 7% month on month to 447,110 mt. Imports from Malaysia also fell 8.31% year on year to 225,729 mt in July. Fuel oil from both Russia and Malaysia are used mainly in teapot refineries as feedstock. Sources from independent refineries said they imported less Russian fuel oil because many units underwent maintenance in July. "Many refineries had shut units for maintenance from June after the government reduced retail prices of gasoil and gasoline and in anticipation of another price cut in July," said a source at an independent refinery in Shandong. "Refinery run rates were kept low, at between 20% and 30% for nearly all of July," he added.

Referring to imports from Malaysia, the source explained that the metal content of Malaysian fuel oil is higher than average so refiners tend to shun Malaysian volumes in favor of other alternatives such as Russian M100.

#### CHINA'S JULY FUEL OIL IMPORTS BY SOURCE

July 2012	July 2011	% change	June 2012	% change	Venezuela	448,113	523,355	-14.38	361,739	23.88					
Russia	447,110	481,086	-7.06	417,915	6.99	Singapore	239,662	250,144	-4.19	426,508	-43.81				
Malaysia	225,729	246,187	-8.31	221,731	1.80	South Korea	195,670	300,097	-34.80	194,130	0.79				
Japan	101,401	102,470	-1.04	57,297	76.97	Kazakhstan	13,900	100,871	-86.22	79,193	-82.45				
Hong Kong	4,985	5,952	-33.05	0	-	Indonesia	624	0	-2,521	-75.25	Sudan	596	0	-230	159.13
TOTAL*	1,880,980	2,116,999	-11.15	1,775,641	5.93										

CHINA'S JANUARY-JULY FUEL OIL IMPORTS BY SOURCE	Jan-Jul 2012	Jan-Jul 2011	% change	Russia	4,317,318	3,495,727	23.50	Venezuela	3,447,577	3,086,402	11.70	Singapore	2,098,413	1,951,299	7.54
South Korea	1,757,087	1,759,082	-0.11	Malaysia	1,449,162	1,872,789	-22.62	Japan	490,151	718,992	-31.83	Indonesia	431,259	274,975	56.84
Kazakhstan	405,939	419,579	-3.25	Ukraine	120,029	325,420	-63.12	Turkmenistan	99,397	0	-	TOTAL*	14,745,277	14,488,184	1.77

Units: mt \*Total includes other countries. Conversion 1 mt = 6.7 barrels Source: General Administration of Customs

## ISAAC EXPECTED TO REACH FLORIDA KEYS BY SUNDAY NIGHT

Most of Florida's west coast is under a hurricane watch along with all of coastal Mississippi and Alabama as Tropical Storm Isaac heads for the United States, the National Hurricane Center said Sunday in its 8 a.m. EST advisory. Isaac, which is expected to strengthen into a hurricane as it nears the US, has sustained maximum winds of 65 mph and is moving west-northwest at about 20 mph. It is located about 40 miles north of Guantanamo, Cuba. The storm's projected path takes it near Key West, Florida, by Sunday night, about the time it is expected to reach hurricane strength. The expected path takes it west of Florida, where it is expected to make landfall in Alabama or Mississippi with sustained winds of about 105 mph on Wednesday morning. A hurricane warning remains in effect for the Florida Keys and the state's western coast, from Bonita Beach south to Ocean Reef.

A hurricane warning means hurricane conditions are expected somewhere within the warning area with 24 hours, while a watch indicates hurricane conditions are possible in the next 48 hours. A tropical storm warning remains in effect for the Dominican Republic, Haiti, Cuba, the Bahamas, the Turks and Caicos islands, Florida's east coast from Sebastian Inlet south to Ocean Reef, and Lake Okeechobee.

Isaac is expected to remain east of the heart of oil and natural gas operations in the Gulf of Mexico. Several producers, however, have evacuated platforms and shut in production in precautionary moves. The US Department of Interior's Bureau of Safety and Environmental Safety reported Saturday that offshore operators have shut in 119,138 barrels per day of oil production, about 8.6% of the Gulf's total, and about 73,000 Mcf/d of natural gas, about 1.62% of the Gulf's total gas output.

Florida Power & Light, the state's largest utility, said Saturday it had fully activated its emergency response plan ahead of Isaac and is ready to respond to power outages expected from expected high winds and rain. FPL said the NHC said Isaac's winds extend out more than 200 miles from the center and hurricane and tropical storm watches and warnings have been issued for a large part of the state.

"Based on Isaac's size, path and intensity, this storm will cause damage to overhead lines and possibly to underground electric lines due to flooding and saturated grounds. Damage could be caused by flying debris, fallen trees, winds and flooding, among other factors," the utility said. The US Coast Guard said Sunday morning that four ports -- the Port of Miami, Port Everglades, the Port of Tampa and the Port of Palm Beach -- had been closed to all incoming and outgoing vessels.

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