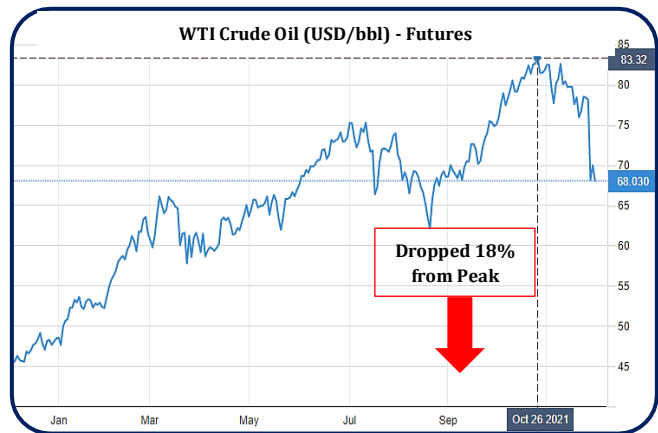


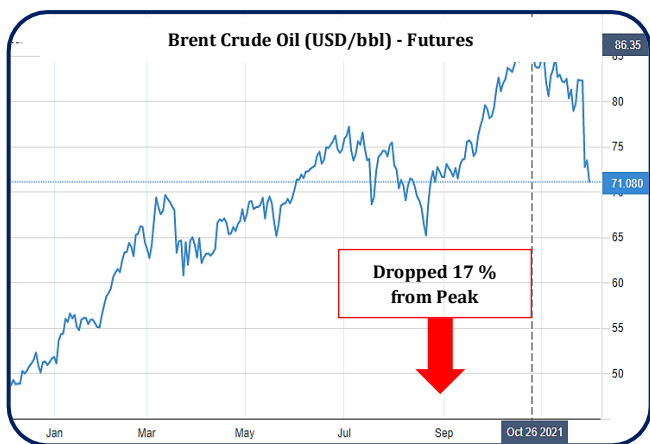
**CRUDE OIL FUTURES DROPS AS THE NEW VARIANT WEAKENS OIL DEMAND & CAUSING OIL GLUT IN MARKETS. BLESSING IN DISGUISE FOR PAKISTAN!**

The global Commodity prices bounced back on Monday 29<sup>th</sup> November, 2021 on the back of hopes that effects and symptoms of new covid-19 variant “Omicron”, which was found in the South Africa, are ‘mild’ compared to the Delta Variant. The Omicron, WHO’s fifth such covid-19 variant. As the world is fighting containing new variant’s spread, threat alerts creating chaos, started affecting supply disruptions & sparks travelling restrictions in several countries. WHO has warned the world that Omicron poses a “**Very High Global Risk of infection**”. United States & seven other countries have already announced their travelling restrictions from South Africa. This could affect ongoing global economic recovery and oil outlook, which is critical factor for time to come.



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Peak Price (\$/bbl)		Current Prices(\$/bbl)		% Change(\$/bbl)	
Brent Crude Futures	WTI Crude Futures	Brent Crude Futures	WTI Crude Futures	Brent Crude Futures	WTI Crude Futures
86.35	68.23	71.76	68.23	(16.89)	(18.11)



According to South Africa reports, around 35% of South Africa's population administered is vaccinated. Large population is still not vaccinated, which would create a ‘breeding ground’ for more infections. Most of the Covid-19 response forces across the globe have taken their fighting measures instantly as world have seen the worst economic meltdown of around \$11 trillion in early waves.

On Friday 26 Nov, commodity prices tumbled around 13% in a single day that broke \$70 a barrel, which was mainly due to new variant concerns hurting oil demand outlook. This was single largest day drop since April 2020. Global and financial markets largely viewed this drop as a ‘welcoming relief’ in backdrop of highly inflationary wave across the globe. However, this breather remained short-lived & evaporated.

According to the Reuters, “**The OPEC & its allies postponed their technical meetings, scheduled this week**” as they are still assessing the effects of Omicron variant on oil demand outlook & prices. All Eyes are on OPEC which is going to set the tone of oil prices going forward. The OPEC’s Reference Basket (ORB) plays critical role in determining crude oil benchmarking. This is actually a weighted average of prices for petroleum blends which is produced by the OPEC member countries. According to OPEC, OPEC Reference Basket grew by 11.1% in October 2021 compared to September 2021. Following is the OPEC’s Reference basket comparison which is hereafter;

OPEC REFERENCE BASKET AND SELECTED CRUDES						
OPEC Reference Basket (ORB)	21-Sep	21-Oct	% Change M/M	2020	2021	% Change Y/Y
<b>ORB</b>	73.88	82.11	11.1%	40.57	68.33	68.4%
<b>Arab Light</b>	75.01	82.77	10.3%	41.06	69.08	68.2%
<b>Basrah Light</b>	73.75	81.48	10.5%	40.54	68.4	68.7%
<b>Bonny Light</b>	74.09	82.9	11.9%	40.67	69.18	70.1%
<b>Djeno</b>	66.95	76.09	13.7%	35.17	61.91	76.0%
<b>Es Sider</b>	72.75	81.59	12.2%	39.23	67.56	72.2%
<b>Girassol</b>	74.76	84.47	13.0%	41.59	69.77	67.8%
<b>Iran Heavy</b>	74.08	82.14	10.9%	39.7	68.17	71.7%
<b>Kuwait Export</b>	74.92	82.74	10.4%	40.54	68.88	69.9%
<b>Merey</b>	54.96	62.72	14.1%	27.76	50.08	80.4%
<b>Murban</b>	73.41	82.73	12.7%	42.31	68.38	61.6%
<b>Rabi Light</b>	73.94	83.08	12.4%	39.11	68.9	76.2%
<b>Sahara Blend</b>	73.85	83.54	13.1%	41.27	69.25	67.8%
<b>Zafiro</b>	74.03	84.12	13.6%	40.44	69.59	72.1%
<b>Other Crudes</b>						
<b>North Sea Dated</b>	74.4	83.54	12.3%	40.76	69.36	70.2%
<b>Dubai</b>	72.57	81.46	12.3%	41.45	67.84	63.7%
<b>WTI</b>	71.46	81.36	13.9%	38.44	66.64	73.4%

(Source: World Bank)

OPEC crude oil production-based trend is hereafter which is based on its secondary sources is as follows;

OPEC CRUDE OIL PRODUCTION BASED ON SECONDARY SOURCES, 2016-2020 (TB/D)							
	2016	2017	2018	2019	2020	2021	%Change Y/Y
Algeria	1,105	1,047	1,042	1,022	897	944	5.2%
Angola	1,718	1,634	1,505	1,401	1,253	1,124	-10.3%
Congo	216	252	317	324	287	273	-4.9%
Equatorial Guinea	160	133	125	117	114	87	-23.7%
Gabon	221	200	187	208	191	179	-6.3%
IR Iran	3,515	3,813	3,553	2,356	1,985	2502	26.0%
Iraq	4,392	4,446	4,550	4,678	4,049	4149	2.5%
Kuwait	2,853	2,708	2,745	2,687	2,434	2502	2.8%
Libya	389	811	951	1,097	368	1164	216.3%
Nigeria	1,556	1,658	1,718	1,786	1,587	1354	-14.7%
Saudi Arabia	10,406	9,954	10,311	9,771	9,182	9759	6.3%
UAE	2,979	2,916	2,986	3,094	2,802	2828	0.9%
Venezuela	2,154	1,911	1,354	796	500	590	18.0%
<b>Total OPEC</b>	<b>31,663</b>	<b>31,484</b>	<b>31,344</b>	<b>29,337</b>	<b>25,649</b>	<b>27,455</b>	<b>7.0%</b>

(Source: World Bank)

According to the OPEC Report, "spot crude oil benchmarks have appreciated by more than 12% in October 2021 as North Sea Brent averaged above \$83 barrel". This has posted gains on the back of better prospects of higher oil demand in the winter season as gas-to-oil switching, stronger refining margins & drop in oil stocks in major consuming nations.

*Total OPEC production has increased by 7% as of October 2021 as compared to 2020. This is the sum of OPEC's Crude oil production from its member countries. Interestingly, with respect to the OPEC reference basket, ORB has surged by \$8.23 or 11.1% to average at \$82.11 a barrel in October 2021 mainly on back of improving oil market fundamentals.*

*Interestingly, United States, China, Japan, Republic of Korea, and United Kingdom (accounts 46.98% of world's consumption) have made a coordinated move to release 50 million barrels of oil as SPR (Strategic Petroleum Reserves) in a bid to cool down oil prices and arrest high inflationary wave affecting across the*

globe. On the other hand, OPEC and its oil-producing allies in principle firmed to carry on with their agreed plan of gradually increasing oil production by 400,000 barrels/day each month.

**With the emergence of new variant, OPEC+ could either postpone its announced increase in production plans of adding 400,000 bps in January 2021 or increase lower production with the given uncertain situation. This cartel is expected to meet on Thursday Dec. 2, 2021. The fuel demand outlook is uncertain. It will also be interesting to see how global power responds over "Irani factor" as Iranian oil could resume its presence in oil markets on the back of reviving the Iran nuclear deal.**

**Hence, crude surplus in next year could be seen with the release of SPR. This could ease-off further oil markets. Brent prices are down by 16.89% from its peak level of \$86.35 that touched on 26<sup>th</sup> October 2021. Now it is trading at \$71.76 a barrel. Similarly, WTI prices are down by 18.11% from its peak level of \$83.32 that touched on 26 October 2021. Now it is trading at \$68.23 a barrel.**

**Therefore, the probability is much higher that oil surplus could be seen in coming weeks on account of a) lower oil demand b) persistence of new variant c) supply disruptions & travelling restrictions. Hence, as the new variants/cases grew the demand to ease off & this will eventually weaken oil demand outlook. Therefore, there are chances that prices could maintain \$64 a barrel. If it breaks \$62.90 a barrel then could go down even below to \$60 a barrel.**

**This drop in oil prices if stays in short term would be beneficial for Pakistan. This will eventually reduce pressure on Pakistan's external account and exchange rate. Consequently, this could create a much-needed fiscal space for the government to increase a part of it by enhancing petroleum levy and part of it share with the general public.**

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