

**RESEARCH**
**OIL & GAS**

Range-bound crude price in H2CY24: Oil Brokerage

**Daily macro indicators**

| Indicator              | 10-Jun | 11-Jun | Chg (%)     |
|------------------------|--------|--------|-------------|
| US 10Y yield (%)       | 4.47   | 4.40   | (6bps)      |
| India 10Y yield (%)    | 7.03   | 7.01   | (2bps)      |
| USD/INR                | 83.51  | 83.57  | (0.1)       |
| Brent Crude (US\$/bbl) | 81.6   | 81.9   | 0.4         |
| Dow                    | 38,868 | 38,747 | (0.3)       |
| Hang Seng              | 18,367 | 18,176 | (1.0)       |
| Sensex                 | 76,490 | 76,457 | 0.0         |
| India FII (US\$ mn)    | 07-Jun | 10-Jun | Chg (\$ mn) |
| FII-D                  | 154.7  | (17.7) | (172.3)     |
| FII-E                  | 642.0  | 343.5  | (298.5)     |

Source: Bank of Baroda Economics Research

**SUMMARY**
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- Crude price likely to remain range-bound against expectations of spike in H2CY24
- Diesel cracks could normalise by Q4 as weaker margins result in slower pick-up in refining runs and drawdown of excess inventories
- While range-bound crude means lower pressure on OMC marketing margins, weaker refining margins will likely continue in the near term

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12 June 2024

**Range-bound crude price in H2CY24: Oil Brokerage**

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We summarise the key takeaways from our interaction with Anoop Singh, Global Shipping Research Head with Oil Brokerage, Singapore.

**Crude price to remain range-bound over H2CY24:** Crude price may not see a material pick-up in Q3CY24 as it is possible demand pick-up will be weaker in Q3. Current product flows and the sharp drop in refining margin do not corroborate with expectations of a pick-up in demand in Q3. This, with a higher level of product inventories, could result in lower pick-up in refining runs. Also, the OPEC+ group may dial down exports even below its low production levels to drawdown inventories.

**Diesel crack could normalise in Q4:** Diesel spreads reduced over the past quarter with counter-seasonal build-up of inventories in the Atlantic Basin, Asia and Middle East. This is likely a result of higher-than-normal hedging activities undertaken in H1. However, excess stocks could get consumed over Q3 with a slower pick-up in refining runs, setting the stage for normalisation of cracks in Q4. Higher hurricane disruptions in the US or outages in Europe could bring forward this normalisation.

**Non-OPEC production set to grow through the decade:** Non-OPEC production is set to meet typical incremental annual demand of 1m-1.2mb/d through CY30, particularly with continuing growth in US shale production, Brazilian offshore production and Guyana. This is likely to make it difficult for OPEC to unwind cuts. OPEC spare capacity is likely to rise to 5mb/d by CY25 per EIA.

**Crude tanker market tighter for medium term:** This market is supported by a) limited deliveries of new VLCCs over the next three years amid a high level of booking in shipyards for LNG carriers, and b) blockage of significant numbers of carriers in non-traditional trades.

**Read-across for Indian oil & gas sector:** While range-bound crude pricing could mean lower pressure on oil marketing companies' (OMCs) marketing margins, we still expect any excess benefit to be passed on to consumers. With higher diesel yield in slate, refining margins for OMCs are likely to remain muted in the near term.



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