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EQUITY, DERIVATIVES, CURRENCY, COMMODITY, DEPOSITORY, MUTUAL FUNDS, INSURANCE* & NBFC*

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Petroleum Products: *Crude Oil Soars To Fresh Two And Half Year Highs*

Crude oil prices have extended their upmove in New Year 2018 with the Brent and WTI futures hitting fresh two and half year highs. India has cut its annual fuel demand growth estimate to 4.5% for 2017/18 from 5.8%, government data showed, indicating slower economic activity. The new forecast puts fuel demand growth at its slowest pace in three years. India is expected to consume 203.4 million tonnes of refined products in the year to March 2018, data posted on the website of the petroleum ministry's Petroleum Planning and Analysis Cell (PPAC). Average Brent Crude oil prices rose 15.8% on a YoY basis to USD 63.6 per barrel in December 2017 (provisional). On a MoM basis prices increased 1.2%. In MCX, Average Brent Crude oil prices rose 4.5% on a YoY basis to Rs 3694 per barrel in December 2017 (provisional). On a MoM basis prices rose 0.7%. North Sea Brent crude oil spot prices averaged $63 per barrel (b) in November, an increase of $5/b from the average in October. EIA forecasts Brent spot prices to average $57/b in 2018, up from an average of $54/b in 2017. West Texas Intermediate (WTI) crude oil prices are forecast to average $4/b lower than Brent prices in 2018.

WTI Crude oil prices ended 2017 at $60/barrel (b), the highest end-of-year price since 2013. West Texas Intermediate (WTI) crude oil prices averaged $51/b in 2017, up $7/b from the 2016 average, and ended the year $6/b higher than at the end of 2016. Brent prices have moved up $10/b since the end of 2016 and ended the year at $65/b, widening the Brent-WTI spread to $5/b at the end of the year, the largest difference since 2013, according to the US EIA.

Despite relatively high US crude oil production, curtailments in production by members of the Organization of the Petroleum Exporting Countries (OPEC) and robust global demand supported crude oil price increases in 2017. The OPEC agreement to curtail crude oil production in 2017 and subsequent extension of that agreement through 2018 tightened crude oil supplies, which put upward pressure on crude oil prices.

The price spread between Brent and WTI was significantly greater in 2017 than in 2016. Lower domestic crude oil prices made US crude oil more competitive in international markets and supported record U.S. crude oil exports. Domestic demand was also higher: US product supplied for crude oil and petroleum products was the highest level since 2007.

EIA estimates OPEC crude oil production averaged 32.5 million b/d in 2017, a 0.2 million b/d decrease from the 2016 levels. OPEC and the non-OPEC countries that agreed to crude oil production cuts in 2017 also agreed to continue limiting output through the end of 2018. Saudi Arabia and Russia will co-chair a monitoring committee designed to assess the group's adherence to the production targets. The group plans to reassess target production levels at its June 2018 meeting in the context of market conditions at that time. A pipeline outage in the North Sea contributed to higher Brent crude oil prices in December 2017, further widening the Brent-WTI spread.

Domestic Trends

Total crude oil processed during November 2017 increased by 6.5% over November 2016, mainly due to increase in crude oil processed by PSU/JV refineries. On cumulative basis crude oil processed was higher by 2.1% over the period April November, 2016-17. Production of petroleum products during November, 2017 saw a growth of 8.3% over November, 2016. On cumulative basis a growth of 3.4% was recorded in production over the period April November, 2016-17.

Product imports increased 7.7% during November 2017 as compared to November 2016 mainly due to increase in LPG imports for domestic consumption. On cumulative basis, product imports decreased 4.9% over the corresponding period of previous year. Export of POL products increased by 3.1% during November 2017 as compared to November 2016 primarily due to higher surplus availability of MS, Naphtha and HSD. On cumulative basis, an increase of 1.0% was recorded in product exports over the period April November, 2016-17.

India's consumption of petroleum products grew by 6.2% in the month of November, 2017. The demand for all oil products increased to 17.4 MMT from 16.3 MMT a year ago. While there was a drop in the consumption of Kerosene (-18.8%) and Naphtha (-6.1%), all other products recorded positive growth. On cumulative basis, a growth of 3.4% was recorded in consumption of all petroleum products for the period April to November, 2017 as compared to April to November, 2016.

Petrol / Motor Spirit (MS): MS consumption during November, 2017 recorded a growth of 4.8% as compared to November, 2016, while on cumulative basis; a growth of 8.6% was recorded for the period April to November, 2017 as compared to the same period last year. With rising income levels, improved road connectivity and automobile industry growing at a fast pace, the demand for petrol driven automobiles has increased which is the main driver for MS sales.

High Speed Diesel (HSD): HSD consumption during the month recorded a high growth of 7.5% to reach 7.2 MMT in November, 2017 as compared to 6.7 MMT in November, 2016.On cumulative basis; a growth of 5.3% was recorded for the period April to November 2017 as compared to the same period last year. Improved economic and manufacturing activities, road conditions, infrastructure growth and economic viability of public transport and carrier vehicles resulted in improving diesel sales during the current year.

Bitumen: Bitumen consumption recorded a growth of 16.5% during the month of November, 2017 and a drop of -3.8% on cumulative basis for the period April to November, 2017 as compared to April to November 2016. Bitumen consumption in India has increased on the back of infrastructure spending and expanding road networks across the country.

Naphtha: Naphtha consumption recorded a drop of -6.1% for the month of November, 2017 and a drop of -10.6% for the period April to November 2017 as compared to April to November 2016. Petrochemical industries remain the main consumers of naphtha in addition to minor consumers like fertilizer and power plants. Fluctuation in demand by the petrochemical industry (particularly for polymers and plastics) largely drives the growth in naphtha consumption.

ATF: ATF consumption recorded a growth of 8.4% during November, 2017 as compared to November, 2016. On cumulative basis, for the period April to November 2017, a growth of 8.9% was recorded as compared to the same period last year.

FO/LSHS: FO and LSHS consumption registered a marginal 0.1% growth during November, 2017 as compared to November, 2016 and a drop of -8.5% was recorded for the period April to November 2017 as compared to the same period last year. The drop is due to decreased consumption of FO in power, fertilizer, steel and other sectors. The consumption of LSHS has reduced due to shift to natural gas by major customers like the fertilizer industry.

Petcoke: Petcoke consumption registered a growth of 10.3% in November, 2017 as compared to November, 2016 and on cumulative basis a growth of 6.0% was registered for the period April to November 2017. The demand for the product had been rising remarkably and during the last five fiscals and it has grown at a CAGR of 30.9%.

LDO: LDO consumption recorded a growth of 25.5% for the month of November, 2017 and a marginal growth of 1.0% for the period April to November 2017 as compared to the same period last year. LDO month wise demand fluctuates depending on its requirement at power plants for boiler restart as it trips. LDO is also extensively used in various types of furnaces and the ban of FO in Delhi, Uttar Pradesh, Rajasthan and Haryana and due to any fluctuation in manufacturing activities elsewhere leads to fluctuation in its consumption.

Highlights of latest Oil Market Report (OMR)

Global demand growth remains unchanged at 1.5 mb/d in 2017 (or 1.6%) and 1.3 mb/d in 2018 (or 1.3%).

Global oil supply rose 0.2 mb/d in November to 97.8 mb/d, the highest in a year, on the back of rising US production. Output was nonetheless down 1.1 mb/d on a year ago when Russia and Middle East OPEC producers pumped at record rates. Non-OPEC supply is set to rise by 0.6 mb/d in 2017 and 1.6 mb/d next year.

OPEC crude supply fell in November for the fourth consecutive month to 32.36 mb/d, down 1.3 mb/d on a year ago. Output was lower in Saudi Arabia, Angola and Venezuela. Compliance with agreed cuts rose to 115%, the highest this year, and lifted the 2017 average to 91%.

OECD commercial stocks fell 40.3 mb in October to 2 940 mb, their lowest level since July 2015. They are now 111 mb above the five-year average. Chinese crude stocks likely fell in October for the first time in a year.

Global refinery throughput in 3Q17 reached a record high at 81.2 mb/d, even including the impact of Hurricane Harvey, but has fallen back in 4Q17 due to maintenance. Global margins declined in November, losing almost $1/bbl.

Indian Oil to double refinery capacity by 2030

Indian Oil plans to raise its refining capacity from the current 80.7 MMTPA (million metric tonnes per annum) to 153.55 MMTPA by the year 2030, through both brownfield expansions and greenfield capacity creation. Indian Oil is also pursuing a 60 MMTPA integrated refinery-cum-petrochemicals project on the west coast jointly with other oil marketing companies (OMCs), that is, BPC (Bharat Petroleum Corporation) and HPC (Hindustan Petroleum Corporation), at an approximate cost of Rs 2.7 lakh crore.

The petroleum distribution infrastructure is also being expanded in line with the company's growth plans. About 8,000 km of pipelines network is being added by the year 2021.

The corporation is also working to convert its refineries to produce BS-VI fuels, the top global standard today, by 1st April 2020. This way, it would not only meet the domestic demand for green fuels but also emerge as a major exporter of fuels of international standard.

India exempts State Oil Firms mergers from competition approval

Clearing the way for its plans for mega-mergers among state-held oil and gas companies, India is now exempting such mergers and acquisitions deals from seeking mandatory approvals from the Competition Commission of India (CCI). All kinds of M&A involving central public sector enterprises (CPSEs) in the oil and gas sectors are now exempt from the required CCI approval for five years. The exemption also extends to those companies' wholly-owned or partially-held subsidiaries operating in the oil and gas sectors.

India's plan to merge some state-held oil enterprises could reduce inefficiencies in the sector. An oil major would also be in a better position to compete for resources globally and withstand oil price volatility. On the downside, the plan is likely reducing competition on the domestic market, and facing challenges in the actual executions of the mergers.

Local automobiles sales grow across all segments

The automobile industry produced 19,486,412 vehicles including passenger vehicles (PVs), commercial vehicles (CVs), three-wheelers, two-wheelers and quadricycle in April-November 2017 as against 17,818,193 in April-November 2016, registering a growth of 9.36% over the same period a year ago. Sales of passenger vehicles grew 8.46% in April-November 2017over the same period a year ago. Within the passenger vehicles segment, sales of passenger cars grew 4.69%, vans grew 4.69% and utility vehicles (UV) grew 19.95%in April-November 2017 over the same period a year ago.

The overall sales volume of the CV segment grew 10.6% in April-November 2017 compared with the same period a year ago. Medium & heavy commercial vehicles (M&HCVs) grew 1.19%and sales volume of light commercial vehicles (LCVs) grew 17.07%.Three-wheeler sales increased marginally by 1.32% in April-November 2017 over the same period a year ago. Passenger carriers (PCs) increased 0.35% and goods carriers (GC) grew5.51% in April-November2017 over April-November2016.

Two-wheeler sales registered a growth of 9.61% in April-November2017 over April-November2016. Within the two-wheeler segment, sales of scooters grew 16.15%, motorcycles grew 7.62% while Mopeds declined by 7.26% in April-November 2017 over April-November 2016.

Ministry of Petroleum & Natural Gas highlights the augmentation of refinery sector

In its Annual Review published end December 2017, the Ministry of Petroleum & Natural Gas noted that out of the 23 refineries operation in the country, 18 are in public sector, 3 are in private sector and two as a joint venture with a total refining capacity of 247.566 MMTPA. Out of the total refining capacity of 247.566 MMT, 142.066 MMT is in the public sector, 17.3 MMT in joint venture and the balance 88.2 MMT is in the private sector. The country is not only self-sufficient in the refining capacity for its domestic consumption but also exports a sufficient quantity of petroleum products.

It also talked about the Auto Fuel Vision and Policy – Introduction of BS-IV & BS-VI fuels in the Country. The Government has implemented supply of BS-IV auto fuels in the entire country in phases by 01.04.2017. Further, Government has also decided to leapfrog from BS-IV to BS-VI directly and a notification has been issued for implementation of BS-VI w.e.f. 01.04.2020 in the entire country. However, considering the recent rise in environmental pollution in Delhi and NCR Government has preponed the implementation of supply of BS-VI w.e.f. 01.04.2018 in NCT-Delhi.

Domestic Crude oil production during November, 2017 was 2880.68 TMT which is 6.76% lower than target and 0.17% higher when compared with November 2016. Cumulative crude oil production during April-November, 2017 was 23943.34 TMT which is 4.01% lower than target for the period and 0.20% lower than production during corresponding period of last year. Such a trend, if continues in the near future could beef up the dependence on the imported crude oil even more.

Economy may reach 7% growth in 2018 Says ASSOCHAM Outlook

After disruptions like lingering demonetisation effect and GST roll-out, the IndiaDn economy may reach a 7% growth in 2018 with government policies tilting towards the stress-ridden rural landscape in the penultimate year before the Lok Sabha elections, the ASSOCHAM Year-Ahead Outlook (AYAO) pointed out. Against GDP growth of 6.3% in the second quarter of 2017-18, the economic expansion may reach the crucial 7% mark by the end of September 2018 quarter , according to the AYAO forecast, while inflation may range between 4-5.5% towards the second half of the next calendar year with the Monsoon being a key imponderable.

Our projections for 7% GDP growth are based on the assumption of stability in the government policies, good Monsoon, pick-up in industrial activity and credit growth as also stability in the foreign exchange rates. The worries on account of crude oil shooting up are likely to abate, if there are no fresh geo-political shockers, said ASSOCHAM President Sandeep Jajodia.

While the underlying bullish sentiment should continue to prevail in the Indian stock market in 2018, the returns on equity may not be as robust as in 2017. “This is because the 2017 Bull Run has already factored in the return of growth steadiness in 2018 and the corporate earnings witnessing a pick -up.”

Weak base of corporate earnings in sync with the lowering of GDP growth in later part of 2017 would also help the revival in the year ahead. Things have certainly and surely bottomed out. There does not seem to be any fresh bottom; only an uptick, the AYAO noted. The AYAO is based on a feedback from intensive brainstorming done by several ASSOCHAM sectoral National Councils and its top policy organ, the Managing Committee.

In the run-up to the state assembly elections in several politically important states like Karnataka, Rajasthan, Chhatisgarh, Madhya Pradesh, after the high stake Gujarat polls, the political economy is set to tilt towards the farm sector which has been witnessing some stress. The stress in the agriculture sector is traceable to lack of reforms in the rural economy. The farm produce is highly vulnerable to vagaries of weather. "Even when he produces a bumper crop; he does not get a remunerative price with supply chain in-efficiencies creeping in. Despite political promises, several of the states have not been able to reform the APMC Act, which restricts farmers to sell their produce to a particular set of cartels. Besides, the import-export policies for the agri products need to be revisited to help growers realise better prices.

Indian Oil tops Fortune India 500 ranking for 2017

India's largest company by revenues, IndianOil has once again topped the just-published Fortune India rankings of the country's top 500 corporations for the eighth consecutive year. On the sectoral indices, IndianOil also stood at the head of the list of India's top Oil & Gas companies in India. Riding on strong fundamentals, IndianOil demonstrated strong improvement in its market position as a loan guzzler and brought down starkly its average cost of borrowing from 7.99 in the year 2013 to 5.92 in 2017.

In its section – Last Byte – the Fortune India magazine noted that in the past eight years Fortune India 500 companies have grown bigger; in absolute terms, the growth has been more than 96%. From 2010, IndianOil has taken the top spot. Published annually by Fortune India magazine, the list of Top 500 companies in India is based on total revenues. In addition to the composite list of 50 companies, the rankings also lists the winners across 42 different sectors including airlines, automobiles, banking, cement, consumer durables, pharmaceuticals, FMCG, infrastructure and development, media, oil and gas, power, real estate, retail and telecommunications among others.

Outlook

Average Brent Crude oil prices rose 15.8% on a YoY basis to $63.6 per barrel in December 2017 (provisional). On a MoM basis prices increased 1.2%. For Q3 FY18 average crude oil prices were up 20.1% on a YoY basis and 17.6% on a QoQ basis at $61.35 per barrel. Higher crude oil prices during Q3FY18 and unplanned shutdown globally during this period support the refining margins. If the prices in world oil market remain elevated, the government will be under immense pressure to cut excise duty on petrol and diesel in near term.

On a broader note, it will be interesting to see if oil is able to add to the recent gains and breaks beyond $70 levels in the face of rising US crude production. According to the EIA, total US crude oil production is forecast to average 9.3 million barrels per day (b/d) in 2017, up 0.5 million b/d from 2016. In 2018, EIA expects crude oil production to reach an average of 9.9 million b/d, which would surpass the previous record of 9.6 million b/d set in 1970. EIA forecasts that most of the growth in US crude oil production through the end of 2018 will come from tight rock formations within the Permian region in Texas and from the Federal Gulf of Mexico.

Meanwhile, the stronger Indian Rupee could emerge as a key factor for local petroleum industry. The INR started the New Year on an upbeat note, extending recent gains and hitting a two and half year high of 63.50 against the US dollar as local equities stayed near a record high. All eyed would be on the inclusion of petroleum products under GST. The centre government is in favour of bringing petroleum products under the GST regime, but is waiting for a consensus to emerge among states, finance minister Arun Jaitley has noted recently.