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Petroleum Products: *Diesel use rises 8%, Petrol demand grew 15% in May 2017*

India's oil demand bounced back in May 2017, led by the highest growth in gasoline consumption in 9 months and the fastest increase in diesel usage since November 2016. Total fuel consumption rose 5.4% to 17.79 million tonnes in May 2017, the most in 6 months, according to the Oil Ministry's Petroleum Planning and Analysis Cell. Demand for diesel, which accounts for about 40% of total sales, expanded 8% to 7.5 million tonnes. Gasoline (Petrol) offtake climbed 15% to 2.4 million tonnes, the fastest since August 2016. Oil consumption plunged 5.9% in January, the most in 13 years, after demonetization of high-value currency notes announced in November. Demand fell 3.1% in February and 0.7% in March before rebounding in April 2017.

The International Energy Agency, which expects India to be the fastest-growing oil consumer through 2040, trimmed the country's demand growth estimate for 2017 by about 15% in May 2017 following demonetization. However, with good monsoon the demand is expected to pick up further in the coming months.

Petroleum products¡. net exports slip 42% on high home usage

Net export of petroleum products has fallen 42% in three years as domestic demand sharply rose for fuel oil and pet-coke as well as liquefied petroleum gas (LPG), the cooking gas mostly used by households. India imports more than 80% of crude oil and, using its large network of refineries, produces petroleum products more than it can consume. India also imports multiple petro products but stays a net exporter. It has also been adding refining capacity regularly, but accelerating demand for oil products in a fast expanding economy has steadily shrunk the import-export gap for the last three years.

The domestic demand for petroleum products has risen 23% while production has increased only 10% in three years since 2013-14. In 2013-14, the country¡.s net export of petroleum products reached a peak of 51.2 million tonne (mt). It fell to 29.6 mt in 2016-17, while total exports fell 3.5% to 65 mt and total imports rose 115% to 36 mt. Imports were worth $10.6 billion and exports $28.7 billion in 2016-17.

A 70% jump in net import of LPG, 72% drop in net export of fuel oil and 18% fall in net export of naphtha squeezed India¡.s net export in three years that also witnessed a fifth jump in net export of jet fuel. Net export of diesel and petrol barely changed. Another key contributor to the trend was a sharp rise in the import of pet-coke, whose domestic consumption just doubled between 2013-14 and 2016-17.

Increasing use of pet-coke and fuel oil by industry has been a major concern for the environment. Pet-coke, a cheaper alternative to coal, is increasingly used by cement and power industry but is expected to face in future deeper policy restrictions due to environmental concerns. Similarly, widespread use of fuel oil, usually available at less than the price of crude oil, by small and big industries is also considered a big health hazard.

There have been demands of restricting the use of both fuels by civil society groups. Increased use of LPG has followed a government programme that aims at rapid adoption of cooking gas by more and more households, especially in rural areas where hazardous firewood is still used in kitchens. LPG consumption has risen by third in last three years.

CURRENT TRENDS

Total crude oil processed during May, 2017 was 20.8 MMT, an increase of 4.4% over May, 2016. On cumulative basis it was 40.8 MMT, an increase of 1.8% over the period April©\May, 2016©\17. On cumulative basis, around 1.1 MMT increase was contributed by Paradip refinery and 1.1 MMT by RIL©\SEZ. HMEL, Bathinda was under planned shutdown during May, 2017 which is likely to continue during June, 2017.

Production of petroleum products during May, 2017 saw a growth of 5.5% over May, 2016. On cumulative basis a growth of 2.8% was recorded in production over the period April ©\ May, 2016©\17.

Product imports increased 0.8% during May, 2017 over the corresponding period of 2016. LPG, Lubes and Pet©\coke imports contributed to 65.7% share of total POL imports during May, 2017. In May, 2017 HSD imports of 436 TMT were undertaken by PSU OMCs for BS©\IV compliance across the country. However, on cumulative basis a decrease of 5.1%

was recorded in product imports over the period April ©\ May, 2016©\17.

Export of POL products increased by 8.7% during May, 2017 as compared to May, 2016 primarily due to higher surplus availability of POL products like Naphtha and HSD in the private sector, which constituted around 53.1% of total POL exports. On cumulative basis an increase of 7.3% was recorded in product exports over the period April©\ May 2016©\17.

Consumption of petroleum products recorded a strong growth in the month of May, 2017. The demand for all oil products rose to 17.8 MMT from 16.9 MMT a year ago. Bottom line growth in consumption of petroleum products was recorded at 5.4 % during the month, mostly driven by a growth in the use of LPG, MS, HSD, ATF and Petcoke. All other products recorded a negative growth. SKO continued to register reduction in consumption and a 33.5% drop was recorded during the month. It was mainly because of reduced allocation to states and voluntary surrender of PDS SKO quota by some states. On cumulative basis, a growth of 4.3% was recorded in consumption of all petroleum products for the period April to May, 2017 as compared to April- May, 2016.

Petrol / Motor Spirit (MS): MS consumption during May, 2017 recorded a robust growth of 15.3% as compared to May, 2016 and on cumulative basis, a growth of 10.0% was recorded for the period April to May, 2017 as compared to April to May 2016. With rising income levels, the demand for petrol driven automobiles has increased which is the main driver for MS sales.

High Speed Diesel (HSD): HSD consumption went up by 8.0% to 7.51 million tons for the month of May, 2017. On cumulative basis, a growth of 5.4% was recorded for the period April to May 2017 as compared to the same period last year. Improved economic activity, road conditions and economic viability of public transport and carrier vehicles due to cheaper fuel resulted in improving diesel sales.

Bitumen: Bitumen consumption recorded de-growth of 6.9% during the month of May, 2017 and 11.2% on cumulative basis for the period April to May, 2017 as compared to April to May 2016.

While the government has kept the development of roads on high priority by setting up new networks and rehabilitating existing road networks but demonetization of currency since November, 2016 in the country resulted in a slow-down in construction activities and consumption of bitumen has reduced. Moreover, the Government is making a transition from bitumen to cement and concrete for making national highways.

LPG: Total LPG consumption continuously for the last forty five months in a row recorded a positive growth of 11.6% during May, 2017 and a cumulative growth of 7.6% for the period April to May, 2017. Out of five regions, Northern region had the highest growth of 31.8% followed by Southern region at 28.2% in total LPG consumption.

Naphtha: Naphtha consumption recorded a de-growth of 1.2% for the month of May, 2017 and a growth of 0.7% for the period April to May 2017 as compared to April to May 2016. Petrochemical industries remain the main consumers of naphtha in addition to minor consumers like fertilizer and power plants. Fluctuation in demand of naphtha by the petrochemical industry (particularly polymers and plastics) largely drives the growth in consumption.

ATF: ATF consumption recorded a growth of 10.7% for the month of May, 2017 as compared to May, 2016. On cumulative basis, for the period April to May 2017, a growth of 10.0% was recorded as compared to the same period last year.

The continued high growth in consumption of ATF has been mainly due to growth in domestic passenger traffic. Passengers carried by domestic airlines during May, 2017 were 101.74 lakhs as against 86.69 lakhs during May, 2016 thereby registering a growth of 17.4%.

FO/LSHS: FO and LSHS consumption registered a de-growth of 1.9% during May, 2017 as compared to May, 2016 and a de-growth of 5.8% was recorded for the period April to May 2017 as compared to the same period last year. The drop is due to decreased consumption of FO in power, steel and general trade 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 5.2% in the month of May, 2017 as compared to May 2016 and on cumulative basis, a growth of 13.8% was registered for the period April to May, 2017.

LDO: LDO consumption recorded a de-growth of 12.3% for the month of May, 2017 and a minor growth of 0.9% for the period April to May, 2017 as compared to the same period last year.

Average Brent Crude oil prices rose 4.3% on a YoY basis to USD 48.33 per barrel in July 2017 (provisional). On a MoM basis prices increased 1.6%.

In MCX, Average Brent Crude oil prices fell 5.2% on a YoY basis to Rs 2989 per barrel in July 2017 (provisional). On a MoM basis prices rose 2.4%.

EIA short-term energy outlook: North Sea Brent crude oil spot prices averaged $50 per barrel (b) in May, $2/b lower than the April average. EIA forecasts Brent spot prices to average $53/b in 2017 and $56/b in 2018. West Texas Intermediate (WTI) crude oil prices are forecast to average $2/b less than Brent prices in both 2017 and 2018.

INDUSTRY NEWS

India's crude oil refinery output up 5.6% in May 2017

India's crude oil refinery output increased 5.6% to 20.90 million tonnes (mt) in May 2017 over May 2016. The output of public sector refineries improved 8.0% to 11.77 mt, while the output of private refineries jumped 15.1% to 8.54 mt. However, the refinery output of public-private JV refiners dipped 60.3% to 0.59 mt in May 2017.

Among public refineries, the output of Indian Oil Corporation increased 12.1% to 5.95 mt, while the output of Numaligarh Refineries moved up 8.7% to 0.26 mt, Chennai Petroleum Corporation 6.9% to 0.85 mt, and Mangalore Refineries 6.7% to 1.16 mt in May 2017 over May 2016. Further, the output of Hindustan Petroleum Corporation also increased 3.6% to 1.46 mt and Bharat Petroleum Corporation 1.7% to 2.08 mt in May 2017.

Among private refiners, the output of Reliance Petroleum surged 20.9% to 6.86 mt, while that of Essar Oil declined 3.6% to 1.69 mt in May 2017 over May 2016. Among JV refineries, the output of Bharat Oman increased 3.2% to 0.59 mt, while the output of HPCL Mittal dipped to nil in May 2016.

The cumulative refinery output increased 2.8% to 40.20 mt in April-May 2017. The output of public refineries increased 4.3% to 22.15 mt, while that of private refineries moved up 7.6% to 16.20 mt. The refinery output of JV refineries fell 34.3% to 1.85 mt in April-May 2017. Among public refineries, the output of Indian Oil Corporation improved 8.9%, Numaligarh Refineries 8.7% and Mangalore Refineries 6.2%, but that of Hindustan Petroleum Corporation declined 0.4%, Bharat Petroleum Corporation 0.7% and Chennai Petroleum Corporation 8.0%.

The overall capacity utilization was higher at 104.8% in May 2017 compared with 102.4% in May 2016, while it was nearly flat at 104.4% in April-May 2017 compared with 104.6% in April-May 2016.

Oil companies build petrochemicals complexes to tackle future energy transition

Indian refiners are hoping petrochemicals will save them if the tide of climate change and electric cars were to displace petrol and diesel as the key transportation fuel in future. Refiners are faced with a deep dilemma: to raise capacity to capture the growing fuel demand or stay cautious fearing the rise of electric vehicles could leave much of their new capacity under utilised. Indian refining capacity is expected to go up by 150 million tonnes in 7-8 years from 235 million tonnes per annum now , and if demand for transportation fuels were to drastically go down in 15 years, the refining complexes could be tuned to primarily produce petrochemicals.

State oil companies already seem to be on the job. Indian Oil Corporation, Bharat Petroleum and Hindustan Petroleum are together building a large petrochemicals complex adjacent to the planned refinery on the west coast. Another refinery planned in Rajasthan by HPCL too would house a petrochemicals unit from the very beginning. Similarly, HPCL is building petrochemicals complex at its other existing facilities while Indian Oil is spending millions of dollars to add petrochemicals facility at its newly-built refinery in Odisha.

Global refining capacity to grow 7mbd through 2021

Global refiners have announced new refinery additions or expansions to existing operations from 2017 to 2021 that would add nearly 7 million barrels per day(m bpd), capacity, far exceeding projected global petroleum demand growth of less than 5.5 million bpd, during the same period. According to the 2017, World Refinery Construction Outlook, it is expected that more than 100 capacity expansion projects (about 7 million bpd) will reach start up during the next 5 years. These additions will put pressure on struggling refineries (primarily in Europe and OECD Asia) and force as much as 2 million bpd of existing capacity to close.

IOC sets extensive maintenance shutdown plans for units

Indian Oil Corp has lined up an extensive maintenance turnaround plan for its refineries in 2017, which could force the country's top refiner to tap overseas markets for gasoline and diesel to meet rising local demand.

IOC plans to shut a 150,000 barrel per day (bpd) crude unit at its 300,000 bpd Panipat refinery in northern India and an associated naphtha cracker plant for about a month in July, freeing up some naphtha for exports.

IOC also plans to shut a 160,000 bpd Mathura refinery for 15 days from Aug 25; its 120,000 bpd Barauni refinery in Bihar for about five weeks in July-August; and a 150,000 bpd Haldia plant in West Bengal of the country for about three weeks in November-December for a flare job.

IOC plans to shut the only crude unit at its 300,000 bpd coastal Paradip refinery in Odisha for about three weeks for repairs in October to enhance its capability to process tough grades.

The refiner has already shut some units at its 274,000 bpd Koyali refinery in Gujarat for revamp and maintenance from June 1.

There is not likely to be any planned shutdowns in the first quarter of 2018, because state refiners normally do not plan maintenance in the last quarter of their fiscal year, when they ramp up runs to meet annual production targets.

The company may change dates for the planned shutdowns depending on local fuel demand and the turnaround plans of other refiners.

Indian refiners commit to 1.2 mbpd downstream project

Indian state-controlled refiners have formally committed to building a 1.2 million barrels per day (mbpd) huge refinery and petrochemical complex on the country¡.s west coast in Maharashtra which is expected to be ready in 2022. The refinery will produce fuel meeting Euro 6 emissions standards and will be able to process a wide range of light and heavy crude grades. State-controlled refiners Indian oil has 50% stake while Bharat Petroleum and Hindustan Petroleum will each own 25%.

The Indian government is considering foreign investment in the project. Saudi Arabia is keen to enter into exclusive negotiations with India for a stake in the refinery.The first 800,000 barrels per day (mpd) in phase of the refinery will cost more than $15 billion and include an aromatics complex, naphtha cracker and polymer facilities, and will be followed by a 400,000 bpd in second phase. The refinery will be commissioned 5-6 years after the completion of land acquisition.

BPCL eyes Bina refinery expansion to 310,000 bpd in 4-5 years

Bharat Petroleum Corp aims to expand the capacity of its Bina refinery in central India to about 310,000 barrels per day (bpd) in the next four to five years from the current 120,000 bpd.

India aims to expand its refining capacity by 35% to 6.2 million bpd to meet the country's rising fuel demand. BPCL owns a majority stake in Bharat Oman Refineries (BORL), which runs the plant. Oman Oil Co owns 26% in the refinery. BPCL aims to shut the Bina refinery for about a month in June-September 2018 as the refinery is adding some units to raise capacity to 156,000 bpd. BPCL is in the process of raising the capacity of its Kochi refinery in Southern India to 310,000 bpd by September this year.

Global oil output in 2016 logged slowest growth in 7 years

Global crude-oil production in 2016 saw its slowest percentage growth in 7 years, as output from producers outside of OPEC marked its biggest decline in nearly 25 years. Global oil production rose by 0.5%, the lowest percentage increase since 2009, or 400,000 barrels a day, BP¡.s Statistical Review of World Energy 2017 report showed.

The modest climb came on the back of a production decline from countries outside of the Organization of the Petroleum Exporting Countries, which fell by 800,000 barrels a day. Shale oil output from the U.S. declined by 300,000 barrels a day¡ªa swing of almost 1 million barrels a day relative to growth in 2015. China also marked it¡.s largest-ever decline in oil production, down 300,000 barrels a day.

Meanwhile, low prices for crude oil in 2016 have driven world oil demand up by 1.6%, led almost entirely by oil importers, with India and Europe posting unusually strong increases, while demand growth in China was more subdued.

Oil accounted for a third of global energy consumption, keeping its spot as the world¡.s leading fuel. It gained global market share for a second year in a row after 15 years of declines between 1999 and 2014.

Outlook

Downstream OMC PSUs are expected to report lower profitability in Q1FY18 impacted by lower spreads for key petroleum fuels, inventory losses due to correction in crude oil prices towards end of the quarter and muted growth in volumes. RIL¡.s results is also expected to be weak as well, further impacted by a reduction in light-heavy differential and appreciation in rupee against US dollar

Oil prices are at a seven-month low of $45.17, having fallen 20.5% since January 2017 following rising crude production in the US, Libya and Nigeria. Although this is not a cause for worry in the short term for Indian oil marketing companies (OMCs) Indian Oil Corp. Ltd (IOCL), Bharat Petroleum Corp. Ltd (BPCL) and Hindustan Petroleum Corp. Ltd (HPCL), falling crude prices over an extended period could hurt. Lower crude oil prices for an extended period impact GRMs and result in inventory losses. Inventory losses occur when OMCs buy crude oil at a particular price, which falls by the time the oil is shipped to refineries and processed. As retail prices are linked to prevailing global crude prices, oil firms book inventory losses.

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