

COMMODITY WATCH – CRUDE OIL

Saudi Arabia Refinery Attack Impacts



NAB View: Crude Oil markets may tighten significantly

Saturday morning Saudi Arabia time, the world’s largest oil refinery at Abqaiq sustained at least 10 strikes from suspected weaponised drones. Yemen’s Iran backed Houthi rebels have claimed responsibility. The immediate impacts of the attacks include:

- 5.7 million barrels of crude oil and 2 billion cubic feet of gas output per day is offline (about 5.5% world crude refining capacity). An official statement from Aramco on the extent of damage and production outages is expected.
- Aramco has said it will meet customer deliveries out of stockpiles for the time being.
- The IEA has said it stands ready to release reserves to meet market shortfalls.
- The US has similarly echoed its willingness to release supply from the US’ Strategic Petroleum Reserve (holding 644.8 million barrels as of Friday) should they be needed.

Crude oil and product prices should lift near term from direct impacts, and added uncertainty on Abqaiq’s expected recovery time. But a quick restart would see bullish crude oil price moves as short lived.

Longer term impacts subject to extent of damage / outage

If Abqaiq is out for several months, oil prices could lift strongly. OPEC has ~2 million barrels per day of spare capacity, according to US Department of Energy. Assuming the attacks did not impact any of that spare capacity, OPEC + Russia members could lift production. But even if they can, the lift will account for less than half of the outage.

Non-OPEC members have been producing at or close to capacity. These producers may be able to lift output but that will likely be measured in months rather than days/weeks.

OECD crude oil stocks are in line with five-year average levels at ~2,903 million barrels (end 2Q19), while US commercial stocks were 1,308mbs (end 2Q19).

- Any sizable **net** outage of ~2-4 million barrels per day, for several months, would require inventory drawdowns.
- A scenario of a four-month outage, uncompensated by lower demand or higher other supply, could see a 60-120-million-barrel draw per month - bullish oil prices.
- Brent crude oil closed at US\$ 60.22/b Friday. Pending the length of the outage at Abqaiq, crude oil prices of US\$80-90/b in coming months could be entirely possible.
- But if Abqaiq resumes production quickly, oil price upside potential would be fleeting. Price prospects hinge entirely on the length of the Abqaiq outage, and as such, we await further guidance from Aramco to properly assess.

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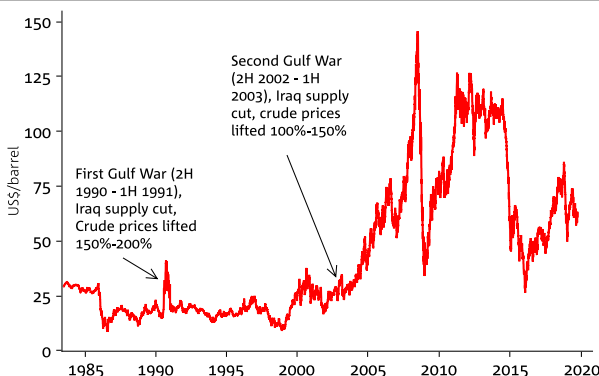
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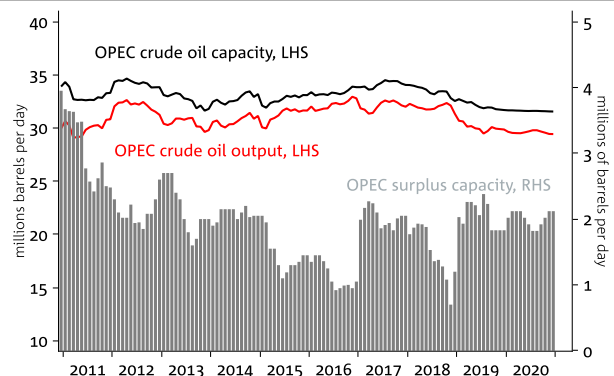
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Chart 1: Brent crude oil prices (US\$/barrel)



Source: National Australia Bank, Bloomberg, Macrobond

Chart 2: OPEC crude capacity, output & spare capacity



Source: National Australia Bank, US DOE, Bloomberg, Macrobond

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