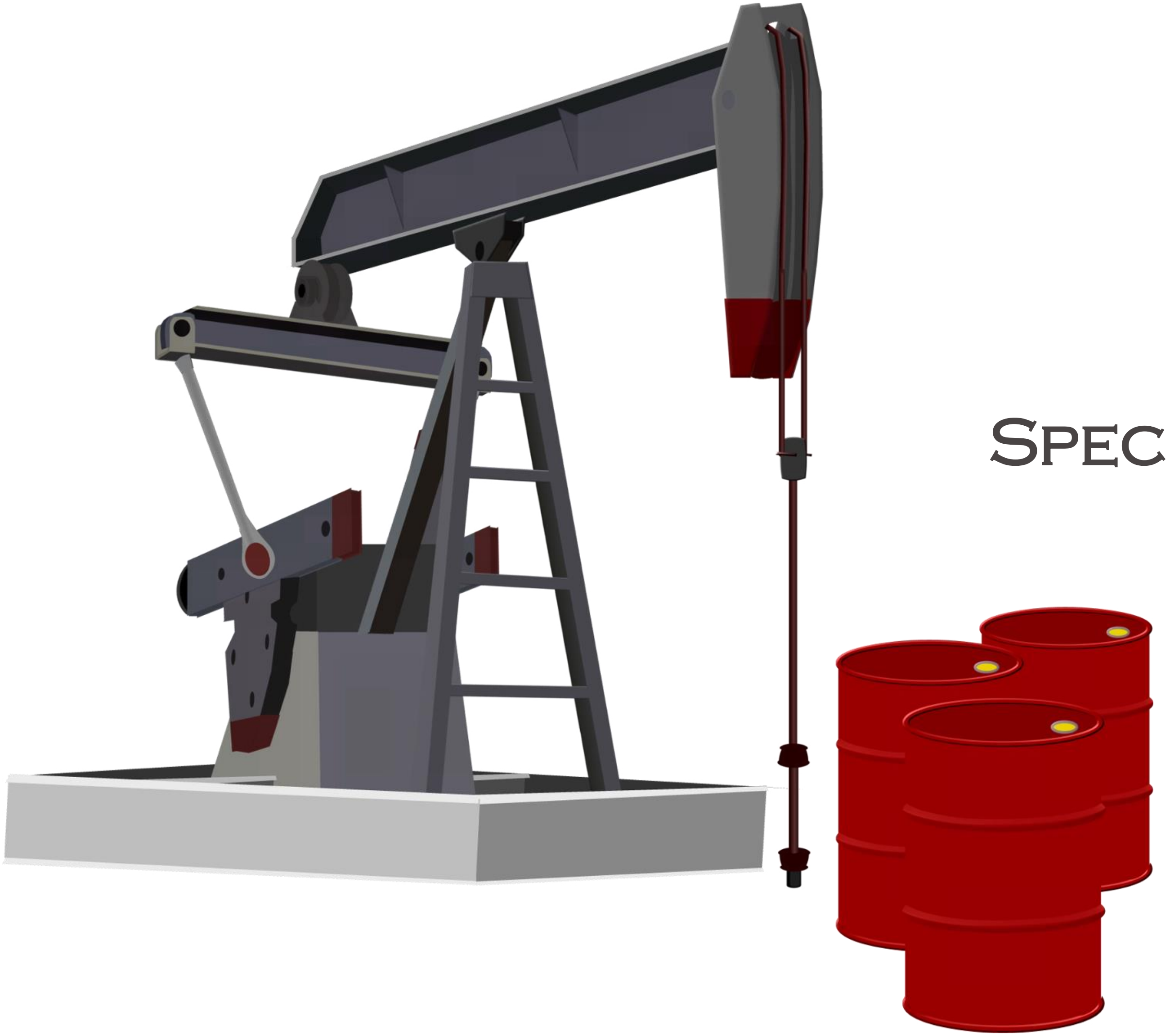


Special report on crude oil

UFCGLimited
United Financial Commodity Group

Table of Contents

INTRODUCTION

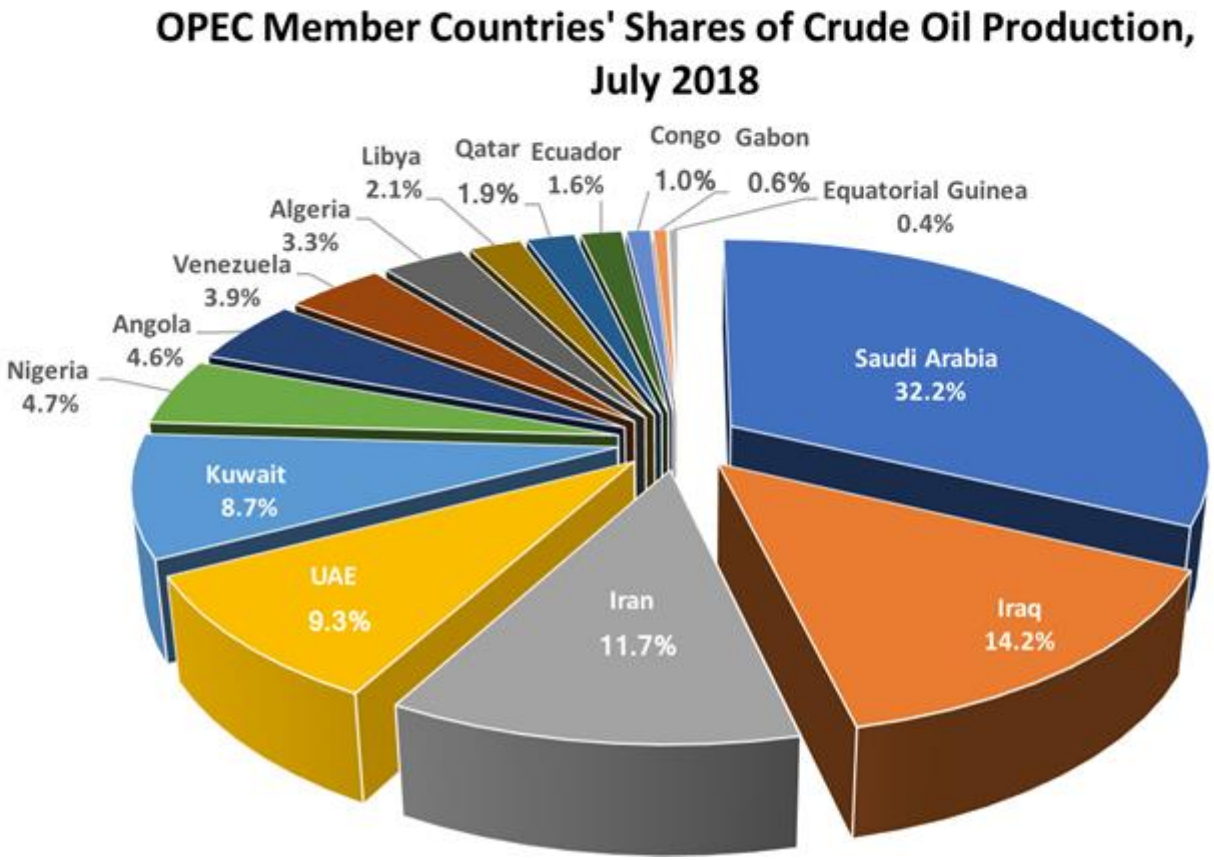
United FCG' s fall classic that we have been waiting for is out. This year's November Market Outllook focuses on Crude Oil. We look at OPEC , the real US Production and Inventory Numbers. We explain what OPECs next move is going to be and why. It also time we looked at Iraq's Export Numbers Year to Date and we have the straight goods from our sources on the ground there. Iran Sanctions were dismissed by the markets due to country exemptions that left only a small portion of Iran's production not sold and we move to new Sanction on Russia. A complicated game but we sort it out for you here and wrap up our November 2018 Special Market Report on Crude and it's dramatic impact across all markets and geopolitical boundaries.

TODAYS CRUDE OIL PRODUCTION DEFINED

Crude oil production is defined as the quantities of oil extracted from the ground after the removal of inert matter or impurities. It includes crude oil, natural gas liquids (NGLs) and additives. This indicator is measured in thousand tonne of oil equivalent (toe).Crude oil is a mineral oil consisting of a mixture of hydrocarbons of natural origin, yellow to black in color, and of variable density and viscosity. NGLs are the liquid or liquefied hydrocarbons produced in the manufacture, purification and stabilization of natural gas. Additives are non-hydrocarbon substances added to or blended with a product to modify its properties, for example, to improve its combustion characteristics (e.g. MTBE and tetraethyl lead).Refinery production refers to the output of secondary oil products from an oil refinery.

OPECS' MISSION STATEMENT – A REMINDER

The mission of the Organization of the Petroleum Exporting Countries (OPEC) is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry.



US OIL PRODUCTION AND THE REAL INVENTORY NUMBERS

A day after the American Petroleum Institute’s weekly inventory estimate slowed down the price decline in West Texas Intermediate, the Energy Information Administration dampened optimism by reporting a build of 4.9 million barrels in U.S. crude oil inventories for the week to November 16. This followed an inventory build of 10.3 million barrels for the prior week, which added weight to already falling prices on the back of rising production and global economic growth skepticism.

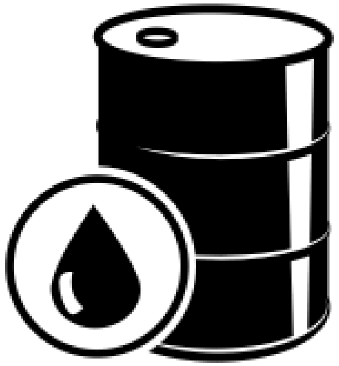
The authority also said refinery run rates last week averaged 92.7 percent, with throughput at 16.9 million barrels daily, up from last week, and gasoline production at 10 million bpd. Distillate fuel production averaged 5.2 million bpd. This compares with 10.1 million bpd in gasoline production a week earlier and 5 million bpd in distillate fuel production.

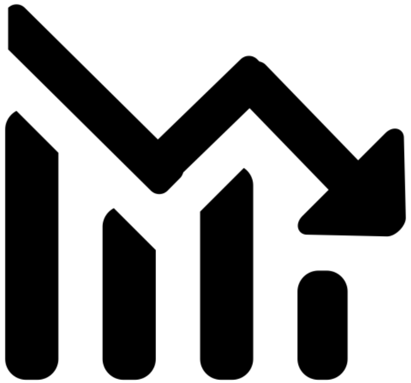
Gasoline inventories brought some joy for oil bulls. They fell by 1.3 million barrels last week but are still above the average. Distillate fuel inventories shed 100,000 barrels in the week to November 16. This compares with a 1.4-million-barrel draw in gasoline inventories and a 3.6-million-barrel decline in distillate fuel inventories a week earlier.ight at your fingertips

Meanwhile, after yesterday oil price fell by as much as 6 percent for Brent and more for WTI after President Trump said he would stick by Saudi Arabia despite the Khashoggi affair, saying prices would be “through the roof” if the U.S. broke up with its Middle East ally.

Today, however, prices have recouped some of the losses as OPEC is talking about more production cuts less than six months after it decided to end the first cuts and begin raising production. News that India’s crude oil imports hit a seven-year high in October also helped prices inch up.

The improvement has been reluctant, however, as economic concern remains. Yesterday, IEA’s Fatih Birol said, as quoted by Reuters, the global economy remained vulnerable to shocks, which brought unprecedented uncertainty for oil markets.





OPEC’S NEXT MOVE: PRODUCTION ADJUSTMENTS?

OPEC will very likely agree to cut oil production at its upcoming meeting in early December, although the size of the cuts is yet to be decided, Ahmed al-Kaabi, Governor for OPEC of the United Arab Emirates (UAE), told the local Al Bayan newspaper on Tuesday.

The OPEC-Non-OPEC Joint Ministerial Monitoring Committee (JMMC) is still assessing the state of the oil market and will share with the group its findings before the meeting in Vienna on December 6-7, al-Kaabi added.

The UAE is committed to comply with any decision of OPEC, the official noted.

Two weeks before the meeting of the OPEC and non-OPEC partners, speculation has intensified that the cartel and its de facto leader Saudi Arabia may be willing to make another U-turn in oil production policy and decide to cut production next year, just months after increasing output to offset expected losses from Iran and Venezuela.

While Saudi Arabia says that there may be a need of cutting oil production by 1 million bpd, Russia—the leader of the non-OPEC partners in the deal—looks more non-committal, at least for the time being. Last week, emerged that Russia may prefer to stay out of any fresh oil production cuts.

Russia’s only hints to the market so far are that it is discussing potential oil production cuts with local producers and will continue talks to come up with a position by the December meeting, as Russian Energy Minister Alexander Novak said on Monday.

Despite the flurry of various reports from many sides within the cartel that an OPEC cut is in the making, oil prices plunged on Tuesday morning, depressed by the stock market sell-off and renewed concerns about oil oversupply. WTI Crude was plunging 5.24 percent at $54.20, while Brent Crude was plummeting 4.15 percent at $64.02 at 10:22 a.m. EST.

While OPEC is considering cutting oil production again, the executive director of the International Energy Agency (IEA), Fatih Birol, called on Monday for ‘common sense’ because fresh cuts could have negative effects on the oil market.
“Currently markets are very well supplied but we should not forget that spare capacity in Saudi Arabia is very thin, therefore cutting the production significantly today by key oil producers may have some negative implications for the markets and further tightening the markets,” Reuters quoted Birol as saying at a news conference in Bratislava.
“My appeal to all producers and consumers across the world is to have common sense in these difficult days,” the IEA’s executive director said.
In its Oil Market Report for November published last week, the IEA said that surging production from the world’s biggest oil producers have more than offset Iranian and Venezuelan supply losses, while demand growth in some developing markets is slowing, pointing to a global oil oversupply next year.
Despite the implied surplus in oil supply next year, the IEA doesn’t see the oversupply as a threat to the markets.

Although the oil market appears to be more relaxed than it was a few weeks ago, and there might be a sense of ‘mission accomplished’ that producers have met the challenge of replacing lost barrels, such is the volatility of events that rising stocks should be welcomed as a form of insurance, rather than a threat,” the IEA said in its report.
After the latest plunge in oil prices in recent weeks and after supply-demand analysis started to suggest that an oversupply may be building, OPEC and its de facto leader Saudi Arabia have started to hint at new production cuts, with speculation ranging from cuts of 1 million bpd to as much as 1.4 million bpd.
OPEC and allies meet in early December in Vienna, where they are set to discuss the state of the oil market and potential new oil production policies.

Iraq's oil exports from the Kirkuk oil province could reach up to 400,000 bpd, higher than the 300,000-bpd exported before the halt last year, a Kurdish politician told Sputnik on Tuesday after exports resumed last week—a move that adds more oil to the market at a time when participants fear an oversupply and OPEC considers new production cuts.

On Friday, Iraq resumed oil exports from Kirkuk, a year after it had stopped oil flows from the area due to a dispute with the semi-autonomous Kurdistan region. Initial flows were 50,000 bpd-60,000 bpd, industry sources told Reuters.

"The export of oil from Kirkuk through the Iraqi Kurdistan oil pipeline, which transports oil to international markets through the Turkish port of Ceyhan, began on November 16," Hoshawi Babakr, the Kurdistan Democratic Party's (KDP) representative in Russia, told Sputnik.

"The increase in the volume of this export will take place in several stages: from 50,000 —100,000 barrels per day at the moment to 400,000 barrels upon reaching full capacity. I would like to note that prior to the suspension of the export of Kirkuk oil through the Kurdish oil pipeline in 2017, its volume was 300,000 barrels per day," Babakr said.

IRAQ'S EXPORT NUMBERS – IMPORTANT INFO FOR 2019

In the talks with Iraq's federal government, Kurdistan insists that the rights of Russia's Rosneft in the oil production in Kirkuk be preserved, Babakr told Sputnik. Under a 2017 agreement between Rosneft and Kurdistan, the Russian giant received the partial right to extract oil and gas, export, and manage flows from Kirkuk to Turkey, Babakr said.

Around 300,000 bpd of crude oil exported in the Kirkuk province were shut in when the Iraqi federal government moved in October last year to take control over the oil fields in Kirkuk from Kurdish forces after the semi-autonomous region held a referendum that Baghdad didn't recognize. The only export outlet of the Kirkuk oil is the oil pipeline of the Kurdistan Regional Government (KRG).

On Saturday, Kurdistan region's Prime Minister Nechirvan Barzani welcomed "the Iraqi government decision to resume export of Kirkuk oil through the Kurdistan Region pipeline to benefit all Iraqis," Barzani said at a meeting with U.S. Deputy Assistant Secretary of State for Iraq and Iran, Andrew Peek.

IRAN: US LED SANCTIONS HAVE LITTLE EFFECT-TAKE CAUTION

Iran’s president Hassan Rouhani said on Monday that the country will continue to export oil despite fresh U.S. sanctions, which he described as “psychological war doomed to failure.”

“We will not yield to this pressure which is part of the psychological war launched against Iran,” he said on state TV. “They have failed to stop our oil exports. We will keep exporting it ... Your regional policies have failed, and you blame Iran for that failure from Afghanistan to Yemen and Syria,” he added, to chants of “Death to America!”. Rouhani also said that the U.S. lacked international support for its sanctions against Iran.

“America is isolated now. Iran is supported by many countries. Except for the Zionist regime (Israel) and some countries in the region, no other country backs America’s pressure on Iran,” he said.

Though Rouhani is right that other countries have not supported fresh U.S. he is also failing to address that EU support, strongest in the early days after President Trump announced impending sanctions in May, lost steam as Tehran demanded more than the EU, as either a body, or individually, could give. Iran also hurts its case with most EU members last month when sanctions against his country, Anish authorities accused Iranian agents of attempting to carry out a plot to assassinate an Iranian-Arab opposition figure on Danish soil.

"An Iranian intelligence agency has planned an assassination on Danish soil. This is completely unacceptable. In fact, the gravity of the matter is difficult to describe. That has been made crystal clear to the Iranian ambassador in Copenhagen today," Foreign Minister Anders Samuelsen, said in a statement at the time.

FACTOR IN NEW US LED SANCTIONS

The U.S. Department of the Treasury imposed sanctions on Monday on the Russia-born, South African national Vladlen Amtchentsev, for having advised North Korea on how to evade U.S. sanctions.

The Treasury's Office of Foreign Assets Control (OFAC) is blocking any property or interests in property of Amtchentsev in the possession or control of U.S. persons or within or transiting the United States, and U.S. persons are prohibited from dealing with him.

Amtchentsev was designated for having acted or purported to act for or on behalf of, directly or indirectly, the company Velmur Management Pte Ltd.

Singapore-based company Velmur was designated by the Treasury in August last year, when the U.S. announced sanctions on three Russian individuals and two Singapore-based companies involved in providing oil to North Korea. Velmur was one of the companies designated, while the other was Transatlantic Partners Pte Ltd.

According to the Treasury, Velmur was designated "for having materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, Transatlantic."

Transatlantic was found to have concluded a contract to buy fuel oil with Daesong Credit Development Bank, a North Korean bank designated in 2016, and Transatlantic and Velmur representatives also worked to buy gasoil for delivery to North Korea. Velmur also sold gasoil to North Korea.

"Both of these companies have attempted to use the U.S. financial system to send millions of dollars in payments on behalf of North Korea-related transactions," the Treasury said in August 2017.

"North Korea depends upon the help of criminals and illicit actors to raise and transfer funds," Treasury Secretary Steven Mnuchin said in the Treasury's press release on Monday.

"As part of our commitment to the final, fully verified denuclearization of North Korea, Treasury will continue to enforce and implement sanctions against any actor that seeks to aid the regime's deceptive practices."

Involved in providing oil to North Korea. Velmur was one of the companies designated, while the other was Transatlantic Partners Pte Ltd.
According to the Treasury, Velmur was designated “for having materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, Transatlantic.”

Transatlantic was found to have concluded a contract to buy fuel oil with Daesong Credit Development Bank, a North Korean bank designated in 2016, and Transatlantic and Velmur representatives also worked to buy gasoil for delivery to North Korea. Velmur also sold gasoil to North Korea.

“Both of these companies have attempted to use the U.S. financial system to send millions of dollars in payments on behalf of North Korea-related transactions,” the Treasury said in August 2017.

“North Korea depends upon the help of criminals and illicit actors to raise and transfer funds,” Treasury Secretary Steven Mnuchin said in the Treasury’s press release on Monday.

“As part of our commitment to the final, fully verified denuclearization of North Korea, Treasury will continue to enforce and implement sanctions against any actor that seeks to aid the regime’s deceptive practices.”

THE GEOPOLITICAL AGENDA. US - SAUDI & ARAB Nations – TRUMP CARD

U.S. president Trump is facing strong internal pressure to punish Saudi Arabia in the coming days.
For Washington, however, this could be a double-edged sword, as turning on Saudi Crown Prince Mohammed bin Salman could result in two unwanted major geopolitical consequences. The still fresh Jamal Khashoggi murder case continues to make headlines due to a relentless anti-Saudi media and a diplomatic offensive by Turkey, Qatar and Western diplomats, and it could trigger the largest U.S.-Saudi/Arab crisis in decades.
U.S. politicians have set their sights on the position of the young Saudi Crown Prince, based on still unsubstantiated claims of direct involvement by Ankara and unnamed CIA-officials, U.S. president Trump finds himself backed into a corner to deal directly with the Kingdom.
Until now, the U.S. Administration has refrained from mentioning the direct involvement of MbS in the murder of the former Saudi journalist but has put sanctions on the officials being connected to the case. Inside of the Kingdom, the pressure is also increasing but this time not to remove MbS, but instead to prepare a harsh response to any possible U.S. claims or sanctions on Royal Family members. Senior Saudi officials have already indicated that a direct attack by Washington or European leaders will be met by severe repercussions.

A Western-Turkish move to pressure Saudi King Salman to remove his son from power is at present unrealistic. Looking at the ongoing situation inside of the Kingdom, and in the Arab world, the support gathered the last weeks by the Saudis from their allies UAE, Bahrain, Egypt, Jordan and Lebanon, is clear. No Arab country will allow for a ruling Crown Prince to be removed from power by an outside, non-Arab entity. Inside of the Kingdom, the atmosphere is very clear, keep your hands off MbS. In contrast to the ongoing discussions in the Western media or Turkish outlets, there are no clear signs of a growing opposition to the plans and rule of MbS. The Crown Prince has not only been able to weather the storm before and during the FII2018 period, when global media reported on a failure of the Desert in the Storm financial conference, he has also removed potential opposition to his Saudi Vision 2030 strategy and power plays before.

Still, some opposition exists, even if it is not vocal at the moment. Conservative elements in the Saudi power constellation, supported by former high-ranking Royals, will be waiting for any sign of weakness, trying to hit where it really hurts. Currently, three major factors could lead to instability: MbS's future depends on a partial success of the high-profile diversification of the Saudi economy, weaning it from its oil addiction, and implementing some hard-needed changes to give future perspective to the large young population of the country.

At the same time, the diversification needs a reasonably high volume of FDI, which is supported by higher oil prices. For the immediate and mid-long term, MbS will need to have the support of the regional power players, Sheikh Mohammed bin Zayed (Abu Dhabi), Bahrain's Crown Prince, Egypt's President Sisi and King Abdullah II of Jordan. Looking at FII2018 and the last weeks, these factors he still has in place. To counter the U.S., Saudi Arabia's Crown Prince has made the right choices the last couple of years. MbS and Russia's Vladimir Putin are reading out of the same book. The ongoing OPEC-Russia cooperation comes out of the screenplay written by MbS (and Khalid Al-Falih) and Putin (supported by Novak). Even before the Khashoggi case, both leaders understood that in times of need new friends could be needed. At the same time, the advantages of changing sides or alliances had become clear after the disaster called the Arab Spring. The West went flat on its face and left the region to bleed. The only strong man willing to bleed with the Arabs has been Putin, which is currently being appreciated in all Arab capitals, from East to West.

Washington now has to decide what it wants from the region. Without any doubt, Washington and Brussels, even combined with Ankara, will not be able to remove the Crown Prince from power. When looking at the power composition of the Kingdom, and the intertwining of the future of the UAE, Bahrain and Egypt with the future of the Saudi Kingdom. The rapprochement between Cairo and Riyadh, the in-depth economic and military cooperation between Riyadh and Abu Dhabi, and the bloodline between Riyadh and Manama, are not to be underestimated. Outside threats have brought them together, maybe even with the help of the invisible powers of the Jordanians, but these relationships cannot be easily dissolved by outside powers. A decade ago, all of the above relied on Washington, or some positive feelings in the EU, but at present a new kid is in town, called Vladimir the Bear. Any pressure from Washington, even if based on facts or relevant assessments, will result in a countermove in the Arab capitals. The removal of Gadhafi, Hosni Mubarak and others, helped by Westerners, has left deep and ugly scars in the mind of the Arab leadership.

As long as U.S. president Trump is not openly showing a confrontational course with the Saudi Royals, some ‘’friendship or partnership” is still on the table. However, if Trump, maybe forced by the U.S. Senate and Congress, addresses MbS as the main culprit in the Khashoggi case, the gloves will be off. An anti-Western/U.S. move by the mainstream Arab countries will be a threat not only to Western influence in the region, but also confirms Russia’s growing influence in the region.

Intensified cooperation between Russia and Arab power players will be a nightmare scenario for U.S. and EU policy strategists. The first effects will be that Trump’s Tweets and Brussels’ warnings will be met by a one-sided NOPEC oil production cut and price strategy. Without any doubt, one of the outcomes could be that OPEC and Moscow, already accused of playing a price cartel strategy, will no longer keep the wishes of Western partners in mind. There will be no more room for policy negotiations on volumes, prices and economic growth as Putin and Crown Prince will decide their own fate.

The second issue will be that Russia and the Arab world will decide their own new geopolitical structures and power plays, in which the U.S. and Europe are no longer on their priority list. A full-scale 180-degree strategic turn by the Arab world is not in the interest of the world, and especially not of the West.

A strong NOPEC oil strategy, based not only on market fundamentals, but infused with geopolitical backlashes and power play, will result in a very volatile and risky environment. Politics always have been playing an important role, even if Khalid Al Falih continues to reiterate that OPEC is not a geopolitical policy maker, but a producer of commodities.

Strangely none of the major analysts have looked at the position of Moscow in the Khashoggi affair. Putin and his consorts have been totally quiet, not addressing the case at all. At the same time, Moscow and Riyadh have been working out major investment deals, energy cooperation for the next century, while Russian forces have been flying into major Arab capitals for so-called military exercises with friends. While we have been reading newspapers and listening to one-sided news analysis coming from Turkey and unnamed sources, the main players have discussed already the full answer to any threat possible.

The OPEC meeting in December could be the first sign of a new energy/geopolitical reality, in which U.S. shale is being met by a Russian dreadnought fueled by Saudi oil. The signs are written on the wall that changes are imminent, but don’t expect it to be news about the removal of the Saudi Crown Prince. OPEC is changing, while geopolitical power brokers have already created a new theater of powers. Trump will have to switch gears to cope with this growing threat. Without some real brinkmanship, Khashoggi could be the next millstone around the neck of the U.S. president, not on the head of MbS.