

Crude oil imports decline for third consecutive month

CRUDE OIL imports fell for the third consecutive month in August to 18.73 million tonne (MT) due to maintenance activities at Indian refineries and decline in shipments from Russia. Crude oil imports were 20.58 MT in May, 19.56 MT in June and 19.51 MT in July, as per data released by the Petroleum Planning and Analysis Cell. The sequential decline in August was

4%. Analysts believe the decline in imports was due to the routine maintenance at the refineries and reduced imports from Russia due to lower discounts. Import from Russia, too, fell for third consecutive month in August to a seven-month low. It imported 1.46 million barrels a day from Russia in August, down from 1.91 million barrels purchased in July.

— FE BUREAU



Crude oil imports slip to 10-month low in August

SLOWING DOWN. Dragged by Russia production cuts and refinery maintenance

Rishi Ranjan Kala
New Delhi

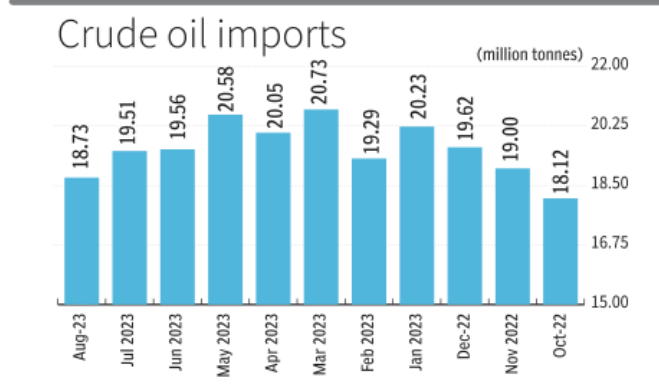
Crude oil imports by India, the world's third largest importer of the most critical fossil fuel, declined by almost 4 per cent M-o-M to 18.73 million tonnes (mt) in August largely due to production cuts by Russia and autumn refinery maintenance.

However, imports last month were higher on an annual basis by more than 6 per cent from 17.64 mt in August 2022.

According to the Petroleum Planning and Analysis Cell (PPAC), the in-bound shipments fell for the third consecutive month in August in line with voluntary production cuts by Russia, which also impacted its most sought after medium sour grade Ural.

Urals shipments from Russia to India in August slipped to its lowest levels since January this year.

The imports in August were also the lowest since November 2022. India imported 18.12 mt of crude



Source: Petroleum Planning & Analysis Cell (PPAC)

oil in October 2022. Besides, the import of crude oil during August is the lowest in FY24 and calendar year 2023.

LOWER CONSUMPTION

Trade sources said the decline in August was due to narrowing discounts on the Urals grade and smaller appetite from Indian refiners due to planned autumn maintenance at some refineries, and lower domestic demand on account of the rainy season till September.

However, India's monthly crude oil import bill rose to \$10.9 billion in

August from \$10.3 billion in July 2023 as global prices edged up following voluntary production cuts by Saudi Arabia and Russia. The import bill was lower on an annual basis.

The price of Brent Crude averaged \$86.22 per barrel during August 2023 as against \$80.05 in July 2023 and \$99.99 barrel in August 2022.

The Indian basket crude price averaged \$86.43 per barrel in August 2023 against \$80.37 during July 2023 and \$97.40 in August 2022.

According to the International Energy Agency (IEA),

the shipments to China and India slumped to 3.9 million barrels per day (mb/d) in August 2023 from 4.7 mb/d in April and May 2023 but accounted for more than half the total volumes.

According to IEA data, the world's top two crude oil consumers accounted for 80 per cent of Russia's total exports during May to July this year.

DEMAND TO APPRECIATE

A senior oil marketing company official said that fuel demand will rise during the October-December quarter due to heightened industrial, mining, construction and farm activity. The festival season preparations by FMCG and FMCD companies will also propel consumption.

According to OPEC, India's oil demand is expected to decelerate slightly, but is forecast to show a Y-o-Y growth of 243,000 barrels per day in Q4 2023, with transportation fuels – notably gasoline, diesel for transportation, and jet/kerosene – driving the growth.

Gas consumption to grow 6-7% in FY24, says Icra

MANISH GUPTA

New Delhi, September 20

THE GAS CONSUMPTION in India is expected to grow by 6-7% year-on-year (y-o-y) in FY24 over a low base, supported by softer liquefied natural gas (LNG) prices and an uptick in the domestic gas production, ratings agency Icra said on Wednesday.

"The fertiliser sector will continue to remain the largest consumer, supported by ramp-up of new fertiliser plants that were commissioned in H2 FY23," said Sabyasachi Majumdar, senior vice president and group head, corporate ratings, Icra. The demand from city gas distribution (CGD) sector is underpinned by the CNG segment, which remains robust owing to strong economic advantage over alternate fuels, a testament of which is the strong uptick in CNG vehicle sales in last couple of years, he said. ICRA expects the demand from the industrial sector to witness a healthy uptick amid soft LNG prices and increasing domestic



ON THE RISE

■ The demand from city gas distribution (CGD) sector is underpinned by the CNG segment, which remains robust owing to strong economic advantage over alternate fuels

gas production.

The CGD sector has benefited from the implementation of the Kirit Parikh committee recommendations in April 2023, resulting in the lowering of domestic gas prices, thereby improving the cost economics for CNG and PNG vis-à-vis alternate fuels.

Gujarat State Petro to buy 7.3% stake in GSPC LNG

INFORMIST / Ahmedabad

Gujarat state government-owned Gujarat State Petronet Ltd is set to pick up a 7.3% stake in GSPC LNG Ltd for 1 bln rupees, two state government officials said.

“The proposal has been finalised and will be put up before the company board soon. This will help GSPC LNG achieve financial closure, which it has been awaiting since 2007,” one of the officials told Informist.

GSPC LNG, which has a 5 mln tn per annum liquefied natural gas terminal at Mundra, started in 2007 as a 50:50 joint venture between Adani Enterprises Ltd and Gujarat State Petroleum Corp Ltd, the parent company of Gujarat State Petro Ltd and Gujarat Gas Ltd. However, over the years the company has seen its equity structure change drastically.

Currently, the Gujarat Maritime Board and the Gujarat government hold around 45% and 40% stake, respectively in GSPC LNG. Adani Enterprises holds a 5% stake in the company.

Natural gas consumption likely to grow 6-7% y-o-y this fiscal

Rishi Ranjan Kala
New Delhi

The country's natural gas consumption is expected to grow 6-7 per cent Y-o-Y in the current financial year aided by higher domestic gas availability and softening international spot liquefied natural gas (LNG) prices.

India consumed 158.2 million standard cubic metres per day (MSCMD) of natural gas in FY23, down 2.5 per cent Y-o-Y. LNG consumption fell 13.35 per cent Y-o-Y to 71.4 MSCMD, while imports fell 15.18 per cent Y-o-Y to 72.1 MSCMD in FY23.

Akin to global gas markets, Indian gas utilities sector, after facing headwinds such as significant price volatility and availability of LNG over the last two years, is now returning to a tentative state of normalcy, ratings agency ICRA said.

"Gas consumption in India is expected to grow by 6-7 per cent Y-o-Y in FY24 over a low base, supported by softer LNG prices and an uptick in domestic gas production," ICRA Senior VP & Group Head (Corporate Ratings) Sabyasachi Majumdar said.

Pointing out that fertilizer sector will continue to remain the largest consumer of gas, he said this is supported a ramp-up of new fertilizer plants that were commissioned in H2 FY23.

The demand from city gas distribution (CGD) is underpinned by the compressed natural gas (CNG) segment, which remains robust owing to the strong economic advantage over alternate fuels, a testament of which is the strong uptick in CNG vehicle sales in the last couple of years, Majumdar added.

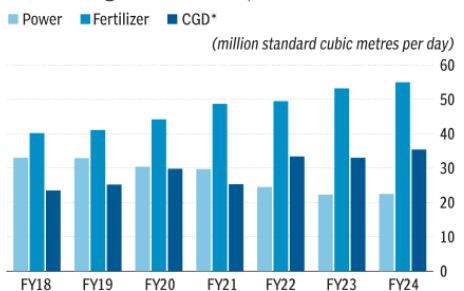
LNG PRICES

ICRA said that global LNG prices moderated in calendar year 2023 after achieving lifetime highs in CY2022, aided by changes in demand patterns across the key consuming nations.

"LNG demand from China has been subdued amid an economic slowdown, rising pipeline flows from Russia, and increasing use of coal. The EU demand stabilised after the initial peak, owing to mild winters, austerity measures, and a weak economic environment,"



Natural gas consumption



*CGD: City Gas Distribution Source: ICRA

it added. The demand from Japan and South Korea was also tepid owing to their increased focus on the use of renewables and nuclear power. On the other hand, the US domestic demand has also witnessed subdued growth, and with healthy gas inventory levels, the Henry Hub prices have moderated.

On global LNG prices outlook in short term, ICRA's Senior VP and Co-Group Head (Corporate Ratings) Prashant Vasishth said: "Global LNG prices are expected to not increase much from the current levels as the EU has ample storage and above the historical levels for this time of the year."

South Korea and Japan consumption is expected to decline or stay stable due to increasing reliance on nuclear power. Although China's consumption is expected to increase, the same is mostly tied up in term contracts. Lastly, five new liquefaction terminals are starting up within CY2023 so markets are expected to be well supplied, he added.

However, Majumdar cautioned that event risks persist, like an extended labour strike in Australian LNG facilities and a colder-than-expected winter in the northern hemisphere, which could result in volatility in the spot prices.

Given the lack of investments in the LNG projects over the past few years, incremental availability of LNG will

be capped with major capacity additions expected in FY2025-26, he added.

Meanwhile, structural changes are underway on the demand front, such as the increasing focus of the EU on renewable energy, a shift towards coal usage by China, and increasing reliance on nuclear power by Japan and South Korea. The LNG offtake by South Asian countries remains highly price sensitive.

DOMESTIC DEMAND

The gas offtake by the domestic market is supported by softening LNG prices, uptick in domestic gas supplies, and a regulatory push by the government, ICRA said.

Gas production is projected to witness healthy growth in FY24, primarily from the Krishna-Godavari Basin, which is likely to keep reliance on LNG in check. CGD and fertilizer sectors will continue to drive the demand growth owing to favourable policy support. ICRA expects demand from the industrial sector to witness a healthy uptick amid soft LNG prices and increasing domestic gas production.

CGD benefitted from implementation of the Kirit Parikh Committee recommendations in April 2023, resulting in lowering of domestic gas prices, thereby improving the cost economics for CNG and PNG (d) vis-à-vis alternate fuels, it added.

Oil's Not Well

Crude price surge is challenging. But RBI and governments need to avoid knee-jerk reactions

The relentless 3-month rise in the price of crude oil has brought it to the threshold of the psychologically critical \$100/barrel mark. On Tuesday, the Indian basket of crude was priced at \$95.6/barrel, with the monthly average price increasing 24% since June. The cause for this price surge is cartelisation. IEA forecast global oil demand this year will be 102.2 million barrels per day, an increase of 2 million a day. This moderate rise in demand has been exploited by the oil cartel OPEC+, led by Saudi Arabia and Russia, through a deliberate cut in output.

The situation's unlikely to change soon and crude price will remain elevated. Usually, the immediate impact of a price surge is on inflation. However, in India the effect will be muted for now as GOI has frozen retail pump prices for about 16 months and cut cooking gas prices. This does not mean India is insulated from international crude price trends. Its impact will play out through three channels.



First, the impact will be felt through increased input costs of manufacturers. Second, there will be upward pressure on interest rates in money markets. Third, with election season upon us, governments and political parties will be tempted to abandon fiscal restraint to mitigate cost of living pressures. Of the three channels, the last two are inter-related and have a stronger impact on the trajectory of inflation and economic growth. The situation calls for careful

management by RBI and governments at all levels. RBI has put on hold its policy of monetary tightening that led to an increase in its policy interest rate by 2.5 percentage points since May 2022. This, in turn, led to an increase of 1.93 percentage points, till July 2023, in the weighted average lending rate of fresh rupee loans.

Breaking down the factors driving inflation, food prices are the main trigger this year. Neither food nor fuel price increases can be dealt by increasing interest rates directly or indirectly through liquidity measures. RBI should not immediately respond to the crude price surge, but the central bank needs to be supported by an appropriate fiscal stance. GOI and major states this year have stepped up investment. They need to persist as private firms right now may hold back. Therefore, governments need to maintain both fiscal restraint and stick to the current spending pattern to see through this phase.

ONGC willing to wait to regain oil from Russia project

Reuters

Calgary, Alberta

State-run Oil and Natural Gas Corporation wants to eventually receive a share of crude from a Russian project it partly owns, but is willing to wait because Russian oil is hard to ship right now, the head of ONGC's overseas investment arm, ONGC Videsh, said.

Russian President Vladimir Putin last year removed an Exxon Mobil subsidiary as operator of the Sakhalin-1 oil and gas project in Russia's Far East and transferred it to a new operator. ONGC Videsh has since regained its 20 per cent stake in the project and is in talks with Russian government officials and company shareholders to resume taking oil under a production-sharing arrangement, said Rajarshi Gupta, CEO of ONGC Videsh.

The talks with Russia and other project shareholders may take six months to conclude, Gupta said.

Saudi cuts Asian Premium after India taps Russian oil

Rituraj Baruah & Utpal Bhaskar
NEW DELHI

Saudi Arabia, the world's largest oil producer, has slashed the premium charged on exports to India while many others have discontinued it altogether, a person aware of the matter said, after India began sourcing the bulk of its energy requirements from Russia.

Asian premium is an extra amount levied by the Organization of the Petroleum Exporting Countries (Opec) from Asian countries above the actual selling price. India has repeatedly pressed oil producers to eliminate this premium and even asked for an 'Asian discount' instead. Saudi Arabia has now reduced the premium to \$3.5 per barrel from around \$10 in the past year, the person said.

"Some suppliers are giving discounts; some are charging a premium, and you buy less from them. Currently, the pre-



Opec countries charge an extra levy from Asian nations. MINT

mium is \$3.5 per barrel. Saudi is levying the premium on the OSP (oil selling price). The United Arab Emirates (UAE) is not charging," the person said on condition of anonymity.

"Imports have already declined. Both the public and private sector will buy oil from wherever they get it cheapest," the person added.

Top Asian buyers China and India, the second and third largest importers of crude oil globally, boosted imports from

Russia after the country offered deep discounts following its war in Ukraine. In the first quarter of 2023-24, oil imports from Russia stood at \$12.36 billion, 171% higher from a year earlier, while Saudi Arabia slipped to the third position as supplies declined 24% to \$5.49 billion. Imports from the UAE slumped 63% to \$1.71 billion.

Iraq, which has offered discounts as well, was the second largest supplier in value terms at \$6.55 billion. The supplies, however, still declined by 38%.

In July, a report by S&P Global Commodity Insights said Russia and the Middle East would each take a 40-45% share in the third quarter of 2023. Opec, which includes all major Middle Eastern oil-producing countries, constituted around 75% of India's import basket in 2022.

In the past few months, Russia's discounts have narrowed,

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Saudi cuts Asian premium after India taps Russian oil

FROM PAGE 1

and along with Saudi Arabia, it has extended output cuts, squeezing supplies. International Energy Agency's (IEA) oil market report for September 2023 showed that Russia's daily production stood at the same level in August as in July at 9.48 barrels per day (bpd), and that of Saudi Arabia declined from 9.08 bpd in July to 8.98 bpd.

The report showed that despite declining shipments in April and May to India and China, they accounted for more than half the total oil export volumes of Russia.

"The decline may be on the back of the large market both India and China provide. Nobody would want to lose these two countries as they have a large market share," said Prashant Vashisht, vice president of Corporate Ratings, Icria.

The IEA report said despite a tough economy, China looks on track to account for 75% of the increase in world oil



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AFP

demand this year or 1.6 million barrels of the total anticipated global demand of 2.2 million barrels.

India witnessed a record 222.94 million tonne consumption of petroleum production in 2021-22, and according to the estimates of the Petroleum Planning and Analysis Cell, it may touch 233.80 million tonnes in 2022-23. About 85% of India's total energy requirement is met through imports.

Amid volatile market condi-

tions in the past 18 months and Opec's persistent efforts to raise prices through output cuts, India has been looking at diversifying import sources and securing cheaper oil.

Queries sent to the spokespeople for the ministry of petroleum and natural gas, the embassy of Saudi Arabia, India's state-run oil refiners, Reliance Industries Ltd and Nayara Energy remained unanswered till press time. Saudi state-run oil major Aramco declined to comment.

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Sizzling oil worldwide, rising worries in India

Harsha Jethmalani & Pallavi Pengonda
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The ghost of rising oil prices is back to haunt the economy. Brent crude oil prices are now hovering around \$96 per barrel, up more than 30% since 31 May. The recent upward pressure on oil prices is primarily led by supply-side concerns, with Saudi Arabia and Russia deciding to extend their voluntary output cuts till the end of December. When oil prices rise, India tends to feel the heat as we import most of our oil requirements. Costlier oil pushes up the oil import bill, which ultimately weighs on the country's current account deficit.

But note that other Asian economies are also vulnerable to rising oil prices. "Within Asia, India, Thailand and the Philippines appear more vulnerable to higher oil prices," said a Nomura Global Markets Research report dated 15 September.

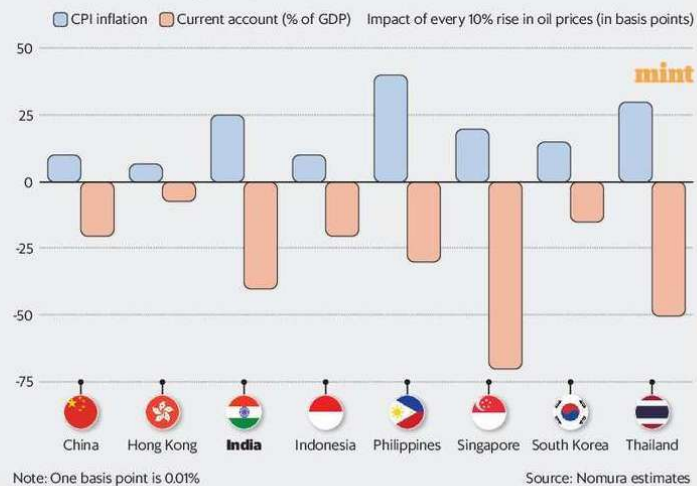
"With price controls/subsidies in place, India and Thailand are vulnerable to worsening current account balances, while the Philippines is vulnerable on both fronts, making it most at risk amid an already-weak starting point," the report added.

In India, since May 2022, retail prices of petrol and diesel have not been revised in keeping with global oil price movement, even when oil prices were lower. A combination of higher oil prices and unchanged retail fuel prices is not favourable for state-run Indian oil marketing companies, as their marketing margins get affected. With FY24 being an election-heavy period, the likelihood of diesel and petrol price hikes is lower.

If oil prices continue to rise and/or stay elevated for longer, it would impact sectors such as aviation, fast-moving consumer goods, tyres, cement and paints. These sectors use crude or crude derivatives as inputs; thus, costs would rise for them, potentially hurting profitability. In response, companies may try to pass on the burden of increased input costs to

The repercussions

Rising crude oil price typically has an adverse influence on most Asian economies.



SATISH KUMAR/MINT

consumers by raising prices, which would push inflation higher.

What's more, at a time when food inflation is sticky and elevated, another surge in crude prices may prompt the Reserve Bank of India (RBI) to further delay a rate cut.

"Clearly, the upswing in crude oil price is a supply-side shock for RBI and other EM (emerging market) central banks. Historically, every \$10 per barrel increase

few days ago, and remains around this mark.

But this does not mean all is hunky-dory. If crude hits or surpasses the key psychological mark of \$100/barrel, that could be a sentiment dampener and lead to a knee-jerk reaction, said analysts.

Rich valuations, worries on oil, the fiscal situation and near-term state elections could raise market volatility, Jefferies India said in a report on 18 September.

Speaking of valuations, the MSCI India index is trading at a one-year forward price-to-earnings multiple of 19.5x, a premium to Asian peers, showed Bloomberg data.

To be sure, India is considered relatively better

placed than other Asian economies with a firmer macro-economic position.

But the worry here is that surging crude oil prices, especially in the run-up to general elections, could trigger increased outflows by foreign institutional investors in Indian equity markets.

In this backdrop, investors would keep a close watch if crude oil prices continue to inch up.

CRUDE CONCERNS

THE recent upward pressure on oil prices is primarily led by supply side concerns

WHEN oil prices rise, India tends to feel the heat as we import most of our oil requirements

COSTLIER oil pushes up the oil import bill, which weighs on current account deficit

in Brent crude pushed up retail inflation in India by 35 basis points," said Rahul Bajoria, managing director & head of EM Asia (ex-China) economics, Barclays. One basis point is one-hundredth of a percentage point.

Interestingly, Indian stock markets have remained rather resilient despite rising oil prices. The key benchmark Nifty 50 index crossed 20,000 points a