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PRESS RELEASE: VETIVA FORECASTS AVERAGE BRENT PRICE OF $105 PER BARREL FOR 2022.

In its H2'22 Outlook titled "A strange labyrinth", Vetiva Research ("Vetiva") projects that Brent price will average $105/bbl for the full year. Vetiva's projection for Brent price is supported by continuous recoveries in global oil demand as well as slower supply growth from OPEC amid production hitches from its members. The Oil & Gas Analyst at Vetiva, Victoria Ejugwu mentioned that "The oil market may continue to face tightness given low supply prospects and soaring demand; as such, prices are expected to remain elevated". She, however, noted that a significant downside risk to oil prices remains the possible re-emergence of the virus. According to Victoria, "The virus is here to stay with us, with new variants springing up from time to time. We saw what happened with China in Q2, with the virus putting Shanghai on lockdown. Despite vaccination efforts, re-infections could stem lockdowns and movement restrictions. This remains a downside risk for oil prices, as movement and travel restrictions could stifle demand".

Victoria also noted that although OPEC has consistently eased production cuts, Nigeria's crude output has however remained below agreed quotas. She asserted, "Despite the fact that OPEC has been unwinding production caps, Nigeria's crude output has fallen below expectation. This has been due to some operational problems, as well as issues stemming from insecurity. Given this, our outlook for the country's production is somewhat cautious, and do not expect a significant deviation from current production levels". She also mentioned that "While oil prices have soared higher, the industry continues to contract, due to underproduction. Given this, we anticipate further contraction in Q3'22 (-7.00%) and a marginal 0.1% growth in Q4'22.

Speaking on the downstream sector, Victoria highlighted the impact of PMS price regulation on profitability margins. According to the Oil and Gas Analyst, "With the oil price rally we have seen this year, the Nigerian government continues to maintain subsidy payments, keeping PMS retail pump price at ₦165/litre. As such, gross margins (about 5%) from PMS sales have remained thin. Although the enactment of the PIB is supposed to bring about market deregulation, however, given that the general elections are around the corner, full deregulation is not expected in the near term. On this note, downstream players would continue to see low margins in the coming months.

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Disclosure: