FIPI

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Policy & Economic Report -Oil & Gas Market

Federation of Indian Petroleum Industry (FIPI)

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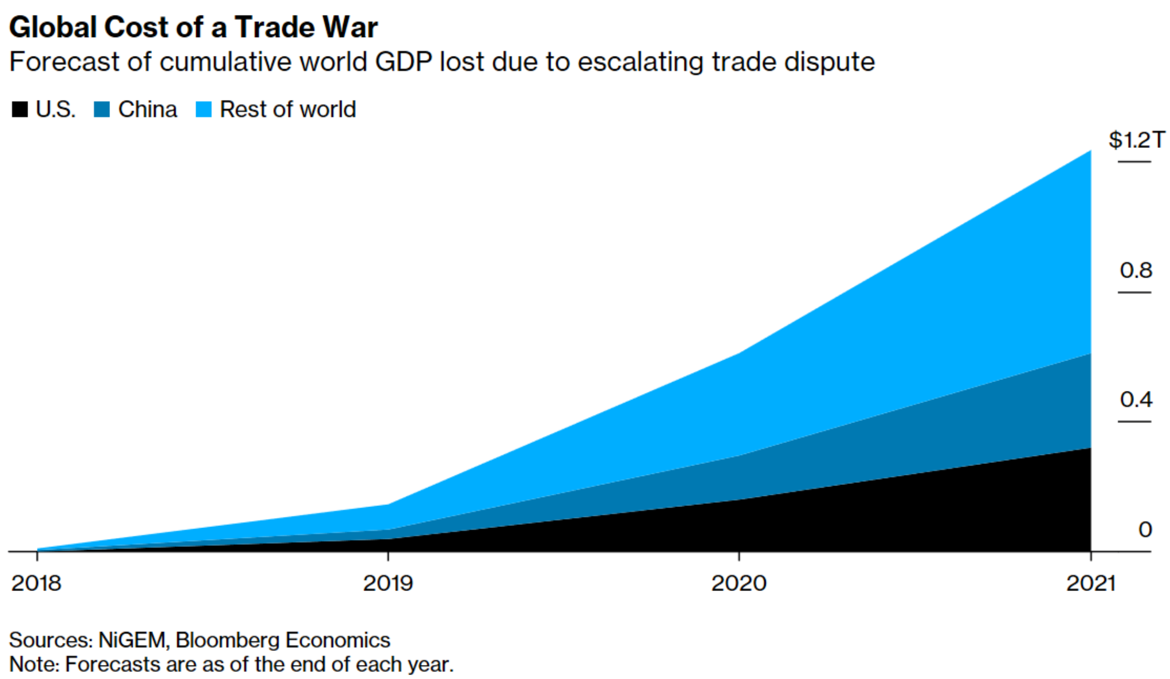
Policy & Economic report – Oil & Gas market

Economy in Focus

1. US – China Trade Conflict to Cost the World Over USD 1.2 Trillion

A recent study suggests that if the trade war between the US and China escalates, it may cost the world a whooping USD 1.2 trillion. As the U.S. President Donald Trump and his Chinese counterpart Xi Jinping meet on 28 June at the two day G-20 summit, the world will be hoping for the two leaders to reach a middle ground

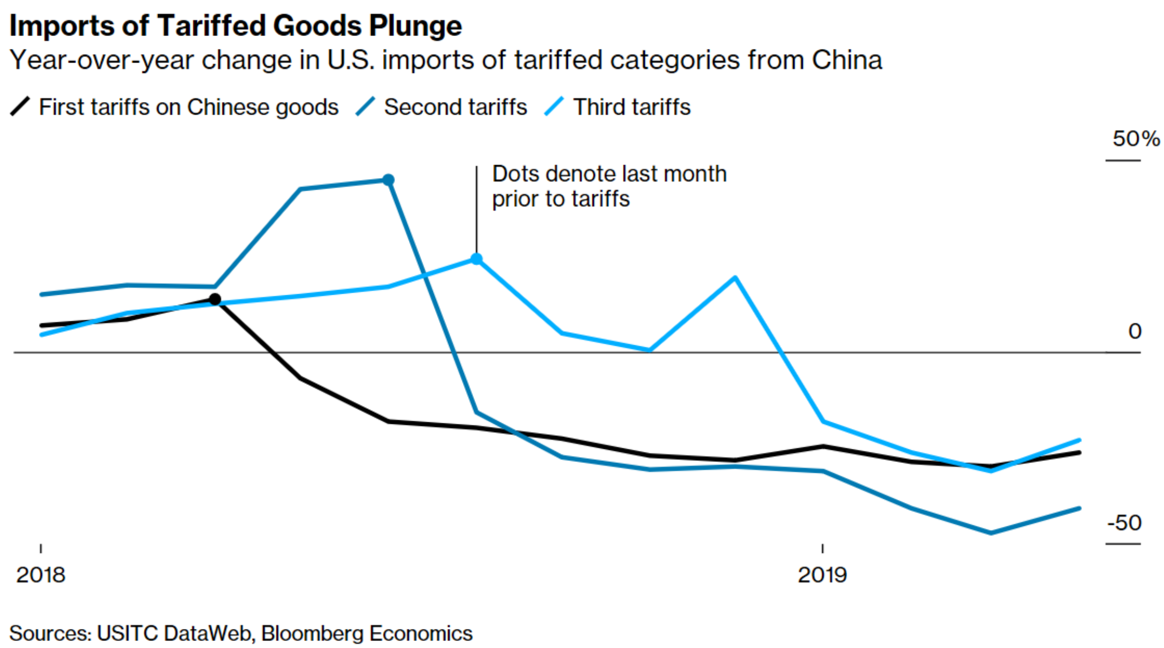


A repeat of the Trump-Xi meeting at the G-20 in Buenos Aires at the end of 2018 could mean an easing of tensions. Tariffs could stay on hold, and Chinese tech-giant Huawei could gain some breathing space from U.S. sanctions.

However, a misstep could trigger 25% tariffs on all trade between the world's two largest economies. The report suggests that such a development, coupled with a major market drop, could take a $1.2 trillion bite out of global GDP by the end of 2021.

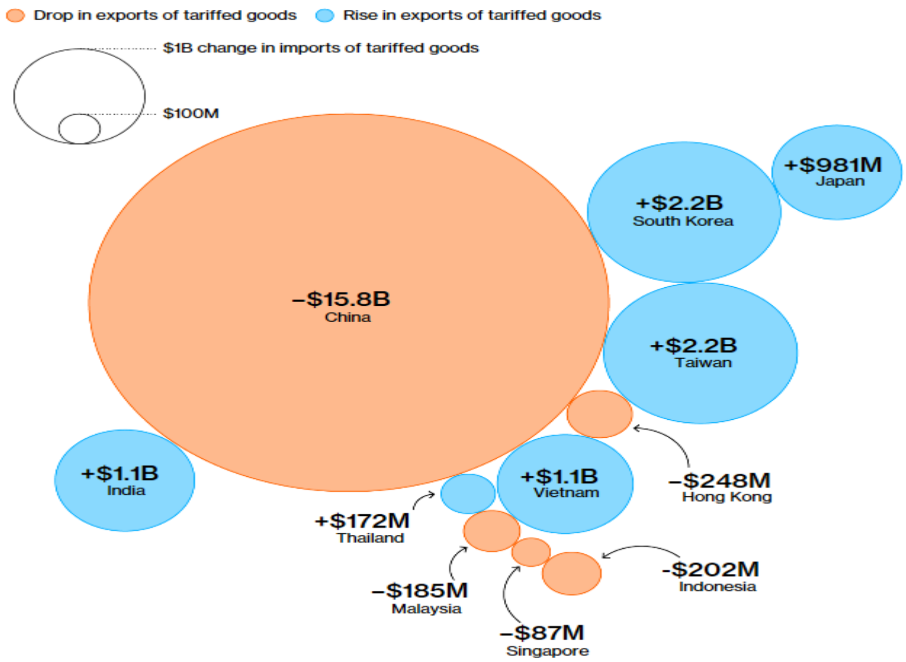
The proposed tariffs on laptop computers and tablets, has been opposed by all technology majors as these duties will increase the prices for the end consumer and will hurt small businesses that rely on them and manufacturers that make them. Some of these companies will also be forced to either fire a part of their workforce or shut the company altogether.

Even if Trump and Xi stick to tariffs at existing levels, the damage to Chinese, U.S. and global growth is already significant. The report suggests that for the thousands of categories of Chinese goods that saw tariffs imposed from July 2018, U.S. imports from China were down 26% year-on-year in the first quarter of 2019.



These developments are not good from China's perspective as the companies paying higher tariff are now relocating to other Asian countries. In the first quarter of 2019, sales of product categories where China faces tariffs were up by 30% in Taiwan, more than 20% in Vietnam, and by 17% in South Korea relative to the same period last year—a sharp acceleration from the growth rates recorded in the few quarters before the tariffs were introduced. However, these additional imports from 10 Asian supply-chain countries could cover less than 50 per cent of the fall in imports from China.

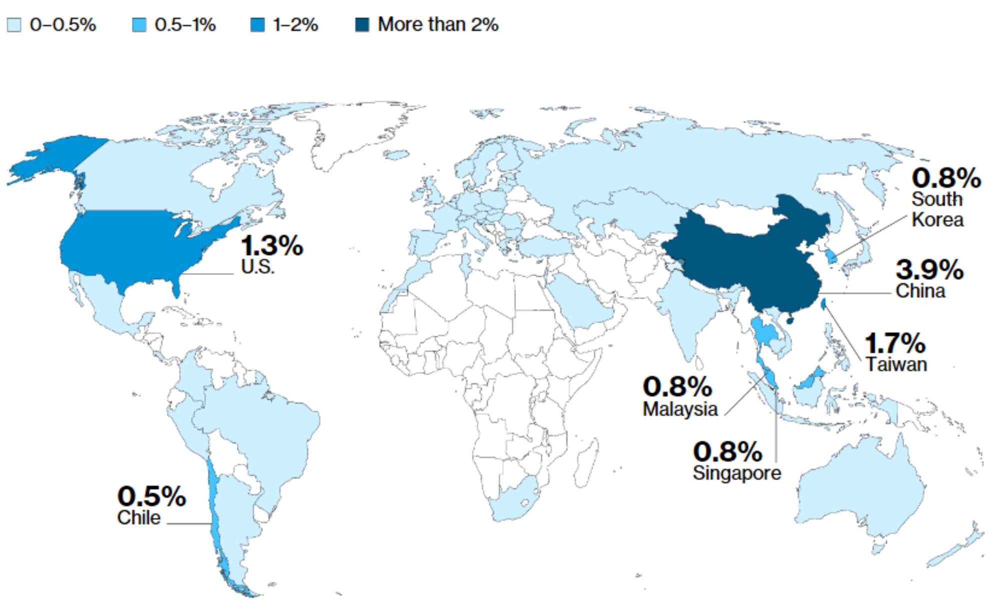
Exports Shift to China's Neighbors
Change in U.S. imports of China-tariffed categories, Q1 2018 to Q1 2019



Sources: USITC DataWeb, Bloomberg Economics

China tops the list, with 3.9% of GDP tied up in trade with the U.S. The U.S., with a larger economy and smaller role for exports, is less exposed. Still, trade with China is equal to 1.3% of GDP. China's nearby neighbors—economies like Taiwan, Korea, and Malaysia—face significant exposure through integration into Asia's electronics supply chain.

Share of GDP Exposed to China-U.S. Trade Flows



Sources: OECD TiVA (2015), Bloomberg Economics

Countries with high exposure to the trade war haven't just seen exports drop, they've also seen capital spending and manufacturing employment suffer. Eight of the 10 most exposed economies have seen a drop in capital-spending growth since the third quarter of 2018.

As the leaders from the two countries meet on 28th June, they should both focus on their commercial interests. Both countries will benefit from a more open Chinese market with stronger protections for intellectual property.

2. Driven by Increased Tariff, US Witnessed a Slow-Down in Manufacturing and Services Sector

As result of the trade conflicts, the U.S. manufacturing activity barely grew while the growth in services sector also cooled in the June. While many indicators still point to a healthy economy, Fed policymakers are increasingly concerned that the 10-year economic expansion could be in danger.

A report from IHS Markit shows U.S. manufacturing purchasing managers index (PMI) declined to 50.1 in June, the lowest since 2009. A reading above 50 indicates growth in the manufacturing sector, which accounts for about 12 per cent of the U.S. economy. The PMI for the U.S. services sector has dropped to 50.7, the lowest since February 2016. The report underlined that the slow-down is a result of trade policy weighing on business sentiment and activity. In the month of June, owing to the rise in tariff, the cost of Raw material increased for the US manufacturing industry.

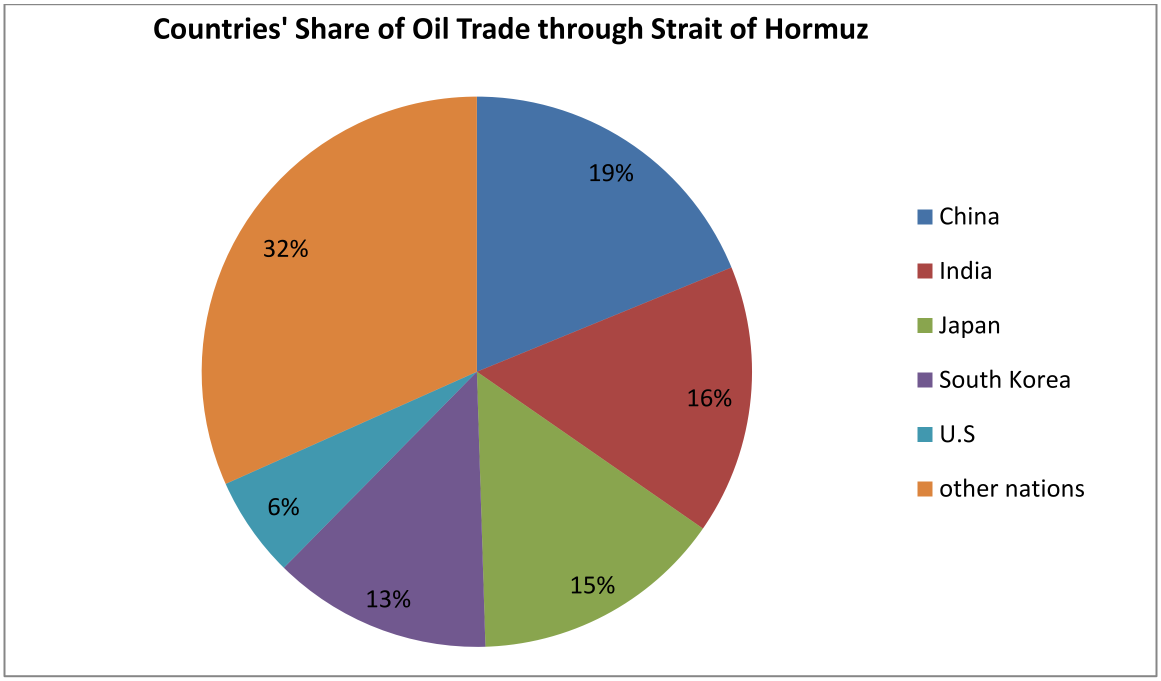
3. Supply Risk as Middle East Tensions rise and India's measures safeguarding its oil trade

Strait of Hormuz lies between Oman and Iran is strategically an important point for the oil trade between the oil rich Gulf nations and their buyers from rest of the world. Linking the Gulf north of it with the Gulf of Oman to the south and the Arabian Sea, the strait witnesses 20% of crude oil traded in the global market. OPEC members Saudi Arabia, Iran, UAE, Kuwait and Iraq export a major part of crude via the strait, while Qatar, the biggest LNG exporter sends almost all of its LNG through the Strait.

Tension is mounting for the smooth flow of crude oil through the strait, after the recent attacks on the oil tankers in the region. After the United States pulled out of the nuclear deal with Iran, sanctions were imposed on Iran aimed at halting its exports. Iran has threatened to disrupt the oil shipments through the Strait if its economy is strangled by the US.

The rising tensions in the regions pose a serious supply threat to the countries namely India, China, Japan, South Korea and other Asian nations. These countries account for more than 80% of the crude trade shipped through the Strait. US accounts for only 6% of the trade through the Strait of Hormuz. Most of the vessels calling at the terminals of Saudi Arabia, Kuwait and Iraq, pass close to the Iranian coastline for much of their journey avoiding the Pars gas fields spread over the waters of Qatar and Iran. Any incident in the Iranian terminal at Assaluyeh could impact the exports from the Persian Gulf region.

Diminishing dependency of the US on Middle East oil due to rise of shale oil has reduced their supply risk. Fifth fleet of the United States Navy based in Bahrain is tasked with protecting the commercial shipping in the area.



Source: Bloomberg

Asian importers at risk from Persian Gulf disruptions vary across the region.

i) **Northern part of Persian Gulf:** Any conflict here could impact the shipping of oil from the terminals in Kuwait and Southern Iran. Major buyers from these terminals are India and China, with 1.14 mbpd and 1.24 mbpd of crude imported over the last three months. Buyers in Europe account for about 1.2 mbpd.

ii) **Central Persian Gulf:** A similar volume is traded to China and India from the terminals in Saudi Arabia and Qatar. Japan and South Korea would also be hit by disruptions, considering their LNG dependency on Qatar. Smaller buyers like Taiwan, Thailand and the trading hub of Singapore might feel the supply pinch in case of escalation in the region.

iii) **Southern Gulf:** This region accounts for 20% of the UAE's crude and condensate exports shipped from the Fujairah oil terminal, outside the Strait of Hormuz. The remaining trade is from the six terminals inside the Persian Gulf. Japan is the biggest lifer of crude from there terminals accounting for about 580,000 barrels a day.

In a first of its kind, Desh Vishal, an oil super tanker owned by the Shipping Corporation of India allowed India Navy personnel to board the ship while sailing through the Strait of Hormuz. After a meeting on 21st of June, between the Indian Navy, the Indian National Ship-owners' Associations and the Director General of Shipping, it was decided that Indian-flagged crude tankers carrying crude from the terminals in Persian Gulf can make use of escort of the India Navy while transiting through the Strait of Hormuz.

The Indian Navy similarly boarded a privately owned Indian-flagged LPG tanker through the Strait for its safe transit. Ship-owners are given options to allow Naval personnel to board the ship for safe transit and it is not made compulsory.

4. In Absence of Prudent Fiscal Policies, Economies in Latin America Continue to Suffer

The International Monetary Fund (IMF), has revised the growth forecast for Latin America from 2 per cent to 1.4 per cent in its recent report. Owing to the weak performance of the three major economies in the region - Brazil, Mexico and Argentina, the forecasts are expected to be further reduced. Over the last few years, slashing growth projections for the Latin American region has been a regular feature for all research organizations. In the recent years where the world economy has seen a strong growth, such low forecasts suggests that the region is falling behind.

Some Latin American economies, owing to responsible fiscal policy, have been more resilient and less volatile than others. Countries like Brazil, Venezuela and Argentina failed to implement prudent fiscal policies. What is more worrying is the fact that Latin America's lagging economic performance has lasted for several decades. The study suggests that the gap between the region's average income per person and that of the United States is wider than it was in the 1950s.

5. Weaker Consumer Spending Force Retailers to Close Stores in the UK

Britain is set to witness the slowest growth in consumer spending in 2019 in six years, adding to further pressure on the retailers. The country expects consumer spending to rise by 1.6 per cent over last year.
A recent report suggests that though consumer spending benefited from robust employment growth and a strong pick-up in real earnings growth in the second half of 2018 and early 2019 the outlook still remains weak. While consumer confidence in late 2018/early 2019 weakened to the lowest level since mid-2013, perceptions of personal finances and a willingness to spend generally held up much better than views of the economy. The report suggested that strength in the labor market would increasingly fray over the coming months as companies tailored their behavior to a lackluster domestic economy, prolonged Brexit uncertainties, an unsettled domestic political situation and a challenging global environment. As a result employment growth is set to slow down to one per cent in 2019 and further to 0.6 per cent in 2020.

Due to weaker consumer spending, stores like Debenhams and Marks & Spencer have been forced to close stores as retailers struggle with rising labour costs, business property taxes and growing online competition. The report underlined that "Retailers are therefore fighting for a shrinking piece of the pie and this is reflected in the recent turbulence on British high streets".

6. LNG to Make Inroads into Asian Power Mix, Displacing Coal

The Asian coal industry is facing range of challenges from fall in prices due to over-supply to lack of financing available for projects. However, the biggest challenge that the industry faces is from rapid expansion of Liquefied Natural Gas (LNG).

Presently, LNG being the costlier fuel, is unviable for most countries that are planning to expand electricity generation through power plants that will run on imported commodities. However, there is a strong trend shifting the pendulum in favor of LNG over coal, even for power generation in Asia. Since coal is a 40-year asset, an investor will eventually have to take a long-term view. Most of the Asian countries plan to base their upcoming power projects on the cheap coal imported from Indonesia. But the Indonesian government also plans to build some 20 GW of coal-fired power in the coming 15 years, and is increasingly forcing domestic miners to set aside more of their output for the local market. Further, it is getting increasingly difficult for Indonesian coal miners to develop new mines in Indonesia given ongoing regulatory uncertainty over mining licenses and increased environmental and land acquisition costs. As a result it is expected that in the next few years, Indonesian coal production will slip and export will fall.

In contrast, LNG supply looks to be expanding rapidly in the coming decade, as oil and gas majors across to globe rush to bring projects to final investment decisions. Recently, new projects have been sanctioned in Mozambique, the United States, Canada and there are many more on the verge. With these developments, global LNG market could double within the next decade.

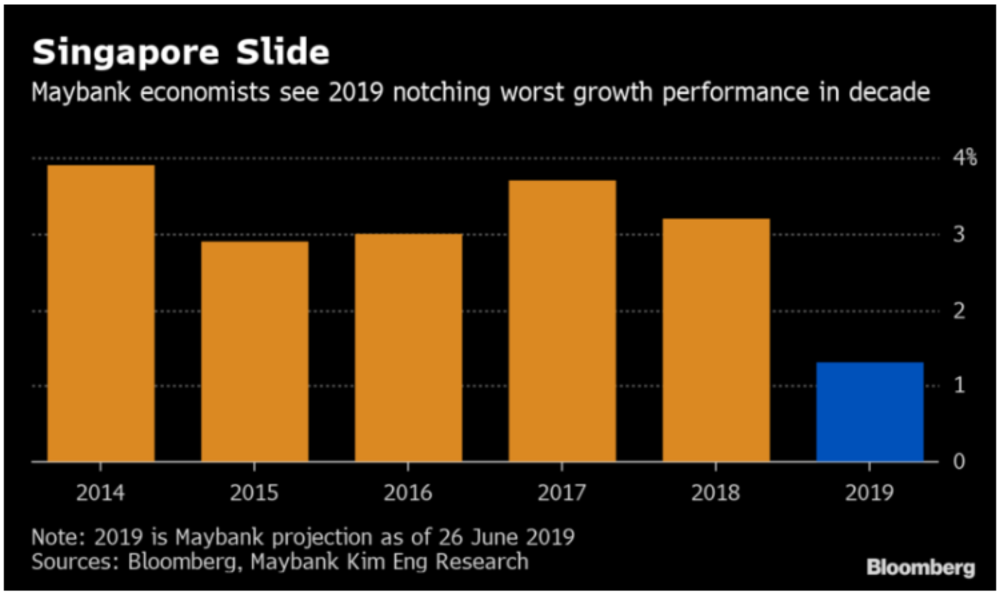
The upcoming coal based power assets will prioritize certainty above everything else, and it appears that LNG may be the safer bet in Asia. LNG also has the advantage of being a more flexible fuel for Asia, given countries use it in different ways, with more industrialized nations such as Japan and South Korea focusing on power generation, China on industry and replacing coal-fired heating, while in other countries it has been gaining traction as household energy and in transport.

In the coming years, though renewables will continue to increase its share in the energy mix, riding on the wave of global action against carbon emissions as parts of efforts to mitigate climate change, LNG is more likely to replace coal from Asia's fuel mix.

7. Global Trade Conflicts Push Singapore Towards Recession

A recent report from a renowned investment bank suggests that Singapore's economy is headed towards a "shallow technical recession" in the third quarter as the global trade outlook worsens.

Due to the ongoing US-China conflict, Singapore's export-reliant economy is expected to grow at 1.3% this year, down from a previous projection of 1.6% and lower than the Government's forecast range of 1.5% to 2.5%. The disruptions to the supply chain are expected to further intensify as the trade war broadens to tech and the U.S. imposes export controls on more Chinese tech firms.



The manufacturing industry in Singapore will be the worst hit due to over contracting for the month of May. Electronics that constitute over 27 per cent of Singapore's factory output is particularly weak since U.S. export controls may hit chipmakers, which operate from Singapore

A recession is defined as two consecutive quarters of negative quarter-on-quarter growth, and if that happens it will increase the chance of the central bank easing monetary policy in October, the economists said. The Monetary Authority of Singapore, which uses the exchange rate as its main tool, left its policy settings unchanged in April.

The Ministry of Trade and Industry, Singapore is presently reviewing the growth forecasts and is expected to further lower the forecasts.

8. Amidst Growing Uncertainties about Future, Chinese Economy shows improvement in Q2

In the second quarter of 2019, the Chinese economy has shown a modest improvement. However, the country faces major challenges in the time to come.

In the second quarter, the Chinese manufacturing and retail sectors outperformed, with policy support allowing manufacturers to borrow cheaply and the retail sector seeing strong profits and sales volumes. However, flat capital expenditure, record inventories, more shadow finance and surprise inflation pressures will pose major challenges in the time to come.

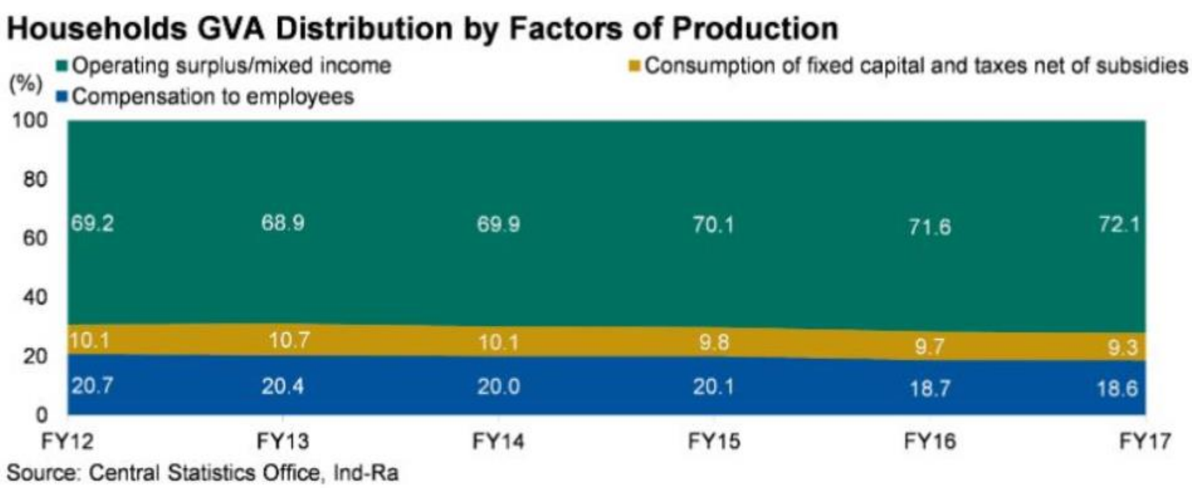
China's economy hit a bump in May, with the U.S. adding new tariffs to Chinese goods, industrial output growth slowing to the weakest pace since 2002 and investment decelerating. That weakness adds to the importance of the meeting between President Donald Trump and his counterpart Xi Jinping on 28th June.

Though the manufacturing sector in China has not been hit by the ongoing trade conflict yet, a report from the research firm Beige Books suggests that these companies are reluctant to further invest due to the looming uncertainties ahead.

9. Report Suggests Agricultural Labor Wages Below Poverty Line in India

A recent study by an Indian rating agency suggests that one-third of the income generated in Indian economy came from wages, and the rest from capital in 2018. According to the report, the Central Statistics Office (CSO) provides gross value added (GVA) data as per the four different components:

a. Production taxes less production subsidies
b. Consumption of fixed capital
c. Compensation to employees, and
d. Operating surplus/mixed income both by production sector and institutions



The report further mentioned that return on labor (12 per cent CAGR) grew faster than return on capital (10.9 per cent CAGR) during FY12-FY17. However, of the total income generated in the economy, only one-third accrued to labor, while the balance went to capital. It suggested that distribution is not uniform across the sectors, because in case of agriculture, owners of labor received 15.3 per cent of the income and the remaining 84.7 per cent went to the owners of the capital.

In 2018, agricultural wages accounted for 8.4 per cent of the total wages in the economy, as agriculture contributed 18.2 per cent to the total income generated in the economy. Surprisingly, the wage component in agriculture GVA grew faster than the capital component during FY12-FY17, the income of agriculture laborers continued to be quite low.

According to Census of India 2011, total number of agricultural labourers was 144.3 million (14.43 crore), while the wage component of agriculture averaged 2.78 per cent of the aggregate GVA during FY2012-

2017. The report suggests that this translates into annual average wages of Rs 21,060 per agricultural laborer per annum, which is lower than the official poverty line. Cultivators are relatively better off than agricultural laborers, with an average annual income of Rupees 141,500. The report offers three key takeaways:

i. An income transfer program to alleviate agricultural distress will not be meaningful as long as it does not include agricultural laborers
ii. The low wage growth of unorganized/unregistered enterprises is a matter of concern
iii. Public sector employees are appropriating a much higher proportion of the incremental income generated than they are accruing to the public sector capital.

10. After a Difficult Monsoon in 2018, No Signs of Relief Yet in 2019

In the last week of June, India's monsoon rains were below average for the fourth straight week. Scanty rainfall in over central and western parts of the country has raised serious concerns about major crop production and the impact on the nation's economy. Monsoon rains are critical for the economic performance of the country as 55 per cent of India's arable land is rain-fed, and agriculture makes up about 15% of a $2.5 trillion economy.

If the rains don't improve over the next two to three weeks, India could be facing a crisis that hammers crop harvests and rural demand. Under such circumstances, the industrial sector selling everything from tractors to fertilizers to consumer goods to farmers will be most vulnerable.

Data from Indian Meteorological Department (IMD) shows that the country received 24 per cent less rain in the month of June this year. In the Eastern part of Madhya Pradesh, which grows soybean, the deficit was as high as 69 percent. As result of rainfall, sowing of summer crops like rice, soybeans and corn has been lagging.

After seeing drought ravaged crops, killed livestock, emptied reservoirs and drained water supplies in 2018, India needs a good monsoon in 2019. In 2018, states like Maharashtra, Gujarat, Tamil Nadu, Madhya Pradesh and Telangana were among the worst hit due to lower than expected rains. Some municipalities like Chennai, Mumbai and Hyderabad were forced to cut water supplies to ensure their reserves lasted until monsoon rains replenished reservoirs. While IMD has forecasted for an average rainfall in 2019, Skymet, the country's only private forecaster, expects a lower than normal rainfall.

11. Reforms in Manufacturing and Banking Sector Crucial for Achieving PM's Target of USD 5 Trillion Economy

The Hon'ble Prime Minister of India, Mr. Narendra Modi has set an ambitious target for a USD 5 trillion target for the Indian economy by 2024. This will require the presently USD 2.8 Trillion economy will have to double itself over the next five years. That means from a current GDP growth trend of 6-7%, the economy will have to grow at an annual average of 10-11% over 2019-24.

To achieve the target by 2024, the country should consider the below mentioned:

Focus on Manufacturing: In the past many Government programs failed to achieve the desired results. To promote manufacturing in the country, the acquisition of land has always been a major road block. In this direction the Government should identify the easiest way to make a few very large parcels of land available for manufacturing hubs. For this purpose, target companies could be Indian and foreign product lines. In these designated manufacturing hubs the Government should focus all administrative energy to incentivize manufacturing. These manufacturing hubs will only be a few in a continent-sized country. But if they take off, they should act as exemplars for State and private sector actors. Then, there may finally be a buy-in for larger reforms across the polity.

Develop a Robust Banking System: The Government should work closely with RBI and issue a few banking licenses for small private banks specifically mandated to lend to small industry. To provide credit finance to small entrepreneurs, these banks will play a key role.

12. Exchange Rate the Most Crucial Driver Towards Making the Economy Competitive: VC, NITI Aayog

In a recent interview the Mr. Rajiv Kumar, Vice Chairman, NITI Aayog, listed out four key drivers for making the country’s economy more competitive:

Infrastructure: Indian companies will not be competitive if they will have to generate their own power or have to construct their own roads or industrial sheds. Over the last five years the Government has focused on developing infrastructure. As a result the power situation in the country has improved with leaps and bounds.

Cost of Capital: The cost of capital is inordinately high because given the inflation rate at which we are borrowing, this very large segment of a small and medium enterprises is actually borrowing at a much higher rate than formal credit. Today access to credit has emerged as a larger issue than cost of credit. The Government and the RBI are working closely to resolve these issues.

Labor: The Ministry of Labor has announced that three or four codes will bring together 52 or 53 different laws including industrial safety and others altogether and that will clarify a lot of issues.

Exchange Rate: To support Government’s efforts to make the economy more competitive, the exchange rate has to stay in a certain range. Without an in line exchange rates none of the Government’s efforts will reap the desired benefits

13. Government's New Education Policy to Revolutionize Education System in India

The Prime Minister Modi led Government in its second term is set to reshape India's education system significantly. The Government plans to follow a liberal approach akin to that of ancient Indian universities like Nalanda and Takshashila with an aim to integrate the rich Indian culture, tradition and knowledge into modern learning. The objective of the new policy is to restructure both higher and school education with a focus on delivering better education, nurturing students' skills, and preparing them to deal with real-world problems. Some crucial features of the upcoming policy are as under:

Reshaping 10 + 2 Format: The New Education Policy (NEP) will introduce a new 5+3+3+4 structure, which would include five years of foundational stage, comprising three years of pre-primary along with classes 1 and 2. This would be followed by three years of preparatory stage, three years of middle school and four years of the secondary stage. The policy will make it compulsory for students to take 'state census exams' in grades 3, 5 and 8

Stress Free Learning Environment: To tackle the stress issues prevalent in school students, Government is planning to introduce a new modular format, which will allow students to appear for the board exam in each subject at the end of a semester.

Greater Focus on Language: The policy intends to make Sanskrit the mode of instruction at least until class five. Sanskrit will be offered as one of the optional languages on par with all Schedule 8 languages, at all levels of school and higher education. While in classes 6-8, students will have to undertake at least two years of a classical language, which they can continue through secondary education and university.

Simplifying Higher Education: The policy will propose for constituting a single regulator - National Higher Education Regulatory Authority (NHERA). With this initiative, all higher educational institutions will become multi-disciplinary and will be able to facilitate high-quality teaching, research, and service to the learners. It will significantly simplify the Indian education sector, which currently comprises over 50,000 higher education institutions, including 907 universities.

Union Budget 2019 – 20

14. A Review of the Budgets Past

The Government has introduced a slew of tax reforms over the last five years. As the country gears up for Union budget 2019-20, scheduled on 5 July, below are the major takeaways from the budget presented in last five years:

Budget 2014

- Personal Income-tax exemption limit raised by Rs 50,000, i.e. from Rs 2 lakh to Rs 2.5 lakh in the case of individual taxpayers, below the age of 60 years. While for senior citizens the limit was raised from Rs 2.5 lakh to Rs 3 lakh.
- Investment limit under Section 80C of the Income-tax Act raised from Rs 1 lakh to Rs 1.5 lakh.

- Deduction limit on account of interest on loan in respect of self-occupied house property raised from Rs 1.5 lakh to Rs 2 lakh.
- Kisan Vikas Patra was reintroduced and National Savings Certificate with insurance cover was launched.

Budget 2015

- Limit of deduction of health insurance premium increased from Rs 15,000 to Rs 25,000, for senior citizens limit increased from Rs 20,000 to Rs 30,000.
- Senior citizens above the age of 80 years, who are not covered by health insurance, to be allowed deduction of Rs 30,000 towards medical expenditures.
- Deduction limit of Rs 60,000 with respect to specified disease of serious nature enhanced to Rs 80,000 in case of senior citizen.
- Additional deduction of Rs 25,000 allowed for differently abled persons.
- To make the NPS more attractive, additional deduction of Rs 50,000 under section 80CCD was announced.
- The transport allowance exemption hiked to Rs 1,600 per month from Rs 800 per month.
- Sukanya Samriddhi Yojana was made tax exempt

Budget 2016

- The ceiling of tax rebate under section 87A was raised from Rs 2,000 to Rs 5,000 to lessen tax burden on individuals with income up to Rs 5 lakhs
- The limit of deduction of rent paid under section 80GG was also increased from Rs 24,000 per annum to Rs 60,000, to provide relief to those who live in rented houses.
- In another boost to the National Pension Scheme (NPS), withdrawal of up to 40% of the corpus at the time of retirement was made tax exempt.
- Further, service tax on Single premium Annuity (Insurance) Policies was also reduced from 3.5% to 1.4% of the premium paid in certain cases.
- To boost affordable housing, first time home buyers availing home loans of up to Rs 35 lakh in 2016-17, were allowed additional tax benefit of up to Rs 50,000 under Section 80EE of the Income Tax

Budget 2017

- Tax rate for individual assessees with between income of Rs 2.5 lakhs to Rs 5 lakhs, was reduced to 5% from 10%. However, the rebate under Section 87A of the Income-tax Act, 1961 was reduced to Rs 2,500 from the Rs 5,000 for those earning between Rs 2.5 lakh and Rs 3.5 lakh. Earlier, those earning up to Rs 5 lakh were eligible for this rebate
- The government had also introduced a maximum penalty of Rs. 10,000 for delayed filing of ITR by individuals.
- Further, simplified one-page Income Tax Return (ITR) forms for the category of individuals having taxable income up to Rs 5 lakhs other than business income was announced.

- A surcharge of 10% of tax payable on categories of individuals whose annual taxable income is between Rs 50 lakhs and Rs 1 crore was also introduced.

Budget 2018

- Budget 2018 reintroduced a standard deduction of Rs 40,000 from salary income to employees.
- However, medical reimbursement and transport allowance was knocked off for the salaried in lieu of the standard deduction.
- The cess on income tax was hiked from 3% to 4% thereby increasing the tax payable by all categories of tax payers.
- The limit of deduction under section 80 D for senior citizens was hiked from Rs 30,000 to Rs 50,000.
- Dividend distribution tax on equity-oriented mutual funds at the rate of 10% percent was also introduced.
- In Budget 2018, the Government also re-introduce long-term capital gains (LTCG) tax on gains arising from the transfer of listed equity shares exceeding Rs 1 lakh at 10 percent without indexation benefit.

15. What the Great Indian Middle Class Expects from the Upcoming Budget

As Ms. Nirmala Sitharaman, Minister, Finance prepares the Union Budget 2019-20, she needs to consider the below mentioned expectations from the Indian Middle class:

A Lesson from the Past: In the past Government has brought relief to the tax payers by offering significant tax reliefs. In Union Budget 2019-20, the middle class will be expecting more reliefs for the honest tax payers of the country.

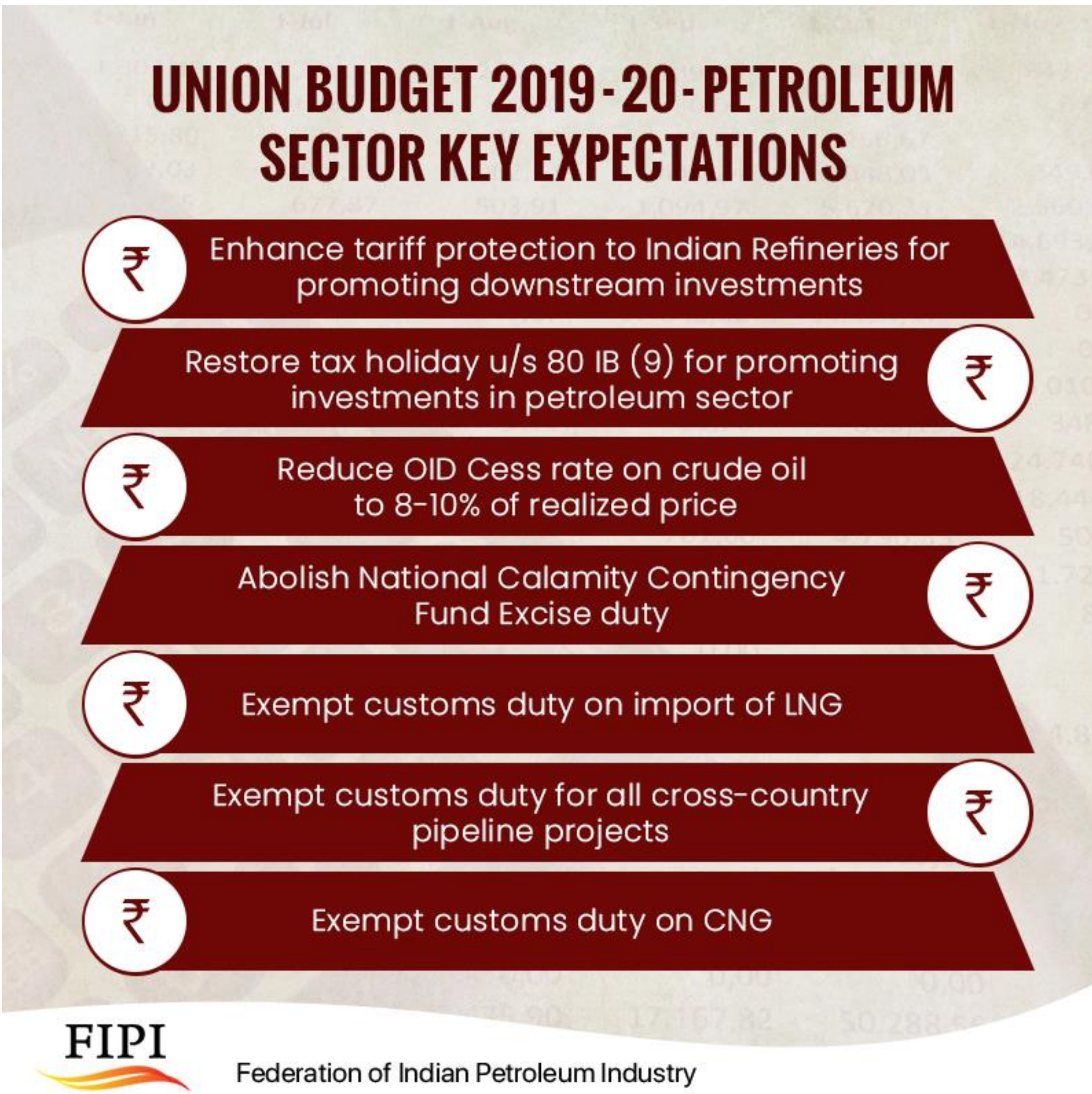
Need of the Hour: India is facing the biggest slow down since 2014 as the GDP in the first quarter of 2019 reached 5.8 per cent. As a result, there has been a fall in consumption levels as well. Without a good growth in consumption, creating ample jobs for the new workforce joining the economy each year will be a huge challenge. Here it gets essential for the Government to introduce some measures in the upcoming budget to leave some disposable income in the hands of the taxpayer.

Rationalization of the Tax Slab: With various budget proposals over the years, we now have a situation where 5 per cent tax is levied on income between Rs 2.5 lakh and Rs 5 lakh. However, the moment the income crosses Rs 5 lakh, there is an abrupt rise in tax rate at 20 per cent. For the tax payers, whose income has only marginally increased over the last year and they have entered the next tax slab, the current tax structure seems unfair and Government should consider revising it.

Relief for Home Buyers: In the interim budget presented earlier this year, people were allowed to have two houses as self-occupied property but the exemption on home loan interest was not raised. It is recommended that the government should consider increasing the limit to Rs 250,000 for one self-occupied house property and Rs 300,000 for two self-occupied houses

Relief for Senior Citizen: Most of senior citizens live with limited means, which was accumulated during working age and are vulnerable to any rise in cost of living or medical expenses. The most common tax benefit that most senior citizens expect is in healthcare-related costs. If the budget provides some relief in this aspect, it will greatly benefit senior citizens.

16. Expectations of the Oil and gas Industry from the Upcoming Budget



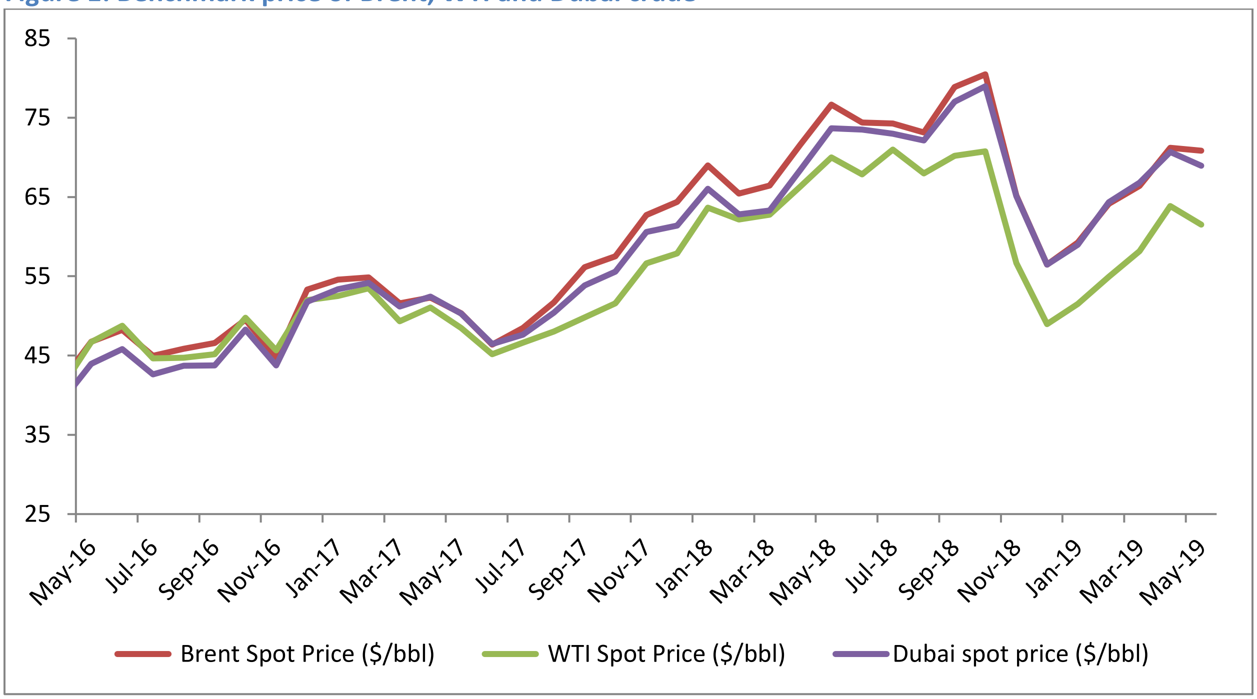
Oil & Gas Market

Crude oil price

Crude prices saw a see-saw movement in the month of May. Following the commencement of Iranian sanctions, the prices went up and remained oscillating throughout the month. Issues of higher crude inventory levels and reduction in demand forecast kept the crude price volatile in May.

Average Brent, WTI and Dubai basket crude prices went up by around 0.54 %, 3.82 % and 2.47 % respectively from the prices in the month of April.

Figure 1: Benchmark price of Brent, WTI and Dubai crude



Source: WORLD BANK

- Brent crude price averaged $70.82 per bbl in May 2019, and was down 0.53 % and down 7.61% on a month on month (MoM) and year on year (YoY) basis, respectively.
- WTI crude price averaged $61.52 per bbl in May 2019, and was down 3.82 % and down 12.09% on a month on month (MoM) and year on year (YoY) basis, respectively.
- Dubai crude price averaged $68.96 per bbl in May 2019, and was down 2.47% and down 6.38% on a month on month (MoM) and year on year (YoY) basis, respectively.

Table 1: Crude oil price in May, 2019

Crude oil	Price ($/bbl) in May 2019	MoM (%) change	YoY (%) change
Brent	70.82	-0.53 %	-7.61%
WTI	61.52	-3.82 %	-12.09%
Dubai	68.96	-2.47 %	-6.38%

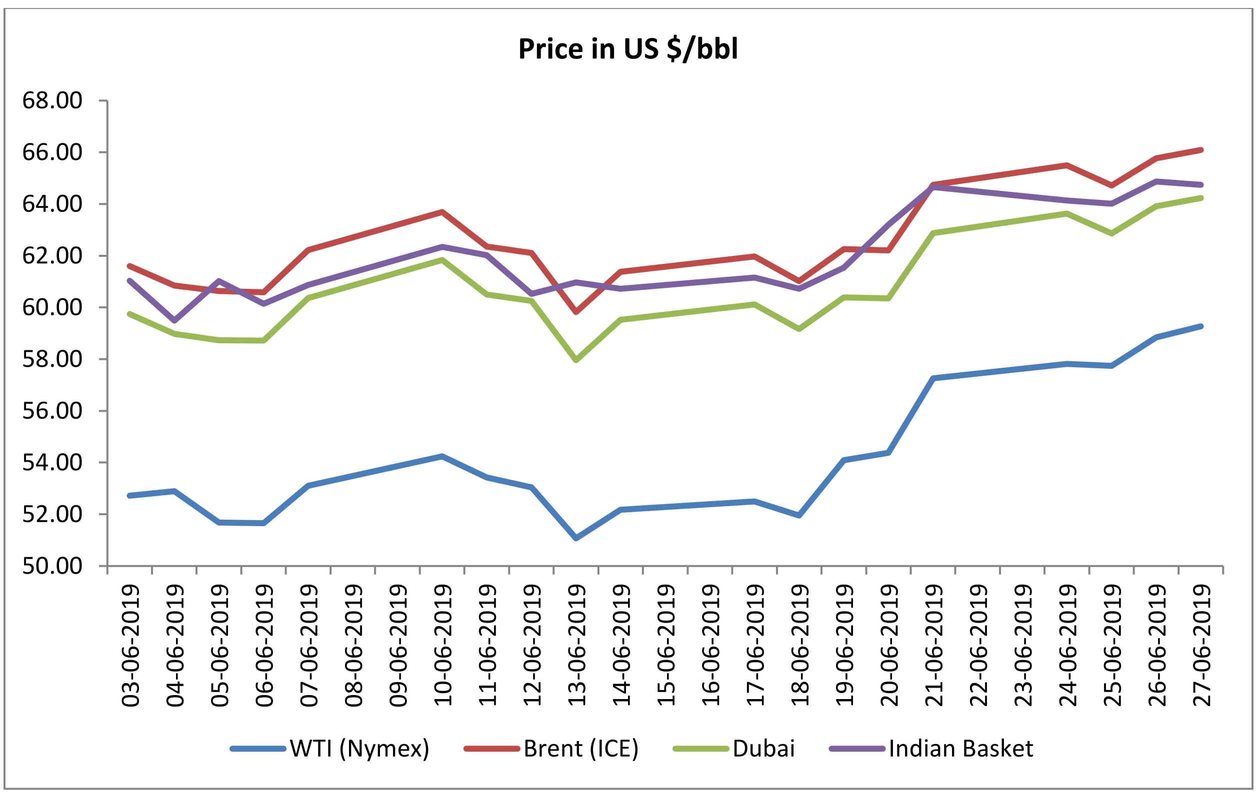
- *Source: WORLD BANK*

Crude oil price slide in June 2019

Crude prices began with a huge slide in the month of June. Crude prices fell by around 15% in the first week of June due to increase in inventory and global trade issues. United States' trade issues with China and Mexico erased the gain of crude gathered over the month of May. Escalations from the trade war were further exacerbated by the raising production and inventory levels in the US.

Average Brent, WTI and Dubai basket crude prices went down by around 11.61 %, 11.90 % and 11.92 % respectively from the prices in the month of May.

Figure 2: Crude oil price in June 2019



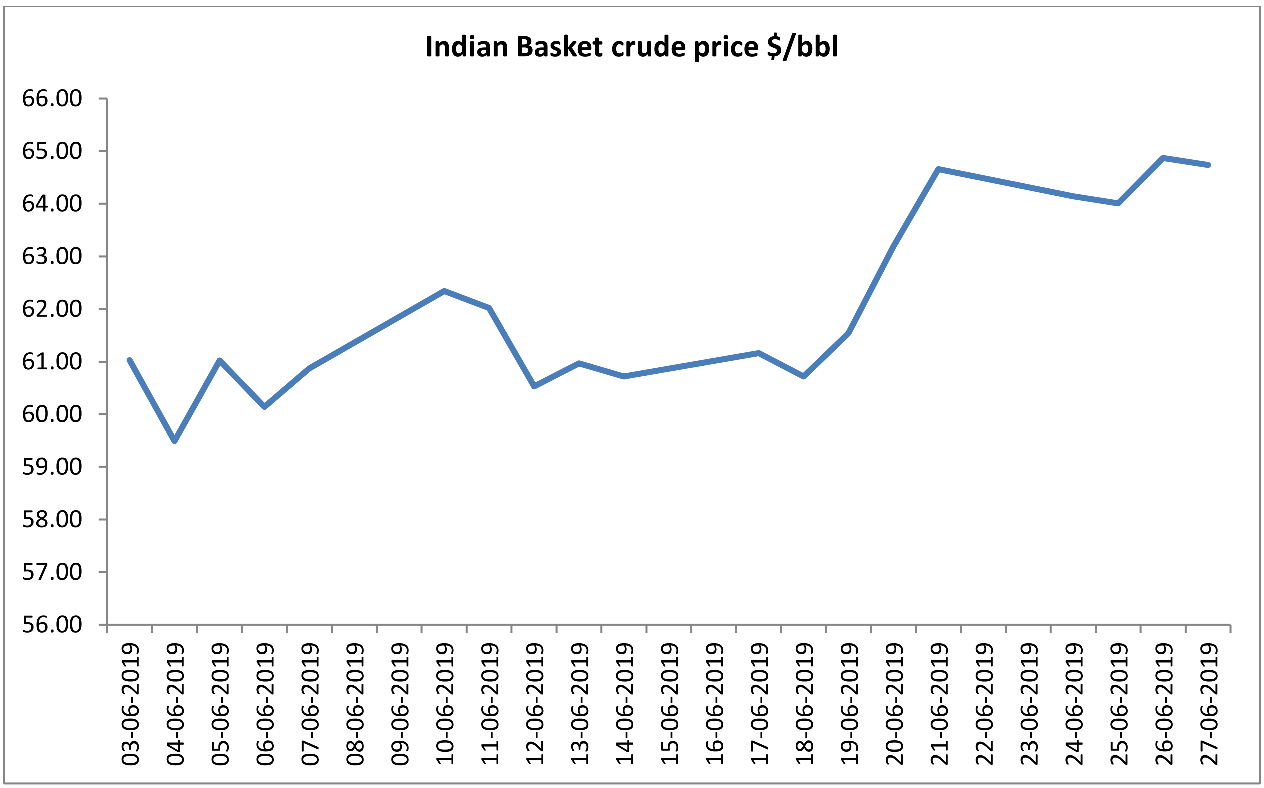
Source: EIA, PPAC

In the meeting held on July I, OPEC and other allied major oil producers have agreed to extend crude oil production cuts for nine months, a move designed to keep oil prices from falling as U.S. production increases and concerns grow about global demand.

Indian Basket Crude oil price

- The Indian basket of Crude Oil represents a derived basket comprising of Sour grade (Oman & Dubai average) and Sweet grade (Brent Dated) of Crude oil processed in Indian refineries in the ratio of 74.77:25.23 during 2017-18.

Figure 3: Indian crude oil basket price in $ per bbl



Source: Petroleum Planning & Analysis Cell

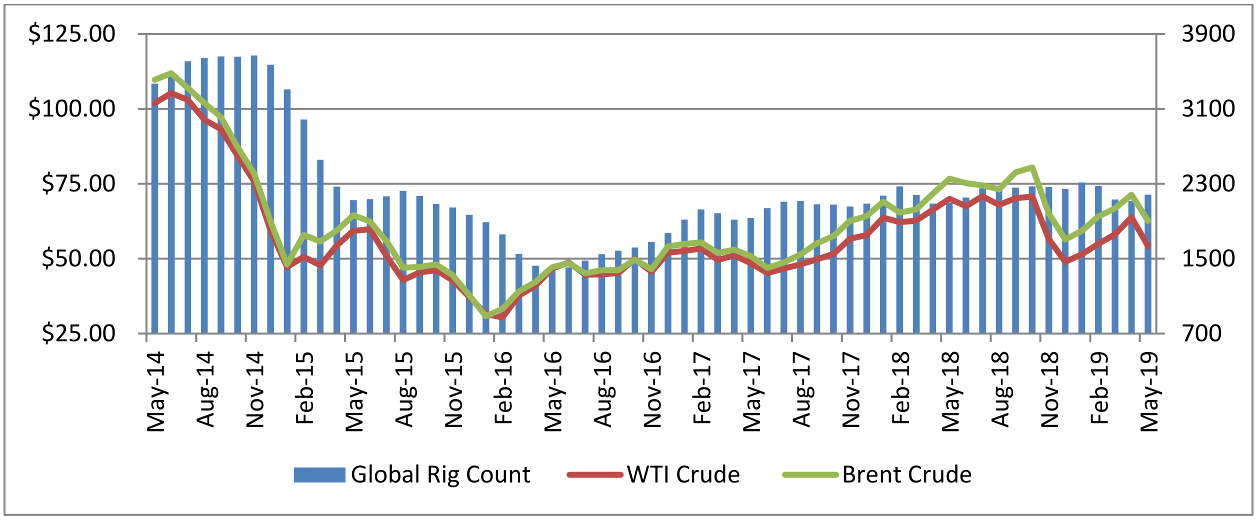
- Indian crude basket price averaged $ 62.01 per barrel in June, down close to 11.8 % Month on Month (M-o-M) basis and down 16% on a year on year (Y-o-Y) basis, respectively.

Upstream activity & Rig count

Global rig count

Rig count represents the total number of active drilling rigs in the world. Demand for drilling rig is highly dependent on crude oil price. When the oil price increases, demand for exploration activity increases, resulting in the increase in rig count. A lower oil price could trim the exploration budget of the oil companies, thereby reducing the demand for drilling rig.

Figure 4 Global Rig Count vs. Crude Prices



Source: Baker Hughes

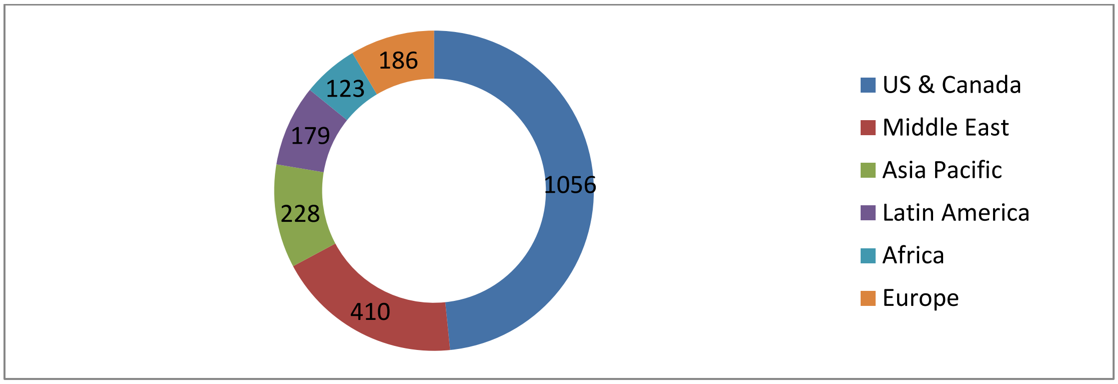
In May 2019, global drilling rig count stood at 2182, 42 more than April. Onshore rigs went up by 92 and offshore rig count went down by 11. Europe saw a major increase in rig count, as active rigs almost doubled in the month of May to reach 186 from April's 98. Apart from Europe and Canada, rig count declined in other regions namely, Latin America, Africa, Middle East, Asia Pacific and US. United States is the most active market for drilling industry with a rig count of 986. 965 were onshore rigs and 21 were offshore rigs. US & Canada and the Middle East count for about 2/3rd of the global rig count.

Table 2 : Global Drilling Rig Count

Rig Type	Count in May 2019	MoM (%) change	YoY (%) change
Land	1918	2.84 %	2.29 %
Offshore	264	-4.00 %	19.46%
Total	2182	1.96 %	4.10 %

Source: Baker Hughes

Figure 5 Geography-wise Rig count - May 2019



Source: Baker Hughes

Indian Drilling Rig Count

Indian rig count declined by 1 to reach 120 in May 2019. On Y-O-Y basis, Indian rig count was up by 5.26 % in 2019 as compared to 2018. 99 drilling rigs were deployed in oil fields and the rest 21 drillings rigs were deployed in gas fields.

Figure 6 Indian Rig Count vs. Indian Basket Crude Price

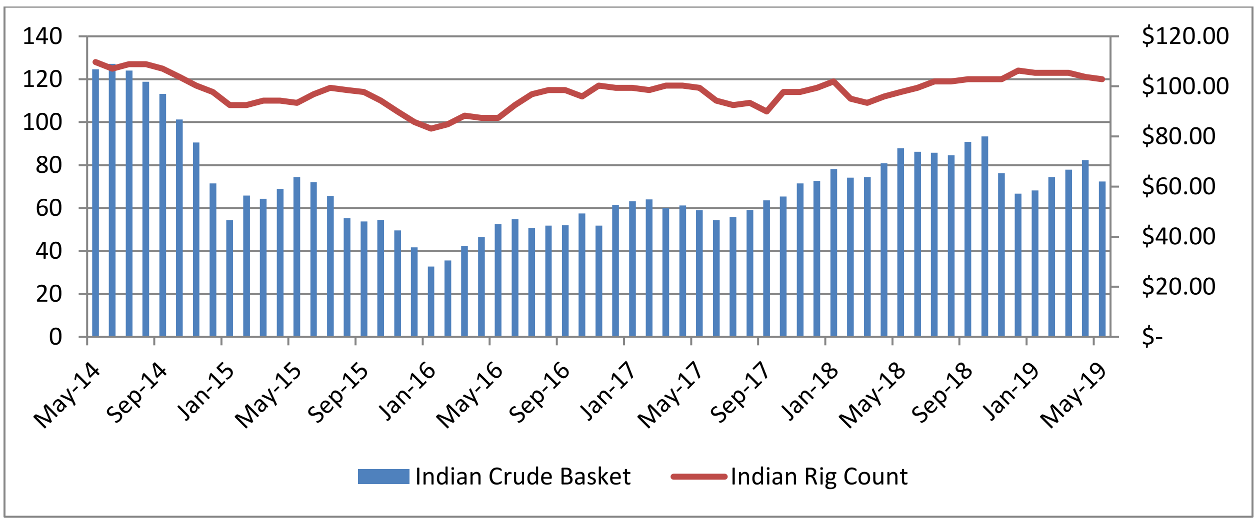


Table 3 : Indian Rig Count

Rig Type	Count in May 2019	MoM (%) change	YoY (%) change
Land	85	0 %	1.19 %
Offshore	35	-2.78 %	16.67 %
Total	120	-0.83 %	5.26 %

Source: Baker Hughes

Oil demand & supply

Preliminary data indicates that global oil supply increased slightly by 0.04 mb/d m-o-m to average 98.26 mb/d in May 2019, compared with the previous month. An increase in non-OPEC supply (including OPEC NGLs) of 0.27 mb/d in May, compared with the previous month, was mainly driven by the US, Kazakhstan, Azerbaijan, Canada and the UK. Overall, there was a total increase in global oil output of 0.44 mb/d y-o-y. The share of OPEC crude oil in total global production was declined by 0.3% to 30.4% in May 2019 compared with the previous month. Estimates are based on preliminary data from direct communication for non-OPEC supply, OPEC NGLs and non-conventional oil, while estimates for OPEC crude production are based on secondary sources.

For 2019, non-OPEC oil supply growth is unchanged from last month, despite some downward revisions for the US, due to lower-than-expected output in 1Q19, and for Norway and Brazil due to lower-than-expected production in 3Q19 and 4Q19. These revisions are offset by upward revisions to China, and the UK. The US is projected to remain the main driver for non-OPEC supply growth in 2019 adding 1.83 mb/d y-o-y, followed by Brazil, Russia, China, Australia and the UK. At the same time, Mexico, Norway, Kazakhstan, Indonesia and Vietnam are projected to see the largest declines.

In 2019, world oil demand growth is anticipated to grow by 1.14 mb/d y-o-y, with total world consumption to reach 99.86 mb/d, 0.07 mb/d lower from the previous month's assessment.

Table 4: World Oil demand in mbpd

	2018	1Q19	2Q19	3Q19	4Q19	2019	Growth	%
Total OECD	**47.84**	**47.66**	**47.44**	**48.83**	**48.36**	**47.98**	**0.14**	**0.29**
Dev. Countries	**32.62**	**32.97**	**33.16**	**33.40**	**33.10**	**33.16**	**0.54**	**1.65**
~ of which India	*4.73*	*5.03*	*4.93*	*4.58*	*5.15*	*4.92*	*0.19*	*4.05*
Other regions	**18.27**	**18.13**	**18.64**	**18.78**	**19.38**	**18.74**	**0.46**	**2.53**
~ of which China	12.71	12.63	13.19	13.00	13.43	13.06	0.35	2.77
Total world	**98.73**	**98.76**	**99.24**	**100.61**	**100.84**	**99.87**	**1.14**	**1.15**

Source: OPEC monthly report, June 2019

*Note: *2018 = Estimate and 2019 Forecast*

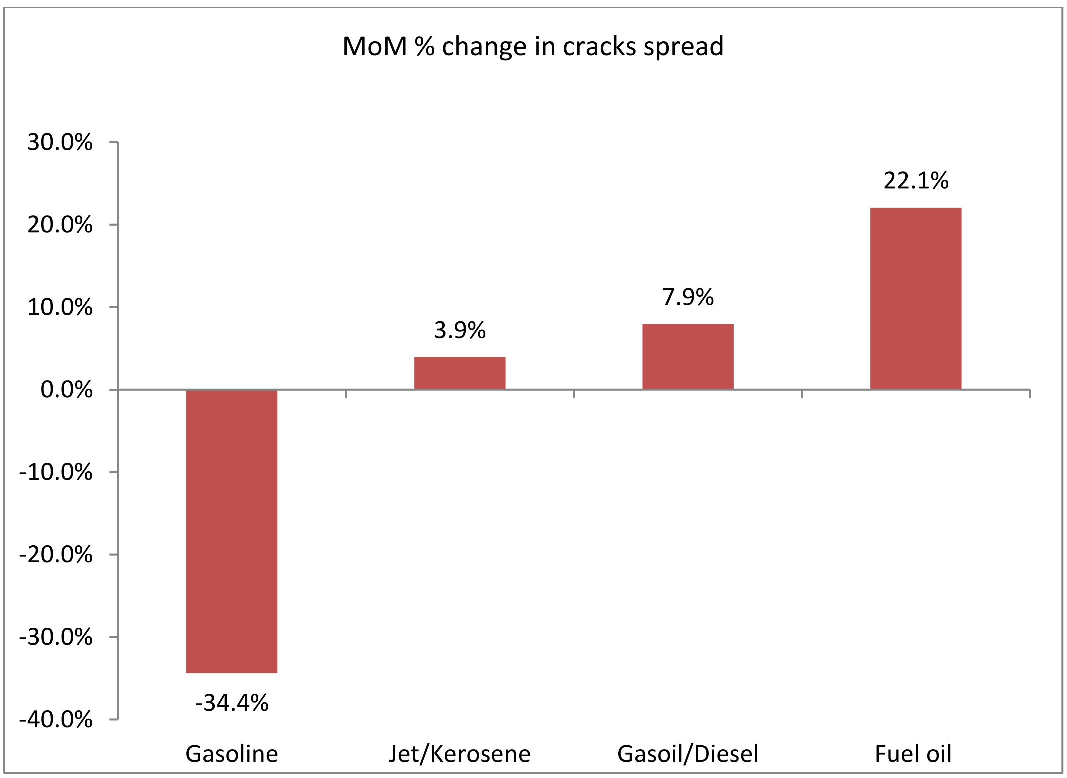
Global petroleum product prices

Prices in the Asian Gasoline-92 market saw a decrease of 5.5% over the previous month. Refinery margins showed a negative performance due to lower exports. Singapore Gasoline cracks averaged $4.81/b against Oman, down by $3.30 m-o-m and by $6.28 y-o-y. Refinery utilization declined in May averaging 76.660 % in selected Asian markets comprising of Japan, China, India and Singapore due to maintenance and upgrade related shutdowns.

Jet/Kerosene prices decreased by 1.3 % in May, supported by an increase in exports that drove down inventory levels significantly. The Singapore jet/kerosene crack spread against Oman averaged $11.91/b, up 23 ȼ m-o-m but down $3.82 y-o-y.

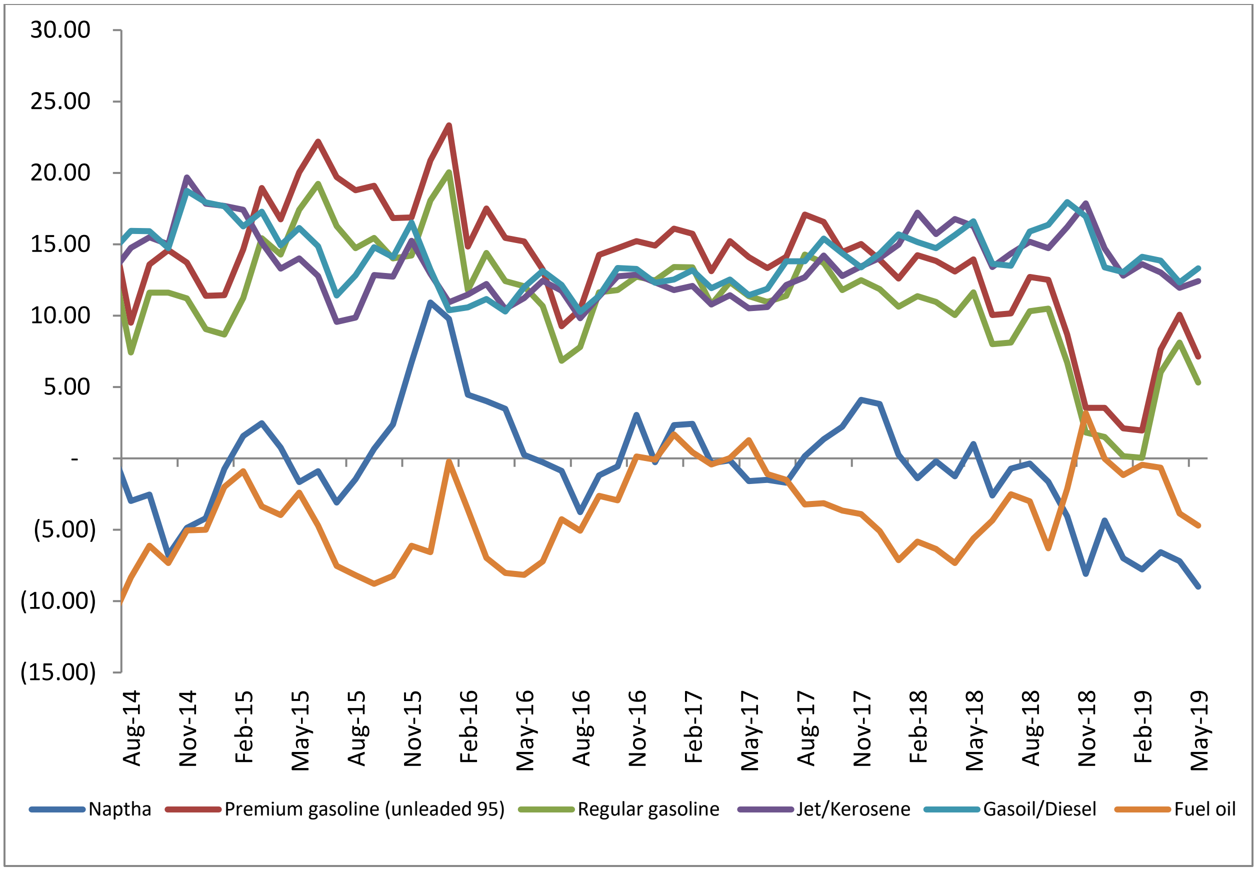
The Singapore gasoil crack spread edged higher in the month of May on the back of open arbitrage opportunities to Europe, higher diesel demand for irrigation pumping in India, as well as improved demand for industrial activities in China. In April, gasoil crack spread increased by 7.9 %. Singapore gasoil crack spread against Oman averaged $12.80/b, up 74 ȼ m-o-, but down $3.27 y-o-y.

The Singapore fuel oil crack spread trended downwards due to prevailing weakness in Japan and Korea contributing to decline in fuel oil demand. Lower bunker fuel demand over the month led to higher inventory levels in Singapore exerting pressure on the prices. Singapore fuel oil cracks against Oman averaged minus $ 5.21/b, down by $1.09 m-o-m, but were up by 93ȼ y-o-y.



Source: OPEC monthly report

Figure 7: Product crack spreads vs. Dubai crude



Source: OPEC, FIPI

Table 5: Singapore FOB, refined product prices ($/bbl)

Products	Price ($/b) in May 2019	MoM (%) change	YoY (%) change
Naptha	60.14	-5.2%	-19.4%
Premium gasoline (unleaded 95)	76.25	-5.5%	-13.0%
Regular gasoline (unleaded 92)	74.45	-5.5%	-12.7%
Jet/Kerosene	81.55	-1.3%	-9.3%
Gasoil/Diesel (50 ppm)	82.44	-0.7%	-8.7%
Fuel oil (180 cst 2.0% S)	64.43	-3.6%	-5.3%
Fuel oil (380 cst 3.5% S)	62.71	-4.7%	-6.5%

Source: OPEC

Petroleum products consumption in India

- In May, LPG consumption decreased 8.0% on MoM basis.
- Consumption of gasoline increased (11.3% YoY) driven by higher demand from transport segment.
- Demand for diesel increased by 3.1% on YoY basis in the month of May.

Table 6: Petroleum products consumption in India, May 2019

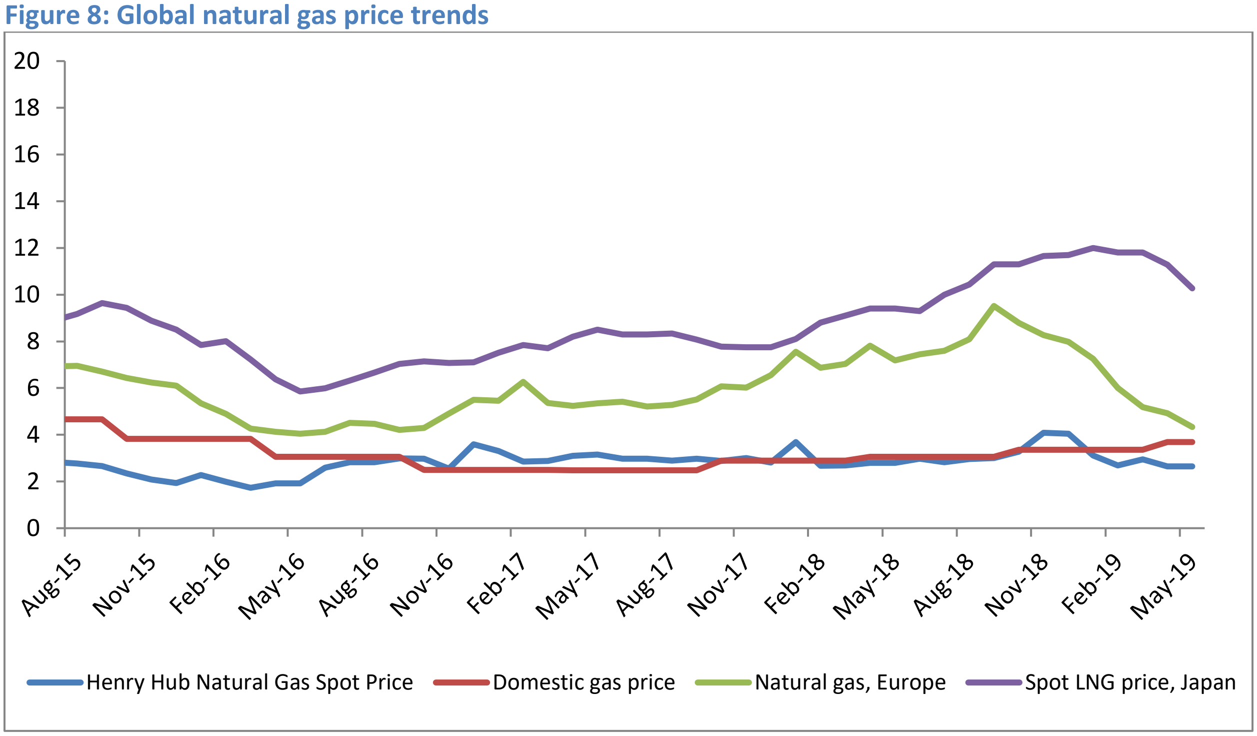
Petroleum products	Consumption in '000 MT May 2019	MoM (%) change	YoY (%) change
LPG	2,058	8.0%	0.5%
Naphtha	1,085	-2.8%	4.3%
MS	2,735	11.3%	11.3%
ATF	698	4.5%	0.2%
HSD	7,781	6.4%	3.1%
LDO	49	9.7%	14.3%
Lubricants & Greases	308	2.8%	-3.2%
FO & LSHS	496	-2.6%	-8.8%
Bitumen	660	1.9%	-6.7%
Petroleum coke	1468	-6.7%	-39.2%
Others	1005	-3.3%	62.7%
TOTAL	18613	4.4%	-0.6%

Source: PPAC

Natural Gas Price

In May, the Henry Hub natural gas index decreased on average by 14%, to $2.33/MMBtu. Decline in demand for natural gas as a result of onset of summer and higher inventory added during the same period across the United States.

Figure 8: Global natural gas price trends



Source: EIA, WORLD BANK

Table 7: Gas price

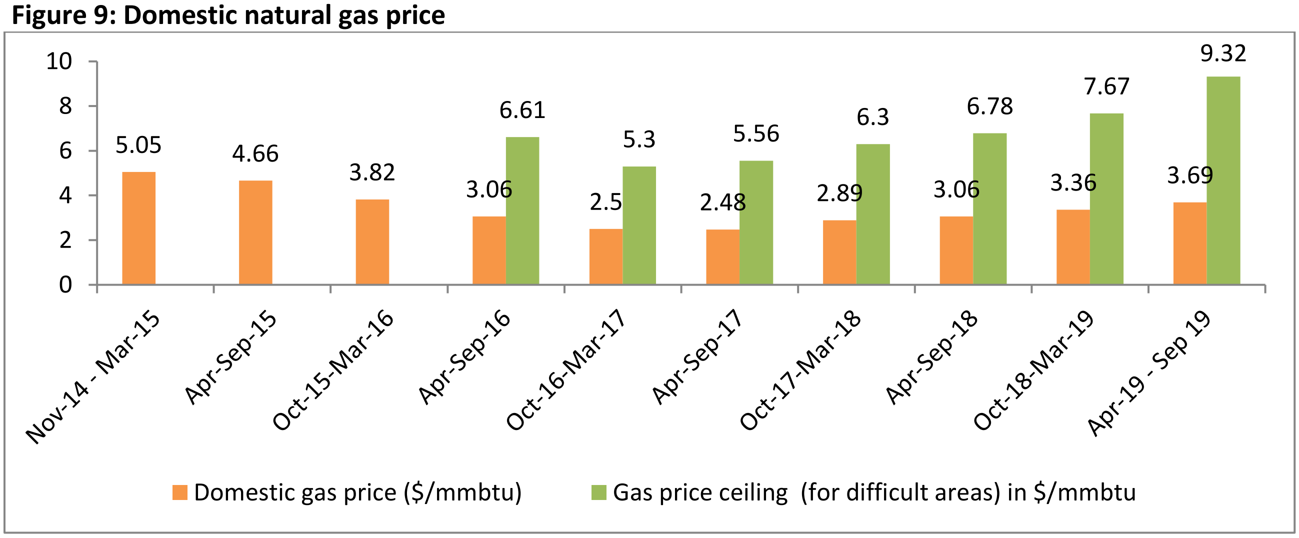
Natural Gas	Price ($/MMBTU) in May 2019	MoM (%) change	YoY (%) change
India, Domestic gas price	3.69	9.8%	20.6%
India, Gas price ceiling – difficult areas	9.32	21.5%	37.5%
Henry Hub	2.33	-10.2%	-5.4%
Natural Gas, Europe	4.34	-5.0%	-37.0%
Liquefied Natural Gas, Japan	10.27	-4.4%	20.1%

Source: EIA, PPAC,

Domestic natural gas price which takes into account international benchmarks including Henry Hub, Alberta hub, Russia and UK National Balancing Point, has increased around 23% as compared to a year before, thus capturing the international gas price trends. Gas price for April to September 2019 is $3.69 per MMBTU

A notification was issued by MoP&NG on 21st March 2016, for marketing including pricing freedom for gas to be produced from discoveries in deep water, ultra-deep water, and high-pressure high temperature areas. For the April to September 2019 period, the price of gas from such areas has been notified at $9.32 per MMBTU.

Figure 9: Domestic natural gas price

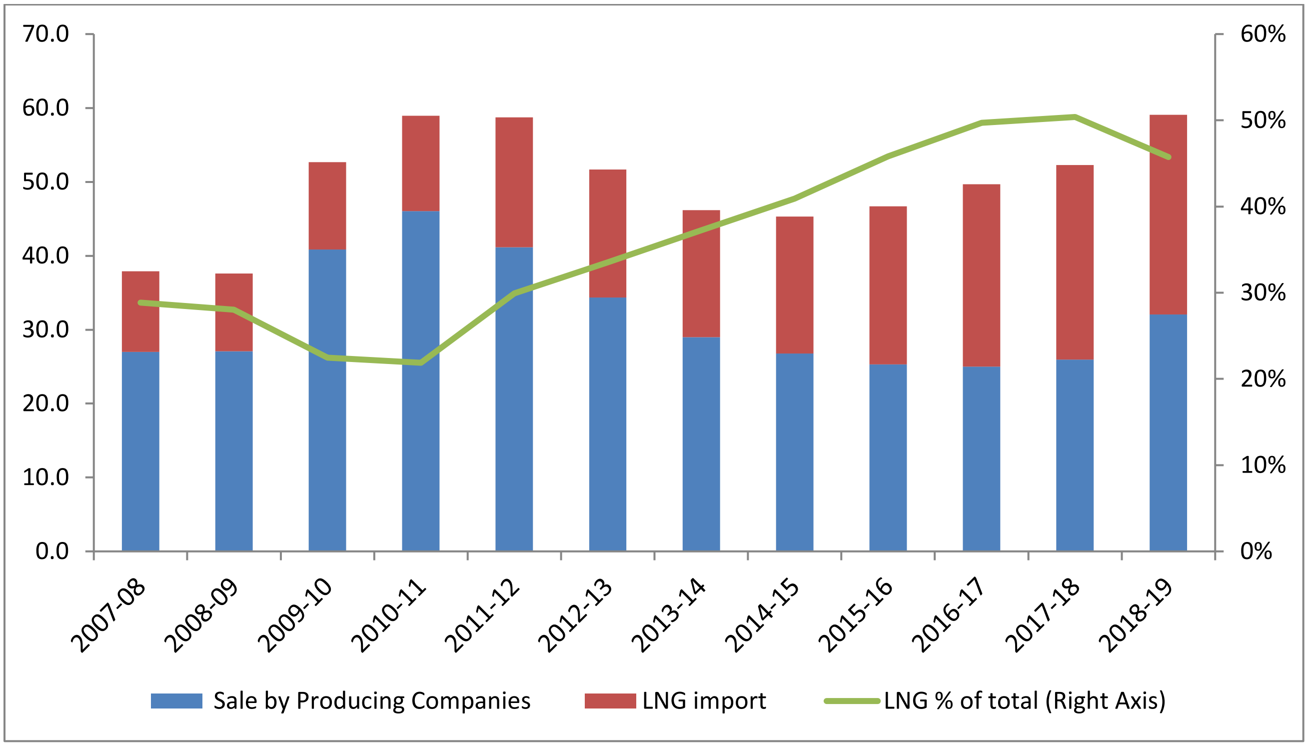


Source: PPAC

Natural gas production, consumption and import in India

- Natural gas constitutes for 6.2% of total energy primary mix of India
- Natural gas consumption in India has grown at a very slow pace in the past 3 – 4 years, with share of LNG imports increasing in the overall consumption mix

Figure 10: Domestic natural gas consumption, domestic production and LNG import in BCM



Source: PPAC

Sale by producing companies includes internal consumption

Key developments in Oil & Gas sector during June 2019

- **Monthly Production Report for May**

Crude oil production during May,2019 was2800.12 TMT which is3.37% lower than target and6.91% lower when compared with May2018.Cumulative crude oil production during April-May, 2019 was 5518.61 TMT which is 1.92% lower than target for the period and6.82% lower than production during corresponding period of last year.

Natural gas production during May, 2019 was 2738.92 MMSCM which is 0.4% higher when compared with May, 2018 but4.81% lower than the target for the month. Cumulative natural gas production during April-May, 2019 was 5394.81MMSCM which is marginally higher by 0.07% than the production during corresponding period of last year, but 4.56% lower than target for the period.

Refinery production during May, 2019 was 21577.85TMT which is 0.51% lower than the target for the month and2.98% lower, when compared with May, 2018. Cumulative production during April-May, 2019 was 42280.91 TMT which is 1.61% higher than the target for the period and0.44% higher than the production during corresponding period of last year.

- **PNG Minister Mr. Dharmendra Pradhan holds telephonic discussion with Saudi Minister of Energy, Industry and Mineral Resources H.E. Dr. Khalid Al-Falih**

On June 21, Minister of Petroleum & Natural Gas and Steel Mr. Dharmendra Pradhan had a telephonic conversation with H.E. Dr. Khalid Al-Falih, Minister of Energy, Industry & Mineral Resources, Saudi Arabia and discussed about further strengthening cooperation in the hydrocarbon sector to enhance the strategic partnership that exists between India and Saudi Arabia. They discussed about the recent geo-political developments impacting crude oil prices. Mr. Pradhan, referring to the developments in the Strait of Hormuz, conveyed his concern on rising crude oil prices. He also reiterated the sensitivity of Indian consumers to prevailing crude oil price volatility. Mr. Pradhan has sought active role of Saudi Arabia within OPEC and in the OPEC plus discussions for keeping oil prices at a reasonable level.

The Ministers also discussed about Saudi interests in India's energy sector to further bolster bilateral ties. Mr. Pradhan also reviewed the progress of Saudi investments in India's refining & petrochemical sectors. They agreed to expedite the implementation of various initiatives to transform the hydrocarbon engagement from a buyer-seller one into a comprehensive one.

- **PNG Minister Mr. Dharmendra Pradhan holds telephonic discussion with the US Secretary of Energy Mr. Rick Perry**

On June 10, Minister of Petroleum & Natural Gas and Steel Mr. Dharmendra Pradhan had a telephonic discussion with the US Secretary of Energy Mr. Rick Perry. Both the Ministers discussed about the ways to work together to enhance energy security and further develop gas-based economy in India. Expanding energy and Innovation linkages to bolster the strategic India-US Strategic Energy Partnership that was launched in New Delhi in April last year, also came up for discussion. They also reviewed the current status of four Working Groups created under the Strategic Energy Partnership -Oil & Gas, Power & Energy Efficiency, Renewable Energy and Sustainable Development. Both the Ministers agreed to hold the second meeting of the India-US Strategic Energy Partnership at an early date.

The Ministers also discussed about crude oil price volatility. Mr. Pradhan emphasized the impact of price volatility on Indian consumers. He also pointed to the important role that the US plays in bringing global price stability. Emergence of the US as a source for oil and gas for India also figured during the call. Both Ministers agreed to work closely to improve the overall engagement between the countries in the energy sector.

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