

Outlook for International Oil Market (Summary)

Yoshikazu Kobayashi

Manager, Oil Group, Fossil Fuels and Electricity Unit

The Institute of Energy Economics, Japan

Outlook for international crude oil prices through 2015

1. Our outlook for international crude oil prices through 2015 indicates that prices will average \$110/bbl for Brent, \$108/bbl for Dubai and \$105/bbl for West Texas Intermediate (WTI) in the second half (July through December) of 2014 and \$105/bbl for Brent, \$103/bbl for Dubai and \$100/bbl for WTI in the whole of 2015.
2. The above price levels could fluctuate due to various factors. Upside risk factors would include further deterioration of the Iraqi situations, its impact on neighboring countries and potential inflow of speculative money into the oil futures market under such growing geopolitical risks. Among downside risk factors would be a recovery in Libyan oil production and exports, a further economic deceleration in China and other emerging countries, and the continuation of faster-than-expected oil output growth in North America.

Outlook for international oil market through 2015

3. Current international crude oil prices

Prices of international crude oil benchmarks Brent and Dubai have remained historically high while growing more stable. Since early 2014, these prices stayed very stable in a \$105-110/bbl range. The other benchmark of WTI has followed an upward trend since early this year as the U.S. economy is achieving a full recovery and pipelines from Oklahoma's Cushing, the reference price point for WTI, have been developed. Its price gap with Brent has narrowed to less than \$10/bbl from an earlier level above \$20/bbl.

4. Supply/demand fundamentals

As the world economy is expected to continue growing stably at an annual rate above 3.5% through 2015, global oil demand is projected to steadily increase. While global oil demand in the second half of this year is predicted to expand by 2 million B/D from the first half, a non-OPEC oil supply increase is projected to be limited to 0.8 million B/D. If OPEC maintains its output at the present level, the oil supply-demand balance may tighten in the second half. As global demand is projected to increase by 1.4 million B/D with non-OPEC supply expanding by 1.6 million B/D in 2015, the supply-demand balance is expected to ease again.

5. OPEC crude oil production

OPEC crude oil production in the first five months of 2014 declined by some 0.6 million B/D from a year earlier. The largest factor behind the decline was a stall in production and exports from oilfields in eastern Libya amid a political dispute between the eastern and western regions of the country. Within OPEC, some countries such as Saudi Arabia and Iraq expanded production, while falling short of covering the Libyan output cut. Iran's crude oil exports have gradually increased in response to the November 2013 Geneva agreement between Iran and major nuclear powers on the Iranian nuclear program. Even if sanctions on Iran are eased in the wake of the agreement, however, a production cut caused by the past sanctions may make it difficult for Iran to restore the production level before the sanctions over a short term. As the global oil supply-demand balance tightens in the second half of 2014, an ongoing Libyan move to resume exports and whether or how Saudi Arabia would expand production will attract attention.

6. Geopolitical risks

In the geopolitical arena, the largest uncertain factor is the Iraqi situation where armed clashes are intensifying between government forces and the Islamic State in Iraq and Greater Syria, a Sunni radical militant group known as ISIS. The clashes have yet to affect oil production and exports as the government has kept the oilfield region in southern Iraq under strict security control. As the Iraqi security situation worsens with the domestic governance shaken, however, the Iraqi situation's deterioration is likely to force a delay in the future expansion of oil production capacity in Iraq. The delay could affect crude oil prices over a short term by influencing the future global oil supply-demand balance and stimulating concern over a tighter future balance. The current deterioration of the Iraqi situation is closely linked to the situation in neighboring Syria and represents a sectarian dispute, while the independence-seeking Kurdish autonomous government in northern Iraq is growing more active. Therefore, the Iraqi situation is very complicated beyond Iraq's domestic issues. If the situation in northwestern Iraq and eastern Syria destabilizes remarkably with spillover effects seen on neighboring countries, it may greatly affect oil production and exports in the Middle East. In such case, international crude oil prices may hit new highs.

7. U.S. oil exports

From the United States where the shale revolution is progressing, all types of oil exports are increasing. While petroleum products and LP gas exports increased, crude oil exports subject to approval by the Department of Commerce expanded to a 15-year high of 0.26 million B/D in April 2014. In June 2014, the department effectively approved the export of lightly processed condensate, indicating that U.S. condensate could flow into the Asian market. U.S. condensate exports to Asia, though still limited in volume, are expected to contribute to lowering prices of naphtha and other light petroleum products and lead to an increase in U.S. crude oil exports. Future U.S. condensate exports will thus attract attention.

Contact: report@tky.ieej.or.jp