

Outlook for International Oil Market

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Outlook for international crude oil prices through 2016

1. Our outlook for international crude oil prices through 2016 indicates that prices will average \$60/bbl for Brent, \$58/bbl for Dubai and \$55/bbl for West Texas Intermediate in the second half (July through December) of 2015 and \$65/bbl for Brent, \$63/bbl for Dubai and \$60/bbl for WTI in the whole of 2016 (compared with \$59/bbl for Brent, \$57/bbl for Dubai and \$53/bbl for WTI in the first half of 2015).
2. The global oil supply-demand balance will gradually tighten in the second half of 2015 as demand increases steadily while non-OPEC production slows down. Given oil price-lowering factors such as OPEC countries' oil output expansion, high-level inventories in industrial countries, the Greek debt crisis, and other financial and economic factors, however, we predict crude oil prices will remain weak in the period.
3. Crude oil prices will turn up in 2016 as the supply-demand balance tightens moderately with oversupply diminishing gradually. But no substantial price hike is likely as higher crude oil prices are expected to induce an increase in U.S. shale oil production and as Iran is expected to expand oil output in a full-blown manner if it reaches a final agreement with the five permanent United Nations Security Council members and Germany (P5+1) on its nuclear development program.

Highlights of international oil market through 2016

4. On the supply side, an increase in non-OPEC production may narrow with OPEC pressure growing for oil supply to expand. U.S. oil production growth slowed down substantially as the oil price plunge discouraged oil development. As of July 2015, however, U.S. oil production showed no clear downward trend, maintaining levels around 9.6 million bpd. Given a fall in oil development costs, an improvement in oil development efficiency and price stabilization encouraging development investment, slow U.S. production growth is likely to continue.
5. Among OPEC countries, Iraq is expected to expand oil exports on the strength of ongoing new oil field development and export infrastructure improvement. Iran is also expected to increase oil exports if Western sanctions on Iran over the nuclear problem are lifted. OPEC oil output is thus expected to increase. U.S. output is also expected to grow. Russia has been increasing oil output, reversing earlier concern that the crude oil price plunge could seriously affect Russia. Given these factors, Saudi Arabia is unlikely to change its policy of defending its global market share.
6. On the demand side, U.S. oil demand is growing in line with an economic pickup and gasoline price drops. Even in China where economic growth is decelerating, demand is still growing for

gasoline, diesel oil and LPG. Given these factors, annual global oil demand growth is predicted to rise back above 1 million bpd each in 2015 and 2016.

7. In addition to supply and demand factors, economic and financial factors are cited as those influencing the future international crude oil market. If the dollar rises against the euro on the Greek government's possible default, dollar-denominated crude oil prices may be deemed higher than real cash value, increasing selling pressure on the crude oil futures market. If the Greek debt issue exerts greater negative effects on European financial markets and real economies, European oil demand may weaken, loosening the oil supply-demand balance. If the U.S. Federal Reserve actually raises interest rates as expected within 2015, the dollar may appreciate with money supply falling relatively, having additional downward pressure on the crude oil futures market.
8. A particularly important focus of attention among geopolitical factors is the Iranian nuclear problem. At the time when this report was written, Iran had not reached any final agreement with the P5+1 group on the nuclear problem. If a final agreement is reached for an early end to Western economic sanctions on Iran, that country will surely expand exports. If Iran increases oil exports by 700,000-800,000 bpd through 2016, international crude oil prices may drop by around \$10/bbl. At present, however, what sanctions will be lifted, when sanctions would be lifted and whether Iran could secure sufficient buyers of increased Iranian crude oil exports are uncertain. Impacts of increased Iranian oil exports are also uncertain.