423rd Forum on Research Works on July 26, 2016

Outlook for International Oil Market

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The Institute of Energy Economics, Japan
Tetsuo Morikawa
Senior Economist, Manager, Oil Group, Fossil Fuels & Electric Power Industry Unit

Outlook for crude oil prices in 2016-17

1. Crude oil prices plunged below $30/bbl in February 2016 and rose back above $50/bbl in June before seesawing. Toward 2017, global oil demand will post a moderate increase driven by demand growth in major consuming countries such as the US, China and India, while production in oil producing countries other than the members of OPEC will slacken. Supply and demand will thus go in the direction of equilibrium, with crude oil prices rising. However, U.S. output is expected to bottom out. In addition, political and economic risks including uncertainties about the world economy, U.S. interest rate risks and the UK's planned exit from the European Union (Brexit) will work to decelerate price hikes.
2. Under the abovementioned supply-demand environment, international crude oil prices will average $50/bbl for Brent, $49/bbl for WTI and $47/bbl for Dubai in the second half of 2016, and $55/bbl for Brent, $54/bbl for WTI and $52/bbl for Dubai in 2017.

Demand trend

3. Global oil demand in the first quarter of 2016 increased by 1.4 mb/d or 1.5% year on year, according to the International Energy Agency. In response to low prices since the second half of 2014, particularly gasoline demand in the United States, China and India have driven overall oil demand growth.
4. Due to the growing risk of global economic deceleration and the relevant appreciation of the dollar, global oil demand growth will slow down to 1.1 m b/d.
5. In the US, oil demand including gasoline has grown robustly in line with crude oil price drops. According to the U.S. Energy Information Administration, demand in the first quarter of 2016 increased by 470,000 b/d or 0.8% year on year to 19.45 mb/d. Despite the macroeconomic risk of interest rate hikes, demand seems firm so far.

6. In China, oil demand in the first quarter of 2016 logged a firm year-on-year increase of 690,000 b/d or 7%, according to the IEA. As in the US, gasoline demand growth has driven up the overall oil demand increase. Liquefied petroleum gas demand is also firm. Unless the economy decelerates remarkably in 2017, oil demand will remain solid.

Supply trend

7. OPEC production in the first quarter of 2016 remained high, totaling 32.3 mb/d, up 1.2 m b/d or 1.5% from a year earlier. Production increased in the Middle East including Iran and Iraq, while decreasing in Nigeria with attacks on oil production facilities and pipelines, in Libya plagued with a civil war and in Venezuela in the brink of bankruptcy. Toward 2017, production will stay high in the Middle East.
8. Saudi Arabia kept its production above 10 mb/d, continuing to give priority to its market share. Little changes expected in Saudi Arabia's oil policy in 2017 under the leadership of Deputy Crown Prince Mohammed bin Salman who exerts influences on the core of the entire national strategy.
9. Iran, on which Western sanctions were lifted in January 2016, increased production to 3.6 mb/d in June, almost restoring the pre-sanction level. Massive foreign investment will be required to boost oil output to a policy target of 4.7 million b/d 2021. However, conditions for foreign investment under the Iran Petroleum Contract (IPC), a new framework for upstream development, are uncertain.
10. Non-OPEC oil production has been falling due to low oil prices. The IEA gave non-OPEC oil output in the first quarter of 2016 at 57.2 mb/d, down 1.1 mb/d or 1.9% from a year earlier. The US posted the largest drop of 330,000 b/d or 3.5%. However, a production cut is narrowing on an oil price recovery. Although there are problems such as investment falls and deteriorating earnings for producers, continuous improvement in productivity and the abundance of drilled but uncompleted wells could lead U.S. oil production to bottom out in 2017 as crude oil prices rise toward $55/bbl.

Financial markets

11. While supply and demand will go in the direction of equilibrium, stock, foreign exchange and other financial markets may exert great influences on crude oil prices from the second half of 2016 to 2017, at least for the short-term.
12. Uncertainties about the world economy, the Brexit process, , other EU members'

possible secession from the EU, the possible resurgence of the sovereign debt crisis in Europe and expected U.S. interest rate hikes will induce the dollar’s appreciation and a risk-off trend, exerting downward pressure on crude oil prices at least over a short term through financial markets. Financial market turmoil, if prolonged, would spill over to the real economy. The risk-off trend in financial markets and growing concerns about the deterioration of the real economy will impose downward pressure on crude oil prices.

Contact :report@tky.ieej.or.jp