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Outlook for International Oil Market
<Summary>

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

<u>Outlook for crude oil prices in 2017-18</u>

1. Although OPEC and non-OPEC oil producing countries extended their joint production cut, production increase in U.S. and other countries will offset most of the production cut's effect. As oil demand remains solid, the possible further extension of the coordinated production cut may prompt oil supply to be balanced with demand. As the global economy remains firm, the impact of European and U.S. political risks and Middle Eastern geopolitical risks on crude oil prices may be limited.
2. Under an assumption that such supply and demand fundamentals, macroeconomic conditions and political and geopolitical risks will remain unchanged, and that OPEC and non-OPEC oil producing countries will extend the joint production cut beyond March 2018, Brent price will average $45-50/bbl in the second half of 2017 and $50-55/bbl in 2018. If the joint production cut fails to be extended again, however, the price will weaken from the second quarter of 2018.

<u>Demand trend</u>

3. Global oil demand in the second quarter of 2017 increased by 1.5 mb/d or 1.6% year on year. While Chinese and Indian demand remained relatively robust, overall oil demand growth decelerated in response to increasing oil price. From 2017 to 2018, the demand will post a firm increase of 1.4 mb/d.
4. U.S. oil demand in the first quarter of 2017 increased by 350,000 b/d or 0.6% year on year. While gasoline demand slipped below the year-before level, jet fuel and LPG demand increased. Overall demand in 2018 will increase by 100,000 b/d.
5. Chinese oil demand in the first quarter of 2017 expanded by 400,000 b/d or 3% year on year. While gasoline demand was weak, overall petroleum products demand remained relatively robust, driven by LPG and diesel oil. Oil demand in 2018 will increase by 400,000 b/d.

Supply trend

6. OPEC and non-OPEC oil producing countries participating in the joint production cut have reduced production by about 1.8 mb/d. In June, however, the OPEC members' rate of compliance worsened. If they extend the joint production cut again beyond March 2018, their oil production will remain around 57 mb/d. If not, the production at the end of 2018 may exceed 58 mb/d.
7. Saudi Arabia has continued confrontation with Iran and cut diplomatic ties with Qatar. While efforts to repel the Islamic State have made progress, terrorism is likely to spread. Saudi Arabia has named Mohammad bin Salman as crown prince. These events indicate a fluid Middle Eastern situation. While oil supply has not been affected, attention should be paid to potential disruptions mainly because of the possible spread of terrorism.
8. U.S. crude oil production recovered to 9.08 mb/d in April 2017. However, growth in the number of operating oil-drilling rigs and shale oil productivity has decelerated. The U.S. Energy Information Administration has forecast in July that annual average crude oil production in 2018 will reach 9.9 mb/d, up 1.03 mb/d from 2016.
9. If the joint production cut is extended again, oil production in 2018 will total 98.9 mb/d, roughly matching demand. If not, a production expansion in OPEC and other countries will bring total production to 99.4 mb/d, exerting downward pressure on oil prices.

Inventory trend

10. OECD countries' oil inventories stood at 4.64 billion bbl as of May 2017, still 280 million bbl more than the average for the past five years that is the target for the joint production cut by OPEC and non-OPEC oil producing countries. Despite the high rate of compliance with the joint production cut, inventories have failed to post a significant fall.
11. Even if OPEC and non-OPEC oil producing countries' rate of compliance remains 100%, an increase in Libyan, Nigerian, U.S. and other production may offset the effectiveness of the production cut, with OECD inventories failing to decline to the average for the past five years.

Financial markets

12. As the global economy is dominantly expected to retain its solidness, the U.S. Federal Reserve still maintains a scenario in which it will raise interest rates two times this year. While some financial market players engage in risk-off movements in fear of the Chinese economy's deceleration, European and U.S. stock markets

are now unlikely to plunge.

13. If the abovementioned conditions remain unchanged, the crude oil market is now unlikely to wildly fluctuate due to financial market developments.

Contact :report@tky.ieej.or.jp