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Outlook for International Oil Market

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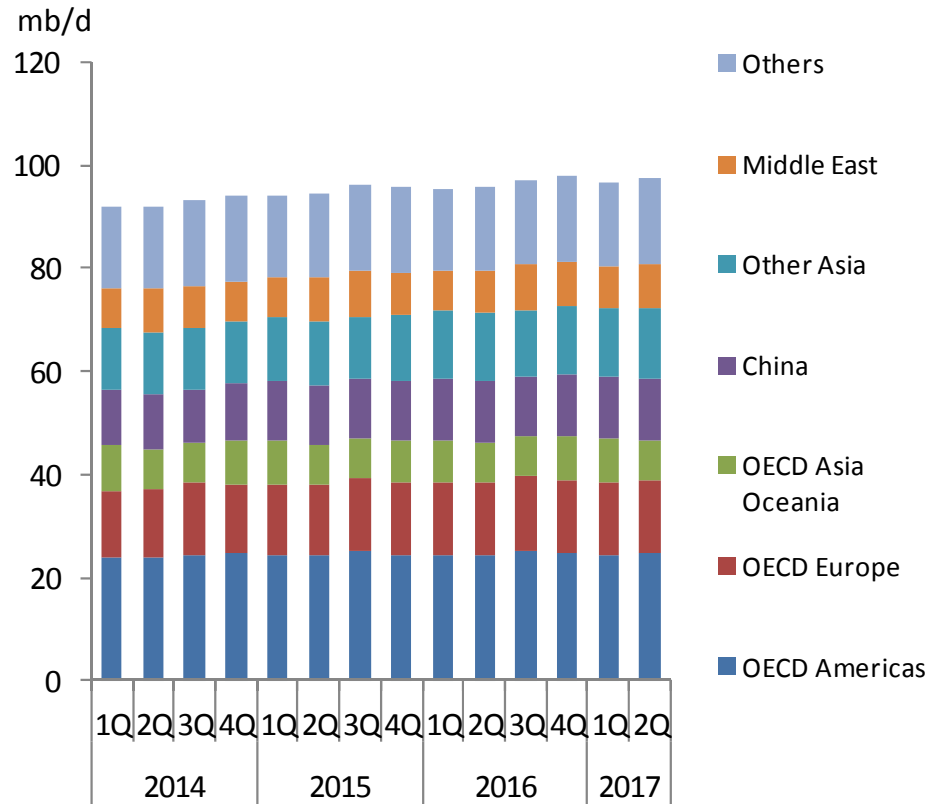
Fossil Fuels & Electric Power Industry Unit

Points of the report

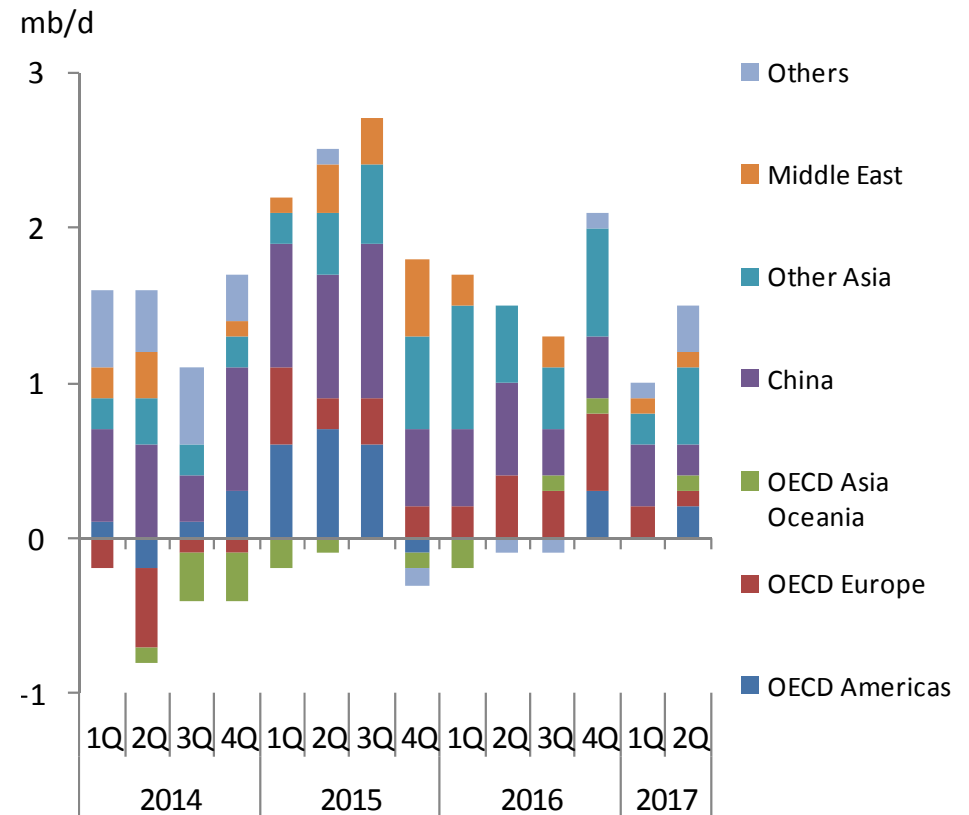
- ❑ Although OPEC and non-OPEC oil producing countries have extended their joint production cut, production increase in U.S. and other countries will offset most of the production cut's effect. As oil demand remains solid, the possible further extension of the production cut may prompt oil supply to be balanced with demand. If the joint production cut fails to be extended further, crude oil prices will weaken in the second half of 2018.
- ❑ 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.
- ❑ Under an assumption that such supply and demand fundamentals, macroeconomic conditions and political and geopolitical risks will remain unchanged, Brent price will average \$45-50/bbl in the second half of 2017 and \$50-55/bbl in 2018.

Oil demand

Demand



Changes (year on year)

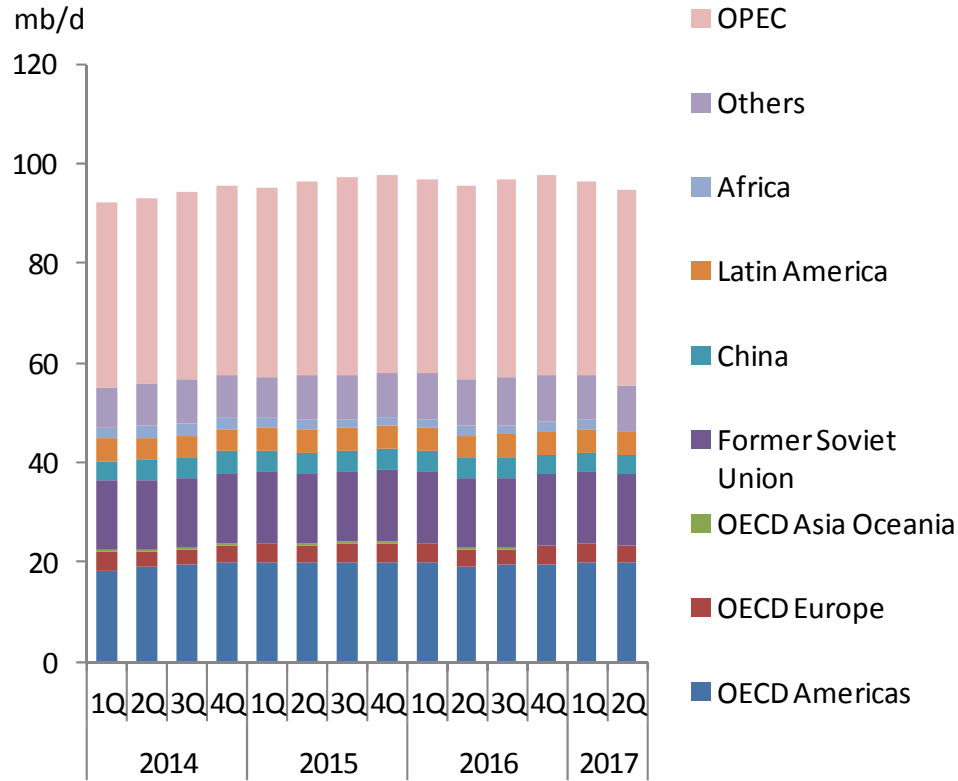


Source: IEA

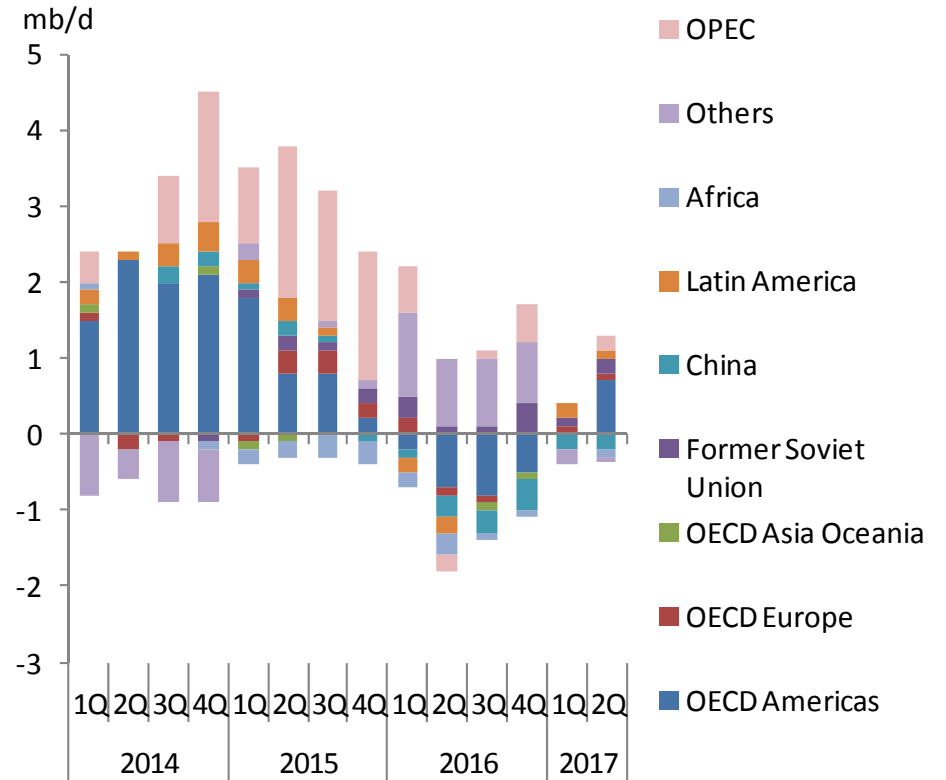
- Oil demand in 2Q 2017 increased by 1.5 mb/d or 1.6% y/y to 97.4 mb/d.
- Although demand growth decelerated in response to increasing price, demand was relatively solid.

Oil production

Production



Changes (year on year)

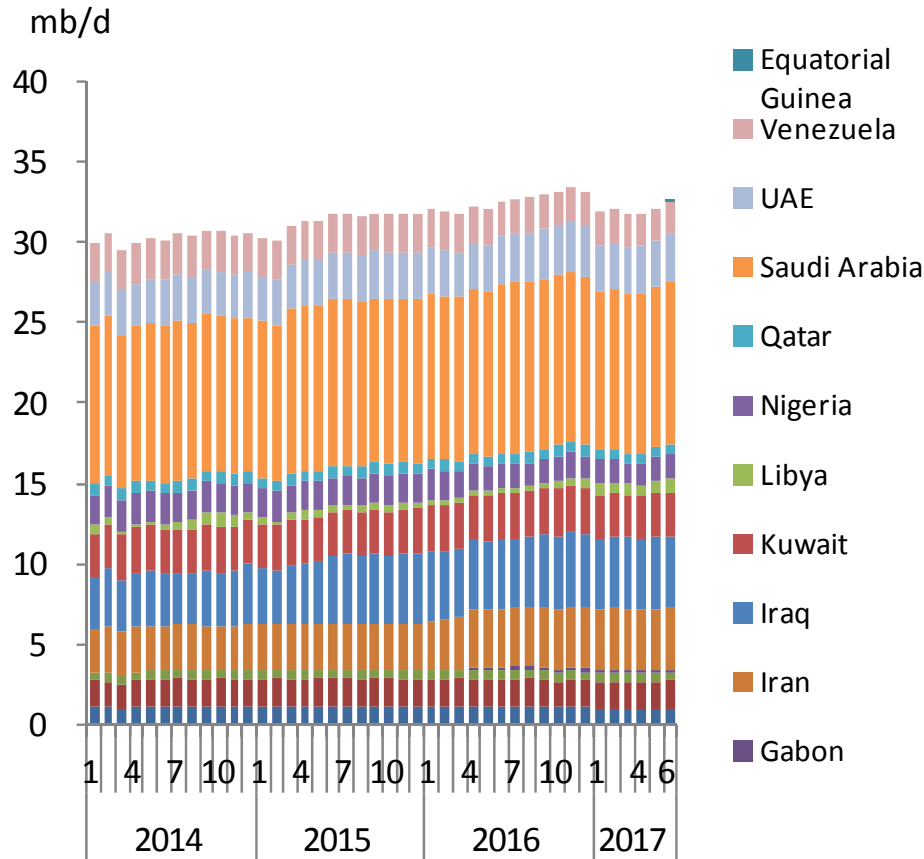


Source: IEA

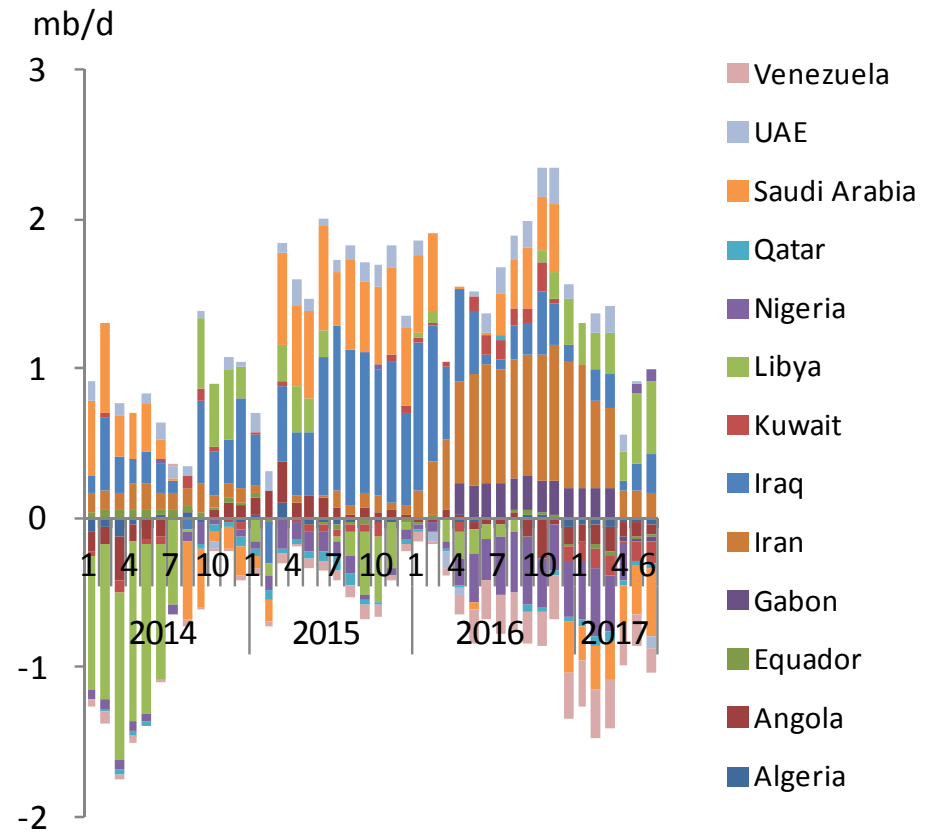
- ▣ Production in 2Q 2017 increased by 800,000 b/d or 0.8% y/y to 96.8 mb/d.
- ▣ Production growth decelerated due to the joint production cut by OPEC and non-OPEC oil producing countries.

OPEC: Uneasy production expansion by Nigeria and Libya

Crude oil production



Change (year on year)

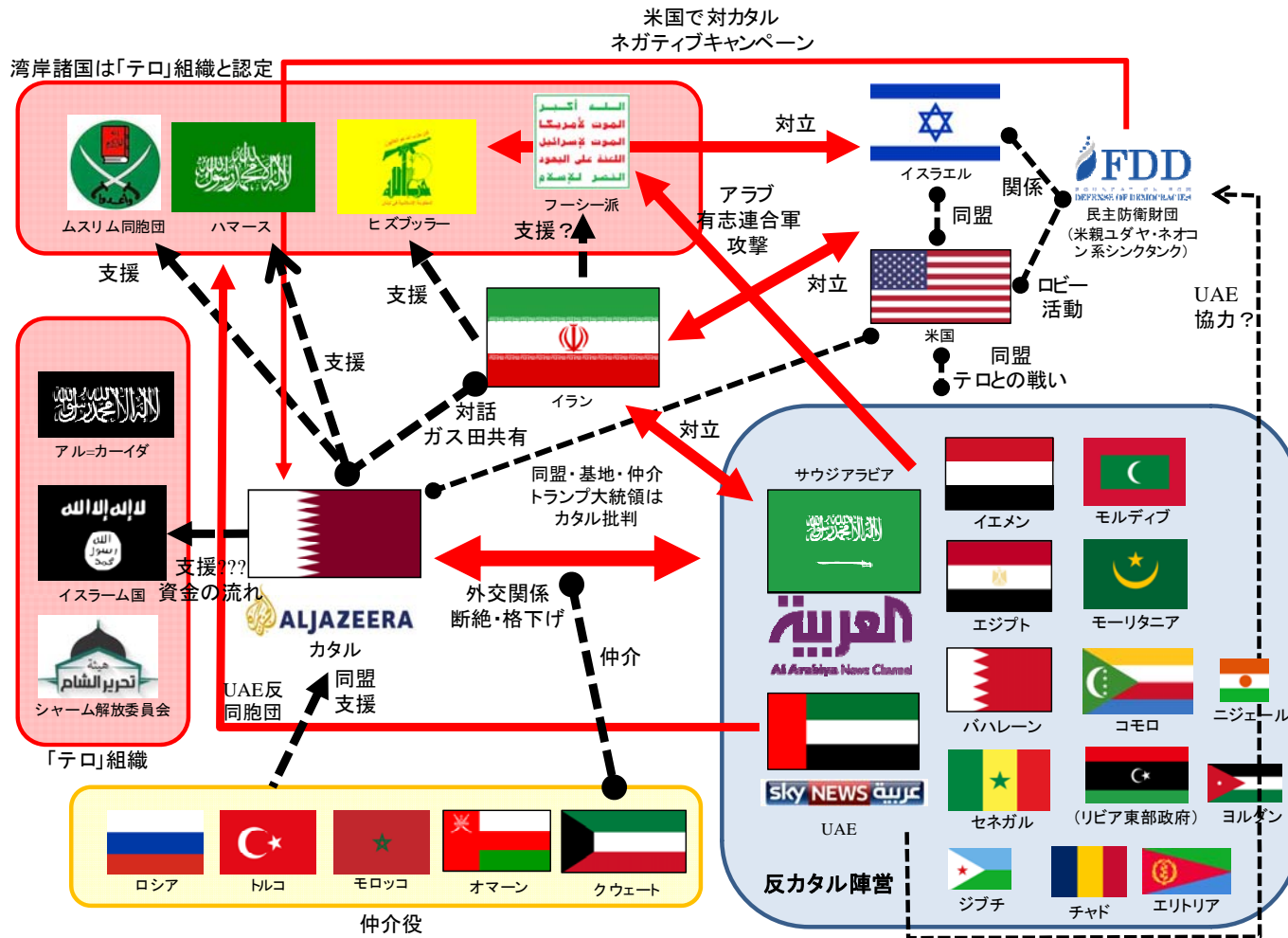


Source: IEA

- ▣ The rate of compliance with the coordinated production cut fell to 78% in June.
- ▣ Production expansion by Nigeria and Libya push up overall OPEC production.

Middle East Situation: Attention must be paid to supply disruption risks

Correlation diagram involving Qatar

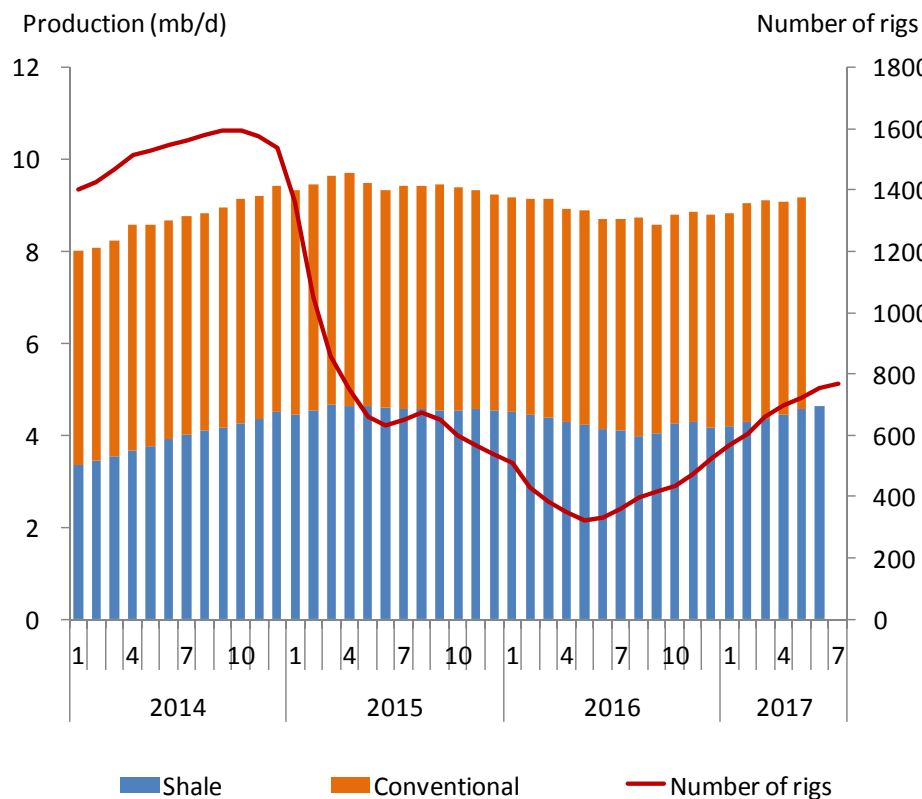


- Qatar's loss of diplomatic ties with other Gulf countries, Saudi Arabia's confrontation with Iran, progress in efforts to repel the Islamic State and a likely spread of terrorism indicate a fluid situation in the Middle East.
- Particularly, the promotion of Mohammad bin Salman to crown prince could lead Saudi diplomacy to become more radical.

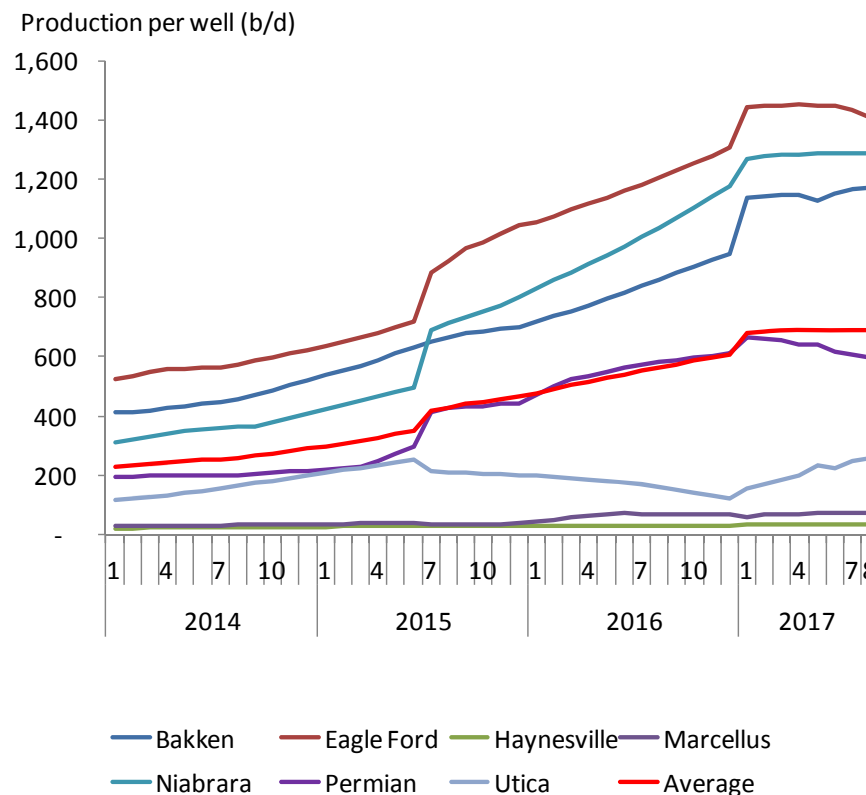
Source: Middle East Research Center, IEEJ

U.S.: Shale oil facing low oil prices again

Production and rig count



Shale oil productivity

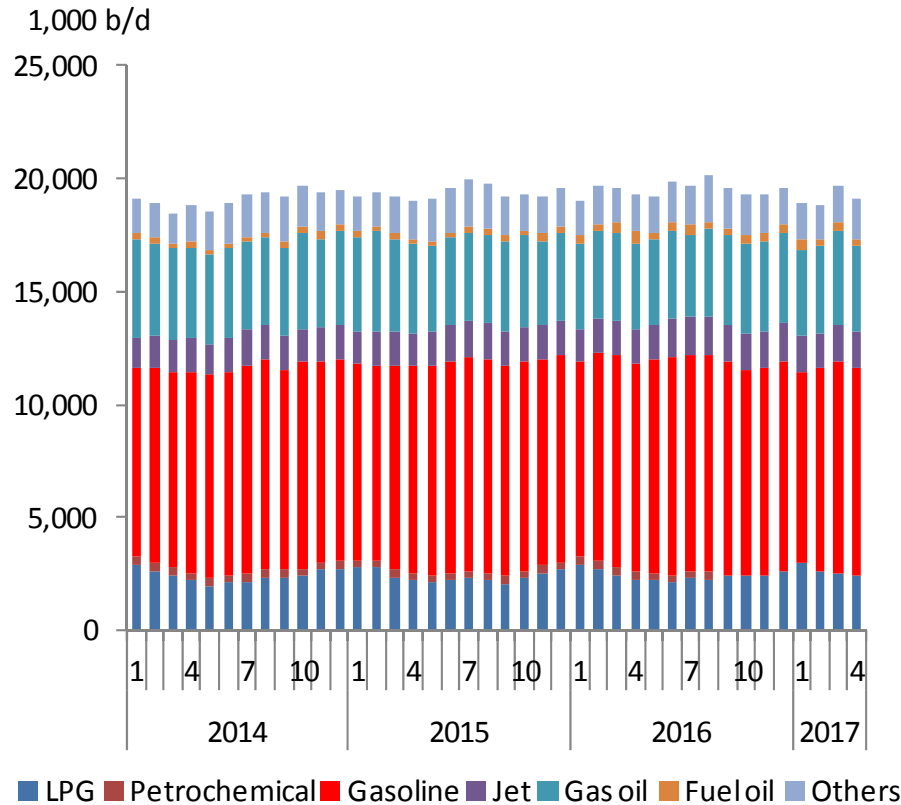


Source: EIA, Baker Hughes

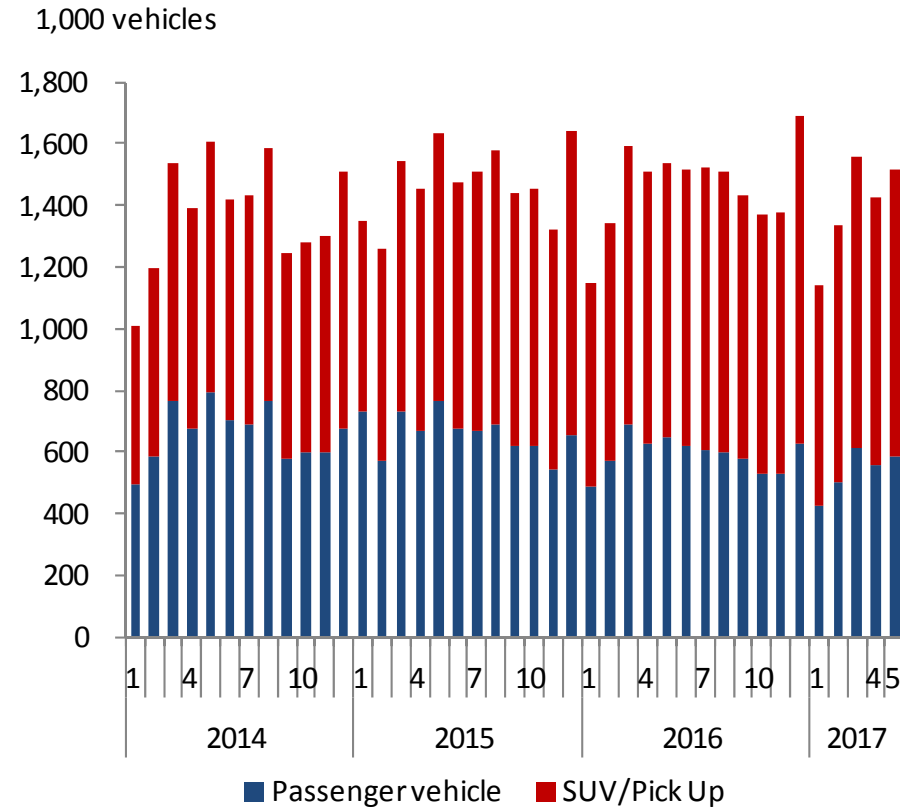
- ▣ U.S. crude oil production recovered to 9.08 mb/d in April 2017.
- ▣ The EIA forecasts U.S. production in 2018 as 9.9 mb/d.
- ▣ However, the rig count and shale oil productivity may hit the ceiling.

U.S.: Demand lacking strength

Demand by product



New vehicle sales

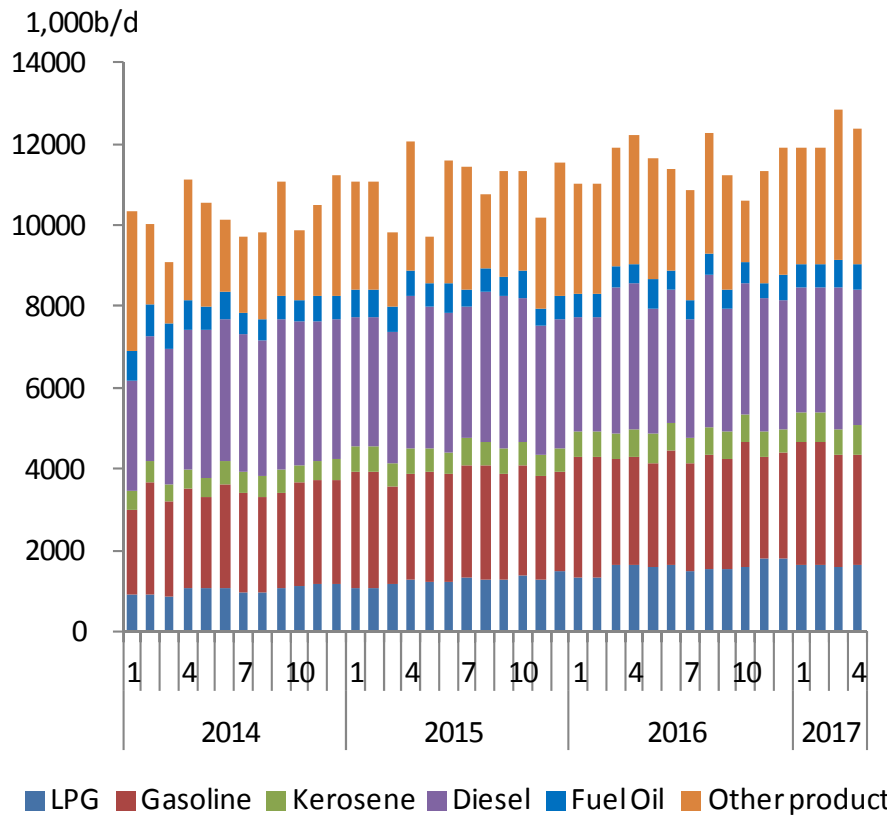


Sources: EIA, Motor Intelligence

- U.S. oil demand in the first quarter of 2017 increased by 350,000 b/d or 0.6% y/y to 19.48 mb/d.
- Gasoline demand in the driving season has been declining y/y.

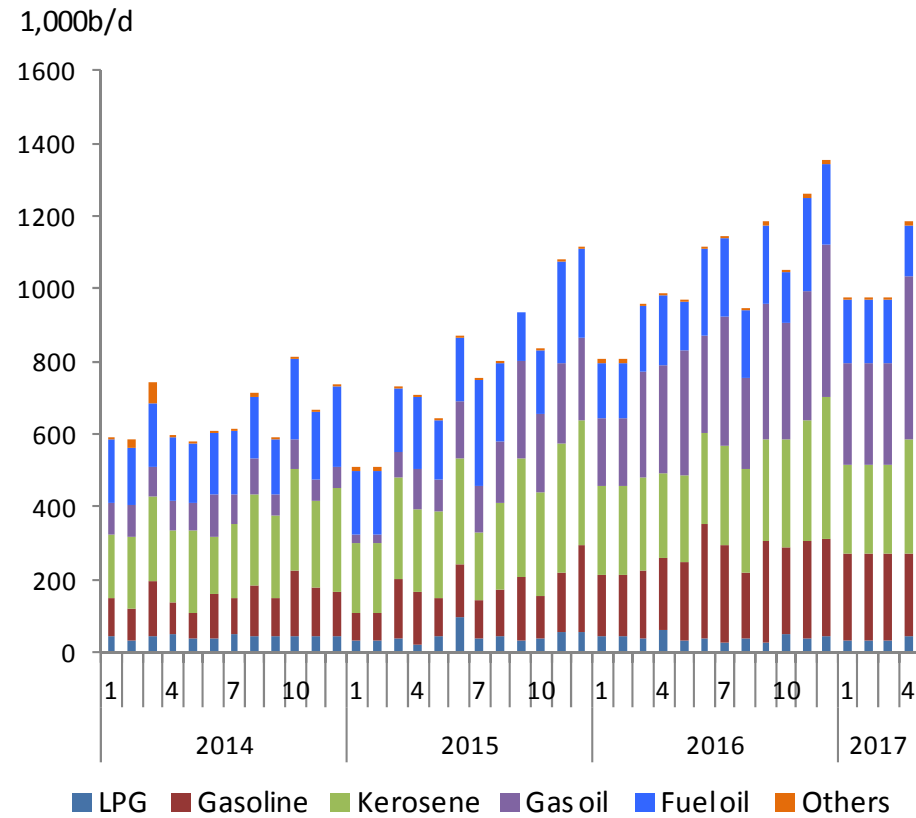
China: Robust demand amid slowing growth

Demand by product



Source: APEC

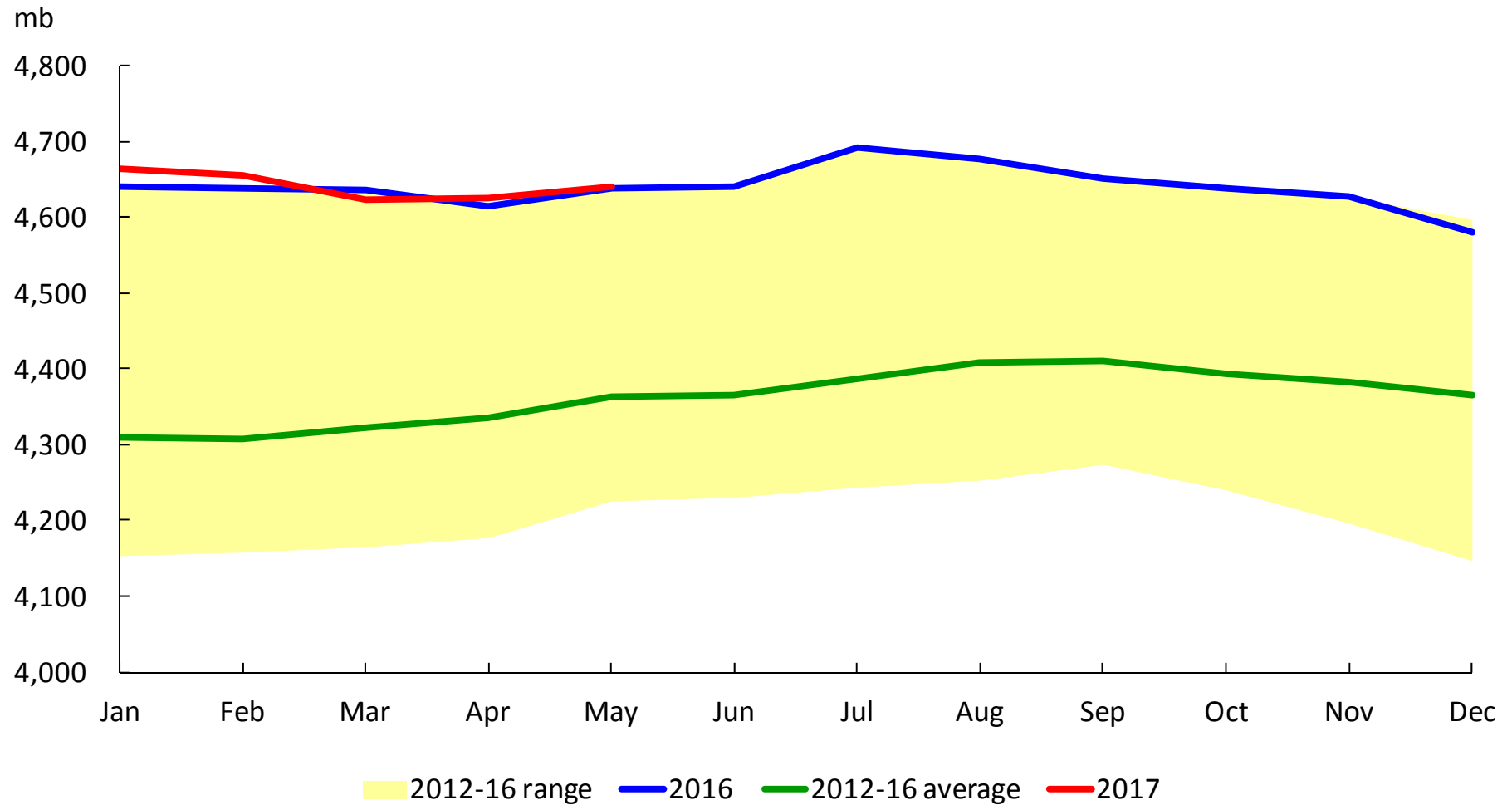
Production and operating oil-drilling rigs



Source: JODI

- ▣ Chinese oil demand in 1Q 2017 increased by 400,000 b/d or 3% y/y to 12.38 mb/d.
- ▣ Product exports continue an uptrend.

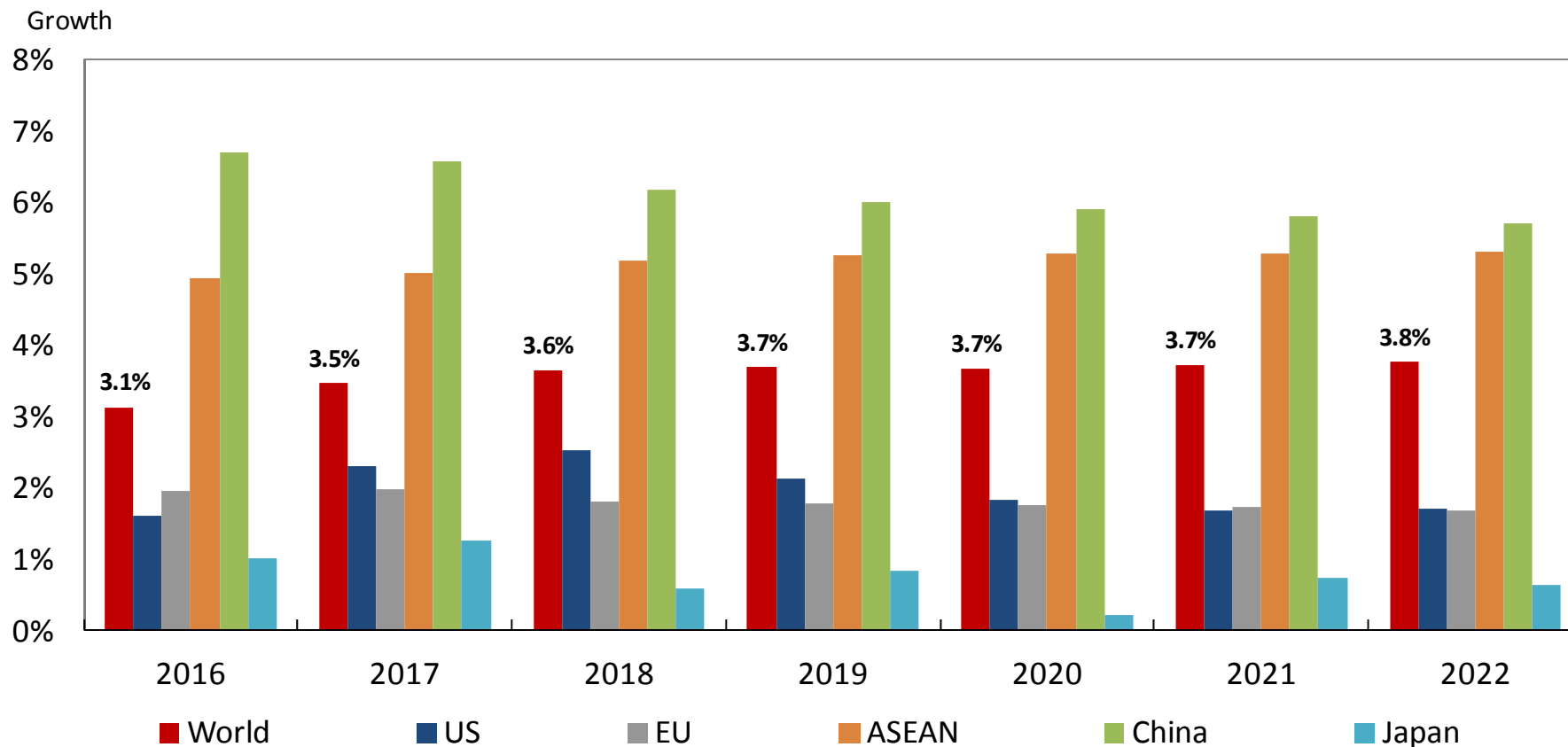
OECD oil inventories: Far from five-year average



Source: IEA

□ While OECD oil inventories have fallen slightly since the start of the joint production cut, they are far more than the OPEC target of the 5 year average

Macroeconomic conditions: Risks behind robust growth

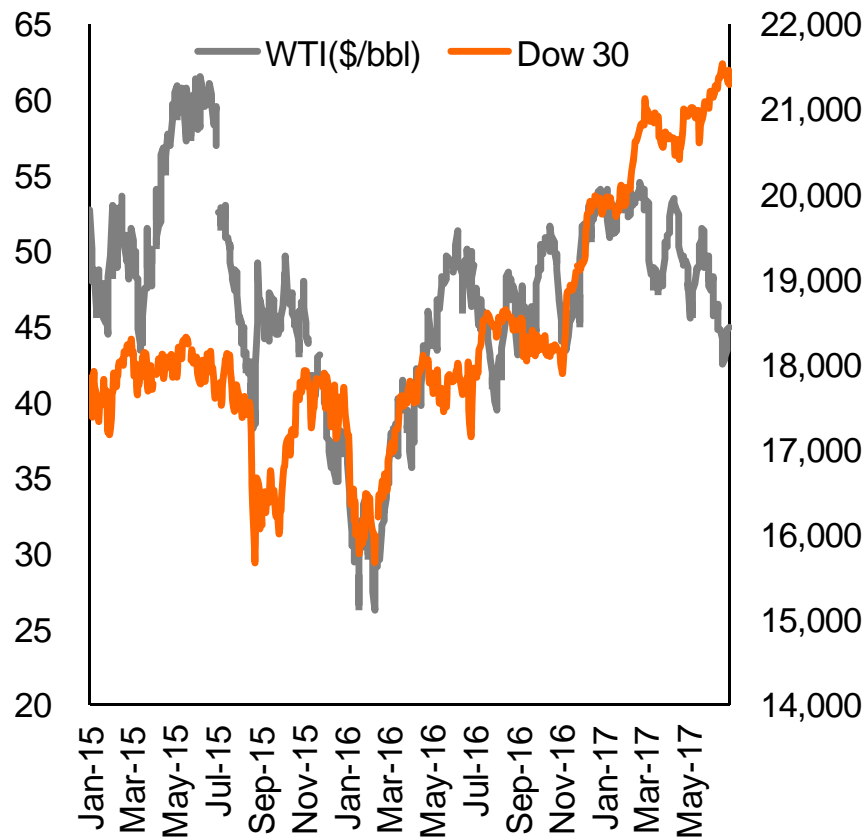


Source: IMF

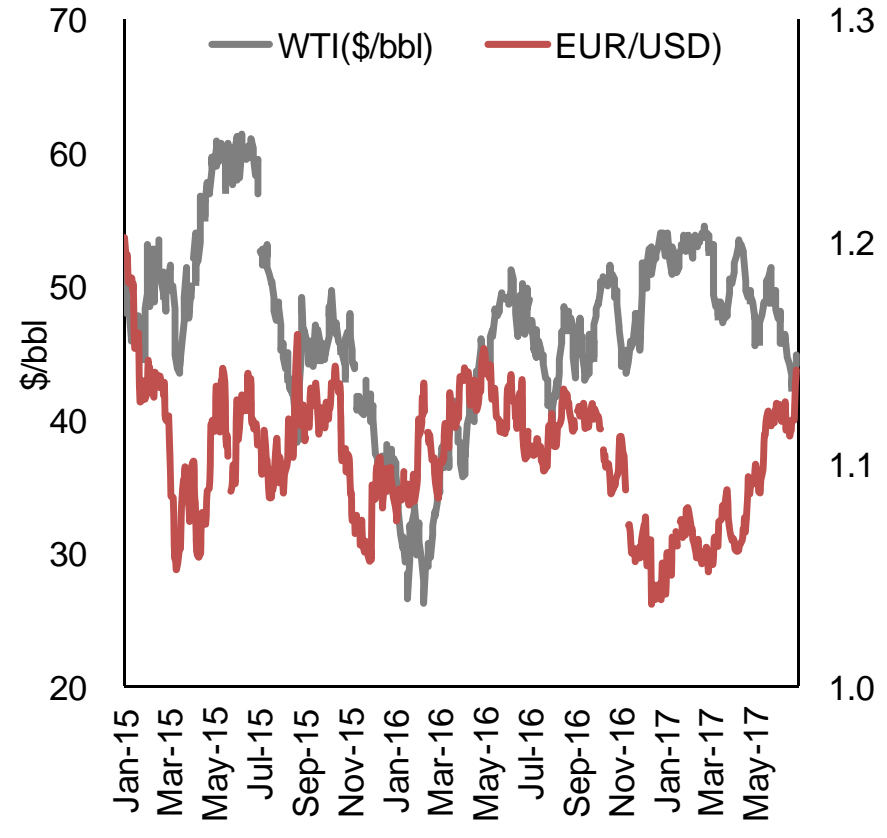
- Annual global GDP growth will exceed 3% until 2022.
- The IMF recognizes rising protectionism, U.S. politics, monetary easing, economic and financial conditions in emerging countries, fiscal conditions in southern Europe and geopolitical factors as risks for the global economy.

Financial markets

Oil and stock prices



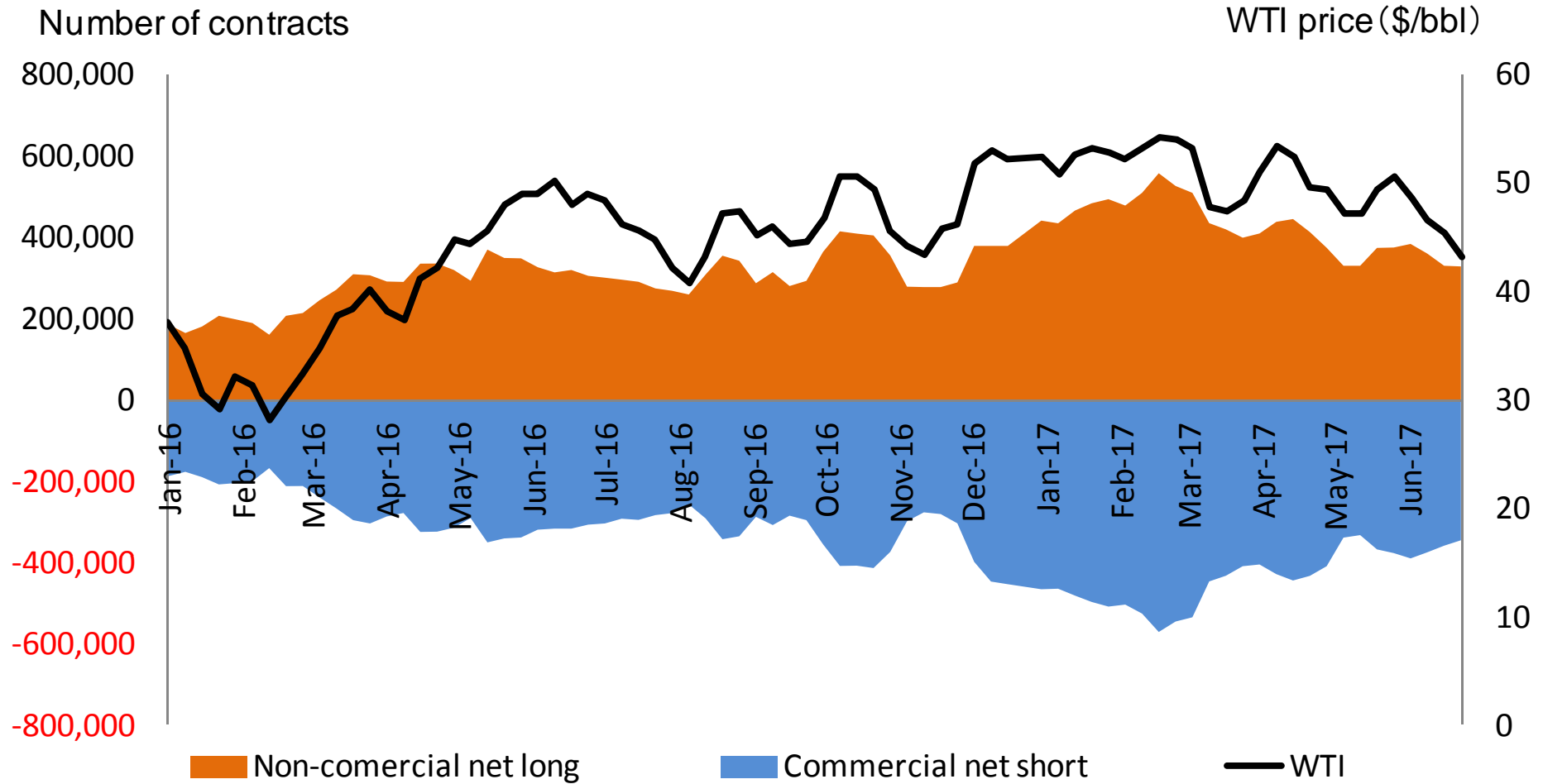
Oil price and exchange rate



Source: FRB

- While stock markets are robust, some market players engage in risk-off movements.
- FRB retains a scenario in which it will raise interest rates twice this year.

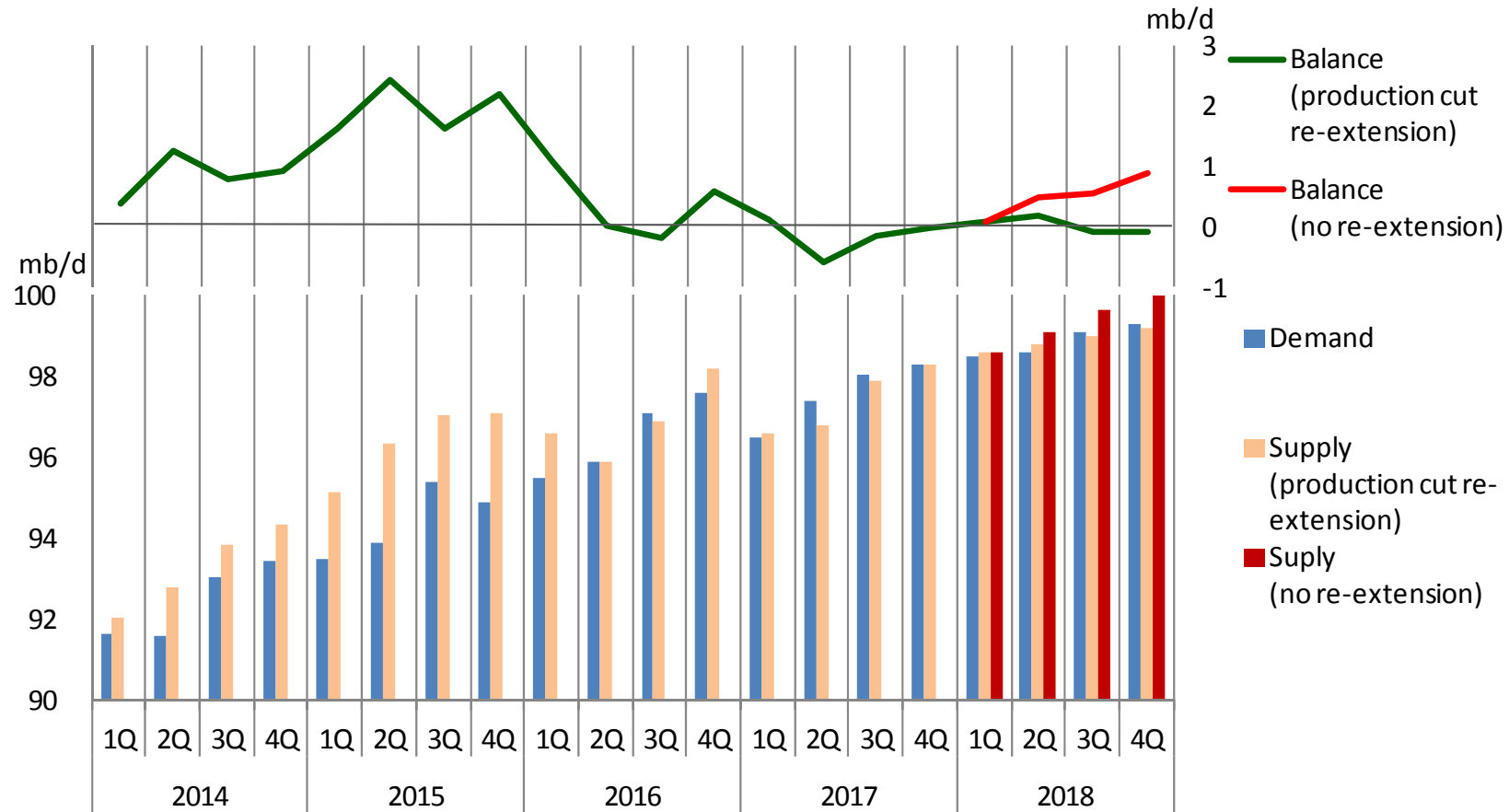
Futures market



Source: CFTC

IEEJ © 2017 █ Non-commercial net long and commercial net short positions have decreased since March 2017.

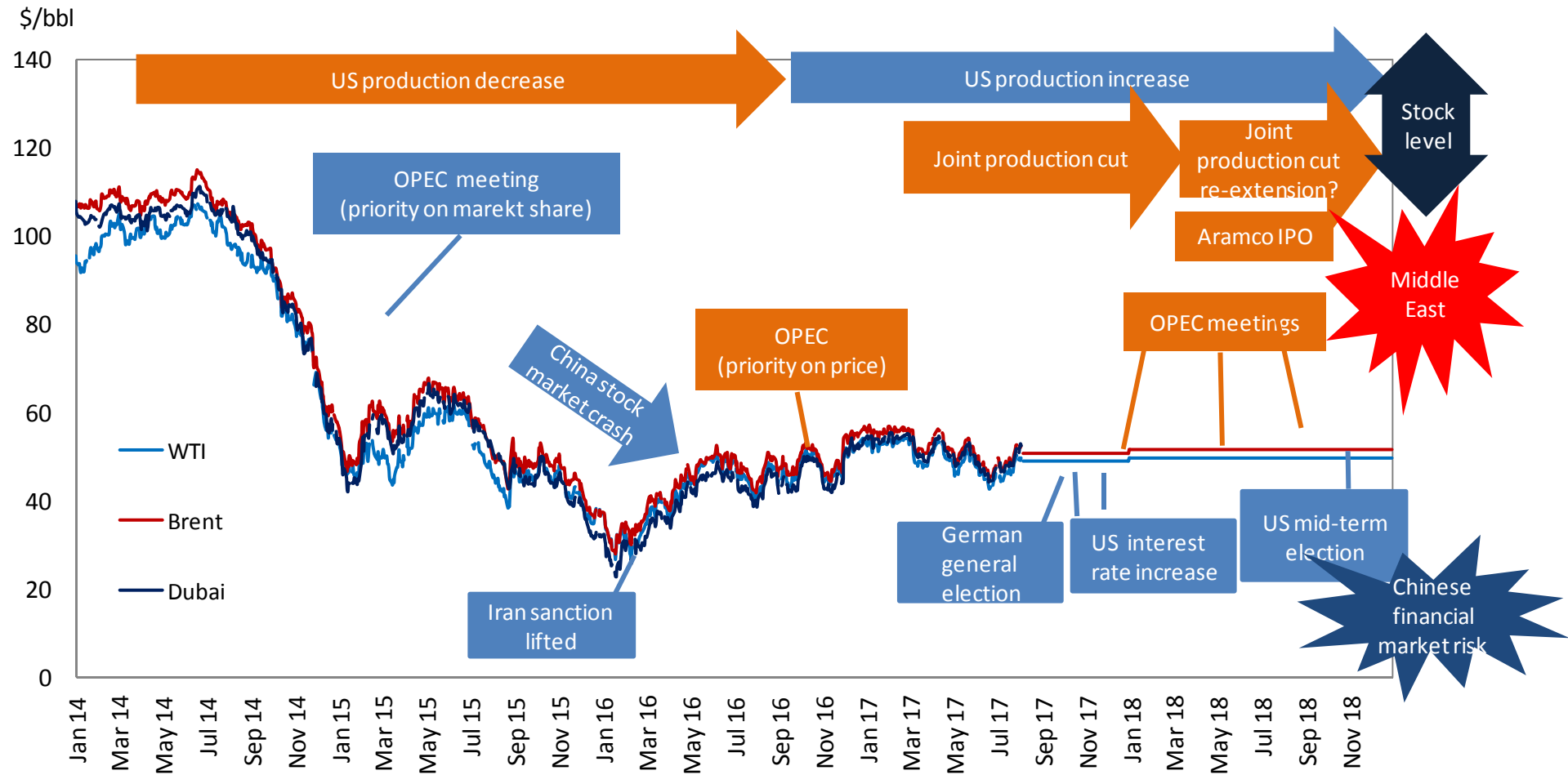
Future supply-demand balance outlook



Source: IEEJ

- ❑ If the joint production cut is extended again, oil supply will be almost balanced with demand.
- ❑ If not, oversupply will be seen again in 2018.

International crude oil price trend and short-term outlook



□ Brent price will average \$45-50/bbl in the second half of 2017 and \$50-55/bbl in 2018.

□ However, attention should be paid to Middle Eastern and financial market risks.