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Outlook for International Oil Market
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Outlook for crude oil prices in 2018

1. While OPEC and 10 non-OPEC oil producing countries will retain their coordinated production cut, the U.S. oil production will continue to increase. As oil demand remains solid, however, demand will balance with or slightly exceed supply. Despite financial market and geopolitical risks, the global economy will remain robust.
2. Under the above assumptions, the average Brent price will stand around $65/bbl. However, a faster-than-expected rise in U.S. oil production or global economic deceleration may exert downward pressure on oil prices. If the Middle East situation worsens further or oil-producing countries' supply is disrupted, however, crude oil prices may rise beyond the expected level.

Demand trend

3. Global oil demand in the third quarter of 2017 increased by 1.3 mb/d or 1.3% year on year (y/y). In 2018, oil demand will post a solid increase of 1.5 mb/d y/yr.
4. In the United States, demand in the third quarter of 2017 expanded by 20,000 b/d or 0.1% from y/y. While gasoline demand leveled off, diesel and jet demand was relatively firm.
5. In China, oil demand in the third quarter of 2017 logged a solid increase of 770,000 b/d or 7% y/y. LPG and gasoline demand was brisk. New vehicle sales were firm, supporting gasoline demand.

Supply trend

6. Global oil production in the third quarter of 2017 increased by 800,000 b/d or 0.8% y/y. While OPEC output remained almost unchanged, non-OPEC output was increasing moderately. Global oil production in 2018 will increase a little more slowly than demand.
7. OPEC and non-OPEC oil producing countries participating in the joint production

cut decided in November 2017 to extend the cut of about 1.8 mb/d until the end of 2018. The decision will pave the way for rebalancing. As the production cut is prolonged, however, the rate of compliance with the cut may decline.

8. While the Islamic State terrorist organization has been repelled, the Middle Eastern situation has been growing unstable. Saudi Arabia and Iran have been confronting each other over Syria, Yemen and Lebanon. In Saudi Arabia, royal and ministerial members were detained. Middle Eastern risks have been appreciated in the market as exerting upward pressure on oil prices again.
9. U.S. crude oil production increased to 9.48 mb/d in September 2017. Although an increase in the number of operating oil-drilling rigs and shale oil productivity growth have been capped, the number of drilled-but-uncompleted wells hit a record high of 7,342 in October 2017, indicating substantial production growth in 2018.

Inventory trend

10. OECD countries' oil inventories (including national oil reserves) totaled 4.54 billion bbl in September 2017 after beginning to decline in July. If U.S. oil production increases faster than expected, however, inventories may substantially expand again.

Financial markets

11. Supported by prolonged monetary easing, stock markets in the world have been brisk. Exchange rates between major currencies have remained stable. At present, European and U.S. stock markets are unlikely to sharply collapse. Given gradual monetary tightening in the United States and Europe, however, we must pay attention to how monetary tightening would affect the macro economy and financial markets.

Japanese oil situation

12. Japan's monthly average oil demand (domestic fuel oil sales) in the third quarter of 2017 came to 13.78 million kiloliters (2.83 mb/d), down 660,000 kl or 0.5% y/t. While oil demand continues a downtrend trend, oil refineries' capacity utilization rate in the third quarter of 2017 exceeded 90% thanks to a capacity cut and expanding petroleum products exports.
13. While oil refining and sales environments in Japan are improving, oil demand is expected to continue decreasing, making overseas operations an important earnings source for oil companies over a medium to long term. As there are many oil refinery projects mainly in Asia and the Middle East, however, the business environment for investment in new overseas oil refineries is severe. It is desirable

for Japanese oil companies to expand new business operations and implement stable oil supply while securing sales channels through the enhancement of sales and trading operations and exploring joint oil refinery construction and petroleum products sales with oil producing countries' state-run oil companies that are expanding into downstream operations to increase crude oil sales.

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