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Outlook for International Oil Market
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2018-19 crude oil price outlook

1. Global oil demand will increase by 1.3 mb/d from 2018 to 2019. Saudi Arabia and some other oil producing countries will increase production to cover output falls in Iran and Venezuela. The increase will be combined with U.S. output expansion to cause a slight oversupply (around 150,000 b/d) on a flow basis in 2019.
2. The international (Brent) crude oil price will average at $75/bbl in the second half of 2018 and at $70/bbl in 2019, with higher price volatility.
3. Reasons for the higher volatility include a decline in surplus production capacity mainly in Saudi Arabia, concerns about large disruptions to oil supply amid rising Middle East geopolitical risks involving Iran's production fall and destabilization, and possibility of terrorism and safety in the Hormuz Strait, and impacts of U.S.-China trade war.

Demand trends

4. Global oil demand in 2Q 2018 totaled 98.8 mb/d, up 0.9 mb/d or 0.9% from the same quarter of 2017. Demand growth slowed down on price hikes.
5. The global economy will remain robust, though being plagued with matters of concern such as a trade war and U.S. interest rate increase. Global oil demand will expand by 1.3 mb/d or 1.3% from 2018 to 2019. Trade war escalation could exert downward pressure on oil demand.
6. In the U.S, demand for petroleum feedstock and diesel oil has been growing robustly, supported by brisk petrochemical production and logistics. U.S. oil demand in 1Q 2018 increased by 0.53 mb/d or 3.8% year on year to 20.21 mb/d. Despite economic risks such as an escalating trade war and interest rate increase, oil demand is firm at present.
7. In China, oil demand in 1Q 2018 increased by 0.46 mb/d or 3.8% year on year to 12.47 mb/d, driven by oil for petrochemical production. While concerns exist about

the impact of a trade war with the U.S., oil demand is firm at present.

Supply trends

8. Global oil supply in 2Q 2018 increased by 1.5 mb/d or 1.5% to 98.5 mb/d. The quarter saw some undersupply. OPEC's compliance rate with its production cut agreement in June stood at 100%, falling substantially from 152% in the previous month.
9. As the Trump administration announced in May to exit from the Iran nuclear deal and asked other countries to suspend crude oil imports from Iran, a potential sharp fall in Iran's crude oil production has become a matter of concern. An Iranian oil production decline from June 2018 could reach about 1 mb/d by December 2018 and expand to about 1.5 mb/d by the end of 2019.
10. Due to the Trump administration's additional sanctions on Venezuela announced in May, a drop in Venezuelan oil production from June 2018 could reach about 0.4 mb/d by the end of 2018 and widen to about 0.6 mb/d by the end of 2019.
11. At their June 22-23 meeting, OPEC and non-OPEC oil producing countries participating in the joint production cut decided to ease their production cut from July. In response to the decision, Saudi Arabia and some others would lead production expansion. While Saudi Arabia and some others could offset production falls in Iran and Venezuela by expanding production, a decline in their surplus production capacity could increase price volatility by making the market vulnerable to rapid supply or demand fluctuations.
12. U.S. oil production in 1Q 2018 increased by 1.23 mb/d or 13.7% year on year to 10.24 mb/d. While the improvement of shale oil productivity and a rig count rise have come to a pause, the number of drilled and uncompleted (DUC) wells has reached a record high, indicating that U.S. oil production would continue an uptrend. U.S. and other oil producing countries that do not take part in the joint production cut will expand oil production by 1.8 mb/d from 2018 to 2019.