431st Forum on Research Works on December 21, 2018

# Outlook for International Oil Market
## <Summary>

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Key points of this report

1. Global oil demand will average 100.5 mb/d in 2019, up 1.3 mb/d from 2018. Supply will rise by 0.8 mb/d to 100.7 mb/d. Production increase mainly in the United States will contribute to easing the supply-demand balance in the first half of 2019 before demand exceeds supply in the second half due to a decline in Iranian exports.
2. The average international (Brent) crude oil price will stand at $65/bbl in the first half of 2019 and at $70/bbl in the second half. Major uncertainties include macroeconomic conditions (such as the U.S.-China trade war and emerging economies), Iranian oil exports after a temporary waiver of sanctions, geopolitical risks and supply disruptions.

Global oil supply and demand

3. Global oil demand in 3Q 2018 totaled 99.6 mb/d, up 1.3 mb/d or 1.3% from the same quarter of 2017. Demand remained relatively robust mainly in Asia. As macroeconomic risks are growing on the U.S.-China trade war and U.S. interest rate hikes, however, oil demand has downside risks.
4. Global oil production in 3Q 2018 increased by 3.0 mb/d or 3.1% from the same quarter of 2017 to 100.9 mb/d. While OPEC and some non-OPEC oil producing countries have eased their joint production cut since a June 2018 OPEC meeting, the OECD Americas including the United States have remarkably increased oil production.

Trends in OPEC and other major countries

5. OPEC and non-OPEC oil producing countries participating in a joint production cut increased production in 3Q 2018 by 0.81 mb/d or 1.4% from the previous quarter to 57.42 mb/d. For six months from January 2019, however, they will cut production by 1.2 mb/d from October 2018. If Iran reduces production, however, the others will have

to increase production in or after June 2019.

6. In November 2018, Iran's oil production totaled 2.85 mb/d, down about 1 mb/d from May when the United States announced to withdraw from the Iran nuclear deal, with its oil exports aggregating 1.1 mb/d, down about 1.4 mb/d. Iranian oil exports could recover temporarily on a 180-day waiver of the Iranian oil embargo for eight economies including Japan, China and South Korea. After the waiver expires, however, Iranian oil exports could decline to 0.7 mb/d by late 2019.
7. U.S. oil production in 3Q 2018 increased by 1.9 mb/d or 20.7% year on year to 11.3 mb/d. For the Permian Basin that plays a central role in increasing U.S. oil production, pipeline capacity constraints have eased on infrastructure development, supporting the production expansion. Although the Energy Information Administration forecasts a U.S. oil production increase of 1.2 mb/d from 2018 to 2019, the recent price decline could decelerate the increase.
8. In China, oil demand in 3Q 2018 increased by 0.2 mb/d or 1.7% year on year to 12.4 mb/d. New vehicle sales in the quarter decreased by 500,000 vehicles or 7.5% to 6.3 million vehicles, indicating that economic growth was decelerating on the U.S.-China trade war and other factors. Oil demand growth may slow down.
9. The impact of the U.S.-China trade war on oil supply and demand has so far been limited. U.S. crude oil accounted for 4% of China's crude oil imports in 1Q 2018, while exports to China commanded 19% of U.S. crude oil exports in 2Q 2018. China is switching from the United States to other oil producing countries while the United States is switching from China to other oil importers. If global economic risks grow more serious, downside risks may emerge for oil demand and prices.

Inventories and financial markets

10. The relaxation of the oil supply-demand balance from June 2018 led OECD commercial oil inventories in October 2018 to increase to 2,872 million barrels, close to the average for the past five years. Even if oil producing countries jointly cut oil production from early 2019, inventories may fail to decline depending on U.S. oil production increase and Iranian oil export growth in the first half of 2019.
11. U.S. stock prices have seesawed since October as market participants have been concerned about economic deceleration through long-term interest rate hikes and the U.S.-China trade war. On crude oil futures markets, net buying by non-commercial traders including investment funds has shrunk in a manner to exert downward pressure on prices. Financial market confusion against the backdrop of growing macroeconomic risks will impose downward pressure on crude oil prices in 2019.

Japanese market

12. Monthly average oil (fuel oil) demand in 3Q 2018 decreased by 0.35 million kl or 2.6% year on year to 13.45 million kl (2.76 mb/d). As oil refining capacity declined on oil industry realignment amid the oil demand decline, the capacity utilization rate for oil refineries remained as high as 88% in 3Q 2018.
13. Reflecting recent gasoline price falls and kerosene and diesel price rises on the Singapore market, gasoline imports have increased and will continue to do so.
14. The oil industry's biggest challenge in 2019 will be responses to the International Maritime Organization's tighter shipping fuel regulations kicking in from 2020. Such responses will start on a full-fledged basis in the second half of 2019. The tighter regulations are expected to bring about a supply surplus for high-sulfur fuel oil C and a wider differential between heavy and light crude oil prices. The trend and impact of the tighter regulations will attract attention. From the domestic policy viewpoint, how to increase the resilience of fuel supply infrastructure against disasters will become a challenge.



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