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Outlook of the International Oil Situation
＜Outline of Report＞

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Key points of this report

1. While global oil demand in 2019 was 100.3 million b/d, total supply was 100.2 million b/d, comprising non-OPEC production of 64.4 million b/d and OPEC production of 35.8 million b/d, partly due to a decline in production in Iran, Venezuela, and other countries. On the other hand, although supply pressure is expected to increase by 2020 due to an increase in non-OPEC production particularly in the United States, demand and supply will be generally balanced at a level of about 101 million b/d to 102 million b/d through OPEC-plus adjustments.
2. Based on the abovementioned premise of demand and supply balance, and if the impact of geopolitical risks and other factors are not taken into consideration, Brent prices are expected to move in the range of $60 – 70/bbl on the average for the second half of 2019. The price level will remain generally the same in 2020, and prices will remain low within a range of fluctuation. The main factors that can cause significant changes to this price outlook include supply disruptions and geopolitical risks such as tensions surrounding the Iran situation, which could lead to an increase in prices, and macroeconomic risks such as intensification of the U.S.-China trade war, which could cause prices to drop. In the high-price scenario with emerging geopolitical risks, prices are expected to reach the high level of $15/bbl from the standard level; in the low-price scenario with growing macroeconomic risks, prices are expected to reach a low of $10/bbl from the standard level.

Global demand and supply for oil

3. Global demand for oil for the second quarter of 2019 increased by 0.8 million b/d (0.8%) year-on-year to 99.6 million b/d. Growth in demand has slowed down due to the sluggish growth of the global economy and the rise in crude oil prices. From the second half of 2019, global oil demand is expected to increase, but there is also the risk of a downward swing in demand due to heightened macroeconomic risks caused by the impact of the U.S.-China trade war and other factors.

4. Global production volume of oil for the second quarter of 2019 increased by 0.8 million b/d (0.8%) year-on-year to 100.1 million b/d. Despite the increase in production in the U.S., average production for 2019 remained at the level of 100.2 million b/d due to continued coordinated production cuts by OPEC-plus as well as a decrease in production volume in Iran and Venezuela, putting production at a marginally lower level than demand.

Developments in OPEC and key countries

5. Production volume in the second quarter of 2019 for OPEC countries and non-OPEC countries participating in the coordinated production cuts (so-called “OPEC-plus”) fell by 1.5 million b/d (2.8%) year-on-year to 53.6 million b/d, with the exclusion of Qatar that had withdrawn from OPEC in 2019. This was a significant fall caused by the new agreement on coordinated production cuts among OPEC-plus countries, compared to the 1.2 million b/d reduction from October last year since January 2019. (Of these, production cuts by the main countries were 1.4 million b/d for Iran, 0.5 million b/d for Venezuela, and 0.38 million b/d for Saudi Arabia). Furthermore, at the OPEC General Meeting held on July 1 and OPEC and non-OPEC Ministerial Meeting held on July 2, an agreement was reached to extend the existing coordinated production cuts by nine months till the end of March 2020. Production cuts will continue for now with the aim of maintaining crude oil prices. Furthermore, with the adoption of the Cooperation Charter, attention is drawn to the deepening of the relationship between Russia and OPEC.
6. Iran’s oil production volume is expected to be 2.4 million b/d and export volume is expected to be 0.8 million b/d in May 2019. Due to exemption measures for the import embargo for crude oil from Iran, in the first quarter of 2019, Iran’s export volume was 1.3 million b/d, recovering temporarily particularly for exports to Japan and ROK. However, the suspension of exemptions since May have brought about a dramatic fall in export volume from the level of 2.5 million b/d in 2016-2017 after the lifting of sanctions through the nuclear deal.
7. Production volume in the U.S. for the first quarter of 2019 increased by 0.6 million b/d (5.0%) year-on-year to 13.1 million b/d, showing a slight slowdown in the pace of growth. According to EIA, the annual pace is expected to be an increase of 1.4 million b/d year-on-year for 2019, and an increase of 0.9 million b/d year-on-year for 2020 to reach 13.3 million b/d. The number of rigs in operation in the U.S. appears to be levelling off recently.
8. Demand in China recovered slightly in the first quarter of 2019, increasing by 0.6 million b/d (5.0%) year-on-year to 13.1 million b/d. However, growth is slowing

down. New vehicle sales volume continues to be sluggish, falling by 0.9 million units (13.0%) year-on-year to 6 million units. Due to the slowdown in economic growth, the pace of demand growth is expected to fall.

9. The impact of the U.S.-China trade war on oil demand and supply is limited for now. However, if the trade war intensified and became prolonged, there is the possibility of a further slowdown in demand and the risk that prices would be pushed down. The share that U.S. crude oil has in China's crude oil imports fell significantly from 4% in the first quarter of 2018 to 0.1% in the same period in 2019, while China's share in U.S. crude oil exports fell dramatically from 23.4% in the first quarter of 2018 to 2.9% in the same period in 2019.

Inventory and financial markets

10. With the easing of the coordinated production cuts in the second half of 2018, OECD commercial inventory in May 2019 was 2.91 billion barrels, increasing at a level that is marginally above the average for the past five years. However, due to production cuts by OECD-plus countries, there is a possibility that this may decrease in the second half of 2019.
11. IMF's forecast for global GDP growth for 2019 was revised downward from 3.5% in January to 3.3% in April. Concerns over the deceleration of the global economy, like stocks, have given rise to risk aversion among investors and others, putting downward pressure on crude oil prices. In the crude oil futures market, after a temporary recovery in net buying by non-commercial traders such as funds, it has declined once again. Expectations of a cut in U.S. interest rates are fueling the rise in crude oil prices.

IMO regulations on ship fuel

12. The full-scale enforcement of IMO's regulations on the sulfur content of ship fuel will commence in the third quarter of 2019. Compliance will mostly be met through new compliant fuel (LS Fuel oil). Due to the resulting shift in demand from residual ship fuel to middle distillate, the pricing system for oil products and refining margins will change. This will in turn have an impact on the profits of the refining industry, including benefitting refineries with more advanced facilities.

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