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Key Points of International Oil Market Prospects in IEA Medium-Term Oil Market Report

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On May 14, the International Energy Agency released its Medium-Term Oil Market Report projecting world oil supply and demand up to 2018. Famous IEA oil market outlooks include the Monthly Oil Market Report (a short-term outlook) for the coming one to two years and the World Energy Outlook, which is published annually as the IEA's "flagship publication" to cover a long term prospect up to 2035. But the medium-term outlook, whose previous edition was released about a year ago, has also attracted attentions from experts as a report that takes into account a medium-term trend of the world economy and the oil market investment cycle (including various oil supply projects over the next five years). I would like to present an overview of key points of the international oil market prospects up to 2018 while referring to the outlook.

The most important point of the latest medium-term outlook compared with the previous one is that the report indicates that the fundamental global oil supply-demand balance will ease thanks to a robust expansion of non-OPEC oil supply including U.S. light tight oil. As a matter of course, it may be very difficult to accurately predict what will happen in the actual oil market over the next five years. Given various present developments, however, the abovementioned supply and demand change can be predicted as a medium-term trend.

First, I would like to analyze the demand side. The medium-term outlook forecasts that global oil demand will expand from 90.6 million bpd in 2013 to 96.7 million bpd in 2018. The increase of 6.1 million bpd for the five years translates into an average annual rise of 1.22 million bpd. Compared with an actual increase of 0.83 million bpd in 2012 and an estimated rise of 0.82 million bpd in 2013, the forecast indicates that oil demand growth will firm under global economic growth over the medium term. Meanwhile, the latest outlook revises the oil demand projection slightly downward to 95.60 million bpd, from 95.68 million bpd in the previous one, for 2017 which is covered by both outlooks. But the regional breakdown includes greater revisions. The latest outlook lowers an OECD demand forecast by 0.69 million bpd and raises a non-OECD demand estimate by 0.62 million bpd. These upward and downward revisions are based on the world economic trend and vehicle fuel efficiency improvements over the past year. While the downward revision of OECD demand is interesting, a breakdown of non-OECD demand shows that Asia accounts for 0.31 million bpd or a half of the 0.62-million-bpd upward revision while Africa features an even greater upward revision of 0.35 million bpd. These major revisions indicate that we may have to pay attention to oil demand trends in OECD countries, Asia and Africa.

While global oil demand projections are slightly lowered, non-OPEC oil production projections are raised substantially. For 2017 covered by both the latest and previous outlooks, the latest report forecasts non-OPEC production at 58.62 million bpd, up 1.09 million bpd from a projection in the previous outlook. As crude oil prices have remained high, many non-OPEC oil producing countries have increased output. But the upward revision primarily reflects growing light tight oil output in the United States. While overall U.S. oil production is projected to rise by 1.92 million bpd from 10.00 million bpd in 2013 to 11.92 bpd in 2018, light tight oil output alone is forecast to expand by 2.30 million bpd from 1.70 million bpd to 4.00 million bpd. Light tight oil production is thus driving the overall U.S. oil output growth. Based on actual oil market developments in the past year, the substantial increase in U.S. tight oil output has led to the upward revision of oil output projections in the medium-term outlook.

The latest medium-term outlook features a downward revision of the projected call on OPEC (demand for OPEC crude oil) that is attributable to the slight downward revision of oil demand forecasts and the upward revision of non-OPEC oil output forecasts. For 2017 covered by both the latest and previous outlooks, the projected call on OPEC is revised downward by 1.22 million bpd from the previous one to 29.99 million bpd. The call on OPEC is projected to level off from 30.12 million bpd in 2012 and 29.59 million bpd in 2013 to 29.99 million bpd in 2017 and 30.37 million bpd in 2018. Over the coming five years, the call on OPEC is predicted to fail to increase, indicating an unfavorable situation for the international oil exporters.

Even under such situation, Iraq among OPEC countries is expected to continue expanding oil production capacity. Irrespective of whether oil production capacity would increase just as planned officially by the Iraqi government, the capacity is likely to steadily expand. The latest medium-term outlook estimates that Iraqi oil production capacity will post a substantial increase of more than 1.50 million bpd from 3.52 million bpd in 2013 to 4.76 million bpd in 2018. While Iraq’s actual expansion of oil production capacity, output and exports is destined to depend on security conditions, progress in international oil companies’ investment in expanding production capacity, and export and other infrastructure development, Iraq’s oil output expansion under the predicted oil supply and demand situation can be expected to exert great pressures on the market.

As crude oil prices have remained above $100 per barrel since 2011, the international oil market has seen signs of various supply and demand changes and various developments. Particularly, we may have to closely watch widespread impacts of the sharp increase in U.S. light tight oil output and the entire shale revolution on international energy markets. For OPEC including Iraq that continues to expand oil output, the medium-term international oil market environment has grown more uncertain, with various supply and demand challenges accumulating.

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