

429th Forum on Research Work

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Outlook for International Oil Market

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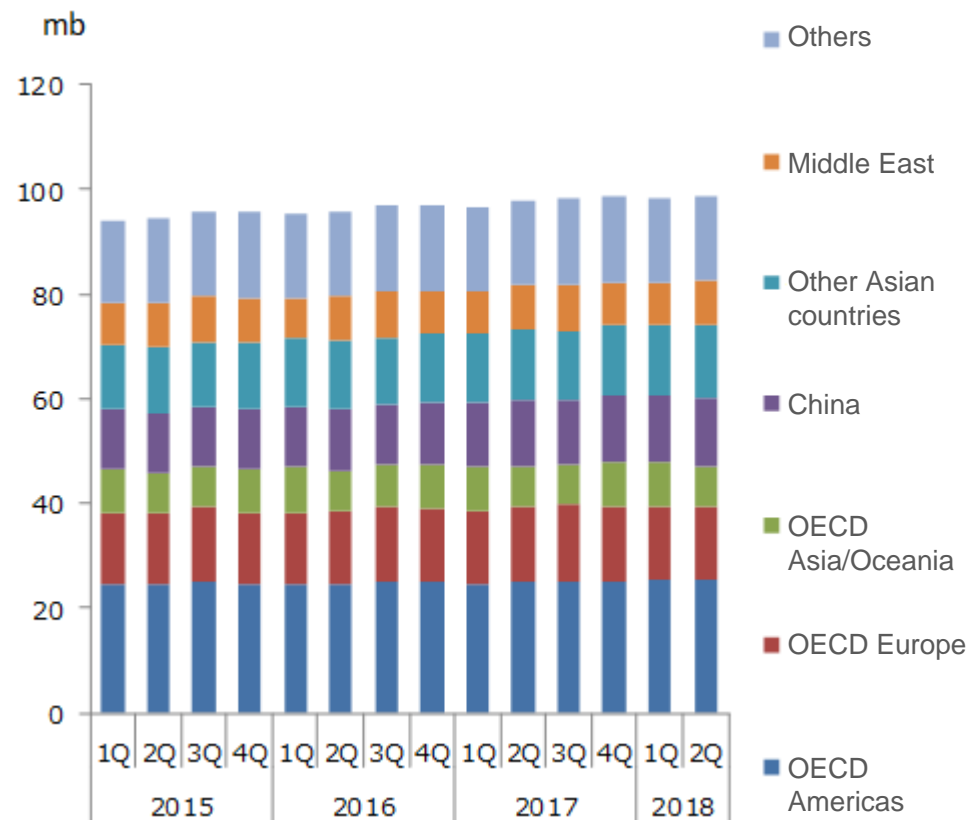
Fossil Fuels & International Cooperation Unit

Points of this report

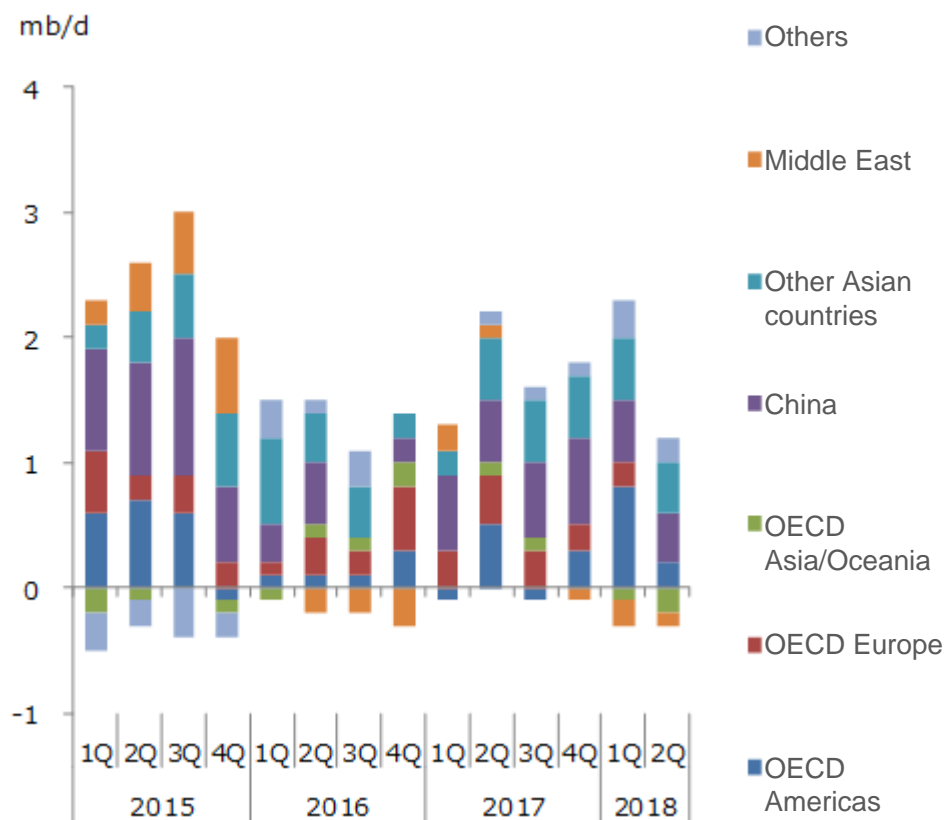
- ✓ Demand will increase by 1.3 mb/d from 2018 to 2019. Saudi Arabia and some other oil producing countries will increase production to cover output falls in Iran and Venezuela. The increase will be combined with U.S. output expansion to cause a slight oversupply in 2019.
- ✓ International (Brent) crude oil price will average at \$75/bbl in the second half of 2018 and at \$70/bbl in 2019, with higher price volatility.
- ✓ 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.

Oil demand

Demand



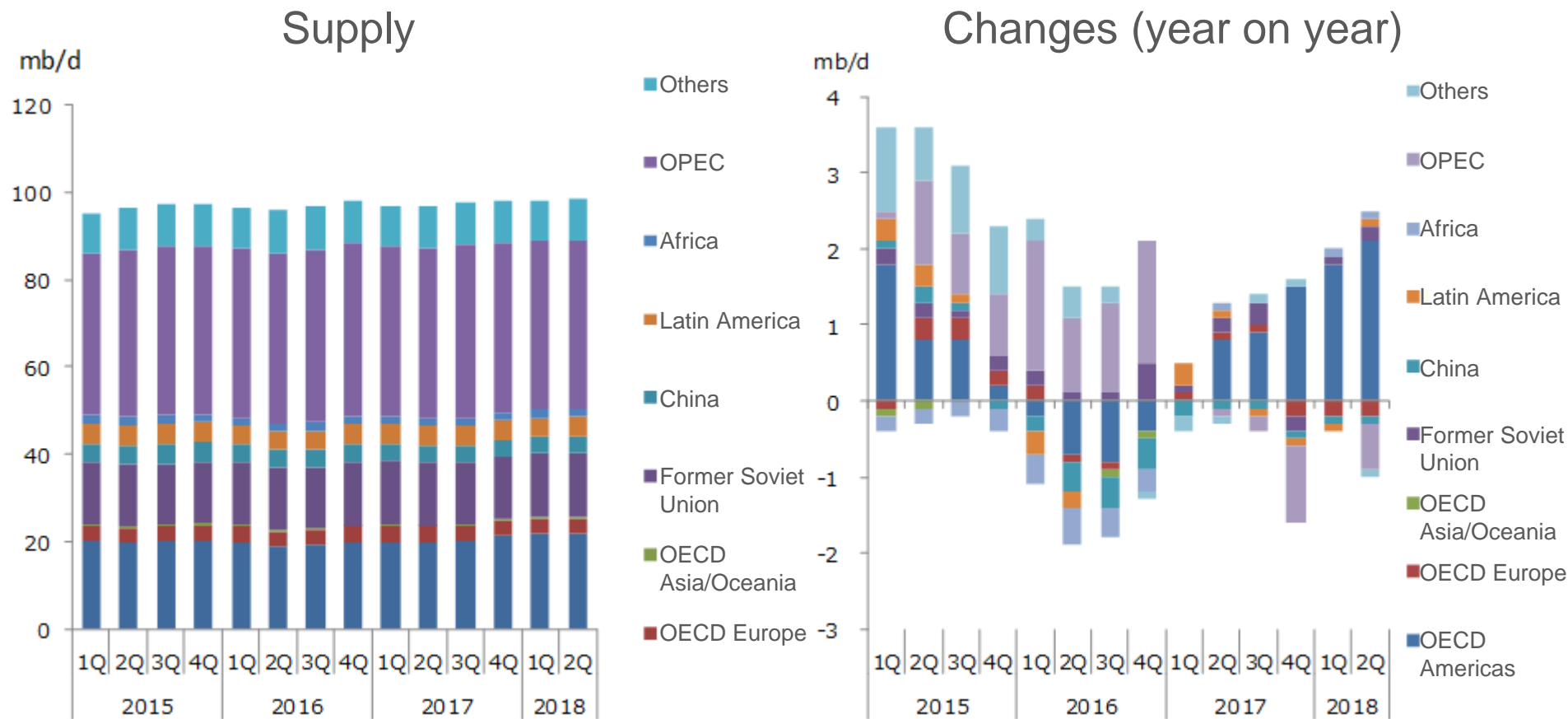
Changes (year on year)



Source: IEA "Oil Market Report"

- 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.

Oil supply

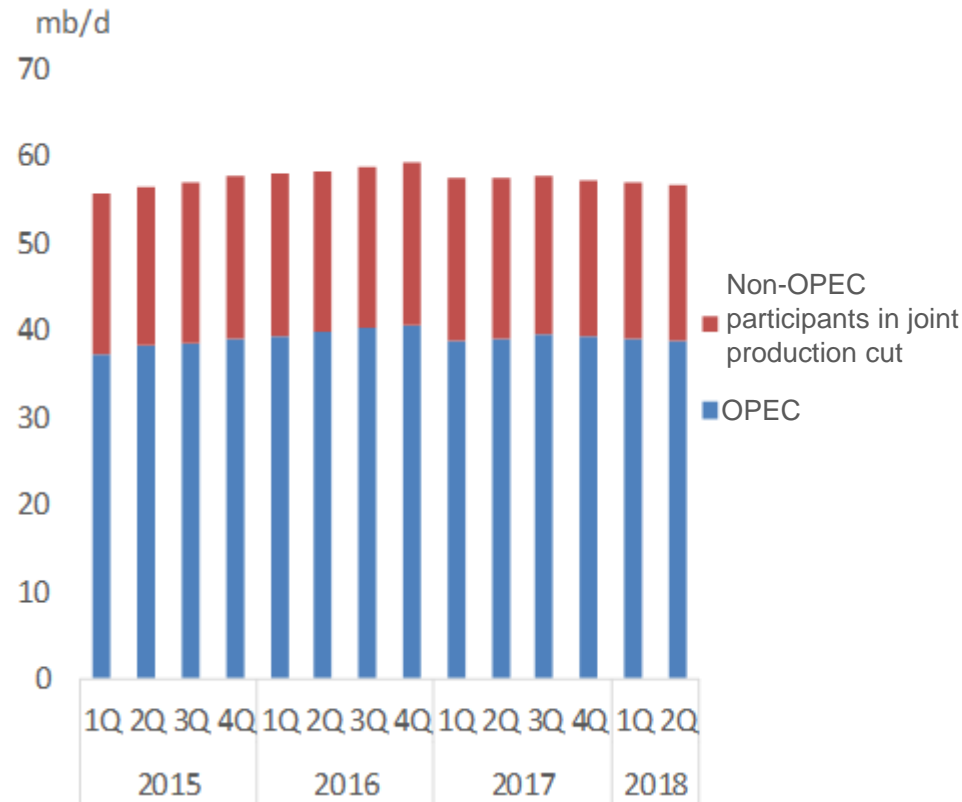


Source: IEA “Oil Market Report”

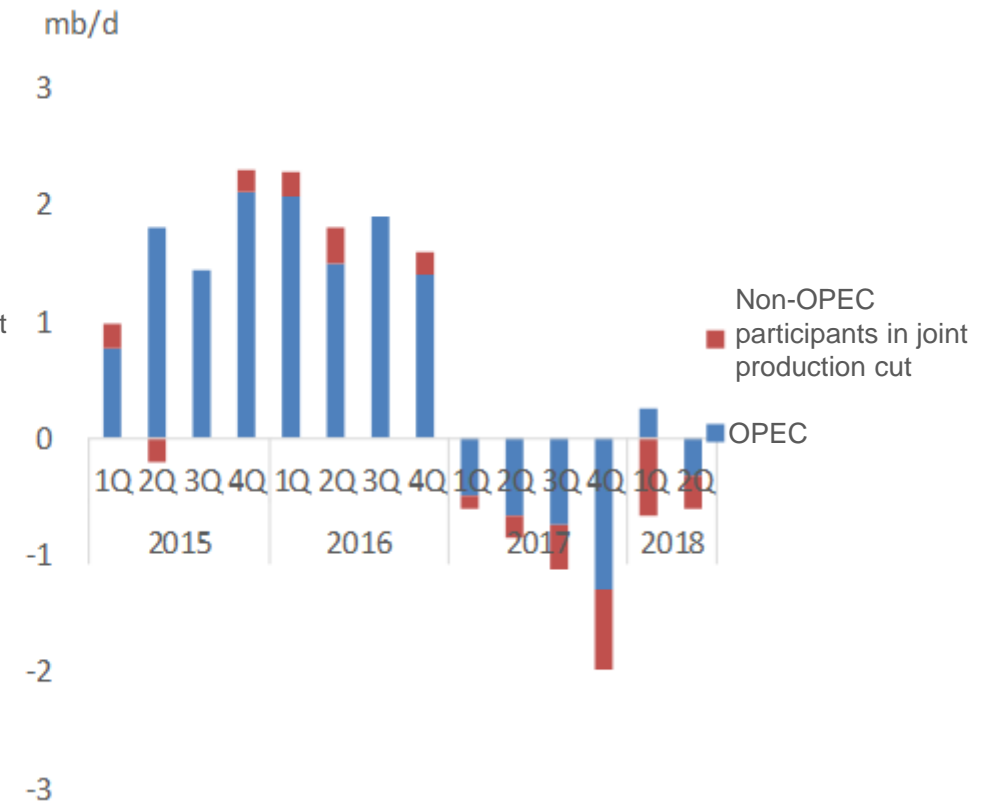
- Supply in 2Q 2018 increased by 1.5 mb/d or 1.5% to 98.5 mb/d. The quarter saw some undersupply.
- Joint oil production reduction by OPEC and non-OPEC oil producing countries successfully led supply to slip below demand from 2Q 2017.

OPEC/non-OPEC joint production cut

Production



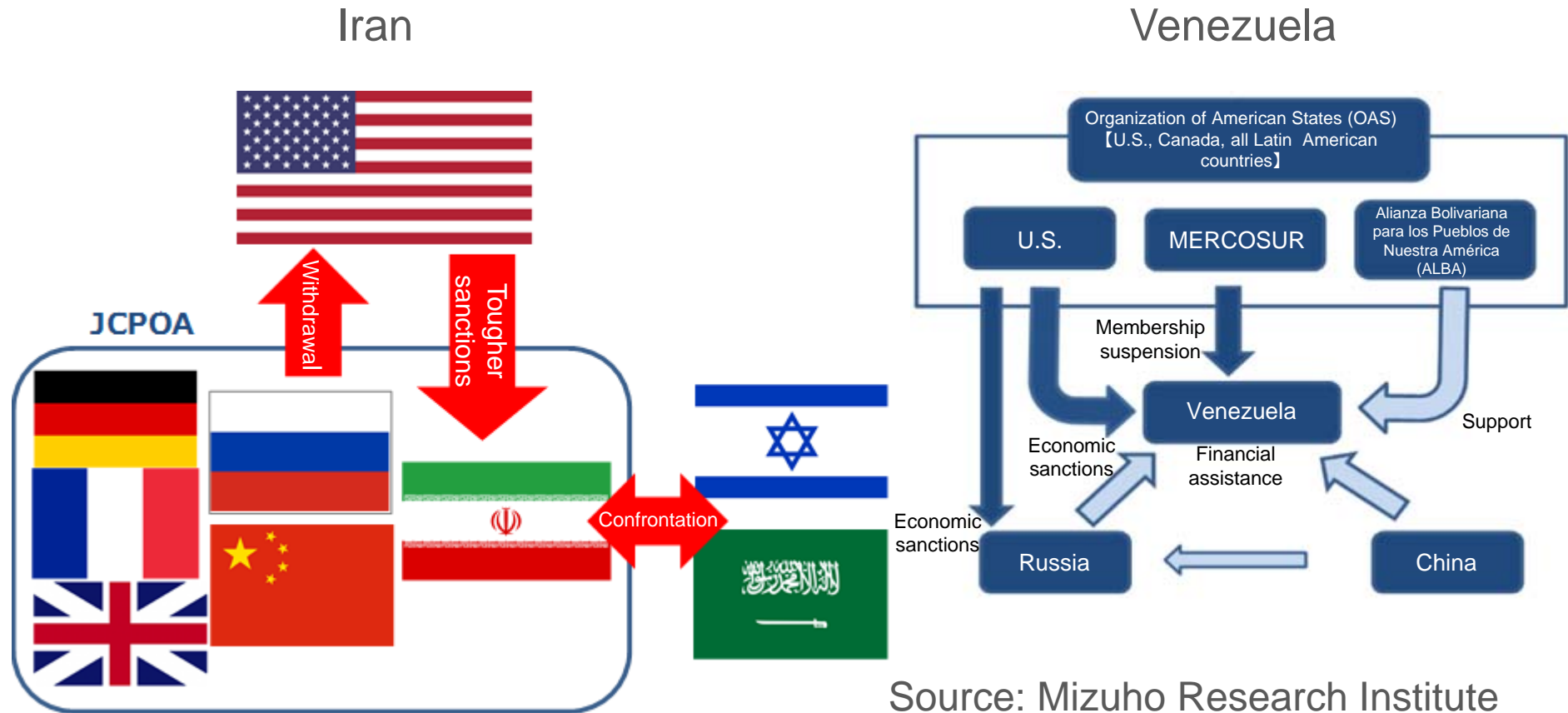
Changes (year on year)



Source: OPEC "Monthly Oil Market Report"

- OPEC/non-OPEC oil producing countries decided to ease the production cut at their June 22-23 meeting. Mainly Saudi Arabia is expected to increase production.
- A decline in surplus production capacity could increase the price volatility.

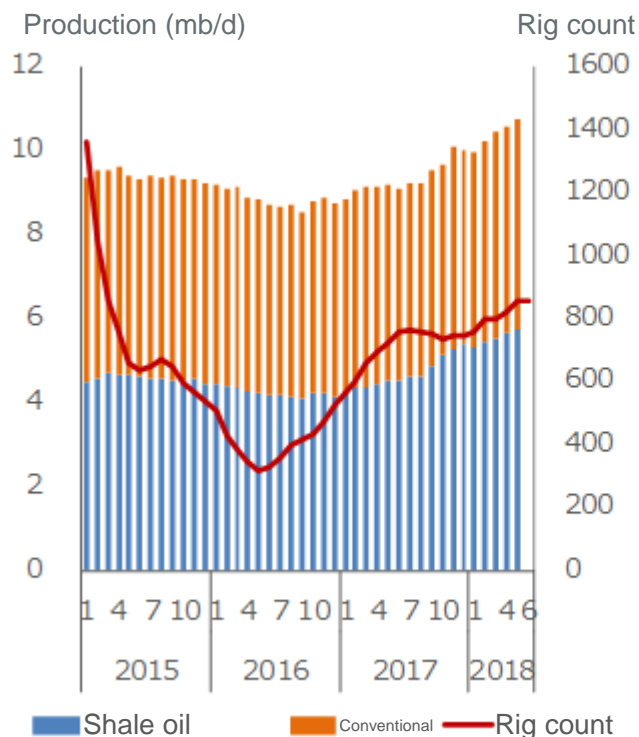
Iranian and Venezuelan production cuts



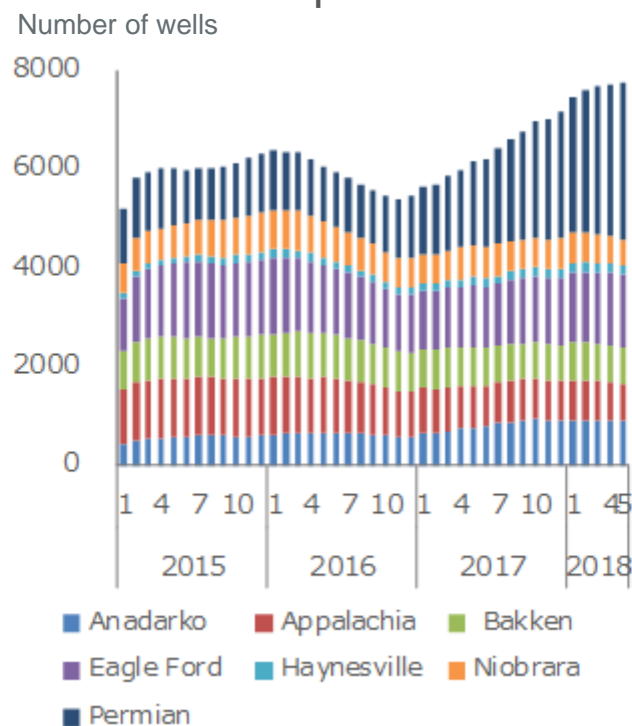
- In May, the U.S. announced to withdraw from the Iran nuclear deal and impose additional sanctions on Venezuela.
- Iranian oil production fall from June 2018 could reach 1 mb/d by December 2018 and expand to 1.5 mb/d by the end of 2019.
- Production expansion in Saudi Arabia and some other countries is assumed to offset production falls in Iran and Venezuela.

U.S.

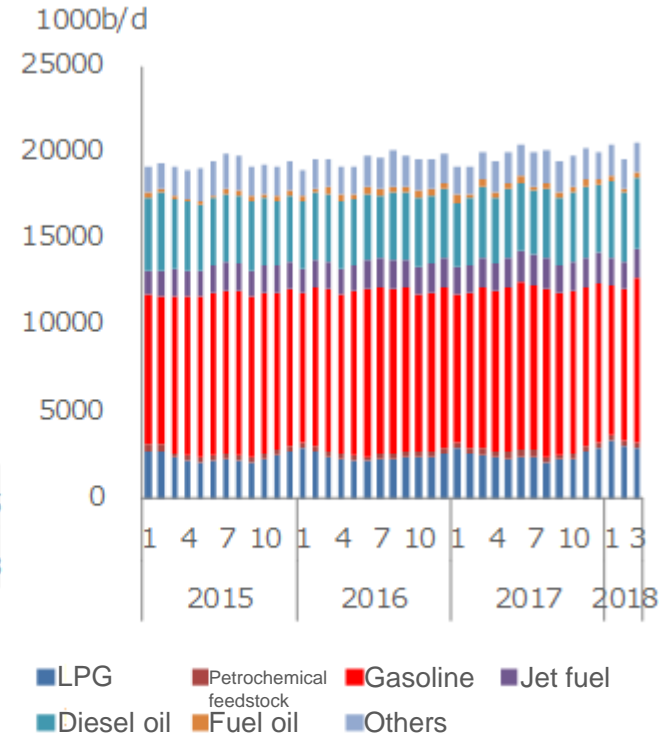
Production and rig count



Number of drilled and uncompleted wells



Demand by product

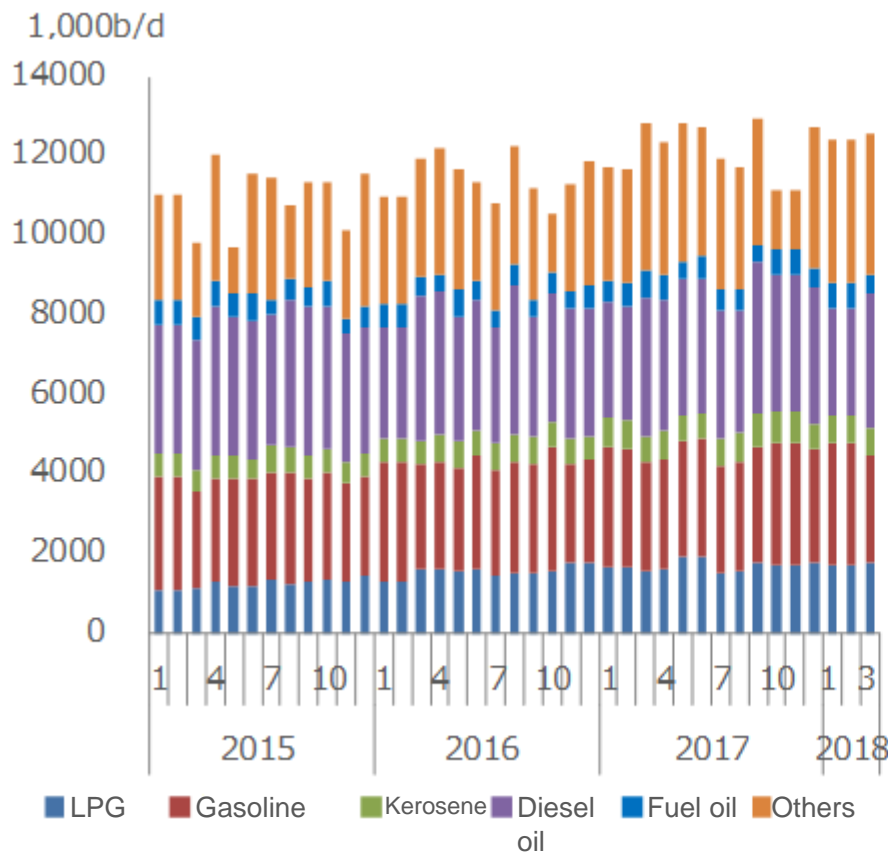


Source: EIA, Baker Hughes “North America Rig Count”

- U.S. oil production in 1Q 2018 increased by 1.23 mb/d or 13.7% year on year to 10.24 mb/d. Demand expanded by 0.73 mb/d or 3.8% to 20.22 mb/d.
- The Energy Information Administration projects U.S. oil production to rise by 1.4 mb/d from 2018 to 2019.

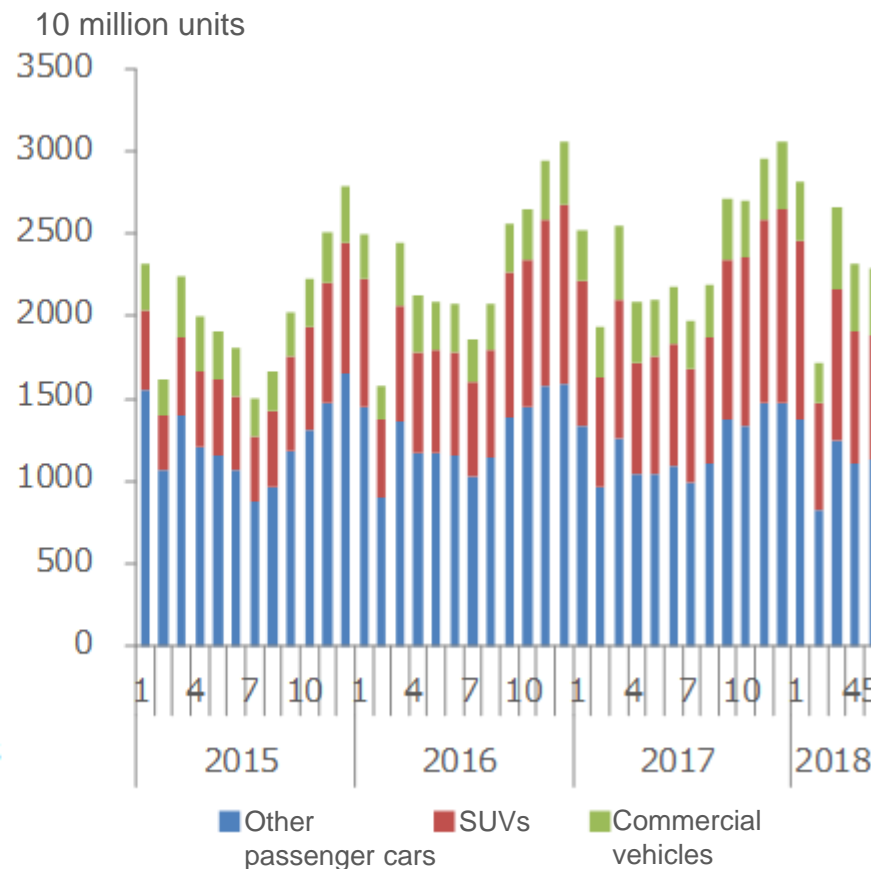
China

Demand by product



Source: APEC “EGEDA Database”

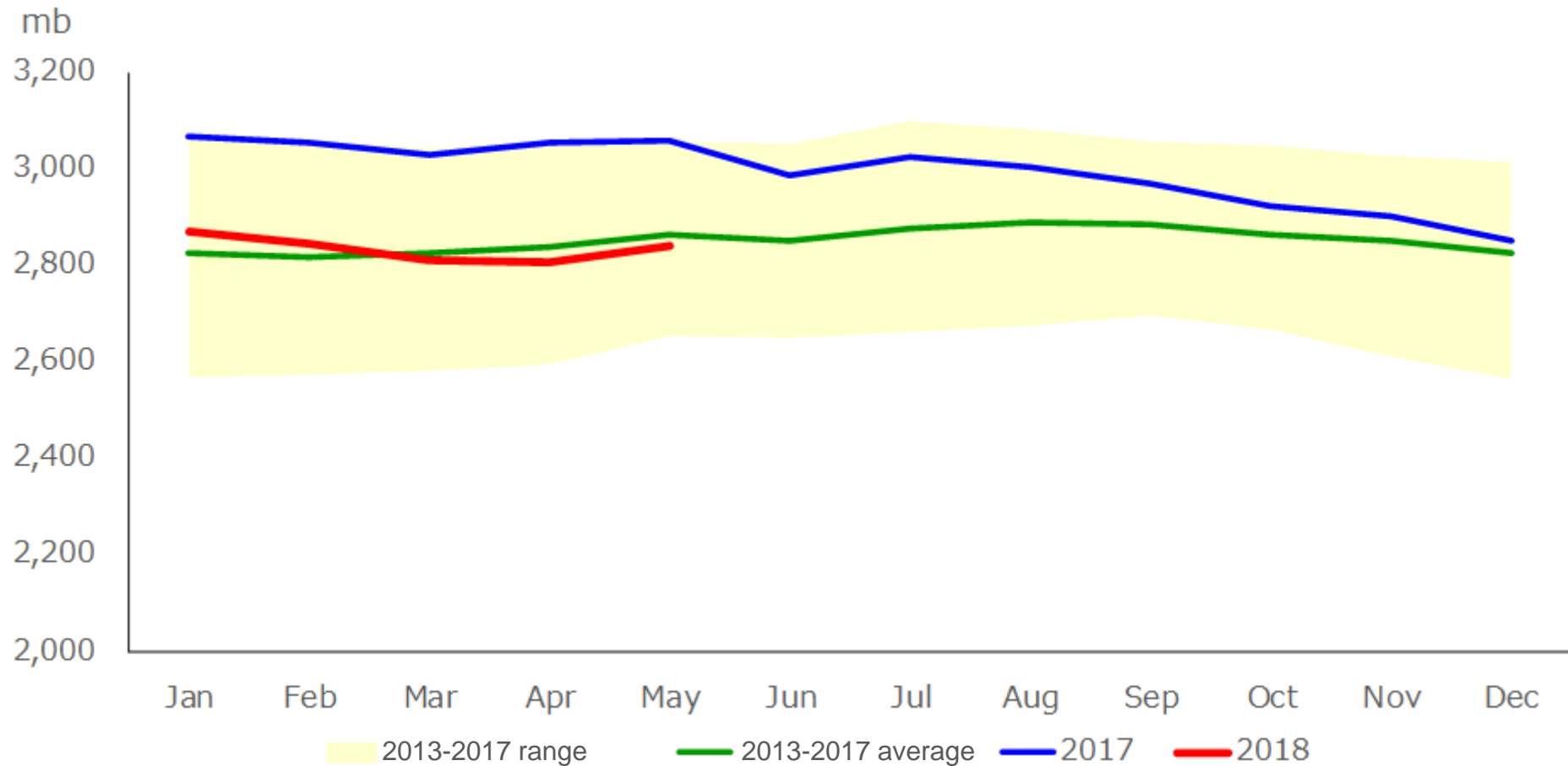
New vehicle sales



Source: China Association of Automobile Manufacturers

- Demand in 1Q 2018 increased by 0.38 mb/d or 3.1% to 12.48 mb/d.
- “Others” viewed as including petrochemical feedstock accounted for most of the demand increase.
- New vehicle sales in January-May 2018 posted a robust year-on-year increase of 610,000 units or 5.4%.

Inventories

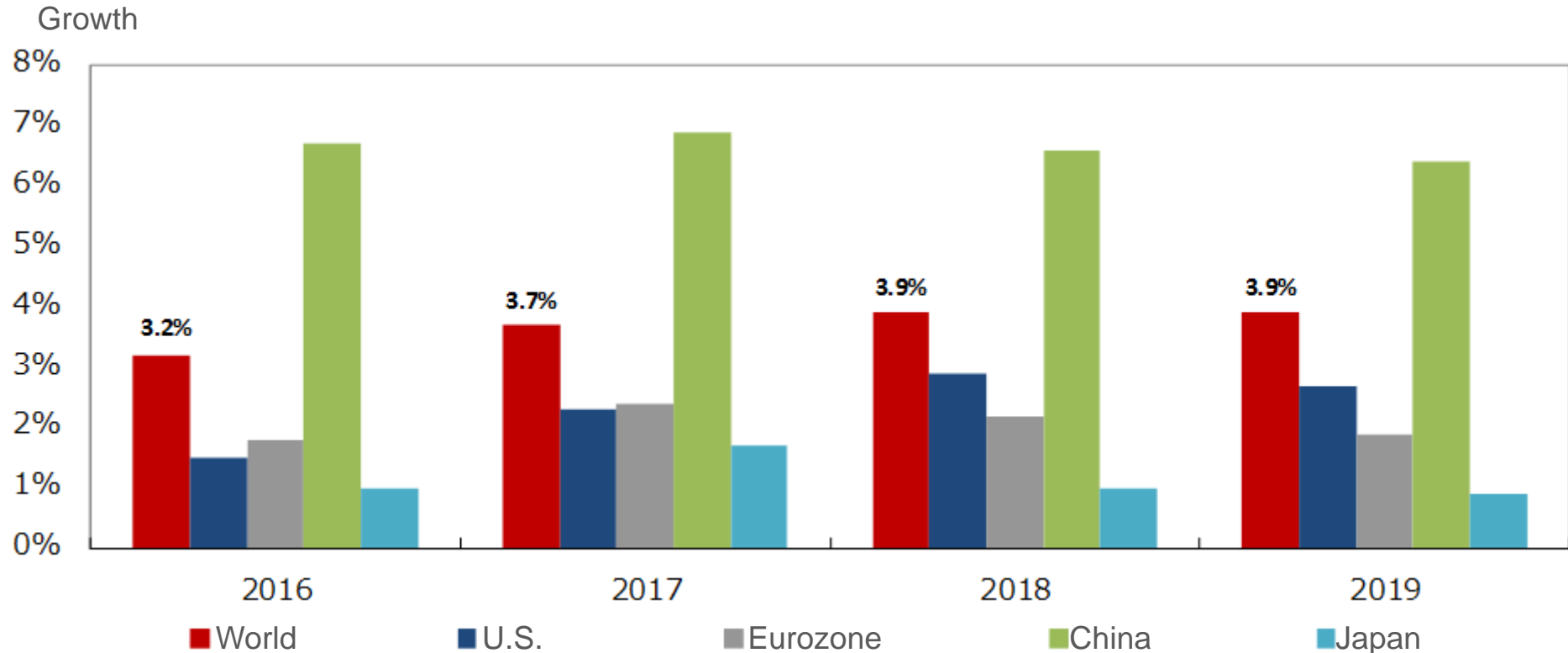


Source: IEA "Oil Market Report"

- OECD commercial stocks slipped below a five-year average in March 2018.
- Falling inventories have supported crude oil prices.

Macroeconomic conditions

GDP growth outlook

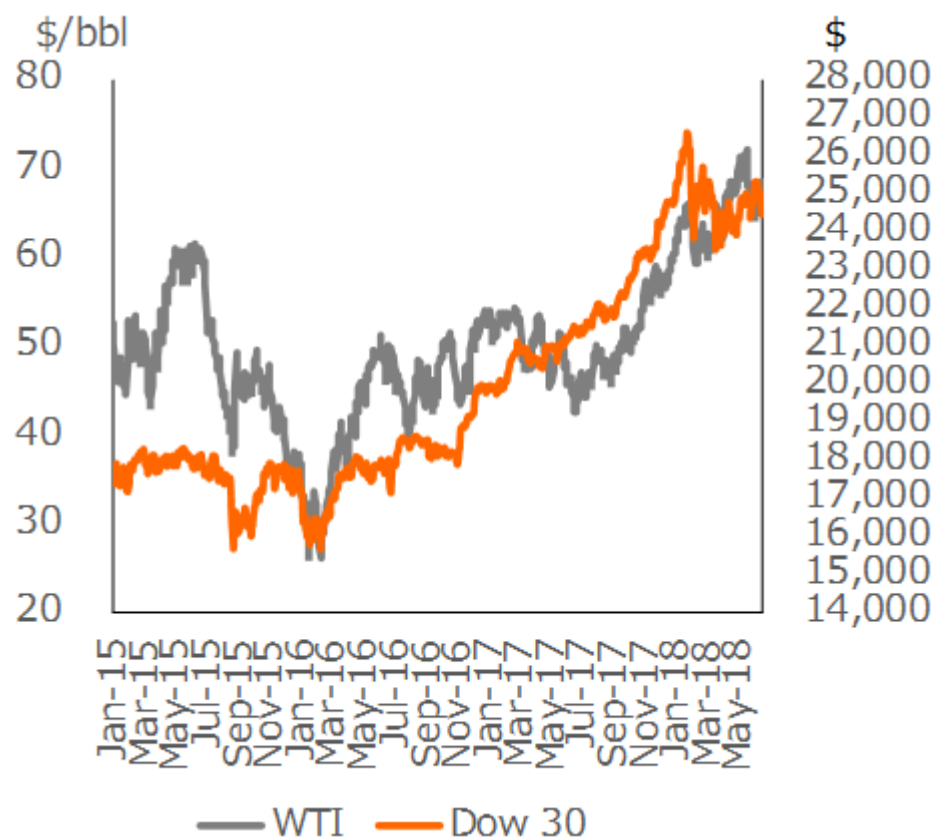


Source: IMF “World Economic Outlook”

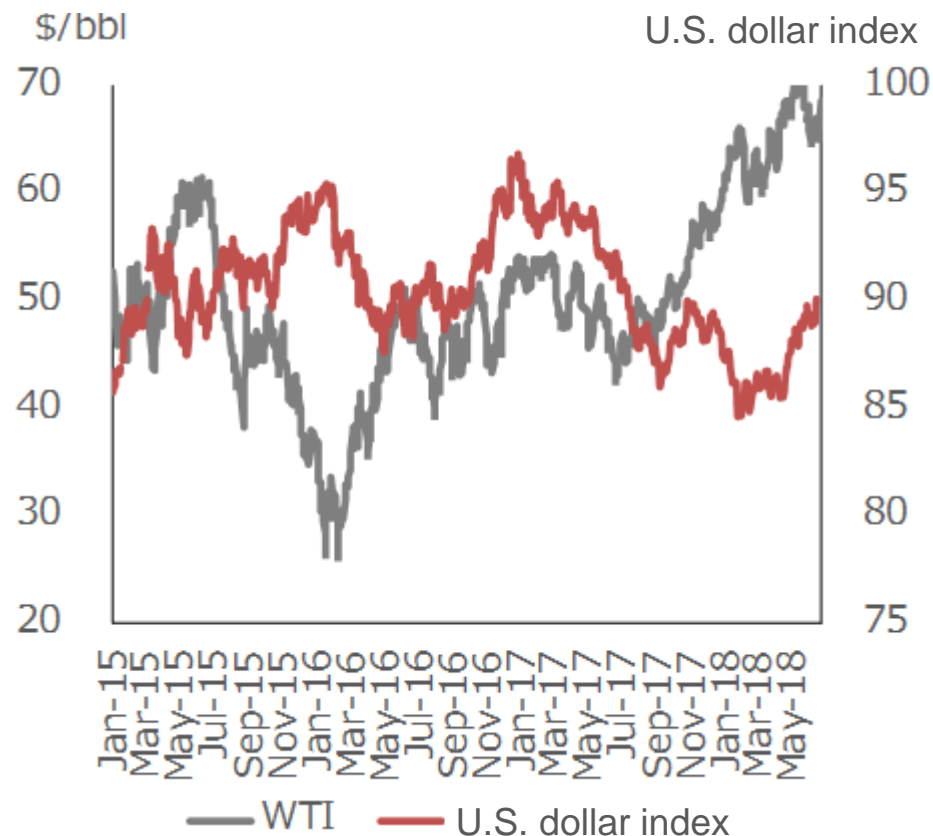
- The IMF maintains its 2018-2019 GDP growth projection at 3.9%.
- However, the escalation of trade war, U.S. interest rate increase’s impacts on emerging countries and geopolitical risks are recognized as risks.
- Particularly, attention should be paid to the escalation of trade war as a downside risk for crude oil prices.

Financial markets

Oil and stock prices



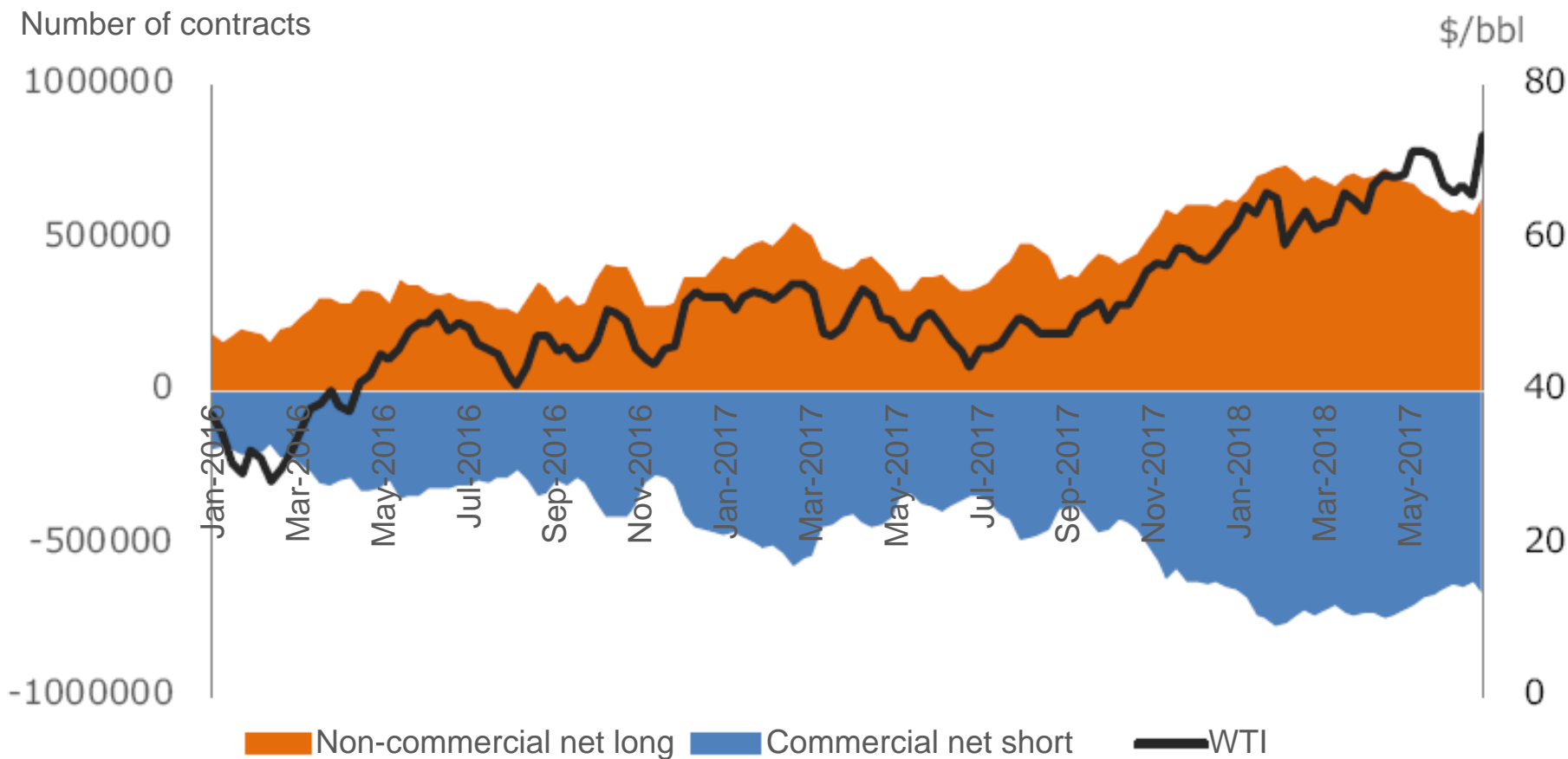
Oil price and exchange rate



Source: FRB statistics

- Since a dive in February 2018, the Dow 30 has failed to rise to a new record high.
- The Federal Reserve intends to raise interest rates twice in 2018 while President Trump remains reluctant to see any rate increase.
- Financial market turmoil on trade war will have negative effects on crude oil prices.

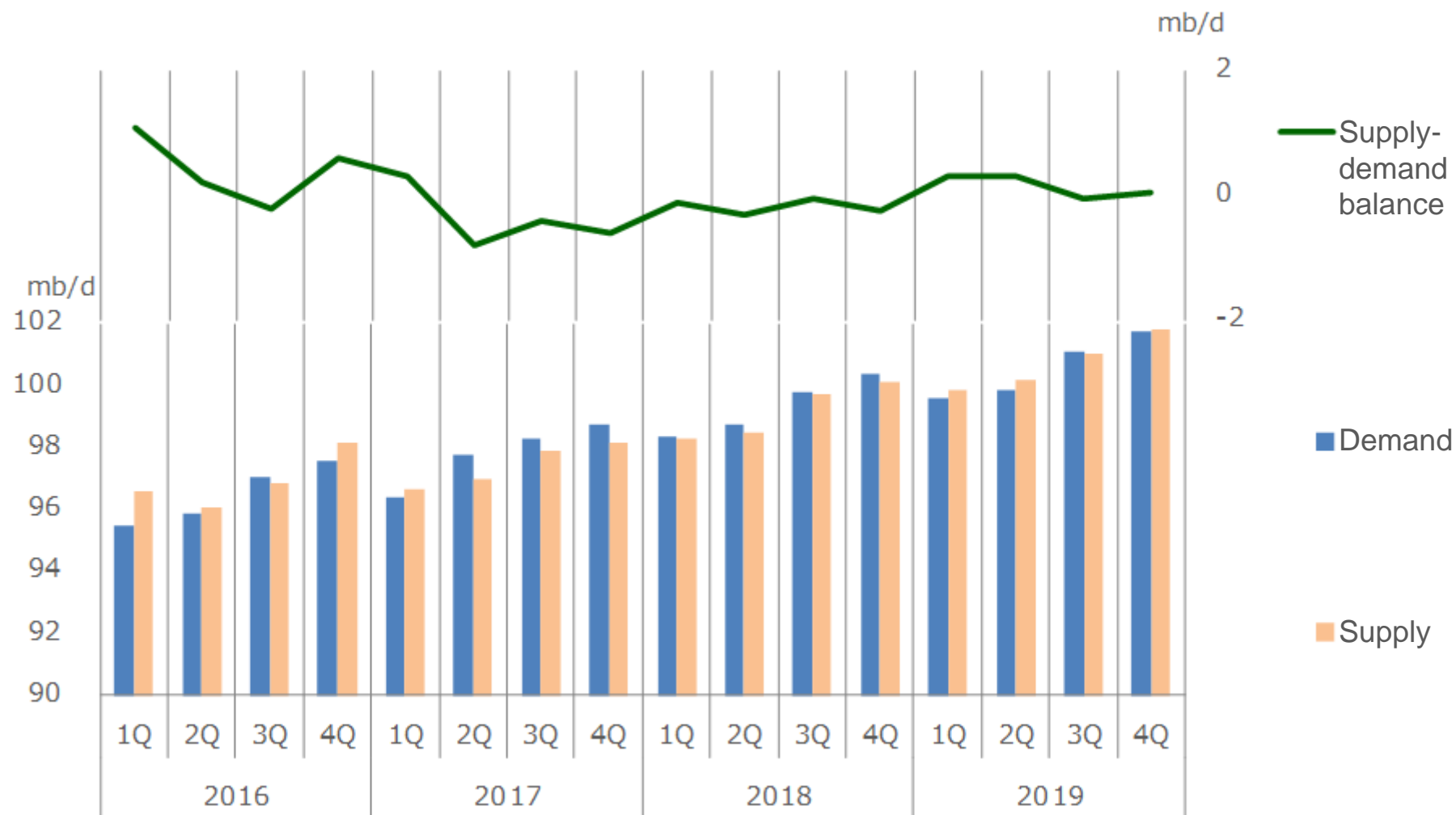
WTI futures positions



Source: CFTC

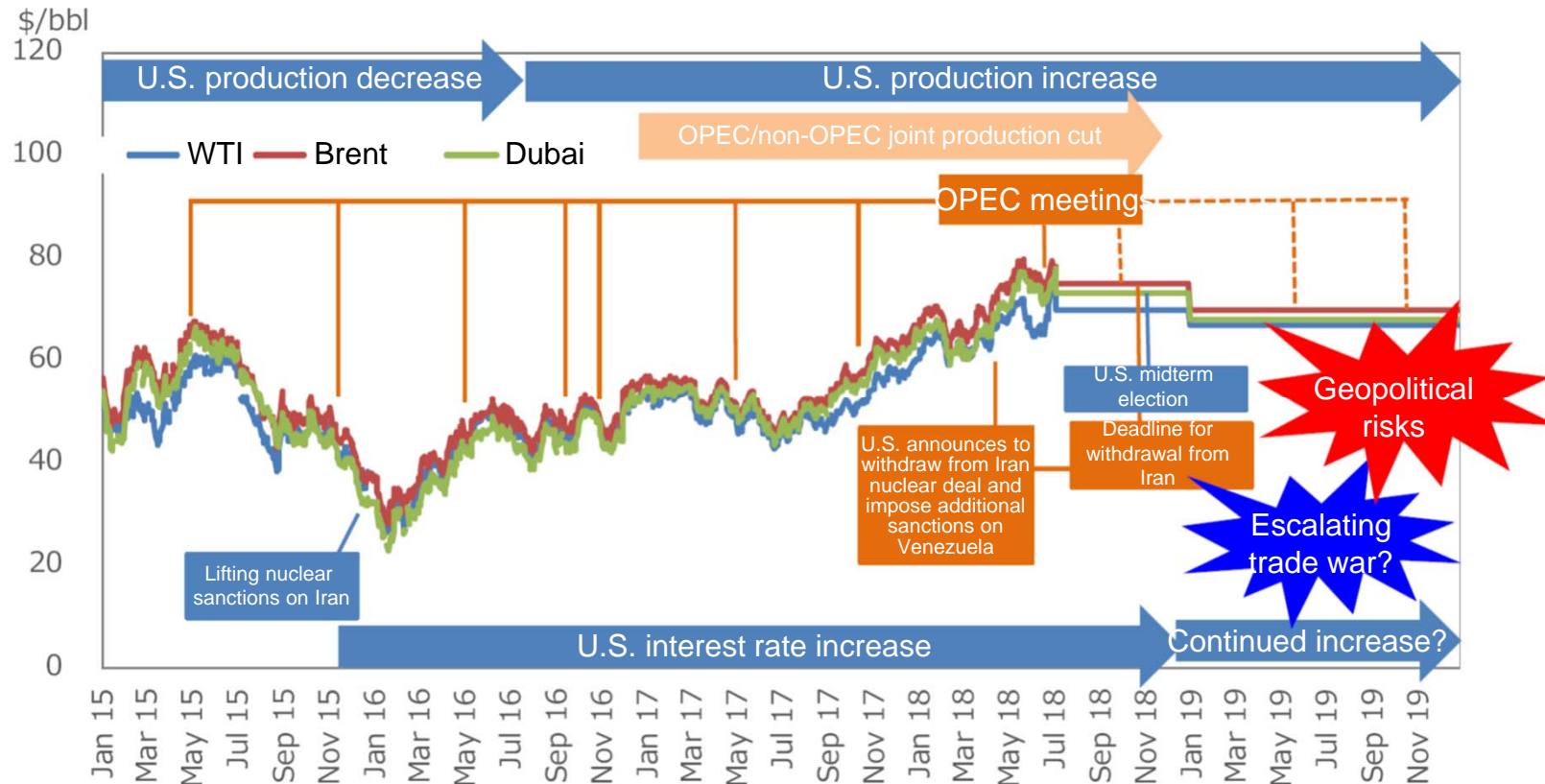
- Non-commercial net long positions, which have followed a downtrend since March, would rise back in response to concerns about supply disruptions?
- Most independent oil producers seem to have hedged their 2018 production at \$50-60/bbl.

Supply-demand balance



- 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) in 2019.

Crude oil price outlook



- 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.
- Major uncertain factors include large disruptions to oil supply amid rising Middle East geopolitical risks involving Iran's production fall and the possibility of terrorism and safety in the Hormuz Strait, and the fate of U.S.-China trade war.