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Outlook for International Oil Market

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Tetsuo Morikawa
Senior Economist, Manager, Oil Group
Fossil Energies & International Cooperation Unit
The Institute of Energy Economics, Japan

**Crude oil prices and global oil supply/demand in 2020**

1. Global oil demand will average 101.5 mb/d in 2020, up 1.2 mb/d from the previous year. Supply will rise by 1.0 mb/d to 101.3 mb/d, meaning that demand will be 0.2 mb/d more than supply or that inventories will decrease accordingly.

2. The average international (Brent) crude oil price will stand at $65/bbl in 2020. Uncertainties exist about a price hike through geopolitical risks such as growing Middle East tensions or through supply disruptions in oil-producing countries and about a price drop through the OPEC-plus’s easing of joint oil production cuts or economic growth deceleration for instance on a breakdown in U.S.-China trade talks.

**Global oil supply and demand**

3. Global oil demand in 3Q 2019 totaled 100.9 mb/d, up 0.9 mb/d or 0.9% from the same quarter of 2018. Demand weakened as an OECD demand fall countered a non-OECD demand rise.

4. Global oil production in 3Q 2019 decreased by 1.2 mb/d or 1.2% from the same quarter of 2018 to 100 mb/d. OPEC production decreased, with OECD Americas production decelerating growth.

**Trends in OPEC and other major countries**

5. The OPEC-plus group at its meeting on December 5-6 agreed to expand its joint production cuts by 0.5 mb/d to 1.7 mb/d. Furthermore, Saudi Arabia and some others offered to voluntarily deepen their production cuts, leading the group’s production cuts to swell to 2.1 mb/d. We predict the group to maintain the joint production cuts at that level until the end of 2020 to support prices.

6. U.S. oil production in 3Q 2019 increased by 1.0 mb/d or 8.5% year on year to 12.2 mb/d. U.S. oil exports posted a rapid increase of 0.78 mb/d or 37.7% to 2.84 mb/d in the quarter. Shale oil productivity is still rising. Producers in Permian basin that is
driving the production growth are incentivized for expansion on the easing of pipeline capacity constraints. According to the Energy Information Administration, U.S. oil production will keep on increasing in 2020 while decelerating growth from the previous year to 1.0 mb/d.

7. In China, oil demand in 3Q 2019 increased by 0.82 mb/d or 6.5% year on year to 13.5 mb/d. Oil refining capacity continued expanding, with petroleum products supply increasing despite economic deceleration.

Inventories and financial markets
8. OECD commercial oil inventories in October 2019 stood at 2.93 billion barrels, falling to the five-year average for the first time in 2019 due to a decline in U.S. inventories.

9. In its World Economic Outlook released in October 2019, the IMF revised a global economic growth projection downward again to 3.0% for 2019 and 3.4% for 2020, citing the U.S.-China trade war, geopolitical risks and the vulnerability of emerging market economies as risks to the world economy. Given uncertainties about the effectiveness of the Phase 1 U.S.-China trade deal and uncertainty of the Phase 2 talks, U.S.-China relations will continue to pose a risk to the world economy.

10. U.S. stock prices rose to record highs in December 2019 on the Phase 1 U.S.-China trade deal and brisk corporate earnings. As the Federal Reserve has increasingly been expected to suspend interest rate cuts, the U.S. dollar index has been falling moderately since September.

IMO regulation
11. As the International Maritime Organization toughens a regulation on the sulfur content in bunker fuel, 2.1 mb/d in demand for high-sulfur fuel oil for ships is expected to be lost. HSFO’s price gaps with marine gasoil and very low-sulfur fuel oil expected to replace HSFO as bunker fuel could widen further. Under the tougher IMO regulation, demand will increase for low-sulfur (light) crude oil. Attention may be paid to how the price gap between heavy and light crude oil would change.

Japanese market
12. In 3Q 2019, fuel oil sales in Japan decreased by 0.87 million KL or 2.2% year on year to 394.84 million KL (2.7 mb/d), with exports increasing by 0.79 million KL or 9.8% to 89.65 million KL (0.6 mb/d). Oil refineries’ capacity utilization rate has remained high. Japanese oil refiners are ready to supply low-sulfur bunker fuel, but will be required to hold down HSFO production and optimize crude oil procurement.