

Global Crude Oil Markets

## OPEC agrees to extend its production cuts to bring about stock drawdowns

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## Opening lines

OPEC and its partners, notably including the world's largest oil producer Russia, formally agreed on 25 May 2017 to extend their supply restraint agreements for another nine months to the end of March 2018.

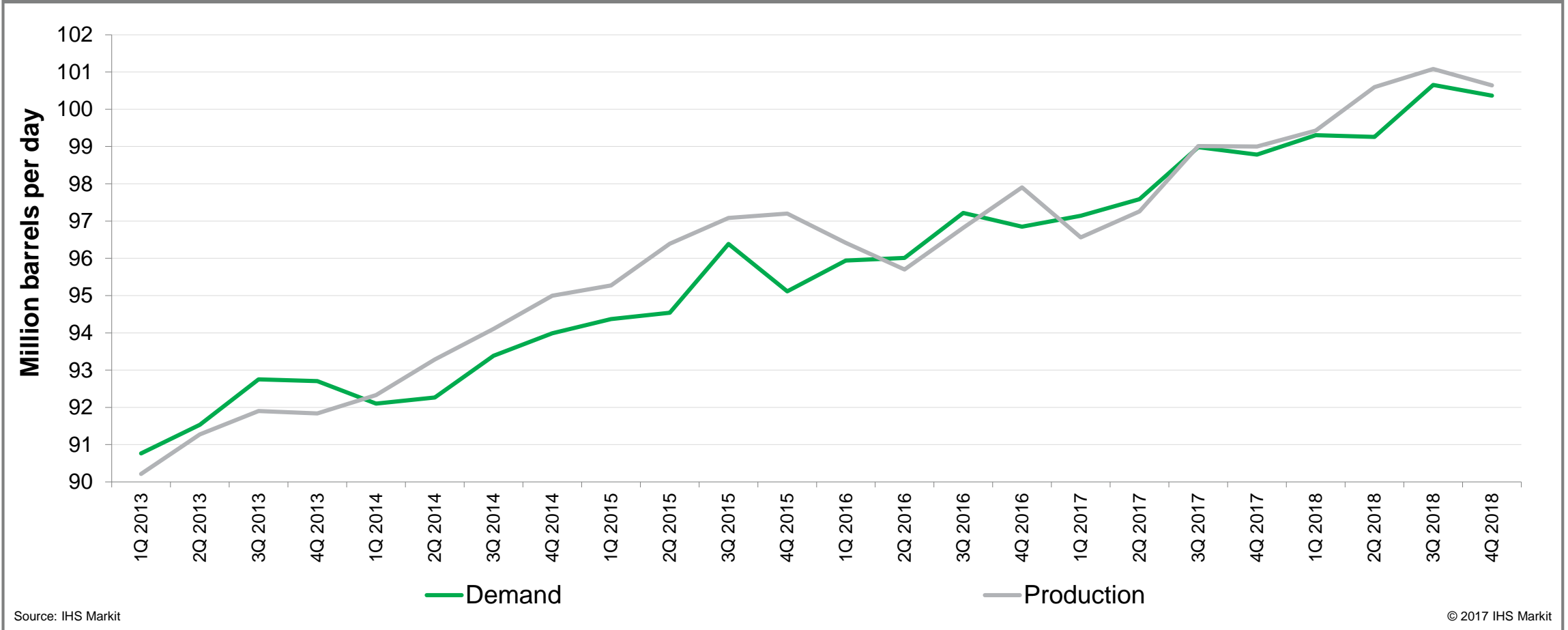
This reflects concern of a continuing substantial inventory overhang that continues to weigh on prices.

- OPEC and its partners are hunkering down for an extended price defense.
- The alliance of OPEC and non-OPEC producers is proving to be durable.
- But fast-rising U.S. shale output plus rising production from other countries continues to be a challenge.

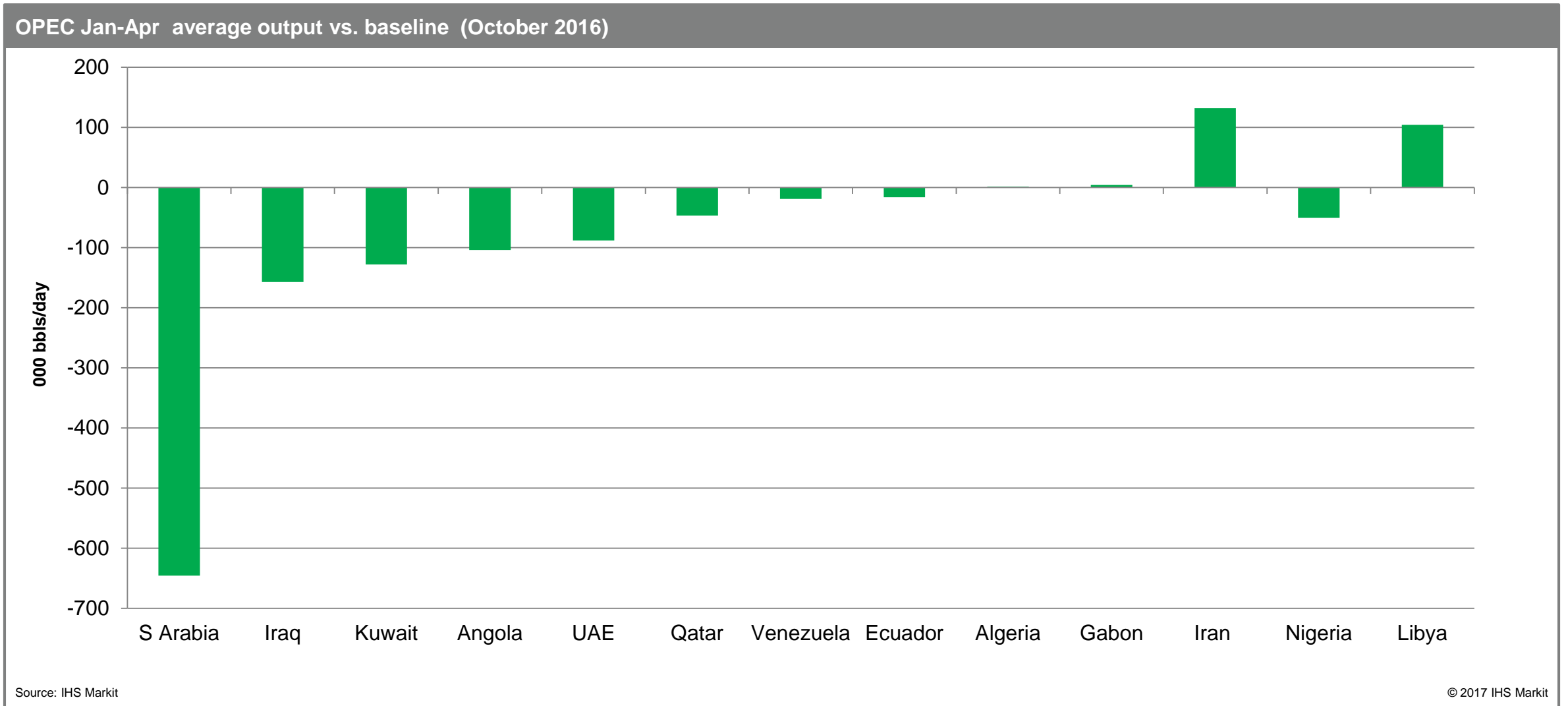
In fact, our balances suggest that “just” extending output cuts may not be enough to push global liquids production enough below demand to make a material dent in stocks. And this assumes robust expansion in world oil demand.

# Non-OPEC gains to help keep balances from tightening much—if at all—on average in 2017-18

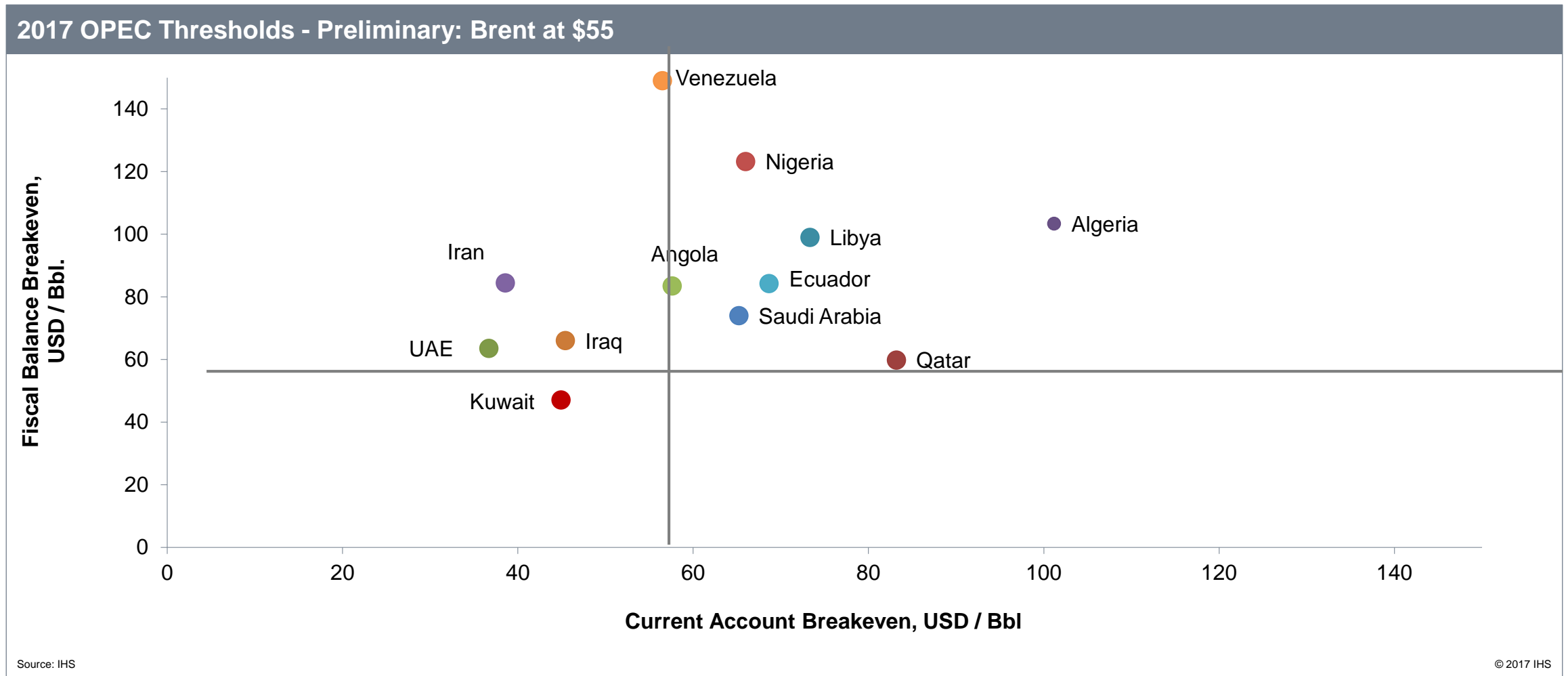
World oil (liquids) demand and production by quarter



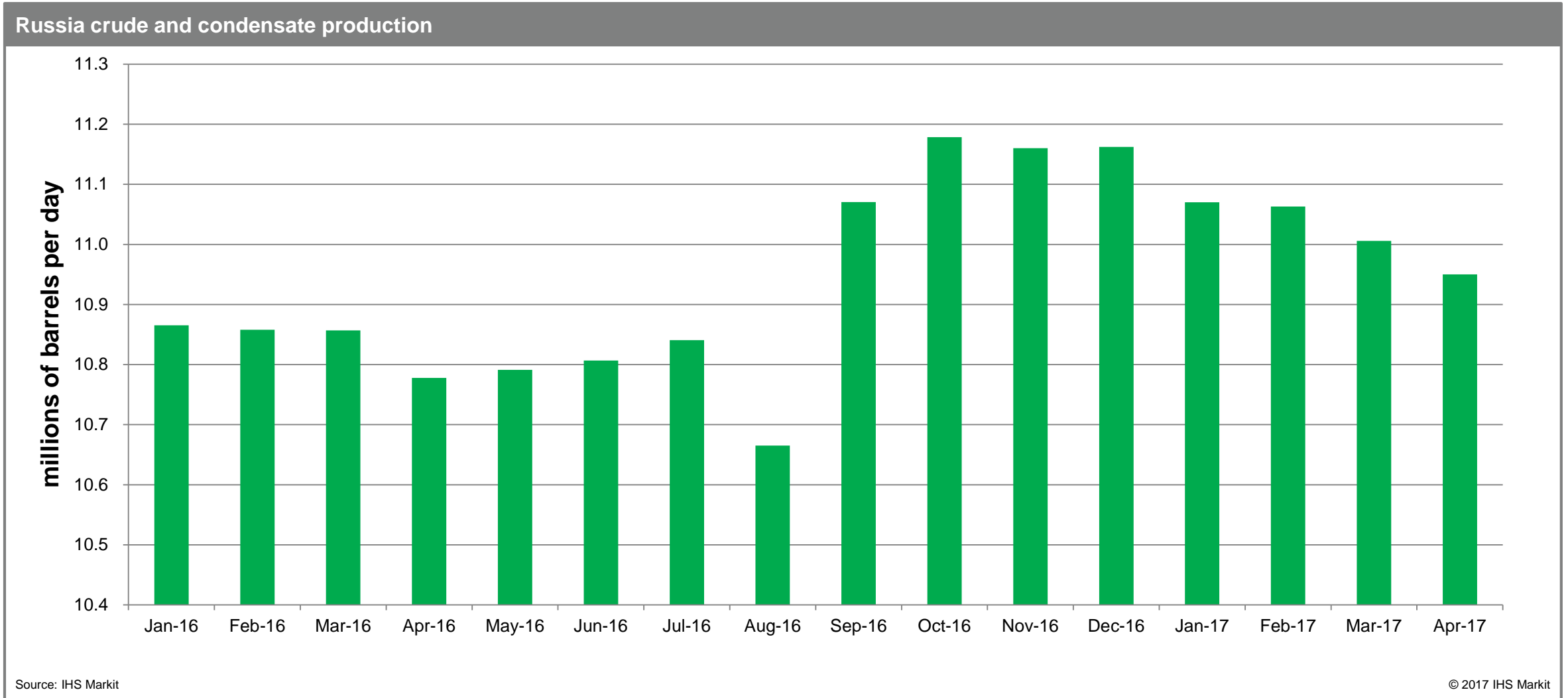
# OPEC compliance has remained high



# Preliminary calculations suggest several OPEC countries in balance on current account if Dated Brent at \$55

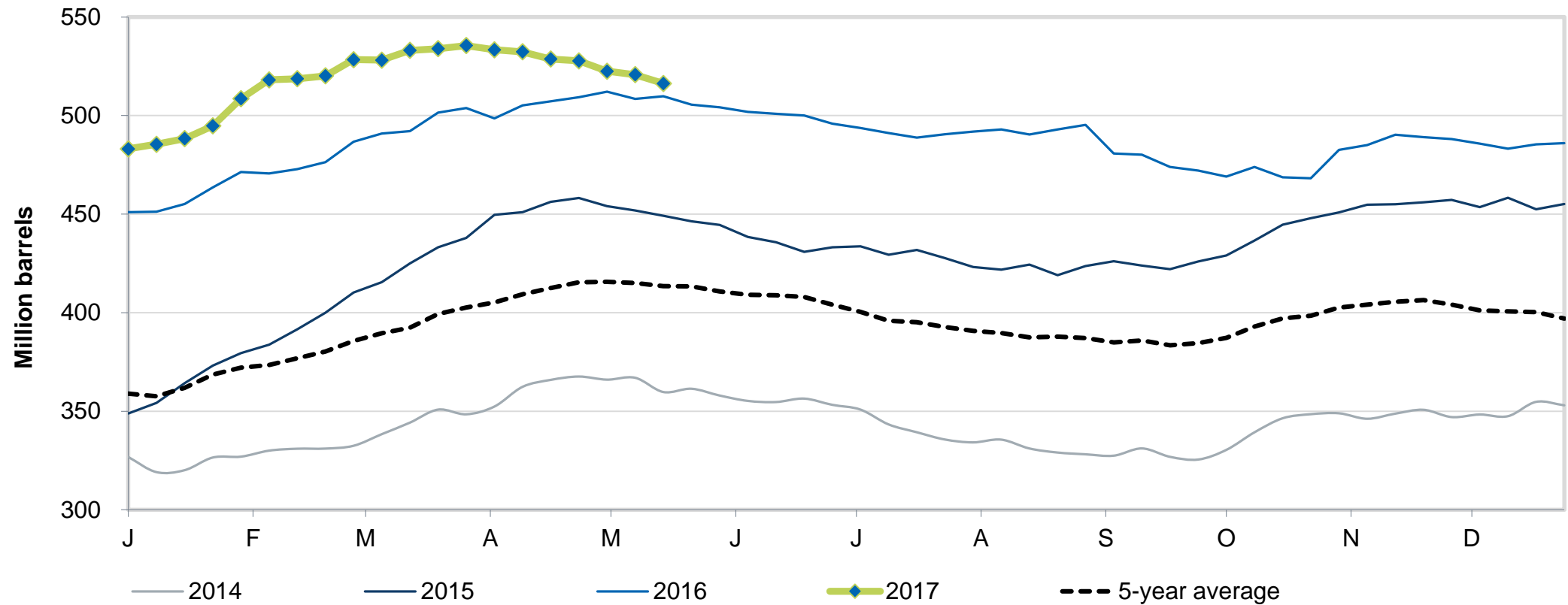


# Russian oil production restraint may continue



# US crude stocks remain near record levels

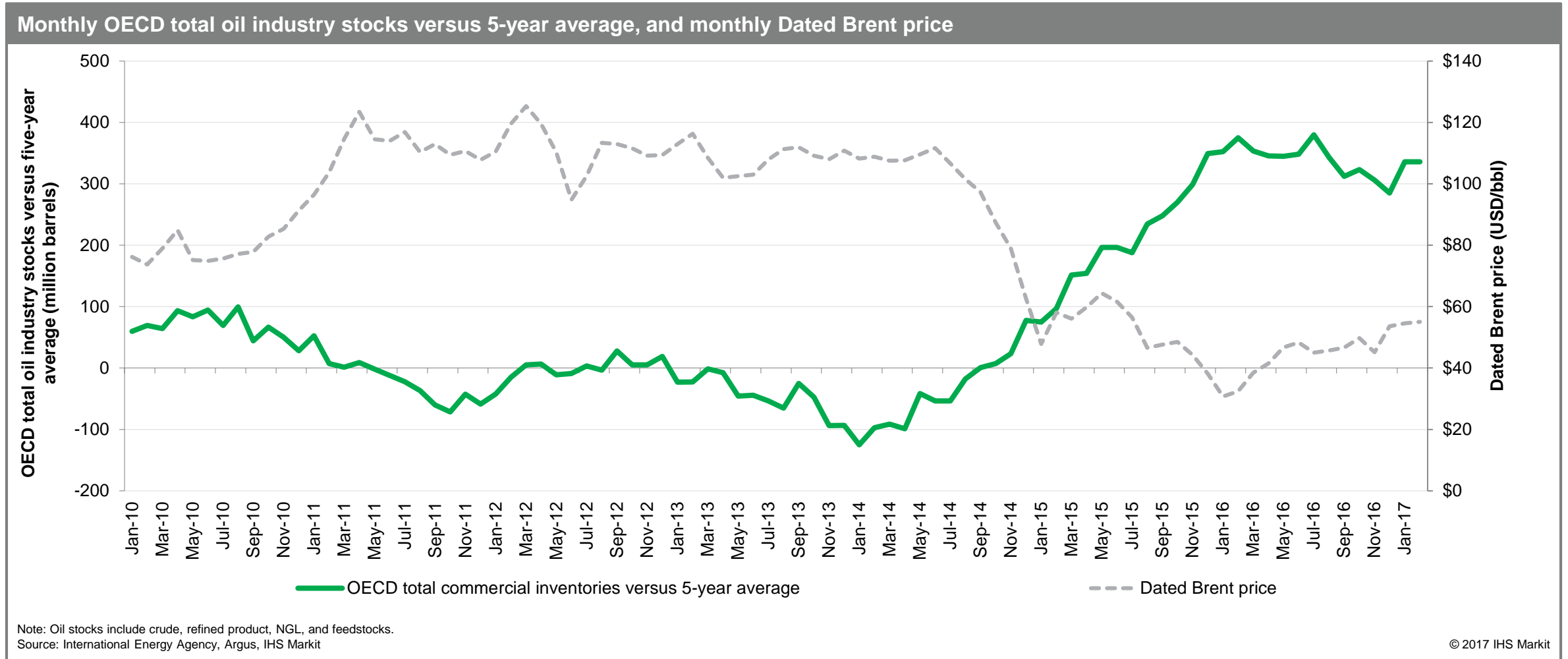
## US commercial crude oil inventories



Note: Data are weekly.  
Source: US Energy Information Administration

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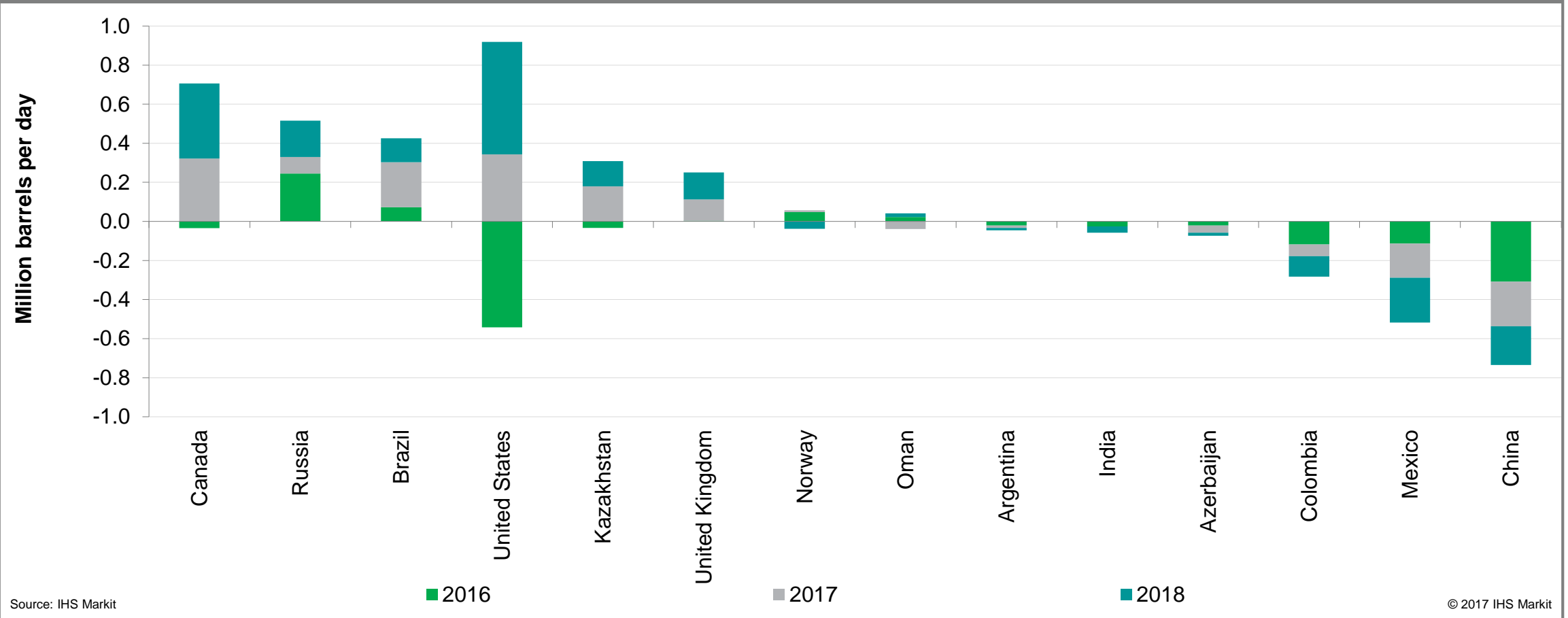
# A look back at OECD inventories and oil prices





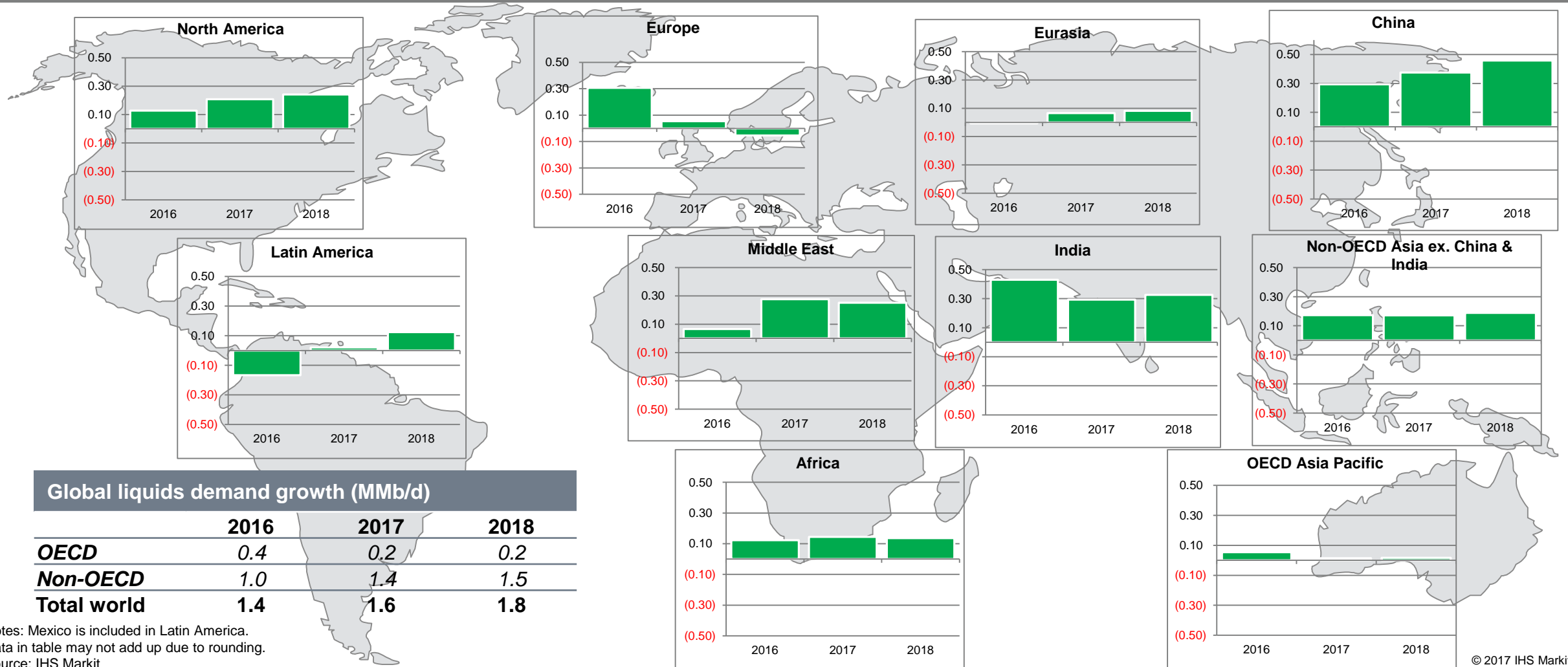
## Key messages for non-OPEC supply: Non-OPEC output growth will lessen effectiveness of OPEC output reductions

Annual change in crude oil production for selected non-OPEC countries, 2016–18



# Non-OECD Asia and Middle East to fuel world oil demand growth

Changes in oil (liquids) demand by region (volume change from previous year in million barrels per day)

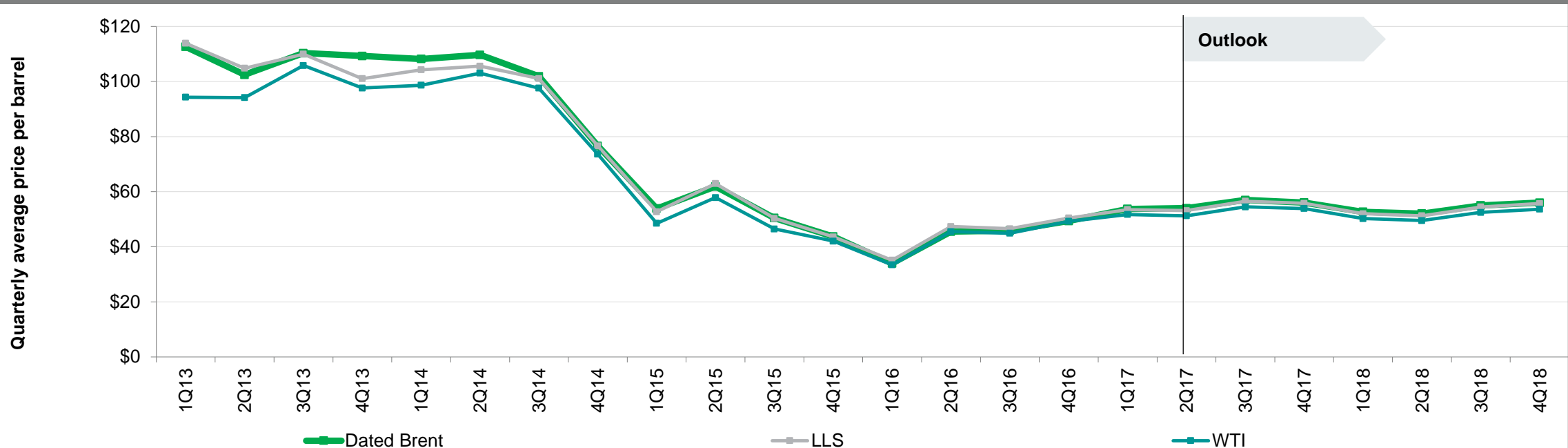


Global liquids demand growth (MMb/d)			
	2016	2017	2018
<b>OECD</b>	0.4	0.2	0.2
<b>Non-OECD</b>	1.0	1.4	1.5
<b>Total world</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>

Notes: Mexico is included in Latin America.  
Data in table may not add up due to rounding.  
Source: IHS Markit

# A more-or-less balanced oil market points to relatively steady prices this year

## Dated Brent and other benchmark crude price outlook to 2018



Notes: LLS = Louisiana Light Sweet. WTI = West Texas Intermediate.  
Source: IHS Markit, Argus Media Limited (historical)

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## Benchmark crude price outlook (dollars per barrel)

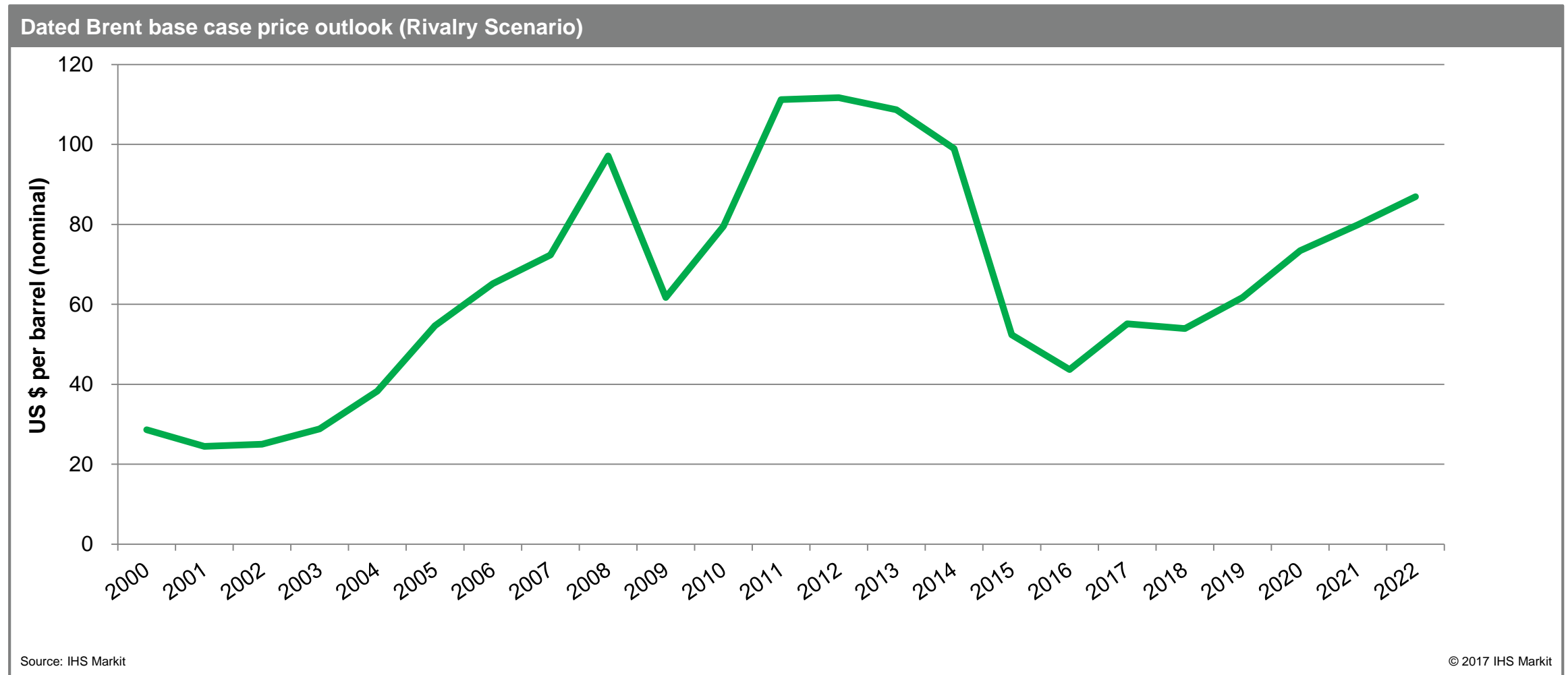
	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018
<b>Dated Brent</b>	\$50.44	\$43.71	\$33.95	\$45.51	\$45.80	\$49.35	\$53.70	\$54.02	\$56.98	\$56.03	\$52.66	\$52.02	\$54.98	\$56.00
<b>LLS</b>	\$50.32	\$43.56	\$35.12	\$47.33	\$46.53	\$50.42	\$53.47	\$53.11	\$56.52	\$55.78	\$52.00	\$51.24	\$54.44	\$55.69
<b>WTI</b>	\$46.47	\$42.03	\$33.41	\$45.50	\$44.88	\$49.23	\$51.73	\$51.22	\$54.50	\$53.87	\$50.22	\$49.49	\$52.47	\$53.63

Source: IHS Markit, Argus Media Limited (historical)

# Supplemental slides

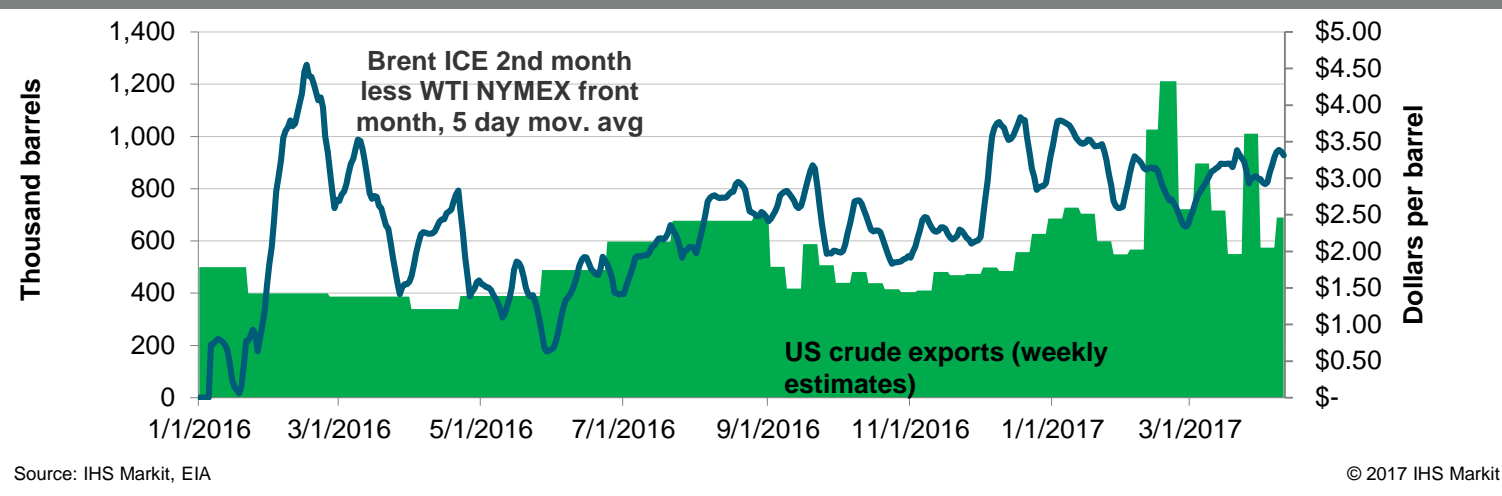
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# Oil price outlook to 2022 in IHS Markit base case

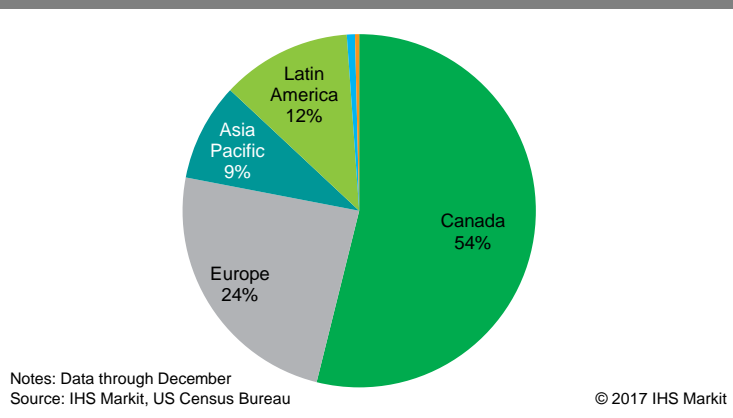


# US crude exports exceed 1 MMb/d; Asia soaks up biggest share

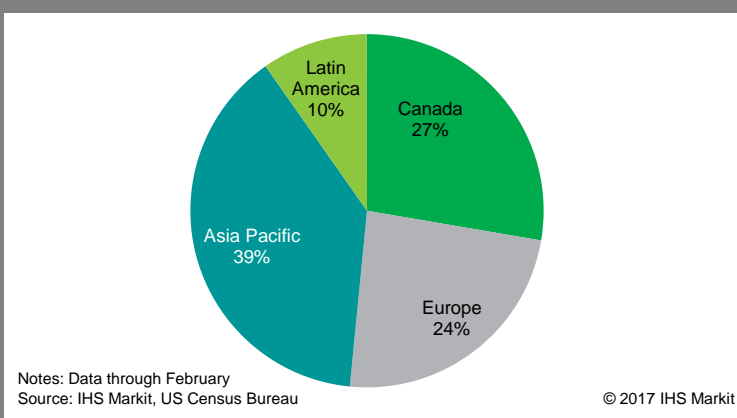
## US Crude Oil Exports and Brent-WTI futures time structure



## US crude & condensate export destination by region, 2016



## US crude & condensate export destination by region, 2017 YTD



- US crude and condensate exports surged to nearly 1.2 MMb/d in February. Preliminary March data suggests export volumes were more subdued but still above 700,000 b/d. A growing surplus of light crude in the US Gulf and demand outside of North America to replace barrels shut-in by OPEC has driven US exports higher.
- The Brent-WTI spread has also supported the arbitrage economics for US exports. The second month Brent futures price less front month WTI (a proxy for trans-Atlantic arbitrage opportunity) has averaged over \$3.00/bbl since the beginning of the year.
- Thus far, the 2017 export data by destination paints a much different picture when compared to last year, with Asian refiners taking the largest share. Asian imports of US crude and condensate in January and February averaged over 360,000 b/d (with more than 500,000 b/d in February alone), compared to an average of just 60,000 b/d in 2016. While light sweet crudes like WTI still account for most US crude exports; sour crudes like Mars and Southern Green Canyon are increasingly in demand to replace volumes cut by OPEC and Russia.

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