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Stratas Energy Perspectives - Global Oil Snapshot

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Global Crude Oil Price Outlook

Source: Platts, Bloomberg, Stratas Advisors' forecasting model from IEA historical data

- While we have revised upward our outlook for US crude and condensate production next year, we still expect 2019 growth to be lower than 2018. For more information on our global oil supply outlook, see our Global Crude Oil and Condensate Production Outlook Quarterly. The year-on-year comparisons in the first half of 2019 are going to look particularly strong, due to the lower baseline levels. However, on a global level, growth is much lower next year as some regions decline, and others adhere to self-imposed production limits.
- While we are still constructive on prices, risks are rising and there is no doubt that markets have noticed. Managed money net longs for both Brent and WTI continue to fall, and prevailing market sentiment heading into mid-2019 is negative. This pessimism isn't just in energy, but is also reflected in equities and consumer- and business-sentiment surveys.
- Given the negative slant of markets right now, we think that price strength could be difficult to find. Given the significantly lower starting level, we have revised 2019 prices down. We now expect Brent to average $71.47/bbl in 2019 and $75.13/bbl in 2020. We predict that WTI will average $63.61/bbl in 2019, and $64.57/bbl in 2020.
- Whereas full-year average Brent is falling thirty seven cents between 2018 and 2019, full-year average WTI is nearly two dollars lower in 2019 than in 2018. This stems in large part from expectations that US crude will show the most growth next year, and that US crude will face pipeline constraints in the beginning of the year, pressuring prices.

Global Oil Fundamentals Outlook

Source: IEA and Stratas Advisors' forecasting model from IEA historical data

Global crude oil production in 1Q19 was 75.8 million b/d, down by over 1.8 million b/d compared to the previous quarter. The sharp drop was largely due to OPEC+ compliance to 1.2 million b/d of agreed upon production cuts as well as production disruptions in Iran, Venezuela and Libya. Looking forward, the global crude market will become even tighter as the cancellation of the sanction waivers for Iranian oil buyers, coupled with deteriorating situation in Venezuela and fresh militant conflicts in Libya weighs on markets. Global crude oil production in 2Q19 is expected to drop by another 470,000 b/d.

Given the tightening supply, the OPEC+ alliance is expected to partially lift its guidance on production cuts. Greater clarity will come in June as information on Iranian oil buyer responses and developments in Venezuela and Libya become more clear. For now, Stratas estimates the 1.2 million b/d of OPEC+ cuts will be revised down to 800 Mb/d in June. Meanwhile, the U.S., Brazil, and Iraq are expected to boost production in the forecast period. Thus, global crude supply will quickly recover after 2Q19, reaching over 77.8 million b/d by 4Q20.

US Crude Oil Export by Destination

Source: EIA, Thomson Reuters, and Stratas Advisors' forecasting model from IEA historical data

Strong growth in the Permian Basin will continue to boost US production. By 4Q20, crude oil production in US could reach 13 million b/d. All of this oil needs to go somewhere and exports will continue to provide a much-needed relief valve. We expect exports of crude oil from the United States to average approximately 2.76 mmb/d for the remainder of the year. The bulk of those exports will go to Canada, followed closely by South Korea and several destinations in Europe. Exports to Asia had been growing, and Iran sanctions will continue to support increased volumes to South Korea and Japan. However, China, the dominant source of crude oil demand growth in the region, is unlikely to take significantly more US volumes due to the ongoing trade dispute.

China Crude Oil Import by Origin

Source: Bloomberg, Thomson and Reuters, and Stratas Advisors' forecasting model from IEA historical data

China's crude oil imports continue to grow as refining runs remain strong. Beijing has already lifted import quotas for independent refiners once this year, in a sign of strong demand. The bulk of China's crude oil imports continue to come from the Middle East with Saudi Arabia and Iraq regularly vying to be the top provider of crude oil. However, the Chinese government has made diversifying supplies a priority, and this can be seen in the growing volume of imports from the "Rest of World".

