July 11, 2019

Global Crude Oil Price Update

Overview

In the latest iteration of our global outlook, we have slightly raised our 2019 and 2020 price outlooks after seeing stronger than expected second quarter prices although our overall constructive price path still holds. As we have discussed previously, volatility is the name of the game this year as fundamentals nearing balance means that spot prices are often set by sentiment and headlines. The overall expected path of prices has seen very little change, and remains constructive through 2020. Brent has been increased from $66.76/bbl to $67.78/bbl in 2019. Brent in 2020 has been increased from $69.46/bbl to $73.39/bbl. WTI has been increased from a 2019 average of $58.85/bbl to $59.70/bbl. WTI in 2020 has been raised from an average of $62.86/bbl to an average of $66.35/bbl

Concerns abound about the pace of global demand growth and to a lesser extent, the pace of US supply growth. OPEC has successfully renewed the current supply agreement through the first quarter of 2020 and it is generally assumed that compliance will remain at acceptable levels, even if some members have to bear more of the burden.

		Reference Case	Last Quarter Forecast
Brent	*2018*	$ 71.16	$ 71.16
	2019	$ 67.78	$ 66.76
	2020	$ 73.39	$ 69.46
WTI	*2018*	$ 64.95	$ 64.95
	2019	$ 59.70	$ 58.85
	2020	$ 66.35	$ 62.86
OPEC Total Supply	*2018*	37.4	39.4
	2019	35.8	38.6
	2020	36.2	39.0
Non-OPEC Total Supply	*2018*	60.4	55.5
	2019	61.9	56.9
	2020	62.9	57.9
Demand	*2018*	94.2	94.3
	2019	95.3	95.4
	2020	96.7	96.9
Balance	*2018*	0.9	0.7
	2019	-0.2	0.1
	2020	-0.2	0.1

Total supply = crude, condensate, NGLs, non-conventional

Price Risks

As evidenced by the roller-coaster ride that global crude oil prices have been on for the last six months, recovery is still very fragile. Below we outline some of the main risks to prices over the next eight quarters. Regular readers will note that the broad brush risks themselves have not changed significantly, but we have updated our general outlook for each risk and provided any new relevant details.

Downside Price Risks

1. OPEC fails to comply with the production agreement: If Saudi Arabia holds refuses to make significant cuts to compensate for failing members, overall compliance could be lower than expected, raising the amount of global supply. This would be bearish for prices.

2. Demand is weaker than expected: Demand and (almost more importantly) perceptions of demand are arguably the single largest risk to prices. As described in our Global Macroeconomic Outlook the outlook for the global economy is murky as industrial and consumer indicators diverge. However, continued weakness in the industrial and manufacturing sectors could eventually weigh on consumer demand, dragging demand growth even further down.

3. Global production grows more than expected: Separate from OPEC+ compliance levels, global production could still surprise to the upside, although this is a less likely risk. If expected disruptions in Venezuela, Libya, Nigeria, and Iran fail to materialize or are suddenly reversed, more supply could enter markets. Although unlikely, US drillers could increase activity levels, bringing on more volume than expected in early 2020.

Upside Price Risks

1. Demand is stronger than expected: As unlikely as it may seem now, we believe that this is the most likely (but by no means guaranteed) upside price risk. Markets have been pessimistic on demand this year and next since last winter, thus increasing the likelihood that any positive news on the demand front could have an outsized effect. We have maintained our demand forecast, with only minor changes to account for historic demand revisions.

2. OPEC production is weaker than expected: OPEC production at this point appears more likely to fall due to outages than a trend towards over-compliance with the supply agreement. Lower OPEC production would help to support higher prices, although given persistent fears around oversupply, lower supply would have less of a positive impact on prices than reports about higher demand would.

