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Global Crude Oil and Condensate Production Outlook Quarterly - 2019.Q3

Stratas Advisors

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Global crude oil production (excluding condensate) in 3Q19 was 76.2 million b/d, up 149,000 b/d compared to the previous quarter as production increases in Europe, North America and Russia CIS outpaced the production losses in Iran and Venezuela due to US sanctions. The drone attack on Saudi Aramco oil facilities in September did not generate material disruptions to the global oil market, thanks to ample strategic storage and prompt restoration efforts.

Looking forward, the global oil market will face higher risks of over-supply as a weakening economy weighs on demand. According to Stratas' forecast, global crude oil output (excluding condensate) in 2020 is projected to post an annual increase of 930,000 b/d with a high case of 1.1 million b/d and low case of 700,000. The increase will be mostly contributed by Brazil, US and Norway.

Given the gloomy outlook on demand, the OPEC+ alliance is expected to extend the production-cut deal beyond the March 2020 expiration. The group will meet in December to evaluate market conditions and decide whether to rollover current quotas or make deeper cuts. Stratas' 3Q global supply forecast assumes that the OPEC+ will extend its current cut volume of 1.2 million b/d to the end of 2020, with compliance from smaller producers gradually easing over 2H2020.

Global condensate production in 3Q19 was 6.2 million b/d, slightly up by 15,000 b/d. The growth is mainly contributed by Asia Pacific and North America. Looking forward, strong production growth in North America is projected to help lift global condensate output by about 130,000 b/d in 2020, and by approximately 110,000 b/d in 2021.

From 2019 to 2021

Who is going up?

United States: Despite a continuous drop in rig count during 2019, US crude production will sustain a growth of about 270,000 b/d in 4Q20. However, due to slowed activity, a temporary decline of about 60,000 b/d is expected in the first quarter of 2020. Thanks to resilient Permian performance and new productions from the Anadarko Basin, total US crude output is expected to quickly recover and surpass 13 million b/d by 2021.

Brazil: Large pre-salt fields such as Buzios, Lula Extension, Sepia, and Atapu Sul etc. are expected to lift Brazil output by more than 600,000 b/d over the next two years. In October, Saudi Arabia invited Brazil to join OPEC following Ecuador's decision to leave. The invitation will be assessed by Brazil's economic team. If Brazil joins the cartel, its output level will be regulated by OPEC+ curtailments. To date, no official invitation has been extended.

Norway: The Johan Sverdrup field operated by Norwegian state oil company Equinor came on stream in October and ramped up production to 200,000 b/d within three weeks. The giant offshore field is expected to reach its phase 1 capacity of 440,000 b/d in 2020. Total Norwegian oil output is expected to increase by

more than 340,000 b/d in 2020.

Who is going down?

Iran: From 1Q19 to 3Q19, Iran crude production fell from 2.7 million b/d to 2.2 million b/d. In May 2019, the US canceled the sanction waivers for eight Iranian oil customers. Upon the cancellation, all Iranian major oil buyers except for China pulled out immediately. Worse still, China has slashed its crude purchases from Iran from as high as 800,000 b/d to below 200,000 b/d amid prolonged trade talks with the US. Stratas expects Iran crude and condensate production to drop to below 2.1 million b/d by year-end.

Venezuela: As the Trump Administration tightens the screw on Venezuela's oil industry, national oil company PDVSA has been scrambling to find buyers for its extra heavy sour oil. Due to shortage of diluent supply and squeezed storage capacity, some operations are put in idle or even shut down. To date, Maduro still holds onto power with military backing. As the situation in Venezuela continues to be plagued by sanctions and social unrest, crude production from the Latin American country will continue to decline. By the end of 2019, Venezuela's crude production could drop to about 600,000 b/d.

Mexico: Oil and condensate production has been dropping in Mexico for years due to the country's reliance on aging oil fields with declining production. In an attempt to boost production, the country passed legislation that liberated the oil sector in 2013 to new entrants. However, President Andres Manuel Lopez Obrador appears poised to challenge these reforms and "bring production back home" instead of "handing them to foreigners". Although the previously endorsed contracts with IOCs are unlikely to be revoked, a quick production ramp is unlikely as development on new blocks takes years to contribute to production. Therefore, production declines in Mexico are expected to persist until at least 2021. Oil production could drop to 1.6 million b/d by then.

Crude Quality Overview

Global crude quality has become increasingly light and sweet largely due to increasing shale volumes and constrained production from OPEC+ alliance. Reductions in Venezuela and Iran also contributed to tightened heavy crude supplies. Looking ahead, shortage of heavy sour oil could become an intensifying issue due to sanctions that block Venezuela and Iran from exporting their crude, and constraints in Canada related to regulatory uncertainties over pipeline projects. The looming new IMO sulfur cap is expected to weigh less on the heavy sour market compared to the aforementioned factors.

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