Stratas Advisors Upgrades its Oil Price Outlooks

HOUSTON, July 17, 2019 /PRNewswire/ -- Stratas Advisors has slightly raised its 2019 and 2020 oil price outlooks after seeing stronger than expected second quarter prices.

"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," said Ashley Petersen, senior oil market analyst.

Peterson points out that Brent has increased from $66.76/bbl to $67.78/bbl so far in 2019. Stratas has raised its 2020 Brent forecast from $69.46/bbl to $73.39/bbl. Meanwhile, in 2019 WTI has so far increased from $58.85/bbl to $59.70/bbl. WTI's 2020 forecast has been raised from $62.86/bbl to $66.35/bbl.

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

However, 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. Some of the main risks to prices over the next eight quarters, according to Stratas Advisors, are listed below.

Downside Price Risks

- **OPEC fails to comply with the production agreement**: In early July, OPEC and its OPEC+ allies agreed to continue withholding about 1.2 million barrels per day from global markets through the first quarter of 2020. If Saudi Arabia holds refuses to make significant cuts to compensate for failing members' overall compliance could be lower than expected, thus raising the amount of global supply. This would be bearish for prices.
- **Demand is weaker than expected**: Demand and perceptions of demand are arguably the single largest risk to prices. The fourth quarter of 2018 saw a sudden reversal in sentiment about future demand, leading to a year-end price collapse. Even though prices have slowly recovered, they continue to be held back by worries about the global economy. 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 down further.

- **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. Currently global balances are building in significant lost volumes from Venezuela and Iran, as well as potential smaller disruptions in places like Libya and Nigeria. If these disruptions 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. This would likely require a somewhat sustained price signal, the likes of which would only be seen if there was a large supply interruption elsewhere.

Upside Price Risks

- **Demand is stronger than expected**: As unlikely as it may seem now, we think that this is the most likely – but by no means guaranteed – upside price risk. Markets are pessimistic about demand, 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. We continue to expect strong crude runs bolstered by consumer refined product demand, despite slowing economic growth. Additionally, we expect that upcoming IMO 2020 regulations will necessitate higher crude runs to compensate for low-sulfur fuel demand starting in the fourth quarter of 2019. Although data from China tends to be opaque, we take heart from the fact that Beijing has twice this year raised the crude oil import quota for independent refiners.

- **OPEC production is weaker than expected**: OPEC production at this point appears more likely to fall due to outages than a trend toward over-compliance with the supply agreement. Lower OPEC production would help to support higher prices, although given persistent fears about oversupply, lower supply would have less of a positive impact on prices than reports about higher demand would. The most likely candidates for lower than expected production would be Libya, Nigeria, Venezuela and Iran. Disruptions in the Strait of Hormuz could also slow the flow of exports from other countries. We expect any disruptions in the Gulf of Oman to be generally short-lived however, and thus point to geopolitical disturbances in Libya and Nigeria as the most likely surprise disruptions. Additionally, Venezuelan production could still fall farther.

About Stratas Advisors

Stratas Advisors, a Hart Energy company, is a leading global consulting and analytics provider to the world's fullstream energy industry across the upstream, midstream and downstream energy markets and key consuming sectors including automotive; transportation; power; petrochemicals; and heavy industries. The consulting advisory firm's team of experts provides forecasts and strategic insights to clients seeking to make better business decisions by anticipating key drivers shaping development. Via consulting engagements and subscription services, the firm's clientele rapidly assess opportunities, mitigate risk and implement strategies. Stratas Advisors is headquartered in Houston with offices in Brussels and Singapore. Learn more about the business.

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