

# Oil Prices Outlook 1Q18

March, 2018

United States

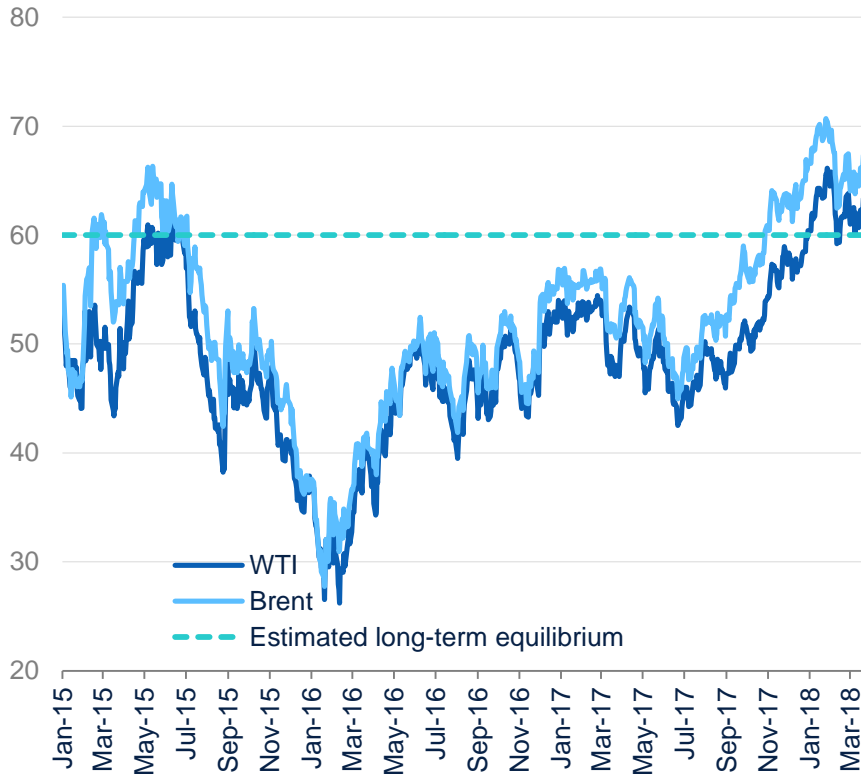


## Key Messages

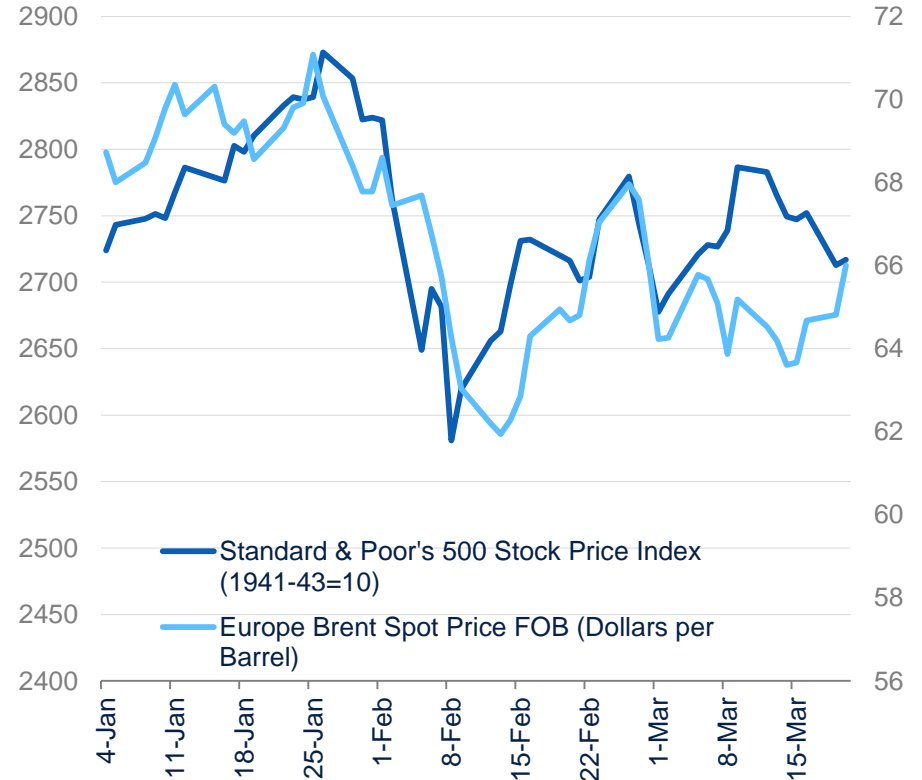
1. Financial market volatility and concerns on raising U.S. production have weighted on prices through 1Q18
2. However, fundamentals have not changed significantly; thus, we maintain our baseline scenario
3. Demand will remain supportive of higher prices, but its impact will be compensated by growing non-OPEC supply
4. A more competitive environment and structural changes in energy markets will make it difficult to keep prices above \$60/b for an extended period
5. The main uncertainty comes from the lagged effects of CAPEX cuts and the impact on future supply

# Oil prices have not been immune to financial market volatility

## Crude oil prices (\$ per barrel)



## Crude oil prices and stock market (1Q18)



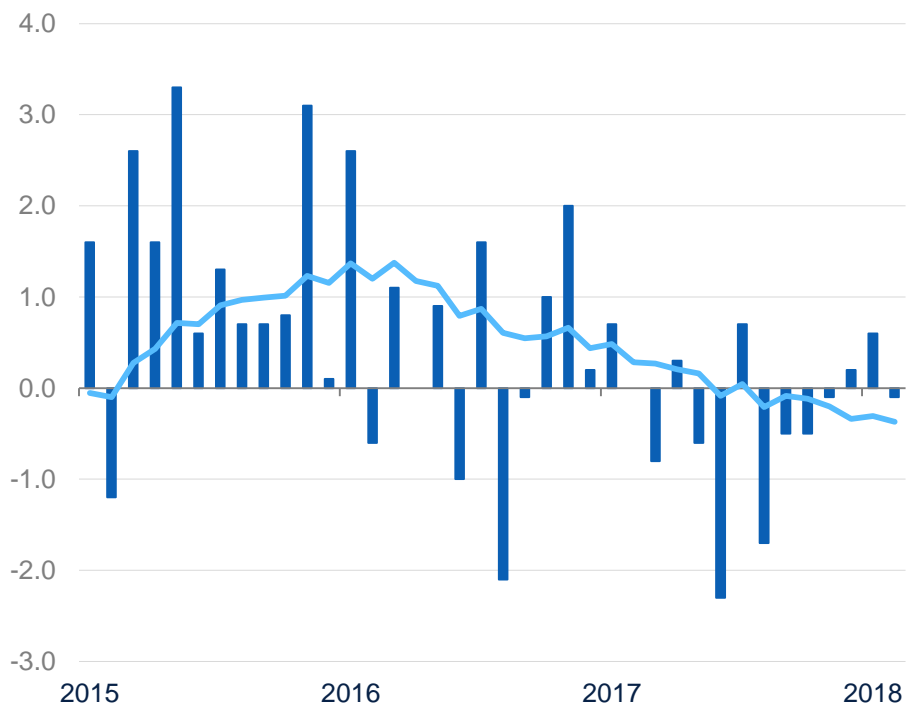
Source: BBVA Research and Haver Analytics

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# The market is tightening supported by robust demand

## Supply/demand balance

(Million barrels per day)

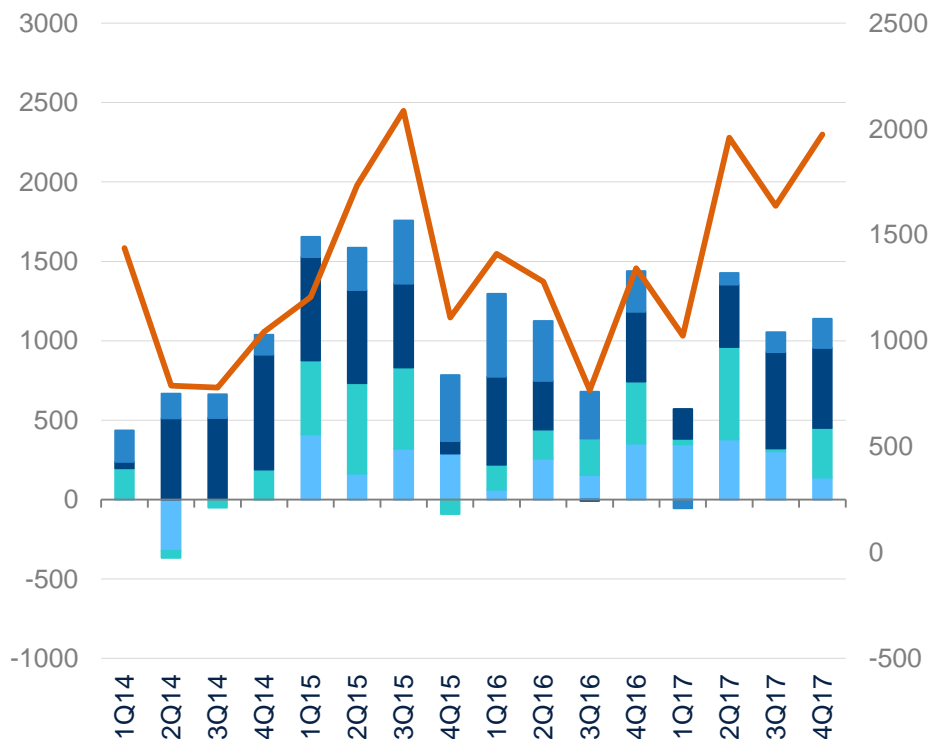


Oil Supply/Demand Balance: Stock Change Needed To Balance (Mil b/d)  
 12-month MA

Source: New York Fed

## Oil product demand

(YoY % change, million barrels per day)

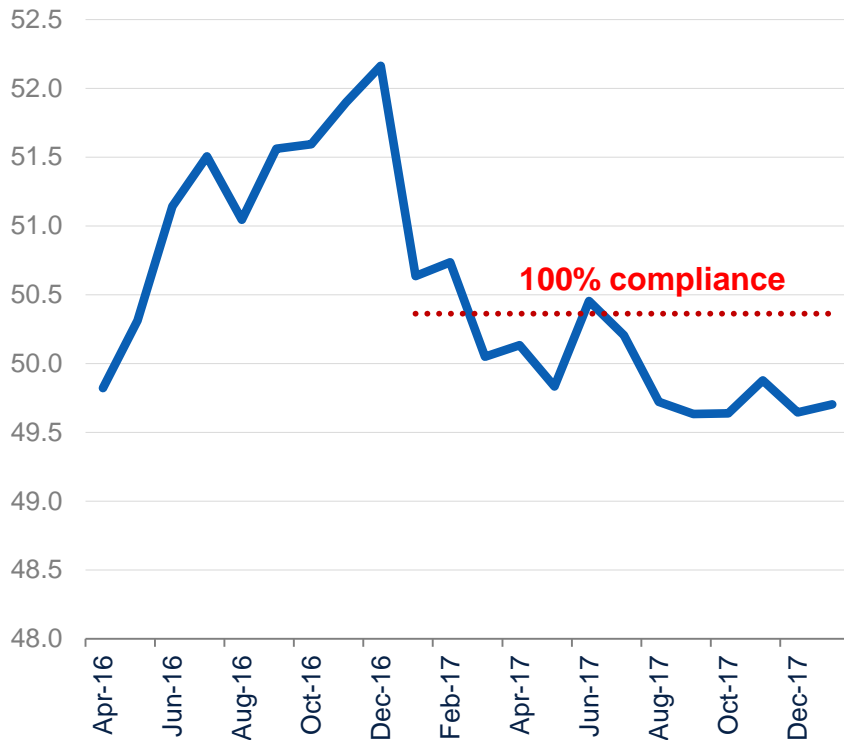


Western Europe United States China  
 India Total World (rhs)

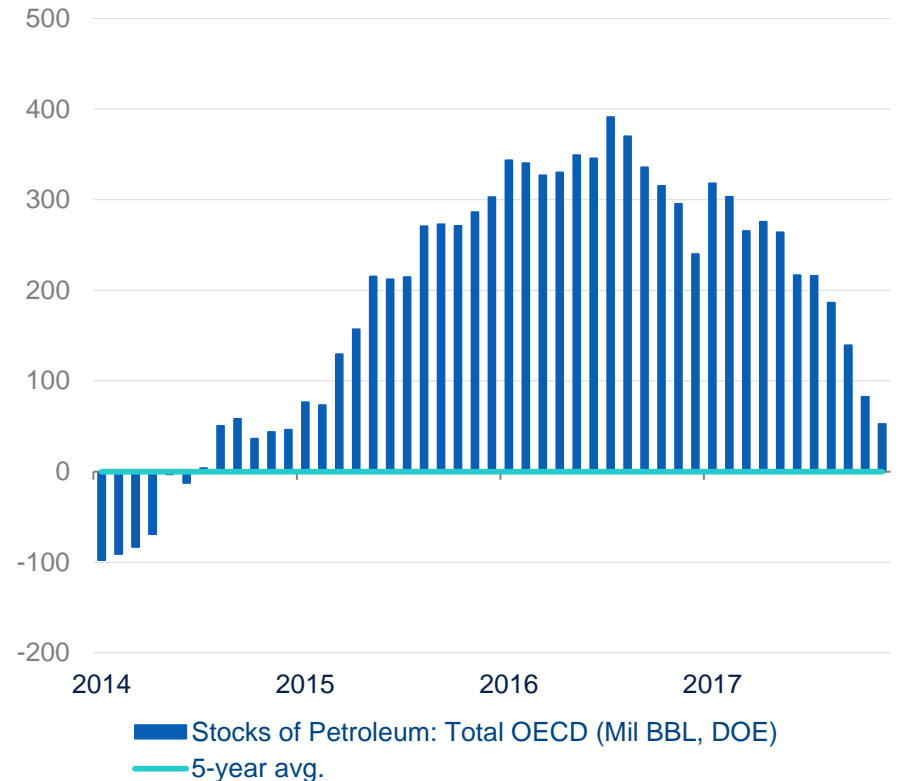
Source: BBVA Research and Haver Analytics

# For OPEC the task of stabilizing the market is almost done; however, there is no exit strategy on the horizon

**OPEC+13 crude oil production\***  
(Million barrels per day)



**OECD Stocks of Petroleum vs. 5 year average**  
(Million barrels)



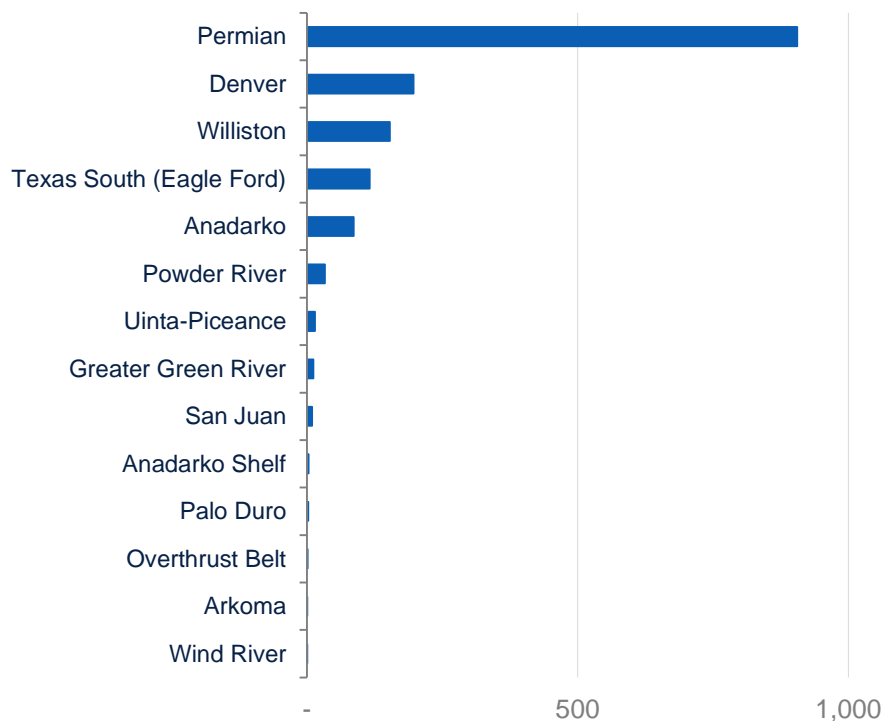
\*Excluding Libya and Nigeria  
Source: BBVA Research and Haver Analytics

# The strong rebound in U.S. production has tempered bullish sentiments...

**U.S. Estimated crude oil production**  
(Thousand barrels/day)

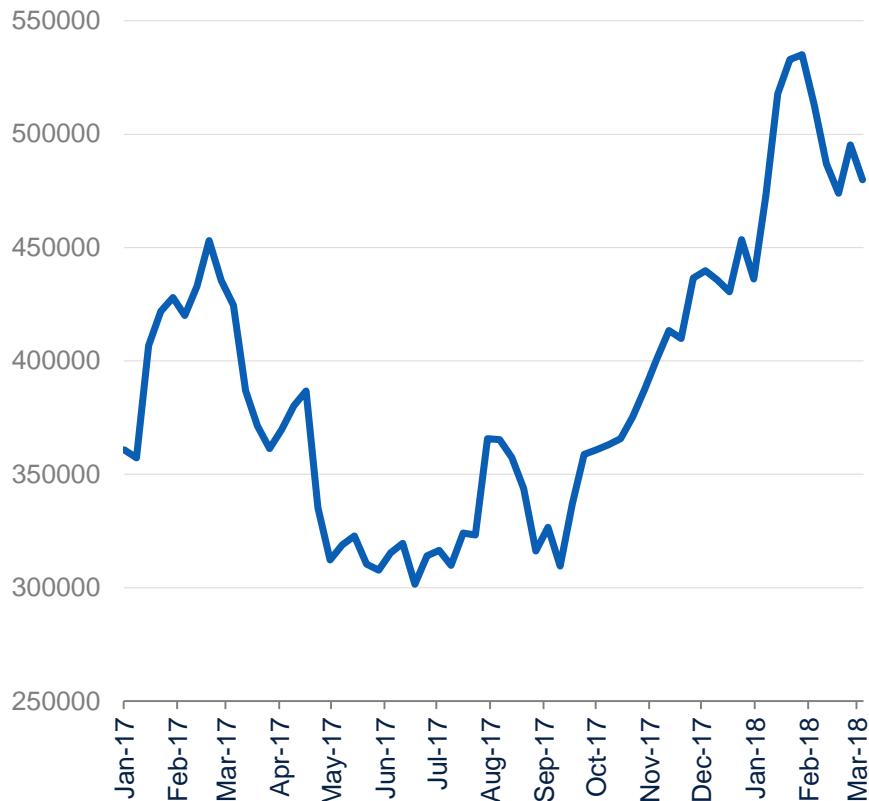


**U.S. Change in crude oil production by basin**  
(February 2017 to February 2018, thousand barrels /day)

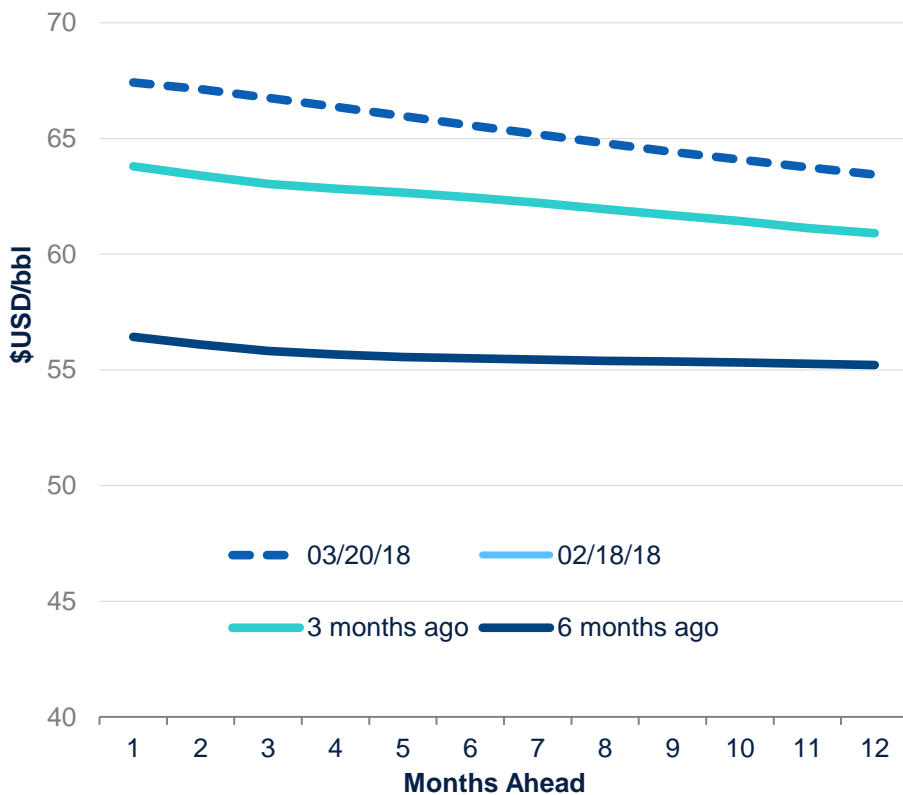


# ...nevertheless, markets are still aligned with prices above \$60/b in the short-run

**Crude oil non-commercial long contracts**  
(light-sweet, futures only)



**Brent crude futures**



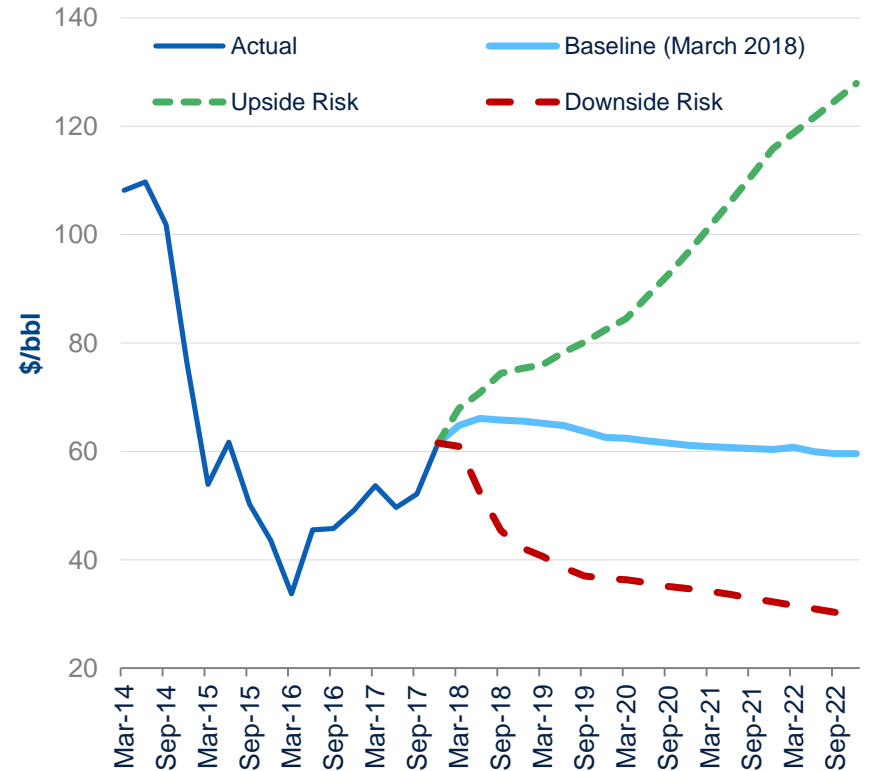
Source: BBVA Research and Bloomberg

# In the mid-term; however, catch up from U.S. and other non-OPEC producers should bring prices down

**Crude oil prices forecast**  
(Brent, \$ per barrel, avg.)

	Baseline	Upside	Downside
2015	52.8	52.8	52.8
2016	45.2	45.2	45.2
2017	54.4	54.4	54.4
<b>2018</b>	<b>65.9</b>	<b>72.1</b>	<b>50.3</b>
<b>2019</b>	<b>64.1</b>	<b>79.2</b>	<b>38.2</b>
<b>2020</b>	<b>62.1</b>	<b>90.6</b>	<b>35.5</b>
<b>2021</b>	<b>61.5</b>	<b>108.6</b>	<b>33.2</b>
<b>2022</b>	<b>60.0</b>	<b>123.3</b>	<b>30.8</b>

**Crude oil prices forecast**  
(Brent, \$ per barrel, avg.)

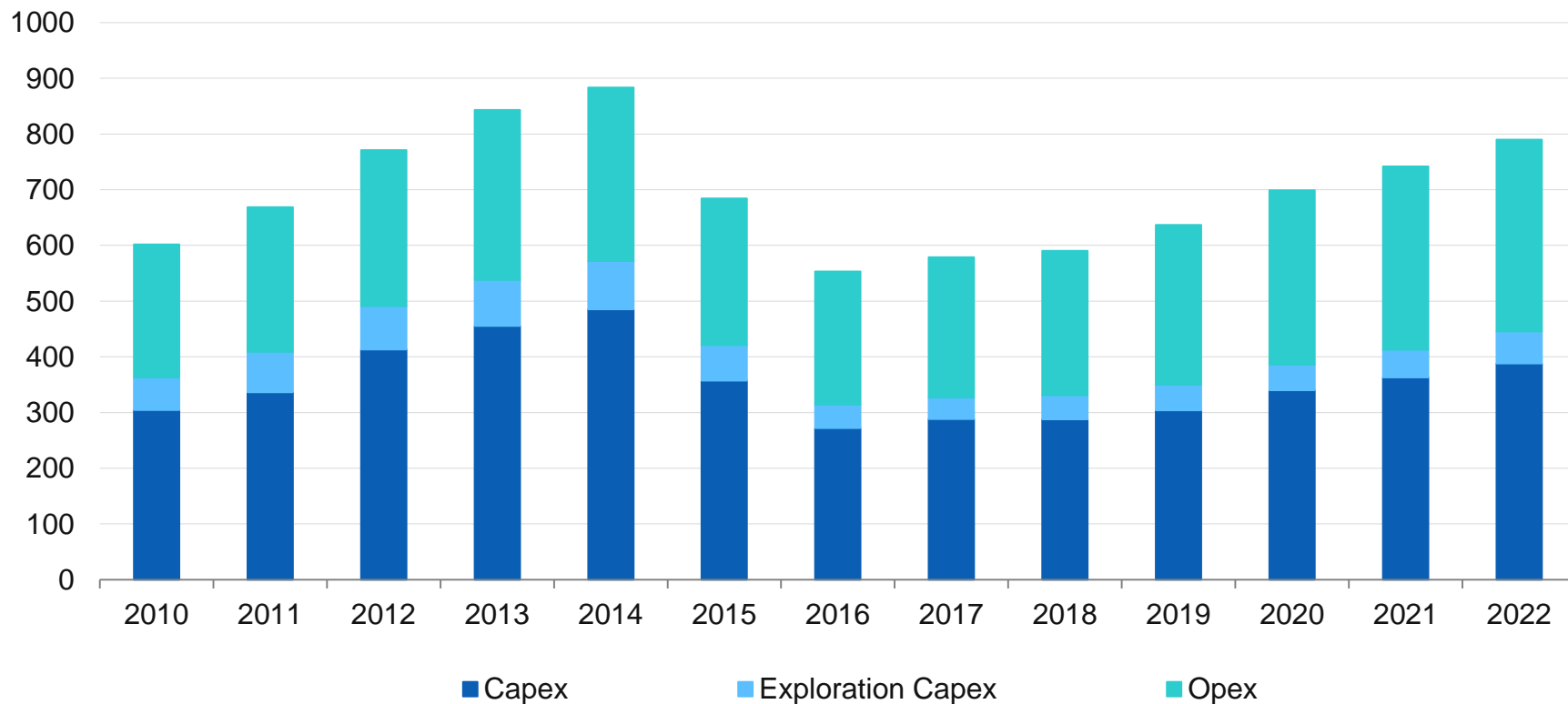


Source: BBVA Research



**However, from a cyclical perspective, the main uncertainty is the impact that subpar CAPEX could have on future production**

**Global capital expenditures in crude oil**  
(Billion USD)



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