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 a 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
The market is tightening supported by robust demand

Supply/demand balance
(Million barrels per day)

Oil product demand
(YoY % change, million barrels per day)

Source: New York Fed

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)
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
(Feb 2017 to Feb 2018, thousand barrels/day)

Source: BBVA Research, Haver Analytics & Rystad Energy
...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.)

<table>
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<th>Year</th>
<th>Baseline</th>
<th>Upside</th>
<th>Downside</th>
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</table>

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)

Source: Rystad Energy