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ABN·AMRO

Energy Monitor

Group Economics

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Higher oil prices in 2019

Hans van Cleef
Sr. Energy Economist
Tel: +31 20 343 4679
hans.van.cleef@nl.abnamro.com

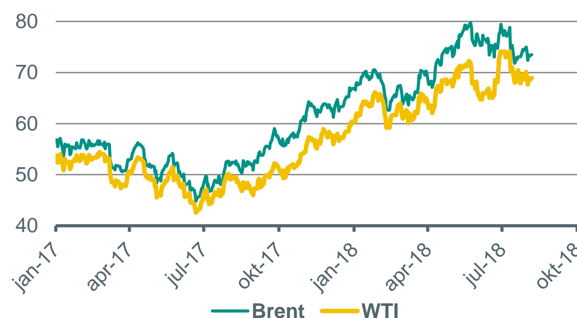
- **ABN AMRO revise oil price forecasts for 2019 and 2020 higher**
- **Risk of shortages is increasing as demand continues to grow at a moderate pace**
- **OPEC's reserve capacity falls under pressure**

Upward revision of our oil price forecasts

Due to expected shortages in oil supply we have raised our oil price forecasts for 2019 and 2020. The lack of oil supply will be the result of several developments. We expect that global demand for oil will continue to grow at a moderate pace in the coming years. Oil inventories are under pressure and the current reserve production capacity will not be sufficient to meet the rise in global demand. As a result, oil prices will probably rise. Therefore, have we lifted our forecasts for the average price of Brent crude to USD 85/bbl in 2019 from USD 78/bbl.

Brent and WTI oil prices

x USD/bbl



Source: Bloomberg

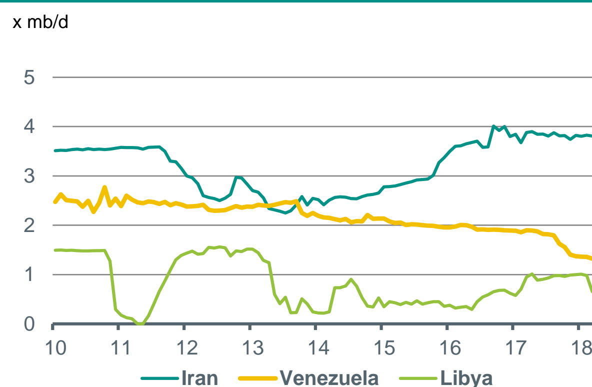
Supply under pressure

In the coming months oil supply will drop even further. Since early 2016 supply and demand have been roughly in balance. This is largely due to the production cut agreement between OPEC and non-OPEC oil producers. In recent months, OPEC has faced some difficulties balancing the market. Unexpected supply disruptions within the OPEC, especially for Venezuela and Libya, led to the need for higher oil production by other OPEC members. Initially, this was done within the existing production cut agreement, but during the latest OPEC meeting it was decided to change the original agreement. OPEC and its allies agreed to increase production by nominal 1 mb/d in order

to continue to meet global demand. The net increase will be smaller as not all producers are able to increase production due to limited reserve capacity. Therefore, the majority of this production increase will be covered by Saudi Arabia, the United Arabic Emirates and Kuwait.

In the near term, it is unlikely that the situation will improve. In Venezuela crude oil production is on a sliding path and this does not seem to improve for the better in the near term. Oil exports from Libya are expected to pick up somewhat. However, uncertainty remains because rebels can easily block harbors, and thus crude exports, again. Libyan crude supply is therefore still an uncertain factor within OPEC supply. Increased social unrest in the southern part of Iraq could also negatively affect crude exports from the region. Although the effects seem to be limited so far, risks for possible export disruptions did increase.

Oil production Venezuela, Iran and Libya



Source: Bloomberg

US infrastructure caps export potential

The biggest growth market when it concerns crude supply is the US. The US (shale-) oil production doubled to almost 11 mb/d in recent years. We expect US crude production to continue to increase in the coming years. The International Energy Agency (IEA) expects a continued growth towards 11.9 mb/d at the end of 2019. This extra supply can easily be absorbed by the market if demand actually continues to increase as expected. The biggest problem for a rise of US crude exports is infrastructure. The current capacity to transport crude from the production basins to the US coasts in order to export this crude is running almost at maximum capacity. There are plans to expand this infrastructure but this takes time. As a result, the export capacity will hardly increase in 2019 and thus increased US crude production will only lead to higher inventories. US shale oil will therefore hardly contribute to prevent a shortage on the global oil markets. We expect that the Brent/WTI spread will increase in 2019. In 2020 new infrastructure becomes available which will make US exports grow and reduce the price difference between Brent and WTI.

Reserve capacity declines

After being of the radar for several years, the OPEC reserve capacity is back in the spotlights. While OPEC agreed to raise production again – even while some members face difficulties keeping its production stable – we see an increased decline of the OPEC

reserve capacity. This reserve capacity contains a certain amount of oil reserves which can be brought online within a certain period of time in case of potential production disruptions in order to prevent shortages. Less reserve capacity means less room to maneuver. As a result, the price swings due to new production disruptions can be even bigger in the future. The fact that the market is slowly but surely focusing again on reserve capacity is something we see as a signal that the years of oversupply are behind us.

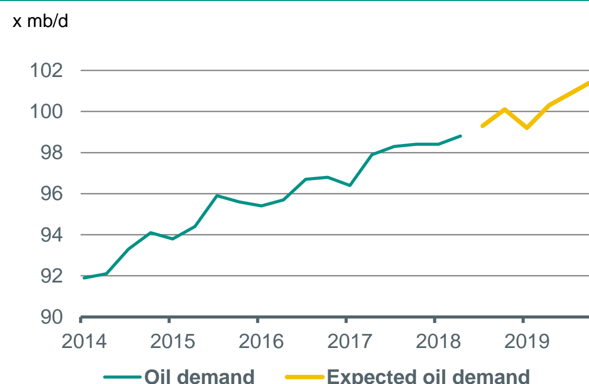
OPEC spare capacity

Source: Bloomberg

Global oil demand continues to rise… or not?

The IEA indicated in its latest Oil Market Report that global demand for oil will remain stable around 1.4 mb/d in both 2018 and 2019. Global demand increased by 1.5 mb/d during the first half of this year. A slight slowdown is expected for the second half of the year. OPEC is even slightly more optimistic in its expectations for global demand. OPEC expects demand to increase by 1.65 mb/d in 2018 and 1.45 mb/d in 2019. If global demand indeed grows by roughly 1.4/1.5 mb/d in 2019 shortages may be seen if oil producers fail to increase supply at a similar pace.

(Expected) Total global demand for oil



Source: Bloomberg

An important risk for the rise in global demand is a possible escalation of the trade war between the US and China. A trade war is bad for global economic growth and global

trade. Prices will rise and demand for goods and services may fall under pressure. This would also lead to lower demand for oil. Although we believe that in the end parties will agree to find a solution for the trade dispute – especially after the US midterm elections – the risk of a full-swing trade war cannot be completely excluded. In such a risk scenario, oil price would rise not as fast as in our base scenario.

Downside risks in Q3 2018, but upside potential afterwards

At this moment, oil prices are trading sideways as fears of a trade war are balanced by supply issues. This quarter, oil prices may face some more pressure. In our last Energy Monitor of July we have already pointed at the market positioning of investors. Currently, investors are positioned for further price gains. And although some of these positions were reduced already, there is still a risk of a further 'long-squeeze' if for instance trade war fears increase significantly. The possible negative effects it could have on the global economy – like lower oil demand – can add pressure on oil prices. Something which would be beneficial for US gasoline consumers, and thus US voters. This could be a reason for a temporary further reduction of these outstanding long positions.

For the longer term the picture is completely different. On 6 November the US midterm elections will be held. Trump's request towards Saudi Arabia to increase oil production was an attempt in order to lower oil prices. This is partly to counterbalance the negative effects of the imposed sanctions against Iran, but also to add pressure on US gasoline prices. However, recently Saudi Arabia indicated to lower production again as it failed to find buyers for her higher oil production. The by Trump 'requested' pressure on oil prices was not seen so far.

On 6 August the first US sanctions against Iran were imposed. On 4 November, the sanctions against the Iranian energy sector will be implemented. We expect Iranian crude exports to decline by roughly 600-700 kb/d. Especially exports towards Europe could be hit hard. Exports towards emerging Asia will most likely remain stable, or may even rise somewhat. As a result, the effects of the sanctions will probably not be as big as we have seen in 2012-2016. However, if this comes together with new production disruptions and limited growth of upstream activity outside OPEC and the US, oil prices could rise considerably.

As a result of a) production disruptions- and export restricting events in Libya and possibly in Iraq, b) infrastructural problems in the US, and c) an ongoing moderate rise of global demand, we think that the risk of oil shortages has become significantly bigger. Our previous risk scenario of higher oil prices has now become our base scenario. Therefore, we have raised our oil price forecasts for 2019 and 2020. However, in there is still downside risks to oil prices this quarter. Afterwards we expect higher oil prices, especially in 2019. Market speculation on oil shortages, geopolitical tensions as well as production disruptions could lead to higher oil prices in the first half of next year. WTI price may also see some support based on the infrastructural issues in the US. This WTI price gain could partly be capped by production growth and higher inventories. As a result, the Brent/WTI spread can become wider. Please see the table below for all our new oil price forecasts.

Table 1: Oil and gas price forecasts ABN AMRO

End of period		7-aug	sep-18	dec-18	mrt-19	jun-19	sep-19	dec-19	mrt-20	jun-20	sep-20	dec-20	
Brent	USD/bbl	*74,19*	70	75	80	90	85	85	85	80	80	77	
WTI	USD/bbl	*69,30*	65	70	75	83	78	76	76	73	70	68	
Natural Gas (HH)	USD/mmBtu	*2,87*	2,50	2,75	3,00	3,00	2,75	3,00	3,25	3,00	3,25	3,50	
TTF	EUR/MWh	*22,60*	17,00	20,00	20,00	19,00	22,00	24,00	25,00	23,00	24,00	25,00	
Average		**Q3 18**	**Q4 18**	**2018**	**Q1 19**	**Q2 19**	**Q3 19**	**Q4 19**	**2019**	**Q1 20**	**Q2 20**	**Q3 20**	**2020**
Brent	USD/bbl	72	73	73	78	85	88	85	85	85	83	80	82
WTI	USD/bbl	66	68	67	73	79	81	77	78	76	75	72	73
Natural Gas (HH)	USD/mmBtu	2,75	2,75	2,70	3,00	3,00	3,00	3,00	2,90	3,25	3,25	3,25	3,30
TTF	EUR/MWh	18,00	19,00	19,00	20,00	20,00	21,00	23,00	21,00	25,00	24,00	24,00	25,00

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