

Oil Prices Outlook 1Q18

March, 2018

United States



Key Messages

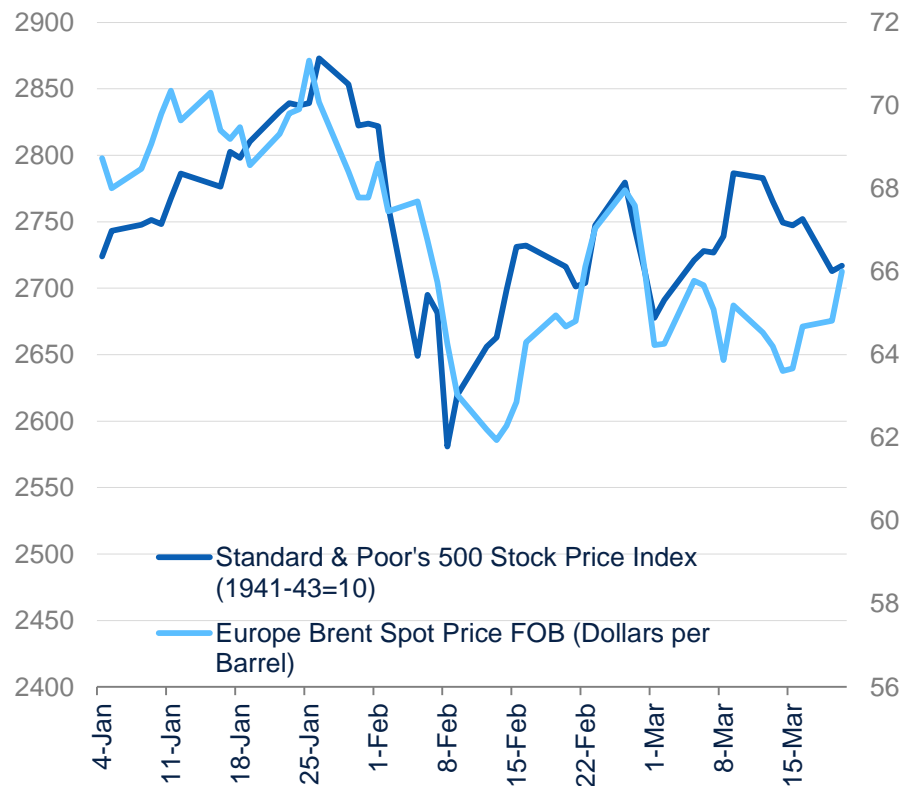
1. Financial market volatility and concerns on raising U.S. production have weighted on prices through 1Q18
2. However, fundamentals have not changed significantly; thus, we maintain our baseline scenario
3. Demand will remain supportive of higher prices, but its impact will be compensated by growing 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)



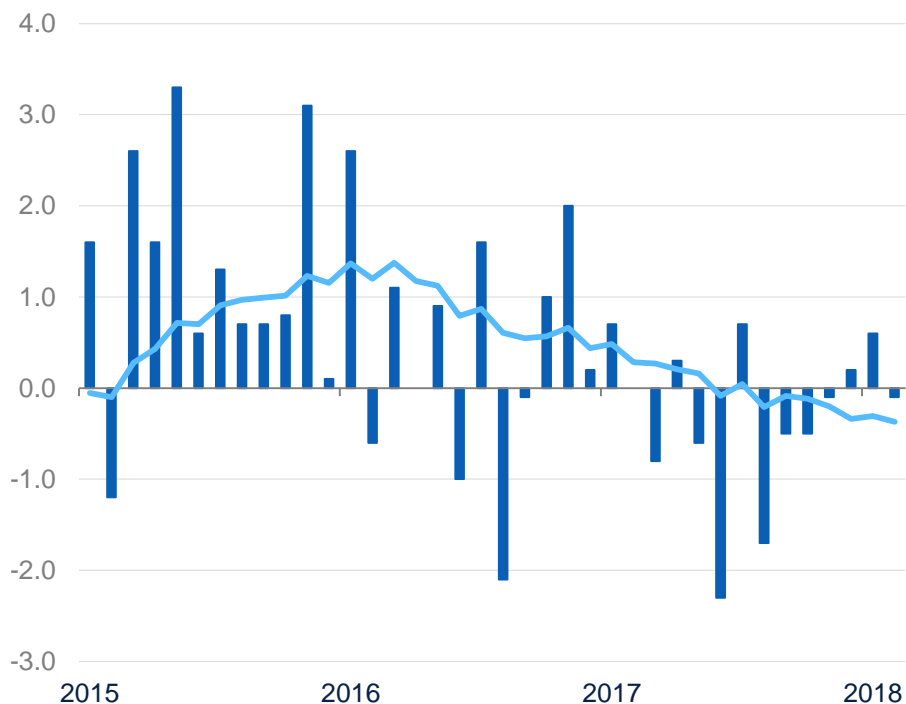
Source: BBVA Research and Haver Analytics

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The market is tightening supported by robust demand

Supply/demand balance

(Million barrels per day)

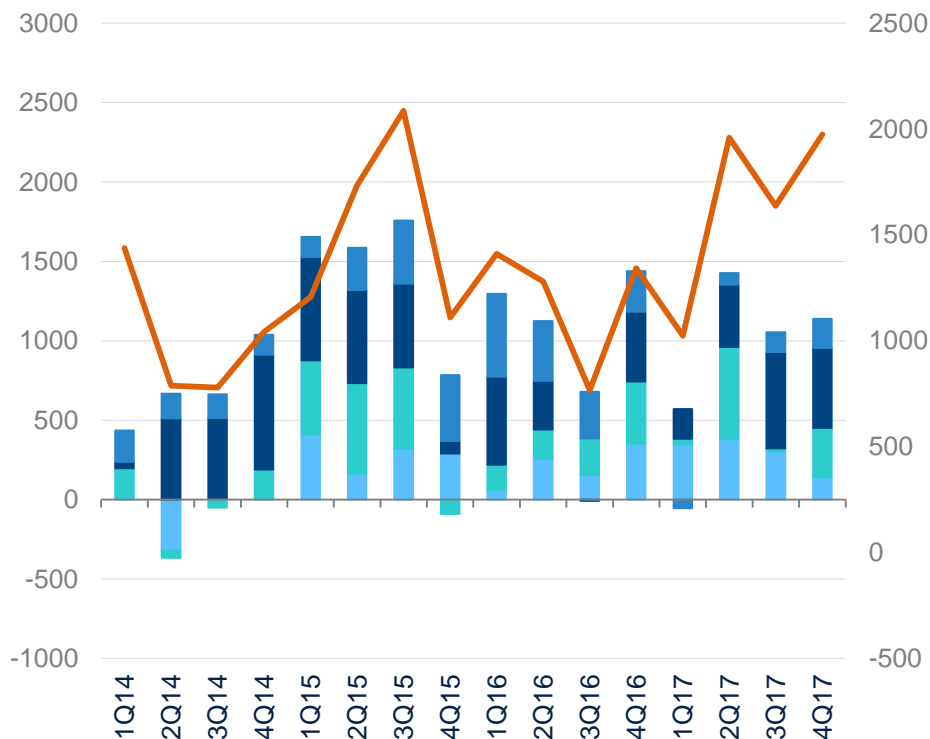


■ Oil Supply/Demand Balance: Stock Change Needed To Balance (Mil b/d)
 — 12-month MA

Source: New York Fed

Oil product demand

(YoY % change, million barrels per day)

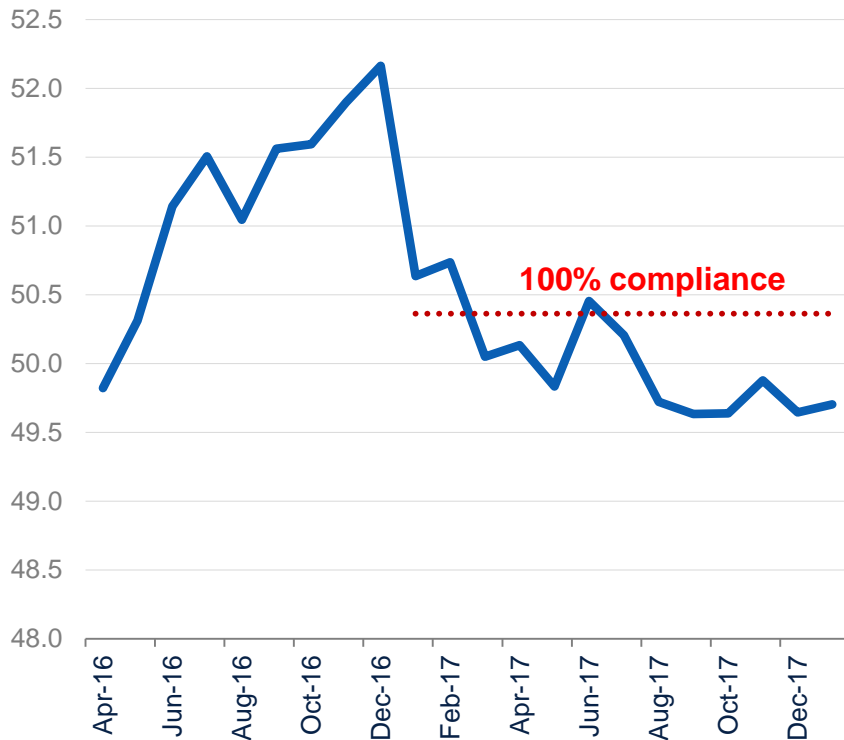


■ Western Europe ■ United States ■ China
 ■ India — Total World (rhs)

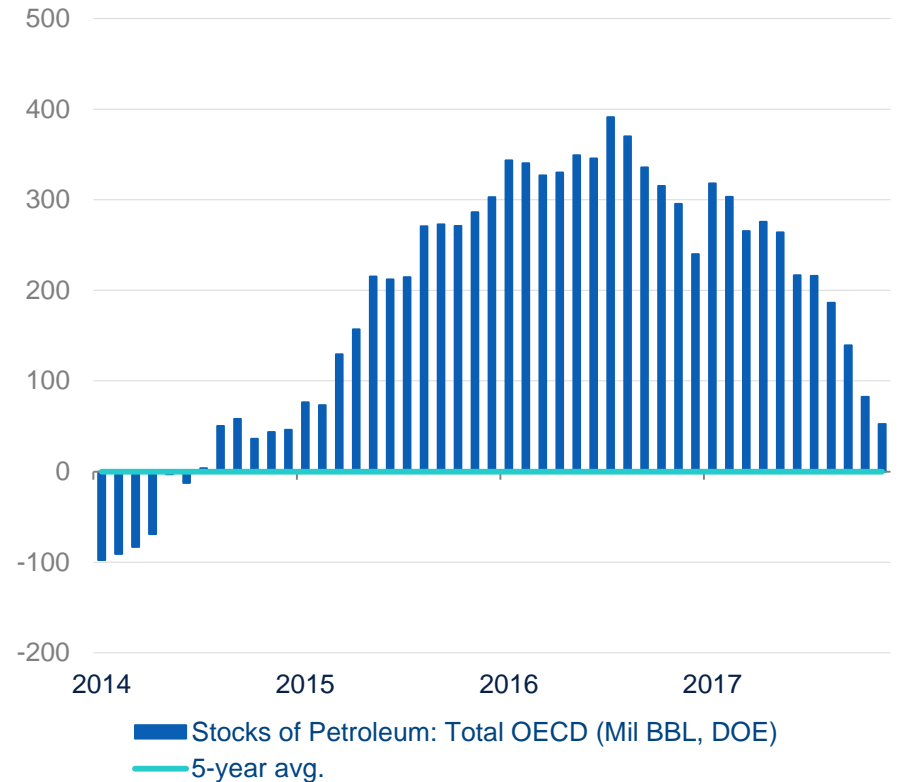
Source: BBVA Research and Haver Analytics

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)



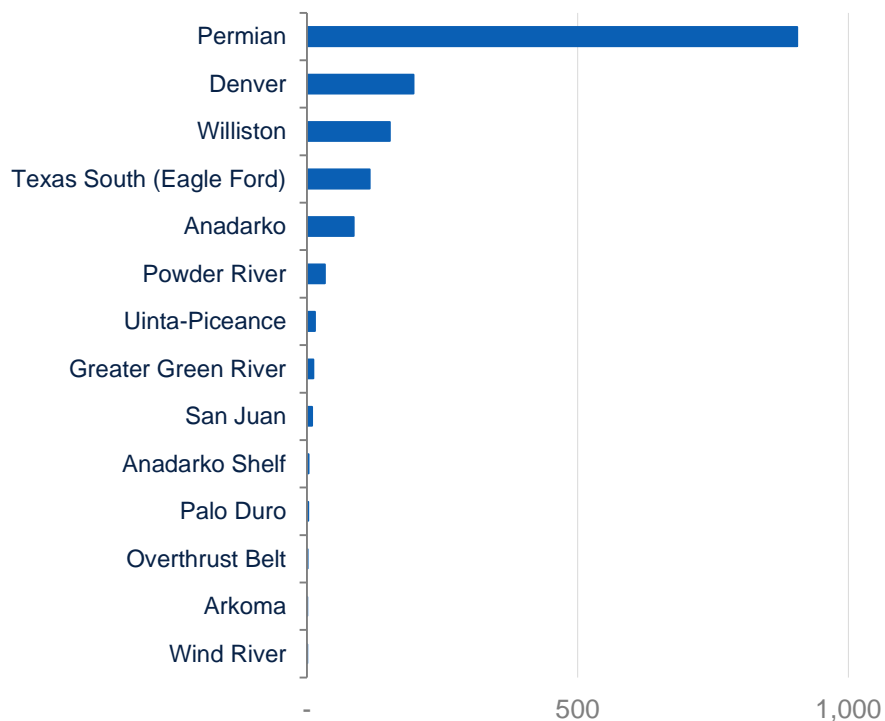
*Excluding Libya and Nigeria
Source: BBVA Research and Haver Analytics

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

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

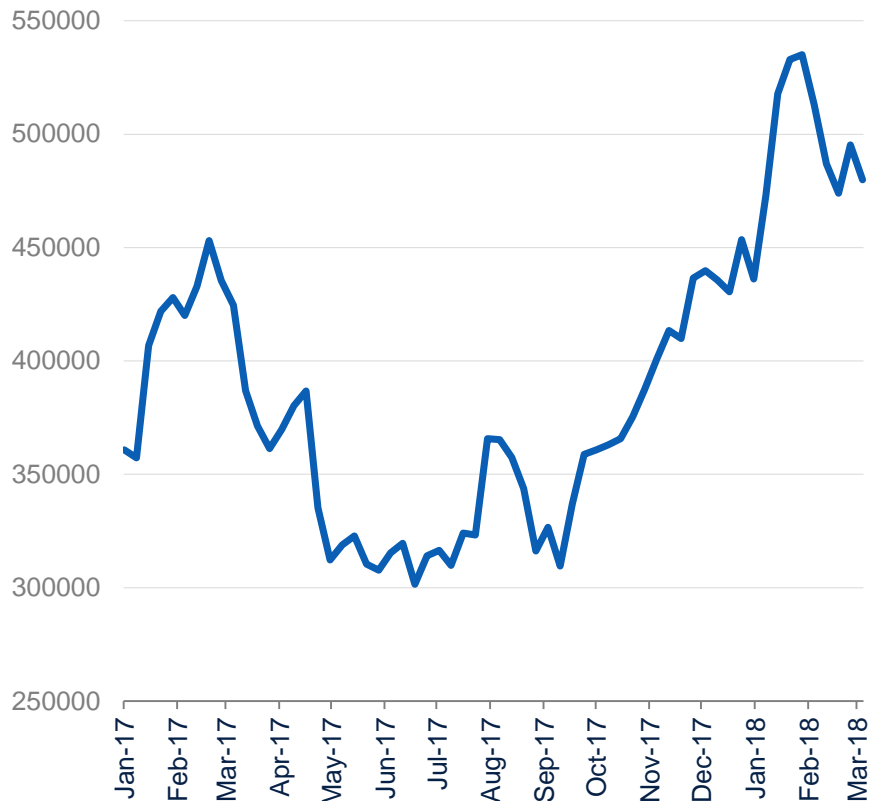


U.S. Change in crude oil production by basin
(February 2017 to February 2018, thousand barrels /day)

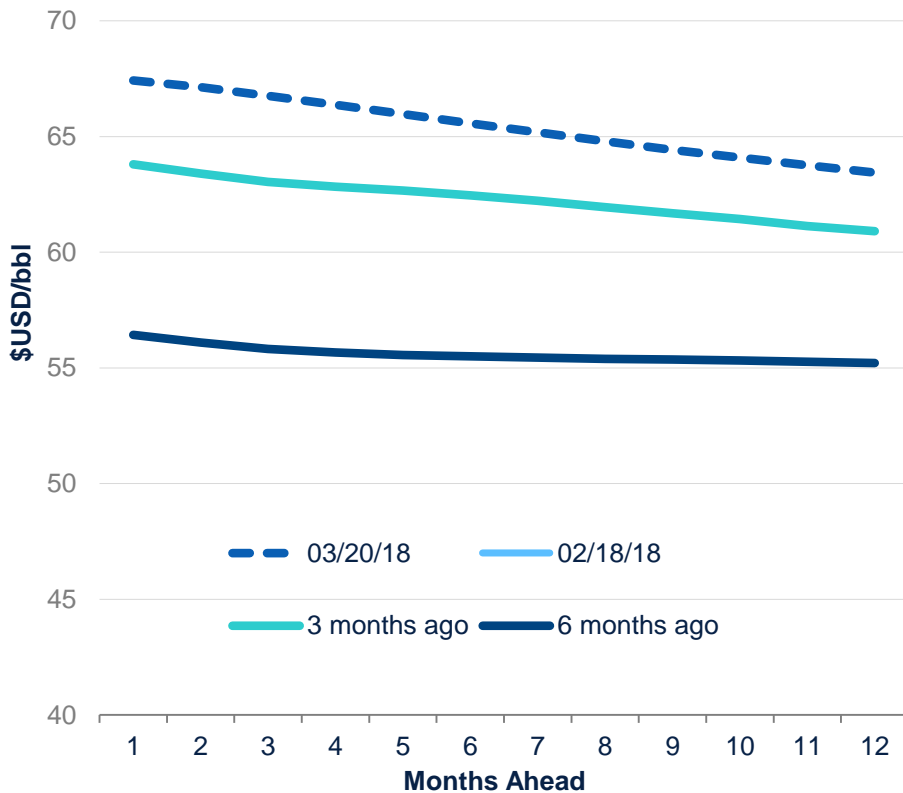


...nevertheless, markets are still aligned with prices above \$60/b in the short-run

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



Brent crude futures

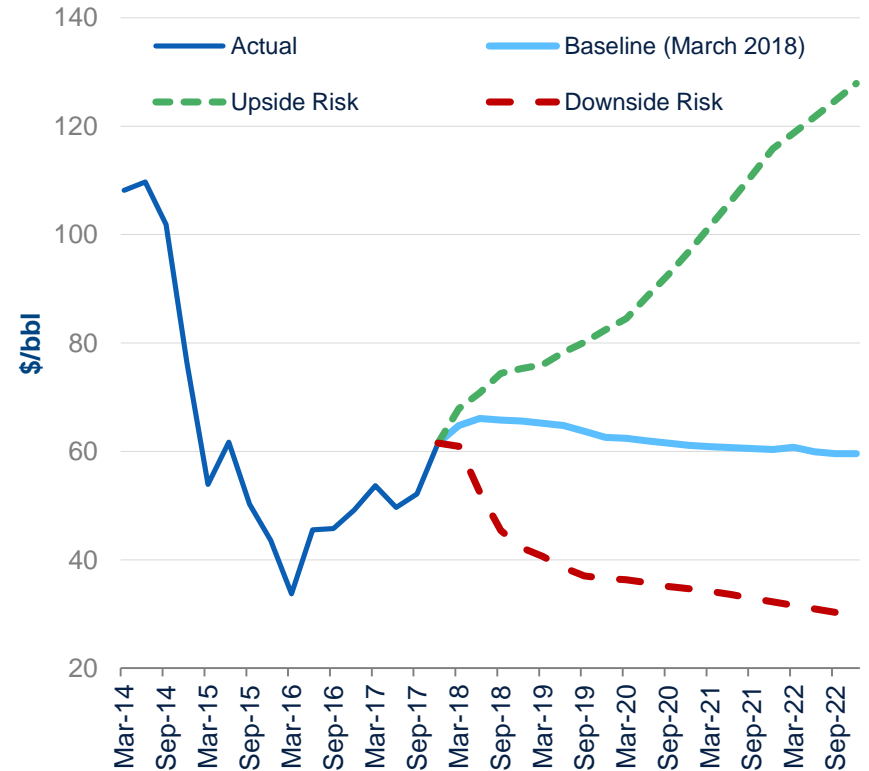


In the mid-term; however, catch up from U.S. and other non-OPEC producers should bring prices down

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

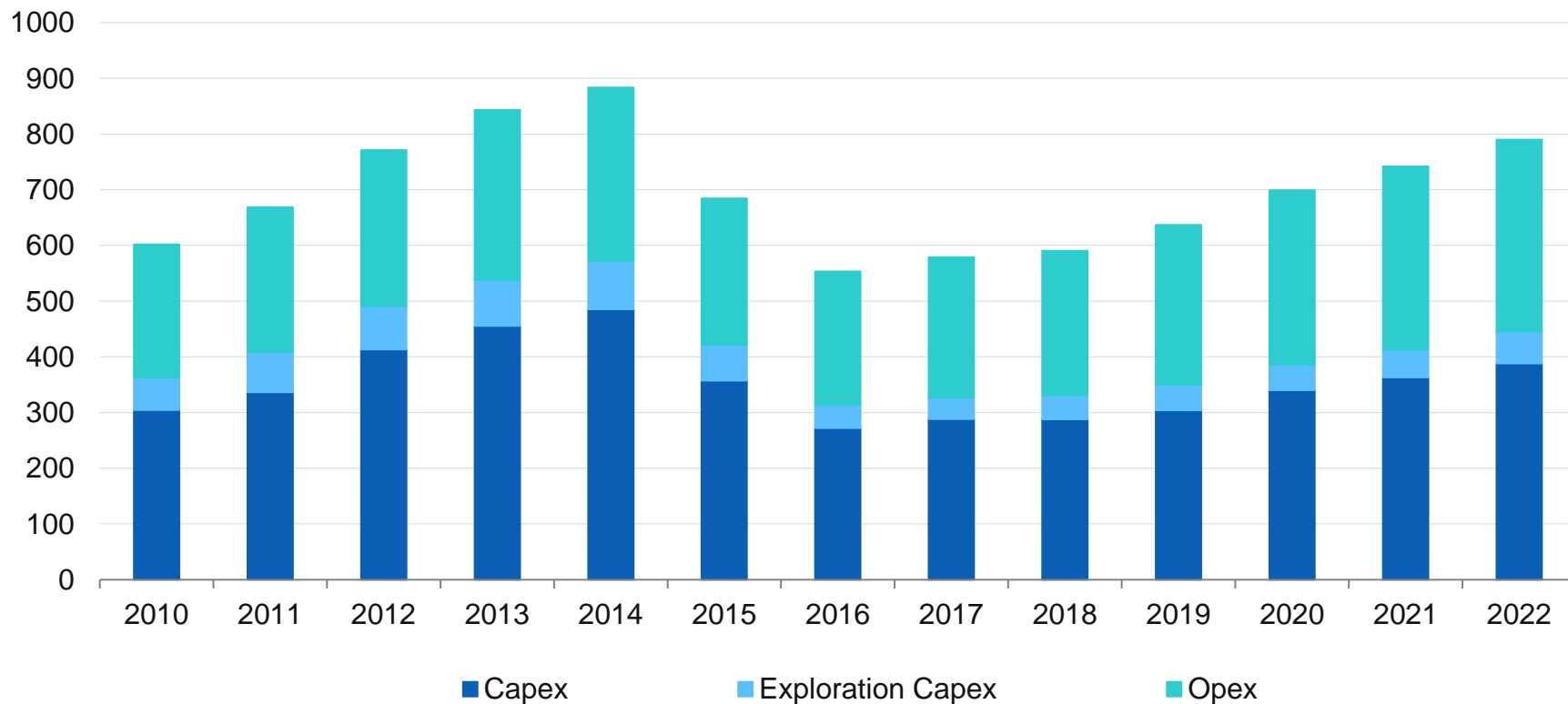
	Baseline	Upside	Downside
2015	52.8	52.8	52.8
2016	45.2	45.2	45.2
2017	54.4	54.4	54.4
2018	65.9	72.1	50.3
2019	64.1	79.2	38.2
2020	62.1	90.6	35.5
2021	61.5	108.6	33.2
2022	60.0	123.3	30.8

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



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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