

Oil Prices Outlook 2Q18

June, 2018
United States

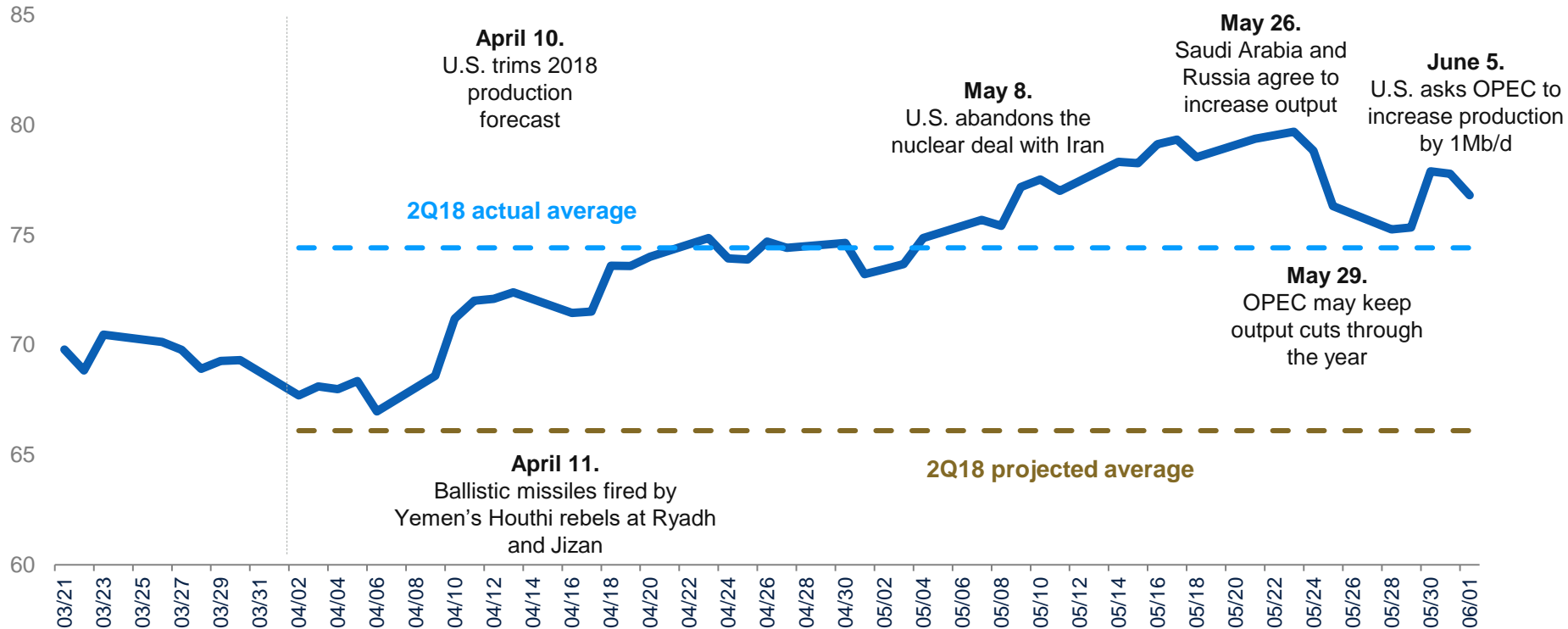


Key Messages

1. The geopolitical premium marked the evolution of oil prices in 2Q18
2. OPEC may decide to boost production to compensate the shortfall left by Iran and Venezuela
3. Prices will remain supported by robust demand from China, India and the U.S.
4. We continue to expect convergence to long-term equilibrium as demand growth converges to historical trend and U.S. export capacity expands
5. The main uncertainty to oil prices arises from the effect of subpar CAPEX on supply

The U.S. withdrawal from the nuclear agreement with Iran has added a risk premium

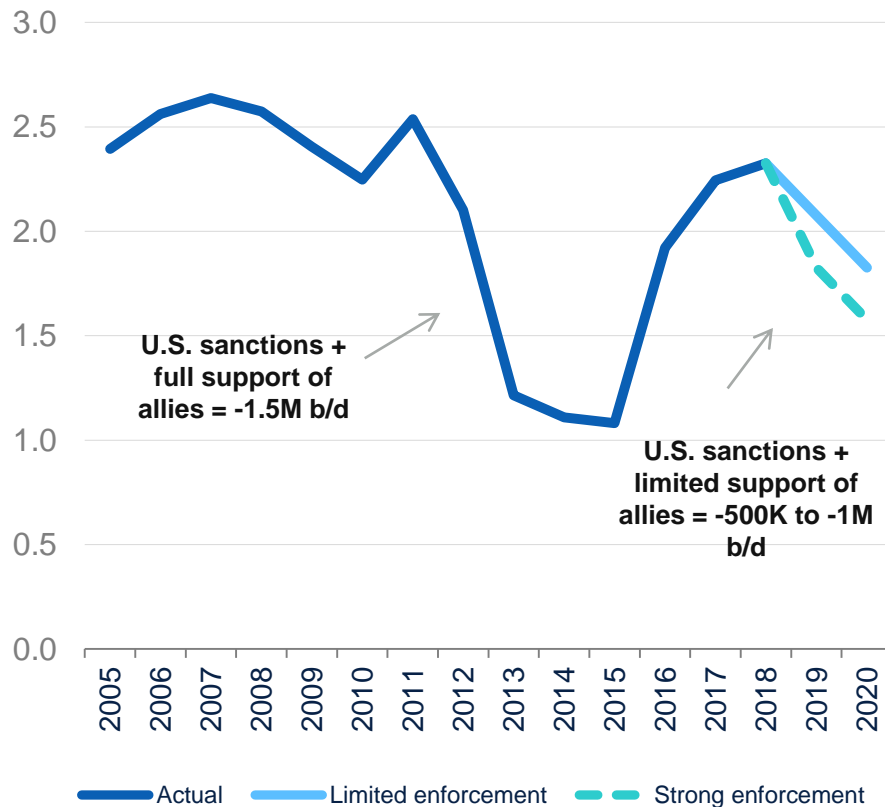
Crude oil prices (\$ per barrel)



The level of enforcement will determine Iran's oil exports

Iran: crude oil exports

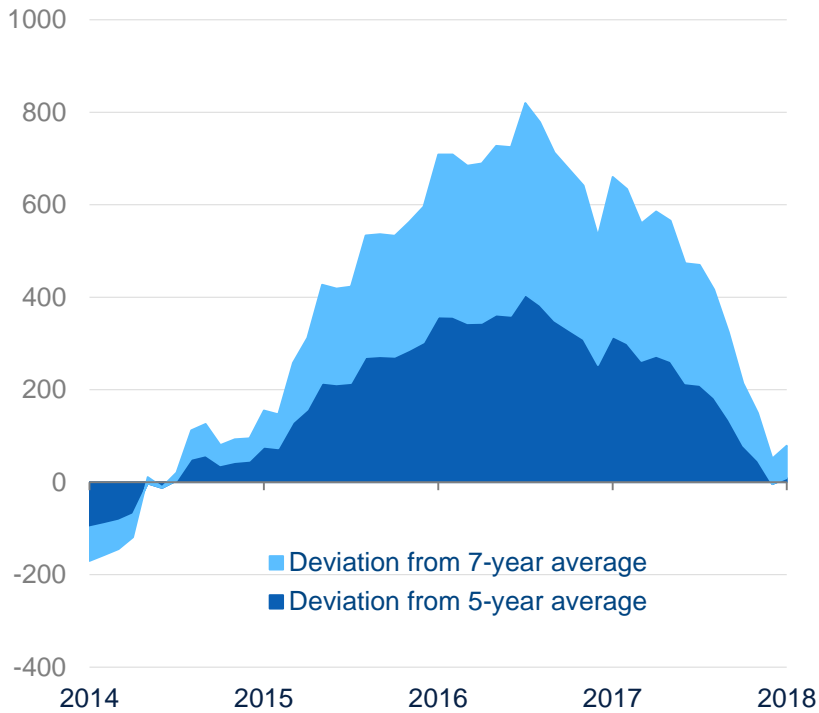
Million barrels per day



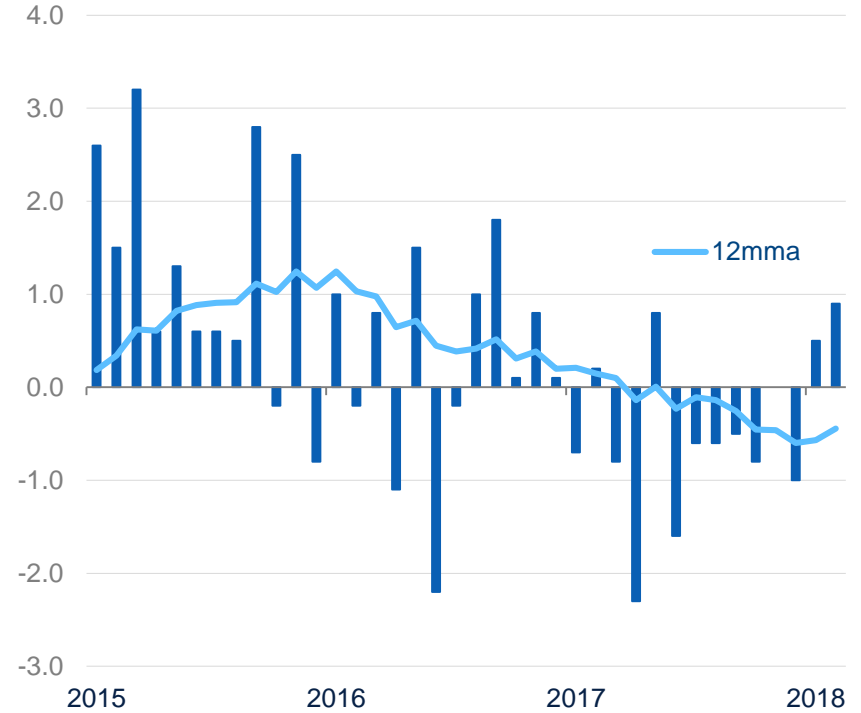
- Based on 2012 sanctions and the current level of exports, around 540,000 b/d would be at risk of losing access to international markets
- Lack of international support makes the enforcement of sanctions more difficult than in 2012
- Saudi Arabia and other Gulf States are seen as the best-placed to fill the gap left by Iran

Inventory data continues pointing to a tighter market

OECD Stocks of Petroleum
(Vs. 5-year and 7-year average, million barrels)



Global stock change needed to balance
(Million barrels per day)

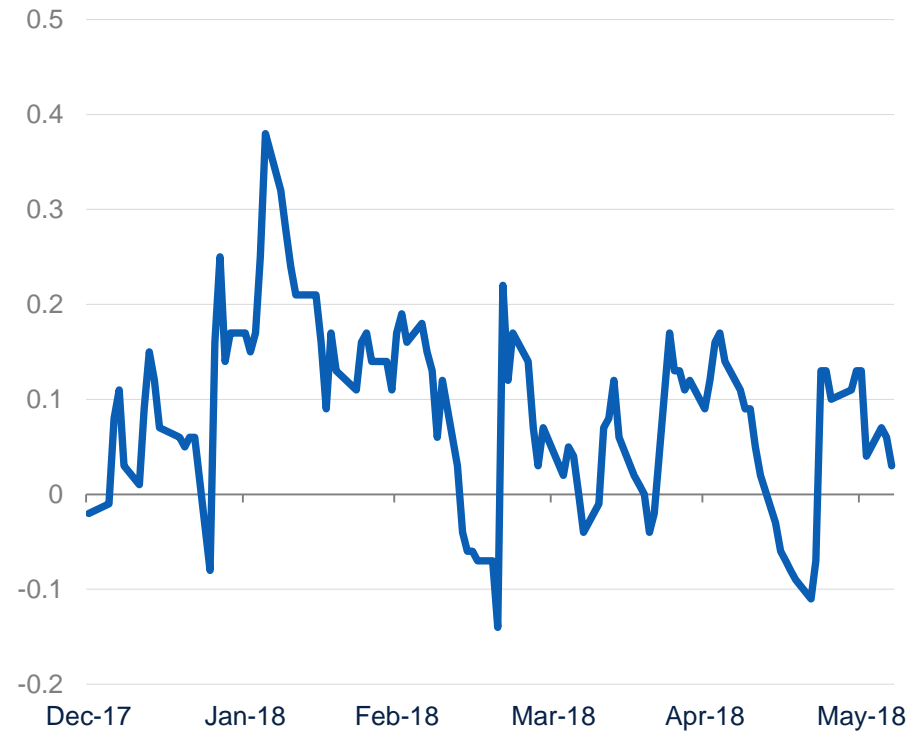


Recent time spreads display mixed signals

Brent time spreads
(1-2 month, \$/b)

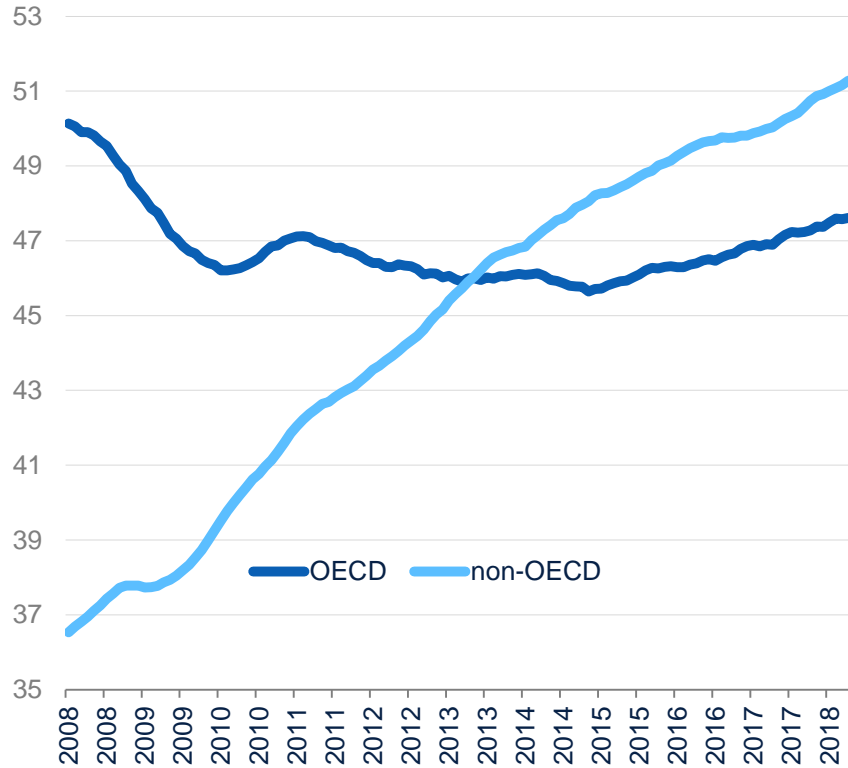


WTI time spreads
(1-2 month, \$/b)

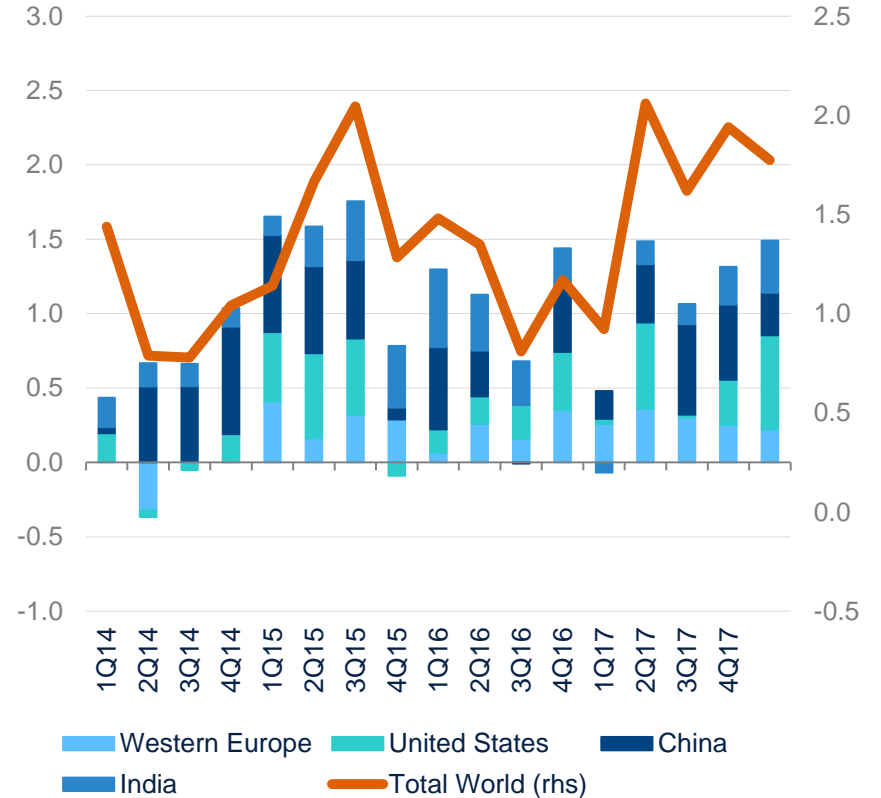


Global demand remains supportive, driven by China, India and the United States

Oil product demand
(12-month MA, million b/d)



Oil product demand
(YoY % change, million b/d)

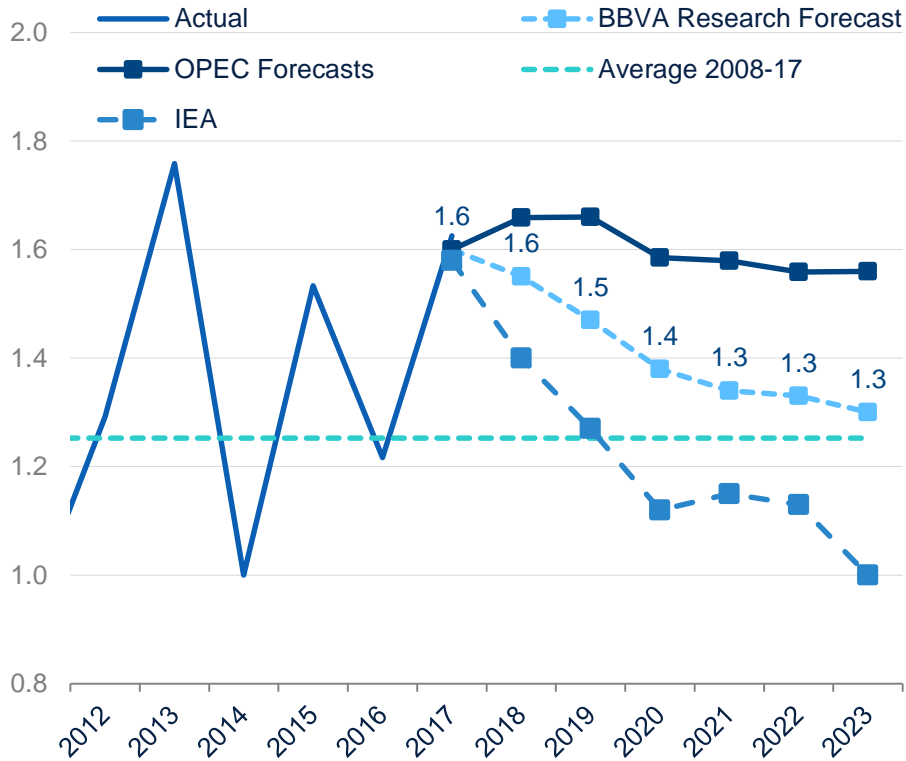


Source: BBVA Research and Haver Analytics

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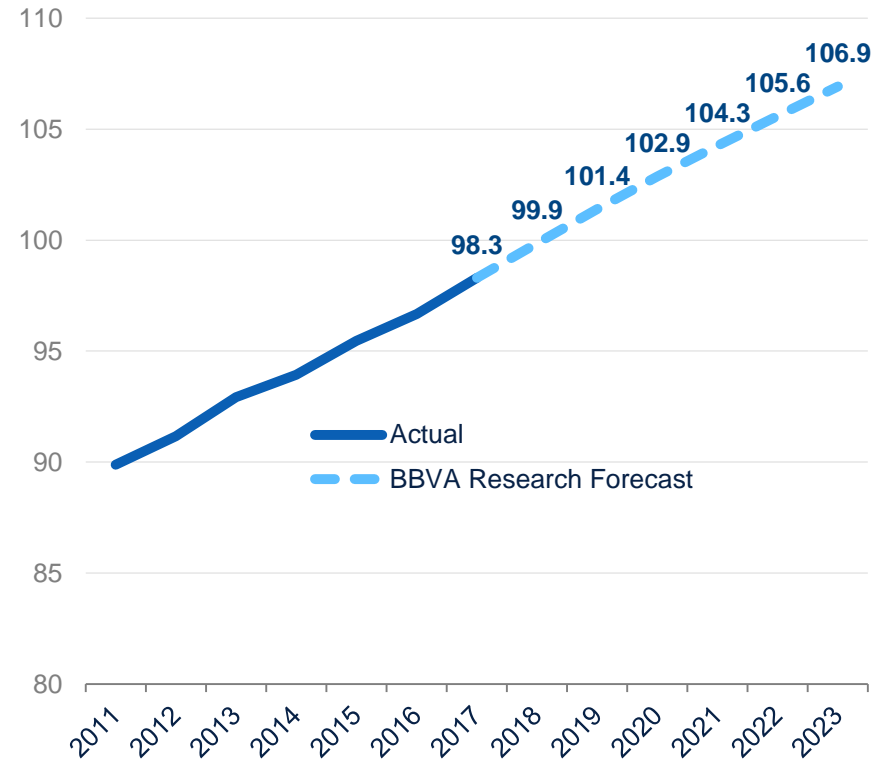
We expect demand growth to remain above average

Oil product demand (YoY change, million b/d)



Source: BBVA Research, IEA and OPEC

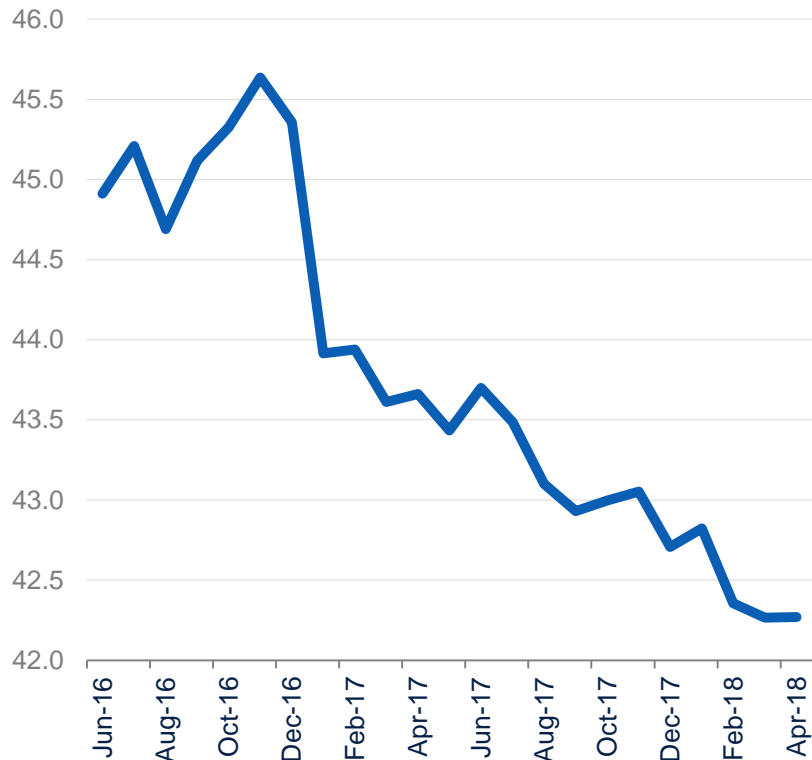
Oil product demand (million b/d)



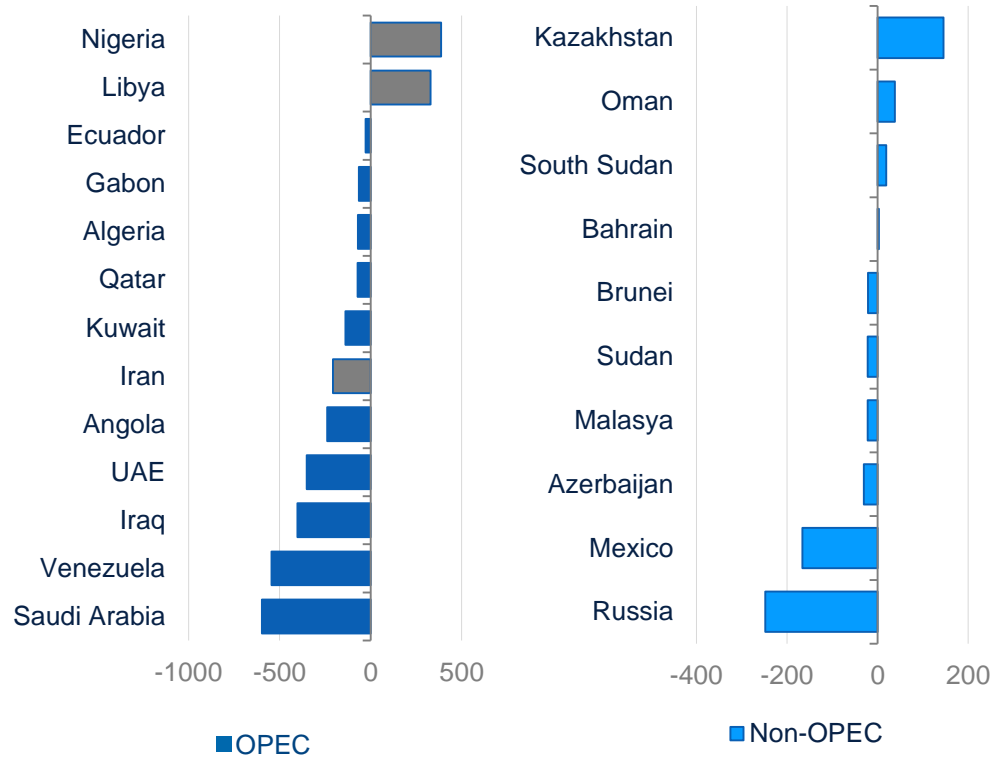
Source: BBVA Research and Haver Analytics

With 167% compliance rate, OPEC & partners have ample room to cover any gap left by Iran, Angola and Venezuela

OPEC+11 crude oil production*
(Production at the wellhead, million b/d)



OPEC+11 crude oil production*
(Production at the wellhead, change since Dec 2016, thousand b/d)

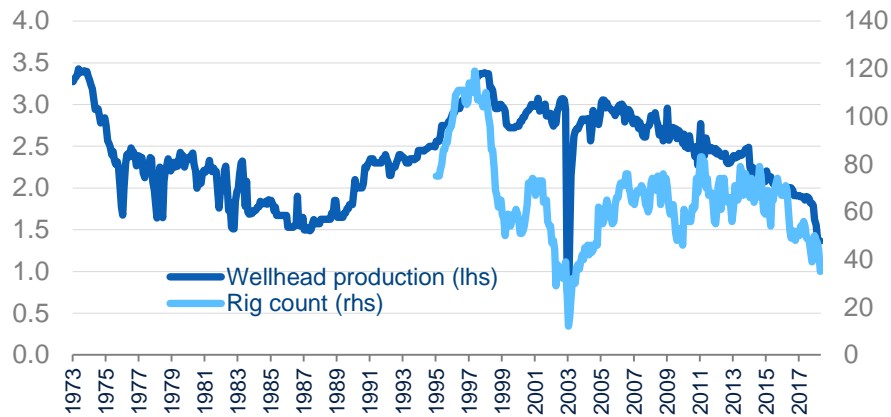


*Excluding Libya, Iran and Nigeria
Source: BBVA Research and Haver Analytics

* Libya, Iran and Nigeria were not part of the deal

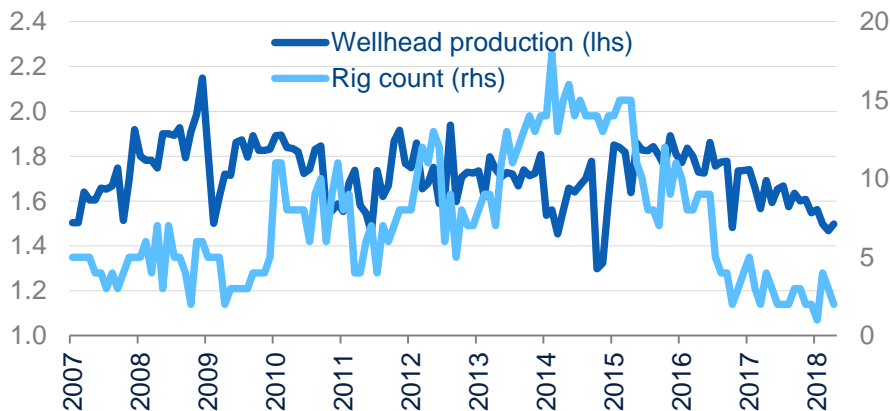
Involuntary cuts to Venezuela and Angola's production have helped OPEC to exceed its quotas

Venezuela: oil production & rig count
(million b/d and number)



- A combination of low crude oil prices and the mismanagement of the country's oil industry has led to accelerated declines in production
- Decreasing rig count suggests further production declines in 2018-2019
- If trends persist, production could fall below one million barrels per day

Angola: oil production & rig count
(million b/d and number)

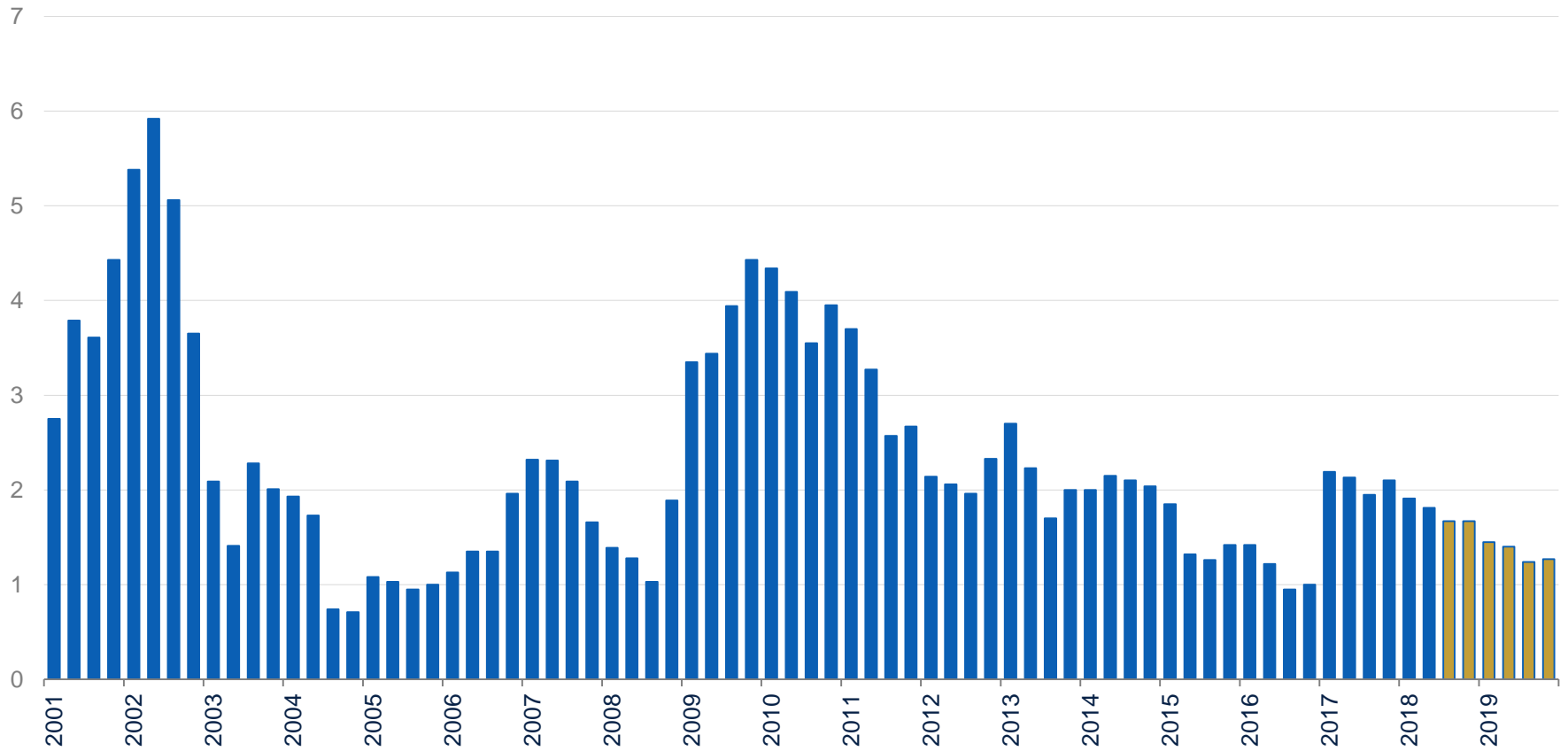


- Crude oil production is falling due to lack of investments in naturally declining offshore fields
- Angola's fields are costly to maintain and there is no appetite from investors given other alternatives

OPEC spare capacity is enough to prevent a higher risk premium

OPEC spare production capacity

(Million b/d)

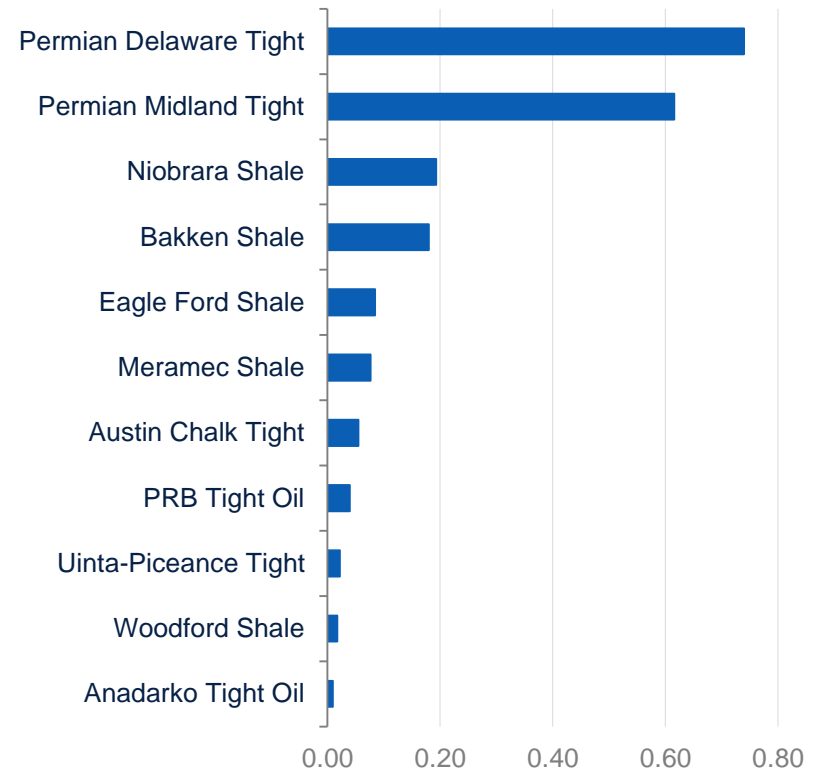


The Permian driving U.S. production to record-highs

U.S. Estimated crude oil production
(Thousand b/d)

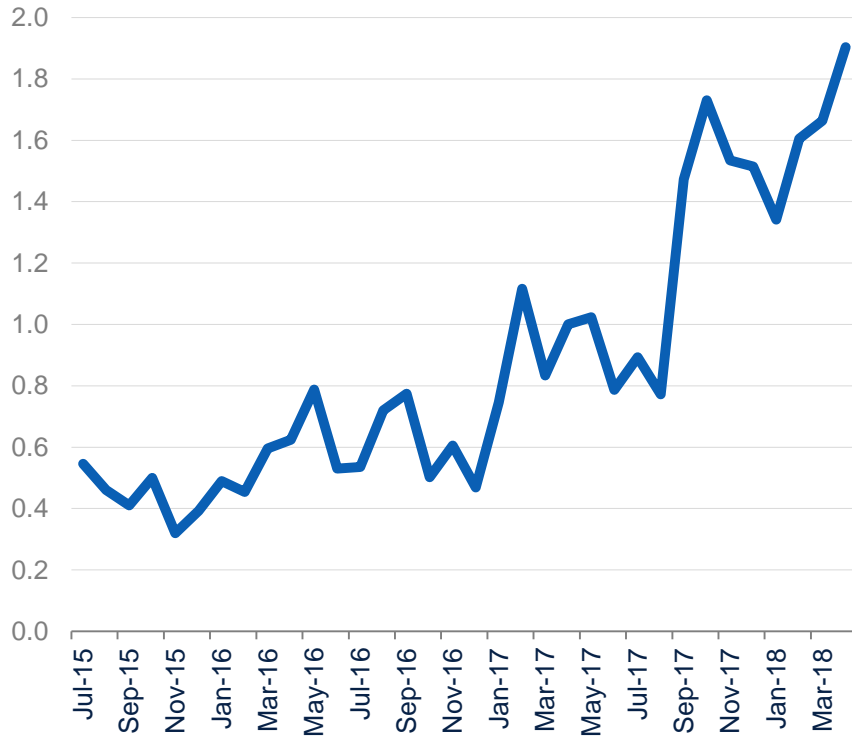


U.S. Change in crude oil production
(January 2017 to May 2018, million b/d)

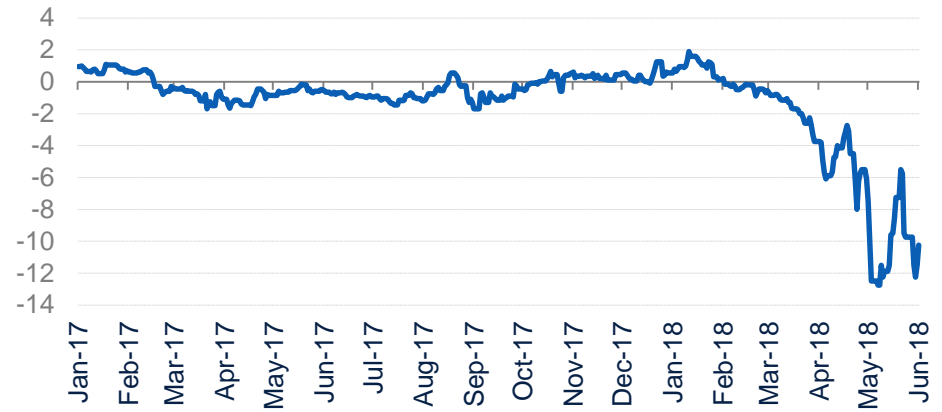


However, transportation bottlenecks limit impact on international prices

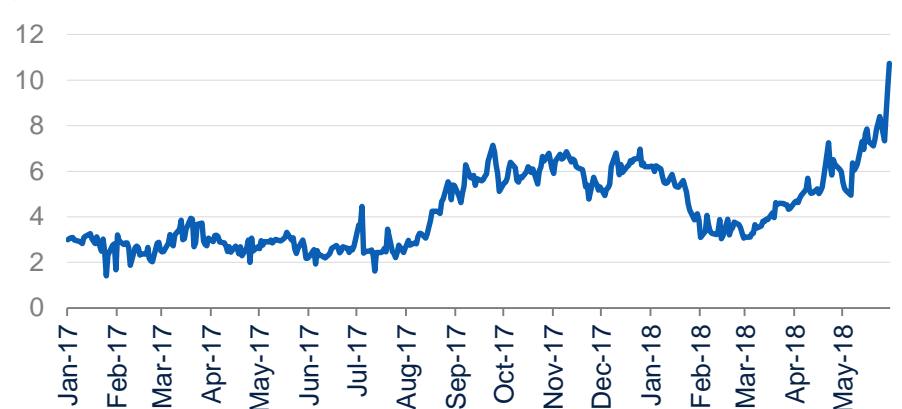
U.S. Crude oil exports
(Million b/d)



WTI Midland-Cushing differential
(\$/b)



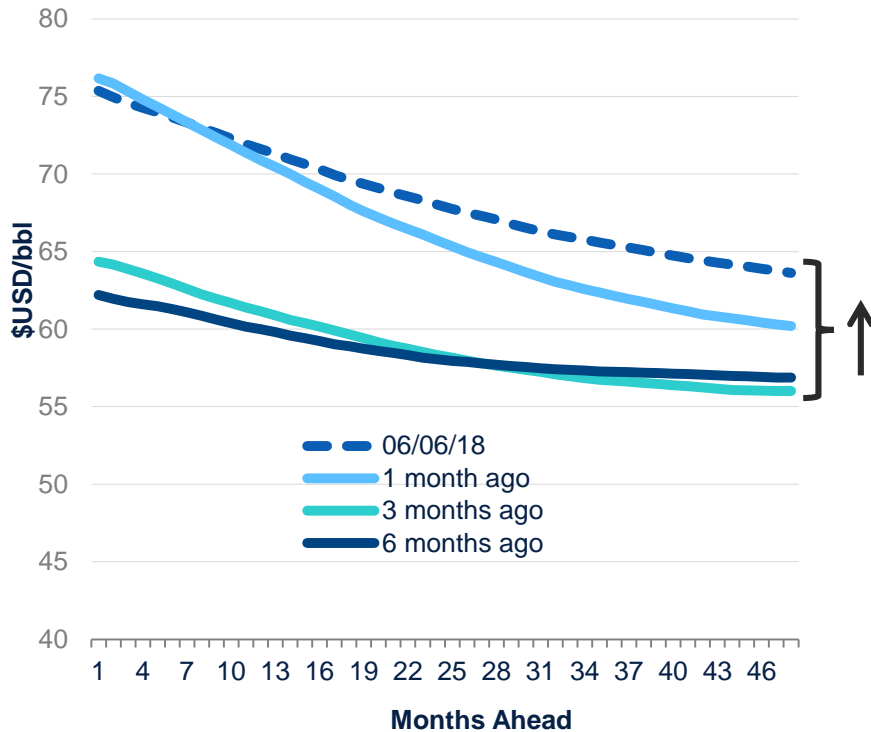
Brent-WTI differential
(\$/b)



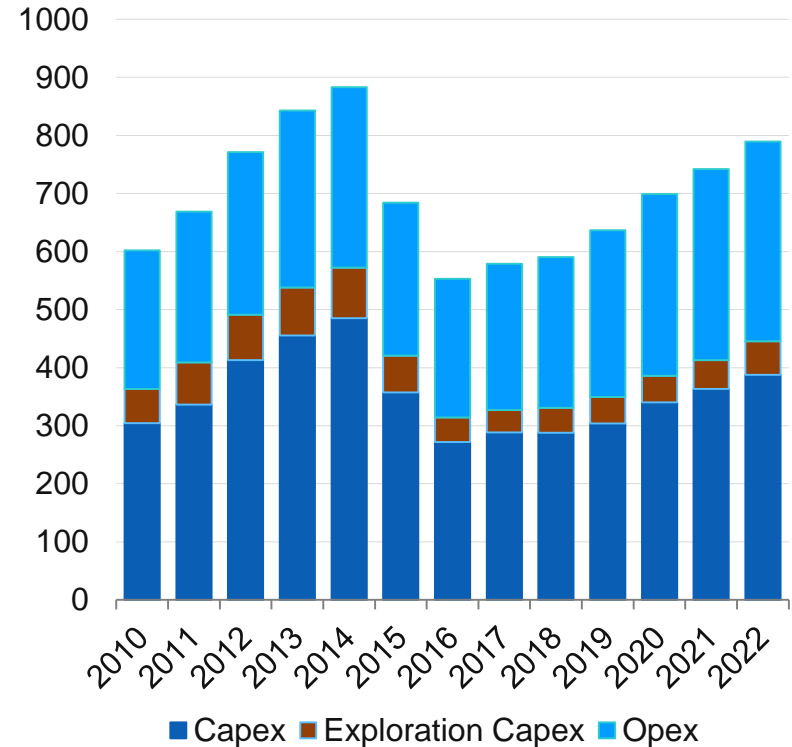
Source: BBVA Research, Haver Analytics and Bloomberg

A significant upward shift in the long-term portion of the forward curve highlights the potential impact of underinvestment

Brent crude futures

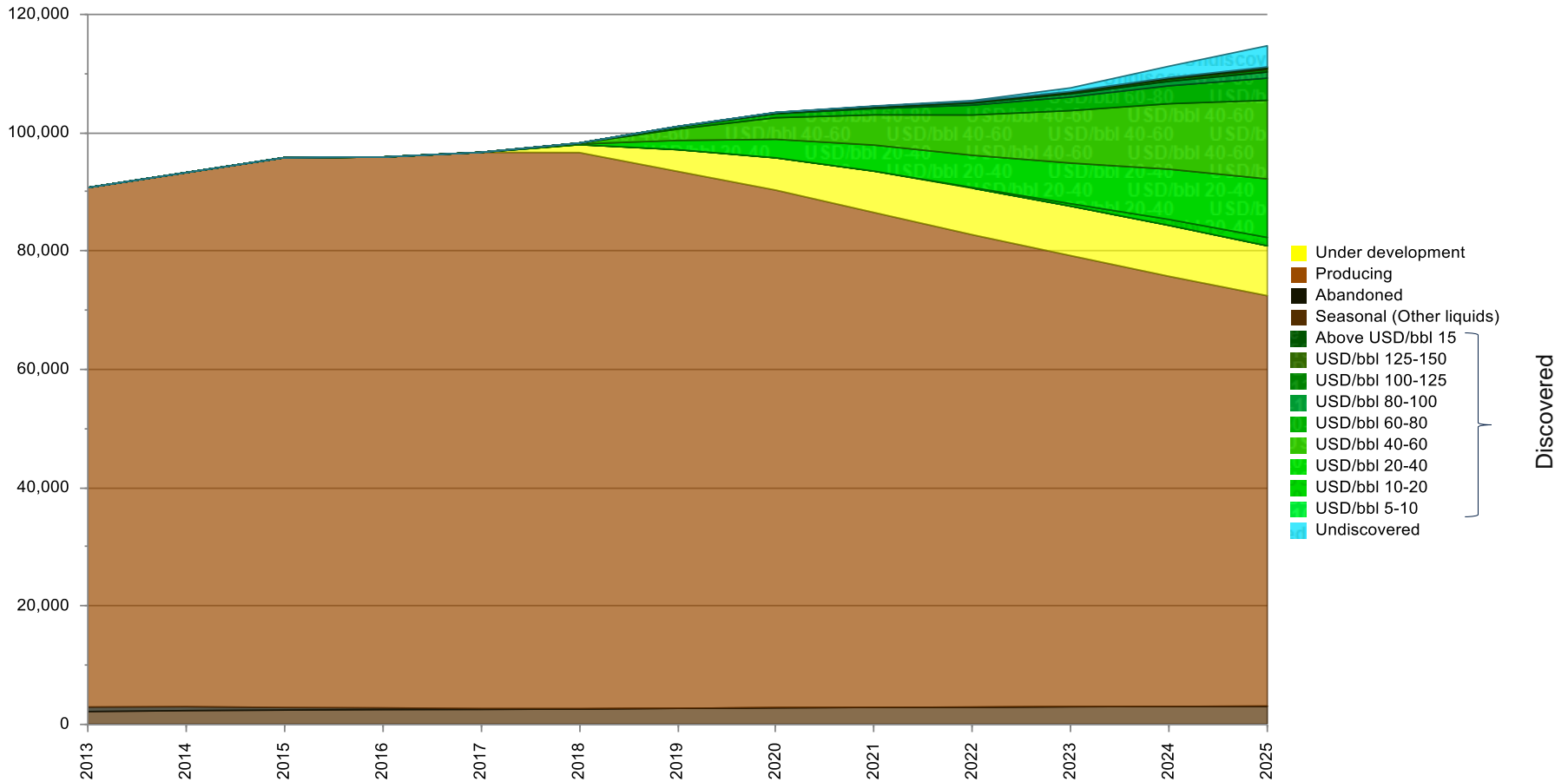


Global capital expenditures in crude oil (Billion USD)



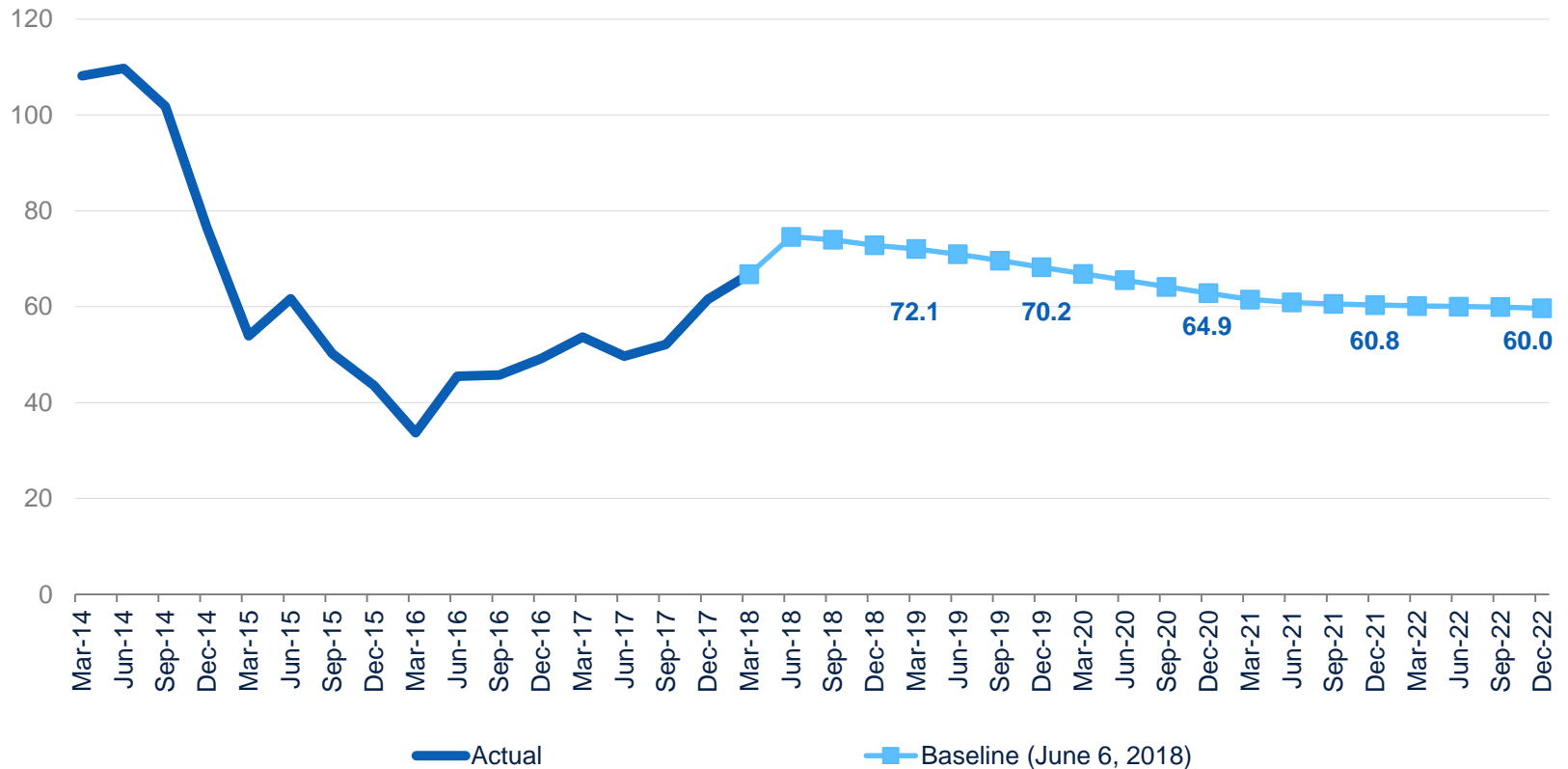
Investments will be needed to replace naturally declining production

Global liquids production by life cycle and breakeven price
(Thousand b/d)



Oil prices will remain above the estimated long-term equilibrium

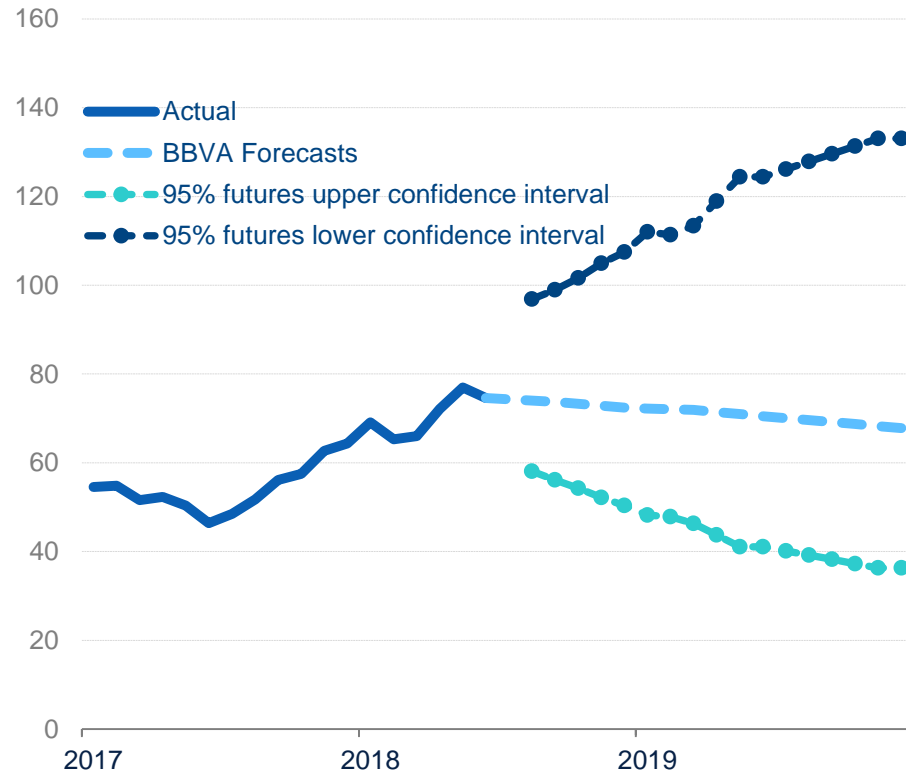
Crude oil prices forecast (Brent, \$ per barrel, avg.)



Consensus around \$70/b for 2018-19; expectations for 2020-21 reflect large discrepancies

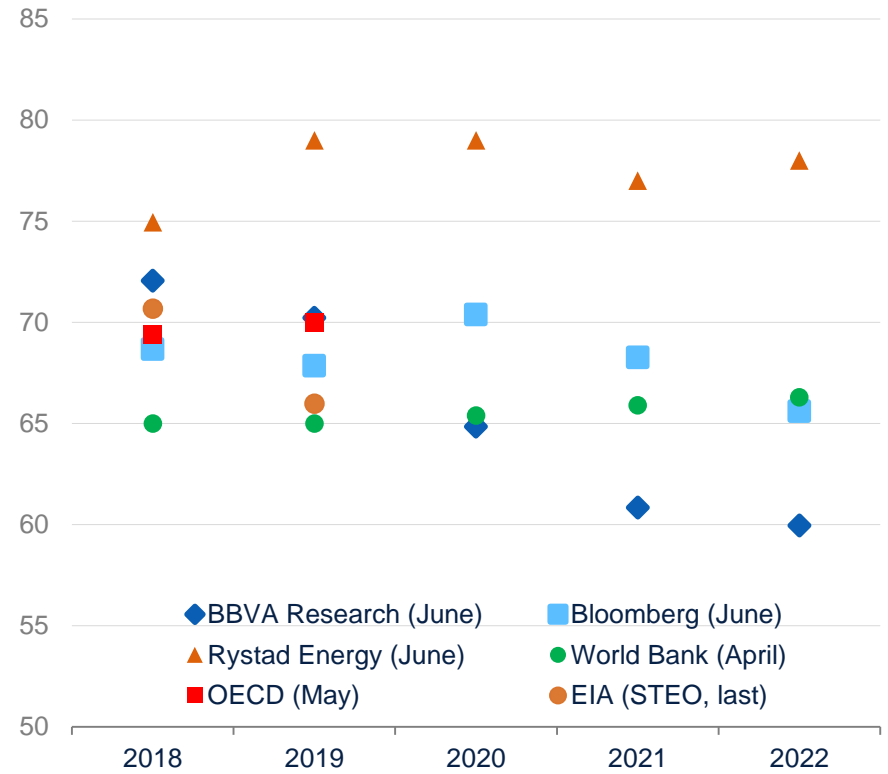
Short-term forecasts

(Brent, \$/b)



Annual forecasts

(Brent, \$/b)



Source: BBVA Research, Bloomberg, EIA, Rystad Energy, OECD, The World Bank

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