BBVA Research

U.S. Oil Prices Outlook

Third quarter 2018

Creating Opportunities

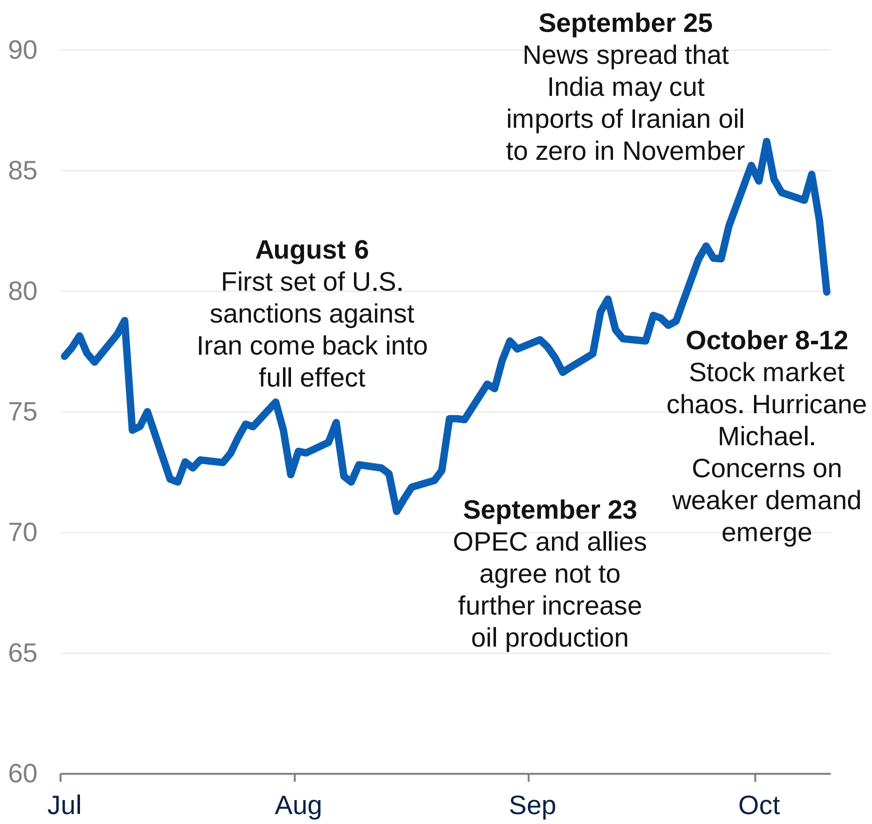
Energy Prices

- U.S. sanctions to Iran, concerns on OPEC spare capacity and the potential impact of trade wars will weigh on oil prices through the rest of the year
- U.S. production remains strong, but transportation challenges have widened the gap between WTI and Brent
- Solid demand supported by China, India and the U.S.
- Markets and analysts expect the end of the “lower-for-longer” paradigm supported by solid demand and negative supply shocks
- Elevated uncertainty around long-term equilibrium: lagged effect of subpar global CAPEX, protectionism, alternative energy sources, EM convergence, EVs, climate change, efficiency and technology

Is this the end of lower-for-longer?

Crude oil prices July to October 2018

($ per barrel, 2018)



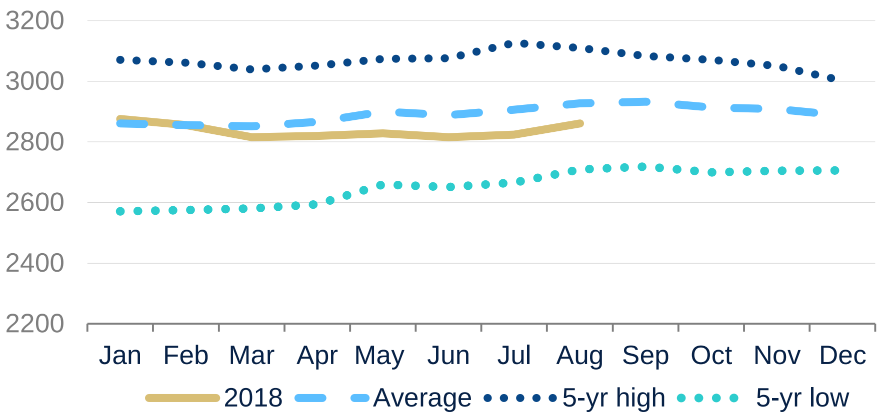
CBOE/NYMEX Crude Volatility Index

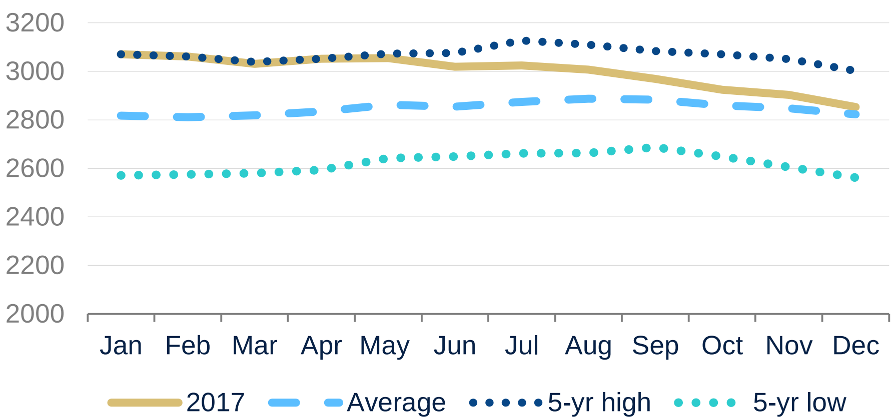
(2018)

Source: BBVA Research and Haver Analytics`

Although markets remain fairly balanced, the reinstatement of sanctions to Iran triggered a bullish sentiment

OECD Crude oil inventories
(Million barrels)





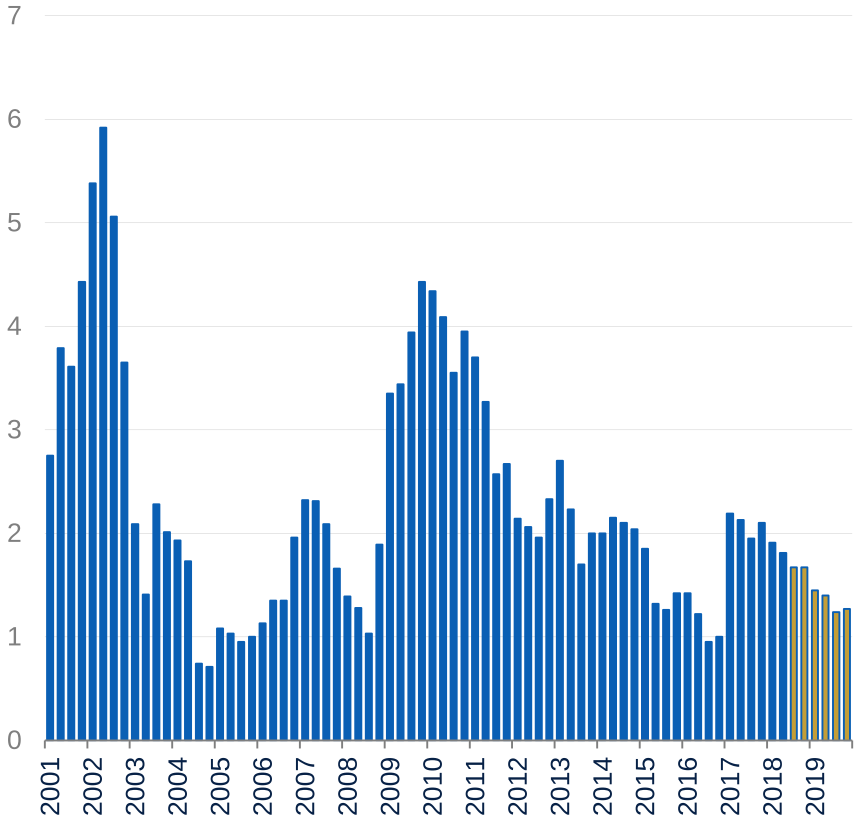
Brent and net long positions
($ per barrel and thousands)

Source: BBVA Research and Bloomberg

Disruptions in Iran and Venezuela leave the market more vulnerable to future supply shocks

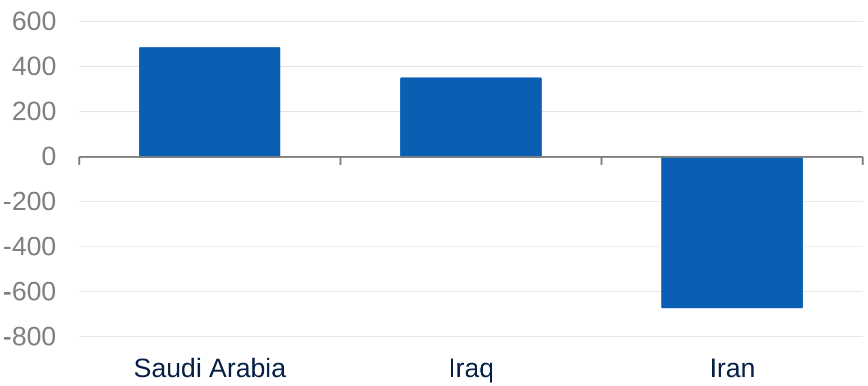
OPEC spare production capacity

(Million barrels/day)



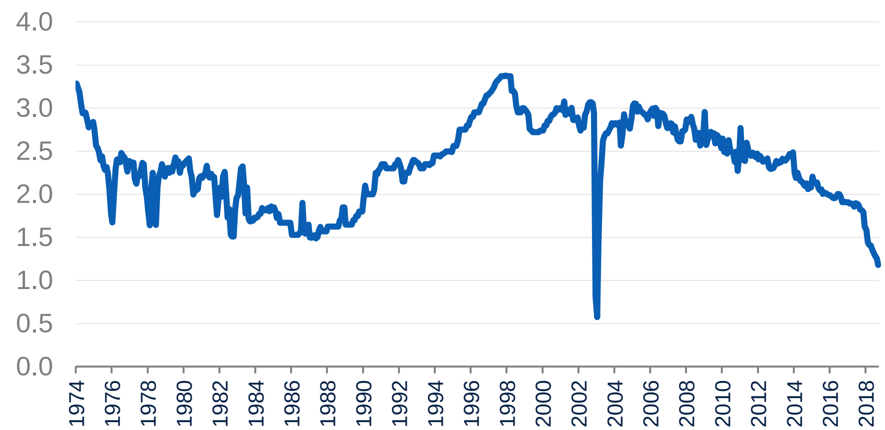
Exports of crude oil

(Thousand barrels per day, change since April 2018)



Exports of crude oil

(Thousand barrels per day, change since April 2018)

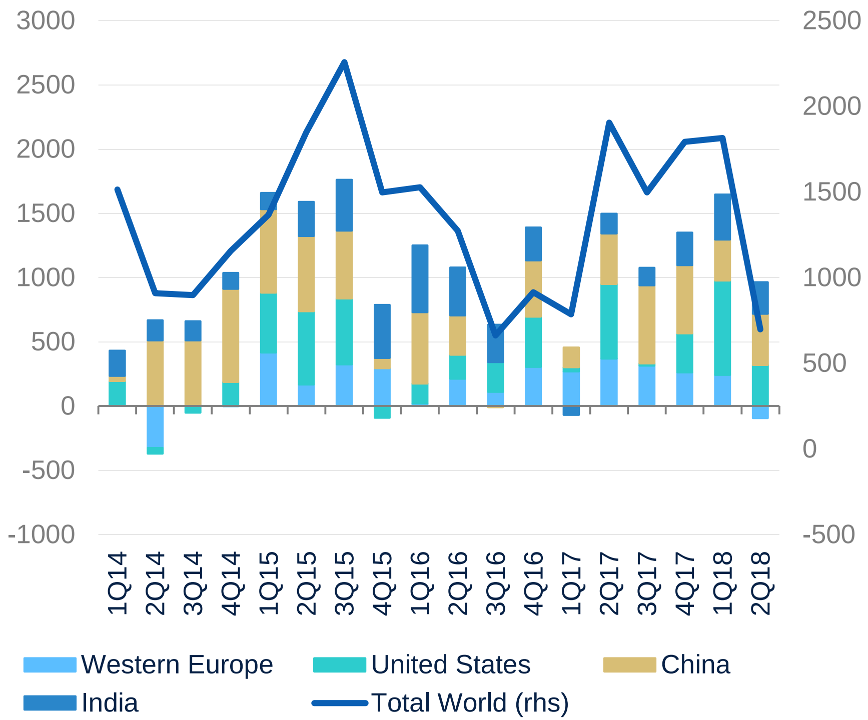


Source: BBVA Research, Haver Analytics, EIA and Bloomberg

Demand supported by China, India and the U.S.

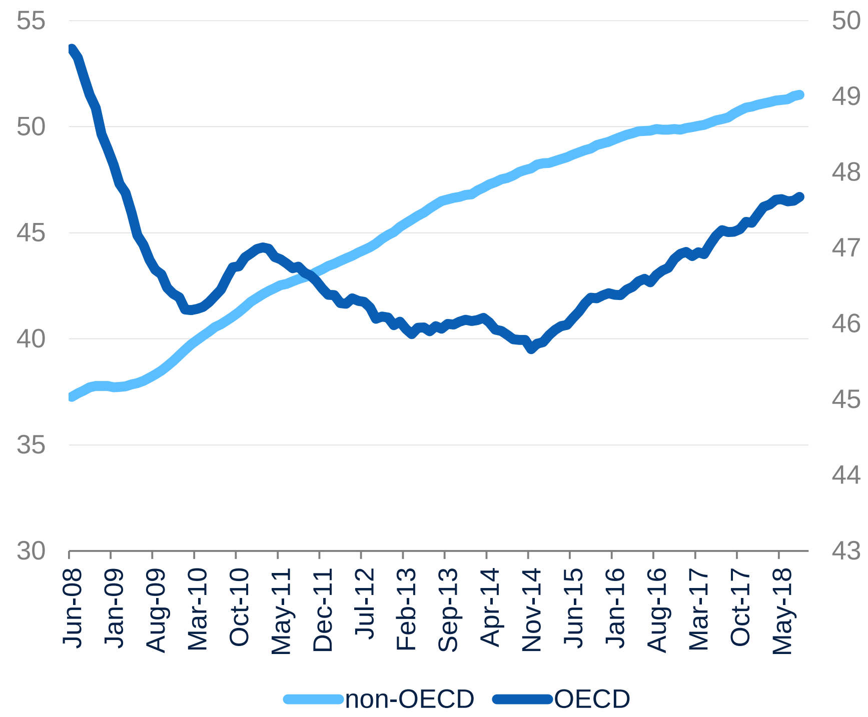
Oil product demand: total world

(Thousand barrels per day, yoy change)



Oil product demand

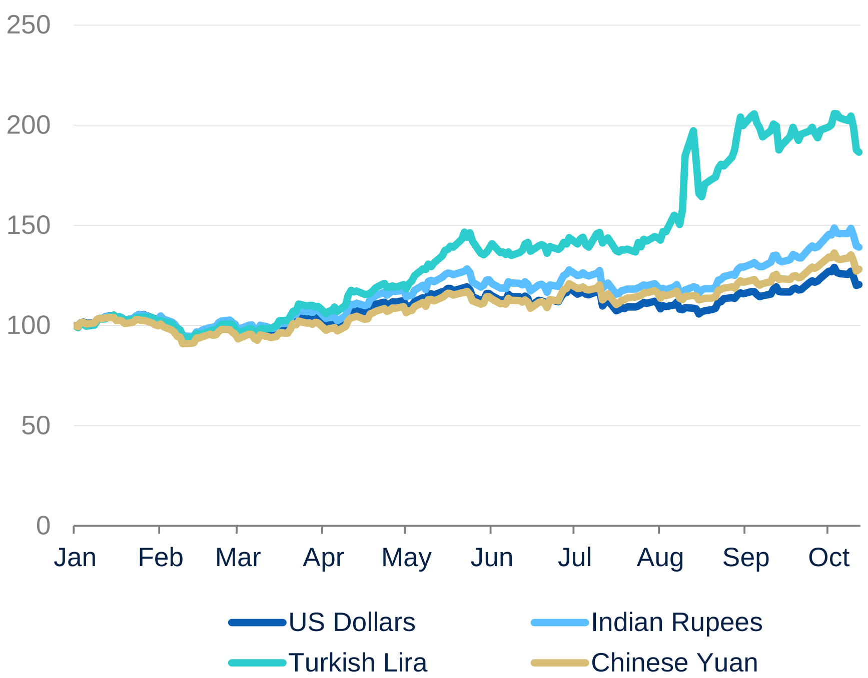
(Million barrels per day)



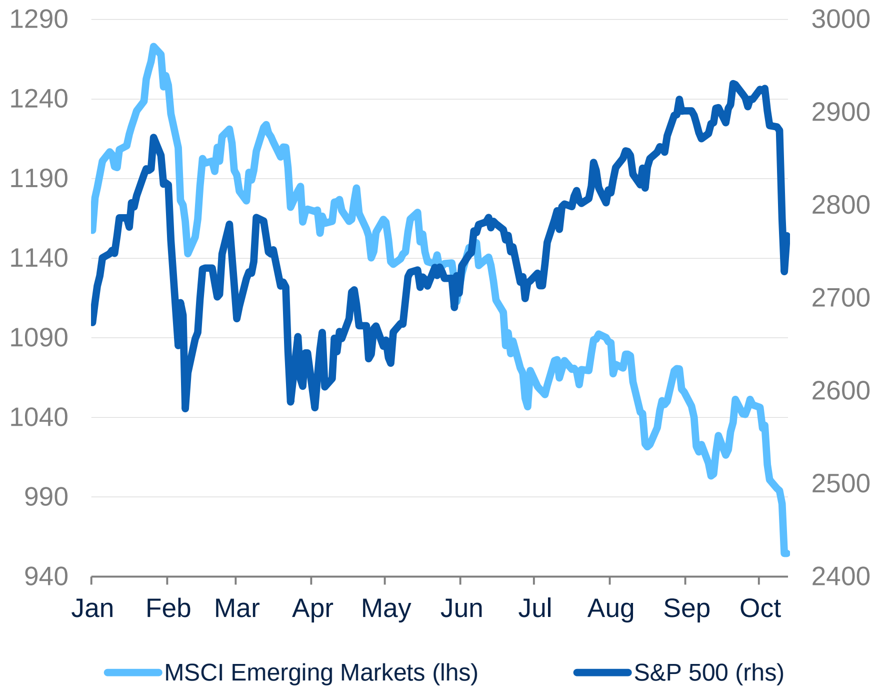
Source: BBVA Research and Haver Analytics

Going forward, higher prices, stronger dollar and higher financial volatility may signal slower demand growth

Brent crude oil prices in different currencies (Jan-2018 = 100)

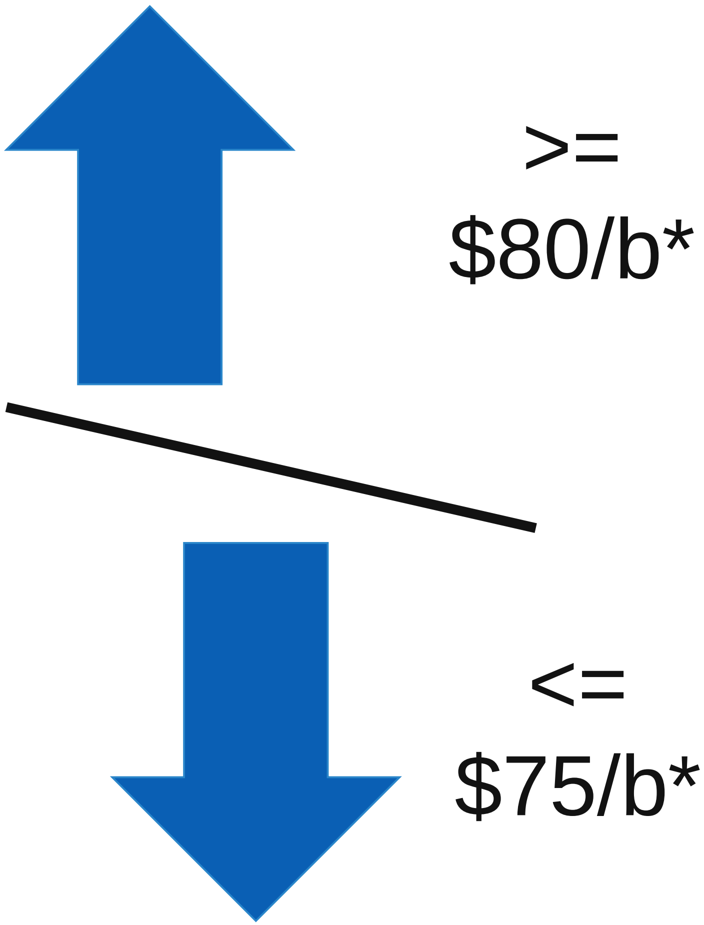


Stock market indicators (2018)



Source: BBVA Research and Bloomberg

Short-term risks are tilted to the upside…



- OPEC+ is perceived incapable of offsetting the gap left by Iran and Venezuela
- Additional negative supply shocks (e.g. Libya, Nigeria)
- Stronger-than-expected global demand
- Steeper “backwardation” that encourages speculative behavior
- Takeaway issues prevent U.S. crude to reach global markets

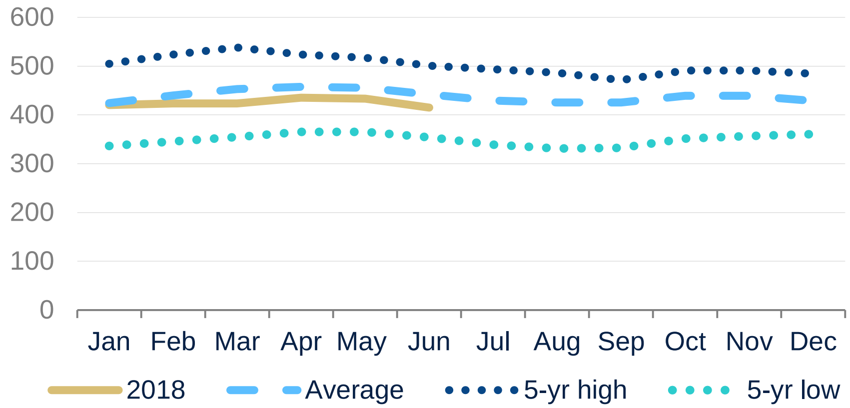
- Weaker global outlook after turbulence in emerging markets (e.g. Turkey, Argentina)
- Escalation of protectionism
- Dollar appreciation
- President Trump’s pressure on OPEC

*Brent crude prices
Source: BBVA Research

U.S.: higher prices have boosted activity, but takeaway issues persist

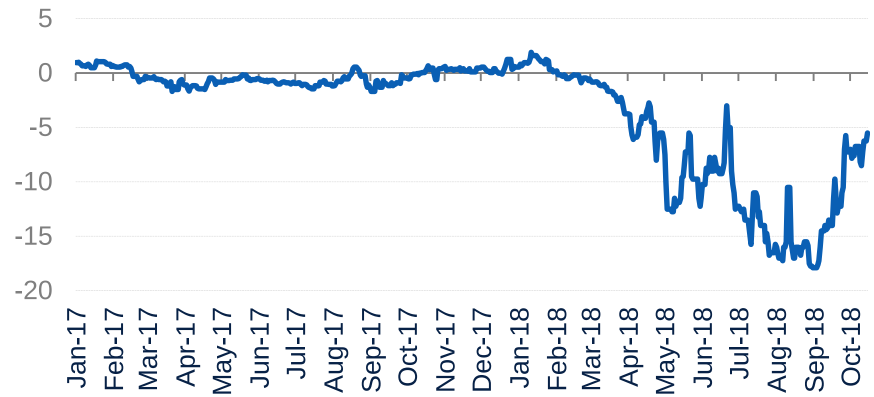
U.S. Crude oil inventories

(Excluding SPR, million barrels)



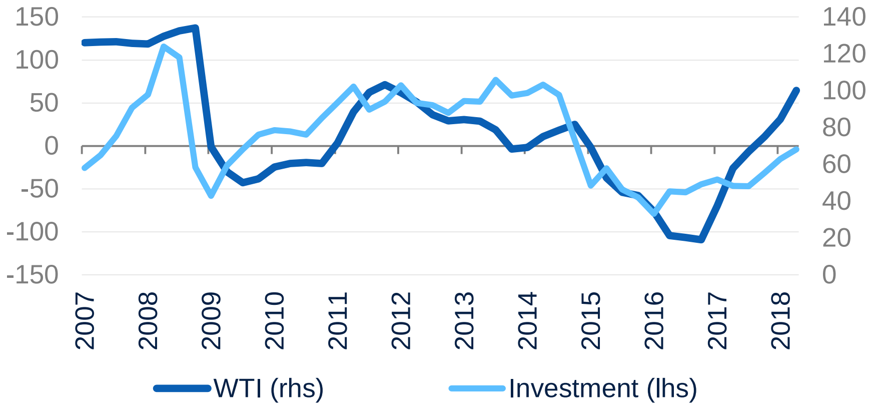
WTI Midland-Cushing differential

($ per barrel)



U.S. Real private investment in E&P

(yoy $ billion and $ per barrel)



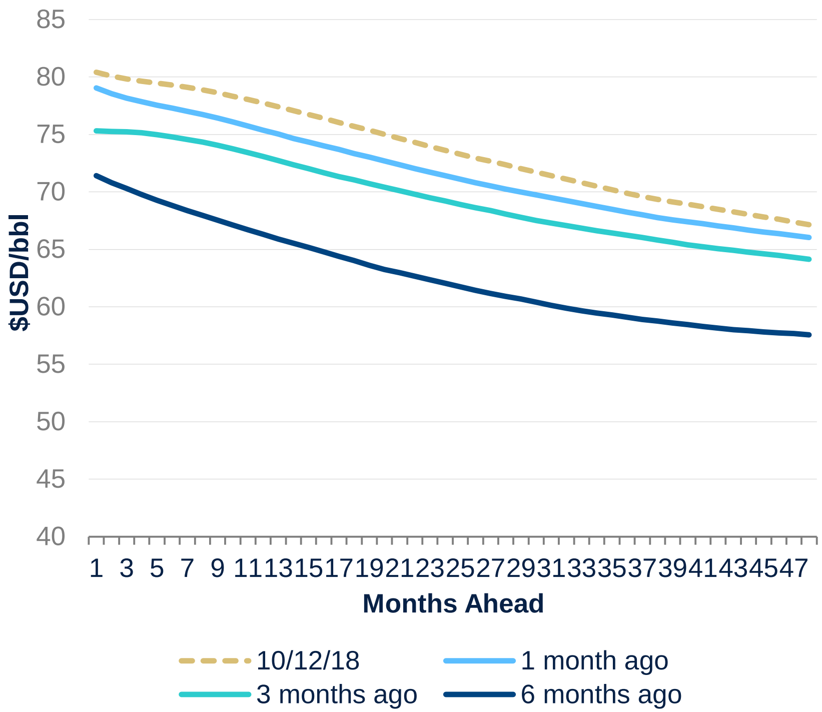
U.S. Estimated crude oil production

(Thousand barrels/day)

Source: BBVA Research and Haver Analytics

Analysts and futures market's expectations continue moving up due to rising uncertainty

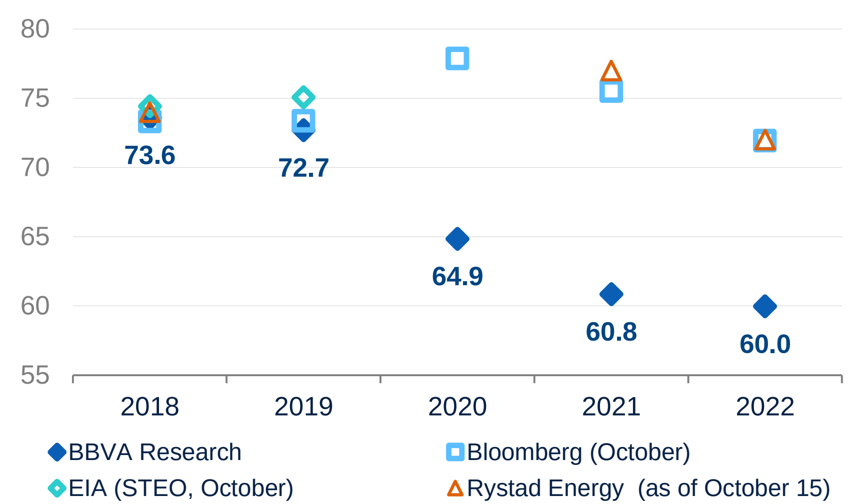
Brent Futures
($ per barrel)



Source: BBVA Research and Bloomberg

Brent prices forecast
($ per barrel)

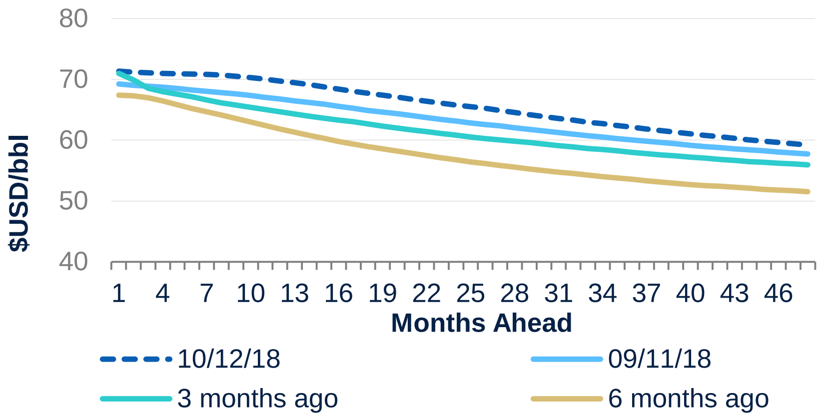
	BBVA Research	BBVA Research (June)	Bloomberg (October)	EIA (STEO, October)	Rystad Energy (as of October 15)
2017	54.2	54.2	54.2	54.2	54.2
2018	**73.6**	**72.0**	**73.3**	**74.4**	**74.0**
2019	**72.7**	**70.2**	**73.4**	**75.1**	**80.8**
2020	**64.9**	**64.9**	**77.9**		**84.5**
2021	**60.8**	**60.8**	**75.5**		**77.0**
2022	**60.0**	**60.0**	**71.9**		**72.0**



WTI expectations have also changed, but they will still reflect above-average differentials with Brent in the short-run

WTI Futures

($ per barrel)



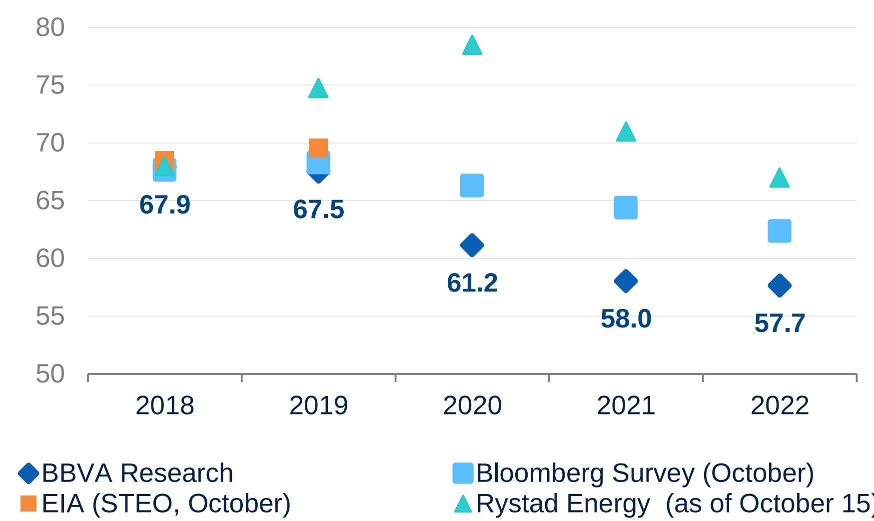
WTI prices forecast

($ per barrel)

	BBVA Research	BBVA Research (June)	Bloomberg Survey (October)	EIA (STEO, October)	Rystad Energy (as of October 15)
2017	50.9	50.9	50.9	50.9	50.9
2018	**67.9**	**65.9**	**67.7**	**68.5**	**68.0**
2019	**67.5**	**65.1**	**68.3**	**69.6**	**74.8**
2020	**61.2**	**61.2**	**66.3**		**78.5**
2021	**58.0**	**58.1**	**64.4**		**71.0**
2022	**57.7**	**57.7**	**62.4**		**67.0**

Brent – WTI differential

(2018, $ per barrel)



Source: BBVA Research and Bloomberg

DISCLAIMER

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