BBVA Research

U.S. Oil Prices Outlook

January 2019

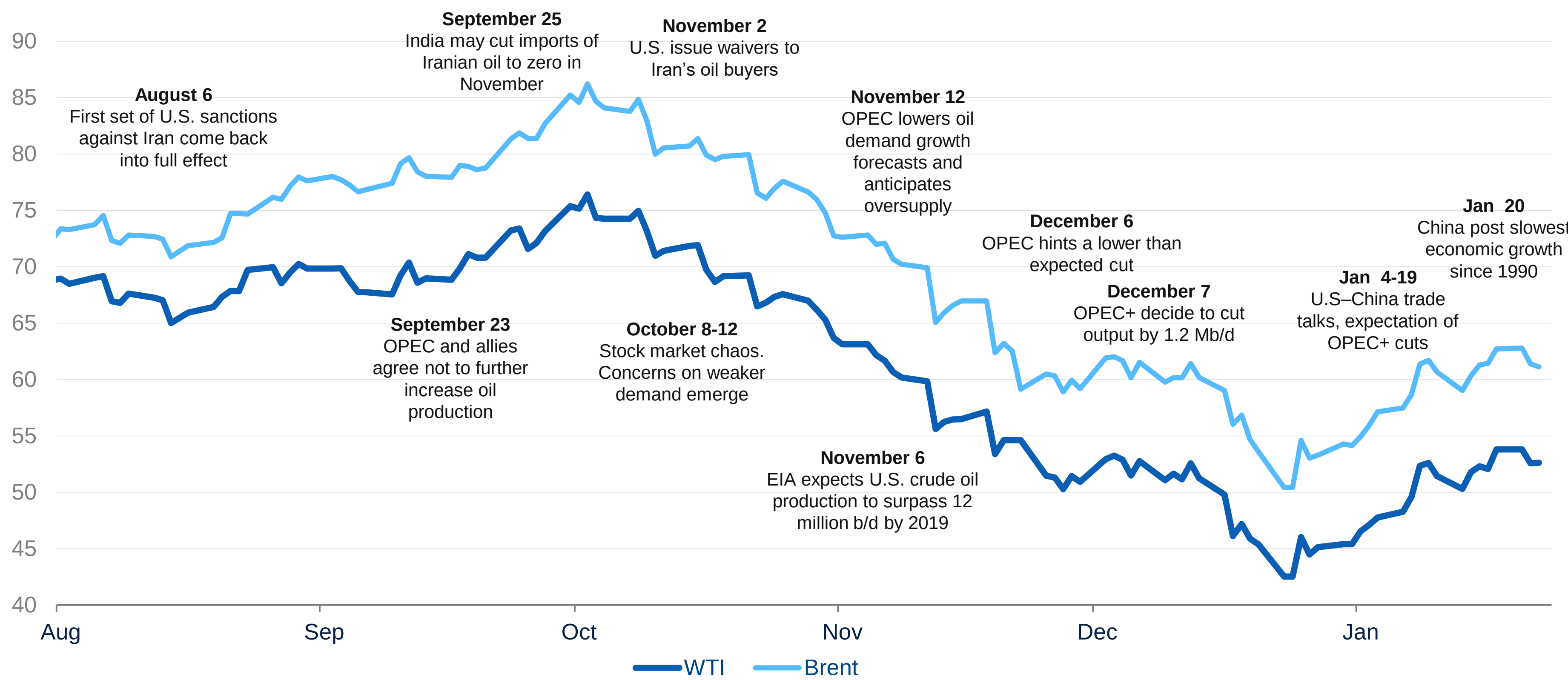
Creating Opportunities

Oil Prices

- OPEC+ decision to reduce output prevented prices from declining further
- The expiration of import waivers of Iranian oil could have a positive effect on prices
- U.S. production is expected to remain robust through the year
- Demand is projected to slow down as global economic growth weakens
- Prices could move between $60 and $70 in 2019, but may decelerate further in 2020
- We maintain our forecasts of convergence to long-term equilibrium around $60/b
- Elevated uncertainty around long-term equilibrium: CAPEX, protectionism, alternative energy sources, EM convergence, EVs, climate change, efficiency and technology

Oil prices increased after OPEC+ committed to curtail production and markets perceived some progress in the U.S.-China trade negotiations

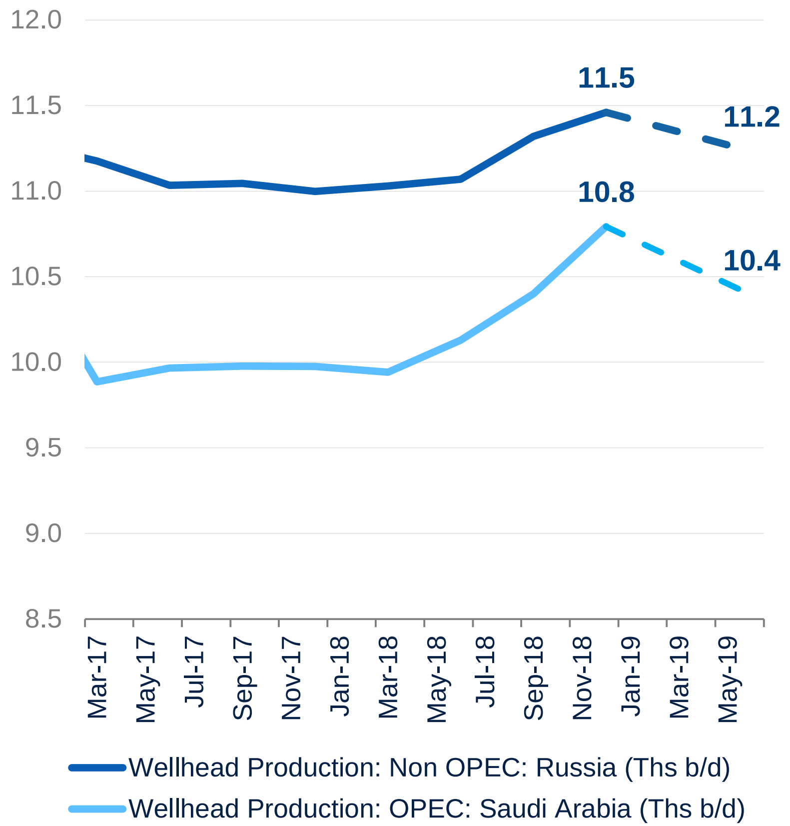
Crude oil prices August 2018 to January 2019
($ per barrel)



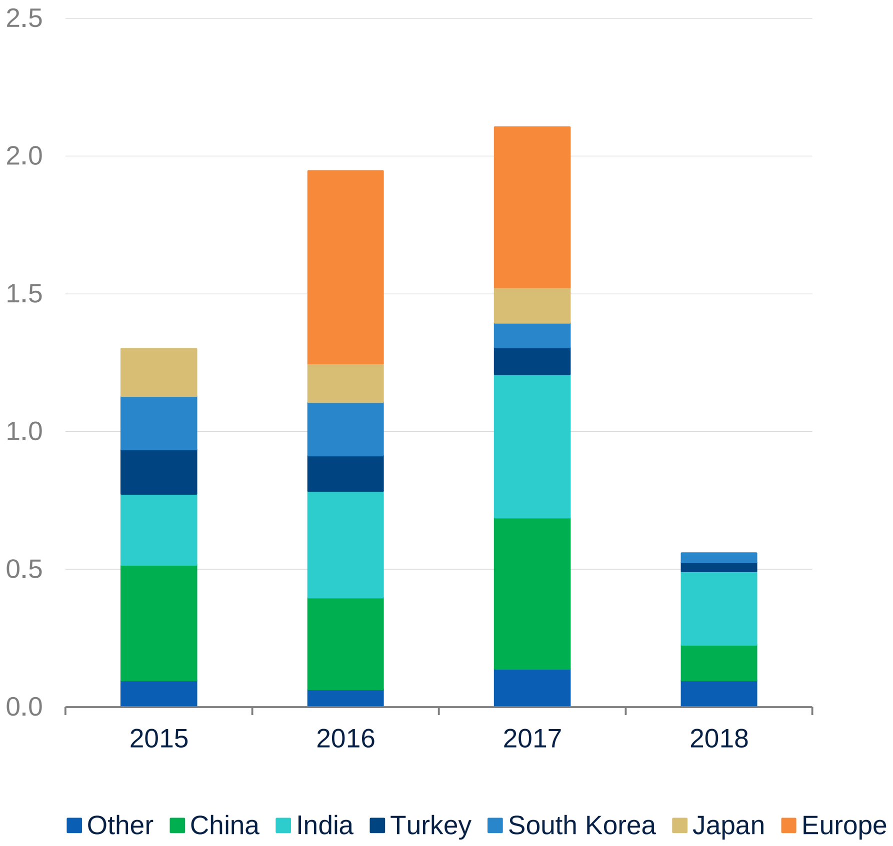
Source: BBVA Research and Haver Analytics

OPEC+ adjustments have yet to fully materialize. The expiration of waivers to importers of Iranian oil would tighten supply even further

Crude oil production
(Million barrels per day)



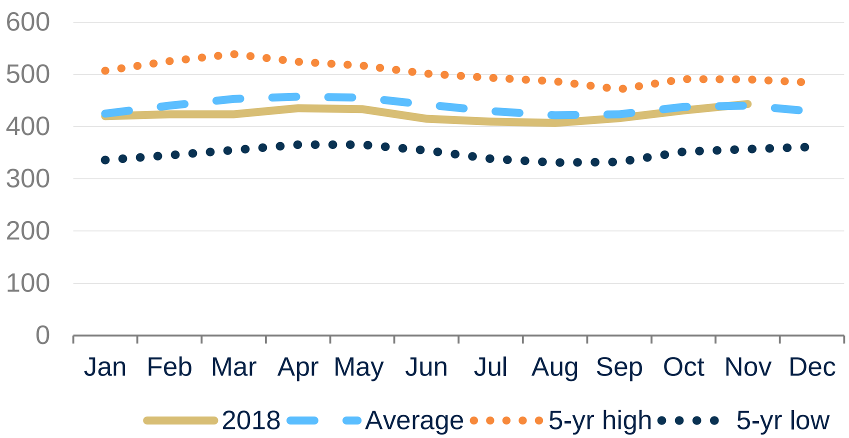
Iran: exports of crude oil
(million barrels per day)



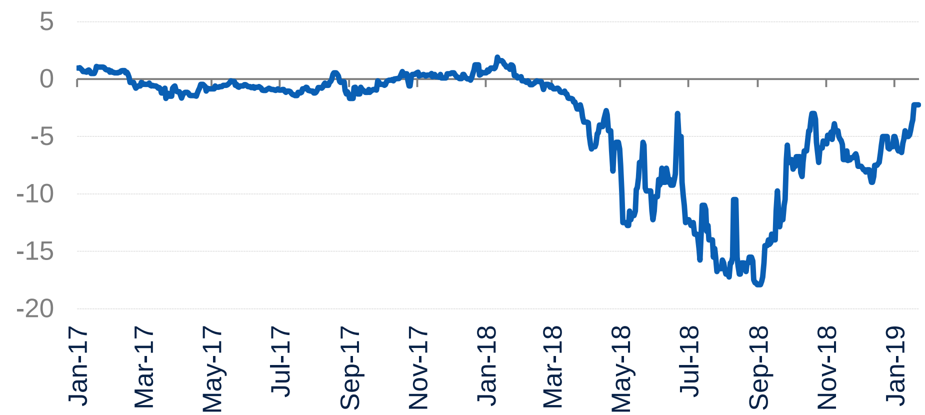
Source: BBVA Research, Haver Analytics, and Bloomberg

In the meantime, U.S. production will remain solid. Transportation bottlenecks may ease in 2019

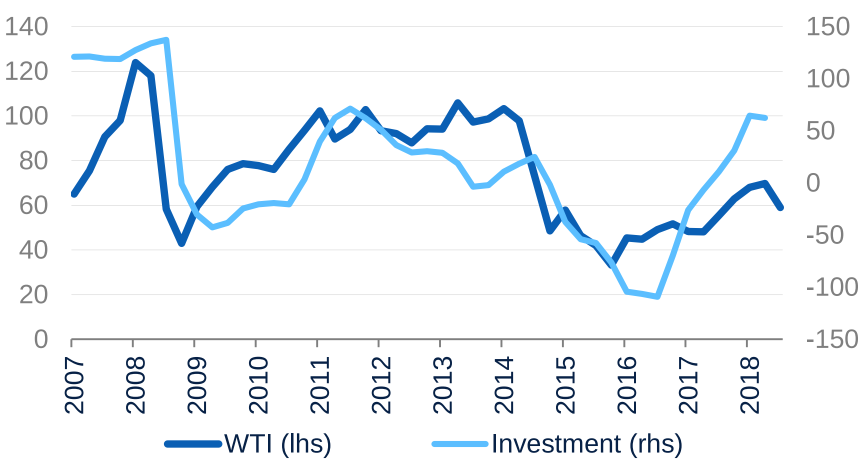
U.S. Crude oil inventories
(Excluding SPR, million barrels)



WTI Midland-Cushing differential
($/b)



U.S. Real private investment in E&P
(yoy $billion)

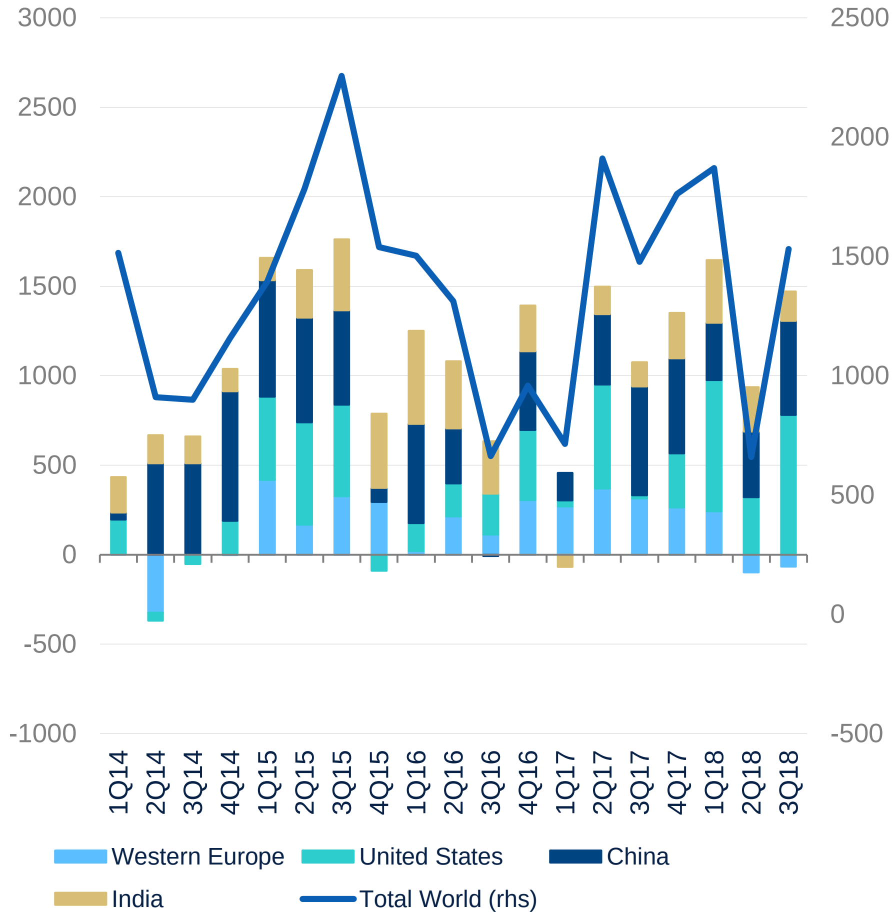


U.S. Estimated crude oil production
(Thousand barrels/day)

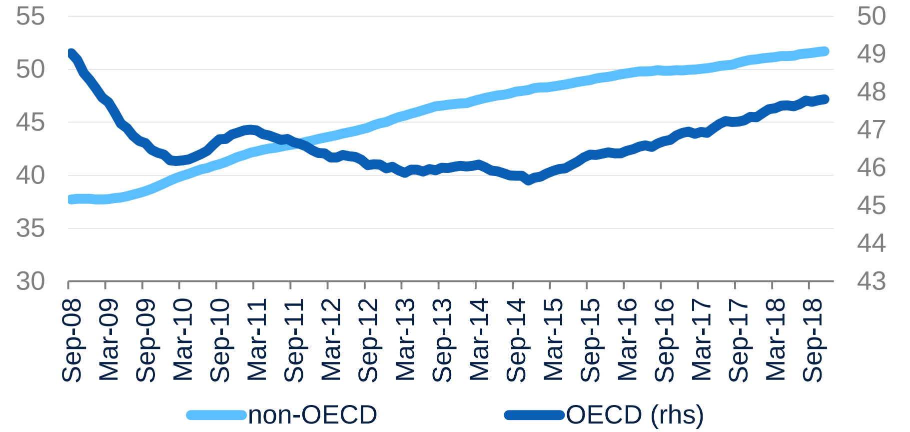
Source: BBVA Research and Haver Analytics

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

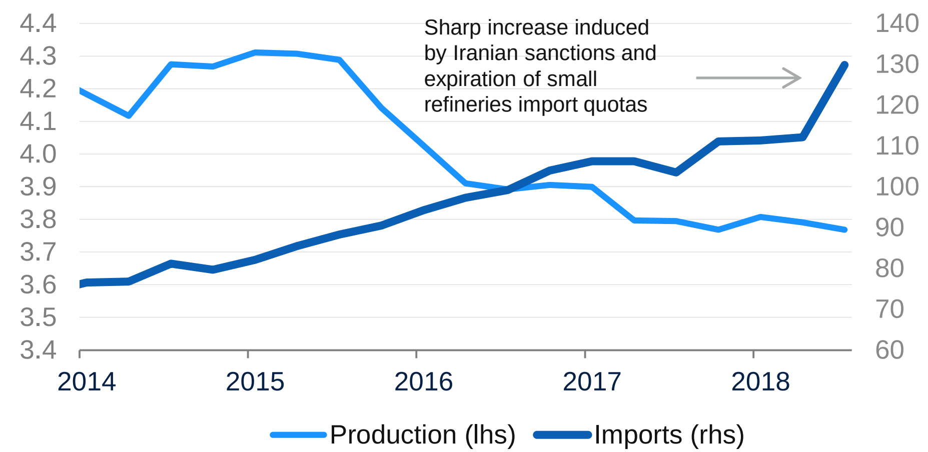
Oil product demand: total world
(Thousand barrels per day, yoy change)



Oil product demand
(Million barrels per day)



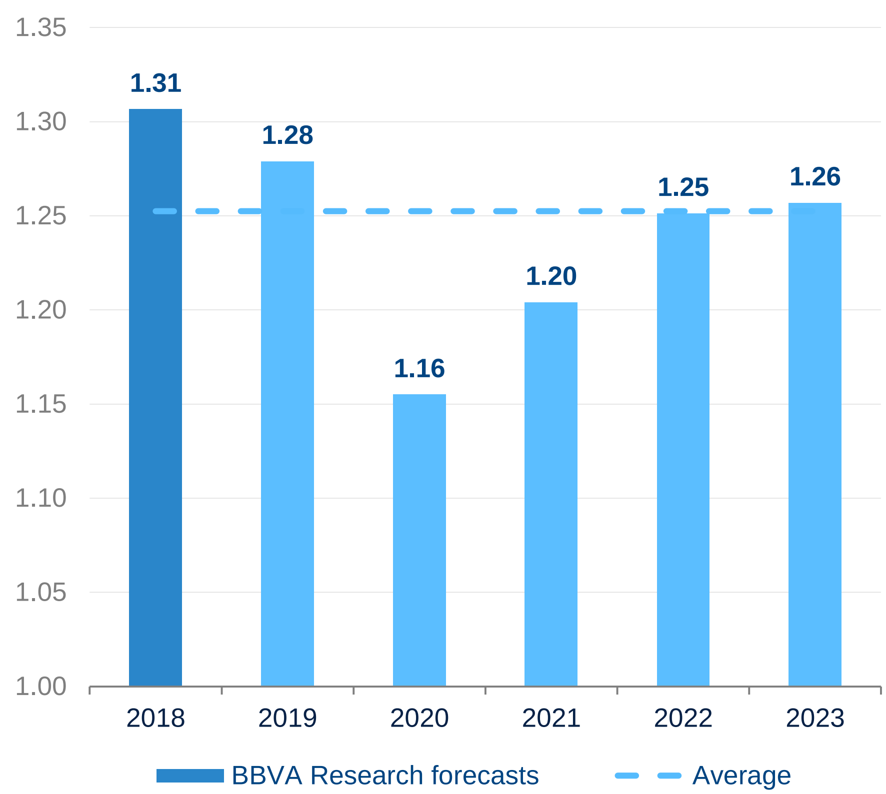
China: imports and production of crude oil
(Million metric tons SA, and million b/d)



Source: BBVA Research and Haver Analytics

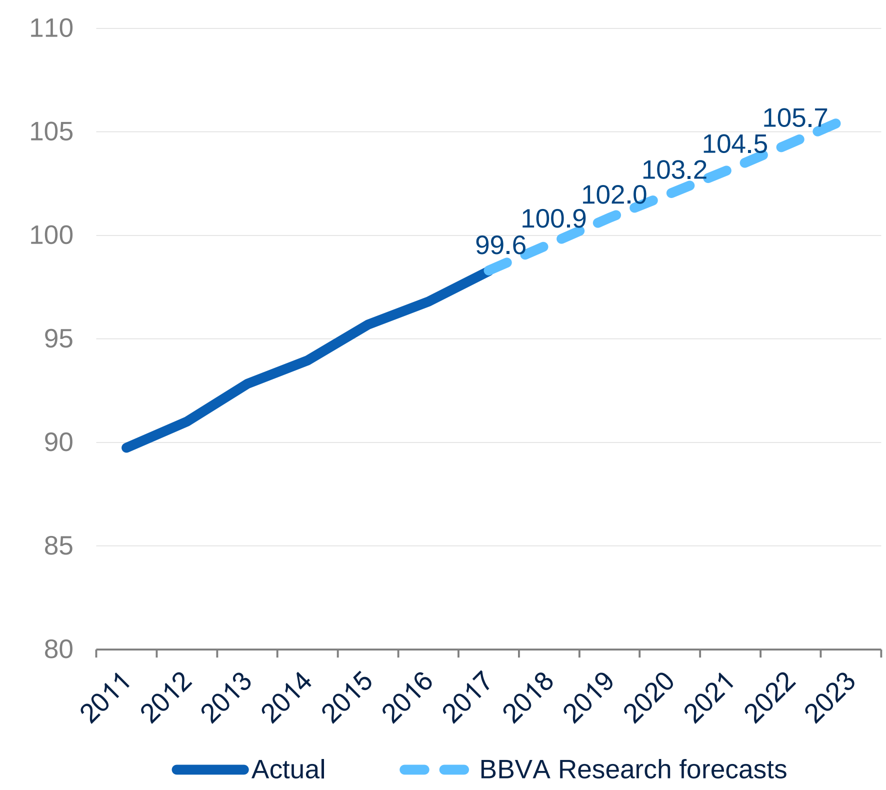
A weaker economic outlook points to slower demand growth

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



Source: BBVA Research

Oil product demand
(million b/d)



Source: BBVA Research

Short-term risks are now tilted to the downside

>= $65/b*

- OPEC+ expands output deal to 2H19
- Oil waivers to importers of Iranian oil expire and are not renewed
- Additional negative supply shocks (e.g. Venezuela, Libya, Nigeria)
- Consistent signs of progress in trade negotiations between the U.S. and China
- Milder-than-expected deceleration of global demand
- Takeaway issues preventing U.S. crude to reach global markets

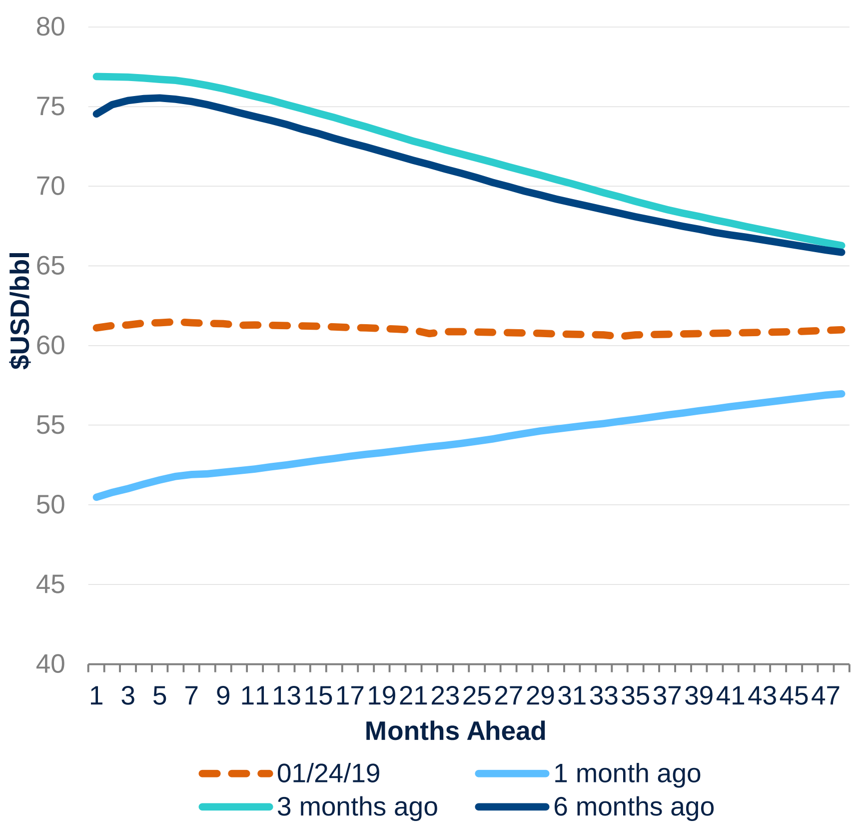
< $65/b*

- Weaker global economic outlook
- Persistent deadlock in trade talks between U.S. and China
- Dollar appreciation
- President Trump’s pressure on OPEC
- Limited enforcement of Iranian sanctions
- Higher-than-expected crude oil production in the U.S.

*Brent crude prices. Source: BBVA Research

Prices could move between \$60/b and \$70/b in 2019, but may decelerate further in 2020. We maintain our forecasts of convergence to long-term equilibrium around \$60/b

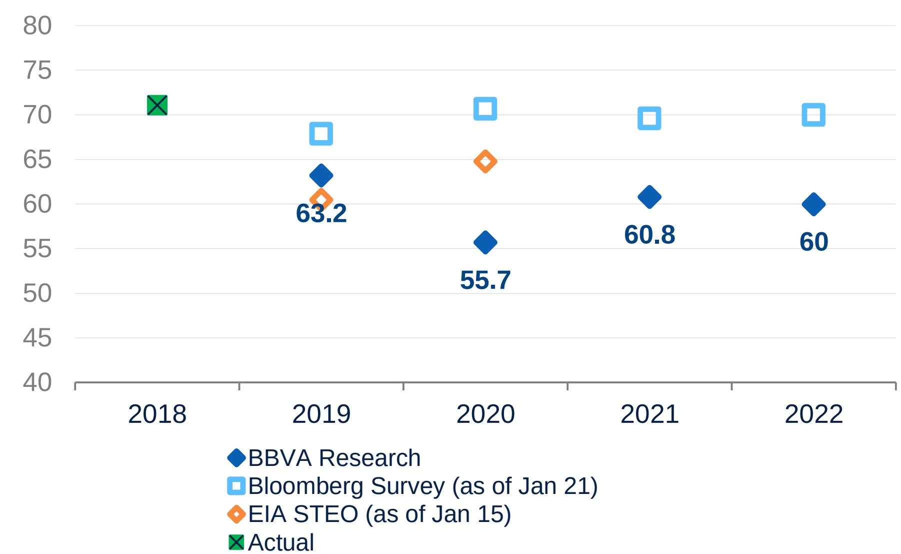
Brent Futures
($ per barrel)



Source: BBVA Research and Bloomberg

Brent prices forecast
($ per barrel)

	BBVA Research (baseline)	Bloomberg Survey (as of Jan 21)	EIA (STEO, Jan 15)
2017	54.2	54.2	54.2
2018	71.1	71.1	71.1
2019	**63.2**	**67.9**	**60.5**
2020	**55.7**	**70.7**	**64.8**
2021	**60.8**	**69.6**	
2022	**60.0**	**70.0**	



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