

The logo for BBVA Research, featuring the text "BBVA" in a bold, white, sans-serif font, followed by "Research" in a smaller, lighter weight sans-serif font. A small teal square is positioned to the right of the word "Research".

BBVA Research

U.S. Oil Prices Outlook

April 2019

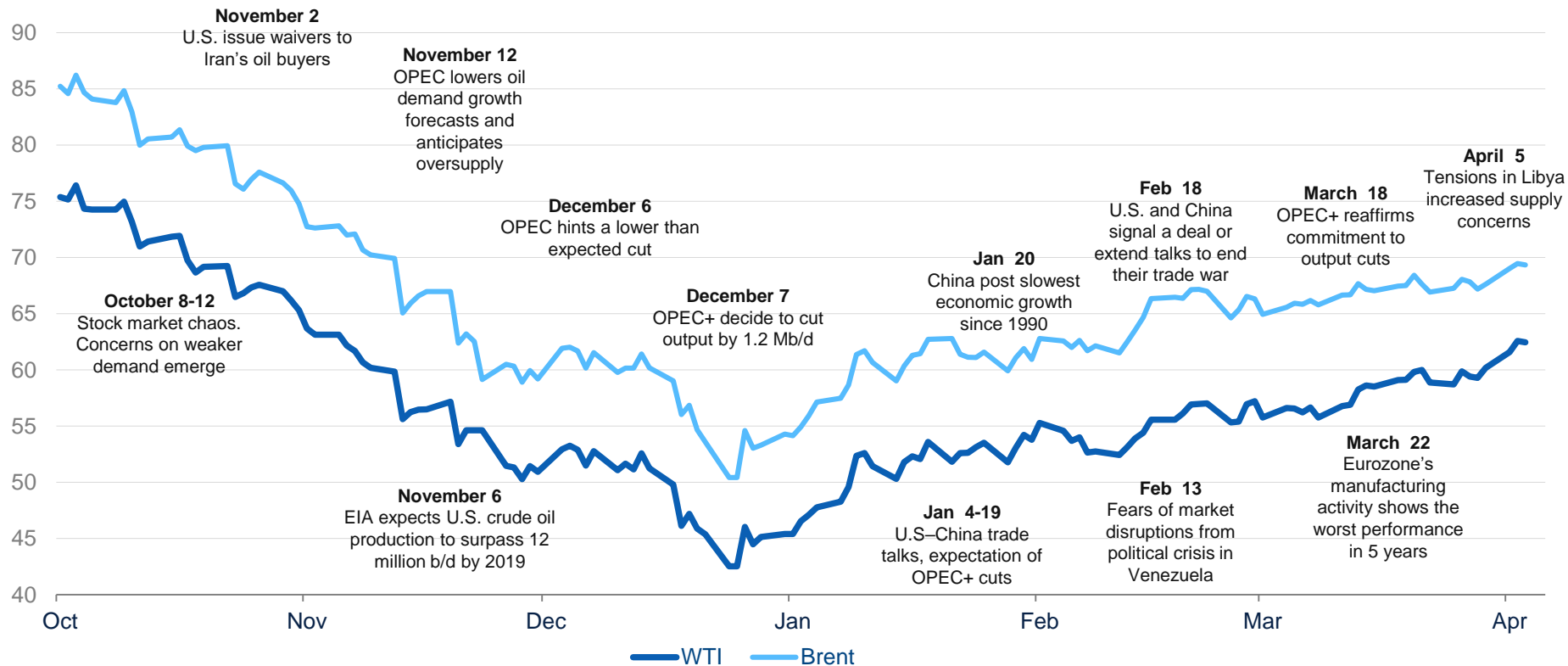
Creating Opportunities

Oil Prices

- OPEC+ cuts are tightening the market and driving up prices. The deal could be extended for the entire year
- Sanctions to Venezuela and Iran could tighten supply further. However, OPEC has significant spare capacity to offset upward price pressures
- In 2019, U.S oil production will expand further while substantial transportation capacity will be added
- Our prospects for lower prices in 2H19 and 2020 assume slower global growth. Crude oil demand is contracting in Europe but remains supportive in U.S. & Asia
- We maintain our view of convergence to long-term equilibrium of around \$60/b
- Elevated uncertainty around long-term equilibrium: CAPEX, protectionism, transportation infrastructure, alternative energy sources, EM convergence, EVs, climate change, efficiency and technology

Upward trend supported by OPEC+ cuts, but contained by expectations of rising U.S. production and concerns on global economic growth

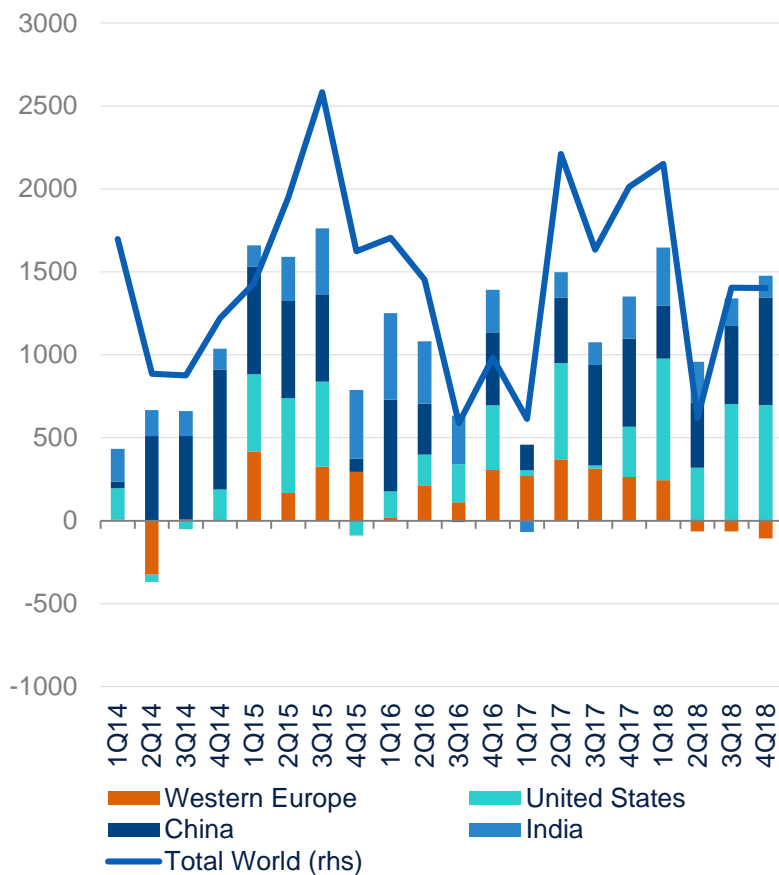
Crude oil prices October 2018 to April 2019 (\$ per barrel)



Demand has declined in Europe, but remains supportive in China, India and the U.S. The outlook for global trade has deteriorated

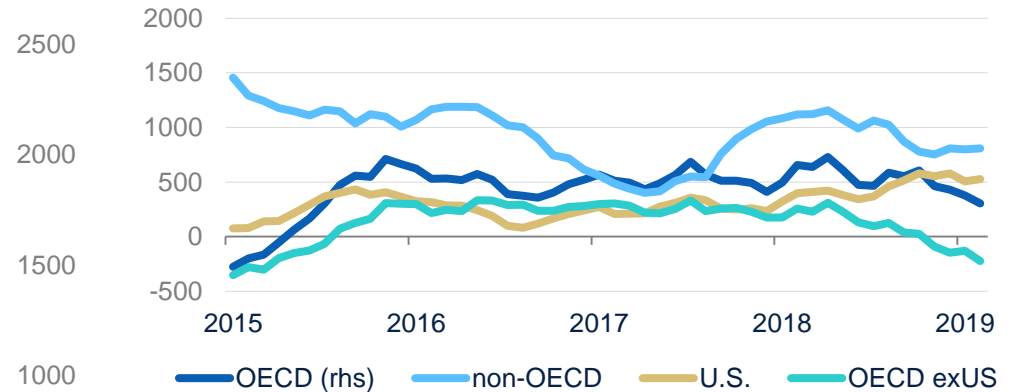
Oil product demand: total world

(Thousand barrels per day, yoy change)



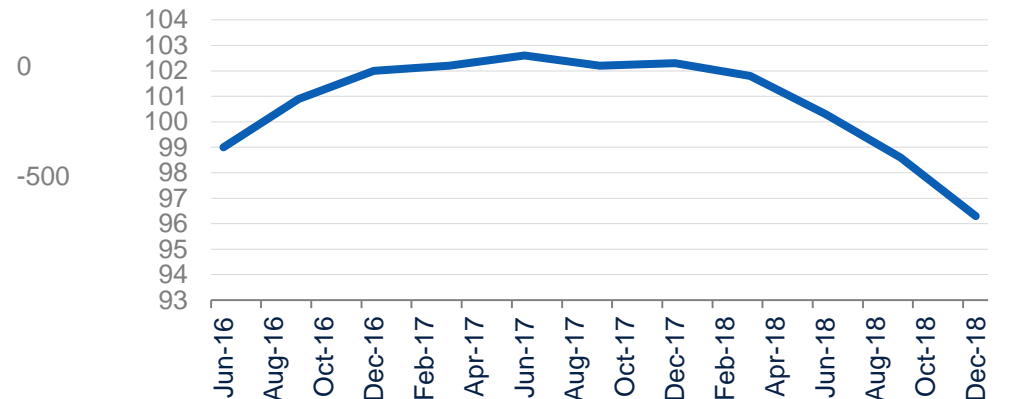
Oil product demand

(Million barrels per day)



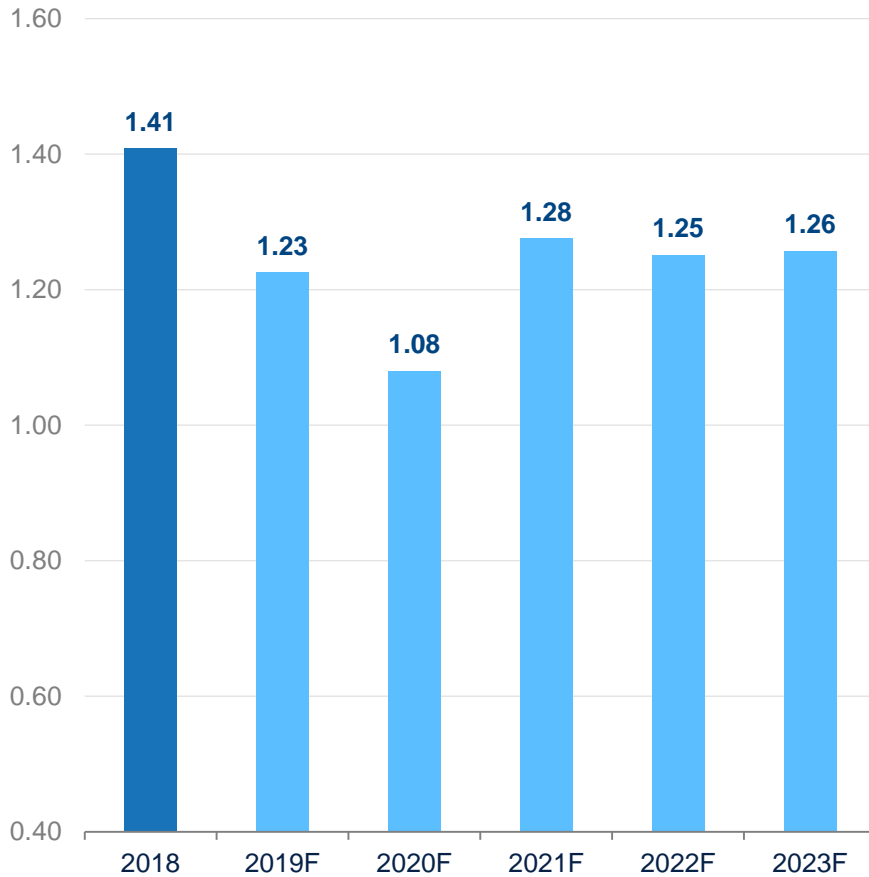
World trade outlook indicator

(SA, Trend = 100)



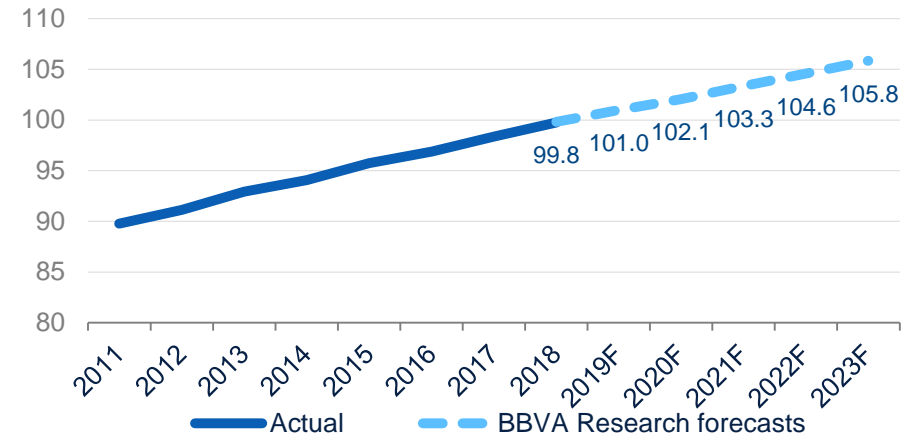
A weaker economic outlook points to slower demand growth

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

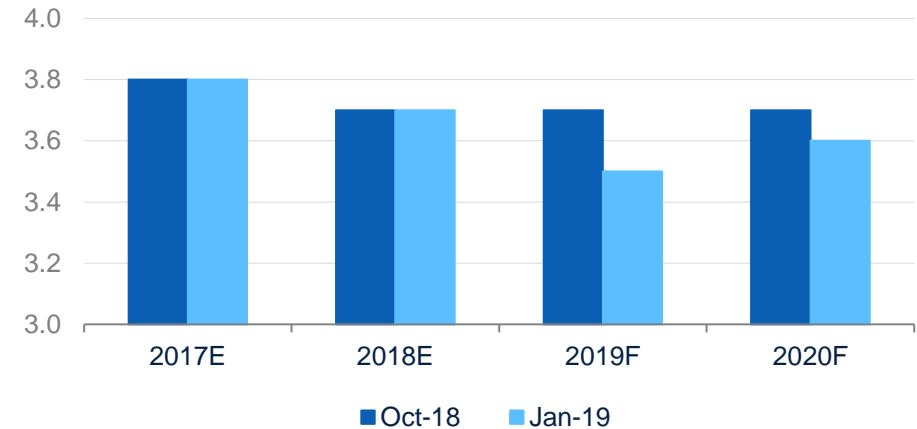


Source: BBVA Research, F = forecasts

Oil product demand
(million b/d)



IMF World GDP growth
(YoY percent change)

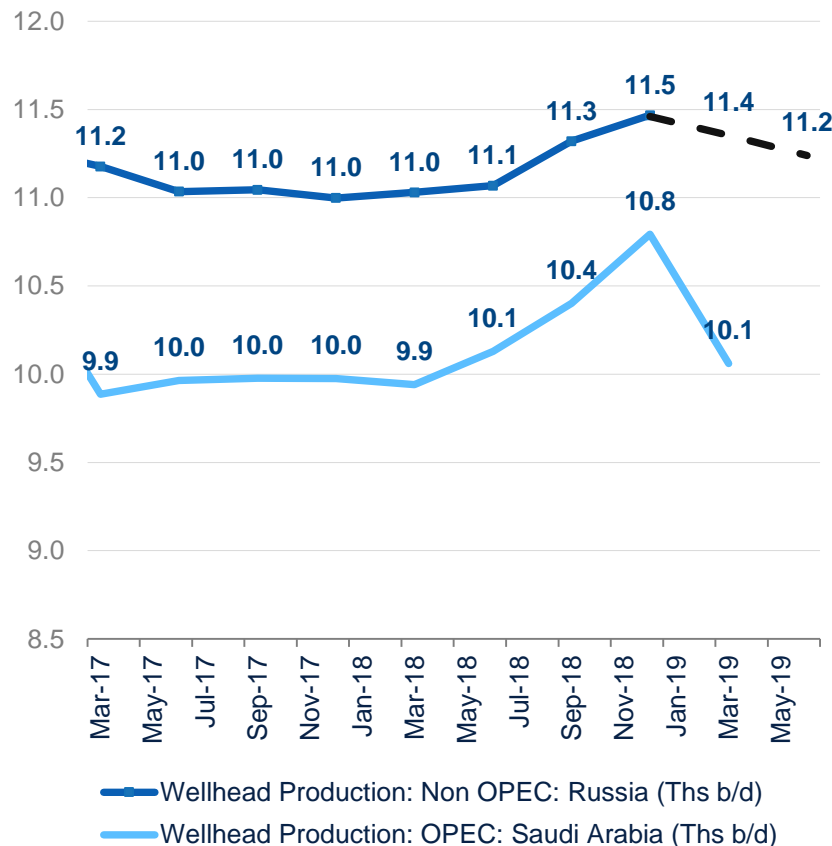


Source: IMF WEO Jan, 2019 update, E = estimates, F = forecast

OPEC+ supply adjustments and U.S. sanctions on Iran and Venezuela will tighten supply throughout 1H19

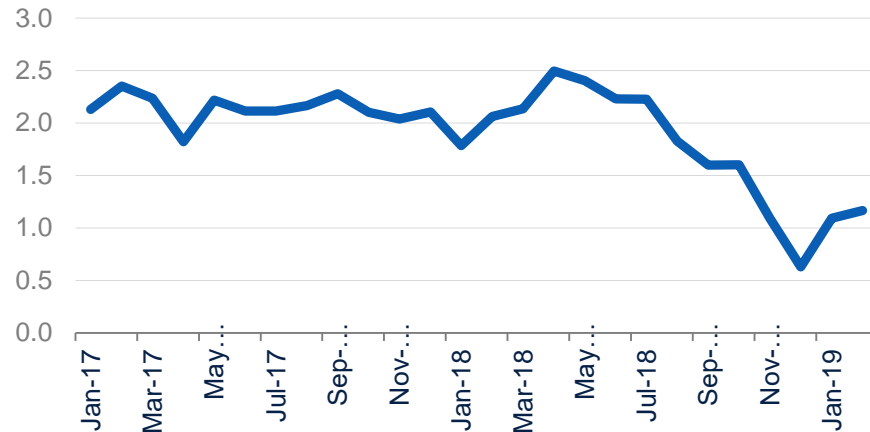
Crude oil production

(Million barrels per day)



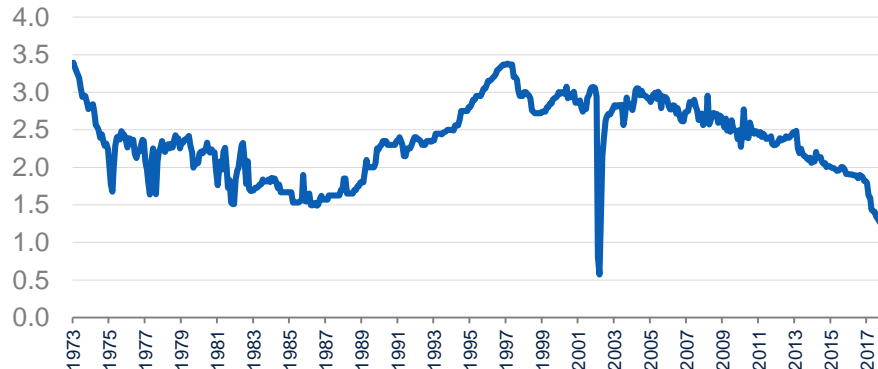
Iran: exports of crude oil

(Million barrels per day)



Venezuela: crude oil production

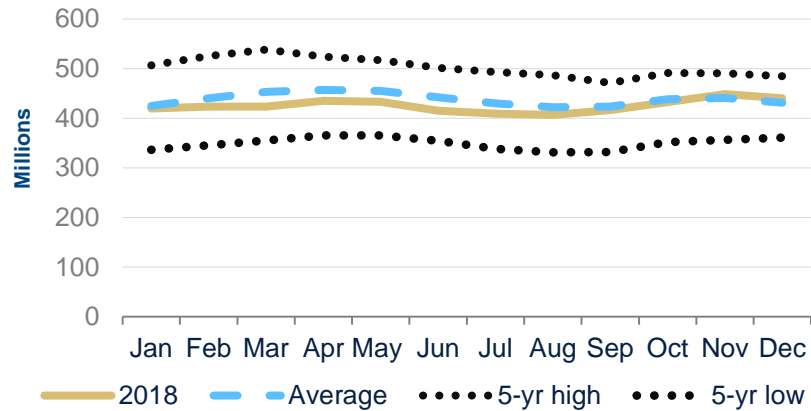
(Million barrels per day)



U.S. production remains solid despite declining rig count

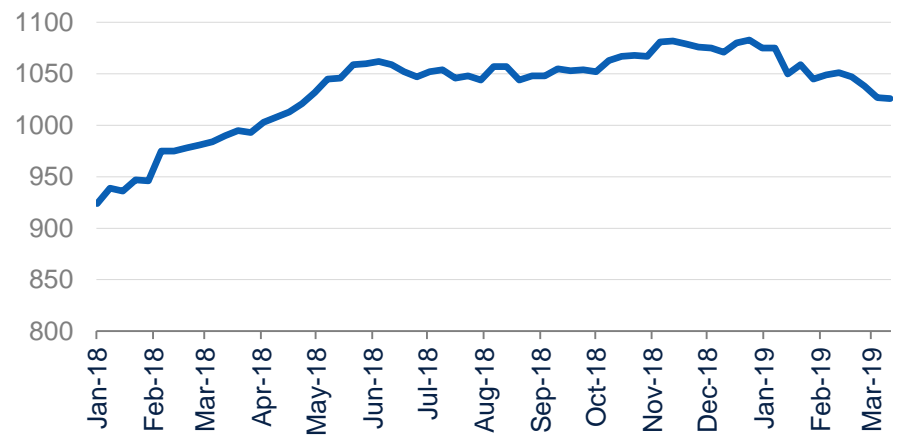
U.S. Crude oil inventories

(Excluding SPR, million barrels)



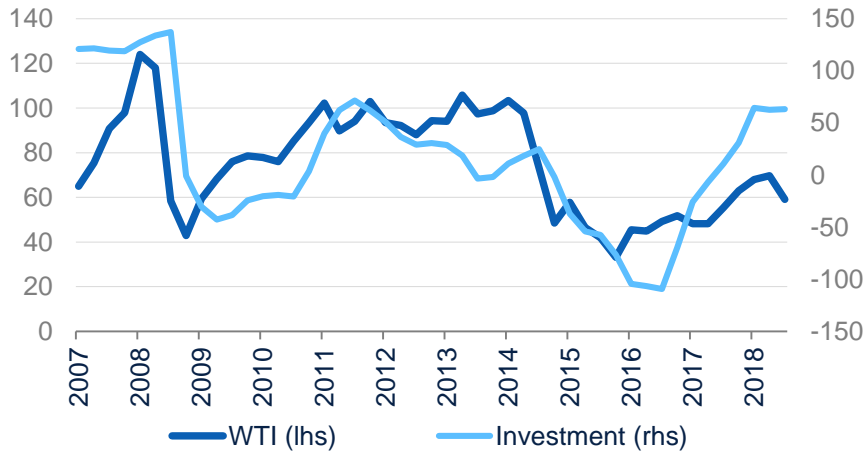
U.S. Active rig count

(units)



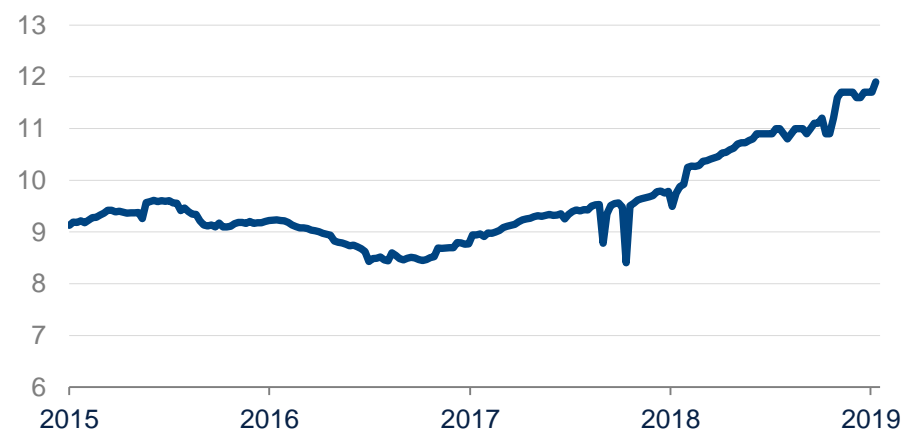
U.S. Real private investment in E&P

(Yoy \$billion)



U.S. Estimated crude oil production

(Thousand barrels/day)



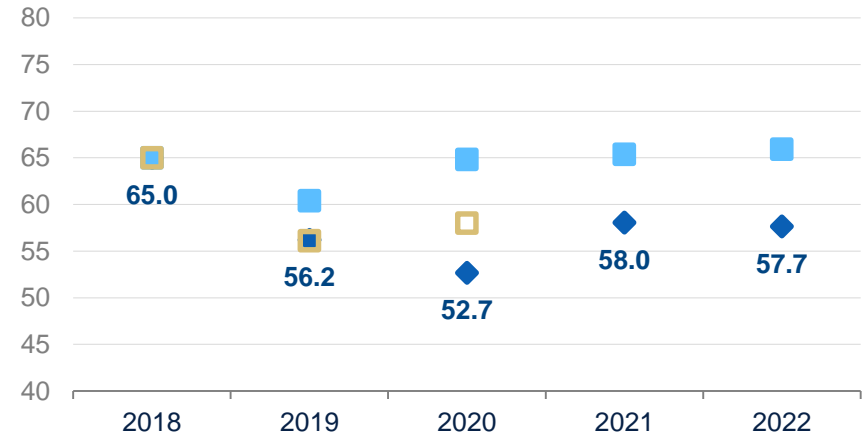
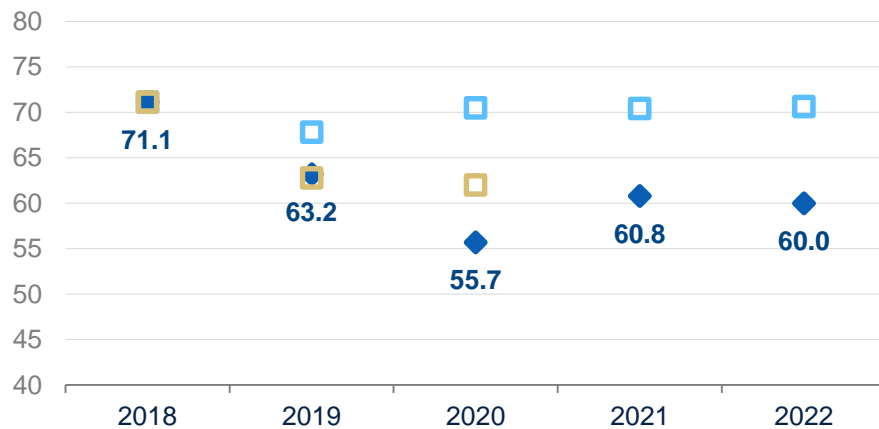
Brent prices could linger between \$60s and \$70s in 2019, but may decelerate in 2020; convergence to long-term equilibrium around \$60/b

Brent prices forecast (\$ per barrel)

	BBVA Research (baseline)	Bloomberg Survey (Apr 5)	EIA STEO (March 12)
2017	54.2	54.2	54.2
2018	71.1	71.1	71.1
2019	63.2	67.8	62.8
2020	55.7	70.5	62.0
2021	60.8	70.4	
2022	60.0	70.6	

WTI prices forecast (\$ per barrel)

	BBVA Research (baseline)	Bloomberg Survey (Apr 5)	EIA STEO (Mar 12)
2017	50.9	50.9	50.9
2018	65.0	65.0	65.0
2019	56.2	60.4	56.1
2020	52.7	64.8	58.0
2021	58.0	65.4	
2022	57.7	65.9	



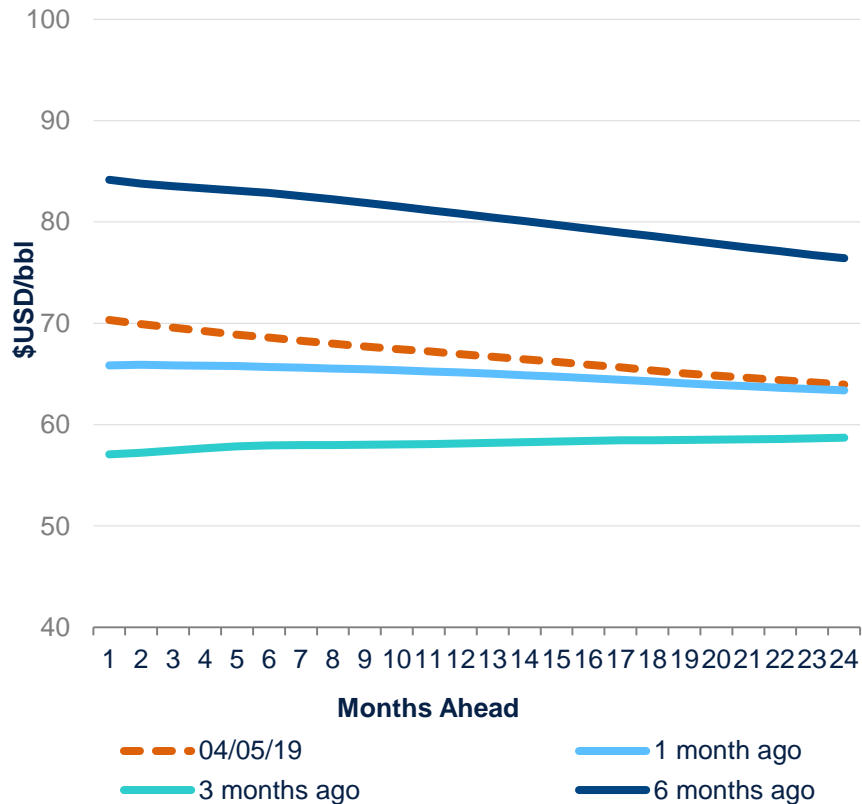
◆ BBVA Research □ Bloomberg Survey (Apr 5) □ EIA STEO (March 12)

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A backwardated futures curve points to tighter supply in the short-term, but lower prices in the mid- to long- term

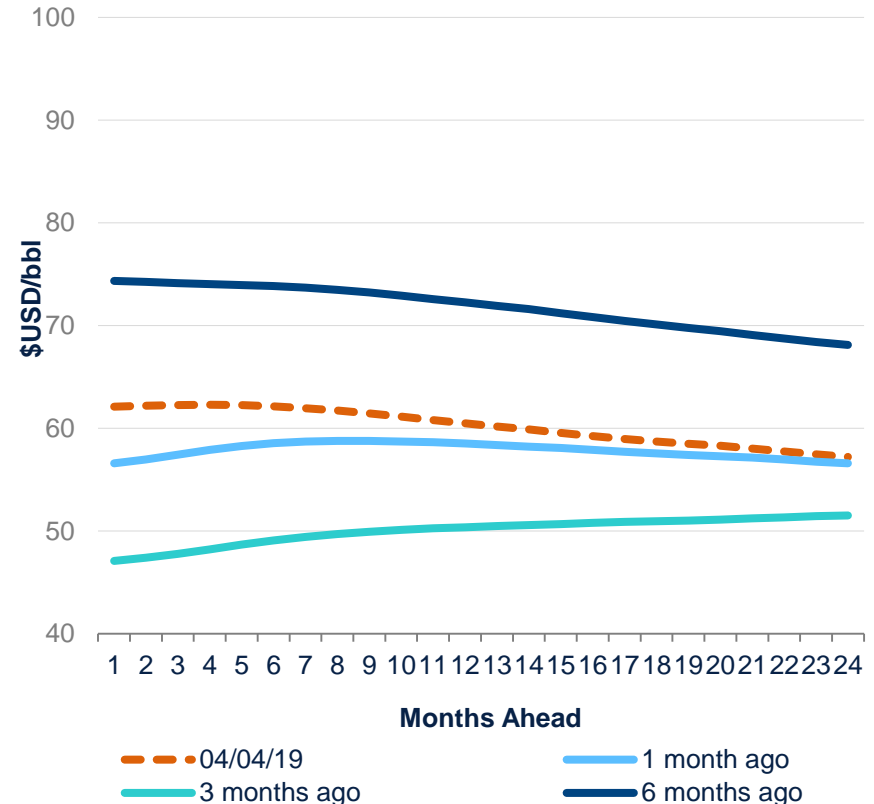
Brent Futures

(\$ per barrel)

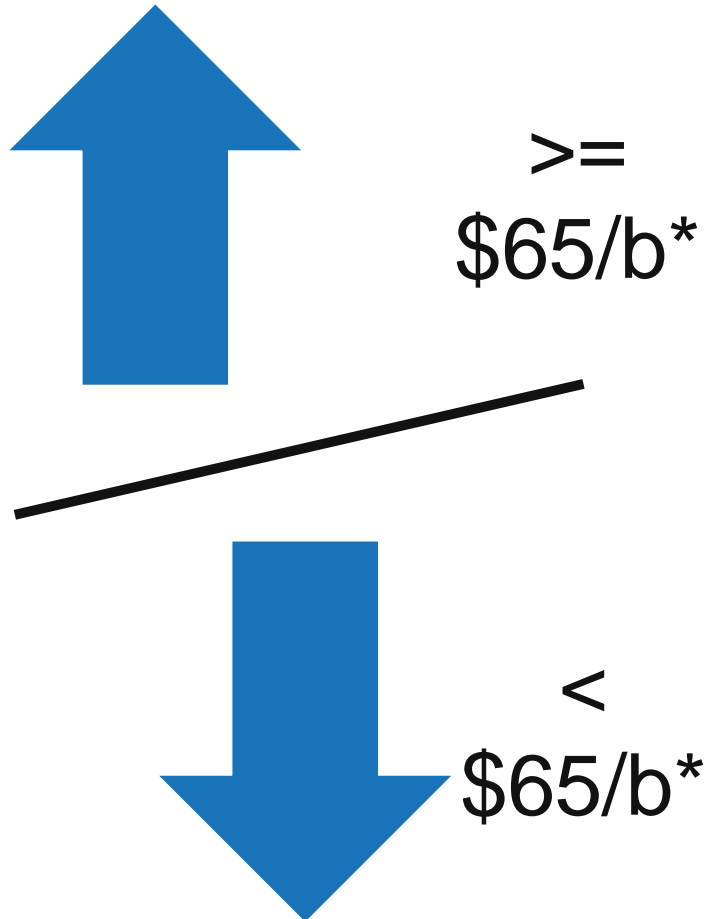


WTI Futures

(\$ per barrel)



Short-term risks are tilted to the upside



- OPEC+ expands output deal to 2H19
 - Oil waivers to importers of Iranian oil expire and are not renewed
 - Significant impact from additional negative supply shocks (e.g. Venezuela and Libya)
 - 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
-
- 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.

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