

# U.S. Oil Prices Outlook

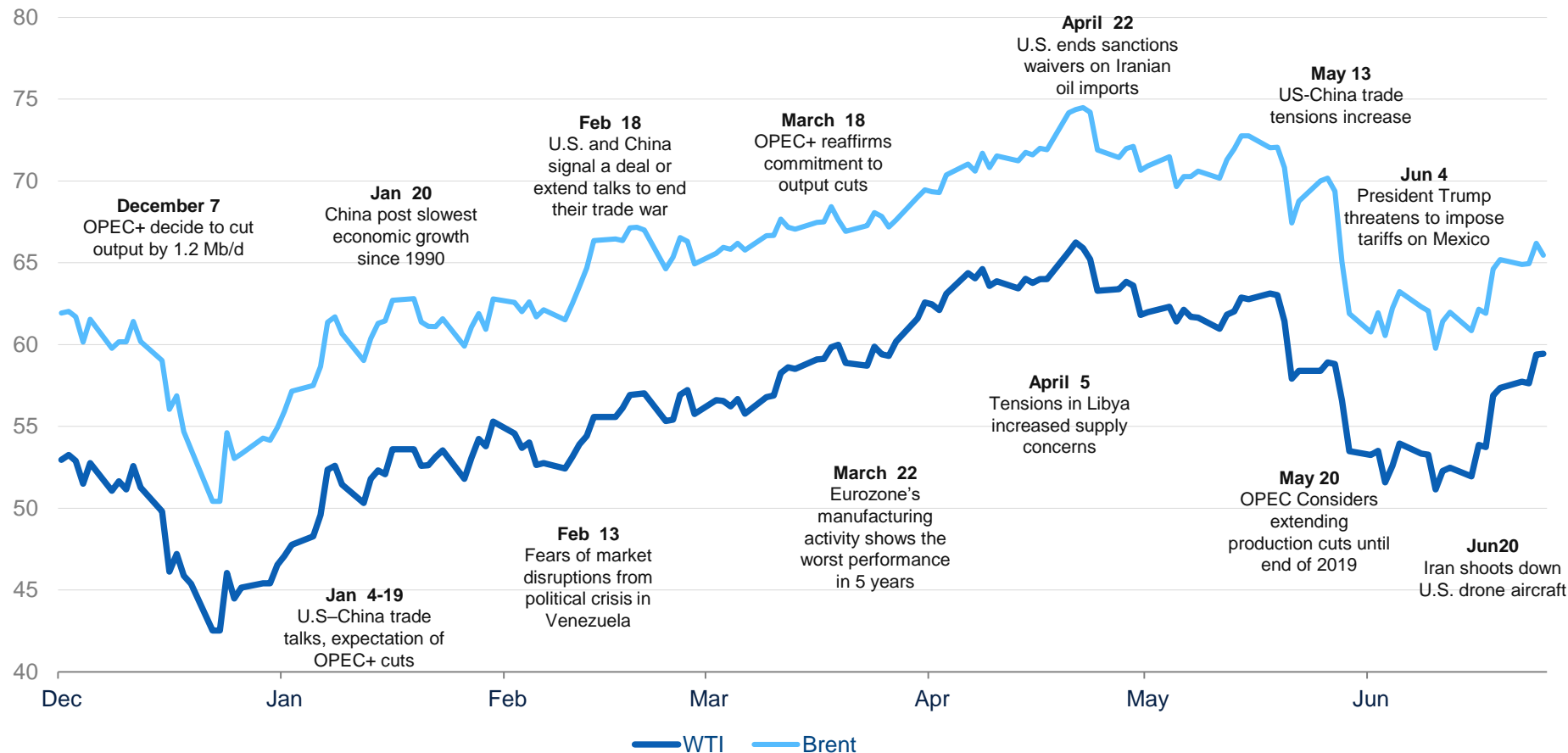
June 2019

# Oil Prices Outlook

- OPEC+ will most likely extend the output deal through the rest of the year
- Weaker economic growth to lead to slower demand for oil
- Escalation of tensions between U.S. and Iran, as well as trade negotiations between China and the U.S. are the main sources of uncertainty
- U.S oil production will expand further while substantial transportation capacity is being added
- Our prospects for lower prices in 2H19 and 2020 assume slower economic growth in a well-supplied market
- 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

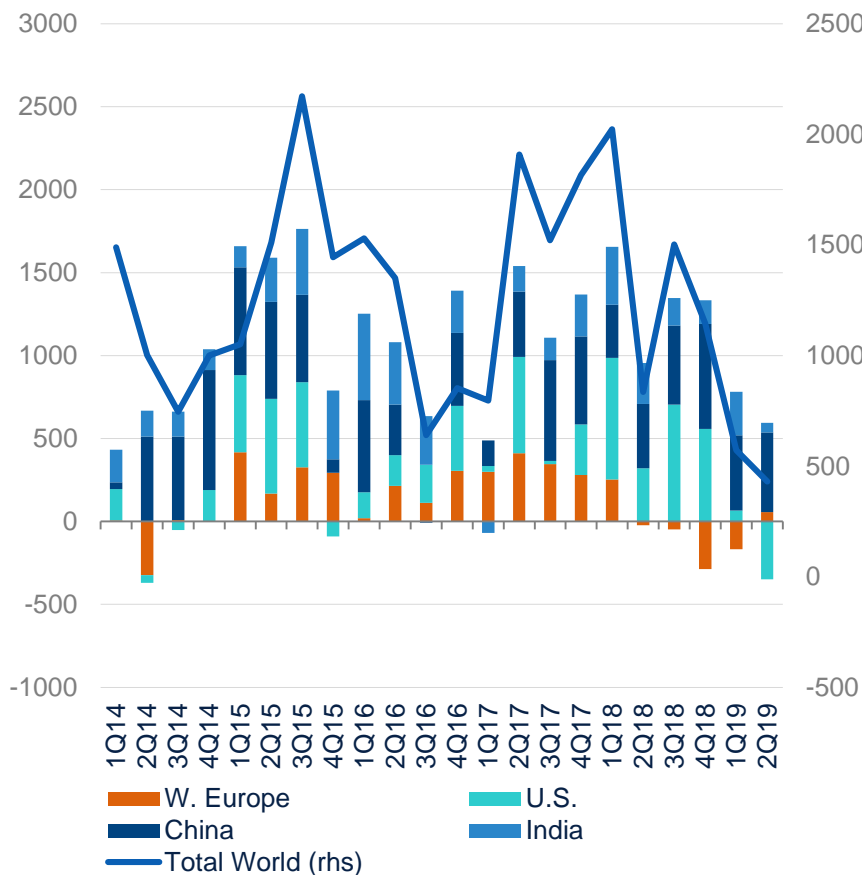
# Downward pressures from weaker economic growth were partially offset by growing tensions between the U.S. and Iran

## CRUDE OIL PRICES DECEMBER 2018 TO JUNE 2019 (\$ PER BARREL)

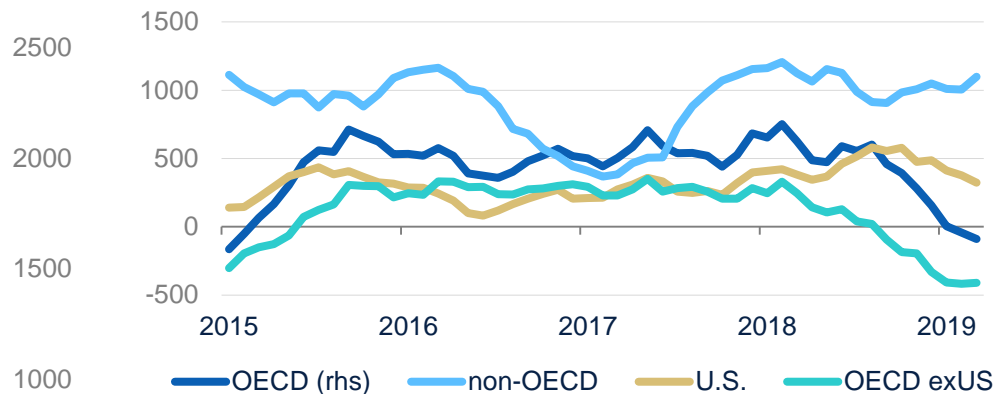


# Demand in developing countries remains supportive

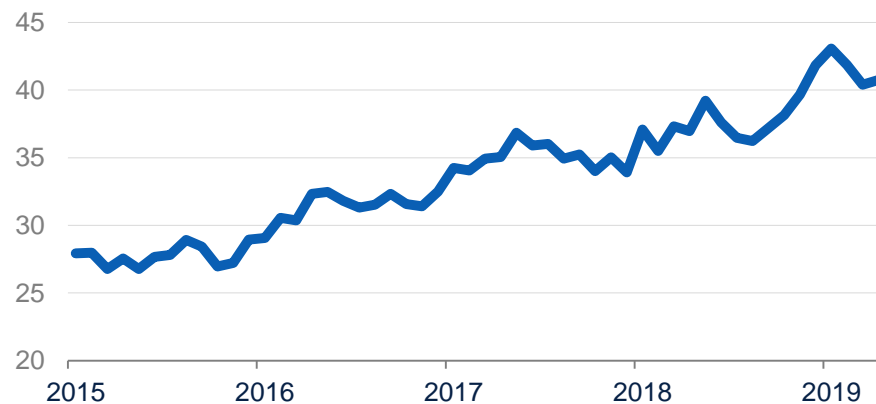
**OIL PRODUCT DEMAND: TOTAL WORLD**  
(THOUSAND BARRELS PER DAY, YOY CHANGE)



**OIL PRODUCT DEMAND**  
(THOUSAND BARRELS PER DAY, YOY CHANGE)



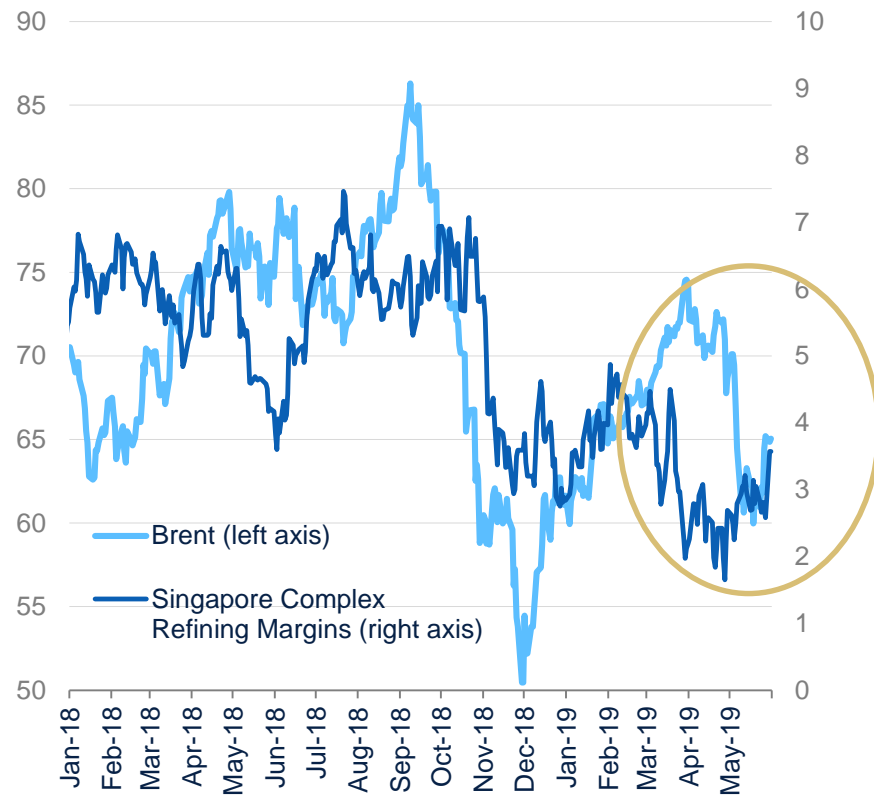
**CHINA CUSTOMS CRUDE OIL TOTAL IMPORTS**  
(MILLION METRIC TONNES)



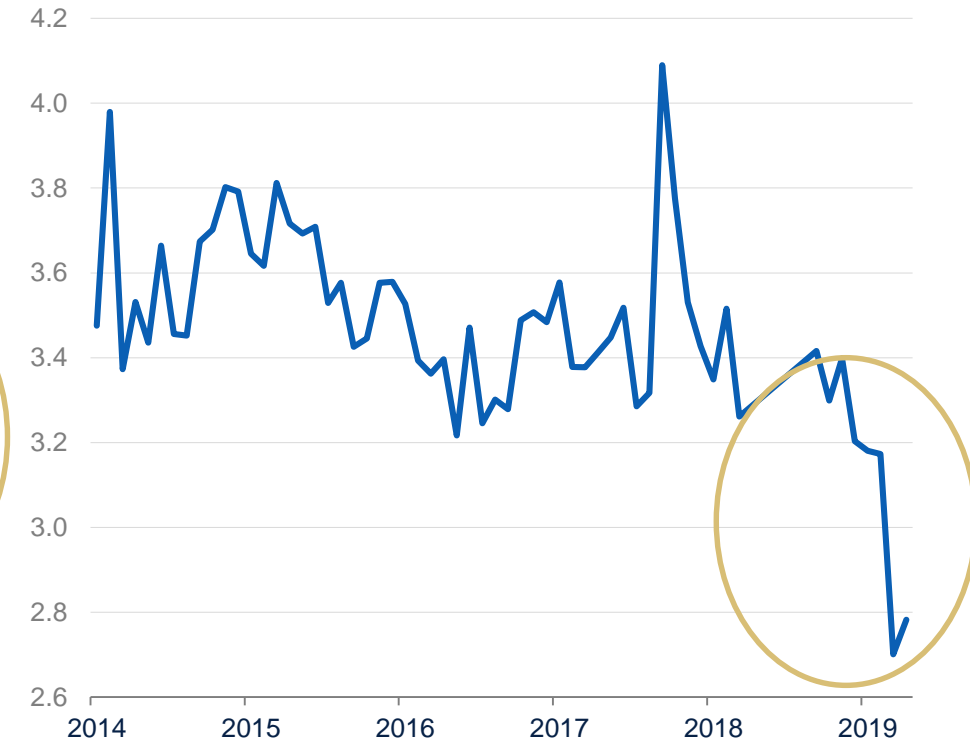
Source BBVA Research with data from Haver Analytics and Bloomberg

# However, there are signs that demand is also slowing down in Asia

## ASIA REFINING MARGINS (\$ PER BARREL)



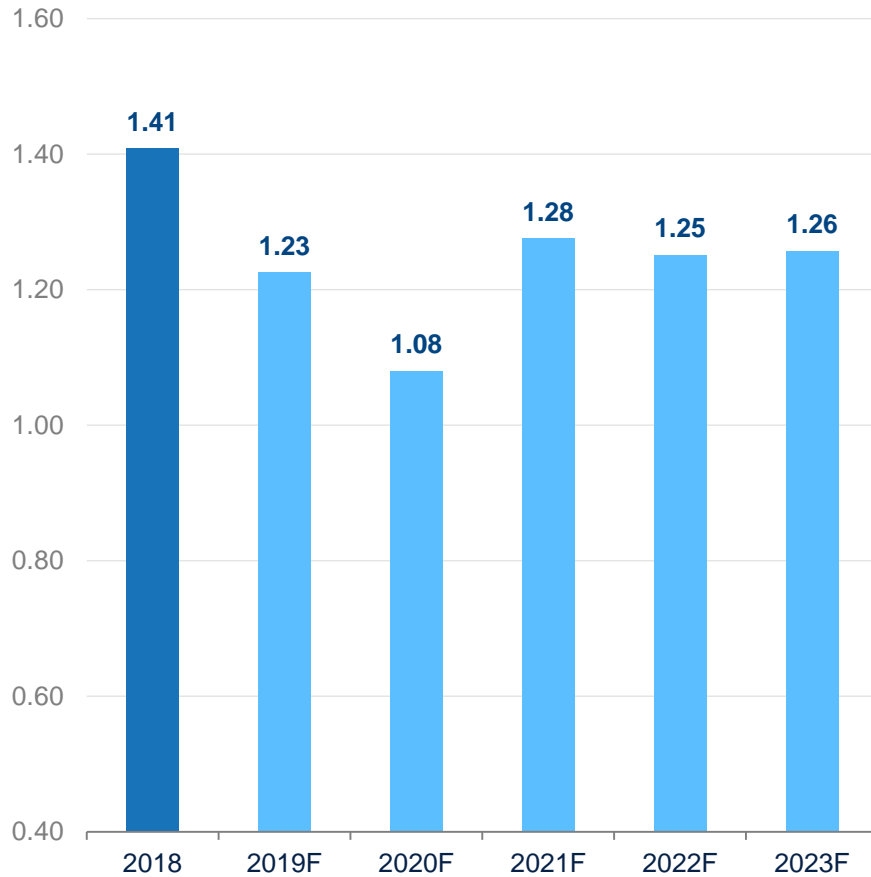
## CHINA DIESEL CONSUMPTION (MILLION BARRELS PER DAY)



Source BBVA Research with data from Bloomberg

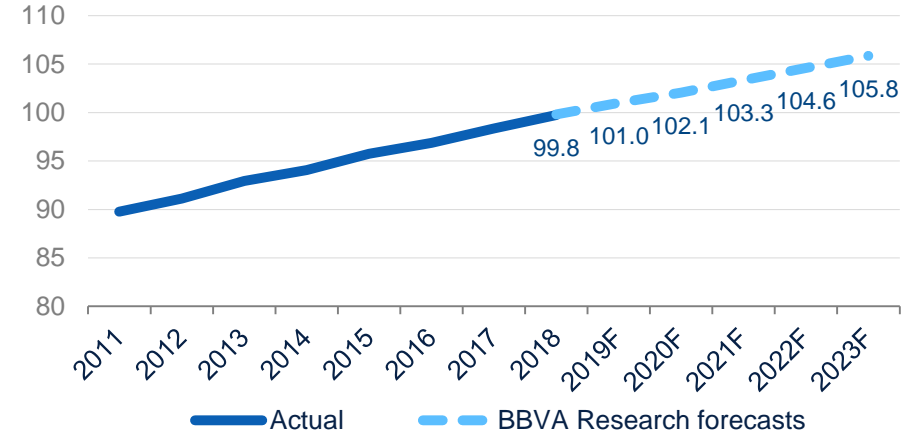
# A weaker economic outlook points to slower demand growth

**OIL PRODUCT DEMAND**  
(YOY CHANGE, MILLION BARRELS PER DAY)

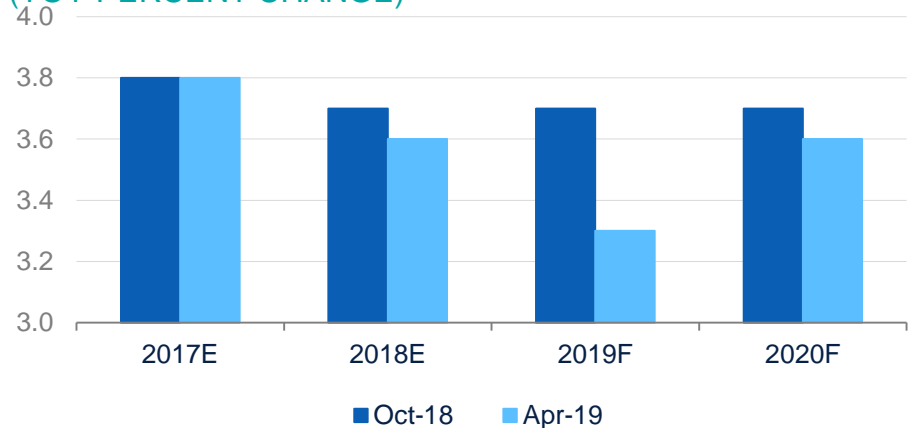


Source BBVA Research with data from Bloomberg

**OIL PRODUCT DEMAND**  
(MILLION BARRELS PER DAY)



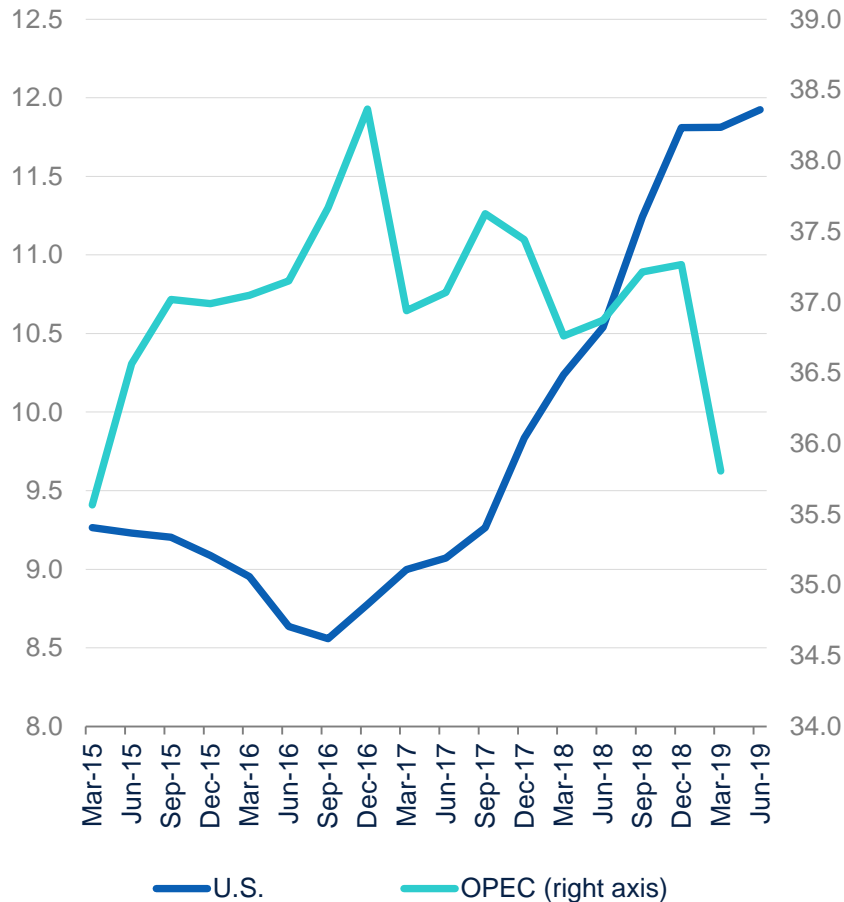
**IMF WORLD GDP GROWTH**  
(YOY PERCENT CHANGE)



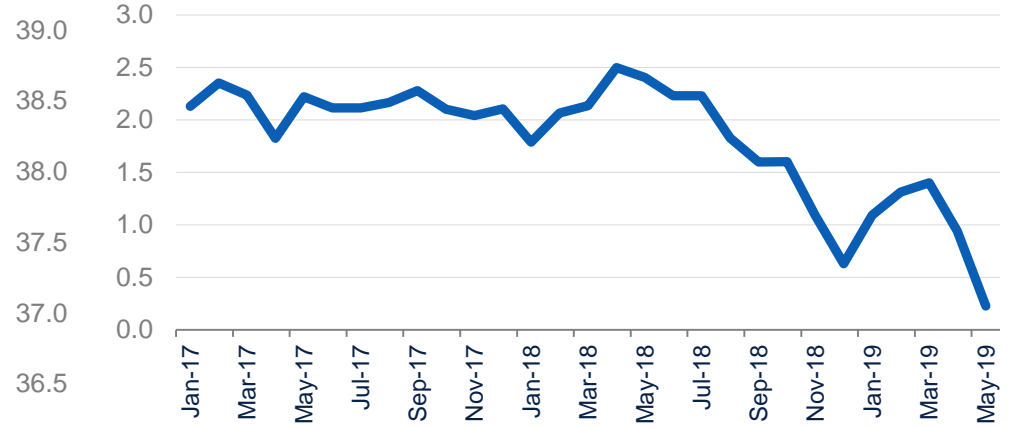
Source : IMF WEO , E = estimates, F = forecast

# OPEC production is the lowest since 2015

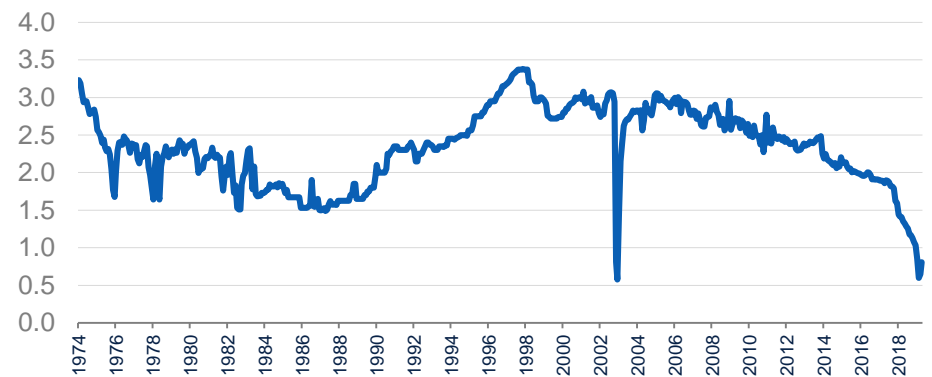
## CRUDE OIL PRODUCTION (MILLION BARRELS PER DAY)



## IRAN: EXPORTS OF CRUDE OIL (MILLION BARRELS PER DAY)



## VENEZUELA: CRUDE OIL PRODUCTION (MILLION BARRELS PER DAY)



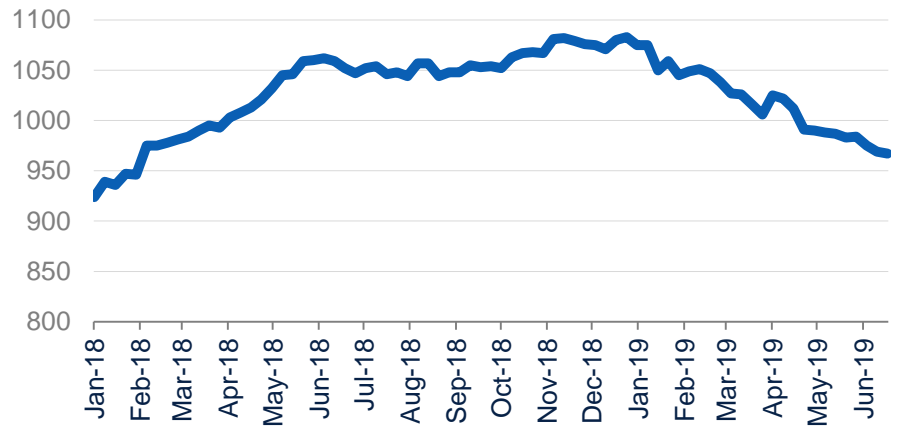
Source: BBVA Research, Haver Analytics, and Bloomberg

# U.S. shale production on track to reach 9 million b/d

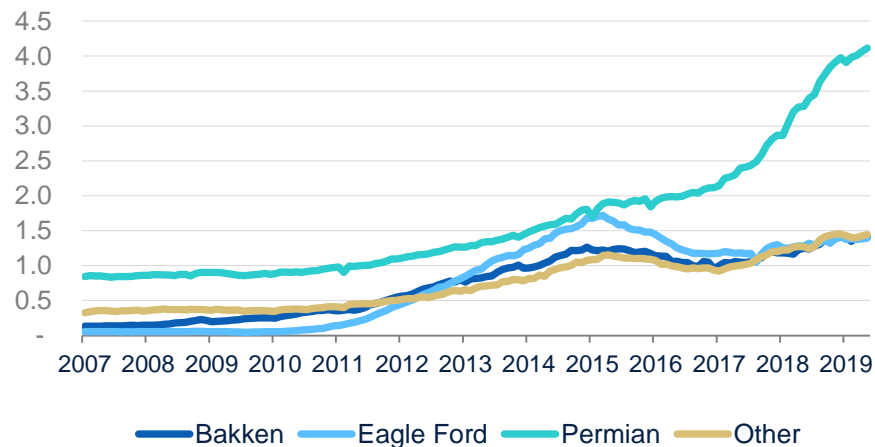
## U.S. STOCKS OF CRUDE OIL (EXCLUDING SPR, MILLION BARRELS)



## U.S. ACTIVE RIG COUNT (UNITS)



## U.S. OIL PRODUCTION BY REGION (MILLION BARRELS PER DAY)



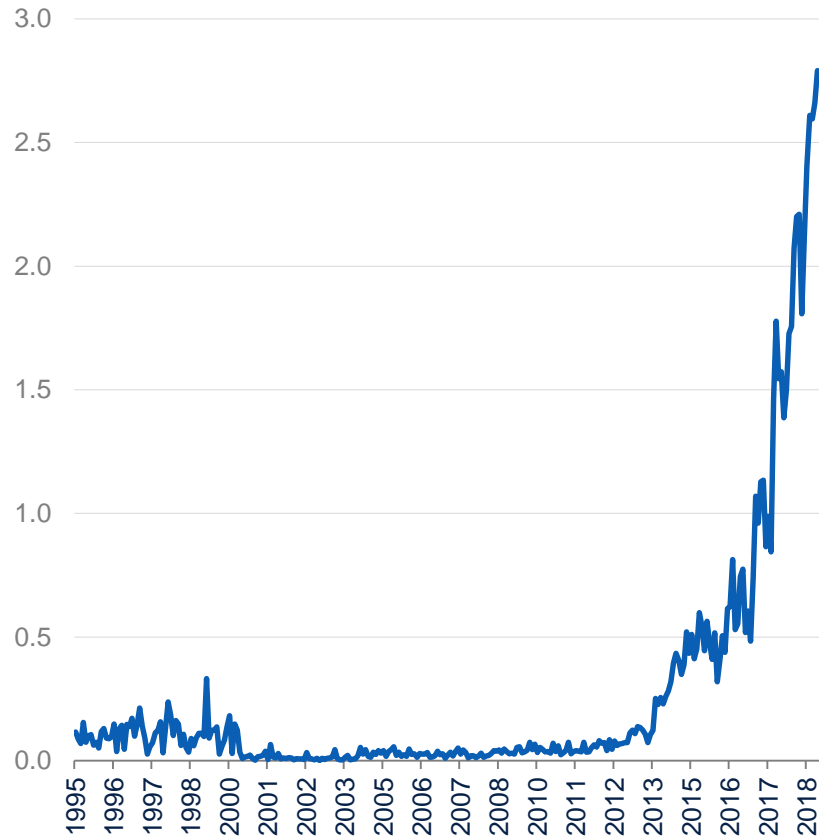
## U.S. TOTAL ESTIMATED CRUDE OIL PRODUCTION (THOUSAND BARRELS PER DAY)



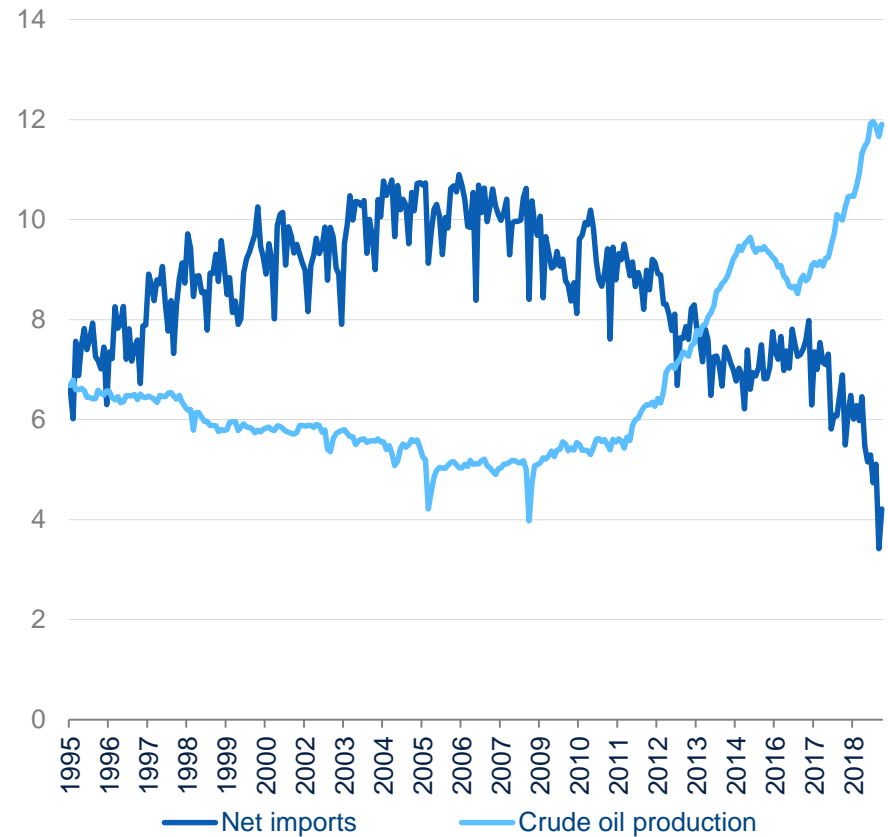


# U.S. Imports substitution has accelerated

## U.S. EXPORTS OF CRUDE OIL (MILLION BARRELS PER DAY)



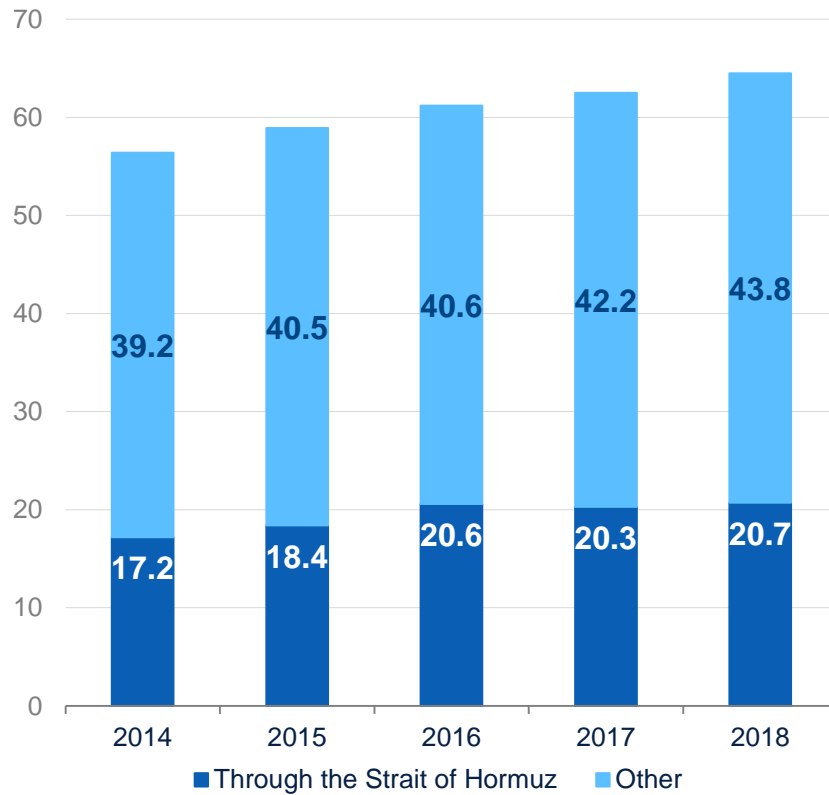
## U.S. PRODUCTION AND NET IMPORTS OF CRUDE OIL (MILLION BARRELS PER DAY)



Source: BBVA Research and Haver Analytics

# Escalation of tensions between the U.S. and Iran could cause significant disruption

## WORLD MARITIME OIL TRADE (MILLION BARRELS PER DAY)



Note: Other maritime trade flows in 2018 are BBVA Research estimate.  
Source: Energy Information Administration

## STRAIT OF HORMUZ

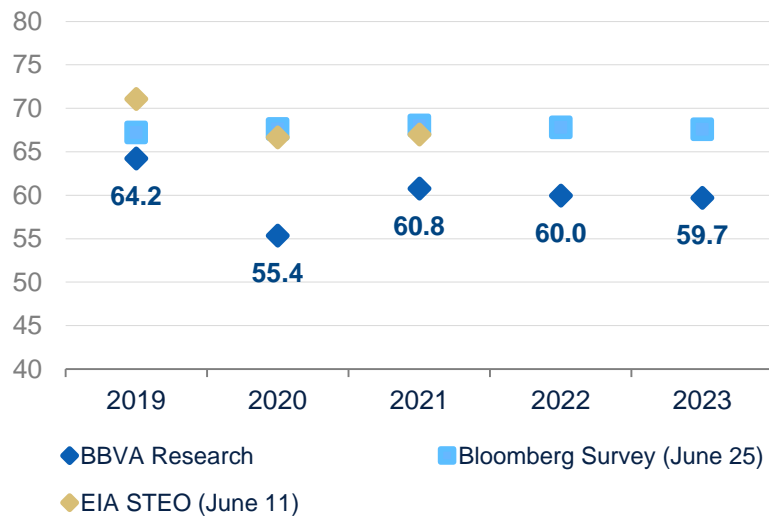


Source: Google Maps

# Supply adjustments will support prices in 2019, but demand will be the main driver going forward

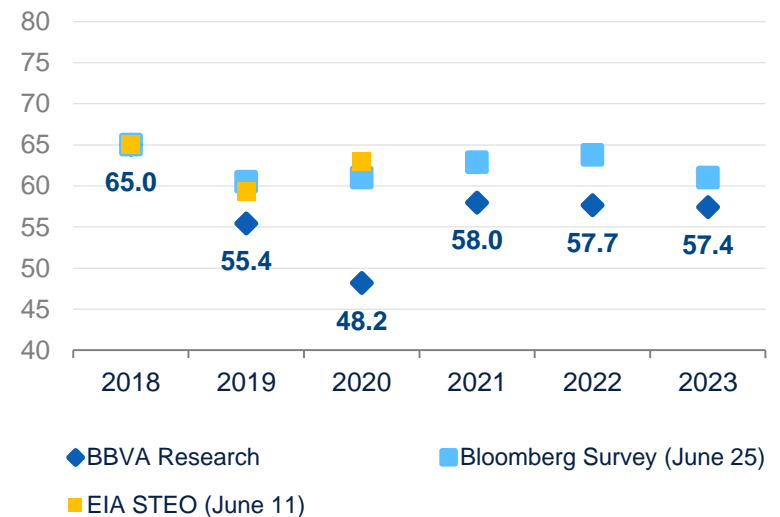
## Brent prices forecast (\$ per barrel)

	BBVA Research (baseline)	Bloomberg Survey (June 25)	EIA STEO (June 11)
2017	54.2	54.2	54.2
2018	71.1	71.1	71.1
2019	64.2	67.2	66.7
2020	55.4	67.7	67.0
2021	60.8	68.0	
2022	60.0	67.8	
2023	59.7	67.6	



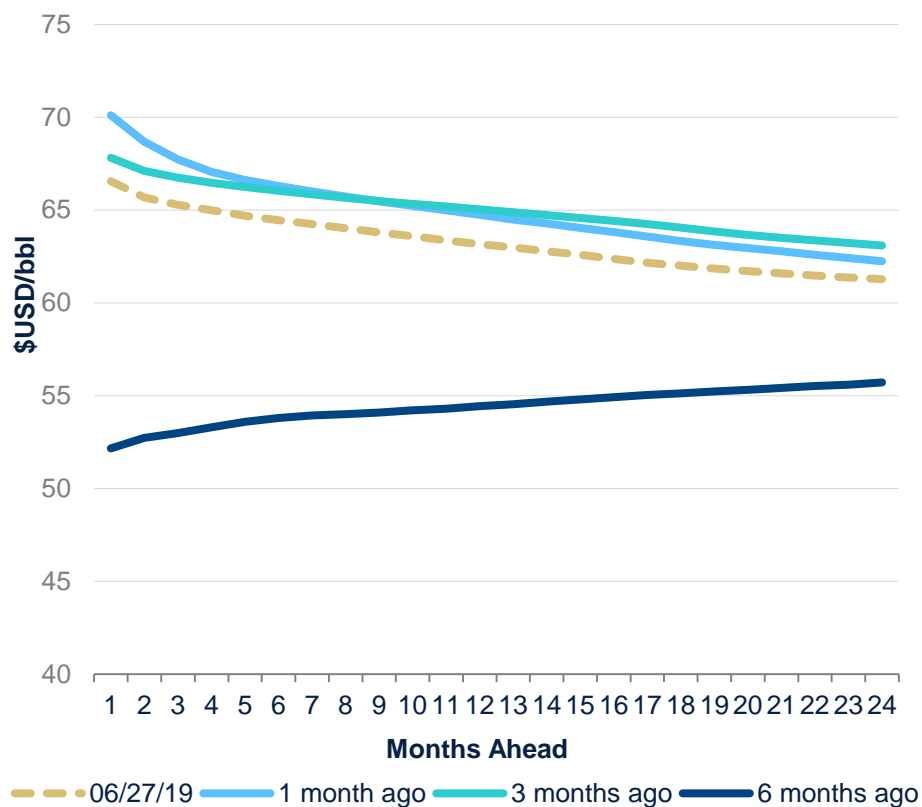
## WTI prices forecast (\$ per barrel)

	BBVA Research	Bloomberg Survey (June 25)	EIA STEO (June 11)
2017	50.9	50.9	50.9
2018	65.0	65.0	65.0
2019	55.4	60.5	59.3
2020	48.2	61.0	63.0
2021	58.0	62.9	
2022	57.7	63.8	
2023	57.4	61.0	

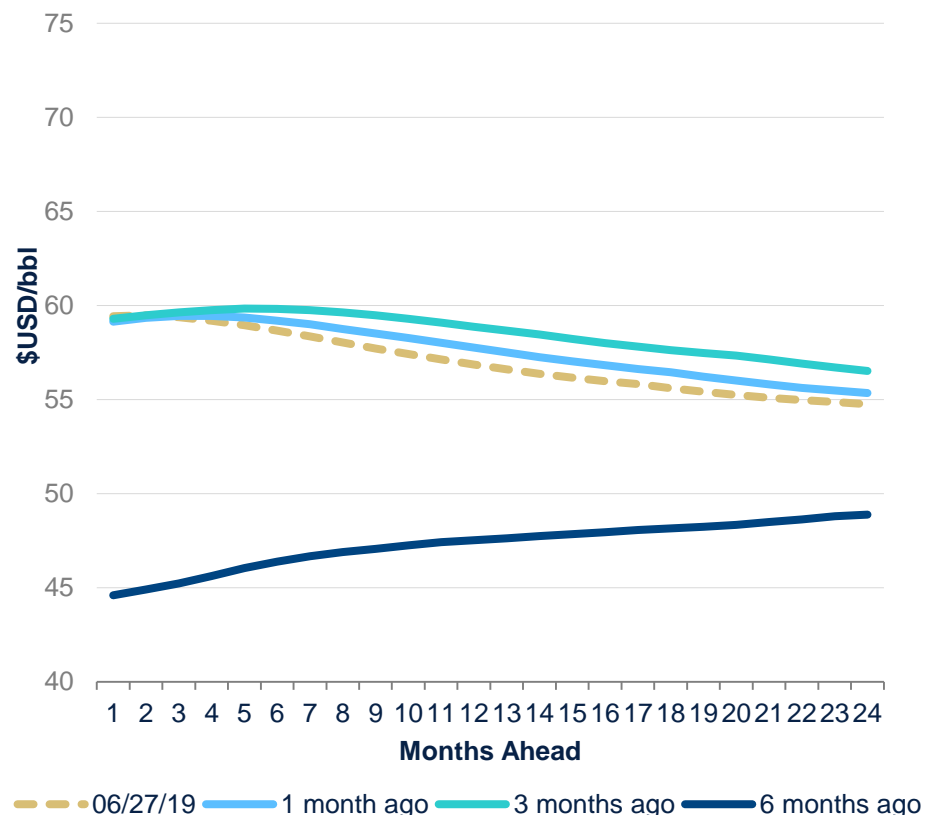


# Futures curve remains in backwardation

**Brent Futures**  
(\$ per barrel)

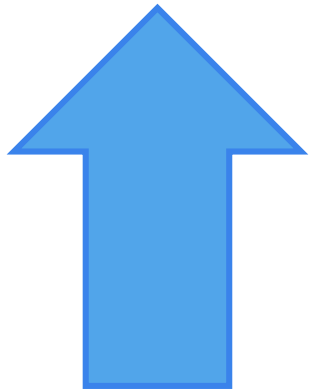


**WTI Futures**  
(\$ per barrel)

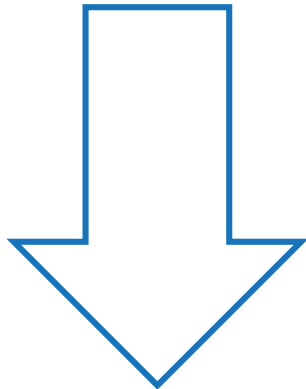


Source: BBVA Research and Bloomberg

## The balance of short-term risks is tilted to the upside



$\geq$   
\$60/b\*



$<$   
\$60/b\*

- OPEC spare capacity insufficient to deal with unexpected shocks
  - Tensions between the U.S. and Iran escalate
  - Stronger-than-expected impact from additional negative supply shocks (e.g., Eastern Europe, Venezuela and Libya)
  - Signs of progress in trade negotiations between the U.S. and China after G-20
  - 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
  - OPEC+ output deal is broken
  - Dollar appreciation
  - President Trump's pressure on OPEC
  - Limited enforcement of Iranian sanctions
  - Iran sues for peace and quickly revamps exports
  - Higher-than-expected crude oil production in the U.S.

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