Short-Term Oil Market Outlook

Bassam Fattouh and Andreas Economou
Oxford Institute for Energy Studies

London, 15 October 2020
Despite recent weaknesses, $40/b oil price floor holds

---

The contents of this presentation are the authors’ sole responsibility. They do not necessarily represent the views of the Oxford Institute for Energy Studies or any of its Members.

Source: EIA, OIES
Oil demand recovery entered a slower stage

US oil demand

India oil demand

Source: EIA, Argus, OIES
Price recovery flattened amid weaker demand support and deteriorating market expectations

Oil price drivers

Source: OIES
Reflected in time spreads and differentials

Time spreads

Price differentials

Source: Argus, OIES
Demand
First downgrade of global demand forecast since “Black April”

Global oil demand

Source: OIES
When will oil demand reach its pre-virus level?

Global oil demand vs Dec 19

The contents of this presentation are the authors’ sole responsibility. They do not necessarily represent the views of the Oxford Institute for Energy Studies or any of its Members.

Source: OIES
China crude oil imports going strong

China crude oil imports

China refinery runs

Source: Argus, OIES
India demand outlook

India crude oil imports

India refinery runs

Source: Argus, OIES
Growth risks weigh on the downside

Global growth risks

Brent price
USD/b
90
80
70
60
50
40
30
20
10
0
Jan-18 Jan-19 Jan-20 Jan-21 Jan-22
Baseline
Premature easing
Second wave
Financial crisis
Rapid upturn
Baseline assumes 100% compliance with OPEC+ deal and no compensation.

Source: OIES
Supply taking a center stage

Global oil supply

- OPEC crude
- Non-OPEC crude
- NGL + Other
- Total liquids

Source: OIES

The contents of this presentation are the authors’ sole responsibility. They do not necessarily represent the views of the Oxford Institute for Energy Studies or any of its Members.
A key feature in this cycle is high OPEC+ compliance.

Source: OIES
Another unique feature is the compensation regime

**OPEC+ compensation scheme**

- **Overproduction**
- **Compensation**
- **Compensation target**

Overproduction excludes the extra 1.1 mb/d voluntary cut from the GCC(3) in June 2020.

Source: OIES
Both factors will remain key throughout 2022

OPEC+ compliance risk

Brent price
USD/b
90
80
70
60
50
40
30
20
10
0
Jan-18 Jan-19 Jan-20 Jan-21 Jan-22
Baseline (High compliance)
Low compliance
Full compensation
Baseline assumes 100% compliance with OPEC+ deal and no compensation.

Source: OIES
OPEC+ balancing act remains fragile

OPEC+ demand-side risks

<table>
<thead>
<tr>
<th>Brent price</th>
<th>USD/b</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>42.9</td>
<td>53.9</td>
<td>60.1</td>
<td></td>
</tr>
<tr>
<td>Downside</td>
<td>41.5</td>
<td>45.8</td>
<td>53.4</td>
<td></td>
</tr>
<tr>
<td>Upside</td>
<td>43.3</td>
<td>58.0</td>
<td>64.3</td>
<td></td>
</tr>
</tbody>
</table>

All scenarios assume 100% compliance with OPEC+ deal.

Source: OIES
Non-OPEC supply growth outlook

Non-OPEC crude supply

Source: OIES
US shale key factor shaping non-OPEC supply

**US drilling activity**

**US shale regions well completions**

Source: Baker Hughes, EIA, OIES
US shale recovery entering a slow and lengthy phase

US shale supply

Source: OIES
Libya’s revival remains highly fragile, yet disruptive

Libya production scenarios

Libya revival risks

Source: OIES
Despite bearish headwinds, oil recovery expected to persist

Brent price outlook

Reference assumes 100% compliance with OPEC+ deal and 0.15 mb/d compensation from non-compliers in Sep/Dec 2020.

Source: OIES
But risks remain firmly tilted to the downside

Balance of risks

**Brent price**

<table>
<thead>
<tr>
<th>Brent price</th>
<th>Geopolitics</th>
<th>Demand</th>
<th>Supply</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD/b</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>90</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>80</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reference assumes 100% compliance with OPEC+ deal and 0.15 mb/d compensation from non-compliers in Sep/Dec 2020.

Source: OIES
Market deficits weakened

Global supply/demand balance

Reference assumes 100% compliance with OPEC+ deal and 0.15 mb/d compensation from non-compliers in Sep/Dec 2020.

Source: OIES
Clearing the stocks overhang will be slower

OECD commercial stocks vs 2010/14 avg

US commercial stocks vs 2010/14 avg

Reference assumes 100% compliance with OPEC+ deal and 0.15 mb/d compensation from non-compliers in Sep/Dec 2020.

Source: OIES
Bassam Fattouh, Director OIES
Andreas Economou, Senior Research Fellow OIES

October 2020