

Oil Price Outlook

BBVA Research USA

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As expected

- U.S. production continues to adjust
- Further bankruptcies and declining investment
- Oversupply has eased
- Sustained demand growth, particularly in emerging markets

Major surprises

- Output disruptions in Nigeria, Libya and Canada have helped to mitigate oversupply
- Dollar volatility as markets reassessed expectations of interest rates hikes
- The U.S. rig count increased for three consecutive weeks, feeding concerns that the price rally happened too soon to clear oversupply entirely

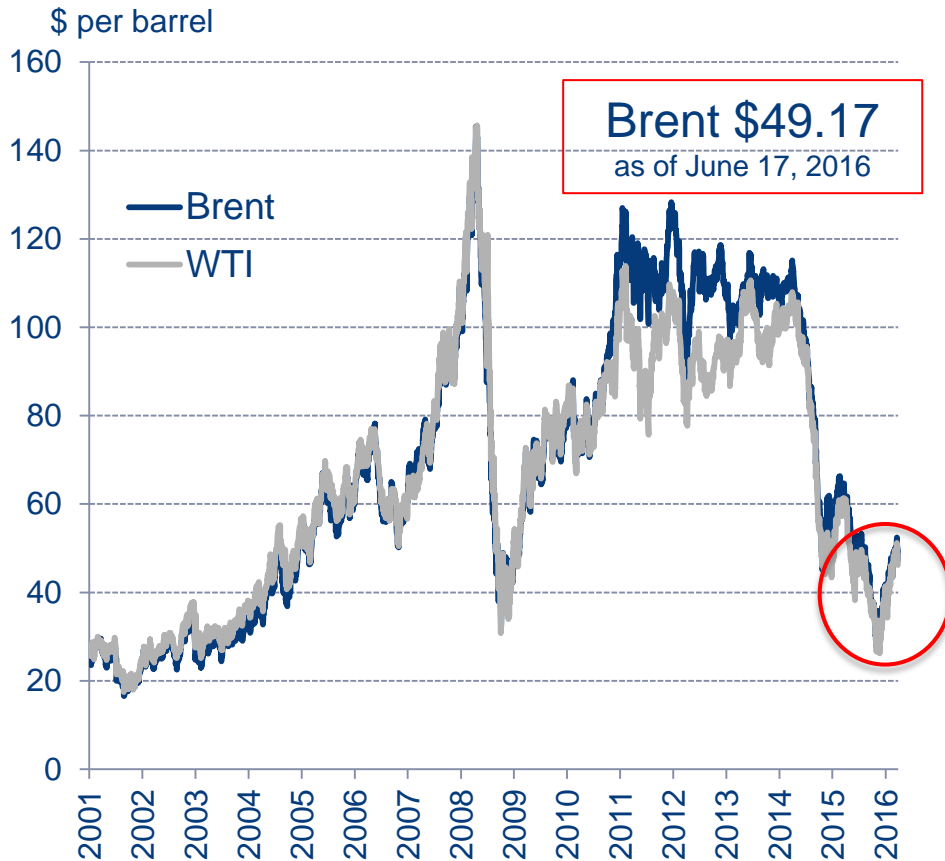
Upward bias in the short-term, but caution going forward

- Short-run risks persist such as financial volatility, further supply disruptions, and negative surprises to the global outlook
- Although declining, oversupply conditions remain
- Inventories are still at historically high levels
- A sustained prices rebound could halt further cuts in U.S. production

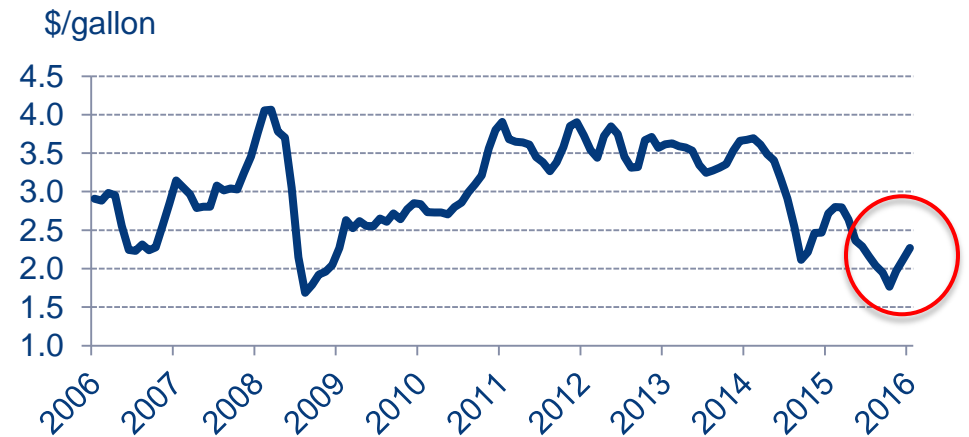
Oil prices in 2016

Prices have moved up by about 80% since last bottom

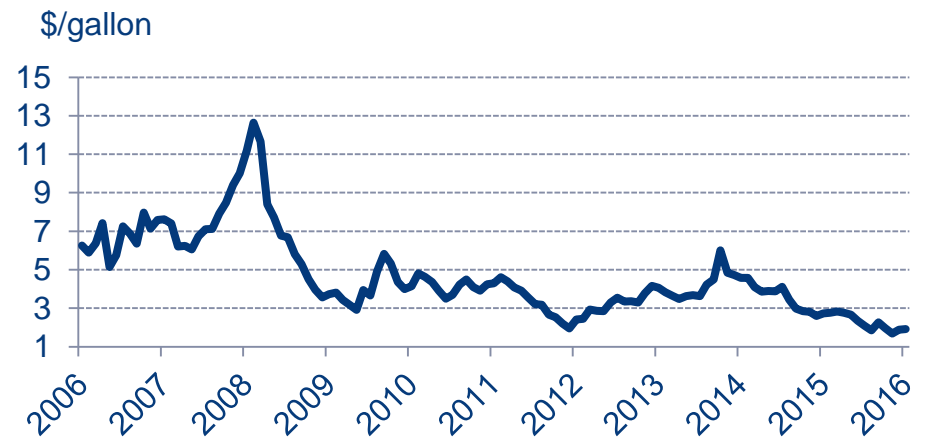
Crude oil prices



U.S. retail gasoline prices



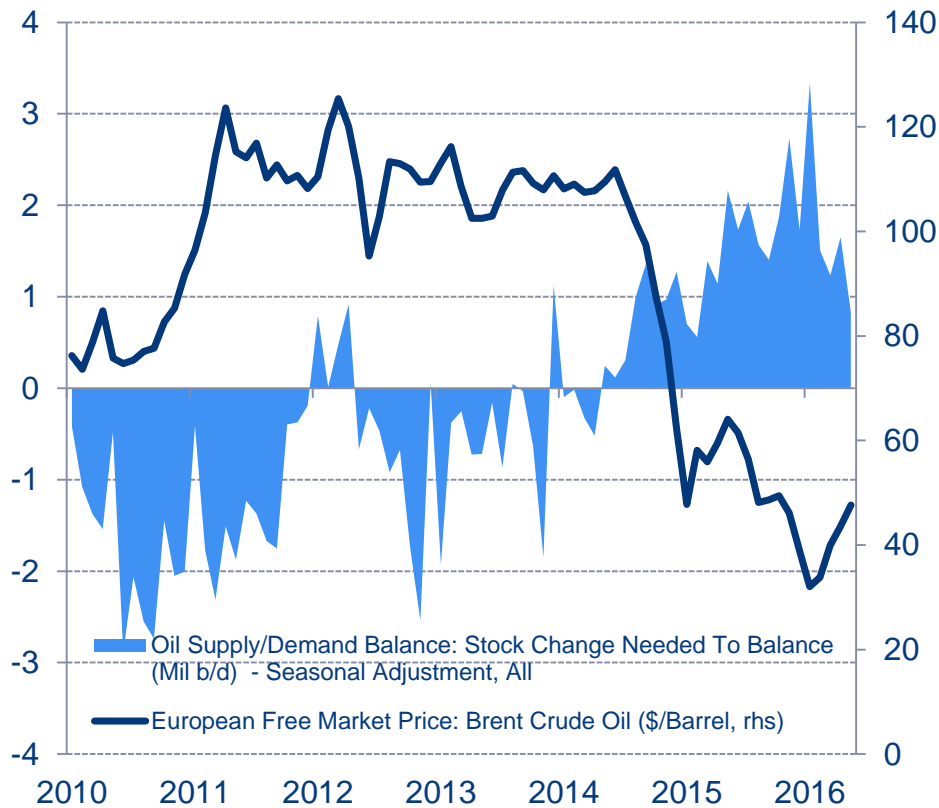
U.S. natural gas, Henry Hub



Market balance

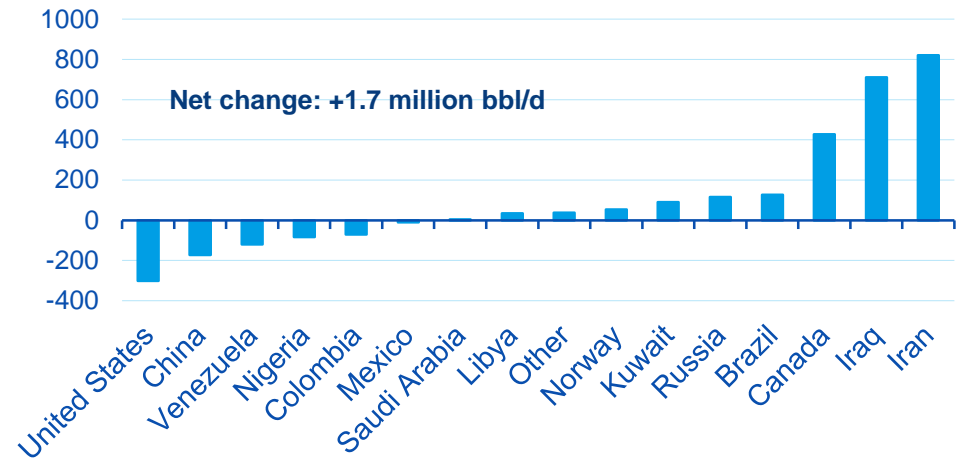
The market is gearing towards rebalancing at the expense of some producers and solid demand, mainly in non-OECD countries

Supply & demand balance, and oil prices



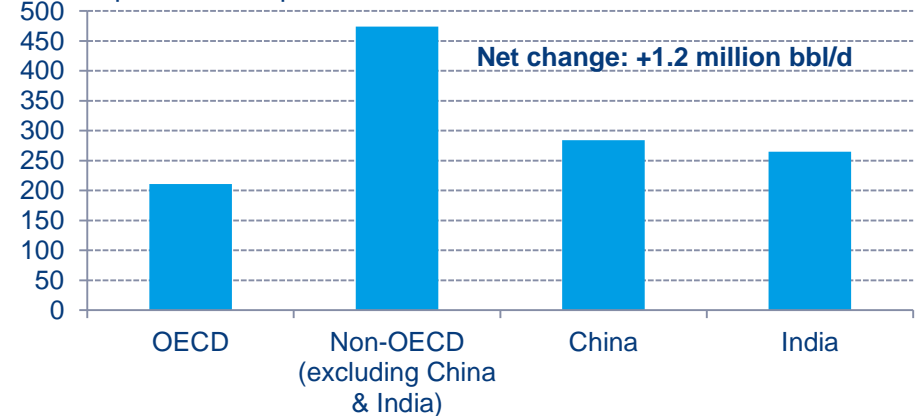
Wellhead production change by country

April 2015 to April 2016. Thousand bbl/d



Demand change by country

April 2015 to April 2016. Thousand bbl/d







Source: Haver Analytics

Source: Haver Analytics

Short-term volatility

Supply disruptions have contributed to the acceleration of market rebalancing...

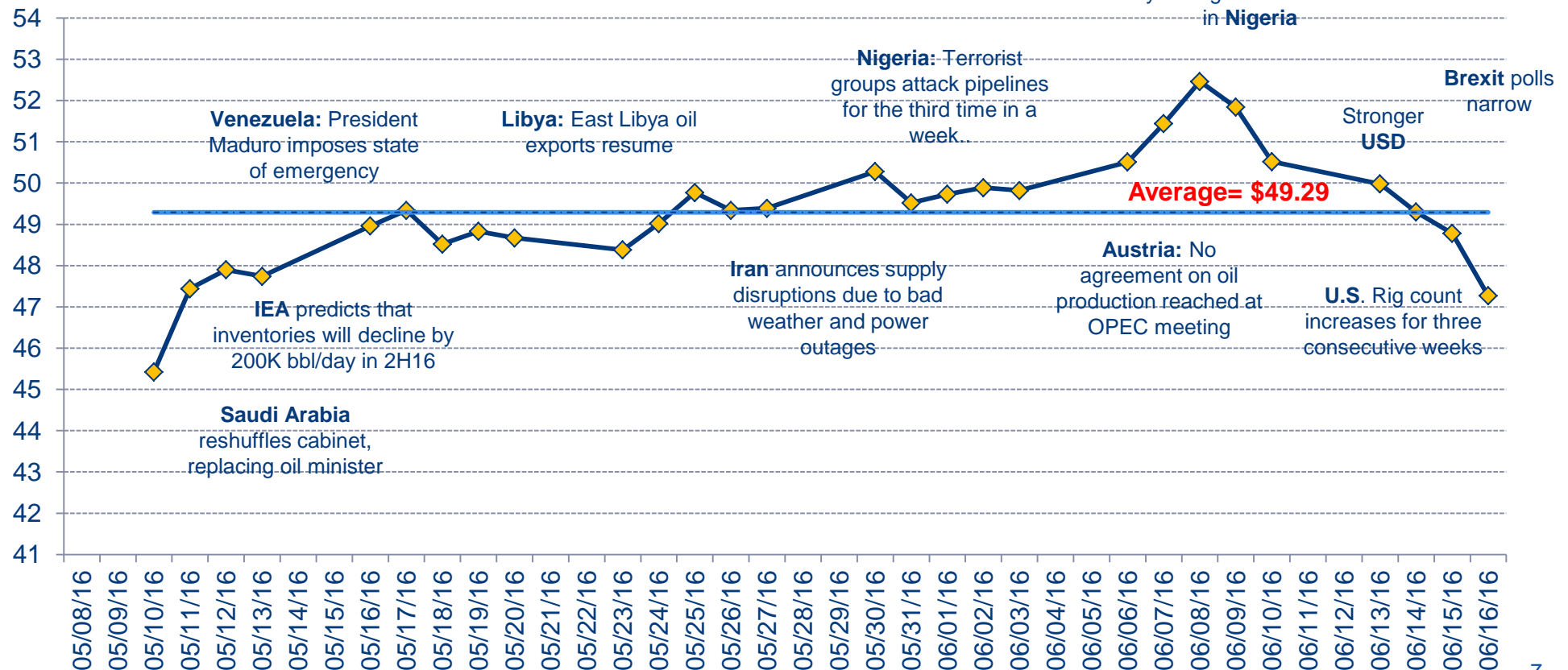
Event	Description	Price Bias
Canadian wildfires	At peak, wildfires cut 1.5 million bbl/d of production capacity, but blazes are now 82% contained.	
Economic and political conflict in Venezuela	60-day state of emergency imposed. Production declined to 2.37M bbl/d—largest MoM decline in a decade.	
Libya supply disruption ends	Rival Libyan oil factions strike deal in Vienna allowing exports from East Libya to resume.	
Slowing output in Iraq	Power outages, bad weather in Basra Gulf and Kirkuk crude export cut contribute to 50K bbl/d rise in average disruptions.	
Pipeline attacks in Nigeria	Pipeline bombings continue in southern Nigeria, and production drops to 20-yr low of 1.51M bbl/d	
June OPEC Meeting	OPEC fails to reach oil output deal, but appoints Nigeria's Mohammed Barkindo as new secretary-general.	

Short-term volatility

...however, the positive impact on prices has recently diminished

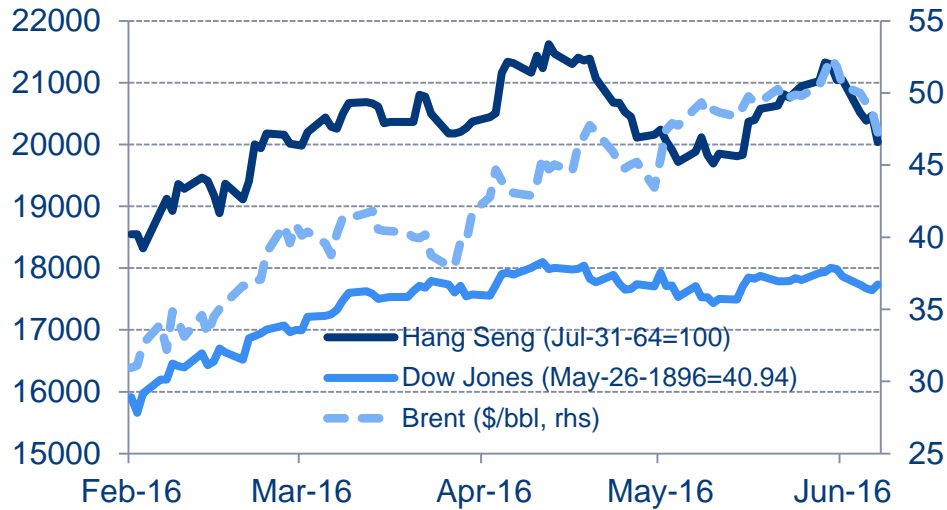
Brent spot price

\$ per barrel



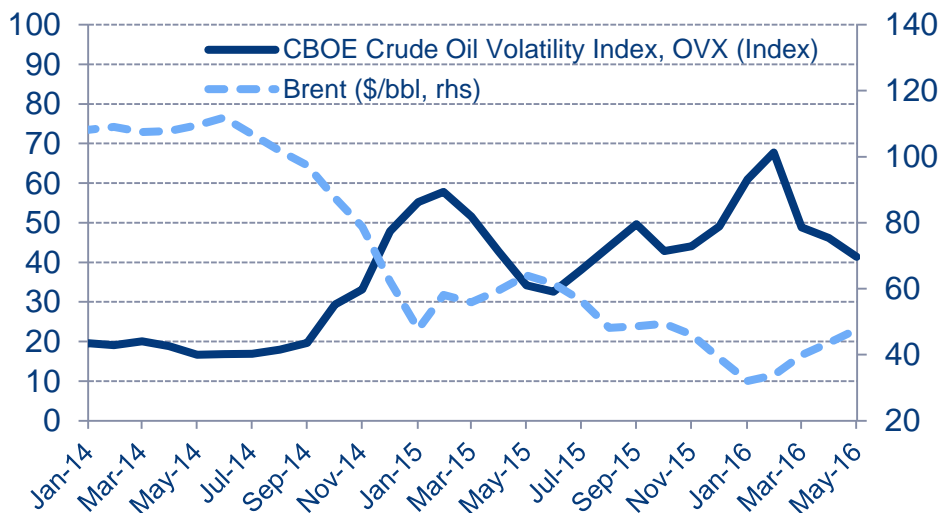
Financial markets

Oil prices and stock market

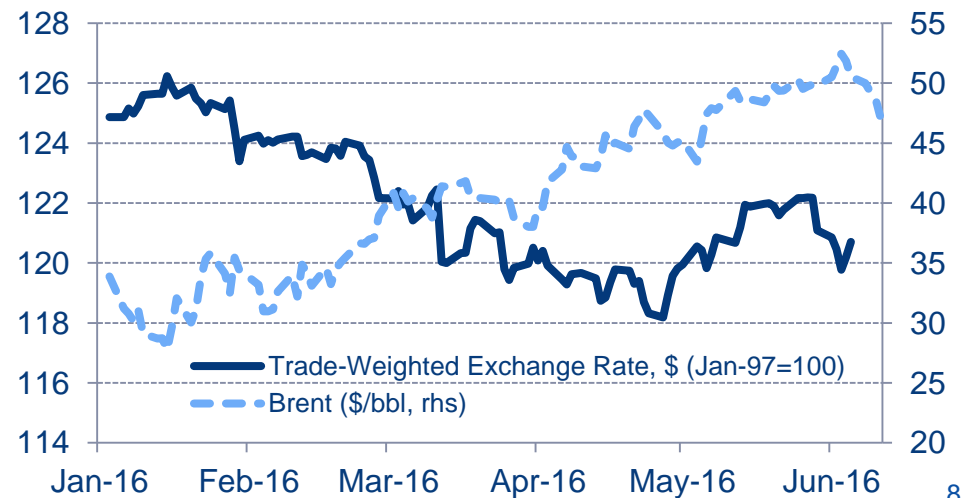


Improving risk perception on emerging markets and weaker dollar compared to early in the year create a favorable environment for crude prices

Oil prices and volatility index



Oil prices and U.S. dollar

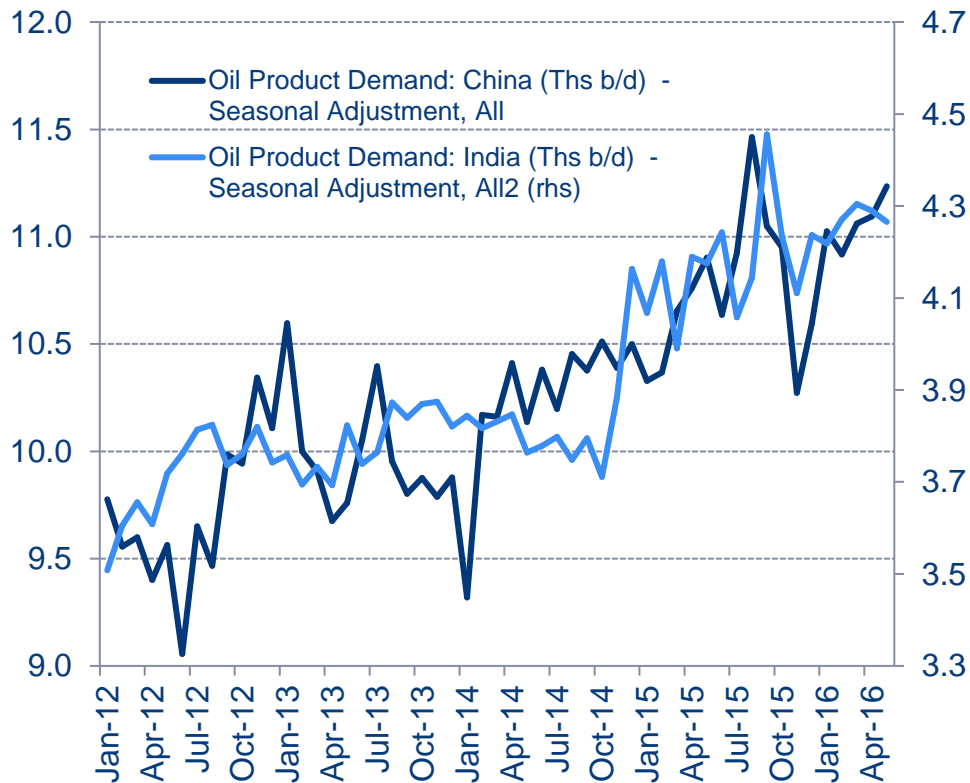


Demand

Demand growth remains solid mainly because of emerging markets and the U.S.

Oil product demand

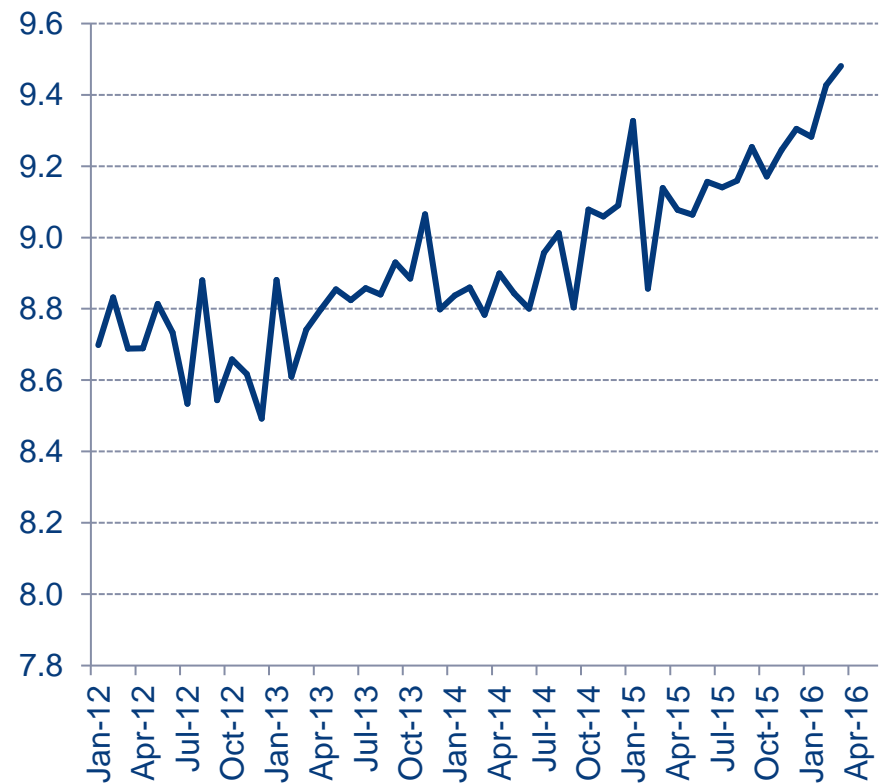
Million bbl/d



Source: Haver Analytics

U.S. demand for finished motor gasoline

Million bbl/d, seasonally adjusted



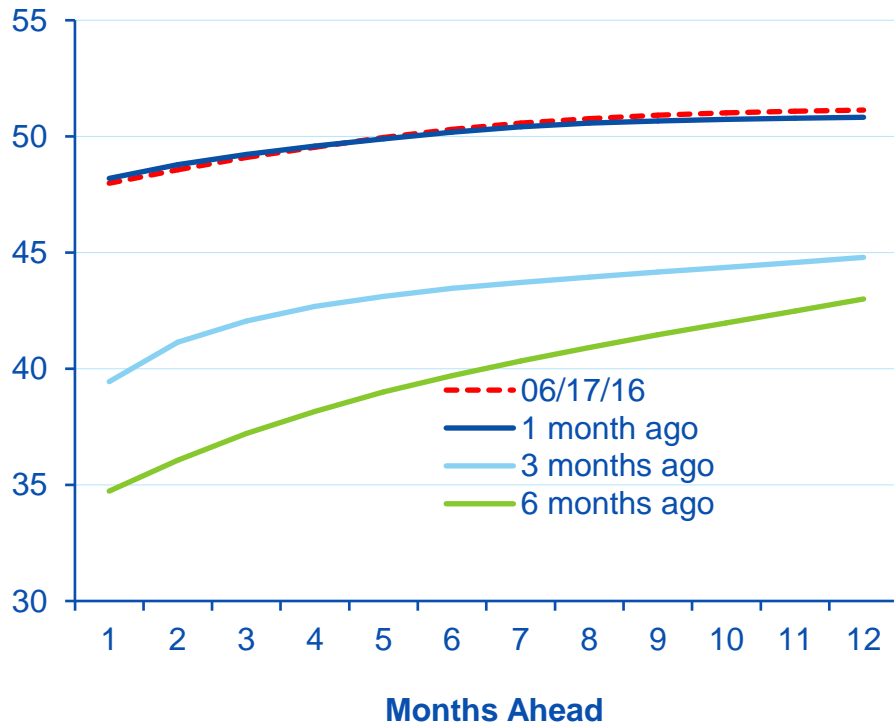
Source: Haver Analytics

Futures

Despite the short-term increase, the forward curve reflects skepticism about the strength of the recent rally

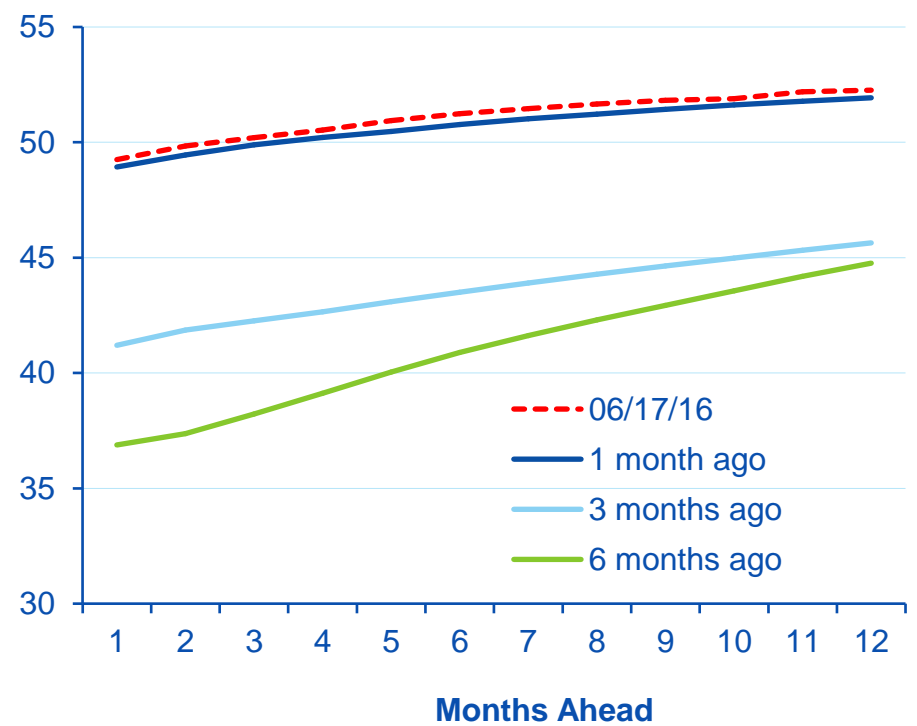
WTI crude futures

\$ per barrel



Brent crude futures

\$ per barrel

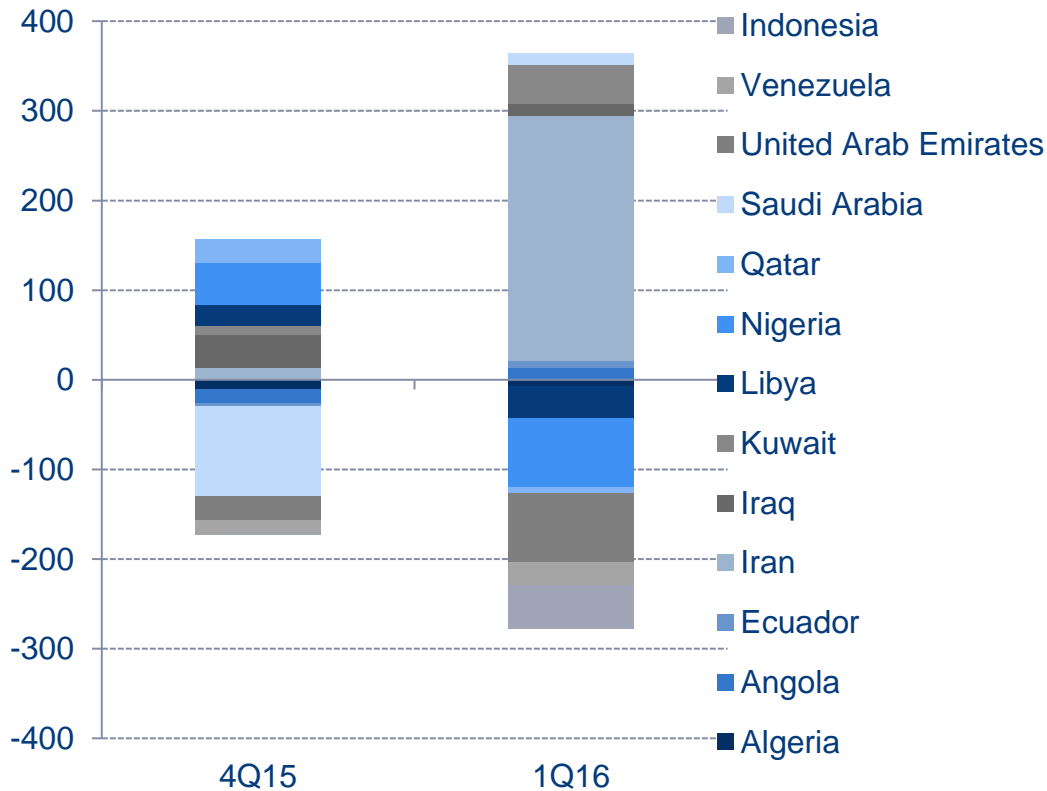


OPEC

Given current price levels and supply disruptions, OPEC has less incentive to engage in an output deal that helps to boost prices further

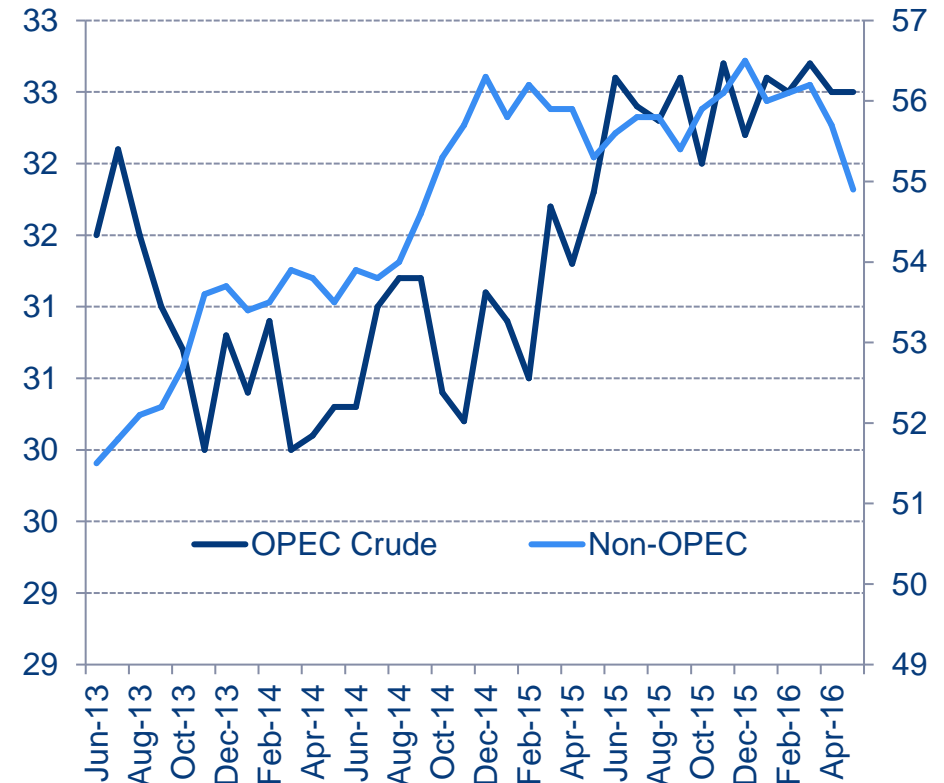
Change in OPEC production by country

Quarterly, thousand barrels per day



Crude oil production

Million barrels per day

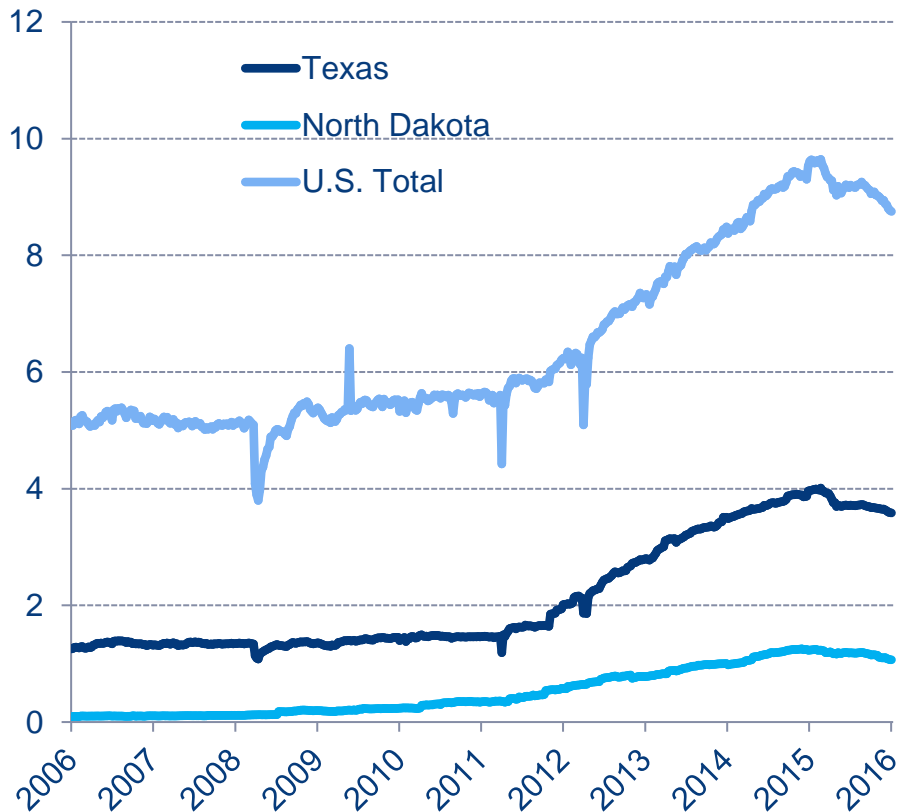


United States

Production continues to decline in line with expectations. The adjustment differs significantly across regions

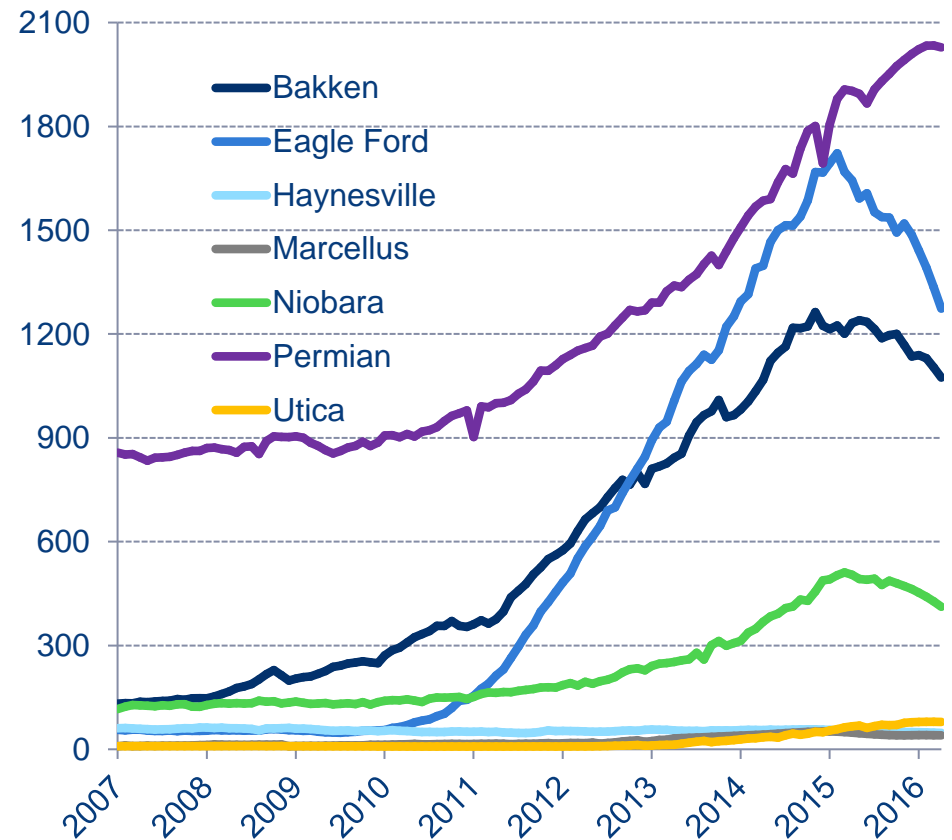
U.S. crude oil production

Million barrels per day



Total oil production by shale play

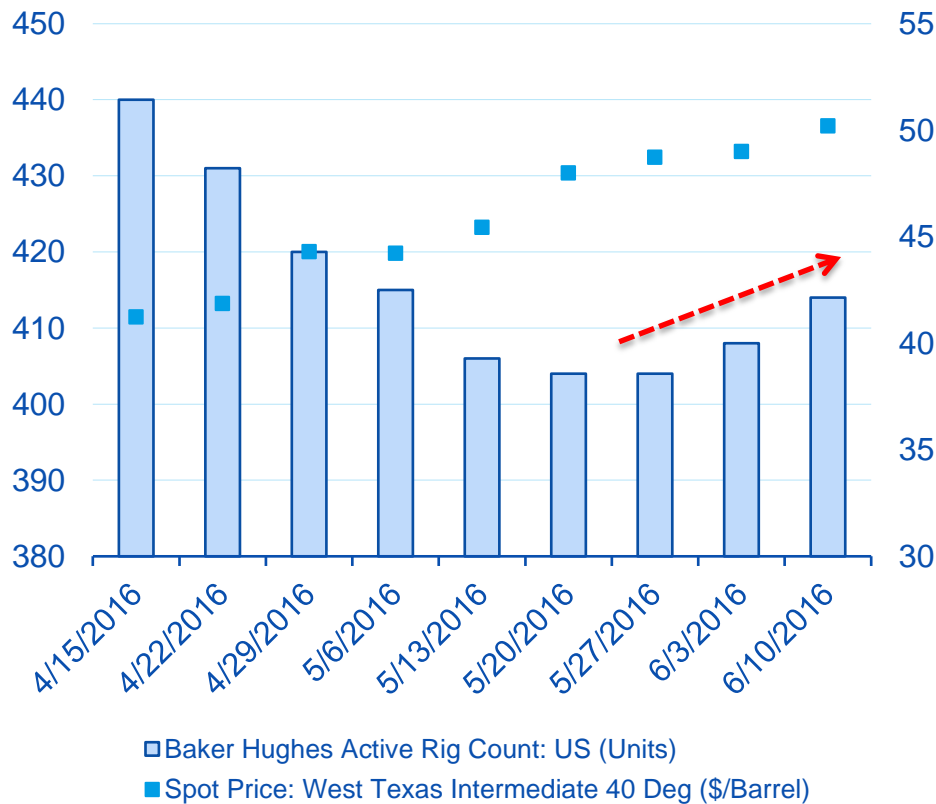
Thousand barrels per day



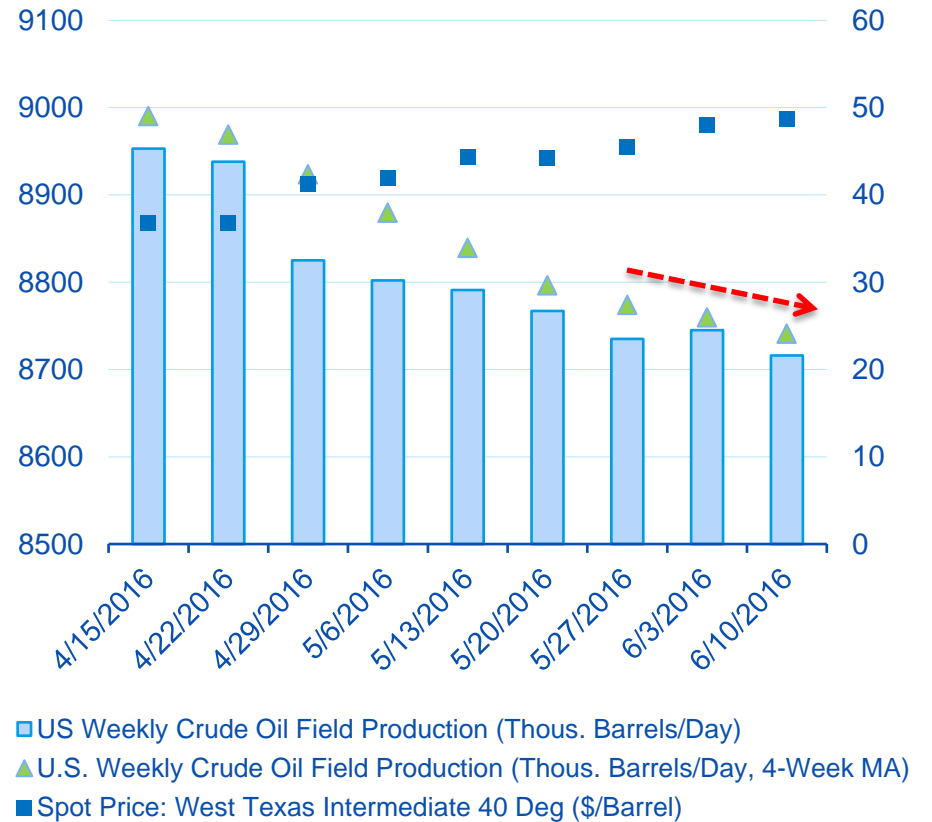
United States

However, slight surge in the rig count raises questions about how long the decline in production can last

U.S. active rig count and oil prices



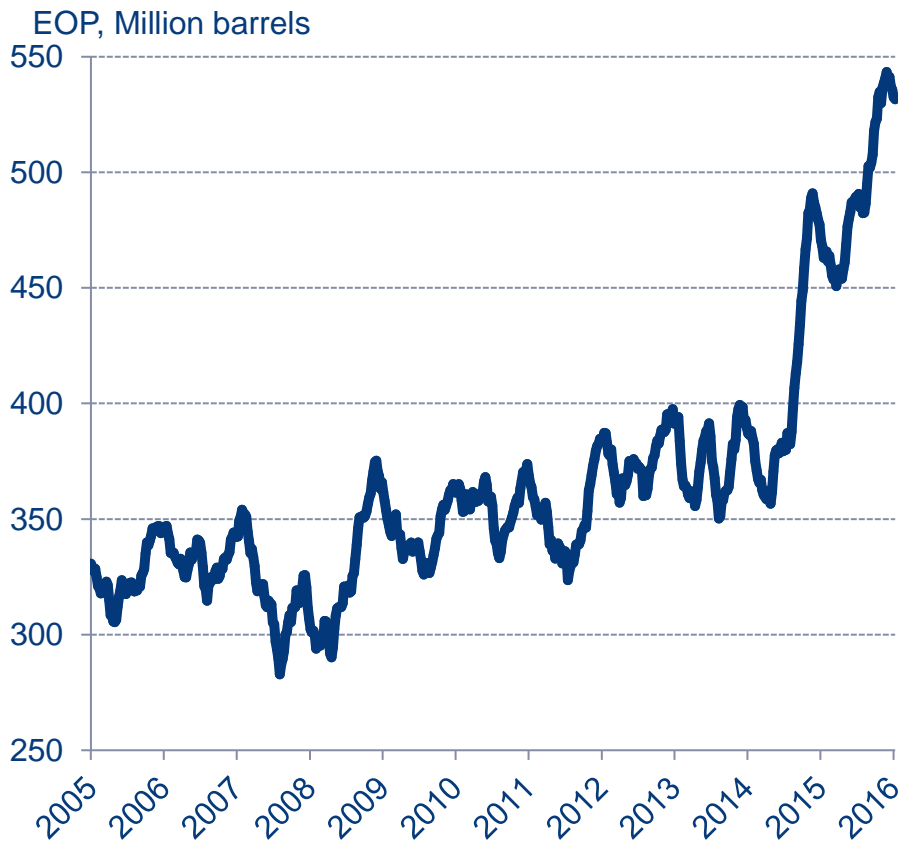
Crude oil production and oil prices



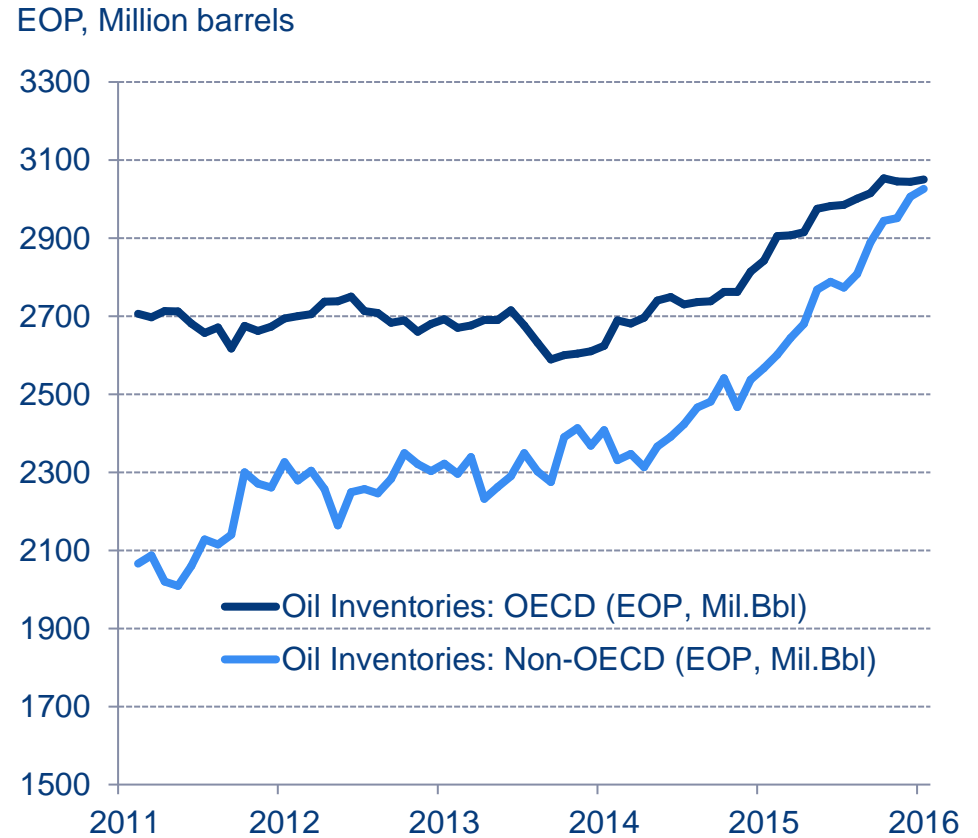
Inventories

Moreover, high levels of inventories will prevent prices from rebounding quickly

U.S. stocks of crude oil excluding SPR



Global oil inventories



Oil price forecasts

Change in our baseline scenario reflects a better outlook in the short-term but some caution going forward

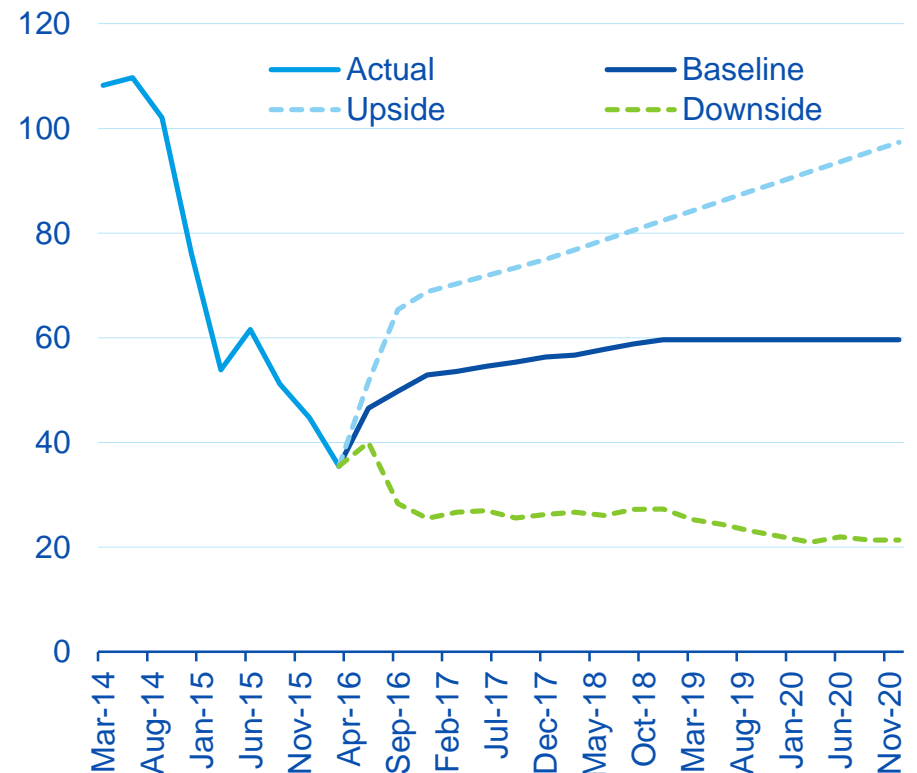
Crude Oil Price Forecasts*

Brent, \$ per barrel, avg.

	Baseline	Upside	Downside
2015	52.8	52.8	52.8
2016	46.2	55.3	32.3
2017	55.0	72.6	26.4
2018	58.2	79.6	26.8
2019	59.6	87.1	23.7
2020	59.6	94.6	21.4

Crude Oil Price Forecasts*

Brent, \$ per barrel, avg.



*Forecast may be subject to change.

Source: BBVA Research & Haver Analytics

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