Energy and Commodities

Oil Prices: Hard Times

El País (Spain)

Marcial Nava

To paraphrase Dickens: It is both the best of times and the worst of times for oil-producing countries.

The outlook for OPEC is bleak. Despite production cuts, the price of Brent crude oil remains below $70 per barrel. Production is at its lowest point since 2015, due not only to voluntary cuts but also to structural and geopolitical factors that have diminished the supply of several member countries.

For the United States, the situation remains favorable. With a breakeven threshold of between $35 and $50 per barrel, the country's unconventional oil industry can adapt comfortably to current prices. Not surprisingly, shale oil production is still on the rise and is about to reach a record 9 million barrels per day. Exports of crude oil may soon reach 3 million barrels per day thanks to the $119 billion invested in transportation infrastructure and pipelines over the last five years.

Meanwhile, oil demand is experiencing a period of slower growth caused by global economic weakness and uncertainty surrounding the U.S. trade war with China and other countries. We expect demand to growth by 1.18 million barrels per day in 2019 — 360,000 barrels a day fewer than in 2018.

In this context, OPEC's ability to stimulate price increases is limited. At its meeting on July 2, the decision was made to extend production cuts for another nine months. Faced with the possibility of losing market share or triggering a price collapse, the organization opted for the seemingly least costly option.

Considering the above, the slowdown in demand will continue to be the primary factor that determines oil prices in the short and medium term. Our forecasts point to a gradual fall in 2019 and 2020.

The uncertainty of our forecasts is dependent on two factors. The first is the progression of trade wars and their impact on world economic growth. The second is the evolution of the conflict between the United States and Iran, which could result in an interruption of the flow of oil through the Strait of Hormuz (through which 21% of the oil consumed worldwide passes) or a recovery of Iranian oil exports in the event of an agreement.

However, as long as these risks remain contained, the current supply and demand conditions suggest a period of lower prices. In the long term, our estimates point toward an equilibrium price of around $60 per barrel.

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

ENQUIRIES TO:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com