

Oil Prices Outlook

September 2020

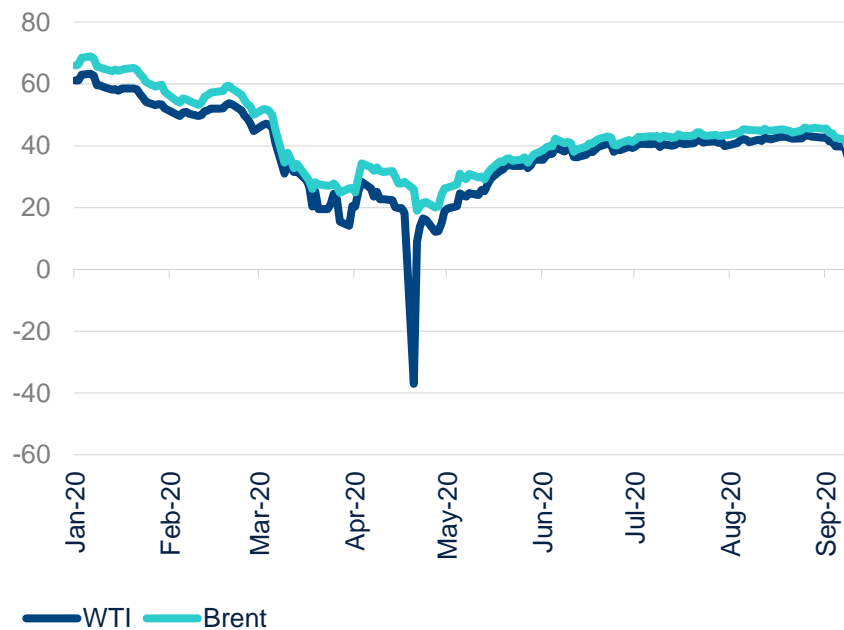
Summary

- Faltering demand is preventing **oil prices** to experience a sustained increase.
- Fundamentals are consistent with our baseline scenario. In the absence of a vaccine, we expect prices to remain below \$45 per barrel for the rest of the year.
- Petroleum **demand** is recovering, but continues to be capped by the pandemic's effects on economic activity.
- **OPEC+** compliance has been supportive of prices, however, output cuts are projected to slow down in the following months.
- Although still above trend, **inventories** have subsided, easing pressures on storage capacity.
- **In the U.S.**, government intervention has helped avoid a massive wave of bankruptcies.
- Prospects could significantly tilt to the upside if a vaccine is available in 4Q20.

Volatility has declined significantly

CRUDE OIL PRICES 2020

(\$ PER BARREL)



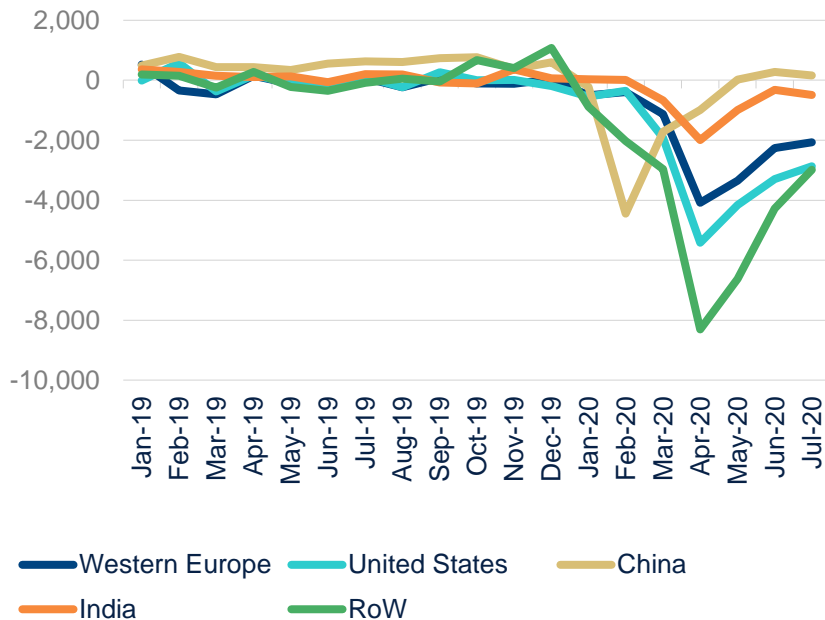
CRUDE OIL VOLATILITY INDEX



The recovery of demand varies across countries and products

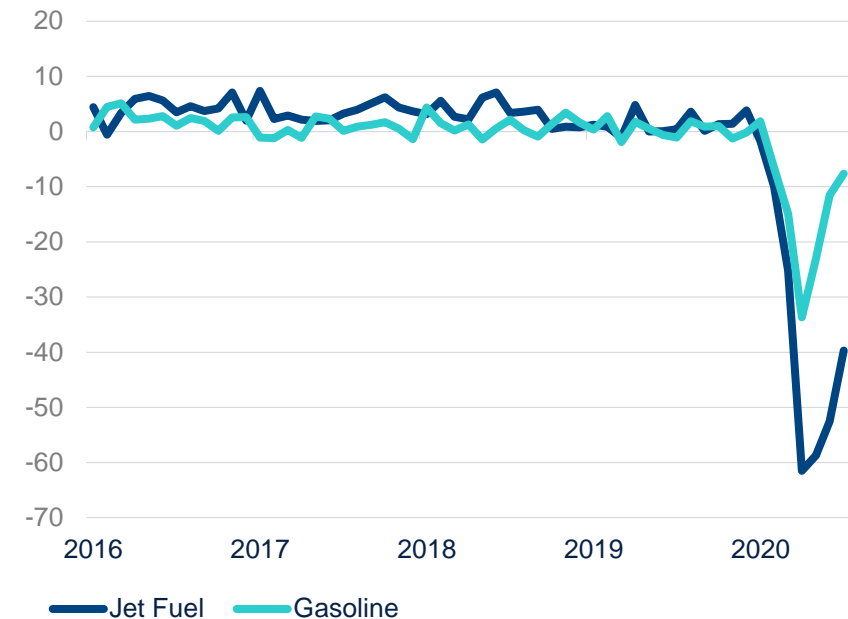
PETROLEUM DEMAND

(THOUSAND BARRELS PER DAY, YOY CHANGE)



REFINED PRODUCT DEMAND*

(YOY % CHANGE)

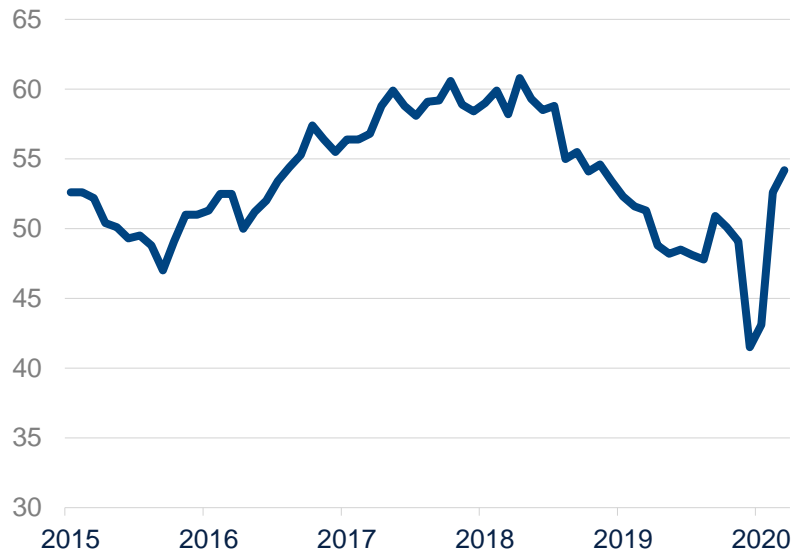


*Includes Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, South Korea, Spain, Thailand, Turkey, UK, and US.

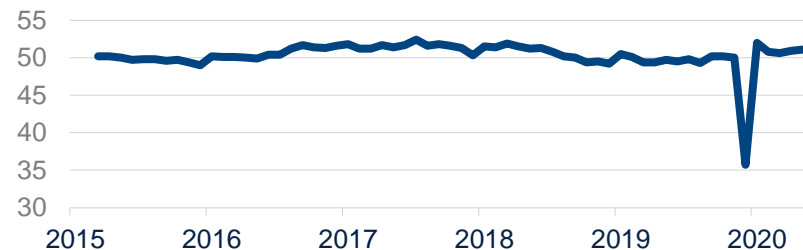
Source: Haver Analytics

The worst economic conditions seem to be behind us

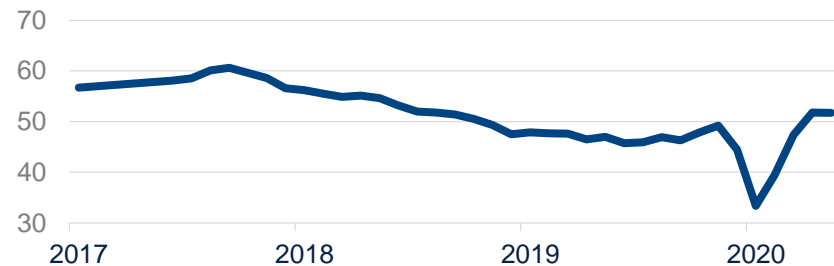
U.S. ISM MANUFACTURING PMI (INDEX)



CHINA MANUFACTURING PMI (INDEX)



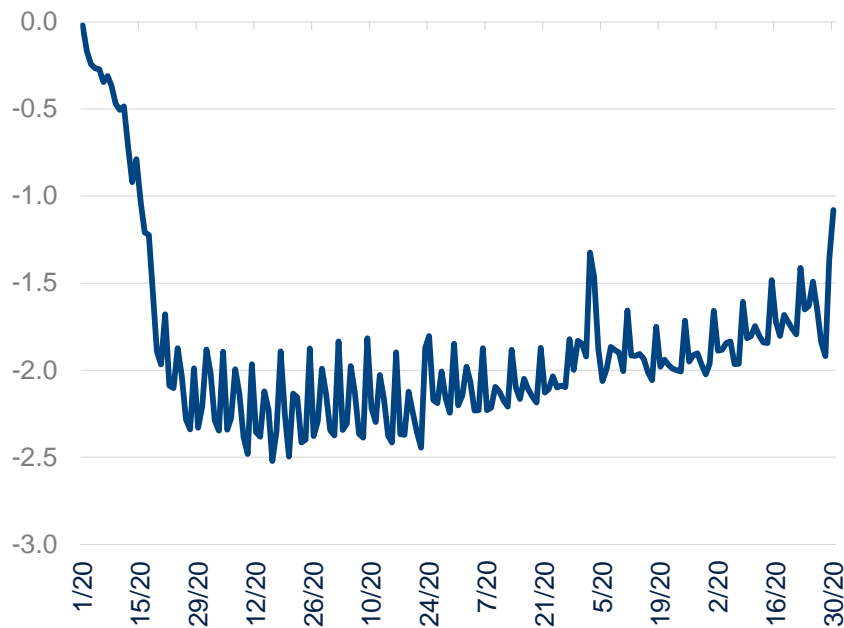
EUROZONE MANUFACTURING PMI (INDEX)



But limited travel and work from home arrangements continue to take a toll on fuel consumption

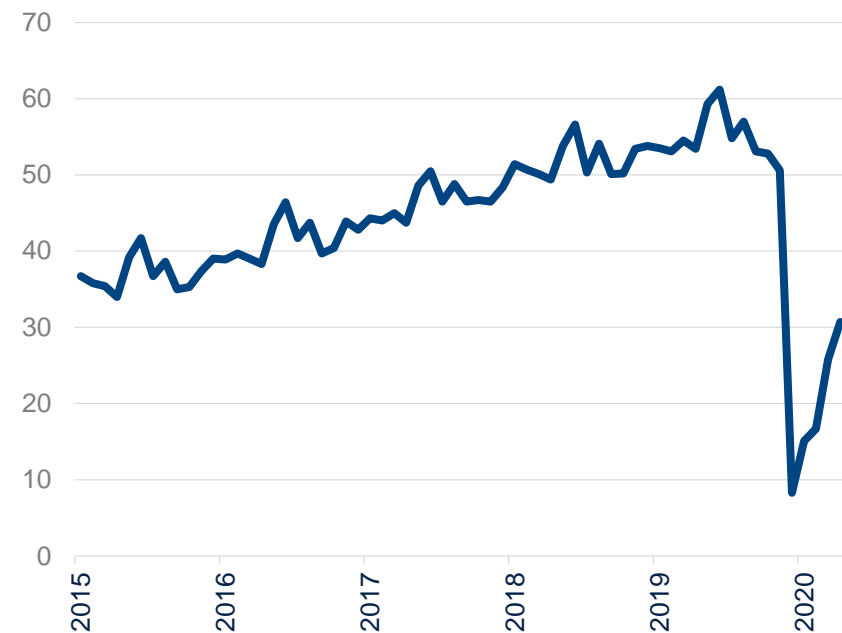
U.S. TRAVELER TSA SCREENINGS

(MILLIONS, YOY CHANGE, 2020)



CHINESE AIRLINE PASSENGER TRAFFIC

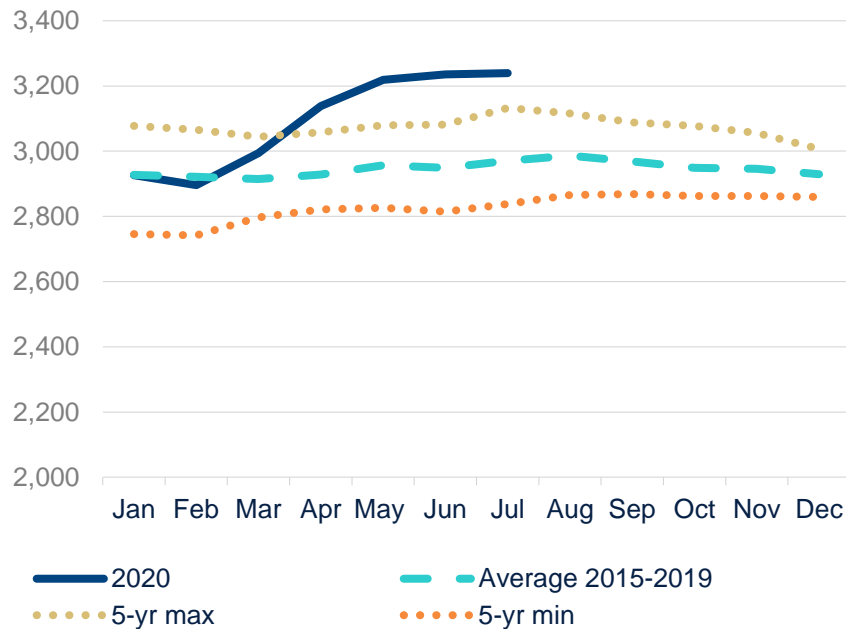
(MILLIONS)



Crude oil stocks are easing but remain above trend

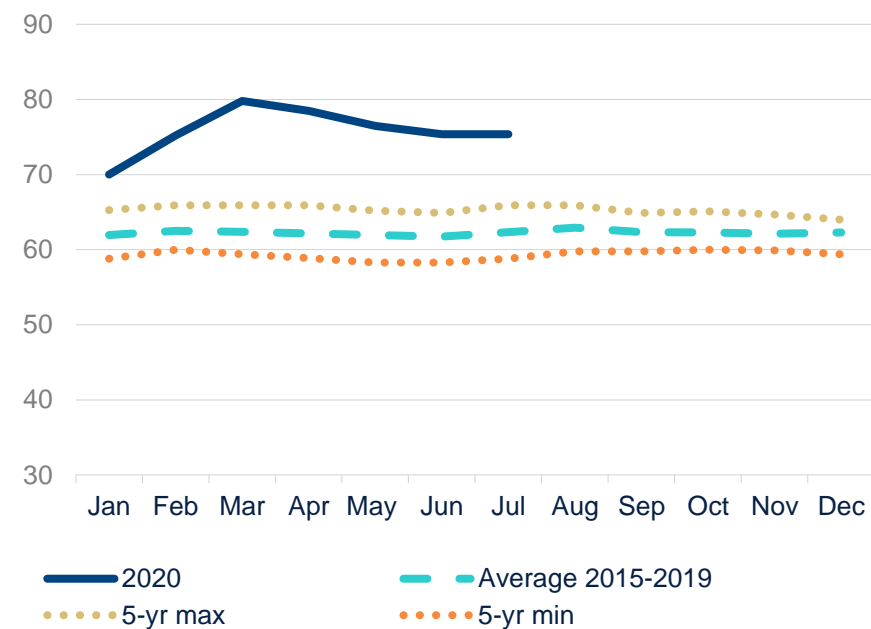
COMMERCIAL OIL INVENTORIES: OECD

(MILLION BARRELS)



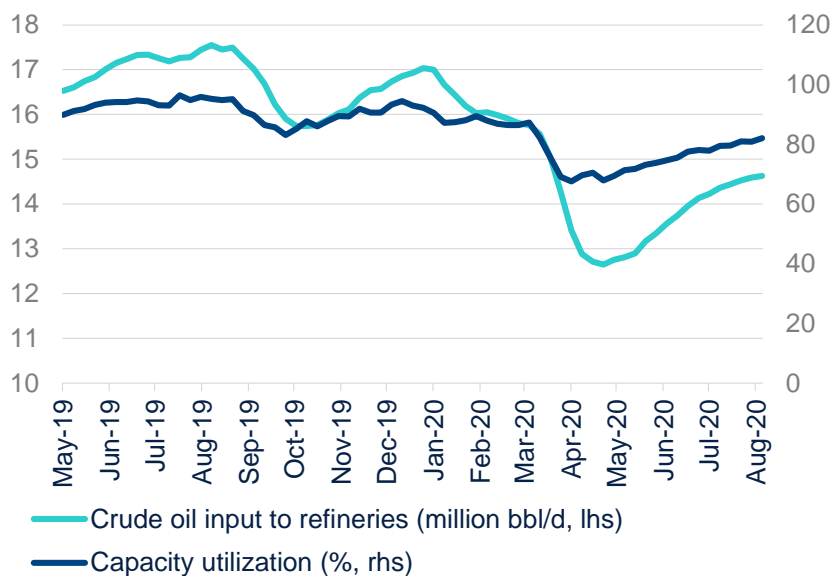
COMMERCIAL OIL INVENTORIES: OECD

(DAYS SUPPLY)

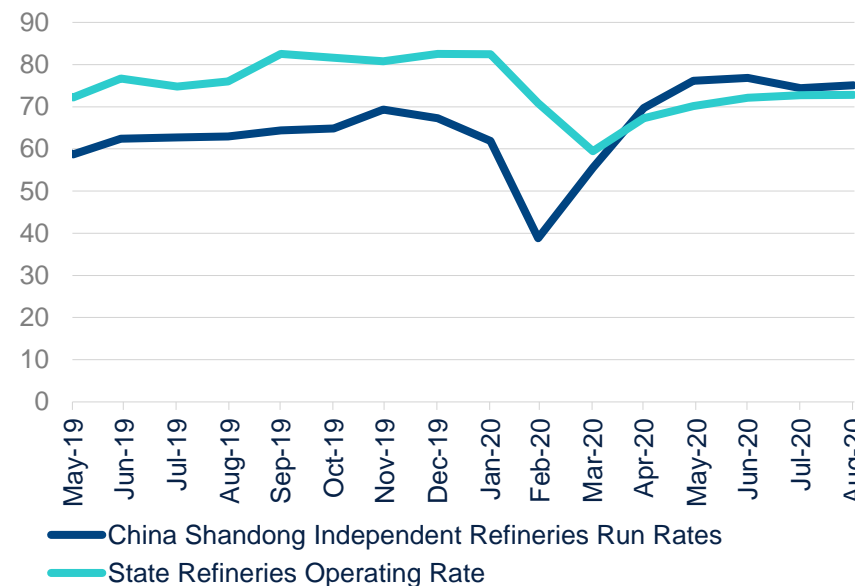


For the most part, refining activity remains below capacity

U.S. REFINING ACTIVITY



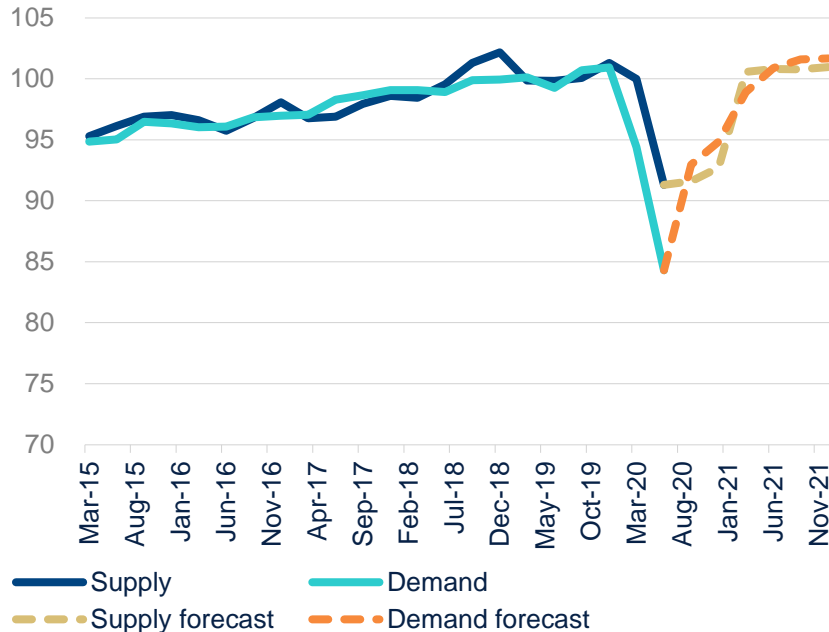
CHINA REFINING CAPACITY (%)



Fundamentals suggest that prices will remain contained

OIL SUPPLY AND DEMAND

(MILLION BARRELS PER DAY)

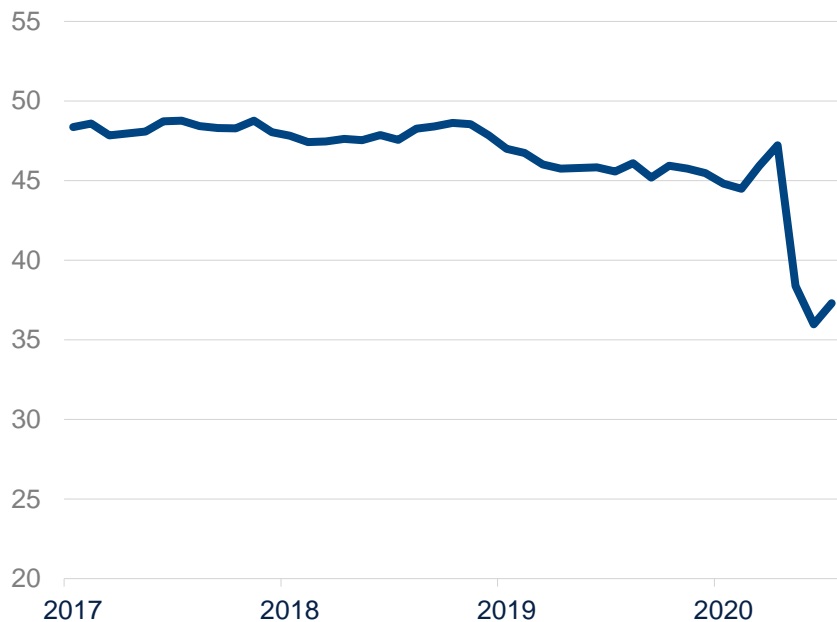


- Oil demand is likely to remain subdued through the rest of the year as economic conditions remain below pre-crisis levels
- OPEC+ cuts will continue to slow down as planned. Beginning in August, OPEC+ has reduced the cuts to 7.7 million b/d from which OPEC members will be responsible for 4.8 million b/d.
- OPEC+ spare capacity and elevated levels of inventories will limit price increases going forward.

OPEC+ has wound down target output cuts while voluntary cuts have expired

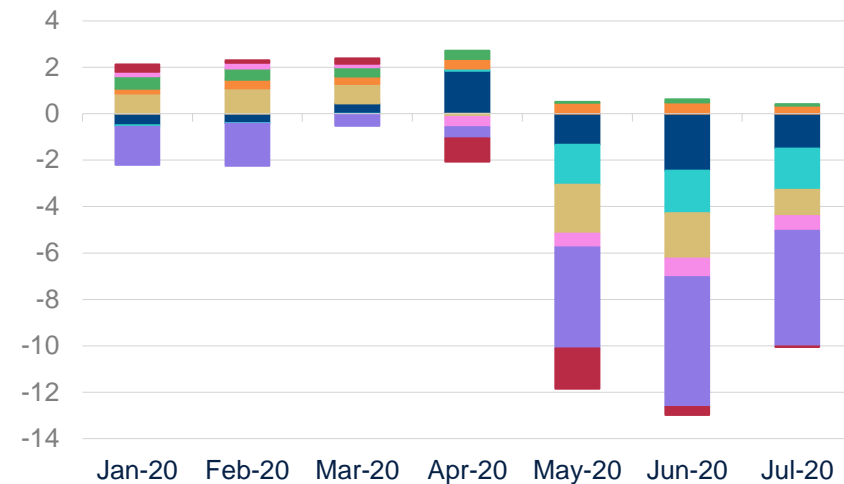
OPEC+ CRUDE OIL PRODUCTION

(MILLION BARRELS PER DAY)



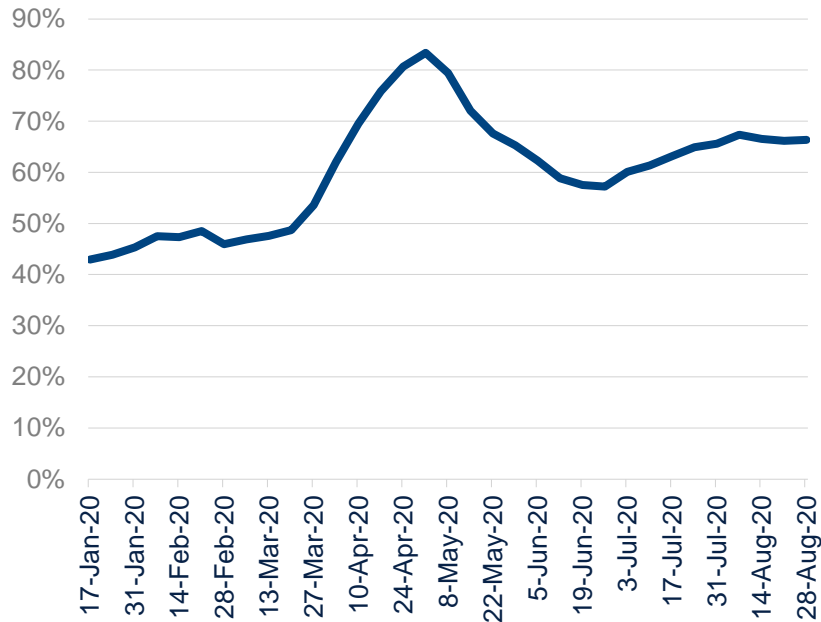
GLOBAL CRUDE OIL PRODUCTION

(MILLION BARRELS PER DAY, YOY CHANGE)

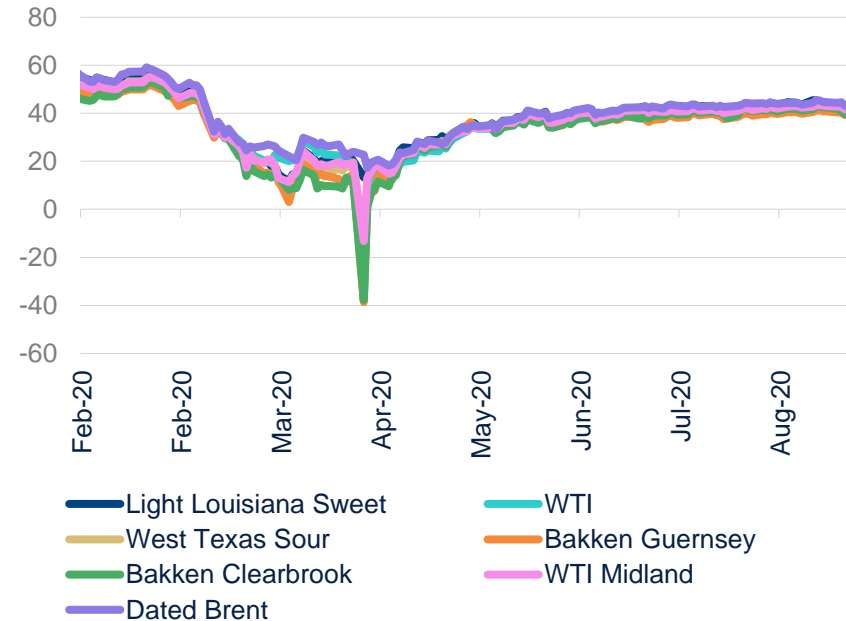


On average, WTI prices remain stalled. Pressures on storage capacity have eased, but remained elevated

U.S. CUSHING, OKLAHOMA NET STOCKS PERCENT OF WORKING STORAGE CAPACITY

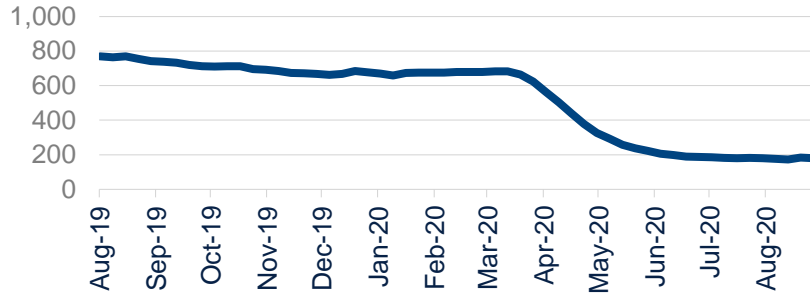


U.S. REGIONAL BENCHMARKS 2020 (\$ PER BARREL)

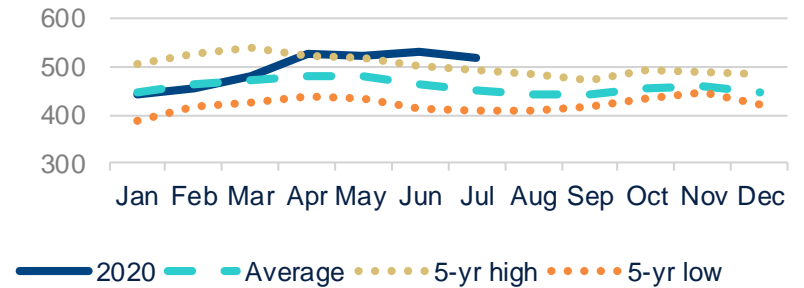


U.S. shale production may have reached a bottom

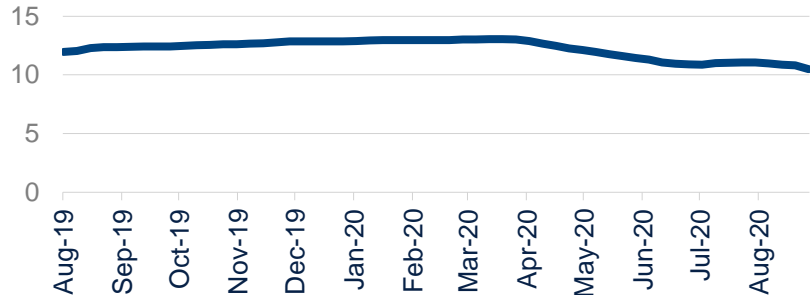
U.S. ACTIVE RIG COUNT: OIL RIGS (UNITS)



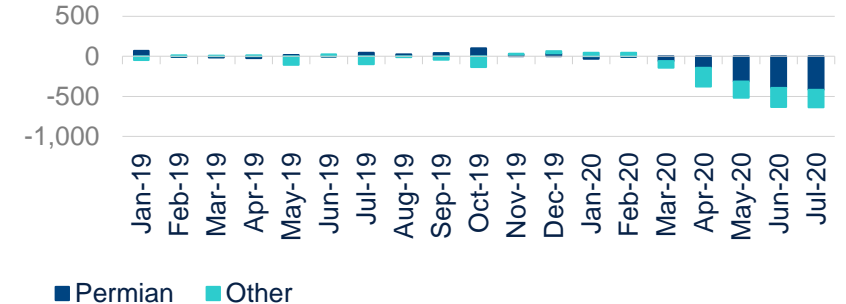
U.S. STOCKS OF CRUDE OIL EXCL. SPR (MB/D)



U.S. CRUDE OIL PRODUCTION (MB/D)



U.S. SHALE PRODUCTION (THOUSAND B/D, YOY CHANGE)

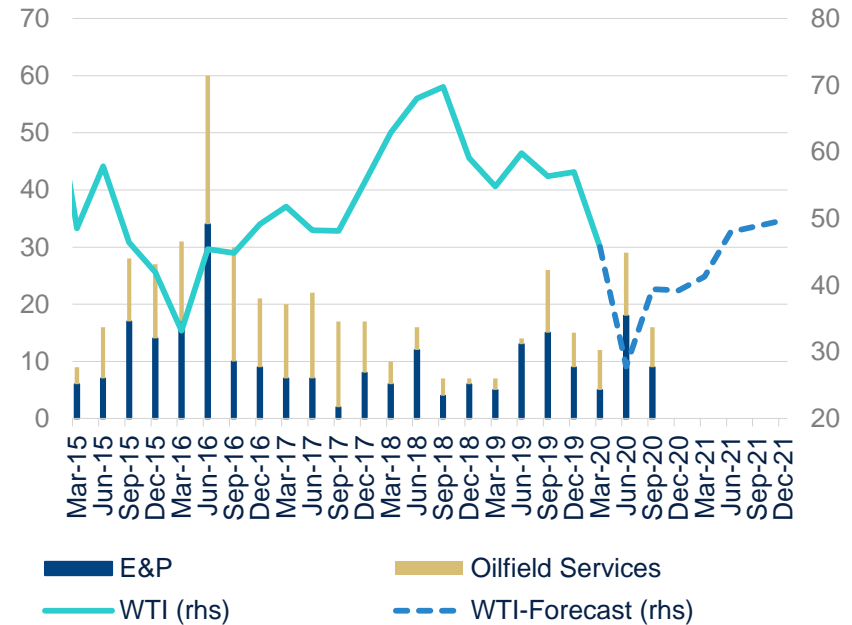


Government intervention has eased financial pressures and helped avoid mass bankruptcies

BLOOMBERG-BARCLAYS HIGH YIELD ENERGY AVERAGE OAS (\$)



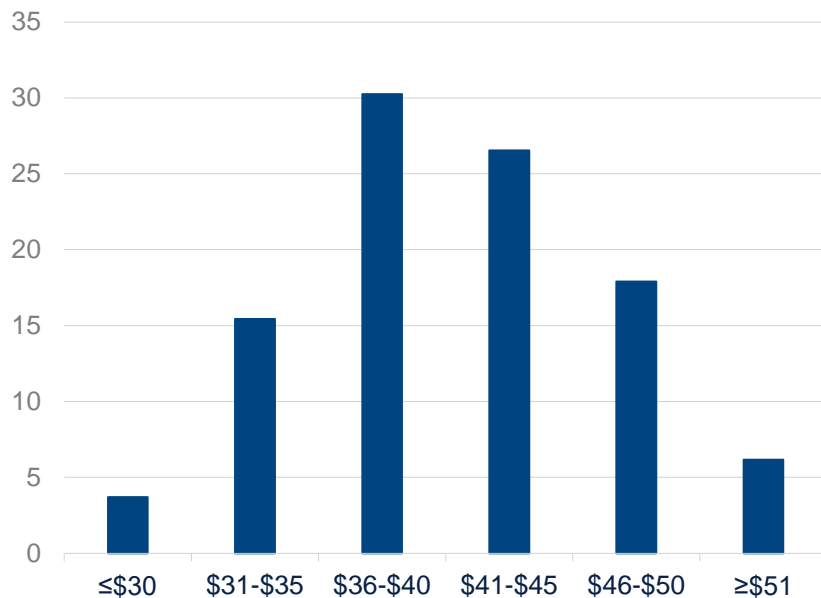
NORTH AMERICA E&P BANKRUPTCY FILINGS AND WTI (NUMBER AND \$ PER BARREL)



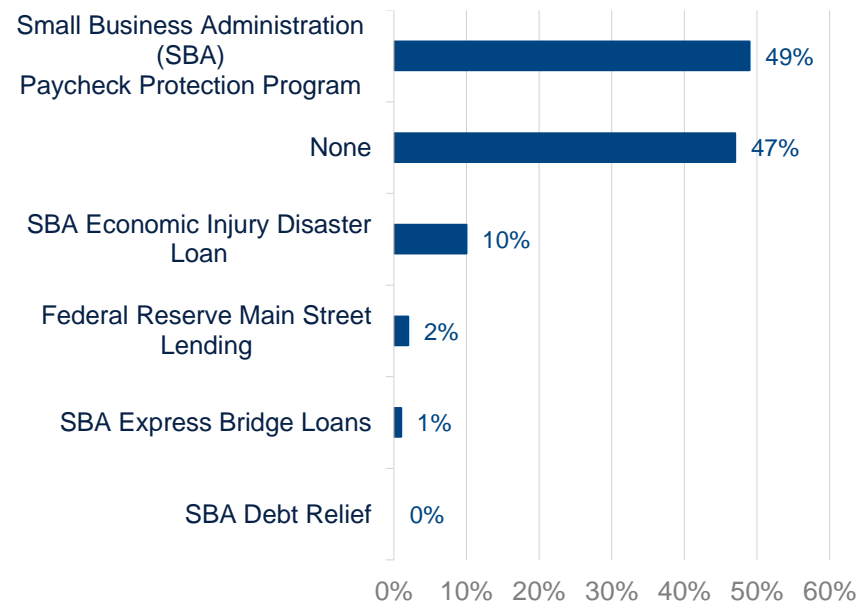
Source: BBVA Research, Haver Analytics, and Haynes and Boone

Higher prices and government aid set the conditions for a sustained recovery

AT WHAT PRICE DO YOU EXPECT THE MAJORITY OF PRODUCERS IN THE U.S. TO RESTART HORIZONTAL SHUT-IN WELLS? (\$ PER BARREL)

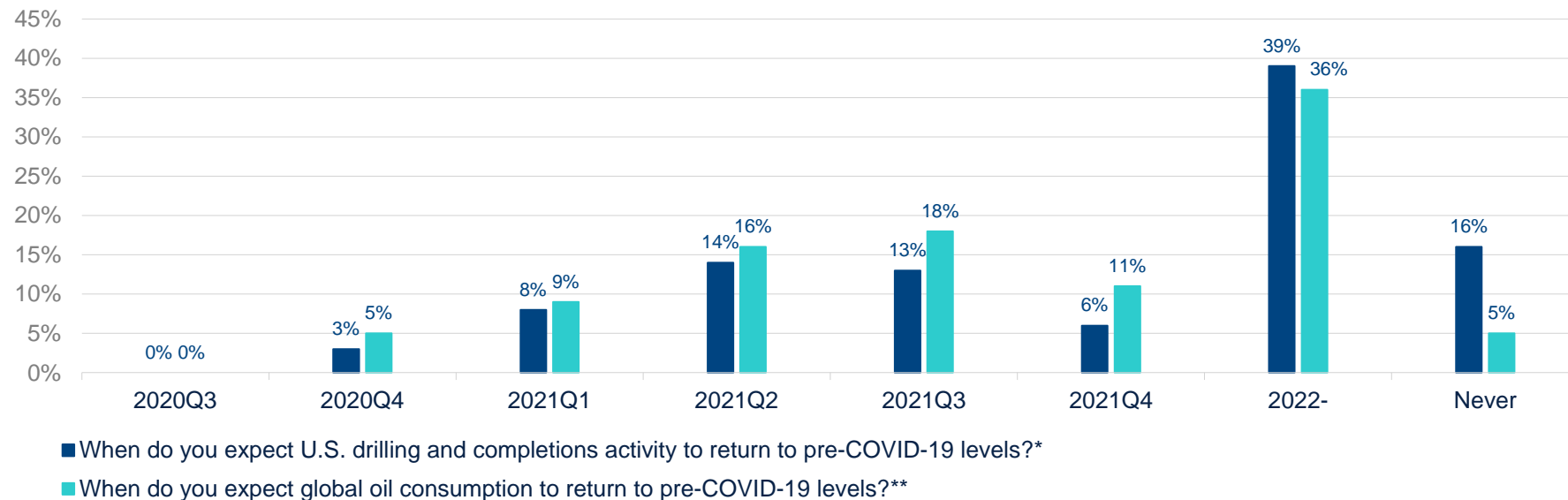


WHICH OF THE FOLLOWING GOVERNMENT ASSISTANCE PROGRAMS HAS YOUR FIRM APPLIED FOR? (SHARE OF PARTICIPANTS)



Conditions are expected to improve most likely in 2021 and onwards

DALLAS FED ENERGY SURVEY (2Q20)



*Executives from 147 oil and gas firms answered the question between June 10 and June 18, 2020

** Executives from 152 oil and gas firms answered the question between June 10 and June 18, 2020

Source: Federal Reserve Bank of Dallas

Risk factors



- A vaccine is released in 4Q20.
- Faster than expected economic recovery.
- Further support from governments and central banks.
- OPEC+ recalibrates strategy in favor of higher prices.



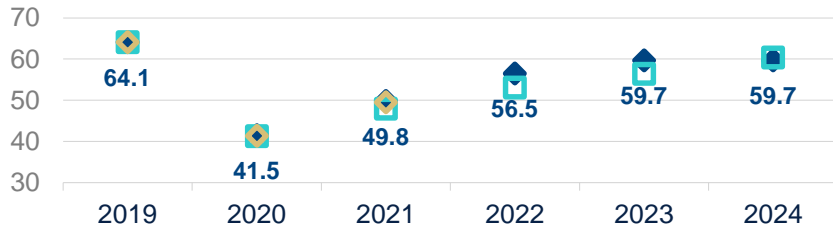
- Dollar appreciation.
- Second waves of contagion around the world.
- A vaccine is not ready until well into 2021.
- More pessimism about the economy.
- OPEC+ members exit the deal.

Fundamentals are still consistent with our baseline scenario

BRENT PRICES FORECAST

(\$ PER BARREL)

	BBVA Research (baseline)	Bloomberg Survey (Sep 3)	EIA STEO (Aug 11)
2018	71.1	71.1	71.1
2019	64.1	64.1	64.1
2020	41.5	41.3	41.4
2021	49.8	48.0	49.5
2022	56.5	53.1	
2023	59.7	56.4	
2024	59.7	60.4	

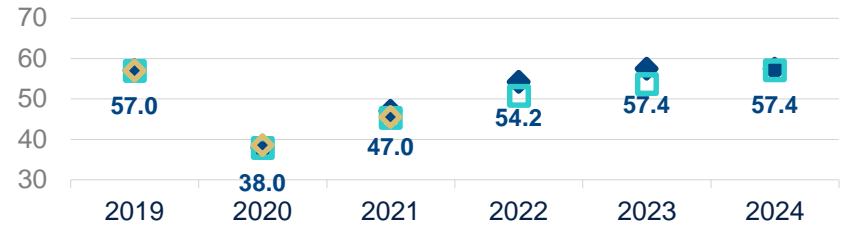


◆ BBVA Research □ Bloomberg Survey (Sep 3) ◆ EIA STEO (Aug 11)

WTI PRICES FORECAST

(\$ PER BARREL)

	BBVA Research (baseline)	Bloomberg Survey (Sep 3)	EIA STEO (Aug 11)
2018	65.0	65.0	65.0
2019	57.0	57.0	57.0
2020	38.0	37.9	38.5
2021	47.0	45.3	45.5
2022	54.2	50.8	
2023	57.4	53.7	
2024	57.4	57.1	



◆ BBVA Research □ Bloomberg Survey (Sep 3) ◆ EIA STEO (Aug 11)

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