

# Oil Prices Outlook

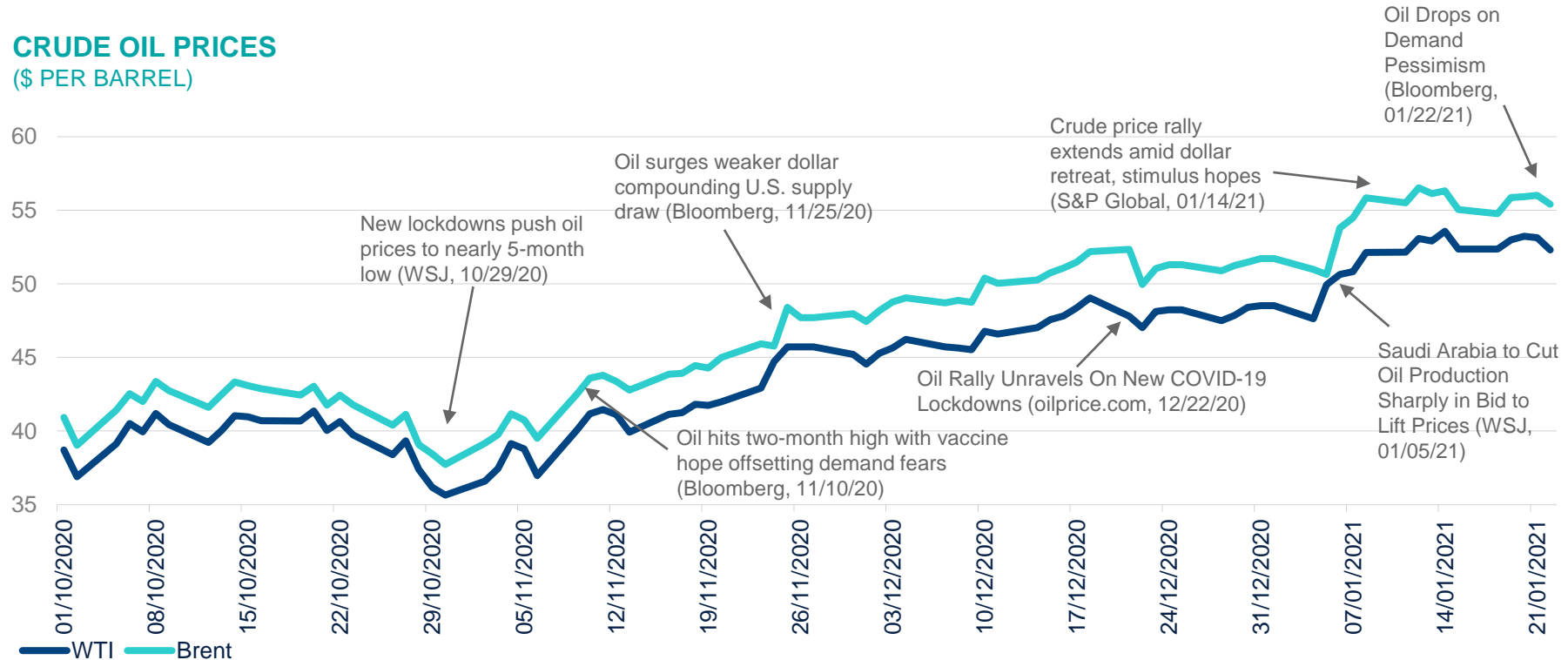
January 2021

# Summary

- Economic recovery, output cuts, and progress on Covid-19 vaccination have boosted oil prices.
- OECD inventories are receding from above-average levels, implying a tighter market.
- Supply remains below pre-pandemic levels but, higher prices and Saudi Arabia's unexpected cuts are likely to incentivize an increase in production in the following months.
- Short-term risks are tilted to the downside: oil prices are likely to experience a volatile first quarter, the upside from fiscal stimulus and economic recovery will be limited by increasing contagions and new lockdown measures.
- As vaccination rates accelerate, demand will recover faster. We expect this to become more evident by 2H21.
- Beyond 2021, lack of investments during the pandemic may result in a deficit that could lead to higher prices.

# Despite steady increase, oil prices face short-term demand headwinds

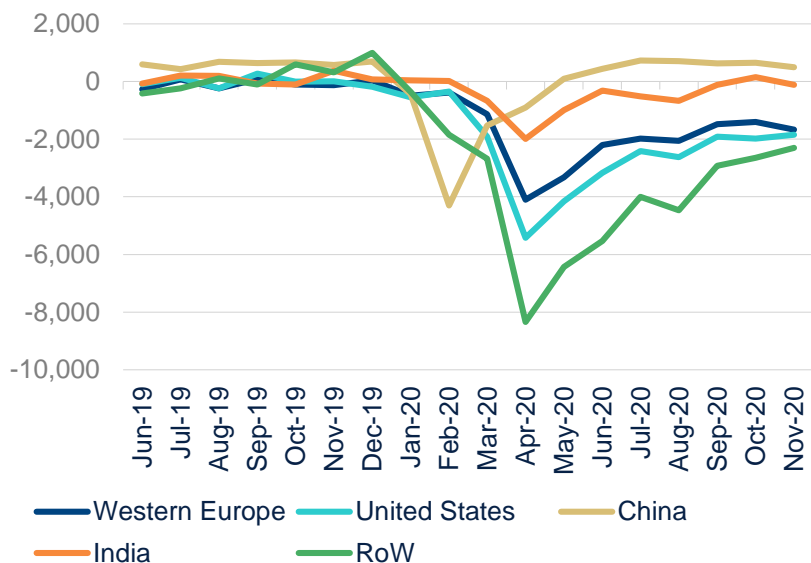
## CRUDE OIL PRICES (\$ PER BARREL)



# Crude oil demand varies across countries. Demand for transportation fuels remains subdued

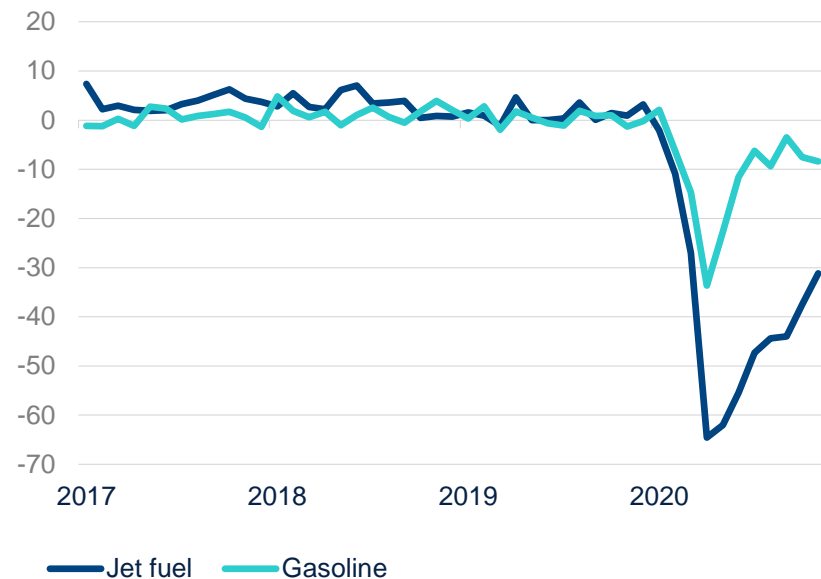
## PETROLEUM DEMAND

(THOUSAND BARRELS PER DAY, YOY CHANGE)



## REFINED PRODUCT DEMAND\*

(YOY % CHANGE)



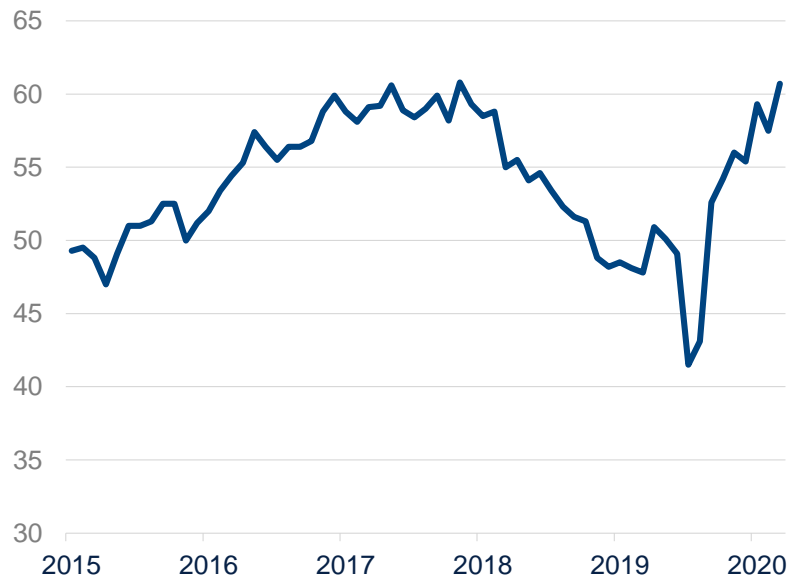
\*Includes Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, South Korea, Spain, Thailand, Turkey, UK, and US.

Source: Haver Analytics.

# Industrial activity continues to improve

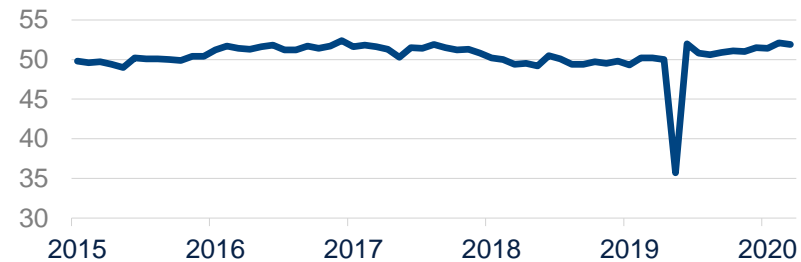
## U.S. ISM MANUFACTURING PMI

(INDEX)



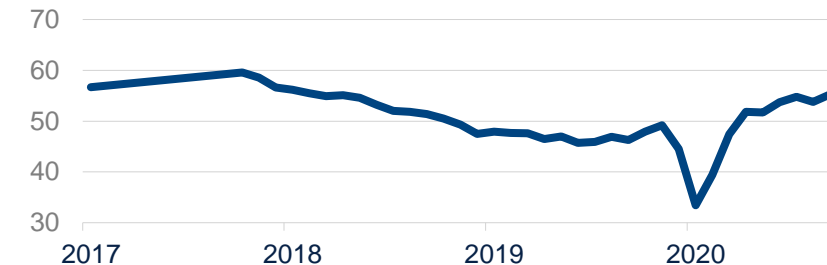
## CHINA MANUFACTURING PMI

(INDEX)



## EUROZONE MANUFACTURING PMI

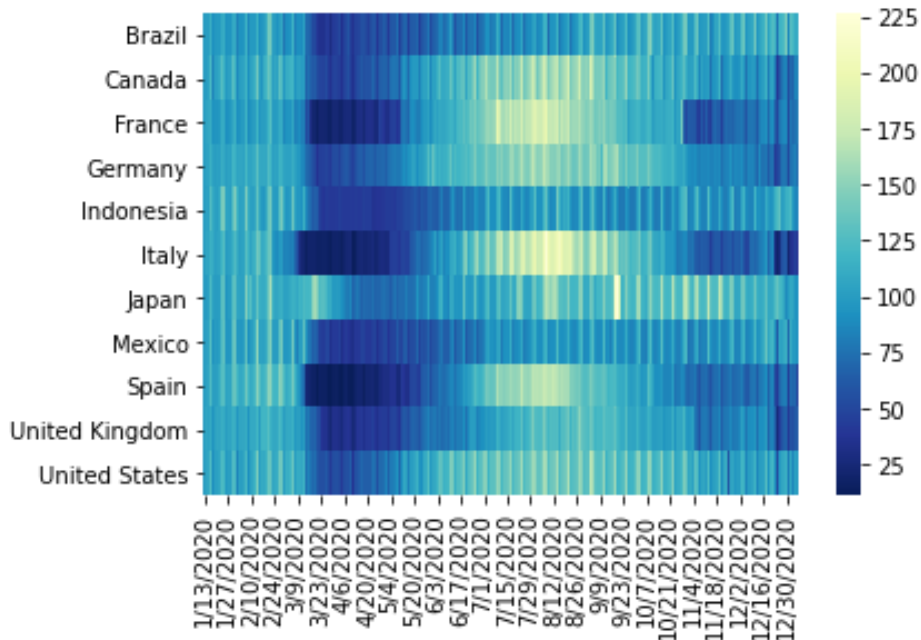
(INDEX)



# Further lockdown measures and work from home arrangements continue to take a toll on mobility

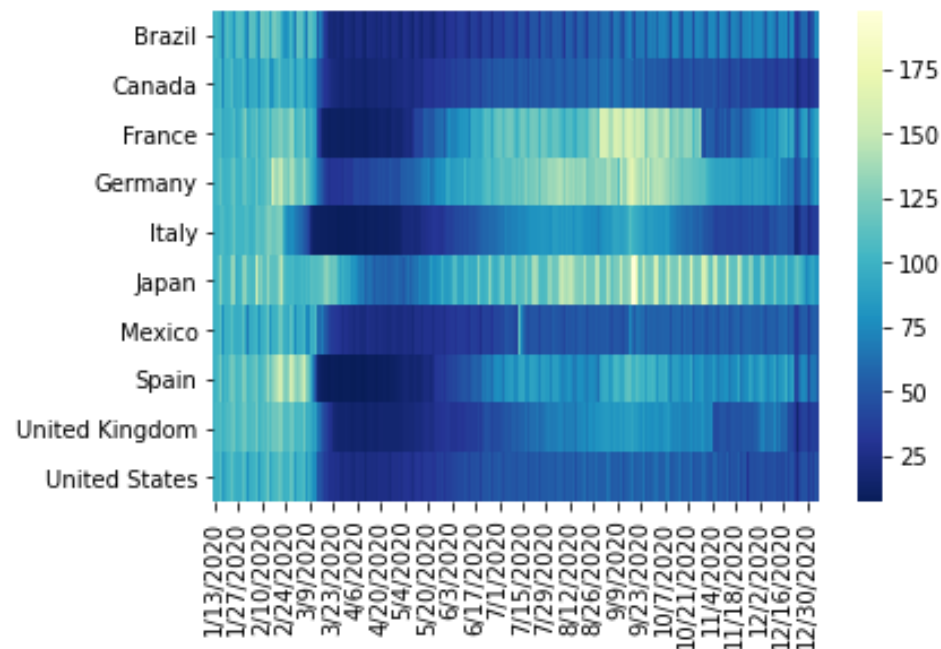
## APPLE MOBILITY TRENDS: DRIVING

(1/13/2020 = 100)



## APPLE MOBILITY TRENDS: TRANSIT

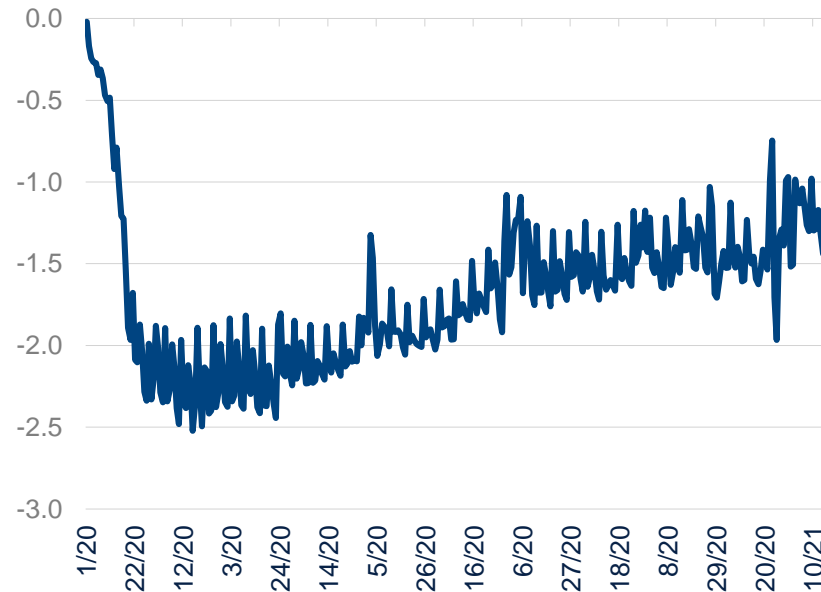
(1/13/2020 = 100)



# Airline passenger traffic will be limited by new restrictions in Europe and the U.S., as well as warnings against traveling during Chinese New Year

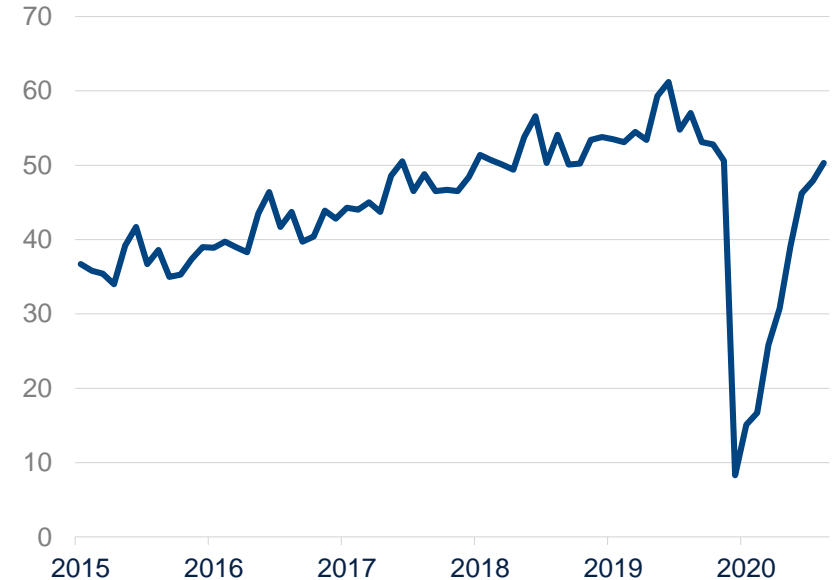
## U.S. TRAVELER TSA SCREENINGS

(MILLIONS, YOY CHANGE, 2020)



## CHINESE AIRLINE PASSENGER TRAFFIC

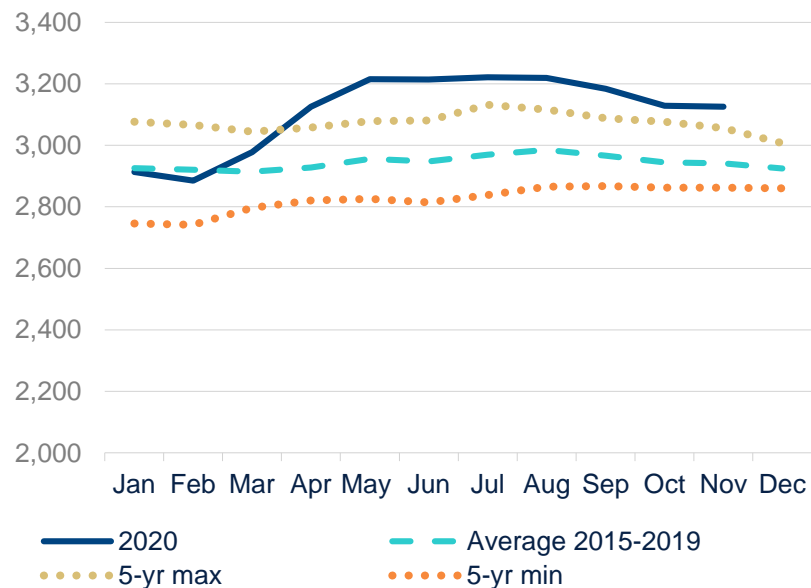
(MILLIONS)



# Crude oil stocks are easing, implying a tighter market

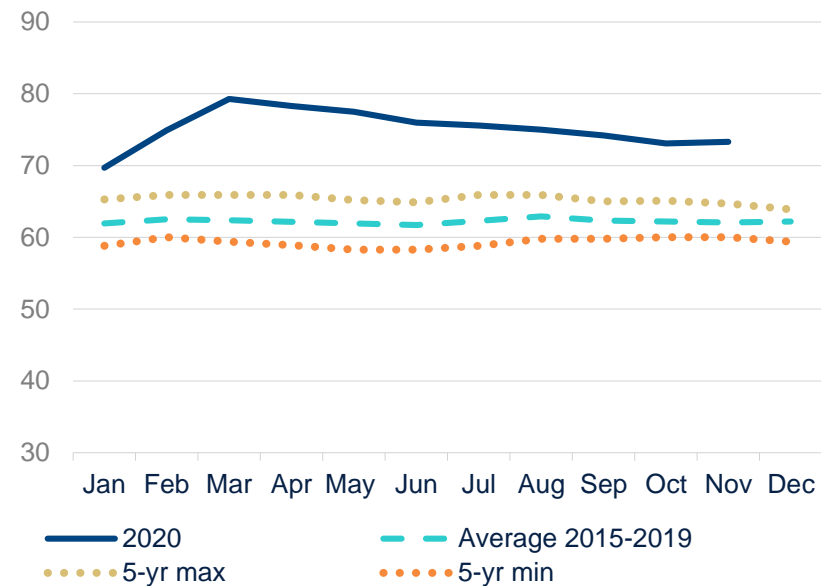
## COMMERCIAL OIL INVENTORIES: OECD

(MILLION BARRELS)



## COMMERCIAL OIL INVENTORIES: OECD

(DAYS SUPPLY)

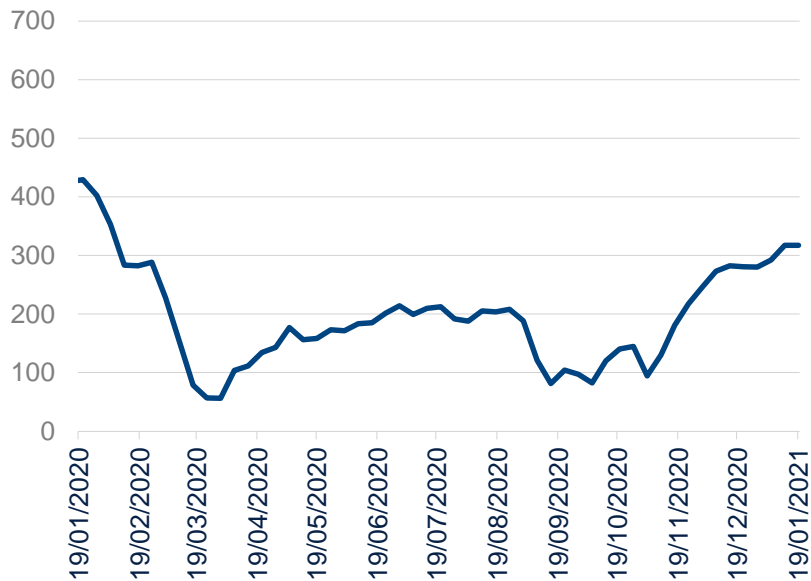




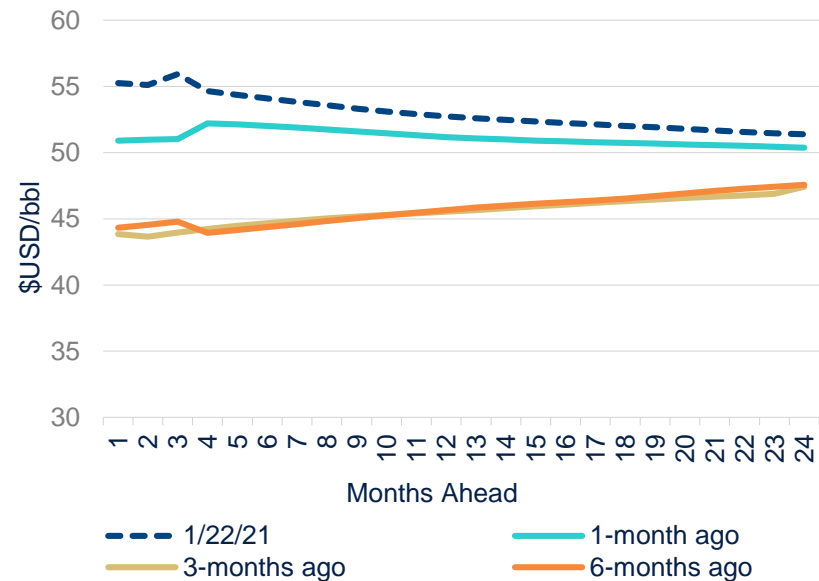
# Investors are rushing back into the crude oil market

## ICE BRENT CRUDE NET-LONG CONTRACTS

(THOUSAND)



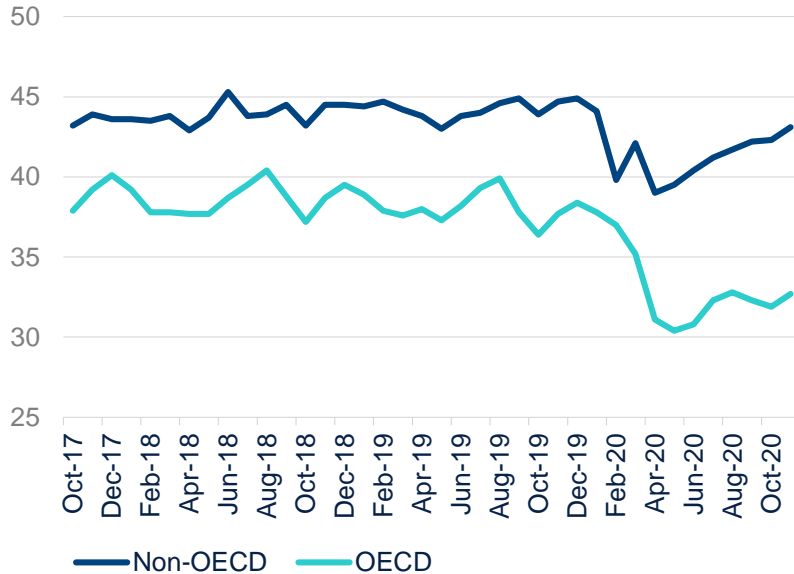
## BRENT CRUDE OIL FUTURES



# For the most part, refining activity remains below normal

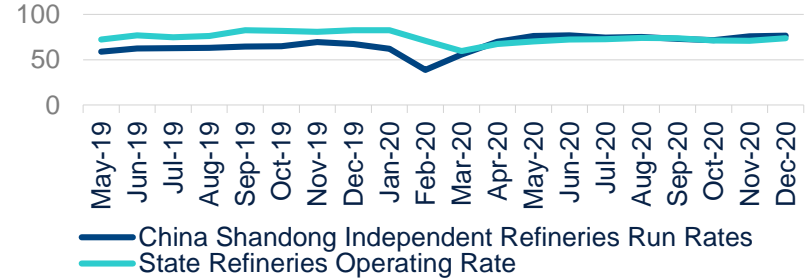
## REFINERY INPUTS

(MILLION BARRELS PER DAY)



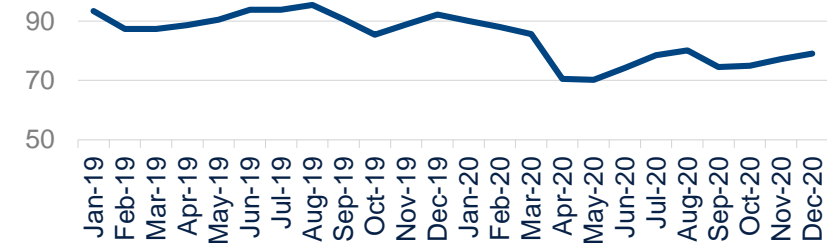
## CHINA REFINING CAPACITY

(%)



## U.S. REFINING CAPACITY

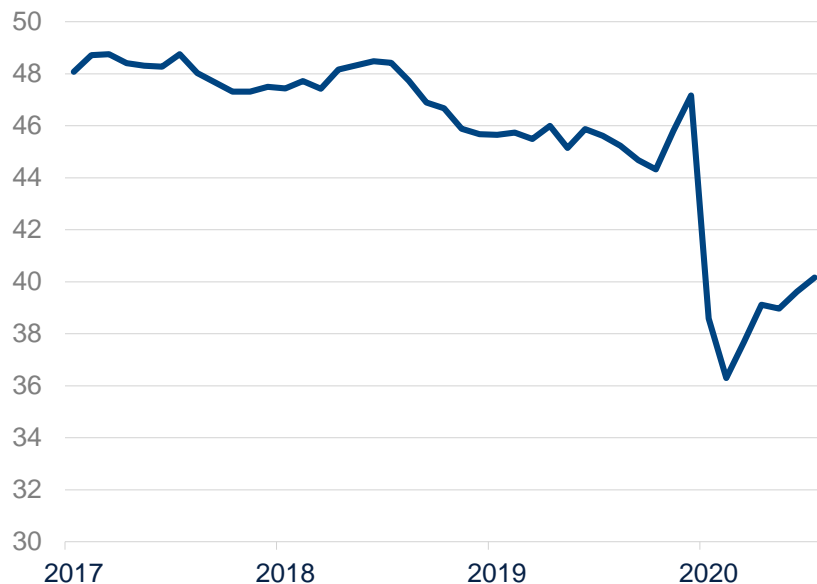
(%)



# A cautionary movement, Saudi Arabia's unexpected 1 Mb/d cut could incentivize free-riding across OPEC+ members

## OPEC+ CRUDE OIL PRODUCTION

(MILLION BARRELS PER DAY)



## 13<sup>TH</sup> OPEC AND NON-OPEC MINISTERIAL MEETING

(EXTRACTION OF PRESS RELEASE)



It pointed out that rising infections, the return of stricter lockdown measures and growing uncertainties have resulted in a more fragile economic recovery that is expected to carry over into 2021.”

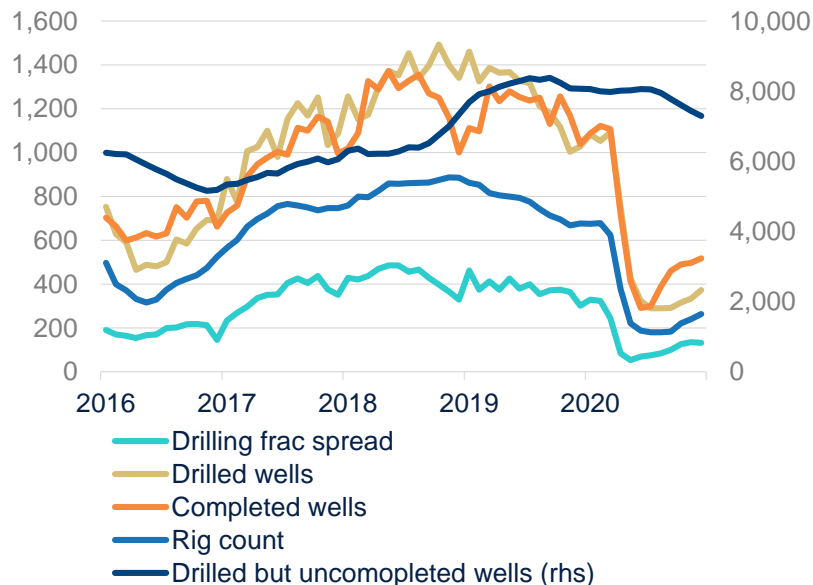


The Meeting recognized that market sentiment has been buoyed recently by vaccine programmes and improved asset markets, but underscored the need for caution due to prevailing weak demand and poor refining margins, the high stock overhang and other underlying uncertainties.”

# At current levels, WTI prices are likely to encourage an increase in U.S. production

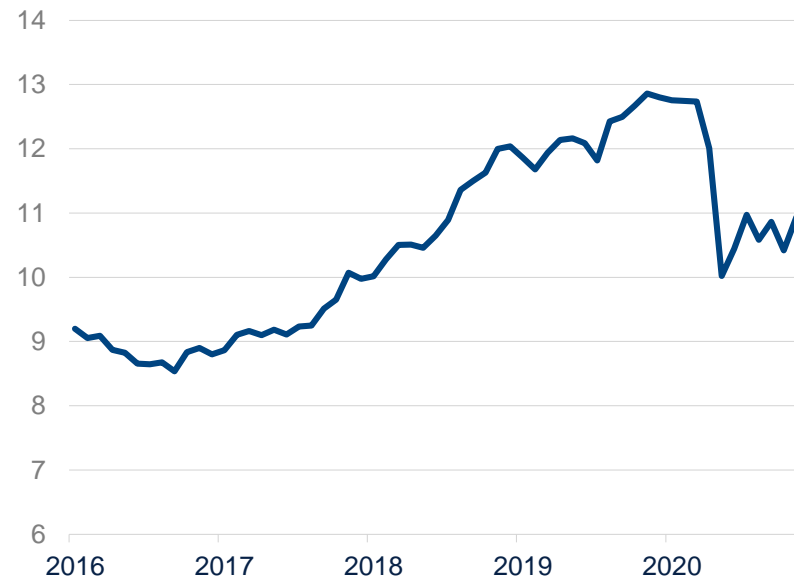
## U.S. DRILLING ACTIVITY

(COUNT)



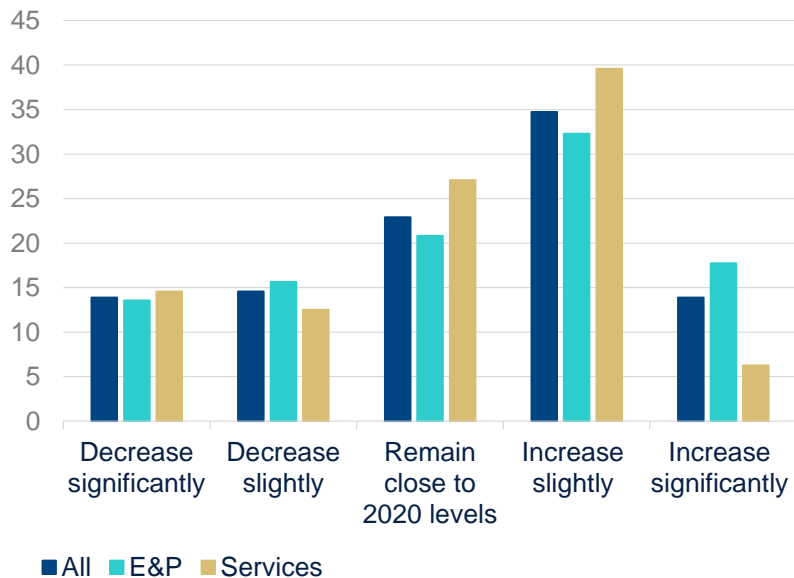
## U.S. CRUDE OIL PRODUCTION

(MILLION BARRELS/DAY)

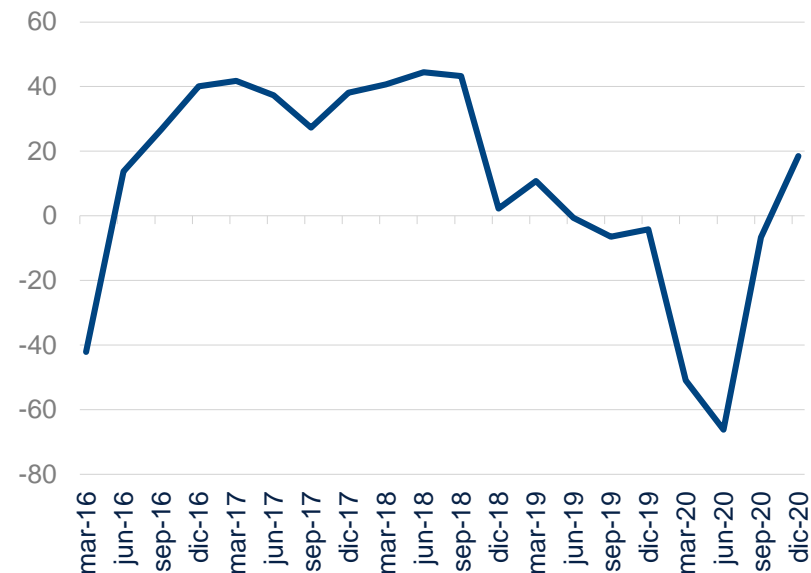


# Activity in the U.S. O&G industry is improving, although there is still some way to go

## WHAT ARE YOUR EXPECTATIONS FOR YOUR FIRM'S CAPITAL SPENDING IN 2021 VS. 2020? (% REPORTING)



## DALLAS FED ENERGY SURVEY'S ACTIVITY INDEX



## Risk factors



- Vaccination rates accelerate
- Faster-than-expected economic recovery
- Not enough investments to replace naturally declining production
- Government regulation that disincentives drilling activity could tighten supply
- Further OPEC+ output cuts



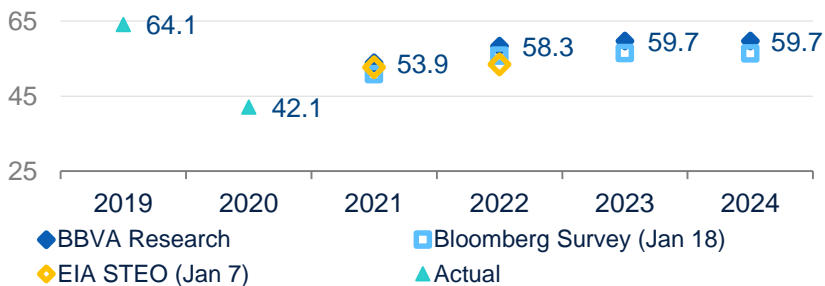
- Slow vaccination progress
- High-contagion rates extend beyond winter season
- Rapid recovery of non-OPEC production
- OPEC+ output deal ends
- Strong dollar

# Our forecasts point to higher prices going forward

## BRENT PRICES FORECAST

(\$ PER BARREL)

	BBVA Research (baseline)	Bloomberg Survey (Jan 18)	EIA STEO (Jan 7)
2018	71.1	71.1	71.1
2019	64.1	64.1	64.1
2020	42.1	42.1	42.1
2021	<b>53.9</b>	<b>50.9</b>	<b>52.7</b>
2022	<b>58.3</b>	<b>55.8</b>	<b>53.4</b>
2023	<b>59.7</b>	<b>56.5</b>	
2024	<b>59.7</b>	<b>56.4</b>	

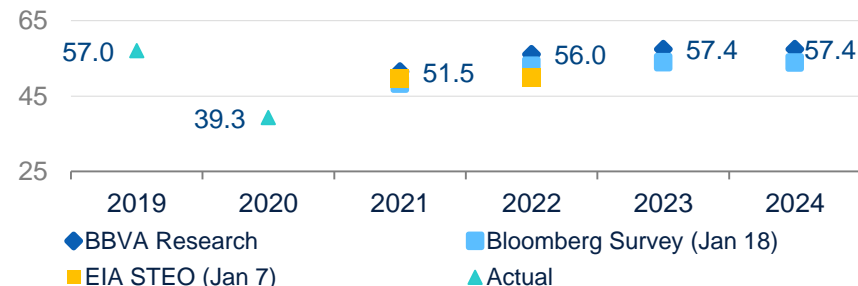


Sources: BBVA Research, Bloomberg, and EIA

## WTI PRICES FORECAST

(\$ PER BARREL)

	BBVA Research	Bloomberg Survey (Jan 18)	EIA STEO (Jan 7)
2018	65.0	65.0	65.0
2019	57.0	57.0	57.0
2020	39.3	39.3	39.3
2021	<b>51.5</b>	<b>48.2</b>	<b>49.7</b>
2022	<b>56.0</b>	<b>53.0</b>	<b>49.8</b>
2023	<b>57.4</b>	<b>53.9</b>	
2024	<b>57.4</b>	<b>53.8</b>	



# Oil Prices Outlook

January 2021