



International Monetary and Financial Committee

Thirty-Eighth Meeting
October 12–13, 2018

**IMFC Statement by H.E. Mohammad Sanusi Barkindo
Secretary General
OPEC**



Statement by
H.E. Mohammad Sanusi Barkindo
Secretary General
Organization of the Petroleum Exporting Countries (OPEC)
to the
International Monetary and Financial Committee (IMFC)
Bali, Indonesia.

October 2018



ANNUAL MEETINGS
2018 | indonesia

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP



The **Organization of the Petroleum Exporting Countries** would like to update the distinguished delegates to the **International Monetary and Finance Committee (IMFC)** on current oil market conditions and developments.

The oil market has been increasingly moving towards a sustainable balance amid strong efforts exerted by OPEC and non-OPEC producing countries participating in the **Declaration of Cooperation (DoC)** in order to stabilize the oil market and hence support the global economic growth momentum. Indeed, **crude oil prices** continued stabilizing over the second and third quarters of this year, supported by **robust oil demand growth**, despite ongoing concerns over global oil supply.

Global economic growth remains robust and is currently forecast to stand at 3.8% in 2018 and 3.6% in 2019. However, while the overall dynamic is positive, growth trends are increasingly diverging between and within major regions. A combination of monetary tightening from **G4** central banks, the weakening financial situations in some emerging and developing economies, rising trade tensions and ongoing geopolitical concerns in some parts of the world constitute challenges to the current global economic growth trend. Therefore the risk to the 2018 and 2019 global economic forecasts is now more skewed to the downside, compared to the projections shared earlier this year.

Within the **OECD** group of countries the growth trends differ considerably, as the **US** economy continues to benefit from considerable fiscal stimulus implemented since the beginning of the year and the support of an ongoing relatively accommodative monetary policy. Growth is forecast at 2.9% for this year and at 2.5% in 2019. This compares to lower growth in the **Euro-zone** of 2.0% for 2018 and 1.9% next year. High sovereign debt levels in some **Euro-zone** economies, along with weakness in some areas of the banking sector remain a major concern, posing some risk to economic expansion in the region. **Japan** is forecast to grow at a much lower level of 1.1% for both 2018 and 2019. With the country's economy continuing to be constrained by very low unemployment and high utilisation rates in the industrial sector, the upside remains limited.

In the **emerging markets**, **Brazil** is forecast to show only moderate growth of 1.2% in 2018, followed by 2.0% in 2019, with the country facing weak domestic demand and the effects of currency depreciation. **Russia's** currency has also



weakened, through a combination of sanctions and low domestic demand. GDP is forecast to see growth of 1.6% in 2018, followed by 1.7% in 2019, with oil sector-related income being of great importance to the economy. However, **India's** and **China's** economic growth are forecast at significantly higher levels, with respective GDP growth forecasts of 7.6% and 6.6% for 2018, and of 7.4% and 6.2% for 2019.

Monetary tightening by major **OECD** central banks is forecast to continue and could slow the growth trend, not only in the OECD, but also in **emerging and developing economies**, particularly in those with weak fiscal situations. A number of countries have already begun to face severe financial constraints, with a considerable impact from significant declines in **currency exchange rates**. This, in combination with weakening domestic activities in these economies, may also have a ripple effect on the global economy. It will be essential to monitor the uncertainties in currency and financial markets that may further pressure emerging economies, particularly in light of developments in **Argentina, Turkey, South Africa** and other countries. In fact, currency depreciation has also been seen to some degree elsewhere, for example, in the **Indian Rupee**, which may create some challenges for oil imports.

In addition, rising **protectionist initiatives** have added to the risks, in particular for emerging and developing economies. Global exports account for almost a third of global GDP and are a very important element of the global economic well-being. A significant part of the economic growth momentum in past years was due to the recovery in global trade volumes. Re-emerging **trade barriers** may dampen the ongoing economic growth momentum going forward. This also may hurt emerging and developing economies, in particular, at a time when global monetary tightening seems to have already put some strain on these economies. While **world trade** volumes grew by only 1.9% in 2015 and 1.5% in 2016, they recovered significantly in 2017, to grow by 4.6%, constituting a major support for the current solid global economic growth rate. While the global trade growth in volume terms has only slightly decelerated in 2018, early signs indicate that the slowdown may become more accentuated if trade-related challenges continue, or even increase.

Turning to the oil market, **world oil demand** is currently projected to rise by 1.6 mb/d in 2018, with total oil demand for the year estimated at 98.82 mb/d and



expected to exceed 100 mb/d during 4Q18. **Non-OECD Other Asia** is projected to lead demand growth in 2018 following strength seen in products demand growth in India, Indonesia, Singapore and Thailand during 1H18. **China** is anticipated to be the second largest contributor to growth in 2018, supported by healthy demand from the transportation and petrochemical sectors. Within the OECD region, **OECD Americas** is projected to be the third-largest contributor to demand growth in the current year, as firm macroeconomic indicators and a prospering petrochemical sector support oil demand.

In 2019, global oil demand is forecast to increase by around 1.4 mb/d to average 100.2 mb/d, surpassing the historical 100 mb/d threshold on an annual basis for the first time. Similar to the current year, the largest contributors to growth are projected to be **Other Asia**, followed by **China** and **OECD Americas**.

In the **OECD** region, oil demand is forecast to grow by 0.3 mb/d, with the **OECD Americas** being firmly in the positive, driven by solid NGL and middle distillate requirements. **Europe's** oil demand is projected to continue increasing, albeit at a slower pace from the current year's estimate as economic projections ease slightly. Meanwhile, **Asia-Pacific** oil demand is anticipated to weaken in light of planned substitution programmes.

In the **non-OECD** region, oil demand growth is anticipated at around 1.1 mb/d, with slightly lower **Chinese** oil demand growth compared with 2018. However, this is expected to be offset by higher oil requirements in other regions such as **Latin America** and the **Middle East** compared with the current year's estimates. On the products side, focus will be on light distillates to fuel the growing petrochemical sector, middle distillates to support industrial activities, and on gasoline for expanding vehicle sales.

On the supply side, **non-OPEC oil supply** is estimated to grow by 2.02 mb/d y-o-y in 2018. The US, Brazil, Canada, Kazakhstan and the UK are expected to be the main drivers for y-o-y growth, while Mexico and Norway will show the largest declines. The key contributor for growth in the current year is the **US**, which is expected to add 1.74 mb/d y-o-y.

For 2019, **non-OPEC oil supply** is forecast to increase by 2.15 mb/d y-o-y. The US, Brazil, Canada, the UK, Kazakhstan, Australia, China and Malaysia are



the main growth drivers, while Mexico and Norway are expected to see the largest declines. The **US** is anticipated to remain the main contributor to liquids supply growth, but at a slower pace of 1.4 mb/d in 2019, due to takeaway capacity constraints in the **Permian Basin**. The 2019 forecast is subject to many uncertainties, such as oil prices, investment and cash flow, hedging, cost inflation, production taxes and unexpected production outages related to technical issues, delayed start-ups, pipeline capacities, geopolitics and unplanned maintenance.

Meanwhile, **OPEC NGLs** are estimated to grow by 0.12 mb/d to average 6.36 mb/d in 2018 and forecast to grow by 0.11 mb/d to average 6.47 mb/d in 2019. In August 2018, **OPEC crude oil production** averaged 32.58 mb/d, according to secondary sources, representing an increase of 284 tb/d compared to the previous month.

Preliminary data for August showed that **total OECD commercial oil stocks** rose seasonally from the previous month by 22.7 mb to stand at 2,847 mb, about 41 mb below the latest five-year average. It should be noted that the overhang has been reduced by 378 mb as a result of the implementation of the **Declaration of Cooperation**.

Within the components, crude and product stocks indicated a deficit of 3.1 mb and 37.8 mb, respectively, below the latest five-year average. The bulk of the deficit was seen in **OECD Asia Pacific** at 36 mb, followed by **OECD Americas** with 4.0 mb while **OECD Europe** stood just 1.4 mb below the latest five-year average.

In terms of **days of forward cover**, **OECD commercial inventories** rose m-o-m in August to stand at 59.4 days, which is around 2.4 days below the latest five-year average. The overhang in terms of days of forward cover has dropped by around 8.9 days since January 2017.

Within the regions, **OECD Americas** saw 1.5 days less of forward cover than the latest five-year average, to stand at 59.4 days. **OECD Europe** indicated a deficit of 2.8 days below the seasonal norm, to stand at 64.7 days, while **OECD Asia Pacific** stood 4.5 days lower than the seasonal average, to finish the month of August at 50.4 days.



Based on OPEC's supply-demand projections, the **demand for OPEC-15 crude** is expected to average 32.9 mb/d in 2018, some 0.5 mb/d lower than in the previous year. In comparison, according to secondary sources, **OPEC crude production** averaged 32.4 mb/d in 1Q18, which is in line with demand for OPEC crude. In 2Q18, OPEC crude production stood at 32.2 mb/d, which is also in line with demand for OPEC crude. In 2019, demand for OPEC-15 crude is forecast to average 32.1 mb/d, 0.9 mb/d lower than the 2018 level.

In closing, **OPEC** would like to take this opportunity to reaffirm its longstanding commitment to supporting oil market stability for the mutual benefit of consuming and producing nations, contributing significantly to improvement of global economy. The historic success of the **Declaration of Cooperation** continues to underscore the leadership role of the Organization in bringing forward the rebalancing of the oil market to ensure a **stable and constructive environment** in which future energy requirements can be met, supported by healthy market fundamentals.