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**IMFC Statement by Mohammad Sanusi Barkindo
Secretary General
OPEC**



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

Over the last few months, underlying oil market fundamentals continued to improve markedly. **Crude oil prices** rose sharply in September, with Brent futures hitting the highest daily price in more than two years. The rally sustained after OPEC and participating non-OPEC producers observed that the global market was on its way to rebalancing as the production adjustment started to work in the form of a sharp decline in global crude oil inventories. The rise in oil prices was also supported by heightened geopolitical risk due to the Kurdish autonomous region independence referendum. Prices were furtherer underpinned by a rally in refined products following Hurricane Harvey's disruption of the US Gulf refining sector, with US distillate stocks particularly tightening. Even as both futures contracts rallied, concerns about US production growth weighed on WTI, pushing the spread between WTI and Brent to its widest since August 2015. Subsequently, oil prices softened after investors took profits following a rally to 26-month highs. The market was also under pressure from US crude oil stocks amid lower US refinery demand for crude as refinery runs remained low for some weeks after the hurricane. With the 3Q17 coming to a close, the OPEC Reference Basket value stood at around **\$50/b** year-to-date, or almost **25%** higher than its value in 2016.

These improvements reflect positive developments in the global economy. **World economic growth** has picked up noticeably in 2017, with the global GDP growth forecast at **3.5%**, compared to average growth of **3.2%** over the last five years (2012-2016). This encouraging momentum has also become more balanced, with all major economies now showing positive growth for 2017. This trend is expected to continue, with GDP growth in 2018 standing at **3.4%**, only slightly below the 2017 growth level. Among the various reasons for this acceleration in economic growth is the rebalancing of the oil market throughout 2017 and its positive effect on the economies of both producers and consumers has proven to be another important factor helping lift global economic growth above the levels of previous years.



A significant contribution to the better growth momentum came from the advanced economies. The US growth forecast for 2017 is 2.1%, with a further expansion to 2.2% anticipated in 2018. The economy has benefitted from labour market improvements, rising consumer spending and a recovery in energy-related investments. Meanwhile, the Euro-zone's recovery has continued in 2017. This positive development was largely supported by falling unemployment levels, rising exports and ongoing monetary support from the European Central Bank. The Euro-zone's growth stands at 2.1% in 2017 and at 1.8% in 2018, following the period of considerable recovery. Finally, Japan's growth momentum in 2017 has continued as the economy benefitted from ongoing governmental-led stimulus, structural reforms and a noticeable improving dynamic in exports. Japan is forecast to grow at 1.4% in 2017 and 1.2% in 2018.

Additionally, the major emerging economies have held up well, as China's growth in 1H17 was better-than-expected and is now forecast to reach 6.7% in 2017 and 6.3% in 2018. India's growth in 1H17 was negatively impacted by major structural reforms – namely, implementation of the Goods and Services Tax (GST) along with demonetisation – but it is forecast to remain considerably supported at 6.9% in 2017, rebounding to 7.5% in 2018, boosted by ongoing structural reforms. Meanwhile, Russia and Brazil are also expected to continue their recovery, with growth forecast at 1.5% and 0.5% respectively in 2017, and 1.4% and 1.5% in 2018 – although this also depends on developments in commodity prices and politics, as well as the effects of presidential elections in both countries in the coming year.

With the expected continuation of ongoing growth momentum in 2H17, there is still some room to the upside to the current growth forecasts for both 2017 and 2018. At the same time, challenges remain, mainly related to global political developments and upcoming monetary policy decisions, particularly in the US and the Euro-zone. Debt levels remain high in some key economies, an issue that will probably require further attention if interest rates continue to rise gradually, particularly in the US. Finally, sustained stability in commodity prices – particularly oil prices – is seen as necessary for ongoing improvement in global economic growth.



Turning to the oil market, **world oil demand** in 2017 is projected to grow by **1.42 mb/d**. In OECD Americas, data up to June shows US oil demand grew strongly, with the bulk of the growth coming from the industrial and transportation sectors, primarily for the light and middle part of the barrel. Demand for gasoline came up slower than initially anticipated, mainly as a result of improving efficiency and higher retail prices y-o-y, particularly in 1Q17. In OECD Europe, following strong growth in the past two years, oil demand continues to be in positive territory for the 1H17. The improvements in the economy, and consequently the industrial and transportation sectors, in addition to colder-than-normal temperatures, lent strong support to oil demand growth during 1H17. In OECD Asia Pacific, South Korea continues to provide positive momentum to oil demand in the region with rising oil consumption from the petrochemical sector in line with the encouraging developments in the overall economy.

In the non-OECD, oil demand in Other Asia – primarily India, but also Indonesia and others – is anticipated to be solid despite slower-than-expected oil demand growth from India in 1Q17 post- demonetization. However, the positive economic outlook for the remainder of the year for most countries in the region allows positive y-o-y oil demand growth expectations. In Latin America, oil demand growth is projected to rebound this year, on the back of an uptick in economic conditions in Brazil and various other countries in the region. In the Middle East, growth in 2017 is mainly seen coming from Saudi Arabia, Kuwait and UAE, compensating for shrinkage in oil requirements elsewhere due mainly to geopolitical issues. In China, oil demand growth has been robust during 1H17 as the petrochemical and the transportation sectors continued to expand at a healthy pace; however, oil demand growth is anticipated to be limited by the continuation of controls in new car registrations, and improvements in fuel quality programs targeting fewer emissions.

Oil demand growth in 2018 is projected at **1.35 mb/d**, broadly in line with the average of the last five years. The main factors supporting oil demand growth in the coming year include the steady rise in the global economic activities in addition to capacity additions and expansions in the petrochemical sector, particularly in the US, and to lesser extent in China. Road transportation fuel requirements for gasoline, jet fuel and diesel oil are anticipated to provide



the bulk of growth in 2018, propelled by steady vehicle sales in the US, China and India. Risks to oil demand growth are foreseen coming from a number of factors, namely: steady gains in energy efficiency; subsidy reforms in the Middle East; and the level of substitution towards other fuels in OECD Asia Pacific, America and the Middle East. Finally, the degree of digitalization and technological development in various sectors is also likely to cap oil demand growth in 2018.

Overall, the OECD is foreseen to rise by around **0.25 mb/d**, with the OECD Americas and Europe being firmly in the positive while OECD Asia Pacific is anticipated to decline. In non-OECD, growth is expected to be at **1.11 mb/d** with China being the major contributing country to the overall growth followed by Other Asian region.

On the supply side, **non-OPEC oil supply** is estimated to grow by **0.8 mb/d** in 2017. The main contributors to the forecast growth are the US, Brazil, Canada and Kazakhstan. However, expected increases will be partially offset by heavy declines from Mexico, China, Colombia and Azerbaijan. The key contributor to growth in current year is the US, which is seen adding **0.6 mb/d**.

For 2018, non-OPEC oil supply is projected to increase by **1.0 mb/d**. The US, Brazil, Canada, UK, Congo, Kazakhstan and Russia are anticipated to be the main drivers for the expected growth, with declines coming from China, Mexico, Colombia and Azerbaijan. The non-OPEC supply forecast for the next year is likely to be affected by several uncertainties. Despite expected higher prices in 2018, rising service costs, decreased drilling efficiency, and higher break-even prices are likely to squeeze cash-flows particularly for US shale producers, impacting output next year.

Meanwhile, **OPEC NGLs** are expected to increase by 0.17 mb/d in 2017, followed by growth of **0.18 mb/d** in 2018. In September, **OPEC crude oil production** averaged **32.67 mb/d**, according to secondary sources, representing a decline of **160 tb/d** from the previous month.

The latest information for August indicates that **OECD commercial oil stocks** fell for last three month to stand at **2,995 mb**. At this level, they are



160 mb above the latest five-year average. Within the components, the surplus was divided between crude at 137 mb and products at 33 mb. In regional terms, the bulk of this overhang came from North America at 112 mb, followed by Europe with a surplus 60 mb, while OECD Asia-Pacific inventories were in line with the seasonal norm. It should be noted that the overhang has been reduced by 126 mb since the last meeting of the IMFC in April 2017. This drop has mainly been driven by higher seasonal demand, along with production adjustments by OPEC and non-OPEC countries participating in the Declaration of Cooperation.

In terms of days of forward cover, OECD commercial stocks stood at 63.2 days in August 2017, some 2.5 days higher than the latest five-year average. Within the regions, OECD Americas had 3.3 more days of forward cover than the historical average to stand at 62.5 days. OECD Europe was 2.1 days higher than the seasonal average, finishing the month at 69.1 days. Meanwhile, OECD Asia Pacific exhibited a small surplus of 0.5 days, ending August at 54.5 days.

Supported by narrowing contango, short-term **floating storage** has also declined since June 2017, indicating a drop of 42 mb.

Based on OPEC's supply/demand projections, increasing world oil demand is estimated to outpace the rise in non-OPEC supply (including OPEC NGLs) resulting in **OPEC crude** in 2017 averaging around 32.7 mb/d, some 0.5 mb/d higher than in the previous year. For 2018, both world oil demand and non-OPEC supply are expected to see higher growth. As a result, OPEC crude is projected to average 32.8 mb/d, representing an increase of 0.2 mb/d.

The **Organization of the Petroleum Exporting Countries** would like to close by reaffirming its longstanding commitment to support oil market stability for the mutual benefit of consuming and producing nations.