



International Monetary and Financial Committee

Twenty-Seventh Meeting
April 20, 2013

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On behalf of Organization of the Petroleum Exporting Countries

Statement by the
Organization of the Petroleum Exporting Countries (OPEC)
to the
International Monetary and Financial Committee (IMFC)
Washington

April 2013

OPEC would like to begin by assuring the distinguished delegates to the IMFC that the oil market remains well-supplied, with ample crude and comfortable overall stock levels, providing evidence of a well-balanced market. While current OPEC production provides sufficient flexibility to take into account current uncertainties and downside risks, the Organization continues to carefully monitor oil market developments.

Crude oil prices started 2013 with an upward momentum, pushing ICE Brent to almost \$119/b and the **OPEC Reference Basket** to close to \$115/b. The positive sentiment was supported by renewed optimism about the state of the world economy, after strong data from major economies lifted global oil prices. This financial buoyancy, coupled with geopolitical factors, spurred a large wave of speculative buying in the crude futures market, helping to accelerate the upward price movement. Oil prices were further supported by the rally in equities across the globe, the weaker US dollar, and healthy refined product markets. However, by the end of the first quarter, the optimistic sentiment had weakened, pulling down the value of ICE Brent to almost \$107/b and the OPEC Basket to a little over \$100/b. Reduced refinery demand due to considerable seasonal maintenance worldwide was a key in pushing prices lower. European refinery turnaround cut crude oil demand, putting further downward pressure on prices. This, coupled with renewed turmoil in the Euro-zone and higher North Sea production, reversed the upward momentum, despite some relatively positive data from the US and China.

The **global economy** is forecast to grow at a slightly higher level in the current year at 3.2%, compared to last year's world GDP growth of 3.0%. However, on-going fiscal and monetary issues across the globe will remain a challenge. OECD economies are forecast to grow by only 1.3% this year. In contrast, non-OECD economies are expected to grow by 5.2%, once again providing the majority of this year's global growth. Global industrial production has continued decelerating in January for the third consecutive month, with most of this negative trend coming from

the advanced economies. Momentum should pick up over the course of the year, with the continued recovery of the US labour and housing markets, unprecedented monetary stimulus in Japan, the impetus that the rebound in global trade will give the major emerging economies, particularly China, and provided there is no further deterioration in the Euro-zone economies in the second half of this year.

Up to the second half of 2012, Europe's two largest economies, Germany and France, were able to counterbalance some of the negative momentum caused by the Euro-zone's sovereign debt challenges. However, since then it has become obvious that the negative impact of these issues has also begun to affect them. This trend is expected to reverse later this year and positive growth will be possible by the second half of 2013. Overall, the Euro-zone is forecast to contract by 0.5% this year, the same level as in the previous year.

In contrast to the Euro-zone, the US and Japan are engaged in relatively larger monetary stimulus efforts. With this support and the expectation of a positive outcome for budgetary negotiations in Congress in the coming weeks, the US economy is expected to weather the already implemented 'sequester' budget cuts relatively well and to grow by 1.8% in 2013. The Bank of Japan's recently announced plan to double the monetary base and target a 2% inflation rate is considered to be supportive for its economy, at least in the short-term. This is expected to provide strong support for the current growth forecast for this year of 0.8%. However, given existing fiscal challenges in Japan and the already higher level of the monetary base relative to GDP – particularly compared to other developed economies – the success of this bold initiative remains to be seen.

The above factors, along with the additional quantitative easing measures by the Bank of England, and continued improvements in the US trade balance should result in a continued appreciation of the US dollar.

Developing economies are forecast to provide around 80% of this year's global growth. China is projected to expand by 8.1%. Although the economy continues to be largely supported by foreign investments and exports, the country has been building a capable base for domestic demand. India is forecast to expand by 6.0%. Although the country is considered to have a higher growth potential, policy makers are caught between the challenge of stimulating the economy and concerns about pushing the already high inflation even higher. Further structural reforms

will also need to be pursued to allow the economy to take advantage of its full potential. Moreover, emerging and developing economies should also benefit from an improvement in the developed economies expected in the second half of the year.

Turning to the oil market, it is clear that initial expectations for **world oil demand** in 2012 were overly optimistic, as projections have experienced significant downward revisions. This was mainly due to the disappointing pace of the economic recovery in the OECD countries, as well as the lack of stronger growth from China. With actual data covering the whole year, world oil demand growth in 2012 stands at 0.8 mb/d, down from an initial forecast of 1.3 mb/d. Whereas non-OECD grew by 1.2 mb/d, the OECD saw a contraction of 0.4 mb/d, as only Japan experience growth due to increased crude and fuel oil burning for electricity generation.

For 2013, the available monthly data for the first quarter suggests that OECD demand may continue to be disappointing compared to initial expectations; however, growth in non-OECD countries looks slightly higher than forecast. Overall, world oil demand is expected to increase by around 0.8 mb/d, showing a slight improvement from the previous year. The bulk of this increase is expected to come from China with 0.4 mb/d, while other non-OECD countries will add 0.7 mb/d of which 0.3 mb/d will come from the Middle East and 0.2 mb/d from both Other Asia and Latin America. In contrast, OECD demand is expected to see a contraction of 0.3 mb/d, slightly lower than in the previous year. Despite the somewhat healthier outlook for the world economy, overall risks to the global demand forecast remain on the downside. Concerns about European economic growth, budget cuts in the US, and policy reforms in retail prices for gasoline and diesel in some emerging economies could weigh negatively on oil demand growth over the coming quarters.

On the supply side, **non-OPEC supply growth** in 2012 now stands at 0.5 mb/d. The increase came mainly from the US, Canada, Russia and China, while the disruption in production from the Sudans along with the decline in North Sea output partially offset this growth.

In 2013, non-OPEC supply is expected to increase by a higher 1.0 mb/d. North America is the key region behind this growth, supported by increases in the US and Canada. The US accounts for more than half of this growth. In Canada, steady gains in oil sands and shale production are forecast to add an additional 0.2 mb/d. Supply from Africa is expected

to benefit from South Sudan's return to the market. Overall, the outlook for non-OPEC supply in 2013 is subject to risks in both directions impacted by on-going economic developments, as well as technical, environmental, weather-related, and geo-political factors.

Additionally, **OPEC NGLs** are expected to increase by 0.2 mb/d in 2013, following growth of 0.4 mb/d in 2012. As a result, total non-OPEC supply, including OPEC NGLs, is expected to increase by around 1.2 mb/d in 2013.

Such strong combined growth in non-OPEC supply and OPEC NGLs would outpace forecast demand in 2013. As a result, **demand for OPEC crude** would fall for a second consecutive year, declining by 0.4 mb/d to average 29.7 mb/d. This, coupled with increasing OPEC spare capacity, represents a significant supply buffer for the market.

Last year, the 1.4 mb/d increase in OPEC crude oil production to total 31.1 mb/d helped contribute to the build in **OECD commercial inventories** over the course of that year. However, the picture differs between crude and products. The latest information indicates that OECD crude commercial stocks stood at a comfortable level at the end of February, with a surplus of 22 mb above the five-year average. In contrast, product stocks remained tight, showing a deficit of 21 mb with seasonal norms. Most of the shortfall can be attributed to middle distillates, while gasoline stocks have begun to improve to remain in line with the five-year average. In terms of forward cover, OECD commercial stocks in February stood at nearly 59.2 days, representing a gain of around two days over the five-year average and thus indicating a well-supplied market. Elsewhere, non-OECD stocks have continued to show a steady increase, particularly in China.

OPEC would like to take this opportunity to assure the distinguished delegates to the IMFC of the Organization's on-going commitment to **oil market stability**, ensuring a regular supply of petroleum to consumers and undertaking the necessary investments to ensure sufficient future supply.