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IMFC Statement by H.E. 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 (IMFC)** on current oil market conditions and developments.

The global oil market has been recovering steadily from a turbulent fourth-quarter 2018, and it continues moving towards more balanced market conditions amid dedicated efforts by OPEC and non-OPEC producing countries participating in the **Declaration of Cooperation (DoC)** to restore market stability and hence support global economic growth.

Global economic growth is forecast to slow down in 2019 to reach 3.3% compared to estimated growth of 3.6% in 2018. The deceleration in global economic growth that started in 2H18 is forecast to continue in 1Q19. Global trade, an important motor for growth in 2017 and 2018, has continued to decline and while the outcome of the ongoing US-China trade negotiations remains unclear further trade-related issues have emerged. Moreover, Brexit, fiscal issues in some EU Member Country economies and Japan’s slow-down in combination with its envisaged sales tax increase pose additional risks. Also, the fiscal stimulus in the US is expected to taper off further. China’s slow-down is forecast to continue and India will most likely face lower growth levels as well. After a further weakening of the 1Q19 global growth trend, the growth dynamic is forecast to pick up again in the remainder of the year. Albeit the most recent global economic trend and output data indicate a stabilisation of the downward dynamic, the near-term growth trend remains uncertain.

Within the **OECD** group of countries, the US economy continues to benefit from fiscal stimulus, however this is expected to fade over the course of the year. Consequently, growth is forecast at 2.5% in 2019, after growth of 2.9% in 2018. Lower growth is seen in the Euro-zone, with 1.3% for 2019, compared to 1.8% in 2018. Continued challenges in Italy, together with a slowdown in the two largest Euro-zone economies, Germany and France, are expected to lead growth lower in the current year. Also, Brexit-related issues may weigh further on 2019 growth. Meanwhile, Japan is forecast to grow at a much lower level, at 0.7% in 2019, comparing to 0.8% in 2018. As the government intends to increase the sales tax in 4Q19 and the economy continues to be constrained by very low unemployment and high utilisation rates in the industrial sector, the upside remains limited.

In the **emerging markets,** India’s 2019 growth forecast stands at 7.1%, after reported growth of 7.3% in 2018. China’s GDP growth in 2019 is forecast at 6.1%, following growth of 6.6% last year. Some upside may still come from further fiscal and monetary stimulus in China, while trade-related issues remain. Brazil's growth forecast stands at 1.8% in 2019, after growth of 1.1% in 2018. Depending on the policy actions by the government, as well as commodity price developments, the country's growth forecast for 2019 remains uncertain. Russia's growth is forecast at 1.6% for 2019, comparing to 2.3% in 2018.

The slowing momentum in the global economy has been reflected in **central bank policies**, with monetary policies remaining relative accommodative. This may also support emerging and developing economies for some time and particularly benefit those with weak fiscal situations. Amid softening inflation levels, the Fed's hiking cycle appears now to be hold until around the end of the year. The ECB has introduced new monetary support facilities and indicated that it will not raise interest rates until at least the end of 2019.

Turning to the oil market, **world oil demand** experienced healthier-than-expected growth in 2018, increasing by 1.43 mb/d compared to an initial expectation of 1.26 mb/d. The largest contributors to growth were the US, followed by China and India. For the year, total oil consumption averaged around 98.72 mb/d. In 2019, global oil demand is forecast to increase by around 1.24 mb/d to average around 100.00 mb/d, surpassing the historical 100 mb/d threshold on an annual basis in 3Q&4Q 2019. The largest contributors to growth are Other Asia, followed by China and OECD Americas

From a regional perspective, the **OECD** experienced a solid increase, supported by strong demand from **OECD Americas**, particularly the US. OECD Americas was the largest contributor to the overall growth in world oil demand in 2018, amid firm macroeconomic indicators and a prosperous petrochemical sector. Growth was particularly strong for NGL/LPG, diesel fuel, and jet kerosene. In **OECD Europe**, oil demand remained in positive territory for the fourth-consecutive year as oil requirements increased in 2018 albeit at much slower pace than in previous years. **OECD Asia Pacific** registered steady gains in 1H18, stimulated by stable oil requirements from South Korea and Australia. Demand growth eased substantially thereafter, particularly in South Korea as a result of lower petrochemical feedstock demand, largely due to poor margins and heavy maintenance activities. As a result, oil demand growth in OECD Asia Pacific declined y-o-y in 2018. In 2019, the **OECD's region** oil demand is projected to grow by 0.24 mb/d, with **OECD Americas** firmly in the positive, driven by solid NGL and middle distillate requirements. **OECD European** demand is projected to continue increasing, albeit at a slower pace from the current annual estimate, as economic projections ease slightly. Meanwhile, **Asia Pacific** oil demand is anticipated to weaken in light of intended substitution programmes.

In **the non-OECD**, oil demand in **China** remained firm, despite signs of a slowdown in 2H18, as overall economic momentum eased in response to trade concerns. Declines in vehicle sales further exacerbated the softening oil demand growth. **Other Asia** enjoyed robust oil demand growth last year, following strong requirements in India, Indonesia, and Thailand. Oil demand in **India** recorded notable gains, supported by robust economic activities, and solid sales for both passenger and commercial vehicles, as well as government expansion projects, particularly in road construction. In the **Middle East**, economic transformation policies, including subsidy reductions and an increase in tariffs, pushed oil demand growth into negative territory for the first time since 1989. Similarly, in **Latin America**, oil demand growth was lower than expected amid economic turmoil in Argentina and Brazil. 2019's growth in the **non-OECD** region is anticipated to be around 1.00 mb/d with slightly lower **Chinese** oil demand growth compared with 2018. However, this is offset by higher oil requirements in other regions such as **Latin America** and the **Middle East** compared with 2018 estimates. Regarding products, the focus will be on light and middle distillates, followed by gasoline, to fuel the growing petrochemical sector, support industrial activities and expand vehicle sales globally. Factors to monitor going forward include the development of economic activities in major consuming nations, practical trade constraints and limitations on the strength of substitution by natural gas of other fuels, subsidy programmes and their removal strategies, the effect of commissioning/delays/closure of petrochemical projects and programmes for fuel efficiency, especially in the transportation sector

On the supply side, **non-OPEC oil supply in 2018** is estimated to grow by 2.74 mb/d y-o-y. The US, Canada, Russia, Kazakhstan, UK, Qatar, other OECD Europe and Ghana were the main drivers for y-o-y growth, while Mexico and Norway will show the largest declines. The key contributor for growth was the **US**, with y-o-y growth of 2.25 mb/d.

For **2019, non-OPEC oil supply** is forecast to increase by 2.24 mb/d y-o-y. The US, Brazil, Russia, the UK, Australia and Ghana are the main growth drivers, while Mexico and Norway are still 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 1.8 mb/d in 2019, due to takeaway capacity constraints in the **Permian Basin**. The 2019 non-OPEC supply forecast regardless the existing of infrastructure constraints in North America, both in Texas and Alberta is faced with a large amount of uncertainty, mainly with regard to 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 and non-conventional liquids** are expected to grow by 0.04 mb/d in 2018, to average 4.98 mb/d, and are forecast to grow by 0.09 mb/d in 2019 to average 5.07 mb/d. In February 2019, **OPEC crude oil production** decreased by 221 tb/d to average 30.55 mb/d, according to secondary sources.

The latest information indicates that **OECD commercial oil stocks** in February 2019 stood at 2863 mb, around 7.5 mb above the five-year average. Compared with the seasonal norm, crude indicated a surplus of 22.7 mb, while product stocks showed a deficit of 15.7 mb

On a regional basis, OECD Americas indicating gains versus the latest five-year average of 67 mb, while OECD Europe and OECD Asia Pacific stocks stood at 38 mb and 31 mb below the latest five-year average. It should be noted that the OECD commercial overhang has been sharply reduced by 330 mb from the implementation of the first Declaration of Cooperation in December 2016.

In terms of **days of forward cover,** OECD commercial stocks rose in February 2019 to stand at 60.5 days, which is 1.1 days lower than the latest five-year average. Within the regions, OECD Americas days of forward cover had 0.8 days of forward cover higher than the historical average to stand at 60.9 days in February. OECD Europe's stocks stood at 4.2 days below the latest five-year average to finish the month of February at 66.5 days. OECD Asia Pacific indicated a deficit of 2.2 days below the seasonal norm to stand at 48.6 days in February

Based on OPEC's supply/demand estimations, the **demand for OPEC crude** averaged 31.6 mb/d in 2018, some 1.4 mb/d lower than 2017. In comparison, **OPEC crude production**, according to secondary sources, averaged 31.8 mb/d and 31.6 mb/d in 1Q18 and 2Q18, respectively, which are in line with the demand for OPEC crude. OPEC crude production averaged 32.0 mb/d in the 3Q18, around 0.1 mb/d higher than the demand for OPEC crude. In

4Q18, OPEC crude production stood at 32.1 mb/d, around 1.1 mb/d higher than the demand for OPEC crude. In 2019, demand for OPEC crude is forecast to average 30.5 mb/d, around 1.1 mb/d lower than the level estimated in 2018.

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.