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**Statement by H.E. Abdalla Salem El-Badri,
Secretary General, OPEC**

On behalf of the Organization of the Petroleum Exporting Countries (OPEC)

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Secretary General,
Organization of the Petroleum Exporting Countries (OPEC)
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OPEC would like to inform the distinguished delegates to the IMFC that the oil market continues to be characterized by ample crude supply and comfortable overall crude stock levels, providing further evidence of a well-balanced market. Despite periodic geopolitical concerns, the Organization continues to carry out its key role of promoting stability in oil markets with a view to eliminating harmful and unnecessary volatility and to ensure a regular supply of petroleum to consumers at price levels which support world economic growth, as well as the necessary investments to provide sufficient future supply.

Crude oil prices in September fell to their lowest level so far this year, as imbalanced fundamentals in the oil market pushed prices lower for three consecutive months. A further easing of supply worries and softening demand, amid lower expectations for global economic growth, combined to place downward pressure, particularly on light sweet crude prices. Lower refinery runs in Asia and Europe further capped demand for crude oil. There was also an overhang of crude in the Atlantic Basin in line with low crude intake levels and higher availability of North American crude production. Moreover, the decline in crude prices was not caused by fundamentals alone; some of it has been due to speculative trading by money managers which had sent prices to new highs not long ago, as well as the strengthening US dollar which impacts dollar-denominated commodities such as crude. The Brent front-month futures price has fallen by around $20 since June 2014.

The **global economy** is forecast to continue its gradual recovery. However, growth levels in most major economies remain below their potential and many uncertainties prevail. Global GDP growth in 2014 is forecast at 3.2%, based on 2011 ppp, accelerating to 3.6% in 2015. After a soft start to the year, global growth recovered with a particularly strong rebound in the US, which is now forecast to grow by 2.1% in 2014. The expected winding down of monetary stimulus in combination with only slowly recovering domestic demand is likely to contribute to a limited upside in the coming year, when US growth is forecast to reach 2.6%. Meanwhile, Japan is currently facing a larger-than-anticipated negative impact from its April's sales tax increase and a challenging environment for its exports.

This leads to a growth forecast of 0.8% in the current year. Given that the soft recovery might continue and the prospect of another sales tax increase in 2015, Japan's GDP growth is forecast to reach only 1.2% next year. The latest output data from the Euro-zone confirms that improvements remain slow with growth in 2014 forecast at just 0.7%. Given the situation in the Euro-zone labor market, the ongoing risk of deflation and the considerable recapitalisation needs of the banking sector, growth in 2015 is forecast to be slightly higher at 1.1%.

In the developing and emerging economies, the slowing growth trend has continued into the current year. China, Brazil and Russia are all expected to grow at a lower rate in 2014 compared to last year. Only India, which recorded very low growth in the previous year, is expected to see higher grow at 5.5% in 2014 and 5.8% in 2015. Particularly Russia and Brazil are expected to see limited growth this year at 0.3% and 0.6% respectively, before slightly improving in 2015 to 0.9% and 1.2%. China, which is coming from very high growth levels in the previous years, is forecast to grow by 7.4% in 2014 and 7.2% next year.

The current growth forecast accommodates a continued fragility in the pace of global economic growth. Some continued monetary support may come from the European Central Bank and the Bank of Japan. However, the winding down of US monetary stimulus in combination with a potential rise in interest rates – albeit based on the improvements in the US economy – may lead to capital outflows from emerging economies, impacting growth there negatively.

Turning to the oil market, according to actual data, **world oil demand** in the first half of this year was lower than expected, especially in the OECD region. In OECD Americas, efficiency improvements and fuel substitution in transportation and industrial sectors have dampened oil demand growth. The lower-than-expected macroeconomic performance in OECD Europe resulted in reduced oil consumption in that region. In OECD Asia-Pacific, higher sales tax and fuel substitution for power generation have also resulted in a slower increase in oil demand growth. In the non-OECD, a more moderate-than-expected performance in economic activities in some emerging economies also contributed to the downward revisions in oil demand growth. As a result, world oil demand in 2014 is currently estimated to increase by 1.1 mb/d.

In 2015, world oil demand is anticipated to rise by 1.2 mb/d. Demand in the OECD region will edge lower by 0.02 mb/d, with OECD Americas as the only region firmly in positive growth. Oil demand in OECD Europe and Asia Pacific is also projected to decrease. In the non-OECD region, growth is expected to be around 1.2 mb/d due to stable oil requirements in Other Asia and Latin America and slightly lower oil demand growth in China. From the products side, the focus is projected to be on diesel oil and gasoline to fuel the growing transportation needs and to a lesser extent for products used as petrochemical feedstocks. Major risk factors associated with 2015 projections come from the development of economic activities in major consuming nations, the strength of substitution with natural gas and other fuels, subsidies programs and their removal strategies, the on-going programs for fuel efficiency, especially in the transportation sector.

On the supply side, the forecast for **non-OPEC supply** in 2014 has experienced an upward revision since the initial projection to currently stand at 1.7 mb/d. Much of the adjustment was due to an upward revision in the previous year, as well as better-than-expected production in the US. North America remains the main driver for the non-OPEC supply growth in 2014. Production in Brazil is also expected to increase, while oil output from the UK is projected to continue to decline.

For 2015, non-OPEC supply is expected to grow by 1.2 mb/d, lower than this year's estimate. OECD Americas is expected to see the highest growth, with not only contributions from the US and Canada, but also Latin America due to the increase in Brazilian production. However, a high level of uncertainty is associated with the 2015 non-OPEC supply forecast from factors such as regulatory and environmental concerns, geopolitical developments and technical challenges such as unplanned shutdowns and sharper-than-expected decline rates, particularly in tight oil plays.

Meanwhile, **OPEC NGLs** are expected to increase at a faster pace in 2015, rising 0.20 mb/d to average 6.0 mb/d, following growth of 0.18 mb/d this year.

The latest information for August indicates that **OECD commercial oil stocks** have accumulated more than 120 mb since the beginning of the current year. This steady build came from the rise in non-OPEC supply and weaker OECD demand. Despite this build, OECD commercial oil inventories remain 57 mb below the five-year average, with crude inventories showing a surplus of 12 mb, while product stocks experienced a deficit of 69 mb. The total shortfall can be attributed to middle distillates, while gasoline stocks have begun to improve, standing around the five-year average.

Although below the five-year average in absolute terms, total OECD commercial oil stocks in days of forward cover stood at around 58 days in August, higher than the 53-54 days considered as the norm by the oil industry. Non-OECD stocks have continued to show a steady increase, indicating a build of more than 70 mb since the beginning of this year. The bulk of this increase came from China showing a strong build of nearly 50 mb in the first six months of 2014.

Based on OPEC's supply/demand projections, the increase in total non-OPEC supply will outpace the growth in world oil demand, resulting in the **demand for OPEC crude** in 2014 averaging around 30 mb/d. For 2015, steady growth in non-OPEC supply is projected to continue to outpace world oil demand growth, contributing to a reduction in demand for OPEC crude. In August, OPEC crude oil production stood at 30.2 mb/d.