Oil and raw materials

OPEC and Russia agree to reduce their oil production

In Q4 2016, the average price of a barrel of Brent crude was $51, after $47 in the two previous quarters. This rise stems from the agreement reached by the OPEC countries, announced in September 2016, ratified on 30 November 2016, and effective since January 2017. However, supply rose again in Q4, with record output by the members of the cartel, while demand increased at its trend rate.

Through to June 2017, the gap between supply and demand should narrow: supply should almost stabilise, with a drop in output by OPEC countries offset by a rise in US production, whilst demand is expected to rise at its trend growth rate, driven by the emerging countries in particular.

Throughout H1 2017, the conventional assumption is that oil prices will stabilise at around $55 – their level in January. The high level of stocks should curb the bullish effect of the tightening in the physical market. Oil prices will depend on the speed at which unconventional production recovers in the United States and the ability of OPEC countries and Russia to reduce their output over the long term.

Commodity prices in Euros climbed strongly in Q4 2016 as the prices of industrial commodities soared, especially iron.

In Q4 2016, the price of Brent increased significantly

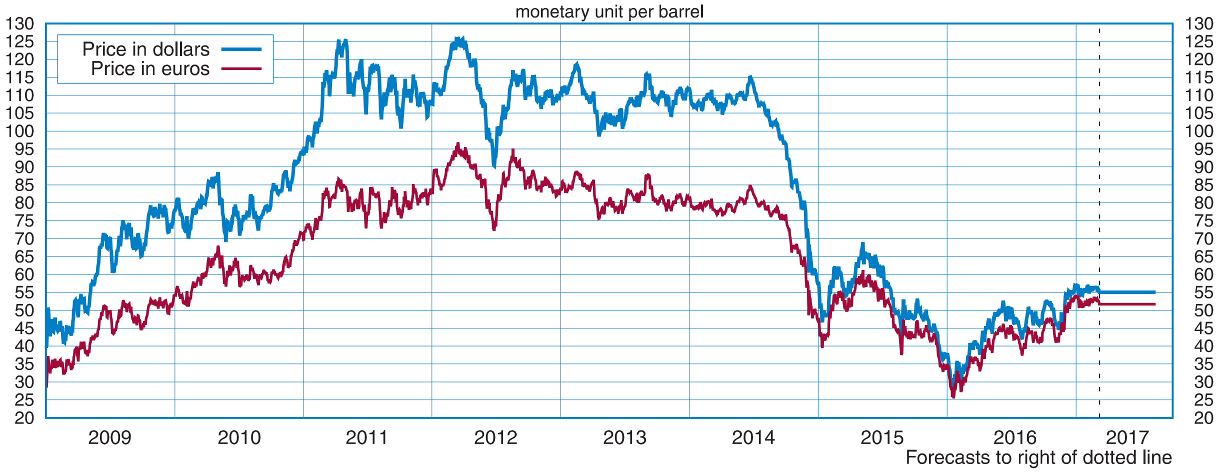
In Q4 2016, the price of a barrel of oil (Brent) averaged $51, up 8.7% on Q3. It approached $57 at the beginning of January (*Graph 1*), after the entry into force of the OPEC countries' agreement to cut production, announced in Algiers at the end of September and ratified in Vienna on 30 November. Since then, it has been hovering around $55 and should remain close to this level in H1.

Supply should remain virtually stable through to mid-2017

In Q4 2016, oil supply increased strongly again (+0.7 million barrels per day - Mbpd), driven mainly by record output by OPEC (*Graph 2*). Iraq and Iran produced at their highest level since 2007. In addition, Libyan production continued to pick up (+0.3 Mbpd). In Nigeria, production increased by 0.2 Mbpd over the quarter, despite declining in December due to strikes and attacks on the Forcados terminal.

In H1 2017, supply should almost stabilise, because the drop in OPEC output is likely to be offset by a rise in US supply. With the entry into force of the Algiers agreement, OPEC production is expected to drop by 0.9 Mbpd through to mid-2017. This reduction would be below the target announced by OPEC (–1.2 Mbpd). It should be mainly driven by Saudi Arabia, whose

1 - Price of Brent in euros and in dollars



Source: Macrobond

production is expected to drop by an average of 0.5 Mbpd compared with Q4 2016, in line with its commitments. Iraq should cut its production by 0.1 Mbpd on average and that of Iran is expected to stabilise at its pre-embargo level. However, Libyan production should continue to rise because Libya is exempted from any production freeze. Russia has followed OPEC's lead, announcing its intention to cut its production by 0.6 Mbpd; however, the International Energy Agency (IEA) has forecast a drop of no more than 0.3 Mpbd in H1 2017.

US output should continue to rise in H1 2017, driven mainly by conventional production in the Gulf of Mexico. The rise in the rig count is not yet expected to lead to a strong recovery in unconventional production.

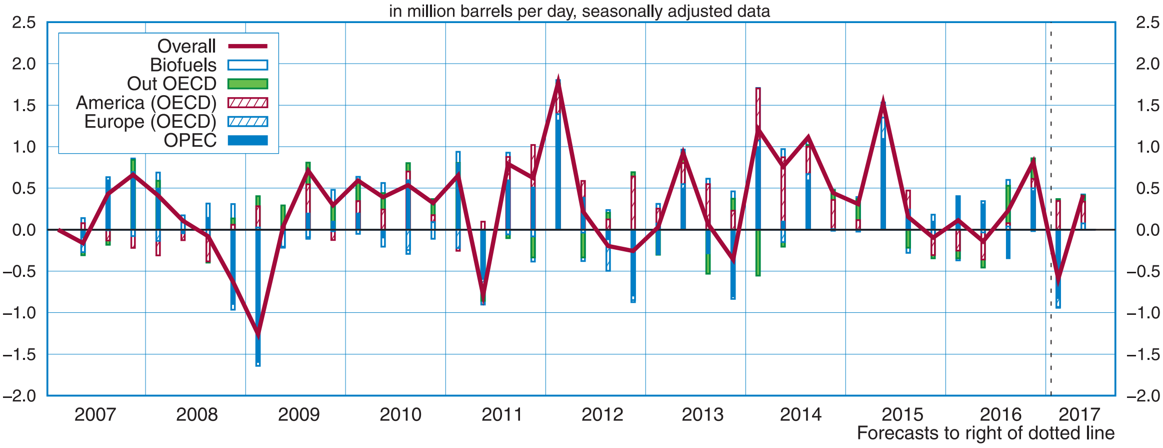
Demand is likely to return to its trend growth rate by mid-2017

In Q4 2016, demand increased by 0.3 Mbpd, mainly sustained by non-OECD countries. As an annual average for 2016, it rose by 1.8 Mbpd, i.e. almost the level reached in 2015 (+1.9 Mbpd). In H1 2017, demand from emerging economies is likely to remain buoyant, and global demand is set to increase at around its trend rate.

The high stock level should curb price rises in H1

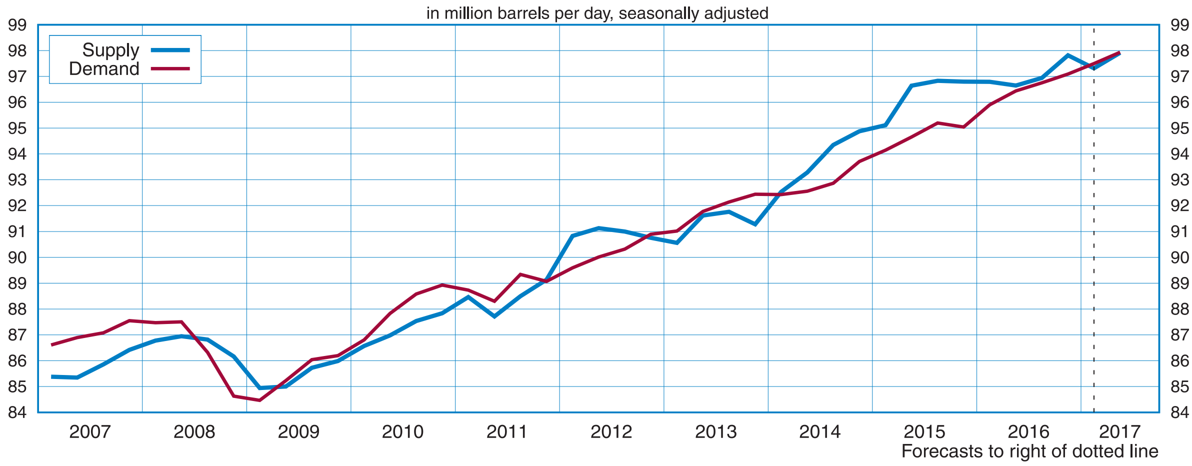
Supply surpluses have largely diminished since the start of 2016, because of the drop in American supply and the trend increase in demand (*Graph 3*). The residual surplus should be used up in Q1 2017 and the market is expected to remain balanced in Q2. However, at 492 million barrels in

2 - Principal contributing factors to the variation in global oil supply



Sources: IEA, INSEE

3 - World oil market



Sources: IEA, INSEE

January, stocks of crude in the United States remain high – above those of January 2016 (+5.5%), and still well above the average level between 2011 and 2014 (+45%; *Graph 4*). The high level of commercial reserves should also curb the upward pressure on prices linked to the anticipated rise in tensions in the physical market.

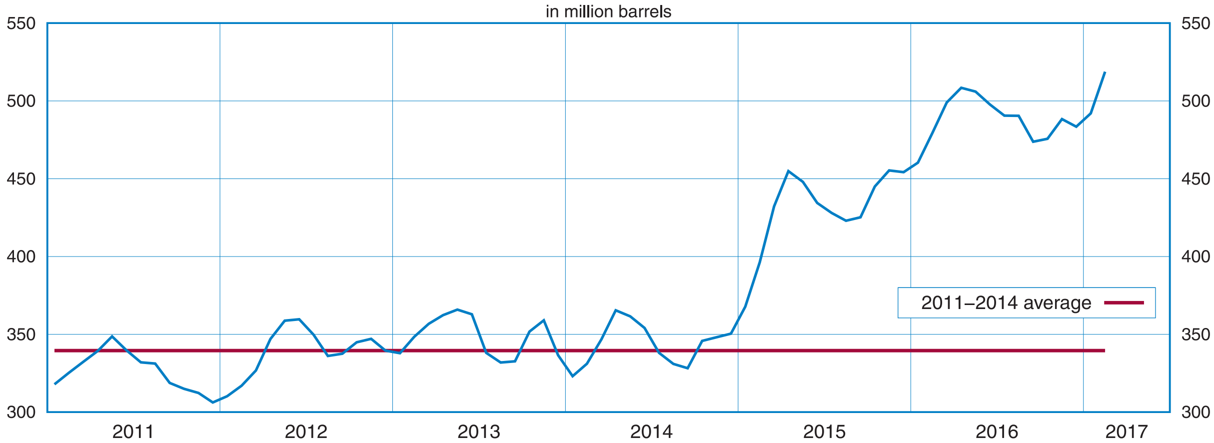
Two uncertainties surround the supply scenario. First, although the OPEC countries and Russia managed to cut their output significantly in January 2017 compared with the average level in Q4, will they be able to maintain this level in the long term? Second, US production of unconventional oil could recover more quickly than expected, as the rig count has been rising again since the spring of 2016.

Commodity prices climbed strongly at the end of 2016

In Q4 2016, prices in Euros of commodities excluding energy rose strongly (+9.0%), returning to their Q3 2013 level (*Graph 5*). Prices of industrial commodities increased sharply in Q4 (+14.0%) and the price of iron in particular soared (+20.8%), driven by strong Chinese demand. In addition, cereal prices bounced back (+4.4%) due to the effect of poor harvests, especially in Asia. ■

4 - U.S. crude oil inventories

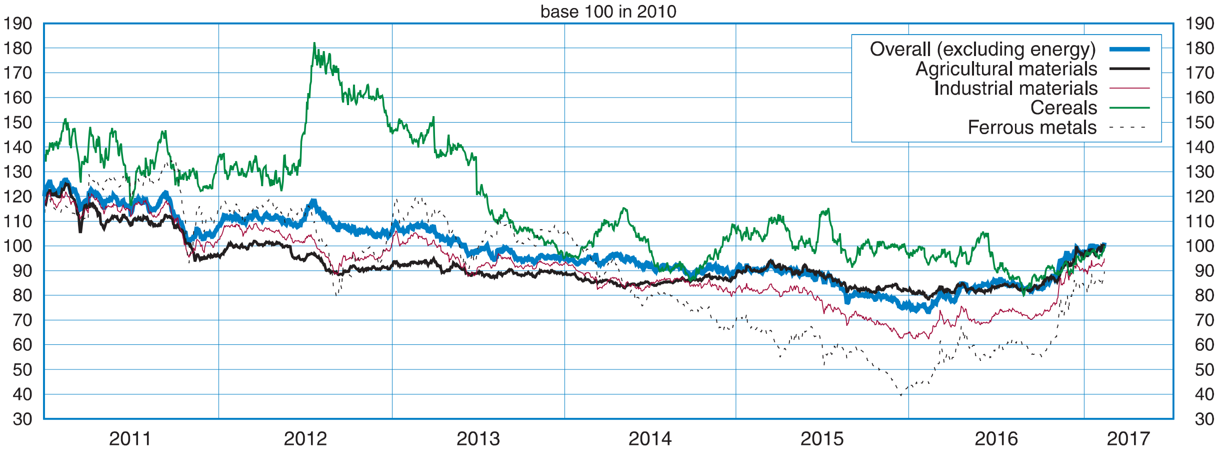
in million barrels



Source: US Department of Energy

5 - Prices of non-energy commodities in euros

base 100 in 2010



Source: HWWI