Oil and raw materials

American output should absorb the increase in world demand

In Q4 2017, the Brent crude price hovered around $61 per barrel, an 18% increase on the average value recorded in Q3. Supply decreased, largely as a result of the reduction in output agreed upon by the OPEC nations. Demand also declined, particularly in the emerging economies. All in all, the physical market maintained its equilibrium according to the IEA. Stocks fell again, and prices rose to hit $67 per barrel of Brent at the end of December.

Through to the end of Q2 2018 the physical market should remain balanced, and stocks should remain high. The conventional assumption is that oil prices should stabilise at around $63.

Demand should bounce back, primarily driven by the emerging economies. Supply should also increase, but this forecast is subject to various uncertainties which could create pressure on prices: the extent of the rebound in unconventional oil production in the USA, along with the degree to which the OPEC nations' agreement to reduce output is implemented (with exemptions for Libya and Nigeria).

Rising once again in December after a slump in October, commodity prices in euros in Q4 2017 were close to the levels observed in Q3.

In Q4, the average price of Brent crude stood at $61 per barrel

In Q4 2017, the average price of Brent crude stood at $61 per barrel (*Graph 1*), up 18% on Q3 2017 ($52) and up 20% on Q4 2016 ($51). The level of crude oil stocks fell again, exerting inflationary pressure on prices.

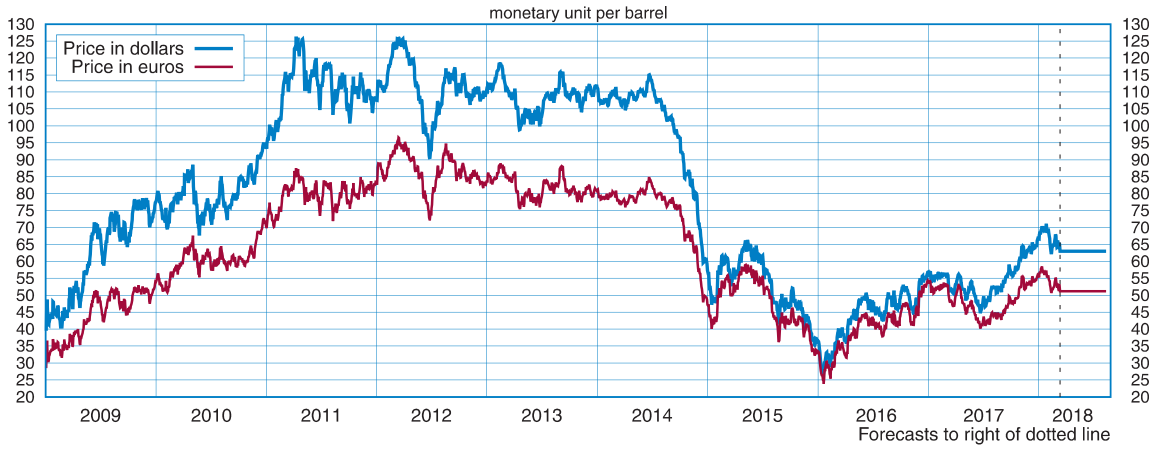
For this forecasting period the crude oil price is provisionally set at $63, its level as of mid-February.

Between now and June 2018, demand should follow its trend rate

After declining slightly in Q3, world demand fell once again in Q4 2017. Demand from outside the OECD nations (excluding China) fell, particularly in Russia and the Middle East as a result of climate conditions, and also in Latin America. For the year 2017 as a whole, demand grew by 0.4 Mbpd (million barrels per day), a less substantial increase than that seen in 2016 (+1.2 Mbpd) and 2015 (+0.7 Mbpd).

Demand should bounce back in Q1 2018, boosted by demand from non-OECD nations (excluding China) which should continue to rise in Q2 2018.

1 - Price of Brent in euros and in dollars



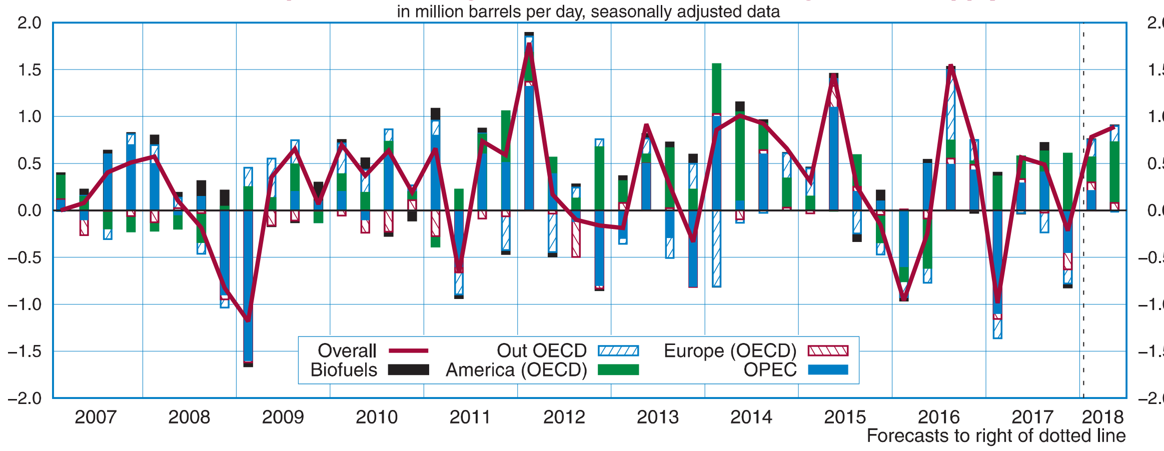
Source: Commodity Research Bureau

Supply should grow in H1 2018

Global output fell in Q4 2017, largely as a result of the OPEC nations (*Graph 2*). In particular, Venezuelan output fell by 0.14 Mbpd due to the deteriorating oil network. Saudi Arabia's output stabilised at a level well below the threshold set by OPEC. Iraqi output was down on Q3. Iran and Nigeria stabilised their output at the maximum level permitted by their production capacities. Libyan output, on the other hand, continued to bounce back. Russia, also bound by the OPEC agreement, stabilised its output at a level close to the target set in the agreement. In the USA, output increased in Q4 and the rig count for new wells slowed then stabilised in December.

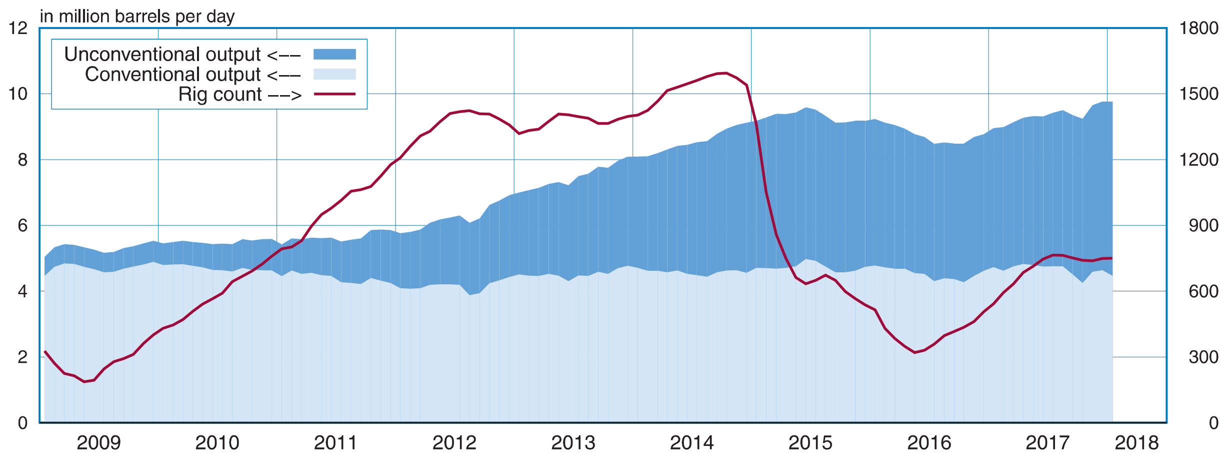
In Q1 2018, OPEC output should increase slightly. Output from Venezuela should continue to fall and that from Iraq should still be hampered by tensions with Iraqi Kurdistan. Output from Libya and Nigeria should continue to grow, while that from Saudi Arabia and Iran should remain at its 2017 level. According to the International Energy Agency (IEA), Russian output should maintain a level close to that seen in Q4. American output should continue to increase, boosted by the addition of new rigs at wells drilled in H1 2017. Over H1 2018 as a whole, OPEC output should increase slightly, still driven by those countries exempted from the supply restriction agreement. Stimulated by the rise in per-barrel prices in 2017, the increase seen in the American rig count in 2017 should be reflected in a pronounced increase in unconventional output (*Graph 3*), forecast by both the US Department of Energy and the IEA. Nonetheless, the volume of American output remains the main uncertainty surrounding Brent crude prices.

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



Sources: IEA, INSEE

3 - Production and rig count in the United States



Sources: IEA, Baker Hughes

All in all, world output should increase over the forecasting period. As demand is expected to increase at the same rate, the market should maintain its equilibrium (*Graph 4*).

The level of reserve stocks is down, but remains high

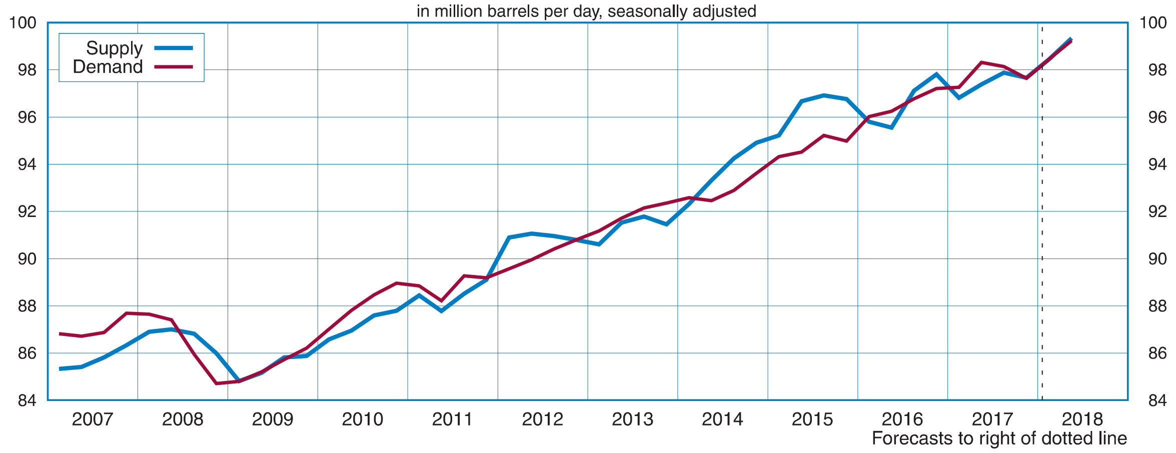
Crude oil reserves in the USA decreased over the past three quarters to reach 436.8 million barrels in December 2017, according to the figures issued by the US Department of Energy. This is well below the level seen in December 2015, but still significantly higher (+29%) than the average level observed over the period 2011-2014. Any inflationary pressure on oil prices could thus be offset by the release of these commercial reserves, which are still at a high level.

Commodity prices slip back slightly

In Q4 2017, commodity prices as a whole in euros fell slightly (–0.1%), growing in December after slumping in October (*Graph 5*). On average, the prices of cereals and ferrous metals fell in Q4 (–4.2% and –7.8%). However, the prices of other commodities rose, particularly that of agricultural commodities as a result of price increases for textile fibres (+2.7%). Cotton prices have risen as a result of the damaging impact of the hurricane season on cotton harvests in the USA. ■

4 - World oil market

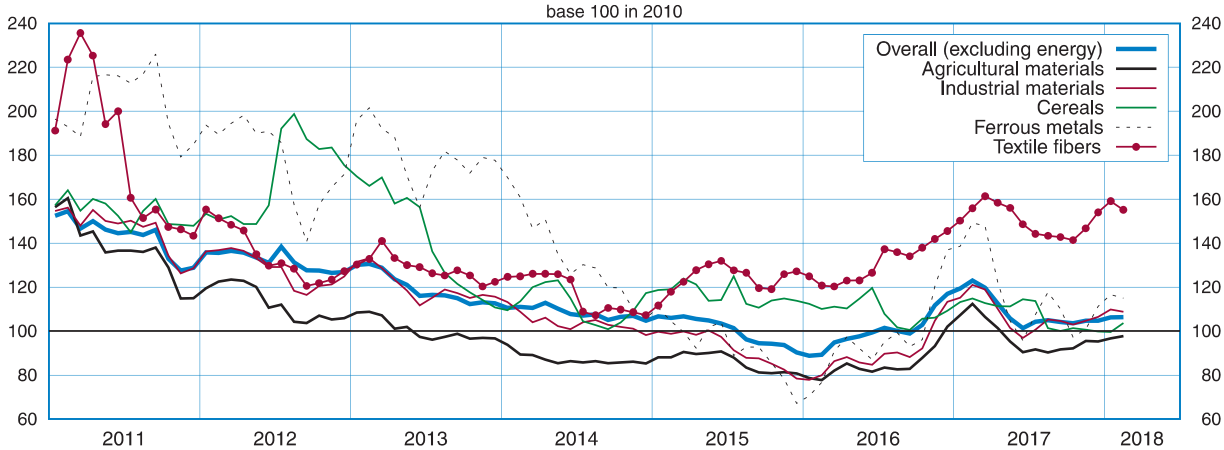
in million barrels per day, seasonally adjusted



Sources: IEA, INSEE

5 - Prices of non-energy commodities in euros

base 100 in 2010



Source: HWWI