# Oil and raw materials

## *Return to a market in surplus*

*In Q3 2018, the price of Brent hovered around $75 per barrel on average, up 0.8% on the previous quarter. Supply increased significantly, with output rising both in the United States and in OPEC countries. Demand also picked up, driven mainly by the emerging countries and China. All in all, the physical market was in surplus.*

*The surplus on the physical market should be maintained through to mid-2019. Meanwhile, output by the OPEC countries is expected to increase while the American supply should continue to rise, under the continued stimulus of the relatively high price of Brent. Global demand looks set to increase in Q4 and is then expected to stall in Q1 2019, before rising again in Q2. Stocks should remain at a relatively high level.*

*Until Q2 2019, the conventional assumption is that oil prices will stabilise at around $60. This forecast is subject to several uncertainties. Firstly, the scenario is based on OPEC countries increasing their output. If this is lower than forecast, the surplus on the physical market could diminish or disappear, which would ease the downward pressure on prices. The same applies to American output, which could turn out to be lower than forecast. Conversely, if the OPEC output or the upturn in unconventional American production should prove to be stronger, the surplus would become more pronounced and adversely affect prices, while any increase in geopolitical tensions in the Middle East could causes prices to rise.*

*Commodity prices in euros fell in Q3 2018 (–5%), despite the increase in iron and steel prices.*

### In Q3 2018, the price of Brent rose slightly, hovering around $75 per barrel

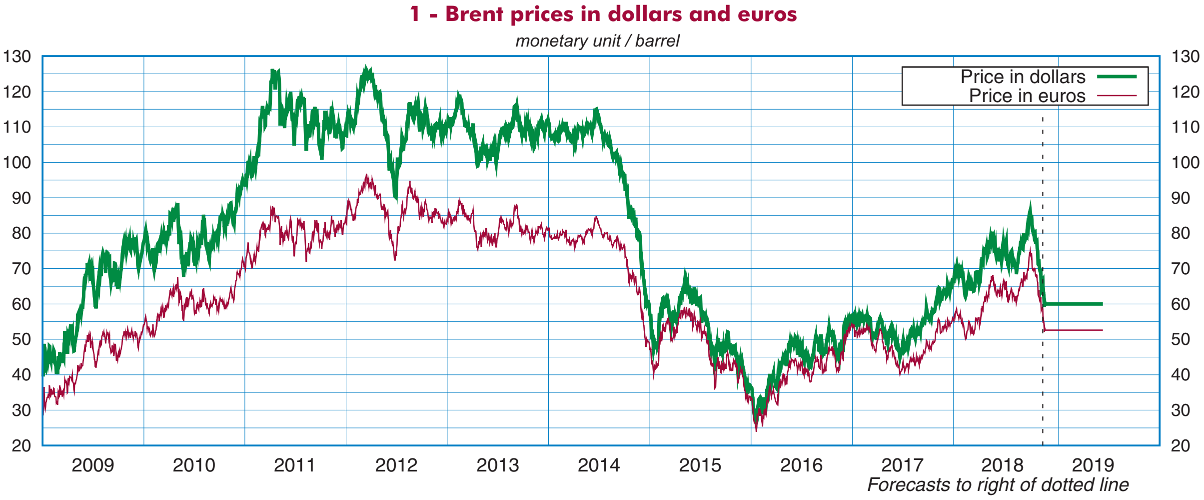
In Q3 2018, the average price of Brent crude stood at $75 per barrel (*Graph 1*), up 0.8 % on Q2 2018 ($74) and up 44% on Q3 2017 ($52). Between the end of October and the beginning of November, the price of Brent dropped by over $20. Over the forecasting period, oil prices are conventionally set at $60 – their level at the end of November.

### Demand is changing at its trend rate

Global demand gathered pace in Q3, driven by the emerging countries, including China. It is expected to rise at its trend rate through to the end of the year, with the slowdown in Chinese demand being offset by rising demand from other emerging countries.

In Q1 2019, global demand is likely to remain almost stable before bouncing back in Q2 2019, under the impetus of American and European demand, in particular. All in all, global demand

**1 - Brent prices in dollars and euros**




Source: Commodity Research Bureau

would appear to have risen by 1.7 Mbpd (million barrels per day) in 2018, after +0.8 Mbpd in 2017 and +1.2 Mbpd in 2016 and is expected to increase by +1.2 Mbpd due to the carry-over effect, as an annual average at the end of Q1 2019.

## Supply rises

In Q3 2018, global supply rose sharply, by +1.0 Mbpd according to seasonally adjusted data (*Graph 2*), mainly due to the rise in American and OPEC output.

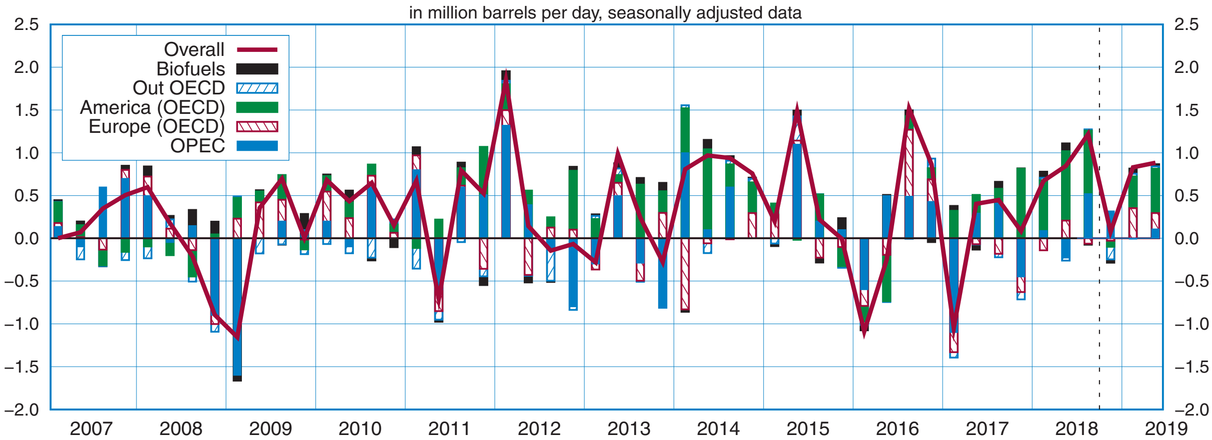
Indeed, the United States announced the implementation of new economic sanctions against Iran, and the members of OPEC decided to increase their output for the coming months, officially to compensate for the future losses of Iranian and Venezuelan output.

Venezuelan output continued to nosedive in Q3 2018. Iranian output decreased, with Iranian-oil-importing countries anticipating the implementation of American sanctions in November. Libyan and Nigerian output rose. Iraqi output remained above the level set in the OPEC countries' current agreement to reduce production. Saudi Arabia and Russia, also bound by the agreement with OPEC, significantly increased their output to well above the agreed limits. In the United States, output rose again in Q3, but the new rig count has remained stable since May 2018 (*Graph 3*).

In Q4 2018, OPEC output is expected to rise again. Libyan and Nigerian output should continue to increase. Iraqi output is likely to be dynamic. Iranian output is expected to suffer from the American sanctions and should be in continuous decline. Venezuelan output is set to plummet again. Saudi Arabia is expected to increase its output as forecast. According to the International Energy Agency (IEA), Russia should continue to increase its output. American output is likely to slow slightly.

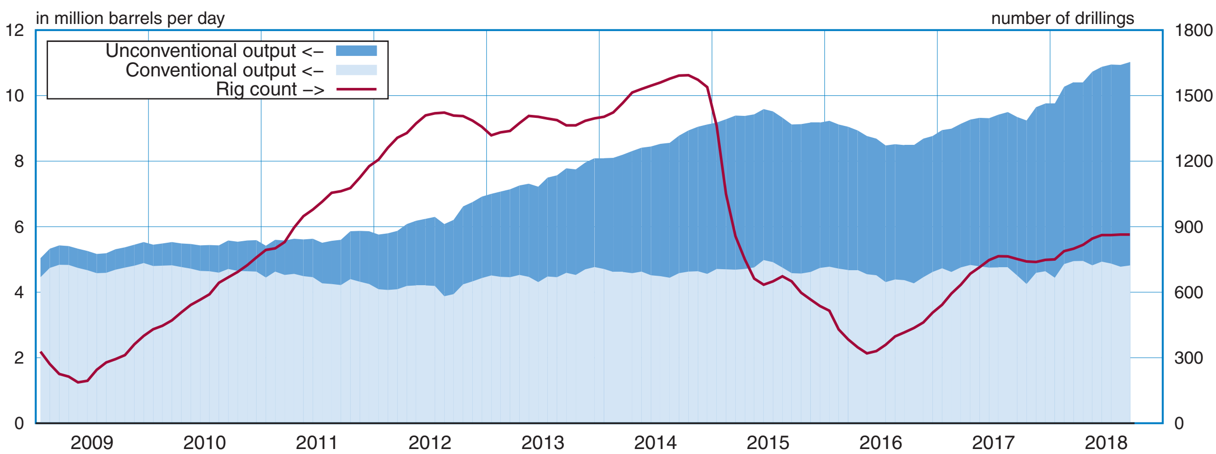
In H1 2019, OPEC output should be initially stable before increasing, while American output is

**2 - Main contributors to the variation in global oil supply**




*Sources: AIE, INSEE*

**3 - Output and rig count in the United States**




*Sources: AIE, Baker Hughes*

expected to rise according to IEA. The evolution in OPEC output is one of the main uncertainties concerning Brent prices.

All in all, world output is likely to rise over the forecasting period. As demand should increase less quickly, the market should remain in surplus through to mid-2019 (*Graph 4*).

## Stocks are expected to remain at a high level.

Crude oil stocks in the United States rose again, to 418 million barrels in October. This was below the October 2017 level, but remains well above (+24%) the average for 2011-2014.

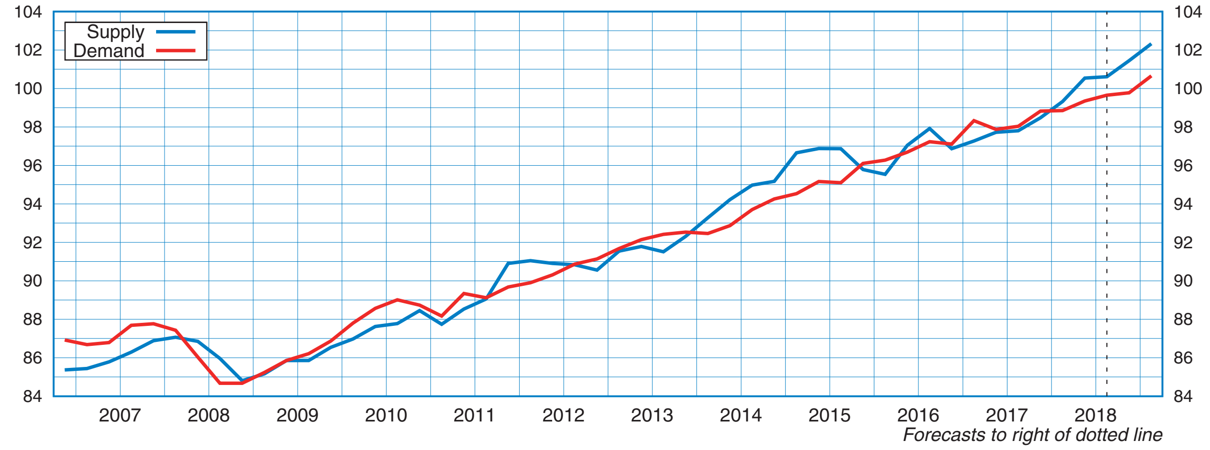
Upward pressure on prices could therefore be curbed by the level of trade reserves continuing to remain high.

## Commodity prices increase slightly

In Q3 2018, the prices of all commodities (in euros) were down (–5%; *Graph 5*). Cereal prices edged down in Q3 (–3.6%), as did prices of agricultural commodities (–3.3%) and industrial commodities (–3.6%). However, iron ore and scrap steel prices rose (+4.4%), as did textile fibre prices (+2.1%). ■

**4 - World oil market**

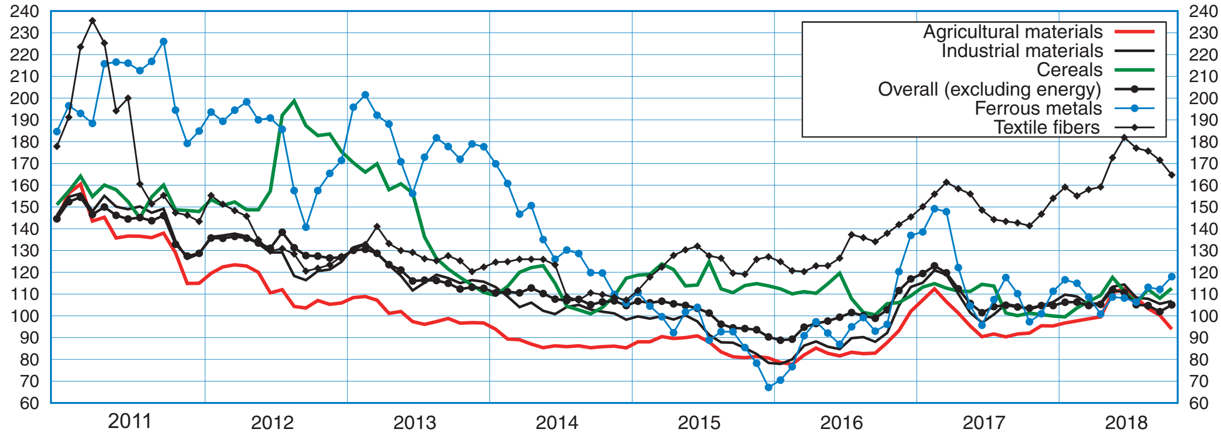
Seasonally adjusted data in millions of barrels per day




*Sources: AIE, INSEE*

**5 - Commodity price indices in euros**

base 100 in 2010




*Source: HWWI*