# Oil and raw materials

## *supply is expected to slip back in a backdrop of uncertainty about demdand*

*In Q4 2018, the price of Brent fell by 8%, settling at $69 a barrel on average. Although supply slowed and demand gathered pace, driven mainly by the emerging countries, the physical market remained in surplus.*

*By mid-2019, the physical market is expected to be in deficit once again. Output by the OPEC countries is set to fall sharply, in line with the new agreement signed at the beginning of December. Conversely, American supply should continue to increase. Global demand is expected to slow in Q 1 2019 then bounce back in Q2. Stocks should maintain their relatively high levels.*

*Through to Q2 2019, the conventional assumption is that the price of Brent will stabilise at around $65. This forecast is subject to several uncertainties. Concerning supply first of all, this scenario is based on a fall in output by the OPEC countries, assuming that the limits set in the agreement are respected. If this drop in output is smaller than forecast or if the upturn in American output is greater than expected, then the deficit on the physical market could be reduced or disappear entirely, thus reducing the upward pressure on prices. Concerning demand, the scale of the slowdown in global economic activity is still uncertain at this stage.Commodity prices in euros remained virtually stable in Q4 2018 (+0.1%).*

### The price of Brent tumbled throughout Q4

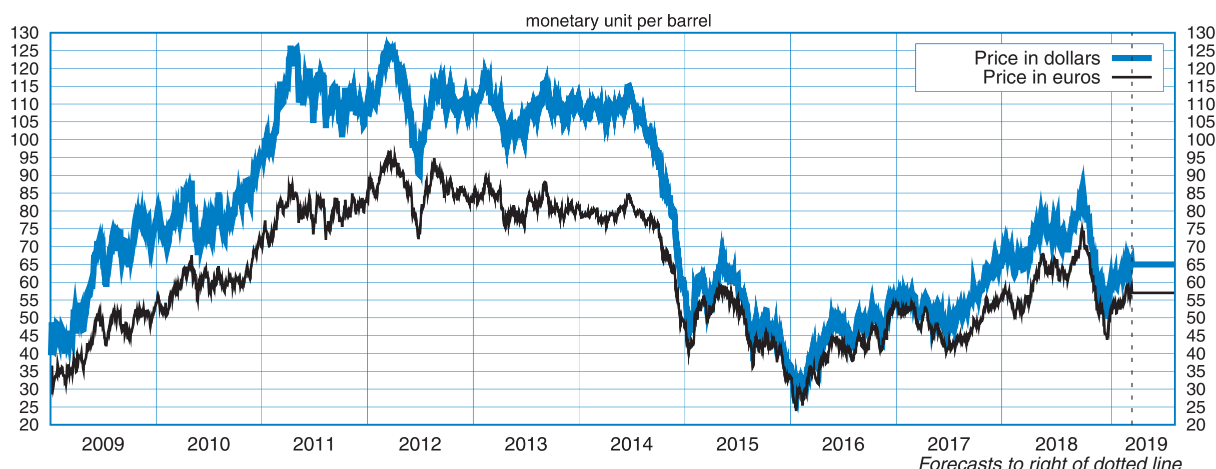
In Q4 2018, the price of Brent fell, from more than $85 at the start of October (against a backdrop of tensions between the United States and Iran) to less than $55 at the end of December. The quarterly average was $69 per barrel of Brent (*Graph 1*), an 8% decline compared with Q3 2018 ($75) but 12% up on Q4 2017 ($62). Over the forecasting period, the price of Brent is conventionally set at $65 per barrel.

### Demand is at its trend rate

In Q4 2018, global demand accelerated slightly (seasonally adjusted data; *Graph 4*). Demand from non-OECD countries gathered pace, especially in India, the Middle East and Brazil. Demand from the United States and Europe slowed a little. Finally, demand from Asian countries inside the OECD held back global demand.

In Q1 2019, global demand is likely to slow down slightly. In the United States, the prospect of a slowdown in growth is likely to contribute to a downturn in American demand. Chinese demand is expected to be sluggish and demand from the other emerging countries is likely to slow.

**1 - Price of Brent in euros and in dollars**




*Source: Commodity Research Bureau*

In Q2 2019, global demand should bounce back a little due to American growth, which is expected to be a little more buoyant than in Q1.

All in all, demand is expected to increase by one million barrels per day (Mbpd) at the end of H1 2019 due to the carry-over effect, after +1.4 Mbpd in 2018 and +0.9 Mbpd in 2017.

### Supply is expected to slip back at the start of 2019

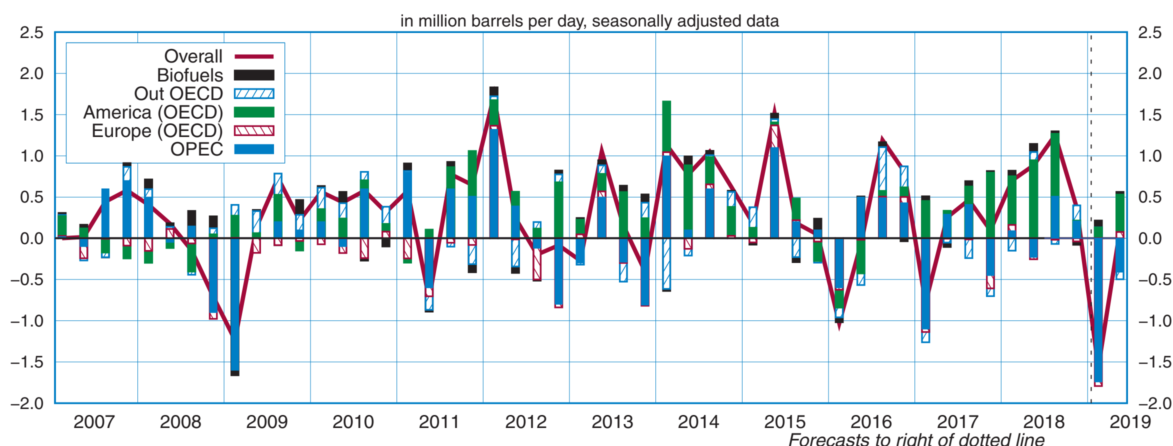
In Q4 2018, global supply rose slightly, by 0.4 Mbpd according to seasonally adjusted data (*Graph 2* ), mainly due to the increase in American and OPEC output.

In May 2018, the United States announced new economic sanctions against Iran. The first wave of sanctions came into effect in August; the second wave was applied from the beginning of November and was aimed particularly at the oil and gas sectors. A few countries were granted temporary exemptions from the American sanctions: Turkey, India, China, Taiwan, Japan, South Korea, Italy and Greece. The OPEC countries had decided to increase their output, officially to make up for future losses in Iranian and Venezuelan output. However, faced with the fall in prices, the OPEC countries (and non-OPEC countries bound by the Vienna agreement) decided at the beginning of December to cut output once again from January 2019 and for 6 months.

In Q4, Venezuelan output continued to plummet. Iranian output fell again, with the implementation of the oil sanctions in November. Libyan and Nigerian output rose. Iraqi output remained above the level set by the original agreement. Although bound by the OPEC agreement, Saudi Arabia and Russia also raised their output above the agreed limits. In the United States, output increased once again in Q4, but the new rig count has remained relatively stable since May 2018 (*Graph 3*).

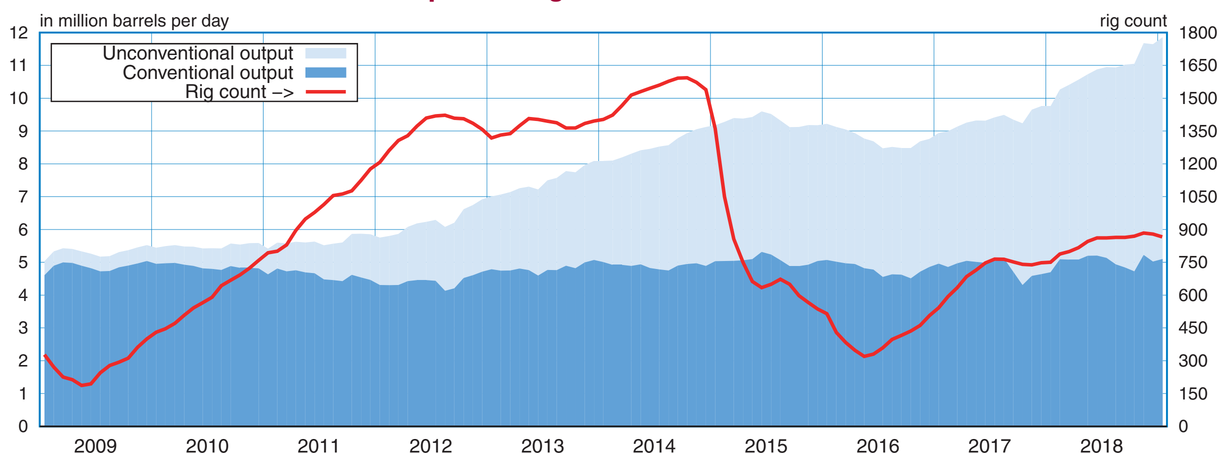
In Q1 2019, OPEC output is expected to fall again, after the agreement in early December to reduce output. Nigerian output is likely to decline. Iraqi output should remain stable but above the agreed output limit. Iranian output is expected to suffer from the sanctions and be in continuous decline. Venezuelan output looks set to tumble further. Saudi Arabia is likely to reduce its output

**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*

more than required under the agreement. According to the International Energy Agency (IEA), Russia is also expected to reduce its output, whereas American output (primarily the United States) looks set to remain stable.

In Q2 2019, OPEC output is expected to fall while that of the United States should start to rise again. Global supply should therefore be virtually stable compared with Q1.

All in all, world output should fall over the forecasting period. Since demand is likely to continue to rise, the market should return to deficit until mid-2019 (*Graph 4*).

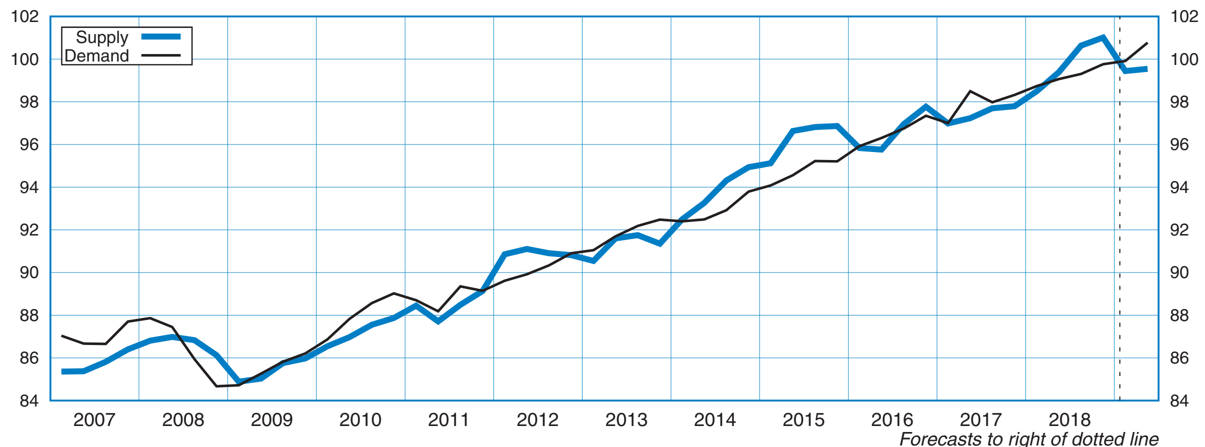
## Stocks have been rebuilt

Crude oil stocks in the United States increased again, to 449 million barrels in February. This was higher than the December 2017 level and well above the 2011-2014 average (+32%). Upward pressure on prices is therefore likely to be held back by these trade reserves which are still high.

## Commodity prices increase slightly

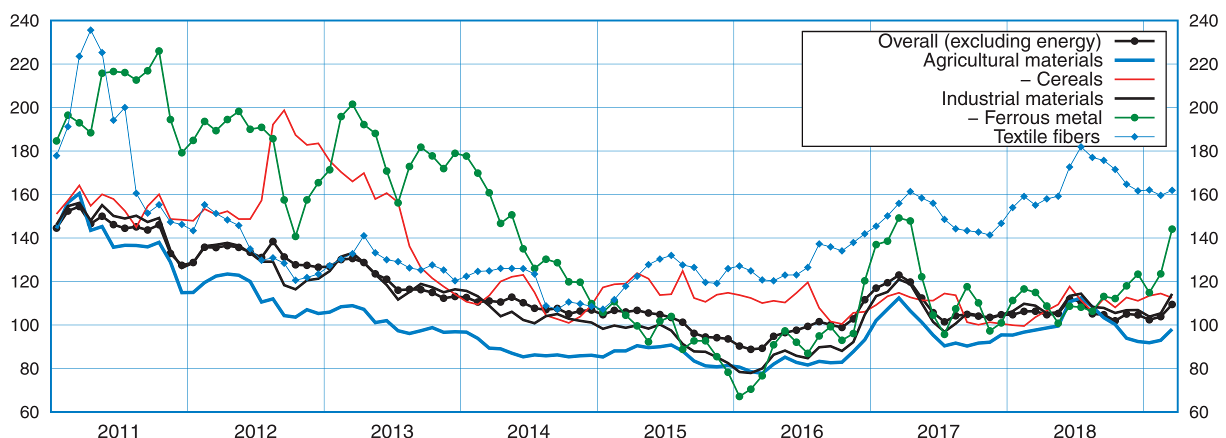
In Q4 2018, the prices of all commodities (in euros) remained virtually stable (+0.1%; *Graph 5*). Cereal prices rose in Q4 (+3.3%), as did iron ore and scrap steel prices (+7.4%). Prices of agricultural commodities (–10.9%) and textile fibres (–6.8%) plummeted and prices of industrial commodities slipped back (–1.3%). ■

**4 - World oil market**




*Sources: IEA, INSEE*

**5 - Prices of non-energy commodities in euros**




*Source: HWWI*