Oil and raw materials

In 2019, the market is approaching equilibrium

The price of Brent rose almost continuously, from $53 to over $68 per barrel, between the beginning of January and the end of March 2019. Its average price throughout Q1 2019 stood at $63. According to the International Energy Agency (IEA), supply decreased (with the entry into force of OPEC production quotas) and demand accelerated (driven mainly by the emerging countries). Crude oil stocks increased again in Q1.

In Q2, the physical market looks likely to be slightly in deficit. Thereafter, in H2 2019, it should return to a slight surplus, and close to equilibrium.

Supply is expected to increase, driven by the OPEC countries and the United States, while demand should slow after a brisk H1. However, this forecast is subject to several uncertainties that could affect prices, especially strict compliance or non-compliance with production quotas in H2 2019, and a possible increase in geopolitical tensions in the Middle East. The conventional assumption is that the price of Brent will stabilise at around $65 per barrel through to the end of 2019.

In Q1 2019, commodity prices in euros rose by +3.2%.

In Q1, the average price of Brent stood at $63 per barrel

In Q1 2019, following an almost continuous upward trend of between $53 and $68, the average price of oil stood at $63 per barrel of Brent (Graph 1) – down 7% compared with Q4 2018 ($69) and 6% compared with Q1 2018 ($67). Nevertheless, the price of Brent bounced back between January and March, rising from $53 to over $68. Crude oil stocks in the United States increased again. Over the forecasting period, the price of oil has been conventionally set at $65 per barrel.

Demand is expected to slow through to the end of 2019

After declining in Q4 2018, world demand bounced back in Q1 2019. Demand from non-OECD countries gathered pace, especially India, the Middle East, Brazil and Russia. Demand from the United States and Europe was vigorous.

In Q2 2019, global demand looks set to soar, driven mainly by the United States and China, but also by Asian OECD members and Europe. Demand from non-OECD countries should edge down. In H2 2019, demand is likely to slow due to the United States and Asian OECD members.

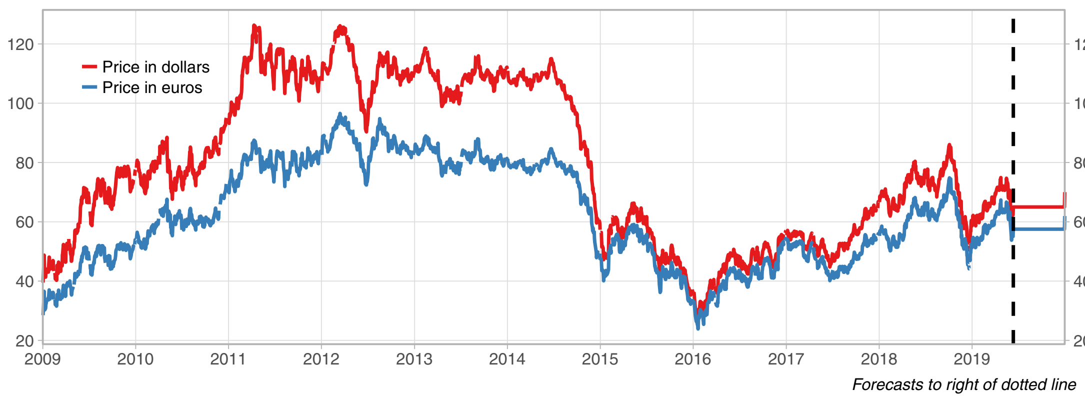
All in all, demand in 2019 is expected to increase by 0.9 million barrels per day (Mbpd), after +0.4 Mbpd in 2018 and + 1.4 Mbpd in 2017 (seasonally adjusted data).

Supply is set to pick up in H2

In Q1 2019, global supply shrank significantly, primarily due to the reduction in OPEC output (Graph 2), after the new agreement which entered into force on 1st January. Several of these countries – Saudi Arabia, Kuwait, the Emirates and Angola – even reduced their

1 - Price of Brent in euros and in dollars

monetary unit per barrel



Source : Commodity Research Bureau

output more than required under the agreement. Conversely, Iraq produced 4.7 Mbpd, which is still above the limit set by the original agreement. Iranian output plummeted by 0.3 Mbpd, with the implementation of oil sanctions in November. Venezuelan output also tumbled: –0.2 Mbpd in Q1. Libyan output fell. In the United States, output rose again. Nonetheless, the new rig count has been declining since October 2018.

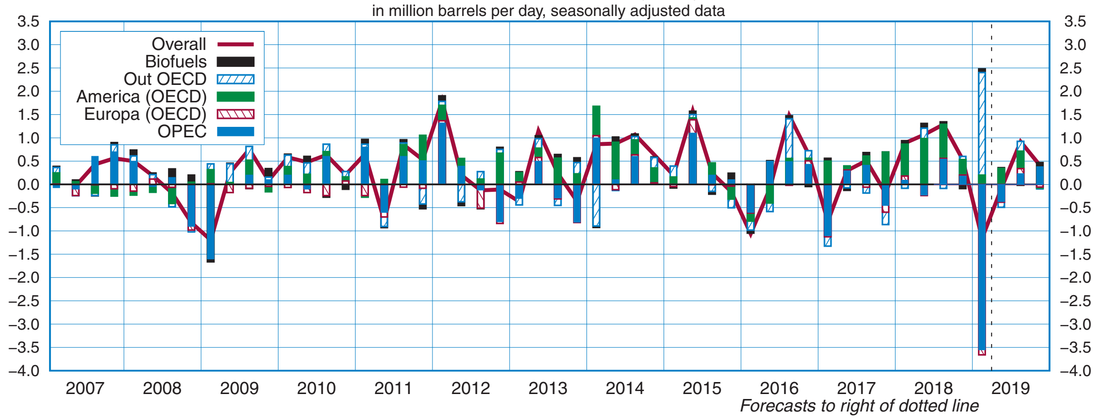
In Q2 2019, OPEC output is expected to rise again. Saudi Arabia is likely to continue its efforts to reduce its output. Libyan output could be affected by Field Marshal Haftar's recent attack on Tripoli. Iraqi output should be down, but it is still likely to be above the agreed production limit. In Iran, output would appear to have suffered from the ending of exemptions from US sanctions for certain countries in the month of May and is set to be in continuous decline. Venezuelan output is expected to tumble again and should also be hit by the US embargo on oil, which entered into force at the end of April. According to the IEA, Russia also looks likely to reduce its output, whereas American output should rise. Production reached a record level in mid-May.

In H2 2019, OPEC and US outputs are both expected to rise again. Consequently, global supply should accelerate.

All in all, world output looks set to be down until mid-2019 before rising through to the end of the year. As demand is expected to accelerate in H1 before slowing in H2, the market should be in deficit until mid-2019 and then in surplus until the end of the year (*Graph 3*).

2 - Main contributors to the variation in global oil supply

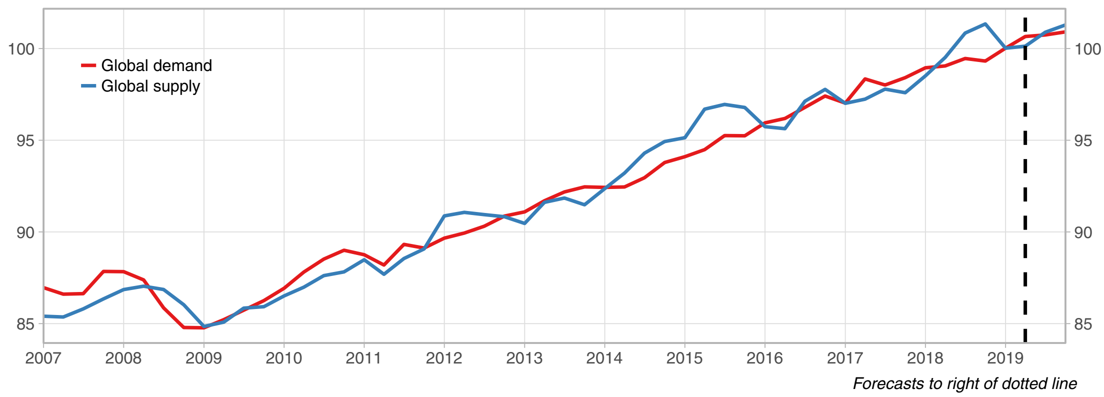
CVS data in millions of barrels per day



N.B. Qatar left OPEC in Q1 2019, which explains the magnitude of OPEC's negative contribution; Qatari output has been transferred into the "non-OECD" category.
Source: AIE, INSEE

3 - World oil market

in millions of barrels per day



Source: AIE, INSEE

International developments

Stocks increase again

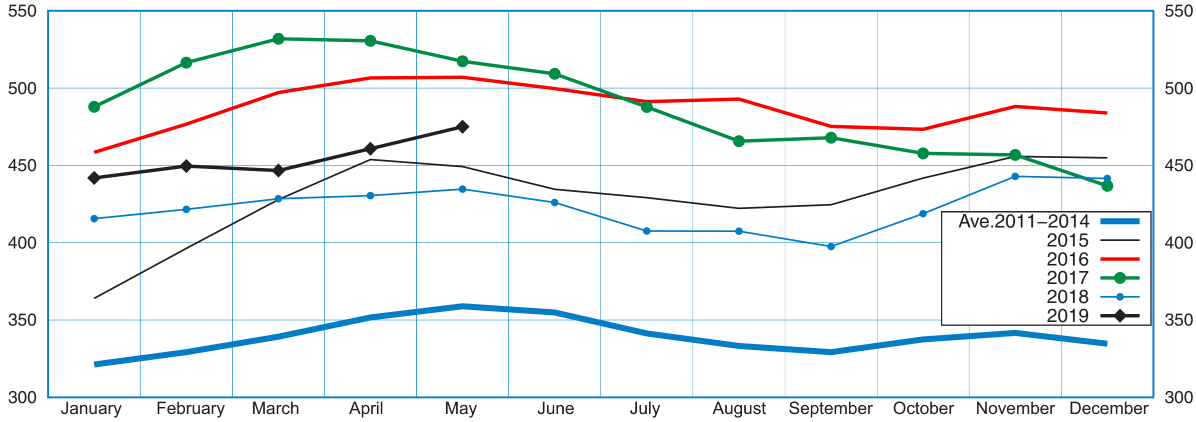
Crude oil stocks in the United States have increased again, to 476 million barrels at the end of May (Graph 4) – the highest level since August 2017. This was higher than the April 2018 level, and remains well above the average for 2011-2014 (+32%). Upward pressure on prices could therefore be curbed by this high level of trade reserves.

Commodity prices are creeping up

In Q1 2019, the prices of all commodities expressed in euros increased (+3.2%, Graph 5). Cereal prices dropped slightly in Q1 (–0.3%), as did the prices of textile fibres (–0.2%). Overall, the prices of agricultural commodities rose (+3.9%), as did the prices of industrial commodities (+5.1%). Iron ore and scrap steel prices soared (+14.4%) after the Brazilian mining disaster. ■

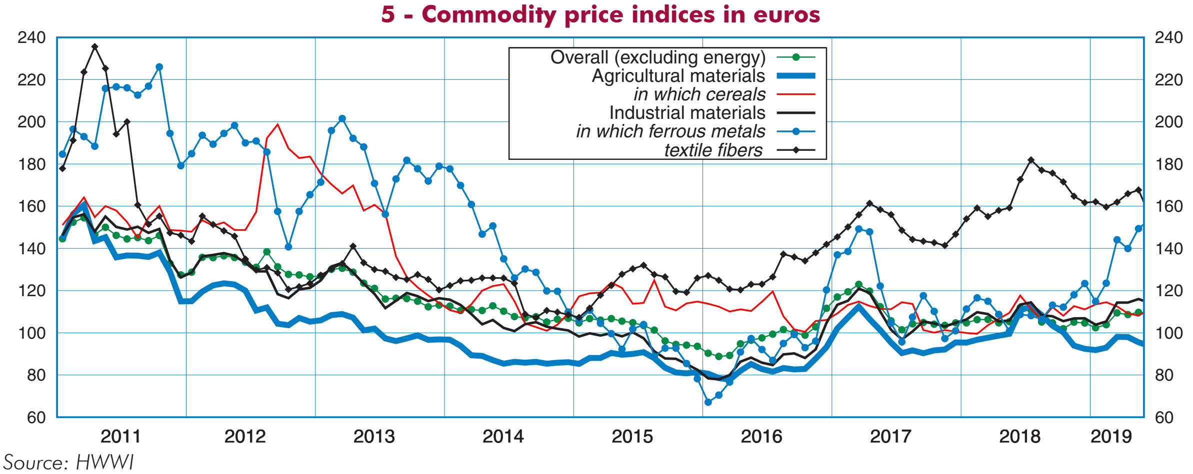
4 - US commercial crude oil inventories

in millions of barrels



Source: DoE

5 - Commodity price indices in euros



Source: HWWI