

OCBC Crude Oil Outlook

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Crude Oil

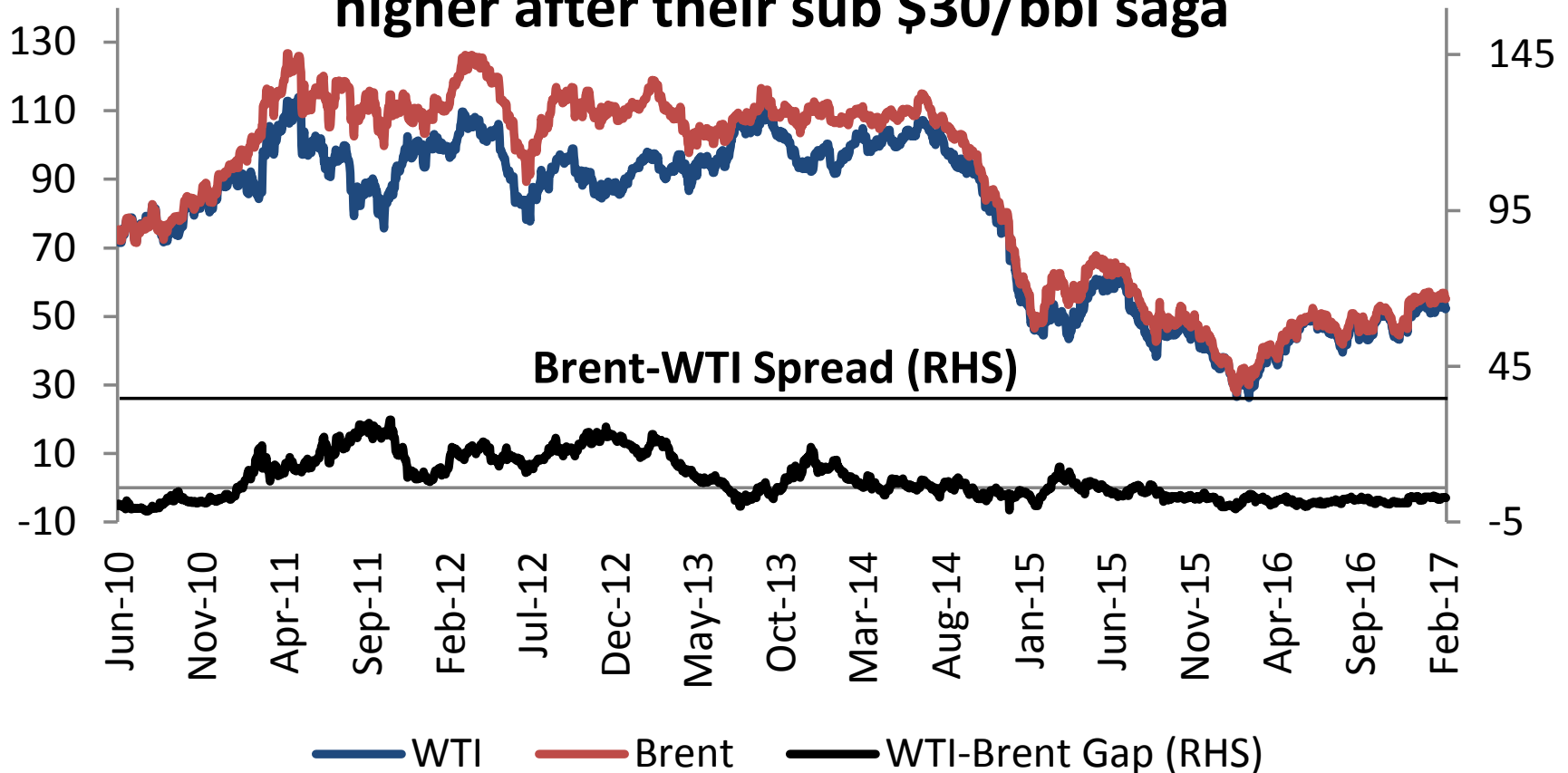
OPEC and its compliancy

Executive Summary

- **Crude oil prices remained volatile into the new year and for good reasons.** Market-watchers were constantly faced with many conflicting news reports over the last month. Prices remained range-bound with both WTI and Brent above its \$50/bbl handle.
- **The drivers that had dragged prices for the last few weeks generally centered around news that hinted on higher production levels.** These includes the recent Short Term Energy Outlook (STEO) report by the US Energy Information Agency (EIA), which upgraded their US oil production forecast to 9.5 million barrels per day (bpd) into 2018, up from 9.3 million bpd. Elsewhere, US oil rig counts have continued to gain into Feb 2017 to its highest count since Oct 2015.
- **Still, the increasing likelihood for oil fundamentals to rebalance itself is the key driver that supports oil prices.** To that end, the EIA and OPEC group have iterated their expectations for the oil glut to fully balance as early as in the first half of 2017. Encouragingly, EIA remains bullish on oil prices and had upgraded their oil call to \$53.5/bbl (up from \$52.5/bbl) in 2017, and \$56.2/bbl (up from \$55.2/bbl) in 2018.
- **Moreover, the production curbs agreed by the OPEC cartel has been over 90% compliant,** led by deeper than expected production cuts by Saudi Arabia. Calls by the OPEC members to extend the oil deal beyond the six months should allow the rebalancing to gain traction into 2H17.
- **Our call for crude oil remains to be at \$65/bbl at end year,** underpinned by the rebalancing to take place in 2017.

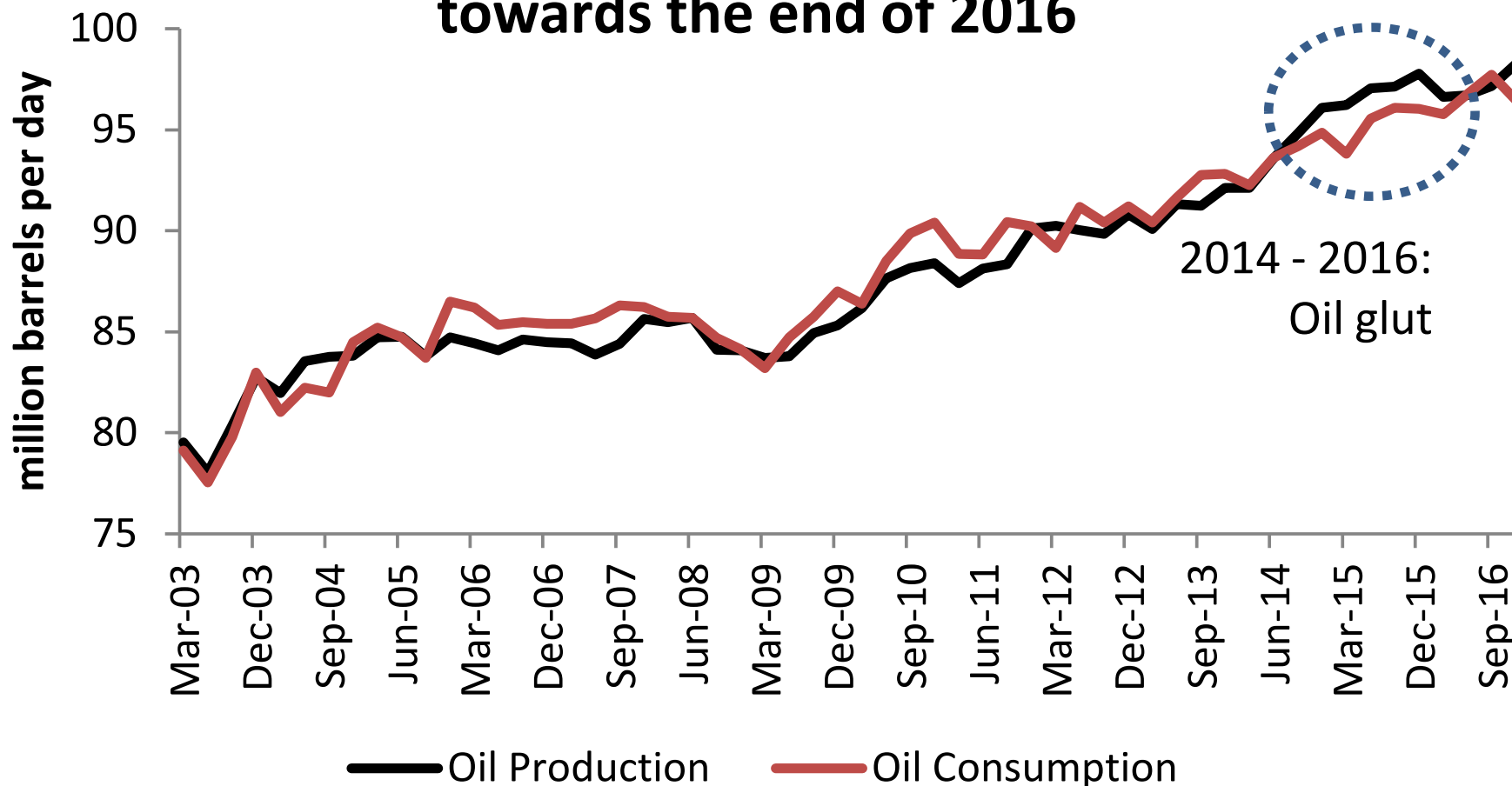
Crude oil continues to point north, Brent-WTI premium has narrowed considerably

Has oil bottomed - Crude oil prices trending higher after their sub \$30/bbl saga



A three-year oil glut pressured prices lower

Crude oil production glut has started to narrow towards the end of 2016

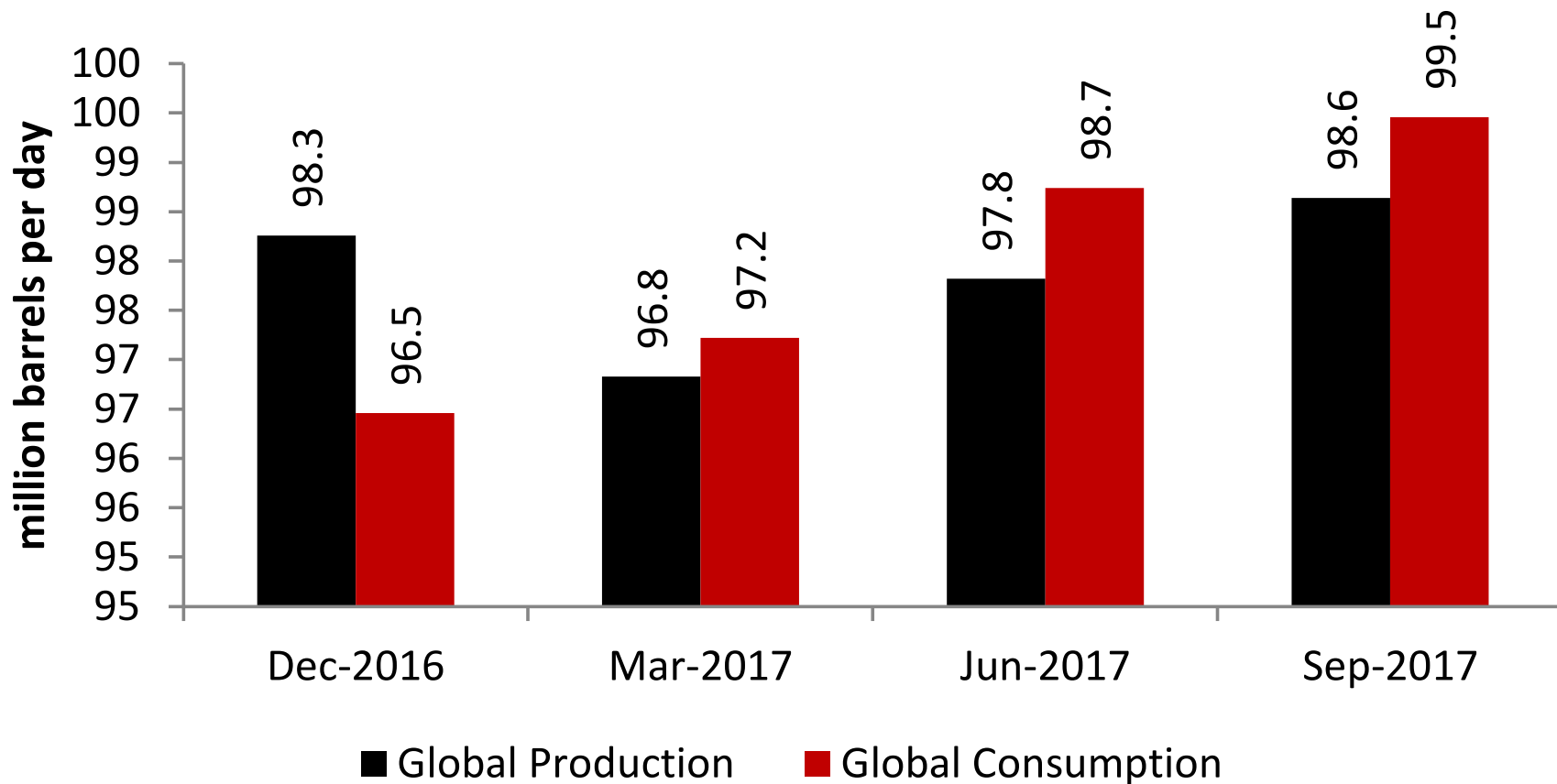


OCBC Bank

Source: Bloomberg, US EIA, OCBC

A rebalancing act may take place on stronger demand

Crude oil glut to rebalance as early as 1Q17?

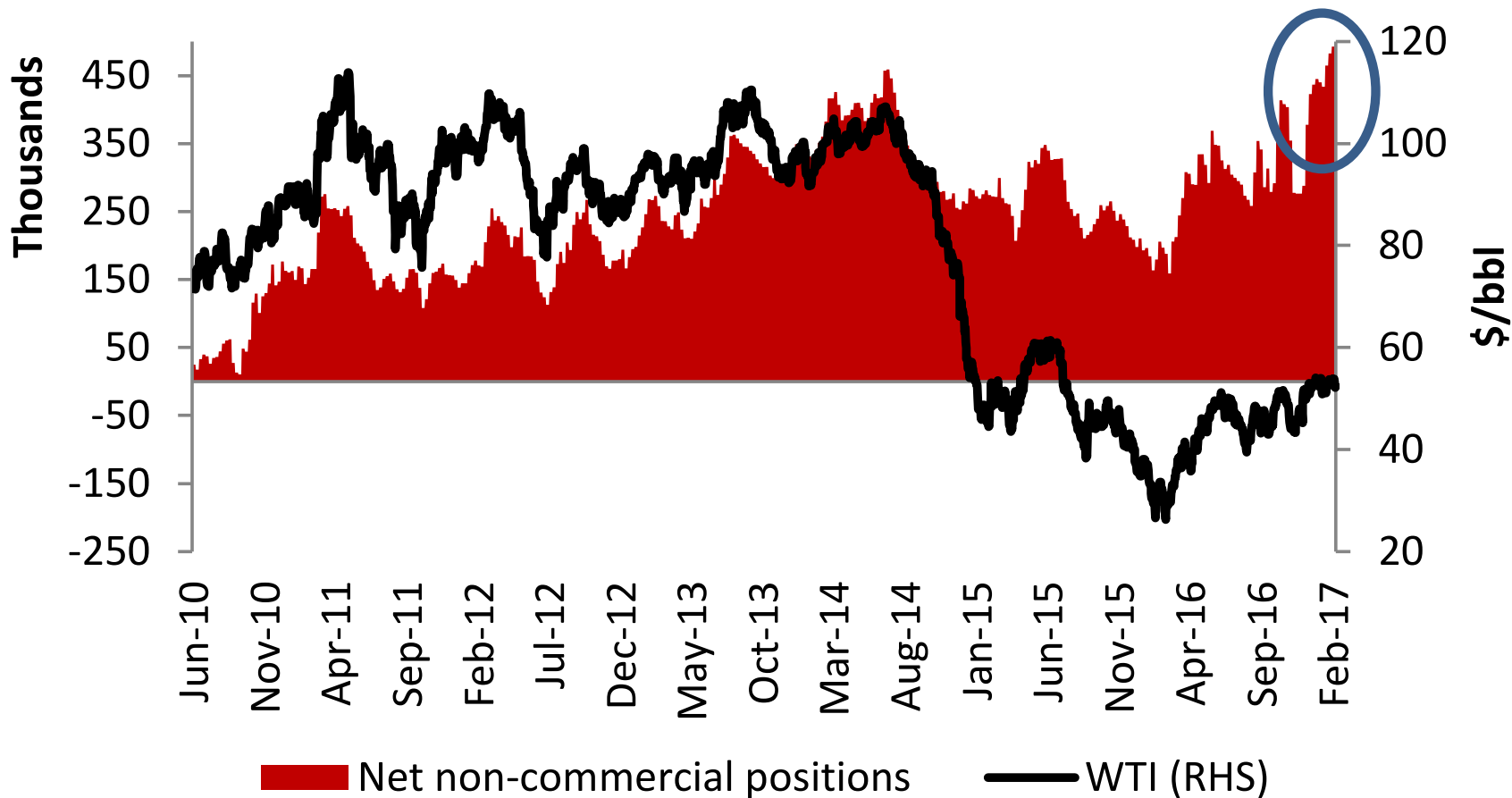


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Source: Bloomberg, US EIA, OCBC

Market-watchers are still (very) bullish in fact

Speculative demand remains strong into 2017



OPEC has been very compliant (almost 100%)!

thousand barrels per day	Reference Production Levels (a)	Projected production levels (Jan 2017) (b)	Actual Production (Dec 2016) (c)	Actual production (Jan 2017) (d)	Projected Adjustment from reference (b) - (a)	Actual Adjustment from reference (d) - (a)	Empirical change in production (d) - (c)
Production cuts	-	-	-	-	-1,164	-1,001	-840
Algeria	1,089	1,039	1,110	1,040	-50	-49	-70
Angola	1,751	1,673	1,670	1,670	-78	-81	0
Ecuador	548	522	550	530	-26	-18	-20
Gabon	202	193	210	195	-9	-7	-15
Indonesia*	-	-	824	-	-	-	-
Iran	3,975	3,797	3,730	3,800	90	90	70
Iraq	4,561	4,351	4,630	4,510	-210	-51	-120
Kuwait	2,838	2,707	2,860	2,710	-131	-128	-150
Libya**	-	-	630	690	-	-	60
Nigeria**	-	-	1,500	1640	-	-	140
Qatar	648	618	620	615	-30	-33	-5
Saudi Arabia	10,544	10,058	10,480	9,980	-486	-564	-500
UAE	3,013	2,874	3,070	2,910	-139	-103	-160
Venezuela	2,067	1,972	2,080	2,010	-95	-57	-70

* Indonesia suspended its membership

** Excluded from the agreement

More empirical data needed to gauge compliance from non-OPEC nations

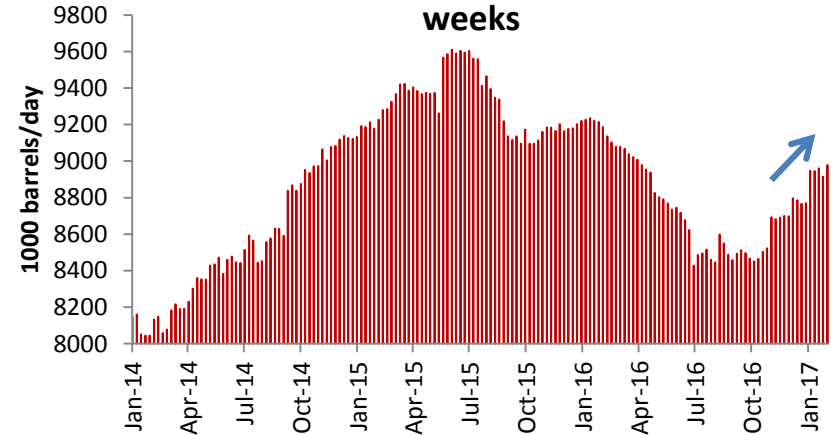
	Actual Production (Dec 2016)	Projected Adjustment	Projected January Production	Actual January Production
Non-OPEC	20,018	-558	19,460	?
Russia	11,900	-300	11,600	
Mexico	2,052	-100	1,952	
Azerbaijan	760	-35	725	
Oman	987	-40	947	
Kazakhstan	1,605	-20	1,585	
BBEMSS***	1,357	-63	1,294	
Bahrain	64	-	-	
Brunei	90			
Equatorial Guinea	279			
Malaysia	639			
Sudan	115			
South Sudan	170			

*** Production quota is not revealed for these countries

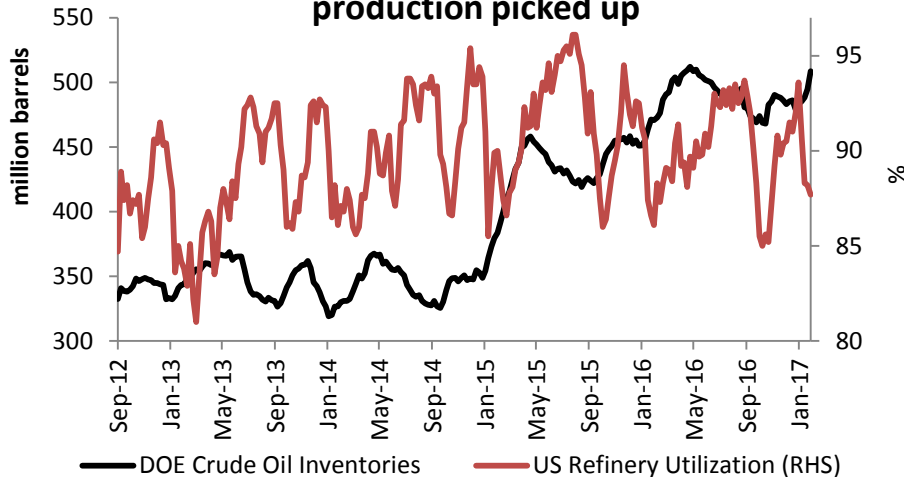
Look out for higher US oil production!

- Note that US EIA upgraded their US oil production outlook to 9.5 million barrels per day (bpd) into 2018, up from a previous call of 9.3 million bpd. US oil production has gained to 9.0 million bpd as of Feb 2017.
- Still, the upside in US oil supplies is merely about 500 thousand bpd, versus the agreed OPEC production cut of 1.2 million bpd (or 1.7 million bpd should we include non-OPEC cuts).

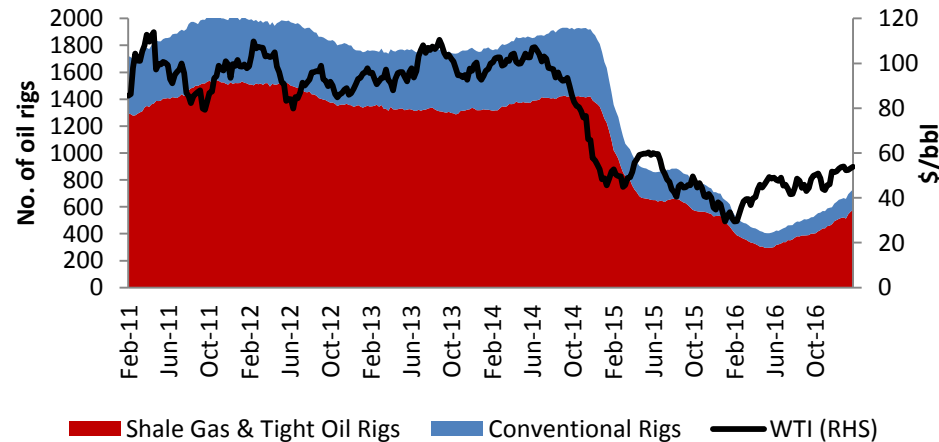
US production has proven to be reactive to higher oil prices - production rose in the recent weeks



US crude oil inventories tuned higher as production picked up



US oil rig counts has been increasing since June 2016



OCBC Commodities Price Outlook

As of February 9, 2017

	2016				2017			
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Energy								
WTI (\$/bbl)	33.6	45.6	44.9	49.3	53.8	57.5	61.3	65.0
Brent (\$/bbl)	35.2	47.0	47.0	51.1	57.5	60.0	62.5	65.0
Gasoline (\$/gallon)	1.18	1.54	1.40	1.48	1.59	1.72	1.79	1.86
Natural Gas (\$/mmbtu)	1.98	2.25	2.79	3.18	3.23	3.03	3.14	3.25
Precious Metals								
Gold (\$/oz)	1,185	1,260	1,334	1,217	1,220	1,200	1,150	1,100
Silver (\$/oz)	14.9	16.8	19.6	17.1	17.5	17.6	17.1	16.6
Platinum (\$/oz)	919	1,007	1,091	944	1,003	1,039	1,020	1,000
Palladium (\$/oz)	526	569	680	684	771	676	662	647
Base Metals								
Copper (\$/MT)	4,669	4,728	4,793	5,291	5,875	5,750	5,625	5,500
Tin (\$/MT)	15,465	16,912	18,592	20,777	18,931	20,536	20,089	19,643
Nickel (\$/MT)	8,514	8,834	10,271	10,796	10,412	11,275	10,817	10,377
Zinc (\$/MT)	1,684	1,927	2,257	2,527	2,838	2,641	2,462	2,200
Aluminum (\$/MT)	1,515	1,583	1,633	1,709	1,841	1,855	1,815	1,774
Asian Commodities								
Crude Palm Oil (MYR/MT)	2,467	2,597	2,629	2,933	3,100	2,800	2,750	2,650

Source:

Historical Data - Bloomberg

Forecasts - OCBC Bank

Note: Data reflects average price





Thank You

Disclaimer

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