Commodities: Crude Oil

OCBC Bank

Crude Oil: 3 key themes from April's OPEC Report

Thursday, April 11, 2019

House View				
	1 Week	**1 Month**	**3 Months**	**12 Months**
Latest	Bullish	Bullish	Neutral	Neutral

OCBC COMMODITY FORECAST 2019							
			2019				
	3Y AVG	Spot	Q1	Q2	Q3	Q4	Annual
Energy							
WTI ($/bbl)	53	56	55	58	62	65	60
Brent ($/bbl)	57	67	65	67	70	73	69

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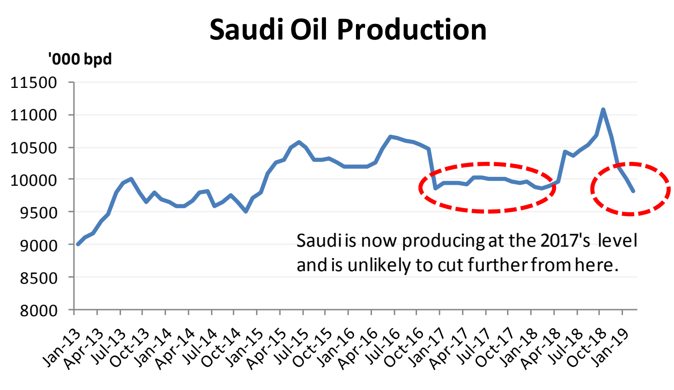
1) **Saudi has run its course… for now**

Saudi Arabia kept its commitment in curbing supply to 9.8m bpd but where to from here? Throughout 2017 till May 2018, Saudi produced 9.8m to 10m bpd of crude oil. Now that production levels have sunk back to 9.8m bpd from the high of 11m bpd in November 2018, it seems unlikely that Saudi will scale its production further back – especially given that Brent is now trading over $70/bbl.

What this means is that Saudi, which has borne 54% of OPEC's total production cuts since November, is unlikely to carry the bloc further from here. OPEC+'s decision to step into the market late last year with supply reductions were one of the key reasons for the stabilization and rebound of crude oil prices in Q1 this year. However, if oil bulls are still looking to Saudi to sustain the rally via further production curbs at this stage, they may find themselves disappointed.



Source: Bloomberg, OPEC, OCBC

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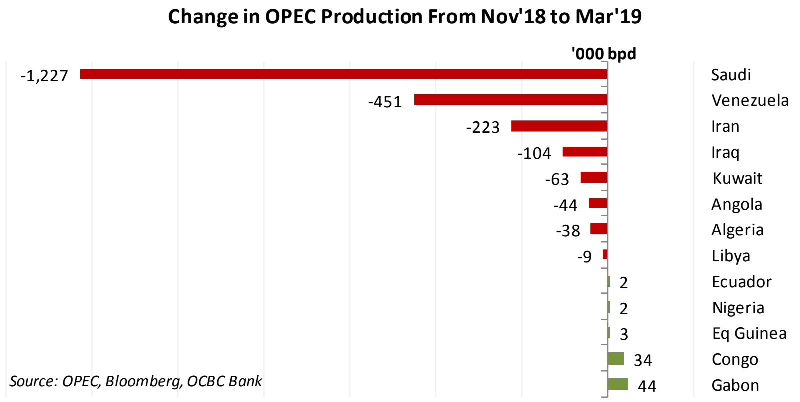
2) **Iraq, Venezuela the surprise factors**

Although Saudi naturally led the way in terms of production cuts, the surprise factors are found in Iraq and Venezuela. **After two months of non-compliance, Iraq finally**

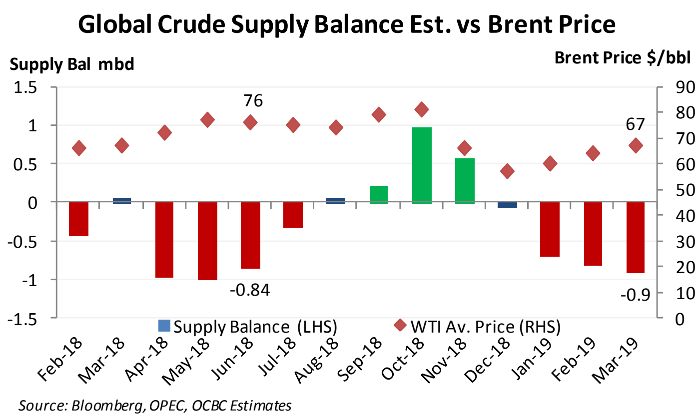
came round and produced 4.52m bpd, as agreed in the OPEC+ deal. The country had produced 4.70m and 4.63m bpd in January and February – an excess of 180k and 70k bpd above the quota respectively – but decided to cut a further 110k bpd in March to finally comply with the agreement. **Meanwhile, there is seemingly no end to how much further Venezuelan production can fall.** Just 12 months ago, Venezuela was producing 1.5m bpd – now it is producing less than half that amount at 730k bpd, lower than the preliminary private estimates of 870k bpd. Outside of Saudi, Venezuela has led OPEC in terms of production reduction – this despite the country being exempted from the OPEC+ deal due to its ongoing political crisis.

While Saudi looks like it has run its course in curbing supply, **Q1 has shown that OPEC as a whole may continue to see further reductions** from the likes of Iran and Venezuela, which are reeling from US sanctions and domestic crises.



3) **The market is close to being back at "fair value"**

Global supply deficit in March 2019 stood at -0.9m bpd, with Brent trading an average of $67/bbl in that period. The last time the global supply deficit was this high in June 2018 (-0.84m bpd), Brent traded at $76/bbl. Despite sharing a similar global demand balance, prices in March 2019 appeared to have traded at a huge discount of $9/bbl vis-à-vis the June 2018 levels – presumably on over-cautiousness as uncertainty over the global economy and the US-China trade tensions persist. Brent prices in April, however, has managed to break past the $70/bbl and is now inching closer towards "fair value" (using June's price as a benchmark). **If Libya loses 500k bpd of production or more from its Civil War 2.0 and brings the global supply deficit to -1.4m bpd, Brent may very well head past $80/bbl.**



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