ABN·AMRO

Energy Monitor

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From serious supply issues to a huge demand shock

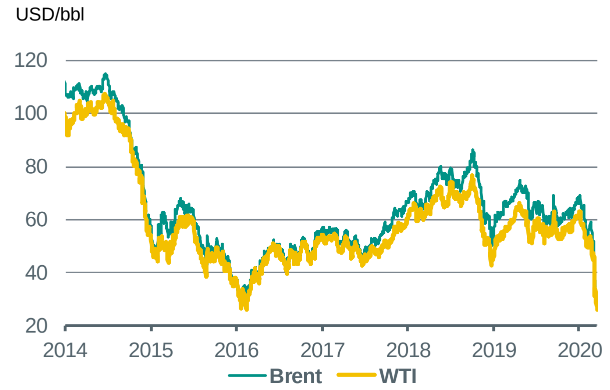
- **ABN AMRO's oil price forecast revised lower again**
- **Due to coronavirus-related measures, a much bigger oil demand shock is expected**
- **High build of inventories will cap much of the upside potential for oil prices**

Focus quickly shifts from supply to demand

In our Energy Monitor of 9 March we lowered our oil price forecasts. This was mainly based on supply-related issues after the failure of OPEC to reach an agreement regarding production cuts with its partners led by Russia. Although the supply related story has not changed much, demand-related issues are now becoming the driving factor for oil prices. With all kinds of measures being taken – including lock-downs, (partial) suspension of aviation, less commuting between work and home, etc – the impact on global oil demand will be huge. As a result, we have revised our oil prices down again, taking into account this new reality.

While we signalled the risk of a 4.5 mb/d fallout of global oil demand in our previous update, we now think that oil demand could be in for a much bigger fall. With all kinds of measures being taken to prevent further spreading of the coronavirus, global oil demand will drop significantly. In line with this, our economic growth forecasts have been revised lower. Please find them here. As financial markets have already started to price in this scenario, Brent oil prices were pushed below USD 28/bbl and WTI below USD 26/bbl.

Brent and WTI oil price developments



Source: Bloomberg

In times when financial markets are mainly driven by sentiment and prices are falling, it is extremely hard to forecast where this slide will precisely end. It is good to point out again that we therefore try to provide a directional view, which may give some guidance and rationale in times of great uncertainty. It is also good to keep in mind that further downside risks cannot be excluded. However, this is still part of a risk scenario, and therefore not our base case scenario.

Oil price forecasts revised lower again

Please find the rationale for our new oil price forecasts here.

- This new downward revision is mainly reflecting the impact of our new macro-economic growth forecasts and the effects of lower oil demand due to the coronavirus related measures being taken.
- With some sectors being more severely hit (e.g. transportation, aviation) due to the lock-downs, we expect a cut in demand of somewhere between 10-15% during Q2 20, followed by a modest recovery in Q3 20. This is equivalent to 10-15 mb/d. Global demand is expected to return to 'normal' levels of +/- 100mb/d in 2021.
- An OPEC+ deal has become less relevant for the near term. There are signs though that the Russian delegation indicated that oil prices have dropped too far. This means that a new production cut agreement is still possible before the current agreement expires at the end of this month. If such a new OPEC+ production cut agreement cannot be reached after all, the market focus will shift to the June OPEC meeting.
- The growth of US shale production will come to a halt through to the end of 2021. The number of US drilling rigs will start to decline from May/June. Production will start to decline in H2 2020 and in 2021 (-2 mb/d to a production level of +/- 11 mb/d).
- International oil production will also experience further pressure. International drilling rigs will start to decline in line with the trend in Europe, where a decline had already set in during H2 2019.
- Inventories will rise to the highest level in 5 years (some places even towards an all-time high). This will likely cap the oil price upside potential at +/- $50/bbl in 2020 and 2021.
- The forward curve shows a steep contango. We believe this will flatten by 2021.
- International oil companies will start to cut their capex. Nevertheless, the impact on global oil production will be limited for now, which means we can expect a normal depletion rate of +/-5% per year.
- We expect non-commercial long positions to be cut back further to neutral levels. Managed positions are already at neutral levels (so no further pressure expected). A further rise of short positions will probably not be seen due to the current low oil price level as well as restrictions to enter short positions by governments and regulators.

To summarize: we see a sharp drop in global demand. This is leading to higher inventories. The impact on supply will come with a delay. This combination will keep oil prices under pressure and cap upside potential. Our Q2 forecast is similar to the 2016 lows. Further downside could be seen, but will be temporary. In line with the economic recovery in H2, oil prices are expected to recover in H2 as well. Still, due to oversupply and even bigger inventories, the upside potential may be limited to USD 50/bbl in 2021.

Forecasts oil and gas prices

End of period		18-mrt	jun-20	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21	mrt-22	jun-22	sep-22	dec-22
Brent	USD/bbl	*27,74*	25	35	45	50	45	45	50	55	55	55	55
WTI	USD/bbl	*25,33*	25	35	44	48	42	41	45	50	50	50	50
Natural Gas (HH)	USD/mmBtu	*1,67*	2,10	2,25	2,75	2,50	2,50	2,50	2,75	2,50	2,50	2,50	2,50
TTF	EUR/MWh	*8,30*	13	14	15	15	14	15	17	18	17	18	18

Average		2019	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	2022
Brent	USD/bbl	64,17	33	30	40	36	48	48	45	48	48	55
WTI	USD/bbl	57,00	30	30	40	35	46	45	42	43	44	50
Natural Gas (HH)	USD/mmBtu	2,53	2,10	2,20	2,50	2,30	2,75	2,50	2,50	2,75	2,60	2,60
TTF	EUR/MWh	14,55	13	14	15	14	15	15	15	16	15	19