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Energy Monitor

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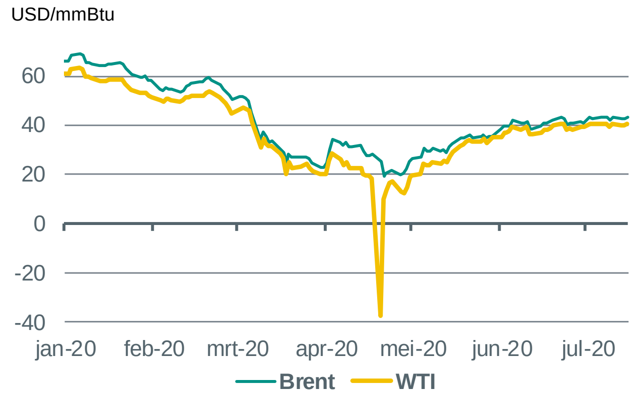
OPEC+ raises output despite vulnerable market conditions

- **OPEC+ will taper production cuts to 'only' 7.7 mb/d**
- **OPEC+ laggards need to compensate to meet their targets after all**
- **Oil demand expectations rise, although 2020 oil demand is still judged to be lower than 2019**
- **2021 should see a pickup in demand and it gives the opportunity for OPEC to increase their market share**
- **Oil prices: Capped at USD 45/bbl, while downside risks will remain**

Oil prices captured within a trading range

After a few hectic months, oil prices have calmed down over the past few weeks. The Brent oil price is trading within a neutral sideway bandwidth of roughly USD 37 to 44 per barrel, WTI is trading about 2 to 3 dollars lower. In particular, the top of this bandwidth has been tested several times, but for the time being the technical resistance level has proved too strong to break out upwards. Based on fundamental as well as technical analysis, the upside potential appears limited and the likelihood of a downward price correction increases.

Oil prices trading sideways after a volatile ride



Source: Bloomberg

Aligning supply with uncertain oil demand remains a huge challenge

The Organization of Petroleum Exporting Countries (OPEC) plus its partners led by Russia (OPEC +) have decided to phase out the production reduction agreement that started in April. The production cut will be eased from 9.6 mb/d (9.7mb/d -/- 100 kb/d from Mexico) to 7.7 mb/d. However, the ministers indicated that the laggards - such as Iraq, Angola, Nigeria and Kazakhstan - who failed to cut production as agreed, should still make up their share of the production reduction. The net reduction in the production reduction agreement is therefore smaller. This "catch-up reduction" is expected to be about 842 kb/d, so the effective production reduction in August and September will still be up to 8.5 mb/d.

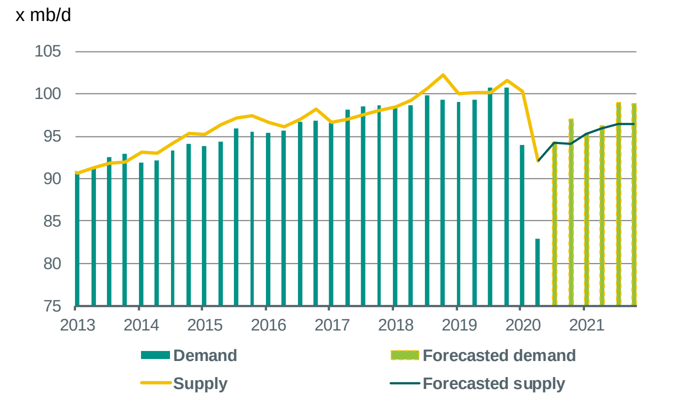
According to Saudi energy minister Prince Abdulaziz bin Salman, this new phase in the production agreement is possible because the demand for oil continues to pick up as more and more countries come out of a lockdown. He pointed out that it is a cautious and gradual recovery though. Russian energy minister Alexander Novak said during his introduction that compliance is more important than ever. He also pointed at the need to continue to evaluate the market situation on a monthly basis, and to adjust it if necessary.

Oil demand expectations revised upwards

Both OPEC and the International Energy Agency (IEA) have revised their expectations for global oil demand upwards. The groups both expect demand to be better than previously thought but for demand to remain below 2019 levels. Earlier this year, both organizations drastically cut their estimates due to the lockdowns which affected global oil demand. In its previous monthly report, OPEC still assumed a decrease of 9.0 mb/d. Now that the economy is picking up again, OPEC expects the average demand for oil to be 8.9 million barrels per day (mb/d) lower in 2020 than it expected before the COVID-19 outbreak. As such, just marginally better more demand that its last expectation report.

However, the more optimistic IEA came with a stronger positive adjustment of its estimates. The IEA expects demand for oil to fall by 7.9 mb/d to 92.1 mb/d in 2020, before recovering by 5.3 mb/d to 97.4 mb/d in 2021. That is still 2.5% lower than in 2019 but a solid improvement from their previous assessment. Indeed, in the monthly report of June, the IEA assumed a decrease of 8.1 mb/d in 2020 and a recovery of 5.7 mb/d in 2021.

IEA: supply versus demand



Source: IEA, ABN AMRO Group Economics

Things to improve in 2021, and OPEC's share could rise as the US recovers

In OPEC's Monthly Oil Market Report, the organization indicates that it expects demand for oil from OPEC countries to be 29.8 mb/d higher in 2021 than in 2019. This would be due to the recovery of oil production in the US will not move in parallel with the upturn in oil demand. According to the report, the supply of non-OPEC producers would decrease by 3.26 mb/d in 2020 and only recover by 920 kb/d in 2021. OPEC's market share could thus recover further. The IEA also foresees a recovery in demand for OPEC oil in 2021, but expects it to remain below the 2019 levels.

Technical image is back in line with fundamentals

The Brent oil price has entered a neutral zone after it stalled its upward trend (see graph below). The resistance appears to be exactly at the 50% Fibonacci retracement level. With the RSI (Relative Strength Index) slowly declining, creating negative divergence, upside momentum appears to be diminishing further. This technical view is coming more in line with the fundamental analysis. At the moment, this also mainly implies downward price risks.

Oil prices in neutral zone

USD/bbl

Source: Bloomberg, Michael Nabarro CMT, ABN AMRO Group Economics

Oil price estimates: downside risks, Brent at USD 45 / barrel at year end

Oil demand and supply are roughly balanced at the moment. But this balance is still very fragile, especially now that global stocks are still very large. The Brent oil price is currently trading within a neutral range of USD 37-44 per barrel, WTI in USD 34-42/bbl. We expect a downward price correction in the short-term, with prices moving lower in September, where we have Brent at USD 35/bbl. However, this to be followed by an increase to the end of the year, where we have a Brent forecast of USD 45/bbl by the end of 2020.

Government support and central bank measures to stimulate the economy are creating a natural upward pressure on stock markets and alternative investments such as commodities, including oil. However, we do not see a similar price rise in oil, as is the case in many stock markets. This is because there are some uncertain factors that can lead to downside price risks.

The main uncertain factor is the fact that the number of infections of COVID-19 continues to increase every day. After there has been a relaxation of the lockdown measures in many countries, we are now also seeing new lockdowns - either locally - being introduced. In addition, there are still countries that are still full in the first wave of COVID-19. Consider, for example, the US and Brazil. Global demand for oil has increased again since the trough in April. Still, the risk of new lockdowns may dampen sentiment regarding a further expected recovery in oil demand. News of a working vaccine would greatly reduce these risks.

In addition, we see the risk of overproduction if OPEC + does not fully adhere to their own agreements. Furthermore, with every price rebound we see an increase in speculation on higher oil production in the US. Finally, a period of risk aversion in the stock markets could spill over to commodity positions, creating additional price pressure. All of these factors can negatively affect the upside for the oil price and may even initiate a downward correction. Our estimates have been marginally adjusted based on the H1 2020 realization.

Forecasts oil and gas prices

End of period		15-jul	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21	mrt-22	jun-22	sep-22	dec-22	
Brent *	USD/bbl	*43,36*	35	45	50	45	45	50	55	55	55	55	
WTI *	USD/bbl	*40,77*	32	40	45	42	41	45	50	50	50	50	
Natural Gas (HH) *	USD/mmBtu	*1,75*	1,90	2,00	2,10	2,00	2,00	2,30	2,50	2,20	2,30	2,50	
TTF *	EUR/MWh	*13,05*	14	15	15	14	15	17	18	17	18	18	
Average		**2019**	**Q3 20**	**Q4 20**	**2020**	**Q1 21**	**Q2 21**	**Q3 21**	**Q4 21**	**2021**	**Q1 22**	**Q2 22**	**2022**
Brent	USD/bbl	64,17	38	40	40	48	48	45	48	47	53	55	55
WTI	USD/bbl	57,00	36	36	37	43	44	42	43	43	48	50	50
Natural Gas (HH)	USD/mmBtu	2,53	1,80	2,00	1,90	2,10	2,10	2,00	2,20	2,10	2,40	2,40	2,40
TTF	EUR/MWh	14,55	14	15	14	15	15	15	16	15	18	18	18

* Brent, WTI and Henry Hub: active month contract; TTF: next calendar year