

Energy Monitor

Group Economics

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Oil prices revised lower

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- **Lingering trade war leads to lower oil price forecasts**
- **Price difference between Brent and WTI will remain smaller**
- **Risks of larger price swings have increased**

Lower economic growth leads to slower growth of global oil demand

Due to the new escalation of the trade war between the US and China an agreement seems to be further away than ever. The import taxes have a negative impact on global growth. The downward adjustments to our economic growth forecasts of many countries also have a negative impact on our oil price forecasts. Lower demand growth for oil is the main reason to lower our oil price forecasts. Please follow [the link](#) to our latest adjustments on the macro economic growth forecasts.

Oil price forecasts revised lower

As we lowered our macro-economic growth forecasts, it also has implications for our expectations for global oil demand growth. On top of that, the overall market sentiment has turned somewhat more negative and oil prices have been between crucial technical support levels. Although we don't expect oil prices to trade significantly lower for a long period of time, we do see these events as a reason to lower our oil price forecasts. We lowered our year-end Brent oil price to USD 60/bbl from USD 70/bbl and WTI to USD 55/bbl from USD 60/bbl. We also think that oil prices will remain subdued for longer in 2020 and 2021 in our base case scenario than we had. The long-term effects of the trade war and the extra production potential, especially from OPEC, could cap the upside potential. Please find our new oil price forecasts in the table below.

Table 1: Oil price forecasts ABN AMRO

End of period		12-aug	sep-19	dec-19	mrt-20	jun-20	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21	
Brent	USD/bbl	58,50	55	60	60	65	65	70	70	70	75	75	
WTI	USD/bbl	54,40	50	55	55	60	60	65	65	65	70	70	
Average		Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	2021
Brent	USD/bbl	60	58	62	60	63	65	68	65	70	70	73	73
WTI	USD/bbl	55	53	56	55	58	60	63	60	65	65	68	68

Temporary dip towards USD 50/bbl is possible, but such a move won't last

In recent months, we have seen price swings between USD 50-76 for Brent and USD 42-66 for WTI. We think that in the near term the lows of these price ranges can be tested again, but will be followed by a price recovery shortly afterwards. In the near term, Brent oil prices could even decline to the December 2018 low of USD 50/bbl. This is possible if market sentiment remains negative and OPEC does not intervene by lowering its

production even further. Nevertheless, we don't expect such a temporary price dip to maintain.

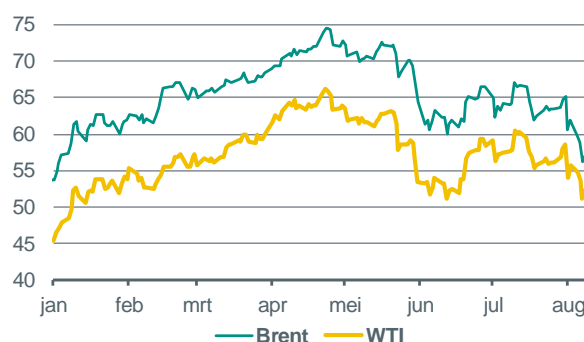
The downside risks are protected by several factors. The tensions in the Middle East are still lingering in the background and could escalate any moment. Further, OPEC won't be happy with lower oil prices. We expect that the OPEC will step up its efforts to stop the slide in oil prices. Initially OPEC will try to put a floor under prices by verbal intervention, but if that doesn't work, OPEC could actually lower production.

Fed rate cuts and, as a result, even lower interest rates could also prove to be supportive for commodity prices, including oil, if investors start to search for more alternative investments to gain some return on their investments. This will likely only play out if investor sentiment improves considerably. We don't expect such improvement in sentiment before the US elections. The tensions and uncertainty surrounding the trade conflict lead to a negative market sentiment. This increases pressure on alternative investments, like commodities, even further. We think that quite some trade tensions are already reflected in oil prices. Long positions (speculation on price gains) were already sold, and short positions (speculation on price declines) were already increasing. A flight to safe havens may lead to support for the US dollar. However, we expect that the upside for the USD will remain limited (year-end forecast EUR/USD 1.12). Therefore, extra pressure on oil prices on the back of a stronger dollar is something we don't expect.

Finally, we expect that the US crude production could peak on a temporary basis as soon as the price for WTI declines too far too fast.

Brent and WTI crude prices under pressure

x USD/bbl



Source: Bloomberg

Important data:

16 Aug	OPEC Monthly Oil Market Report
27 Aug	EIA Monthly Energy Review
10 Sept	EIA Short-term energy outlook
12 Sept	IEA Oil Market Report
13 Nov	IEA World Energy Outlook
5-6 Dec	OPEC/non-OPEC meeting

Brent/WTI spread to remain smaller

Since early June, the price difference between Brent and WTI has dropped to less than USD 5/bbl from USD 11/bbl. Partly, this move can be explained by the fact that the trade tensions have a bigger impact on Brent than on WTI. Brent is a benchmark in which global economic trends as well as the tensions in the Middle East are better reflected than in WTI prices. WTI is mainly driven by developments in the US. As geopolitical tensions in the Middle East seem to have been pushed to the background as market attention turned forward the trade dispute, the Brent/WTI spread narrowed.

Now the US will start to export more oil, the price of WTI will also be more sensitive to global developments. The price difference with Brent will stay small. We think that Brent oil will remain more sensitive towards developments in the Middle East. In case of higher geopolitical tensions between oil producing countries in the region, we expect the risk premium (higher price as market investors speculate on possible supply disruptions) will remain bigger for Brent than for WTI. For the second half of 2019, and 2020, we lowered the Brent/WTI spread to USD 5/bbl from USD 10/bbl.

Brent / WTI spread becomes smaller

x USD/bbl



Source: Bloomberg

Risks of larger price swings increased

The scenario described above is our base case scenario. Nevertheless, there are several risks which could affect this base case scenario. We mention five important risks:

- 1.) Trade war: (+) If unexpectedly the US and China could come to an agreement, it would trigger a positive impulse to market sentiment as well as expectations for future oil demand. This would trigger a significant price recovery as investors are mainly positioned for oil price weakness.

(-) Another risk which may put extra pressure on oil prices is the Chinese policy regarding Iranian oil. Although the US imposed sanctions against Iran, China still buys oil from Iran albeit at significantly lower volumes. As a major oil importer, China could decide to increase its oil imports from Iran again as a next step in the US/China trade war. Such a decision would build on the already ample crude inventories and result in more downward pressure on oil prices.

- 2.) Growth potential US shale oil: (-) The US (shale) oil production is growing at a solid pace. As a result, the US is now the biggest oil producer in the world. Market expectations are that the US crude production will continue to grow, which can continue to put downward pressure on prices in the short term.

(+) However, the main question is for how long and at what pace the US crude production can continue this growth path. If the market overestimates the growth potential of US shale oil, it could be that the current oversupply is possible though not

as substantial as one now thinks. Therefore, in the long term a supply disappointment can put upward pressure on oil prices.

- 3.) Escalation tensions in the Middle East: (+) The attention may seem to have eased somewhat, but the situation in the Middle East is still tensed. We think that an escalation would not affect the oil production / oil exports of the large oil producers. But it cannot be fully ruled out either. If the transportation of oil through the Strait of Hormuz is disturbed, it would trigger a strong oil price rally.
- 4.) Market share Saudi Arabia: ((+) The Saudi Energy Minister Khalid Al-Falih repeated, like in 2017, that he will do everything needed to prevent oil prices from dropping further. A deeper production cut would be the most logical and next step. Another, but more aggressive option, is to increase tensions in the region to push oil prices higher.

(-) Nevertheless, by cutting oil production even further, Saudi Arabia would also lose even more market share. It will strongly depend on their long term outlook on the US shale oil growth potential whether the Saudi policy makers will allow a further decline of market share.

- 5.) Compliance OPEC: (-) OPEC and its partners have tried to lower the (perception of) global oversupply by cutting crude production by 1.2 mb/d. Now oil prices are trading at relatively low levels. This despite the production cuts by OPEC-oil producers. There is little room left for them to cut production even further as they did in 2017. Therefore it becomes more difficult for all OPEC members to stick the agreement. Also Russia, as most important non-OPEC participant, will be challenged in the coming months to remain compliant. This is because there is a seasonal rise in local demand. More crude production from either OPEC or non-OPEC would add to the oversupply, which is mainly caused by the rise in US shale oil.

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