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The **Organization of the Petroleum Exporting Countries** would like to update the distinguished delegates to the **International Monetary and Finance Committee (IMFC)** on current oil market conditions and developments.

Over the past three years, the dedicated efforts by OPEC and non-OPEC producing countries participating in the **Declaration of Cooperation (DoC)** have led to an improvement in oil market stability, thereby supporting global economic growth. Recent unexpected supply disruptions in the global oil market have underscored just how important the DoC is. Additionally, uncertainties in the global economy have led to downward revisions of global economic growth forecasts in recent months; not only by OPEC, but also by a variety of reputable institutions, including the IMF. Hence, closely monitoring the oil market by OPEC and non-OPEC producing economies has become even more imperative. The global oil market today is showing more balance between supply and demand, despite rising oil supply from non-OPEC producers, thanks to the continuous strong conformity level from OPEC and participating non-OPEC producing countries in the **DoC with their voluntary adjustments in production** that have continued to improve market conditions and market stability. Nonetheless, oil prices witnessed rising volatility in the second and third quarter this year owing to concerns about weakening global economic and oil demand growth amid escalating trade disputes and heightened geopolitical tensions.

Turning to global economic growth, after two years of relatively high growth levels, global GDP growth is forecast to stabilize at 3.0% in both 2019 and 2020. This constitutes sound growth with ongoing solid oil demand, despite the many uncertainties in the political arena. Ongoing trade disputes, Brexit and a slow-down in Germany loom large in the EU, the sovereign debt crisis in Argentina in combination with low growth in Brazil are dampening Latin American growth, and ongoing structural challenges in India are leading to significantly lower output, at least in the current year. An upside to the current forecast could come from an agreement on trade-related issues between the US and its trading partners, given that trade was a substantial support factor for above-average global growth in the past two years. Furthermore, an amicable resolution of Brexit, an amelioration of geopolitical tensions and stabilization in those economies that face fiscal challenges could also lift growth to a higher level. An important support factor this year has been the relatively stable oil market, which continues to benefit from the DoC. This has not only been beneficial to oil producing economies, including major OECD economies such as the US and Canada, but also to consumer nations.

Within the **OECD** group of countries, US economic growth continues to slow after last year's support from the large fiscal stimulus measures. Consequently, growth is forecast at 2.3% in 2019, followed by growth of 1.8% in 2020. In the Euro-zone, economic challenges in Germany, political uncertainties in selective countries and Brexit are leading to lower growth, growth is forecast at 1.2% for 2019 and 1.1% in 2020. Meanwhile, Japan's growth is forecast as holding up relatively well in 2019 at 0.9%. Considering the sales tax increase in 4Q19 and the economy continuing to be constrained by very low unemployment and high utilization rates in the industrial sector, growth is forecast at 0.3% in 2020.

In the **emerging markets**, India has experienced significantly lower-than-expected growth rates for 1H19. While some pick-up in 2H19 is expected, growth rates are forecast to be lower than in previous years at 6.1% for 2019 and 6.7% for 2020. China's GDP growth will continue slowing and will also be impacted by the ongoing trade dispute with the US. Growth in 2019 is forecast at 6.2%, followed by 5.9% in 2020. Meanwhile, Brazil's growth forecast stands at 0.8% for 2019 and at 1.4% for 2020. This will depend not only on policy actions by the government and commodity price developments, but also on developments in its close trading partner, Argentina. Russia's growth is forecast at 1.0% for 2019 and 1.2% in 2020, also subject to external and domestic political developments, as well as energy commodity prices.

The slowing momentum in the global economy has been reflected in **central bank policies**, with monetary policies remaining relative accommodative. The Fed is forecast to further lower interest rates into 2020. The ECB may also expand its monetary supply further. Moreover, the BoJ has also indicated ongoing monetary support, while the BoE will likely expand its supply in the case of a worsening Brexit outcome. Importantly, central banks in several emerging and developing markets have lowered interest rates recently in order to support their economies. This ongoing monetary stimulus will still need to be further supported by the right fiscal and general policy mix to foster growth appropriately.

Turning to the oil market, **world oil demand** experienced lower-than-expected growth in **2019**, increasing by 0.98 mb/d compared to an initial expectation of 1.45 mb/d in July 2018. The slower-than-anticipated performance in both OECD and non-OECD, which was largely due to macroeconomic developments, impacted oil demand negatively during the 1H19.

From a regional perspective, in **OECD Americas**, a slowdown in manufacturing activity and modest gasoline demand growth limited overall oil demand growth in 1H19. This occurred despite steady demand for NGL/LPG, particularly petrochemical feedstock. Oil demand in **OECD Europe** was muted in 1H19. Increases in oil demand in the UK, Spain and Portugal were offset by declines in Italy, the Netherlands and Belgium. Generally softening macroeconomic indicators, including slower manufacturing and vehicle sales data, and warmer weather conditions impacted oil demand negatively during the 1H19. **OECD Asia Pacific** registered a sluggish performance during 1H19 in all major countries in the region. Demand growth eased substantially as a result of lower petrochemical feedstock demand, largely due to poor margins and heavy maintenance activities, particularly in South Korea. Trade tensions lowered heavy distillate requirements in the power generation sector.

In the **non-OECD** region, oil demand was steady in **China**, despite slower diesel fuel requirements in most parts of the year. Firm light distillates and gasoline requirements drove demand, due to continued growth in the petrochemical and transportation sectors. In **Other Asia**, demand was also softer than initially expected, practically in India. During the 2Q19 demand in India weakened amid slower-than-expected bitumen demand in the construction sector, particularly road construction, while the main products, namely gasoline and diesel fuel, recorded relatively steady growth. Economic conditions in **Latin America** and major economic reforms in the **Middle East** slowed demand in these regions.

In **2020**, **world oil demand** is projected to increase by 1.08 mb/d y-o-y, 0.10 mb/d higher than the current year's estimate. The OECD is projected to increase by 0.07 mb/d, with Americas being the only OECD region in the positive growth. In the non-OECD region, oil demand is anticipated to add 1.01 mb/d, with most of the support stemming from Other Asia, particularly India, followed by China. Total global oil demand is projected to exceed the 100 mb/d threshold to register 100.88 mb/d of global consumption.

In **OECD Americas**, oil demand is projected to grow in 2020, albeit at a slower pace than that projected for 2019. Ethane cracking capacity additions in the US are anticipated provide support for demand growth. In **OECD Europe**, oil demand is projected to contract for another year, as uncertainties in various economies are anticipated to cap oil demand growth potential. In OECD **Asia-Pacific**, oil demand is projected to contract in 2020. Substitution and efficiency gains in Japan are expected to be partially offset by gains in South Korea and Australia.

Oil demand growth in **China** is expected to slow marginally from the current year's growth levels in line with the projected macroeconomic picture in the country. In **Other Asia**, with steady economic activities in the major countries of the region, oil demand is anticipated to increase from 2019 levels supported by transportation and industrial sectors demand. In **Latin America**, oil demand growth in 2020 is anticipated to be higher than during 2019, mainly due to economic developments in the region. In the **Middle East**, oil demand growth is anticipated to improve from the level in 2019, but remain lower than the historical norms.

With regard to the supply side, **non-OPEC oil supply in 2019** is estimated to grow by 1.82 mb/d y-o-y. The US, Brazil, China, the UK, Australia and Canada were the main drivers for y-o-y growth, while Mexico and Norway are projected to see the largest declines. The key contributor for growth was the **US**, with y-o-y growth of 1.67 mb/d.

For **2020, non-OPEC oil supply** is forecast to increase by 2.20 mb/d y-o-y. The US, Brazil, Norway, Russia, Canada, and Australia are expected to be the main growth drivers for next year, while Mexico, Indonesia, Egypt, the UK and Colombia are forecast to see the largest declines. The **US** is anticipated to remain the main contributor to liquids supply growth, but at a slower pace of 1.54 mb/d in 2019, due to increased capital spending discipline leading the downturn in drilling and completion activities in all regions. The 2020 non-OPEC supply forecast faces a large amount of uncertainty, mainly with regard to oil prices, hedging, cost inflation, production taxes and unexpected production outages related to technical issues, delayed start-ups, pipeline capacity constraints in Canada, geopolitics and unplanned maintenance.

Meanwhile, **OPEC NGLs and non-conventional liquids** production in 2019 and 2020 is expected to grow by 0.05 mb/d and 0.03 mb/d, respectively, to average 4.81 mb/d and 4.84 mb/d. In September 2019, OPEC crude oil production decreased by 1,318 tb/d to average 28.49 mb/d, according to secondary sources.

The latest information indicates that **OECD commercial oil stocks** in August 2019 stood at 2937 mb, around 11 mb above the five-year average. Compared with the latest five-year average, crude indicated a deficit of 28 mb, while product stocks showed a surplus of 39 mb.

On a regional basis, OECD Americas and OECD Europe indicated gains versus the latest five-year average of 32 mb and 17 mb respectively, while OECD

Asia Pacific stocks stood at 38 mb below the latest five-year average. The OECD commercial overhang has been sharply reduced by 290 mb since the DoC began to be implemented from January 2017.

In terms of **days of forward cover**, OECD commercial stocks rose in August 2019 to stand at 60.9 days, which is 1.2 days lower than the latest five-year average. Within the regions, OECD Americas had 1.2 days less than the historical average of days of forward cover to stand at 60 days in August. OECD Europe's stocks in line with the latest five-year average to finish the month of August at 67.9 days. OECD Asia Pacific indicated a deficit of 4.0 days below the latest five-year average to stand at 50.6 days in August.

Based on OPEC's supply/demand estimations, **demand for OPEC crude** averaged 30.7 mb/d in **2019**, 0.9 mb/d lower than 2018. In comparison, according to secondary sources, in 1Q19, **OPEC crude production** averaged 30.5 mb/d, about 0.4 mb/d higher than the demand for OPEC crude in that quarter, while in 2Q19, OPEC crude production averaged 30.0 mb/d, around 0.4 mb/d lower than the demand for OPEC crude.

In **2020**, **demand for OPEC crude** is forecast to average 29.6 mb/d, around 1.2 mb/d lower than the level estimated in 2019.

In closing, **OPEC** would like to take this opportunity to reaffirm its longstanding commitment to supporting oil market stability for the mutual benefit of consuming and producing nations, contributing significantly to an improvement of the global economy. The historic success of the **DoC** continues to underscore the leadership role of the Organization in bringing forward the rebalancing of the oil market to ensure a **stable and constructive environment** in which future energy requirements can be met, supported by healthy market fundamentals.