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Statement by Mr. Barkindo
OPEC

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H.E. Mohammad Sanusi Barkindo
Secretary General
Organization of the Petroleum Exporting Countries (OPEC)
to the
International Monetary and Financial Committee (IMFC)
Washington, D.C.

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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.

Crude oil prices recovered and stabilized over 2017, with the OPEC Reference Basket averaging $52.43/b for the year and $64.75/b for 1Q18. Prices trended higher over most of 1Q18, albeit within a tight range, on anticipated robust oil demand growth this year, tightening US crude stocks and short-term dynamics dominated by moves in equity and currency markets, as well as political news. Nevertheless, oil prices saw some pressure towards the end of February, as major US equity market averages declined sharply and the dollar firmed against a basket of major currencies, causing a sell-off in crude oil futures.

Global economic growth has recovered significantly and is forecast to stand at 3.8% in both 2017 and 2018. This momentum is largely synchronized, with all major economies having shown a growth in 2017, with the exception of India, due to its major structural reforms, and the UK, which was impacted by Brexit. The positive dynamic has, to a large extent, been supported by unprecedented monetary stimulus by Central Banks seen over the past years in the major advanced economies which is now buttressed by considerable fiscal stimulus measures in the US. However, growth limitations have emanated recently, as major Central Banks have begun to normalize monetary policies, some economies have reached, or are growing above, growth potential and some lead and sentiment indicators are pointing to a moderation in the ongoing formidable growth dynamic. Moreover, in addition to these limitations, the most recent US announcements to impose trade tariffs, as well as potential debt-related consequences of the US fiscal stimulus may further dampen the outlook.

In the **OECD**, the US continues to show solid underlying growth, supported by ongoing improvements in the labour market, which translates into healthy consumer and business sentiment. This, together with the considerable fiscal stimulus is driving growth to 2.7% in 2018, following growth of 2.3% in 2017. However, current political developments and monetary policy decisions could moderate growth going forward. In the Euro-zone, GDP growth also remains considerable, supported by the ECB’s ongoing accommodative monetary policy and declining unemployment levels. GDP is forecast to grow at 2.3% in 2018, following 2.5% in 2017, although numerous political uncertainties in combination with ongoing high sovereign debt-levels remain along with some weakness in the banking system. Japan is expected to show slightly lower growth of 1.5% in 2018, compared to 1.7% in 2017. Structural reforms and ongoing monetary stimulus, together with fiscal support, provide the basis for the ongoing growth momentum in the economy, while further upside is considered to be limited.

In the **emerging markets**, growth remains well supported. China is forecast to grow by 6.5% in 2018, after reporting strong growth in 2017 of 6.9%. Ongoing high provincial and private-sector debt levels in combination with past years' challenges in the financial sector will require close monitoring. India is forecast to recover to growth of 7.2% in 2018, following only 6.3% in 2017, considerably impacted by economic reforms, such as the introduction of the Goods and Services Tax (GST). Meanwhile, Brazil and Russia are forecast to continue their recovery with 2018 growth of 2.1% and 1.8% respectively, following 1.0% and 1.5% in 2017. However, uncertainties with regard to both economies remain

Turning to the oil market, for the third consecutive year **world oil demand** growth stood at 1.7 mb/d in 2017. Total oil demand for the year was pegged at 97.07 mb/d. Collectively, between 2015 and 2017 the world added around 5 mb/d of oil products demand on the back of healthy global economic conditions and a relatively low oil price environment. In 2018, global oil demand is forecast to increase by around 1.6 mb/d to average 98.70 mb/d. The largest contributors to this growth are China, followed by Other Asia – with India accounting for most of the gains – and OECD Americas.

In the **OECD**, the main factors supporting oil demand growth in the current year include a steady rise in global economic activities, in addition to capacity additions and expansions in the petrochemical sector, particularly in the US and South Korea. Road transportation fuel requirements for gasoline, jet fuel and diesel oil are anticipated to provide the bulk of growth in 2018, propelled by steady vehicle sales in the US, and OECD Europe. Risks to oil demand growth are foreseen coming from a number of factors, namely: steady gains in energy efficiency; and the level of substitution towards other fuels in OECD America and Asia Pacific. Finally, the degree of digitalization and technological development in various sectors is also likely to cap oil demand growth in 2018.

Oil demand growth in the **non-OECD** regions is forecast to be robust in China and firm in India within regard to the historical average. Oil demand is expected to be supported by healthy LPG requirements from the petrochemical sector in China and the residential sector in India. Gasoline also is projected to grow solidly in both nations, on the back of firm vehicle sales in both nations. On the other hand, oil demand in Latin America and the Middle East is forecast to be impacted by steady economic growth as well as fuel substitution and partial subsidy removals on oil products.

On the supply side, **non-OPEC oil supply** in 2017 is estimated to have grown by 0.90 mb/d to average 57.90 mb/d. The main drivers for this growth were the US, Canada, Kazakhstan and Brazil, while oil output declined mostly in Mexico and China.

For 2018, **non-OPEC oil supply** is forecast to grow by 1.71 mb/d to average 59.61 mb/d, with the main contributors being the US, Canada and Brazil, while production is forecast to decline mainly in Russia, Mexico and China. US liquids supply is forecast to grow by 1.5 mb/d in 2018, to average 15.83 mb/d, following growth of 0.69 mb/d in 2017. The forecast for 2018 has been driven by the oil price recovery, increasing investments by IOCs and NOCs particularly in the shale industry. However, the forecasts for this year reflect a high level of uncertainty due to factors such as oil price developments, companies' financial circumstances, and changes in projects which have still not received a final investment decision.

Meanwhile**,** **OPEC NGLs** production in 2017 is estimated to grow by 0.17 mb/d, to average 6.31 mb/d, while for 2018, growth of 0.18 mb/d is forecast, to average 6.49 mb/d.

The latest information indicates that **OECD commercial oil stocks** in February 2018stood at 2854 mb, around 43 mb above the five-year average. Crude stocks show a surplus of 55 mb, while product stocks registered a deficit of 12 mb below the latest five-year average. On a regional basis, the bulk of the overhang came from OECD Americas and OECD Europe, indicating gains versus the seasonal average of 39 mb and 12 mb, respectively, while OECD Asia Pacific stocks stood at 8 mb below the latest five-year average. It should be noted that the OECD commercial overhang has been sharply reduced by 294 mb from the implementation of the Declaration of Cooperation.

In terms of **days of forward cover**, OECD commercial stocks rose in February 2018 to stand at 60.6 days, which is 0.6 days lower than the latest five-year average. Within the regions, OECD Americas saw 0.3 days of forward cover less than the historical average, to stand at 59.4 days. OECD Europe indicated a deficit of 1.2 days below the seasonal norm, to stand at 69.0 days, while OECD Asia Pacific stood 0.8 days lower than the seasonal average to finish the month at 49.6 days.

Based on OPEC's supply/demand projections, the **demand for OPEC crude** is expected to average 32.6 mb/d in 2018, some 0.3 mb/d lower than in the previous year. In 1Q18, **OPEC crude oil production** stood at 32.11 mb/d, around 0.6 mb/d higher than the demand for OPEC crude.

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 to an improving global economy. The historic success of the Declaration of Cooperation underscores 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.