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OPEC's forward guidance is back

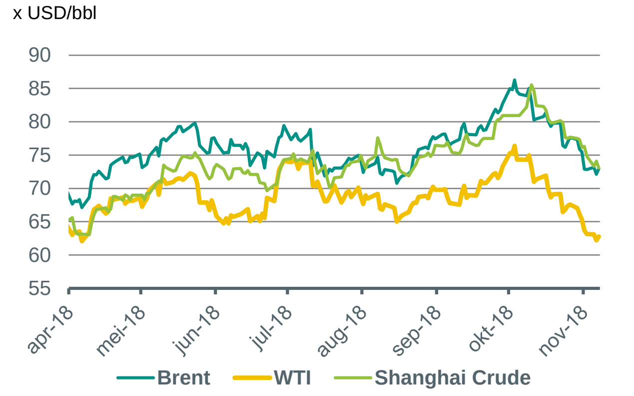
Hans van Cleef
Sr. Energy Economist
Tel: +31 20 343 4679
hans.van.cleef@nl.abnamro.com

- **Oil prices came under pressure**
- **OPEC communicates direction via its 'forward guidance'**
- **Our forecast for higher oil prices in 2019 unchanged**

Oil prices came under pressure

Whereas early October oil prices traded still above USD 85/bbl, since then currently have prices dropped significantly. Brent oil has tested the USD 70/bbl support level while WTI and the Shanghai Crude Index has showed similar price declines. There were several reasons for the drop in oil prices.

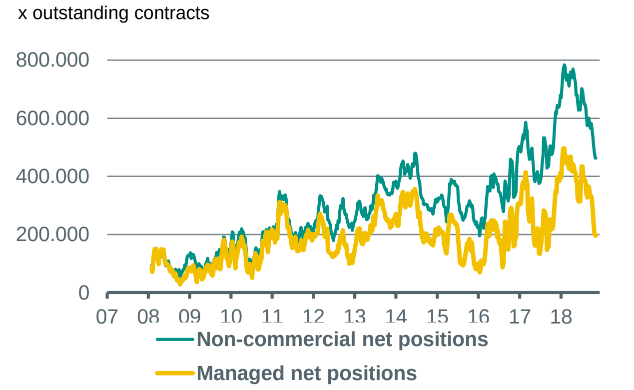
Brent, WTI and Shanghai Crude oil prices



Source: Bloomberg

For a start negative investor sentiment in financial markets has resulted in lower oil prices. In line with the drop in stock markets, investors decided to sell some of their risky assets, like oil, as well. As a result, long positions anticipating higher prices have been reduced both by hedge funds as the more speculative investors. The number of short positions has increased somewhat but most investors have decided to wait at the sidelines. The negative sentiment was also visible in the overall technical picture. The recent price decline pushed both Brent and WTI below the 200-day moving average. This may be a fall break, but this must be seen as a serious warning signal that the uptrend of the recent months has entered a more neutral phase.

Market positioning investors

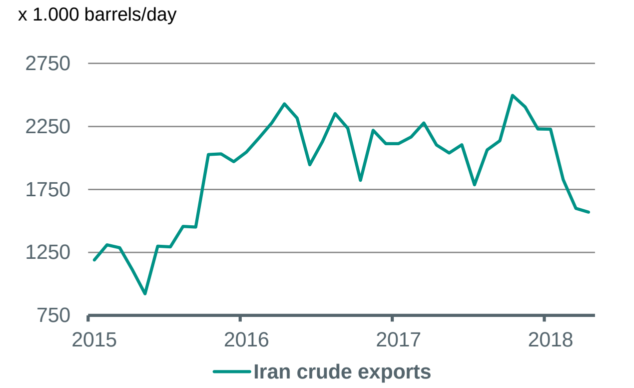


Source: Bloomberg

Sanctions against Iran became effective but waivers dampen the impact

Moreover the announcement that the US provided some waivers to eight countries in the Iran sanctions has also weighted on oil prices. As a result, these countries can continue to buy oil from Iran. Such waivers were already expected for China and India, however, also Italy, Greece, Japan, South Korea, Taiwan and Turkey have received one. The main reason for these waivers is the lack of alternatives for the refineries in these countries. Ahead of the sanctions, oil prices already gained. Due to these waivers, investor' fears for shortages in the near term have eased and as a result, oil prices have dropped. The effect of these waivers is that the sanctions prove to be less harsh than feared earlier. The waivers are in place for 180 days and will then be evaluated. This does not mean that the sanctions are not effective at all. Both Iran's crude production as well as its exports dropped, and are expected to drop even further.

Crude oil exports Iran



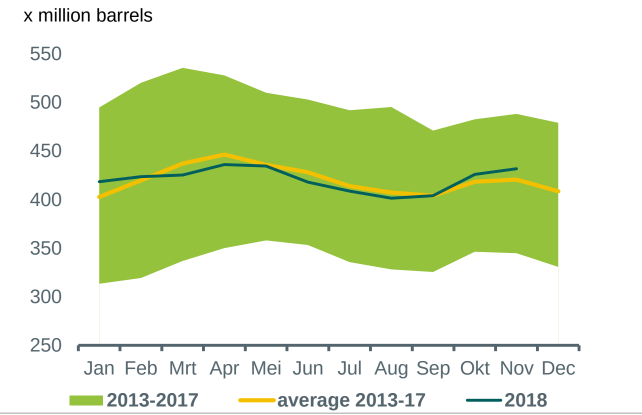
Source: Bloomberg

Ahead of the sanctions, both Saudi Arabia and Russia increased their oil production to meet the lower supply from Iran. It looks like that the leaders of these two countries have listened to US president Donald Trump to increase production and thereby lower oil prices. Now that the US mid-term elections are over, the political pressure from the US has eased. We expect that Saudi Arabia and Russia will focus on their own agendas again.

US crude inventories are building

In addition the rise in US crude inventories have resulted in lower oil prices. US crude inventories have risen for several weeks in a row now. This is seen by the market as a confirmation that there is enough oil available. Some investors even believe that the global oil market is heading towards a new surplus in 2019. If we compare the current trend of US crude inventories with recent years, these inventories have a tendency to increase in October. The argument of higher inventories perfectly fits within the minds of investors who prefer to take some profit after the recent rally and to lower their exposure to oil markets. During the coming weeks it will become clear whether US crude oil inventories continue to build, or whether the 'normal' seasonal pattern will reveal itself. We don't exclude the possibility that US crude inventories indeed will continue to rise somewhat based on higher oil production and the limited possibilities to increase exports. Some countries it is hard to increase exports due to infrastructural bottlenecks which most likely won't be solved before 2020. If increased US crude production cannot be exported, it will not arrive in parts of the world where it is needed.

US crude inventories



Source: Bloomberg

Last weekend, OPEC signaled that it will lower its oil production again based on the rise of US crude inventories in order to prevent an oversupply. We believe that this is not realistic. These comments from OPEC / Saudi Arabia should be more seen as 'forward guidance', or in other words, an attempt to give direction to oil prices based on verbal intervention. It could be a signal from OPEC that it feels that oil prices have dropped more than enough.

Continuation of oil price decline is not likely

We think that a continuation of the oil price decline is unlikely for several reasons. First, the US mid-term elections are behind us. As a result, the pressure from the US to Saudi Arabia and others to lower the oil price will probably diminish as well. Although the short-term market sentiment is clearly negative, we think that a continuation of the slide in oil prices is not very likely. The OPEC signaled that the drop in oil prices may have gone too far. Last weekend the technical committee of the OPEC and its coalition partners (mainly

Russia) signaled to lower production again. A definite approval should be seen during the OPEC bi-annual meeting on 6 December in Vienna. Such a production cut in the near-term is possible, now that the US provided some waivers to Iranian oil consumers. Especially in Russia and Saudi Arabia, oil production may be eased somewhat. Until then, OPEC members may try to give direction to oil prices by commenting on the market conditions in the media.

Second, there is enough room for investors to position again for new price rallies. Also from a technical analysis point of view, the important support levels for Brent (USD 70/bbl) and WTI (USD 60/bbl) seem to remain intact for the moment. We think that the US crude production will continue to rise somewhat, but that will mainly translate into higher inventories rather than increased exports.

Third, we expect global oil demand to remain solid in 2019, even if the global economic growth will slow somewhat. Especially oil demand from emerging markets like China and India will remain strong. The International Energy Agency (IEA) expects that global demand will grow with 1.3 million barrels per day in 2019. OPEC may be able to temper its production levels somewhat after the US waivers, which may give some support to oil prices.

Finally, the question remains whether global oil supply is able to meet the rise in global demand. Our calculations suggest a shortage in 2019. On top of that, the Saudi reserve capacity dropped to the lowest level ever. This limits the possibilities to increase supply again in case of new calamities. For this moment, we keep our forecasts regarding our base case scenario in place with higher upside price risks.

Table 1: Oil and gas price forecasts ABN AMRO

End of period		**12-nov**	**dec-18**	**mrt-19**	**jun-19**	**sep-19**	**dec-19**	**mrt-20**	**jun-20**	**sep-20**	**dec-20**		
Brent	USD/bbl	*69,62*	85	90	95	90	85	85	80	80	77		
WTI	USD/bbl	*59,30*	75	80	85	80	76	76	73	70	68		
Natural Gas (HH)	USD/mmBtu	*3,95*	3,25	3,00	3,00	2,75	3,00	3,25	3,00	3,25	3,50		
TTF	EUR/MWh	*25,95*	29,00	27,00	25,00	26,00	30,00	31,00	32,00	29,00	34,00		
Average		**Q4 18**	**2018**	**Q1 19**	**Q2 19**	**Q3 19**	**Q4 19**	**2019**	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**
Brent	USD/bbl	84	78	88	93	93	88	90	85	83	80	79	82
WTI	USD/bbl	74	70	78	83	83	78	80	76	75	72	69	73
Natural Gas (HH)	USD/mmBtu	3,25	3,00	3,25	3,00	3,00	3,00	2,90	3,25	3,25	3,25	3,50	3,30
TTF	EUR/MWh	28,00	24,00	28,00	26,00	26,00	28,00	27,00	31,00	32,00	31,00	32,00	32,00