

## Crude oil: Further OPEC+ cuts needed?

There is a clear battle going on in the oil market- uncertainty over demand growth versus a constructive supply picture in the near term. But which will prevail? For the remainder of this year, the market should tighten, but moving into 2020 we see a looser balance once again



Source: Shutterstock

### ING price forecasts

Current	2019				2020				2021			
	1Q	2Q	3QF	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
ICE Brent (US\$/bbl)	64	68	65	68	63	61	65	70	68	73	73	71
NYMEX WTI (US\$/bbl)	55	60	57	60	56	54	58	63	61	66	66	64
Previous												
ICE Brent (US\$/bbl)	64	68	69	73	70	74	76	74	72	77	77	74
NYMEX WTI (US\$/bbl)	55	60	61	65	63	67	69	67	65	70	70	67

Source: ING Research

### Constructive in the short term

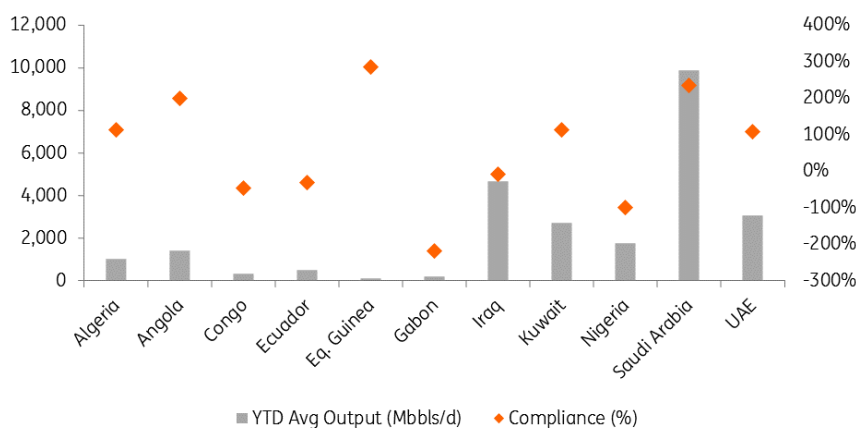
OPEC+ cuts should do a good job in drawing down global inventories for the remainder of this year.

Overall, members have over-complied with the deal, and this is largely due to Saudi Arabia producing more than 500Mbbbls/d below their quota level. Although there are other producers, such as Iraq and Nigeria, who have failed completely to comply with the production cut deal. Under the deal, Iraq was meant to produce a little over 4.5MMbbbls/d, down from 4.65MMbbbls/d in October 2018- the reference month for cuts- however the country has in fact increased output, pumping on average 4.7MMbbbls/d since the start of the year.

However, strong overall compliance, along with falling Iranian oil supply, coupled with stronger seasonal demand over the latter part of the year should see global inventories fall by around 1MMbbbls/d in 3Q19, and a little over 700Mbbbls/d in 4Q19. Therefore we continue to believe that prices should trade higher from current levels. Although in the current macro environment it is likely to be a bumpy ride.

Time spreads continue to suggest a tighter physical market. While the prompt ICE Brent spread has been volatile in recent weeks, it remains firmly backwarddated along with much of the front end of the curve. Even the US market has tightened up recently. The prompt WTI timespread has swung into backwardation this week, after the front end of the curve was largely in carry. US crude oil inventories continue to decline- they have fallen for seven consecutive weeks, with stocks now down almost 49MMbbbls since early June. This has also seen WTI strengthen relative to Brent, with the WTI/Brent discount narrowing from more than US\$7/bbl in late July to almost US\$5/bbl currently. US inventories should continue to edge lower over the next couple of months, which would be in line with seasonal trends, although keep an eye on US exports- a further narrowing in WTI/Brent could see exports slow.

## OPEC-10 YTD compliance



Source: OPEC, Bloomberg, ING Research

## A more bearish 2020

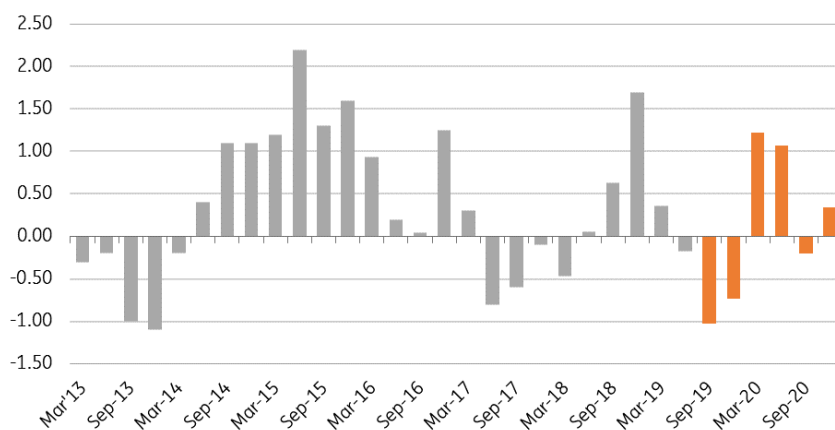
However, the balance changes drastically as we move into 2020, and as a result we have revised lower our price forecast for next year. While OPEC+ cuts are set to run through until the end of 1Q20, weaker seasonal demand in the first quarter of the year means that the global balance is set to see sizeable stock builds over 1Q. This is even assuming that Saudi Arabia keeps production at 9.8MMbbbls/d over the period- which is 500Mbbbls/d below their quota. As a result of strong non-OPEC supply and weaker seasonal demand, we estimate that the call on OPEC production in 1Q will be around 28MMbbbls/d, which is 1.9MMbbbls/d lower than estimates for the group's production in

July, and 1.2MMbbls/d lower than what we are currently forecasting for 1Q20. This does suggest that we would need to see further action taken by OPEC+. A starting point would be to ensure all members are at least in compliance with the deal, and then look at whether deeper cuts are needed over 1Q20.

At the moment, given the deal is set to end in 1Q20, the market is also set to see a sizeable surplus in 2Q20. As a result, we believe that OPEC+ will likely have to extend the current deal through until at least the end of the second quarter or risk lower prices. However, such a decision will likely only be made at the OPEC+ meeting in December at the earliest- assuming market moves don't force OPEC+ to act sooner.

Looking at 2020 as a whole, we estimate the call on OPEC will be 29.1MMbbls/d- which is almost 800MMbbls/d lower than estimated production in July.

## Global oil market set to return to surplus in 1H20 (MMbbls/d)



Source: IEA, EIA, OPEC, ING Research

## Demand concerns linger

Clearly, the current weakness in the market reflects concerns over demand growth for the remainder of this year, as well as 2020, particularly given the current macro environment, and a ratcheting up in the trade war. There is a large degree of scepticism around demand growth forecasts moving forward. The IEA is currently estimating that demand will grow by 1.8MMbbls/d over 2H19, this is up from around 300MMbbls/d in 1Q19 and 800MMbbls/d in 2Q19. Therefore given the current macro climate, this number might be a bit too ambitious for the remainder of the year. Furthermore, the longer the trade war drags on, the more downside risk there is around the demand growth number of 1.4MMbbls/d in 2020.

### Author

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.