Oil and raw materials

OPEC limits its supply

In Q1 2017, the price of Brent hovered around $55 on average, up 6.8% on Q4 2016, due to the entry into force of the agreement between the OPEC countries to cut back their production. Supply was thus reduced significantly, due to the sharp decrease in the output of the countries in the cartel, while demand stagnated. Overall, the physical market was in deficit.

In Q2, production by the OPEC countries should barely increase, while American supply should increase again and demand is likely to return to its upwards trend. The physical market should remain in deficit, while stocks should fall, although remaining at high levels.

Through to the end of 2017, the conventional assumption is that the oil price should level out at around $53, slightly below its level in Q1 2017. The upward pressure of the deficit on the physical market is likely to be contained by stock levels that remain very high. However, the oil price will depend on the one hand on the ability of the OPEC countries to continue complying with the terms of the production reduction agreement, which was renewed at the end of May, and on the speed of the upturn in unconventional production in the United States, on the other.

Commodity prices in Euros again increased significantly in Q1 2017. Prices of industrial commodities soared, in particular those of iron. They fell back again in April, however, erasing the greater part of the rise posted over the previous six months.

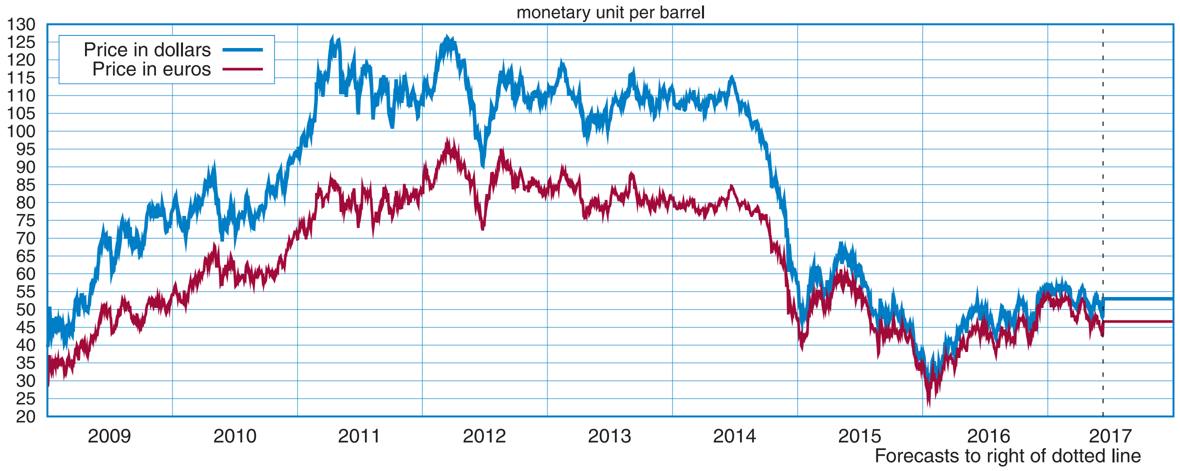
In Q1 2017, the average price of Brent increased

In Q1 2017, with the entry into force of the agreement to reduce the production of the OPEC countries, the price per barrel of Brent stood at $55 on average, up 6.8% on Q4 2016 ($51) and 54% higher than its average level in Q1 2016 ($35). It has fallen back slightly since then and should fluctuate around $53 per barrel through to the end of the year (*Graph 1*).

Supply set to increase slightly through to the end of 2017, but without offsetting the fall in Q1

In Q1 2017, supply fell back sharply (–1.2 million barrels per day or Mbpd), as the OPEC countries complied with the agreement on the whole (*Graph 2*). Saudi Arabia cut its output by 0.6 Mbpd, which was more than required by the agreement. Iraq reduced its production by 0.2 Mbpd. Russia, which is also bound by the agreement with OPEC, cut back by 0.1 Mbpd. Iran is exempted from making a reduction and stabilised its production. In Nigeria, which is also exempted from making a reduction, scheduled maintenance on the Bonga offshore platform cut production by 0.1 Mbpd over the quarter. However, Libyan production continued to grow slightly (+0.1 Mbpd). Through to the end of 2017, Saudi production should increase slightly to a level in line with its commitments. Iraqi and Iranian outputs are likely to level out on average at their

1 - Price of Brent in euros and in dollars



Source: Macrobond

Q1 levels. All in all, the production of OPEC and Russia should barely increase through to the end of 2017.

In the United States, production is set to carry on increasing in Q2 2017, driven mainly by conventional sources. In H2, the resumption of unconventional production should also boost US supply. All in all, after a sharp fall in Q1 2017, world production should increase slightly through to the end of 2017.

Demand to return to its trend growth rate

In Q1 2017, world demand stagnated. The non-OECD countries, including China, increased their demand, while US demand fell back under the effect of the mild winter and lower demand for vehicle fuel. As global supply fell at the same time, the physical market showed a deficit.

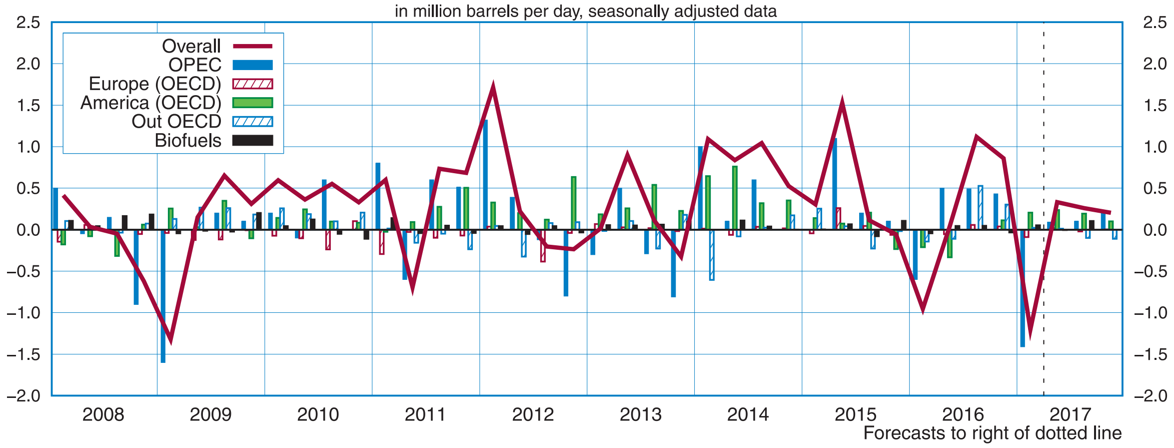
Through to the end of 2017, the demand of the emerging economies should remain buoyant and US demand rebound. Global demand should increase at a pace close to its trend. The progression in supply should just be sufficient to meet the rise in demand, with the result that the deficit that appeared in Q1 should remain almost unchanged through to the end of the year (*Graph 3*).

Despite a deficit on the physical market, the high level of stocks should contain price rises

At 516.5 million barrels in May 2017, crude stocks in the United States are at a level well above their average between 2011 and 2014 (*Graph 4*). The upwards pressure on prices driven by the deficit on the physical market should therefore be contained by the very high level of commercial reserves which can absorb that deficit.

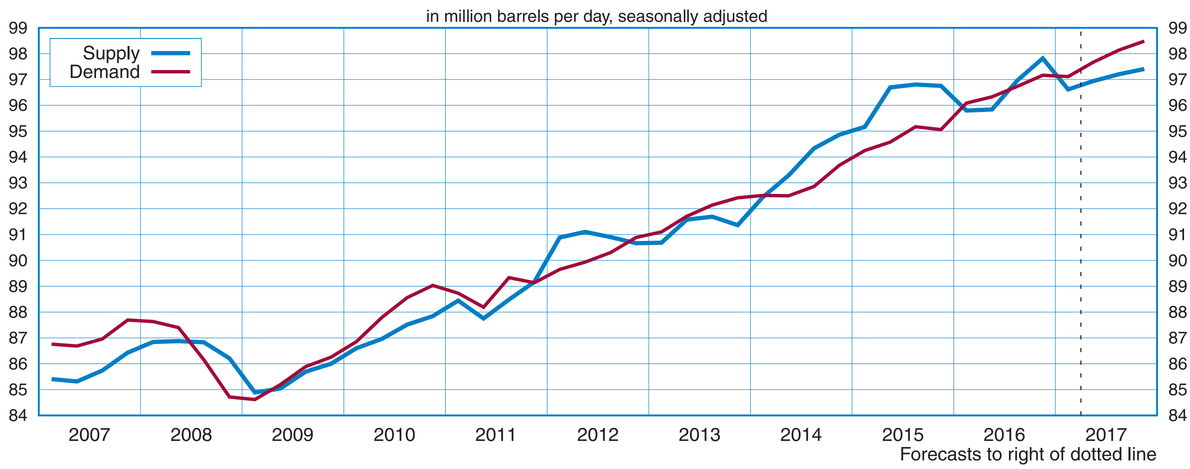
There are some uncertainties surrounding the supply scenario. First of all, the scenario is based

2 - Principal contributing factors to the variation in global oil supply



Sources: IEA, INSEE

3 - World oil market



Sources: IEA, INSEE

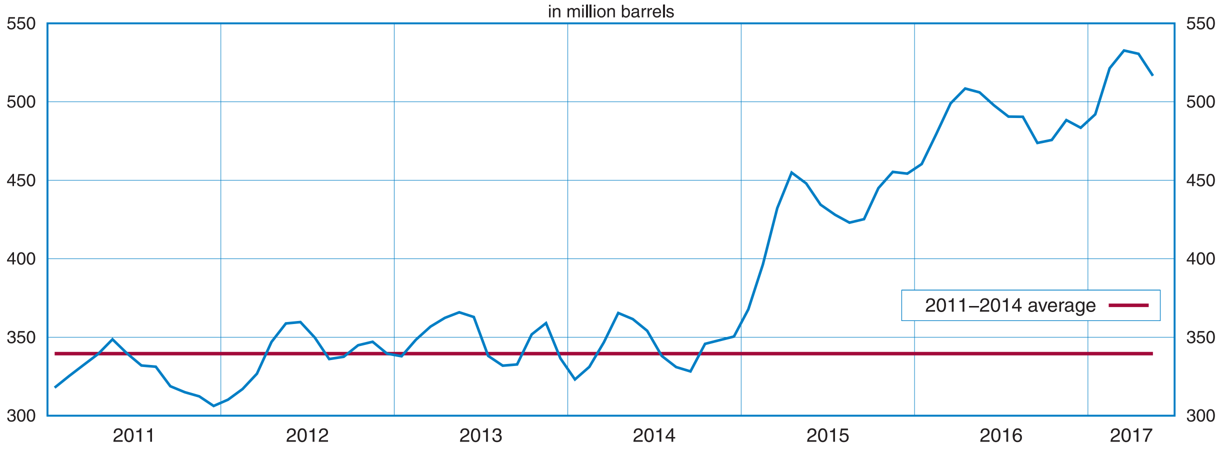
on continuing compliance with the production reduction agreement of the OPEC countries, which was renewed at the end of May. If the agreement were to be less well respected than in Q1, the deficit on the physical market is likely to narrow, thus exerting downwards pressure on prices. Conversely, if the cartel were to further accentuate the reduction in its output, as Saudi Arabia did in Q1, the physical market deficit should deepen, thereby favouring a rise in prices. In addition to this, unconventional production in the United States could recover more quickly than expected and weigh down on prices.

Commodity prices continued to increase in Q1 2017 but fell back again in April

In Q1 2017, prices of commodities as a whole expressed in Euros increased sharply (+8.8%), returning to a level close to that in Q3 2013 (*Graph 5*). Cereal prices continued to climb (+6.9%). Industrial commodity prices increased sharply again (+13.5%), notably iron prices (+23.4%), driven by sustained Chinese demand and by the recovery in steel production. Commodity prices fell significantly in April, however, wiping out most of the rise posted over the previous six months. ■

4 - U.S. crude oil inventories

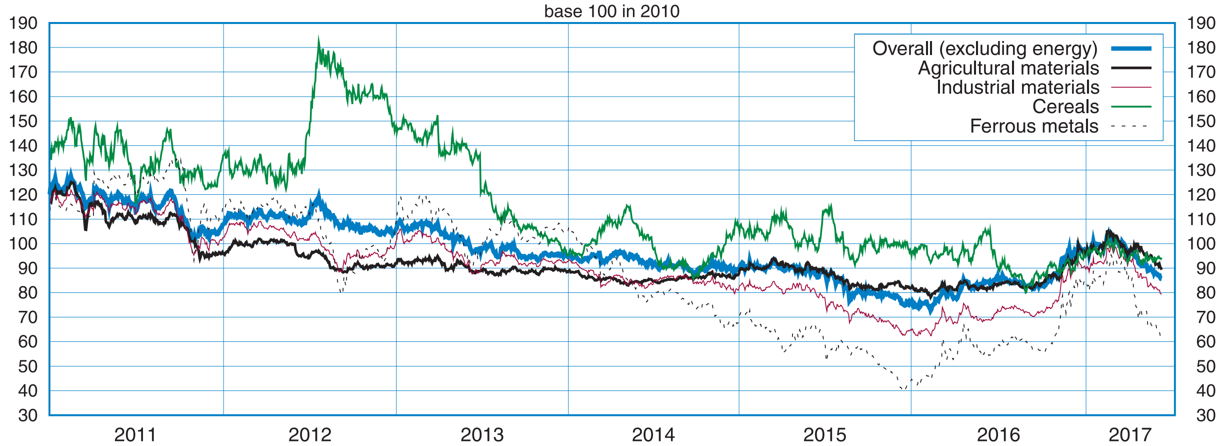
in million barrels



Source: US Department of Energy

5 - Prices of non-energy commodities in euros

base 100 in 2010



Source: HWWI