Oil and raw materials

A market in equilibrium

In Q3 2017, the price of Brent hovered around $52 per barrel on average, up 3% on Q2. Supply increased slightly, driven by the three OPEC countries exempted from reducing their output. Demand fell sharply after bouncing back in Q2, particularly in the United States. All in all, equilibrium was reached in the physical market.
This balance should be maintained through to mid-2018: the production of OPEC countries should rise slightly, still driven by the upturn in the production of countries exempted from the agreement. American supply is also likely to rise, boosted by the slight rise in the price of Brent. In line with the overall improvement in activity, demand should rise a little faster than its trend growth rate, driven by the emerging countries and China in particular. Stocks are expected to remain at a high level.
Through to the end of Q2 2018, the conventional assumption is that oil prices will stabilise at around $60. The physical market should remain in equilibrium and the level of stocks is expected to remain high. This forecast is subject to several uncertainties. Firstly, this scenario is based on compliance with the thresholds set out in the agreement of the OPEC countries to reduce output in November, extended for nine months. Any failure to comply with the terms of the agreement could lead to a surplus on the physical market, exerting downward pressure on prices. Unconventional production in the United States could also recover more quickly than expected and weigh down on prices. Conversely, a greater reduction in OPEC production and a slower recovery in American production could increase the deficit on the physical market, which would raise the upward pressure on prices.
Commodity prices in euros fell slightly in Q3 2017. In particular, the prices of cereals and textile fibres dropped sharply.

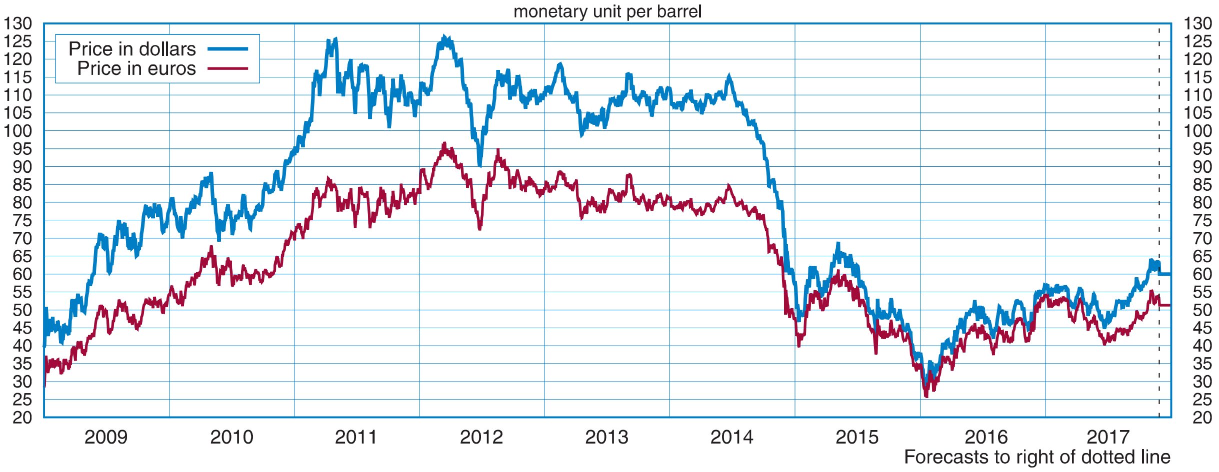
In Q3, the price of Brent was $52

In Q3 2017, with the agreement in force on reducing the output of OPEC countries, oil prices stood at an average of $52 per barrel of Brent (*Graph 1*), up 2.8% on Q2 2017 ($51) and 12% on Q3 2016 ($46).
Over the forecasting period, the oil price has been set at $60.

Demand is expected to pick up between now and June 2018

After accelerating in Q2, world demand slipped back in Q3 2017, weakened by American demand. Indeed, the demand for vehicle fuel was low and the damage that Hurricane Harvey wreaked on refineries reduced their demand for crude.
Through to the end of the year, demand is set to increase slightly faster than its trend rate and is likely to pick up pace in H1 2018, driven by demand from non-OECD countries (excluding China). All in all in 2017, it is expected to rise by 1.10.Mbpd (Million barrels per day), a smaller rise than in 2016 (+1.51 Mbpd) but higher than that in 2015 (+0.92 Mbpd).

1 - Price of Brent in euros and in dollars



Source: DataInsight

Supply should increase moderately through to mid-2018, provided that OPEC maintains its efforts to reduce output

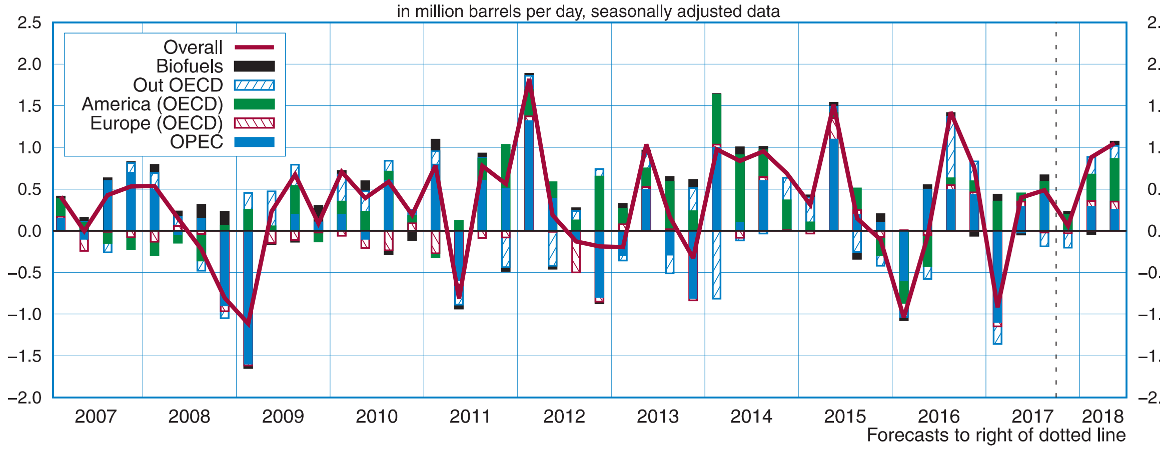
The global supply increased in Q3 2017: +0.5 Mbpd according to data corrected for seasonal variations (*Graph 2*). Indeed, the OPEC supply rose, despite the agreement to reduce production in force since 1st January, due to the upturn in production by those OPEC countries[1] exempted from the agreement. Libyan production continued to pick up after the reopening of the Sharara platform, and the drop in the number of attacks against the oil sector enabled Nigeria to increase its production further. In the United States, Hurricane Harvey caused production to plummet by 0.4 Mbpd, without actually inflicting major damage on platforms, which quickly resumed production.

1. In addition, Equatorial Guinea joined OPEC in Q3 2017, automatically leading to a rise of 0.12 Mbpd in the cartel's production and an equivalent drop in the production of non-OPEC countries.

In Q4 2017, OPEC production is expected to increase slightly. Libyan and Nigerian production should continue to rise. Saudi Arabian and Iranian production are likely to stabilise. Iraqi production is expected to suffer slightly from tensions with Iraqi Kurdistan. Russia, which is also bound by the agreement with OPEC, should stabilise its production at the planned level. In the United States, conventional production is likely to pick up after the slowdown caused by Harvey in Q3.

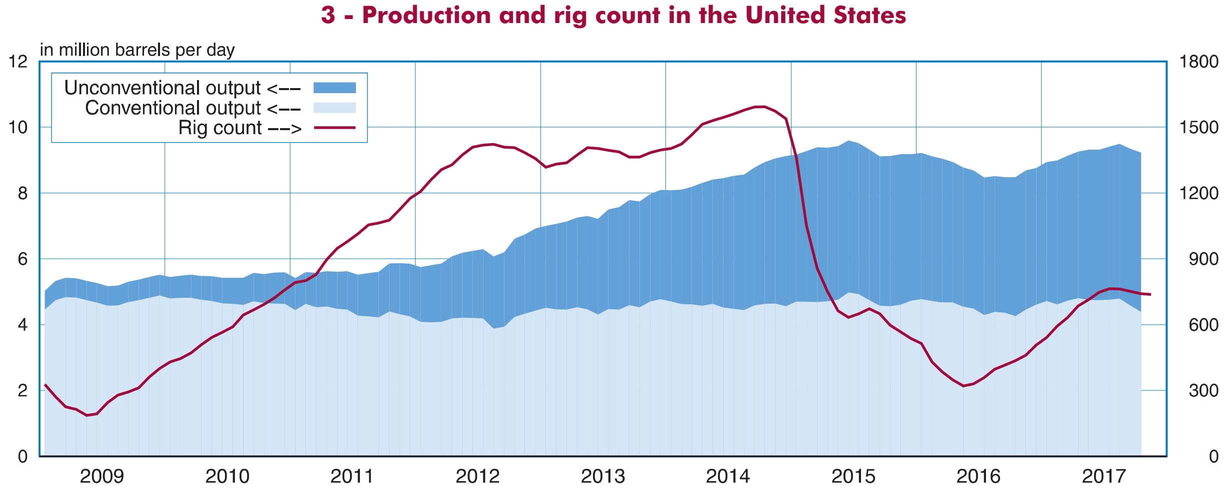
In H1 2018, assuming the agreement is renewed, OPEC production should continue to rise due to the Libyan and Nigerian contributions. In the United States, the upswing in the rig count should lead to a significant recovery in unconventional production, as forecast by both the United States Department of Energy and the International Energy Agency (IEA). Nevertheless, this potential recovery remains the main uncertainty concerning the price of Brent, bearing in mind the drop in the rig count since August (*Graph 3*).

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



Sources: IEA, INSEE

3 - Production and rig count in the United States



Sources: Baker Hughes and IEA

All in all, world production is likely to rise over the forecasting period, but this increase should correspond to an equivalent rise in demand, with the result that the market is expected to remain in equilibrium until Q2 2018 (*Graph 4*).

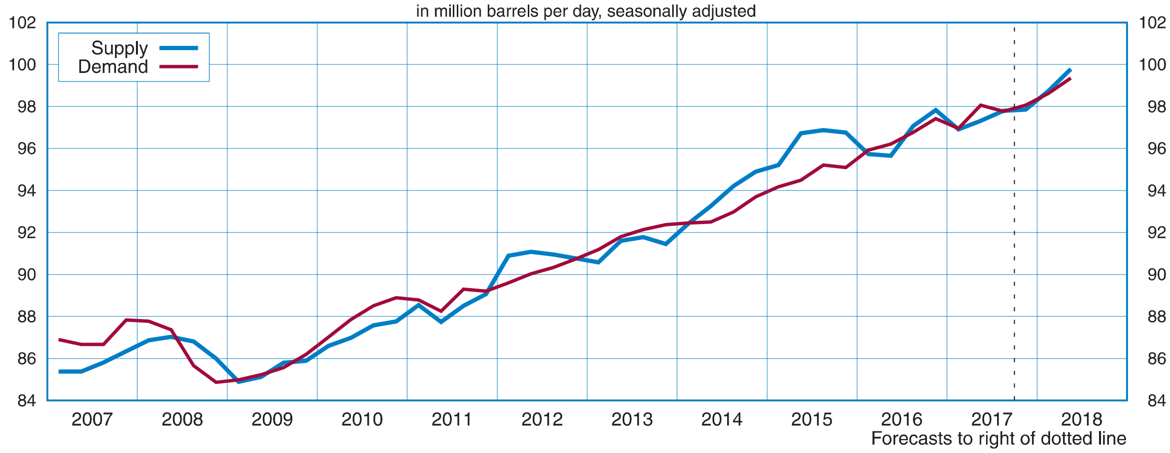
The high stock level should curb price rises

Crude oil stocks in the United States fell to 457.7 million barrels in October – a level below that recorded in October 2016. However, they remain well above the average (+16%) for 2011-2014. Even in the event of an unexpected demand shock, this high level of trade reserves should contain the upward pressure on prices.

Commodity prices edge down

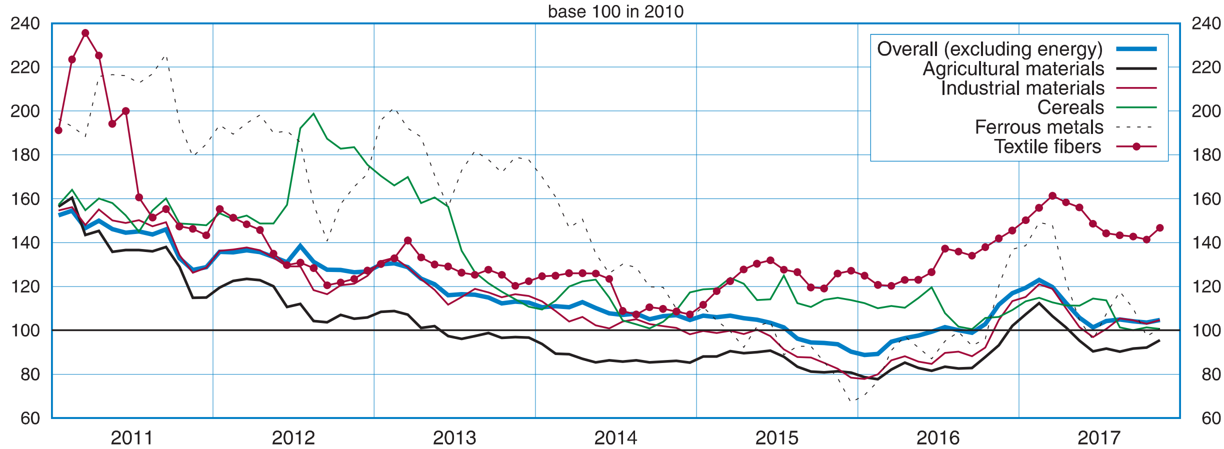
In Q3 2017, the prices of all commodities expressed in euros were down slightly (–2.0%; *Graph 5*). Cereal prices plummeted in Q3 (–6.5%), especially for maize and rice, in addition to the prices of textile fibres (–7.0%). ■

4 - World oil market



Sources: IEA, INSEE

5 - Prices of non-energy commodities in euros



Source: HWWI