Oil and raw materials

Demand is expected to slacken

In Q3 2019, the price of Brent stood at $62 per barrel on average, down 10% on Q2 2019.
The physical market was in deficit, according to the International Energy Agency (IEA), as supply has decreased (with the entry into force of OPEC production quotas) and demand has accelerated significantly. According to US Department of Energy (DoE) data, US commercial crude oil stocks declined in Q3.
The physical market is likely to remain slightly in deficit through to the end of 2019 before returning to surplus in Q2 2020, with global demand slowing down sharply.
The conventional assumption is that the price of Brent will stabilise at around $60 per barrel through to mid-2020.
This scenario is subject to several uncertainties. Firstly, it is based on the output of OPEC countries, and therefore on their compliance with production quotas until H2 2020, when the agreement expires. A possible escalation of geopolitical tensions in the Middle East could also lead to higher prices. There are also demand-side uncertainties, particularly concerning the extent of the global economic slowdown.
Commodity prices in euros rose marginally in Q3 2019 (+0.9%), driven by the prices of metals, in particular.

Price rises, following the attacks on Saudi facilities in September, were short-lived

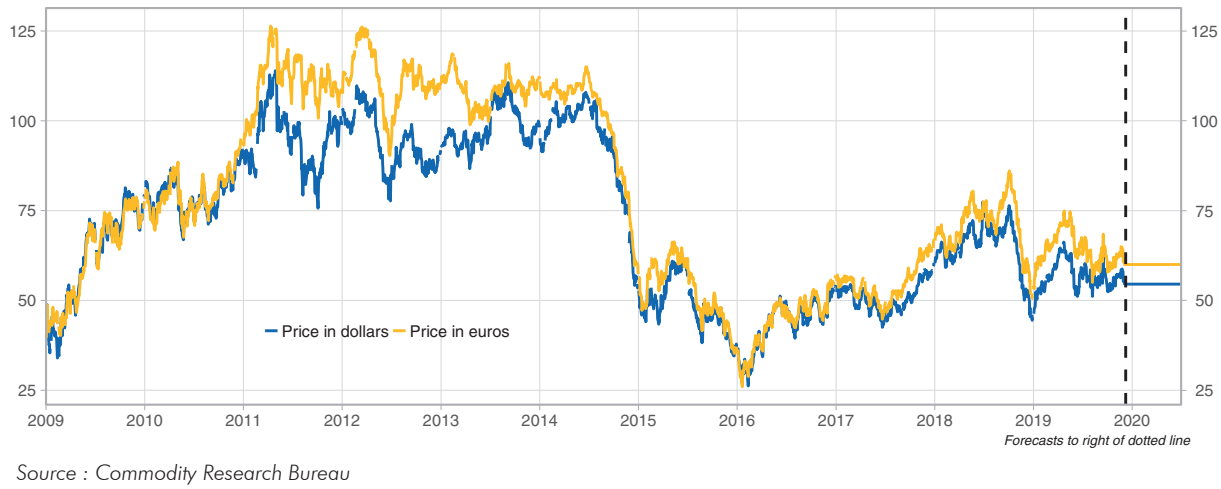
In Q3 2019, the average price of Brent crude stood at $62 per barrel (*Graph 1*), down 10% on Q2 2019 ($69) and 17% on Q3 2018 ($75). While it approached $72 per barrel of Brent crude oil in September after the attacks on oil facilities in Saudi Arabia, it quickly returned to its previous level. An oil price assumption of $60 per barrel applies throughout the forecasting period.

Demand is expected to slacken through to mid-2020

In Q3 2019, world demand accelerated sharply (*Graph 2*), driven by all consumer countries (European and American OECD countries, non-OECD countries and China). World demand is likely to slacken through to the end of the year, driven mainly by the emerging countries. In Q1 2020, world demand is expected to decline, primarily due to demand from the United States and China. Although it should bounce back in Q2 2020 – driven by American OECD member countries and China – it is likely to fall over the half-year as a whole, to +0.6 million barrels per day (Mbpd), after +1.3 Mbpd in 2019 and +0.6 Mbpd in 2018 (seasonally adjusted data).

1 - Brent prices in dollars and euros

monetary unit/barel



Source : Commodity Research Bureau

Supply looks set to rise

In Q3 2019, global supply decreased by 0.3 Mbpd, according to seasonally adjusted data (*Graph 3*), mainly due to the attacks on oil sites in Saudi Arabia in mid-September. As a result, in September, OPEC posted its lowest monthly oil production total since 2011. The attacks accentuated the dual impacts of the current agreement on reducing OPEC countries' production and the US sanctions against Iran and Venezuela.

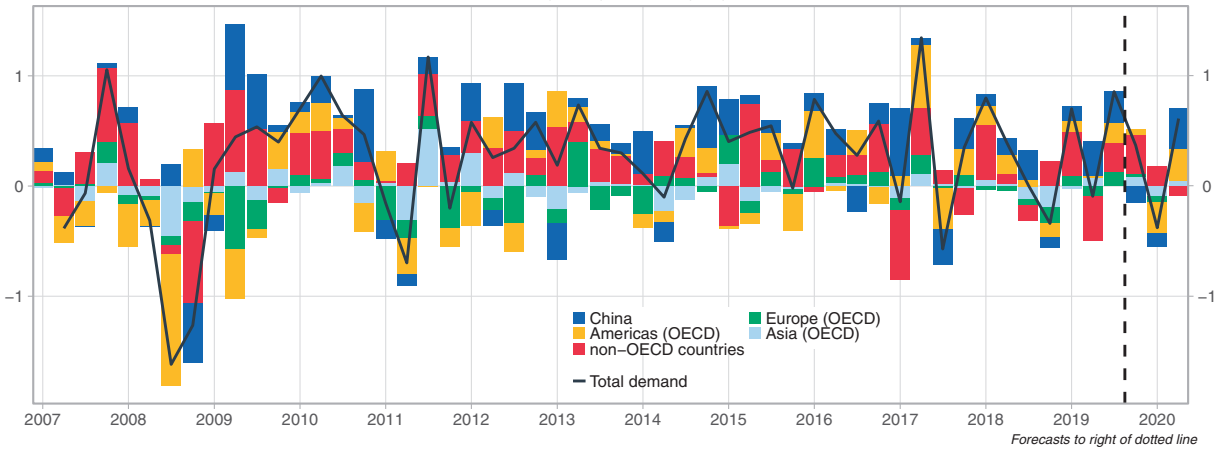
In this tense context, the output of OPEC countries declined in the third quarter, following the example of Saudi Arabia, Kuwait, the United Arab Emirates and Angola. In addition, Iranian output has fallen again. It is also down in Venezuela as US sanctions are preventing the investments required to restore the run-down oil network. Libyan output has also dropped. Iraq, however, is producing at a level that is once again higher than the ceiling set in the initial agreement. Lastly, US output increased slightly in Q3 2019, despite the decrease in the new rig count since October 2018.

In Q4 2019, OPEC output is expected to rise slightly. Libyan output also looks set to hold firm, but could be affected by political instability. Iraqi output is likely to be up, remaining above the agreed production limit. Iranian output should continue to suffer from US sanctions and the end of exemptions for some of Iran's trading partners. Venezuelan output is set to keep falling. Saudi Arabian output is expected to return to the levels reached before the attacks. According to the IEA, Russia also looks set to stabilise its output, whereas American output should rise moderately.

In Q1 2020, global supply is likely to be up again, driven mainly by the United States and Brazil as new oil projects come on stream. OPEC output is expected to decline again, as the agreement has been extended until June 2020. In Q2 2020, OPEC output should continue to fall, impacting the global supply, which is expected to slacken somewhat.

2 - Main contributors to the variation in global oil supply

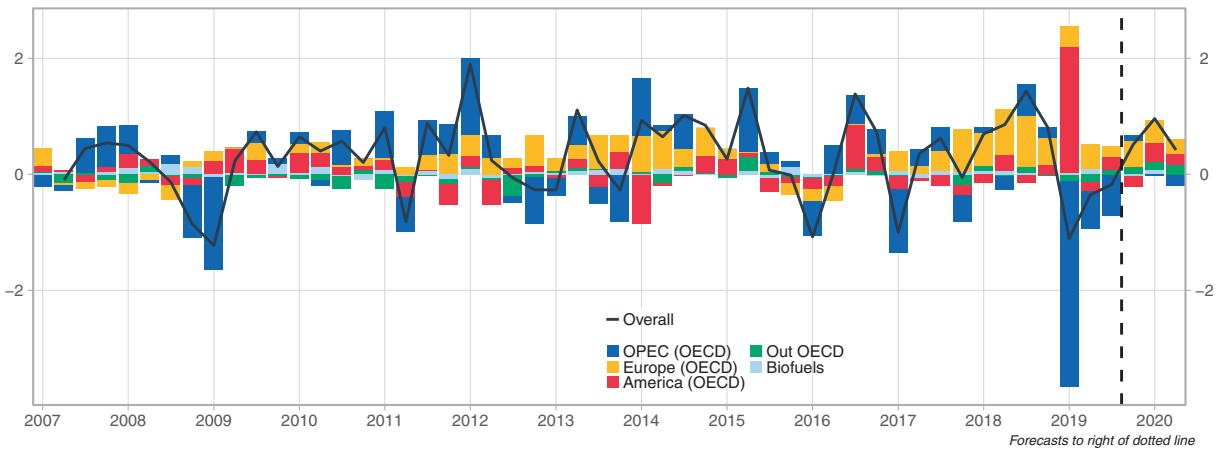
in million barrels per day, seasonally adjusted data



Source: AIE, INSEE

3 - proportion of companies reporting that they are limited in their activity due to a lack of manpower,

seasonally adjusted data in millions of barrels per day



Source: AIE, INSEE

All in all, world output is likely to rise until mid-2020. As demand looks set to slacken in early 2020, the market should be in surplus in H1 2020 (*Graph 4*).

Stocks remain high

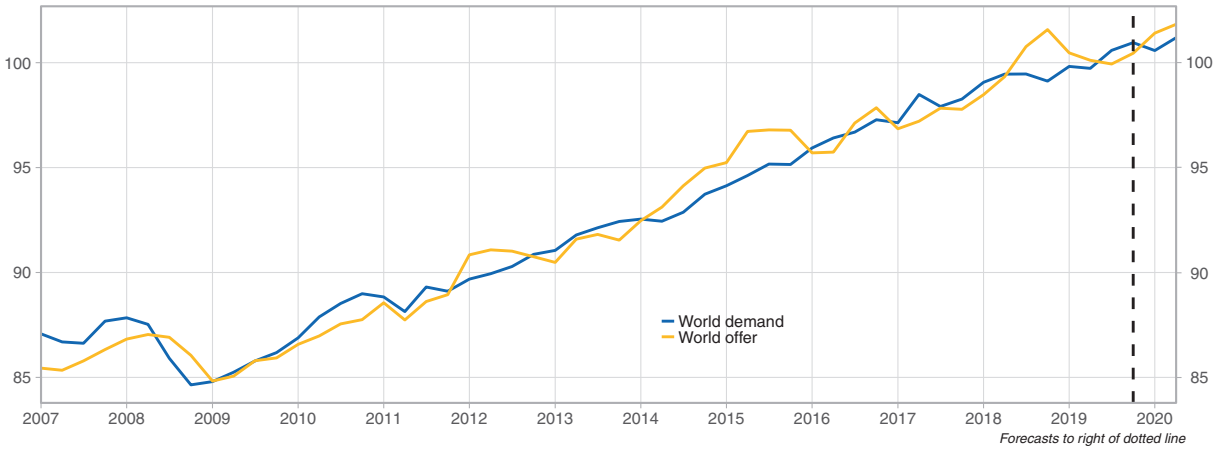
In Q3, US crude oil stocks decreased to 433 million barrels but remained well above (+30%) their 2011-2014 average. Any upward pressure on prices should therefore be curbed by this persistently high level of trade reserves.

Little variation in commodity prices as a whole

In Q3 2019, the prices of all commodities (in euros) increased significantly (+0.9%; *Graph 5*). This rise is mainly due to the increase in iron ore and scrap steel prices (+4.0%). Indeed, since the beginning of the year, iron ore prices have risen by nearly 20% due to the mining disaster in Brazil, tropical storm Veronica (which slowed down mining activity) and problems at major production sites in Australia. In contrast, cereal prices fell in Q3 (–0.2%), as did the prices of agricultural raw materials (–2.4%) and textile fibres (–14.6%). ■

4 - World oil market

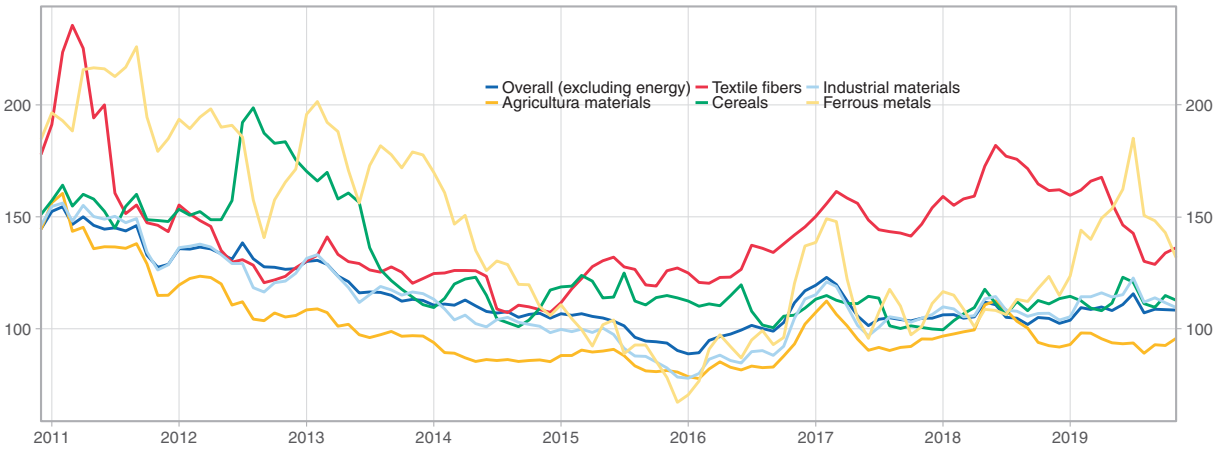
seasonally adjusted data in millions of barrels per day



Source: AIE, INSEE

5 - Commodity price indices in euros

base 100 in 2010



Source: HWWI