Underlying Trends
Oil market: what is the scenario for 2017-2020?

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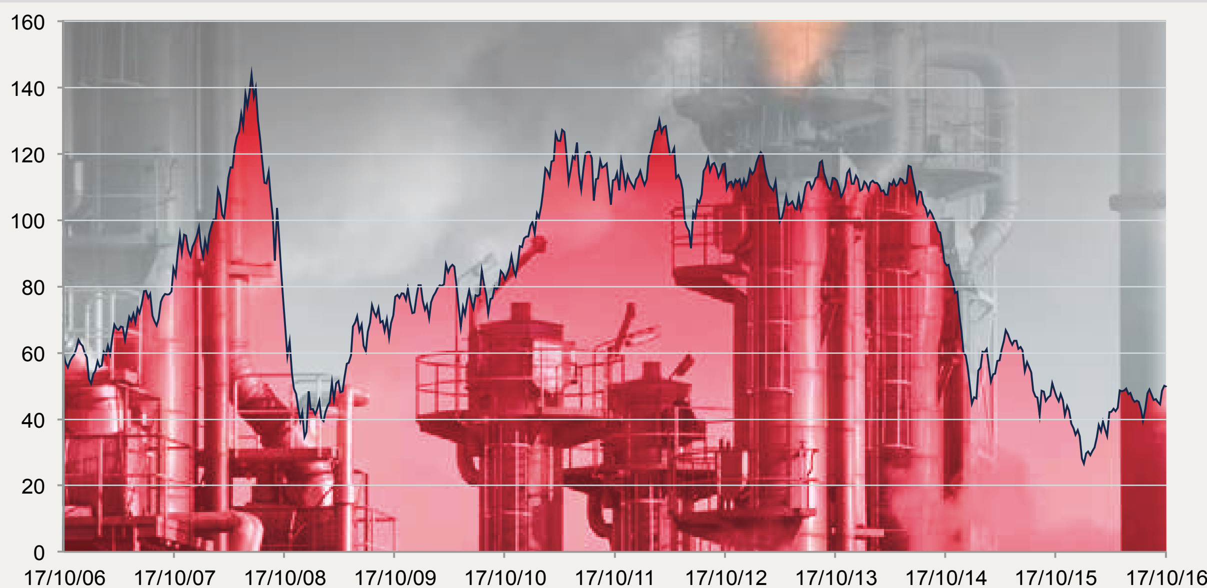
In recent months, there have been more and more signs of a rebalancing of the oil market.

On the demand side, the International Energy Agency (IEA) has slightly downgraded its growth outlook for global demand; however, demand should remain relatively strong, expanding by approximately 1.2 MB/d in both 2016 and 2017.
The negative effects observed in China and a number of OECD countries have finally been largely offset by positive surprises in some non-OECD countries, especially India. India, with an estimated annual consumption of 4.3 MB/d and growth of approximately 300 KB/d this year (+7.5% vs. 2015), is emerging as a new major consumer on the global level.

On the supply side, the slump in upstream investment spending has led to a sharp decline in non-OPEC production, especially in shale oil in the United States, which was the source of excess global supply in recent years and led to the collapse of oil prices in late 2014.
According to the most recent forecast published by the IEA, non-OPEC production will have fallen an average of 900 KB/d in 2016, before rebounding by 400 KB/d in 2017.
Spearheaded by Saudi Arabia, OPEC decided in late 2014 not to scale back production, allowing prices to collapse. It sought to slow the development of shale oil in the United States, but also, at least as importantly, to rid the market of expensive production, situated on the upper end of the cost curve.
In late September, OPEC surprised most observers by announcing a production target range of 32.5 to 33 MB/d. If the deal is confirmed in late November, this will reduce production by 0.3 to 0.7 mb/d according to recent OPEC production estimates.
Many analysts remain sceptical of the effectiveness of the deal at limiting the growth of global supply. Although it would be slightly premature to draw definitive conclusions, OPEC's recent announcement marks a genuine shift in attitude on the part of Saudi Arabia, which has succeeded in finding a compromise with other major exporters, including Iran.
All of the major exporters have suffered enormously from the drop in oil prices in the last two years, and the market environment facilitated the signing of a deal that had broken down in Doha in April of this year. Since the lifting of the sanctions imposed by the UN, Iran has considerably increased its production levels, which have reached an average of nearly 3.7 MB/d according to the IEA, representing an increase of 760 kb/d since the beginning of the year. Iran has nearly returned to its 2012 production level, before the UN sanctions were imposed. This situation undoubtedly facilitated the signing of the agreement.

Brent oil price, 10 years (USD/bbl)



Source: Datastream, Amundi Research

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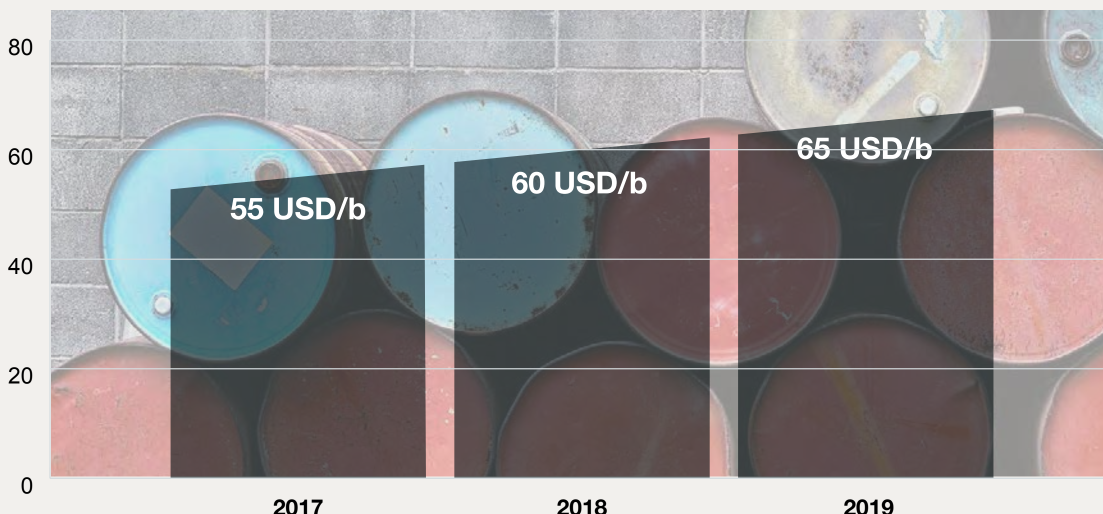
Outlook for 2017-2020:
Demand should continue to rise each year by an average of nearly 1 MB/d until the end of the decade.
For now, the rapid growth in the global inventory of electric cars has not impacted the growth profile of global demand. Although it does represent a serious threat to the oil industry, this should only significantly materialise in the medium term.
Currently, vehicle transport accounts for approximately 55% of oil consumption, with light vehicles accounting for just over half of this total. Thus, nearly 30% of oil consumption could be threatened in the medium-to-long term by the spread of electric cars.
But the fact remains that by 2020, assuming global economic growth of approximately 3% per year, global oil demand should grow an at average rate of 1 MB/d or slightly more; this amounts to an average annual growth rate of around 1%.
With regard to supply, US shale oil production should resume its growth trend in the first quarter of 2017, expanding at a slightly more moderate rate than before the recent crisis. However, US shale oil producers have continued to improve productivity, and US shale oil volumes are expected to grow by approximately 1 MB/d starting in 2018, assuming a Brent oil price of US$60 a barrel.
This does not mean, however, that this source will be enough to keep up with all of the growth in demand, as the rate of decline in mature conventional deposits will have a long-term impact on supply. That is why other sources of supply will still be needed in order to balance the global market. This is particularly true of offshore conventional deposits, or at least the most profitable of these, which—thanks to the sharp decline in costs over the past three years—can generate satisfactory profitability with oil prices at approximately US$60 a barrel. These types of deposits should become the market's marginal source of supply in the medium term.
For now, we are maintaining our baseline scenario as established at the beginning of the year: a slow and gradual rebalancing of supply and demand on the global oil market in 2017, with Brent at an average US$55 a barrel in 2017, US$60 a barrel in 2018 and US$65 a barrel in 2019, which is currently our outlook for the medium-to-long term balance.

Forecast for average Brent oil price



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