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IMFC Statement by H.E. Mohammad Sanusi Barkindo
Secretary General
Organization of the Petroleum Exporting Countries (OPEC)

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Organization of the Petroleum Exporting Countries (OPEC)
to the
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The **Organization of the Petroleum Exporting Countries** would like to update the distinguished delegates to the International Monetary and Finance Committee on current oil market conditions and developments.

Crude oil prices have recovered from the multi-year lows seen at the start of the year. The market has been supported by expectations for a continued re-balancing of market fundamentals, amid some supply outages and draws in crude and gasoline stocks. The US dollar volatility also impacted prices, along with speculative activities in the futures markets. However, slower-than-forecast end-user demand, uncertainty about the continued pace of Chinese oil consumption, and better-than-expected global crude production have weighed on market sentiment. The UK's vote to leave the EU has also added to oil market volatility in the weeks after the referendum. In September, ICE Brent averaged $47.24/b and Nymex WTI stood at $45.23/b, compared to $43.34/b and $41.12/b, respectively, at the time of the last meeting of the IMFC in April.

Global economic growth is likely to remain modest in the short-term and is forecast at 2.9% for 2016 and 3.1% for 2017. In general, there are several key dynamics across the globe that are significant in the short-term. There has been a considerable negative impact on global growth from the sharp decline in investments in the oil and gas industry due to persistently low oil prices. So far, the positive effects of lower oil prices on private consumption have not been sufficient to compensate for this decline in investments. Any stabilization in the crude oil market in the coming months could provide positive support to global economic activity. Furthermore, interest rates are already low in major economies and the effectiveness of further monetary stimulus seems to have diminished, despite remaining crucial for some economies. Any decisions from main central banks on monetary policies, particularly the US Fed, will continue to be influential. Moreover, in most key economies, the space for fiscal stimulus seems to be limited given high debt levels. Finally, political developments are becoming increasingly relevant – ranging from elections in several countries to fiscal-policy decisions, as well as the implementation and possible impact of Brexit.

In the advanced economies, US growth is forecast to stand at only 1.5% in the current year after exceptionally low growth in the first half of this year, which was impacted significantly by declining energy sector investments, along with other factors. However, this is seen as being temporary to some extent and next year's forecast stands at 2.1%. In Japan, the recently announced fiscal stimulus in combination with the newly added monetary stimulus measures, are expected to lift economic growth in the coming quarters, reaching 0.7% this year and 0.9% in 2017. The rise in the value of the yen, persistent deflation, a tight labour market and lacklustre domestic demand will continue to drag on growth. In the Euro-zone, numerous challenges remain. The weak banking sector suffering from a backlog of non-performing loans, capital constraints and low profitability, in combination with political uncertainty – including the consequences of Brexit, ongoing high unemployment and the lessening effect of the ECB's monetary stimulus – will push down growth in the Euro-zone to 1.2% in the coming year, from 1.5% in 2016.

In the emerging economies, India and China continue to expand at a considerable rate. Domestic consumption, investment, and governmental support have been key drivers in these two economies and are expected to continue supporting growth in 2017. India's growth is forecast at 7.5% in 2016 and at a slightly lower rate in the coming year of 7.2%. China is also forecast to expand at a slightly lower pace of 6.1% in 2017, compared to 6.5% in the current year. Both Russia and Brazil are forecast to remain in recession for a second consecutive year in 2016. In 2017, Russia is expected to recover with growth of 0.7%, while Brazil is forecast to grow by 0.4%, provided the political environment stabilizes allowing economic reforms to be implemented.

Turning to the oil market, **world oil demand** growth is estimated at 1.23 mb/d in 2016. In the OECD Americas, despite lower-than-expected oil consumption in Canada and Mexico, US oil demand was solid in the first half of this year. Demand for road transportation fuels – which has been undoubtedly supported by lower fuel prices – has outweighed negative factors such as fuel substitution and vehicle efficiencies, leading to positive overall oil demand growth in the US in 2016. In OECD Europe, data for the first half of the year depicts robust oil demand growth as a result of continued improvements in road transportation fuels. Demand is expected to moderate in the second half but remains stable for the whole of 2016. In OECD Asia-Pacific, Japanese oil demand has been weak so far this year, especially after a sluggish first half, mainly as a result of slowing economic activities and a strong likelihood that a number of nuclear plants will begin operating again in 2016. Nevertheless, South Korean oil demand was firm in the first half of the year and is anticipated to offset some of the losses in Asia Pacific oil demand.

In the non-OECD, solid-to-steady oil requirements were seen in Other Asia and China in the first half of the year, mainly as a result of improving economic activities. Other Asia is anticipated to lead global demand growth in 2016, with India expected to continue increasing albeit at a slower pace than in the first half. The forecast for China in 2016 – with GDP growth lower than in the previous year – expects oil demand growth to slow. Transportation and industrial fuels are seen leading the product mix in the second half of the year. A continuation of fuel quality programmes that target lower emissions is also expected, along with ongoing efforts to promote fuel substitution by natural gas. In Latin America and the Middle East, oil demand in the first half of the year was sharply lower than initial projections as economic developments weighed on Brazilian demand growth and a high level of substitution towards natural gas dampened oil demand growth in Saudi Arabia.

In 2017, oil demand growth is forecast at 1.15 mb/d, slightly lower than this year but some 0.3 mb/d higher than the average of the last ten years. Various assumptions have been considered in the 2017 projections. Global economic activities are expected to improve over the current year. Road transportation fuels are assumed to be the main driver for oil demand growth, as a result of the historically high vehicle sales statistics witnessed in US, China and India in recent years. Petrochemical projects in the US and China are expected to lend support to petchem fuels – NGL, LPG and naphtha – in 2017. Efficiencies will increase steadily in line with historical norms in various regions, while the potential reduction/removal of subsidies will also have a greater impact on oil consumption. As a result, the OECD is anticipated to increase by around 0.10 mb/d, with OECD Americas being firmly in the positive, while OECD Europe and Asia Pacific are expected to contract. In the non-OECD, growth is projected to be around 1.05 mb/d, with Other Asia being the major contributing region.

On the supply side, the forecast for **non-OPEC oil supply** is estimated to see a contraction of 0.6 mb/d in 2016. The main contributors to the forecast decline are the US, China, Columbia and Mexico. However, a recovery in Canadian oil production, following the vast wildfire in Alberta, rising rig counts in the US and the early start-up of the Kashagan field in Kazakhstan have helped reduce the contraction in non-OPEC supply in 2016.

For 2017, non-OPEC oil supply is now projected to increase by 0.2 mb/d y-o-y. Kazakhstan, Brazil and Canada are expected to be the main drivers for the expected growth. A lower forecast decline in the US next year is due to an expected higher rig count, cost deflation in tight oil production, and increased NGL and offshore output.

The figures for non-OPEC supply in both 2016 and 2017 reflect the impact of the reduction in Capex, which has led to the postponing or cancelling of some upstream projects. The numbers also reflect a high level of uncertainty due to factors such as oil price developments, companies' financial circumstances, and changes in project which have still not received a final investment decision.

Meanwhile, **OPEC NGLs** are expected to increase by 0.2 mb/d in 2017, broadly in line with the growth estimate for this year. In August, **OPEC crude oil production** averaged 33.20 mb/d, according to secondary sources, representing an increase of 33 tb/d compared to the previous month.

The latest information for July indicates that **OECD commercial oil stocks** are around 361 mb above the five-year average. Within the regions, OECD North America experienced a build of 17.2 mb in July, OECD Asia Pacific stocks increased 3.1 mb and OECD Europe inventories rose 12.2 mb. OECD days of forward cover had risen further to end the month at 66.6 days. This represents a surplus of 7.3 days over the seasonal norm. This high level of days of forward cover mainly reflects the massive build in absolute level of inventories, due to the increase in global supply, amid moderate growth in OECD demand.

According to preliminary data, OECD commercial oil inventories fell slightly in August from the previous month, leaving the surplus with five-year average at around 339 mb. Forward cover also increased to 67.0 days.

Non-OECD inventories finished 2Q16 at 2,249 mb, representing an increase of more than 100 mb from the same period last year. This build was divided between crude and products as both increased by around 50 mb each. The bulk of the build in non-OECD stocks came from China which registered an increase of around 67 mb.

Based on OPEC's supply/demand projections, increasing world oil demand amid contracting non-OPEC supply is estimated to result in the **demand for OPEC crude** in 2016 averaging around 31.7 mb/d, some 1.7 mb/d higher than in the previous year. For 2017, world oil demand is forecast to grow at a similar pace to the current year, while non-OPEC supply is foreseen returning to growth. As a result, the demand for OPEC crude is projected to average 32.5 mb/d, representing a rise of 0.8 mb/d.

In closing, the **Organization of the Petroleum Exporting Countries** would like to take this opportunity to reaffirm its longstanding commitment to support oil market stability for the mutual benefit of consuming and producing nations.