International Monetary and Financial Committee

Thirty-Second Meeting
October 9–10, 2015

IMFC Statement by H.E. Abdalla Salem El-Badri
Secretary-General
The Organization of the Petroleum Exporting Countries

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Organization of the Petroleum Exporting Countries (OPEC)
to the
International Monetary and Financial Committee (IMFC)
Lima, Peru

October 2015

The **Organization of the Petroleum Exporting Countries** would like to update the distinguished delegates to the International Monetary and Finance Committee on the current oil market situation, which has been characterized by ample supply and a lower price environment.

After stabilizing around $60/b in the second quarter of 2015, **crude oil prices** have fallen to levels last seen during the financial crisis in 2008. Crude oil futures are currently hovering around multi-month lows, with ICE Brent around $50/b and Nymex WTI in the mid-$40s. The decline in crude oil prices came amid numerous fundamental and, to a lesser extent, non-fundamental factors. Ongoing oversupply in the oil market and the stronger-than-expected slowdown in the Chinese economy have had the largest impact on oil prices. The rise in US crude oil inventories and the start of the maintenance season in the major refining centres have also contributed to the decline in oil prices. Oil prices, along with those of most commodities, also witnessed a significant decline, following a steep retreat in global equity markets. Bearish speculative activities, where net-length positions reached record lows, also contributed to the recent sell-off in oil markets.

Global economic growth remains moderate and is forecast at 3.1%, for 2015, below last year's growth of 3.3%. Growth in 2016 is forecast to gradually improve to 3.4%. This is driven by improvements in OECD countries, which are expected to grow by 2.1% in 2016, compared to 2.0% in 2015, as well as continued momentum in India, and some improvements in Russia and Brazil, which have both been in recession this year.

Importantly, the slower pace of growth in China is forecast to continue. Growth is seen reaching 6.4% in the coming year, compared to 6.8% in 2015. While overcapacity in China's manufacturing sector and capital outflows will continue to constitute some challenges, fiscal and monetary measures are expected to counterbalance these issues. However, the past months' equity market decline and the surprising devaluation of the renminbi highlight that uncertainties remain. India is forecast to continue growing at a higher rate of 7.6% in 2016, compared to 7.4% in the current year.

Within the OECD group of countries, growth in the US is forecast to remain solid with improvements in labour markets expected to continue. GDP growth may reach 2.5% this year and will move to 2.6% in the coming year. In the Euro-zone, the recovery continues, but the region's ongoing sovereign debt issues and outcomes from elections in some countries in the region remain uncertainties. The Euro-zone's GDP growth is forecast at 1.3% this year and expected to reach 1.5% in 2016. However, slowing economic activity in China may impact the Euro-zone's two largest exporters, Germany and France. Japan may also be impacted by China's slowing economy. Nevertheless, Japan's efforts to continue improving its fiscal situation may lead once again to tax increases in the coming year, which could dampen economic growth, which is now forecast at 0.8% for this year and at 1.2% in 2016.

Monetary decisions could continue to impact the global economy through capital flows leading to volatility in commodity, foreign exchange and capital markets. In this respect, the US Fed's decision on when and at what magnitude to raise interest rates constitutes a key uncertainty in the near-term, particularly as the European Central Bank, the Bank of Japan, and recently also the People's Bank of China all have embarked on differing strategies.

Turning to the oil market, **world oil demand** is estimated to increase by 1.5 mb/d in 2015, higher than the initial projection. Lower oil prices resulted in higher-than-expected oil demand, especially in OECD Americas and Europe in the first half of 2015.

The US has shown bullish oil demand growth for the first eight months of this year, with gasoline and jet fuel leading gains. Gasoline consumption was encouraged by lower oil pump prices, in addition to improving car sales. A similar trend was also observed in OECD Europe with diesel and LPG supporting growth. In Asia Pacific, oil demand in Japan remained sluggish, indicating a contraction compared with last year. Declines in direct crude burning and fuel oil consumption have contributed negatively to oil demand growth. In contrast, South Korea saw a very bullish first half of 2015, with naphtha consumption in the petrochemical industry lending support to growth.

In the non-OECD, data for the first half of the year indicates solid growth for India and, to a lesser extent, for China. The Middle East has also seen healthy growth. In contrast, Brazilian oil demand growth turned negative as economic momentum has slowed. The phasing-out of oil product subsidies in some non-OECD countries, as well as increased taxation in others, has had little impact on oil demand, given the overall lower oil price environment. As a result, non-OECD oil demand is estimated to increase by 1.1 mb/d this year.

In 2016, improvement in global economic activities is anticipated to support world oil demand to grow by 1.3 mb/d.

Demand growth in the OECD region is projected to rise by 0.2 mb/d solely led by the US, while Asia Pacific and, to a lesser extent Europe, are seen declining. In the non-OECD region, growth is expected to be around 1.1 mb/d with slightly lower growth from China. Steady oil requirements are anticipated in Other Asia, Middle East and Latin America. Nevertheless, the forecast is subject to uncertainty, including developments in the economic sector, acceleration/deceleration in industrial production, oil price developments, weather conditions, as well as ongoing substitution effects and energy policy changes.

On the supply side, the forecast for **non-OPEC supply** growth in 2015 has experienced a downward revision since the initial projection to currently stand at 0.88 mb/d, representing much lower growth than in the previous year. The bulk of this adjustment was due to a downward revision in North America's production, as US production has started to see some impact of lower oil prices, which have led to reduced investments. The US, Canada and Brazil are expected to remain the main contributors to growth in non-OPEC supply, while Mexico is likely to see a major decline. At the same time, oil output from FSU and OECD Europe is estimated to remain broadly unchanged.

For 2016, non-OPEC supply is projected to grow by 0.2 mb/d, much lower than this year's estimate. This lower growth reflects the impact of the reduction of CAPEX, which has led to the postponing or cancelling of upstream projects. OECD Americas is expected to see growth of 0.3 mb/d from the US and Canada, as well as Latin America, due to an increase in Brazilian production, although at a slower pace as a number of anticipated projects have been deferred. In contrast, production in FSU, Africa and OECD Europe is expected to decline in 2016.

Nonetheless, a high level of uncertainty is associated with the 2016 non-OPEC supply forecast on factors such as oil price developments, regulatory and environmental concerns, and geopolitical conditions, as well as technical challenges, such as unplanned shutdowns and sharper-than-expected decline rates, particularly in tight oil plays.

Meanwhile, **OPEC NGLs** are expected to increase by 0.2 mb/d in 2016, following almost similar growth in 2015.

The latest information for August indicates that **OECD commercial oil stocks** have accumulated around 167 mb since the beginning of the current year. This steady build came from the rise in global supply. As a result, OECD commercial oil inventories are around 190 mb above the five-year average, with crude and product inventories showing a surplus of 158 mb and 32 mb, respectively. Within the regions, OECD America showed the largest share of the surplus with gains of 175 mb, followed by OECD Europe (15 mb), while OECD Asia Pacific remained in line with the latest five-year average.

Although oil demand has started to improve in OECD countries, total OECD commercial oil stocks in terms of days of forward cover stood at a very high level, reaching 63.2 days. Non-OECD stocks have continued to show a steady increase, indicating a build of more than 90 mb since the beginning of this year. The bulk of this came from China which experienced a strong rise of nearly 70 mb in the first seven months of 2015.

Based on OPEC's supply/demand projections, the improvement in world oil demand is estimated to outpace the slowing increase in non-OPEC supply, resulting in the **demand for OPEC crude** in 2015 averaging around 29.3 mb/d, 0.4 mb/d higher than in the previous year. For 2016, demand for OPEC crude is projected to rise by about 1.0 mb/d to average 30.3 mb/d, with the second half of 2016 reaching 30.8 mb/d.

In closing, **OPEC** would like to assure the distinguished delegates to the IMFC that the Organization continues its longstanding efforts to supply consuming nations with oil in an efficient and economic manner.