

Oil Prices Outlook

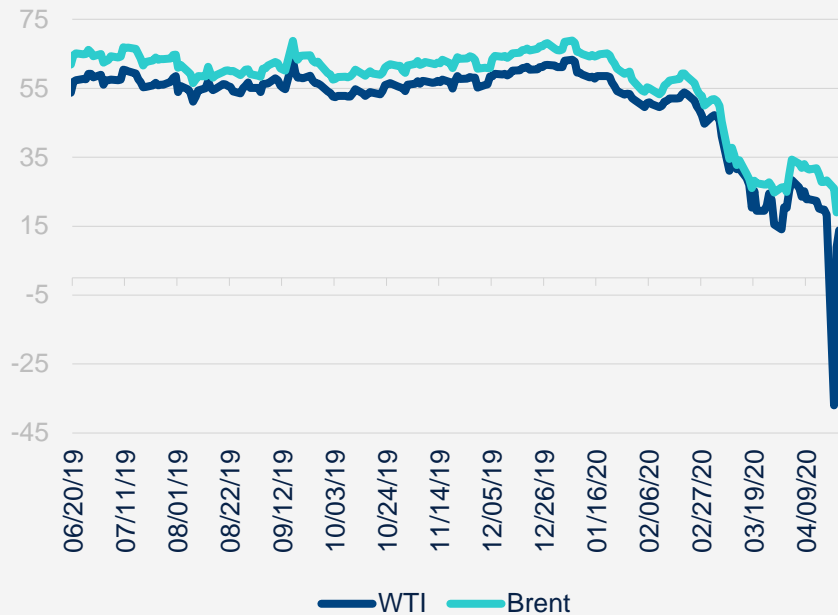
April 2020

Summary

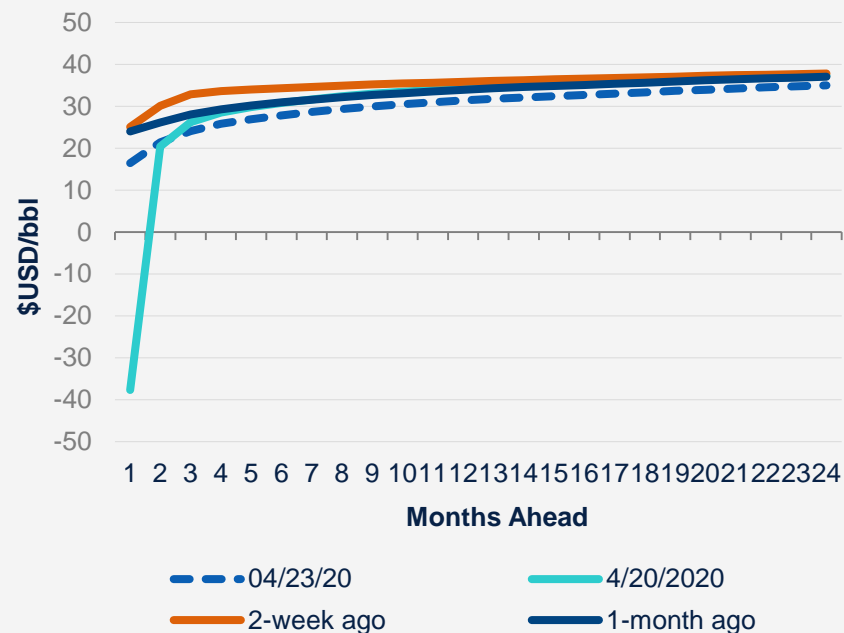
- **Oil prices** will remain very low in 2Q20, but will recover in 2H20 as the worst of the pandemic is left behind
- Even though the global economy will be boosted by fiscal and monetary support, **prices will remain subdued**
- **OPEC+ could accelerate committed output cuts** and consider new ones
- **Although oil demand will most likely recover in 2H20**, it will remain weak as the global economy takes time to return to pre-COVID19 levels
- In the U.S., the market for **WTI** crude has been severely dislocated as demand has plunged and stocks are reaching capacity
- **Government intervention** could help alleviate some of the pressure; however, a new wave of bankruptcies and consolidation in the shale industry seems likely
- **Risks are tilted to the downside**: inventory accumulation, uneven control of the pandemic across regions, duration and magnitude of the economic fallout and uncertainty on the implementation of output cuts

WTI went into negative territory for the first time ever. Futures remain positive, but market conditions are still fragile

CRUDE OIL PRICES 2019-2020 (\$ PER BARREL)

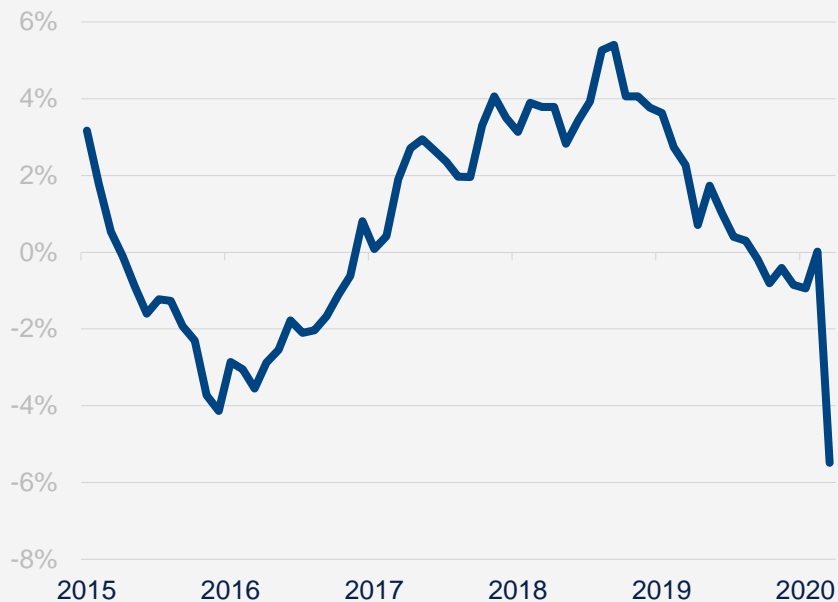


WTI FUTURES (\$ PER BARREL)

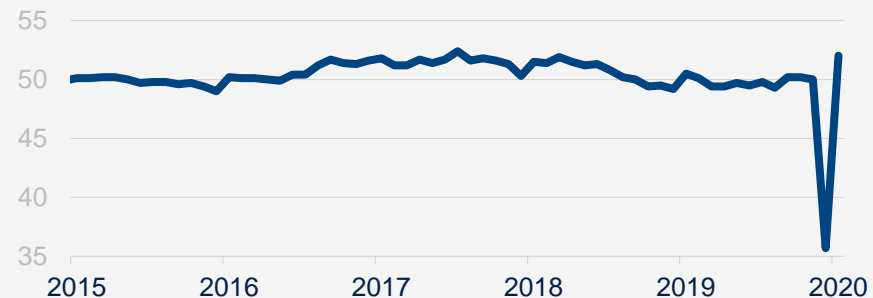


Crude oil demand collapses in tandem with industrial activity...

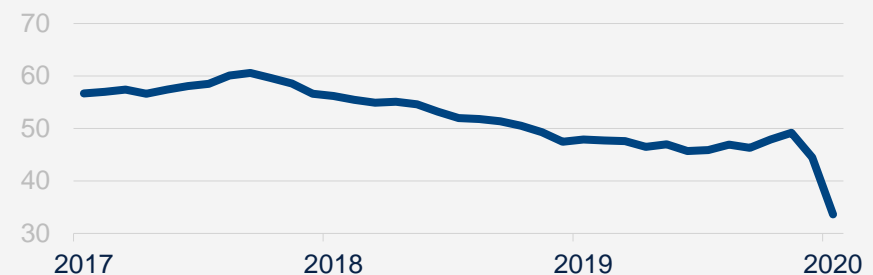
U.S. INDUSTRIAL PRODUCTION (YOY % CHANGE)



CHINA MANUFACTURING PMI (INDEX)

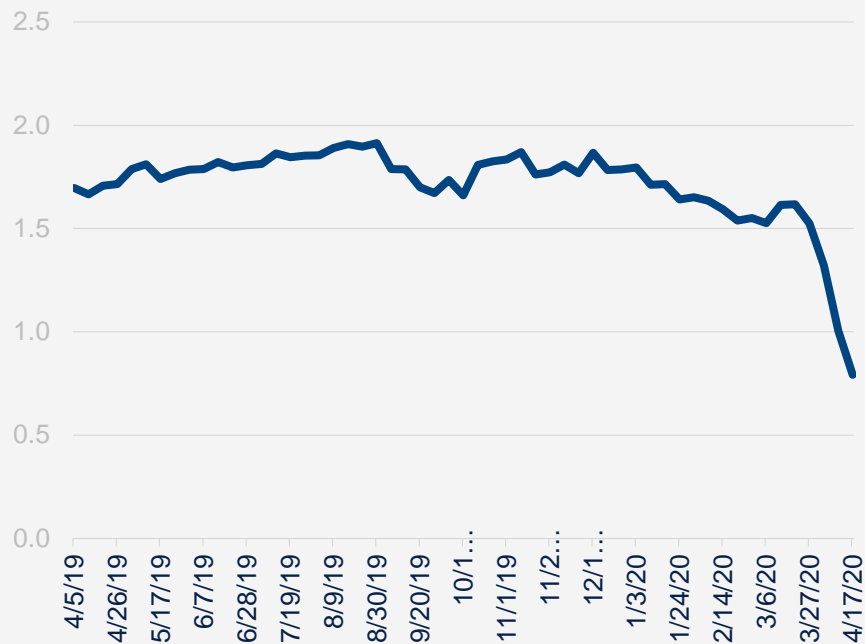


EUROZONE MANUFACTURING PMI (INDEX)

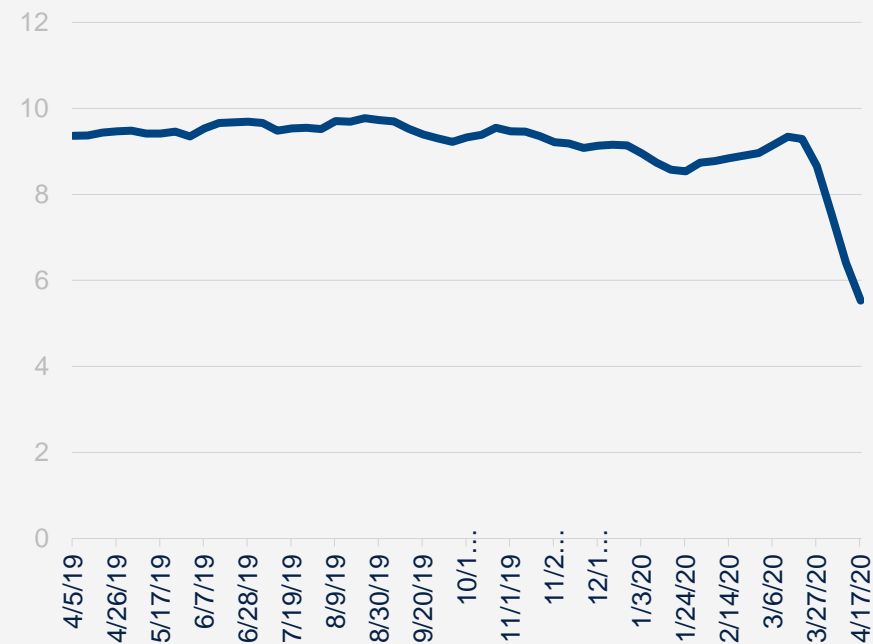


Moreover, the demand for transportation fuels has plummeted...

U.S. CONSUMPTION OF KEROSENE-TYPE JET FUEL (MILLION BARRELS PER DAY)



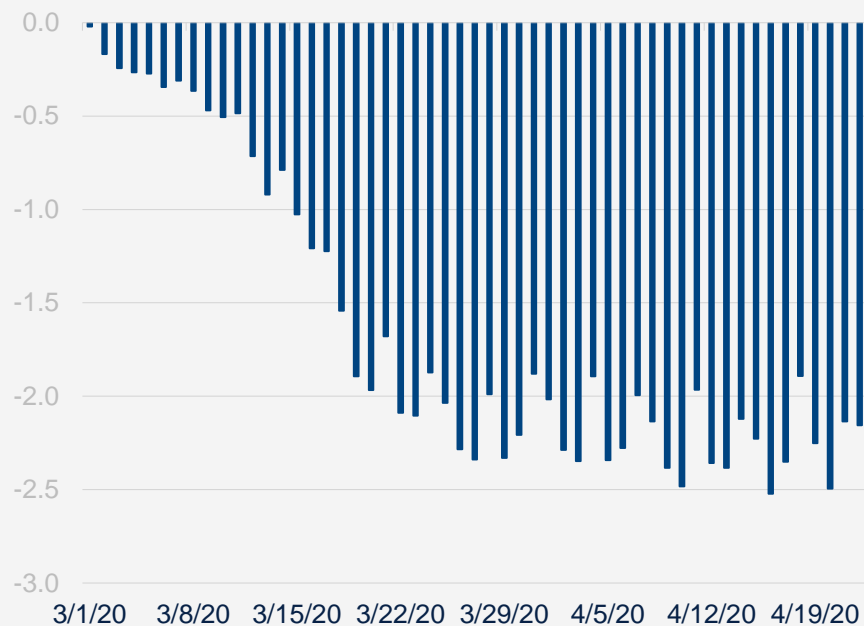
U.S. CONSUMPTION OF FINISHED MOTOR GASOLINE (MILLION BARRELS PER DAY)



...as people remain at home to contain the spread of coronavirus

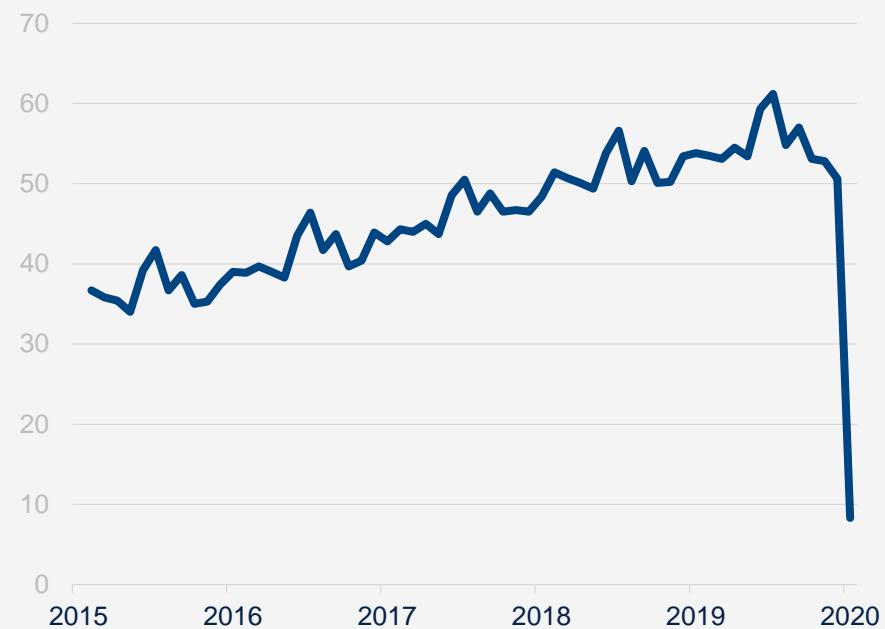
U.S. TRAVELER TSA SCREENINGS

(MILLIONS, YOY CHANGE)



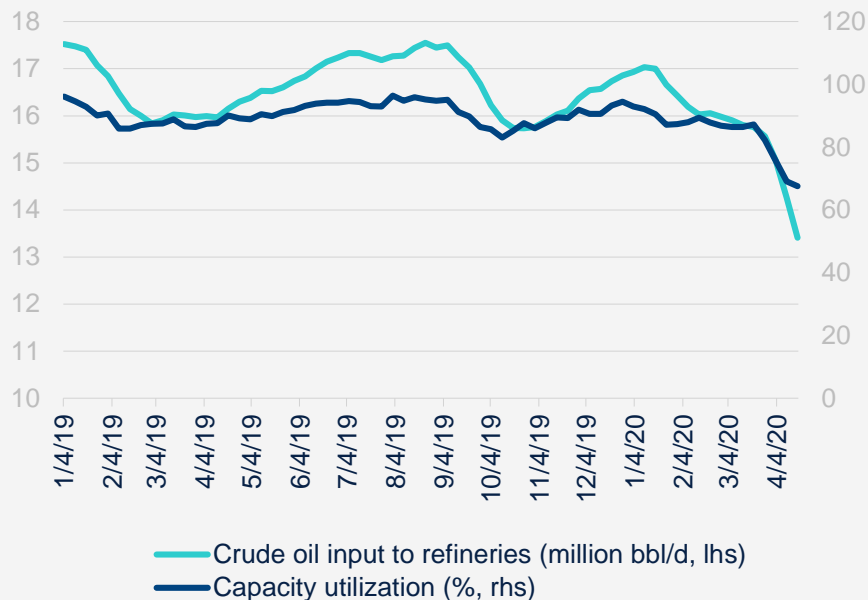
CHINESE AIRLINE PASSENGER TRAFFIC

(MILLIONS)

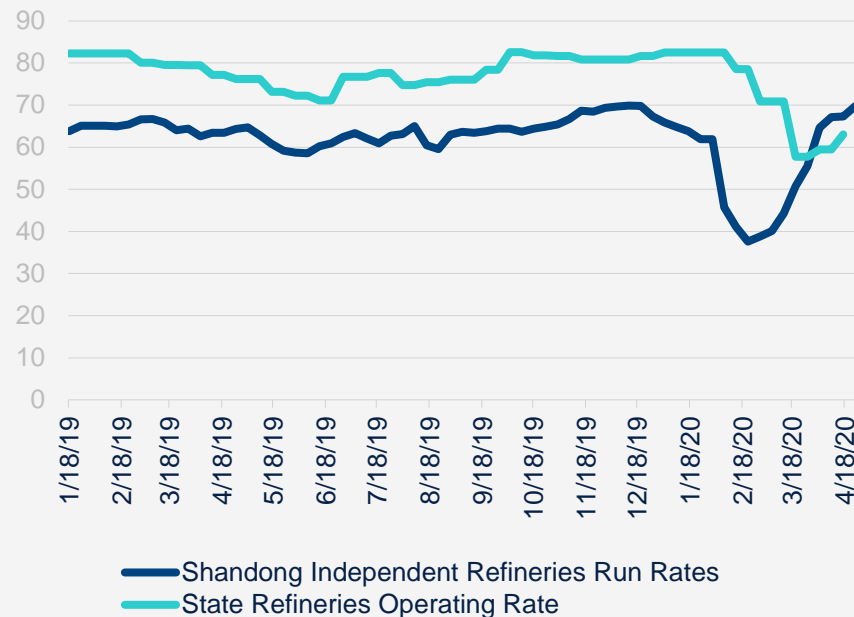


Refining activity has slowed significantly

U.S. REFINING ACTIVITY

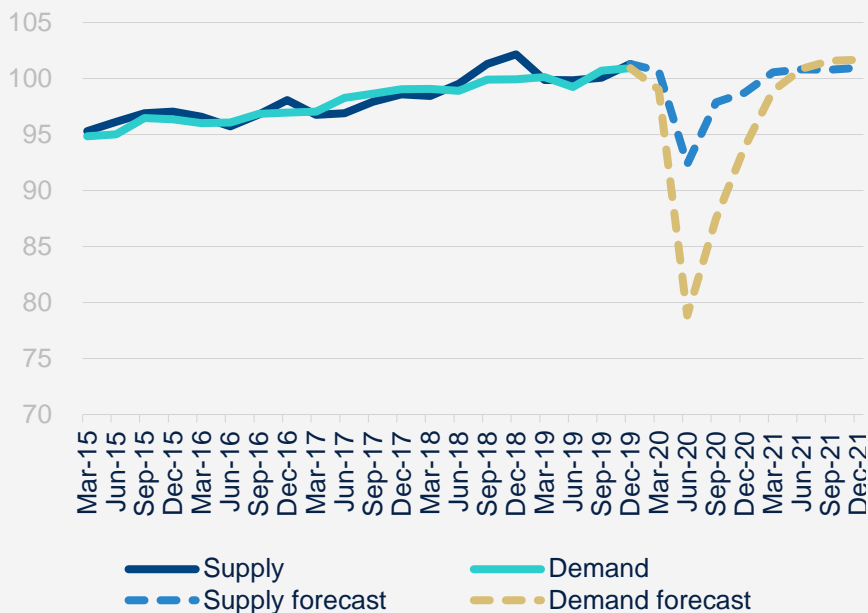


CHINA REFINING CAPACITY (%)



OPEC+ and G20 output deal won't be enough to compensate for the expected decline in global demand

OIL SUPPLY AND DEMAND (MILLION BARRELS PER DAY)

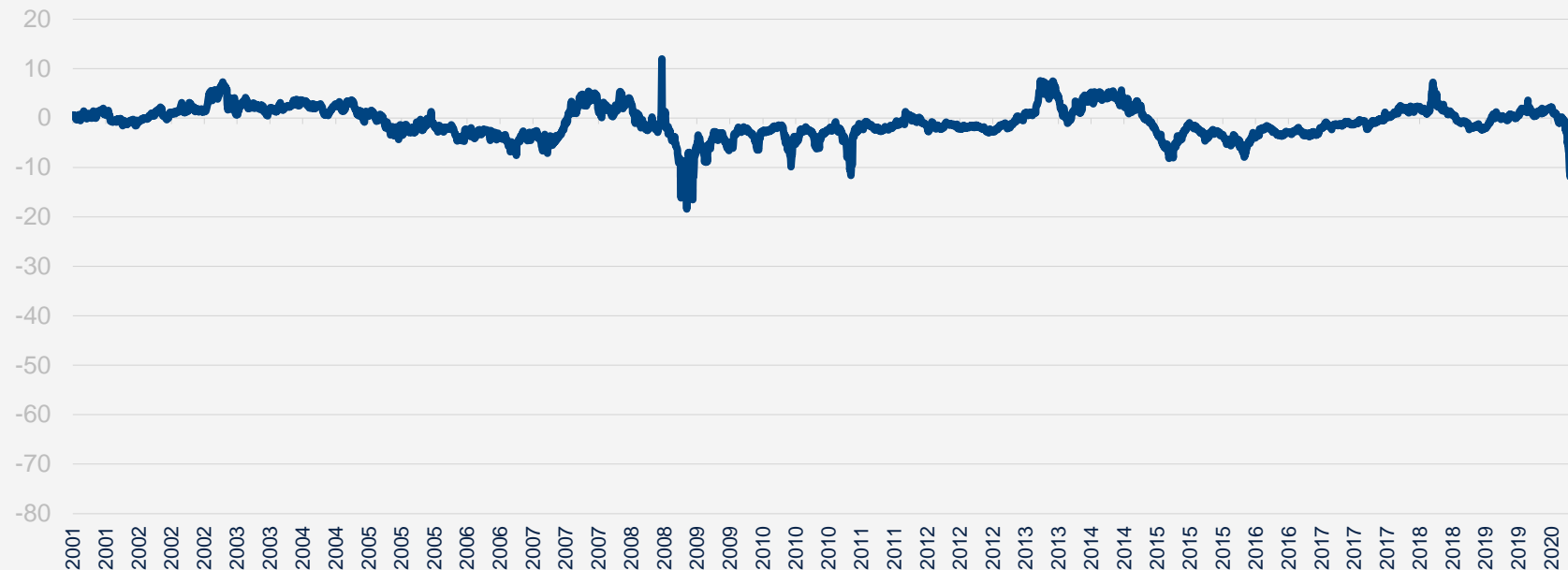


- Oil demand is likely to remain subdued through the rest of the year as the economy won't return to pre-crisis levels until 2022
- The implementation of OPEC+ cuts is subject to a high degree of uncertainty
 - Only a few countries can comply with their quotas in a short-period of time
 - Most countries will let their production decline organically, which could take several months

Extreme “contango” in the futures market incentivizes inventory accumulation

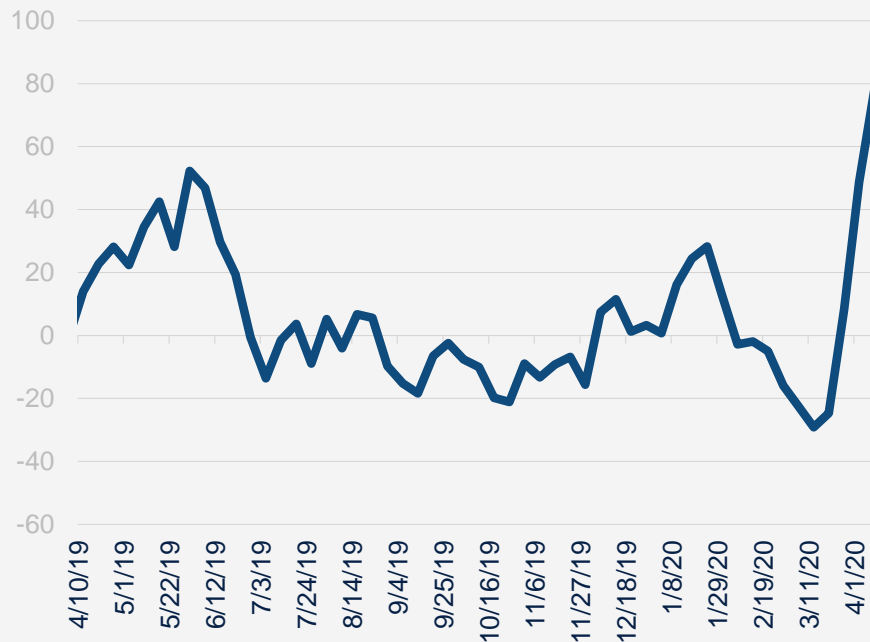
WTI SIX-MONTH TIME SPREAD

(\$ PER BARREL)

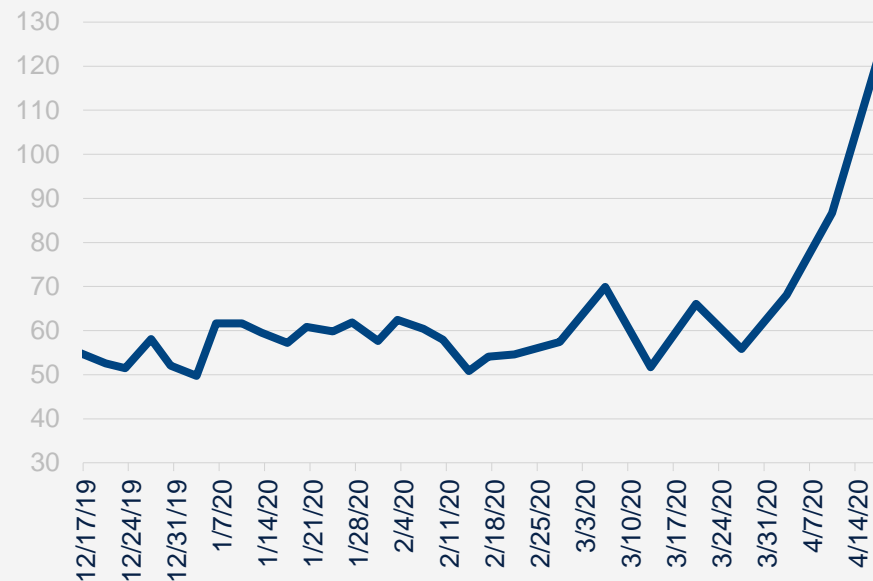


Inventories both on land and at sea are filling at unprecedented speed

US STOCKS OF CRUDE OIL AND PETROLEUM PRODUCTS EXCL. SPR (4-WEEK CHANGE)

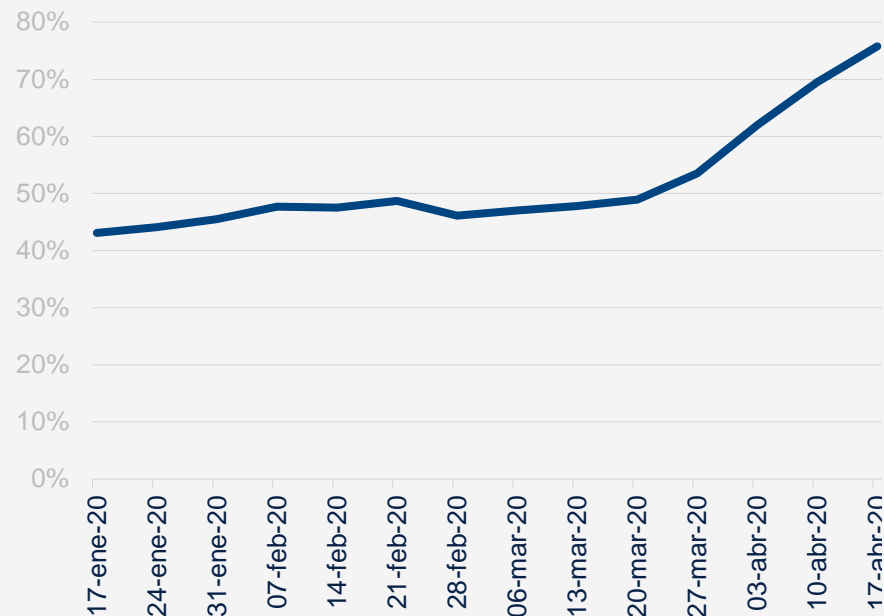


GLOBAL CRUDE OIL FLOATING STORAGE (MILLION BARRELS)

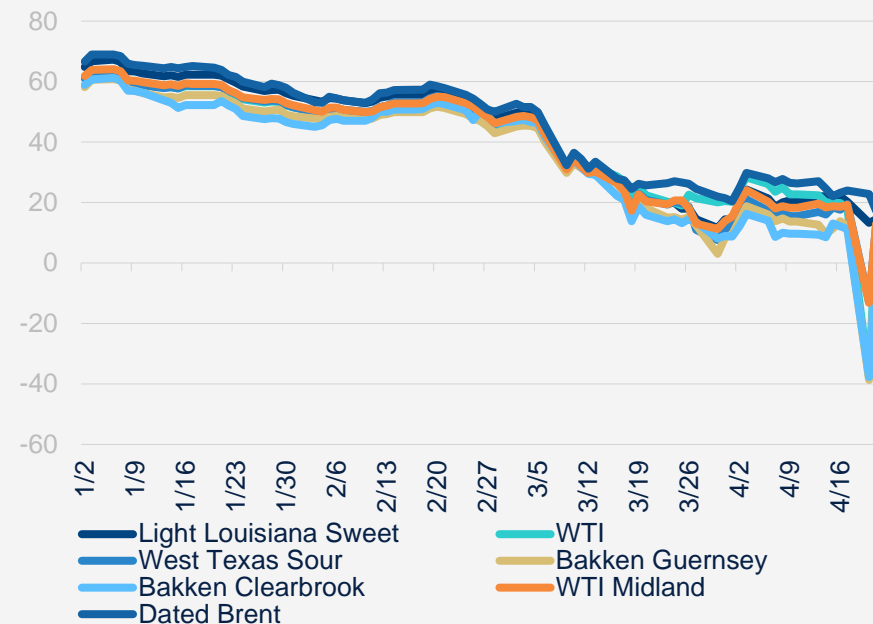


The Cushing, Oklahoma hub is under significant stress, putting downward pressure on regional benchmarks

U.S. CUSHING, OKLAHOMA NET STOCKS PERCENT OF WORKING STORAGE CAPACITY (%)

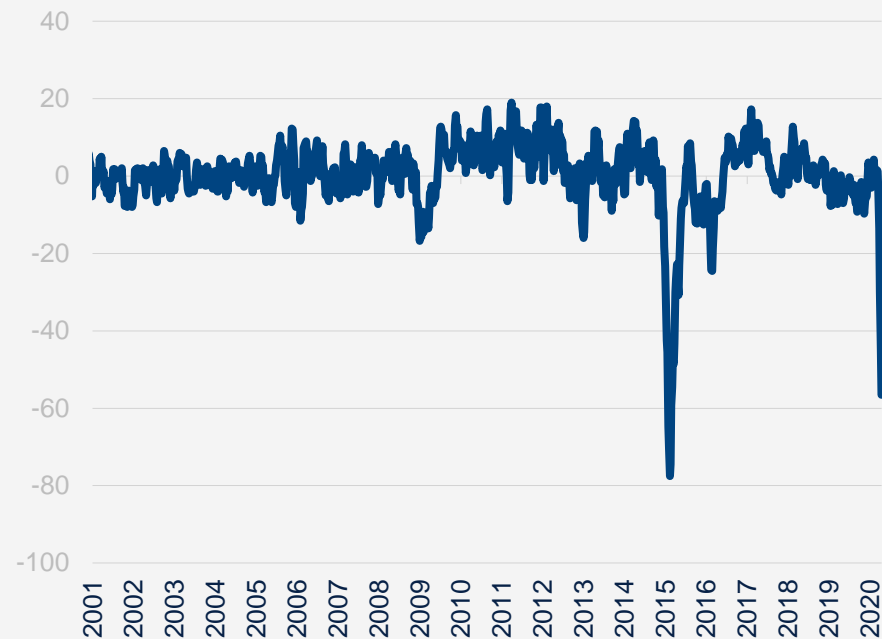


U.S. REGIONAL BENCHMARKS 2020 (\$ PER BARREL)

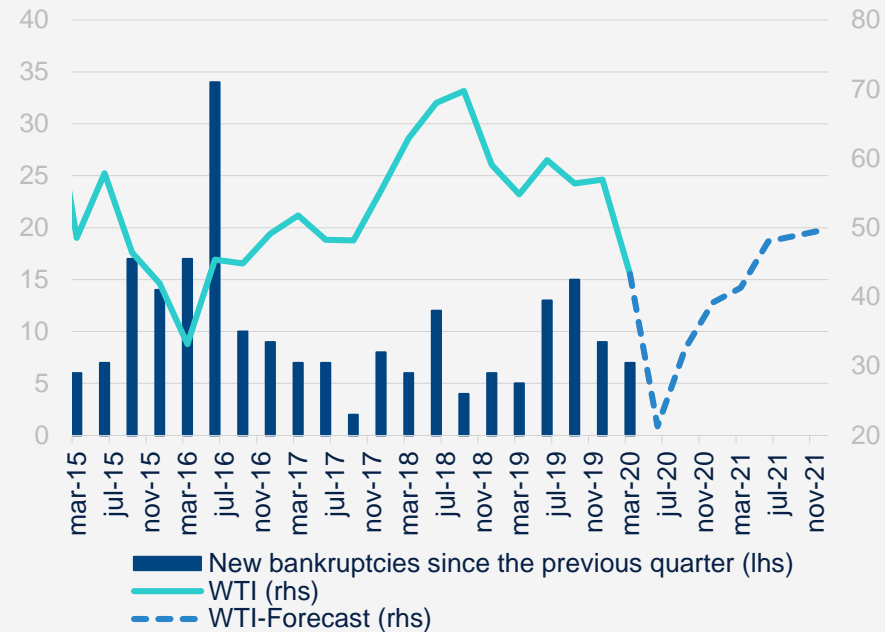


A decline in U.S. production and consolidation in the industry is imminent

BAKER HUGHES ACTIVE RIG COUNT: OIL RIGS (WEEKLY CHANGE)



NORTH AMERICA E&P BANKRUPTCY FILINGS AND WTI (NUMBER AND \$/BBL)



U.S. government intervention could take various forms

Policies

- Buy untapped crude reserves and incorporate them to the country's emergency stockpile
- Release oil and gas produced on federal lands and waters from royalties
- Deem some companies "critical to national security", with access to additional resources
- Expand Fed lending facilities for distressed sectors and companies with low credit ratings
- Create a specific program for O&G companies (similar to airline industry under CARES Act)
- Pressure G-20 countries to buy U.S. oil

Limitations

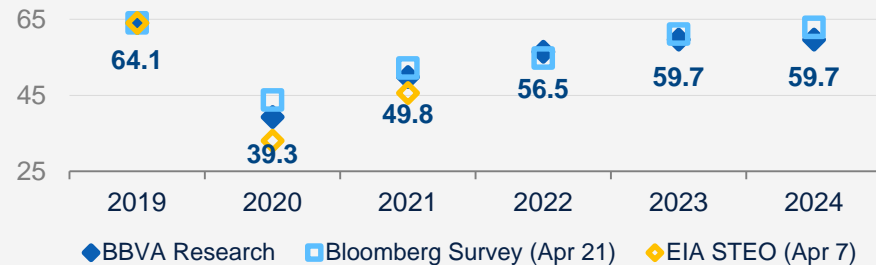
- Requires authorization from Congress, which already refused to spend \$3bn for SPR
- White House shows willingness but only on a case by case basis
- Will benefit large producers but small companies may be excluded
- Higher risk to the taxpayer and political backlash
- Could provide biggest relief depending on resources, but constrained by political divide
- Not enough to significantly reduce the glut

Prices will recover but will remain subdued due to excess supply and a gradual economic rebound

BRENT PRICES FORECAST

(\$ PER BARREL)

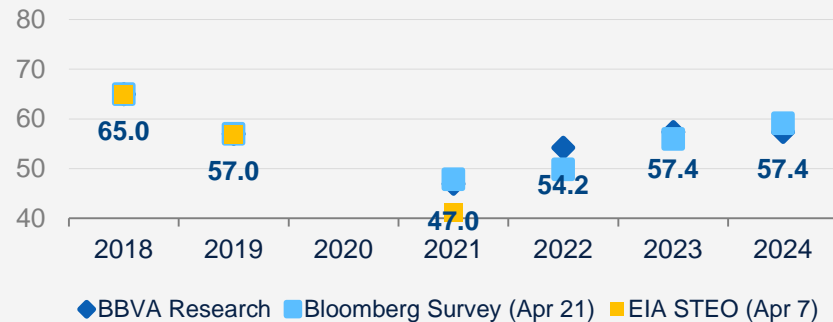
	BBVA Research (baseline)	Bloomberg Survey (Apr 21)	EIA STEO (Apr 7)
2018	71.1	71.1	71.1
2019	64.1	64.1	64.1
2020	39.3	43.7	33.0
2021	49.8	52.2	45.6
2022	56.5	54.8	
2023	59.7	61.1	
2024	59.7	62.9	



WTI PRICES FORECAST

(\$ PER BARREL)

	BBVA Research (baseline)	Bloomberg Survey (Apr 21)	EIA STEO (Apr 7)
2018	65.0	65.0	65.0
2019	57.0	57.0	57.0
2020	35.2	39.3	29.3
2021	47.0	47.9	41.1
2022	54.2	49.8	
2023	57.4	56.0	
2024	57.4	59.1	



Forecasts

Indicator	2019	2020	2021	2022
BRENT (\$ PER BARREL)	64.1	39.3	49.8	56.5
WTI (\$ PER BARREL)	57.0	35.2	47.0	54.2
GLOBAL SUPPLY (MILLION BBL/D)	100.2	97.4	100.7	101.5
GLOBAL DEMAND (MILLION BBL/D)	100.3	89.8	100.8	101.7

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