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INTERNATIONAL

Global oil demand remains stronger than anticipated

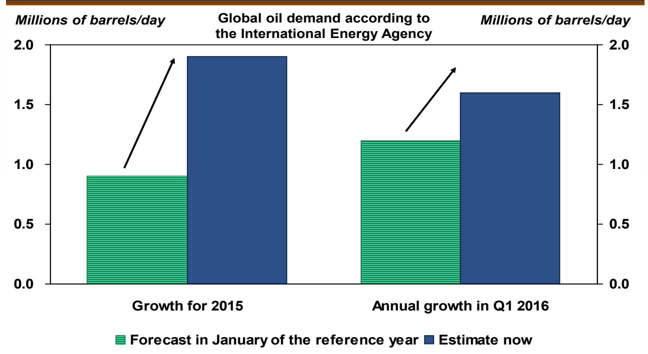
June's *Oil Market Report* from the International Energy Agency (IEA) contained some interesting information. Firstly, the IEA noted that oil demand has been substantially stronger than anticipated since the start of 2016. Last January, the IEA had projected yearly growth of just 1.2 mbd (million barrels per day) for the first and second quarters; now, it estimates that demand grew by 1.60 mbd and 1.35 mbd respectively in those quarters. Much of the increase in global demand comes from lively growth in Asian emerging nations, especially India. Consumption was also more resilient than forecast in Europe, and posted a solid advance in the United States. The 2015 increase in oil demand was also well above the forecasts, despite subdued global economic growth. There is reason to wonder whether low oil prices is providing more stimulus to demand than many thought.

The IEA also updated its quarterly forecasts for global supply and demand, adding 2017. The forecasts call for the global oil markets to start seeing some equilibrium as of mid-2016. Note, however, that this equilibrium assumes growth in oil demand will moderate, and that the tumble in U.S. oil production will soon make way for some stabilization, with an uptick in 2017.

Implications: The strength of global oil demand is one more reason to think that the recent upswing in oil prices is justified. It will probably take a further increase over the medium term, toward US$60–US$70 a barrel, to rein in demand and generate the investment required for oil production to start growing again.

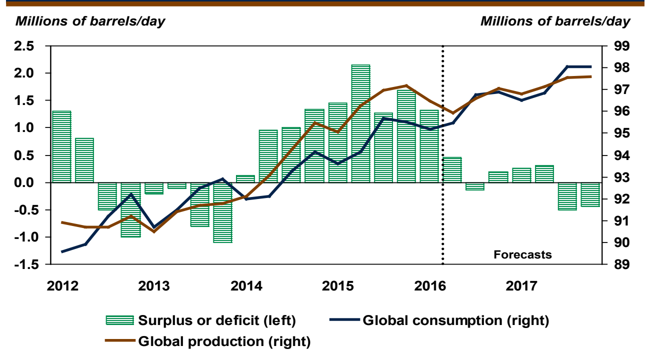
Mathieu D'Anjou, CFA
Senior Economist

Growth in global oil demand remained lively at the start of 2016



Sources: International Energy Agency and Desjardins, Economic Studies

The global oil market's major surplus is poised to make way for a balanced market



Sources: International Energy Agency and Desjardins, Economic Studies

François Dupuis
Vice-President and Chief Economist

514-281-2336 *or* 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist