The Oil Price Run-up Not Expected to Continue

Oil prices resumed their uptrend in the second half of 2017, which recently accelerated. Prices for Brent and WTI (West Texas Intermediate) thus jumped to almost US$70 and US$65, respectively, at the start of 2018, levels we have not seen since 2014. Should we get ready for oil at US$100 a barrel?

However, as we explained in our last issue of Commodity Trends, the surge in oil output in the United States, which is expected to continue over the next few quarters, suggests that oil prices will generally remain slightly below US$60 in 2018.

The latest forecasts of the International Energy Agency (IEA) released last Friday echo this sentiment. These forecasts show that the Organization of the Petroleum Exporting Countries (OPEC) was successful in creating a slight deficit on the global oil market in 2017. However, Americas crude output is expected to surge by 1.5 mbd (millions of barrels per day) in 2018, which would exceed the 1.3 mbd advance expected in global demand. Far from intensifying, the deficit recorded in 2017 should therefore make way for a balanced oil market in 2018.

**IMPLICATIONS**

The efforts made by several oil-producing countries and favourable economic outlooks justify WTI price of about US$60 a barrel. With no risk of a shortage for the next few quarters, especially in an environment where OPEC’s unused capacity is a significant cushion, we can however conclude that the fundamentals simply do not justify a price surge beyond this level.

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