A Large Surplus on the Global Oil Market Is Unlikely in 2019

Following in the footsteps of Western Canadian oil prices, international oil prices plummeted recently as well. The barrel price of WTI (West Texas Intermediate) oil, which was above US$75 in early October, fell back down to around US$55. The U.S. administration’s decision to temporarily allow certain countries to continue to import Iranian oil contributed to this price drop, which is also a reflection of a generally negative sentiment on financial markets.

At first glance, the latest monthly report from the International Energy Agency (IEA) seems to suggest that oil prices might continue to soften. As shown in graph 1, the IEA estimates that, if production by the Organization of the Petroleum Exporting Countries (OPEC) remains at the current level, the global oil market might see a significant supply surplus in the coming quarters. The assumption that OPEC will have a steady output is, however, not realistic in our opinion since it assumes that the organization’s other countries will continue to increase their production to offset any decline coming out of Iran. Saudi Arabia and its allies have already acted in recent months in anticipation of a forthcoming drop in Iranian production. There is no reason to think that these countries will continue to increase their production, especially in a context where shortage fears have given way to surplus fears. Production cuts might even be announced at the December 6 OPEC meeting.

**IMPLICATIONS**

There is no indication that oil supply will outstrip demand for long. Rather, our expectation is that OPEC will act quickly to restore balance to the market. That should help oil prices recover in the coming months.

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