

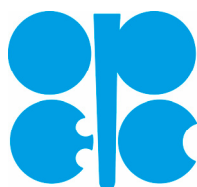


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**Statement by Mr. Barkindo
OPEC**



Statement by
H.E. Mohammad Sanusi Barkindo
Secretary General
Organization of the Petroleum Exporting Countries (OPEC)
to the
International Monetary and Financial Committee (IMFC)
Washington, D.C.

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The **Organization of the Petroleum Exporting Countries** would like to update the distinguished delegates to the International Monetary and Finance Committee (IMFC) on current oil market conditions and developments. During 2016, oil companies experienced drastic reductions in earnings, with significant job losses across the industry. **Global oil and gas exploration and production spending** fell by around 26% in 2015 and a further 22% in 2016. Economic growth slowed in a number of emerging countries, with some facing recessionary pressure.

Many months of intensive consultations were held around the world, both among **OPEC Member Countries**, as well as between OPEC and **non-OPEC countries**, to find a solution to this crisis. These discussions resulted in three **landmark OPEC events**: First, in Algiers in September 2016; followed by production adjustments by OPEC countries in November; and then the signing of the Declaration of Cooperation between OPEC and 11 non-OPEC oil producing countries in December. The latter came into force on the first day of 2017, with 24 oil producing countries voluntarily adjusting their crude oil supply by around 1.8 million barrels of crude oil per day (mb/d). These decisions have helped to bring forward the **rebalancing of the oil market**.

Crude oil prices recovered towards the end of 2016 to well above \$50/b. Prices continued to trend higher over most of 1Q17, with support from efforts by OPEC and 11 Non-OPEC producers to address an oil glut that has weighed on the market for more than two years. Additionally, investor optimism over the effectiveness of the efforts encouraged record bets on a sustained rally, although growing US output and stubbornly high stockpiles kept price within a tight range. Oil prices were also pressured by concerns about the pace of the decline in the global crude glut at the time of seasonal refinery maintenance.

Global economic growth has also benefited from the more balanced oil market, which has led to rising activities in the energy sector and lifted inflation to healthier levels, providing support to central banks to normalise interest rates in the developed economies. This, among other reasons, is expected to lift global economic growth in 2017 from an initially forecast of 3.1% to now stand at 3.3%. The current global economic momentum is relatively broad based and, while some downside risks remain, upside momentum is supporting a higher growth level in 2017.



In the OECD economies, US growth is forecast to stand at 2.2% in 2017, after growth of 1.6% in 2016. Growth has been lifted by ongoing strong domestic demand, a recovery in energy sector output along with related investments, as well as ongoing strength in the housing sector. Still, the depth and timeline of envisaged economic reforms by the new US Administration remain uncertain. In Japan, a renewed increase in exports together with stimulus measures are contributing to GDP growth of 1.2% in 2017, compared to 1.0% in 2016. However, the extremely tight labour market and ongoing low inflation are keeping growth moving to considerably higher levels. In the Euro-zone, the growth dynamic continues to perform well, supported by encouraging domestic demand, falling unemployment and a recovery in most peripheral economies. However, the ongoing high sovereign debt levels in some economies and several weak institutions in the banking sector, as well as uncertainties related to Brexit and the outcome of elections in some countries in the region, are all issues that will need close monitoring.

In the **emerging economies**, India and China continue to expand at considerable rates. India's growth is forecast at 7.0% in 2017, after growth of 7.5% in 2016. China is forecast to expand at a slightly lower pace of 6.3% in 2017, compared to 6.7% in 2016. Domestic consumption, investment and governmental support remain key drivers in these two economies and are expected to continue to contribute to growth in 2017. Both Russia and Brazil are forecast to recover after two years of recession. Russia is expected to grow by 1.2%, after a decline of 0.2% in 2016. Brazil is forecast to grow by 0.5% in 2017, after a considerable contraction of 3.6% in 2016. Both economies are expected to benefit from improving commodity markets and a recovery in domestic demand.

Turning to the oil market, **global oil demand** in 2016 grew at 1.38 mb/d. The largest contributors to this growth have been India, China and OECD Europe. Growth in India and China remained robust last year, while OECD Europe performed better than expected.

In 2017, world oil demand is projected to increase at a slightly slower rate than in 2016, growing by 1.27 mb/d. In OECD Americas, improving economic conditions are expected to lend support to overall oil consumption in the US; however, oil demand growth is anticipated to moderate from the levels experienced in the year before but remain firm. In OECD Europe, oil consumption is projected to expand for yet another year albeit at a slower rate than in the previous two years.



Oil demand in the region is driven mainly by expected improvements in economic growth. Nevertheless, pending economic issues and key political events in a number of countries in the region, as well as rigorous taxation on oil usage, mostly for road transportation fuels, are expected to moderate oil demand growth in OECD Europe. In OECD Asia Pacific, the shutdown of nuclear plants in Japan should continue in 2017, along with an assumption that a high level of substitution, mainly toward natural gas, will remain in 2017. However, South Korea is anticipated to provide support to the region as its petrochemical sector and the overall economy is seen expanding.

In non-OECD, India's demand is anticipated to be solid as a result of a projected positive economic outlook for the country, although at a slower pace than in 2016. In Latin America, oil demand growth projections are expected to rebound in 2017 on the back of a pickup in economic conditions in Brazil and various other countries in the region. In the Middle East, the focus will be on countries of regular and steady growth to compensate for shrinkage in oil requirements elsewhere due to geopolitical issues. In China, growth is anticipated to be constant with previous years as the petrochemical and the transportation sectors are foreseen expanding at a healthy pace, however, it is anticipated to be limited by the promotion of natural gas in transportation, the continuation of controls in new car registrations and improvements in fuel quality.

On the supply side, the forecast for **non-OPEC oil supply** is estimated to contract by **0.7 mb/d** in 2016. The main contributors to the decline were the US, China, Columbia and Mexico. However, a recovery in Canadian oil production, following the wildfire in Alberta, rising rig counts in the US and the early start-up of the Kashagan oil field in Kazakhstan have helped reduce the contraction in non-OPEC supply in 2016.

For 2017, non-OPEC oil supply is projected to increase by **0.5 mb/d**. The US, Brazil, Canada and Kazakhstan are expected to be the main drivers for the expected growth. Higher growth in the US is due to rising rig counts and cash inflows as well as a lower breakeven cost for tight oil production, along with increased NGLs and offshore output.

The forecast for 2017 has been driven by the oil price recovery, increasing investments by IOCs and NOCs, and the return of producers to prolific tight oil plays in the US. At the same time, the numbers in 2017 also reflect a high level of



uncertainty due to factors such as oil price developments, companies' financial circumstances, and changes in projects which have still not received a final investment decision. Meanwhile, **OPEC NGLs** are expected to increase by **0.14 mb/d** in 2017, broadly in line with the growth estimate for 2016.

The latest information indicates that **OECD commercial oil stocks** stood at **2,987 mb** in February 2017, around **268 mb** above the five-year average. Crude and product stocks show a surplus of **227 mb** and **41 mb**, respectively, over the five-year average. On a regional basis, the bulk of the overhang came from OECD Americas, indicating gains versus the seasonal average of **230 mb**, while OECD Europe and OECD Asia Pacific stocks stood at **27 mb** and **11 mb** above the latest five-year average.

OECD days of forward cover stood at **64.2 days** in February, some **4.6 days** over the seasonal norm. This high level of days of forward cover mainly reflects the massive build in the absolute level of inventories accumulated during last two years, due to the increase in global supply, outpacing the rise in oil demand.

Non-OECD inventories stood at **2,274 mb** at the end of January, representing an increase of more than **46 mb** from the December 2016. Both crude and products contributed to the build with increases of **18 mb** and **28 mb**, respectively. The bulk of the build in non-OECD stocks came from China, which registered an increase of around **30 mb**.

Based on OPEC's supply/demand projections, the **demand for OPEC crude** is expected to average **32.2 mb/d** in 2017, some **0.6 mb/d** higher than in the previous year. In March 2017, OPEC crude oil production stood at **31.89 mb/d**, around **1.33 mb/d** less than the adjustment reference production of October 2016.

In closing, **OPEC** would like to take this opportunity to reaffirm its longstanding commitment to support oil market stability for the mutual benefit of consuming and producing nations contributing to an improving global economy.