Crude oil prices

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Prospects for the imbalance in the oil market in 2016-2021

- IEA expects a steady demand-supply gap for 4 years after you reach balance in 2017.
- Before 2020 EIA and IEA expect the stabilization of the growth rate in global oil demand at the level of 1.2-1.4% per year.
- There is a risk of the future’s demand-supply gap due to the significant drop in investment for oil production in 2015 – 2016
The growth of oil production by OPEC member countries has just stopped.

During recent two years OPEC did not cut production, despite the surplus of petroleum in the global oil market and production problems in several member countries.

Three major OPEC producers (Saudi Arabia, Iraq and Iran) had contributed to total OPEC supply growth.

Doha negotiations in April 2016 on “freezing” oil production, despite the lack of decisions, had short-term positive effect on the oil market, but demanded further producers’ actions.

The framework agreement to set a ceiling of OPEC production at 32.5-33.0 Mb/d, reached at the meeting in Algeria, showed significant shift to the new approach of OPEC since late 2014.

Source: EIA
Massive increase of shale oil production seems viable at oil price range $55

- In the short term the US shale oil production increase is possible only if the oil price is not below than $55/bbl
- One more factor of uncertainty in estimating the US shale oil supply is DUC wells and their commissioning

* - drilled uncompleted wells

Source: Rosneft based on EIA data
Reduction of the investment activity

- Total investments of TOP5 IOCs in H1 2016 dropped by 27% YoY to $50.3 bn
- Investments of independent producers of Northern America were decreasing for the 6th quarter in a row: to $11.4 bn in 2Q2016 (-52% YoY)
- Large drop in investments will affect the industry state and the energy prices during the next 3-5 years

Source: IEF based on Company’s data
Oil prices are waiting for decisions of producers

After the shock of the fall 2014 and the turbulence on the global oil market of late 2015 - early 2016, global oil prices today are kept in a reasonable market price range of $50-52 per barrel.

Further dynamics of oil prices will largely depend on reducing the "gap" between the behavior of the market and fundamentals.
The current dynamics of liquids hydrocarbons in Russia is positive

Production of liquids hydrocarbons* in Russia, 2010-2016

- Production of liquids hydrocarbons
- Growth rate, YoY (right)

Sources: CDU TEK, Ministry of Energy of the Russian Federation

- In 2010-2015, the average annual growth rate of liquids production in Russia was 1.1%
- In 2016 the total liquids production in Russia can reach 540-544 mln t (+1.5-2% YoY)

Production of liquids hydrocarbons in Russia, 2016-2035*

- Optimistic scenario
- Base scenario
- Conservative scenario

** Based on the draft of the Energy Strategy of Russia till 2035

- In 2014-2015 the oil production growth rate in the Eastern regions of Russia was several times higher than the average growth of oil production in Russia
- After 6M 2016 oil production in Eastern Siberia increased by 6.4 %, and in the Far East – by 11%
Russian oil projects are profitable even at low oil prices

- In 2015, investment in the Russian oil sector increased by 14% (YoY) in local currency (in constant prices), which was the highest growth of investment over the last 8 years.

- According to Goldman Sachs, Russia’s oil projects generate positive free cash flow even at $10/bbl.

- According to Wood Mackenzie, 80% of Russian oil projects will remain profitable even at the price of $20/bbl.