

KNOW YOUR MARKET: OIL & GAS

OCTOBER 2014

Global oil prices have fallen 25 percent since June 2014, and supply/demand fundamentals suggest this is the beginnings of a tug-of-war battle between the bears and the bulls. As the industry navigates through this uneasy period, it is more important than ever to “know your market”. This paper summarises the past month in the oil market and takes a forward look at oil prices.

CONTACT

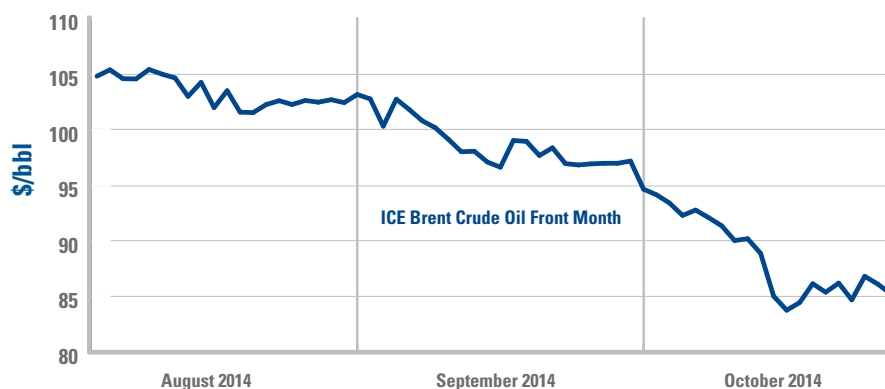
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Oil Markets – Monthly Round Up

Global crude oil benchmarks hit multi-year lows in October as a series of bearish supply and demand data heaped downward pressure on crude oil prices.

The International Energy Agency revised down their global oil demand growth forecasts for 2014 and 2015 on weaker expectations for global economic growth. Adding to the bearish sentiment came news that the US were producing crude oil at levels previously unseen for almost three decades.

Over the course of the month, the ICE Brent futures contract traded as low as \$82.60/b, a 4-year low, whilst the US WTI benchmark briefly dipped below \$80/b, trading at \$79.78/b, a 2-year low.



Supply side headlines

- Shale oil contribution from Eagle Ford and Bakken (up 38% and 24% year-on-year respectively) helped US crude production climb to 29-year highs.
- US crude oil inventory build – total inventory estimated to be at 377/mb, 5.33% above the 5-year average.
- US crude oil imports at their lowest levels (September) for 18 years, suppressing values for global crudes destined for US market.
- Russia crude oil production close to post-Soviet records
- OPEC production at 13 month high (30.66/mbpd). Libya production in excess of 1/mbpd, an 800/kbpd increase since May

Demand side headlines

The International Energy Agency revised down global oil demand growth forecast by 300/kbpd for 2015, citing a slowdown in Chinese demand as a contributing factor:

- IEA reduced the 2014 demand growth estimate by 200/kbpd to 0.7/mbpd
- IEA reduced the 2015 demand growth estimate by 300/kbpd to 1.1/mbpd (93.5/mbpd for 2015)



HAVE WE FOUND A FLOOR?

The sudden sell-off in oil prices has sparked a debate about where oil prices will go next. Some analysts are forecasting further downside potential driven by over-supply - citing 75/b as a potential home. Other forecasts have been more bullish, seeing \$90/b as the equilibrium price over the next 4 weeks, pricing in an OPEC production cut.

Views from our Oil and Gas team:



► **On Oil Price...** “\$80/b oil will put huge pressure on some of the complex production projects – particularly the deep-water and shale fields. Break even development costs can easily be as high as \$80/bbl. If we move any lower we could see operations scaled back which could alter the supply picture drastically”

Emma Wild, Head of Upstream Advisory, KPMG in the UK



► **On OPEC...** “The OPEC meeting in November will go a long way in determining the next directional move in the oil price. Calls for OPEC production cuts have been rife since the oil price has hovered above \$80/bbl”

Anthony Lobo, Head of Oil & Gas EMEA and ASPAC, KPMG in the UK



► **On Geopolitics...** “Lots of attention has been given to the US of late. Geopolitics could still have a significant role to play – if Iraq experienced a geopolitical shut-down, OPEC spare capacity would be wiped out in an instant”

Alberto Martin Rivals, Head of Energy, KPMG in Spain

Economic Calendar

5th November – EIA weekly oil report
12th November – EIA weekly oil report
19th November – EIA weekly oil report
26th November – EIA weekly oil report
27th November – OPEC summit

BROKER ESTIMATES

Oil price forecasts taken in mid-October showed some signs of long-term price pressure. Of the 16 oil brokers polled, average and median forecasts were revised downwards for 2015-18 compared to the previous month's estimate.

	2015	2016	2017	2018
September Avg	105.2	106.3	101.4	108.0
October Avg	101.9	103.2	100.2	99.3
September Median	105.0	105.0	103.0	108.0
October Median	103.1	102.0	102.0	100.0

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