

# Medium-Term Global Oil Outlook

## **Fifth IEA OPEC Symposium on Energy Outlooks** **Session Two: Industry Views**

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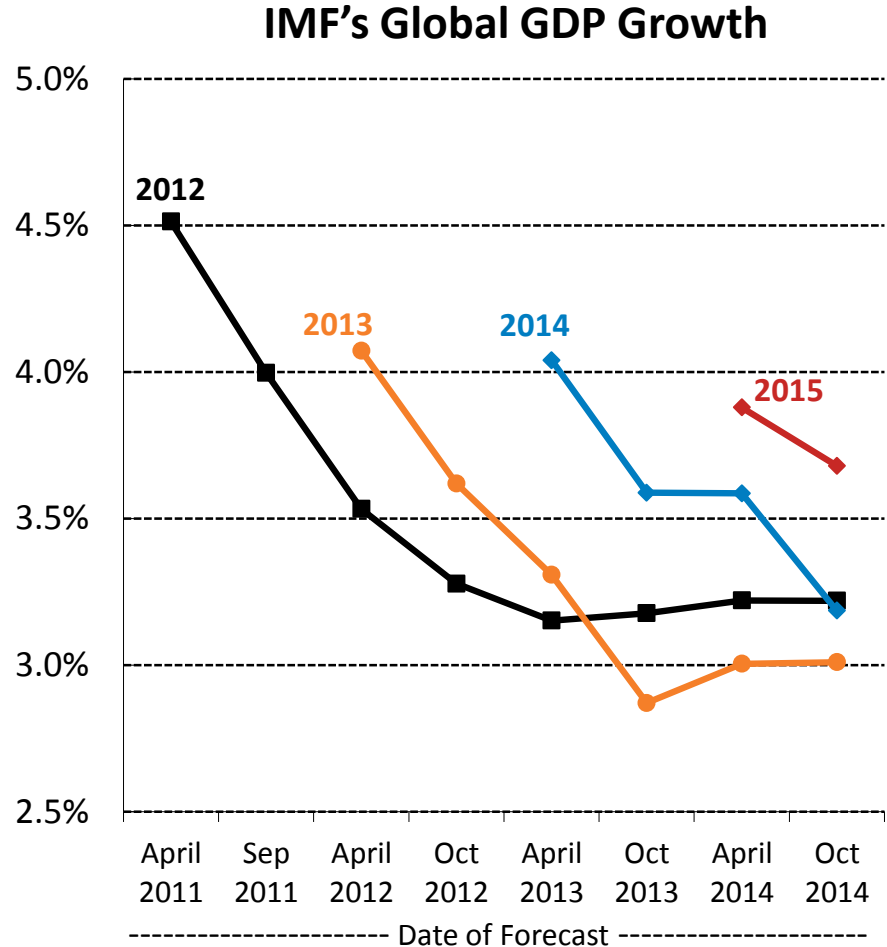
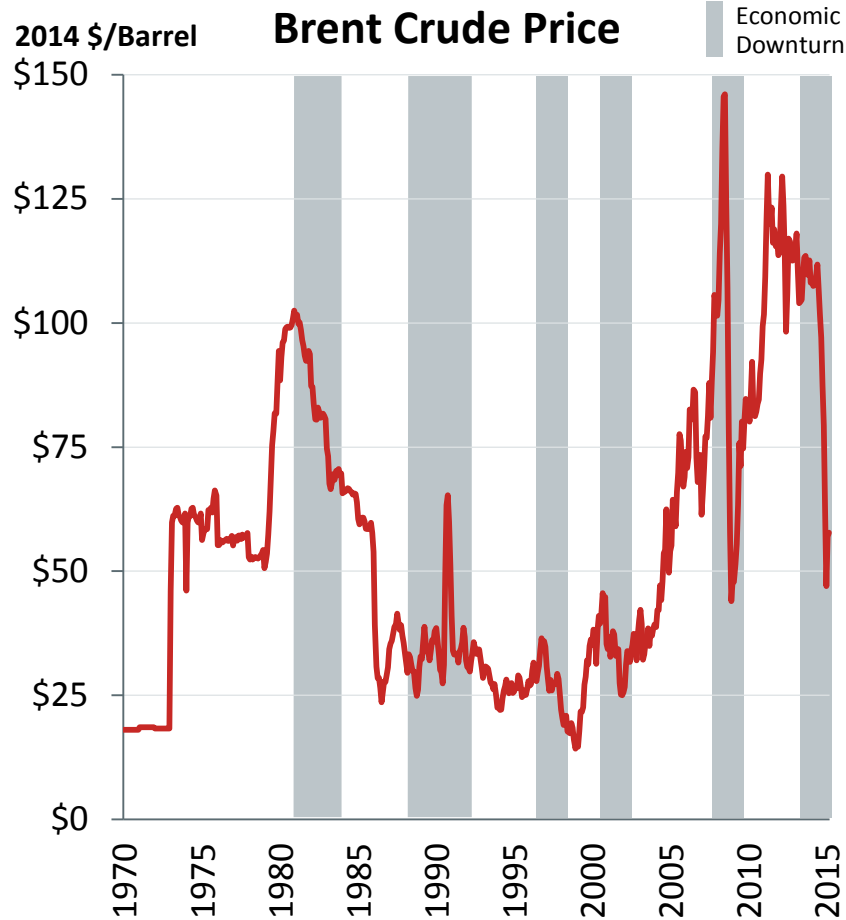
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# Key Uncertainties in Medium-Term Oil Outlook

- Global economic recovery
- Global oil demand response to low oil prices
- Global oil supply response to low oil prices
- Industry cost deflation
- Government policies impacting supply or demand
- Technology change impacting oil supply or demand

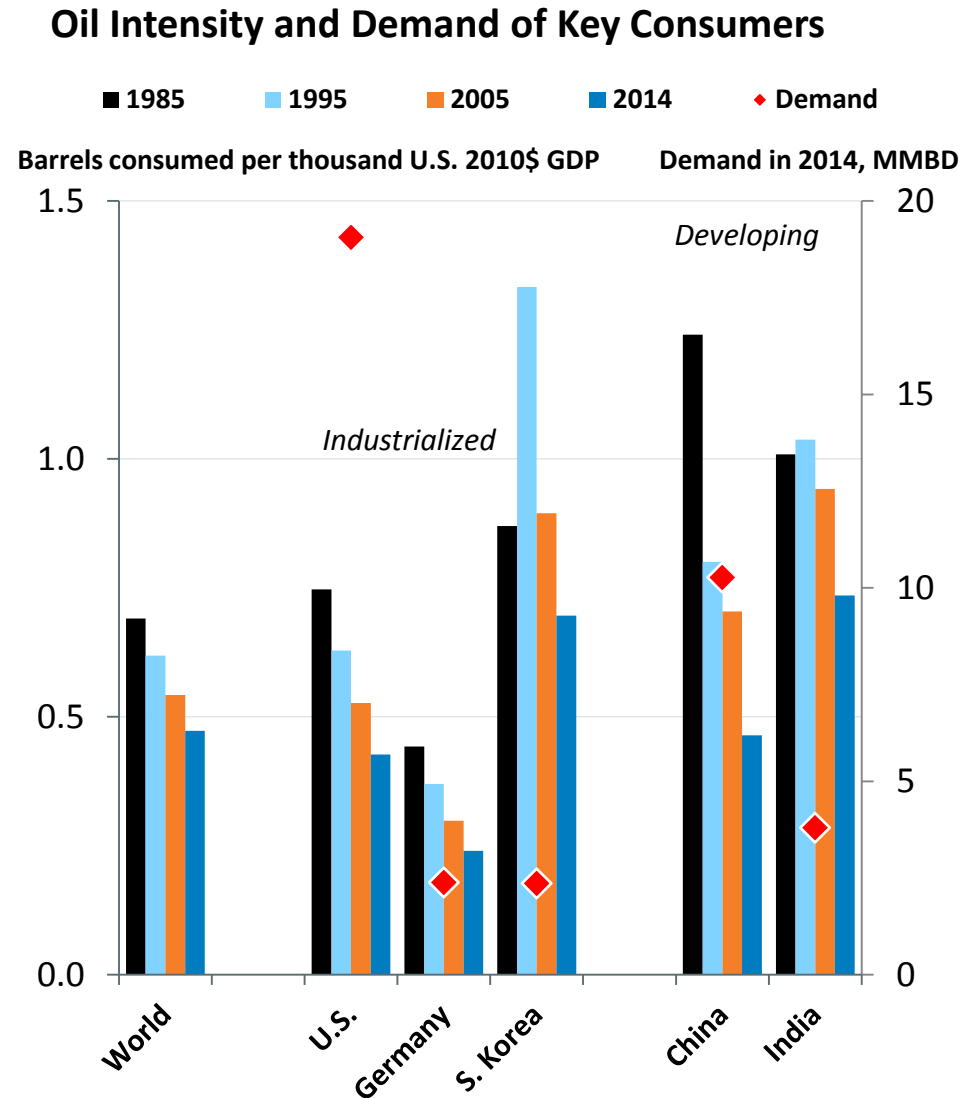
# Outlook for Global Economic Growth is a Key Uncertainty



**Weak global economic growth in the face of rising oil supplies was a key driver of the recent price decline. Downward revision of economic growth has been a constant theme.**

# Limited Responsiveness of Global Oil Demand to Lower Oil Prices

- Oil demand relatively insensitive to price
- Reduced oil intensity of global economy
- Lower consumer oil price decline outside the U.S.
  - Strong U.S. dollar (in which oil priced)
  - Developing nations removing subsidies and raising oil taxes

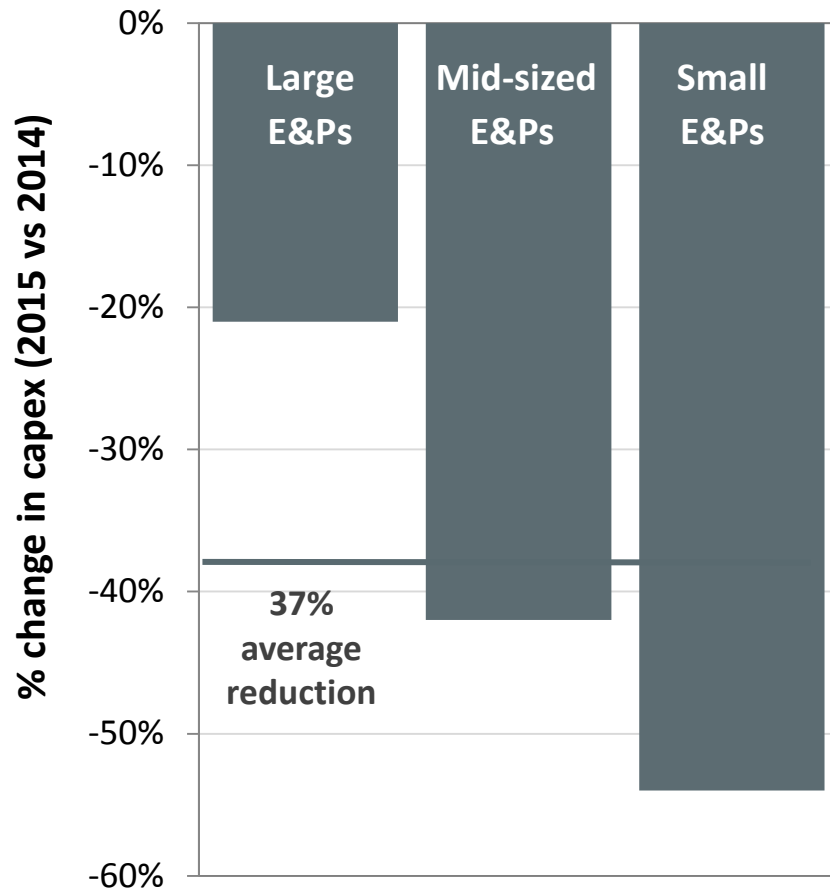


**Limited global oil demand response to lower oil prices**

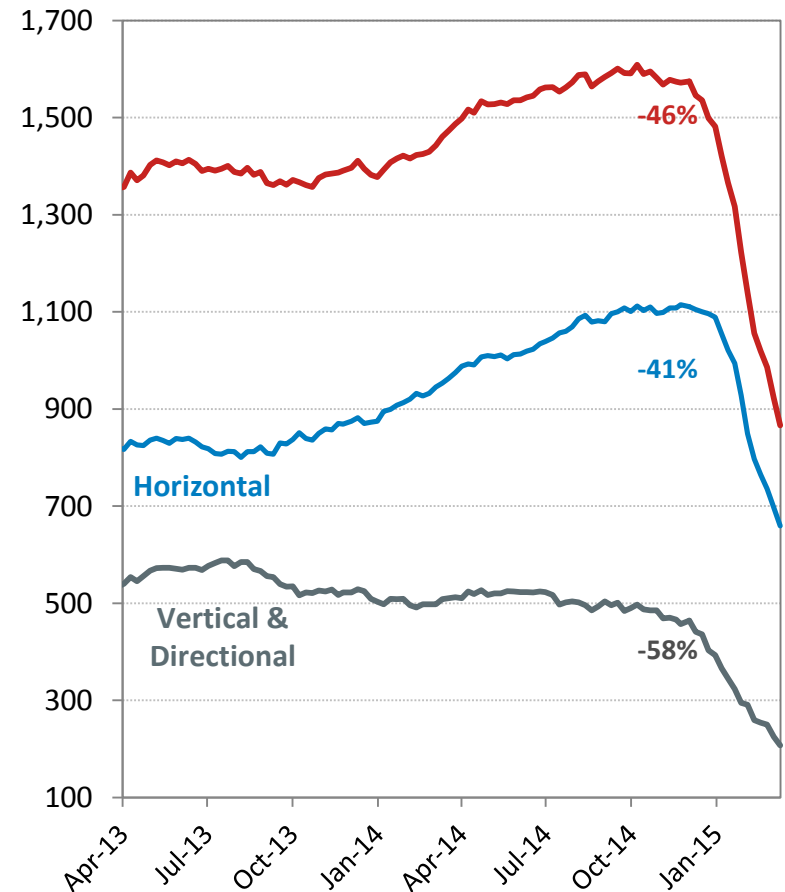
Sources: ConocoPhillips; Energy Intelligence Group; Oxford Economics

# U.S. Supply Response to Low Oil Prices

## U.S. Upstream Capital Cost Reductions



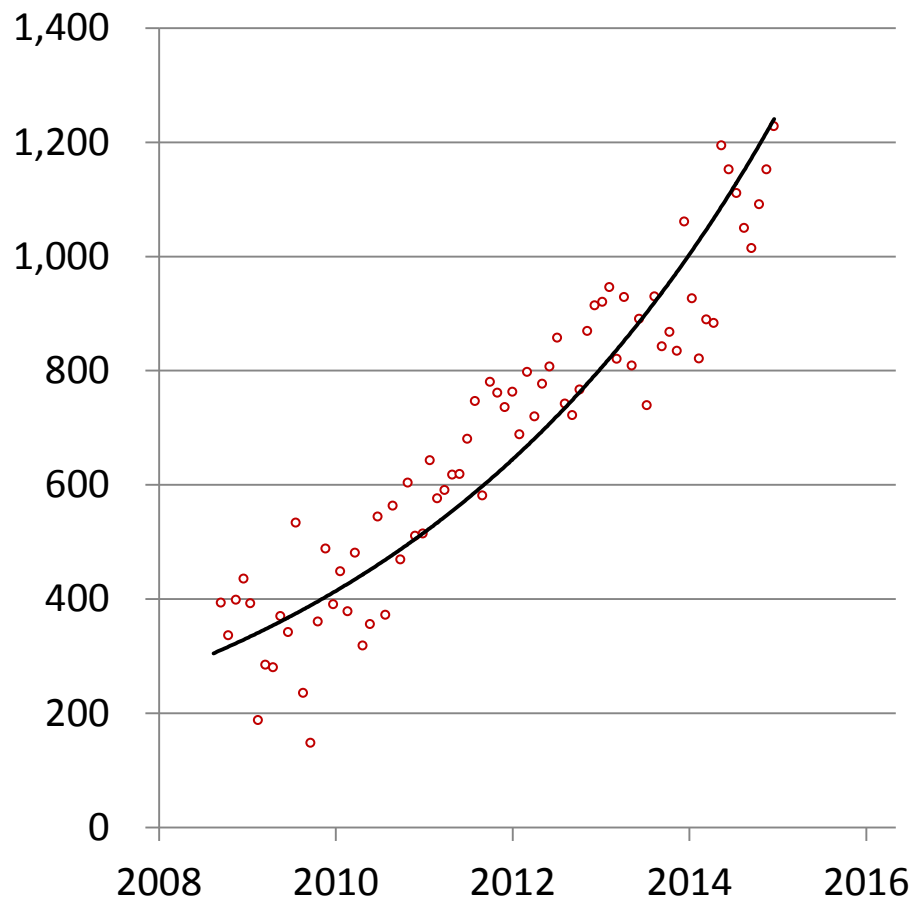
## U.S. Lower 48 Oil-Directed Rig Count



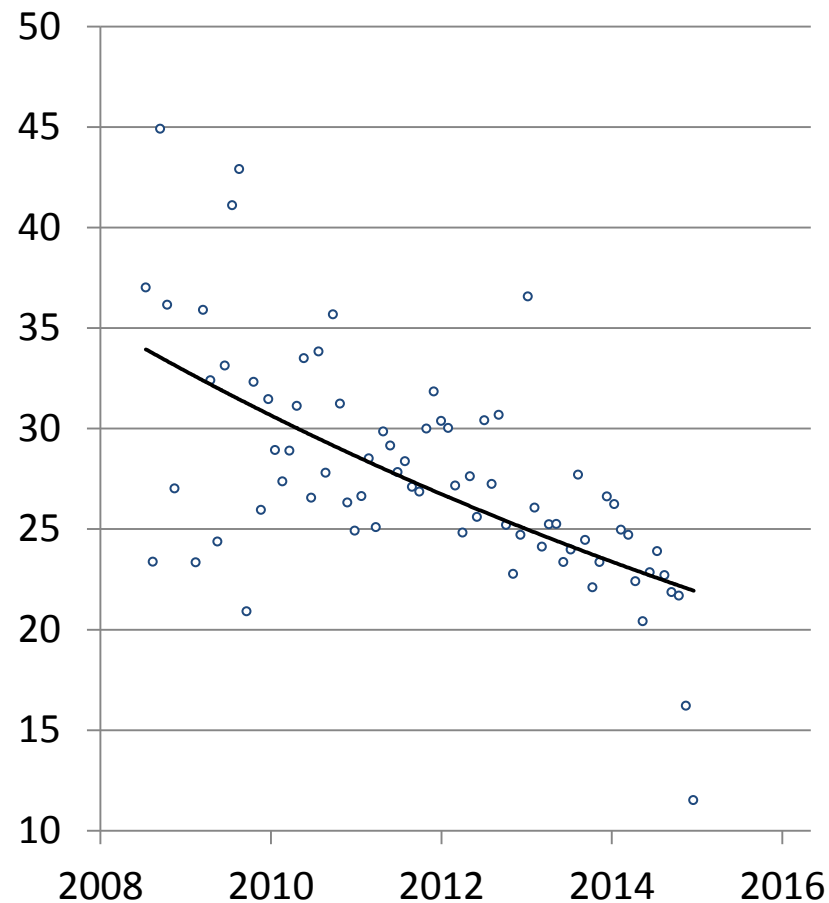
**U.S. has significant supply response to lower oil prices**

# Eagle Ford Efficiency Improvement

**Oil Initial Production Rate  
(Barrels per Day)**



**Drilling Days  
(Spud to Rig Release)**

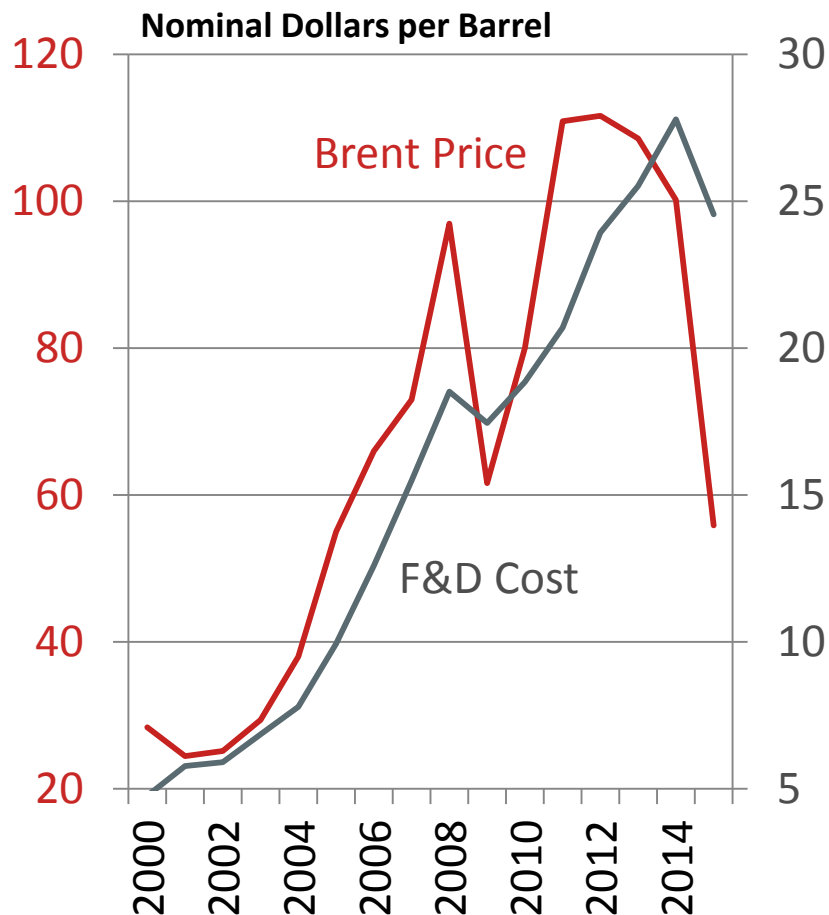


**Productivity improvements have improved economics**

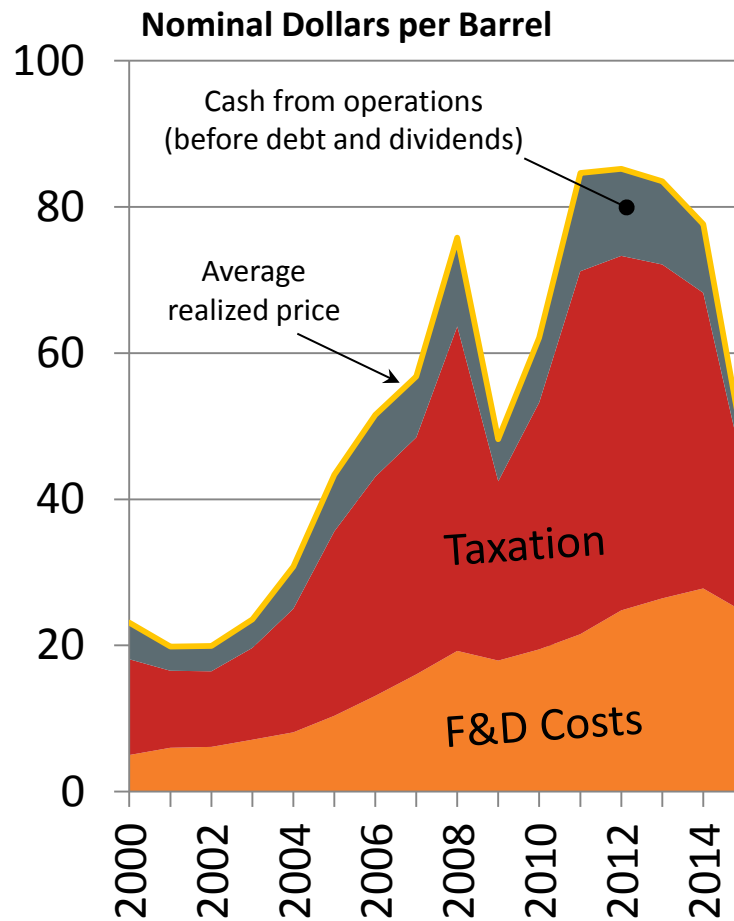
Source: IHS Inc. Use of this content authorized in advance by IHS; further use or redistribution strictly prohibited without written permission from IHS. All rights reserved .  
Enerdeq Database 1/15/15. Play level month averages. IP rate – Initial 24 hour production rate for wellhead crude.

# Cost Pressures on Industry

## Finding & Development Costs Mirror Oil Price



## Breakdown of Realized Price



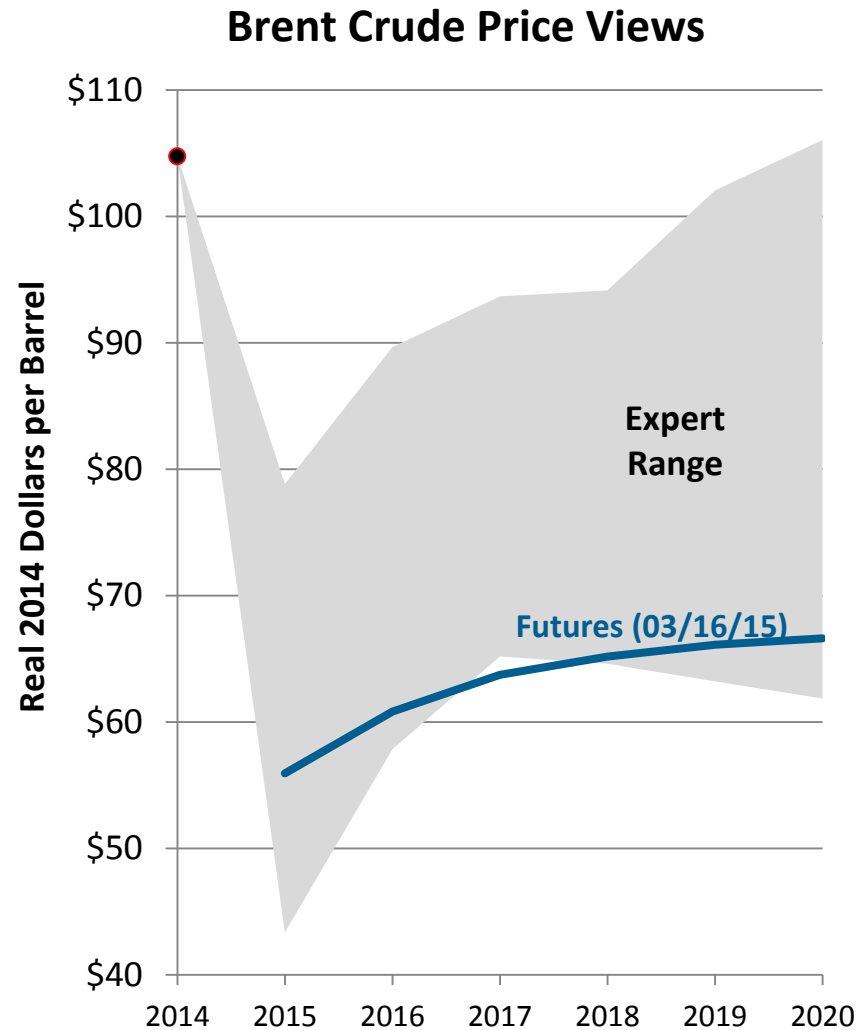
**Industry costs and taxes lag the decline in oil prices**

Source: Rystad Energy UCube, Oil Fields Only. F&D costs include cash costs of exploration and production capex, opex, transportation and abandonment costs and not taxes or royalties.



# Brent Crude Price: External Expert Views

- Market expectations of recovery from very weak prices in 2015
- Wide range based on differing views on:
  - Global economic recovery
  - Oil supply and demand response to low oil prices
  - Industry cost deflation
  - Technology change impacting oil supply or demand



**Wide range of external views**

# Observations

- High cost of oil and gas supply wasn't sustainable
- Oil market recovery driven mostly by supply response
- U.S. supply is flexible both on the downside as well as upside
- Potential for insufficient supply to satisfy demand at current futures price outlook by 2017