Medium-Term Global Oil Outlook

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Session Two: Industry Views

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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
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.

Source: U.S. DOE spot price for Brent & imported refiners’ acquisition cost prior to 1987; IMF for global economic growth forecasts
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

**Oil Intensity and Demand of Key Consumers**

Barrels consumed per thousand U.S. 2010$ GDP

Demand in 2014, MMBD

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

Sources: ConocoPhillips; Energy Intelligence Group; Oxford Economics

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U.S. Supply Response to Low Oil Prices

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

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.
Finding & Development Costs
Mirror Oil Price

Industry costs and taxes lag the decline in oil prices

Breakdown of Realized Price

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

Sources: January–March 2015 forecasts from consultants, EIA and investment banks. Futures prices from 3/16/15
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