Fifth IEA-IEF-OPEC Symposium on Energy Outlooks

Session III: Uncertainties in coping with appropriate investment decisions
Oil price collapse, echoes of 2008?

Two price collapses: in 2008, we were confronted by a negative demand shock. In 2015, we are confronted with a positive supply shock.

Source: Bloomberg, BNP Paribas
Long term oil prices

Fair value for the price of oil five-year forward has also declined. Are they still sufficient to support investment.

Source: Bloomberg, BNP Paribas
US production keeps going on?

The rate of US oil production growth may slow sharply in 2016. Only when drilling activity is curtailed will a notable impact on supply be felt. Some 74% of planned US shale projects are uneconomic if sub-50 prices are sustained.
US break-even oil prices – various plays

Not all shale plays are equal. There are wide range of break even prices for US shale oil production. Spending, while cut, will be directed to the higher yielding and lower cost plays.

Source: Bloomberg New Energy Finance
US output: concentrated in the hands of few players

For the Bakken play in North Dakota, 90% of the output comes from just 10% of the operators. In Texas, the concentration of production is even greater. According to Texas Rail Road Commission data, there are nearly 5 times as many oil-producing operators in the Eagle Ford area as there are in North Dakota’s Bakken play.

About 90% of tight oil output in North America from less than 60 companies in total.
Non-OPEC production at risk

Outside the US and Canada, oil supply from other non-OPEC is near flat over the next 12 months. Contribution to supply growth outside of the US comes from high cost basins. Countries in decline – will Mexico's energy reforms turn the tide. Contraction ahead for Russia, the largest oil producer.

Source: IEA, BNP Paribas

23 March 2015
In 2013, the largest capital spenders, mainly the Majors, announced major cuts in spending for 2014 to raise return on capital. 2014 returns were lower despite high oil prices. Spending in 2015 is going to be cut heavily not just because of low oil price but lower returns.
Capex on the way down:

Exxon planned to cut annual capital spending for this year to about $34bn per year (-12%, over $4 billion), and to a little less for 2016-17, down from an earlier projection of $37bn.

Exxon’s planned capital spending cut is in line with the reduction planned by Chevron, the second-largest US oil group, but smaller than the 20 per cent drop announced by BP. Royal Dutch Shell, Europe’s largest oil company, has said it plans to “curtail” spending over the next 3 years by $15bn, without specifying a target for 2015.
OPEC crude output capacity - what is the scope for expansion?

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<tbody>
<tr>
<td>OPEC Crude Capacity</td>
<td>35.03</td>
<td>34.73</td>
<td>35.12</td>
<td>35.41</td>
<td>35.65</td>
<td>35.91</td>
<td>36.24</td>
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<td>Call on OPEC Crude + Stock Ch.</td>
<td>29.44</td>
<td>29.43</td>
<td>29.87</td>
<td>30.54</td>
<td>31.02</td>
<td>31.58</td>
<td>32.12</td>
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<td>Implied OPEC Spare Capacity*</td>
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<td>5.30</td>
<td>5.25</td>
<td>4.87</td>
<td>4.63</td>
<td>4.33</td>
<td>4.13</td>
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* Spare capacity is defined as the difference between estimated OPEC capacity and the ‘Call on OPEC + stock ch.’. Actual idle capacity is lower than spare capacity when OPEC produces above the ‘Call’.

Source: IEA medium term oil market report, February 2015

Will a growing ‘Call’ on OPEC crude oil translate into investment in production capacity? What are the incentives to maintain spare production capacity?
What price does it take to develop oil from scratch?

Full-cycle Brent $60/bbl breakeven threshold would put a number of key producers at risk of cancelling projects.
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