

# Oil Markets and the Global Economy

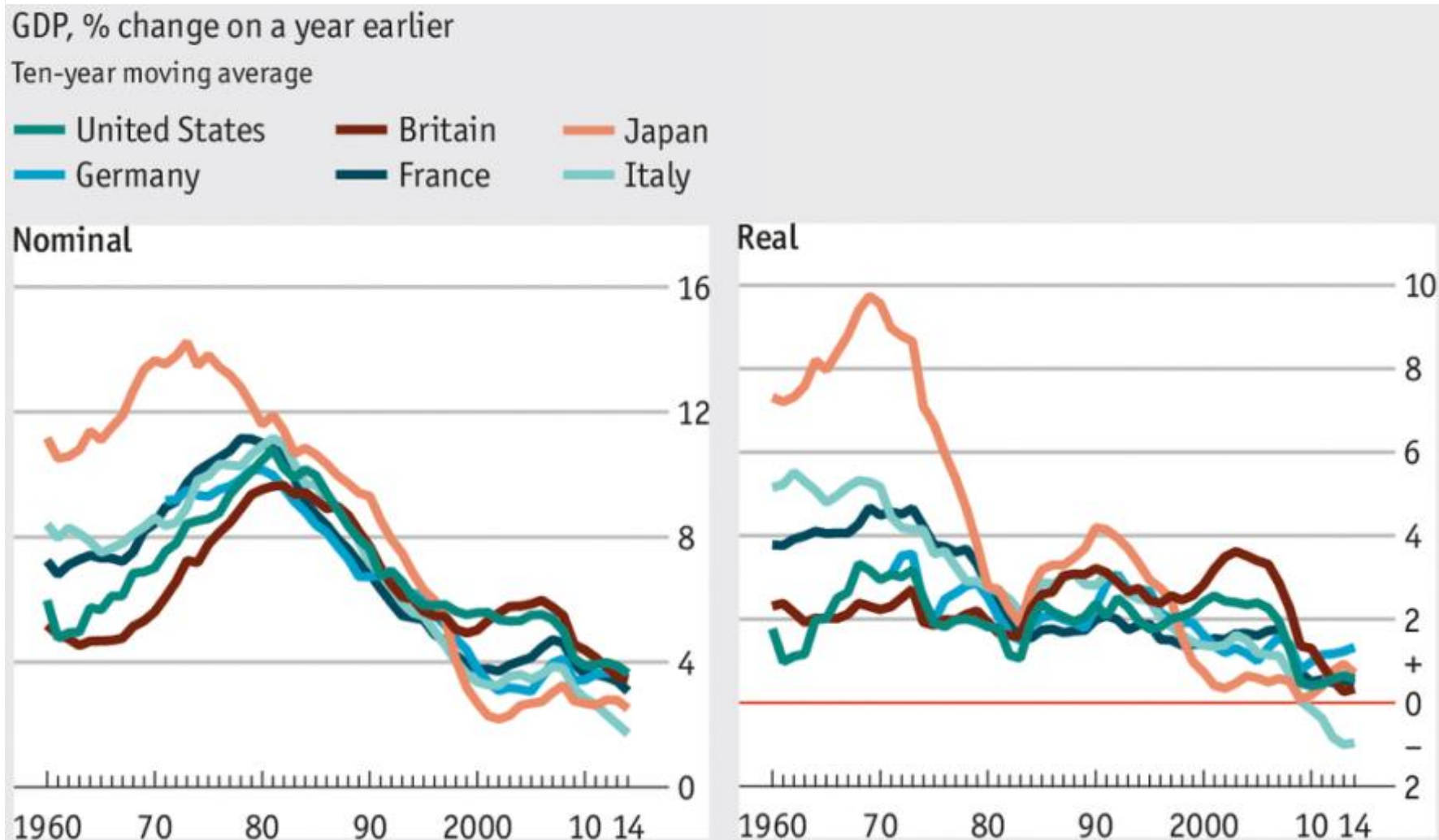
ADIA

Christof Rühl, Global Head of Research

Abu Dhabi  
February 2016

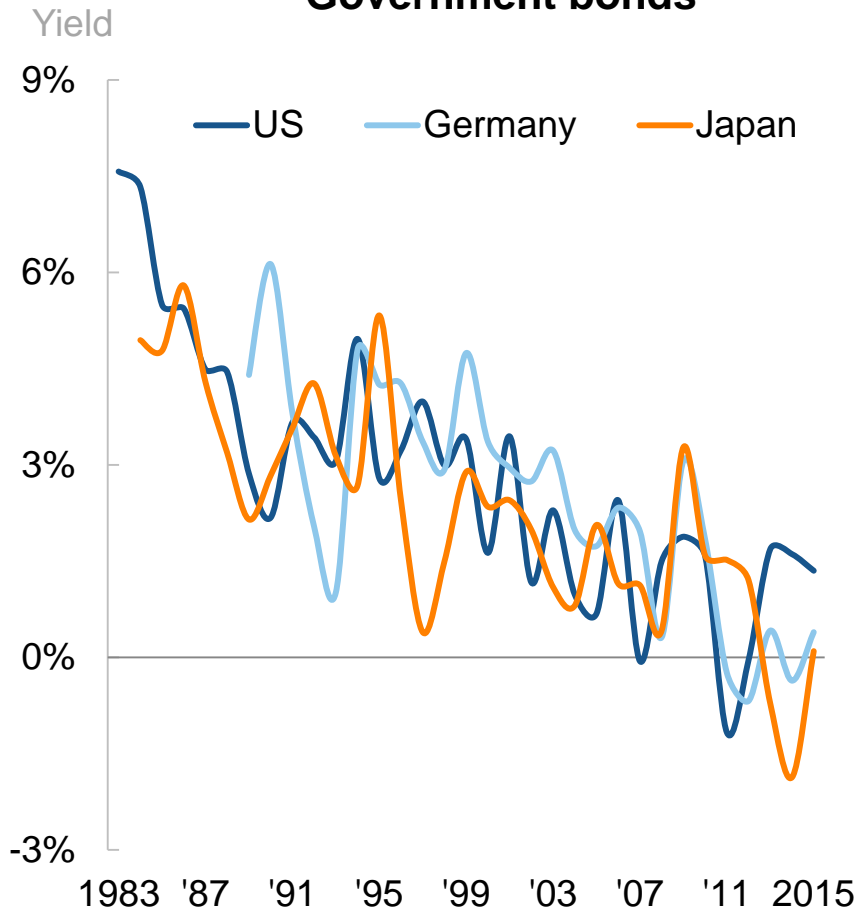
- The economy: an age of stagnation and low returns?
- Oil price recap
- Why are lower oil prices not boosting economic growth?
- Where next for oil markets?

# “Secular Stagnation“ ?



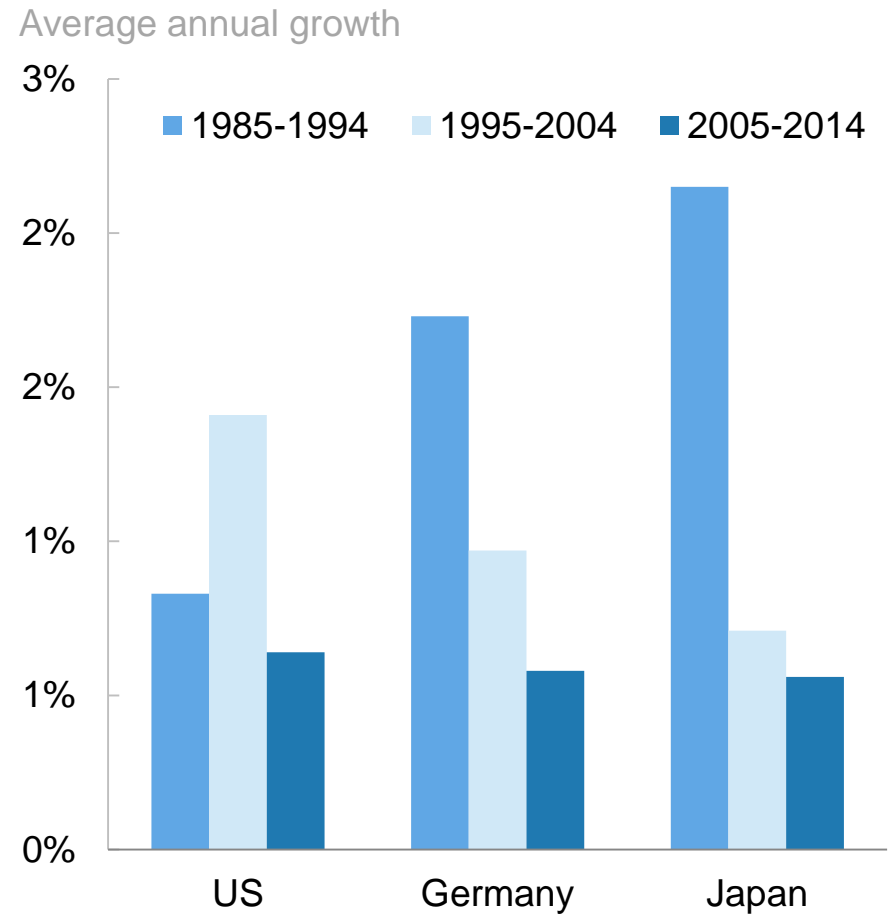
Source: *The Economist*

## Real return on 10-year Government bonds



Source: Haver

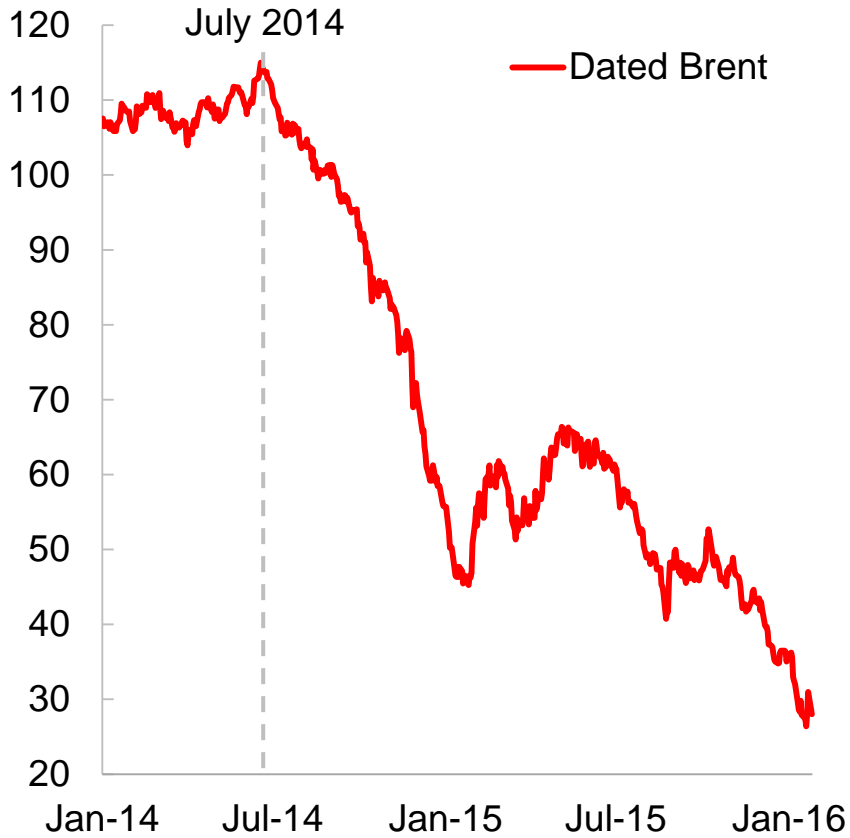
## TFP in Advanced Economies



Source: OECD

## Oil price decline

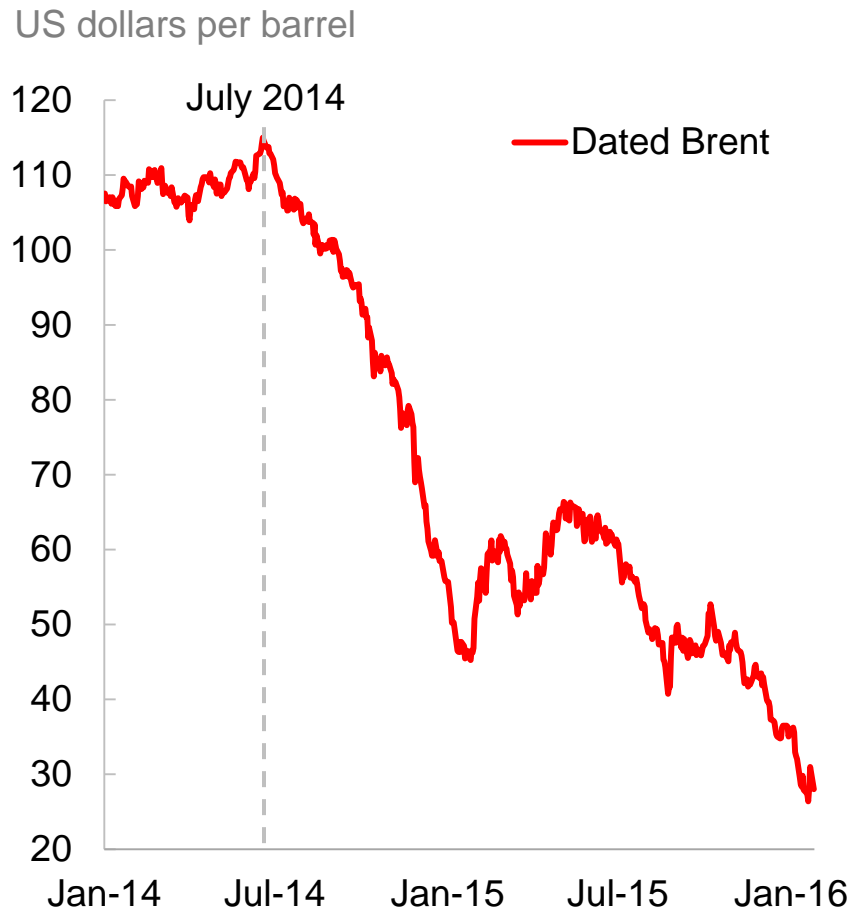
US dollars per barrel



Source: Bloomberg

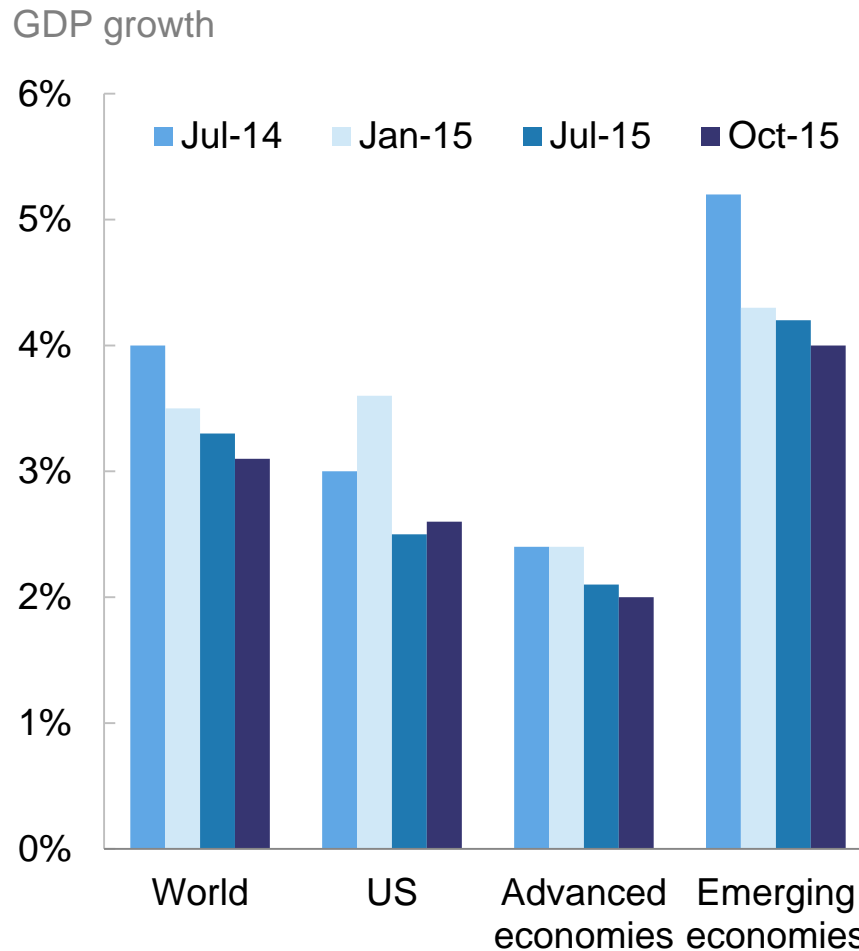
# Where is the “shot in the arm”?

## Oil price decline



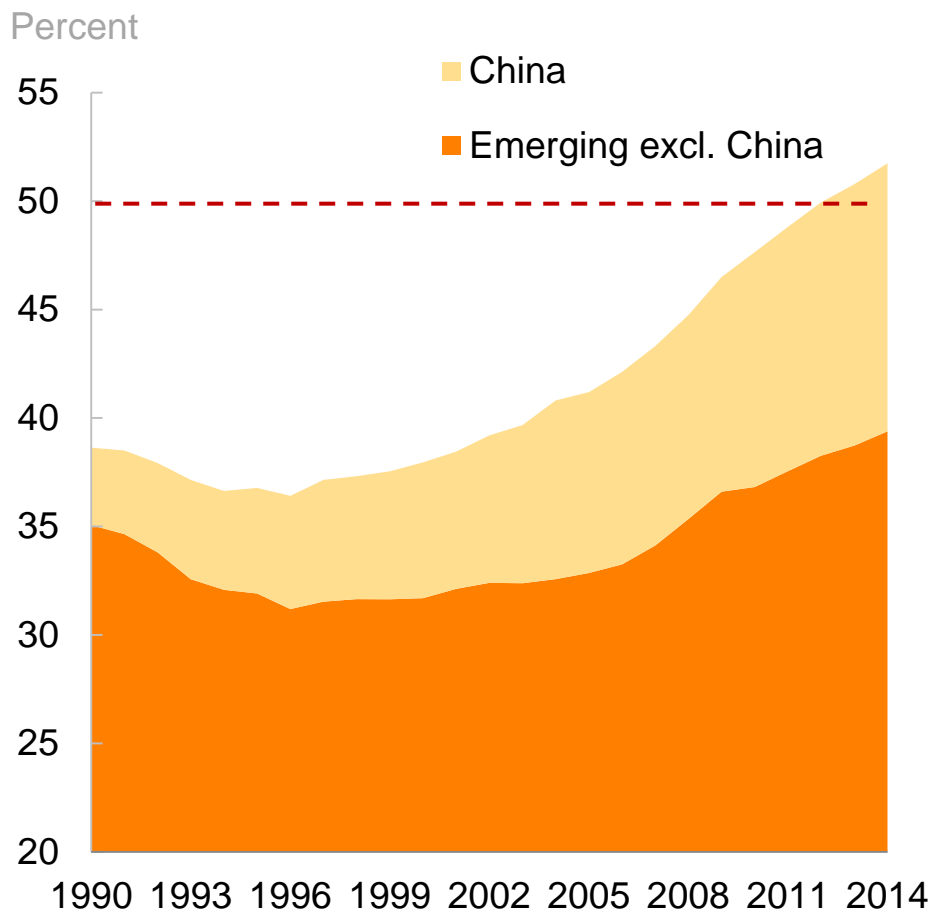
Source: Bloomberg

## Revisions to GDP growth projections 2015

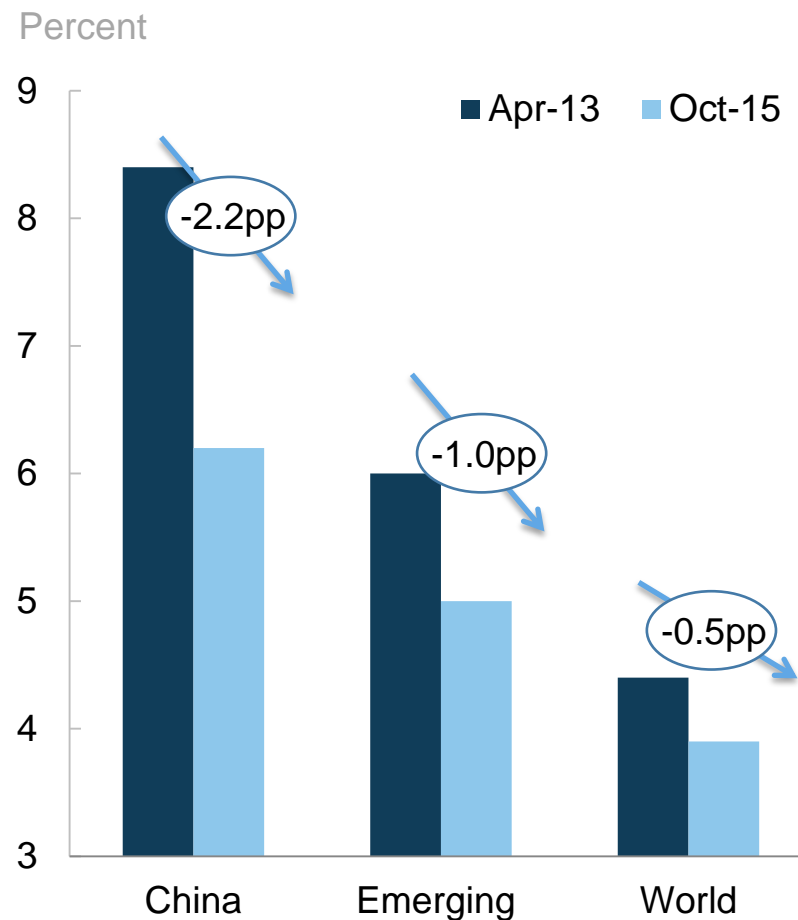


Source: IMF

## Share of global oil demand



## Revisions to 5-year GDP growth forecast

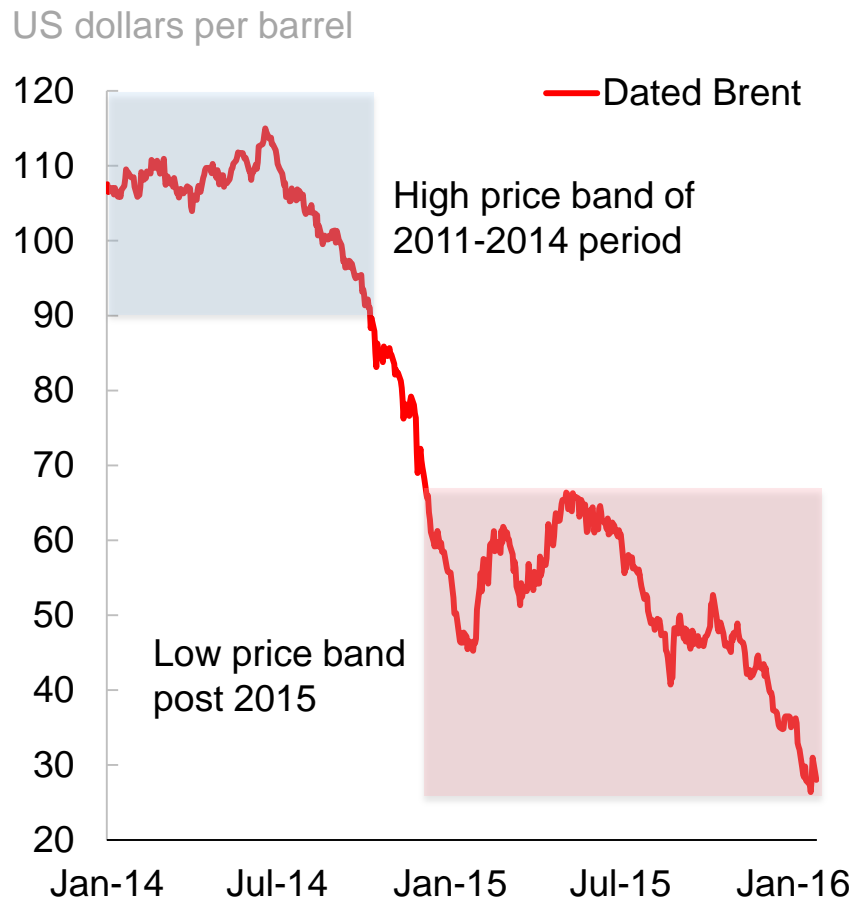


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- **Oil price recap**
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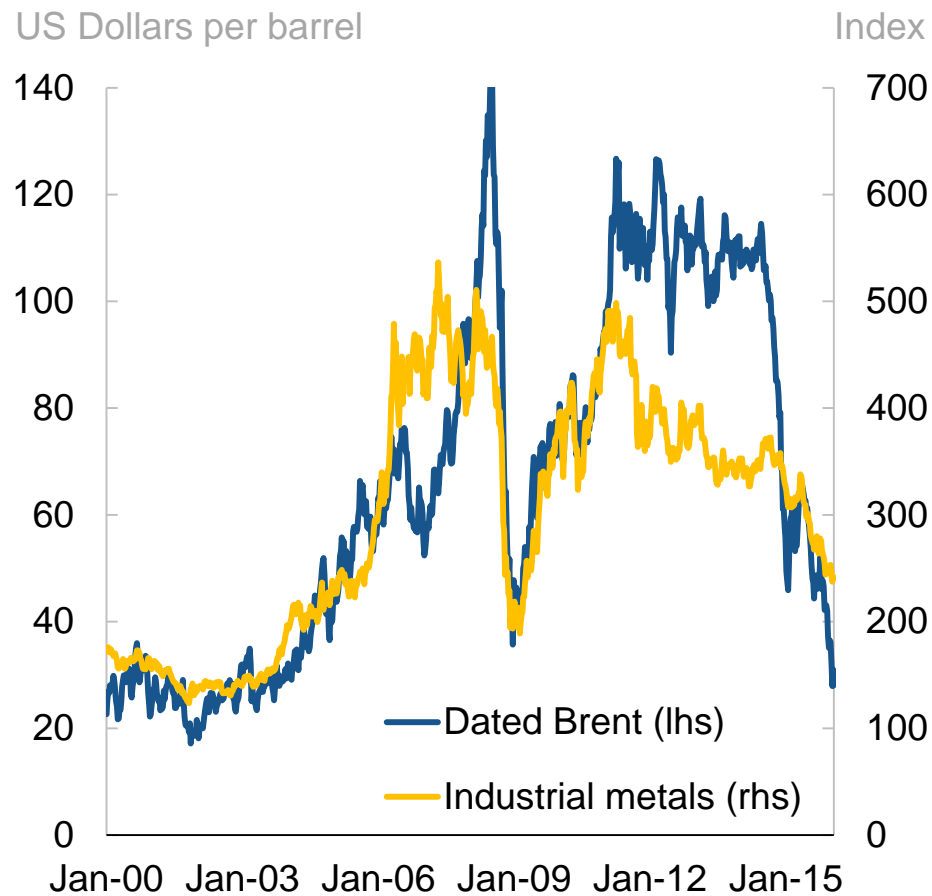
# Oil price vs. other commodities

## Daily oil price



Source: Bloomberg

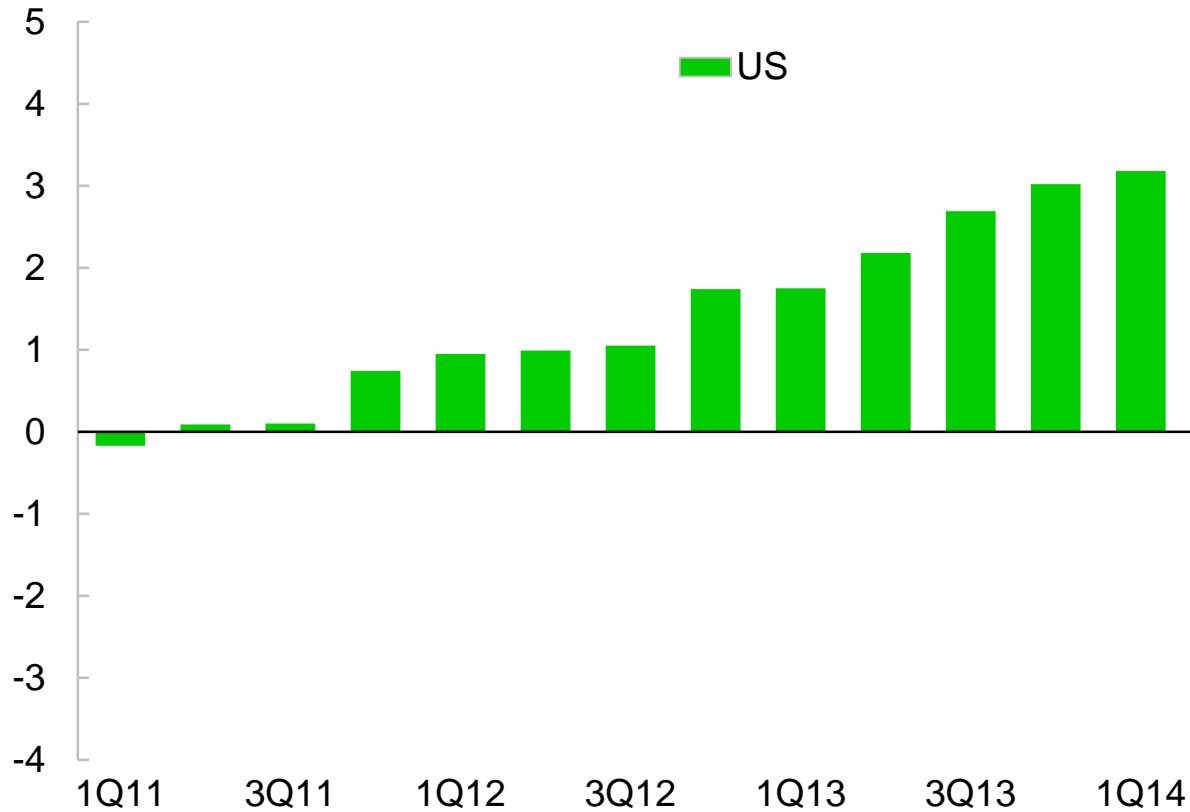
## Oil and industrial metals prices



Source: Bloomberg

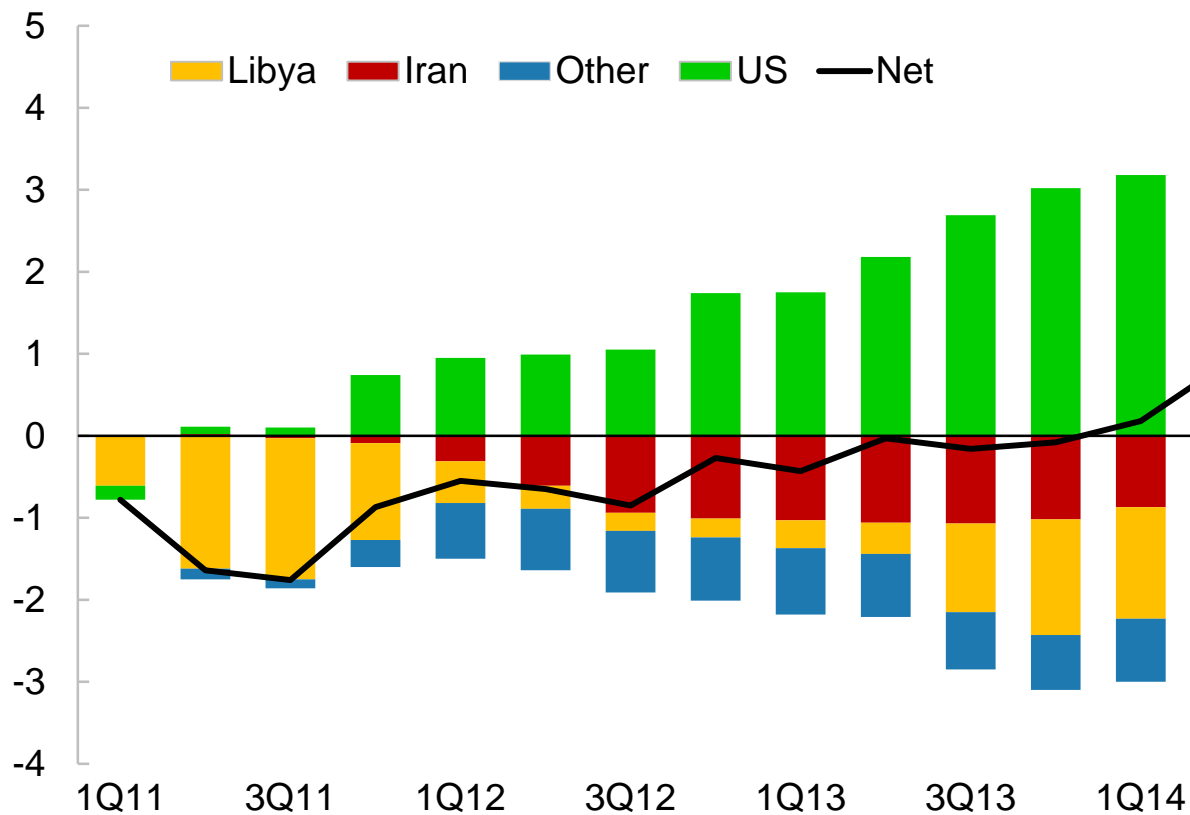
# Oil supply disruptions and US production growth

Cumulative change since 4Q10, Mb/d



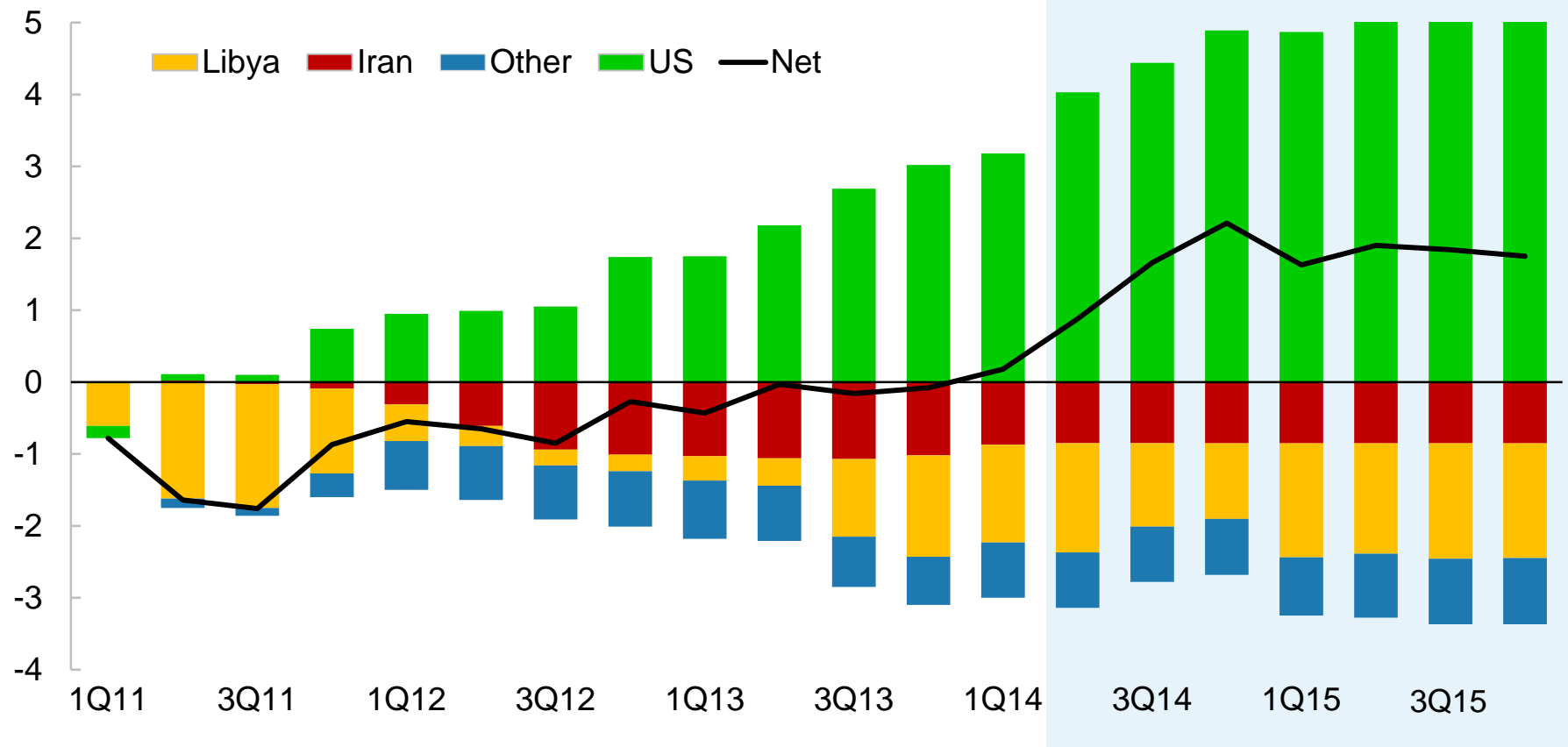
# Oil supply disruptions and US production growth

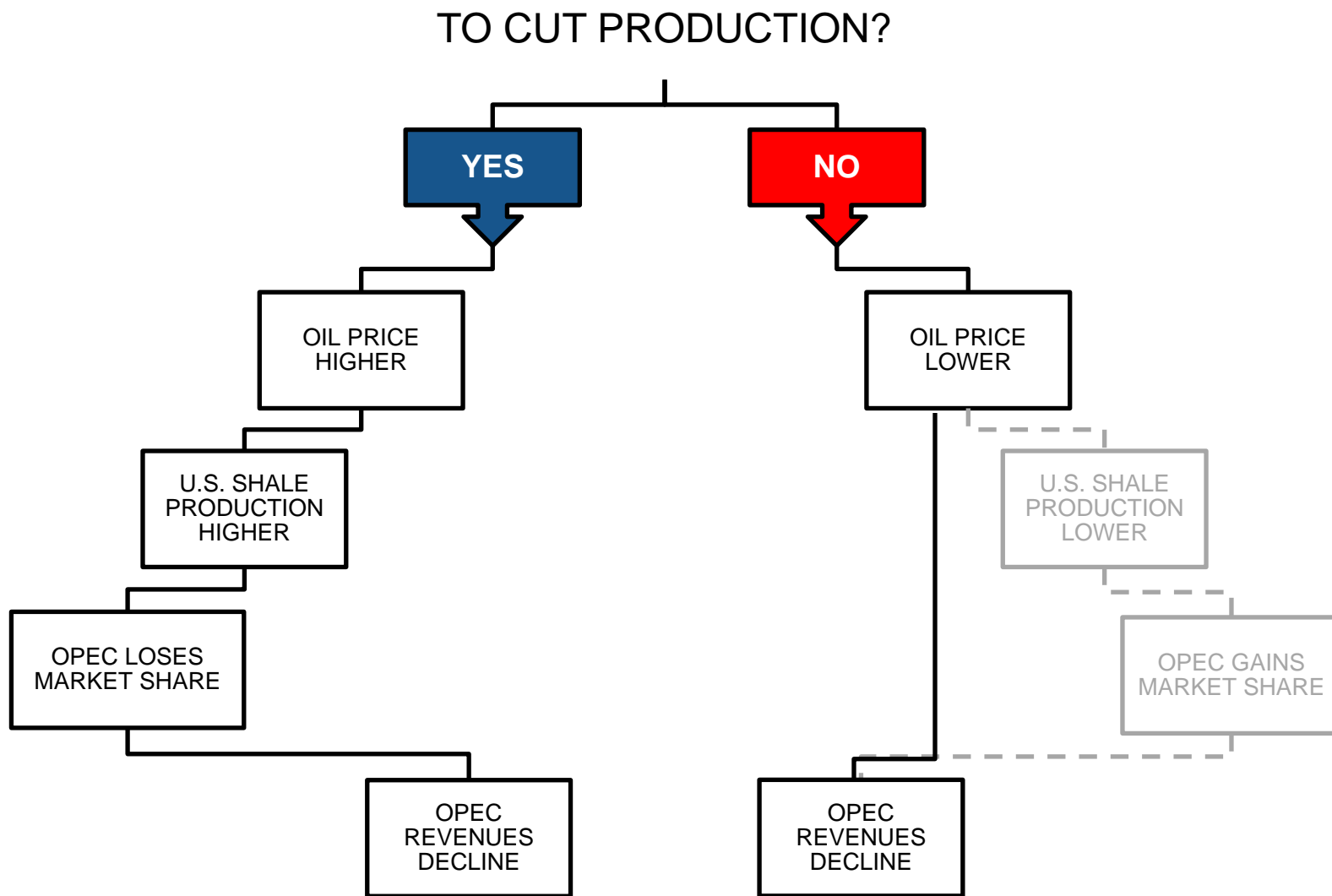
Cumulative change since 4Q10, Mb/d



# Oil supply disruptions and US production growth

Cumulative change since 4Q10, Mb/d





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# (1) US Dollar is appreciating

**Real trade weighted US Dollar index...**

**... rises for good reasons**

Index, Jan 1990 = 100



19% real appreciation since July 2014 (26% since July 2011):

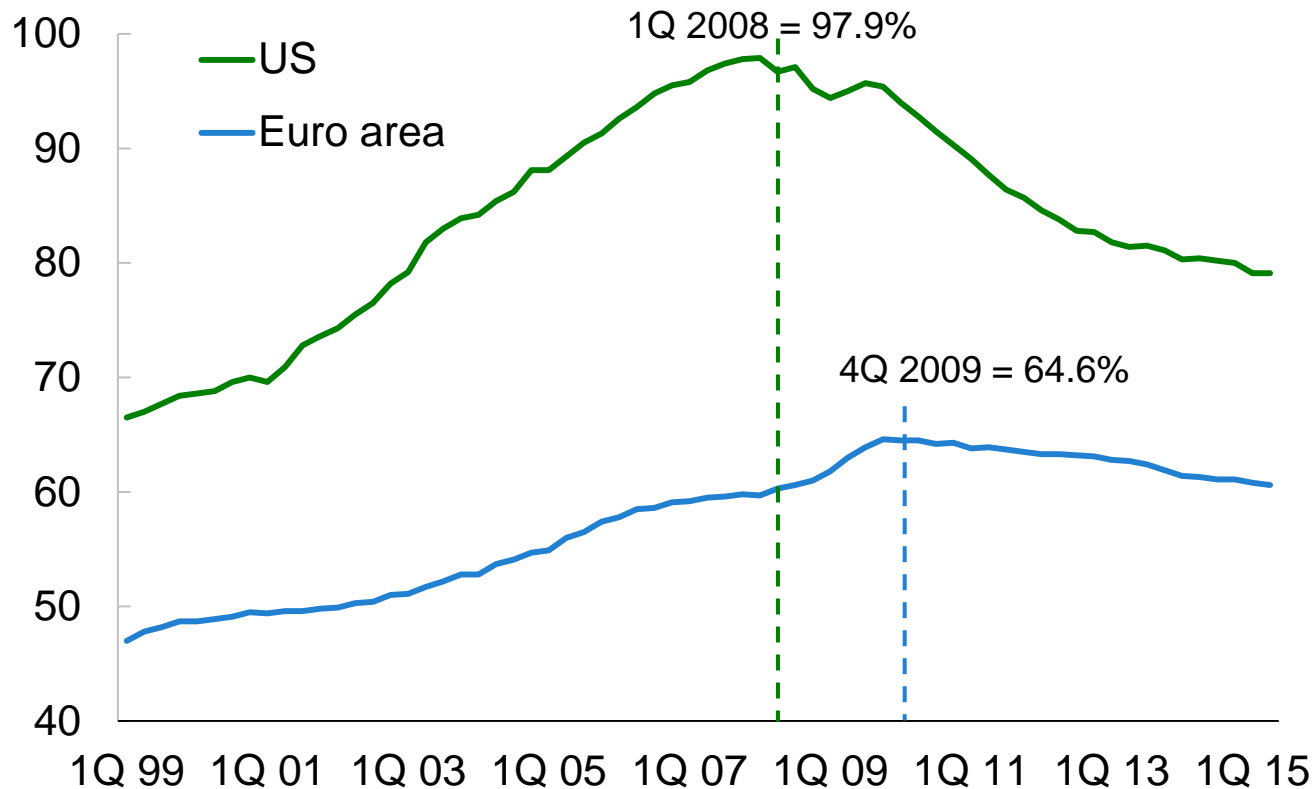
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- Relatively strong US growth and productivity gains
- The end of QE in the US

Source: Bloomberg

## (2) Households are deleveraging...

Household debt as a share of GDP



Change in household debt since peak:

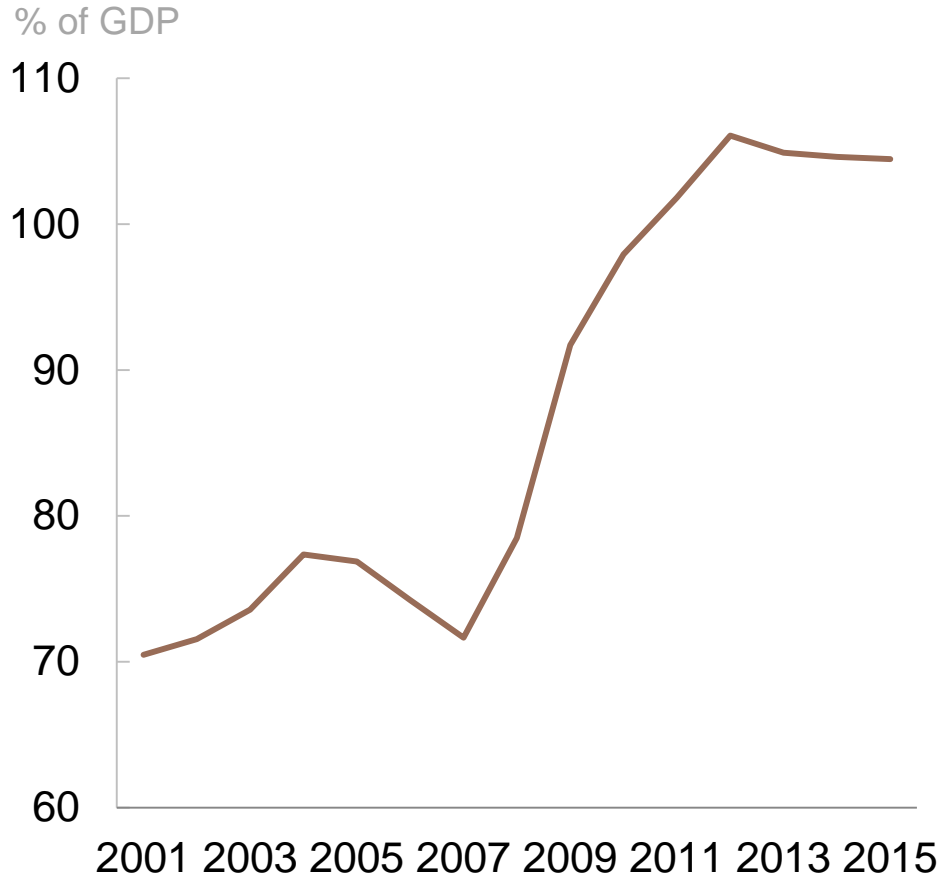
- 19 percentage points

- 4 percentage points



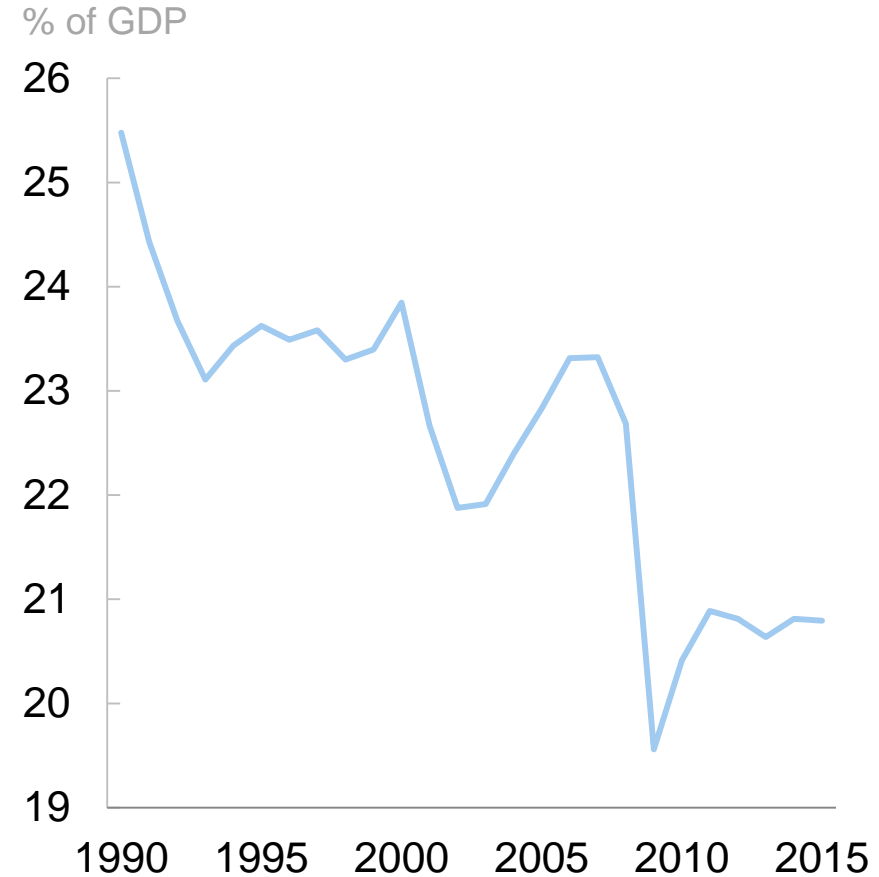
# ... while government debt hampers demand management $\Lambda$ DI $\Lambda$

## Government debt in Advanced Economies



Source: Haver

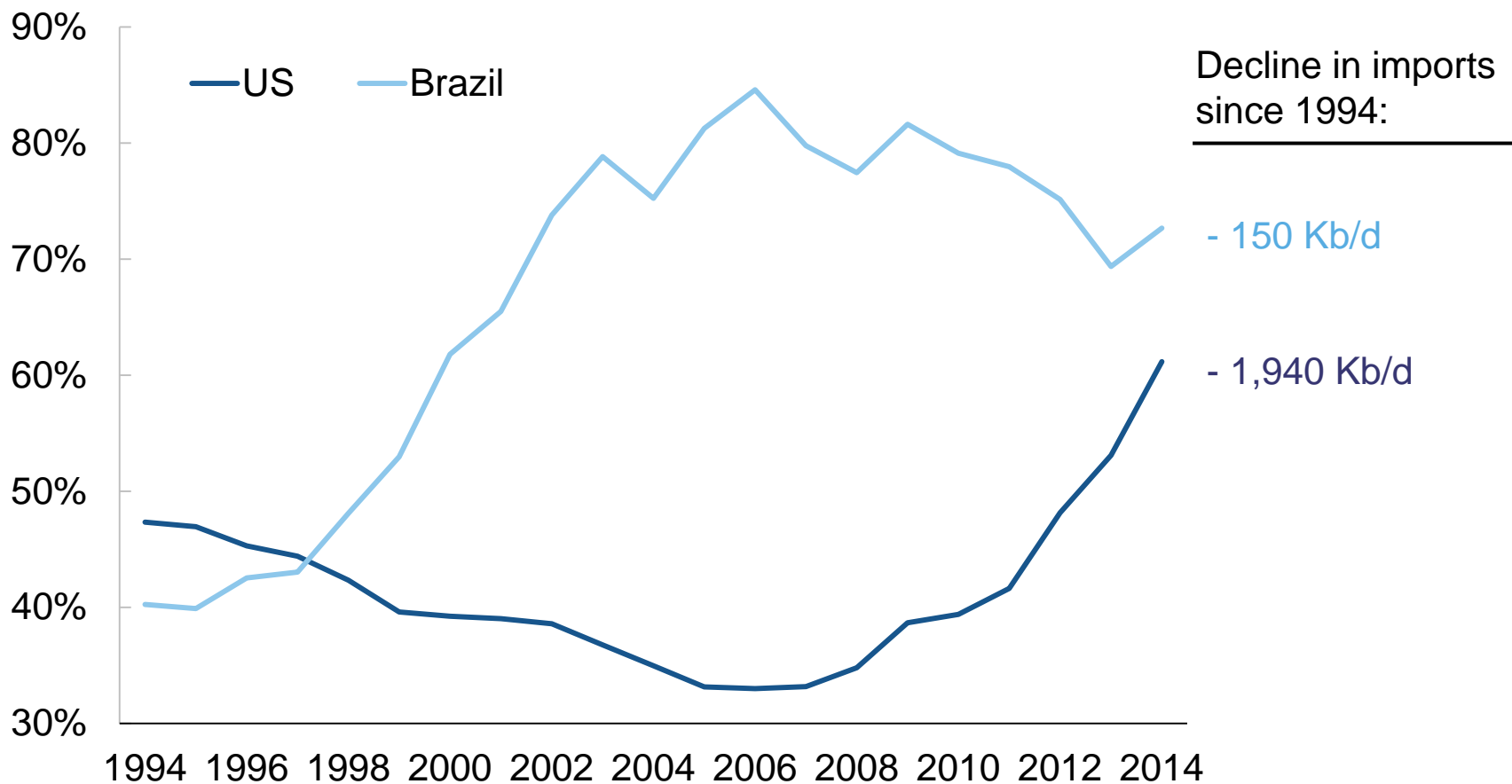
## Investment in Advanced Economies



Source: Haver

### (3) Major importers are becoming producers

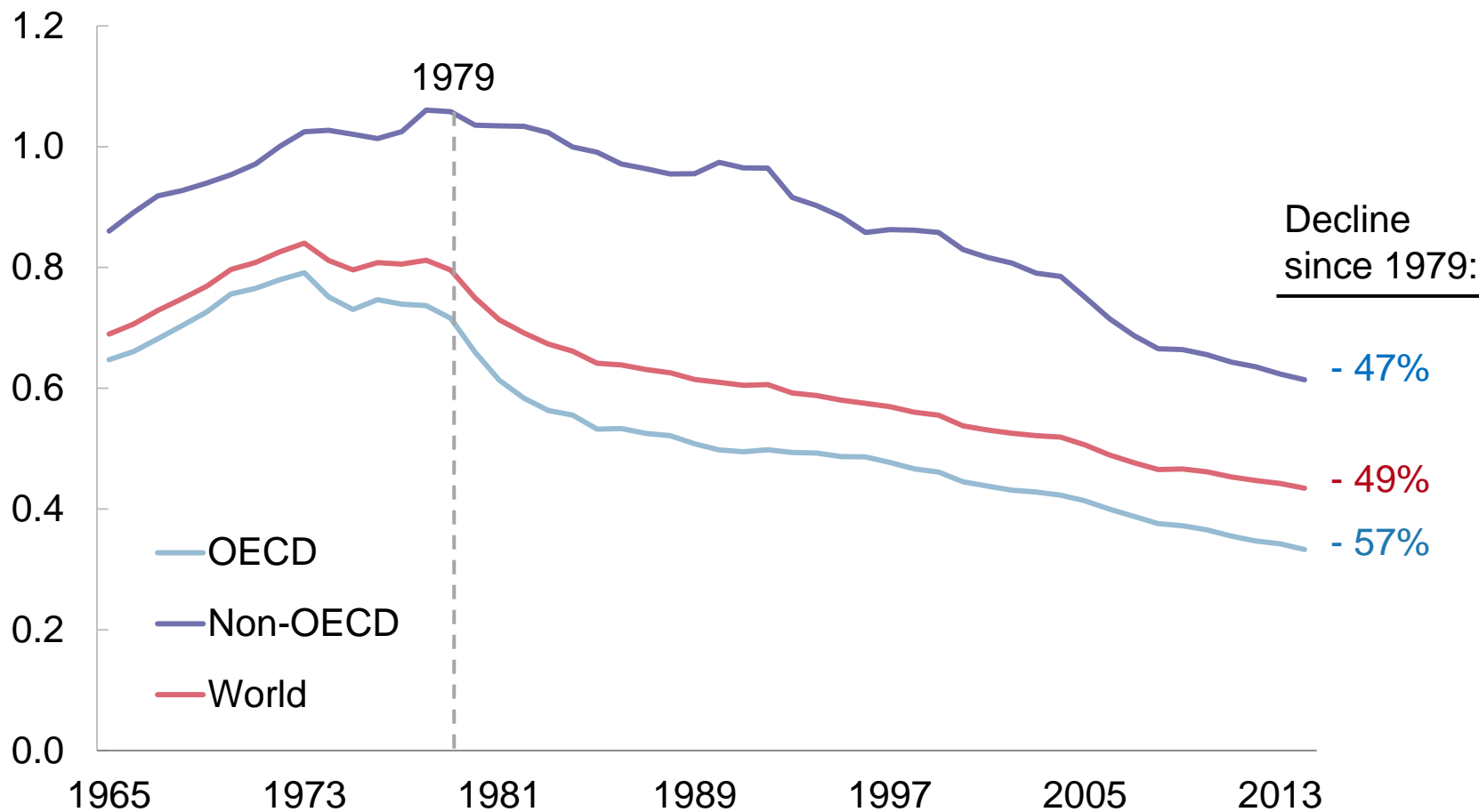
Share of local consumption produced 'at home'



Source: BP Statistical Review of World Energy

# (4) Oil intensity is in long-term decline

Barrels of oil per \$1,000 of GDP

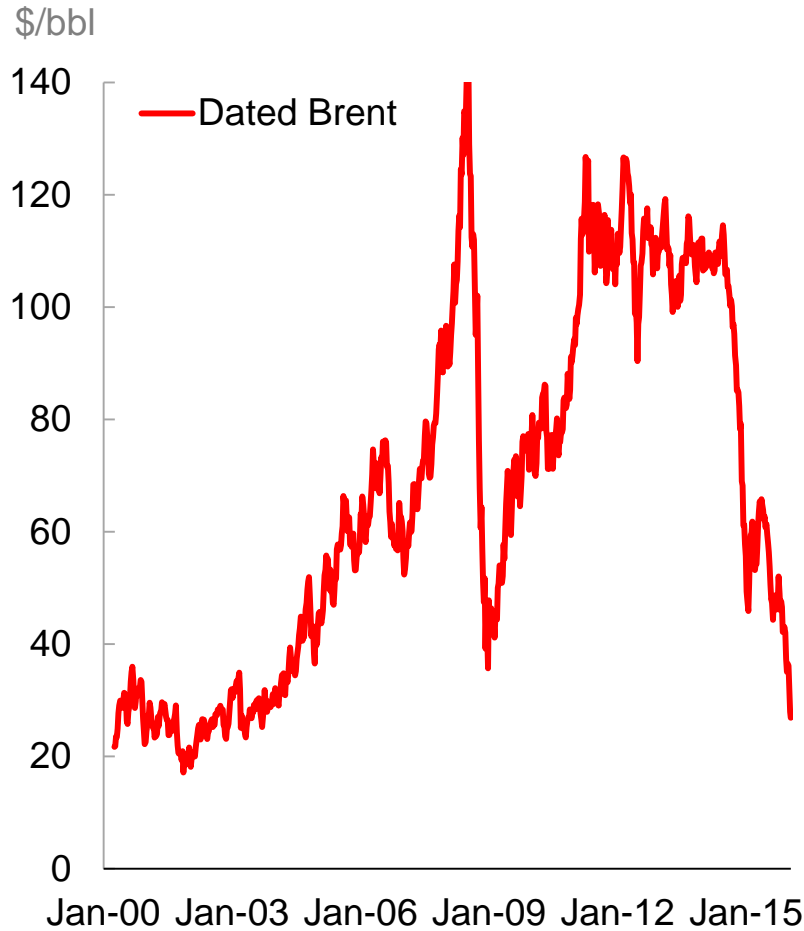


Source: BP Statistical Review of World Energy

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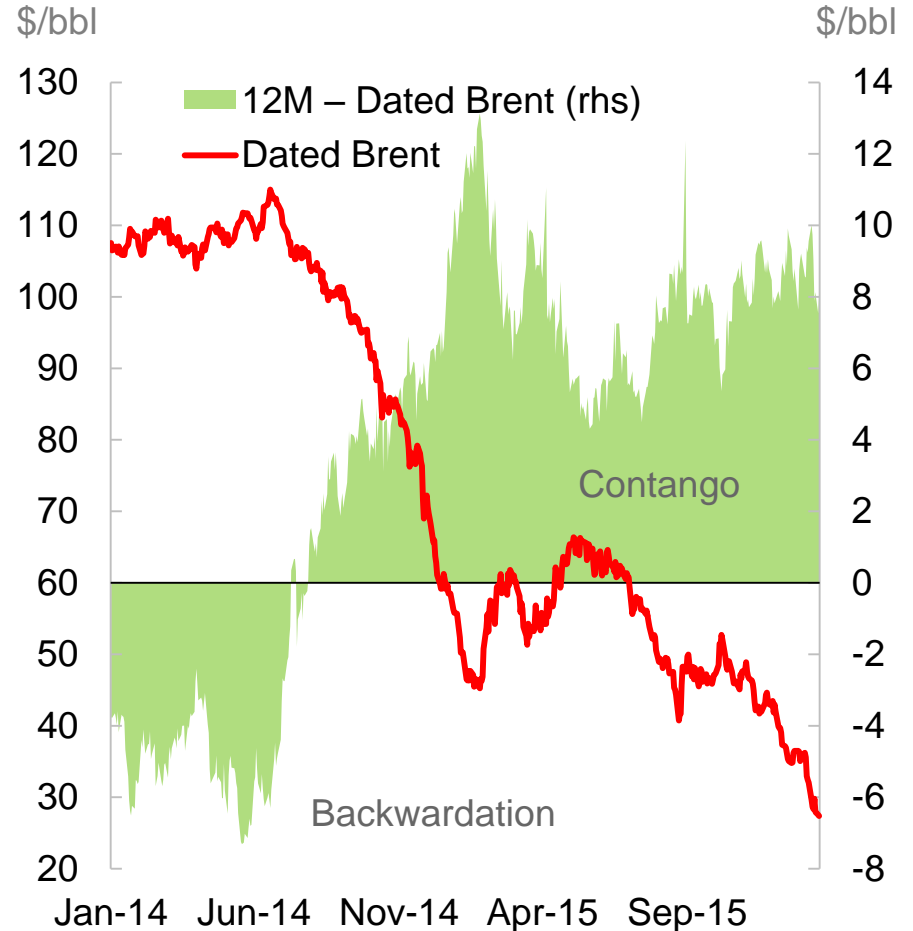
# Crude prices and term structure

### Weekly oil price



Source: Bloomberg

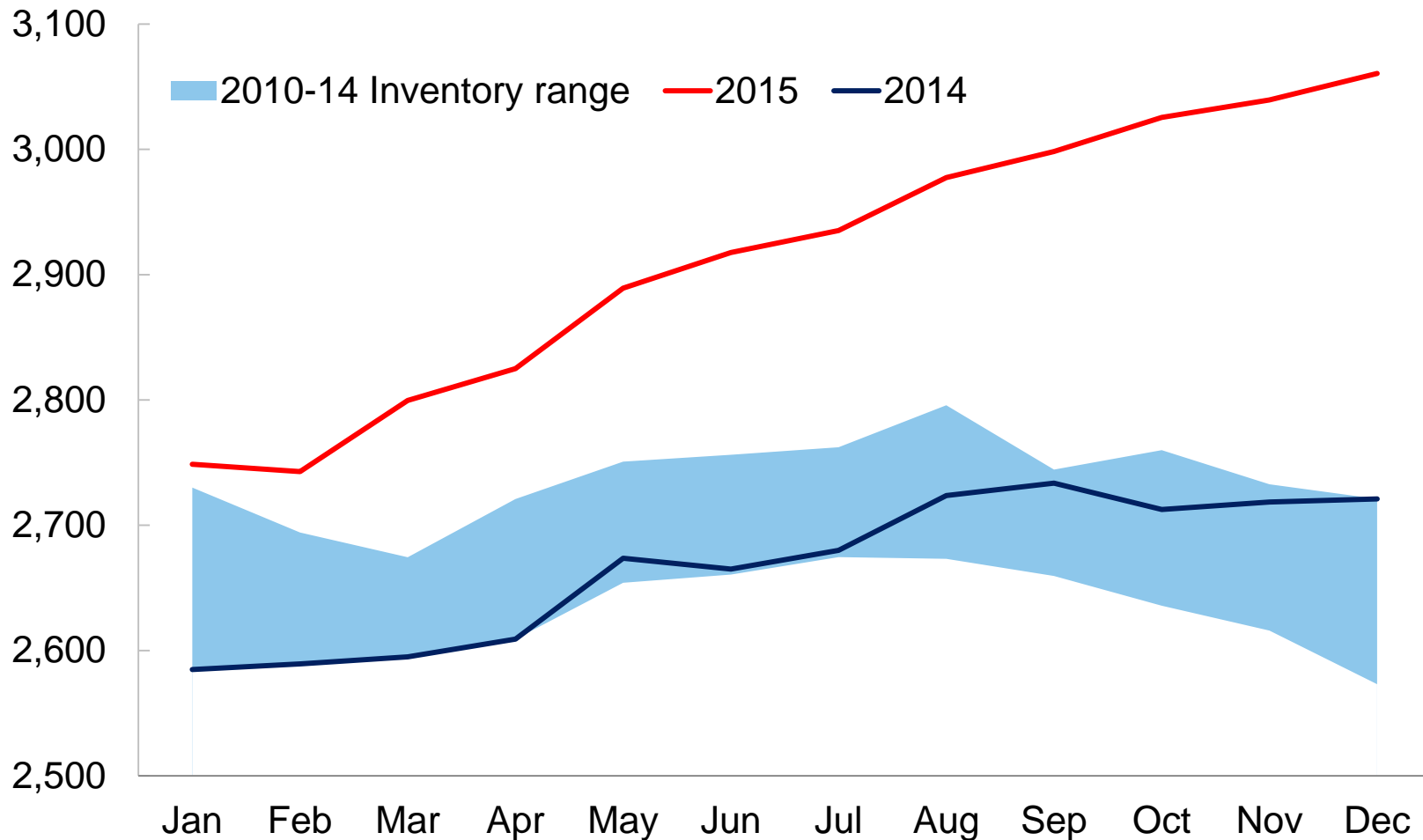
### Daily oil price and term structure



Source: Bloomberg

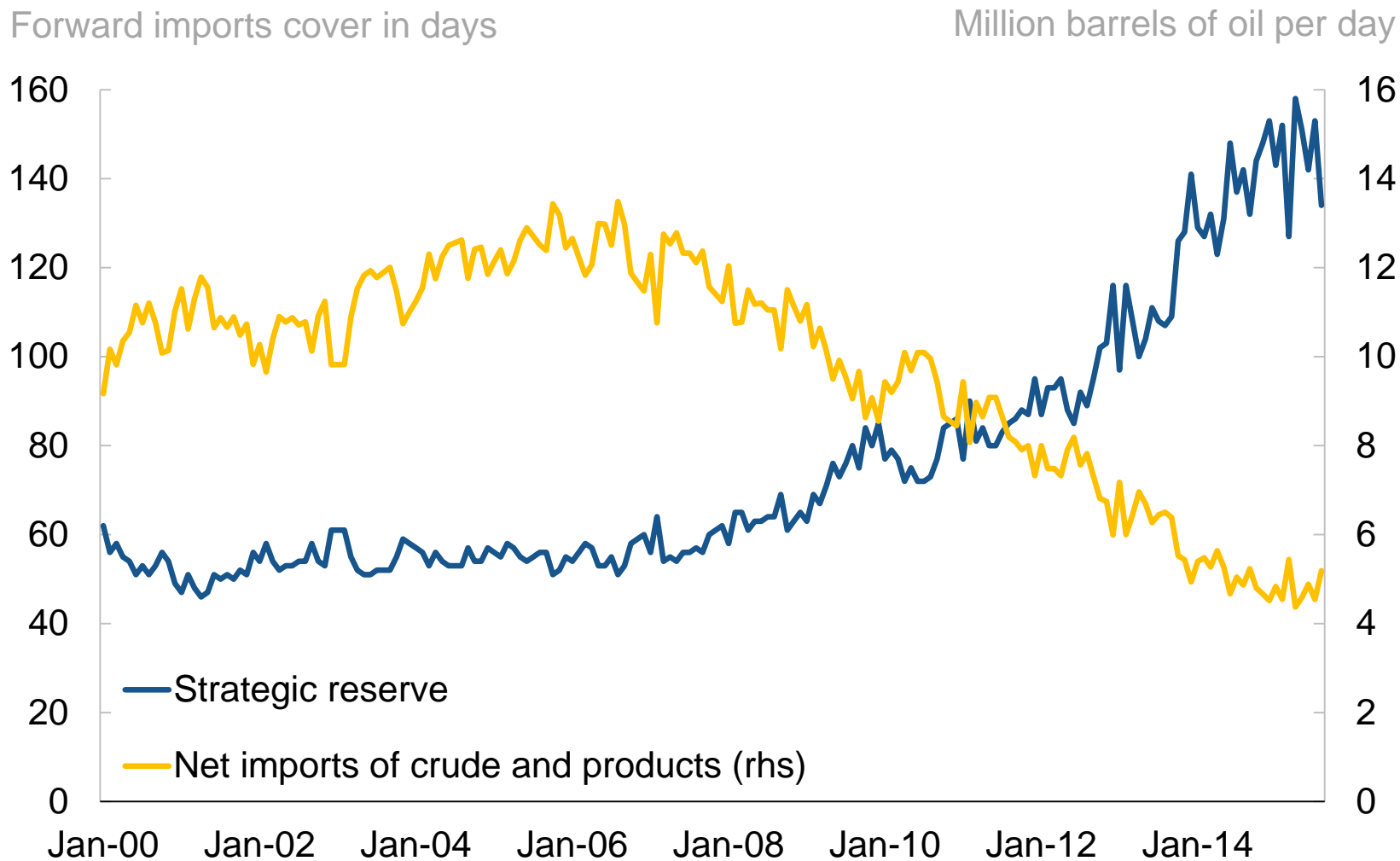
# (1) OECD inventories are at historic highs...

Million barrels of crude oil and oil products



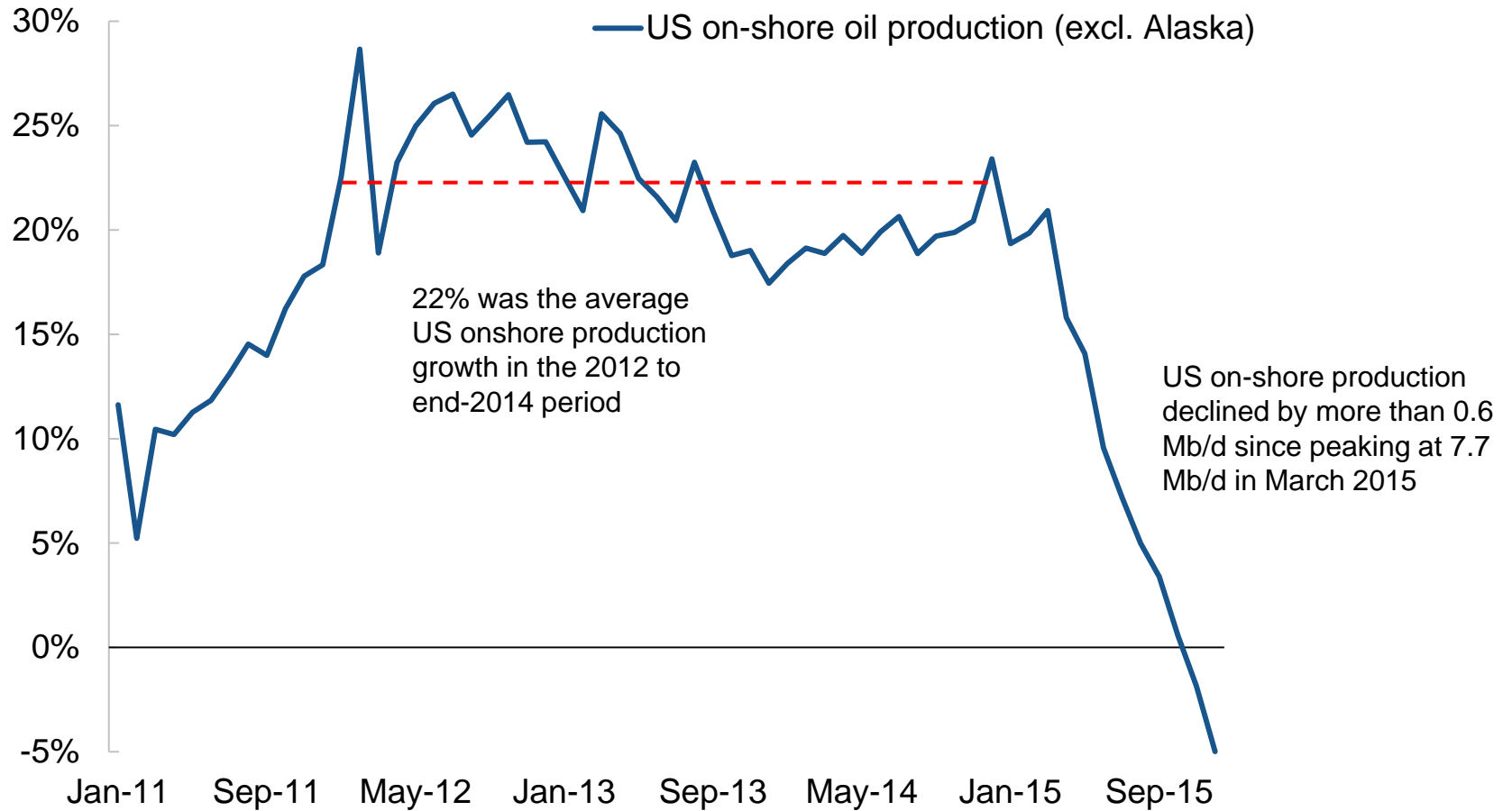
Source: EIA

# ... and so is the US strategic petroleum reserve



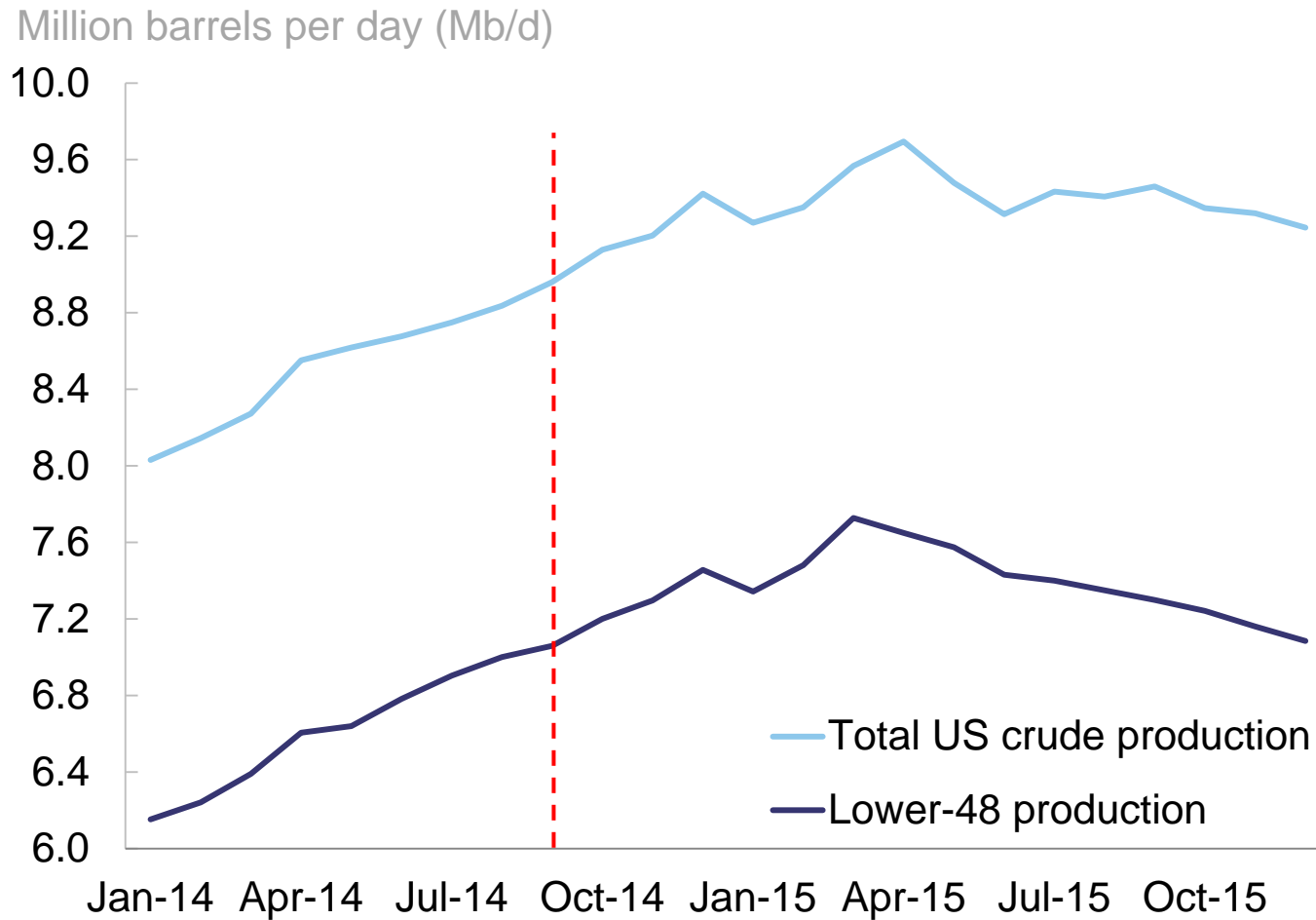
## (2) US shale oil production finally declining...

YoY growth





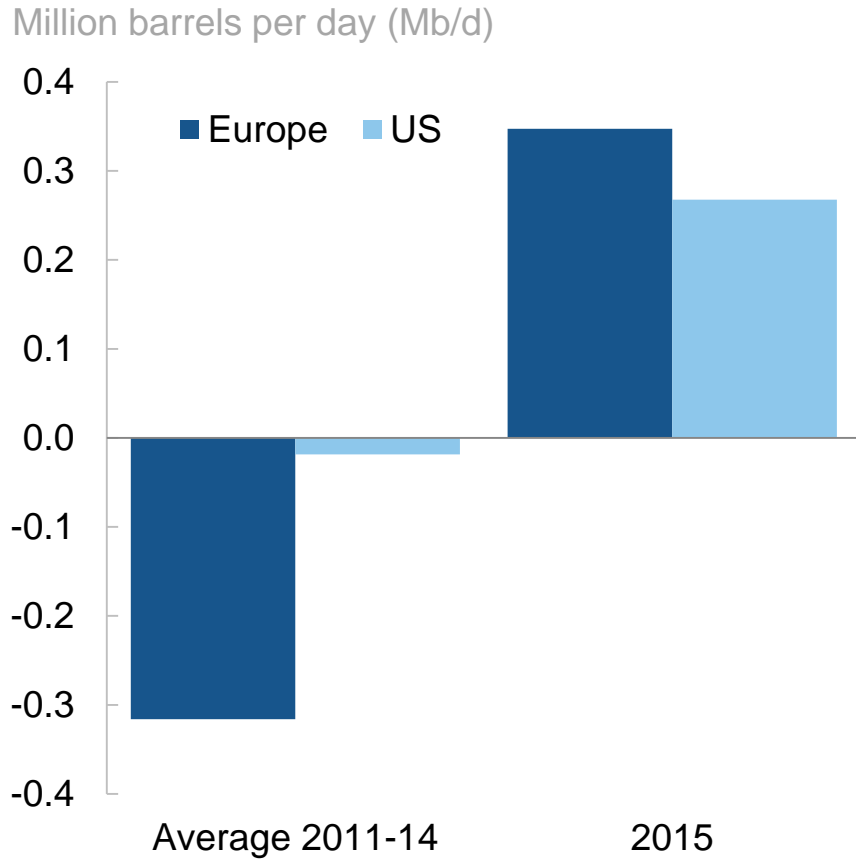
# ... driving overall production lower



Source: EIA

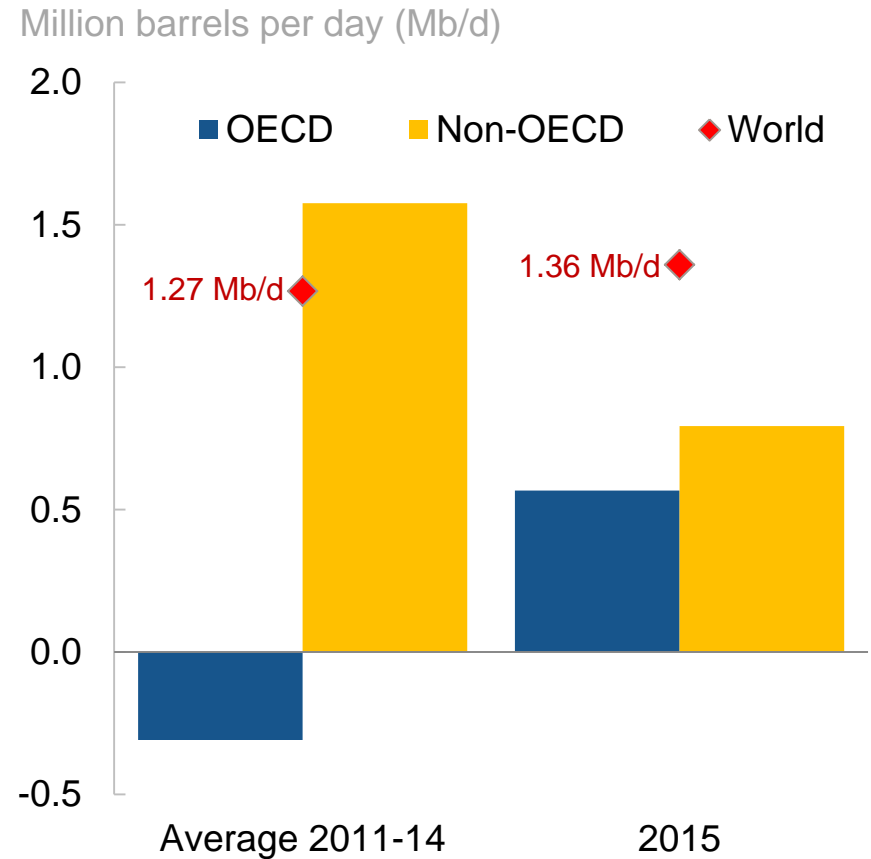
# (3) Above-average demand growth driven by the OECD

### European and US demand growth



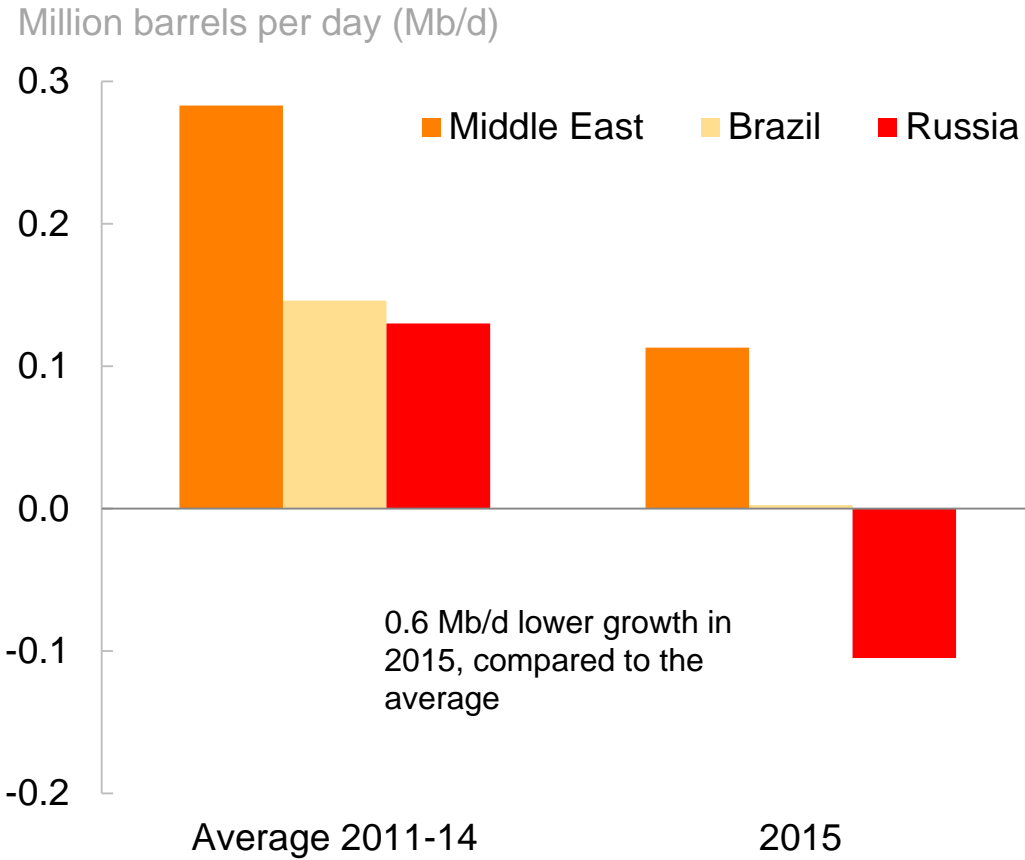
Source: EIA

### OECD and Non-OECD demand growth



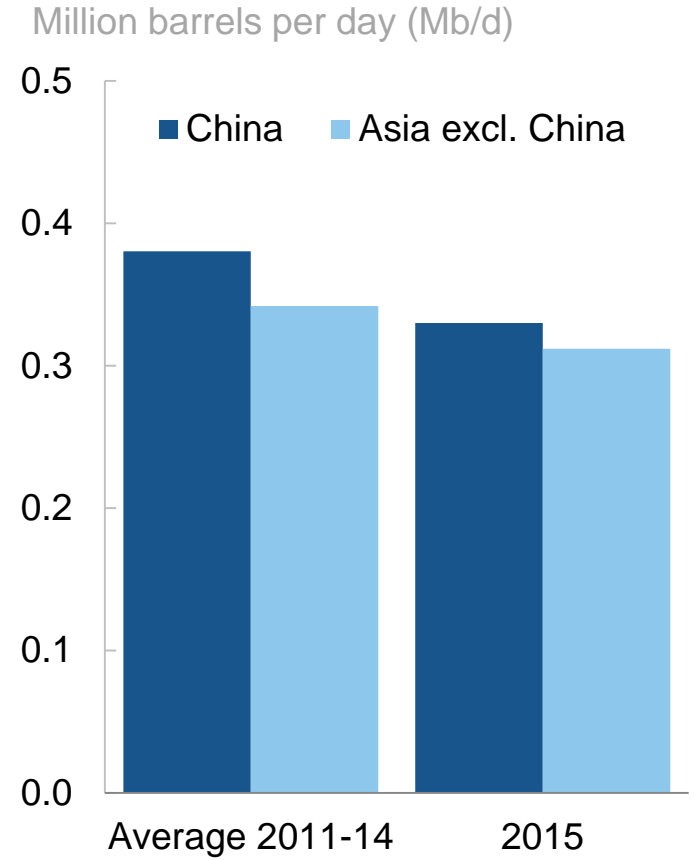
Source: EIA

## Significant slowdown outside Asia



Source: EIA

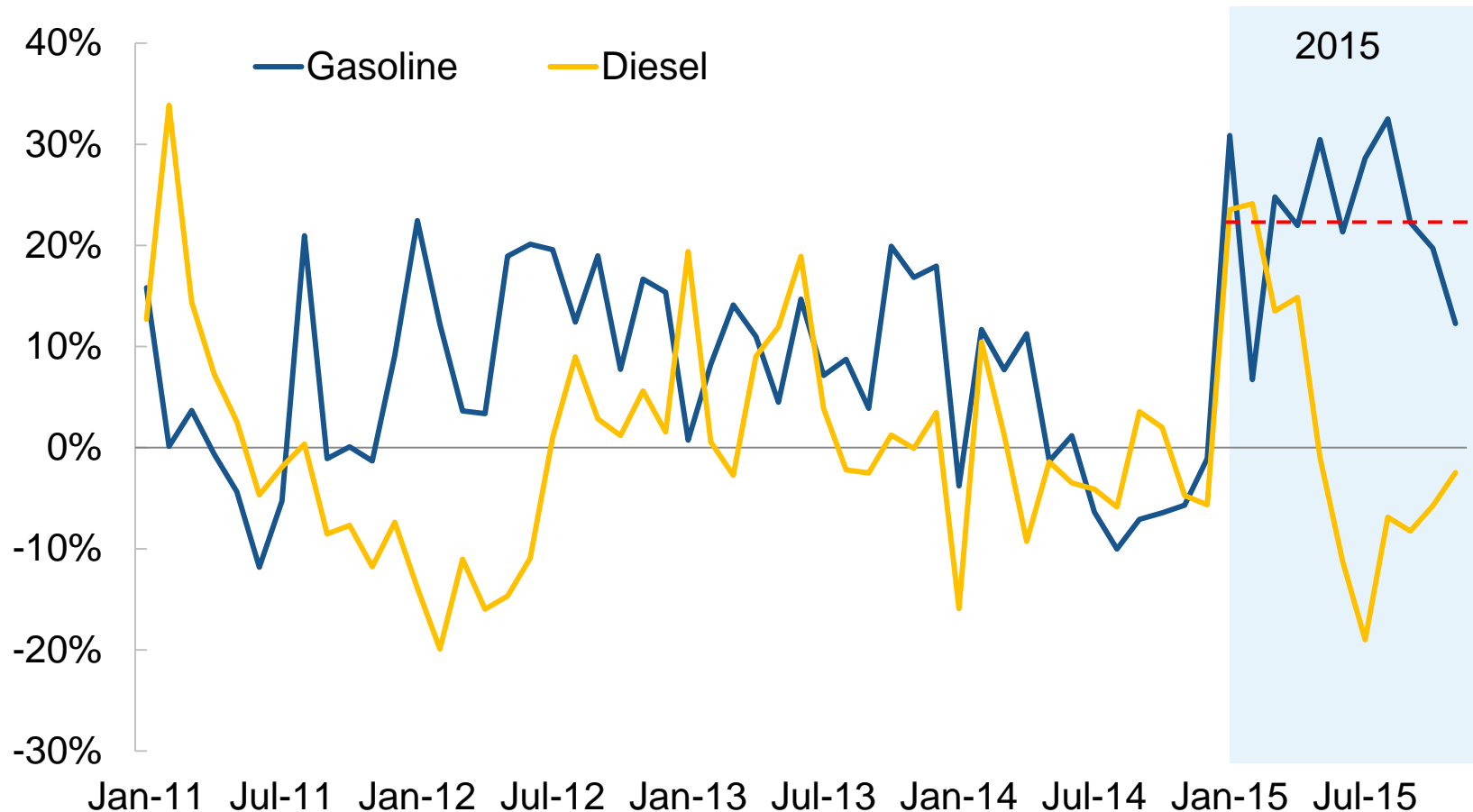
## Asian demand remains robust



Source: EIA

# ... China worries overblown

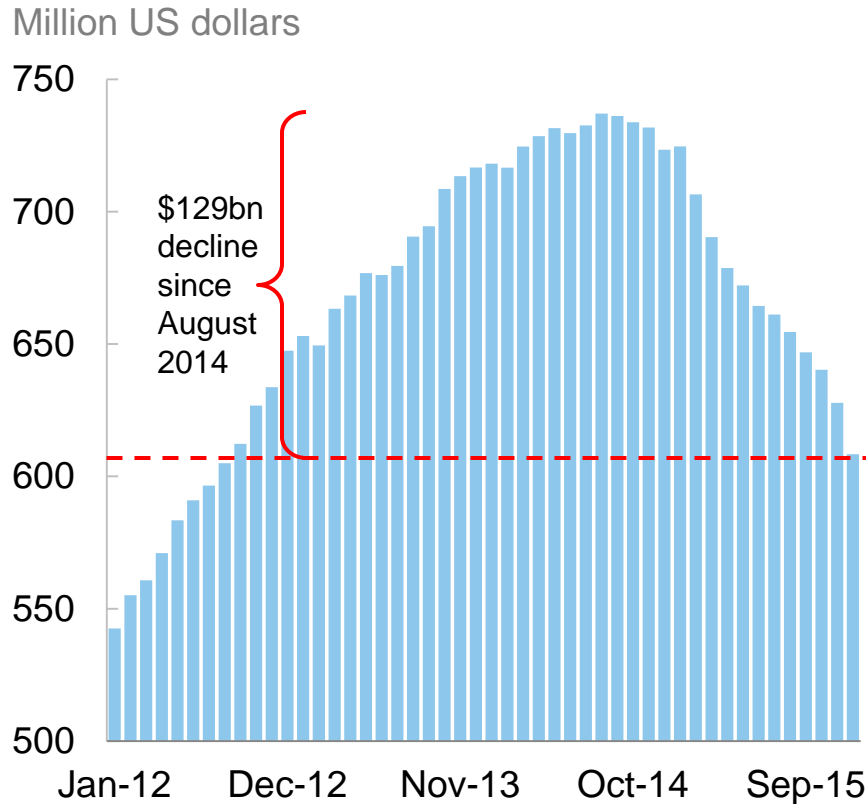
YoY growth



Source: JODI

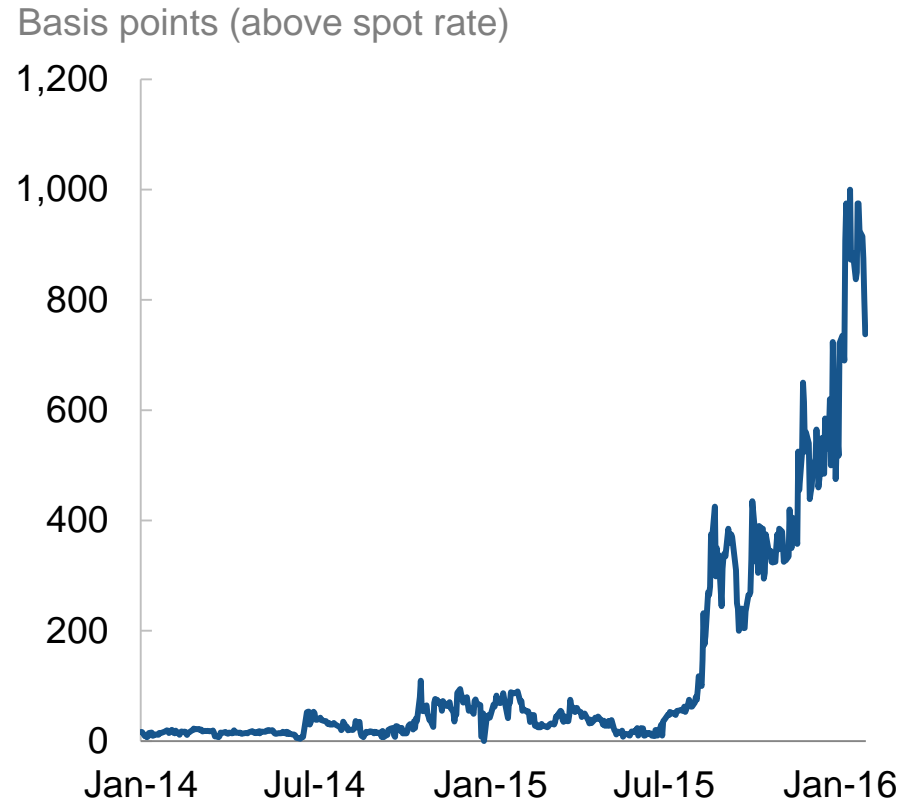
# (4) Saudi Arabia: FOREX reserves and forward rate

### Saudi Arabian FOREX reserves



Source: Bloomberg

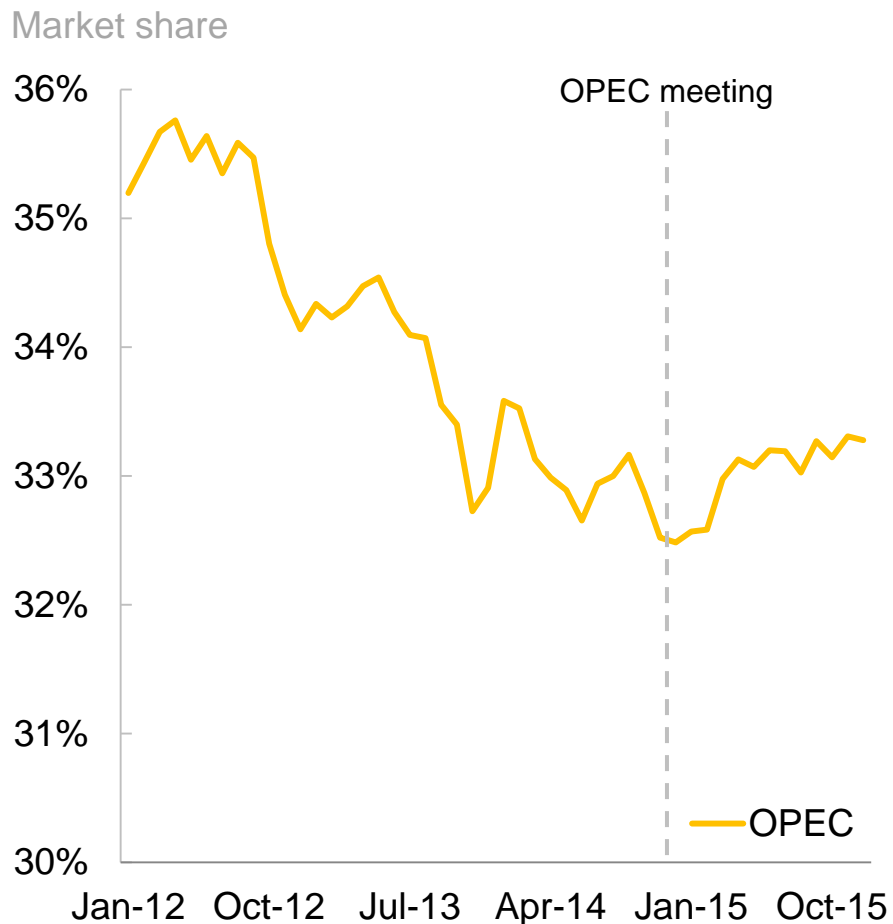
### Saudi Riyal 12-month forward premium



Source: Bloomberg

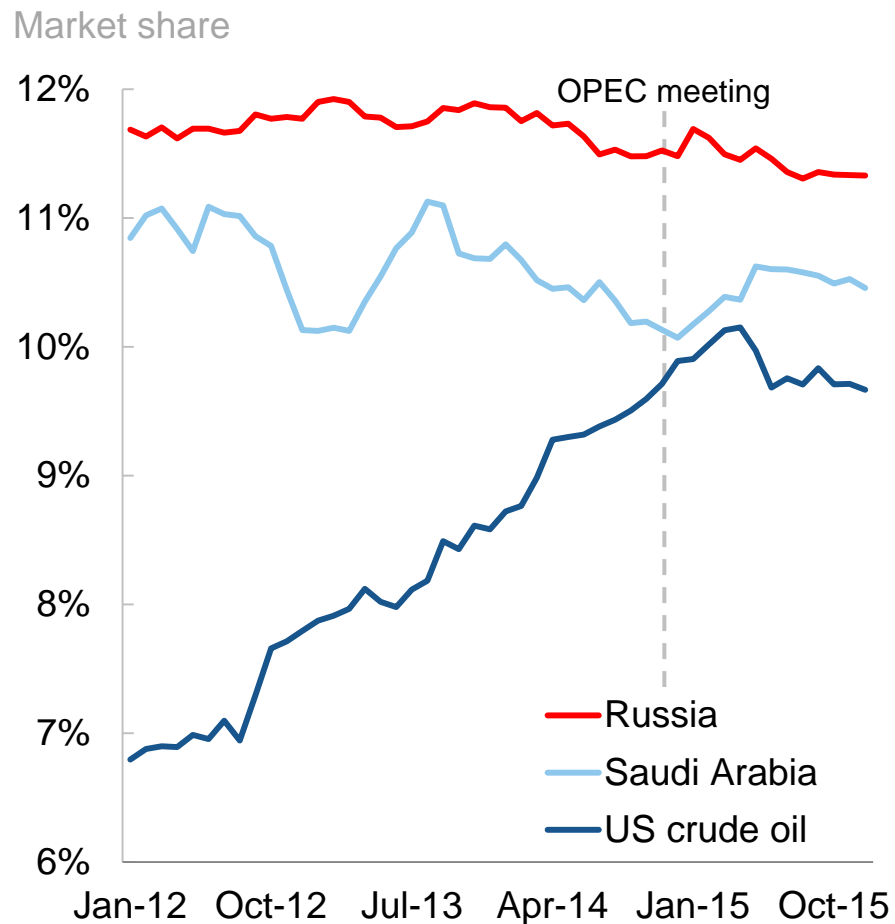
# Selected oil market shares

## OPEC market share



Source: EIA

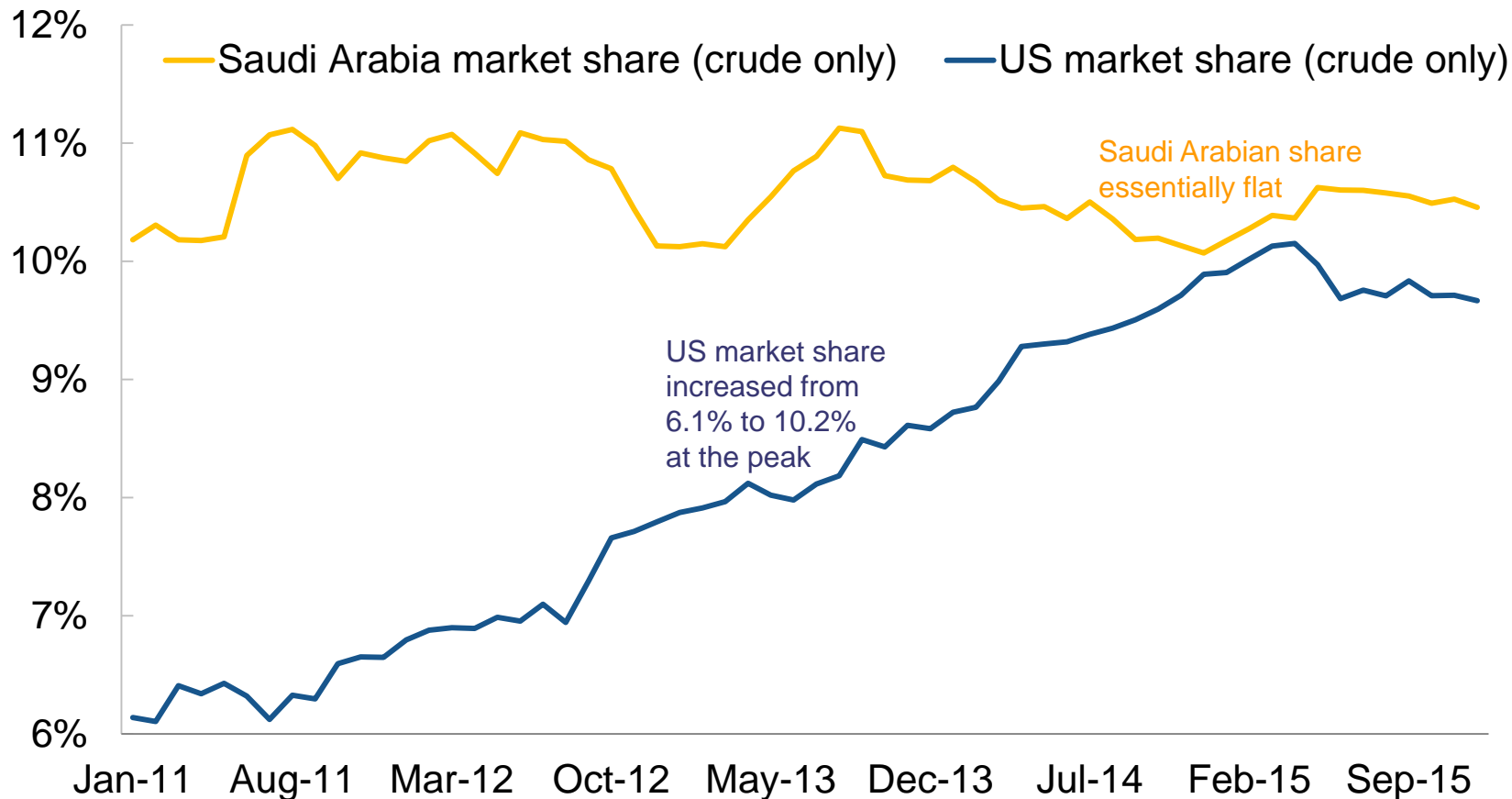
## Country market shares



Source: EIA

# US and Saudi Arabia: oil market shares

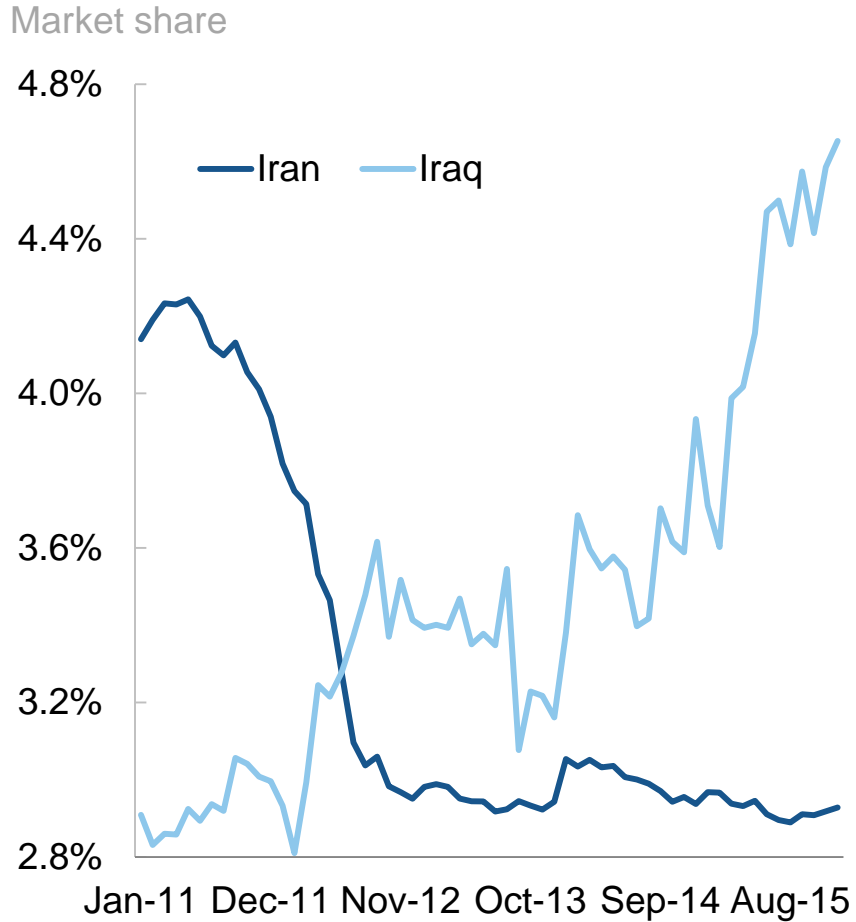
Market share



Source: EIA

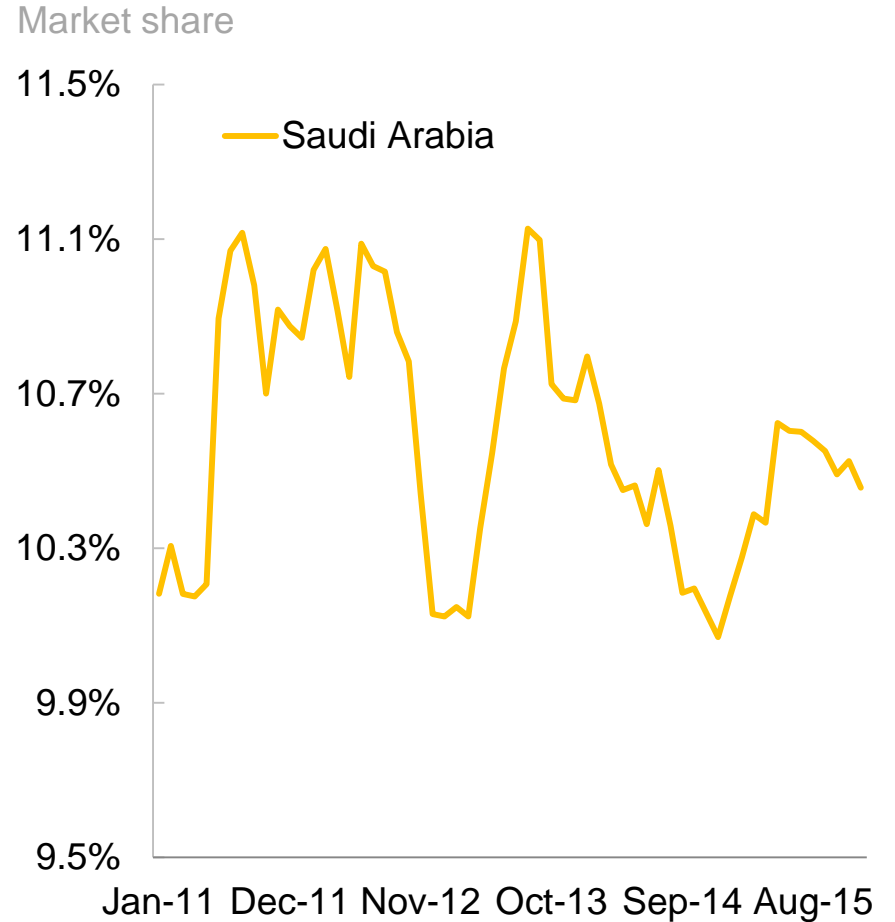
# Oil market shares of key OPEC producers

### Iran & Iraq



Source: EIA

### Saudi Arabia



Source: EIA



- The economy: Multiple and volatile adjustments, but still locally driven
- Relationship between oil and global growth has weakened
- Oil markets are searching for a new equilibrium, accommodating OPEC as well as unconventional growth
- Expect volatility with an upward drift in prices for 2016-17