

# Oil Market Update

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International Energy Forum (IEF)

# Significant Flexibility in Oil System

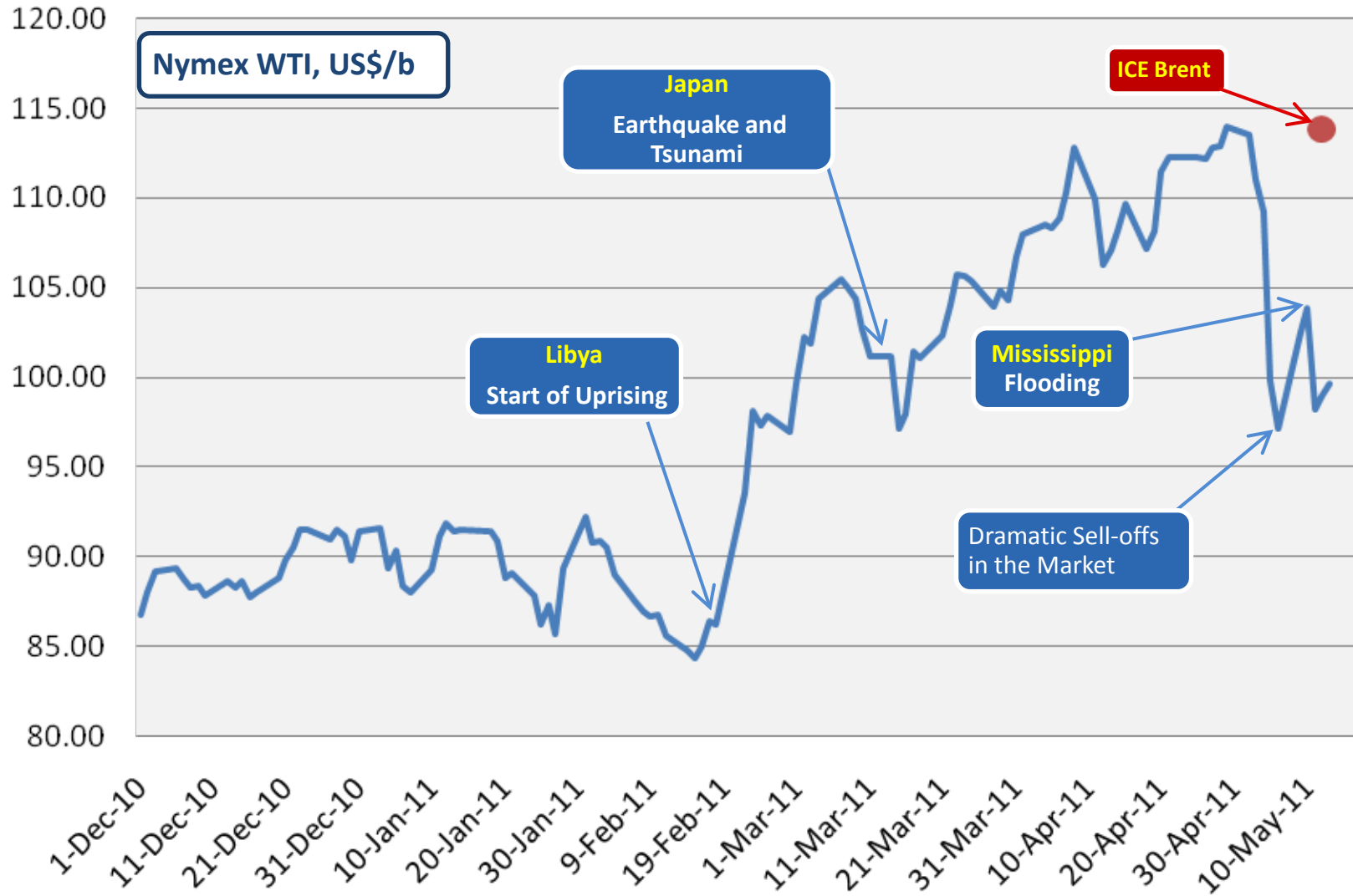
## 2011 is not 2008

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	IEA*		OPEC*	
	2011	Growth	2011	Growth
World Oil Demand mb/d	89.2	+1.3	88.1	+1.4
World Oil Supply mb/d	89.2	+1.3	88.1	+1.4
Implied OPEC Spare Capacity mb/d	4.1		4.5	
OECD Commercial Oil Stocks mb	2643		2670	
	58.8 days		58 days	
IEA Emergency Stocks	1.55 bn			
Libyan Oil Exports (Temp. loss) mb/d	1.3			
Japanese Extra Oil Demand (Temp.) mb/d	0.15			

\* Based on May 2011 Oil Market Reports IEA / OPEC

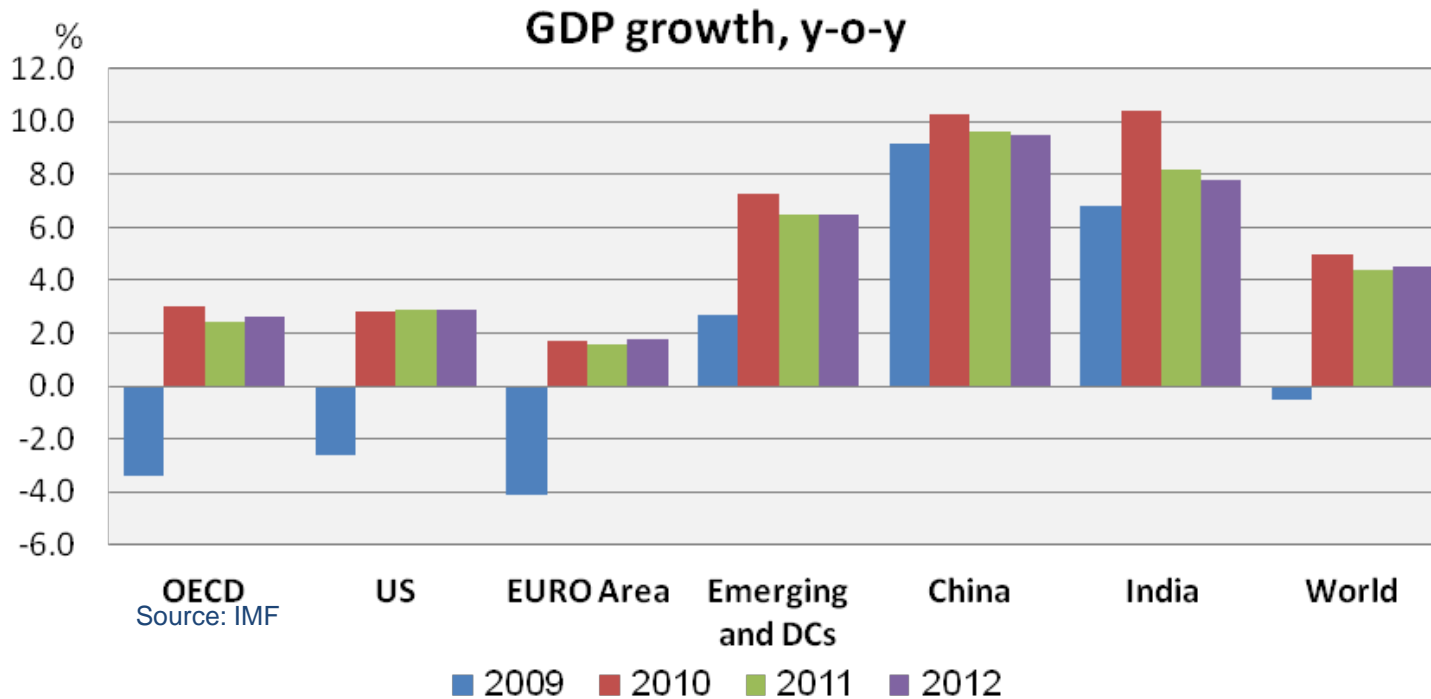
# Oil Price Movements



Source: US EIA Oil Statistics

# Global Economy

## Positive Growth Continues

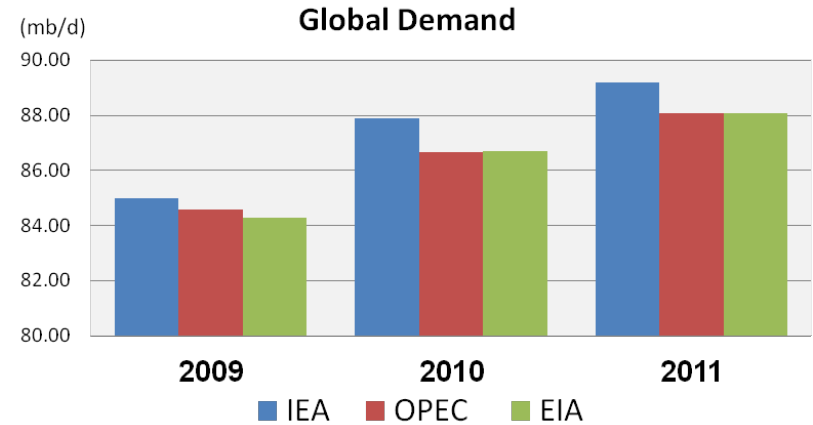
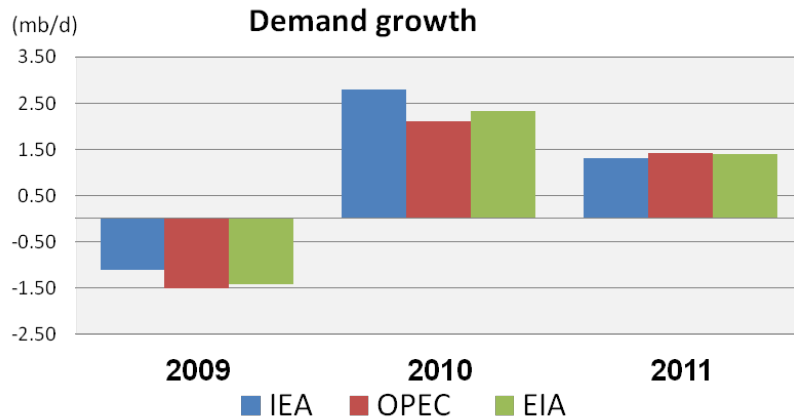


Emerging economies continue to lead the way, but the rapid rates of growth in recent years are moderating to more sustainable levels.

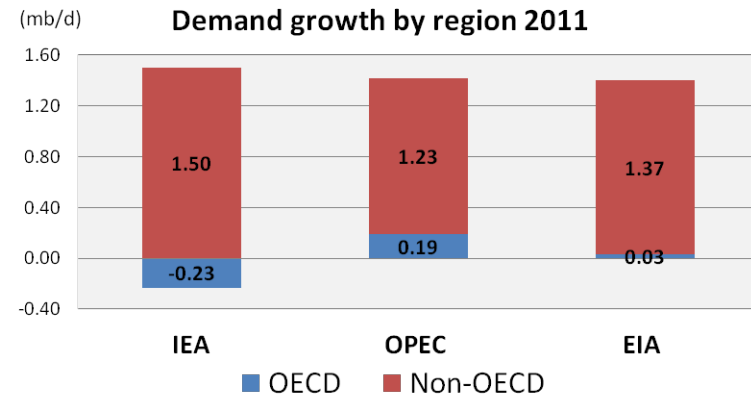
Growth in the OECD lags behind, but fears of a double-dip recession have eased, and concerns have shifted to oil prices.

IMF *"The global economic recovery is gaining strength, but oil markets are a key area of concern"*

# World Oil Demand Set to Grow



- After two straight years of decline, global oil demand reached a new high in 2010.
- In 2011 more modest demand growth of around 1.4 mb/d is expected.
- IEA and OPEC warn about high oil prices.
- However, demand has so far been relatively resilient to the increase in oil prices.
- The earthquake and tsunami in Japan will have a modest impact on global oil demand.

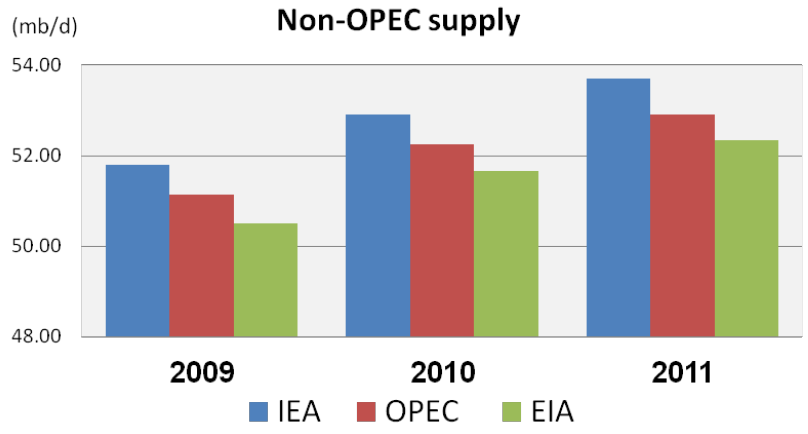
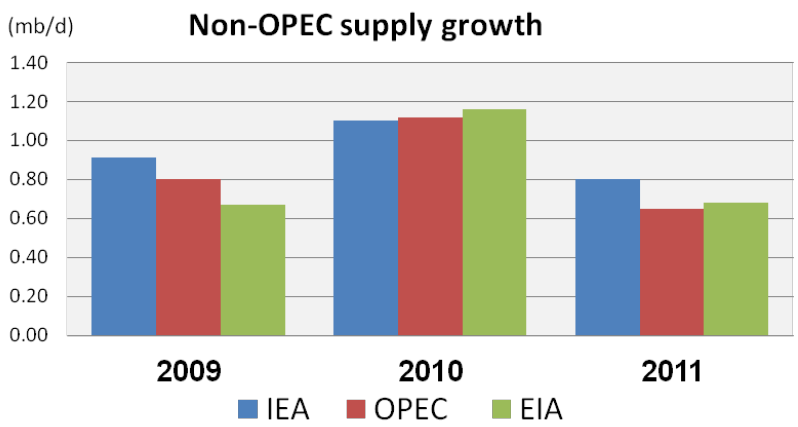


Source: IEA, OPEC, EIA

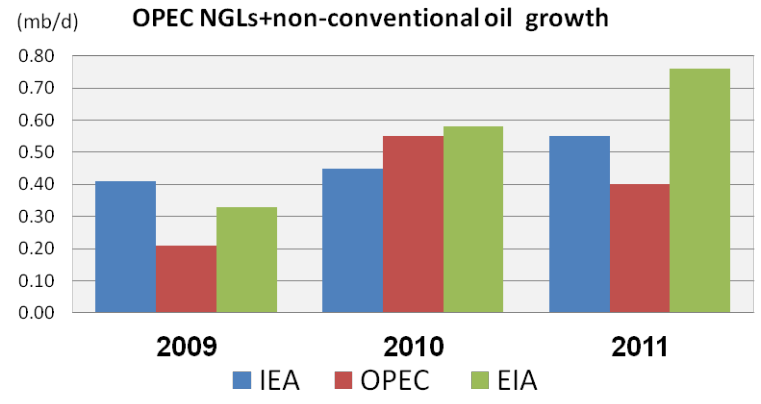


# Non-OPEC Supply

## Positive Growth Continues



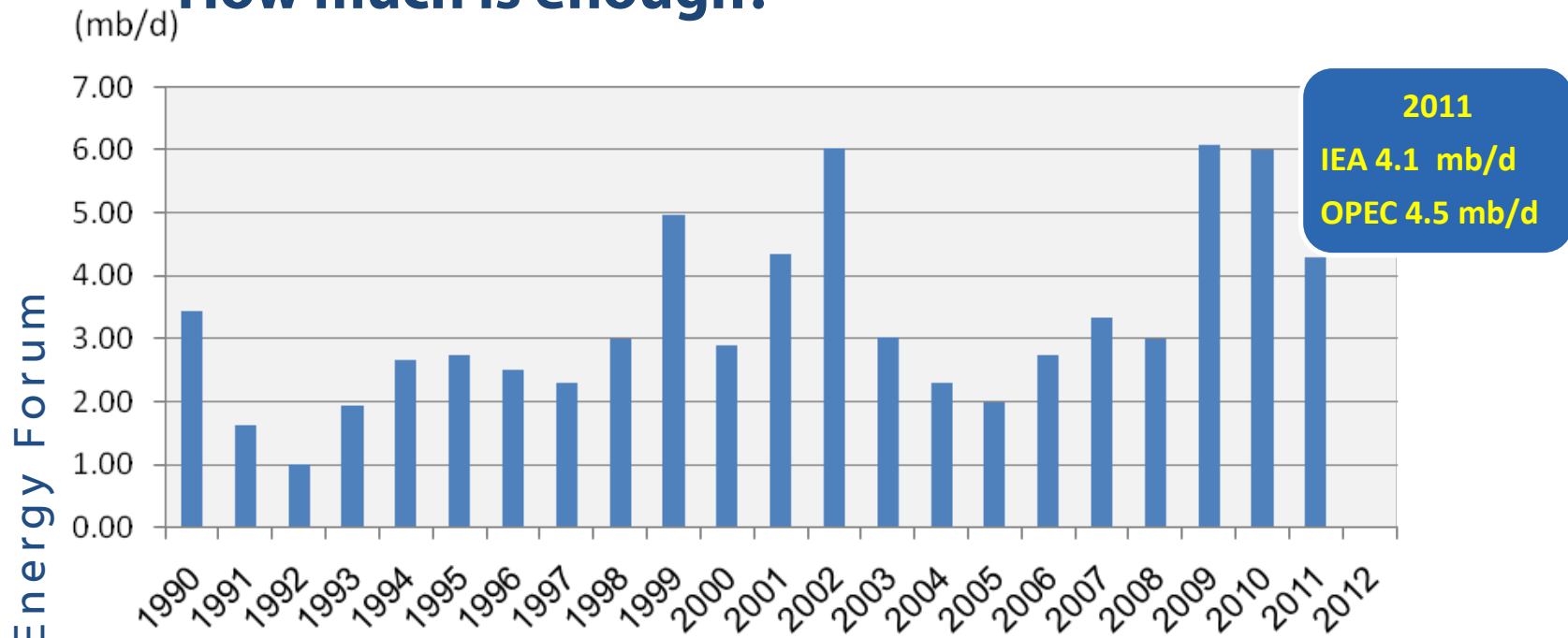
- Non-OPEC growth is being fuelled by different sources of liquid supply.
- Non-OPEC supplies increased by around 1.1 mb/d in 2010.
- In 2011 growth will slow down, but it is still expected to register a solid increase.
- Growth remains concentrated in a few countries
- OPEC NGLs and non-conventionals are seen rising a further 0.5 mb/d in 2011.



Source: IEA, OPEC, EIA

# OPEC Spare Production Capacity

## How much is enough?

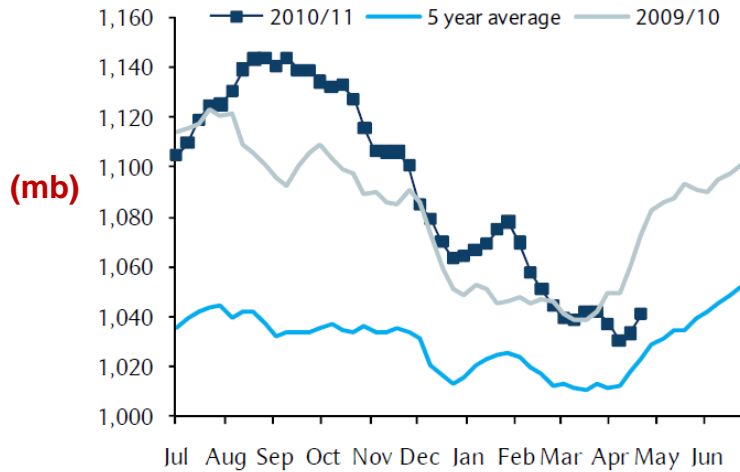


- OPEC spare capacity is more than adequate to offset loss of Libyan production, but it seems it is not enough to cool a market moved by fear and concern.
- Spare capacity levels are higher today than they were from 2003-2008, when oil prices soared to record highs.
- Concerns over mismatch between the specification of disrupted oil (light and sweet), and the heavy and sour oil that tends to be held as spare capacity are feeding the fear.

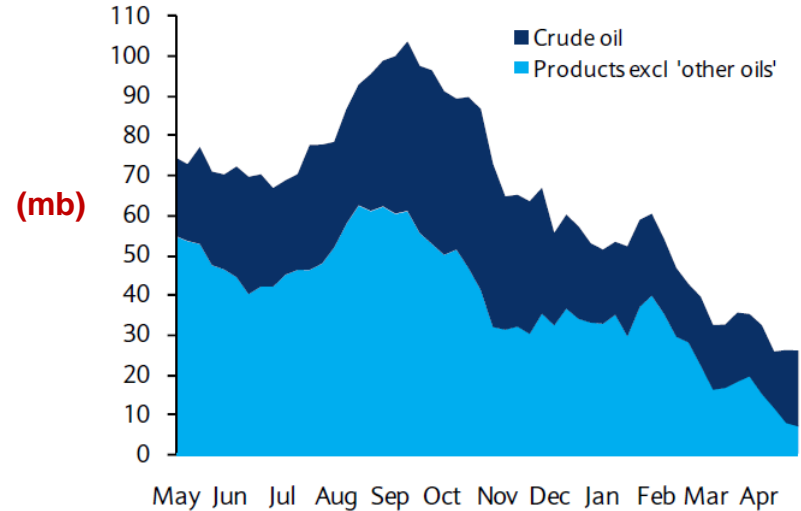
Source: Average of secondary sources

# Overhang in Global Inventories Still there but Shrinking

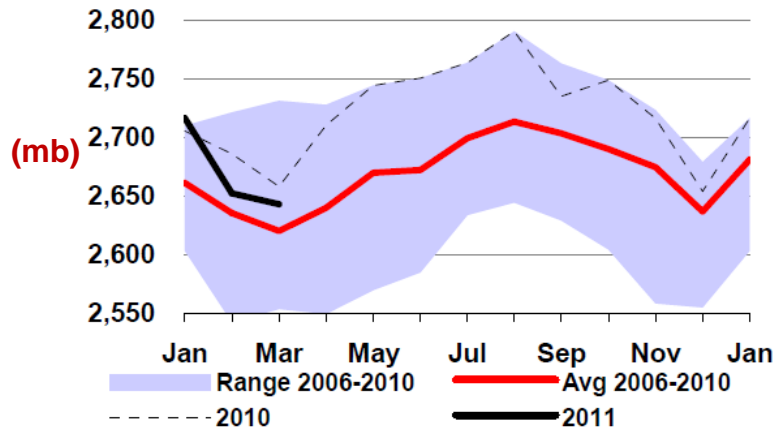
Total US Commercial Inventories



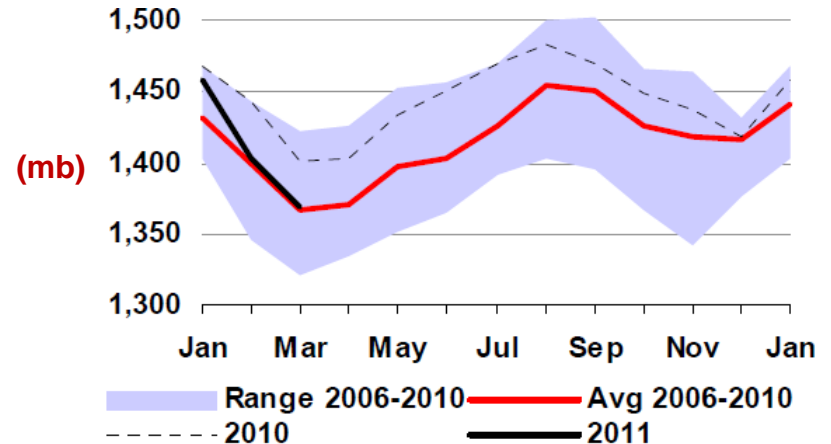
US Inventories Relative to 5-year Avg.



OECD Total Oil Stocks



OECD Total Products Stocks.



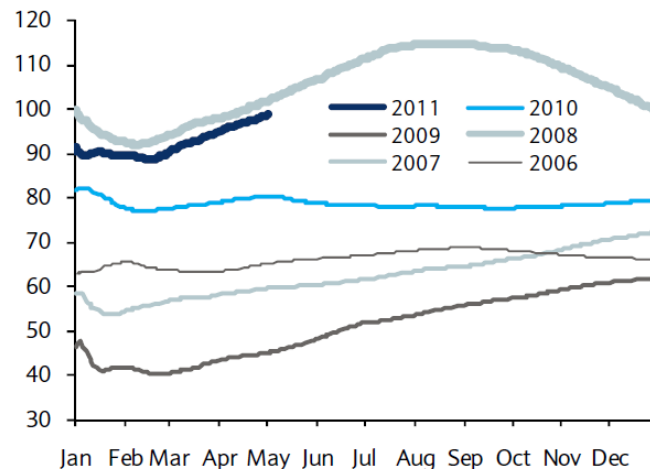
Source: US EIA Oil Statistics, IEA



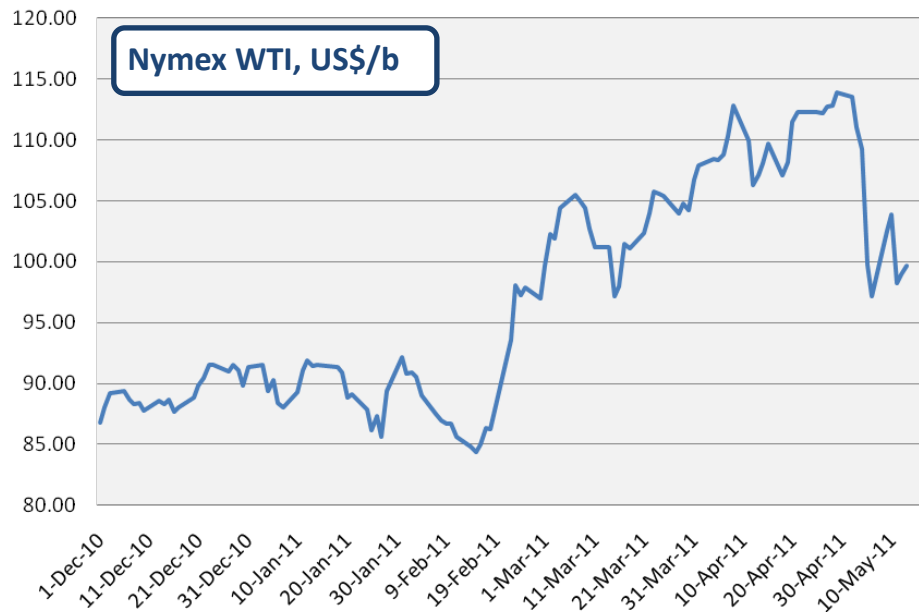
# Oil Price Developments

- Market sentiments drive oil prices
- Tightening fundamentals versus speculative activities
- Weak US dollar.

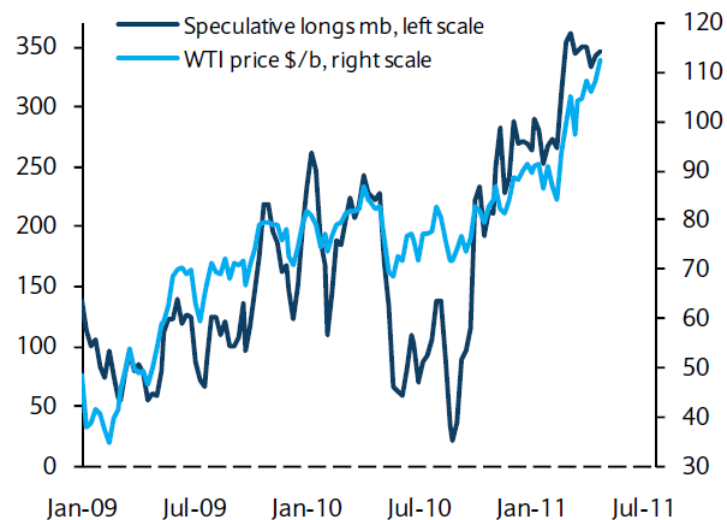
Year-to-date WTI Price Averages (US\$/b)



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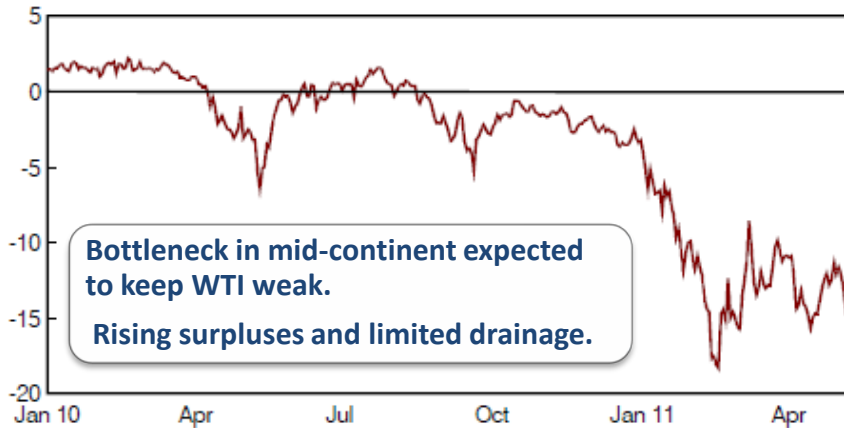
Total Open Interest across all New York Oil Futures Contracts, and Oil Prices



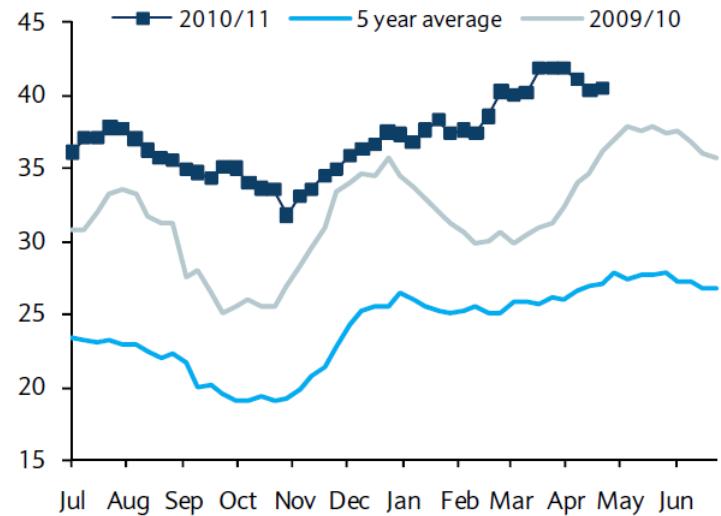
Source: Barclays Capital | Weekly Oil Data Review

# Crude Oil Market Other Developments

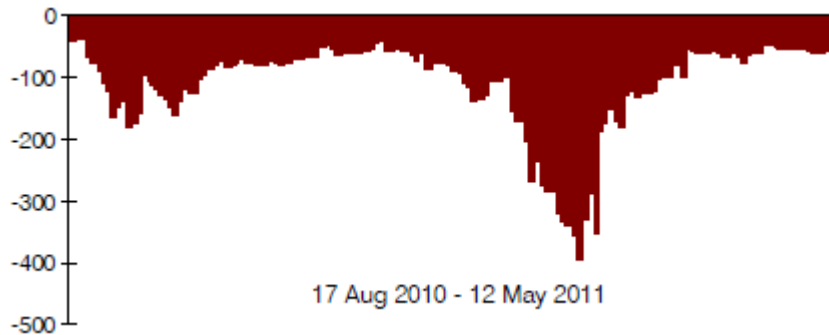
Front Month WTI-Brent spread (US\$/b)



Crude Inventories at Cushing, OK (mb)



WTI: 1st Month Minus 2<sup>nd</sup> month (¢/b)



Brent Dated vs. Sour Grade (Dubai) (US\$/b)



Source: Argus Global Markets, US EIA Oil Statistics

# IEA-IEF-OPEC Workshop

## Linkages between Physical and Financial Markets and Forum on Market Regulations

- ③ Emergence of oil as an asset class
- ③ Shift of the centre of demand growth
- ③ Evolving short-term price inelasticity of supply and demand
- ③ Consensus: Greater transparency (oil inventories, OTC)  
Need for strong international co-ordination of regulation
- ③ Wide divergence of views on the price of oil and its volatility  
Fundamentals vs. excessive financial speculation
- ③ Continue “horizontal” dialogue between physical / financial oil markets - **Plan next meeting in fall 2011**

# IEA-IEF-OPEC Symposium on Energy Outlooks

Riyadh, 24 January 2011

<b>2011 Oil Markets:</b>	<b>Consensus on comfortable demand / supply balance / high spare capacity</b>
<b>Medium-term:</b>	<b>Reduce uncertainty to facilitate investment</b>
<b>Long-term:</b>	<b>Consensus on ample availability of oil resources</b>
<b>Methodologies and Definitions</b>	<b>Important factors in identifying the reasons behind the differences in the outlooks</b>
<b>Need for:</b>	<b>Harmonisation of definitions and better explanation of divergences to market - <b>Annual Symposium on Outlooks</b></b>

# Market Observations

- Oil price soars as Libyan supply is disrupted and amid concerns that outages could spread to other producers in the MENA region.
- Weak US dollar and speculation adds to upward pressure on oil price.
- The 4<sup>th</sup> Asian Energy Roundtable (18 April) notes that *“Geopolitical concerns are overstated since physical oil markets are well supplied, with comfortable levels of spare production capacity and stocks”*.
- Oil markets are going through a highly volatile period - crude futures prices collapsed by roughly US\$10 on 5 May, later rallied, and then dropped again on 11 May.
- The global economic recovery is gaining strength, emerging economies continue to lead the way, but oil market risks have become an important concern for strength of economic recovery.

# Market Observations

- Oil demand will continue growing in 2011, though at lower pace.
- Diversity of views between organizations on global oil demand level.
- Non- OPEC supply is expected to register a solid increase this year too.
- OPEC spare production capacity has dropped, nevertheless it is still much higher than 2003-2008 levels.
- For the rest of 2011, the MENA region will remain primary focus of the market.
- Japan: Earthquake and tsunami will have little effect on market fundamentals.
- Price risk remains to the upside.

# IEA – IEF – OPEC

## IEA, IEF and OPEC, need to:

- Continue their joint effort on physical and financial market linkages and energy market regulation.
- Continue the ongoing efforts to better harmonise definitions and methodologies, where possible and appropriate, and disclosing more data, in a more timely manner, so as to enhance comparability between outlooks.
- Plan for further meetings on these issues.



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