



TÁMOP-4.1.1.C-12/1/KONV-2012-0017

„Green Energy” – Cooperation of the higher education sector for the development of green economy in the area of energetics

MACRO AND ENERGY MARKETS

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SZÉCHENYI 2020



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MACRO AND ENERGY MARKETS: **The beginning of a new oil cycle?**

March 2015

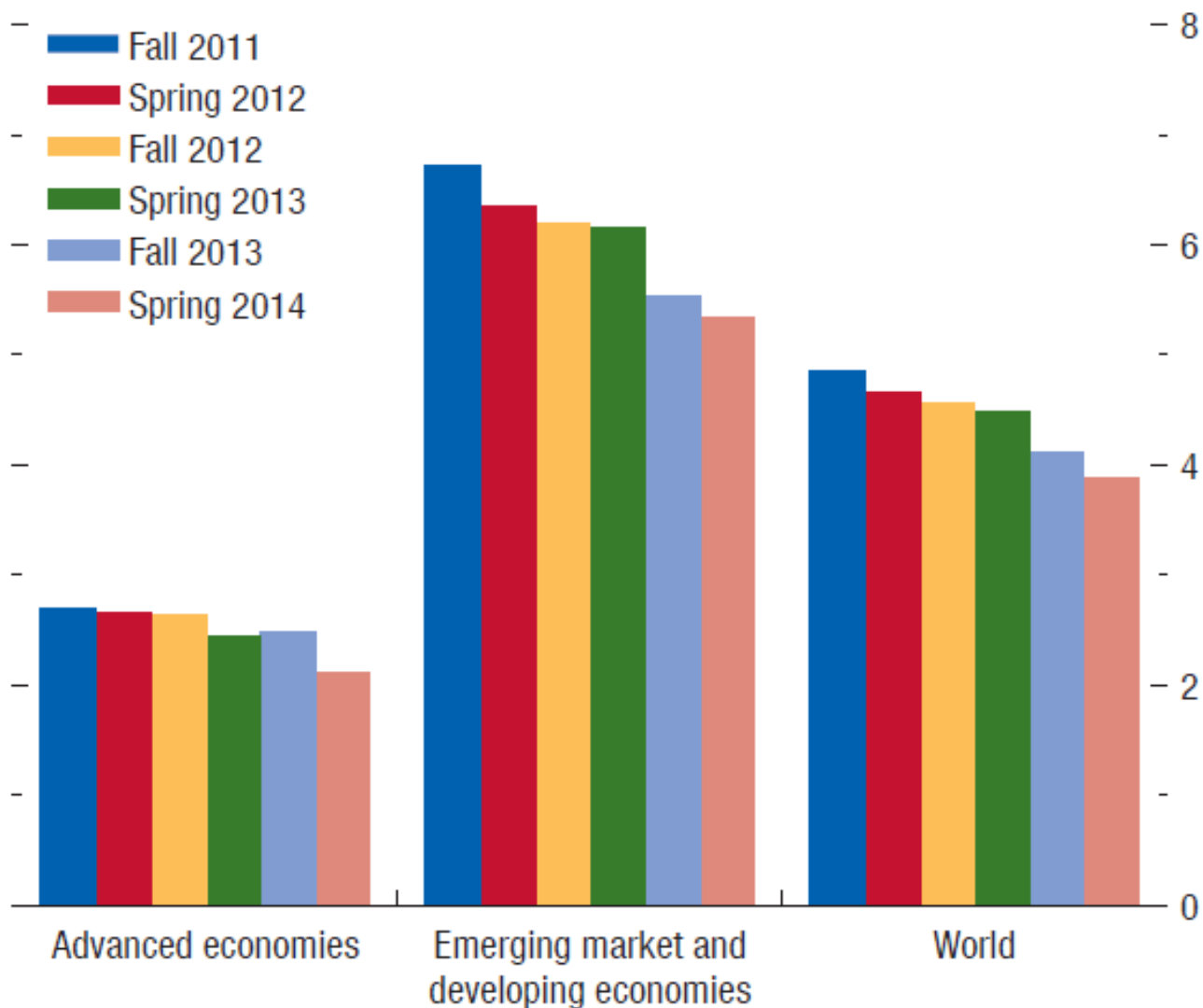
Peter Simon Vargha
Chief Economist, MOL Hungary

Global macro and industry trends

China slowing

Even the IMF admits it's a New Normal for growth

5-year IMF growth projections

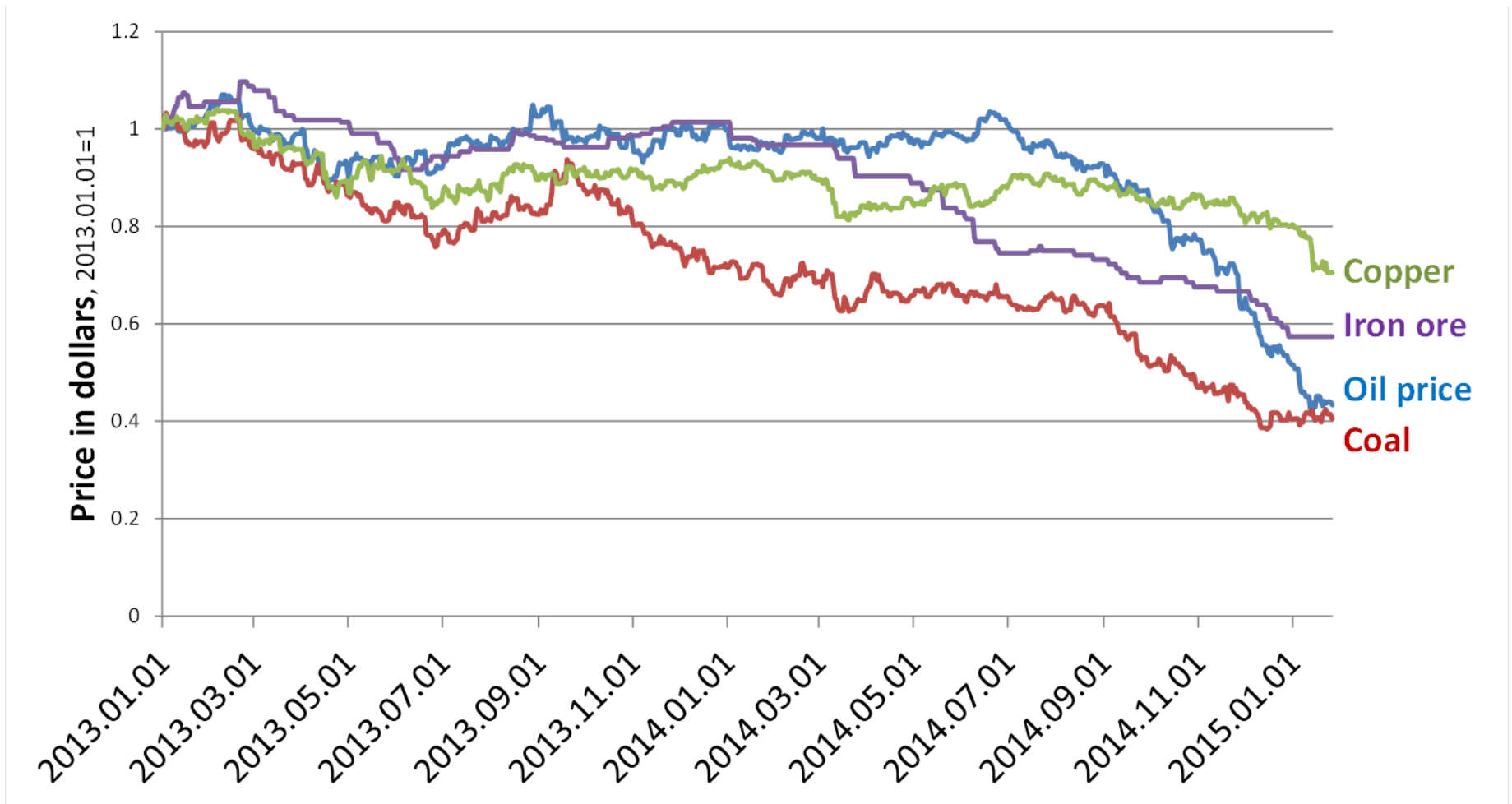


China: fear of an even harder slowdown

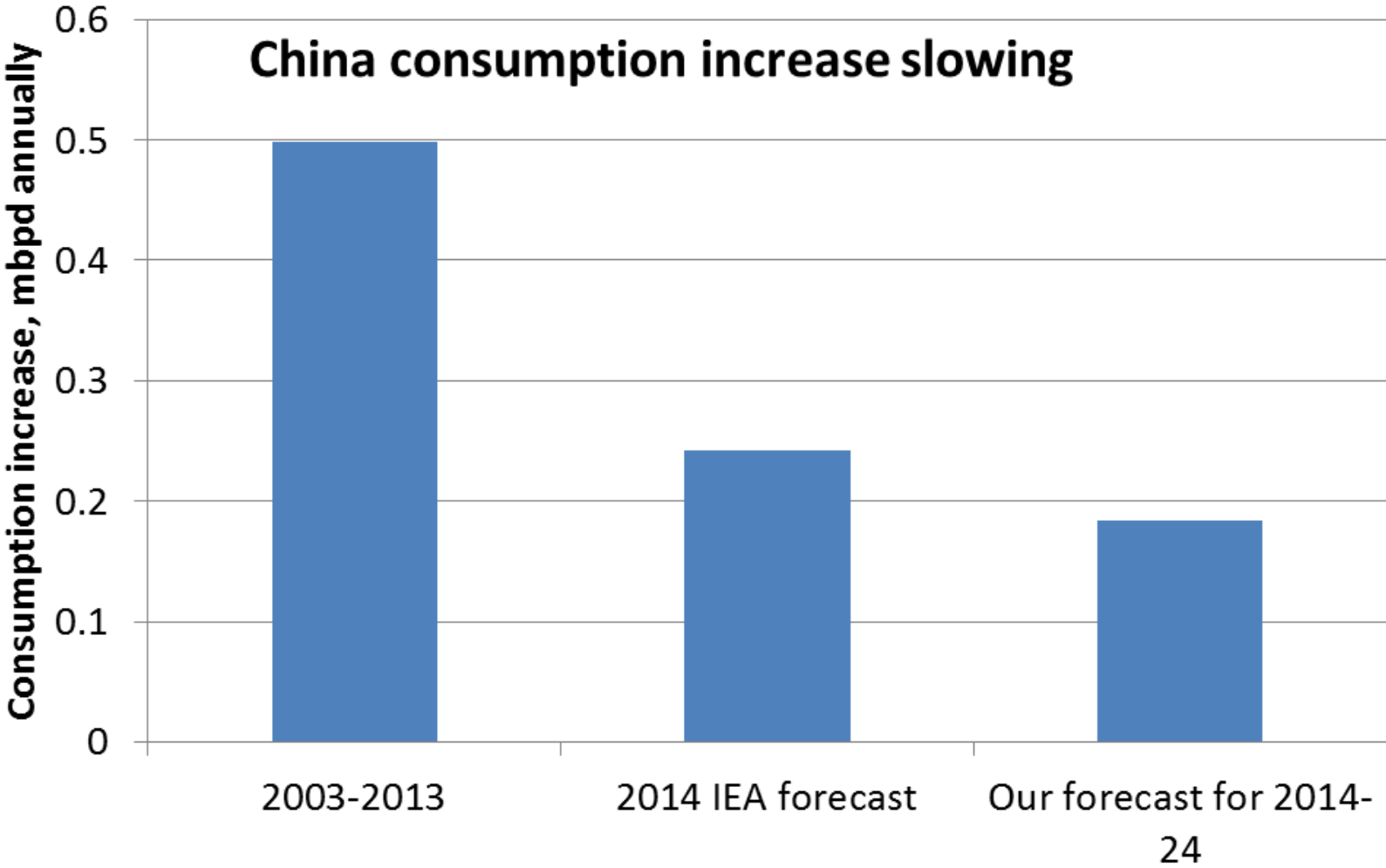
China freight-ton km, annual change



Broad commodity price decline



China oil demand growth is not what it used to be



Oil and energy markets overview

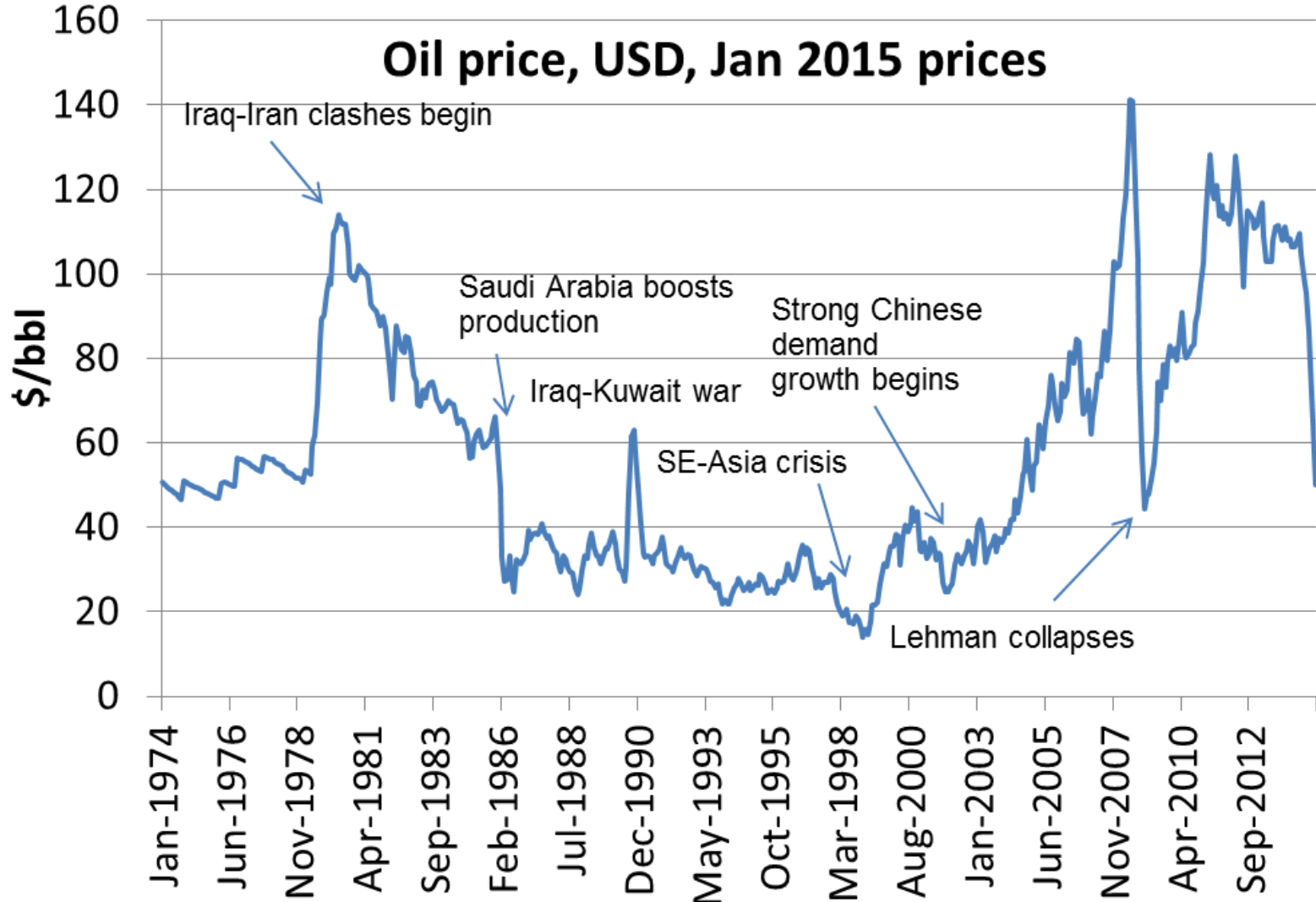
The birth of a new cycle?

Energy markets: You will not get bored...



Sources: The Economist,
Rolling Barrel blog

Oil history points to wide range of possible prices



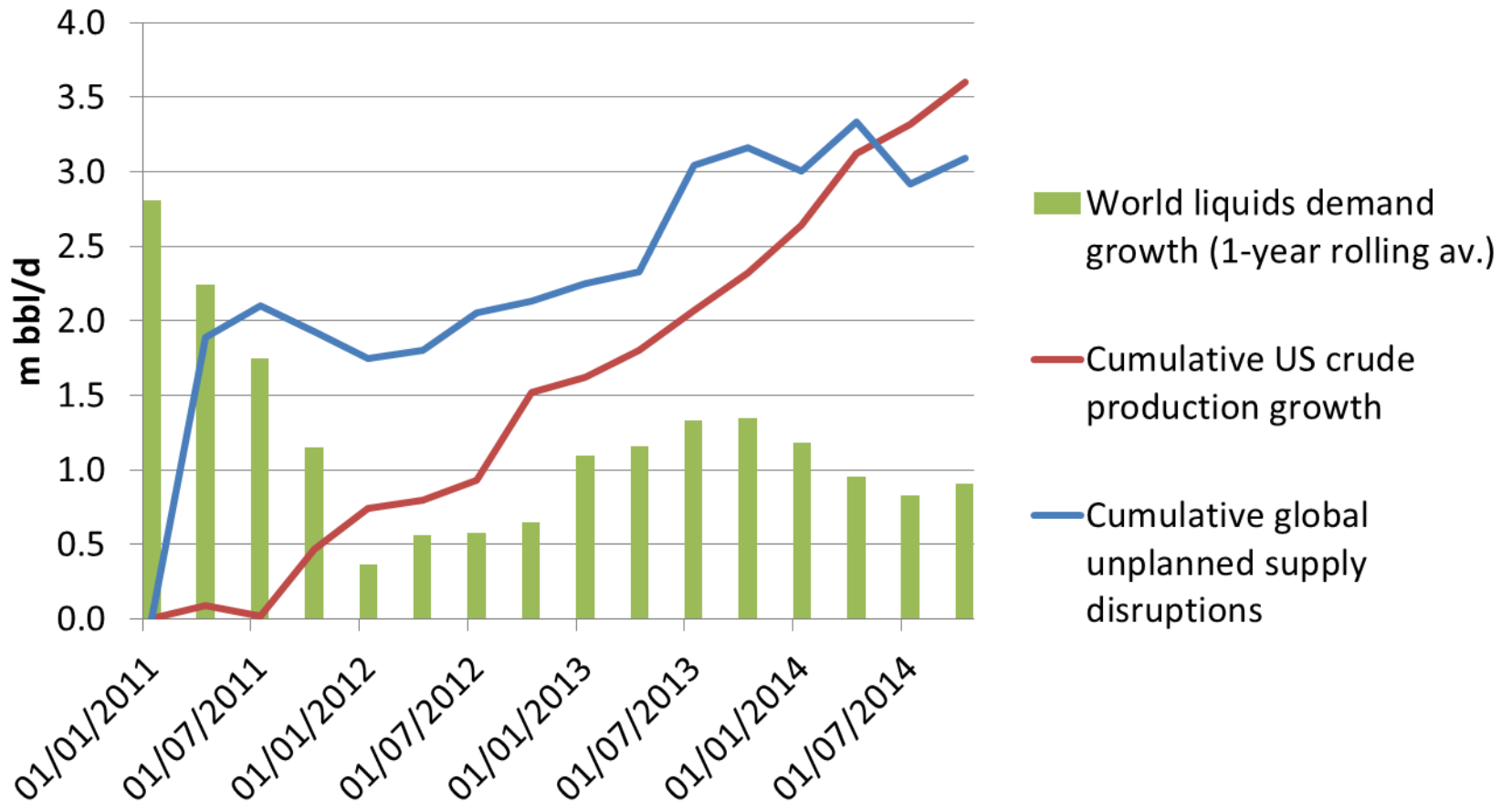
Sources: EIA, various news sources

What caused the oil price collapse?

- Demand slowdown
- Shale supply boom
- Less disruptions

- +OPEC does not cut

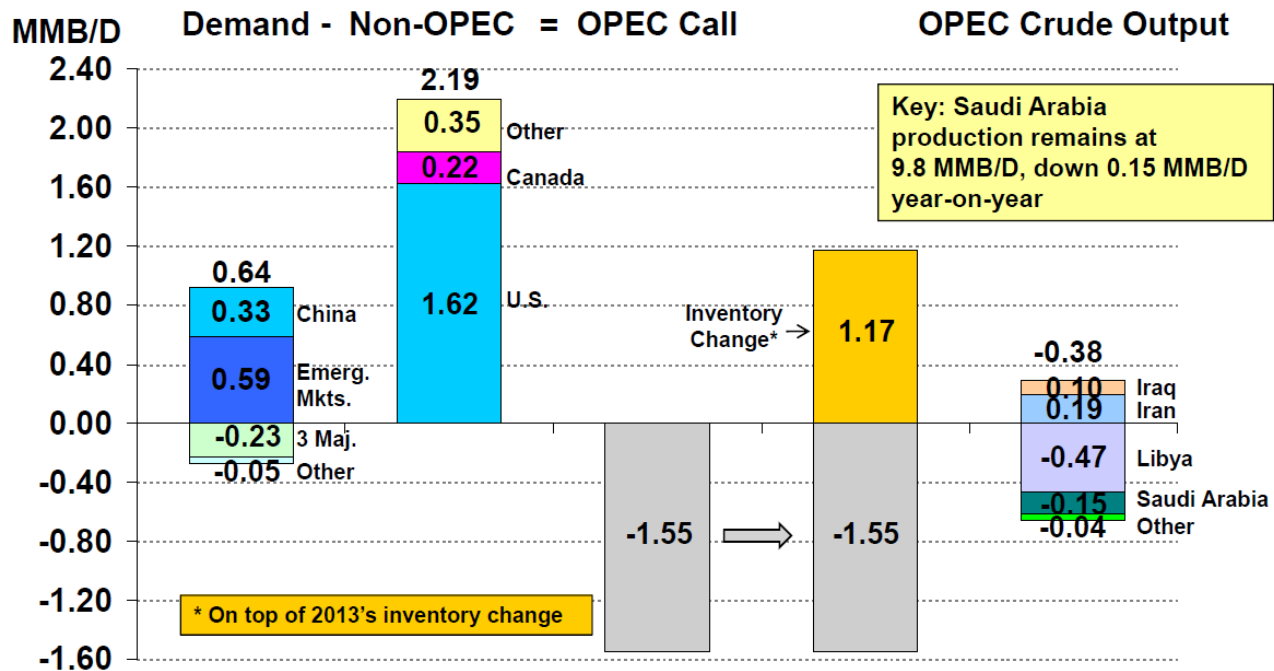
This is why oil prices fell: demand slowed, US shale grew, global disruptions moved lower



Source: EIA

"Excess" oil is ~1.5 mbpd, 1-2 years of demand growth

World Oil Supply and Demand 2014 Versus 2013

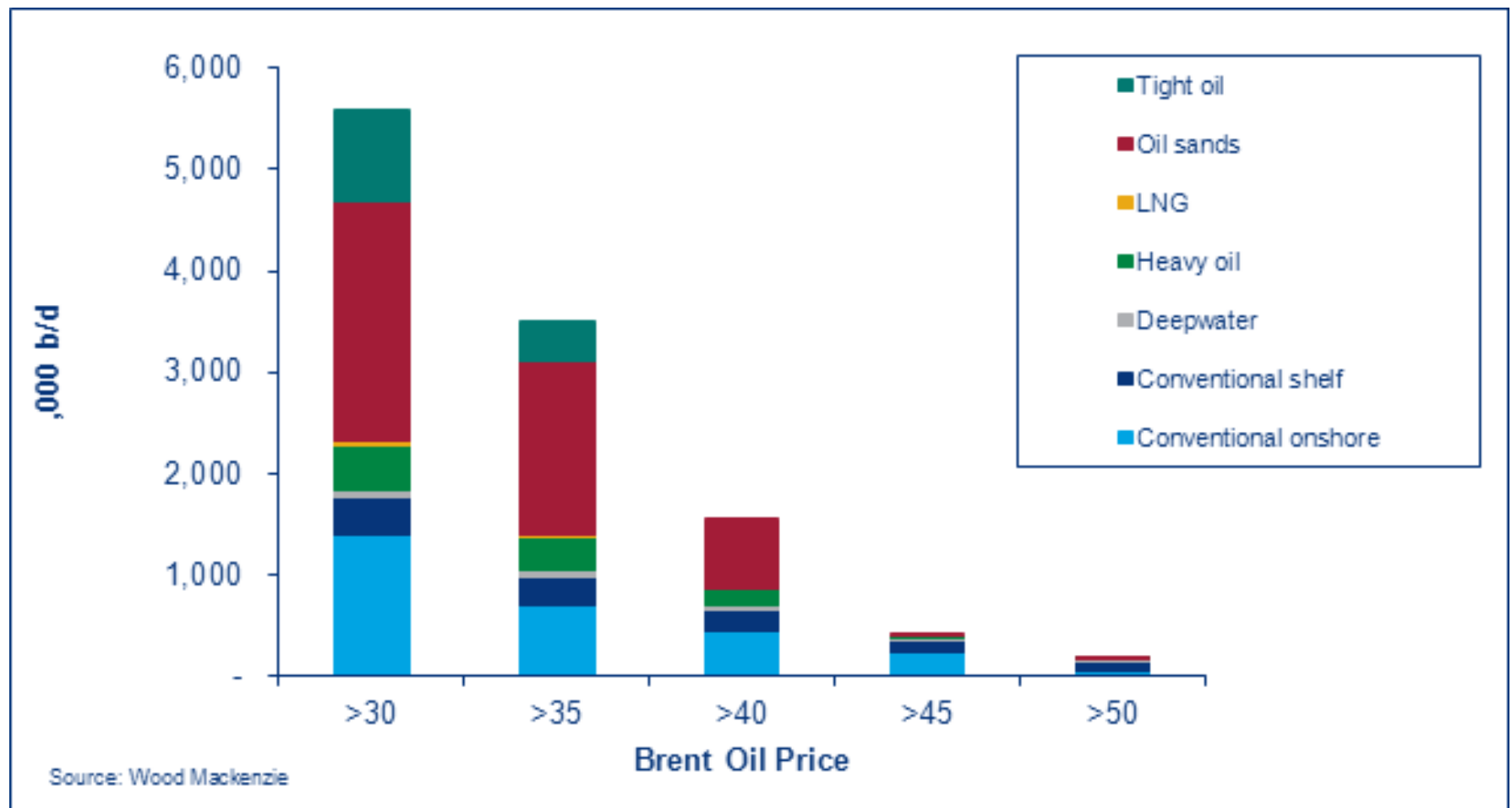


Note: Other OPEC: Ecuador +0.03, UAE +0.06, Nigeria +0.11
Algeria -0.03, Venezuela -0.04, Kuwait -0.08, Angola -0.09

Source: PIRA

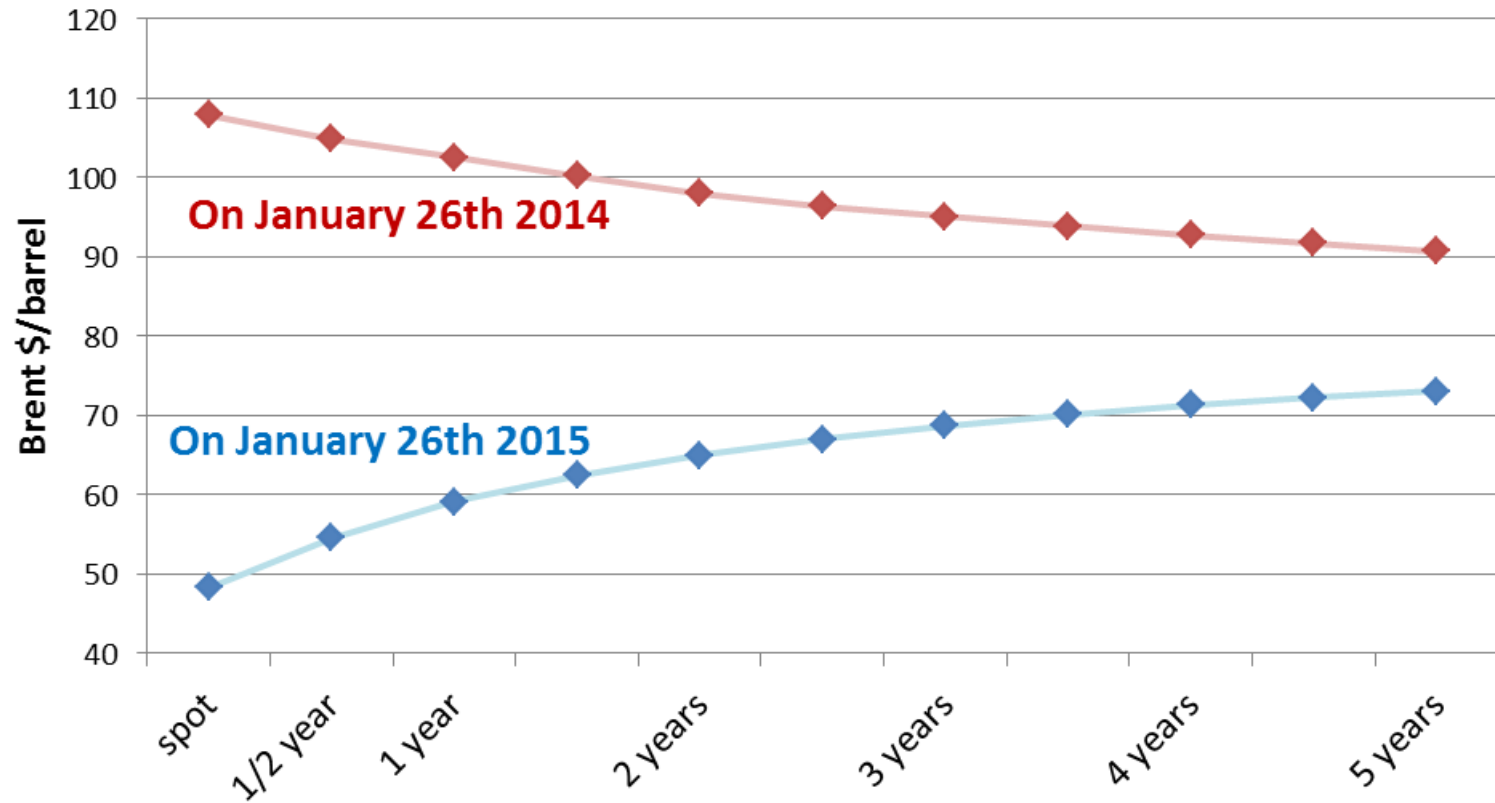
Around \$40/bbl, serious shut-ins would likely occur

Oil production volumes below operating cash cost by resource theme



Futures market predicts a recovery, and we think it is right

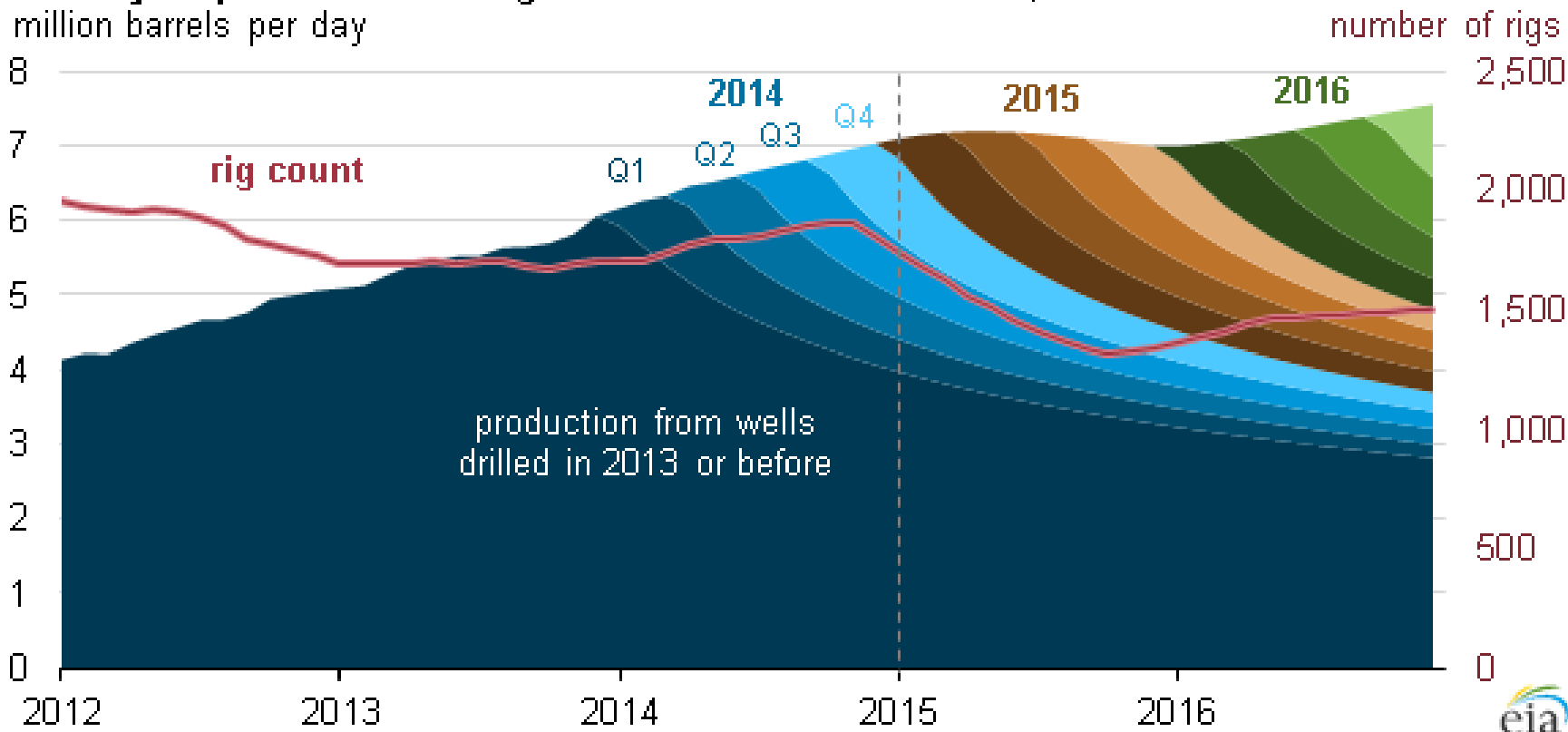
Futures curve in 2014 and 2015



Source: Bloomberg

US tight oil production growth halts

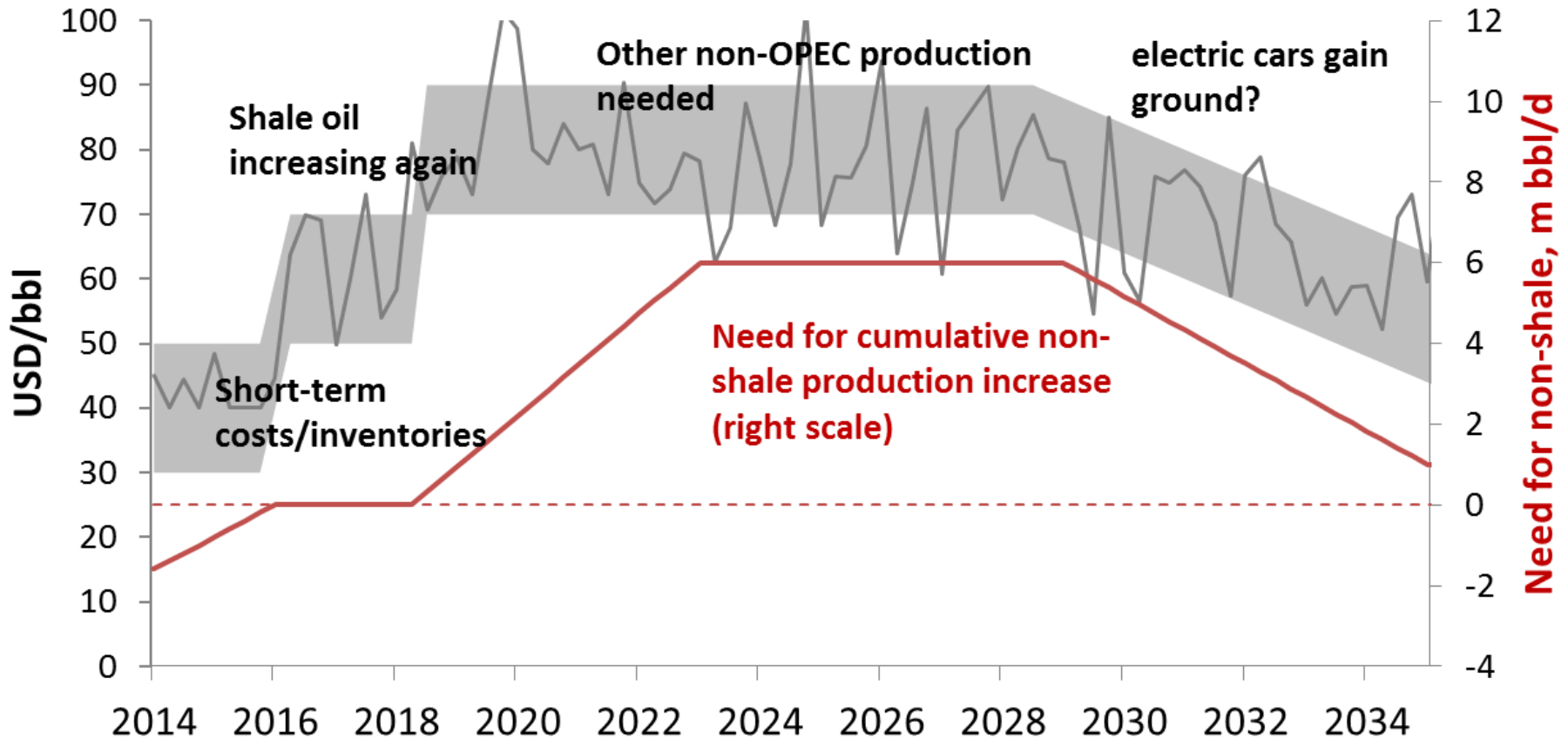
Monthly oil production and rig count in the Lower 48 states, 2012-16



- The projection assumes \$75/bbl oil price for 2016

Source: EIA

A sketch of a new cycle: oil prices to rise in medium term

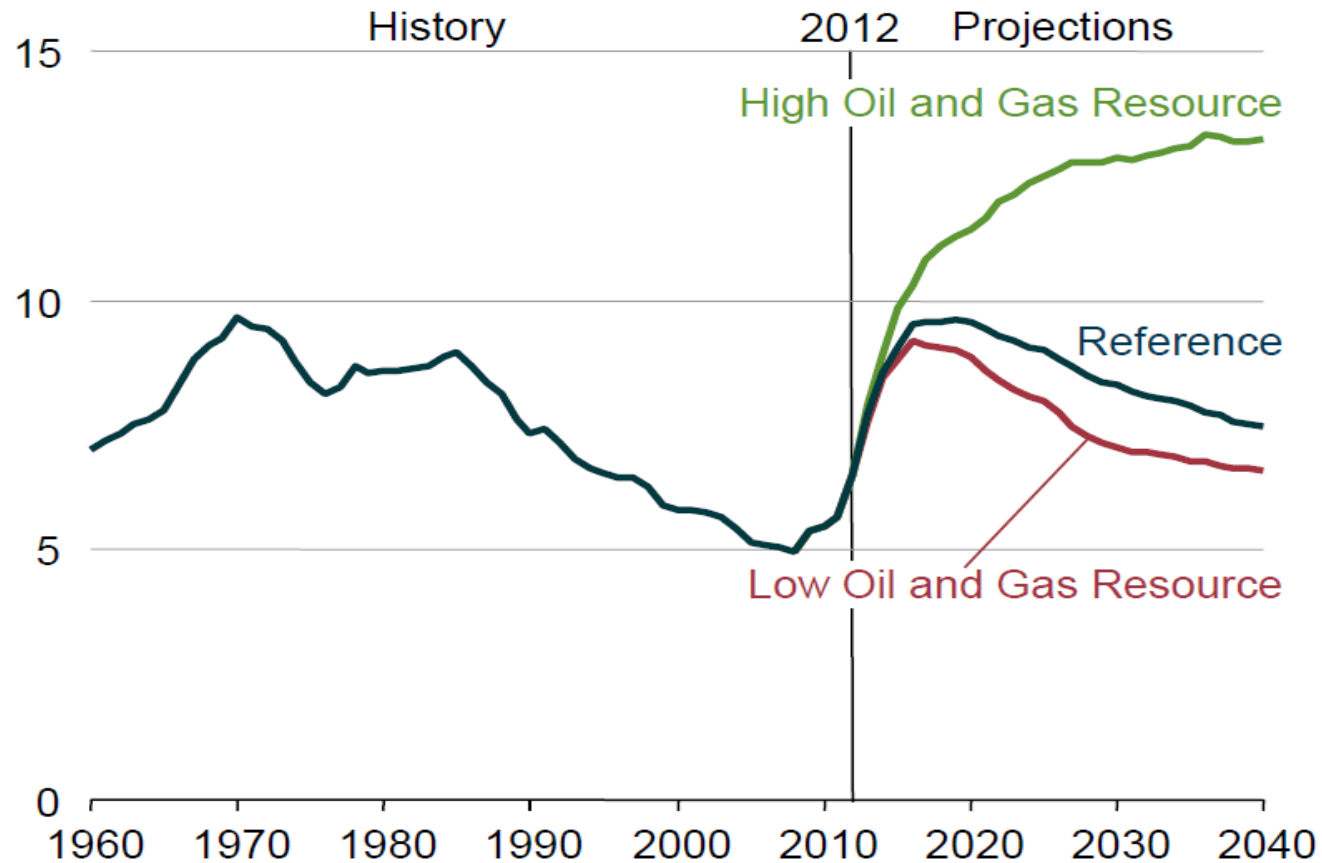


Oil supply and demand

Demand eating up excess production

US shale oil was not meant to grow forever...

Figure ES-1. U.S. crude oil production in three cases, 1960-2040 (million barrels per day)



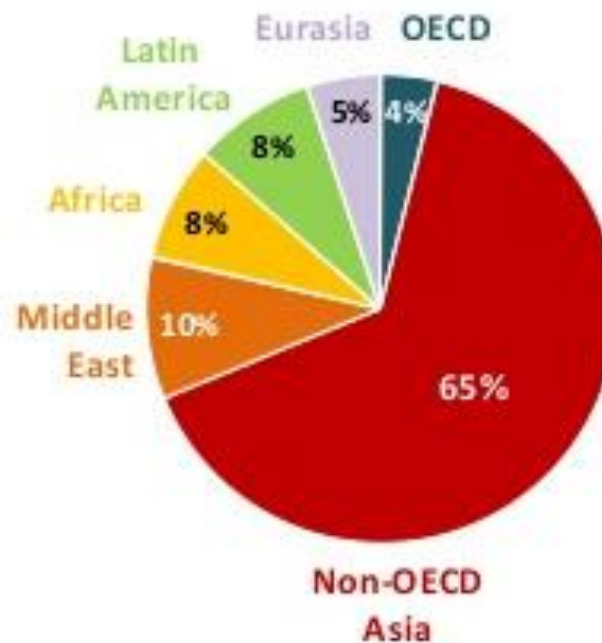
Source: EIA

Asia to dominate energy markets

Primary energy demand, 2035 (Mtoe)

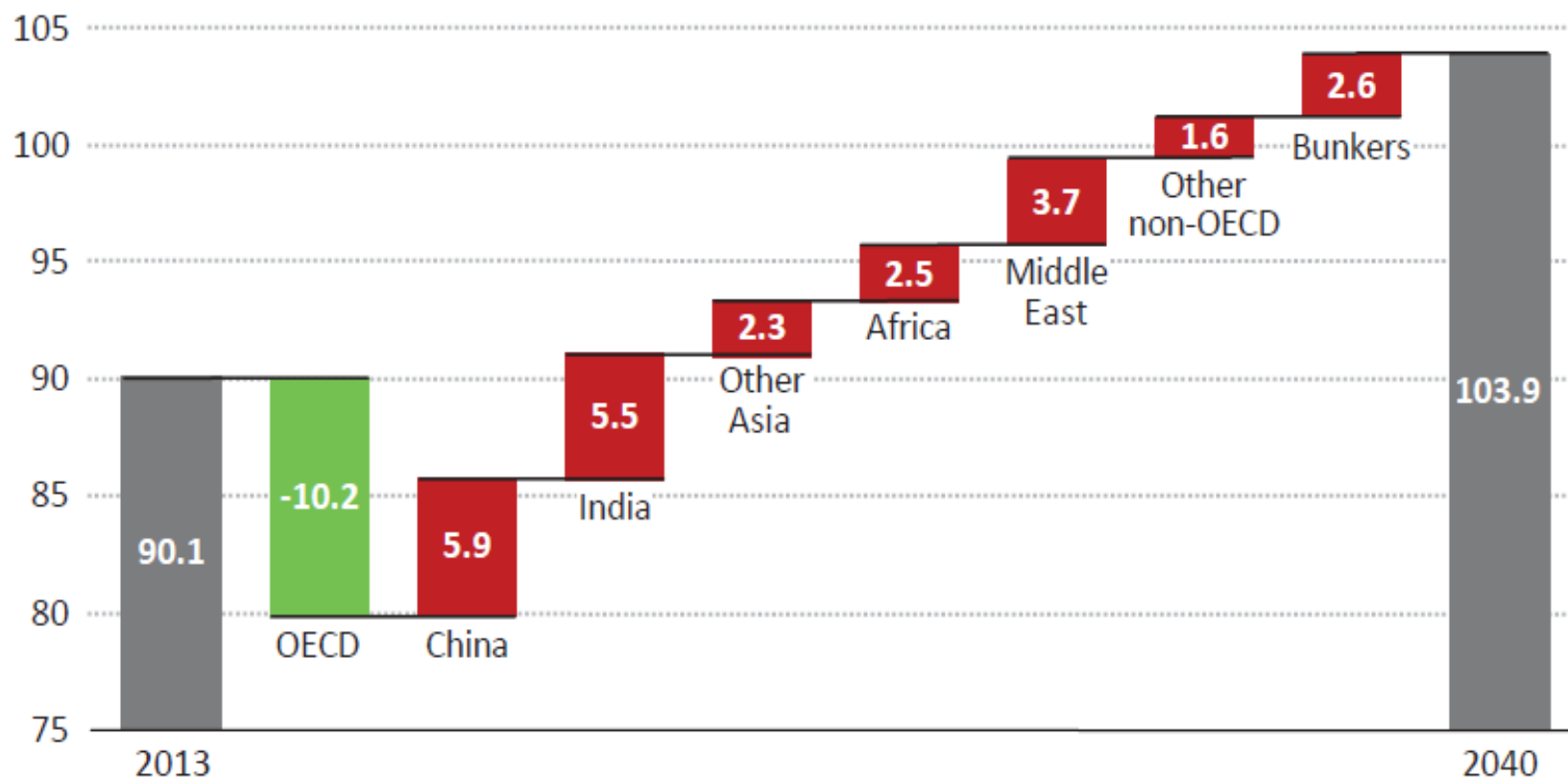


Share of global growth, 2012-2035



Emerging market demand overcompensates OECD decline

Figure 3.2 ▶ Growth in world oil demand by region in the New Policies Scenario



Source: IEA

Where can we go wrong about the oil price?

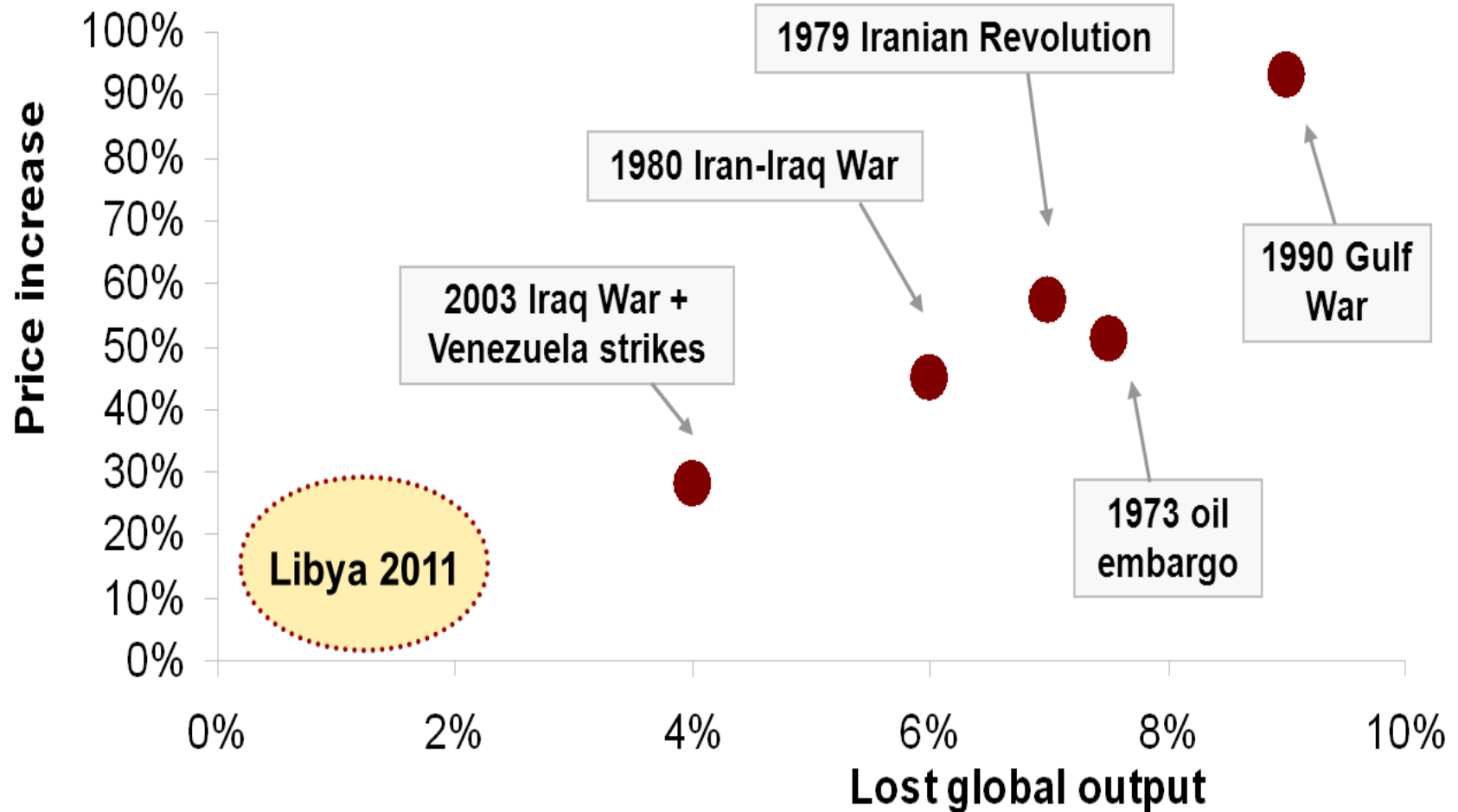
Slower recovery/lower price level sustained:

- Large recession in China
- Demand plateaus early (2020)
- core OPEC boosts production
- Shale oil production costs decline further
- Conventional costs/government taxation declines

Faster recovery:

- OPEC cut (more likely than it may sound)
- Supply disruption

Rule of thumb: 1% shock → 10% oil price increase



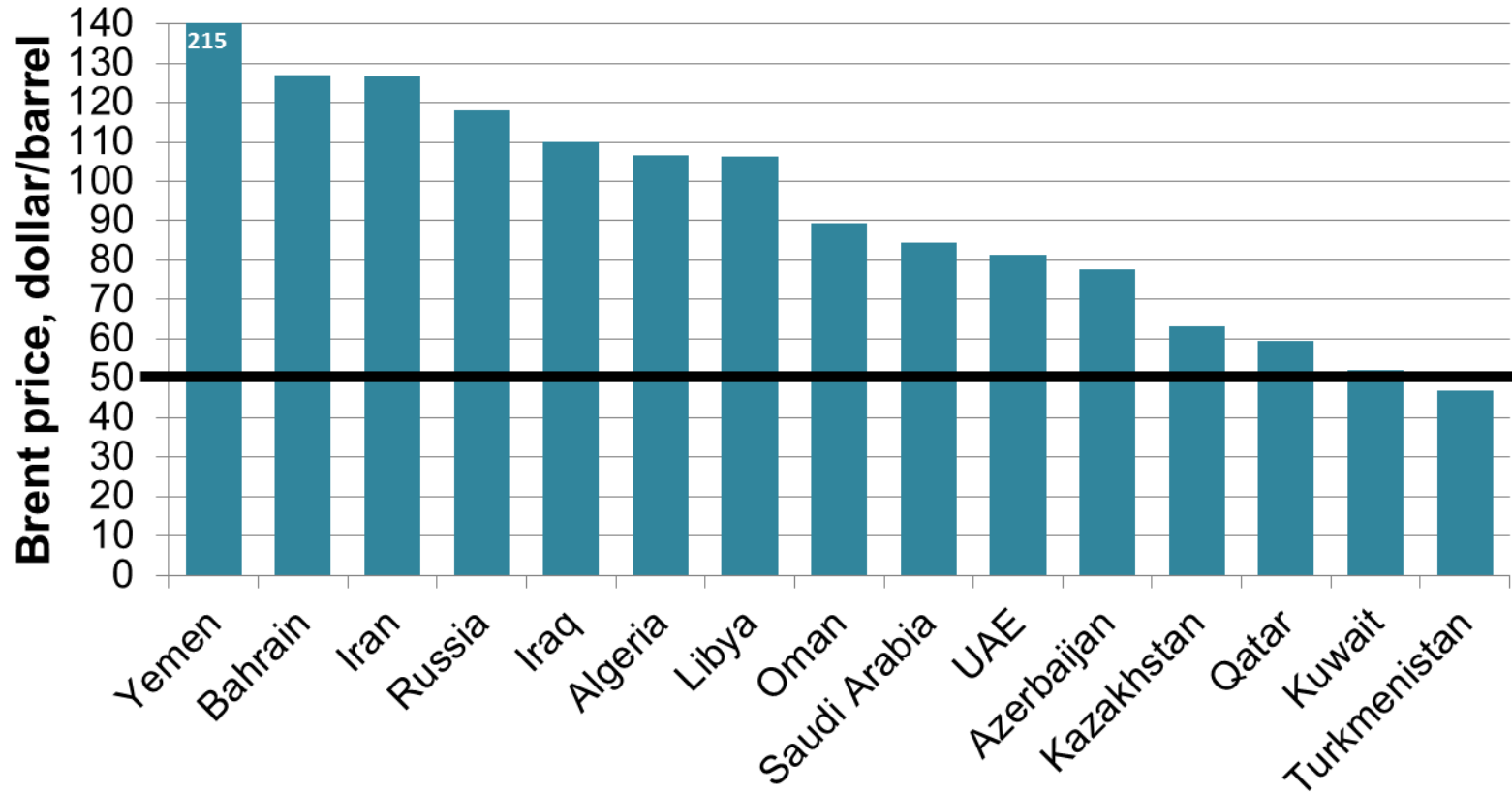
Sources: IEA, own calculations

Some consequences of cheaper oil

**Lower costs, more political trouble, probably
not much less innovation**

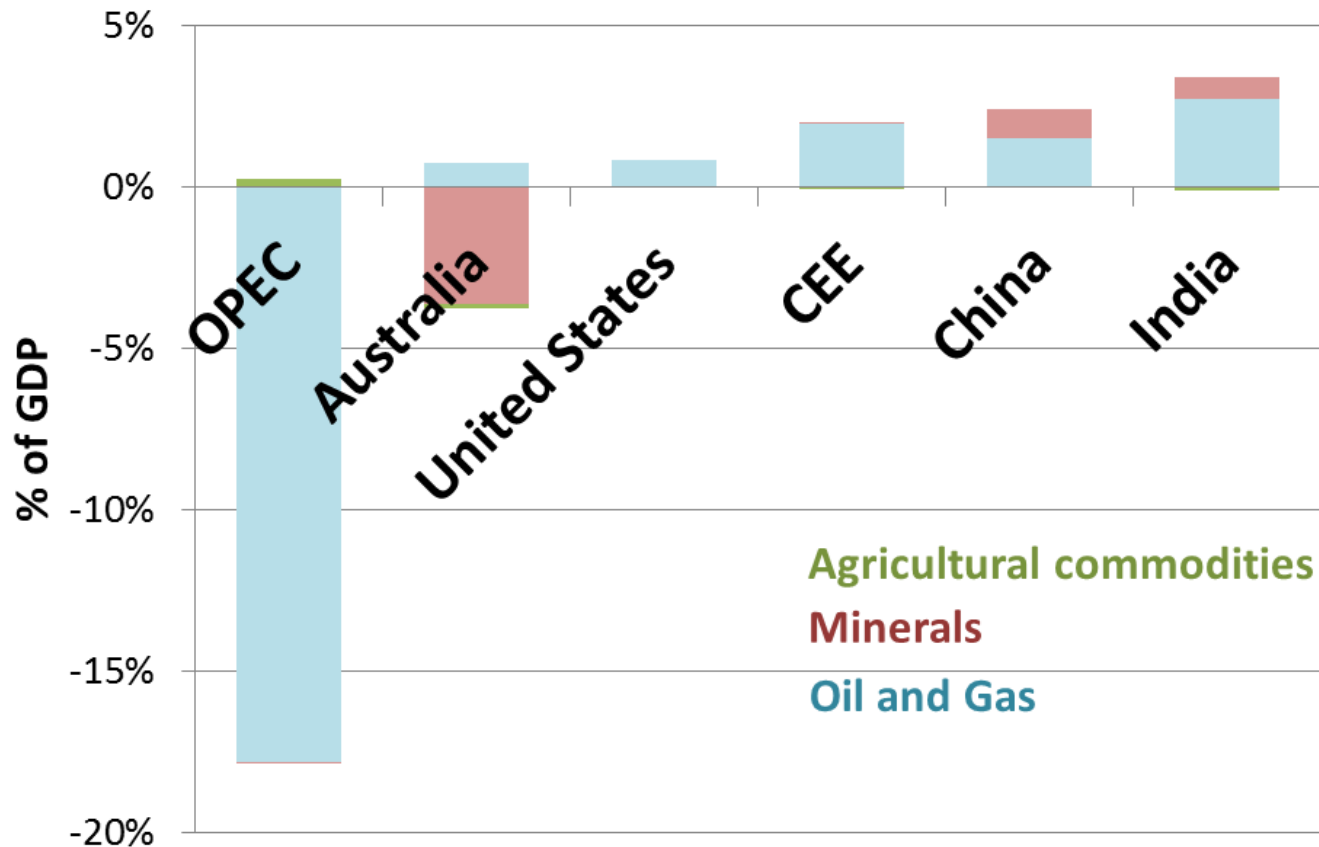
Budgets under strain almost everywhere...

Budget breakeven oil prices for major oil exporters



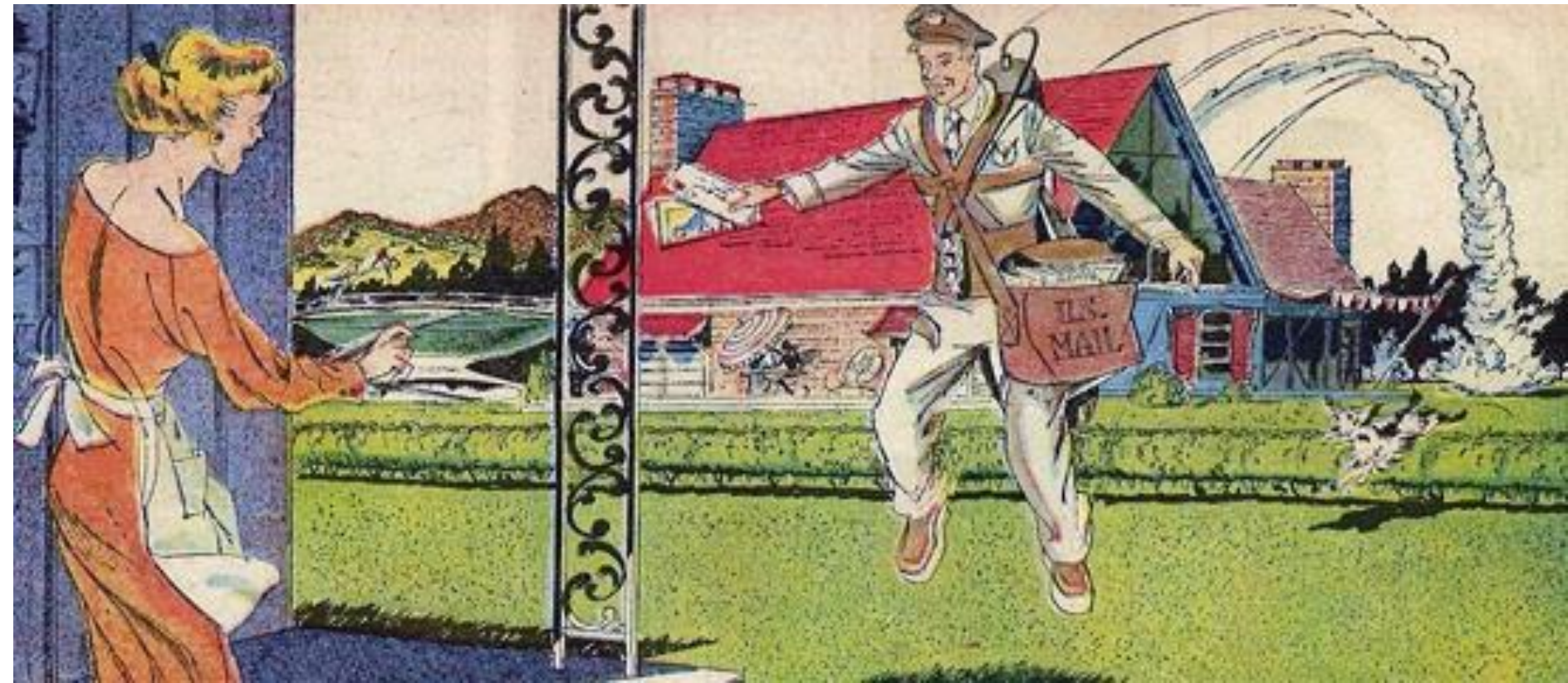
Oil price drop is like a tax cut for consumers

Current account balance change due to commodity price drop

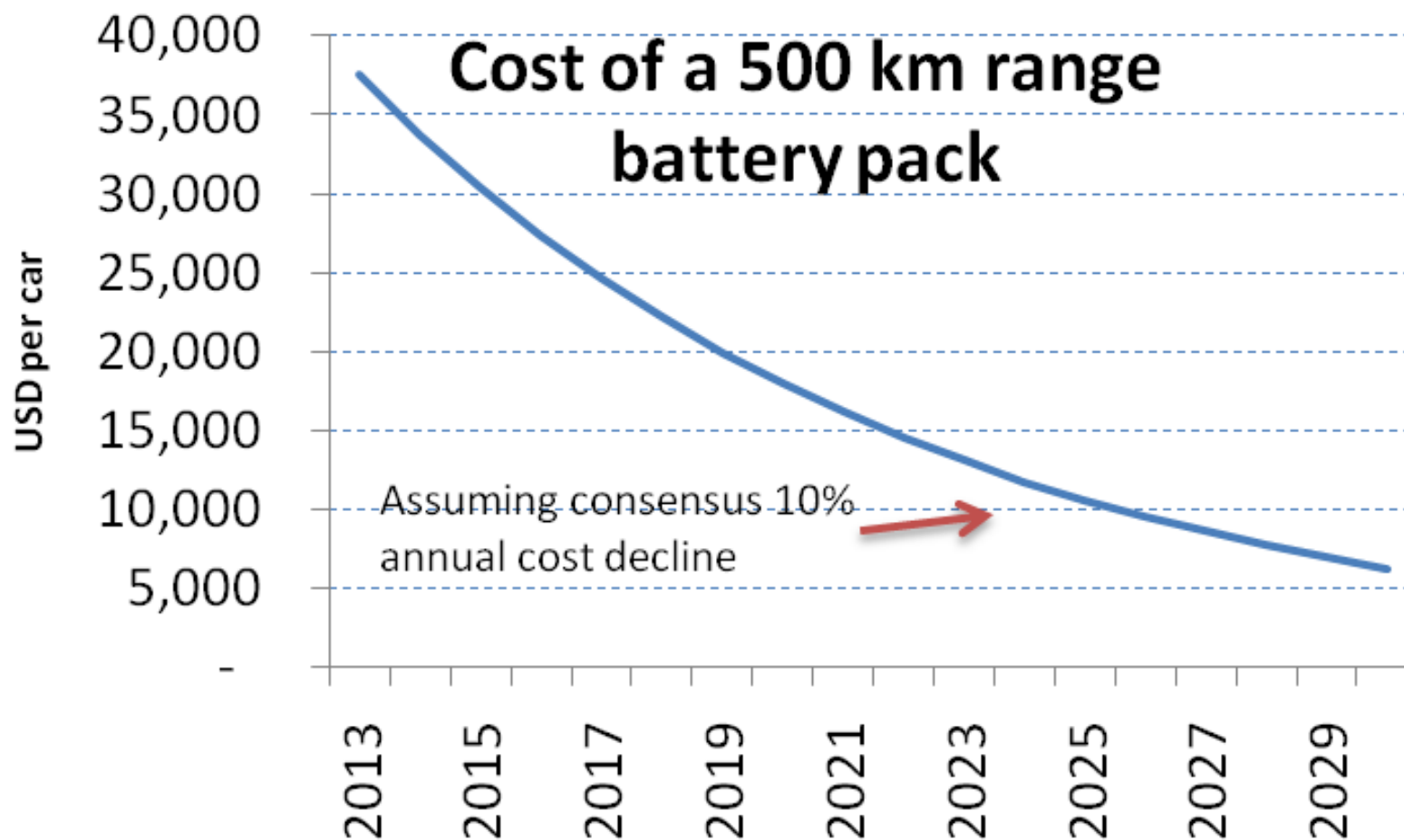


Source: UN Comtrade, WorldBank

She moves in mysterious ways...



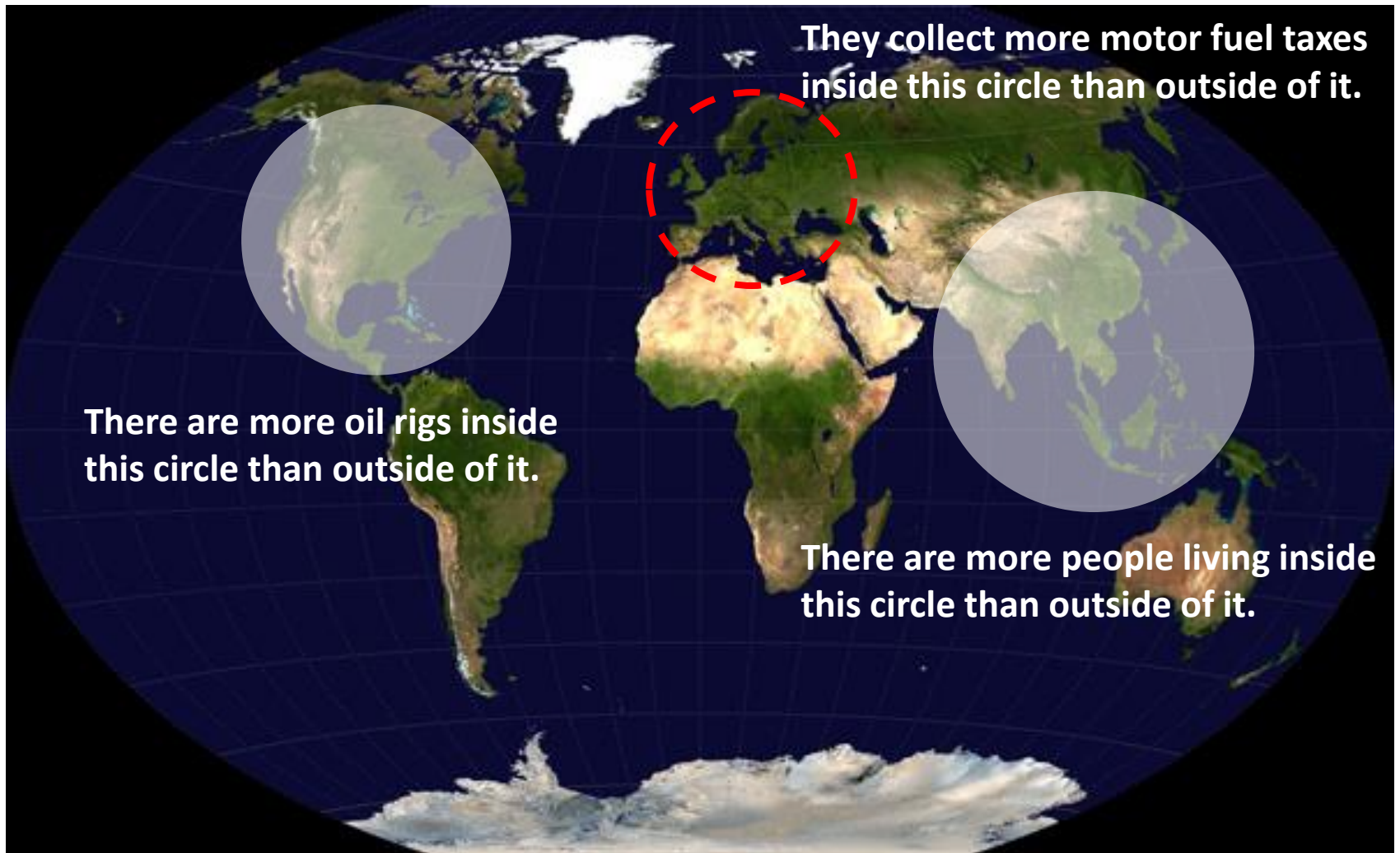
Electric car battery costs need to drop to 1/5th



What about downstream?

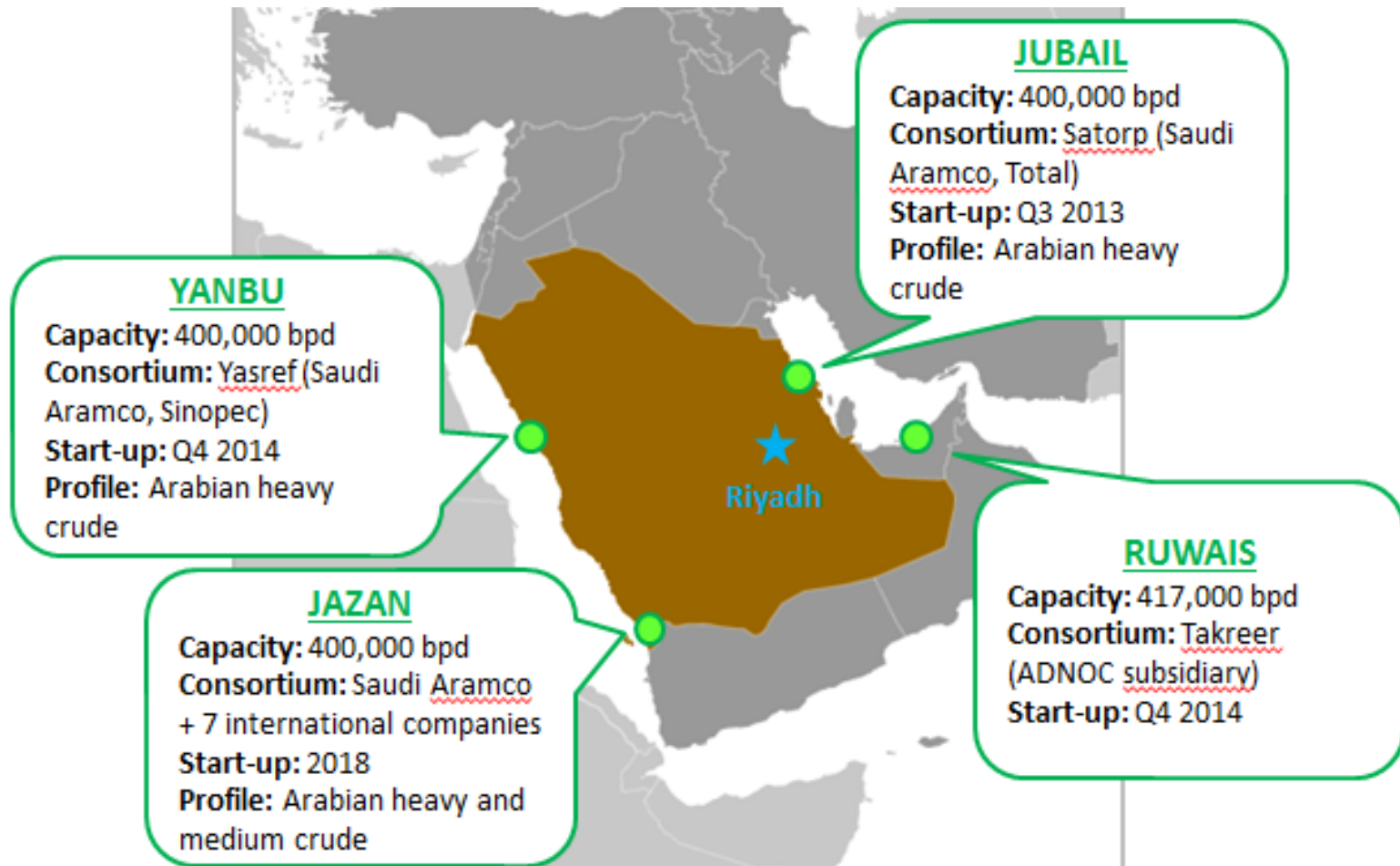
It is not out of the woods yet

European Downstream: Between a rock and a hard place



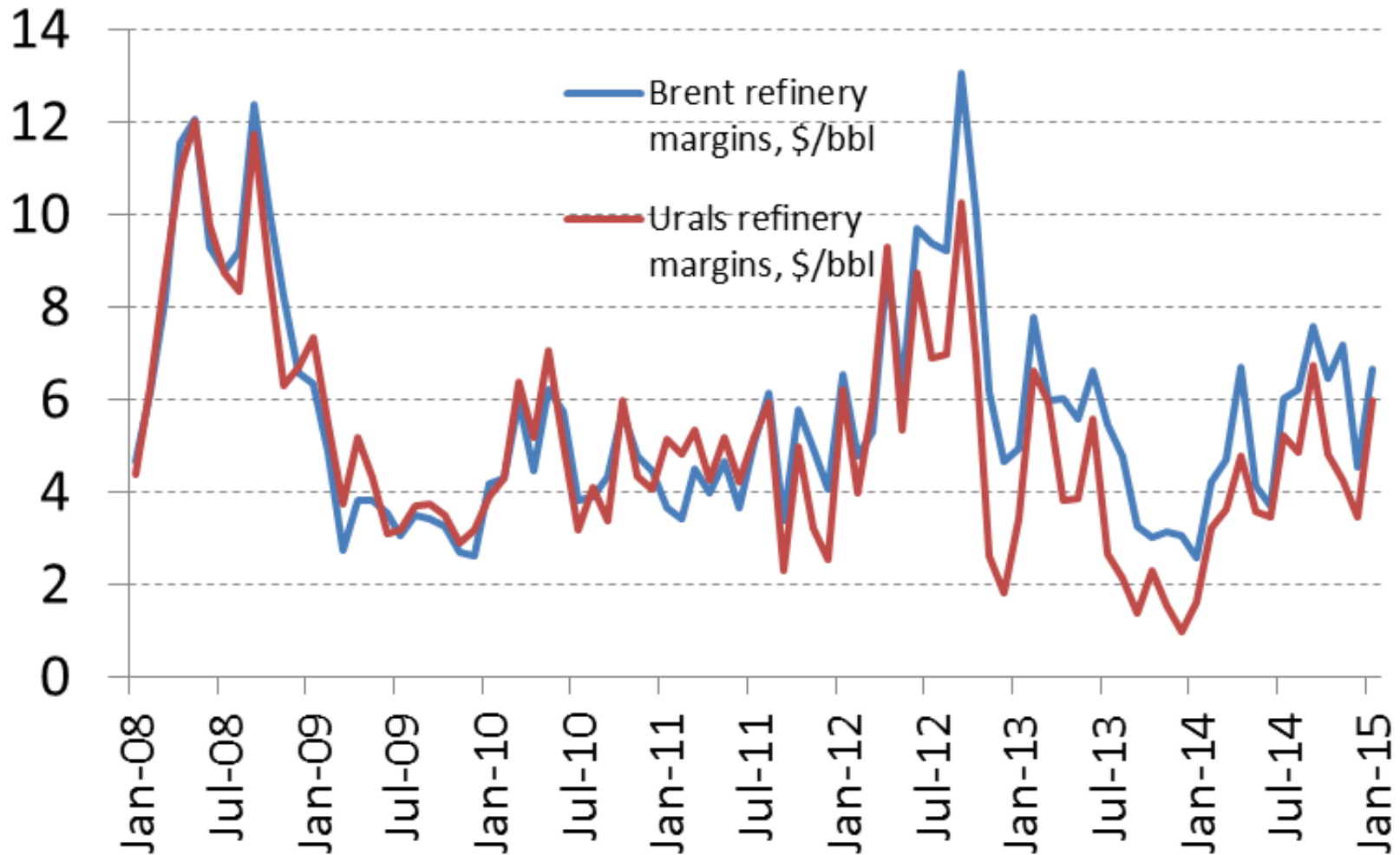
Refining: Capacity overhang continues

Planned start-up of ME refineries



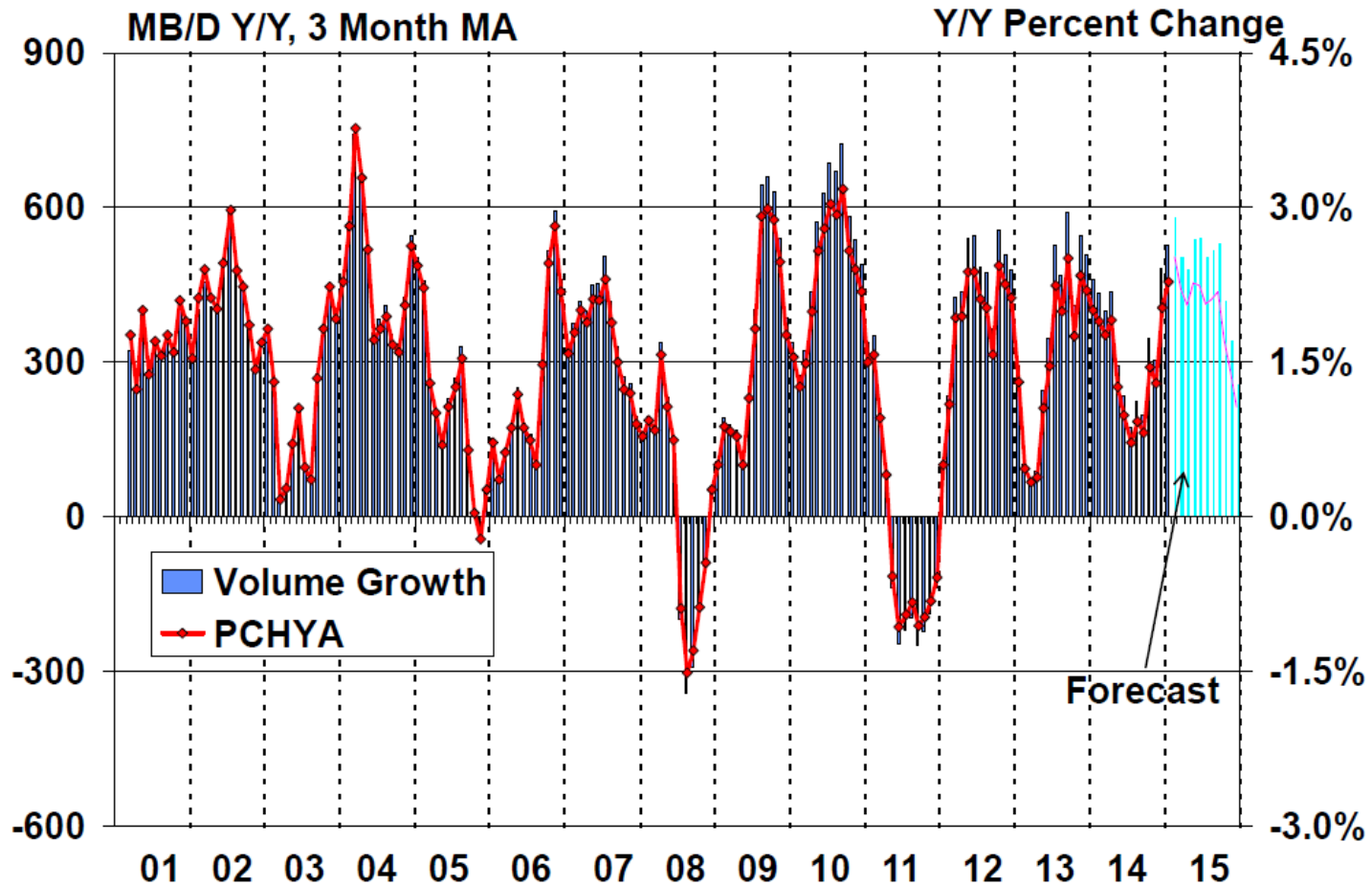
Refining: doing better, for now

Even if demand boosted by current low oil price, global refining overcapacity to remain





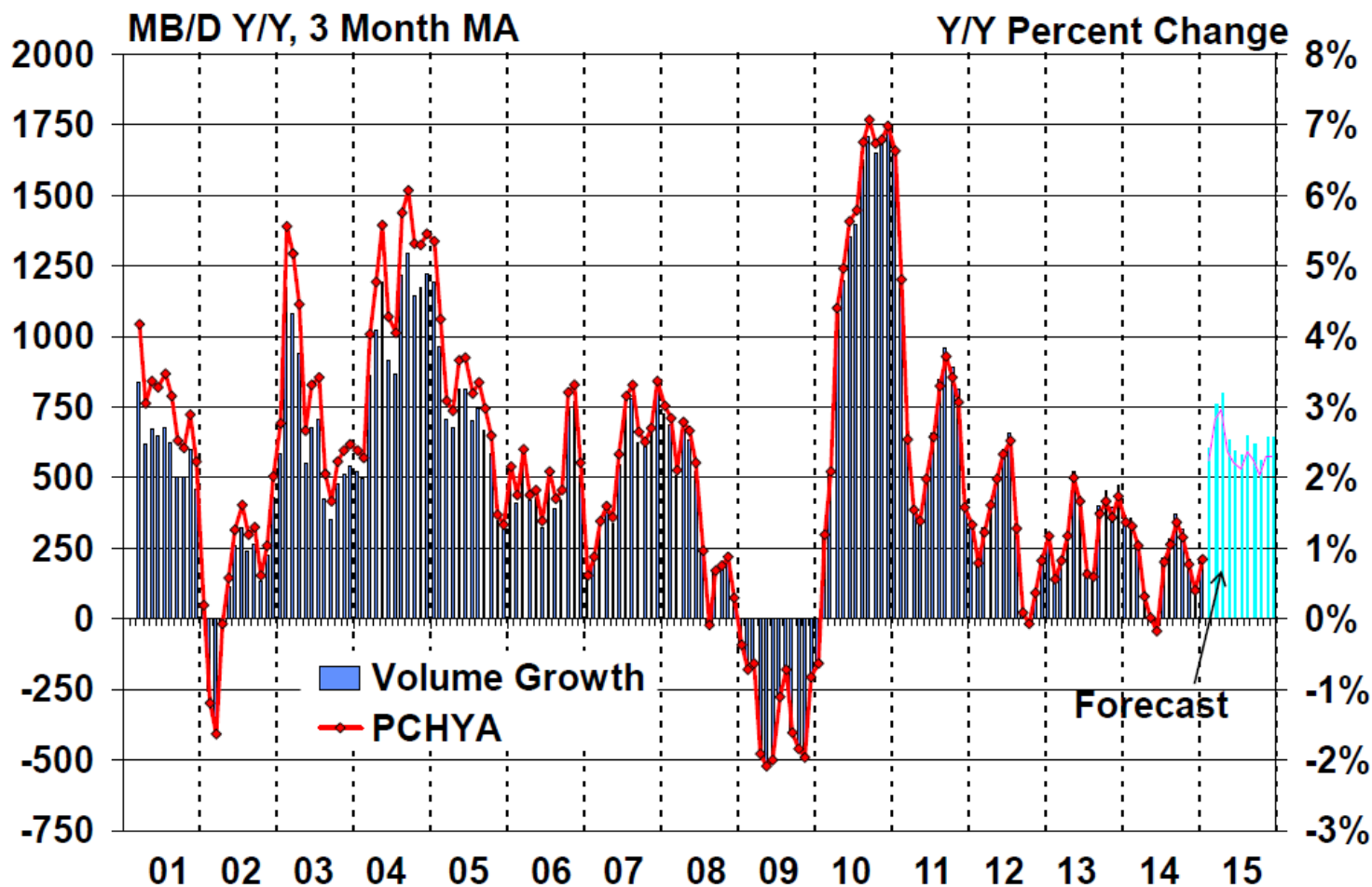
World Gasoline Demand Growth



Diesel demand growth weak in 2014



World Gasoil/Diesel Demand Growth



Thank you for your attention!

...and don't forget to check out our blogs:

gurulohordo.blog.hu, barrelperday.com



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**THANK YOU
FOR YOUR
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