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What does a 2022 Saudi \$24B budget surplus forecast tell us about OPEC plans?

The budget won't be based on expectations of demand. Some aspects of it are to do with trying to moderate spending on the public civil service and also with enhancing reserves, so there's an aspect of long-term planning. On where OPEC strategy goes more generally, some speculative froth has now been removed from the market and so the forward curve has flattened. In terms of demand, I think it could be a 'winter of discontent' with gas to liquids switching and refinery margins coming under pressure. Q4 demand will remain strong with the Chinese also probably using up some of their quotas, but as we go into the first quarter of next year, that will soften significantly.

Where does OPEC Plus stand today on spare capacity?

I see this issue as becoming more serious next year. Russia has reached its max, Iraq has some swing fields, but also export infrastructure limits. Kuwait is having upstream challenges and obviously we've got Libya with the elections and volatility there. The spare capacity issue, geopolitics and climate related outages could put prices much higher in the first half of the year, but as we go into Q3 and Q4, it's all going to be dependent on Iran. OPECs three-month flexibility in their supply program has been so important, but they may lose control of that if there's a surprise on the demand side and if Iran doesn't come back. However, even if there isn't a deal, we could see more Iranian oil leakage – they still have the issue of the stress on storage. Meanwhile, estimates for US oil growth for 2022 are around 800,000 to one million bd.

Your view on how Iraq's oil sector has fared in 2021?

The big takeaway this year has been about the power sector and the lower than expected Iranian gas flows and electricity exports to Iraq. And that has not necessarily just been driven by disputes over debt payments, but also by what's happening in the Iranian energy sector itself, with more liquid switching, with their own water stress and issues relating to power demand.

Are the big oil producers really looking to exit Iraq?

The big takeaway this year has been about the power sector and the lower than expected Iranian gas flows and If we look at the Exxon case, it's not just about Iraq. There's been a corporate repositioning of its assets since 2020. Right now, international players are being extremely quiet because of the government formation process but I don't buy the idea that we are going to see a huge exodus. It's more about repositioning and restructuring business lines and more importantly, to do with financing and making the capex intensity more manageable. ■

**Paraphrased comments*

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