Daily Energy Markets BULLETIN

SUNDAY /// FEB 20th

Consultancy Intelligence Publishing

"OPEC Spare Capacity Remains the Elephant in the Room!"

Ehsan Khoman
Director, Head of Emerging Markets Research – EMEA, MUFG Bank

We are extremely bullish and see average Brent at $96 this year and $112 for 2023, supported by supply side constraints. Throughout the pandemic, the market's focus has been squarely on the demand side of the equation. In April 2020, the global market was awash with supply with concerns that storage capacity was reaching top levels. Fast forward to today and it's increasingly clear that tight supply is top of mind. The last time we had this sort of scarcity was the 2003 to 2014 era when China demand accelerated and supply struggled to keep up. There are expectations of more volumes coming online as we move into Q2, but OPEC spare capacity remains the elephant in the room. By summer, it could drop below two million barrels. It's rarely hit those levels and that's when markets will get extremely nervous to the upside. Add to this the deficits in inventory levels and the broader lack of structural investment in oil and gas since the financial crisis. In terms if when we might rebalance, our forecast for demand destruction is around the $100–$115 level. That's when we will start to see a slowdown in industrial activity in the global economy that could lead prices to correct. We're not at that maximum pain yet. We still need much higher prices.

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Daily Energy Markets PODCAST

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Dr. Aldo Flores-Quiroga
Former Deputy Secretary of Energy for Hydrocarbons
Mexico's Ministry of Energy

Christof Rühl
Senior Research Scholar
Center on Global Energy Policy
Columbia University

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TOP 3

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TAKEAWAYS

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TOP 10 DAILY NEWS DIGEST

1. OIL POSTS FIRST WEEKLY LOSS SINCE DEC AS RALLY COOLS OFF
2. THE OIL AND GAS RIG COUNT CONTINUES TO SOAR
3. US WILL BE A NET OIL IMPORTER IN 2022
4. EU IS RUNNING OUT OF SPACE FOR LNG
5. US DRIVING SOARS IN 2021 TO 3.23TRN MILES
6. US GAS STOCKS NEED BIG REBUILD AHEAD OF NEXT WINTER
7. MEXICO DOUBLES DOWN ON ENERGY INDEPENDENCE AMBITIONS
8. SUBSTANTIAL PROGRESS MADE IN VIENNA TALKS
9. WHY THE US MAY FIND ITSELF FORCED BACK INTO THE MIDEAST
10. STRONG CO-OPERATION & AGILITY NEEDED TO ENSURE FAST ECONOMIC RECOVERY, IMF CHIEF SAYS

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Daily Energy Markets INDUSTRY SURVEY

Consultancy Intelligence Publishing

Source: GI Research Feb 2022

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Daily Energy Markets VIEWS YOU CAN USE

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Edward Bell
Senior Director, Market Economics
Emirates NBD

"Our Oil Price Targets are Now Higher!"

Geopolitical tensions are contributing to higher oil prices and will keep markets on edge in the near term. Headlines more than fundamentals are shaping prices now. Oil prices have edged back from recent highs as press reports suggest a de-escalation of tensions in Eastern Europe with some Russian troops reportedly moving back to home bases upon completion of training exercises.

Our oil price targets are now higher. We expect Brent at an average of USD 88/b in Q1 before sliding through the year to reach an average of USD 78/b. For WTI we expect an average of USD 85/b in Q1 before drifting lower to average of USD 76/b for 2022.

Oil markets do indeed appear tight for Q1 2022. Based on the IEA's latest demand projections markets will be evenly balanced in the first few months of the year, supporting high prices. Over the rest of 2022, however, oil demand growth will flatten out from 4.8m b/d in Q1 to 1.4m b/d by Q4 as overall demand levels return to pre-pandemic levels.

At the same time production is heading steadily higher. Projections for US supply growth this year range from around 800k b/d from the US government's own EIA to more than 1m b/d from both OPEC and the IEA. Accompanied by higher output from producers like Canada and Brazil, non-OPEC+ production is set to increase by roughly 2m b/d this year. ■

**Paraphrased comments*

Daily Energy Markets Mashreq 60-SECOND SOUNDBITE

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Dr. Aldo Flores-Quiroga
Former Deputy Secretary of Energy
for Hydrocarbons
Mexico's Ministry of Energy

"By the end of this year, the energy producers of Latin America will have shifted to the left of the political spectrum."

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Daily Energy Markets Mashreq 60-SECOND SOUNDBITE

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Christof Rühl
Senior Research Scholar
Center on Global Energy Policy
Columbia University

"I still find it hard to believe that we will see a full-scale invasion and the taking of Kiev!"

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