ENERGY MARKETS FORUM DAILY BULLETIN

Consultancy Intelligence Publishing

UNITED ARAB EMIRATES 50 NATIONAL DAY

WEDNESDAY /// DEC 15th /// 2021

TOP 10 DAILY NEWS DIGEST

1. OIL PRICES RETREAT ON BETS THAT CRUDE SUPPLY GROWTH WILL EXCEED DEMAND
2. GULF ARAB SUMMIT CALLS FOR ACTION, NOT WORDS FROM IRAN
3. US URGES DOMESTIC OIL PRODUCERS TO RAISE OUTPUT
4. CHINA'S REFINERY OUTPUT REBOUNDS FURTHER TO PLUG DIESEL CRUNCH
5. ENERGY STOCKS SET TO BREAK OUT IN 2022
6. PERMIAN OIL OUTPUT FORECAST TO HIT RECORD HIGH IN JAN
7. US HOLIDAY TRAVEL MAKES COMEBACK WITH OVER 100MN DRIVERS
8. IEA: OMICRON TO TEMPORARILY SLOW GLOBAL OIL DEMAND RECOVERY
9. INDIA MAY BE FIRST FOREIGN BUYER OF RUSSIA'S ADVANCED S-500 AIR DEFENSE SYSTEM
10. HSBC SETS A DEADLINE FOR ITS ASIAN CLIENTS TO QUIT COAL

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ADNOC, Vitol, FOIZ Fujairah Oil Industry Zone, CC Energy Development, uniper, aramco trading

RECOMMENDED VIDEOS & REPORTS

- EU FACING RECORD LOW GAS STORAGE BY WINTER'S END
- FED MEETING: STOCK MARKET READY FOR FASTER TAPER — BUT NOT THIS
- UK SET TO SCRAP RED LIST & MANDATORY HOTEL QUARANTINES
- DUTCH GOV'T CAN'T GUARANTEE GAS SUPPLY TO BUSINESSES THIS WINTER

DAILY ENERGY MARKETS FORUM NEW SILK ROAD

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PODCAST

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Henning Gloystein
Director
Energy, Climate & Resources
Eurasia Group

Amena Bakr
Deputy Bureau Chief &
Chief OPEC Correspondent
Energy Intelligence

Victor Yang
Senior Editor
JLC Network Technology

BY MATT STANLEY
DIRECTOR
STAR FUELS

I'd like to start today with some chimney jokes - I've got a stack of them. The first one is on the house. Yes, I have used those before, but I don't care, because they are that good. Right, Wednesday. If Tuesday was twitchy then Wednesday is certainly wobbly judging by how oil has opened up. Brent is trading this morning at $72.72/bl down 0.98 and WTI is trading down 1.09 at $69.64/bl, below the crucial $70/bl. OK, where to begin. I know, this - "Oil prices fell for a third day straight on Wednesday on growing expectations that supply growth will outpace demand growth next year, even though the Omicron coronavirus variant is not seen curbing mobility as sharply as earlier COVID-19 variants". Firstly, the supply outstripping demand at some stage Q1 has been on the cards for about the last two months, however, it is only being priced in now. I mentioned yesterday that I would be watching front Brent structure through the end of the year to offer the most transparent form of market sentiment. 2nd November Feb/Mar Brent was trading at 1.24. 8th Dec 0.34. Today 0.07. The trajectory is clear, i.e., downwards, but it is the flip in to contango, from what was a very confident, backwardated market just 6 weeks ago that will really unsettle people. It's not just the prompt end of the curve, either. Feb/June Brent was trading at $4.25 on the 2nd November, today it is worth 0.90. Look, I know that any positive news about demand coming in as forecast will quickly change market structure back to steep backwardation but for the time being, fundamentals are being acknowledged, hence why we will more than likely see Brent flip in to contango by the end of the week. Secondly, Omicron. Listen, I don't know about you, but I have heard time and time again about medical experts saying that science needs time before it can really assess the effect the Omicron variant will have on government policy and vaccine efficacy. So why now is the market seemingly so complacent that Omicron is nothing but a red herring? I have some very good friends who have sadly tested positive for Omicron, do you want to ask them how Christmas plans are looking? Exactly. Ok let me just climb down from this Burj Khalifa sized soap box. Let's finish with another cracker, because well, it's Christmas, innit? "I was in the army once and the Sergeant said to me "What does surrender mean?" I said, "I give up!". That's better. Stats later. Good day all.

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HALF-TIME TALK

INTERVIEW SERIES

"Last Word of the Year on Oil Markets"

Chris Bake

Member of Executive Committee

Vitol

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DAILY ENERGY MARKETS FORUM INDUSTRY SURVEY

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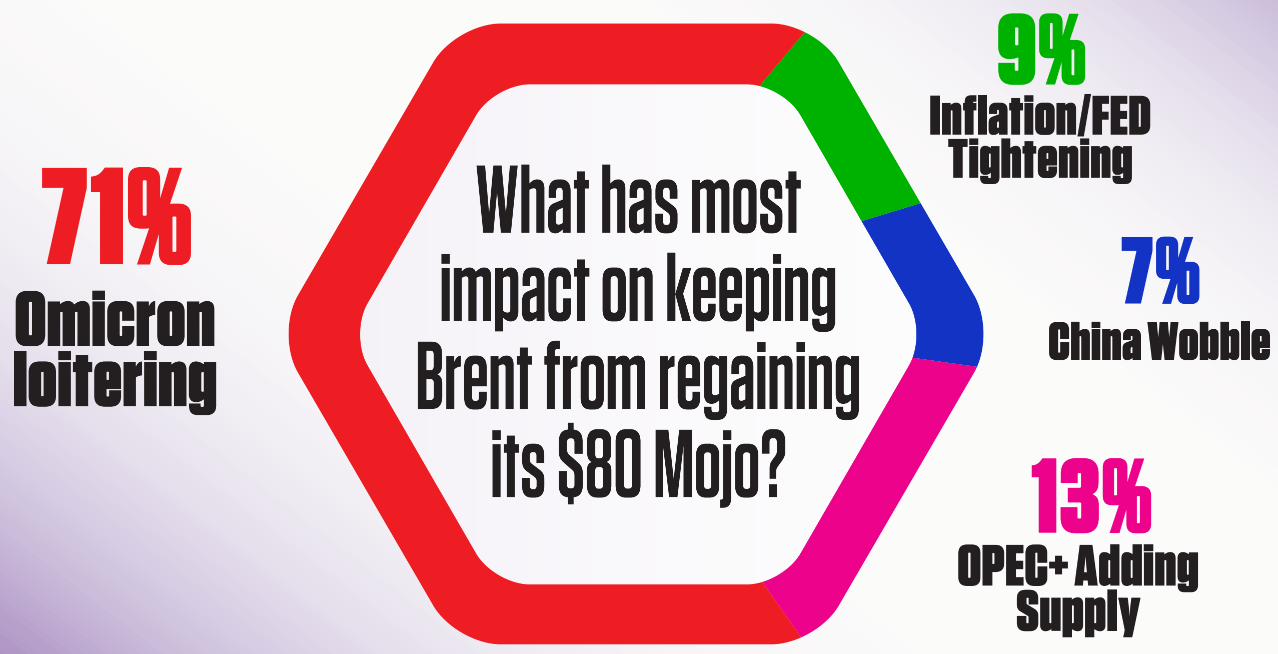

Source: GI Research Dec 2021

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NEW SILK ROAD

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Ahmed Mehdi
Research Associate
The Oxford Institute for Energy Studies

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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Mashreq 60-SECOND SOUNDBITE

Amena Bakr
Deputy Bureau Chief & Chief OPEC Correspondent
Energy Intelligence

"OPEC+ members will struggle to keep adding new oil supply to the market over the coming months."

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Mashreq 60-SECOND SOUNDBITE

Henning Gloystein
Director - Energy, Climate & Resources
Eurasia Group

"In theory everyone wants an Iranian deal, but in reality we are stuck in drying cement!"

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