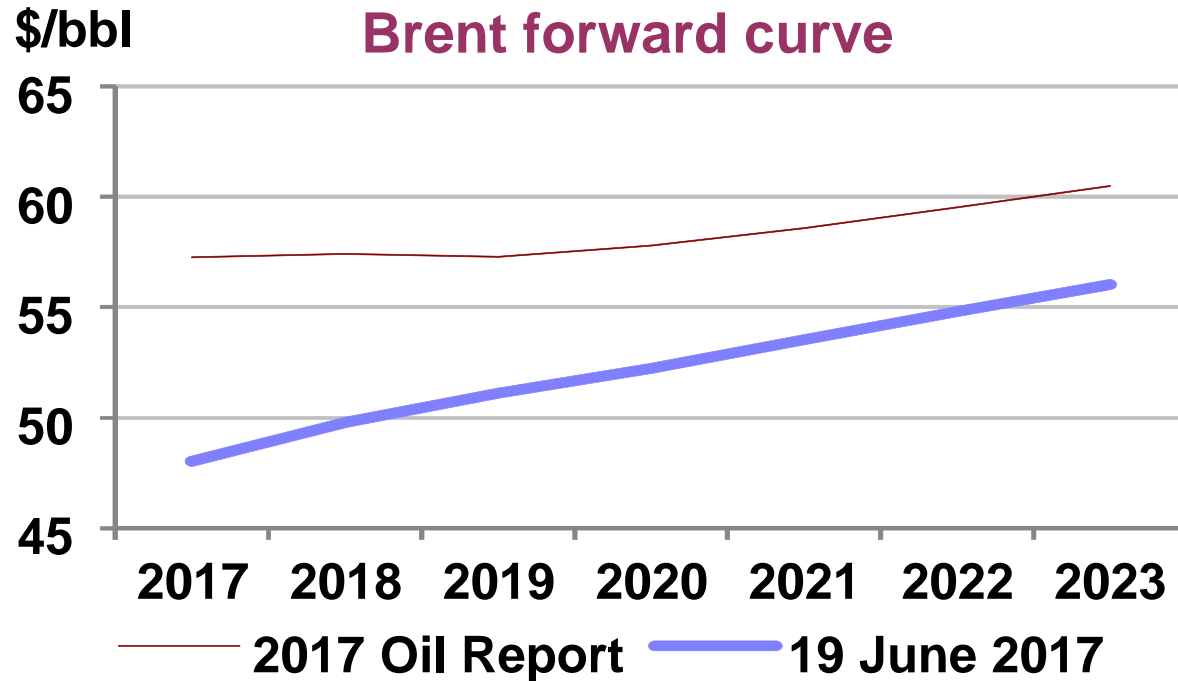




Market Report Series Oil 2017

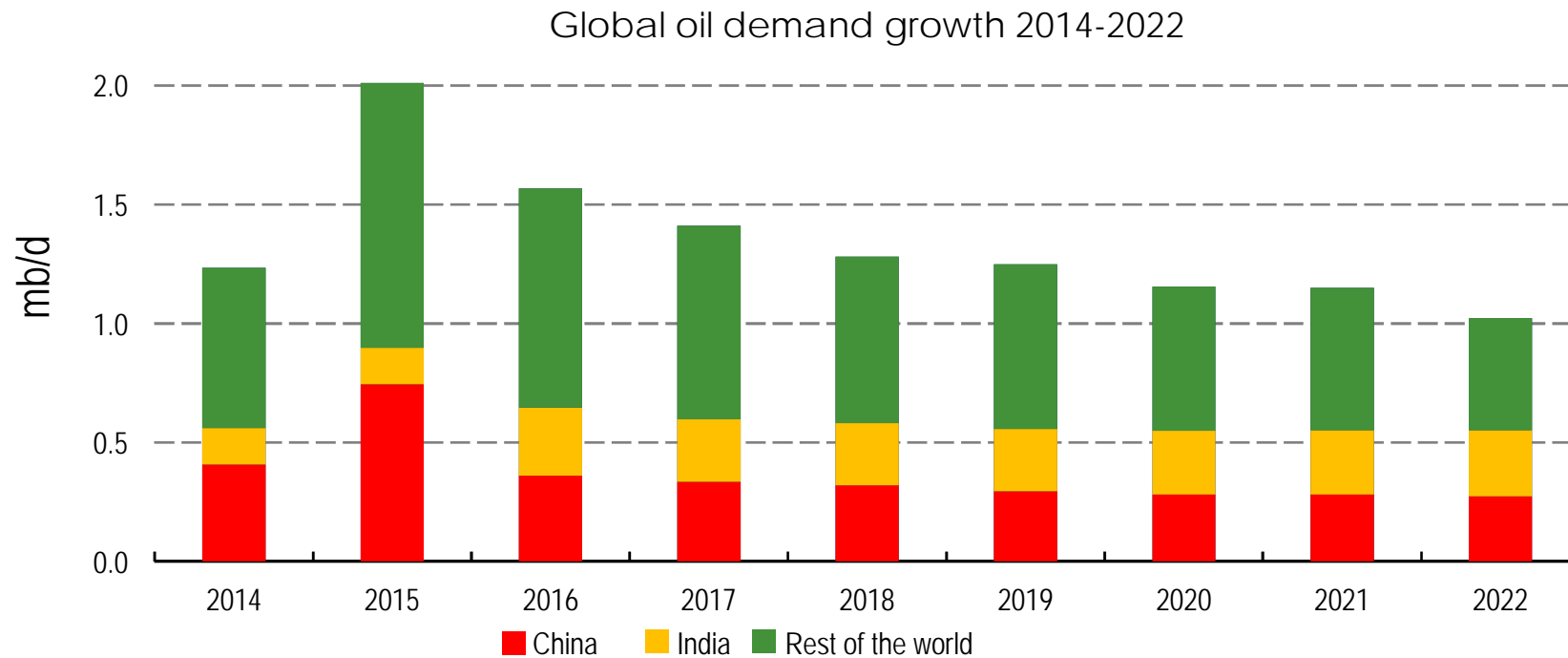
Spanish Energy Club, Madrid - 20 June 2017

Flat oil price outlook to 2023



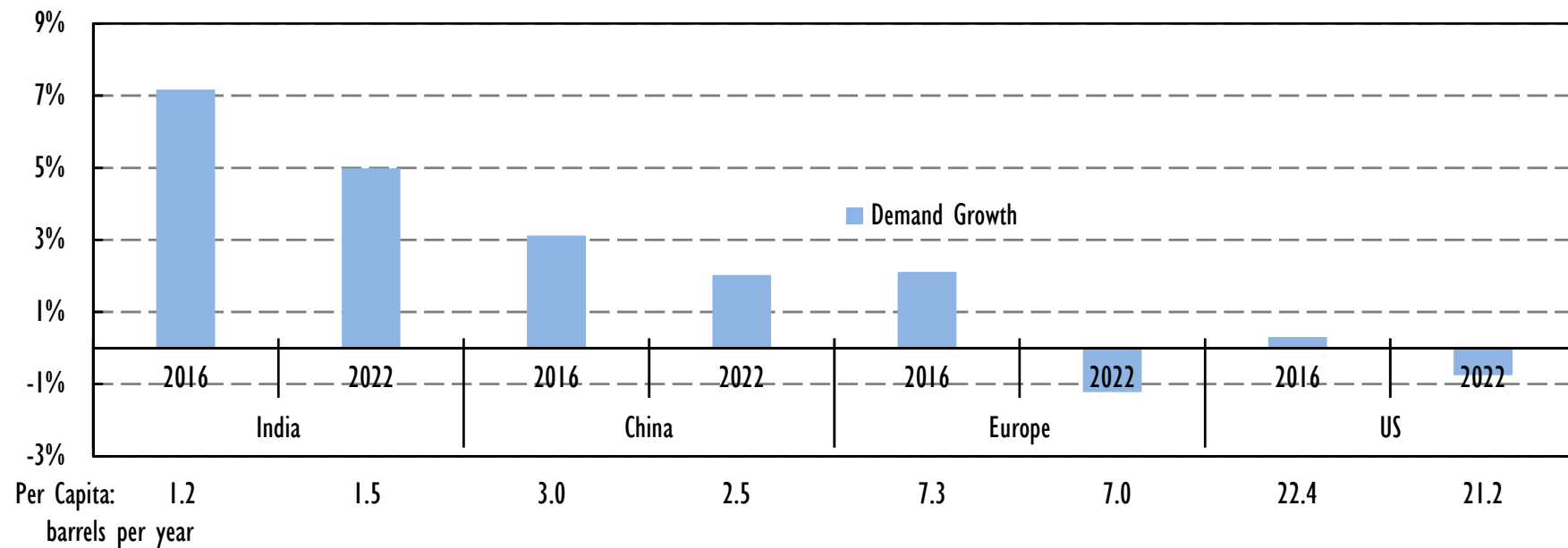
In January, when data for the Oil Report was finalised, the oil futures curve showed little expected growth to the end of our forecast period. Slightly steeper curve today.

Oil demand continues to grow but at a slower pace



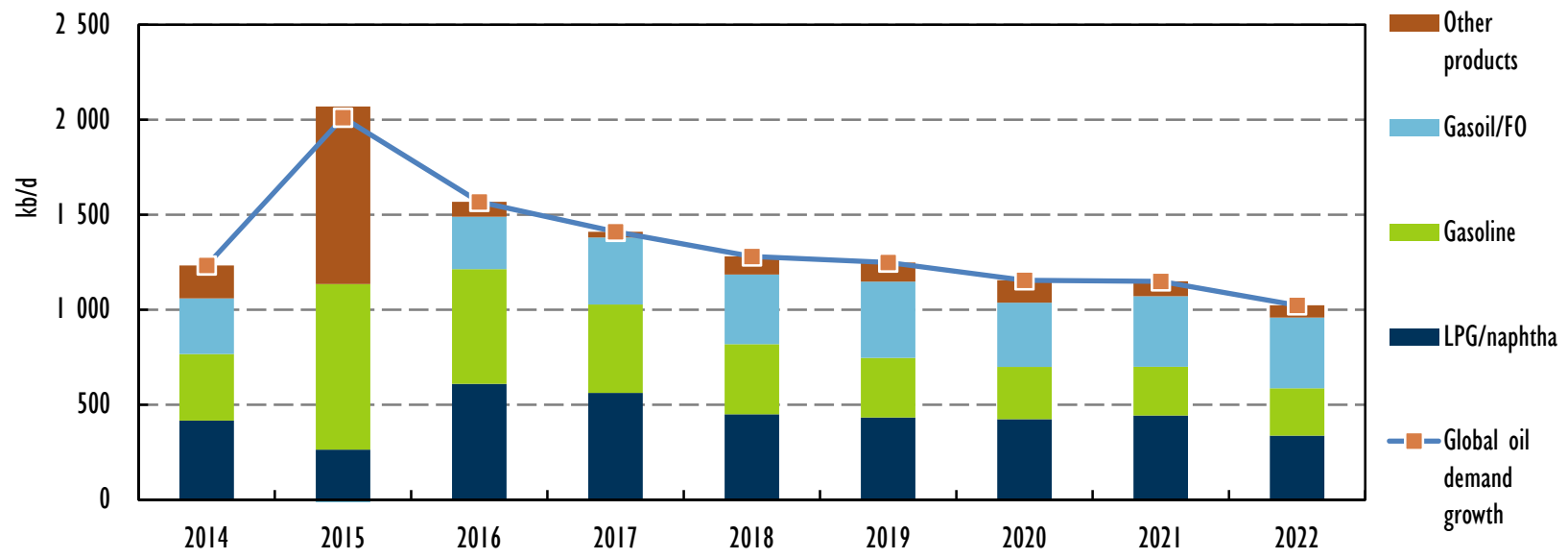
**China & India account for 46% of world demand growth to 2022.
Global oil product demand passes 100mb/d in 2019.**

Lower per capita consumption levels support non-OECD demand



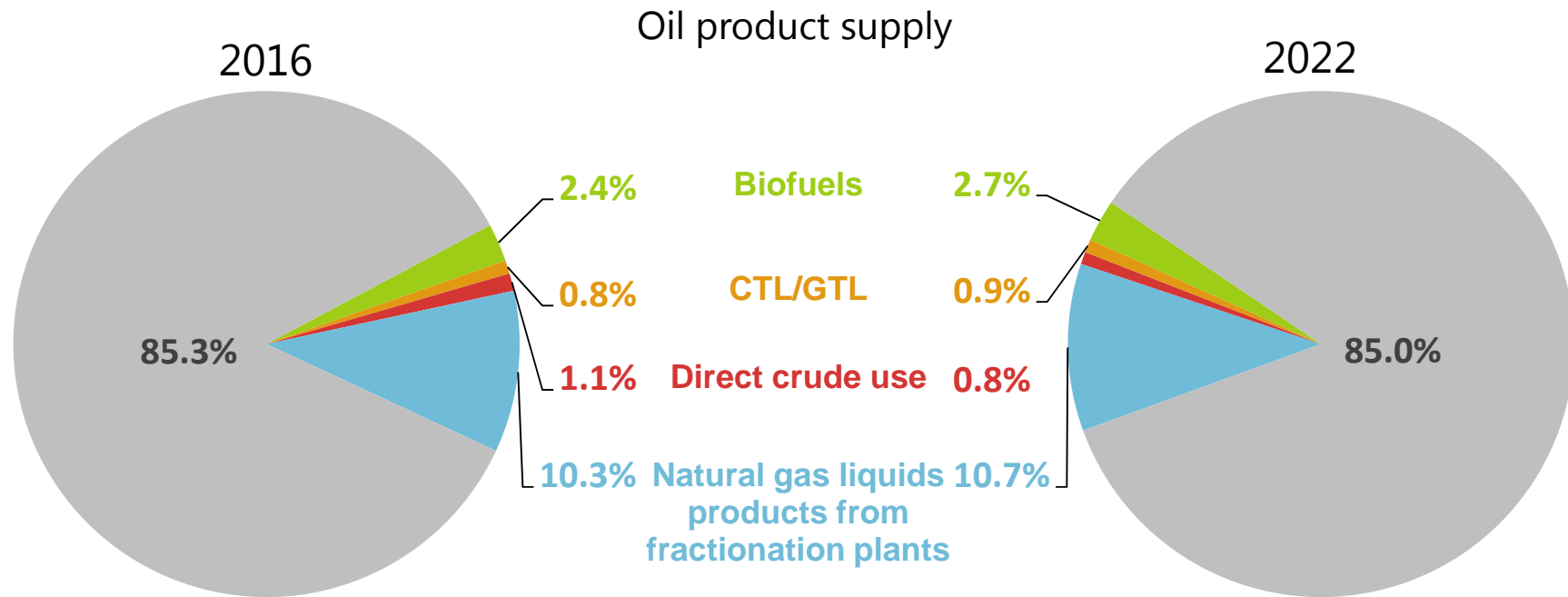
Non-OECD economies set to dominate global growth.

Petrochemicals and transport make up the majority of the growth



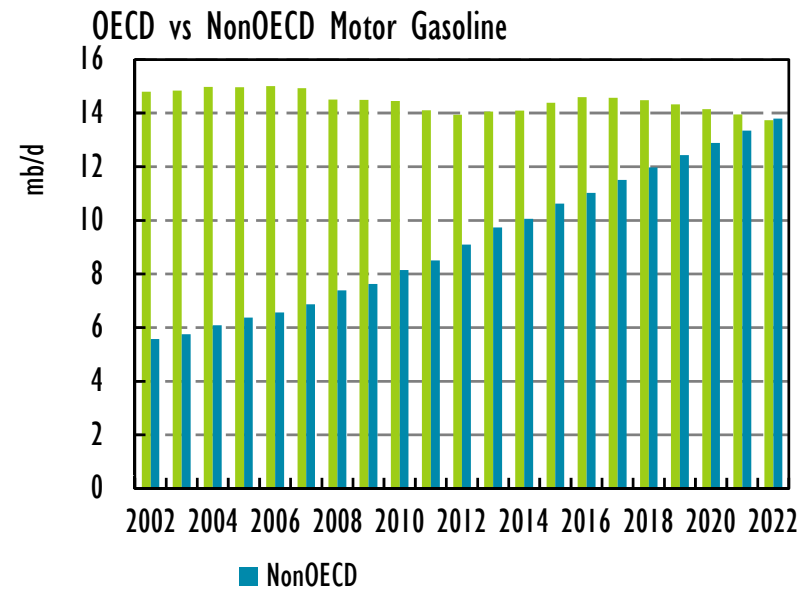
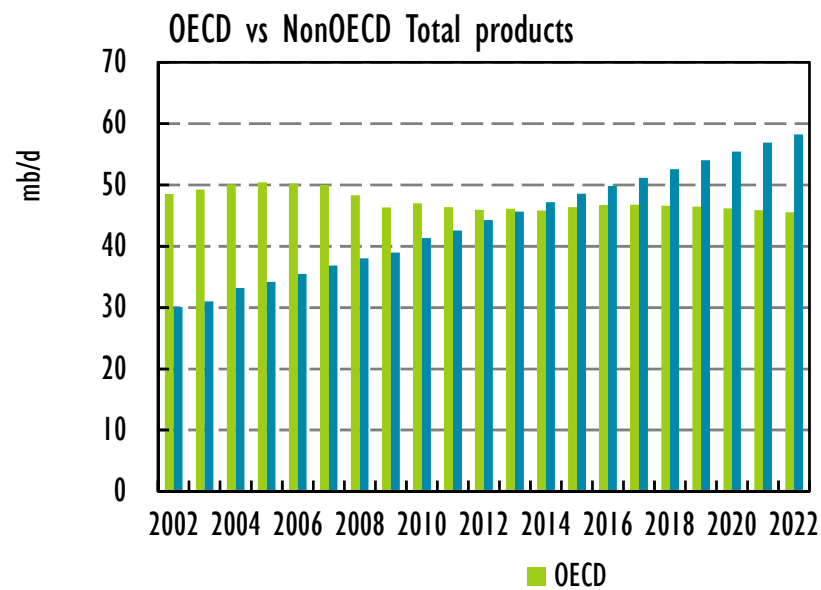
Both sectors particularly supported by ongoing and accelerating economic growth

Not all oil demand is refined product demand



Refiners provide only 85% of total oil product demand

Emerging markets dominate growth while OECD demand wanes

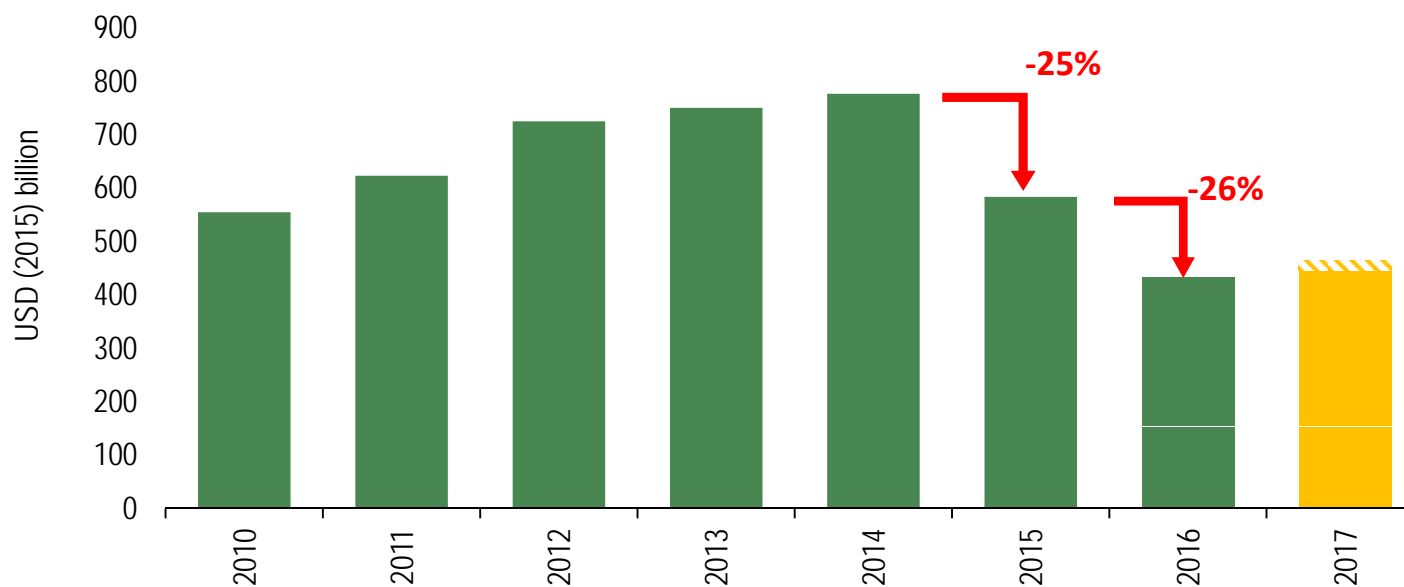


**Non-OECD accounts for all of the forecast demand growth, averaging +1.4 mb/d 2016-22
OECD severely lags, pulled down by sharp declines in road transport**

Global upstream investments to see modest rebound



Global oil and gas upstream capital spending 2010-2017

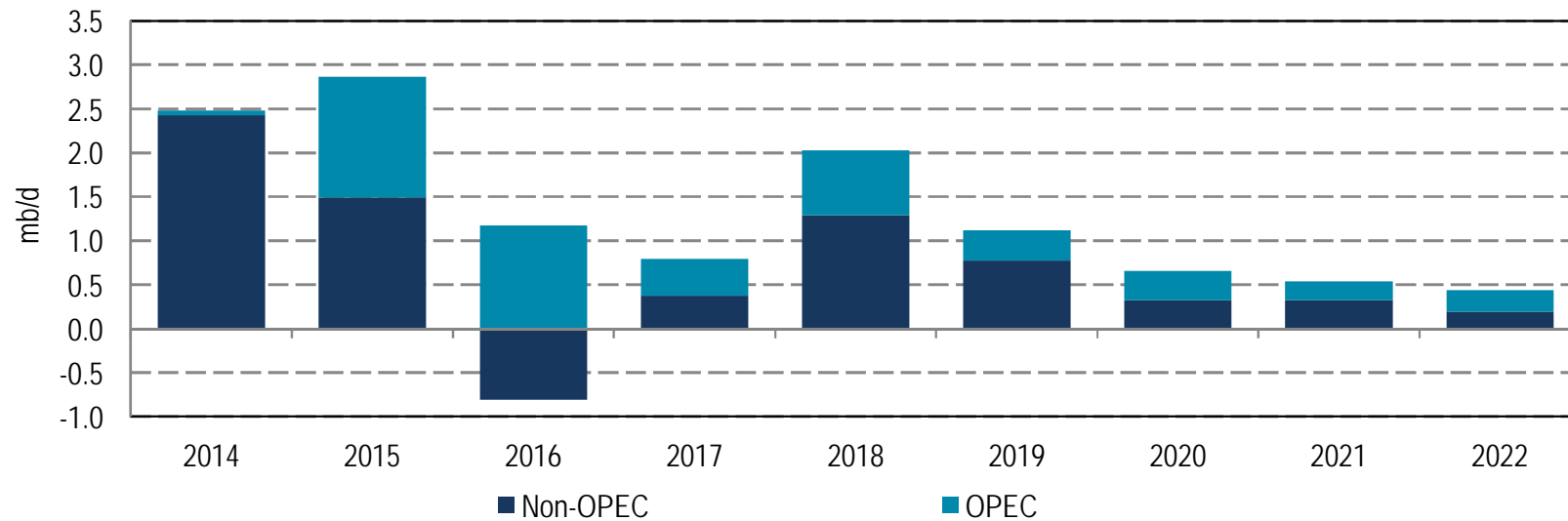


After falling by 25% in 2015 and 26% in 2016, to USD 433 billion, global upstream investments look on track to post gains in the range of 3-7% in 2017

Global oil supply rebounds then slows markedly

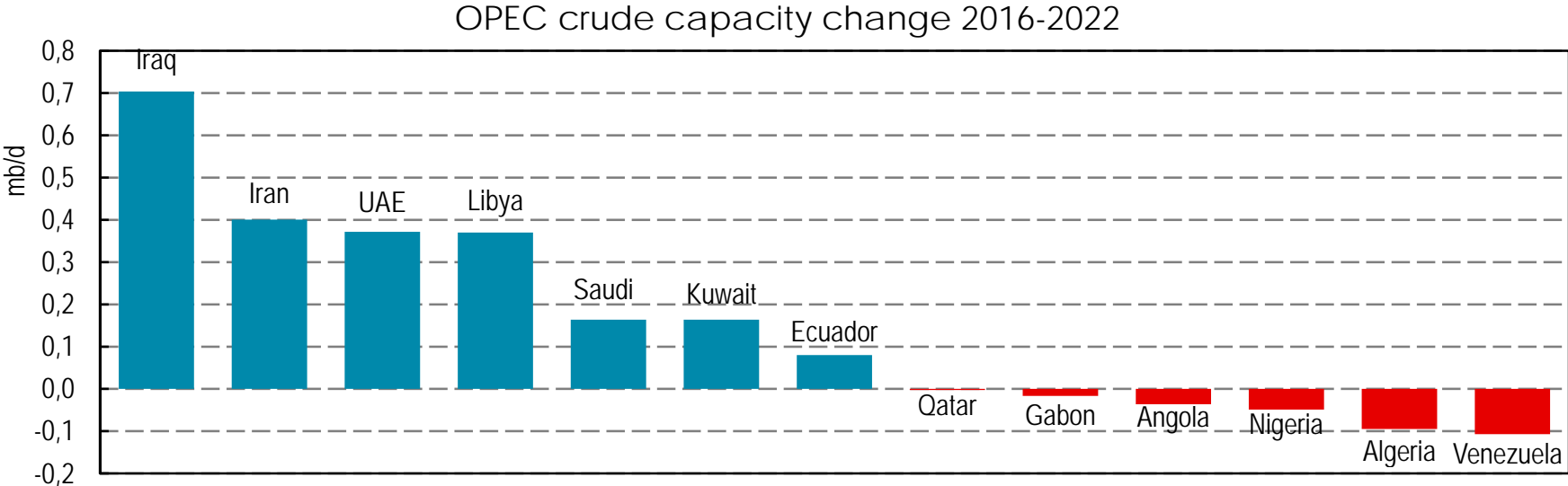


Global oil supply capacity growth



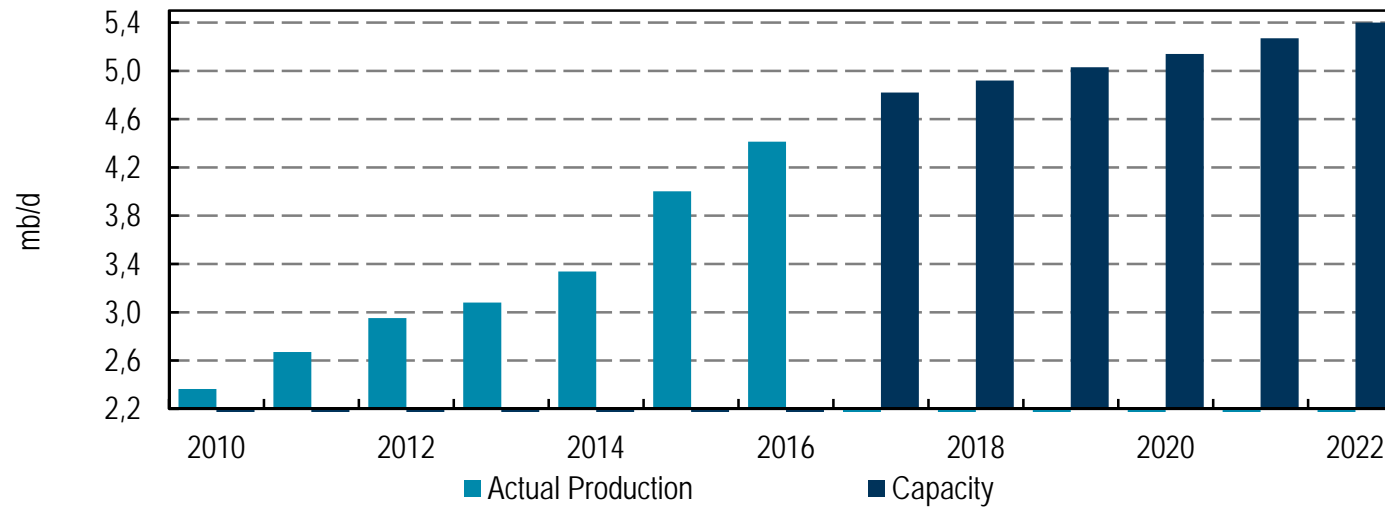
**Following record slide in global upstream spending over 2015/16, only modest recovery seen in 2017
Unless significant new projects sanctioned quickly, growth all but stalls by 2020.**

Low-cost Middle East drives solid OPEC capacity growth



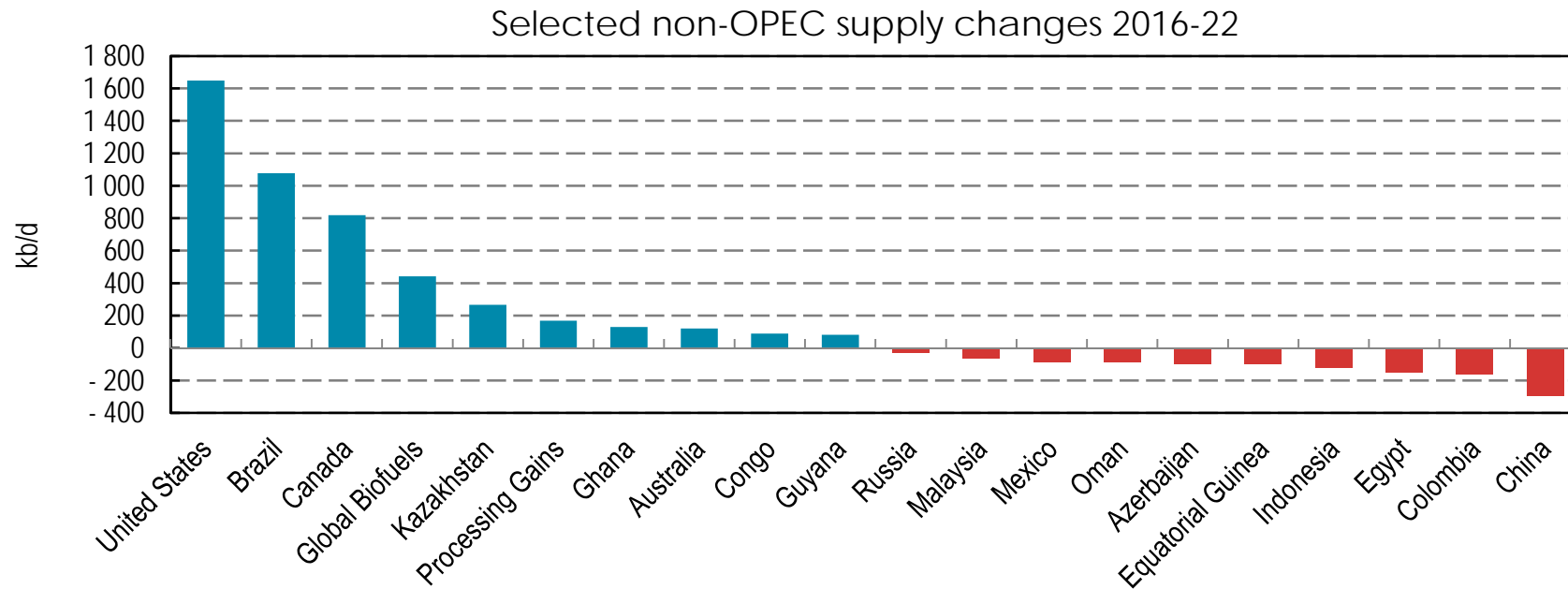
**OPEC builds 1.95 mb/d of new capacity by 2022 in anticipation of higher demand.
Iraq leads gains, capacity shrinks in Africa and Latin America.**

Iraq leads OPEC growth



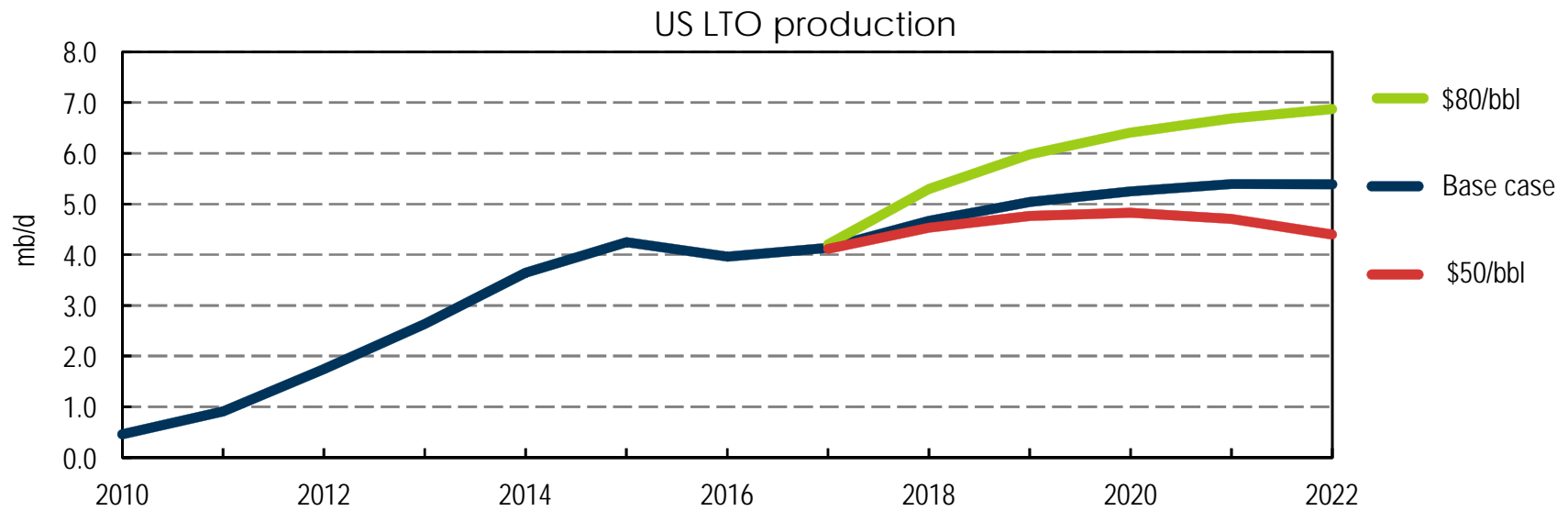
**OPEC builds 1.95 mb/d of new capacity by 2022 in anticipation of higher demand.
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Non-OPEC production returns to growth



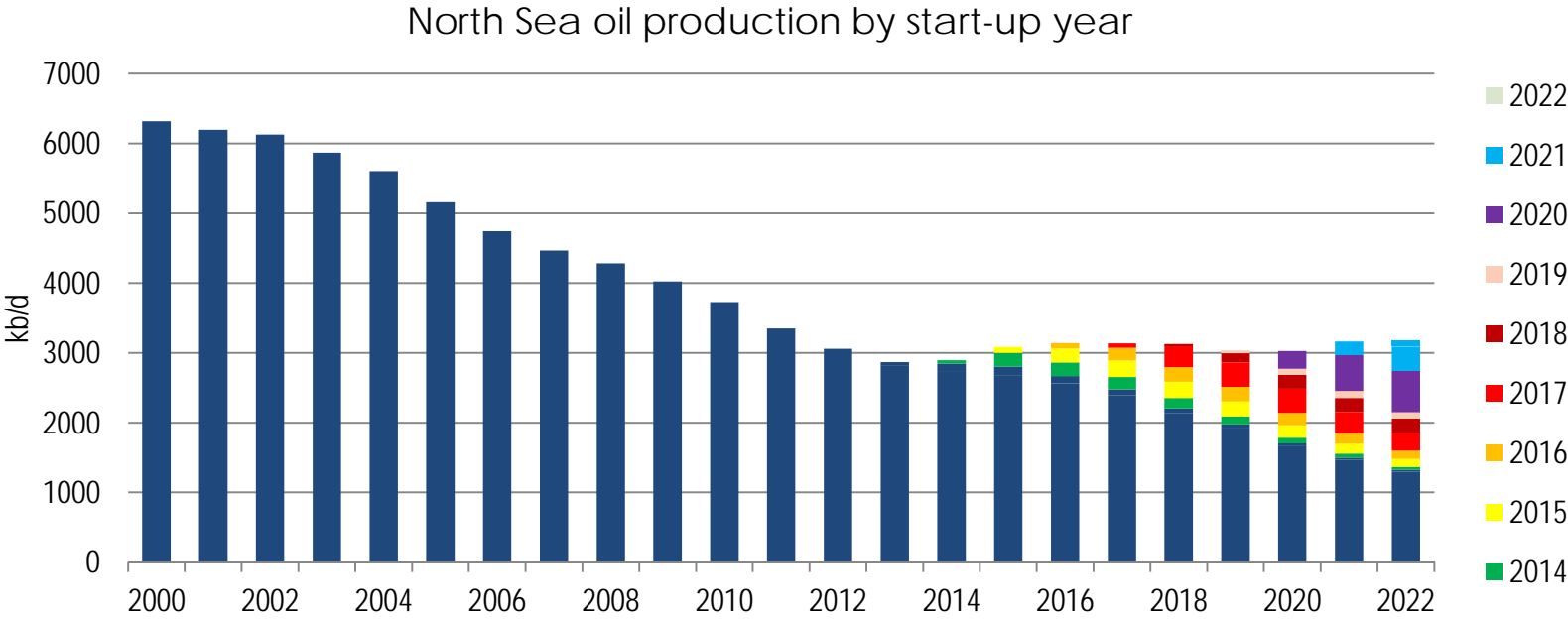
After dropping by 0.8 mb/d in 2016, non-OPEC oil output is set to return to growth in 2017. By 2022, non-OPEC liquids production is seen 3.3 mb/d higher – led by higher output in the Americas

US LTO production rebounds – but highly price sensitive



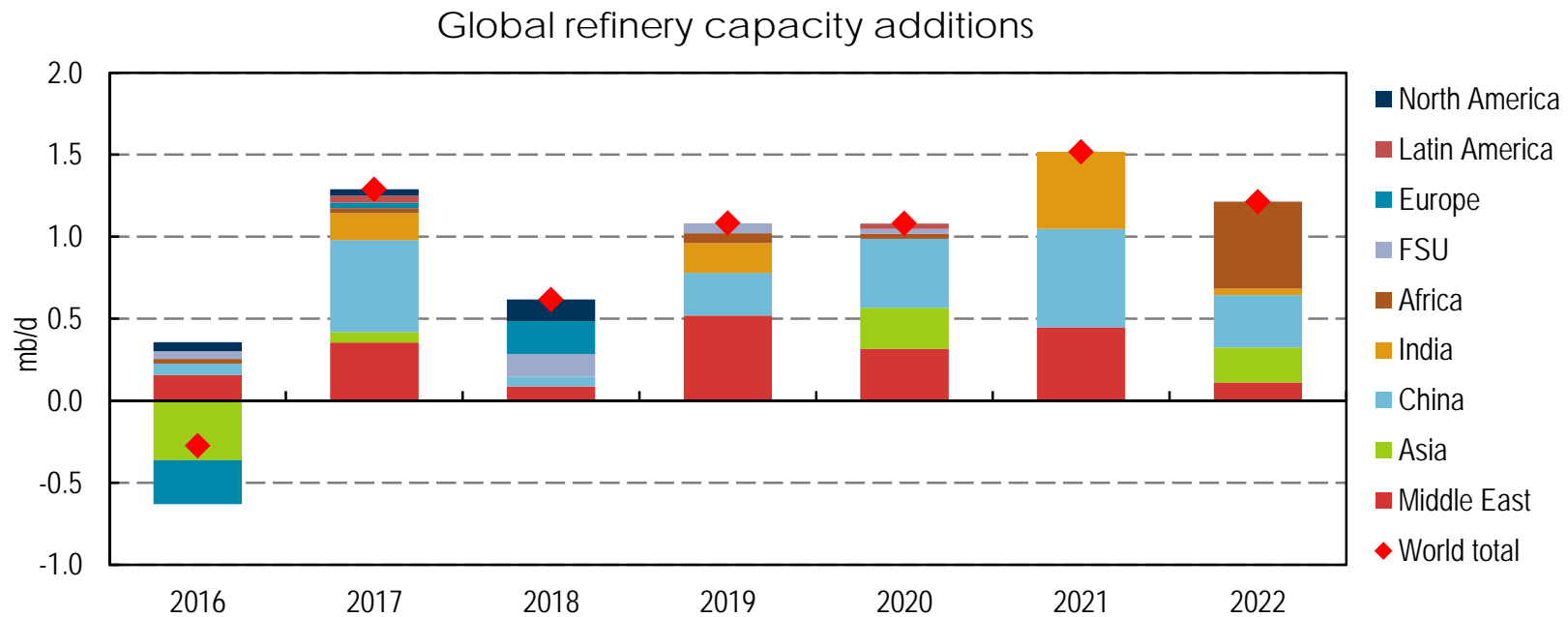
LTO set to expand by 1.4 mb/d by 2022 in our base case. At \$80/bbl, output could expand by 3.0 mb/d over the same period

New field developments support North Sea output



North Sea oil output posts third consecutive year of growth in 2016. Output largely unchanged to 2022.

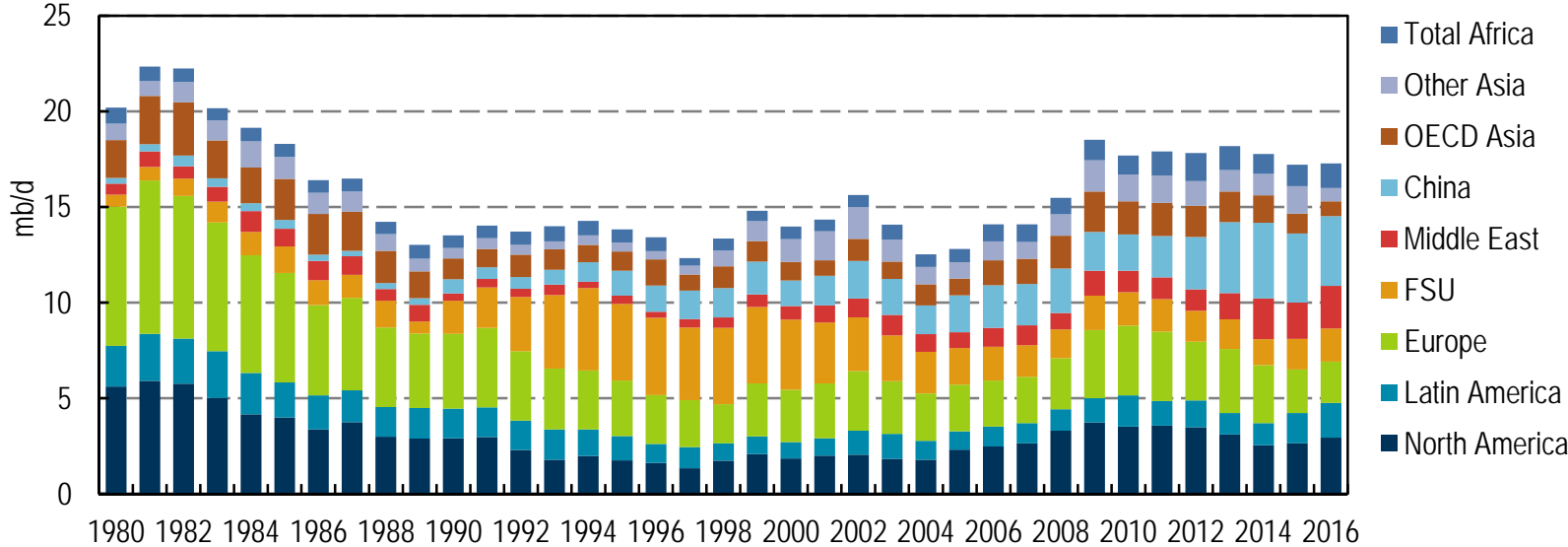
Middle East, China and India drive refining growth



After a rare fall in global refining capacity in 2016, global capacity sets out for a 7 mb/d addition, dominated by Middle East, China and Africa

A lot of capacity to spare

Unused distillation capacity by region

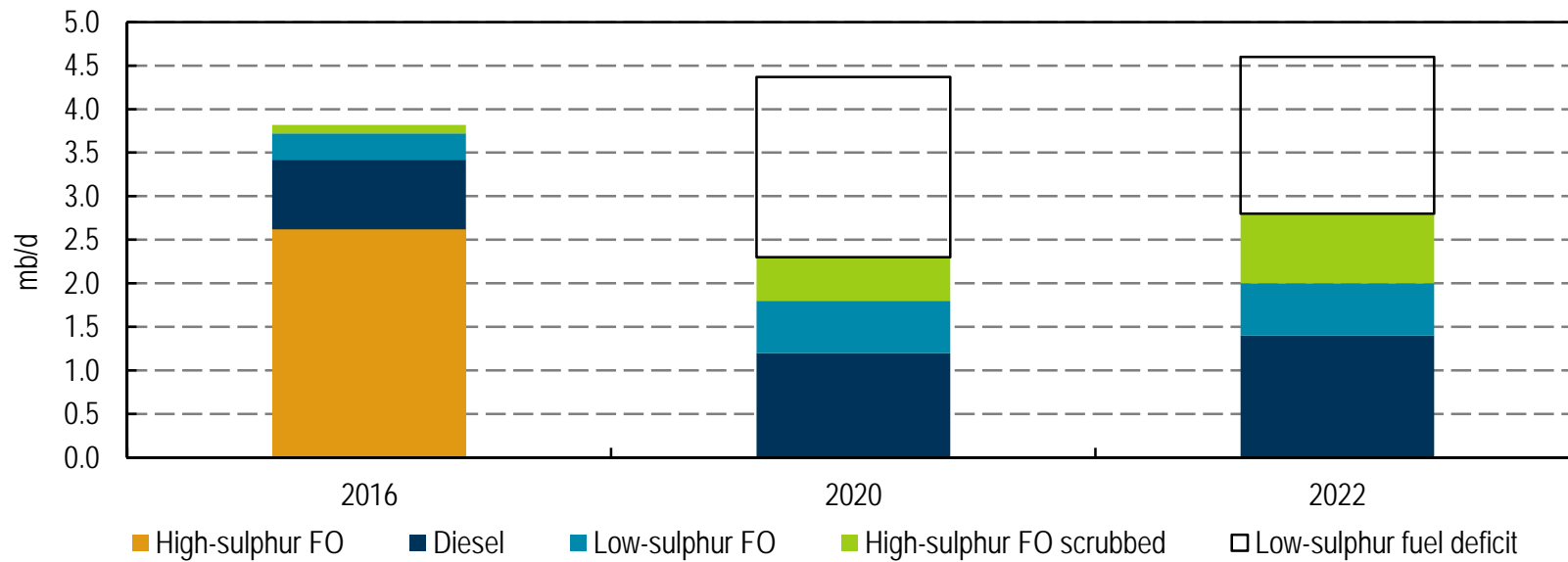


Spare capacity not always means available capacity – due to secondary unit bottlenecks

Looming crunch of low-sulphur fuels



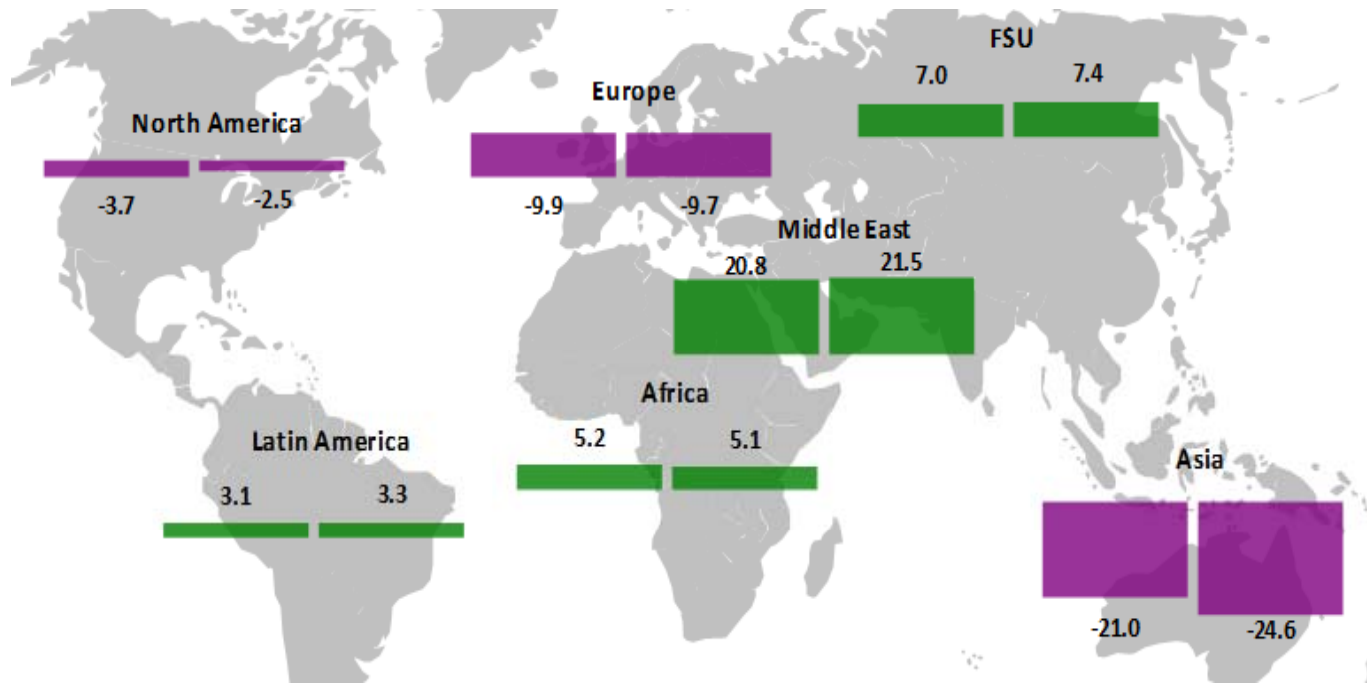
Global marine bunker fuel structure



With robust growth of gasoline, diesel and jet fuel demand, refineries will be hard-pressed to produce sufficient quantities of low-sulphur marine bunkers.

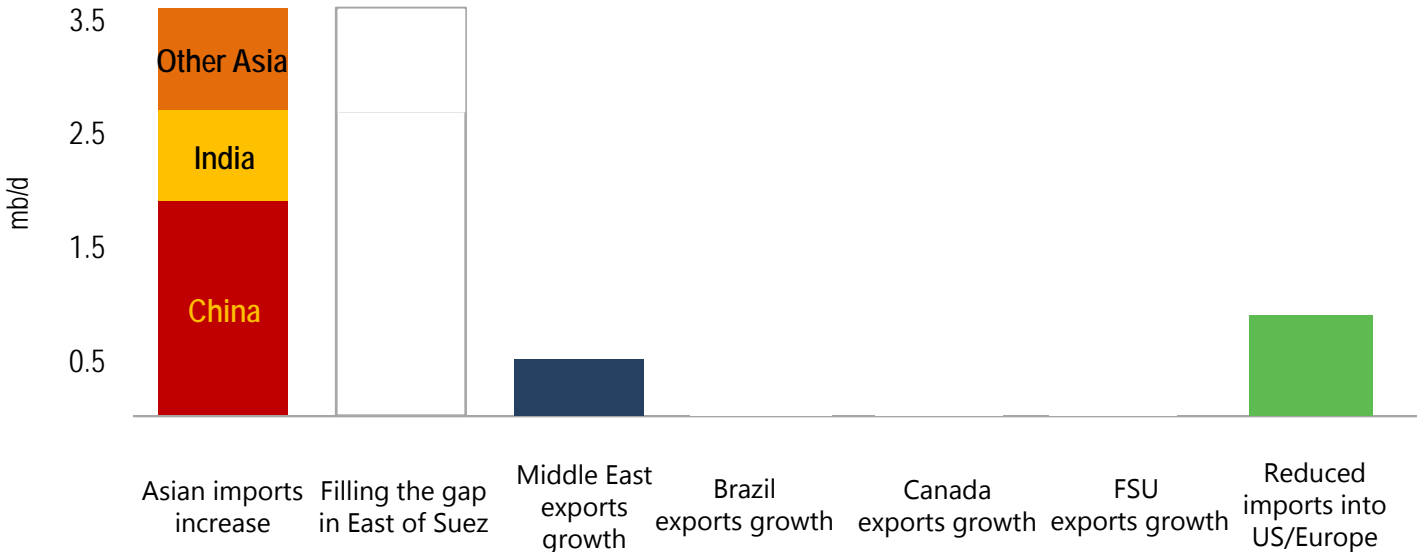
Major shift of crude oil flows to Asia

Regional crude oil balance, 2016/2022



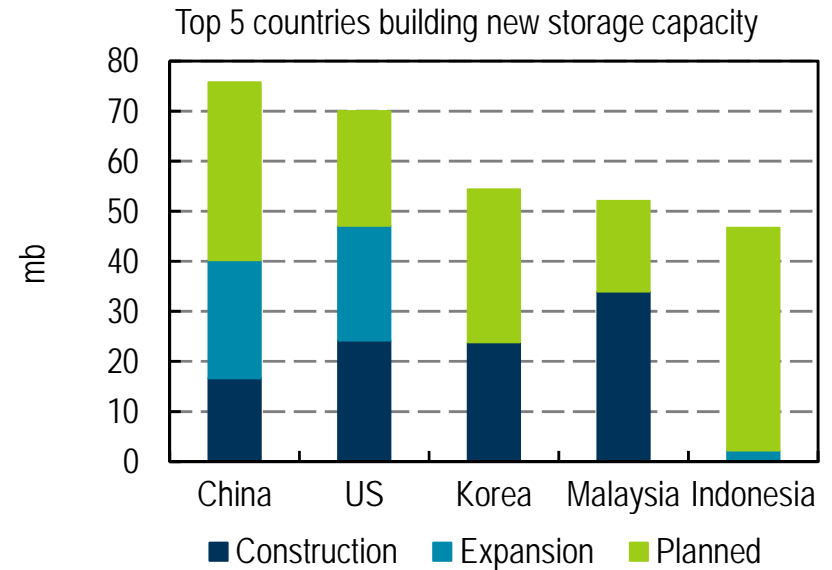
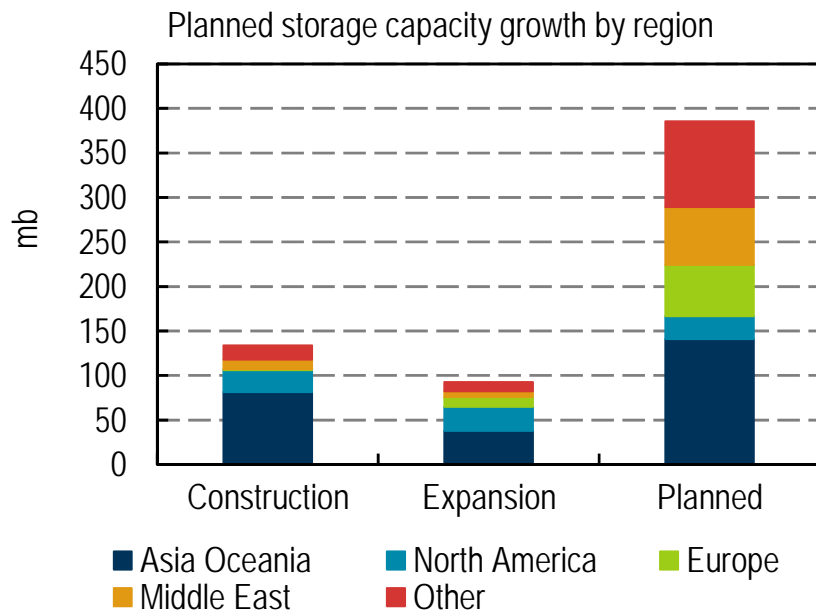
By 2022 there will be no net crude oil exporting country in Asia. 3 mb/d growth in refinery runs results in 3.6mb/d net import growth.

Asia has to look beyond Middle East to fill the gap



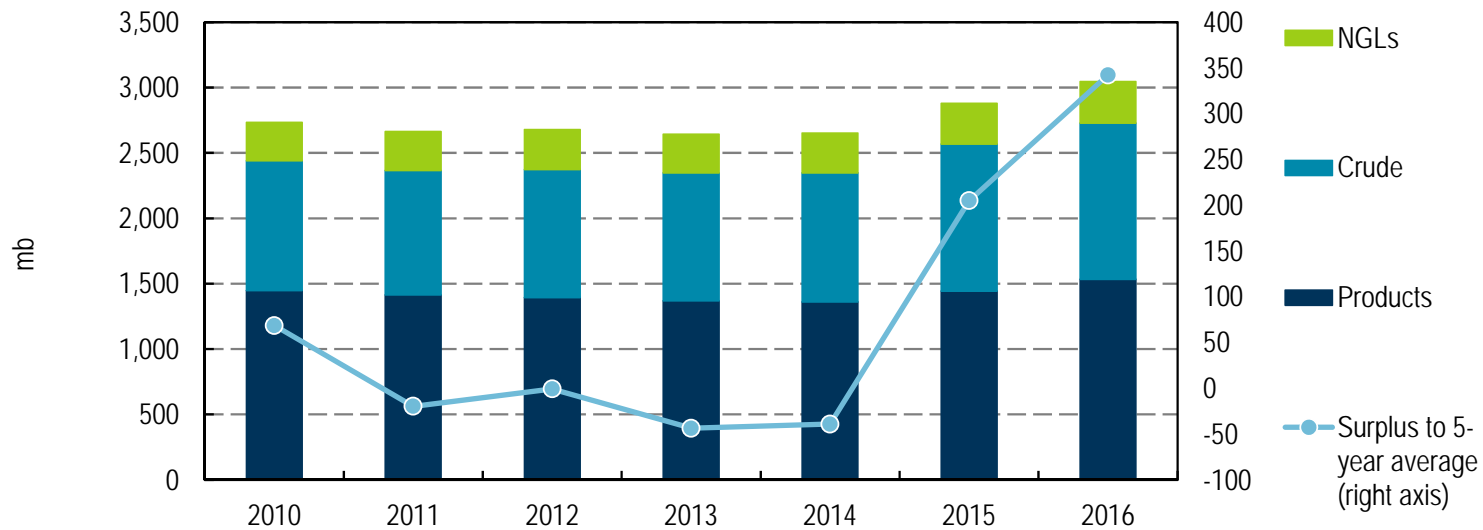
East of Suez crude oil balances flip into a 4 mb/d deficit by 2022, causing tectonic shifts in the global crude trade flows as Asia starts pulling more and more oil from the West.

Oil storage capacity to grow in Asia, North America



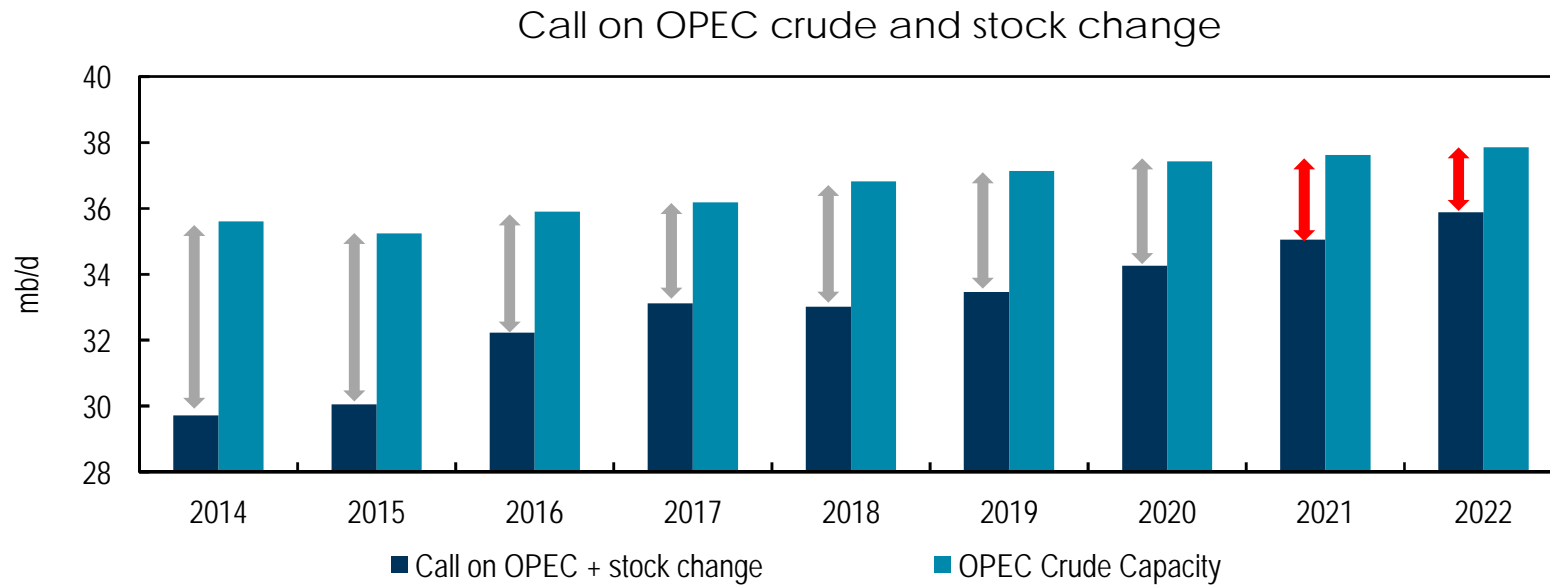
Global storage capacity to grow by 226 mb over the next few years
Only 40% of capacity growth to occur in the OECD. Non-OECD Asia and North America in the lead

OECD oil stocks reached historical high in 2016



Global oil stocks built by 900 kb/d over 2014-16, of which 390 kb/d occurred in the OECD. China, India took advantage of the lower price to build reserves.

World oil market grows tighter from 2020



Call on OPEC rises and spare capacity shrinks without further upstream investment. Less than 2% in 2022 versus 3.7% in 2008 when prices rose sharply.

Conclusions

- Demand continues to grow steadily -- up 7.3 mb/d by 2022 -- driven by China and India, which will account for almost half of growth over the period
- Global production capacity will also grow -- up 5.6 mb/d -- led by the United States, Brazil and Canada
- Asian demand growth draws extra Middle East oil but also needs supply from other areas. Trade routes will shift and lengthen
- Global investment remains weak in 2017 after two-year record plunge and OPEC spare capacity contracts to less than 2% in 2022 -- a 14-year low
- A tighter market & security of supply concerns could lead to increased volatility and higher prices by 2020

