The Global Oil Glut Is Vanishing, IEA Says

BY SUMMER SAID

The world's production of crude oil is falling behind demand, the International Energy Agency said Thursday.

From July through September, global production of crude oil will lag behind demand by almost one million barrels a day, said the IEA, a Paris-based agency that monitors energy trends for oil-consuming nations. A current oversupply of crude is clearing out even as OPEC producers pump at record or near-record levels.

"Our balances show essentially no oversupply during the second half of the year," the IEA said in its monthly report.

A lack of an oversupply would eliminate a central truth of the oil market for the past two years, when prices collapsed because of a flood of new crude from places like the U.S. and Canada and ramped up production by traditional producers like Saudi Arabia and Iraq. Prices this year fell as low as $27 a barrel, a 13-year low and down from a peak of $114 a barrel in June 2014.

Two factors have caused the glut to disappear: Deep output cuts by producers outside the Organization of the Petroleum Exporting Countries, and healthy global demand for crude oil, the IEA said.

In North and South America alone, crude production is projected to fall by 700,000 barrels a day in the third quarter of 2016, compared with the first quarter, according to the IEA.

Oil prices, meanwhile, rallied Thursday after Saudi Arabia's energy minister, Khalid al-Falih, said his country was ready to take action to support the oil market.

Mr. Falih said market forces like supply and demand already were rebalancing, but Saudi Arabia would discuss with other producers next month if more action was necessary.

U.S. crude oil for September delivery rose $1.78, or 4.3%, to $43.49 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained $1.99, or 4.5%, to $46.04 a barrel.

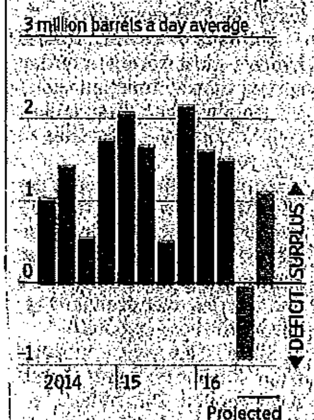
Oil prices have been stuck below $50 a barrel for much of the summer, well below what many in OPEC, the 14-nation oil cartel, need to balance national budgets. Saudi Arabia has resisted calls to limit production and walked away from a meeting in April when producers like Russia, Venezuela and Iraq said they were ready to "freeze" their output at certain levels to bring supply back into balance with demand.

The IEA put Saudi output at 10.6 million barrels a day, beating its previous record last summer. Neighboring Kuwait and the United Arab Emirates also set records in July. OPEC, the 14-nation cartel to which those countries belong, produced an eight-year high of 33.39 million barrels a day.

Analysts have said the Saudi output shows the kingdom still is locked in a fierce competition for its share of the global oil market.

Balancing Act

Crude-oil supply is predicted to fall in line with demand this year.



Source: International Energy Agency

THE WALL STREET JOURNAL.

Oil Discoveries at 70-Year Low Signal Supply Shortfall Ahead

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Explorers in 2015 discovered only about a tenth as much oil as they have annually on average since 1960. This year, they'll probably find even less, spurring new fears about their ability to meet future demand.

With oil prices down by more than half since the price collapse two years ago, drillers have cut their exploration budgets to the bone. The result: Just 2.7 billion barrels of new supply was discovered in 2015, the smallest amount since 1947, according to figures from Edinburgh-based consulting firm Wood Mackenzie Ltd. This year, drillers found just 736 million barrels of conventional crude as of the end of last month.

That's a concern for the industry at a time when the U.S. Energy Information Administration estimates that global **oil demand will grow** from 94.8 million barrels a day this year to 105.3 million barrels in 2026. While the U.S. shale boom could potentially make up the difference, prices locked in below $50 a barrel have undercut any substantial growth there.

New discoveries from conventional drilling, meanwhile, are "at rock bottom," said Nils-Henrik Bjurstroem, a senior project manager at Oslo-based consultants Rystad Energy AS. "There will definitely be a strong impact on oil and gas supply, and especially oil."

Global inventories have been buoyed by full-throttle output from Russia and OPEC, which have flooded the world with oil despite depressed prices as they defend market share. But years of under-investment will be felt as soon as 2025, Bjurstroem said. Producers will replace little more than one in 20 of the barrels consumed this year, he said.

Energy

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Industry Brief

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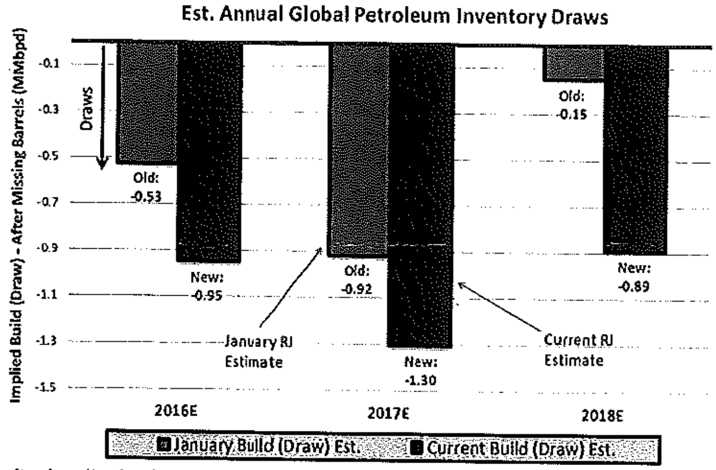
Energy: Energy Stat of the Week

Energy Stat: Like $50 Oil? You Ain't Seen Nothing Yet - Raising 2017 WTI Forecast to $80

Welcome back to the world of $50+/Bbl oil! Well, okay, we've only had a few days of it to enjoy thus far, but just wait, we think oil prices have much more to run. At the start of 2016, we made the case – very contrarian at the time – that WTI oil prices would be pushing $70 by the end of 2016. As oil fell below $30/Bbl in February, we encouraged investors to hang in there and look for a second half of 2016 oil price surge. Over the past few months, we've gained even more confidence that tightening global oil supply/demand dynamics will support a much higher level of oil prices in 2017. **We continue to believe that 2017 WTI oil prices will average about $30/Bbl higher than current futures strip prices would indicate.** In today's Stat, we are raising our 2017/2018 oil price assumptions because **three key global oil supply variables have turned meaningfully more bullish over the past few months.** These changes include: 1) **oil supply interruptions** from Nigeria, Canada, Venezuela, and Libya; 2) **greater structural, activity-related supply declines** from China, Columbia, Mexico, Brazil, and Angola; and 3) **lower projected 2017/2018 oil supply growth from the U.S. due to emerging industry bottlenecks.** When we factor in modestly higher 2016 global oil demand growth, our global oil model has become meaningfully more bullish (or tighter). As shown in the adjacent graph, we now think global oil inventories will **decline annually** by ~400,000 bpd to ~700,000 bpd **more** each year over the next three years than we thought in January.

Est. Annual Global Petroleum Inventory Draws



Source: Raymond James Research

RJ&A WTI Price Forecast (as of June 2016)					
2016	**Q1 16A**	**Q2 16A**	**Q3 16E**	**Q4 16E**	**2016E**
WTI Futures	$33.63	$45.39	$48.41	$49.65	$44.27
Old RJ WTI Est.	$35.00	$40.00	$60.00	$65.00	$50.00
New RJ WTI	**$33.63**	**$45.39**	**$60.00**	**$65.00**	**$51.00**
2017	**Q1 17E**	**Q2 17E**	**Q3 17E**	**Q4 17E**	**2017E**
WTI Futures	$50.35	$50.67	$51.05	$51.25	$50.83
Old RJ WTI Est.	$75.00	$75.00	$75.00	$75.00	$75.00
New RJ WTI	**$75.00**	**$80.00**	**$85.00**	**$80.00**	**$80.00**
2018	**Q1 18E**	**Q2 18E**	**Q3 18E**	**Q4 18E**	**2018E**
WTI Futures	$51.46	$51.50	$52.09	$52.37	$51.85
Old RJ WTI Est.	$70.00	$70.00	$70.00	$70.00	$70.00
New RJ WTI	**$75.00**	**$75.00**	**$75.00**	**$75.00**	**$75.00**
2019 (+)	**Long-Term Forecast**				
WTI Futures					$52.99
RJ Long-Term WTI					**$70.00**

Source: Bloomberg, Thomson Reuters, Raymond James research

We are raising our 2017/2018 oil price forecasts by $5/Bbl. Specifically, our 2017 forecast for WTI increases from $75 to $80 and Brent increases from $79 to $83 – this marking the cyclical peak of the oil recovery. Similarly, we are initiating a 2018 forecast for WTI ($75) and Brent ($80), which is $5 higher than our previous long-term deck. Our previous price forecast was considerably more bullish than current Street consensus, and our new forecast is even more so. We are maintaining **our long-term (2019 and beyond) forecast of $70 WTI and $75 Brent.** Given the U.S. shale industry's ability to post steady cost efficiency gains, our bias would be that, over time, oil prices move lower (or the futures curve becomes backwardated starting in mid-2017. This $70 price deck should support sufficient long-term U.S. oil supply growth to offset slowly rising global oil demand and falling non-U.S. oil supply.

Please read domestic and foreign disclosure/risk information beginning on page 10 and Analyst Certification on page 10.

Here is what John Walker, founder and Executive Chairman of EnerVest, had to say on the company's August 10, 2015 quarterly earnings call. EnerVest operates over 29,000 oil and gas wells in the US, more wells than any other company in the United States. His comments almost a year ago have turned out to be rather prophetic.

"As a sell-side analyst for 11 year, I learned that neither I nor anyone can forecast oil and gas prices with any consistency or accuracy. As an oil and gas CEO or President for the past 33 years, I've learned to avoid following the consensus assumptions about where oil and gas markets are going.

The International Energy Agency, IEA, started this year (2015) with a forecast of 900,000 barrels of worldwide oil demand growth (on top of 94 million barrels per day of existing consumption). They are, in a recently released July (2015) report, forecasting demand growth of 1.4 million barrels this year and 1.2 million barrels per day in 2016.

I am concerned about the incremental supply of oil this year from Iran, but believe the rest of OPEC is at or near peak production. Non-OPEC oil production, including the US, has already started to decline. In 2008, the IEA studied the (oil production) decline rate of the world's 800 largest oil fields, including the 54 super-giants. That decline rate was a surprising 6.7% per year.

Assuming that the IEA is right on 1.4 million barrels per day of demand growth this year, and 1.2 million barrels per day next year, how are we going to, as a world, meet that demand growth as we replace the decline rate of 6 million barrels per day (from existing production) in each of the next two years. By the way, the 40 year old IEA, in my opinion and experience, has always been too conservative or just flat-out missed oil demand growth on the downside. It has been a consistent pattern.

It's my belief that all of us are swamped in negativity currently and probably are not currently assessing the one to five year outlook objectively. The commodities markets of today have less liquidity and more volatility with the imposition of Dodd-Frank and the Volcker Rule. We have witnessed this in the most rapid decline in oil prices in history.

When the real demand for oil is correctly assessed in forthcoming months, and worldwide (production) decline rates are at least taken more into account, do you think that the price of oil will inch its way up—as the consensus would forecast—or rise rapidly, as it always has in the past? It is my belief that the price pendulum, when it starts swinging, will surprise us on the upside, just as it surprised us on the downside."

In August 2015 Walker questioned whether the oil industry could generate 14-15 million barrels per day of new oil production over the next few years without a significant increase in oil prices and at a time when oil companies were announcing capex cuts of 40% globally over the next few years. Oil in storage worldwide is starting to decline. According to the June 20, 2016 Raymond James report, oil in storage could decline by 400,000 to 700,000 bbl/day globally each of the next two years, meaning the world is already consuming more oil than is being produced. With historically low capital spending in the oil industry I believe it is highly likely that worldwide oil production will continue to contract and oil prices will continue to rise.