

External environment analysis for oil and gas projects implementation in Eastern Siberia

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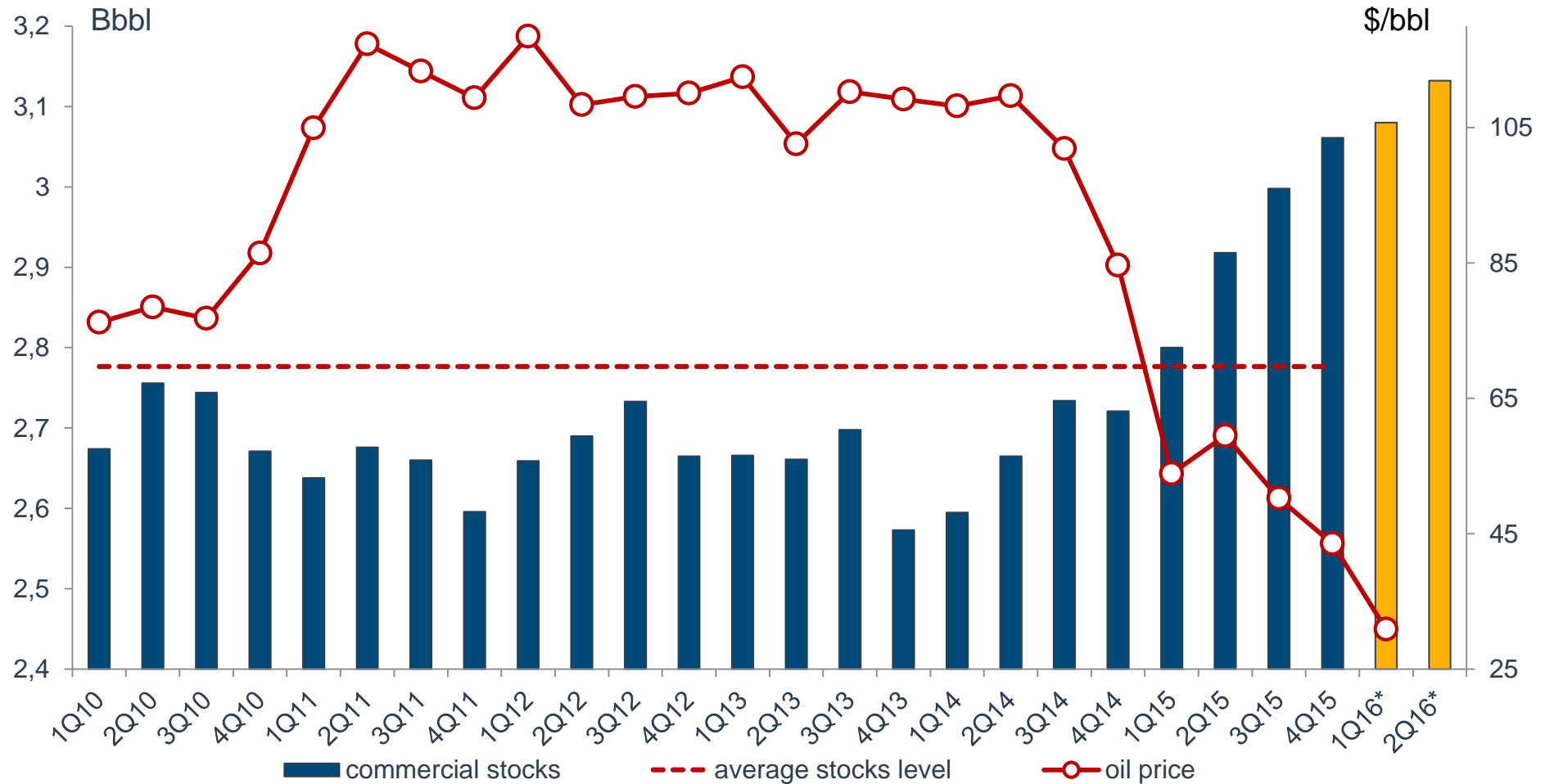
Senior analyst

East Siberian oil and gas conference 2016

22 March 2016

Commercial stocks of oil and petroleum products in OECD are at historical highs

Commercial stocks of oil and petroleum products in OECD countries and Brent oil price

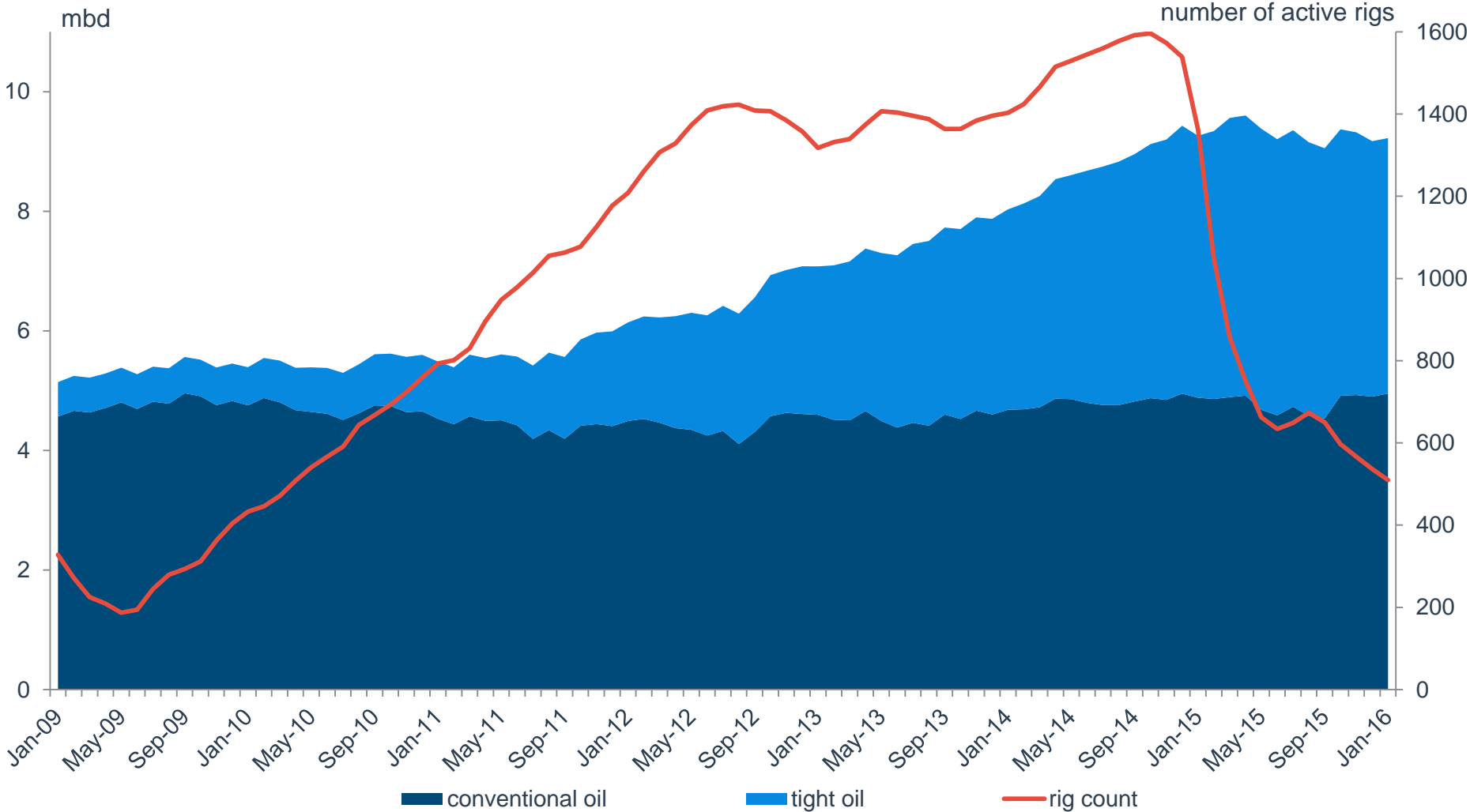


* Data for the 1st and 2nd quarters 2016 - EIA forecast
Brent price for January-February 2016

Despite the oil price collapse and rig count decline, US production is stable since the production growth from conventional reserves



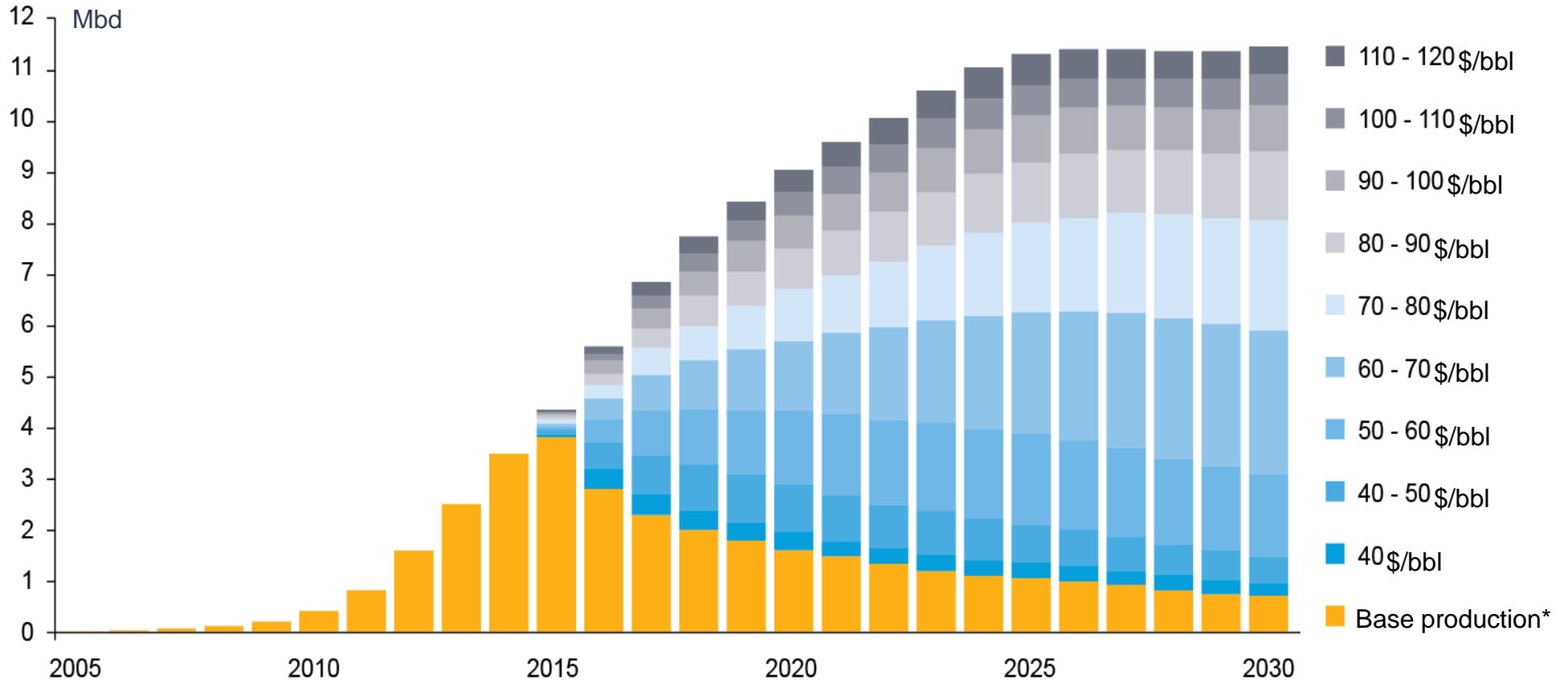
US rig count and oil production



Source: EIA, VYGON Consulting

To limit shale oil production at 5 mbd, oil prices should be at around 60 \$/bbl, then production will continue to grow

US tight oil production forecast and oil price sensitivity

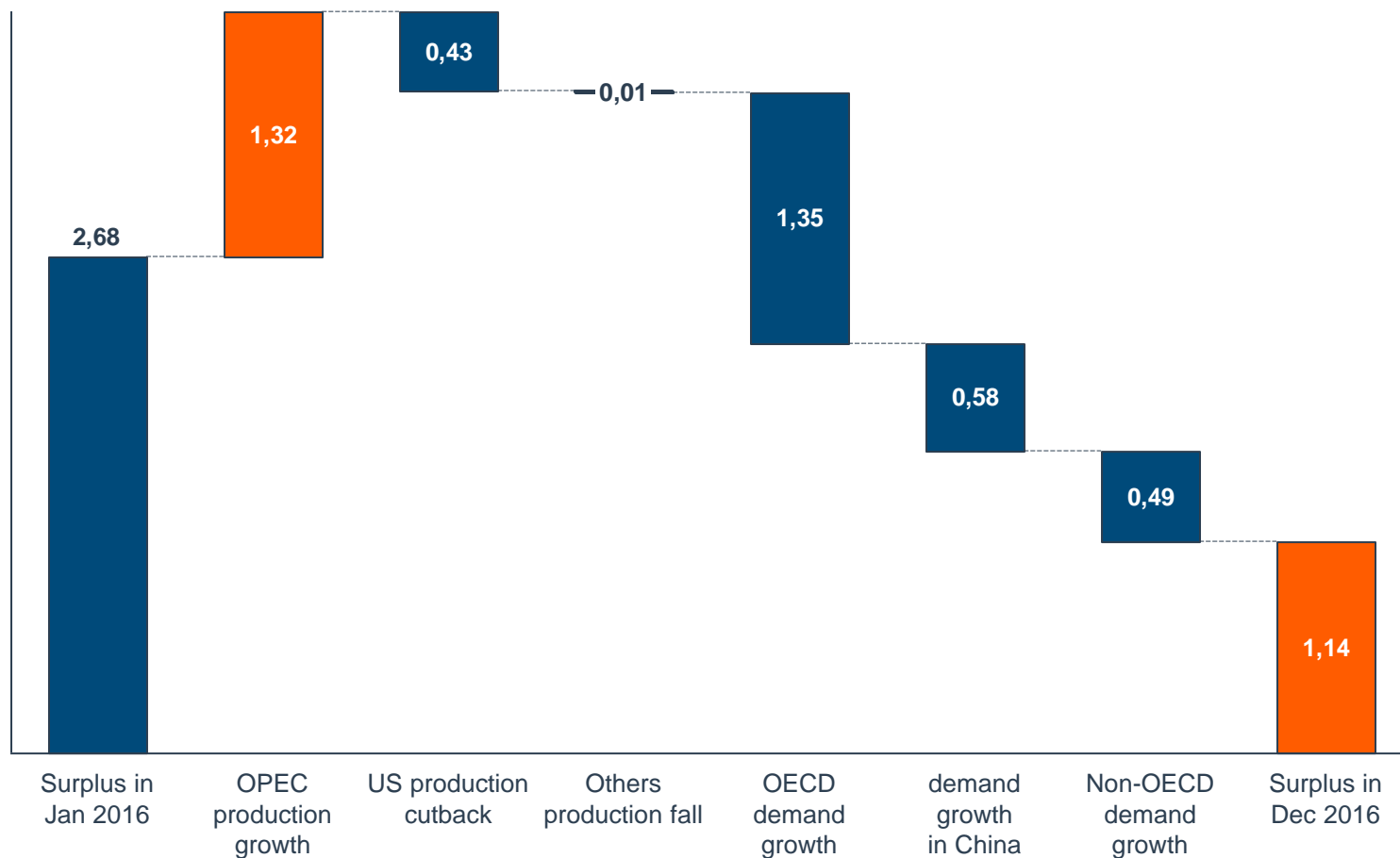


* at the mid-2015

Until the end of 2016 the balance in the oil market is not obtained

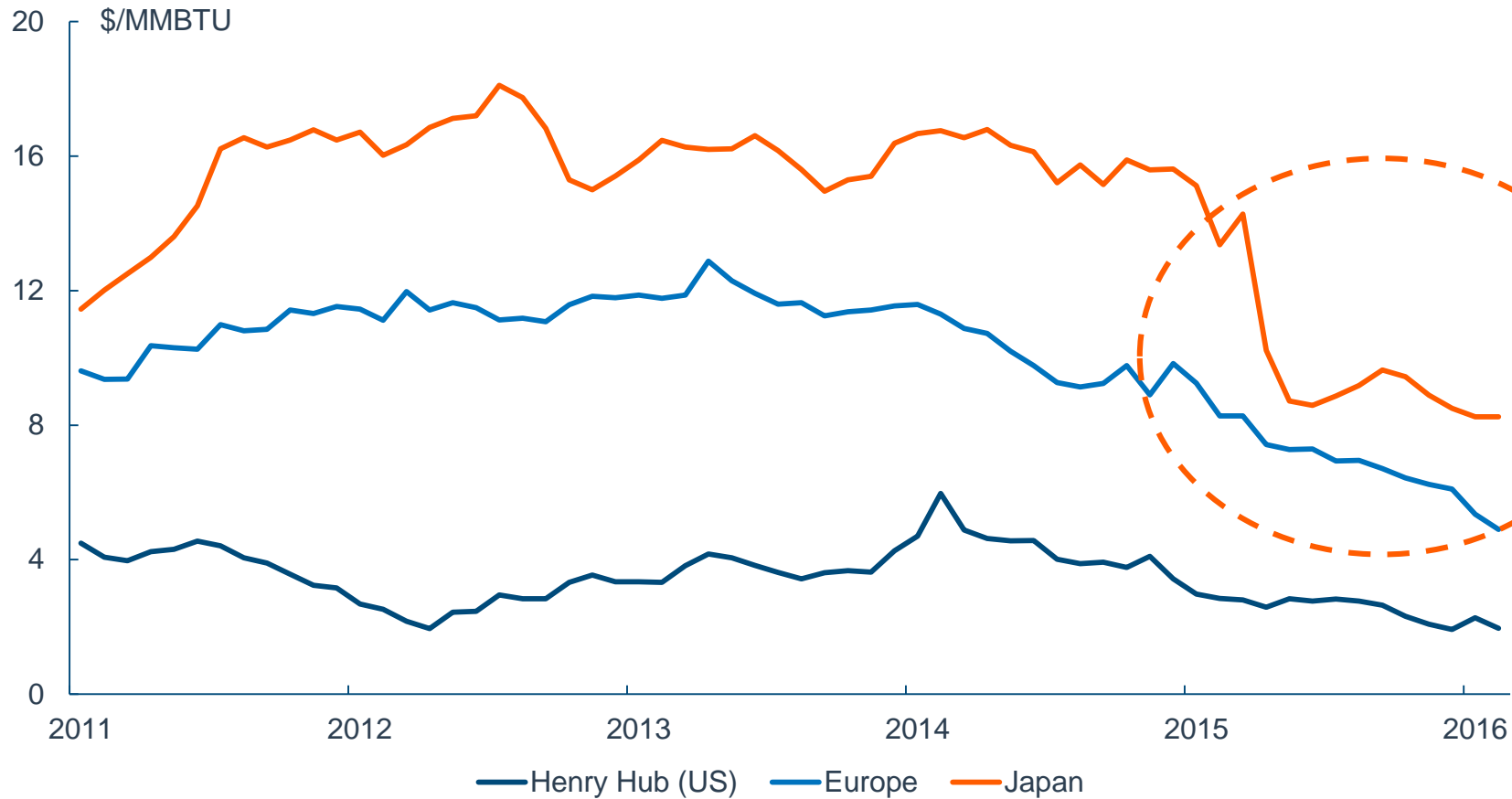
Factors affecting the balance in the oil market in 2016

mbd



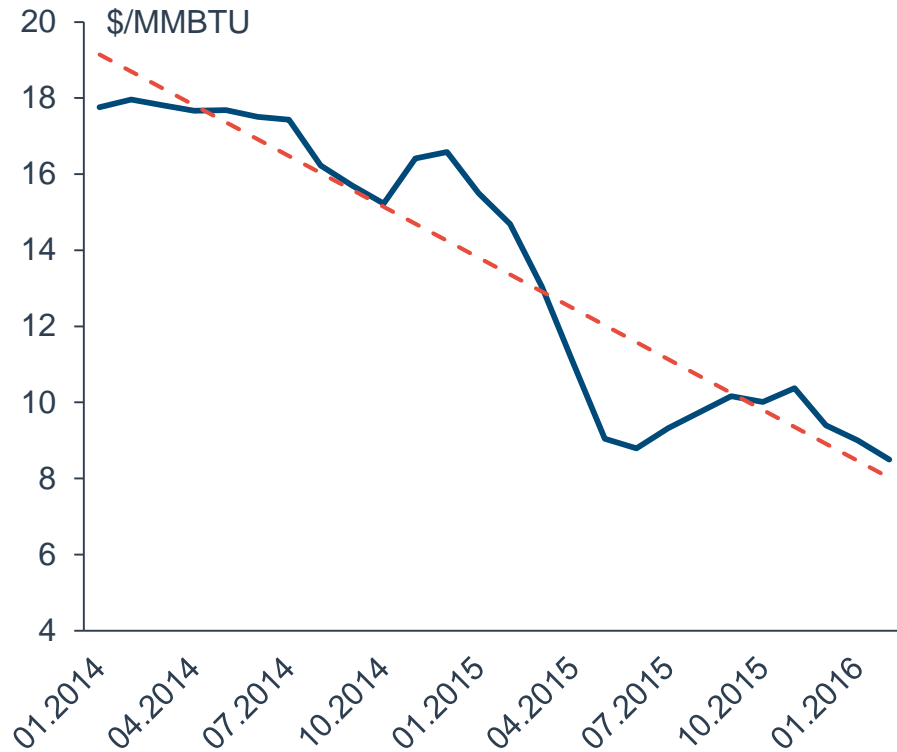
Oil price collapse in the mid-2014 was followed by narrowing gas prices spread

Natural gas prices

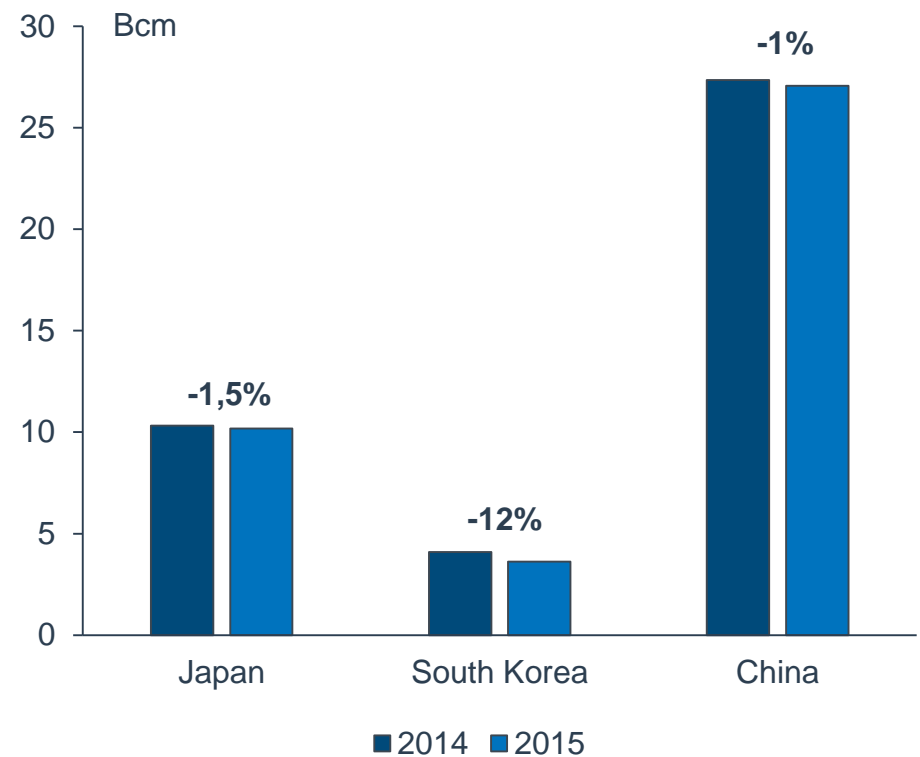


Japan, South Korea and China in 2015 have reduced LNG imports despite the drop in gas prices

LNG price in Japan



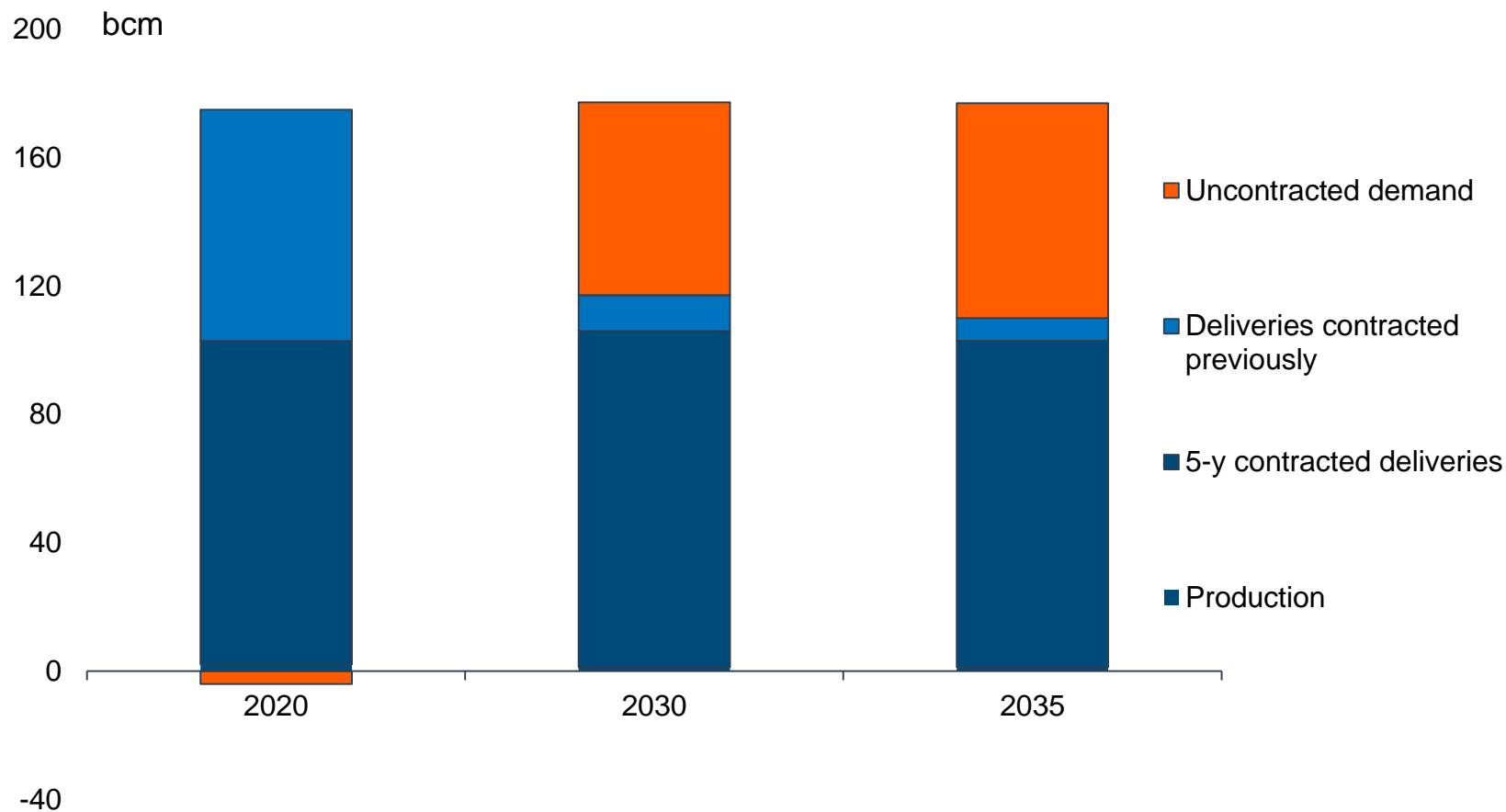
LNG imports (2015/2014)



- Japan launched two nuclear reactors after their shut down at Fukushima
- In South Korea, a drop in demand came amid increased coal and nuclear electricity generation
- In China, the priority is given to the internal gas and pipeline deliveries

Market niche in OECD Asia appear not earlier than 2030

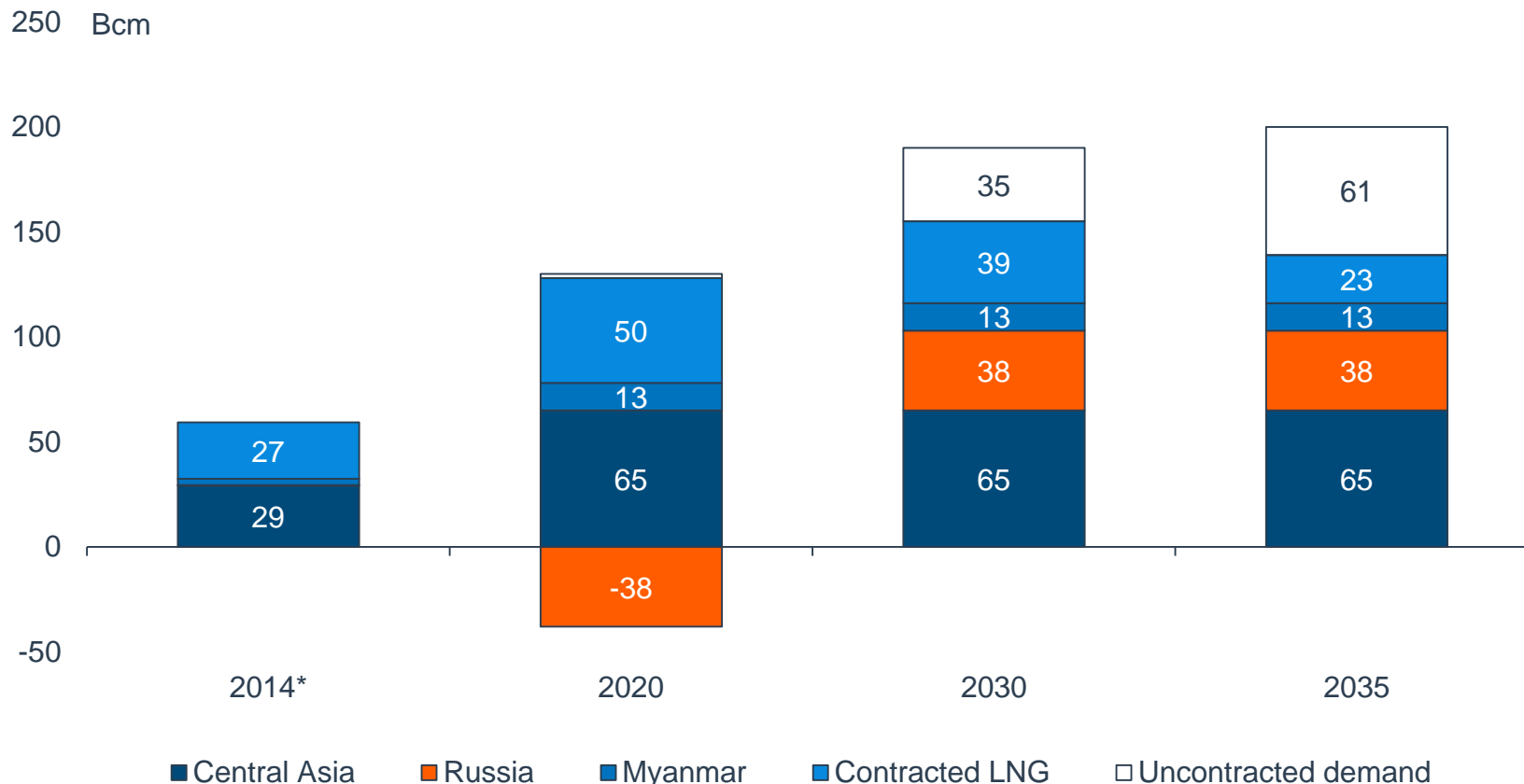
Projected balance of Japan and South Korea Gas, bcm



In 2020, a market niche in China is missing, by 2030 - up to 35 bcm, in 2035 up to 61 bcm, but for these volumes will be a tough competition



Contracted volumes of gas imports in China

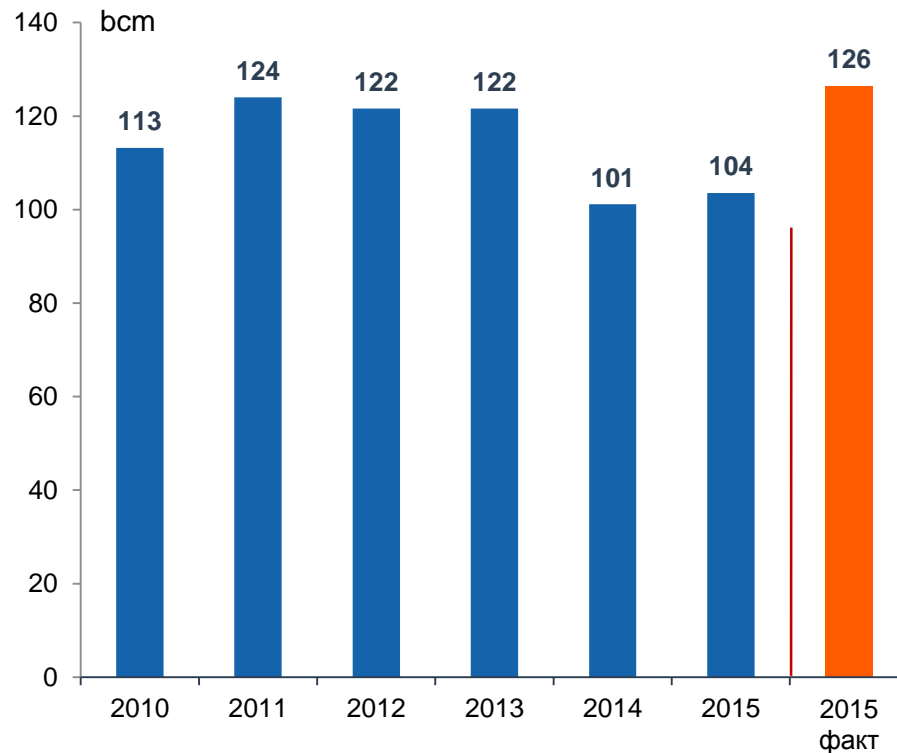
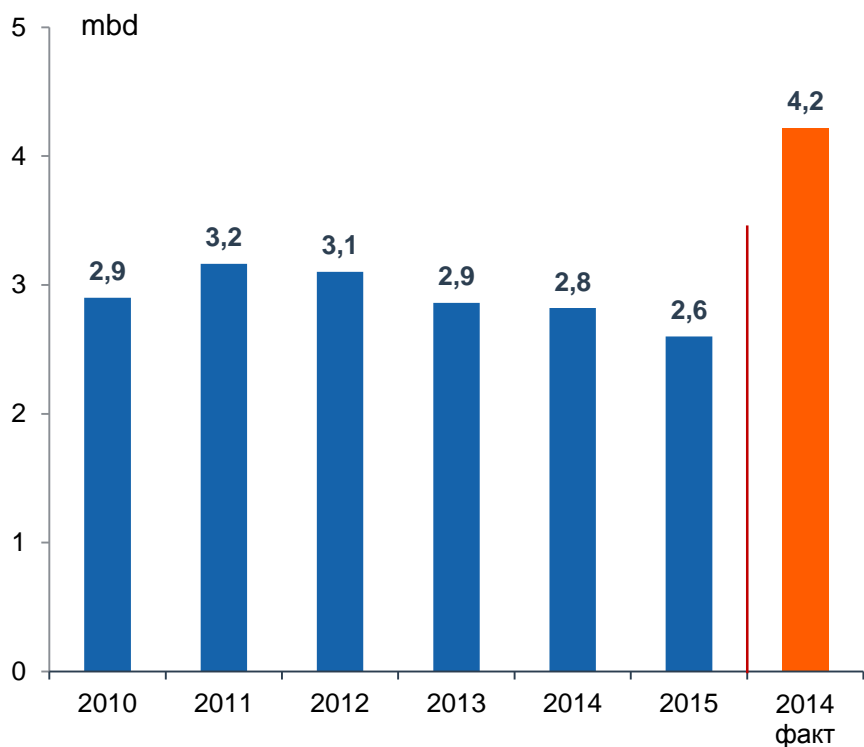


- Gas deliveries within the “Power of Siberia”, despite the existing contract with China, is meaningless to launch in 2019/2020 due to lack of uncontracted demand
- Central Asian countries by 2030 could increase gas supply up to 90 bcm, thus demand could be as low as 10 bcm + China might contract US LNG shipments
- In 2035 increasing Central Asian supply and extension of the expiring contracts after 2030 will cut down potential demand by 20 bcm

*actual imports
Source: BP, Cedigaz, VYGON Consulting

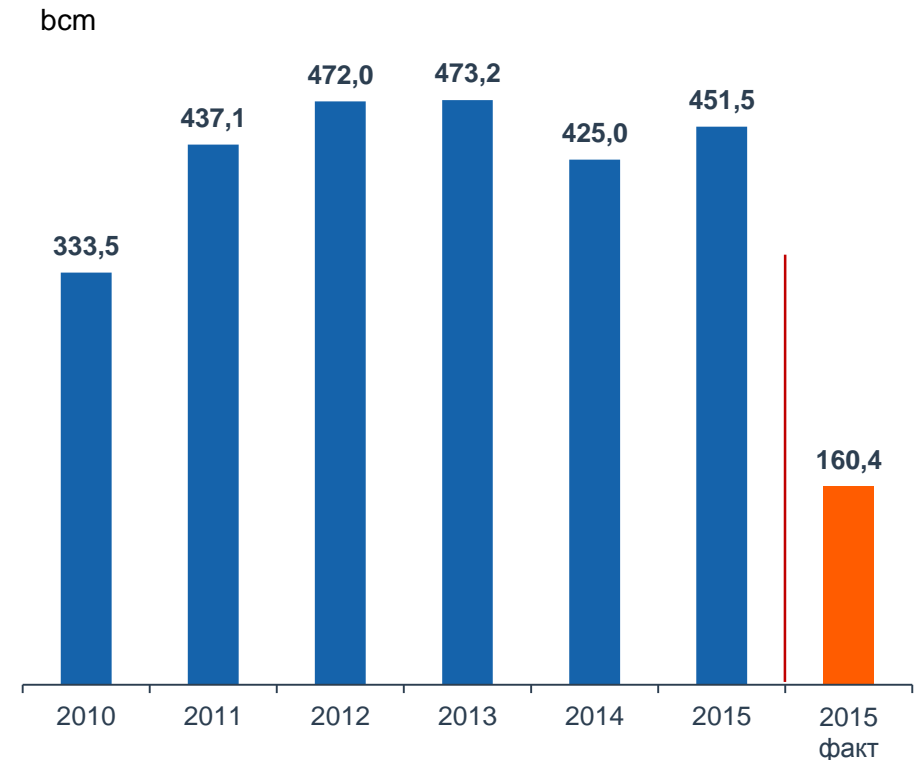
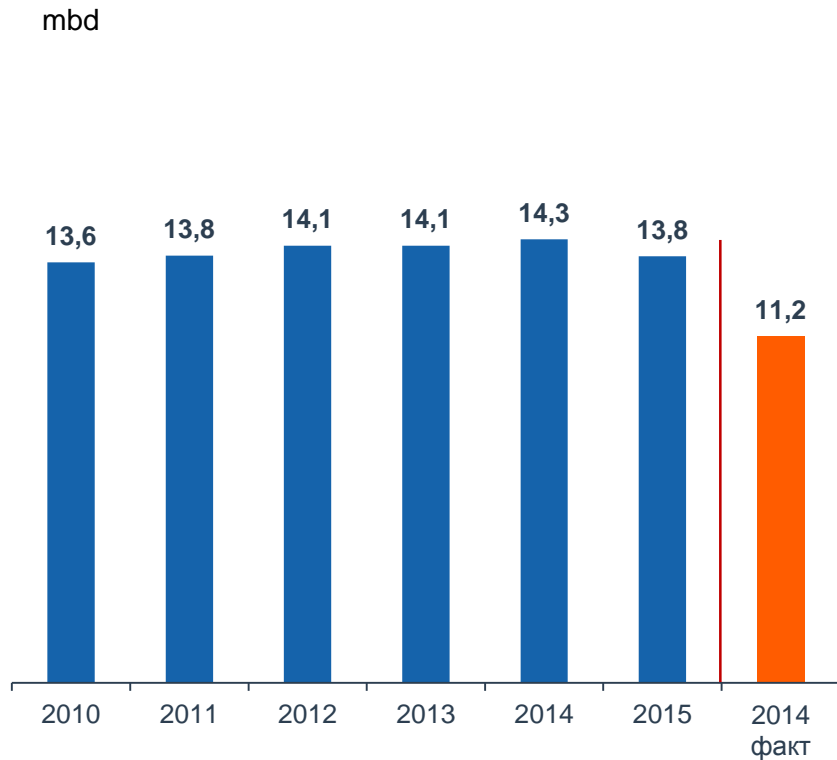
During the last 5 years IEA reduced its oil and gas consumption projections by 15-20% to the maximum values

IEA forecast of Japanese oil and gas demand in 2030 (on the report release data)



Chinese oil consumption forecasts by 2030 remain stable, gas consumption forecast is ambiguous

IEA projected demand for oil and gas in China in 2030 (on the report release data)



Conclusions

- The balance in the oil market is not obtained until the end of 2017, OPEC crude oil production freeze may accelerate this process;
- Oil prices have stabilized on positive news due to the lack of market transparency, however it is preliminary to expect significant growth in the 2017-18;
- Oil price collapse in the mid-2014 was followed by narrowing gas prices spread;
- Japan, South Korea and China in 2015 have reduced LNG imports despite the drop in gas prices;
- The market niche in OECD Asia appears no sooner than 2030;
- In 2020, a market niche in China is missing, by 2030 - up to 35 bcm, in 2035 - up to 61 bcm, but for these volumes will be a tough competition
- During the last 5 years IEA reduced its oil and gas consumption projections by 15-20% to the maximum values
- Chinese oil consumption forecasts by 2030 remain stable, gas consumption forecast is ambiguous
- Investment decisions on Eastern Siberia projects should be implemented at positive economic conditions, i.e. at the current oil prices as well as in a stagnant or falling oil demand and fierce competition in the gas market

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