Current State of the Oil Markets

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Oil Pricing

$/barrel

Futures 10/31
- WTI
- Brent
Current Futures
- WTI Price
- Brent
- EIA Forecast

SMU Cox
Maguire Energy Institute
Natural Gas Pricing

$/MCF

Months Forward
Realities, Myths and Misconceptions on Why

- Global demand
- OPEC punishing Iran, Russia and shale producers
- U.S. supply
- Speculation
- Monetary Policy
Myth: Lack of World Oil Demand Is the Culprit!
Is this Sheiks Versus Shale?
Myth: OPEC is flooding the market!

World Oil Supply

mb/d

© OECD/IEA 2014
Myth: OPEC is Flooding the Market!

Iranian and Libyan crude coming back into market

OPEC Crude oil Supply

© OECD/IEA 2014
Reality: Increased U.S. Supply
The Result

Oil, Oil Everywhere
A supply overhang has been building since the beginning of 2014 and is expected to keep growing.

95 million barrels a day

Demand is greater than supply

Supply is greater than demand

Note: 4Q 2014 onward are estimates, assuming 30 million barrels per day of crude from OPEC.
Source: International Energy Agency

The Wall Street Journal
Myth: Speculation is Driving the Price Down

Graph 2.4: Speculative activity in key commodities, net length

Source: US Commodity Futures Trading Commission.
Reality: Anticipation of interest rate increases has caused a reduction in commodity investment growth.

Graph 2.6: Inflow of investment into commodities, 2012-2014

Source: US Commodity Futures Trading Commission.
<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>Current</th>
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<tbody>
<tr>
<td>Oil demand</td>
<td>Falling</td>
<td>Rising, but maybe at a slower pace</td>
</tr>
<tr>
<td>Supply growth</td>
<td>OPEC, North Sea</td>
<td>North American centric</td>
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<tr>
<td>Spare capacity</td>
<td>10-15%</td>
<td>2.5%</td>
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<tr>
<td>Supply excess</td>
<td>10%</td>
<td>1%</td>
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<tr>
<td>Decline</td>
<td>3%</td>
<td>4% globally, shale could be much higher without continuous drilling</td>
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What Now?

- Some demand response. U.S. is the single engine of growth in the world economy right now so it may be slow.
- Production continues to grow though at a slower pace in 2015.
- Some downshifting of cost curve due to technology and cost cutting.
- OPEC becomes a price taker for the foreseeable future.
- Shale as the high cost source, becomes the swing producer as in other commodity markets.
- Capital markets will be the enforcer for U.S. producers.
- A missing “wedge of production” in out years to meet future demand growth.