



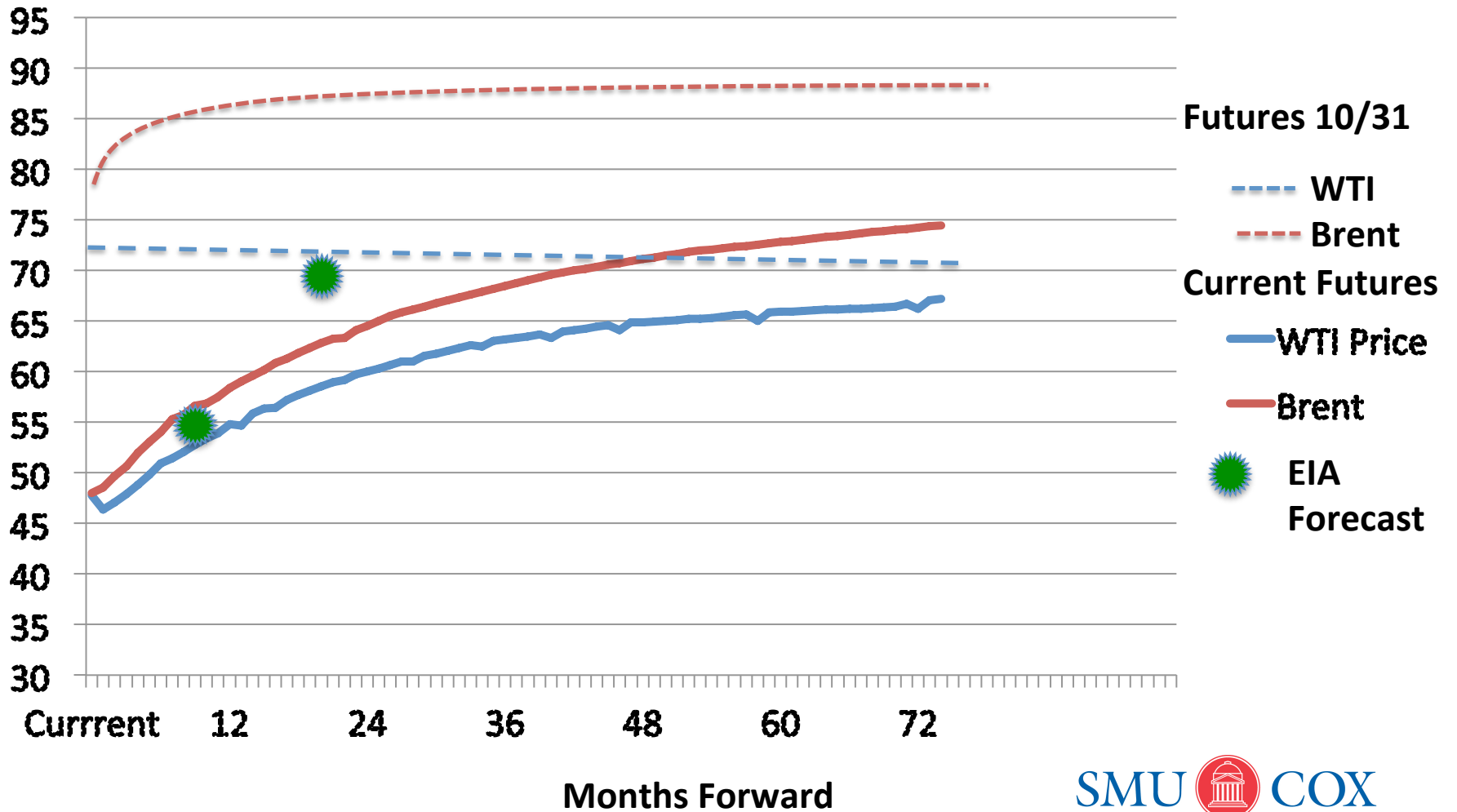
# Current State of the Oil Markets

Bruce Bullock

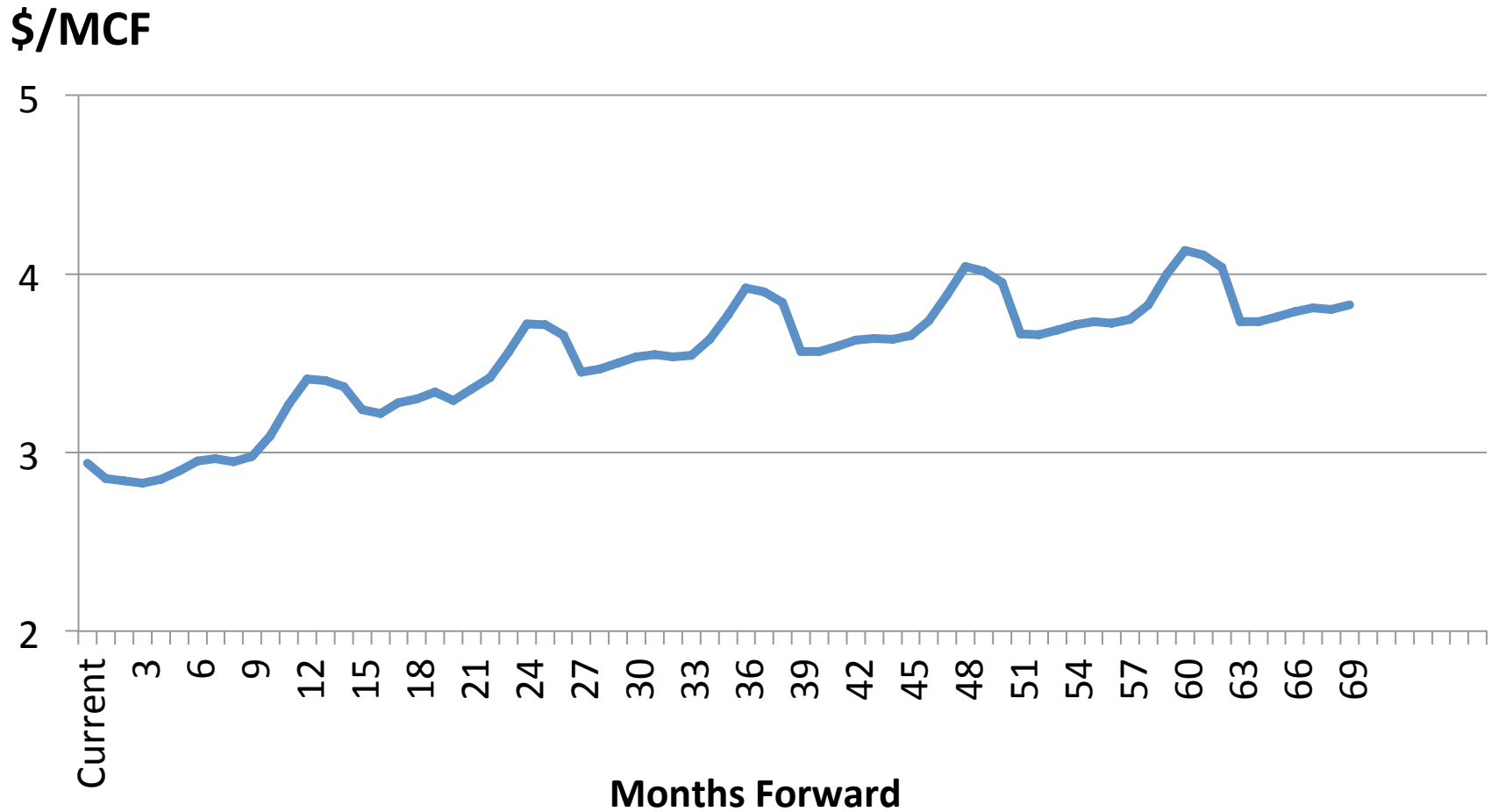
Director, Maguire Energy Institute

# Oil Pricing

\$/barrel



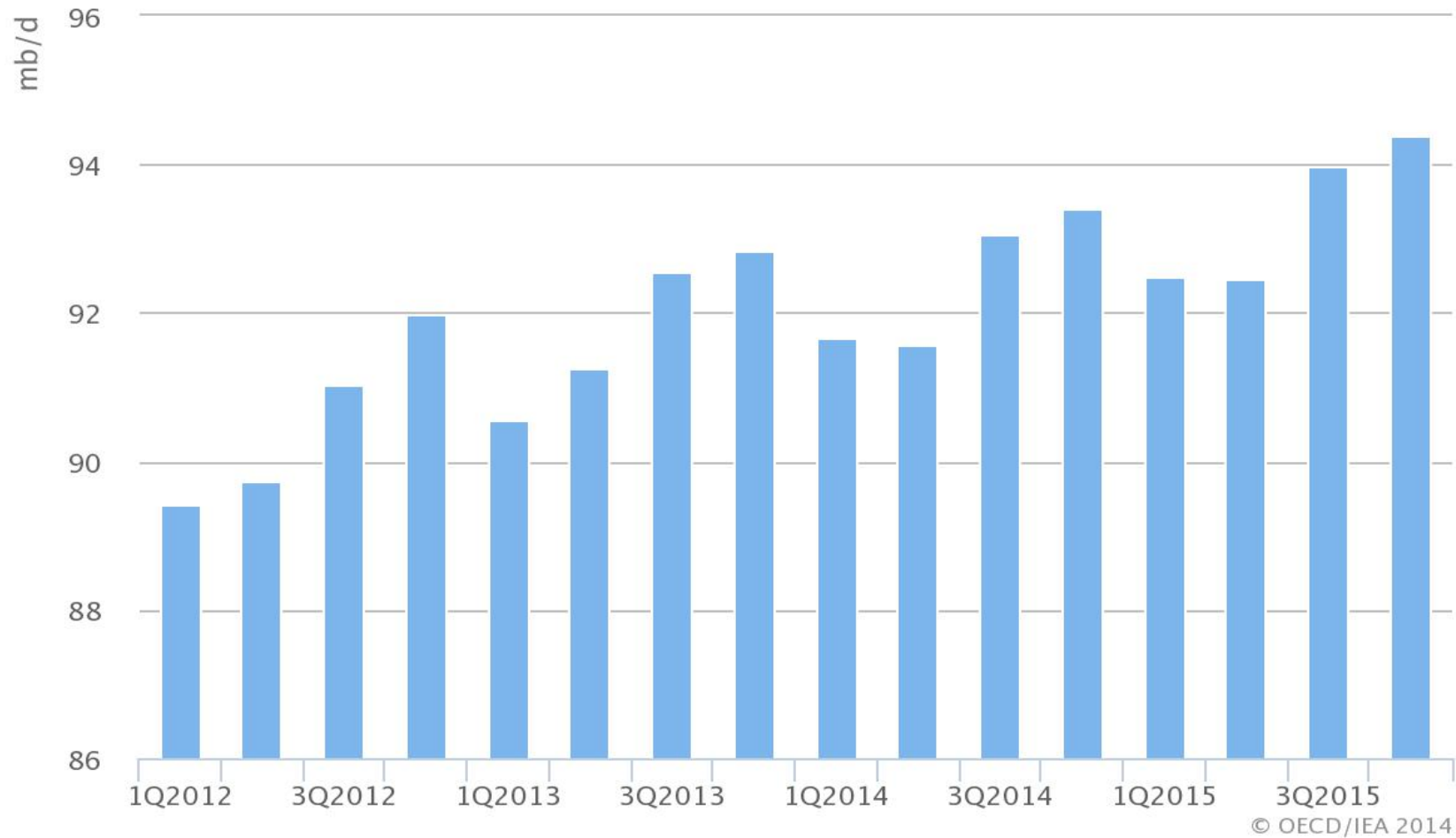
# Natural Gas Pricing



# 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!

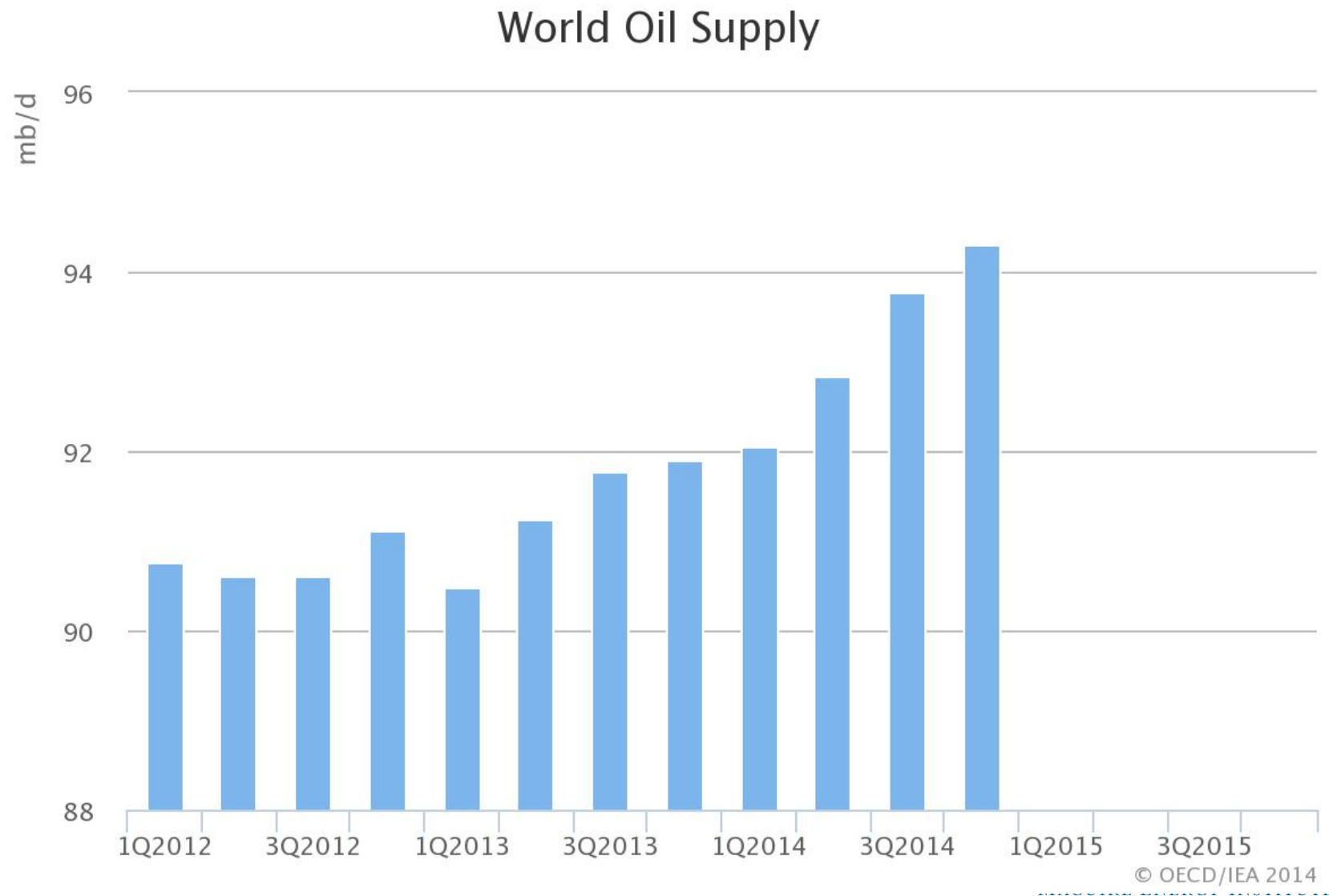


## Is this Sheiks Versus Shale?



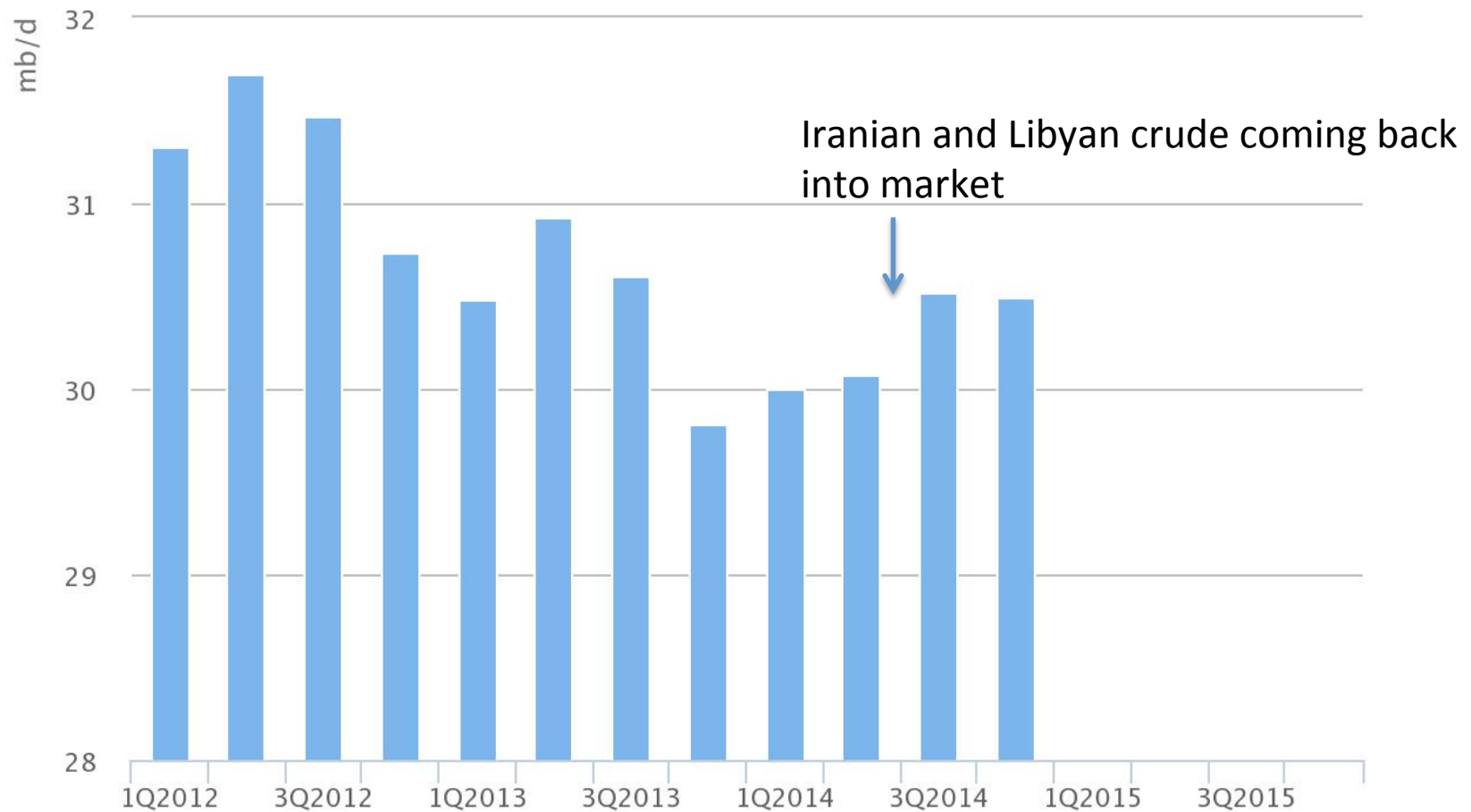
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# Myth: OPEC is flooding the market!



# Myth: OPEC is Flooding the Market!

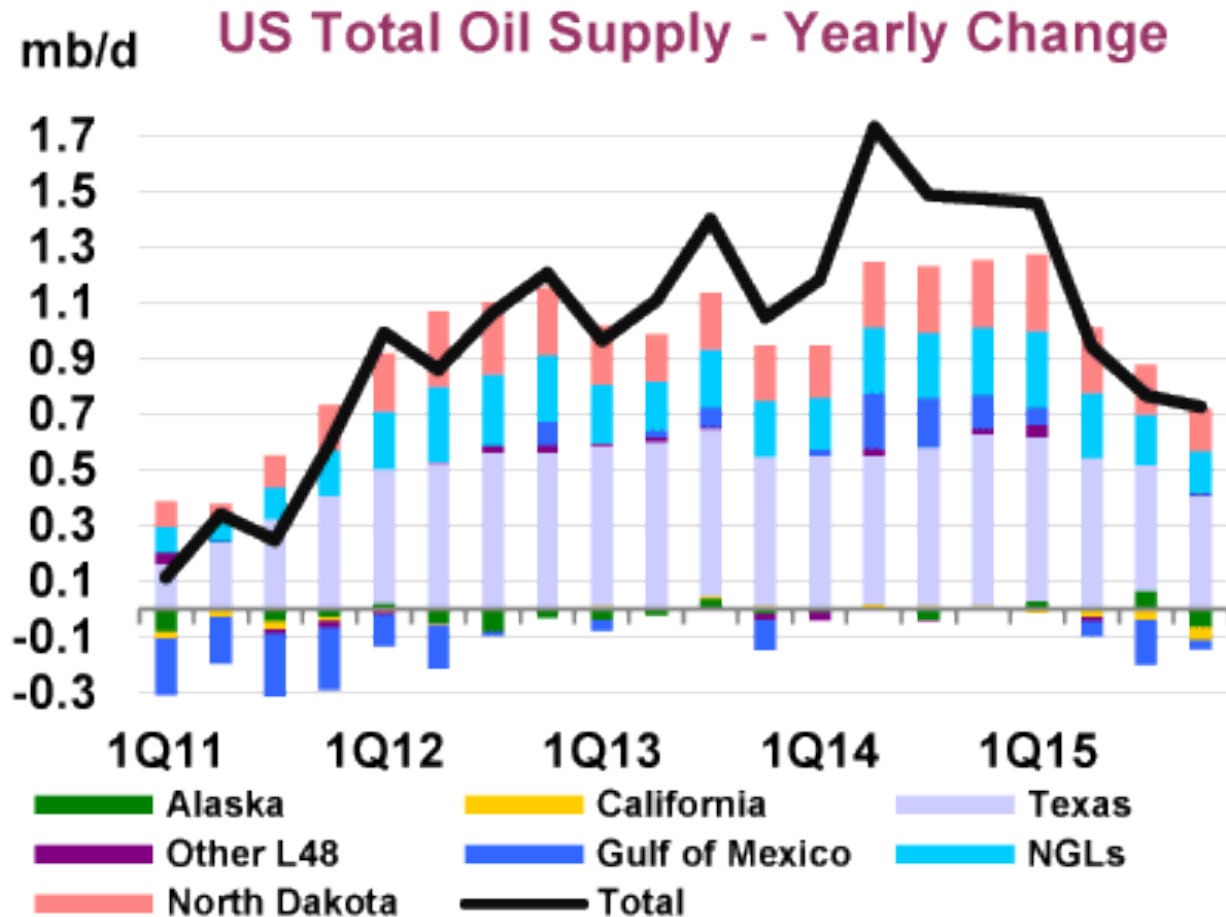
OPEC Crude oil Supply



© OECD/IEA 2014



# Reality: Increased U.S. Supply

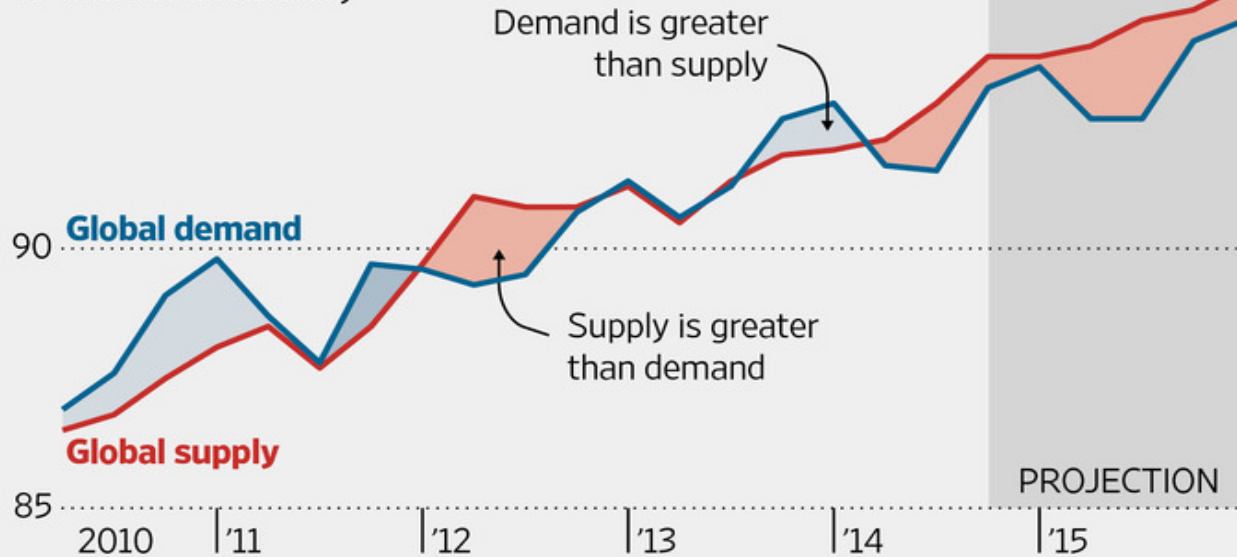


# The Result

## 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



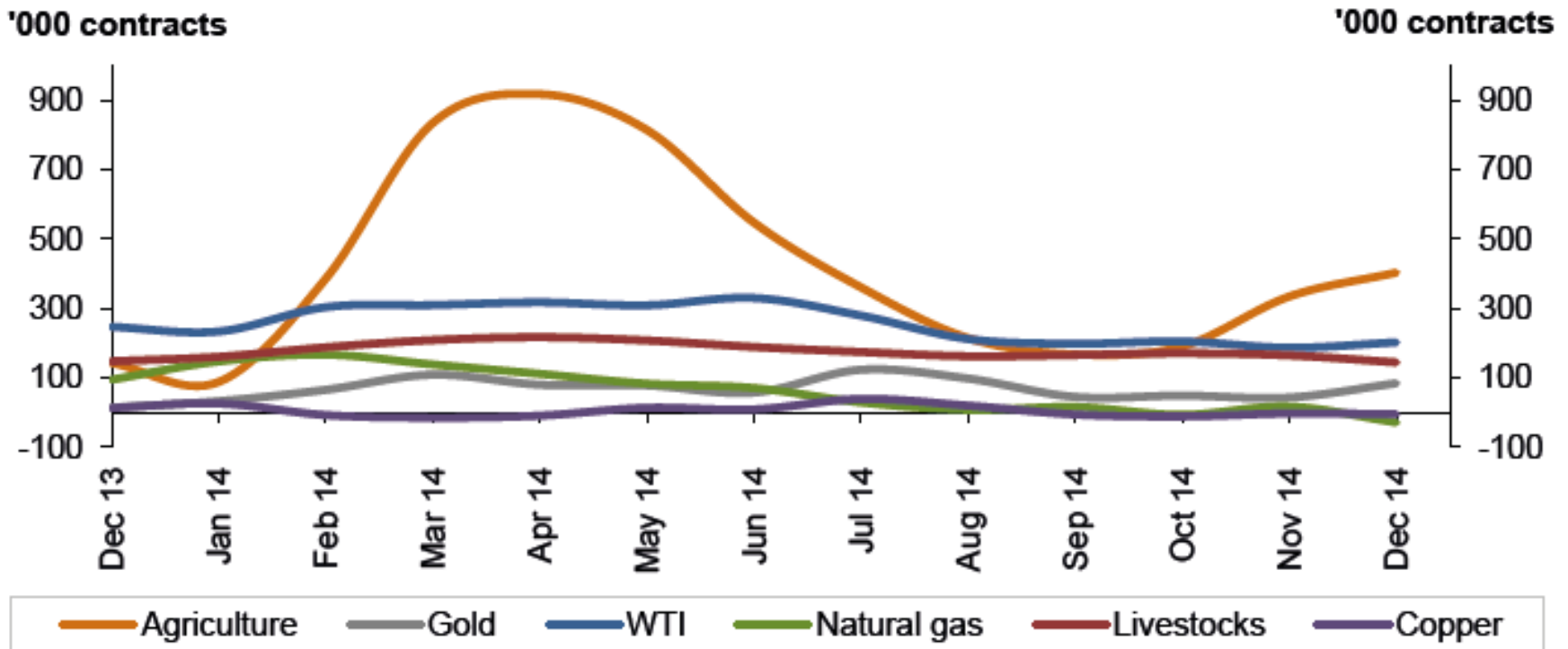
Note: 4Q 2014 onward are estimates, assuming 30 million barrels per day of crude from OPEC.

Source: International Energy Agency

The Wall Street Journal

# Myth: Speculation is Driving the Price Down

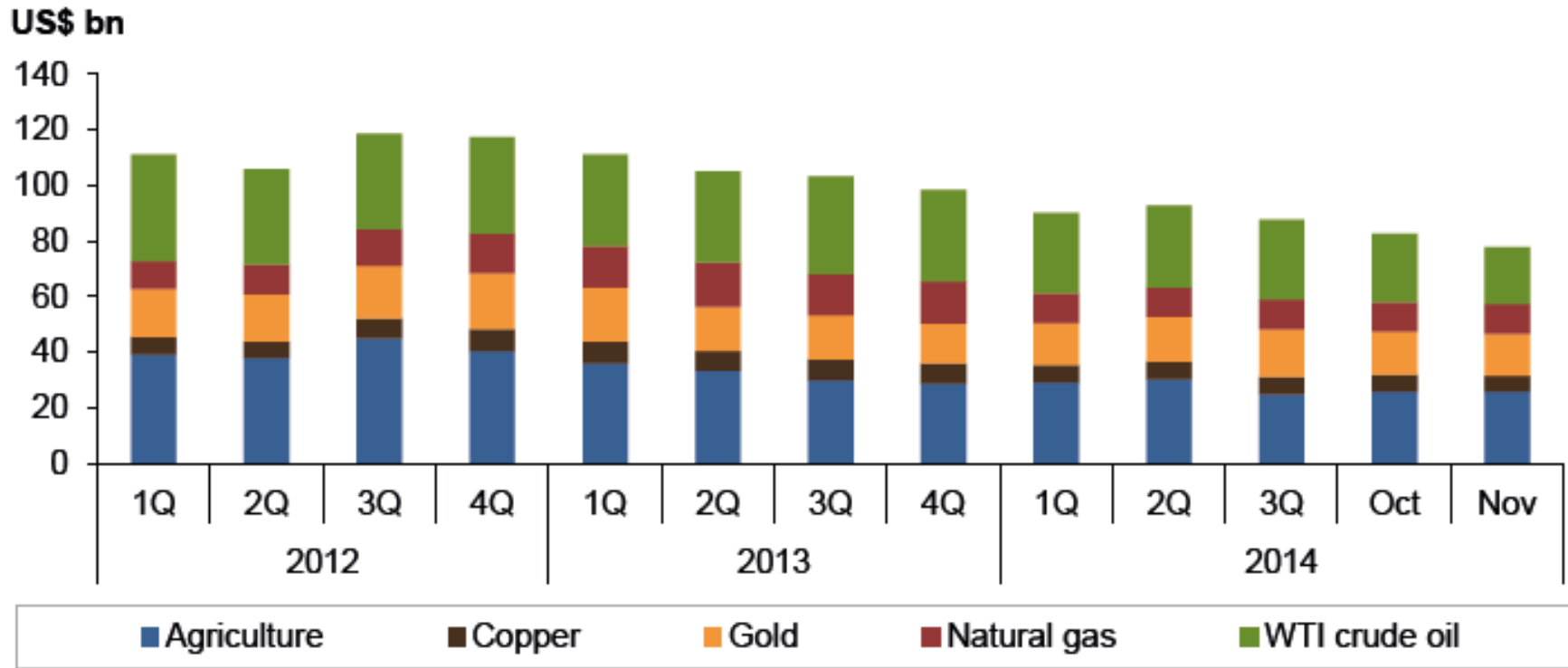
Graph 2.4: Speculative activity in key commodities, net length



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.

# Is This 1986 All Over Again? Not Yet

	1980s	Current
Oil demand	Falling	Rising, but maybe at a slower pace
Supply growth	OPEC, North Sea	North American centric
Spare capacity	10-15%	2.5%
Supply excess	10%	1%
Decline	3%	4% globally, shale could be much higher without continuous drilling

# 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.