

Energy Outlook



For

EnerCom Dallas

February 22, 2018 | Dallas, TX

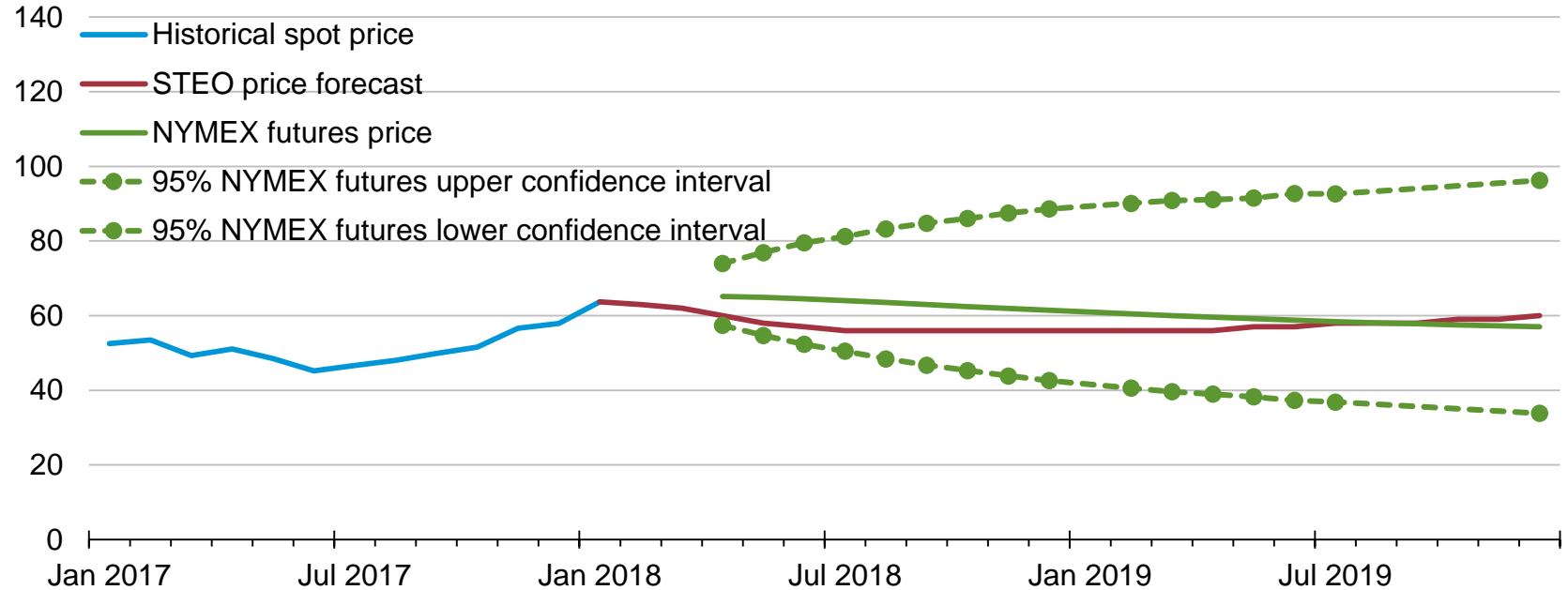
Jeff Barron

Industry Economist, U.S. Energy Information Administration

EIA expects crude oil prices to average \$58/b through 2019

West Texas Intermediate (WTI) crude oil price

dollars per barrel

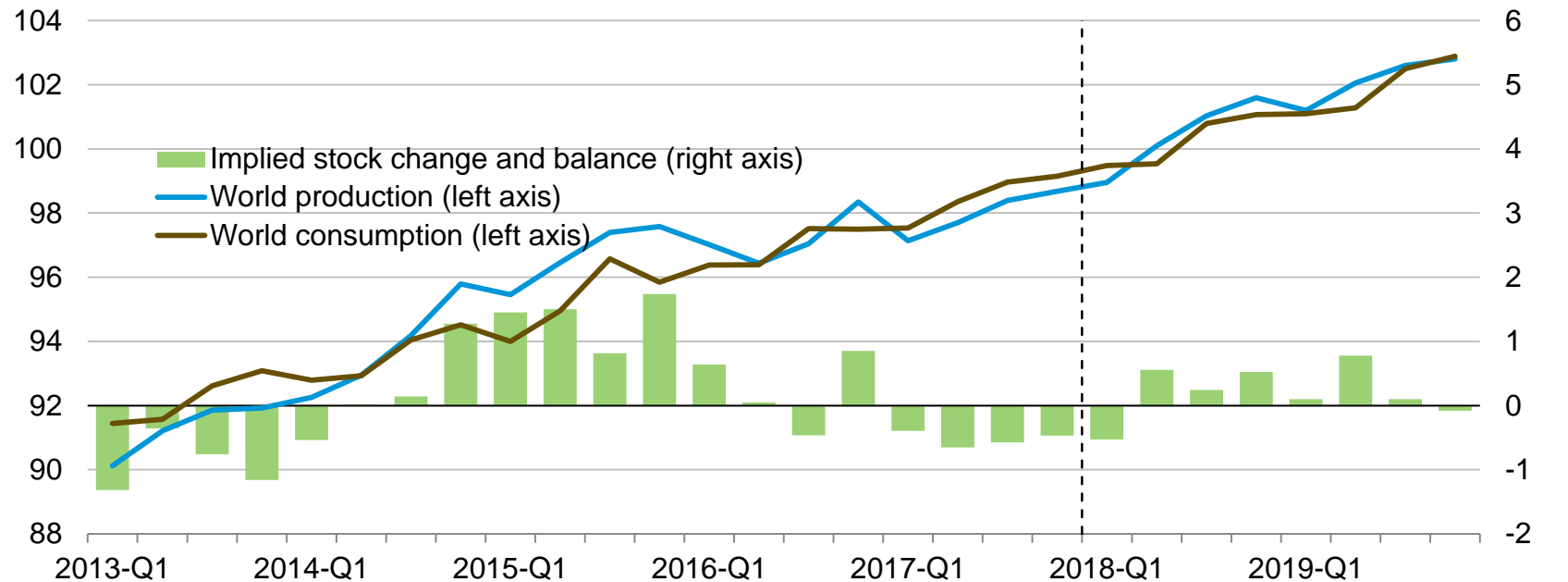


Source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2018 and CME Group

Global inventories are expected to build slightly in 2018 and 2019 after large stock draws in 2017

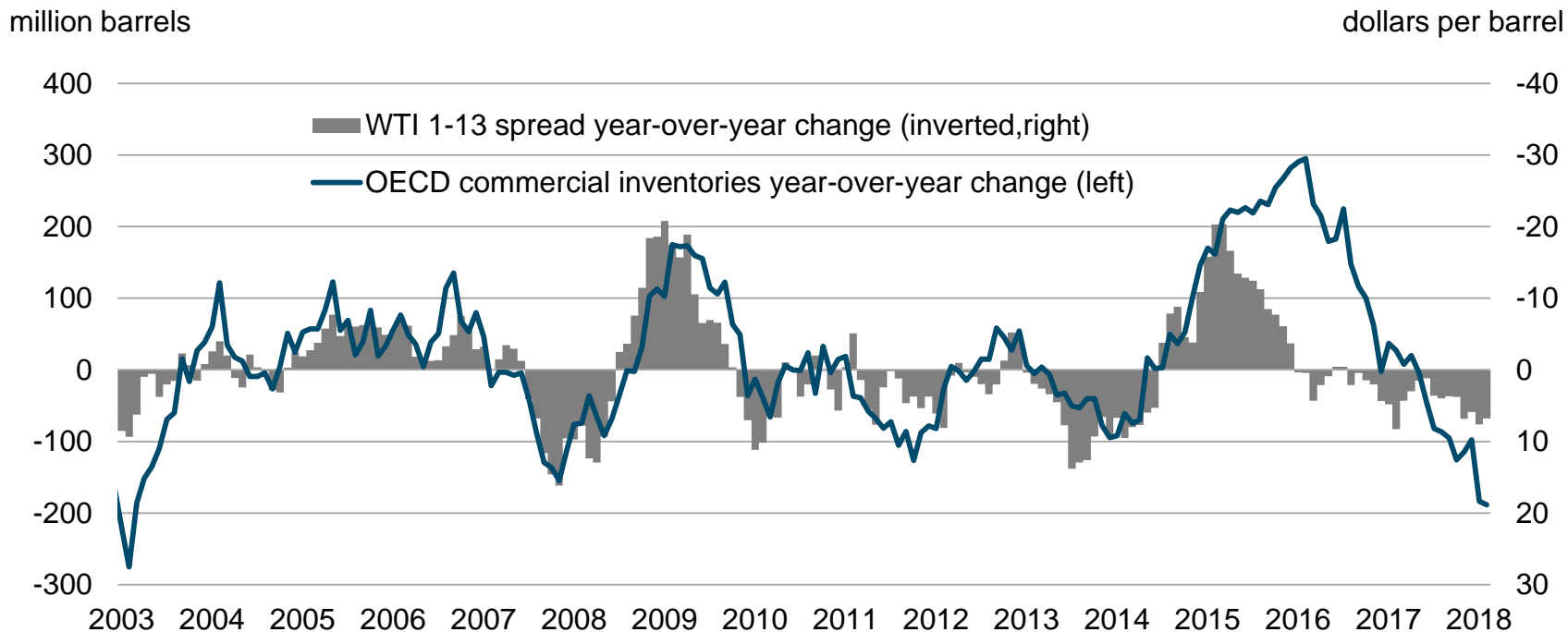
world liquid fuels production and consumption balance

million barrels per day



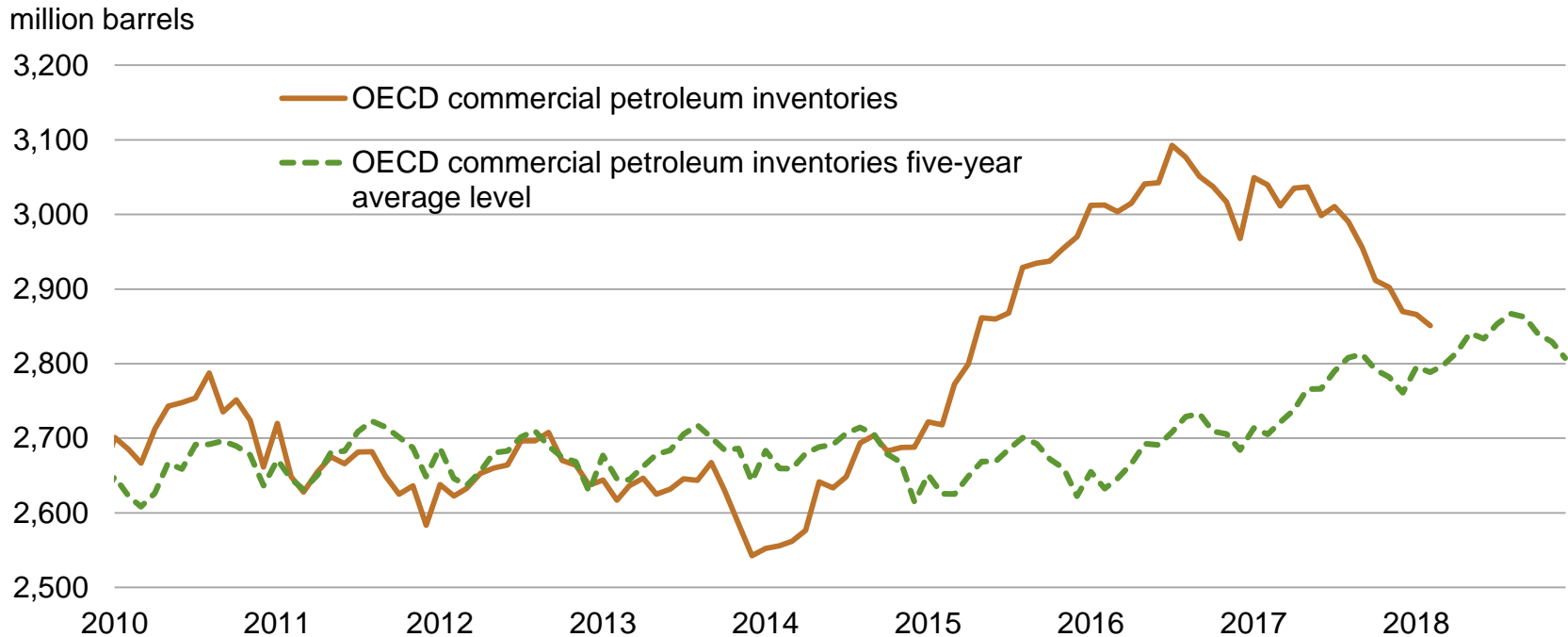
Source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2018

OECD inventories are estimated to be declining at the largest annual rate in 15 years; continued increases in backwardation suggest tight supply/demand balances



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2018, Bloomberg

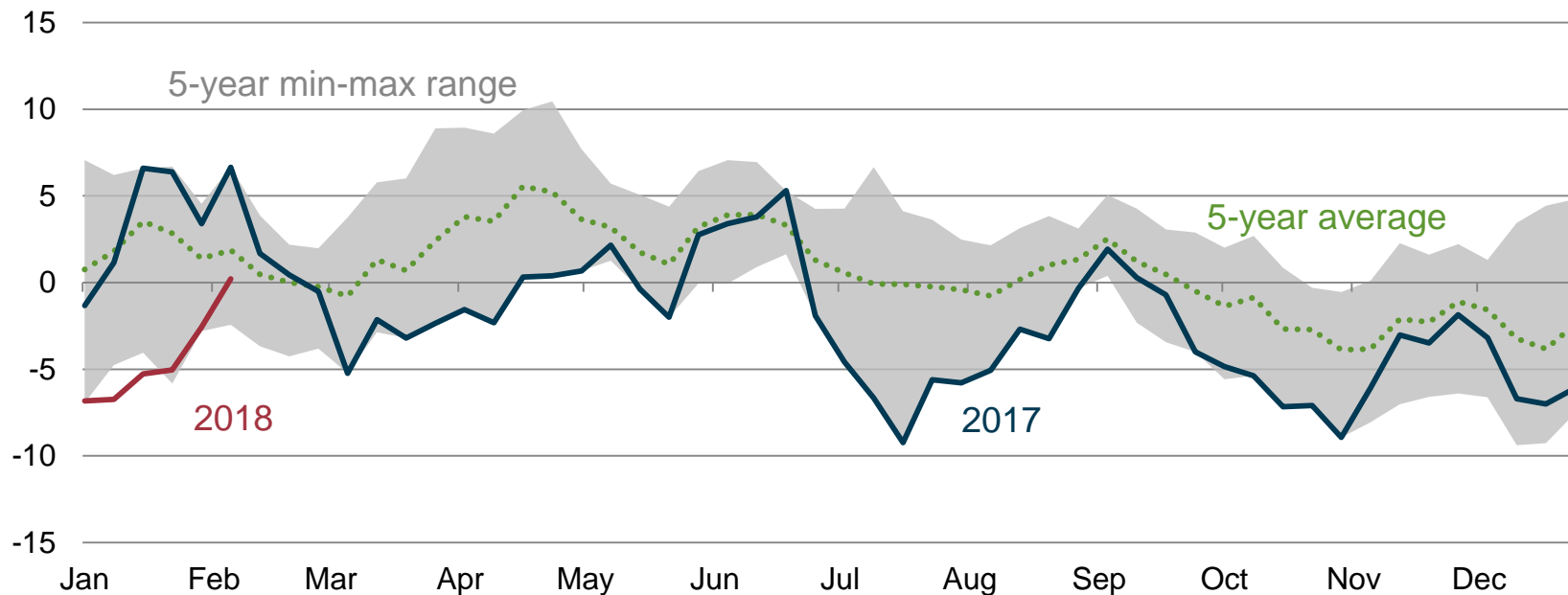
The strong draw in inventories has essentially brought them in line with the five-year average level, OPEC's target for rebalancing



Source: U.S. Energy Information Administration, *Short-Term Energy Outlook*, February 2018

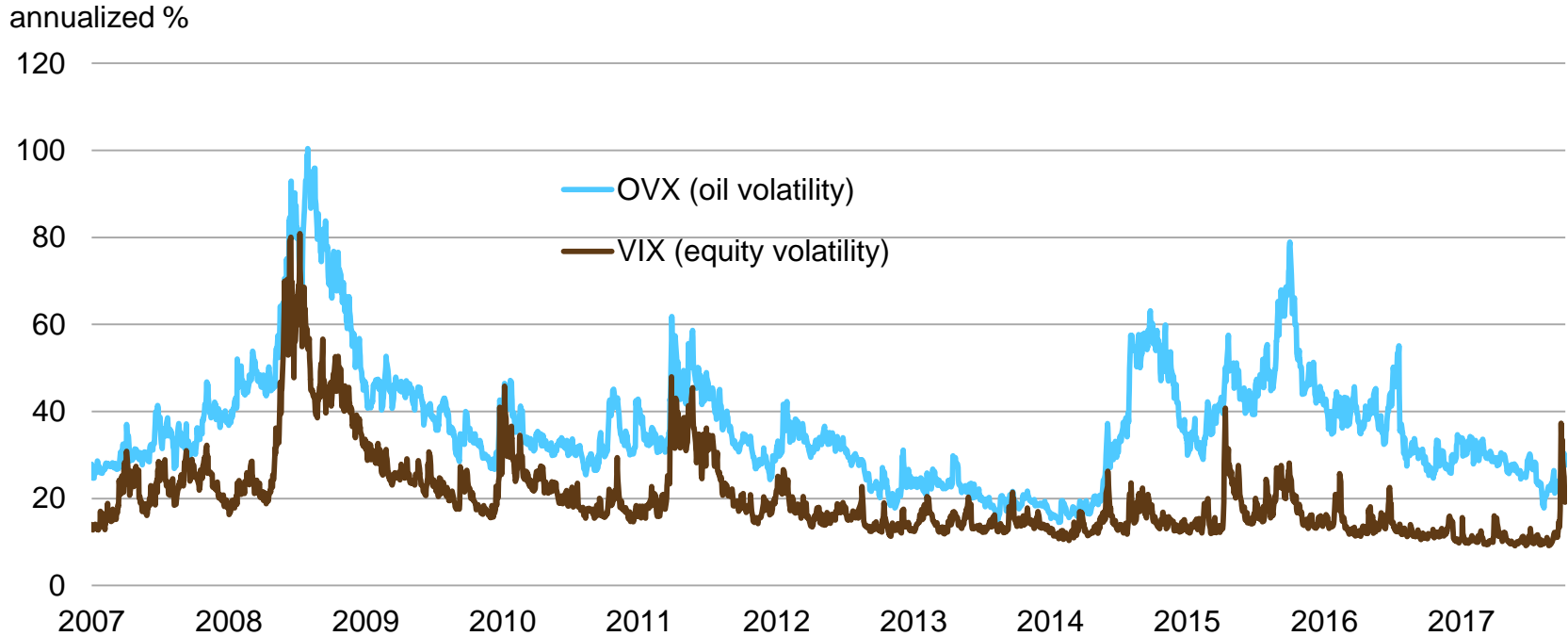
In the United States, total petroleum stocks are drawing at the largest rate in years on high refinery runs and distillate consumption

U.S. crude oil and petroleum product stock change
million barrels, four-week moving average



Source: U.S. Energy Information Administration, Weekly Petroleum Status Report

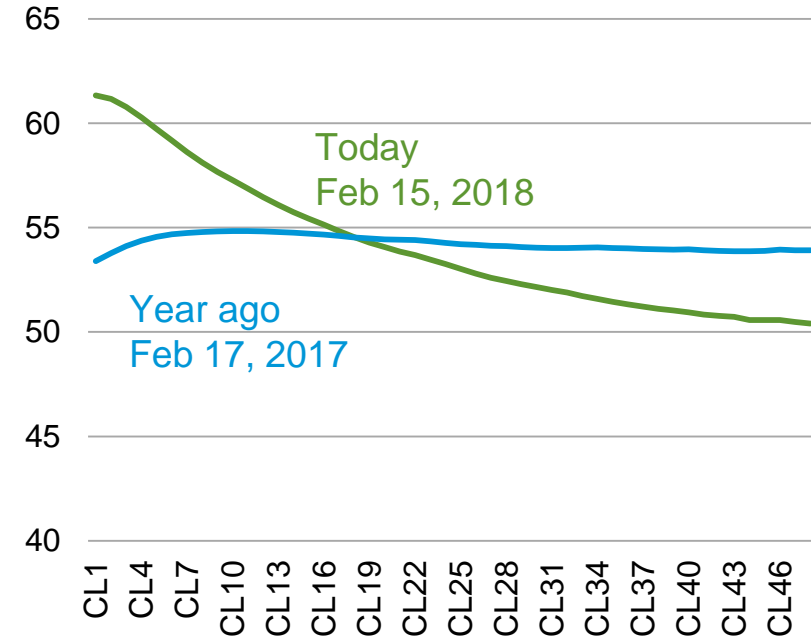
Recent equity market volatility could have spilled over to commodity markets



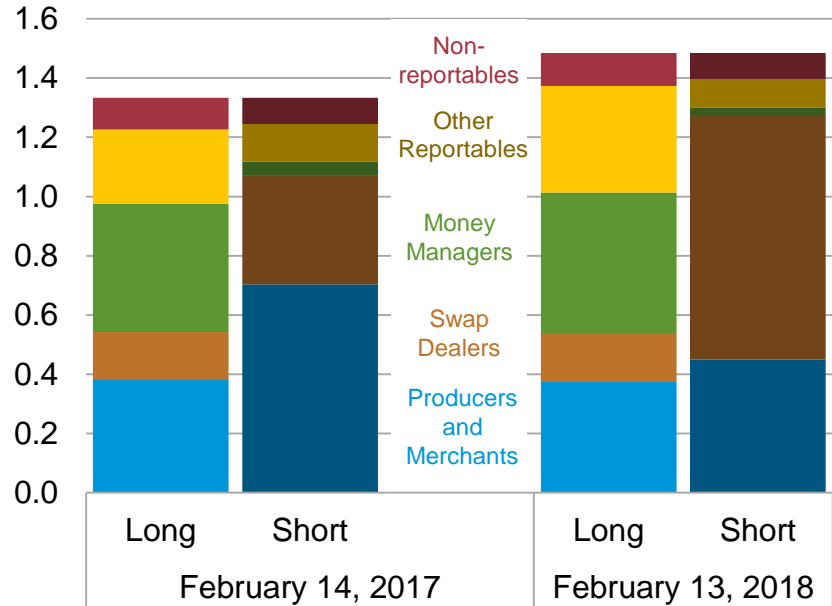
Source: Bloomberg

Large increase in shorts from swap dealers during past year met by money manager, other reportable longs; hedging lowered back end of the curve

WTI futures curve
dollars per barrel

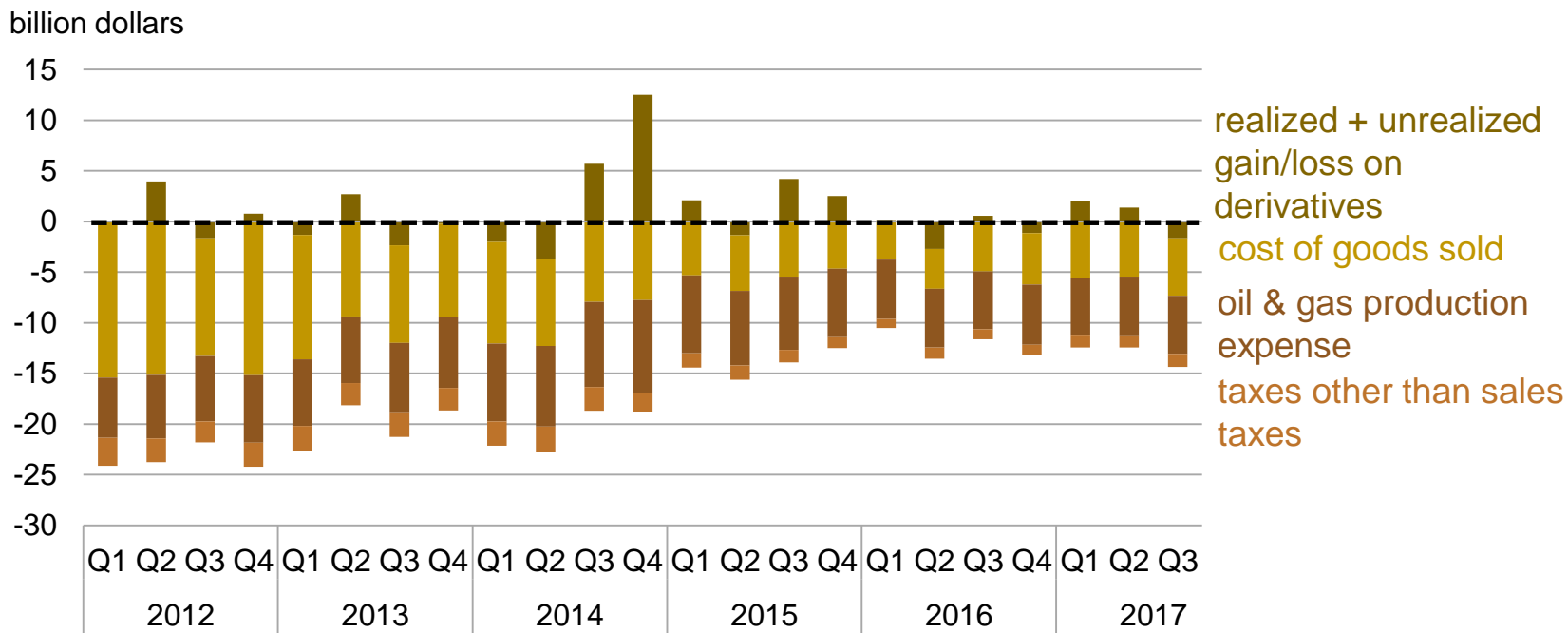


Open interest by trader classification
million contracts



Source: Bloomberg, U.S. Commodity Futures Trading Commission

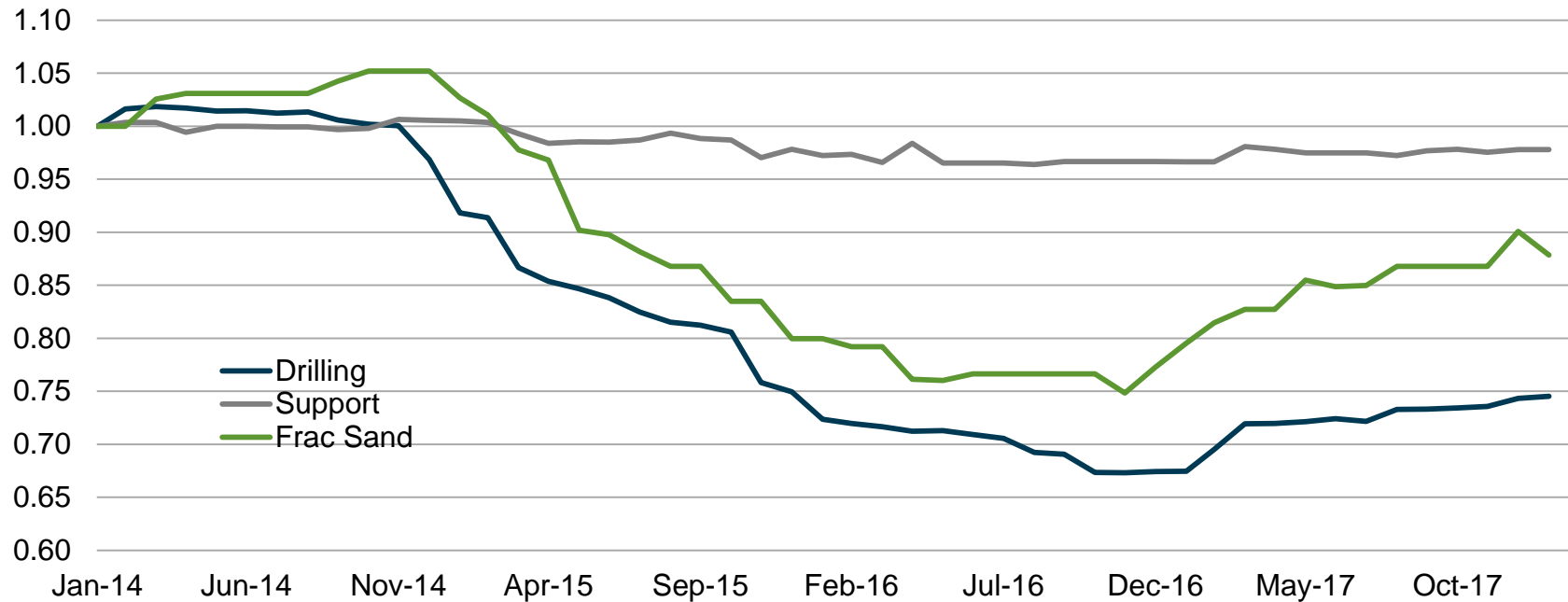
Preliminary Q4 income statements showing 20% increase in costs and tax, increase in hedging losses



Source: Evaluate Energy; includes 58 U.S. exploration and production companies

Drilling and frac sand costs up 10% year-over-year, but remain below \$100 oil days

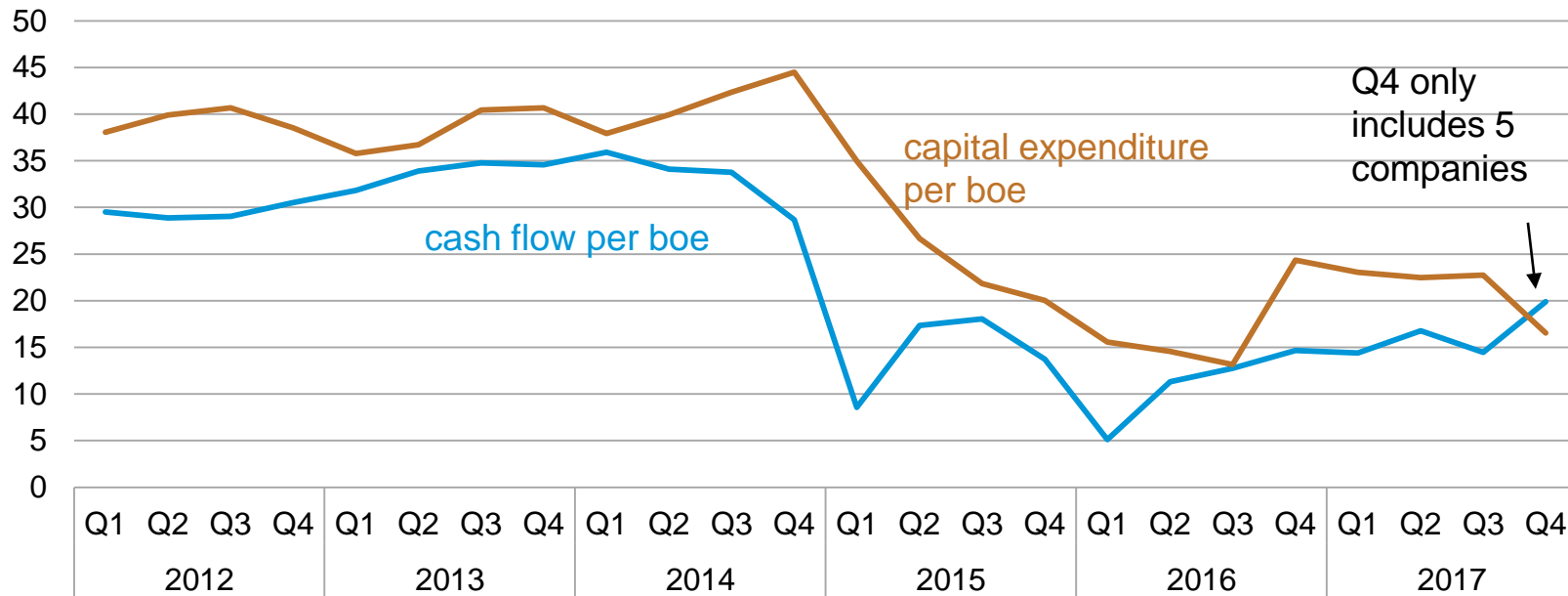
Indexed to January, 2014



Source: U.S. Bureau of Labor Statistics, Bloomberg

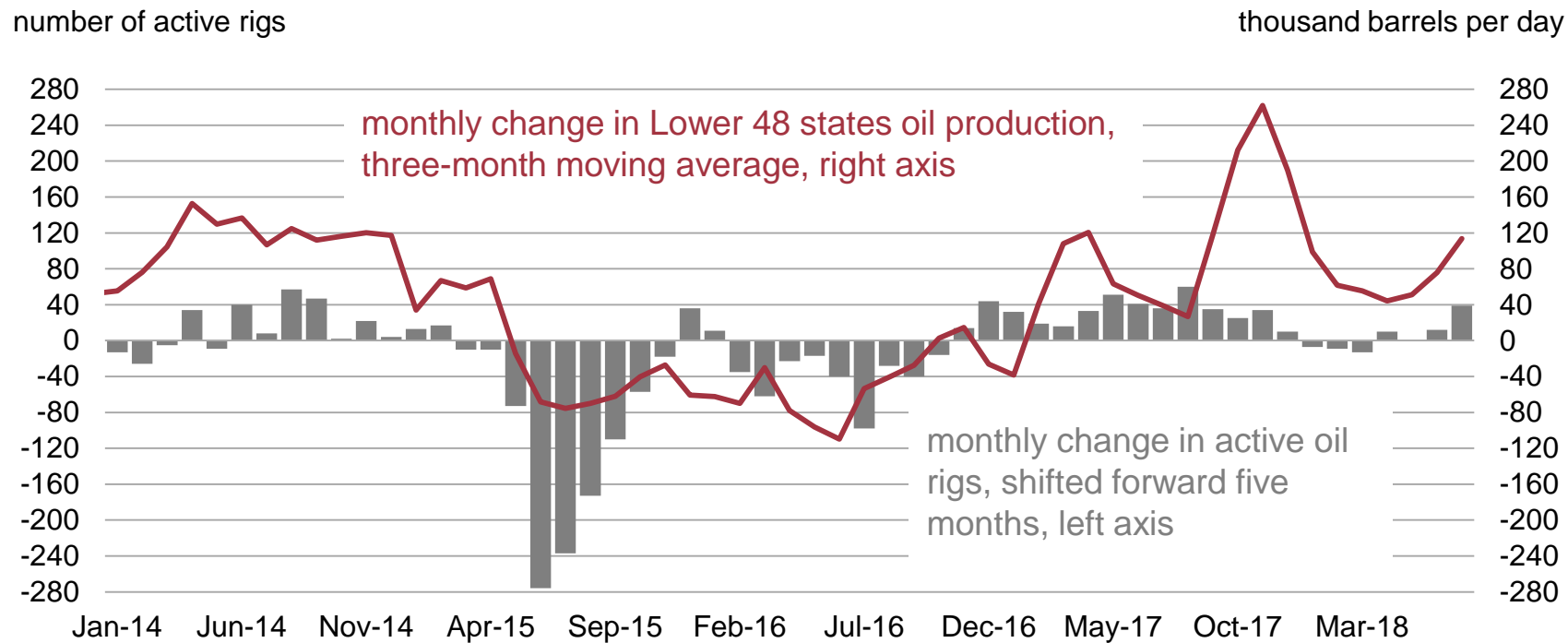
Does capital discipline mean restraining capex, or having positive free cash flow? Price is certainly helping cash flow

dollars per barrel of oil equivalent



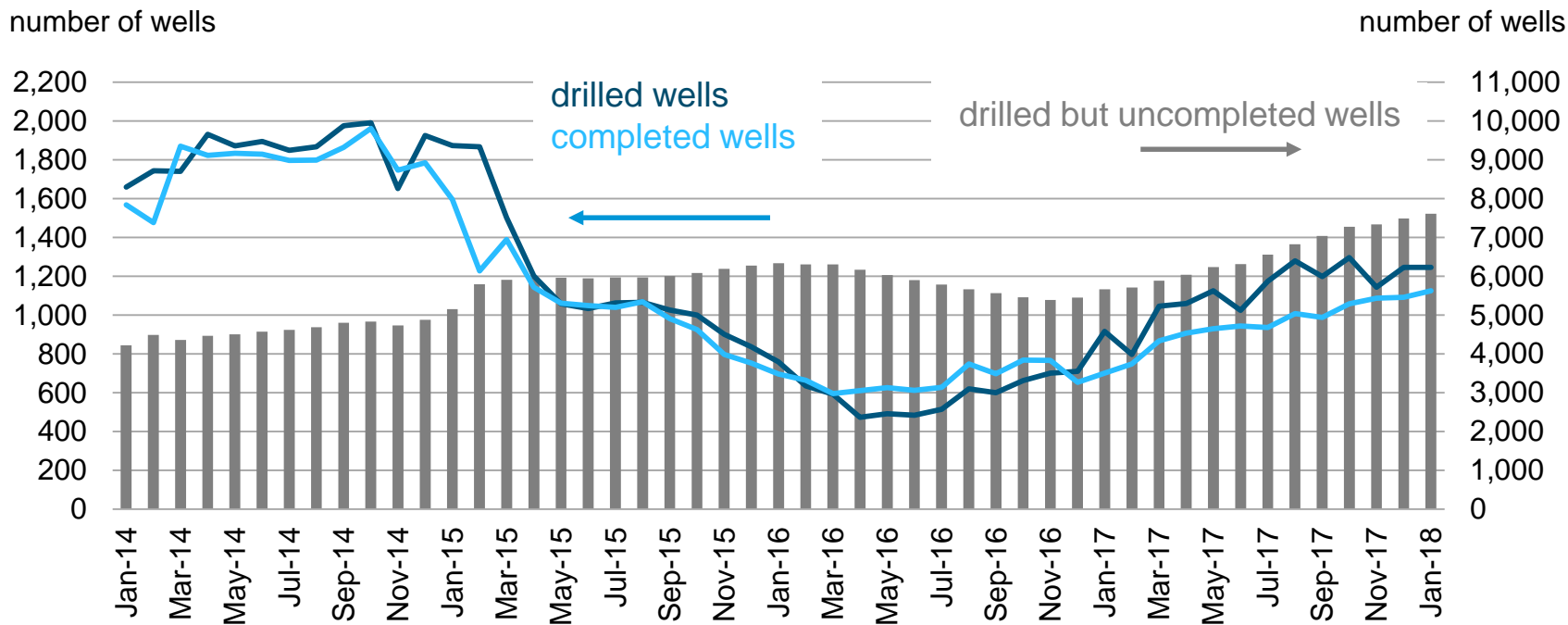
Source: Evaluate Energy; includes 58 U.S. exploration and production companies

Rig counts began increasing again in recent weeks following Q4 price movement; increase in completion activity over next quarter will resume acceleration in U.S. onshore production growth



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2018, Baker Hughes

The rate of change of completed wells is starting to accelerate above drilled, which will begin to reduce DUCs and push U.S. production to new highs, crossing 11 mmb/d by the end of 2018

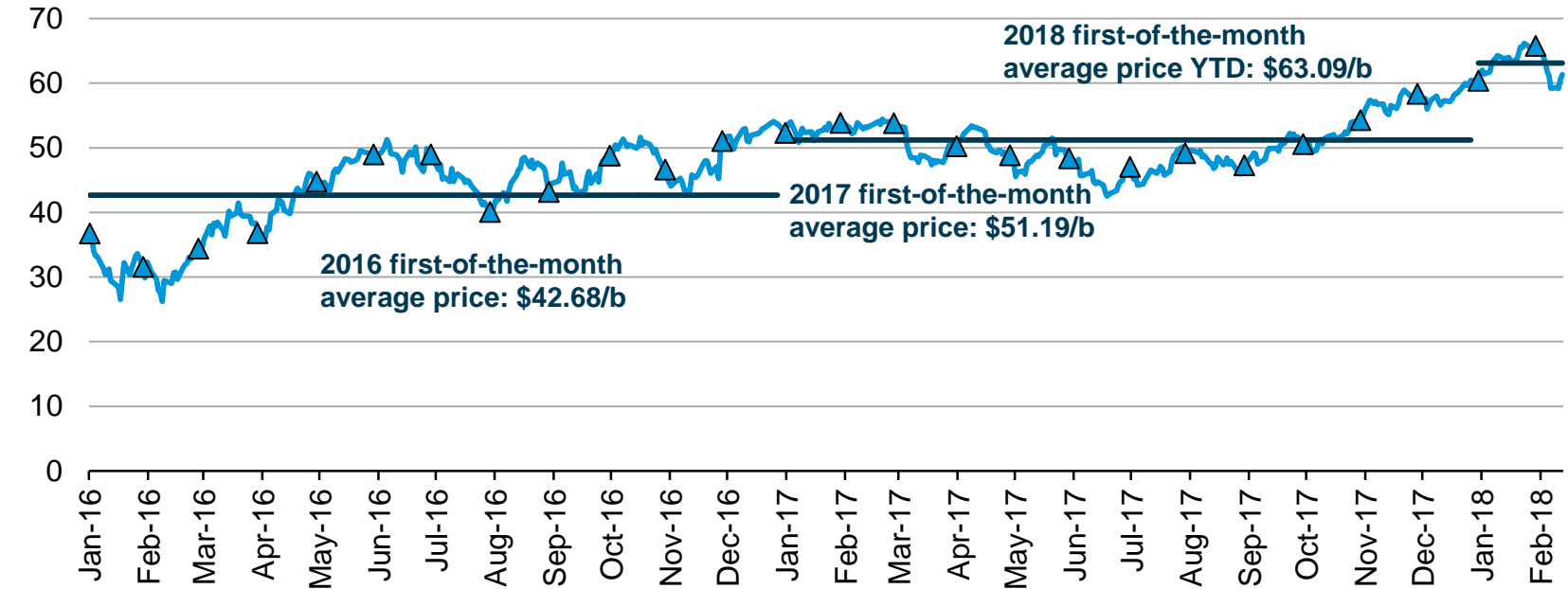


Source: U.S. Energy Information Administration, Drilling Productivity Report, February 2018

Value of proved reserves positioned well heading into redetermination season; credit lines likely maintained or even increased

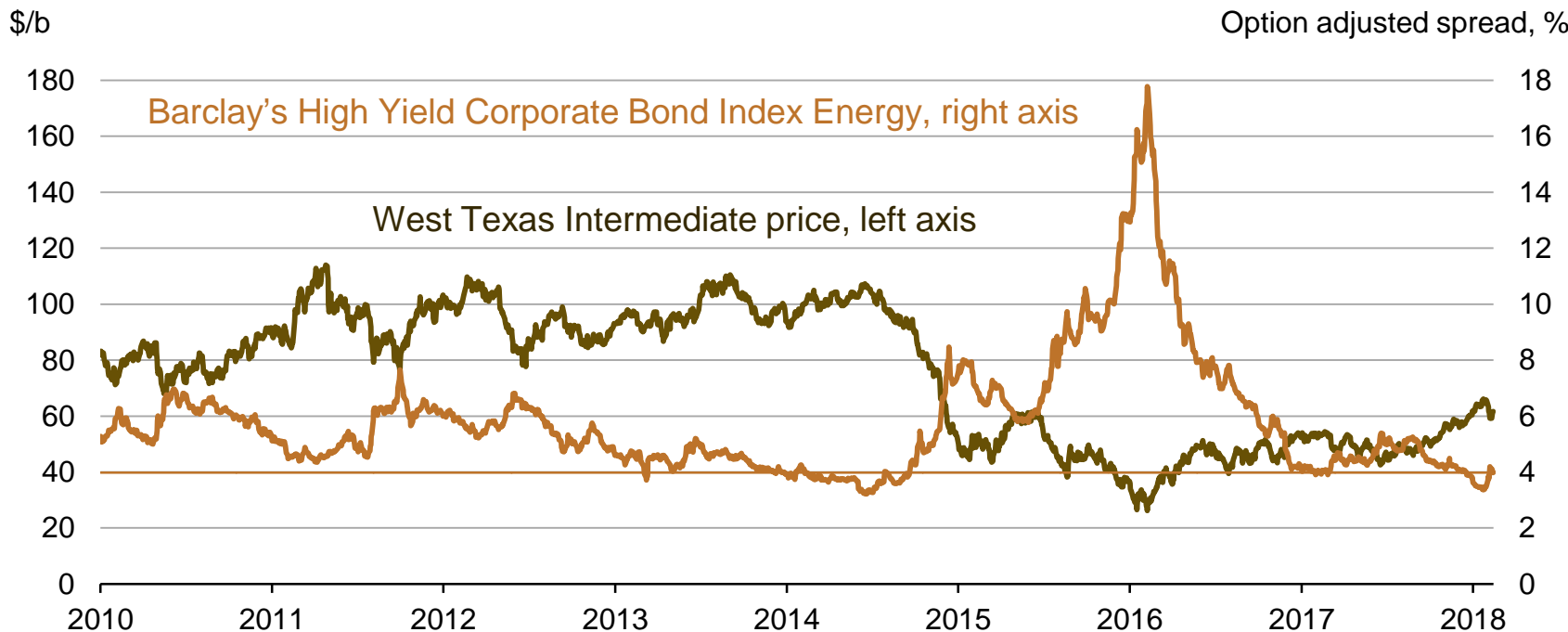
Front-month WTI crude oil price

\$/b



Source: Bloomberg

High yield corporate bond spreads remain low even after recent energy, U.S. government bond selloff

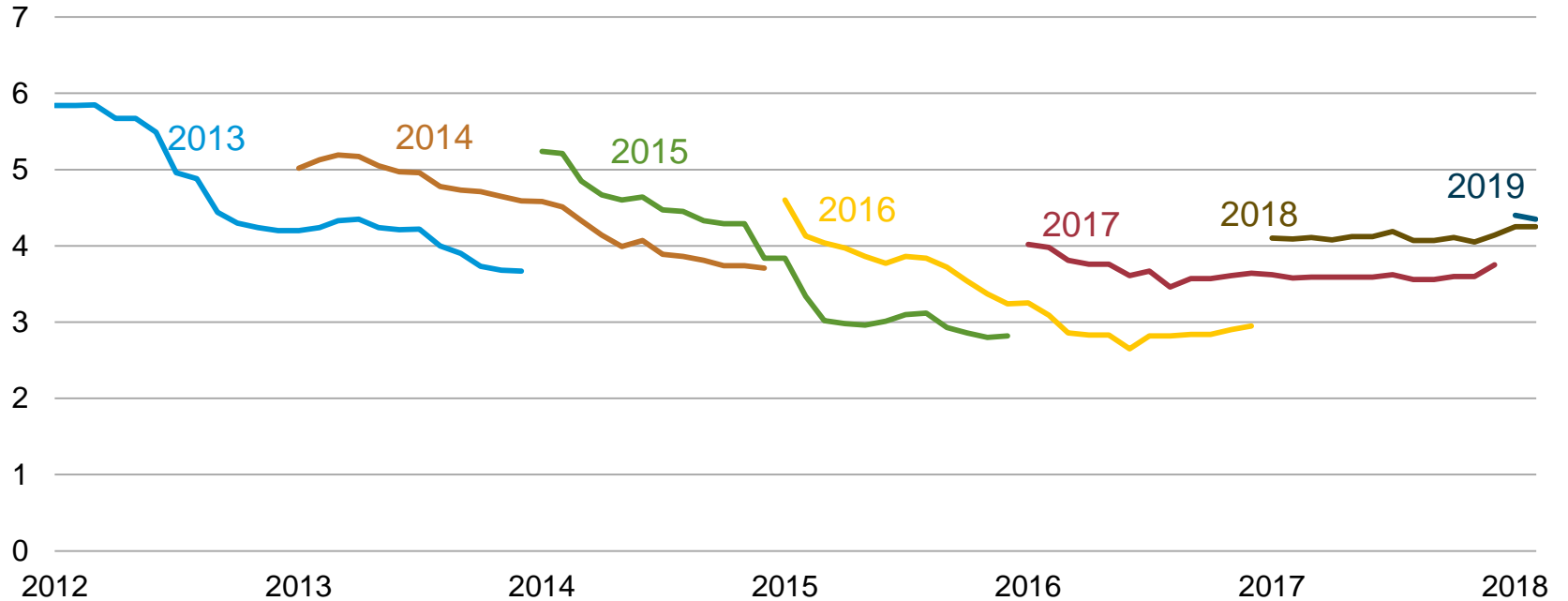


Source: Bloomberg

Demand expectations in non-OECD countries remain robust

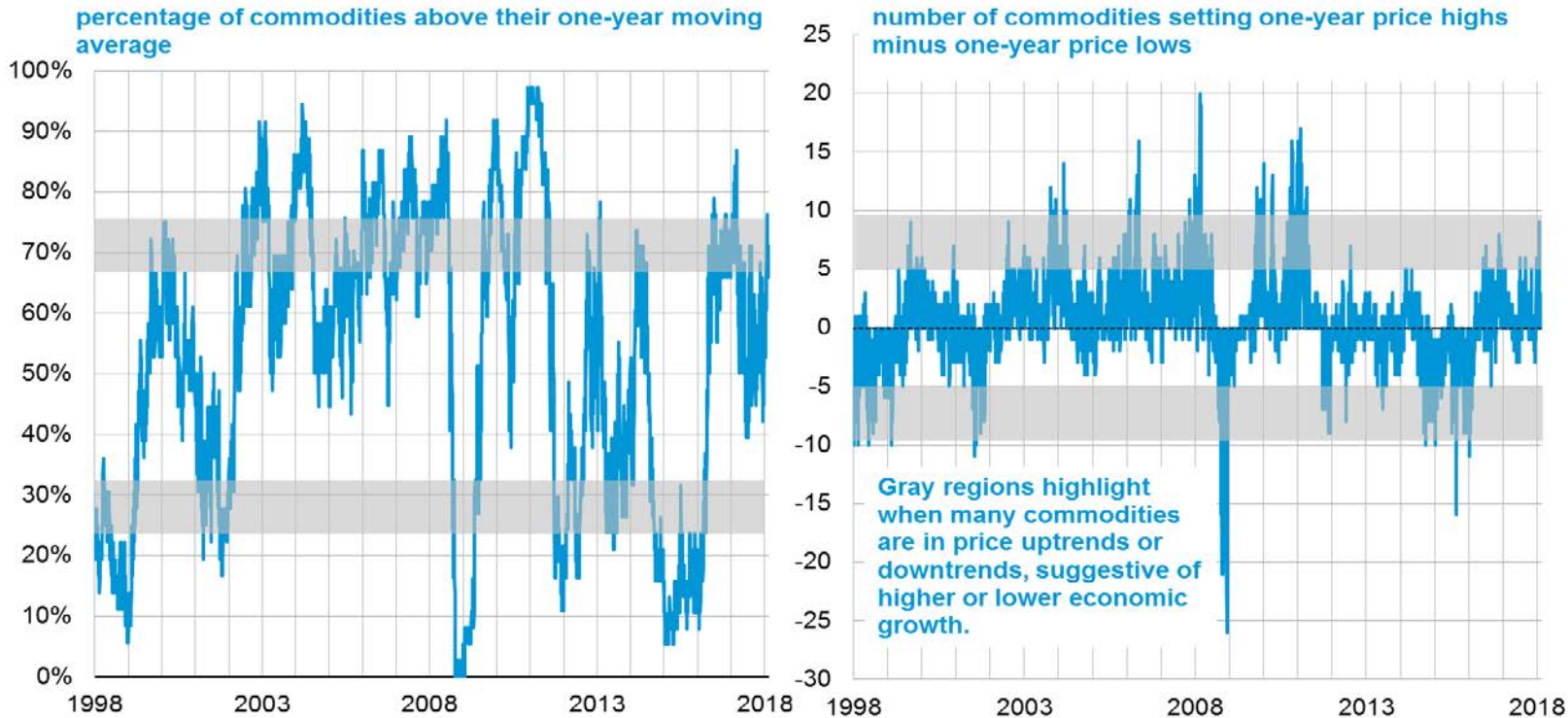
Non-OECD GDP growth forecast (annual expectations) by release date

percent



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2018

Commodity price trends remain up, suggesting less downside risk to the demand outlook

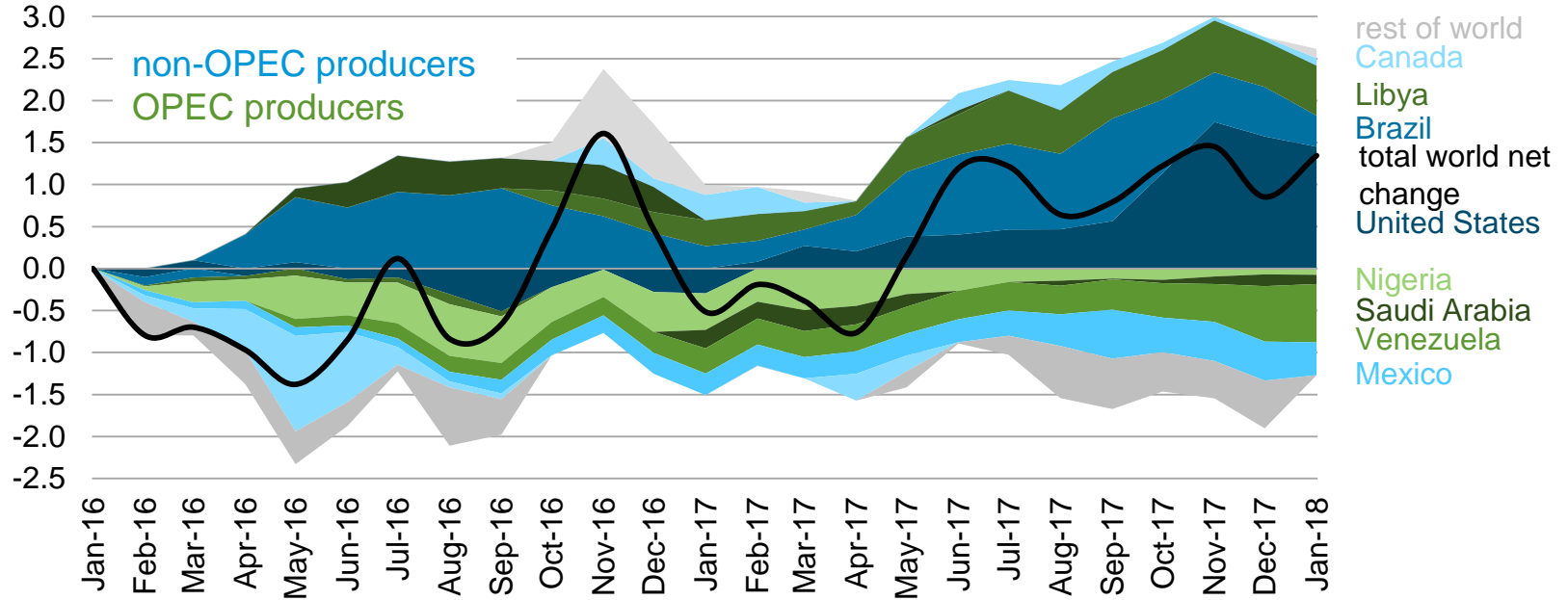


Source: Bloomberg; includes 38 commodities

OPEC cuts being offset from non-OPEC production growth...

change in global liquid fuels production since January 2016

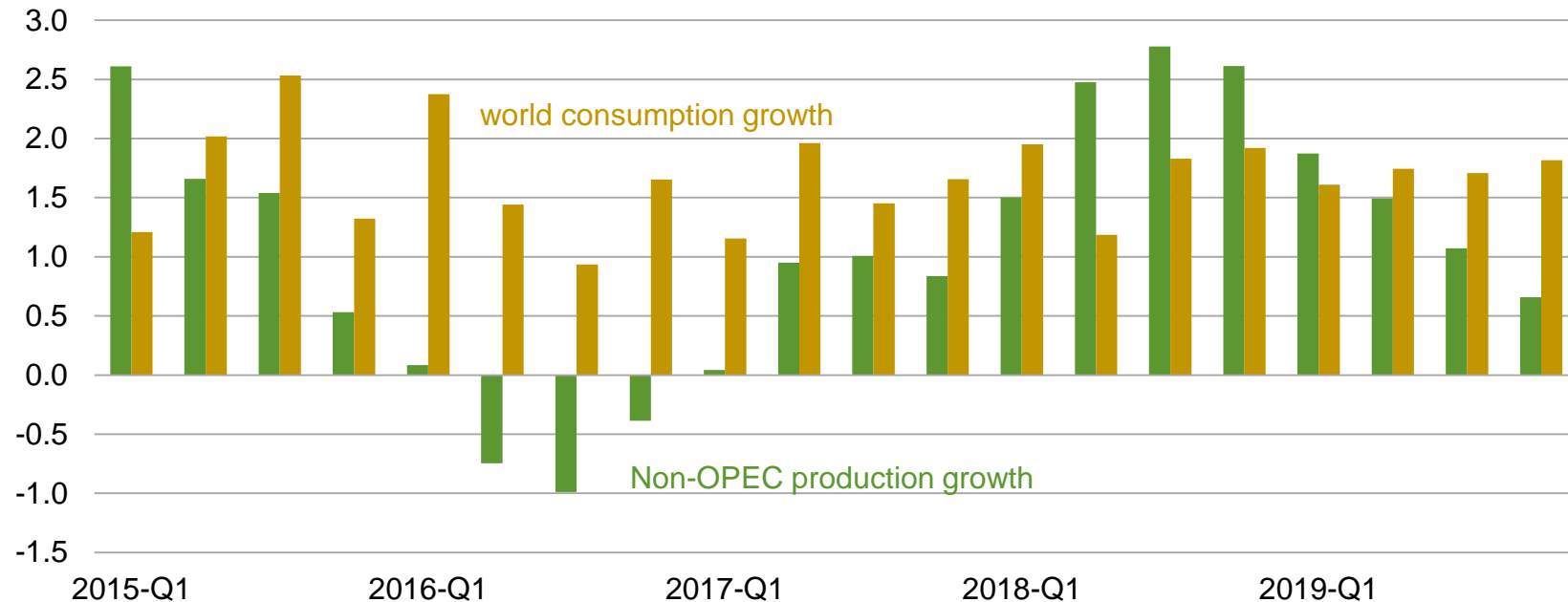
million barrels per day



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2018

...which is expected to completely satisfy global demand growth the remainder of 2018

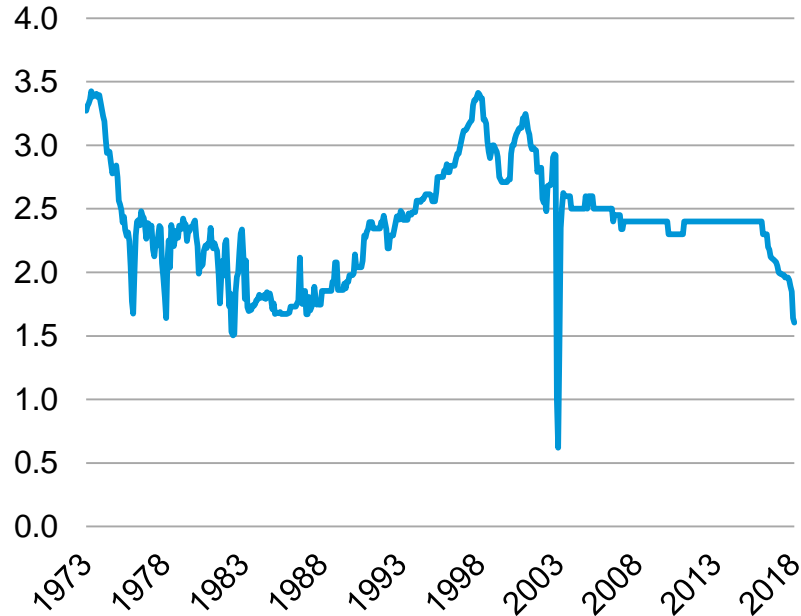
world consumption and non-OPEC production growth
million barrels per day



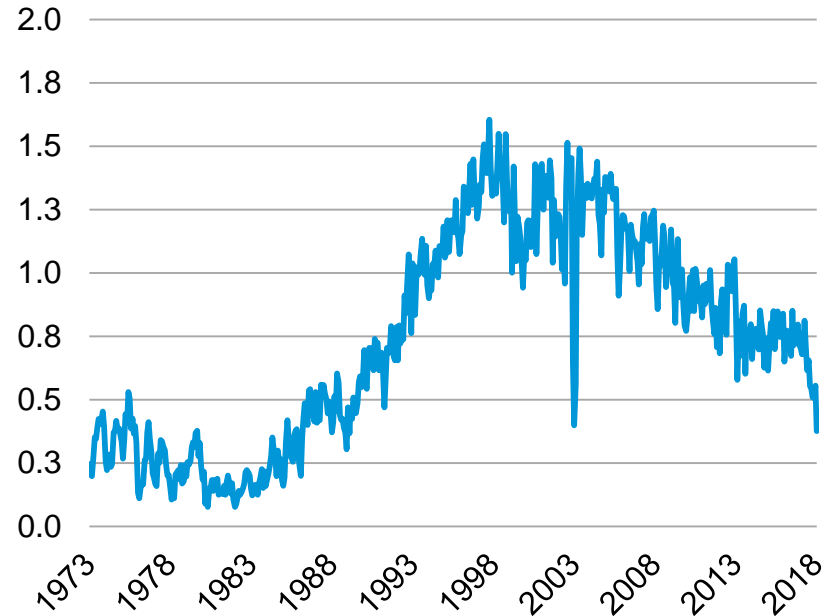
Source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2018

However, supply disruption risk in Venezuela is real

Venezuela crude oil production
million barrels per day



U.S. crude oil imports from Venezuela
million barrels per day



Source: U.S. Energy Information Administration, Monthly Energy Review, Petroleum Supply Monthly, Weekly Petroleum Status Report, Short-Term Energy Outlook, February 2018

For more information

U.S. Energy Information Administration home page | www.eia.gov

Annual Energy Outlook | www.eia.gov/aeo

Short-Term Energy Outlook | www.eia.gov/steo

International Energy Outlook | www.eia.gov/ieo

Monthly Energy Review | www.eia.gov/mer

Today in Energy | www.eia.gov/todayinenergy

This Week in Petroleum | <https://www.eia.gov/petroleum/weekly/>

Drilling Productivity Report | www.eia.gov/petroleum/drilling/

International Energy Portal | www.eia.gov/beta/international/?src=home-b1