A more comfortable market ahead?

Spare capacity recovers, but geopolitical risks remain high

- Lower demand growth, more robust supply picture make for more comfortable balance
Weak macroeconomic backdrop restrains demand outlook

- Weaker macroeconomic backdrop cuts about 0.5 mb/d from the forecast since the 2011 Medium-Term Oil and Gas Markets report.

- Global oil product demand is projected to increase by 1.2% (1.1 mb/d) per year over the next 5 years, rising from 89.0 mb/d in 2011 to 95.7 mb/d in 2017.
Uneven growth: emerging markets, and distillates, dominate

- Continued OECD demand contractions vs. non-OECD growth
- Non-OECD demand overtakes OECD demand by 2014
- Distillates leads the upside. Gasoil accounts for 40% of total growth, rising by an average 1.7% annually
Iraq and the US lift supply

Production forecast to grow by 9.3 mb/d

- Iraqi capacity provides 20% of liquids growth
- North American oil sands and light tight oil (LTO) provide 40%
- Americas replace FSU as non-OPEC growth leader
- Non-OPEC average growth seen 860 kb/d in 2013-2017, after unplanned outages cut growth to 100 kb/d in 2011 and 400 kb/d in 2012
OPEC capacity: Iraqi gain, Iranian loss

Libyan recovery contributes to 3.34 mb/d total increase

- Iraq provides 50% of growth, to reach 4.8 mb/d in 2017
- Libyan supplies bounce from 2011 civil war-low
- Iranian capacity to fall by 30% to 2.5 mb/d in 2017 as sanctions bite
- Saudi Arabian crude capacity to remain close to 2011 levels
- OPEC effective spare capacity seen recovering to 5.3 mb/d in 2017
Technology & price unlock ‘tough’ oil
US light, tight oil to surge by 2.5 mb/d

- Americas growth outpaces other declines
- Canada grows by 1.1 mb/d, led by oil sands, despite bottlenecks
- Brazil adds 0.8 mb/d, mostly deepwater
- Biofuels should grow to 2.4 mb/d
A new global crude trade map

Crude Exports in 2017 and Growth in 2011-17 for Key Trade Routes*

* Excludes Intra-Regional Trade

- North American crude import requirements plummet on rising regional supply
- Rising Middle East demand curtails export availability
- ‘East of Suez’ accounts for an ever growing share of global crude trade
Refinery build outpaces demand

All growth coming from non-OECD countries

- Refinery investments set to add 7 mb/d of net capacity by 2017
- Capacity build surpass forecast demand from 2013 onwards
- All growth come from the non-OECD, led by Asia and the Middle East
- OECD consolidation continues - 4 mb/d closures to date since 2008
- Middle distillate markets remain tight on demand strength
Oil price volatility back to normal

- Inherent oil price volatility reflects uncertainty about global business conditions and lack of data, rather than financial speculation.
- Since the 2008-2009 spike, volatility has returned to normal.
- Oil prices can be affected by quantitative easing at the margin, to the extent that quantitative easing impacts physical supply or demand.
- Too soon to tell the impact of the latest QE round.
Summary

Market balances appear more comfortable in the years ahead. Spare capacity recovers, but geopolitical risks remain high. Demand growth should be led by non-OECD, distillates
Thank you

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