

## Flash Note 18/12/2018

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### Oil price structurally low forever (good news). Understanding what's going on.

1. Softening demand fears are in focus, especially in China, where the government's advisers recommended lowering the 2019 growth target.
2. Production remains at or near record levels in the US, Russia, and Saudi Arabia, stoking fears of global oversupply.
  - a. EIA monthly drilling productivity report showed expectations for US shale production to rise to a record 8.2M bpd in January, up 134K bpd over December.
  - b. The agency predicts 2018 production to average 10.88M bpd, but 11.5M in Q4, and 12.06M bpd for FY2019!! (that is up from a 2019 projection of 11.76M bpd just six months ago).
  - c. The agency says that even at \$50 a barrel, operators can make reasonable profits **as breakeven levels are in the low to mid \$30s** a barrel. However, service companies have indicated "very little discussions regarding 2019 programs and timing for budget/rig/frac crew re-deployment."
3. OPEC+: Russia production still near record levels. Cuts uncertain: Russia expects to produce around 11.145 to 11.165M bpd of crude in 2019, though the number could be revised downward due to the recent OPEC+ production cut agreement. Russia agreed to reduce output by 228K bpd as part of the agreement, though will reach the target gradually. Russian producers do not want to cut output.
4. Production restarts in North Sea's Buzzard field: Nexes said it restarted production in the Buzzard oil field, the largest oil-producing field in the area. Operations had been unexpectedly shut down for three weeks to repair corroded facilities. The field produced around 130K bpd in the first half of 2018

Well. In my humble opinion, the implications are definitely good from an economic point of view. From the point of view of progress, that is, the transition to renewable energy, these news are not as favorable since a low oil price implies a higher opportunity cost for alternative energies. It seems as if conventional producers are finally understanding this.

Best regards