EIA Workshop: Economic Activity & Oil Prices, OPEC Policies, Production and Price Responses
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* Disclaimer: The opinions / views expressed are my own and do not necessarily reflect those of my employer
Factors affecting crude oil prices

- Prices are set by individual agreements among willing buyers and sellers
- Each buyer and seller makes its own assessment of market value based on many factors

**Current Assessments**

- Supply
- Demand
- Inventory Levels
- Capacity Utilization
- Value After Refining
- Current Market Level
- Recent Market Direction

**Future Expectations**

- Weather Outlook
- Geopolitical Considerations
- Demand Growth
- Supply Growth
- Capacity Growth
- Logistics Availability
  - Marine, Pipelines
- Financial Markets
  - Interest rates, foreign exchange, equity markets

* Graphic based on Foreman (2009)
Global oil supply dynamics

Crude supply by source: a cost-based seriatim

Million barrels per day


- OPEC volumes remain the most cost-competitive globally
- Tight oil, pre-sanction high-cost conventional and VHO developments should remain the marginal supplies
Recent oil prices and OPEC announcements

OPEC announcements have corresponded with the desired directional price impact.

Nov. 2014. Saudi Arabia blocks OPEC cut

Sept. 2016. First OPEC production cut in 8 years

source: Argus, Bloomberg
OPEC announcements also appear to have influenced effective production and market capture.
Brent crude oil prices & spare productive capacity

2017$US/Bbl

0 1 2 3 4 5 6 7

OPEC spare capacity + tight oil excess supply (MBD)

Real cost escalation; prices reflect ~3X increase in F&D costs (Deutsche Bank 2012)

* Graphic based on Foreman (2009)

Although the OPEC swing producer model is outdated, excess productive capacity continues to correspond with prices
Current issues

- Credible commitments
- Uncertainties in reporting and discrepancies among reported data sources
- Inventory measurement (Non-OECD)
Key points

- Myriad factors affect crude oil prices
- OPEC volumes remain the most cost-competitive, and tight oil, pre-sanction high-cost conventional & VHO developments remain marginal supplies.
- OPEC announcements have influenced prices, production and market capture.
- Although the OPEC swing producer model is outdated, excess productive capacity continues to correspond with prices.
- Issues: credible commitments, reporting discrepancies and Non-OECD inventory measurement.