

09 June 2016

WHOLESALE ENERGY PRICES: MARCH – MAY 2016: PART I: OIL

In this new series of articles, Dominic Whittome covers wholesale energy prices between March and May 2016, discussing issues such as fluctuations in the price of Brent crude, falling shale production and decreasing prices across Europe's gas and electricity exchange, as well as the possibility of these rising again in the future.

The cost of Brent Crude went on a rollercoaster ride in March and April. Prices began rising amid hopes of a possible agreement at OPEC's production ceiling talks in Doha, only to fall back once those expectations were dashed. Prices then soared to \$50/bl by the end of April, far above the "new \$20/bl - \$30/bl range" discussed in some trading circles as recently as February. In the event, the market shook off the stand-off in OPEC and the 15-Dated Brent contract ended the period up over 23%.

Meanwhile, North American shale production has proved much more price-sensitive than some pundits anticipated. Shale projects generally have a very short plateau period so ongoing development is key. Production may well have been set to decline anyway as indirect government subsidies were to be curtailed, although the prolonged slump in oil prices may have bought this to a head. The IEA itself predicted a possible fall in shale investment at the end of last year, observing a sharply increasing price sensitivity once oil prices fall below \$60/bl.

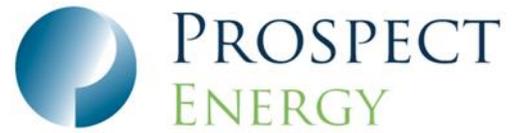
Last month the IEA announced that non-OPEC oil production was falling at a faster rate than at any time in the past 25 years. Looking forward, one key price driver will be how soon the current impasse between Iranian and Saudi oil ministers can be broken. Longer term, there is also the issue of how quickly wider Middle Eastern and Venezuelan crude production can be ramped up and brought to market as global oil demand gradually recovers, especially if non-OPEC production continues to disappoint.

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Dominic Whittome is an economist with 25 years of commercial experience in oil & gas exploration, power generation, business development and supply & trading. Dominic has served as an analyst, contract negotiator and Head of Trading with four energy majors (Statoil, Mobil, ENI and EDF). As a consultant, Dominic has also advised government clients



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(including the UK Treasury, Met Office and Consumer Focus) and various private entities on a range of energy origination, strategy and trading issues.

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