

Oil Market Report: August 2019

September 2019 marks Portland's 10 year anniversary. Back then the UK was crawling out of recession, stemming from the 2008 financial crisis. Not a great time you would think for a tin-pot outfit to try and find its feet, offering fuel price protection to fuel consumers. But 10 years later, we are still here and to mark that milestone, we thought we would look at the key developments in the oil industry over the last 10 years.

Of all the events that Portland has been witness to over the last decade, nothing comes close to the oil game-changer that has been American shale fracking. We have covered this topic in numerous Oil Market Reports over the years, but nothing on paper can really do justice to just how much this form of extraction has changed the industry. Consider this one stand-out fact that concerns the Bakken Oil Field in North Dakota. In 2010, Bakken was producing precisely zero barrels of oil. By 2014 and thanks to fracking, this same field was producing over 2m barrels of oil per day (bpd). That's more than Shell's entire global portfolio in the space of 4 short years...remarkable!

The US shale boom profoundly destabilised global oil markets, most notably causing the price crash of 2014-15, when the cost of oil fell from \$115 per barrel to a low point of \$25. As dramatic as that price adjustment was, the real impact of US shale has been its longer-term effect on the oil "balance of power". In 2009, the USA was producing less than 6m bpd, but today in 2019, that figure is comfortably in excess of 12m bpd. Not only is the USA the largest consumer in the world (20m bpd), it is now also the biggest producer. Moreover, foreign oil powers previously relying on endless US demand, have been forced to find a new home for their production.

Luckily for the likes of Saudi Arabia and fellow OPEC members (the major suppliers to the US market), the continued growth of demand in Asia has comfortably offset their reduced exports to the USA. In 2009, the world was consuming 84m bpd. Now it consumes 100m bpd, with Asia accounting for almost 75% of that increase. As a result, OPEC has been able to increase production to 39m bpd (versus 34m bpd 10 years ago) despite losing key US volume.

In the same period, the calamity that is the African oil industry continues to dumbfound. Whilst that continent's own oil consumption rose significantly from 3m bpd to 4m bpd between 2009 and 2019, its corresponding indigenous production actually fell by 20% (10m bpd to 8m bpd). Sadly, corruption, security issues and black market trading continue to plague the sector in this part of the world. Having said that, at least in Africa the oil continues to flow - unlike Venezuela, where the wheels of the industry have virtually ground to a halt. 10 years ago, this Latin American oil colossus was producing 3.5m bpd. Since then, the country's oil infrastructure has disintegrated and production this year is unlikely to be more than 500,000 bpd.

The loss to global markets of this South American volume has been consistently overlooked as one of the key reasons why oil prices have stayed buoyant, despite excess US production and the ongoing threat of a US-Sino trade war. This of course will be of little interest to beleaguered Venezuelan citizens, who have seen their country fall apart and now "enjoy" around 6 hours of electricity a day, sporadic running water and shops that cannot stock even the most basic of provisions. In 2009, 3.5m bpd equated to annual returns for the state (which owns all oil production) of around \$75bn. 10 years later (and with oil prices actually around the same level), hollowed-out production means that income has dipped below \$10bn per annum and the nation with the largest oil reserves in the world is facing total economic meltdown.

Finally let's bring things closer to home for consumers and look at the 2 stand-out developments in the refined oil sector. Firstly the steady decline of European refining in the face of newer, larger and more sophisticated plants in Asia, and secondly the dawn of biofuels as a defacto part of the fuel supply-chain. Statistical data adequately illustrates both these developments. Europe's refineries have reduced in number from 111 in 2009 to 90 in 2019, whilst European consumption of biofuels has risen to 16m tonnes in 2019, versus a 9.5mte figure in 2009. Whilst the reduction in EU refineries looks to have halted for the moment (survival of the fittest?), the inexorable growth of biofuels will continue. Almost every developed country in the world now has legislation in place that mandates the increased annual use of biofuels. In addition, the use of so called 2nd and 3rd generation biofuels, that are more sustainable and do not compete with the food-chain, has helped the industry jettison its previously toxic image and led to wider public acceptance of these types of fuel.

Next month we will take our 10 year retrospective beyond the oil sector and look at the wider world of energy. If you think that the oil market has been through profound changes over the last decade - you ain't seen nothing yet!