Where Are the Energy Markets Headed Next?

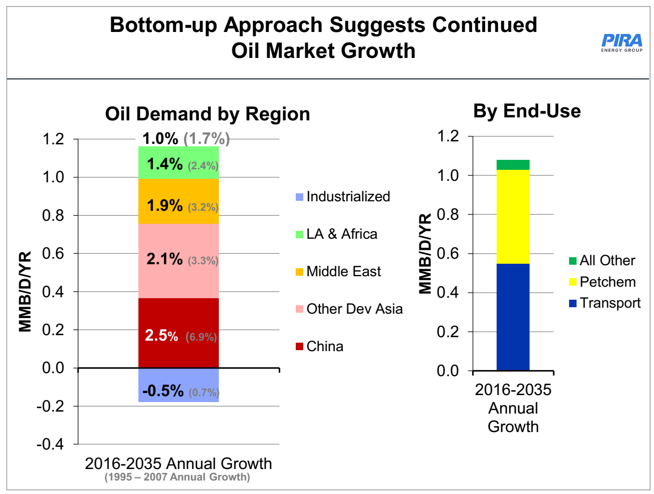
PIRA's Long-Term Energy Market Outlook

Long-Term Energy Market Overview

Fossil fuel demand is slowing, driven by a gradual slowdown in population and GDP, along with environmental policies to limit CO_2 and other emissions. Coal will be hit the hardest, but even gas will be squeezed by weak electricity growth and growing renewables.

Global Oil Market Outlook

Oil's growth will gradually slow as well, but growth will continue at an average of 1 MMB/D for the next several decades even assuming substantial efficiency and some fuel substitution. The source of oil supply to meet this demand has evolved substantially over the past several years. U.S. shale and OPEC will account for most of the growth while higher cost supply most everywhere else will suffer.



Key Takeaways

- Oil demand growth will be supported at over 1 MMB/D by transportation and petrochemical feed growth, even with higher efficiency and electric vehicle penetration.
- OPEC's higher market share strategy will slow but not stop U.S. shale growth. But ultimately, the biggest losers will be higher-cost supplies such as Canadian oil sands, onshore North America, international shale and arctic and deepwater projects.
- Prices and development costs are correlated and will continue to move up and down together. This means that supply is less responsive to price than simple price elasticities or fixed-cost curves might suggest.
- While much of the current price downturn is cyclical and unsustainable in nature, the large potential for Permian and other shales suggests that prices will not sustainably remain much above $80-85/barrel.

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Global Gas Market Outlook

Price support for gas in the U.S. relative to the rest of the world will begin to emerge on the supply side in 2016 and on the demand side from 2017 to 2019. High inventories will need to be trimmed at first. Price support in the rest of the world is much more precarious, as a record amount of LNG will be entering a market that is struggling to grow due to reductions in Japanese and Korean use and lower growth expectations in China. A long market will push more LNG into Europe, where the U.S. and other LNG suppliers will face significant competition from cash-strapped Russian suppliers with plenty of flexibility to offer. Global gas demand will continue to increase in the longer term at over 2%/year if the price remains competitive.

Key Takeaways

- Any bullishness for Henry Hub in 2016 will largely come from supply cuts rather than demand growth; higher use takes center stage from 2017-2019.
- A lower gas price outlook around the world will be tied to oil price indexation and LNG surplus. Opportunities exist to invest in areas where relatively low gas prices persist, even outside North America.
- Lessons on renewables from Europe are applicable to North America and Asia. Renewables must be looked at as strategic investment in security as well as commercially viable.