

# Hydrocarbons Price Drivers

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# Agenda

- **Our Global Hydrocarbons Price Forecasts**
  - Global Oil Price Outlook: Market Tight To 2020
  - Global Coal Price Outlook: More Bearish In H217
  - Global Gas Price Outlook: Oversupply To Curb Prices
  - BMI Research's Gas Price Forecasts
  
- **CEE Power Outlook: Our Views**
  - CEE Power Overview
  - Coal: The Dominant Fuel In Power
  - Gas: Turkey In The Driving Seat
  - Nuclear: Soviet Era Plants In Play
  - Renewables: Pockets Of Growth

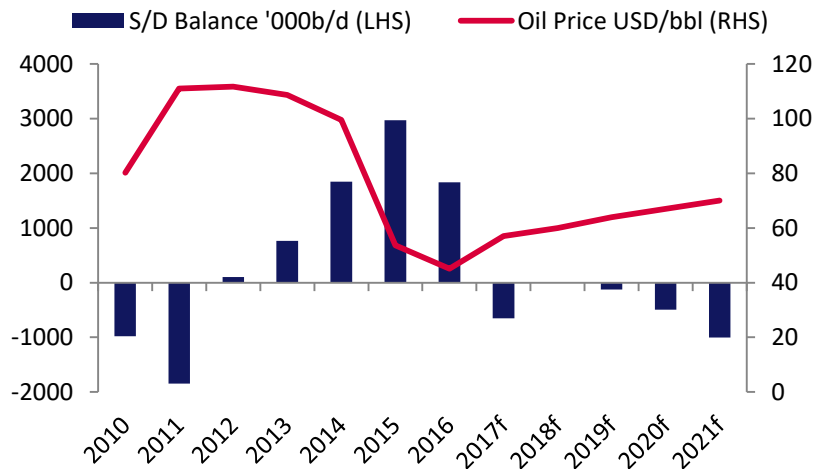
# Hydrocarbons: Price Forecasts And Key Views

# Oil Market Outlook: Market Tight To 2020

Glut fading slowly, minor price growth in 2018 to reach USD70/bbl by 2021

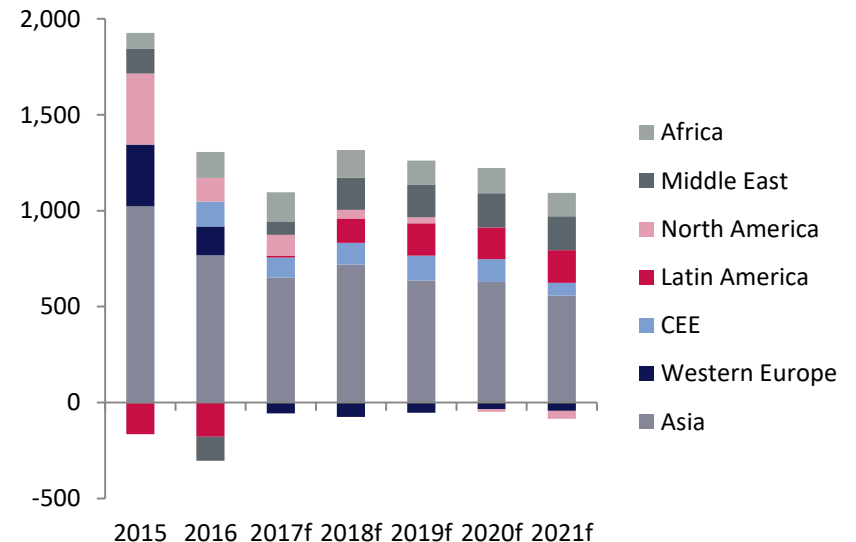
- Prices will be floored by OPEC & capped by US shale and OPEC spare capacity
- High global stock levels and strong supply in North Sea, Brazil and USA will prevent prices from appreciating aggressively
- Much leaner shale sector – short-cycle projects have advantage in uncertain price environment
- EMs will continue to drive global demand growth, as DMs relapse into secular decline **but** pace of EM growth will slow on subsidy reform and demographic shifts

## Supply/Demand Balance And Brent Forecast



f = BMI forecast. Source: BMI Research

## Refined Fuels Demand Chg Y-o-Y (000b/d)



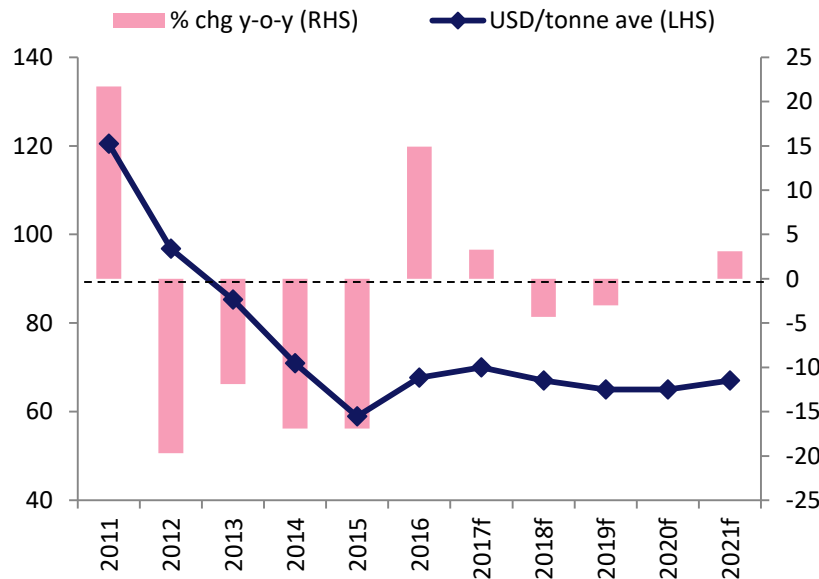
f = BMI forecast. Source: BMI Research

# Coal Outlook: More Bearish In H217

Coal prices will average USD70/tonne in 2017 And Fall To USD67/tonne in 2021

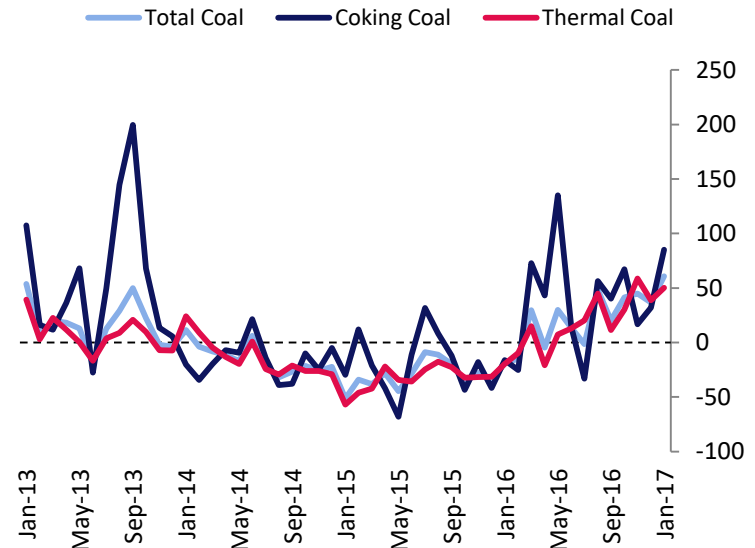
- Coal demand in 2017 will be buoyed by the Chinese government's continued fiscal support for the construction industry
- The shortage of seaborne coal supply in 2016 is gradually easing and Q416-Q117 will represent a multi-quarter peak
- Recovering domestic production in China after a sharp contraction in 2016
- Prices will ease in 2017-2018 on weaker Chinese imports and South Korean coal plant closures

Thermal Coal Prices Have Peaked



f = BMI forecast. Source: Bloomberg, BMI

China Coal Import Surge To Wane In 2017/18



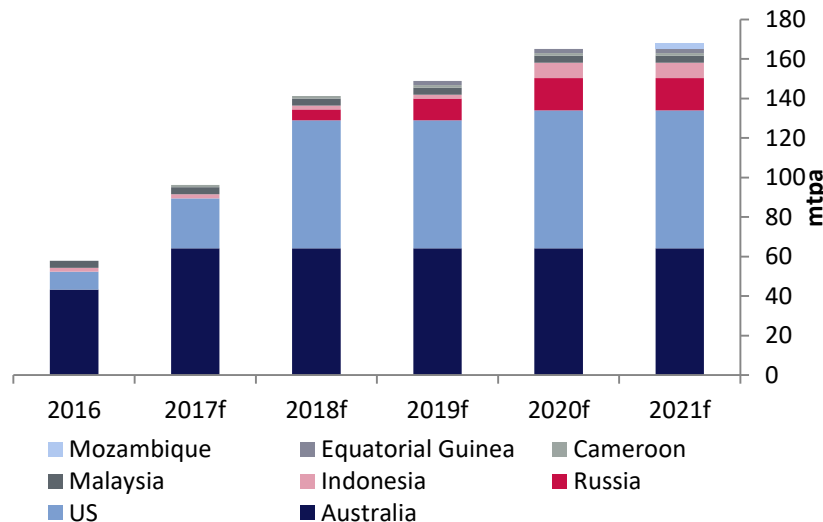
China Coal Imports, % chg y-o-y. Source: China Customs, BMI

# Gas Outlook: Oversupply To Curb Prices

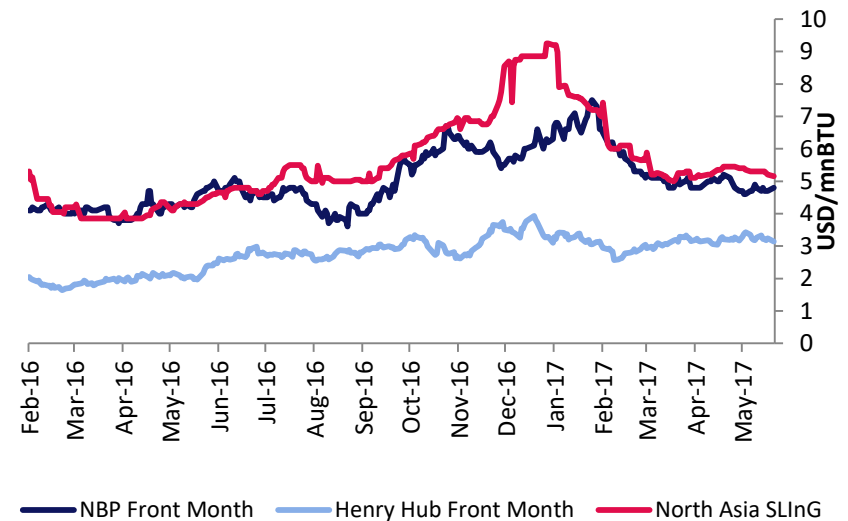
## Wave of Supply, Demand Slow to Catch Up

- Over 150mn tonnes of new LNG capacity over next 5 years, with Australia and US driving the growth – globalisation of regional gas markets
- Pipeline supply also strong – Russia has plenty of spare capacity to send into Europe & Asia
- US gas will need to remain at a discount in order to export LNG, as European and Asian prices remain in a closer trading range – similar to 2016
- Demand will be slow to meet new supply, although lower prices will encourage more gas switching in EMs. More LNG will head to Europe

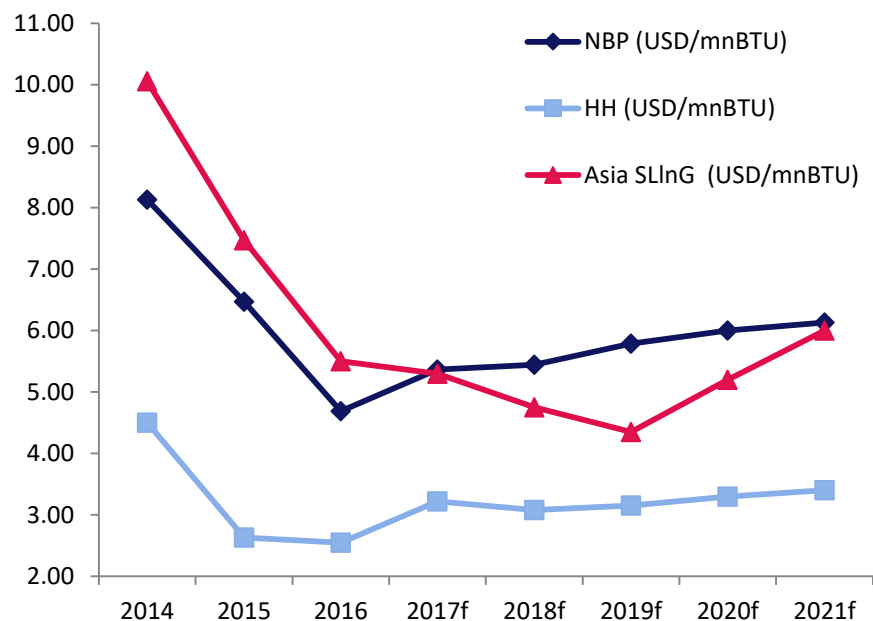
Cumulative LNG Capacity Additions



NBP, HH And Asian Prices (USD/mnBTU)



# BMI Research's Gas Price Forecasts



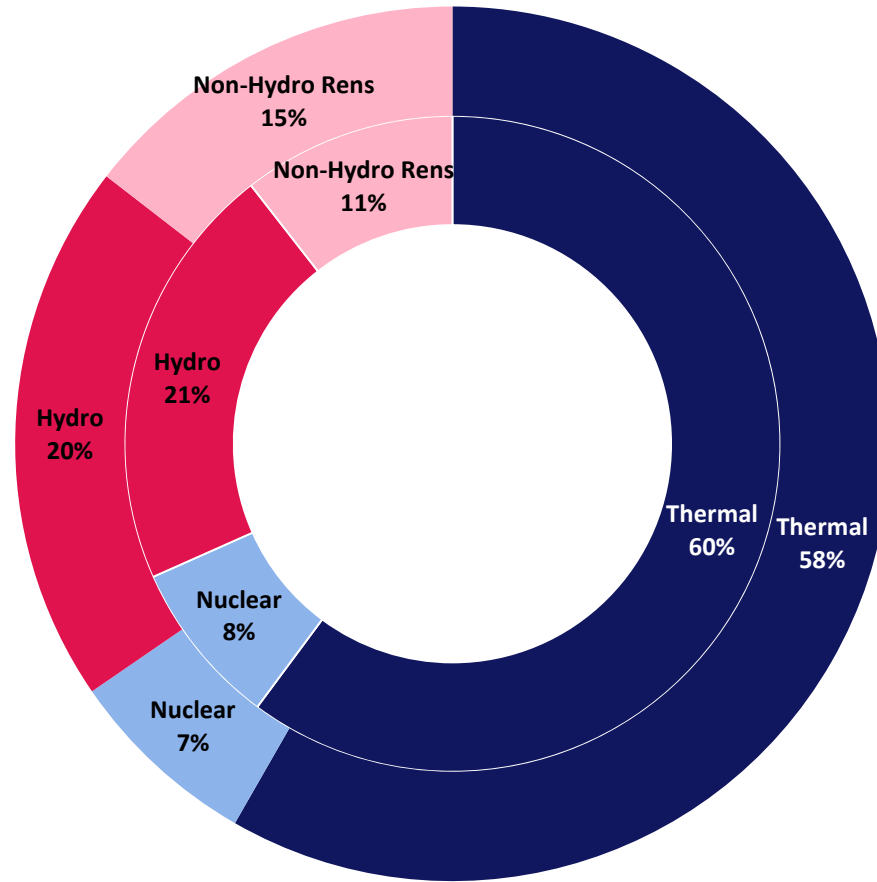
	Spot	2015	2016	2017f	2018f	2019f	2020f	2021f
<b>NBP (GBP/therm)</b>	0.37	0.43	0.35	0.44	0.43	0.44	0.45	0.46
<b>NBP (USD/mnBTU)</b>	4.51	6.47	4.69	5.37	5.44	5.79	6.00	6.13
<b>HH (USD/mnBTU)</b>	3.06	2.6	2.55	3.22	3.08	3.15	3.30	3.40
<b>Asian Gas (USD/mnBTU)</b>	5.14	7.47	5.50	5.30	4.75	4.35	5.20	6.00

# Regional Power Dive



# CEE: Power Outlook

## CEE - Regional Capacity Mix In 2017f & 2026f

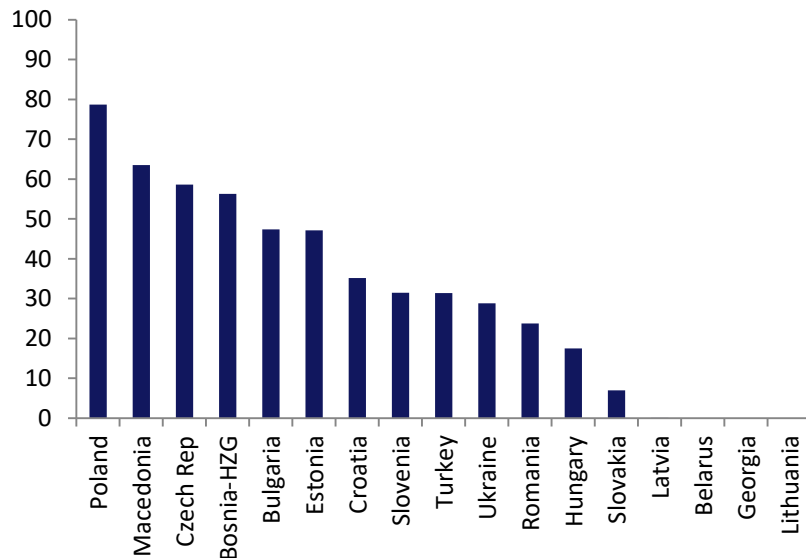


# CEE Coal: The Dominant Fuel In Power

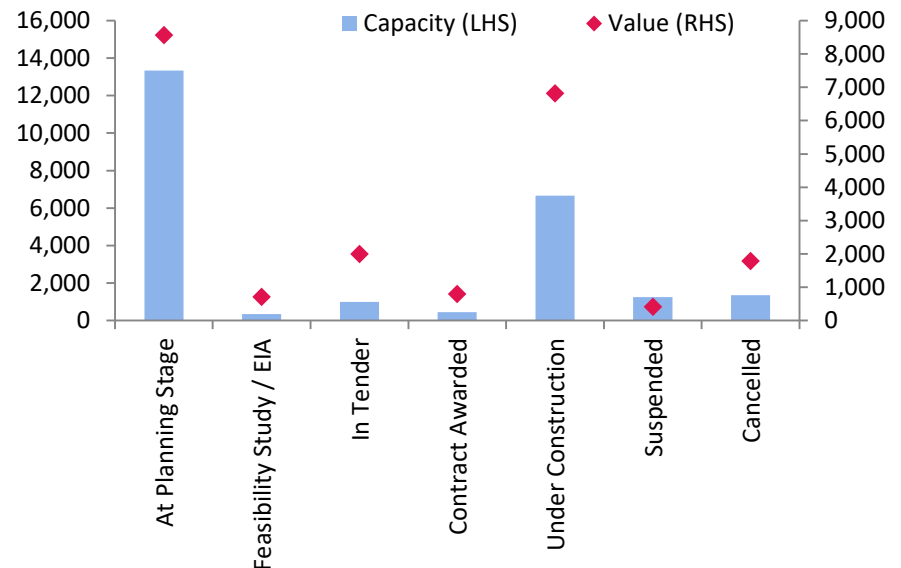
## Low cost, energy security and political importance to sustain coal

- Coal-fired generation of greater cross-regional importance than gas - with coal comprising more than 30% of power generation in nine CEE countries in 2026
- We forecast growth in coal-fired power generation to tick higher - with the sector to expand by an annual average rate of 1.5% between 2017 and 2026
- Growth due to low cost, importance to energy security and domestic employment in countries that can source feedstock domestically
- Forecasts for lower coal prices imply lower wholesale electricity prices – questions over expansion in Balkans and capacity mechanisms

**CEE - % Of Power From Coal In 2026f**



**CEE – Coal Capacity Pipeline (MW) And Value (USDmn)**



f = BMI forecast. Source: EIA, IRENA, BMI.

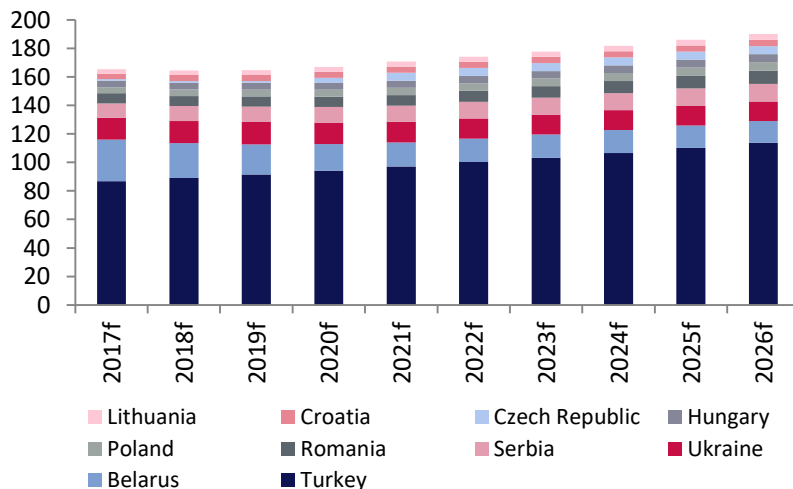
Source: BMI Key Projects Database.

# CEE Gas: Turkey In The Driving Seat

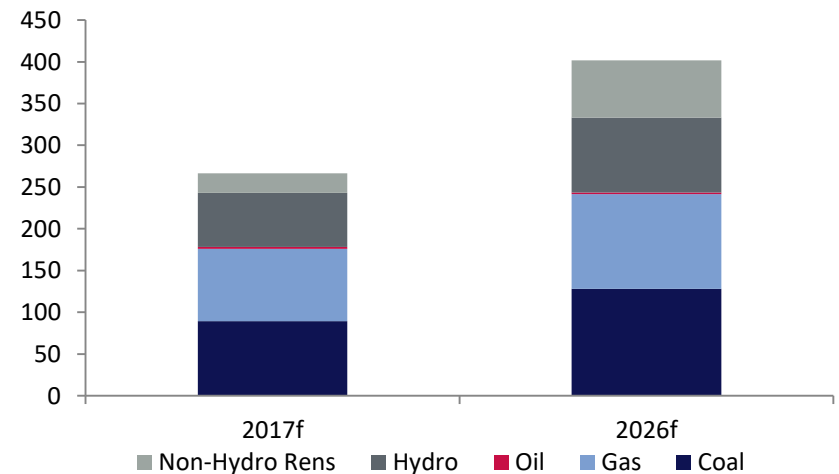
## Turkey to drive growth, limited uptake elsewhere

- CEE gas power generation will grow at a slow but steady pace - expanding by an annual average rate of 1.39% between 2017 and 2026.
- The lack of available feedstock and a desire to curb existing reliance on Russia in European countries means growth will be driven by Turkey.
- Gas generation in Turkey will grow by an annual average of 2.9% between 2017 and 2026
- Our forecasts are in line with targets to source 30% of generation from gas, 30% from renewables (inc. hydropower) and 30% from coal as electricity consumption climbs

## CEE – Top 10 Countries For Gas Generation, TWh



## Turkey - Electricity Generation By Type 2017 & 2026, TWh



f = BMI forecast. Source: EIA, IRENA, BMI.

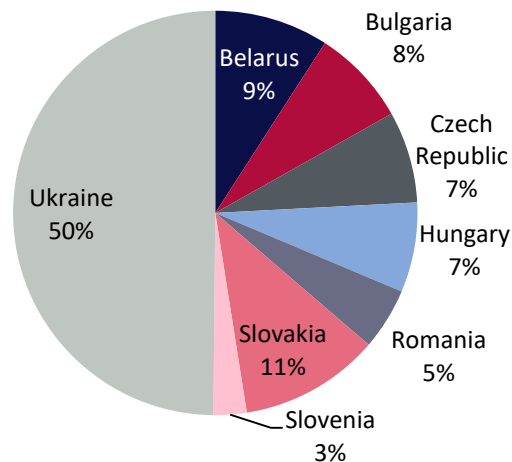
f = BMI forecast. Source: EIA, IRENA, BMI.

# CEE Nuclear: Soviet Era Plants In Play

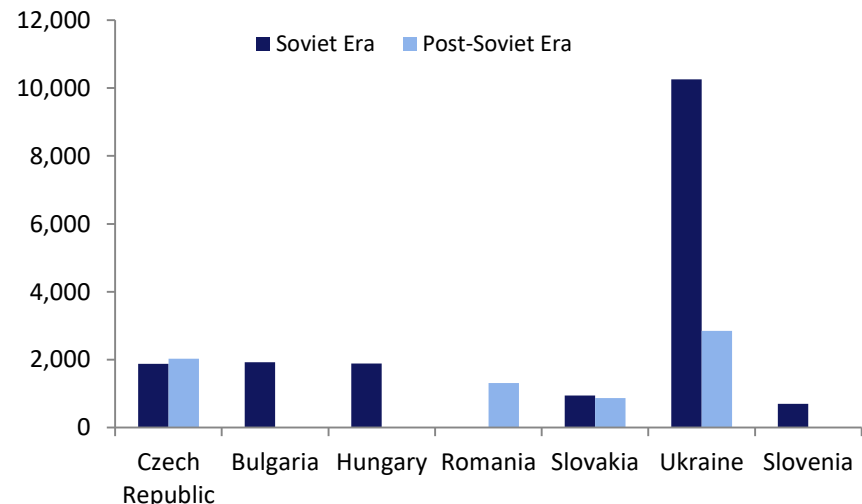
## A focus on expansion rather than new-builds

- Nuclear power will stagnate, with most countries focusing on extending the lifetime of existing facilities.
- Much of the nuclear power generating capacity dates back to the Soviet era, supporting provision of cheap power - as most of this fleet will have been amortised
- New-builds face substantial headwinds. Prohibitive upfront costs and significant government subsidies if plants are to be viable amidst low wholesale prices
- Our forecasts for global coal prices to fall back from recent highs, as well as the falling cost of renewables-based capacity, further undermine the case for new nuclear

CEE Nuclear Capacity - % Share In 2026f



CEE Soviet Era And Post Soviet Era Capacity (MW)



e/f = BMI estimate/forecast. Source: EIA, IRENA, BMI.  
bmiresearch.com

Source: BMI, WNA

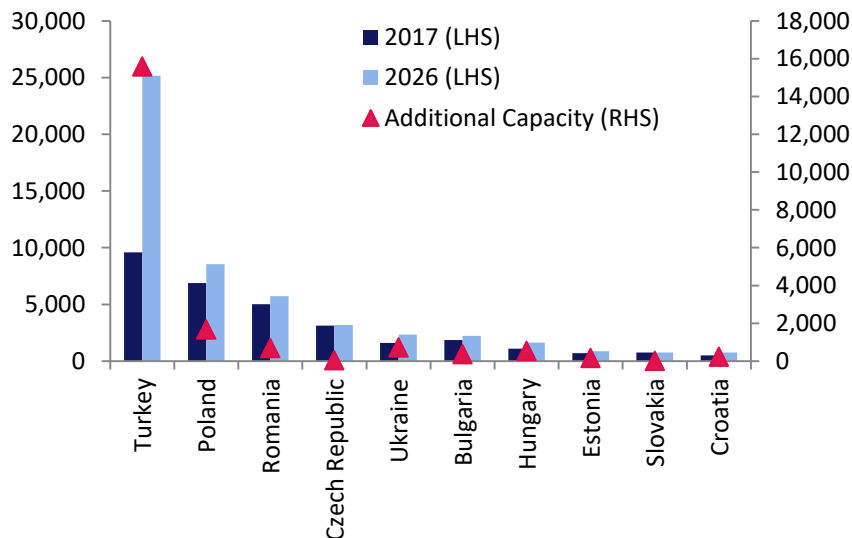
# CEE Renewables: Pockets Of Growth

## Limited growth amid waning political support

- Significant slowdown in renewables capacity growth – despite some success in deploying renewables over the last decade and EU green energy agenda
- Limited expansion in some larger markets amid concerns about impact on retail electricity prices and emphasis on domestic coal

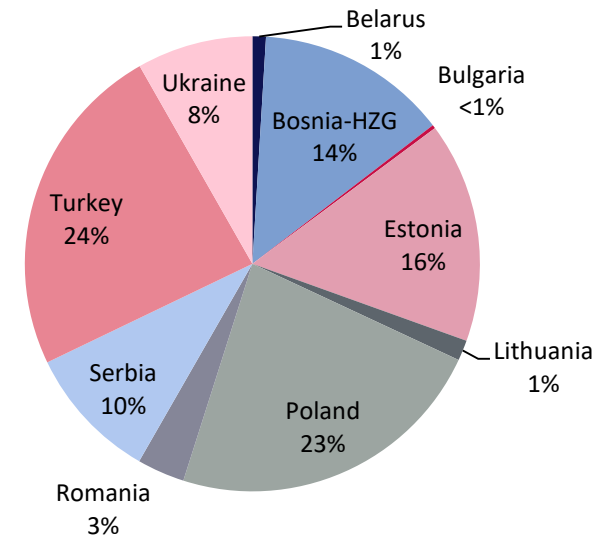
- Turkey is the exception amid strong government support for wind power in a bid to reduce fossil-fuel feedstock imports
- Switch to auction/market-based mechanisms will drive down wind and solar costs – supporting some pockets of growth and a gradual uptick in renewables in lesser-known markets

**Renewables Capacity 2017 vs 2026, MW**



2017/2026 = BMI forecast. Source: EIA, IRENA, BMI. [bmiresearch.com](http://bmiresearch.com)

**CEE Renewables Project Pipeline**



Source: BMI Key Projects Database.

# Thank You

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