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# ENERGY

SECTOR OVERVIEW OCTOBER 2016



## TOP NEWS

### **Russian credit rating by Fitch agency moved from negative to stable**

Russia's credit rating has been improved due to the coherent and credible policy of the country in an environment dominated by historically low oil prices. Russia has had a positive impact on its rating through flexible interest rates, inflation targeting and fiscal consolidation.

### **Due to low oil prices, Kuwait implemented fiscal reforms and had early elections**

Cutting public expenditure means primarily a reduction in subsidies for gasoline, which will constitute savings in the state budget of \$ 9 billion, which is necessary because the income in last year decreased by 41% and it is expected to decline by additional 14% this year. Due to the economic challenges faced by the country, the leader of Kuwait dissolved the Parliament and called for early elections.

### **Minister of Oil of Saudi Arabia (SA) calls for the immediate stabilization of the market**

At the London conference - Oil and Money - Minister of SA said that it is time for OPEC to take control of the market and stabilize the prices. According to his opinion, if prices continue to fall, it will have a negative impact on future production of this energy source. He also pointed out that the market balance was improving and the supply approaching demand, which will be further supported by reducing production of the Member States of OPEC and other producers outside the organization.

### **Russian Minister of Oil met with representatives of Saudi Arabia and other countries in the region**

At the meeting, there were discussed the mechanisms that will be used to stabilize the price of oil. There are still no precise information on the outcome of the agreement. According to the opinion of the Russian minister, those will be known after the meeting in Vienna which shall be held on 30 November.

### **Although the majority of electricity is still produced from coal, renewable energy sources, according to their capacity, overcome this emergent**

During the last year, half a million of solar panels have deployed every day around the world, while in China there were set 2 wind- turbine every hour. The cost of generating electricity through wind turbines were reduced by 30% in the period from 2010 to 2015, while the cost of producing energy from solar panels decreased by two thirds.

### **Fulfilled conditions of ratification of the Paris agreement after the announcement of the ratification of the agreement by EU together with Austria, Hungary, Slovakia, France, Germany, Malta and Portugal**

Ratification of the Paris Agreement is considered to be a turning point for the energy sector because there is a strong political will and the desire to encourage and strengthen the use of low-emission energy sources, and to improve energy efficiency and technology.

### **GE is investing also in renewable energy sources, bought LM Winter Power for \$ 1.7 billion**

LM Winter Power, the world's greatest supplier of rotor blades for power generation using wind, was purchased by GE, which is another proof that the company is investing heavily in renewable energy sources. The goal is to keep GE LM company in its portfolio and its rotor blades sell to the companies that produce wind-turbines.

### **Reduced capital investments of the companies Exxon and Chevron**

Capital investment of these two companies decreased by 45% and 35%, respectively. Because of the environment in the energy sector, where the price that is relatively close to the historical minimum still prevails, the value of shares of the company Exxon declined by 1.2% in the third quarter. However, shares of Chevron increased by approximately 1.7% due to the reduction of operating costs, although the company is still affected by low prices.

### **Even in the third quarter, Statoil incurred net losses**

The company's revenues decreased by 11%, while EBIT despite lower capital costs decreased by 69% in comparison to the previous year.



## GLOBAL MARKET

- Due to the excess of supply over demand which exists for a long time, the stocks of crude oil in 2016 are at record levels. Although the level of stocks in recent months recorded a decreasing trend, the global oil reserves are still above their five-year average.
- The price of energents has increased in October compared to September by 9%. Although the aforementioned price increase indicates a gradual stabilization of the market, prices are still at a lower level than is necessary to ensure the full recovery of the energy market.
- Although oil producers at a meeting in Algeria have agreed to cut production, the oil market is still out of balance, i.e. there is an excess of supply over demand. The growth of oil prices in October was a result of a positive market reaction to the agreement between the member countries of OPEC and the stabilization of markets and the reduction of production.
- The economies of the world's greater producer in OPEC are subject to fiscal reforms and borrowing, poor financial instability due to low energy prices. However, the largest oil producer outside OPEC, Russia is improving its credit rating due to the diligent management of fiscal and monetary policy in an unstable environment.
- While a number of companies are still struggling with falling profits and net losses due to the pre-historic low oil prices, some companies in this sector increase their investments in renewable energy resources and buy companies in this area of the energy sector. For example, GE invests about \$ 1.7 billion in the purchase of the world's greatest manufacturer for production of rotor blades for wind turbines startup.
- It is expected that oil demand will experience a steady growth in the coming period, which will reduce the excess of supply over demand. The cause of this expectation is the growth in global economic activity in the coming year compared to the current year. On the other hand, the impact of the offer on the price is difficult to predict due to the geopolitical situation in the Middle East, which disables the forecast of the oil-rich countries. Although in a meeting in Algeria the oil-rich countries agreed to cut production, it is still not clear which of the countries will reduce its offer, and it can not be predicted with certainty the movement of energy prices until the end of the year



## DOMESTIC MARKET

- Foreign trade balance in oil and oil products recorded a continuous deficit since the beginning of 2016. However, the deficit has decreased in comparison to the previous year due to the spillover effect of low prices on the domestic market.
- Foreign trade deficit of gas has been almost halved since the beginning of the year.
- Foreign trade deficit of coal is reduced in the current year due to the stabilization of the market after the floods.



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