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ENERGETICS

SECTOR OVERVIEW DECEMBER 2016

TOP NEWS

Venezuela, a country member of OPEC, which due to low oil prices fell into a deep recession, issues bonds in order to finance food imports

Due to the low oil prices, the year of 2016 was in Venezuela marked by high inflation of over 400%, followed by food shortages. In relation to this, the government of this country has made the decision to broadcast the $ 5 billion of debt in bonds to finance the import of consumer goods, especially food and medicines. The mentioned bonds will reach the collection in 2036 and will have a coupon rate of 6.5%. The aforementioned debt is the first Venezuelan sovereign debt in the last five years and it is expected to contribute to overcoming the problem of food and medicine shortages in the country.

Saudi Arabia plans to reduce the budget deficit by a third

The aim of the countries is to reduce the state budget deficit to a level of $ 52 billion and the continuation of ongoing reform in terms of reducing the dependence of the economy on oil exports. Reforms are needed in order to create balance in the public finances of the state after the historically low price of oil which in 2016 had a very negative impact on GDP growth, which in that year was only 1.4%, far below the average for this country.

Russia, a country that has been affected by the drop in oil prices on the one hand, and the imposition of sanctions on the other hand, foresees a long way to recovery

In the third quarter of 2016 Russia marked a small shift in the economic recovery seen in a slight increase in GDP. However, residents still do not feel the effects of stabilization. The real incomes of the population continue to decrease. It is estimated that the inflation in Russia fell below 5.8% in 2016 (from 15% recorded in the previous). However, the weak value of the ruble continues to diminish the purchase power of salaries and pensions.

Glencore and Qatar investment fund take 19.5% stake in the Russian state company Rosneft

Russian banks will help finance the purchase of shares to the company Rosneft in the amount of $ 10 billion. The reached agreement was confirmed by the Russian president and CEO of the company. The mentioned foreign investment has been the largest in the Russian economy since 2014, when sanctions were imposed.

BP buys 527 Australian petrol stations for $ 1.3 billion

The above mentioned acquisition is the first investment in the vertical integration of the company since 2001. Market share in retail BP fuel in Australia will by the realization of this acquisition increase from 5 to 12%. Out of a total of 6,800 gas stations in Australia, 1,400 is branded by BP, while 350 is currently wholly owned by the company.

In addition to investing in the purchase of gas stations in Australia, BP is investing $ 2.4 billion to purchase oil fields in Abu Dhabi

The investment will provide the company with a 10% stake in the Abu Dhabi—based company, which owns the oil fields and produces oul. With this investment, BP will be able to produce 1.6 mb / d over the next 40 years. BP is the second Western European company that buys stake in the mentioned company, after the French Total did it last year. The aim of Abu Dhabi company is to provide long-term partnerships with companies from the West, given that they have expired with the two previously mentioned West European companies, but also with Shell and Exxon back in 2014.

The French company Total has made a decision on investing in oil fields, which it will take over from the Brazilian company Petrobras

Total has reached an agreement with the Brazilian company on the takeover of two oil fields. The aforementioned agreement is the part of the goal of the French company directed towards vertical integration, worth $ 2.2 billion. The day before that French Total agreed on investments worth $ 207 m in the development of the terminal in Louisiana, from which will be exported liquefied petroleum gas from the US to the rest of the world.

GLOBAL MARKET

- Due to the excess of supply over demand which has existed for a long time, stocks of crude oil in 2016 are at record levels. Although the level of inventories in recent months marks a decreasing trend, the world's oil reserves are still above their five-year average.
- The price of energy sources increases in December in comparison to the previous month by about 7%. Price growth caused by the growth of oil and gas prices.
- Oil prices in December rose by as much as 17% due to the positive market reaction to the result of the agreement reached in Vienna by the end of previous month. At the meeting of oil-rich countries the agreement on freezing production was reached to freeze the production, so the price in December was at a level above $ 50.
- However, the economies of the world's largest producers in OPEC are still subject to fiscal reforms and borrowing due to the financial instability due to the low energy prices. Some economies change their development paradigm by diversification. However, it remains to be seen whether the agreement in Vienna will change such courses.
- Certain European companies at the very end of the financial year expand their operations through vertical integration, that is to say through investments both in new oil fields, and into the gas stations. In relation to this, it can be concluded that those companies saved during crisis, but also that there is a need for a safe and secure supply of sales channels, which points to the uncertainty which still reigns in the market.
- It is expected that oil demand will grow steadily in the following period, which will reduce the excess of supply over demand. The cause of this expectation is the growth of global economic activity in the next year in comparison to the current year.
- Supply of oil is more difficult to predict, mainly due to the geopolitical situation in the Middle East, which disables the forecast of the production of the oil-rich countries. Although the oil-rich countries agreed to cut production in early 2017 at the meeting in Vienna, all countries have increased their production as soon as the agreement was made. This move was probably made so that the January reduction should have less severe consequences on the biggest players. It should be noted that OPEC producers themselves do not expect the market to reach balance before the second half of 2017.

DOMESTIC MARKET

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