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# ENERGETICS

## SECTOR OVERVIEW NOVEMBER 2016

# TOP NEWS

Member states of OPEC have reached an agreement on the reduction of oil production for the first time in eight years, which will be valid from the beginning of 2017.

At the meeting in Vienna member states of OPEC agreed to cut production by 1.2 mb / d and to maintain it at a level of 32.5 mb / d in the first six months of 2017.

The aforementioned agreement represents a turning point in the politics of Saudi Arabia.

This country tried to squeeze out of the market the US and other players who achieve high production costs two years ago by a sudden rise in oil supply which reduced the price. At the meeting in Vienna it was agreed that Saudi Arabia would cut production by 500,000 b / d, while Kuwait, the United Arab Emirates and Qatar would cut production by 300,000 b / d.

Iran was allowed freezing without reducing, while Iraq has agreed to reduce its production

Iran which returned to the international oil market earlier this year, after the mitigation of sanctions, received a privilege that involves only freezing production at the current level of 3.8 mb / d, without any reduction. On the other hand, Iraq, which was doubted to consent to any arrangement, however, agreed with the reduction of its oil production by 200,000 b / d

Nigeria and Libya are excluded from the deal

the countries which are the biggest oil producers in Africa, are excluded from the agreement on the allocation of quantities for which each country needs to cut production due to political and social unrest they have been facing this year.

Russia also took part at the meeting in Vienna

the largest oil producer outside OPEC, Russia, has also joined the countries of the oil cartel which cut production. In fact, countries outside of OPEC, which supported the reduction of production, will reduce production by 600,000 b / d, out of which Russia 300,000 b / d.

Despite the agreement on the reduction of production and positive reactions to oil prices, the uncertainty in the oil market still present

The growing number of oil wells in the United States goes in favor of the uncertainty. In addition, it is expected that all signatory countries of the production reduction agreement will increase their production by January, so that the effect of the total reduction will be extremely small starting from the next year.

In addition, Norway does not agree to the reduction

The largest oil producer in Western Europe refuses to cut production, and also announces an increased investment in this sector. Given that the oil sector of Norway has decreased the third year in a row, the country sees in the OPEC agreement room for investment and recovery.

Approval of the Government of Canada for the opening of two new pipelines

The export of Canadian province of Alberta will increase by about 1 mb / d by the opening of new pipelines.

Reducing the production of Saudi Arabia does not arrive at the best moment

Namely, this country has been in recession since the half of the year. The decision of the young prince of Saudi Arabia on the implementation of the Vision 2030 may not be a bad idea, but it arrives at the wrong moment. In addition to the oil price being close to a historical low throughout the year and the fact that it had the impact on the budget of the country, the crisis has affected population through layoffs and wage cuts in the public sector, which had a negative impact on consumer spending.

French Total good example of how companies should act during the crisis years

During the years of the crisis France's Total spared more than other companies and now has got the title of the first Western European company which after the abolition of sanctions in Iran returned to the market. Total will invest in the expansion of gas fields in southern Iran.

# 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 prices of energents in November remained stable compared to the previous month. Stable gas price and the increase in coal prices have primarily contributed to price stability, while the increase has been slowed down by a slight decline in oil prices.

- The price of oil in November dropped slightly due to the uncertainty of the market about the agreement on the reduction of production which was expected by the end of November. The reduction in prices was additionally influenced by the statement of the Saudi oil Minister saying there will be no agreement. However, at the meeting of the oil-rich countries in Vienna an agreement on freezing the production was reached and which made the price soar and at the beginning of December and reached $ 53, which is the highest price in the past year.

- The economies of the world's largest producers in OPEC are subject to fiscal reforms and borrowing due to the financial instability due to low energy prices. Some economies change their development paradigm by supporting private sector growth. However, what will have the greatest impact on the budgets of the largest manufacturers is the implication of the agreement on the reduction of production in Vienna.

- While a number of European companies is expanding their business to the Middle East market, one of the largest companies in Europe, Russia's Rosneft marks poor economic performance and is subject to privatization. As far as the other major players are concerned, initial public offering (IPO) of the largest company in the energy sector - Saudi Aramco is still ongoing. It is still not certain when it will be implemented, but it will certainly be the biggest IPO in this sector. Leaders of companies claim that this will be the most transparent national oil company ever listed on the stock exchange.

- 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 compared 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 if 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. However, there is a question whether the reduction in early 2017 will have effect if production continues to increase in December as well.

# DOMESTIC MARKET

- Foreign trade balance of oil and petroleum products has 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 has been almost halved since the beginning of the year.

- The trade deficit of coal has been reduced in the current year due to the stabilization of the market after the floods.

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