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# ENERGY

SECTORIAL OVERVIEW SEPTEMBER 2016



# TOP NEWS

## In the Algeria meeting, OPEC countries agreed to freeze production

In addition to oil-rich countries, the meeting was also attended by the representatives of Russia. The agreement was reached to reduce production, which automatically increased the price by about 6%.

## It is not known which country will reduce production to what extent – the agreement on this will be made in the following OPEC meeting in Vienna in November

Due to the sensitivity of the market and unavailability of clear information on who will reduce production and by how many percentage points, the market optimism has declined after the Algeria meeting, and the oil price in September was negligibly above the previous month's level.

## The Algeria meeting was not attended by the African largest oil producer - Nigeria, for political disturbances that have been constantly causing a drop in production

Actually, after the oil pipeline bombings by soldiers in the Niger Delta in April this year, the bombing attacks were repeated as part of the campaign against the current president. This time, soldiers attacked the Shell oil pipelines.

## At the beginning of October, the price of oil reached this year's high

The Russian president, Vladimir Putin, said in the Istanbul Energy Congress that Russia would join countries aiming to reduce production, since this would be the only way to stabilise the market. After this statement, the oil price went up by about 4 %, and is currently at 53 USD/b.

## Considering the problems in public finances and macro economy caused by the low oil price, the Russian economy has been considering the possibility of borrowing 1.25 billion USD in the international capital market

Cash obtained through the debt will be invested to stimulate the growth of economic activities. However, it is still uncertain where such growth would come from, i.e. into which sector would the cash be invested specifically.

## The agreement on construction of the Turkish Stream gas pipeline signed at the Istanbul Congress

The gas pipeline project implies construction of two pipelines across the Black Sea, with the capacity of 30 billion cubic metres. One pipe would serve to supply the Turkish market, while the second one would be for the rest of Europe.

## Saudi Arabia cut salaries in the public sector for the first time ever

Due to a poor condition of public finances in Saudi Arabia, caused by low oil prices in the previous period, for the first time in history the state cut salaries in the public sector.

## By 2025 Saudi Aramco is going to invest 334 billion USD into infrastructural projects, employing about 500,000 people

Saudi Aramco plans to double the local production of energy products and related goods and services in order to reach its 2021 objective – 70 % share of local production in the total consumption.

## Russian company Rosneft obtained the Government's approval for acquisition of the sixth largest company in Russia - Rosneft, currently subject to privatisation

Rosneft, 69 % owned by the state, acquires the majority share in Rosneft – the 100 % state-owned company.

## Bombing attacks in Nigeria produced high financial consequences

The attacks on the oil pipelines in Nigeria affected the business operations of Chevron and Exxon, as well as the latest attack on the Dutch Shell oil pipeline, creating 7.1 billion USD losses for these three companies in total.

## The companies with production capacities in the North Sea cut costs as a response to the low oil price

Increased production in the previous period has not been the result of new investments into Research and Development, but the consequence of prior investments made in the period when the oil price was about 100 USD/b. Investments into technology are estimated to drop this year by about 64 %.



## GLOBAL MARKET

- Considering the excess supply that exists for a while, it is not surprising that crude oil inventories in 2016 are on the record level. Although the level of inventories has followed a downward trend in the previous months, the global oil inventories are still above the five-year average
- The price of energy products rose by 0.9% in September comparing to August. In spite of the rise, the prices are still below the level needed to ensure an overall recovery of the energy market
- The oil price growth in September 2016 was not caused by any major structural changes in the energy market, but was a result of agreements and negotiations between major global players
- Since the oil prices are close to their historical minimum, economies of the world largest producers still face problems with high budgetary deficits, inflation and slow economic growth
- Historically low prices in the current year also have a negative impact on the financial performances of the leading companies. While some companies reduce expenses and investments, the largest company in this sector, Saudi Aramco, plans capital investments for the next five years
- Demand for oil is expected to rise steadily in the forthcoming period, which will reduce the excessive supply over demand. Yet, the gap created by excessive supply over demand will remain. The cause of rising demand is the growth of global economic activities in the next year comparing to this year. What could influence the price in the coming period refers primarily to the supply that is difficult to predict because of the geo-political situation in the Middle East that renders any production forecasts for oil-rich countries impossible. For the mentioned reason, although the oil price rose by about 20% in the last two weeks of August, it is not possible to forecast price trends by the end of the year with certainty



## DOMESTIC MARKET

- The domestic market, too, is influenced by globally low prices of energy products imported to Serbia. Changes in oil prices on the global market automatically affect the prices in the domestic sector, while the influence of the global gas price on the domestic market shows on a quarterly level
- Trade balance in oil and oil derivatives has recorded a continuous deficit since the beginning of 2016. However, the deficit has been reduced comparing to the previous year because of the low prices spilling over to the domestic market
- Foreign trade deficit for trade in gas has been cut in half since the beginning of this year, due to lower import value caused by low prices
- Foreign trade deficit for trade in coal in Serbia has been reduced as well, due to stabilised market conditions after the floods



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