The Return of Boom-Bust Oil Prices

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February 2018
Last 10+ Years: Not Your Usual Oil Price Volatility

Source: EIA, Rapidan Energy Group
Consensus Expects $60-$70 is the New Normal

Source: Survey of Best in Energy readers in early Jan 2018
(Population size 7000+, responses 1000+)
@JKempEnergy
Standard Oil, TRC, Seven Sisters and OPEC resorted to supply management to stabilize prices.

Sticky Supply & Demand, Limited Storage Make Oil Prone to Big Price Swings

Crude Oil Prices
Nominal, Source: The Derrick, API, St. Louis Fed, EIA

Crude Oil Prices
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Boom Bust I
 Boom Bust II

BooM Bust III
Texas Resorted to Armed Force and 40 Years of Central Planning to Tame Oil Price Cycles

FIGURE 4.2

Martial law. Militia are deployed to shut wells in East Texas oil fields. The postcard reads “HOOF BEATS DROWN DRILLING DIN AS CAVALRY MEN PATROL EAST TEXAS OIL FIELDS.”

Source: From the postcard collection of Jeff Spencer; original postcard photo by Jack Nolan.
No Spare Capacity, No Peace

Oil Disruptions, Spare Capacity, and Crude Prices

Seven Sisters’ Middle East concessions

TX and other US oil states

Suez Canal

After 1972, OPEC

Iran Revolution

Six Day War

Arab Oil Embargo

Iran-Iraq War

Threatened by Iran/Iraq, Tanker War

Gulf War I

Gulf War II

Data: Rapidan Energy Group, EIA, BP, St. Louis Fed, US Senate

VZ ’02-’03, Iraq ’03, Nigeria ’03 ->, Libya ’10->, Iran ’12-> and others
10 Years Ago Oil Entered History’s Third Boom-Bust Era

Last prolonged boom and bust era ended over 80 years ago

Data Sources: The Rapidan Group, based on The Derrick, API, St. Louis Fed, and EIA
Meanwhile, Speculators Hold Record Bets Crude Prices Are Going Higher
Producers are hedging big against a collapse in oil prices - someone’s offsides

Speculative net length

Producer hedging
EIA forecasts 2018 rise in OECD stocks and widening gap with 5-year average

- EIA is the only agency that forecasts OECD inventories and it sees 42 mb build in inventories between Sep 2017 and Dec 2018 and a 25 mb widening between the actual level and 5-year average.
- Note: EIA's historical OECD data differ slightly from IEA's but the difference is not material to this analysis.

Source: EIA, Rapidan Energy Group
Peak Demand is Now All the Rage

World petroleum and other liquid fuels consumption grows by 18% between 2015 and 2040 in the Reference case—

Petroleum and other liquids consumption
million barrels per day

Moderate Growth

Other non-OECD
Non-OECD Americas
Non-OECD Asia
OECD Asia
OECD Europe
OECD Americas

Plateau

U.S. Energy Information Administration

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Trend: Forecasters Upwardly Revising Non-OECD Demand

Non-OECD Per Capita Oil Demand (2010 vs 2017 Forecasts)

India Per Capita Oil Demand (2010 vs 2017 Forecasts)

China Per Capita Oil Demand (2010 vs 2017 Forecasts)
Gasoline Consumption in the U.S. Transportation Sector 1950-2040

Source: EIA
Consumers Prefer Thirstier Cars When Pump Prices Fall
- Will Elected Officials Stop Them?

Sales Weighted Miles per Gallon of New Car Purchases vs Gasoline Prices

Source: University of Michigan, EIA, Rapidan Energy Group
Latest EIA Forecasts Show Upward Revision Trend in Mogas Demand

EIA's Updated 2019 Forecast Shows a +120kb/d Swing From Most Recent AEO

US Gasoline Demand: Evolution of EIA’s Forecasts

Source: EIA
New Importers Will Build Stocks in a Tighter Market
High Disruption Risk, Tight Spare Capacity Buffer
Let’s Hope (But Maybe Not Wager) We Won’t Need A Swing Producer

Source: Statoil Energy Perspectives 2017
Unbalanced Market + No Swing Producer = Price Swings Between Demand Destruction and Shut In

Daily WTI Spot Price

Source: EIA, Rapidan Energy Group