

22<sup>nd</sup> May 2015

In the last few days, I have seen a flood of requests for becoming friends on FB. I have not disappointed anyone, but then there should be something interesting or some activity on our sites. Let me begin by talking about a topic that is affecting every one of us. You can blame this on my eagerness to post something on my site.

So, where is the price of oil heading? What can we expect in the near term, say the next quarter or even during 2016?

North American oil companies have been trying to produce tight oil more efficiently, especially in the last little while. They are focusing on drilling good wells into better reservoir pockets. They have also been using fracking technology more optimally. But, it is also true that in the last little while, the low oil prices have forced the rig count in the US to decline. What this means is that even though US is a high-level producer of tight oil at present, its production is likely to saturate and decline in a few months (at current oil prices). Some of the small producers of tight oil are already becoming cash-strapped, and there have been cases of bankruptcy filing in Texas in recent months.

If the planned negotiations with Iran (on lifting sanctions) go through by the end of June 2015, then more cheap oil would be entering the global oil market in a few months. Also, Saudi oil production is probably not going to slow down. As a result the market will see more oil coming in, which will make the price of the barrel to decline further. Such low prices pose a clear threat to not only the unconventional oil production, but the conventional oil production in expensive areas, or even in frontier or deepwater areas. They could lead to further cutbacks by oil companies.

An argument that is usually given is that we can expect some increase in the global demand for oil and gas, but then this is true for the long-term. Yes, in the long-term the demand may outpace the production and consequently drive the price of the barrel higher.

Since last November, job losses in the oil and service companies around the world, as we are all aware, have left many individuals and their families in shock, threatening their income stability. The fresh graduates have been left in a limbo. It is discouraging to complete your studies and have to wait for a job opportunity to come through.

So, what is the answer to the question that I started off with?

Well, in my mind, as much as I hate to say this, in the short-term, it is not looking very encouraging. I wish I am proved wrong. Goldman Sachs has also predicted a \$45 price of the barrel by October 2015. Of course, this scenario could be influenced by the political developments around the world, some that are happening and others that are yet unforeseen.

Let me sign off with another question. What is your take on this?