

6<sup>th</sup> June 2015

Here is more that is going on the oil scenario front and .....

The CEOs of some of the big oil companies met at Vienna on Wednesday (3<sup>rd</sup> June'15) this week, prior to the long-awaited OPEC meeting. This meeting was to collectively discuss the current oil scenario, as they watch the repercussions of the drop in oil prices in the last 6 months. An interesting comment was made by the CEO of ExxonMobil, Rex Tillerson, who said 'we live with a lot of uncertainty and we are rewarded for how well we manage it.' If you can't live with uncertainty, 'be a librarian'. I liked his comment. It is true.

First as you all know in the aftermath of the oil barrel price collapse since last November, the big oil companies have slashed spending, have let many of their employees go and have lost revenue. Due to the cut in their budgets, the investment has been reduced and that implies many projects will be delayed, leading to reduced output. All this will result in lower profit for these oil companies.

Frontier exploration is not possible at \$60 a barrel. There is no alternative on the horizon at present such that the price of the barrel somehow increases. Of course such downturns are times of mergers and acquisitions as was done by Royal Dutch Shell with its acquisition of BG for \$70 billion a few months ago.

The US is also mulling requests from a dozen US executives about lifting ban on oil exports. Remember, there is 40 year ban on US oil exports, and till recently the US has been importing oil, but thanks to shale oil, it is now in a position or will be there soon to export. The oil producers in the US are also eager to have the ban lifted, as oil is selling at around \$10 less than the global price. If that happens, more oil will flow into the market. This may not happen immediately, but could become a reality in the next couple of years.

As I have mentioned before, besides the possible flow of oil close to 1 mb/d from Iran, should the western sanctions be lifted, Libya has been working on some of its heavily damaged oil fields and is preparing to start adding exports as early as this summer, which is here.

OPECs semi-annual meeting held in Vienna yesterday has decided to keep its production target at 30 mb/d. It has also stated that its member countries should also get used to the oil price below \$100. So, till the end of November, when the next OPEC will be held, we can expect the price of the barrel to stay low. Interestingly, OPECs biggest customers are China and India and so they can reap the benefit of low oil prices.

So much for now. Enjoy your weekend!