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YEAR AHEAD ENERGY OUTLOOK 2023

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GI Consultancy Intelligence Publishing

Daily Energy Markets
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Foreword 2023

Is "Disinflation" Even a Word?

Sean Evers
Managing Partner, Gulf Intelligence

I've been an economic journalist for 25 years and I had to look that one up – *"disinflation means a slowdown in the rate of inflation while still remaining in the positive"* – I might have to ask CHAT GPT if that is good or bad?

It's hard to know where to look for direction in 2023, with so many contradictory currents causing counterintuitive whiplash -- from the latest bullish shiny object of *China Reopening* blowing large quantities of 'Irrational Exuberance' wind in the sails of global risk-on assets, powerful enough delusion to revive bitcoin and its crypto friends from death's doorstep even as 500,000 Russian troops amass around the boarders of Ukraine on the first anniversary of their brutal invasion of Europe's largest country.

Place your bets ladies and Gentlemen for 2023 to deliver yet another Black Swan to catch all of the most conservative portfolios screaming in pain! We have had a flock of them in recent years, from COVID to Ukraine, and now China suddenly doing U-Turns in the Year of the Rabbit out of a hat that would make an Argentinian Tango dancer dizzy. . .what will they do for an encore?

Meanwhile, as many had expected, the FED Chairman Jay Powell never grew a set of Volkers and his backbone can be seen melting under the weight of a decade of quantitative easing printing presses that flooded the world with $10 trillion of free money – interest rates with 5% as a ceiling and not a floor is being blown away in the stampede for Millennial returns, desperate for Elon Musk to push as many GEN X and Baby Boomers on to the unemployment dole queues as possible.

While the cute little Tesla Model Y broke into the TOP 10 selling vehicles in the US last year, Pickup trucks again remained America's top-3 selling vehicles. In either case, no matter which car is winning – gasoline or EV, the bigger question for the year ahead will be a bit more macro as the IMF warns that a third of world could face recession in 2023.

The green shoots of this possible outcome are starting to emerge as an alarming number of Americans with auto loans are struggling to make monthly payments. Auto loan performance saw further deterioration in December, and loan delinquencies jumped. Of all loans, severely delinquent ones have reached the highest rate since the financial crisis about 15 years ago.

As the saying goes, *What does that have to do with the price of tea in China?* or more importantly, what impact will it all have on the appetite for oil and gas in Beijing, because that is probably the only North Star worth looking at for some clarity on the direction of commodity prices through 2023! ■

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INTERVIEWS

What will Volatility Look Like in 2023?

Amrita Sen
Co-Founder & Head of Research, Energy Aspects

How wide could oil prices swing this year between high and low?
It could be a similarly volatile range of $30-40, as with 2022, simply because we've started with a very low price. But with China's reopening, the number one driver for prices, the upside could be quite substantial, and we see prices therefore averaging $100 for the year. We are already starting to see some green shoots with regards to demand for jet fuel and gasoline picking up, and China's product exports are coming off very sharply. We expect Chinese crude demand to grow by about 900,000 bd year on year. Chinese refiners are telling us that number could be as much as 2 million bd.

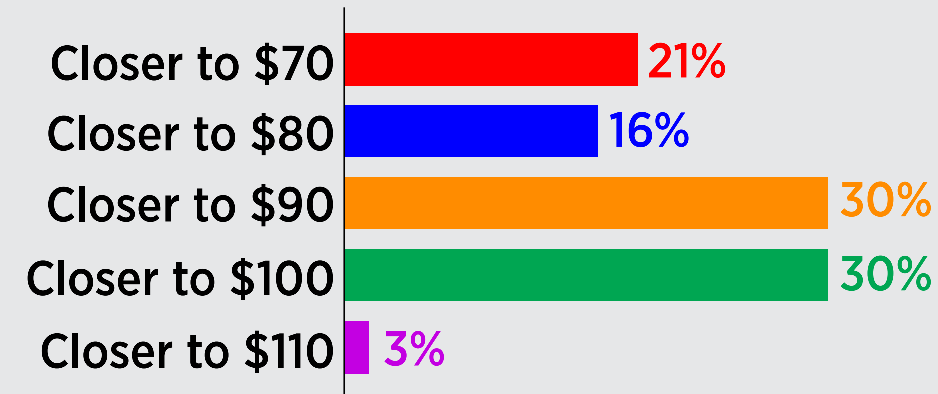
Is the guiding sentiment for markets that peak inflation is now behind us?
The market is assuming that the Fed is going to be lowering interest rates because energy prices have come off quite substantially since the peak and some of the CPI prints have come off slightly. The problem is that we need to see how China's reopening plays out because it will be very inflationary due to pent up demand. And there's also the multiplier effect to consider across the Asia region. The other side of the equation is that a big chunk of inflation was due to supply chain shortages. If factories in China now restart and people can get back to work, those shortages will come off in the coming months. So, the US Fed could be facing inflationary pressures again in the second half of the year.

Will we continue to see gas to liquids switching?
This has predominantly happened in industries such as petrochemicals and refineries and that has continued. Gas prices would need to be €63 per megawatt hours for the switch back away from gasoil, and as low as €43 per megawatt hours to switch back out of LPG. We don't see a drop below €70 despite the warm winter, because at that price you are going to get quite a bit of demand coming back. Storage is also still a problem for next winter without Russian gas this year.

Outlook for China LNG demand in 2023?
China has obviously taken a lot more LNG than they require, and they've been reselling that in the markets. We see that volume of reselling dropping. We had previously factored in Chinese LNG demand would be higher year on year by about 10% to 15% in 2023; that number is now going to be substantially higher - anywhere between 10 to 15 million tons higher over the next 12-18 months, compared to 60 million tons in 2022. That could put some pressure back onto Europe as they try to rebuild inventories for next winter. Europe was lucky with the milder weather this winter and with China being out of the market but now that China's back, it's going to be game on and let's see who wins these cargoes effectively.

Impact of price caps and embargoes on Russian crude and products this year?
The crude embargo is not as material as the products embargo, because crude will continue to reshuffle east. We've seen about a 300,000 bd drop in crude exports versus November in December though it picked up a little in January. That's the amount that Russia is struggling to place anywhere. Maybe that's what leads to the first round of shut-ins of around 200,000-300,000 bd. The products embargo is trickier because Russia has really struggled to place its diesel anywhere else other than Europe. That's where you are going to see the big impact on the upstream, because we anticipate Russia will find homes for only about a third of its diesel and if it has to shut-in two thirds of its 750,000 bd of diesel exports, that means run cuts of about 1.5 million bd.

Do we have products capacity east of Suez to satisfy European demand?
There are new Middle Eastern refineries which are very heavy on distillates and the yields are very jet and diesel heavy so that will help in the second half of the year. We don't think the diesel market will face as steep a crunch as when the embargo initially kicks in during February. But it all depends on China – product export quotas are already lower so eastern markets are going to be tight, which means new Middle Eastern barrels will have to also swing east, creating pressure on the west. The other factor is that Russia is the only country that exports general feedstock, so we are going to have problems producing enough clean products. This might really hit gasoline in the summer, especially if China's reopening is going to be bullish gasoline, and as jet also now needs the yield from refiners because jet demand is picking up.



Any tension within OPEC+ with Russian crude heading to Asia?
OPEC+ key countries have maintained their market share in Asia. At the same time, we are seeing more Middle Eastern volumes, such as Murban, and some other lighter grades, move to Europe. I don't see this being a huge issue that derails OPEC+. The relationships are very, very strong and overall, Russia needs OPEC+ now more than ever.

Does OPEC+ need to revisit its output plan with the reopening of China?
Our balances assume OPEC+ will have to increase production in the second half of the year, but they will want to see evidence of stock draws returning and China reopening first. if China were to bring back 2 million bd of demand, that would require more OPEC+ barrels.

Will fund managers return to buying and elevate crude prices in 2023?
So far, that trend of low volumes has continued since last year. Net length in both Brent and WTI is shockingly low. Net long positions are at the 2020 lows, which is baffling. People are still sitting on the sidelines and partly for seasonal reasons with refinery maintenance coming up. So, the physical market will have to lead and then these money managers will come back. We may then get a short covering rally, but probably not till March or April onwards. ■

Outlook for Nigeria & OPEC+ in 2023?

Mele Kyari
Group CEO, Nigerian National Petroleum Company

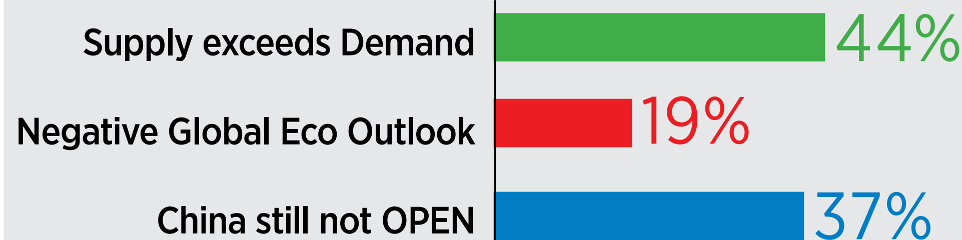
What is Nigeria's oil production target for this year?
Security challenges around oil operations in the country became very manifest early on in 2022 and we took steps to bring back production, which have paid off. In July, net crude oil output, excluding condensates, had dropped to one million barrels, the lowest in the history of our country and our industry. We took very practical steps and by the end of December, production was 1.5mbd and the trajectory for the end of this year, including condensates, is 1.8mbd to 2.2mbd. In terms of products, when we get our refinery capacities back by mid-year, the combined national capacity will be around 1.1 million barrels, and we will have a net difference that will be exported as that exceeds our domestic requirements.

Can the government afford to continue subsidizing fuel products?
Whenever there are government subsidies on fuel anywhere in the world, there has to be management of arbitrage across borders with supply chain partners. NNPC's relationship with the government today in terms of supply of fuel is a commercial one based on a service level agreement between us and a price that is the policy decision of the government. We are meeting our commitment of delivering products to the country and we have sufficient cash flow to support this.

Will the county import expensive refined products in 2023?
We had to do this last year because we decided to rehabilitate all our four refineries in one sweep. That was a very clear commercial decision and the right one – ultimately, it gives us security of local energy supply and also protects us from having to manage freight issues. We expect two of the refineries to be back up and running by mid-year.

Outlook for global oil demand supply balances and prices in 2023?
The volatility in prices last year was unprecedented and so the whole balance of demand and supply didn't really play out. The line of sight around new production coming online is also limited because of the general lack of investment and financial constraints, so we don't expect a significant recovery in supply over the next two years. That means we will have to live with this range of prices for a while to come. And demand will not collapse – the world is coming back from COVID-19 and there are many countries, particularly in sub-Saharan Africa, where economies are growing very fast, against all odds. So, $75 to $80 oil is a very realistic price for the time being.

Why is oil market not participating in 2023 rally across financial markets?



SOURCE: DAILY ENERGY MARKETS PODCAST 2023

Can developing economies live with $80 oil?
When prices get too high, demand adjusts and drops, and countries also come up with other approaches to finding energy sources or reduce their consumption. But the key fuel for transportation in sub-Saharan Africa is petroleum – the infrastructure of railways is very underdeveloped and therefore it's largely dependent on internal combustion engine vehicles. Most producers and consumers in the industry see that we need a balanced price and that $60 oil as a good price but whenever there are issues around supply, the world learns to live with $75 to $80, which is of course a challenge for many African countries.

Are Russia's crude sales to China and India a threat to OPEC producers?
I don't see any threat because the levels have remained about the same. Whenever you have political dislocation like what we are having because of the Russia Ukraine crisis, it will impact how much crude oil is able to leave Russia and where that oil flows, but we have not seen significant cargoes hanging in that market and Gulf producers have not lost their market in the Far East. ■

INDIA: Can it Continue to Defy Global Trend of Slower Growth?

Narendra Taneja
India's Leading Energy Expert

How can India continue to grow amid forecasts of global recession?
We are integrated with the global economy for commodities like oil and export of services such as IT, but the construct of the Indian economy is driven mainly by domestic demand. Also, the government has implemented dynamic policies to insulate the economy from most of the challenges faced elsewhere, which is why growth was around 7% in 2022. Look at the Bombay Stock Exchange, FDI, hard currency reserves tourism, and manufacturing – all are doing well.

Will India continue to access discounted Russian oil in 2023?
The discounted oil from Russia is the beginning of a new global oil order and we might see the de-dollarization of oil. We see new deals happening between China and the Gulf countries agreeing to actually go for oil purchases in yuan, so the new order is going to get more traction. Still, we cannot go the full hog with China If it comes at a heavy cost to our strategic relationships. Our global interests are aligned firmly with the West, the USD, the EU, Japan, Australia, and other countries so, we have to strike a balance. If we did, it would be restricted only to oil, not energy as a whole, because we need the West for renewables technology. We also need the West and the Gulf for natural gas.

How will India continue to meet its power demand growth?
We will probably have to buy more coal and burn more natural gas, which also means more dependance on imported gas. We need to build more LNG terminals and we may need to burn even more diesel. We produce 80,000 megawatts of electricity using diesel already and that will probably go up because when you are expanding the economy, you can't wait, for instance, for renewable energy to be available at the same pace. We need to deal with issues related to air quality and the environment, but we also need more fossil fuels to pull people out of poverty and expand the economy. It is a challenging dilemma.

How is the India-China relationship impacted by their ties with Russia?
Russia and China are rivals and competitors in Asia. Russia is a very smart and mature country, and it will not become dependent the way China wants. Regarding India and China, it's clear China wants to see a unipolar Asia; it wants to be the hegemon of the entire region. India will not allow that, and it is the only country in the area with the population, economy, and history to prevent that. It also has most countries on its side – Europe and most Asian democracies. I see this Asian drama continuing until we reach a multipolar world. It is in the world's interest to ensure that tomorrow's Asia is a multipolar region and is not dominated by one specific country, especially not China.

Average oil price in 2023?
In the first half, I see Brent in the region of $95 to $103 per barrel. After August, the US and Western Europe will start coming out of recession and demand will start going up. We will also face the hard reality that the world has not invested enough in oil exploration and production for the last four years and that will be reflected in higher prices in 2024 and 2025. India will undoubtedly be among the countries that will suffer most. ■

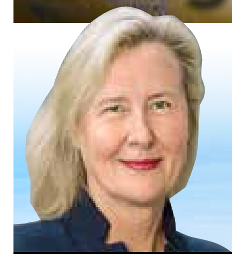
33% No

67% Yes

Does the FED/ECB/BOE need to maintain robust tightening cycle i.e. 50bpS – to keep January "Irrational exuberance" inflation in the bottle?

SOURCE: DAILY ENERGY MARKETS PODCAST 2023

GERMANY: Achieving Short-Term Energy Security While Maintaining Long-Term Energy Transition?



Kristina Haverkamp
Managing Director, German Energy Agency

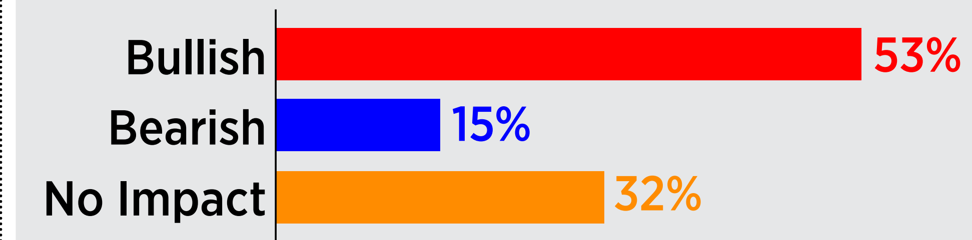
Is Germany prioritising short-term energy security over Energy Transition?
The opposite is the case. Russia used to supply just above 50% of our gas demand before the war, and that has raised awareness that we need to become independent, which means more renewable energy than we had planned. We have increased our ambition in terms of deployment of renewable energies to 80% by 2030, doubling the share in electricity production which we have today. At the same time, we have taken short term steps to reduce energy, and particularly gas and electricity, consumption.

Will the gas-price 'defense shield' be a permanent fixture?
Inflation is now below 10% again, so we can see that the measures taken by the government, in particular to reducing energy prices, are taking effect. We don't see energy prices remaining where they are today, but they are also unlikely to go back to the low levels we had prior to the war. The €200 billion 'defense shield' will last until the end of 2023 or start of 2024, because we expect energy prices to drop – and gas and electricity also as a result. After that, there will be a new normal and we would expect the energy saving component and the rise in renewables to kick in to help alleviate the burden that would remain at that time.

Has Europe overcome its energy crisis?
We have another winter to face and one does have to be realistic. We are dealing quite well with this winter mainly because the storage facilities are full in Germany, thanks to Russian gas. We will need to look towards next winter when there will not be any Russian gas in any storage facility Europe-wide. Many measures are being taken, such as building LNG terminals, developing energy-saving routes, and creating energy-saving campaigns.

What's the best energy policy for Germany given higher future energy costs?
I am convinced that Germany should follow the path that has already been decided upon by the new German coalition in January of last year – developing a faster expansion of renewable energies to become more independent and also remain economic in terms of the use of energy. We are also working on developing partnerships with the Gulf region – with the UAE and Qatar, for instance – and with the US and Canada. In the short term, we are focused on LNG supply but also hydrogen, and in particular green hydrogen. Grey hydrogen is also important and so our new LNG terminals need to be able to switch to green hydrogen as soon as it is available.

US & German defense ministers met in January 2023 to consider supplying tanks & heavier weapons to Ukraine: what impact would escalation of War have on energy prices?



SOURCE: DAILY ENERGY MARKETS PODCAST 2023

Why did Germany choose to reboot coal-fired power plants last year rather than use nuclear energy?
Germany decided to phase out nuclear in 2011, and our last three reactors running in 2022 should have been shut down by the end of 2022. However, it was decided to prolong their operation until April 2023 at a lower level to get us through the first winter without Russian gas and to save as much gas as possible. After April, that will be the end of nuclear power in Germany. I am personally convinced that this is the right decision because the issue of storage of nuclear waste has not been solved yet and it's also a vulnerable technology to use in times of crisis, as we saw in Ukraine last year. Taking coal-fired power plants out of reserve is also bad news for climate change, however. Nonetheless, it will serve as a bridge and I assume we will stop that at the latest, by 2024, when we are ready to receive more LNG and when we are ready to substitute gas with green and grey hydrogen.

What will the German economy's biggest energy challenge be in 2023?
It will be crucial to secure the amounts of gas necessary to continue to provide heating for citizens and to satisfy the operational demands of German industry. Of course, all of this will very much depend on the weather and on how the Chinese economy picks up. If China does recover, we should assume that prices will rise, particularly for LNG gas. LNG will be providing about one third of Germany's gas demand by the end of next year, with stocking up taking place at both our floating and fixed terminals. ■

Securing Oil Supply-Demand Balance in an Increasingly Sanctioned World?

Tim Gould
Chief Energy Economist, International Energy Agency

Outlook for supply demand balance at the start of 2023?

The level of uncertainty remains extremely high, but we're starting to see some interesting contours on how the world might come out of today's deep and complex energy crisis. We still have massive wildcards – the shape of the global economy, China's reopening, and how global trade and investment flows react to policy uncertainty and prices. The rupture with Russia that did so much to roil markets in 2022 feels like a permanent fixture and we have not seen a surge in investment in traditional oil and gas supply - only a few parts of the industry are investing more now than they did in 2019, mostly NOCs in the Middle East.

Are we still facing the 'worst ever' global energy crisis?

The degree of disruption that occurred when Russia cut its gas deliveries to Europe by some 80%, had very wide-ranging impacts around the world. Europe increased its LNG imports last year by 50bcm and countries, notably in South

Asia, then faced extreme difficulties with electricity security and other aspects of energy security. Also, if we compare to the oil shocks of the 1970s, those were largely concentrated on single fuels. Russia in 2022 was the largest exporter of fossil fuels worldwide, around 50% higher than Saudi Arabia. There are now indicators that suggest that the implications of today's crisis could be even more far reaching. We have a suite of clean energy technologies that are mature, and we estimate that over the next five years, the amount of installed renewable capacity worldwide will be the same as was installed over the last 20.

That acceleration is being reinforced not just by climate priorities, but very strongly by energy security priorities and by considerations of industrial policy, in many countries.

Will we see a more significant disruption in Russian oil supplies this year?

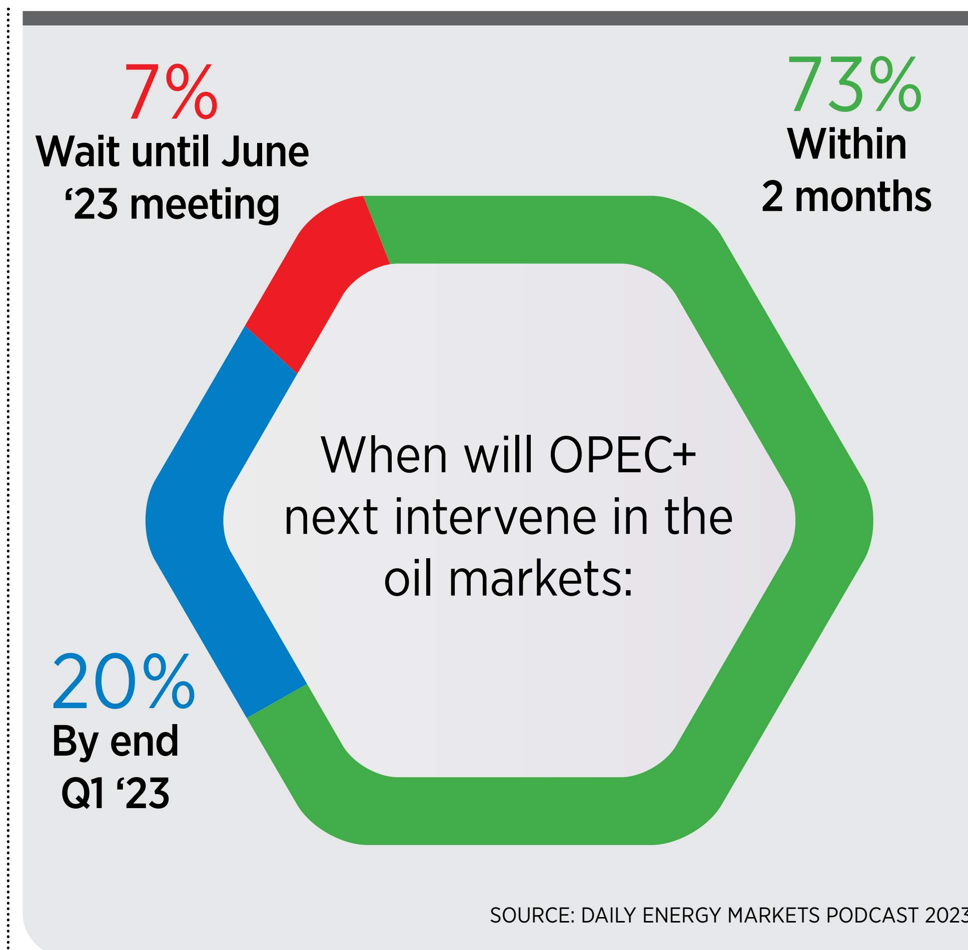
Russian production and exports in 2022 have been more resilient than we initially expected. But there are big changes afoot such as the ban now on imported seaborne crude from Russia. We expect Russian output in 2023 will see a reduction of about 1.4 million barrels a day, year on year. There are increases anticipated from the US, Norway, and elsewhere so the balances look okay but there are wild cards such as Chinese demand. Oil and gas demand in China both fell in 2022, which was an unusual coincidence of events. And we have in February, the ban on imports of Russian oil products to come - the reconfiguration of global trade implicit in that is going to be significantly more complex than what we've seen already on the crude side.

Outlook for energy markets as China reboots?

The second half of the year is clearly the one to watch when looking for the big changes in China's demand or imports. We anticipate an increase of 1.7 million bd of oil for 2023, around half of which will come from China. On the gas side, it would not take much for markets to tighten again very considerably in 2023. We did a stress test for the European gas balance to see what would happen if Russian deliveries by pipeline fell to zero this year and Chinese LNG import demand returned to 2021 levels. You could argue about both of those, but they are not inconceivable and under those circumstances, we would see significant strains.

What impact will the sanctions on Russian products have on market flows?

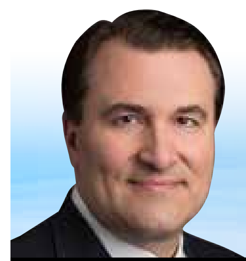
It is highly likely that Russian deliveries will look to find a home in Asia. However, we see that only some of the supply displaced from Europe will find a new home in other markets. That is why we predict a reduction in Russian output for 2023 and the following years. This creates increased competition between Russia and other traditional exporters to Asia for market share. However, when it comes to products, it is a more complex situation because China and India are oil product exporters. You are going to have different safety valves for oil products than what you need for crude. We will need to have a complex reconfiguration of flows in the Atlantic basin – with Europe taking more from Middle Eastern suppliers and North America. Meanwhile, Russian oil product exports will find homes in parts of Latin America or Africa. None of that will be simple – quality specification issues, tanker and storage issues - will all need to be considered.



Will countries look to rebuild their Strategic Petroleum Reserves in 2023?

The decisions on rebuilding those stocks will be sensitive to the overall context of oil markets. It is important to recognize that, from an IEA perspective, we retain that important safety net for oil markets. We are very focused on measures governments can take to ease tensions in gas markets. Regarding energy security, let us not forget that some of the big emerging issues are in the electricity sector and other elements critical to the Energy Transition. ■

CAPEX IN 2023: Will O&G Upstream Investment Return to Pre-Covid Levels?



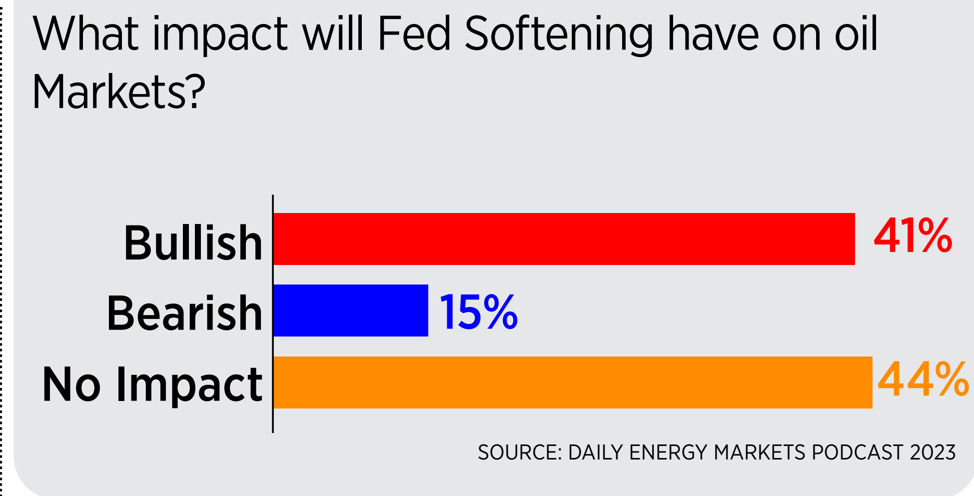
Joseph McMonigle
Secretary General, International Energy Forum

Might we see a healthier energy supply demand balance in 2023?
Our outlook is that there's still a very large element of uncertainty, especially on the demand side, with the threat of recession. And then we have China's reopening and what that may or may not mean for demand, especially on the upside. On the supply side, we continue to have constraints on investment in new supplies in general, and questions on Russian production, recent sanctions and price caps and what Russia may decide to do as a result. The jury is still out on all of that, but without adequate inventories, spare capacity and investment, volatility is likely here to stay.

Why has US oil production not returned to pre-COVID levels at these prices?
There's still a lot of uncertainty about what a recession may mean and so a hesitancy by many companies, which have seen many boom and bust cycles. Also, there is this whole new era of capital discipline, with investors demanding better returns from the sector. And thirdly, you have ESG and sustainability constraints on investments. Having said that, oil and gas upstream capital expenditure globally increased by about 39% in 2022 to $141 billion. That's the highest level since 2014, and 13% above pre-COVID levels. But we should be cautionary about those figures because the increased spending really reflects rising costs and inflation, not just increased activity.

What estimated level of global upstream investment is now required?
We think that upstream investment will need to increase from about $500 billion in 2022 to $640 billion in 2030. Cumulatively, $4.9 trillion will be needed between 2023 and 2030 to meet market needs and avoid a shortfall. And the need is not just for adding supply, but also for offsetting production declines. Without new investment, we estimate that non-OPEC production would decline by 9 million barrels per day by 2026 and 17 million barrels per day by 2030; that's 31%. Moreover, underinvestment threatens energy security in the short and medium term, but it will also undermine progress on the Energy Transition; if the public starts to equate high prices and volatility with transition policies or climate action, we will lose public support.

Should the onus be on national oil companies to provide any extra supply?
NOCs have the same pressures on the investment side. The reality is that most members of OPEC+ are not producing at the target that they are supposed to, and it is for the same reasons that investments are down in the US. These NOCs did not invest mainly because of the uncertainty related to the Covid-19 crisis. Everybody assumes that OPEC and OPEC+ can fill the gap but half of the gap is coming from the US.

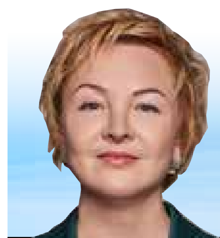


What's the legacy one year on in the war, to global energy flows?
We have yet to see a big impact on Russian energy supplies. The EU has taken adequate steps to address any concerns. But it would be a mistake to blame the high prices last year on the war in Ukraine only. We must recognize that the root cause is underinvestment and high prices and volatility will be the new normal unless this is addressed

Have the sanctions on Russia worked at all?
With Russia, Iran, and Venezuela under heavy sanctions, a lot of oil and gas politicization is happening worldwide. The cumulative effect is a critical part of the problem. If you look at the rationale behind the G7 price cap, it is trying to mitigate the impact of sanctions. Whether it will be successful or not is another question. You cannot just turn off energy in one part of the world and expect it not to impact the global market. Energy security is now back, and countries are focused on this in a way they have not been before. The focus will be on realigning policies and strategies moving forward.

How will China's reopening impact energy markets in 2023?
This is the big, big, question. China's reopening is being underappreciated in the market right now. People are pricing in a global recession without focusing on what China's reopening could mean for demand. I think it has tremendous potential to further tighten markets. We are really in a tale of two markets. The financial market is focused solely on recession, bad economic news, and what that means for demand. The physical market is still quite strong and tight, especially when you add China's return both domestically and internationally. The pressure on demand will be great in 2023 and we will be focused on supply gaps throughout the year. ■

RUSSIA: Impact of Western Sanctions on Long-Term Performance of Oil & Gas Sector?



Dr. Tatiana Mitrova
Research Fellow, Center on Global Energy Policy

Outlook for supply demand balance at the start of 2023?

The level of uncertainty remains extremely high, but we're starting to see some interesting contours on how the world might come out of today's deep and complex energy crisis. We still have massive wildcards – the shape of the global economy, China's reopening, and how global trade and investment flows react to policy uncertainty and prices. The rupture with Russia that did so much to roil markets in 2022 feels like a permanent fixture and we have not seen a surge in investment in traditional oil and gas supply – only a few parts of the industry are investing more now than they did in 2019, mostly NOCs in the Middle East.

Are we still facing the 'worst ever' global energy crisis?

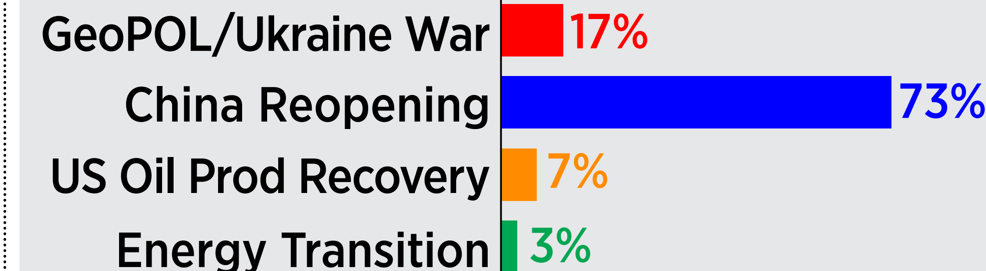
The degree of disruption that occurred when Russia cut its gas deliveries to Europe by some 80%, had very wide-ranging impacts around the world. Europe increased its LNG imports last year by 50bcm and countries, notably in South Asia, then faced extreme difficulties with electricity security and other aspects of energy security. Also, if we compare to the oil shocks of the 1970s, those were largely concentrated on single fuels. Russia in 2022 was the largest exporter of fossil fuels worldwide, around 50% higher than Saudi Arabia. There are now indicators that suggest that the implications of today's crisis could be even more far reaching. We have a suite of clean energy technologies that are mature, and we estimate that over the next five years, the amount of installed renewable capacity worldwide will be the same as was installed over the last 20. That acceleration is being reinforced not just by climate priorities, but very strongly by energy security priorities and by considerations of industrial policy, in many countries.

Will we see a more significant disruption in Russian oil supplies this year?

Russian production and exports in 2022 have been more resilient than we initially expected. But there are big changes afoot such as the ban now on imported seaborne crude from Russia. We expect Russian output in 2023 will see a reduction of about 1.4 million barrels a day, year on year. There are increases anticipated from the US, Norway, and elsewhere so the balances look okay but there are wild cards such as Chinese demand. Oil and gas demand in China both fell in 2022, which was an unusual coincidence of events. And we have in February, the ban on imports of Russian oil products to come - the reconfiguration of global trade implicit in that is going to be significantly more complex than what we've seen already on the crude side.

Outlook for energy markets as China reboots?

The second half of the year is clearly the one to watch when looking for the big changes in China's demand or imports. We anticipate an increase of 1.7 million bd of oil for 2023, around half of which will come from China. On the gas side, it would not take much for markets to tighten again very considerably in 2023. We did a stress test for the European gas balance to see what would happen if Russian deliveries by pipeline fell to zero this year and Chinese LNG import demand returned to 2021 levels. You could argue about both of those, but they are not inconceivable and under those circumstances, we would see significant strains.



What impact will the sanctions on Russian products have on market flows?

It is highly likely that Russian deliveries will look to find a home in Asia. However, we see that only some of the supply displaced from Europe will find a new home in other markets. That is why we predict a reduction in Russian output for 2023 and the following years. This creates increased competition between Russia and other traditional exporters to Asia for market share. However, when it comes to products, it is a more complex situation because China and India are oil product exporters. You are going to have different safety valves for oil products than what you need for crude. We will need to have a complex reconfiguration of flows in the Atlantic basin – with Europe taking more from Middle Eastern suppliers and North America. Meanwhile, Russian oil product exports will find homes in parts of Latin America or Africa. None of that will be simple – quality specification issues, tanker and storage issues - will all need to be considered.

Will countries look to rebuild their Strategic Petroleum Reserves in 2023?

The decisions on rebuilding those stocks will be sensitive to the overall context of oil markets. It is important to recognize that, from an IEA perspective, we retain that important safety net for oil markets. We are very focused on measures governments can take to ease tensions in gas markets. Regarding energy security, let us not forget that some of the big emerging issues are in the electricity sector and other elements critical to the Energy Transition. ■

CHINA REOPENING: Better, Faster Version of Pre-Covid Economy or Something Different?

Ben Simpfendorfer
Partner – China Expert, Oliver Wyman

Outlook for the Chinese economy in 2023?
It will very much be a tale of two halves, with the first half relatively bearish as we work our way through the reopening post-COVID. That has always been challenging everywhere, with mobility typically suffering, consumers staying at home, and factory output disrupted. The second half looks more constructive with demand beginning to recover but the challenge is that the country has started this reopening already on a relatively weak footing; November's data showed domestic demand, exports and the property sector contracting – the latter two have been important drivers of growth in the last three years.

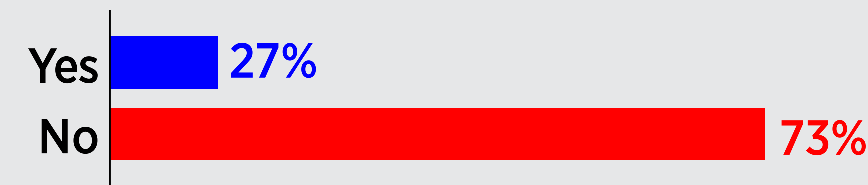
Was the 20% rally on the MSCI Asia Pacific Index in Q4 premature?
There's been a technical adjustment in the markets generally for portfolios that were underweight in emerging markets, and Asia Pacific in particular. At the same time, the bull run may be a little early. We're going to have to work through some weak data over the coming 2 to 3 months at the very least, and that may begin to dent consumer or investor confidence to some degree. It won't be until the second quarter that some of the current rally in the equity market begins to look more justified.

What's the reality of the COVID infection explosion on the ground?
Companies in big cities are citing high infection rates of 30% to 80%, so the acceleration is there. Many are now looking at the start of the Chinese New Year period, which is the largest movement of people at any point of the year - that will be of some concern over the coming months.

Impact of China's reopening on production supply chains and inflation?
China accounts for around 35% of the world's consumer exports and that's where we may see the greatest stress. Capital goods exports are less of a concern, at around 25%. At the same time, we've got to realize that we're operating in a different world compared to 12 months ago – with weakened demand and exports expected to contract by at least 10% over the coming months. It's going to be a very complex period for global buyers, particularly in the consumer goods sector. They could expect to see disruption as factory staff and lorry drivers are absent because of sickness, just as we saw play out elsewhere in the world. As regards inflation, we should expect that Chinese exports will be a contributor. The question is how important that will be to the overall consumer basket and ultimately to central bank targets. It will also add pressure in the commodity markets. Still, the recovery in the second half of the year might be less robust than the markets expect, with exports and property sectors both weak, two big drivers of growth over the last three years.

What are some of the deeper challenges facing China's economy, ex-COVID?
One is demographics – the country's youth population is in decline and the overall population will also be shortly. That makes the previous labour intensive strategies that worked so well in the manufacturing sector, a bit unsustainable and certainly more inflationary. The second challenge is that capital will be in less ample supply than in the last 10 or 20 years when China was investing into smart infrastructure projects. With higher debt levels relative to GDP, China can't anymore use infrastructure as the same driver of growth, and that's particularly problematic in the property sector, which is suffering from excess supply. Driving growth will be harder over the next 5 to 10 years. Nominal GDP growth is currently at around 5%; in the bull years, it was closer to 15%, which made it much easier for China to inflate its way out of debt financed infrastructure. The focus as an input to growth going forward, will have to be on productivity rather than labor or capital – that's a more challenging equation.

China's population fell last year for the first time in six decades – has China already reached Peak Oil Demand which is still almost 2 mbpd below 2015-2019 level of 15+mbpd?



SOURCE: DAILY ENERGY MARKETS PODCAST 2023

How permanent are the new geopolitical lines being drawn by China?
With the US, the mood may have warmed a little recently and that might continue this year, but we would expect to see the economic and political decoupling to remain. The US certainly appears committed to kickstarting industrial innovation back home. What is significant is the genuine tightening in ties between China and the Gulf states. The biggest takeaways from the summit in Riyadh last year was that the relationship, which began to emerge back in 2005, is now a priority for both sides. It also goes beyond pure trade in consumer goods and oil and is increasingly moving into cross-border investment into more advanced manufacturing and services. Both countries see themselves as leaders of the emerging markets so it's only natural that they should find ways to tighten that relationship.

Will China hold its position as the main consumer of the OPEC incremental barrel?
Chinese growth will continue, even if at a lower rate of 5% compared to the 8% that we've been accustomed to over the last ten years. That 3% gap may have a marginal impact on oil demand, particularly from the Gulf, but nevertheless, China will remain the largest absolute buyer and marginal buyer. Putting China aside, the Southeast Asian story is also particularly compelling, and we expect those regions to pick up some of the lost demand slack out of China. The Asia Pacific region, as an entirety, remains a key marginal buyer of oil going forward. Some of the big North Asian exporters, such as Korea and Japan, are certainly struggling with weakening manufacturing PMIs and exports and they will suffer as a result of global recession risks, but the story for Southeast Asia is far more constructive. ■

LNG: Outlook for US & Global Markets in 2023?

Renee Pirrong
Head of Strategy, Tellurian

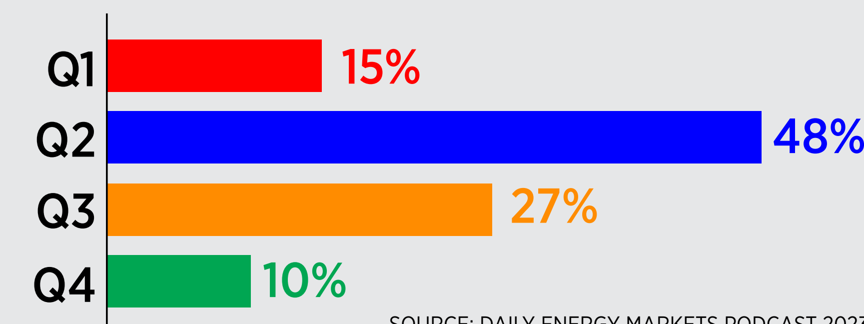
The US supplied nearly half of Europe's LNG imports in 2022. Will that continue?
As long as Europe requires LNG, the US is the most proximate source of supply. It's unquestionable that Europe will need LNG supplies through 2023 and into the future. Before the war in Ukraine, Europe imported about 16 billion cubic feet a day of natural gas from Russia. Today, that number is about 1.7bcf a day. So, for Europe to backfill all of the gas it was getting from Russia, it would require an incremental 120 million tons of LNG supply on an annual basis, which puts its total LNG requirements in the long run at about 150 to 160 million tons. That's an enormous challenge, and it will require not only the LNG supply that the US has today, but also new infrastructure to support that. Prior to the crisis, most US LNG was geared toward Asian markets but as the TTF price was at an astounding premium to JKM, most of that volume was redirected into Europe, saving those markets from a structural shortfall.

Will more US LNG exports go to Asia now with the resurge in China demand?
In 2022, China took in 65mn tons of LNG already under long-term contract. That number could grow by 10 to 15mn tons this year, putting the market in a much tighter balance. Europe will have to compete again with Chinese LNG demand this year. We have already seen TTF starting to trade at a discount to JKM. Europe adjusted its demand last year and it will probably end the withdrawal season with inventories at about half full, which is much higher than usual. So, it will be alright this winter but will still have to continue attracting enough LNG cargoes to refill storage for the end of the year.

Will China look to replace expensive LNG with more coal?
The way that China's contracts are often structured is the major IOCs can pass on a lot of their high-priced LNG to their customers. So, the major NOCS are not necessarily as price sensitive because of the way that market is regulated. We won't see prices command the same panic premium as in 2022, but they will remain elevated as China probably drives up demand. There's also a big question mark around new global supply for the next few years.

Where is the pipeline for new LNG capacity?
About 30% of all global LNG capacity under construction right now is in the US. In the past, there were only three places for substantial amounts of incremental low-cost LNG supply: Qatar, Russia, and the US. Today, all the Russian projects that were under construction or in the pre-FID pipeline, are extremely challenged. Beyond their current expansion plans, Qatar has 16mn tons. That leaves the US to do the heavy lifting to meet the 250mn tons of new capacity we see required by the market over the next 15 years. There are 275mn tons from US projects in the pre-FID pipeline, representing about 70% of the world's viable pre-FID projects. In terms of current trade of LNG, as larger volumes of liquidity have entered the market and given the US LNG complex more flexibility, it'll be increasingly hard to predict where LNG will flow. That is positive as it means that volumes will flow to where they are needed. Natural gas is the fuel of the future, and we will see a lot more of it.

In which quarter of 2023 will we be able to say CHINA IS BACK!



SOURCE: DAILY ENERGY MARKETS PODCAST 2023

Outlook for gas prices in 2023?
We probably won't see the panic pricing that we did last year, with LNG and European gas prices finding some stability around switching thresholds. If we are looking for gas prices to get their footing, we should look at where those switching thresholds are, especially as we see energy conservation tail off with lower prices and higher industrial demand. Moreover, we can't forget how high coal prices are. Heat rate-adjusted coal prices in Europe are trading above Brent parity. ■

Middle East Geopolitics in 2023?

Raad Alkadiri
Managing Director – Energy, Climate & Resources
Eurasia Group

Outlook for energy markets in 2023?
It's going to be a year of geopolitical uncertainty again with markets perhaps on an even more uncertain footing than in the immediate aftermath of the Russian invasion of Ukraine. We have a Russia that has lost a considerable amount of its broader geopolitical leverage and so how it reacts to that, not just on the battlefield but also in terms of potentially further disruption of energy flows and the impact of sanctions, will be important. We also have the IMF suggesting that one third of the global economy will be in a recession at some point in 2023. The silver lining could be the US' ability to avoid recession and that Europe will have a milder recession than expected.

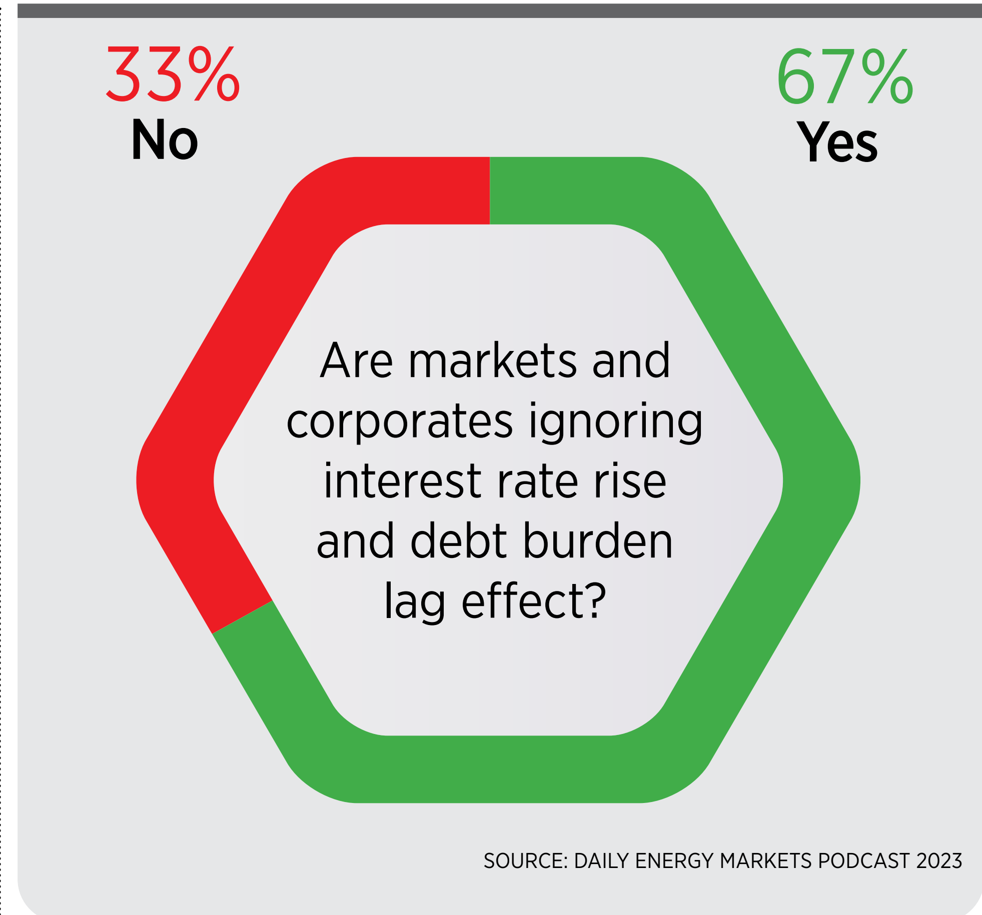
How critical is Chinese demand to the equation?
There is an anticipation for this massive pent-up demand that could be unleashed but there's also the unexpected sudden pivot away from zero COVID by China that could create disruptions. I think we will see a very bumpy first quarter where demand in China is particularly a drag on the global economy, but thereafter, there could be a bullish outlook for Chinese, and therefore also global demand. We could

get a double whammy on the markets with China demand rising just as Russian supply falls off. Certainly, the second half of 2023 will be considerably tighter than the first, so the question may be, where the price ceiling could be.

Was US energy geopolitical strategy successful last year?
It has come as a shock to the US that OPEC+ and the Gulf has been willing to say no and willing to prioritize their own domestic and fiscal interests, and own energy strategy at the expense of Washington. I think we will see some tension with OPEC+, particularly in the second part of the year, if prices rise above $100 a barrel again. But what we have seen as a result, are the beginnings of a transformation in US energy policy, that is going to be much more interventionist in terms of the market. The use of the SPR as swing production has been an indication of that, with an eye on inflation and cost as being paramount to defining US energy security. The second aspect has been the opportunity for US LNG beginning to manifest as an alternative for Europe, to Russian gas – one that US companies and the US government are seeking to take advantage of.

How does the Russia-Iran relationship impact the OPEC+ group dynamic?
An Iran that is manageable within the region and that is not disruptive is something that the Saudis and other Gulf states are willing to live with, so in that regard, there's a benefit of having Russia as an ally in OPEC+. The Gulf states have also taken significant measures to enhance their national security in recent years and in many ways, the OPEC+ agreement is arguably providing revenue security and therefore stability for that relationship to continue. There is the question of what Iran can get from an increasingly weakened and isolated Russia and you could argue that both countries are on the back foot because of sanctions.

How do you see the China-Saudi relationship developing in 2023?
In the past, China has been reticent to step into the Middle East on a political level, keeping its interests and relations commercial. But we now see it more confident to engage with the gradual erosion of US-Gulf relations and long-term structural factors and energy are key in that discussion. And when we look at Saudi Arabia, the UAE, or Kuwait, the resource that remains the key financial generator is the growing Asian market. This is a natural pivot away from an America that has been talking about energy independence for the past two decades and a Europe that has been trying to reduce its dependence on fossil fuels.



Has the Ukraine war taken the steam out of the US actively pursuing regime change in Iran?
The US will always want to see regime change in Iran. The question is what price they are willing to pay for it. The US will keep an open eye on the nuclear situation, but it has to see a willing partner. The Iranians want to ensure that any deal made will ultimately deliver something for their national security. The stakes are not high enough for either side to overturn the status quo. We will get a Biden administration tightening sanctions on the margins, continuing to put pressure, and arguing that they are willing to listen if the Iranians are willing to talk. The absence of trust on both sides is growing. Today, you also have an Iranian regime struggling to maintain its legitimacy internally and fighting for its long-term existential future. And there's an extreme right-wing Israeli government, and we need to consider whether it's willing to take more risks in terms of Iran. ■

ADNOC Transformation Embraces Energy Transition?

Ibrahim El Zu'bi
SVP, Sustainability, Climate and ESG, ADNOC Group

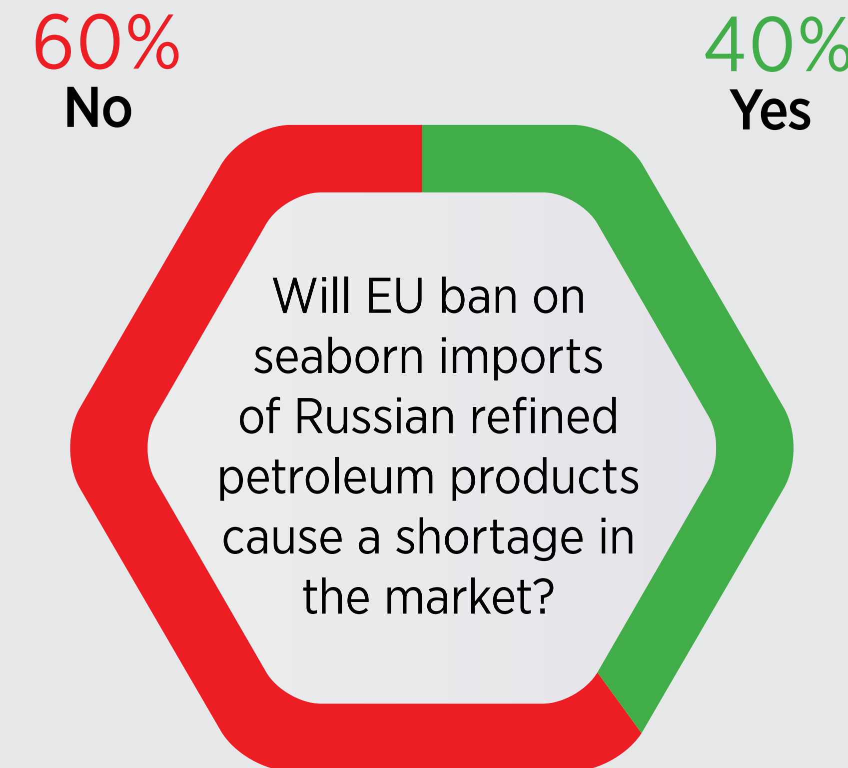
How can ADNOC best juggle its strategy of pro-growth and pro-sustainability?
When looking at sustainability, energy producers like ADNOC need to align four main elements - economy, society, environment and partnerships. That is a pragmatic and realistic way to ensure our objectives will be achieved. We are also a responsible energy producer and cannot unplug the energy system of today until the system of tomorrow is ready. We can produce low emissions conventional energy while investing and preparing for the future. One example is our new partnership with the Abu Dhabi Future Energy Company, Masdar, which plans to grow its renewable energy capacity to over 100 gigawatts by 2030.

What is the best pathway for the UAE on its journey to net zero?
The most pragmatic way is to ensure the triple bottom line approach for sustainability – planet, profit and people. ADNOC is fully committed to be net zero by 2050 and to reduce our carbon intensity by 25% by 2030 and for that we need enablers. One of the best of those when it comes to climate change and net zero, is technology. We need to take action to decarbonize our own operations and portfolio where possible, while also supporting our customers to decarbonize. The first technologies we're implementing are around decarbonization. We've also expanded investments in zero carbon energies, including wind, solar and hydrogen.

Why has CCUS struggled to scale up to full economic viability?
We need to focus on key decarbonization levers, and this includes industrial scale implementation of CCUS. There's a growing alignment that climate goals cannot be achieved without widespread adoption of multiple carbon capture technologies. We're pursuing to expand our CO2 capture capacity sixfold to approximately 5 million tons per year by 2030.

How will ADNOC achieve its intended 0.15% methane intensity target by 2025?
Our new methane intensity target is ranked the lowest in the Middle East and to do that, we first need to improve the accuracy and transparency of our methane emissions management by using technology, drones, smart metering and reporting, as well looking at advanced emissions and monitoring technology solutions, both on the ground and via satellite. In addition to standardization, cross-sectoral collaboration is also key when it comes to using technologies around methane emissions.

Any other targets ADNOC plans as it looks ahead to COP 28?
Sustainability practitioners in general should embed net zero ambitions in the heart of everything they do and that is the case at ADNOC. The minute we set an ambition, we ensure that we've done the homework and that we implement it practically. Since the start of 2022, we have sourced 100% of our grid power from nuclear and solar energy – the only hydrocarbon company to have done this. We were also the first in the region to deploy carbon capture on an industrial scale. We also have a bold $15 billion investment plan by 2030 for landmark decarbonization projects in carbon capture, electrification and enhanced investments in hydrogen and renewables. ■



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OPINION EDITORIALS

ASIA

Victor Yang
Senior Editor
JLC Network Technology

How has energy consumption evolved in China since reopening last month?

The country is slowly getting back on track, as is tourism. People are starting to travel slowly and we are approaching the Chinese New Year so many more people will be returning home than last year. As a result, we are seeing a rebound in gasoline and jet fuel demand particularly and we expect that recovery to accelerate at the end of this first quarter. We saw peaking infection rates in December - everyone got COVID, everyone in my office and almost everyone in Beijing, so it spread very quickly. But we have passed the worst wave of outbreaks and people are less concerned now and gradually resuming normal life. However, diesel demand is weak which is seasonal as a lot of logistics construction is halted because during the cold weather at the end of the year.

Outlook for the Chinese economy in 2023?

While demand is expected to grow modestly, we have built up a lot of stockpiles of crude in the past few years. One important factor is prices. Imports can grow by 3% if the prices are not too high this year. We had two large refineries coming online at the end of last year, one producing 400,000 barrels a day and the other more than 300,000 barrels per day.

CRUDE DEMAND

"While China's demand is expected to grow modestly, we have built up a lot of stockpiles of crude oil in the past few years. One important factor is prices. Imports can grow by 3% if the prices are not too high this year. We had two large refineries coming online at the end of last year. One produces 400,000 barrels a day and the other more than 300,000 barrels per day."

Victor Yang
Senior Editor
JLC Network Technology

Clyde Russell
Asia Commodities & Energy Columnist
Reuters

Outlook for oil demand and imports in the year ahead with China reopening?
It's never as simple as the market narrative would like it to be – that as China reopens from COVID it will be bullish for oil prices and demand. I've seen some ridiculous figures that China's reopening is going to add 4 million barrels a day to global oil demand. That's nuts. Even a full reopening wouldn't add anything like that. We need to look at the interplay between China's crude oil imports, its product exports, and its inventory levels. The Chinese have been, in the past few years, building inventories very heavily and even last year, when prices rocketed in the wake of the Ukraine war. By my calculations, in the first 11 months, they were adding about 700,000 barrels a day, so they are at a point now where they don't need to add any more to stocks. It would be a fair assumption to say that they've got about 4mbd of domestic output and about 10mbd currently of imports because they're refining between 13.5-14mbd. There is an opportunity to increase that. They certainly have some spare capacity in that system. But they need to look at domestic fuel demand and how much China wants to export and then work it out going back from there.

What pace of recovery do you see for the Chinese economy this year?
I think it will be more modest than people expect. The PMI numbers are not cranked up. We are also expecting a slowdown in Europe and the US and a whole range of not-so-good outcomes for the global economy. China will not be immune to that this time. Yes, they can do a certain amount of stimulus spending, but the parts of their economy that are trade exposed are not probably going to do as well as could be expected.

CHINA OIL STOCKS

"We need to look at the interplay between China's crude oil imports, its product exports, and its inventory levels. The Chinese have been, in the past few years, building inventories very heavily and even last year, when prices rocketed in the wake of the Ukraine war. By my calculations, in the first 11 months, they were adding about 700,000 barrels a day, so they are at a point now where they don't need to add any more to stocks."

Clyde Russell
Asia Commodities & Energy Columnist
Reuters

Vandana Hari
Founder & CEO, Vanda Insights

Supply tightness versus demand destruction for Asia in 2023?
Things are looking more positive with the Chinese reopening and for the Asia Pacific region, even though it has been a very difficult transition. Things could start looking up in the second quarter as the latest wave of COVID dies down. A big impact of the opening that has happened since December, abrupt and ill-planned as it may be, is that Chinese tourists are traveling again, and the Southeast Asian region is very closely connected with the fortunes of the Chinese economy. Quite a few countries depend on the giant of Chinese tourism. I think the Chinese economy could be back as early as the second quarter.

Will Russian energy flows continue for a second year into Asia?
That is essentially just two countries – China and India. Russia was always a major supplier for China, but it was supplying next to zero crude to India until February of last year. If you look at China and India now, the combined ramp up in their buying in a good month for Russia, meant nearly an additional 2.5 million barrels per day. What we have seen with India especially is that not only did it go from zero to buying Russian crude, but also ramped up very fast. If you look at December, imports to India of Russian crude were over 1.1mbd. That's a new record for the country. By my calculations, on a seaborne purchase basis, India imported more crude from Russia than China, because China gets nearly 800,000 bd by pipeline.

RUSSIAN CRUDE

"If you look at December, imports to India of Russian crude were over 1.1 million barrels per day. That's a new record for the country. In fact, by my calculations, on a seaborne purchase basis, India imported more crude from Russia than China, because China gets nearly 800,000 barrels per day by pipeline. So, India is now the biggest importer of seaborne crude from Russia."

Vandana Hari
Founder & CEO
Vanda Insights

Valery Chow
Head of APAC Gas & LNG Research, Wood Mackenzie

Impact on oil and gas demand in the year ahead with China reopening?
Chinese energy demand took a massive hit last year, with a drop in imports of 15 million tons, accounting for almost all of the decline in Asian demand. With the reopening, we should see 5 to 6 million tons of additional demand, which would take China back up to about 70 million tons, but it still doesn't match the highs of 2021 when they surpassed 80 million tons. China isn't out of the woods yet in terms of its economic growth - the property sector is in a slump and energy prices remain incredibly high. Secondly, they've been ramping up domestic gas supply very aggressively over the last few years. We expect up to about 12bcm of additional incremental gas from domestic basins and that's going to feed into any incremental LNG demand. On top of that, they have the option of importing more gas via the Power of Siberia pipeline from Russia.

Will Europe outprice Asia for LNG cargoes again in 2023?
That will put Asia under some stress. Having said that, we do expect some additional energy and liquefaction capacity to come onstream globally - around 10 million tons depending on how the European situation pans out. Gas storage levels are still very healthy in the northern hemisphere. We've seen prices dip massively from the peak to where we are today. If this warm winter continues, it also takes the pressure off the restocking season that comes in the summer of this year.

CHINA CONSUMPTION

"Chinese energy demand took a massive hit last year, with a drop in imports of 15 million tons, accounting for almost all of the decline in Asian demand. With the reopening, we should see 5 to 6 million tons of additional demand, which would take China back up to about 70 million tons, but it still doesn't match the highs of 2021 when they surpassed 80 million tons."

Valery Chow
Head of APAC Gas & LNG Research
Wood Mackenzie

Peter McGuire
CEO, XM Australia

Impact of China's reopening on the Asian region?

There's a positive tone showing, and that's been demonstrated by the way base metals and equities have reacted to the upside and by the looks of it, that momentum may continue. From a tourism perspective, Australia also opens its doors to students from China, with the first semester starting in only about five or six weeks. Overall, I think consumption for energy, base metals, and the commodity sector is going to be stronger, so that's a good sign for producers in the overall economy and China may do quite nicely out of it with a reasonable GDP number.

Will Asian economies be more resilient this year to a strong USD and high commodity costs?

Last year was a perfect storm from a geopolitical front, with Ukraine and Russia, price inflation, the USD, and then the crude and energy issues. That all created volatility and a wonderful trading environment over that calendar year. Many traders are saying that 2023 is going to mirror 2022 in a lot of ways. We're expecting big price swings and an impact on smaller Asian economies with high energy prices. Inflation is still an issue across all of Asia. If we can't manage inflation, the cost is going to be greatly absorbed by the men and women on the street. We're expecting to see higher energy prices and a return to higher inflation.

PRICE INFLATION

"2022 was a perfect storm from a geopolitical front with Ukraine and Russia. You think about price inflation, the dollar, and then the crude and energy issues. So that all created volatility and a wonderful trading environment over that calendar year. A lot of traders are saying that 2023 is going to mirror the 2022 image in a lot of ways. We're expecting big price swings and an impact on smaller Asian economies with high energy prices."

Peter McGuire
CEO
XM Australia

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OPINION EDITORIALS
MIDDLE EAST

Sara Akbar
Chairperson & CEO, OiLSERV, Kuwait
& Non-Executive Director, Petrofac

Outlook for Kuwait production?

We have made very big strides toward where we want to be in refining with one of the largest refineries in the country - 600,000 barrels of refining capacity, coming online. Most of the products from there will be exported because the domestic use inside Kuwait is inadequate. On upstream, the target is 4 million barrels a day and current capacity is 2.8mbd, so we have expansion plans this year as a result – namely, an additional 30 rigs to expedite some of the drilling and build up more capacity. We are also trying to unleash more potential by adding new facilities and so on. There are serious changes required to achieve the 4mbd target.

What are the main obstacles to achieving these targets?

The problem has nothing to do with the reservoirs or reserves or ability to produce. The issue is the cycle it takes to build a facility and also the bureaucracy that comes with that. Everyone is aware of this bureaucracy that is stopping progress but there is now a new management at KPC and a new oil minister who are completely aligned to remove a lot of that bureaucracy, to make things more efficient, and apply and expedite the cycle for project implementation. The main issue is the amount of water that is needed to handle the increase in production and for that, they need facilities, and the cycle for building a facility in Kuwait is around 5 to 7 years, which is completely ridiculous.

BUREAUCRACY

"The problem we face is nothing to do with reservoirs or reserves nor the ability to produce. The issue is the cycle that it takes to build a facility and the bureaucracy that comes with that. Everyone is aware of this bureaucracy that has previously stopped progress but there is a new management in KPC and a new oil minister who are completely aligned to make things more efficient and expedite the cycle for project implementation."

Sara Akbar
Chairperson & CEO, OiLSERV, Kuwait
& Non-Executive Director, Petrofac

Peter Zeilinger
Senior Vice President, Middle East & Africa Region, OMV

What are the challenges that come with Abu Dhabi's energy expansion plans?

We saw the recent announcement from ADNOC of a $150 billion budget until 2030, $15 billion in low carbon, and the acceleration of achieving its production capacity increase to 5 million barrels per day by 2027 instead of the initial target of 2030. It will be a parallel growth between low carbon and the traditional carbon business, and whether the speed of growth of the two are aligned remains to be seen. The biggest challenge is competition for resources globally and within the Gulf. The global rig fleet is being driven towards Saudi Arabia, Qatar and Kuwaiti as well as the UAE. Skilled labor and financial resources are also in competition. Financing an amount such as $150 billion becomes more difficult if you look at our industry's cycle from exploration to abandonment within 40 years. That's why there will be a prudent shift to a lower carbon footprint and to more gas. The UAE wants to become self-sufficient in gas and deliver double the LNG capacity in the next five years, and with that, comes 5 million tons of CCS. I think the $15 billion that ADNOC announced for low carbon investment is just the spearhead – there's more to come and the whole region will follow because the goal is more energy and a lower carbon footprint – that requires investments in low carbon businesses while maintaining and expanding capacity in traditional oil and gas.

Outlook for Abu Dhabi's trajectory to carbon neutrality?

If you look at the reserves production ratio and the announcement that by 2050, ADNOC, with the rest of the region, is striving for carbon neutrality, you see that the only option is to expand production capacity. Our calculations give more than 50 years of reserves life for the UAE. We are now in 2023 so we will go well into the 2070s with the reserves' life under the new production target. It will be necessary for further growth to achieve neutrality, if you want to go into Scope 3. It was a brilliant move to bring COP 28 to the UAE, as it's a country which has a lot of leverage in reducing carbon intensity and can demonstrate what technology can deliver.

How challenging are more competitive service rates for operators?

The demand pick up is fueling these. To attract offshore rigs to your operations for expansion today, some companies are currently paying up to 80% premiums. That is a big challenge because companies ultimately are not measured by the oil price, but rather by efficiencies – by their unit costs and return on investment.

ADNOC EXPANSION

"I think it's a parallel growth between low carbon and the traditional carbon business. Whether the speed of the two are aligned remains to be seen. We have seen the announcement from ADNOC recently the $150 billion budget until 2030, and of course, the big topic was the acceleration of the capacity increase to 5 million barrels per day by 2027 instead of the initial target of 2030. ADNOC is very good at achieving its targets."

Peter Zeilinger
Senior Vice President
Middle East & Africa Region
OMV

Hatem Al Mosa
CEO, Sharjah National Oil Corporation

Update on SNOC's operations and outlook for Sharjah and the northern emirates?

SNOC has a continuous drilling program for the next two years, and potentially beyond, for exploration in the existing field that we discovered recently. At the same time, we are also expanding our LPG business by upgrading our LPG export terminal into an export and import terminal and hopefully, that expansion will reach international markets as well. We just finished expanding our gas storage capacity at the beginning of January and have plans to expand it further by the end of this year, as well as new drillings in the reservoir where the gas storage is. We have set for ourselves a very challenging target: to achieve net zero on our operations within ten years. The exact plan is not yet solid, but the very first step would be converting our own power consumption to renewables.

Any obstacles this region faces with running operations?

The potential for additional products from this region is higher than in any other place in the world, especially given the cost per barrel. Having said that, the cost is not as low as it used to be - everything is more expensive, and the whole supply chain, including people, is more expensive and scarcer. And while there is money in the region, finance can be costly and not accessible for all, and at the end of the day, that is raising production costs. The net profit per barrel has dropped, even with the higher prices; the $1 or $5 per barrel cost no longer exists. Funding projects is becoming more expensive because of the competition for equipment and services. Everybody's trying to produce more barrels after the very big slowdown during the pandemic – the whole world is in catch-up mode with pre Covid production levels. Volatility is the other big challenge today and to manage that, we need a cushion in availability of production – if the world is producing at maximum capacity, we will always be subject to bigger swings in price.

COSTS

"The rates are increasing every day for drilling rigs. You see the cost of people is also higher so the costs for all these drilling projects are also becoming more expensive. Everybody's trying to produce more barrels after the very big slowdown during Covid. The whole world is in a catch-up moment as we have not caught up with pre-pandemic levels."

Hatem Al Mosa
CEO
Sharjah National Oil Corporation

Walter Simpson
Managing Director, CCED

Update on CCED expansion plans in Oman?

Put simply, it's full steam ahead not just for our plans, but also for what Oman is driving for. The sector is crucial to the economy – oil revenues are about 70% of the total revenues for the country so it must be maintained if Oman's plans for diversification of its energy mix, such as hydrogen, are to go ahead. There is a drive for expansion and not just the existing facilities in the producing fields, but also for new exploration. As for CCED, we've increased our capacity to explore more, we're shooting seismic, we've added rigs and I think that's true for the whole country.

Are supply chain issues still with us and what's the impact on this region?

The supply chain has been hit very hard and that's probably been the slowest thing to come back. These challenges to the service sector around money, people, and equipment, inevitably means prices in the service sector are going to go up because of competition. I think this region will become the hot potato of the industry. The money's here, the hydrocarbons are here and clearly, this is a place where people can see that they can accelerate their production and they're going to go after it. Saudi Arabia announced massive spending investments as did the UAE. Oman wants to invest. Other countries in the region are all looking to increase their activities. That's going to require resources and competition. I think it's going to be challenging, but it's going to be very entertaining because there's going to be a lot going on here.

How can Oman conquer its high water cut challenge?

That's where the technology piece becomes very important. PDO for example, was very successful with a reed bed solution to a field that produced a lot of water. The super high salinity water produced in Oman does present technical challenges and we are starting to see some technologies that can clean that water being trialed in this part of the world, to see if they can be made economic on a large scale. It could be a game changer for a country like Oman.

ENERGY DIVERSIFICATION

"There is a drive for expansion and not just in the facilities that are existing in the producing fields, but also for new exploration. We've increased our own capacity to explore more - we're shooting seismic, we've added rigs and I think that's true for the whole country. It's a matter of 'let's get that revenue' to support the diversification that the country wants in terms of its energy mix going forward."

Walter Simpson
Managing Director
CCED

Laury Haytayan

MENA Director, National Resource Governance Institute

Might we see the JCPOA negotiations revived this year?

With the demonstrations in Iran, the chances of a deal have dissipated but If Iran is seen to be selling a lot of its oil for example, the US might have more interest. There's the question also around whether Iran's leadership will focus more on domestic issues or externally through activities in Yemen, Lebanon, etc. but as long as Iran is after a nuclear bomb, the talks will resume at some point.

How is Turkey likely to play the geopolitical game going forward?

Erdogan is using his NATO leverage to show that he can play a negotiating role between Russia and Ukraine and play other cards in Syria. His focus right now is on the elections in May and because he can't do much about his economy, he wants to show to his public that he's very tough on the international stage on issues like what's happened in Sweden and who gets into NATO.

Should we be paying more attention to an escalating situation in Ukraine?

Germany has been a bit disappointed by how Russia used its oil and gas against it and Europe. It started with a strategy of being more conciliatory to Russia, but it's now resorted to sending the tanks. At the end of the day though, Russia also needs the money from oil and gas sales so we will see what happens as we enter the second year of this war. What interests me is what Italy's ENI is doing with these gas deals in Algeria and Libya, to increase production there.

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Amena Bakr

Deputy Bureau Chief, Energy Intelligence

Outlook for continued OPEC+ Unity in 2023?

Cohesion is one of the top priorities for OPEC+ this year – how to keep this group of producers united. I think this is why Prince Abdulaziz said in December that it's very important for all participants to be okay with the group's decision making, to own the decision making, and actually implement the policy in place as this comes in favor of all producing states. They all have something in common as they all need oil prices to stay within a certain range to support their budgets.

Outlook for Geopolitical Tensions between OPEC+ and the West in 2023?

Geopolitics will remain a major force in energy markets this year, and many things will make OPEC+ decisions appear to be politicized when they are not. Any action taken by OPEC+ in 2023 could potentially be seen as a political action in support of Russia, and there remains the potential for another misunderstanding between OPEC+ and the West this year.

Outlook for Supply and Demand Balance in 2023?

Based on our research at Energy Intelligence regarding the first half of the year, we're expecting supply to exceed demand by about 1 million barrels a day. And then going into the second half of 2023, we expect to see a deficit of around 1.4 million barrels a day. For total demand growth for the year, we're expecting it to be around 1.6 million barrels a day. And of the 1.6 mbpd, we're expecting around 700,000 to come from China. But that, again, depends on how fast they reopen and ease lockdowns.

What Challenges Does OPEC+ Face in Maintaining Unity in 2023?

"Geopolitics will remain a major force in energy markets this year, and many things will make OPEC+ decisions appear to be politicized when they are not. Any action taken by OPEC+ in 2023 could potentially be seen as a political action in support of Russia, and there remains the potential for another misunderstanding between OPEC+ and the West this year."

Amena Bakr
Deputy Bureau Chief
Energy Intelligence

Yousef Alshammari

CEO & Head of Oil Research, CMarkits
& Senior Research Fellow, Imperial College London

What challenges does revisiting quotas present to OPEC+ in 2023?

We were expecting these baseline quotas to be revisited at the end of 2022. Nigeria's production isn't improving not only due to depleted oil wells, but due to security issues related to stolen oil shipments. That is an important issue to tackle this year. There is also a high level of uncertainty because Russian oil production is falling, not just because of the ban from the EU or G7, but also because of Russian unilateral decisions to ban oil supplies to countries participating in the price cap. We expect Russian production to drop by half a million barrels or more this year and that could add a level of uncertainty on the need to revisit OPEC+ quotas.

How does discounted Russian oil affect the harmony within OPEC+?

It's a very important point. If Russia is going to continue to divert flows to Asia, and China in particular, they could end up being China's largest supplier. What makes Saudi Aramco special to China is the long-term contracts and the huge base load of supplies and security of supplies that Russia can't give. China's target to become net zero by 2060 also gives Saudi Aramco a more secure demand over the next few decades. That's the first reason Saudi Arabia shouldn't be worried. The second is that last October, Saudi Arabia's exports to Europe reached a figure close to 900,000 barrels. The kingdom compensated for any loss in its market share in Asia by taking the Russian share in Europe, which is now shrinking, in addition to the long-term contracts with China and India that Russia doesn't have. In the long run, Russian oil production isn't expected to last for more than 20 years, while Saudi Arabia's is expected to grow for at least 50 years, so it has a comparative advantage.

OPEC+

"We expect Russian production to drop by half a million barrels or more this year and that could add a level of uncertainty on the need to revisit OPEC+ quotas."

Yousef Alshammari
CEO & Head of Oil Research, CMarkits
& Senior Research Fellow, Imperial College London

Badar Chaudhry
Senior Vice President, Energy Sector
Mashreq Bank

The region is maintaining its momentum towards diversification

Clearly, the direction the GCC is taking is towards economic diversification. After COP27 a few months ago and now with COP28 around the corner, the direction we'll see for the year is one where positive balances that are available will go into further efforts towards economic diversification. That will bode well for the manufacturing sector and in particular for renewables within the manufacturing sector. What's going to drive the boat will be the commitments that the countries in the region made at COP27 and their desire to commit further to the hydrogen space. We'll also see momentum at the policy level to facilitate investments and allow investors to participate more actively.

Proof of concept and viability will remain two pillars of the regional framework

One of the things that still needs to be sorted out is the policy framework buttressed by robust reporting standards. They should be fined tuned to meet the needs of the region and its local nuances while incorporating international best practices. From a financing point of view, a key consideration is having in place a proof of concept for any technology or venture. This is all the more important considering the levels of investment that are starting to flow towards hydrogen as a new energy source. Another consideration is project viability where projects in the green energy space will need to demonstrate their ability to meet certain obligations, particularly financial obligations.

Local champions have emerged like UAE's Masdar and Saudi's ACWA

The Dubai Economic Agenda D33, which aims to double the size of Dubai's economy over the next decade and consolidate its position among the top three global cities is a prime example of how, at the policy level, there's a focus on trade and diversification, especially into manufacturing. This addresses the question of where diversification efforts are coming from at the state level and where the commitments are being made for clean energy. One angle is the inbound internal aspect where the regional economies, especially the UAE, are well on their way to deliver on their commitments. Beyond that, we now see that we have local champions like Masdar and ACWA that are venturing out into new frontiers and markets to play their part as technology transformers and deployers of capital.

GCC ECONOMIES

"At this point, every country has its own objectives and initiatives towards economic diversification. The differentiator will be how quickly each of those plans is executed."

Badar Chaudhry
Senior Vice President, Energy Sector
Mashreq Bank

Edward Bell
Senior Director – Market Economics
Emirates NBD

There will be continued international appetite for regional debt offerings

The fiscal health outlook for the year in the GCC is pretty good. Even if we have oil prices in 2023 staying flat year-on-year, it'll be a fairly good level for basically any GCC government. Beyond that, one of the steps we'll see taken this year, contingent on variables outside the GCC's control, is further efforts to diversify revenue sources. One of the big questions is to what extent GCC governments and how much GCC corporate credit will go back to international bond markets to raise revenue through those outlets. There was a kick-off last week in Saudi Arabia to raise its first bond issuance, a 3-tranche issue, which was very well oversubscribed and showed that there's still a considerable amount of appetite for regional debt offerings. With the current pricing environment in which we find ourselves, if there's a chance that the US Federal Reserve doesn't need to continue hikes as aggressively as they did in 2022, then that opens a window for less expensive borrowing costs for the region to tap into.

Lowered oil prices won't slow momentum for fiscal reform

In the UAE, there's been a strong understanding of a need to establish an economy that is sustainable, not just from an environmental point of view, but one that will continuously enable growth. That approach does involve movement towards the green space, but also rethinking the conditions around visa requirements, which allow for a more entrenched middle-class kind of economy with targeted industries that go along with that, such as manufacturing and tech, instead of luxury markets catering to people that fly in and out. The efforts so far have been successful and will help trigger medium-term growth in the UAE in particular. More regionally, the commitment towards fiscal reform now appears well entrenched. Oil prices came down from their $140 peak but are still holding up pretty well. Given that, some anticipated a rollback in the level of VAT from 15% to the 5% level. That hasn't happened and probably won't at this point. Others expected slowing momentum for reform towards corporate taxes, which will be introduced later this year, but there hasn't been any indication that there isn't a serious effort to implement those kinds of policies.

FISCAL REFORM

"The oil price barometer is no longer the only important indicator for the region's trajectory; the pace of reform will sustain regardless of oil price."

Edward Bell
Senior Director – Market Economics
Emirates NBD

Robin Mills
CEO, Qamar Energy

Non-oil drivers of growth will vary by country

Oil price is an important point but it's not the only one. Another key driver is production, and production rose towards the end of 2022 as the OPEC cuts were gradually eased. What I expect is for production to keep rising in 2023 to fill the gap left by Russian oil. That in turn depends on OPEC+ policy and the demand outlook as well. That translates into a lower level of growth compared to 2022 but a level of growth that is nonetheless still respectable. Now of course we also have non-oil drivers of growth that present a much more diversified outlook than in the past. Non-oil growth drivers, however, depend much more on the individual country. Kuwait has a very strong outlook for the year, but it's almost entirely driven by the oil sector. The UAE has a more diversified outlook while Qatar won't experience the temporary tailwinds it had in its favor in the leadup to the World Cup. On the other hand, Qatar has LNG expansion projects well underway which buoy its growth prospects.

The nature of diversification is changing away from traditional cyclicality

When oil prices are low, you get fundamental fiscal reforms. When oil prices are high, you get diversification and spending on other things like industrial projects or tourism. We still see a strong level of spending towards those objectives given current revenues. However, what we're seeing more and more of is that the nature of diversification is starting to depend more on which country within the GCC you look at. The UAE has had a very active front towards diversification for many years at this point and has managed to avoid the cyclicality of traditional responses to lower or higher oil prices.

Sustainability initiatives will be either externally or internally driven

Energy sustainability and lower emissions are both key drivers for the region in 2023. If you look at UAE state-owned energy companies like ADNOC and Global Aluminium, sustainability is a key driver for them. It's important to distinguish how much is internally driven vs. how much is externally driven, from which there's also a lot of variation between companies. Companies that look at European markets will be under more pressure to have low-carbon products as the conversation moves towards a potential EU carbon border tax on its way.

ECONOMIC DIVERSIFICATION

"There were some big advantages that opened up for the region the past few years and diversification to ensure economic resilience will play into those advantages."

Robin Mills
CEO
Qamar Energy

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OPINION EDITORIALS

EUROPE

Mike Muller
Head, Vitol Asia

Outlook for gas markets in Europe in 2023?
Last year, the dominant theme was of European natural gas and power markets facing the unavailability of Russian gas and therefore talk of de-industrialisation and lowering consumption. We ended up with a relatively mild weather and European economies also went out of their way to secure alternate energy supplies, such as regasification facilities for LNG in Germany. Today, gas inventories have reached comfortable levels – and a price at 70 Euros per mmbtu is something most people did not anticipate. That brings back into competition the cost of gas with liquid fuels. For most of 2022, it's been cheaper to burn diesel generated electricity than to buy spot gas on the margin in Europe and we saw vast amounts of diesel being burnt for power generation all the way from Latin America to Thailand. If gas prices now drop further in 2023, that will change things dramatically.

Other trends to impact market balances in 2023?
The general underinvestment in upstream and the big dent that COVID made to investor confidence, remains. The other theme is that we have seen exceedingly lucrative refining margins across the refining system over the last year or so and now we have a bunch of very large complexes coming on, mostly in the Middle East, and a refinery or two in China and West Africa. How that impacts supply demand balances on products, which have been structurally tight, will be key.

Outlook for global demand overall?
Some analysts see 2023 as the year when we could go back to peak oil consumption. So far that peak was 2019. The year-on-year oil demand increase for 2023 versus 2022 could be at least 1 million barrels a day, mainly boosted by the resumption of travel. That will certainly require those new refineries to be in place because otherwise the supply chain will continue to look relatively tight.

Will it be China that provides the main boost to consumption?
Everyone was absolutely astonished at the speed of the Chinese economy opening up. There is clearly a resolve to get the economy stimulated into a faster rate of growth, whether with measures in the construction sector or in energy with the reintroduction of imports of Australian coal, or urging domestic refiners to run harder, including products for export. All these things are GDP fueling measures but it will take a few months for the economy to kick into full gear.

Direction of travel for Brent prices?
In the current fragile environment, with people talking of recession and inflation, prices are today at a much more comfortable level that makes make sense for most. Any moves to come will depend on new surprises and whether for example, we're going to continue to see market forces finding ways for the world to avail itself of Russian energy. History shows us that there are always ways around sanctions and price caps.

GAS

"For most of 2022, it's been cheaper to burn diesel generated electricity than to buy spot gas on the margin in Europe and we saw vast amounts of diesel being burnt for power generation all the way from Latin America to Thailand. If gas prices now drop further in 2023, that will change things dramatically."

Mike Muller
Head
Vitol Asia

Jorge Montepeque
President & Founder, Global Markets

Main legacy of the Russia war almost one year on?
Europe is going to come out of the economic and military confrontation with damage to the core of its economy. There's been an industrial move to reposition activity elsewhere, causing a reduction in industrial demand from European production lines, which have been impacted by gas and power prices and recalibrated accordingly. Europe is going to find itself being marginalized because of its own policies. The other element is that emerging economies have stopped taking notice of the war. Six months ago, everybody there was very worried about inflation and access to primary products, be it fertilizers, metals and energy, but now, growth and consumption are booming.

Is this part of a new global economic order?
The war is nibbling at the foundations of the Western leadership of the past few hundred years, from colonialization to the overwhelming power of the US in the 20th century, and we are witnessing a potential reset of that, with the rest of the world exercising its new leadership and connections as their economies expand.

Outlook for energy balances in 2023?
Broadly, the world is going to be tighter in 2023, though not excessively. OPEC+ are sitting pretty because they have two very strong demand boosts. China and the eventual retreat by the US in supplying from its SPR. Combined, that is over 2 million barrels a day of demand, and the developing world is also doing extremely well. The only negative element on consumption is Europe. On average, we could see a $100 market this year, but it will be seasonal. We will see a surge as we go into summer, led by middle distillates and as we go into the autumn, I think there'll be a lot of industrial changes in Europe where some of the gas will be cut down at the margin, and fuel oil will be restored.

NEW GLOBAL ORDER

"Emerging economies have stopped taking notice of the war. Six months ago, everybody there was very worried about inflation and access to primary products – be it fertilizers, metals and energy – but now, growth and consumption are booming. The war in Europe is nibbling at the foundations of the Western leadership of the past few hundred years, from colonialization to the overwhelming power of the US in the 20th century, and we are witnessing a potential reset of that, with the rest of the world exercising its new leadership and connections as their economies expand."

Jorge Montepeque
President & Founder
Global Markets

Dr. Carole Nakhle
CEO, Crystol Energy

Have sanctions on Russia worked at all?

Sanctions do work but they take time to impact. One weakness is that not everybody joined in, so the oil market responded by adjusting the direction of crude flows to big consumers like China, India, Turkey, and even some countries in the Middle East. However, the impact of sanctions on Russian oil products, coming up in February, is still a grey area. Countries like China and India have massive refining capacity – are they going to buy products from Russia? So, we should expect to see Russian crude production declining, maybe not severely, but even the most recent modest forecasts coming from OPEC show that it could decline by around 850,000 barrels a day and that could be because Russia is unable to redirect oil products as it did with crude.

Has global recession been averted?

There's a dichotomy or disconnect between the financial community and what international organizations are saying about the state of the global economy. Wall Street is downplaying the outlook for recession and perhaps overplaying China's comeback and its positive impact on the macroeconomic outlook globally for 2023, while the IMF and World Bank are predicting more doom and gloom. And no one knows how durable a recession will be if it happens. This is an indication of the level of uncertainty that we are still facing this year for all sectors, including energy.

Has the commodities market absorbed inflation and interest rate expectations?

There seems to be a greater belief today that because inflation seems to be easing in key economies, that central banks are going to relax their interest rates increases. But that is questionable because we might not have hit the peak of inflation and the Fed will continue until they have more definitive evidence that they have brought inflation down.

SANCTIONS

"The impact of sanctions on Russian oil products, coming up in February, is still a grey area. Countries like China and India have massive refining capacity – are they going to buy products from Russia? So, we should expect to see Russian crude production declining, maybe not severely, but even the most recent modest forecasts coming from OPEC show that it could decline by around 850,000 bd, and that could be because Russia is unable to redirect oil products as it did with crude."

Dr. Carole Nakhle
CEO
Crystol Energy

Ole Hansen

Head – Commodity Strategy, Saxo Bank

Could we see commodity market volatility dissipate at all this year?

I think we are getting to the end of some of the unknowns which will reduce some of the volatility. China will be a major force to determine some of the direction of commodities this year. Inflation is starting to come down and the big question is where it's going to land eventually. We are doubtful that we will reach the low levels that the markets have anticipated. That could create some volatility in the investment metals but generally, the oil market should not see the spikes and troughs that we saw in 2022.

Direction for the USD and impact on commodities?

The weakness so far at the start of this year has been driven by the Japanese yen, the euro or the Aussie dollar. It highlights the trajectory that the market is trying to present for the economic recovery in Asia and what kind of impact that has on neighboring countries. The change at the helm of the Bank of Japan later this year may also signal a shift in their stance towards their interest rate policies. But generally, we do see the dollar weakening further over the year with the interest rate trajectory still pointing higher but at least starting to slow and with the market still firmly believing that inflation is going to get under control – that has also led to some of the softening we're seeing in the yield markets.

Have we seen the peak on inflation?

I think so but I am not sure we see inflation coming down to the level that the market is pricing in. That's really where the concerns are because we still have this third move coming with wages and so on - we're going to see some very tough negotiations across the world with people wanting higher incomes to offset the price increases. If that leads to a renewed focus on yields, then obviously the dollar could strengthen again.

WAGE INFLATION

"We may have seen the peak on inflation but I'm not sure we see it coming down to the level that the market is pricing in. That's really where the concerns are because we still have this third move coming with wages and so on – we're going to see some very tough negotiations across the world with people wanting higher incomes to offset the price increases. And if that leads to a renewed focus on yields, the dollar could also strengthen again."

Ole Hansen
Head – Commodity Strategy
Saxo Bank

Marc Ostwald
Chief Economist & Global Strategist
ADM Investor Services International

Did high oil and gas prices last year lead to demand destruction?

If we look at a country like Germany, clearly production in the industrial sector was cut back but there was also an element, and in some other countries too, of people finding ways to economize on their energy usage. The problem within Europe now is that the united voice that there was immediately on the outbreak of the Ukraine war, is simply not there anymore and that has manifested on discussions around price caps. And even if we benefit from energy prices being at an overall lower level, they are higher than they were a year and a half ago. Residual inflation pressures matter. There's also still a lot of expenditure to be done with governments committed to expensive energy support measures for the public and for businesses. What people are forgetting in terms of the inflation outlook is, if we do see a more permanent drop in oil and gas prices, then governments are going to withdraw some of that. We also still have all the problems related to the lack of investment in infrastructure in Europe, for LNG for example. So, all it will take is for another shock for us to go back to supplies being very constrained and that above all applies to products.

Outlook for Chinese demand?

Now that the country has started to reopen and with that, the surge in COVID cases, you're getting a lot of disruption for people getting to work, and particularly in the more manufacturing processing businesses, so we will see a stop start process, at least through to the beginning of the second quarter. The biggest positive perhaps from China reopening is for the rest of Asia, and particularly South East Asian economies.

EUROPE INFLATION

"Even if we benefit from energy prices being at an overall lower level, they are higher than they were a year and a half ago. Residual inflation pressures matter. There's also still a lot of expenditure to be done with governments committed to expensive energy support measures for the public and for businesses. What people are forgetting in terms of the inflation outlook is, if we do see a more permanent drop in oil and gas prices, then governments are going to withdraw some of that."

Marc Ostwald
Chief Economist & Global Strategist
ADM Investor Services International

Adi Imsirovic
Senior Research Fellow
The Oxford Institute for Energy Studies

Will the war in Europe have the same impact on energy markets this year?

There will be many unknowns this year as a consequence of the war in Europe. One question will be around the impact of sanctions on Russian products exports. Unlike crude, products are exported in smaller volumes and most Russian exports go to Europe, especially gasoil. It will also be a lot harder to find the adequate shipping for products - getting Russian gasoil to Africa will be a challenge, for example. We expect that at least a third of Russian gasoil will be struggling to find homes. The other consequence of the war has been government actions. Most of the volatility at the end of last year was created by policy uncertainty around price caps. There's now talk of two price caps for products, one for lighter and one for heavier products – no one knows what's going on.

Prices at $80 a barrel don't seem to be causing any real stress yet?

We are expecting oil demand growth this year to be on average 1.7 million barrels and non-OPEC will almost certainly supply 1.5 million of that. That's why the market is not reacting much to $80. China will come back with a lot of pent-up demand, but it's not going to go in straight lines. China lost about half a million barrels of jet demand, and that's not really massive. We don't see demand picking up yet but it will in Q2 and Q3. At the moment, all the front months are in contango which tells you that the fundamentals in the physical market are not very strong and that's simply because there's plenty of oil out there. That will be accentuated if deep recessions actually materialize in Europe and the US.

PRODUCT SANCTIONS

"One question this year will be around the impact of sanctions on Russian products exports. Unlike crude, products are exported in smaller volumes and most Russian exports go to Europe, especially gasoil. It will also be a lot harder to find the adequate shipping for products - getting Russian gasoil to Africa will be a challenge, for example. We expect at least a third of Russian gasoil will be struggling to find homes."

Adi Imsirovic
Senior Research Fellow
The Oxford Institute for Energy Studies

Neil Atkinson

Former Head of Oil Markets Division
International Energy Agency

Will the US SPR play a role in market balances again this year?

In 2022, it clearly did, averaging close to a million barrels a day over a period of several months. The US requirement to hold 90 days of net imports has essentially disappeared since they became net exporters of oil. However, as we move into 2023, their stated policy at least, is that they will start to restock the SPR on the assumption that the price falls to a certain level, roughly $70 a barrel, WTI.

Is Europe's energy crisis over?

A huge difference has been made by the fact that we've had mild weather - otherwise, natural gas stocks would have been depleted very heavily and there would have been more demand on alternatives, such as heating oil. So, Europe will start the spring with restocking from a much higher base than anticipated just a few months ago. But with China reemerging and with competition for LNG cargoes from other buyers, we are going to be in a big scramble, which could lead to higher prices. Europe will obviously have to prepare for next winter, and at a great cost.

Outlook for China's economic comeback and impact on energy supplies?

China demand for energy on balance in 2023 is going to come back strongly. There will be an impact on international aviation, which has been the laggard in terms of the recovery of demand from the peak of the COVID pandemic in 2020. In terms of supply, we see significant increases in production from countries such Brazil, the US, Guyana, and Norway, so even with global demand growth of 1.8 million barrels a day, there's plenty of non-OPEC supply out there. Plus, OPEC+ will still be lurking in the wings and can make changes to production levels or quotas as they see fit. I would say a price range of $90 to $100 a barrel for Brent is roughly where the average will be in 2023.

OIL SUPPLY

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Former Head of Oil Markets Division
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OPINION EDITORIALS

AMERICAS

Mike McGlone

Senior Commodity Strategist, Bloomberg Intelligence

Direction for commodities this year?

With the Federal Reserve and central banks still tightening, I see a very bad environment for commodities this year. Producers will do okay, but actual commodities will just be rotating back and doing the opposite of last year. They got too expensive and now it's a question of how cheap they'll go. The pendulum will swing the other way amid a downward revision trend in global economic growth.

Will a rise in China oil demand impact US shale at all?

China has been cutting their triple R rate and trying to stimulate the economy forever but in fact its incremental demand pull for commodities has been in decline for almost a decade and it's really plunging now. We also have the world's largest exporting economy, China, having a battle with the US, the world's largest importing economy, and all while the property crisis accelerates. According to some of our Bloomberg economic measures, there is another 25% drop expected in property prices in China. There may be an incremental demand pull for crude oil imports from China this year and it could bump back up around to 12mn b/d. It's been hovering around 10 million barrels a day. But the excess of crude oil, liquid fuel supply versus demand in the US and Canada, is about 4mn b/d and that's accelerating because of price and technology and declining consumption.

CHINA OIL DEMAND

"There may be an incremental demand pull for crude oil imports from China this year and it could bump back up around to 12 million barrels a day. It's been hovering around 10 million barrels a day."

Mike McGlone
Senior Commodity Strategist
Bloomberg Intelligence

Anas Alhajji
Managing Partner
Energy Outlook Advisors

How did the US energy sector take Biden's slight turn in policy last year?

The industry doesn't like the flip flop of politics. Companies are looking 20 or 30 years ahead. Even when the Biden administration tried to help consumers by allowing refineries to produce more last year by relaxing some environmental regulations, refiners opposed that. It was not in their interest to do so as it costs money. At the same time, we have to seriously pay attention to carbon calculations – I think it is developing into 'the Mother of all Enrons!' For example, Shell is thinking about divesting from Norway but someone else is buying those assets, which means that from a global point of view, there is no change in carbon footprint. Even if a government imposes strict regulations around emissions, companies are going to play the game. We've seen companies literally counting trees on their campuses as part of their carbon plan. The other reality is that it is the oil companies that are building the largest wind farms in the world and other renewables projects. And then we also have governments which subsidise gasoline and diesel – the very elements that are causing big climate change. Where are we going with these policies?

Should we expect to see US shale production substitute Russian oil?

We are not going to see a major decline in Russian exports. We are going to see divergent Russian oil reaching the US and Europe one way or the other. Shale producers also have a serious problem - they are producing a lot of NGL that is counted as oil so we should pay attention to the crude quality because most of the increase is really condensate. So, US exports will continue increasing simply because refiners do not want that type of crude, especially now that Iran, Nigeria and Libya are producing more of the same NGLs.

CARBON CALCULATIONS

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Anas Alhajji
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Bill Spindle

Former International Affairs Fellow in India
Council on Foreign Relations

What will be the role of fossil fuels in the long-term energy transition?

2023 will be a really important year in terms of working out what role fossil fuels will play in the long-term energy transition. Many of the decisions that will be put into motion this year or next year will define what that balance will be in the 2030s. It will be an interesting year both on a conceptual and reality level. On a conceptual level, with COP28 taking place in the UAE, fossil fuels will play a bigger role than they already did at COP27. It is the idea of creating a whole new energy system before you turn off the old one. It is a balancing act, and we need to figure out where that balance will fall in 2023. On the reality level, we will struggle with wrenching developments – Europe will be engaged in the Russia-Ukraine war, China will be coming out of the Covid-19 crisis, and the US will be going through a big transition. It is figuring out what is realistic as opposed to what we might want to happen.

CCS and hydrogen to accelerate the transition over the next couple of years

The Inflation Reduction Act (IRA) – the massive bill that just passed in the US – is really going to launch a lot of exploration into CCS. For the first time, businesses will be able to develop revenue-producing business models based on carbon management – which has never been possible before. We will begin answering the question of what role fossil fuels will play. If the scaling up of CCS technologies succeeds, they might play a larger role down the line. It is the same thing for hydrogen. Thanks to the massive subsidies, we will see tremendous advancements in thinking about how hydrogen will play out in the US. Worldwide we will look to understand to what extent hydrogen will be a panacea that can substitute everything.

The oil and gas industry will have a much bigger voice at COP28 in the UAE

The debates around the role of the oil and gas industry at the COP events will have their full expression this year. However, how much does that debate bear on the reality of what happens on the ground? That will depend on how realistic the oil and gas industry is about this transition going forward. On the unrealistic end, you hear people talk about building the entire new system before we turn the old one off. And as difficult as the reality is on the ground, that is equally unrealistic. It will be a tightrope walk to some extent, and we will have to get comfortable with a new balance.

ENERGY TRANSITION

"With COP28 taking place in the UAE, fossil fuels will play a bigger role than they already did at COP27. It is the idea of creating a whole new energy system before you turn off the old one."

Bill Spindle
Former International Affairs Fellow in India
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Richard Redoglia
Chief Executive Officer, Matrix Global Holdings

Finding new energy sources and propelling our world into the next century

Governments are setting policies to pick the winners and losers in this new equation to provide energy sources and propel our world into the next century. The change needs to happen in the next 5 to 10 years. Understanding climate change is a critical issue, and how we balance the perceived harm will cause damage to unknown groups of people. The problem is that the collective economic damage to the current lower and middle class worldwide will be significant as they will have to pay more for their basic energy needs. To believe that the politicians will be able to direct capital to meet the complex energy security situation versus transition in our geopolitical world is fanciful. 15 years ago, for example, we stopped investing in coal, and now we pay the highest coal prices. What will we do if we start to see the same thing happening with the hydrocarbons? Hydrocarbons raised us out of poverty for the last 140 years. Capitalism and the ingenuity of humankind raised billions out of poverty without government intervention. Now we have turned the model on its head.

Will the US government get it right by implementing the Inflation Reduction Act (IRA)?

The IRA aims to invest $369 billion in climate spending and energy security – that is a remarkable number. The government will tell us where they want the money to go. But where does that money come from? And is the money spent wisely? The money will either be printed money, which is inflationary, or tax money, which is recessionary. So, we need to think about the people at the low end of the totem pole and how these policies will affect them. The difficulty that we face is that the IRA might be inflationary, and the issues are going to come up years from now. The big issue is that climate change does not know borders – we all share the same air. So, we can do as much as we want here to invest in hydrogen or battery storage. Still, energy companies worldwide are now moving into separate and domestic camps. For example, Exxon is going to develop the Permian Basin with Chevron, and they will battle against the Middle East NOCs. I struggle to believe that the government is going to get it right.

ENERGY CONSUMERS

"The collective economic damage to the current lower and middle class worldwide will be significant as they will have to pay more for their basic energy needs."

Richard Redoglia
Chief Executive Officer
Matrix Global Holdings

James McCallum
CEO & Chairman, Xergy Group
& Professor of Energy, Strathclyde University

Oil and gas industry to be thought-leading for the energy transition

Today, every conversation in the industry swings towards the energy transition versus the security of supply. It is undoubtedly the energy issue of our time. The premise is for the oil and gas industry to be thought-leading in the energy transition. But we have lost a huge amount of trust from the public by not communicating strategies. In some cases, major oil and gas companies had held back from investing in energy transition when they knew the issues coming towards us regarding carbon production. This year, there will be an enormous thought around energy efficiency and the decarbonization of conventional resources – not simply hydrocarbons versus renewable energies.

The investments of super major oil and gas companies into traditional infrastructure

There is no denying that investments by super majors into traditional infrastructure have not been happening in recent times. There have been changes on the boards of the super major oil and gas companies as they try to figure out the landscape of the energy diversification agenda versus the continued supply of fossil fuels. But the reality is that money has been flowing into the oil and gas industry – we should not forget that. The super majors recorded extraordinary profits over the course of last year as a consequence of the Russia-Ukraine conflict. What was different last year was that the capital has not flown into infrastructure investments yet – instead, it is going back to shareholder dividends for the super majors.

Which technological advancements could make a significant breakthrough in 2023?

The offshore environment of the United Kingdom Continental Shelf and the Norwegian Continental Shelf are good places to look at the potential of technological advancements in 2023. There are mature basins with reservoirs that are suitable for CCUS activity. This year, floating offshore wind is likely to play a part in the electrification of existing mature assets, and offshore wind will be a crucial component in the move toward renewable energy. We will also continue to see research moving into hydrogen. But this will not happen without enormous challenges, as 2023 will be a transitionary year.

ENERGY EFFICIENCY

"This year, there will be an enormous thought around energy efficiency and the decarbonization of conventional resources – not simply hydrocarbons versus renewable energies."

James McCallum
CEO & Chairman, Xergy Group
& Professor of Energy, Strathclyde University

Ami Daniel
CEO & Co-Founder
Windward

Development of a three-tiered market: white, black, and grey fleet

The dark versus clean fleet narrative does not really grasp the reality of things. I believe there is a three-tiered market, not a two-tiered market. It is a three-tiered market because there are (1) the operators who do not want to deal with Russia, (2) those dark fleet who work outside the international framework of safety, and (3) those in the middle, such as the Greek community who are still doing business with Russia under the price cap – which is absolutely legal. The three-tiered market can be referred to as the white, black, and grey fleet.

The market needs to prepare for the ETS European trading scheme for the carbon of 2024

Looking at 2023, we have the ETS European trading scheme for carbon coming online on January 1st, 2024. Looking at the trading market, we could see a carbon tax of $20-60,000 per vessel and voyage – depending on which vessel and route are being taken. This looks far away because it will come into effect in 11 months, but companies who make time charters will influence what happens in Q3. Until now, CII and other metrics were nice to have, but it will be interesting to witness the impact of the EU Emissions Trading System. In the next 6 to 9 months, we could see a cost arbitrage of $20-50,000 per voyage. It makes charters a bit more aware of what they are chartering in terms of carbon and fuel consumption – which are tightly connected. If you could get an accurate assessment of the fuel efficiency of every tanker you might charter in or out and know your carbon tax, the earlier adopters of the scheme will be making a lot of money. Those who will not implement these changes and who have ignored the carbon discussion for so long will have to face it in Q3 and Q4.

CARBON TRADING

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Ami Daniel
CEO & Co-Founder
Windward

Rustin Edwards
Head of Fuel Oil procurement, Euronav NV

Crude tanker market reacting to disruptions in 2023?

The market has been adjusting to the Ukrainian war since the commencement of hostilities back in February of last year. Many companies have taken the proactive approach of not moving Russian oil. It has bifurcated the market where people are now identifying dark versus clean fleet. Clean fleet refers to companies that want to operate without violating sanctions. However, Russian oil still flows with enough companies and ships being put into motion to make it a non-issue – at least so far for crude oil. Crude oil movements have increased ton-miles, which has impacted tanker rates in the last couple of quarters. So, we have seen a massive increase in freight rates from where they were in Q2 versus where they ended up in Q4. There was a bit of a pullback as we reached the end of the year, with trade activity dropping off. But we are going into 2023 with a very strong fundamental tanker market and probably a higher market moving forward.

Freight rates could double this year

Regarding prices, we have a TCE equivalent trading around $33,000-34,000 daily on the FFA market – this number could very likely double. It will come down to how the clean embargo is enacted and how clean freight is redirected. At the moment, the majority of Russian products are exported to Europe on short-haul freight. But as the EU embargo comes into full force, we will start to see longer ton-miles on clean freight. We might even see a transition from dirty to clean large tonnage – this entails taking Suezmaxes out of the shipyard and going into distillate transport.

The emergence of new trading routes: Russia-Latin America and Russia-Africa?

There will be a ramp-up in freight numbers if we assume that Russia finds other markets for its products in West Africa or Latin America. But many things would have to be solved before that can happen. Latin America, for instance, relies on Western finance for the inventories of materials imported into the region. With the ban on financing Russian oil, it will be interesting to see how trade flow develops when Western banks do not fund inventories. We could see deals being made, but many factors must be solved to establish those new trading routes. From a freight perspective, ton-miles will have to go up – Europe needs gas from somewhere, opening up the door for arbitrage opportunities from Asia and the United States.

SHIPPING FUELS

"As we are changing the emissions profile, and in some cases the mechanical operation of vessels due to the change in fuels, we are looking to develop new infrastructure and technology to run those fuels."

Rustin Edwards
Head of Fuel Oil procurement
Euronav NV

Matthew Wright

Senior Freight Analyst, Kpler

A more complicated market for 2023 with the EU product import ban...

We saw what happened on crude, and we have learned a bit from it, but the refined petroleum products ban will be much more complicated. The dark fleet, the vessels sold last year to facilitate Russian trade, are not here. There are fewer clean carriers than there are crude carriers. So that will be a complicating factor to facilitate Russian trade on the clean side. On the crude side, we saw what would happen before the import ban – India and China were taking more crude. For products, we have not seen the impacts yet. Europe is still taking the vast majority of Russian gas oil, and Russia has not diversified itself yet. We are less than a month away from the EU import ban, and we do not know where Russia will send its products. We can speculate on Latin America or Africa, but this entails much longer voyages.

What to expect for Aframaxes, Suezmaxes, and VLCCs?

On the crude side, the end of last year set a precedent. We know where Russian crude is going, with India taking 1.4 million barrels a day in December – that is 50% higher than what they took in the summer. These are huge ton-miles voyages, so Aframaxes are doing extraordinarily well – 25% of Aframax ton-miles are on one route from Russia to India. The ton-miles growth of Suezmaxes last year was relatively subdued compared to Aframaxes in the second half of the year. I think there are many upsides to the Suezmaxes this year, particularly from the US to Europe and additional Russian voyages to Asia. Finally, Q4 was a record high in terms of VLCC ton-miles for crude – higher than Q2 2020. We are coming off a very strong period. We are in the doldrums, but Suezmaxes kick back up this week, and other markets will follow soon.

Impact on prices?

We will not see the same volatility in rates that we saw last year. But we are going to see more sustained highs on the crude side. We will not see much higher rates than last year because of the ridiculous spikes around uncertainty at the beginning of the war. We have settled into a period where new trade flows are established. On the clean side, however, we have yet to get there. We do not know what the new trade flows will look like and how high rates could go.

TON-MILES

“We know where Russian crude is going, with India taking 1.4 million barrels a day in December – that is 50% higher than what they took in the summer. These are huge ton-miles voyages, so Aframaxes are doing extraordinarily well – 25% of Aframax ton-miles are on one route from Russia to India.”

Matthew Wright
Senior Freight Analyst
Kpler

Dr. Aldo Flores-Quiroga

Former Deputy Secretary of Energy for Hydrocarbons, Mexico's Ministry of Energy & Visiting Professor, LBJ School of Public Affairs, University of Texas, Austin

Brazil's Lula will double down on his agenda in a pragmatic way

A resurgence of the commodities boom that was so prevalent during Lula's first presidential round will largely depend on the evolution of the global economy. There are contrasting commodities currents happening right now that could create different scenarios and opportunities for prosperity in Brazil. What we can expect is Lula to be a pragmatic president, especially with regards to his priorities, which include the Brazilian oil industry and, within it, a reorientation towards a broader energy policy that emphasizes retail and downstream rather than upstream markets. Beyond oil, we can also expect more action with regards to his broader economic agenda that includes realigning prices to global international standards. There will also be a prioritization of his social and environmental agendas with important announcements about the protection of the Amazon forest and renewable energies.

Mexico and Venezuela will suffer from what's above ground, not what's below it

Mexico likely won't be able to increase oil production, meaning we can expect more of the same depressed output compared to its historical peak. While the government has made a strong effort to increase production coming out of Pemex, their success so far has been limited to merely stabilizing production rather than increasing it. Venezuela, also experiencing low production compared to historical peaks, is even more unlikely to be able to reverse that trend. The Mexican and Venezuelan roadblocks to increasing production aren't based on geology. It's what above ground, not below it, that's determining the fate of production in the two countries that have conventionally been the region's oil heavyweights.

The Sino-American rivalry is becoming more prominent in Latin America

There are two major developments outside the region that could impact its trajectory for the year. The first is global energy demand which in turn is largely determined by whether China returns to high growth following the lifting of stringent COVID restrictions. If it does, there will be more demand for oil from the Americas coming out of Canada, the USA, Brazil, Guyana, and perhaps even Argentina – although probably not Mexico nor Venezuela. The other development also involves China. Chinese investments in the region are becoming both more prominent and more contentious, feeding into the global geopolitical rivalry between China, the region's new entrant, and the USA, the region's traditional north star. Chinese companies are investing in the region's energy sector and we should all be paying attention to these investments. They will eventually determine how the region's relationship with the Americans evolve.

LATIN AMERICA

"Chinese investments in the region are becoming both more prominent and more contentious, feeding into the global geopolitical rivalry between China, the region's new entrant, and the USA, the region's traditional north star. Chinese companies are investing in the region's energy sector, and we should all be paying attention to these."

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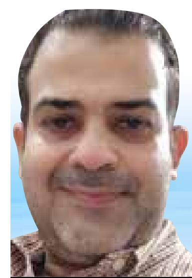

Jose Chalhoub
Political Risk & Oil Analyst

Brazil and Guyana are the two countries to keep an eye on

What has unfolded in Brazil since Lula's election has set the stage for the biggest geopolitical variable in the region for 2023. Brazil is the largest economy in the region, a major commodities exporter, and a sizeable oil producer that has seen production rise even with corruption scandals involving Petrobras and Lava Jato. Brazil's reach extends beyond its borders through its BRICS association, giving it additional impact on the global stage. Opposite Brazil, the second regional wildcard for the energy landscape is Guyana – the new kid on the block. While it's still too early to glean its direction, oil production has been surging since key discoveries in 2015. It's a wildcard worth keeping an eye on.

The outlook is bright for Guyana but it must ensure to avoid Dutch disease

Guyana now represents competition for Venezuela. Its production reached astonishing levels in 2022. It has reserves. It has Chinese investments discovering more and more reserves. And it has a government highly inclined to further support the development of its energy potential. The stage is set for its clout to increase. The catch? It must avoid pitfalls to which other countries that have suddenly become flush with oil reserves and riches fall prey. Guyana has less than 1 million people but has to create a serious and consolidated legal framework to capitalize its oil wealth and avoid Dutch disease. Avoiding Dutch disease will be the biggest challenge for Guyana, especially given its small size relative to Venezuela and other oil producers around the world that have succumbed to it.

Evolving interests are going to change Venezuela's business landscape

Chevron's reentry into Venezuela is notable because its approach isn't that of a new market entrant. Instead, it's restarting production it already had in-country that had been suspended. It's very telling that Chevron has introduced new recruitment processes for its various Venezuelan operations where it's looking to fill position in different locations. It has also introduced new management that will likely reveal its medium- and long-term plans for the country within the next few months. Finally, the license to operate in Venezuela currently only lasts 6 months and has stipulations to limit dealings with Russian entities. That's a big geopolitical implication with global repercussions. The US and Russia both have interests in Venezuela. The Venezuelan government's interests, meanwhile, focus on getting US sanctions lifted and potentially get a second US oil company to enter its market.

GYANA

"It's the new kid on the block and represents competition for Venezuela. While it's still too early to glean its direction, oil production has been surging since key discoveries in 2015. It's a wildcard worth keeping an eye on."

Jose Chalhoub
Political Risk & Oil Analyst

Rachel Ziemba
Founder, Ziemba Insights

US energy priorities and geopolitical priorities are one and the same

All of the top US priorities for energy are and will continue to be linked to its top geopolitical priorities. What that means is that the US foreign policy apparatus is very much focused on bringing Russia's war in Ukraine to an end, which in turn means that a lot of tools in the energy space that weren't on the table some years ago are now at the forefront. There's the Russian oil price cap, whose goal is to redirect Russian oil and gas and cut Russia's oil revenues. The US balancing act with that strategy includes preventing a major shock in oil output. However, that will be a very difficult balancing act, particularly if Chinese demand picks up later in the year.

The US will increasingly leverage its Strategic Petroleum Reserve

Since the US is naturally more concerned about its own consumers than it is about global consumers, we're going to see continued adjustments to its Strategic Petroleum Reserve. Those adjustments might bring it into conflict with OPEC+. The US has mixed views about OPEC countries, not only because of those countries' relationships with Russia, but also because we're seeing the US get involved with oil in different ways this year. It's working with the G7 to control and reshape Russian supplies in addition to leveraging its Strategic Petroleum Reserve as a tool on the market.

Energy policies will become less politicized

Energy policy coming out of Washington has been very reactive, and this was the case even before Russia's invasion of Ukraine. We see a US administration that came in with an energy transition agenda, an agenda we also saw coming out of Europe and other developed economies. The problem was that these agendas weren't reflective of what energy consumption patterns actually are. The shifts in the last year have been a wake-up call for the administration to actually understand the nuts and bolts of how the global energy market works. This wake-up call makes me optimistic that we'll see less politicization of a lot of issues and a recognition of where some of the plumbing issues in the global energy markets are.

SANCTIONS

"The top US priority will continue to be cutting Russia's oil revenues in such a way that doesn't leave global consumers without fuel."

Rachel Ziemba
Founder
Ziemba Insights

Dr. Omar Ubaydli
Director of Research
Bahrain Center for Strategic International & Energy Studies

US stance towards OPEC+ is based on the Democratic Party's interests

The US stance towards OPEC+ is highly affected by dysfunctional domestic politics and isn't really a rational position that reflects US interests. It's currently a very narrow and transient set of Democratic Party interests rather than general interests for the entire country. Obviously, the goal of OPEC+ is to maintain price stability for the benefit of producers. But, as it happens, price stability also benefits consumers. If what the US is calling for happens – essentially a free-for-all – then what we will see is a higher amplitude of price cycles because of the nature of the investment cycle in oil. That, in turn, would be incredibly damaging to consumers and producers alike.

The US has a schizophrenic relationship with oil markets

Part of the explanation for the dysfunction in US energy policy is that the country is split between being an oil importer and an oil exporter. This gives it a sort of schizophrenic relationship with oil markets. As credit has become more expensive, with interest rates rising, shale producers in the US have had a much harder time responding to markets than they did circa 2018. They are likely to respond to higher prices by increasing production, which would be beneficial to the US economy. However, at the end of the day, these tactics aren't central to US foreign policy, nor a centerpiece to the country's energy equation. Instead, it's all hands on deck for dealing with Ukraine. What we're going to see is a landscape where US energy producers are happily making higher profits but marginalized when it comes to foreign policy considerations.

Isolationism in the 19th century is nothing like isolationism in the 21st century

In the 19th century when the US was considered isolationist, it was a time when the active global players were the British and French, who really didn't have conflicting interests with the US. The problem is that if the US decides to be isolationist now, the void will be filled by adversaries with markedly different interests. This situation will create a conundrum for the US. What the US wants is to withdraw and for the affected countries to agree to do what the US wants – which is lowering prices. The reality is that these countries, especially the Arab Gulf states, have a critical need for support from abroad. The Chinese aren't in the business of providing security guarantees, but their integration into the local economies provides some measure of balance that will need to be maintained in the event of a continued US withdrawal.

OIL PRICES

"OPEC+ is focused on emphasizing that its goal is price stability; it doesn't want to be seen as some 19th century cartel."

Dr. Omar Ubaydli
Director of Research
Bahrain Center for Strategic International & Energy Studies

Dr. Umud Shokri

Energy Strategist & Author, – *US Energy Diplomacy in the Caspian Sea Basin: Changing Trends Since 2001*

The US will engage OPEC in new ways, while knowing its focus is on domestic interests

Amid COVID and Russia's invasion of Ukraine, most countries have focused more on energy security than energy transition. The Biden administration has been trying to create a balance in the market, primarily in its domestic market. That, combined with historically high inflation rates, means that the US has began to reach out to OPEC+ in new ways, mainly taking into consideration Russia, but also Saudi Arabia and the UAE, trying to get them to pump more oil into the market. OPEC+, meanwhile, has been more focused on its own domestic interests. What we can expect in 2023 is for the US to keep a focus on energy transition but also invest more in energy infrastructure while seeking to open a new chapter in its relationship with Saudi Arabia.

Russian revenues will take a beating from the price cap

As we move further into the year, we'll have several trends affecting global energy markets. The first is Putin and how he positions Russia to continue waging war on Ukraine. Springing from that will also be the US response and to what extent it decides to continue offering aid, primarily financial aid, to Ukraine. The longer the war, the more the consumer side is impacted when it comes to energy flows. With the West's targeted efforts to curtail Russian oil flows, we'll see that begin to manifest itself through decreased Russian revenues coming from oil, exacerbating Russia's already negative economic situation. While we'll see Russia trying to compensate that by selling oil to China, India, and Turkey, it will be selling at a discount, further depressing its revenue stream.

Russian and Iranian oil will find a reliable market in China

Russia likely won't be able to counter its current economic downward spiral this year, especially given the Russian oil price cap that's been set by the West. It won't be easy for Russia to sell or even find an appropriate market for its oil at such deep discounts. Another question mark is the US stance on Iran, a country that in recent months has seen massive unrest. Will Iranian oil get back into the markets? To what extent does Iran even need its oil to get back into blocked markets at this point? Iran exported more than 1 million barrels per day directly to China in the last two months of 2022 which helped keep it afloat despite it getting cut off from other markets.

DISCOUNTED OIL

"Iran and Russia will witness increased competition between themselves to sell their cheap, discounted oil to Chinese markets."

Dr. Umud Shokri
Energy Strategist & Author
– US Energy Diplomacy in the Caspian Sea Basin: Changing Trends Since 2001

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