



Oil Markets into 2006

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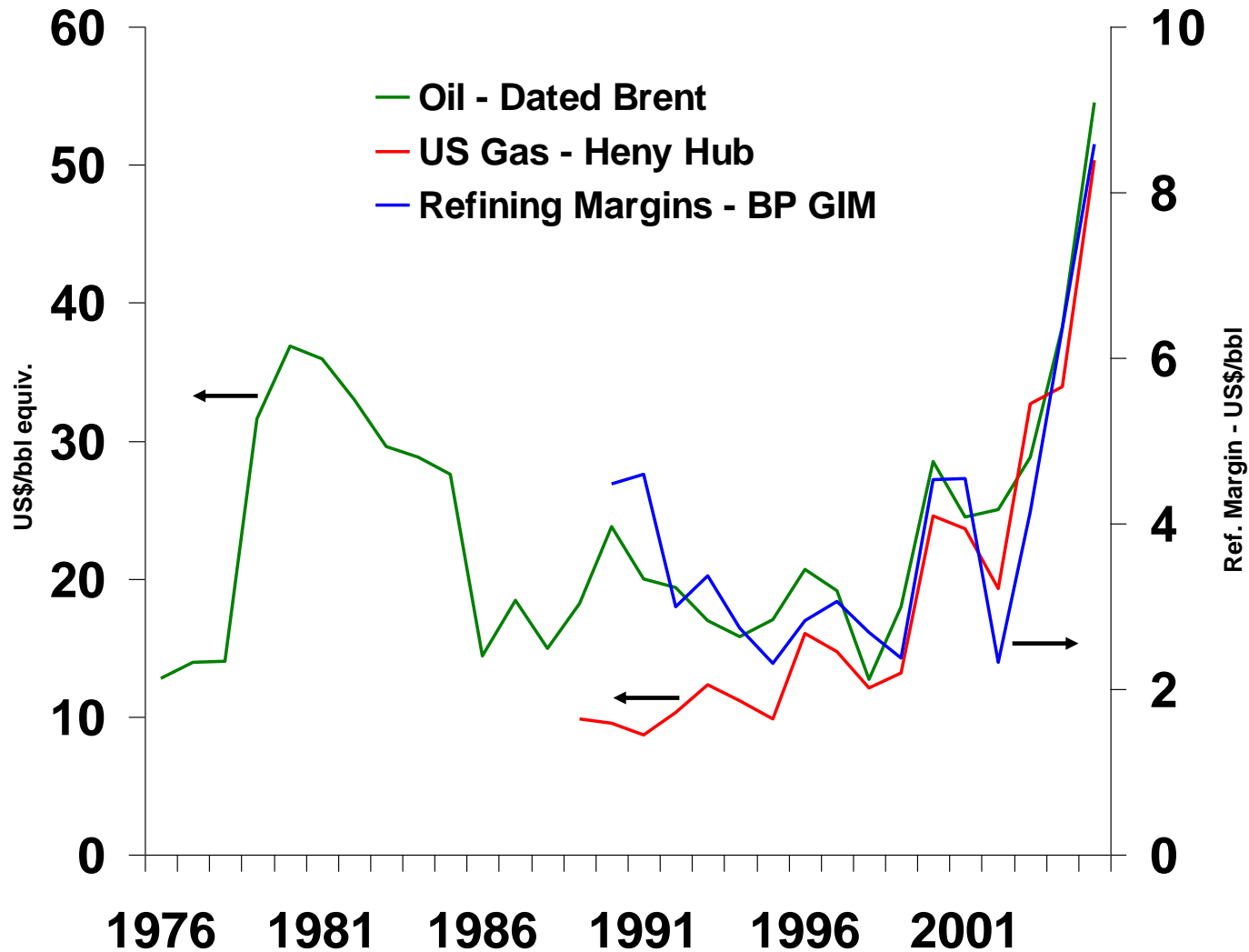
London. 24 January, 2006

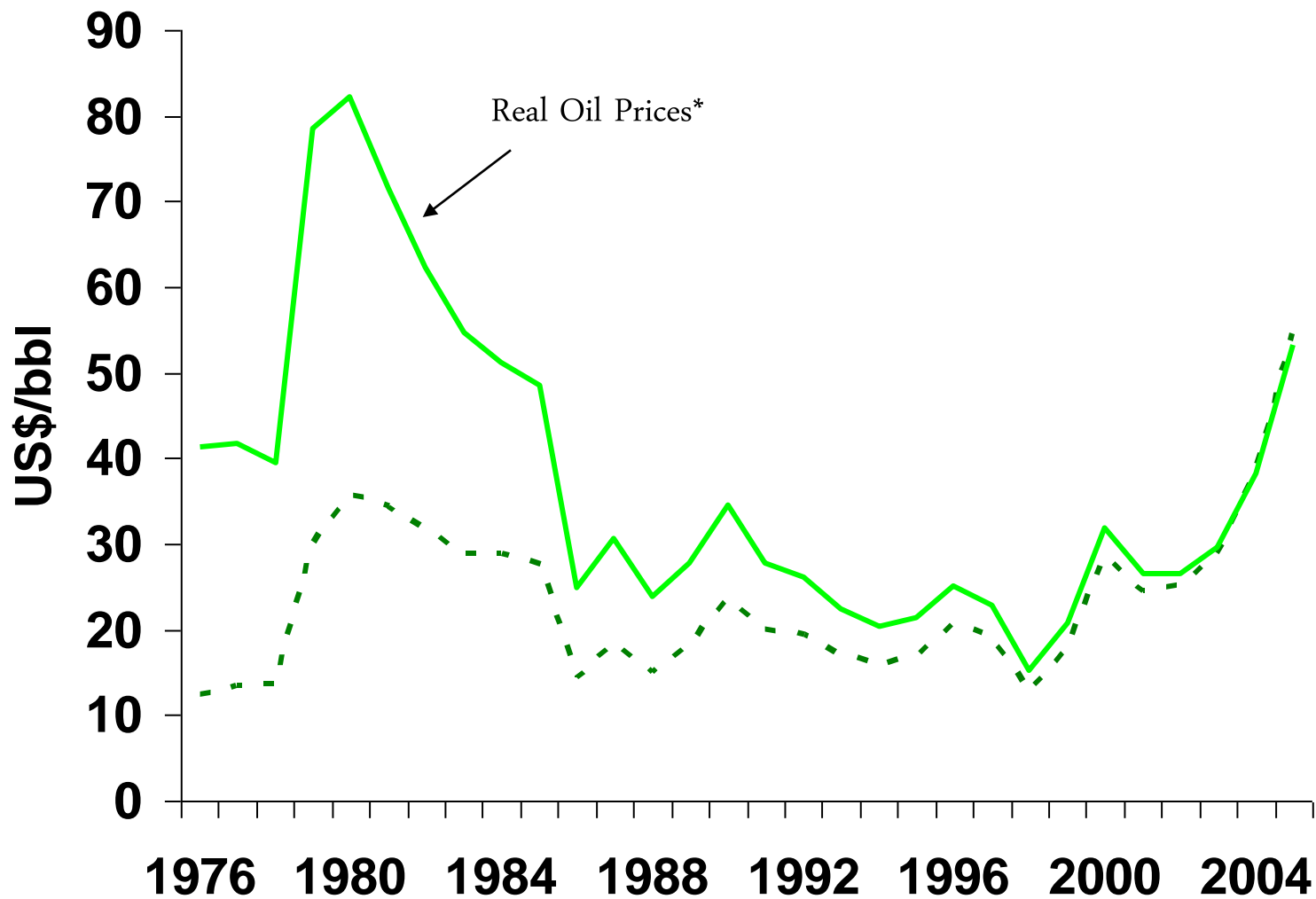
Outline



- Oil and energy today
- How did we get to here?
- Prospects for 2006
- Into the medium term

Oil and Gas: A Perspective





* Brent prices deflated by US CPI (2004 prices)

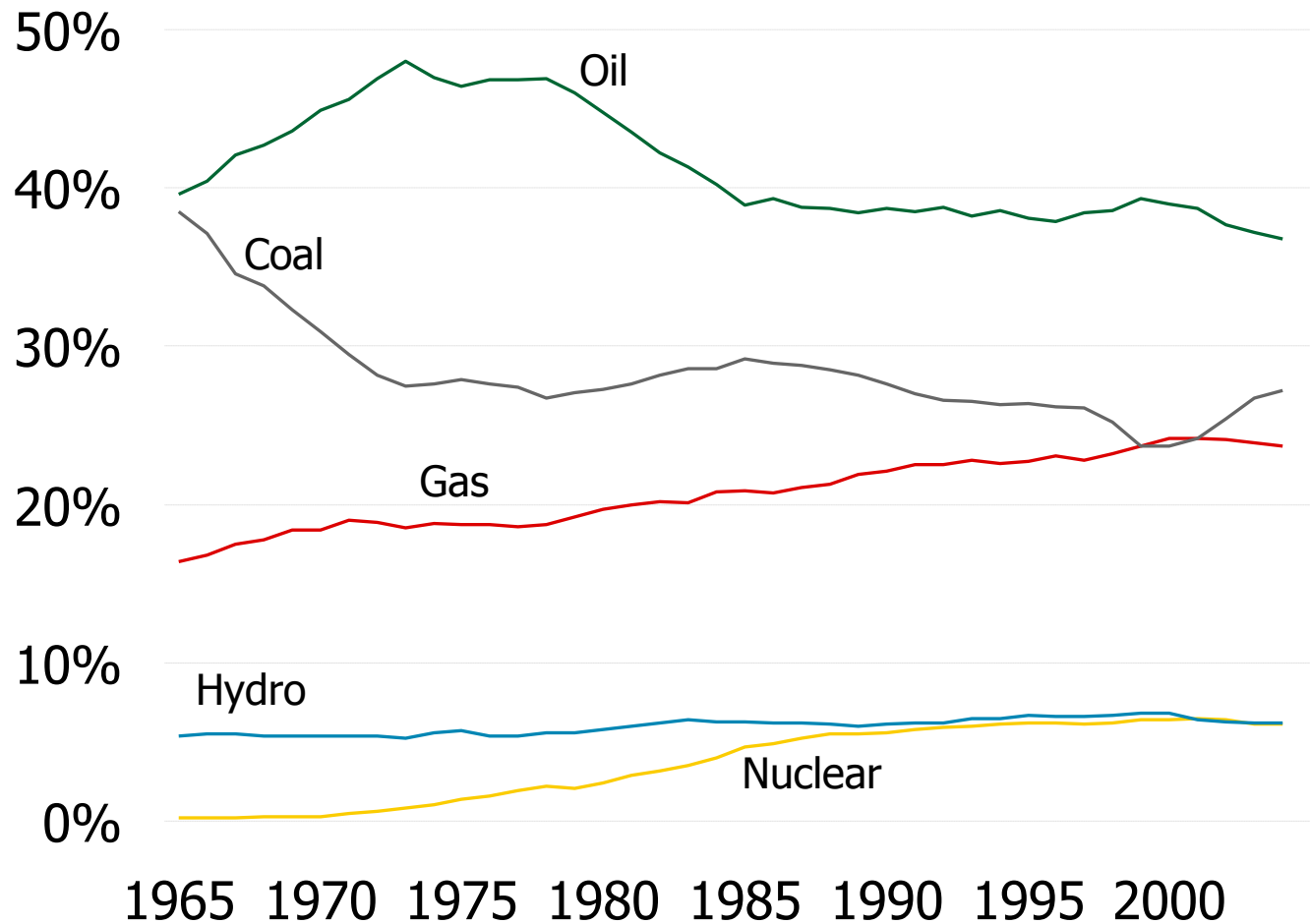
2005: A Snapshot – “the 40% Year”



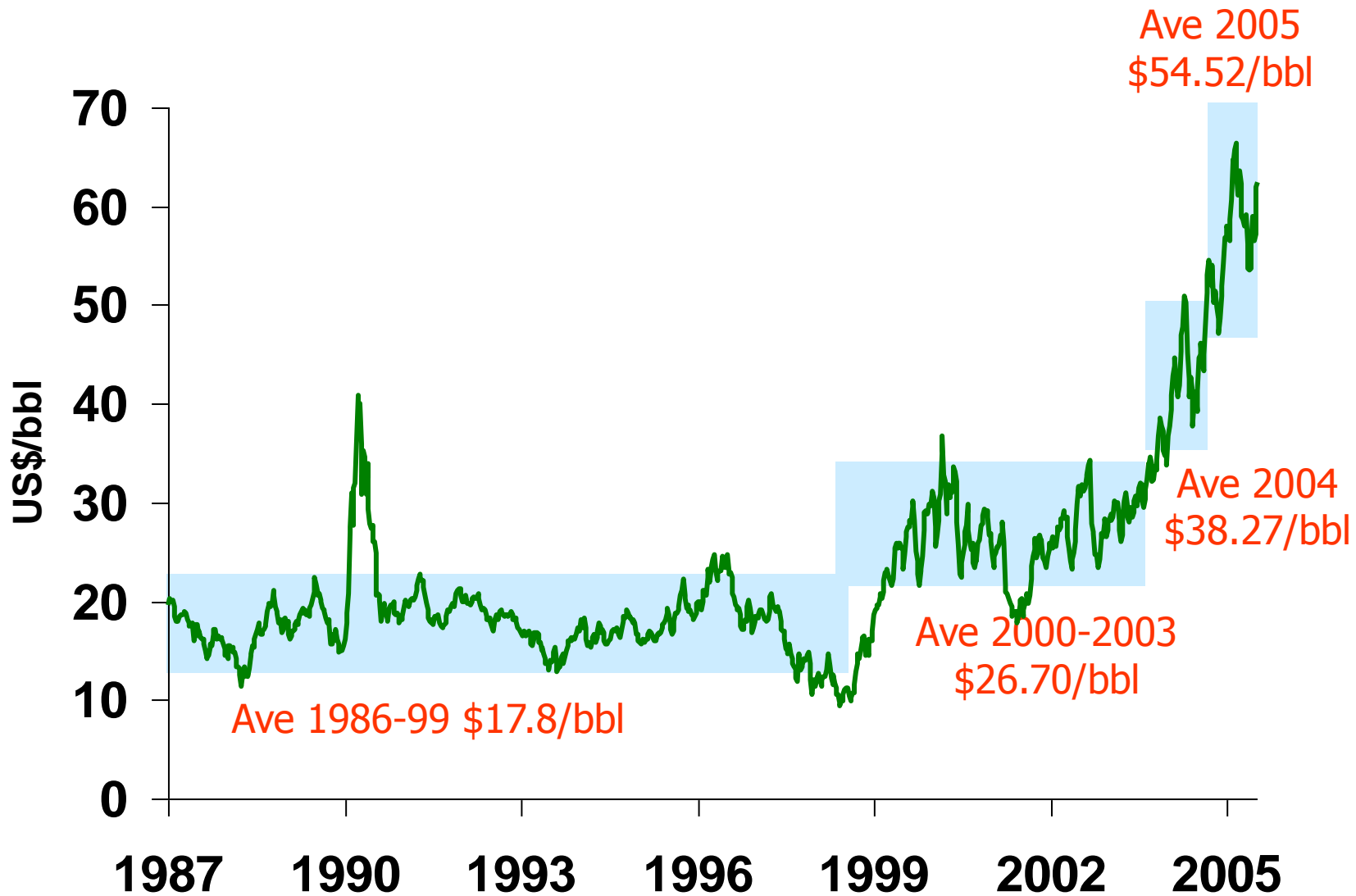
	2005	2004	% Change	Current
Oil Prices (\$/bbl)				
Brent	54.52	38.27	+42.5%	63.46
WTI	56.59	41.49	+36.4%	66.85
OPEC basket	50.71	36.04	+40.7%	59.42
Gas Prices				
Henry Hub (\$/mmbtu)	8.64	6.13	+40.9%	8.21
UK NBP (UKp/therm)	40.59	24.39	+66.4%	55.90
Refining Margins				
BP GIM (\$/bbl)	8.60	6.08	+41.4%	3.24



Share of world primary energy consumption



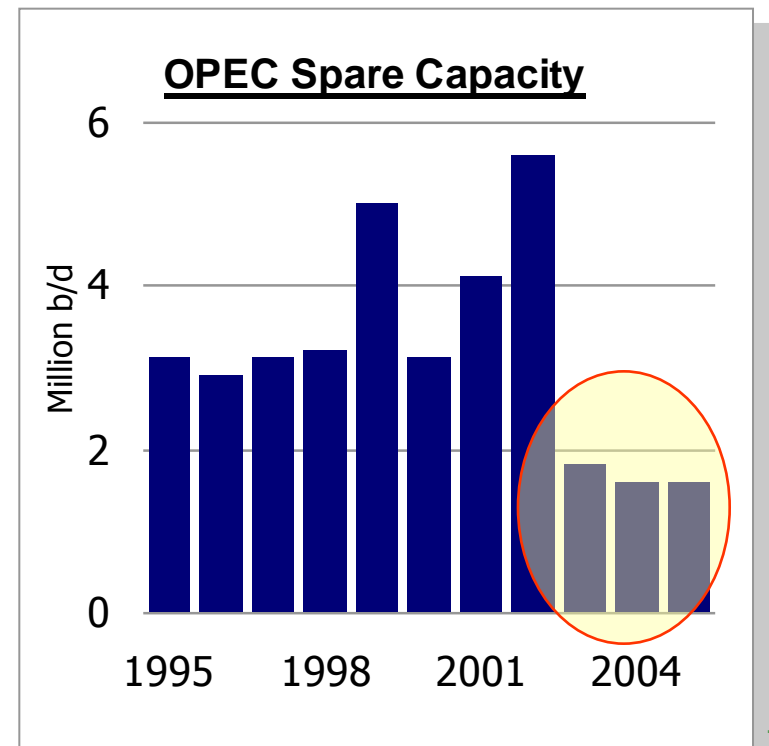
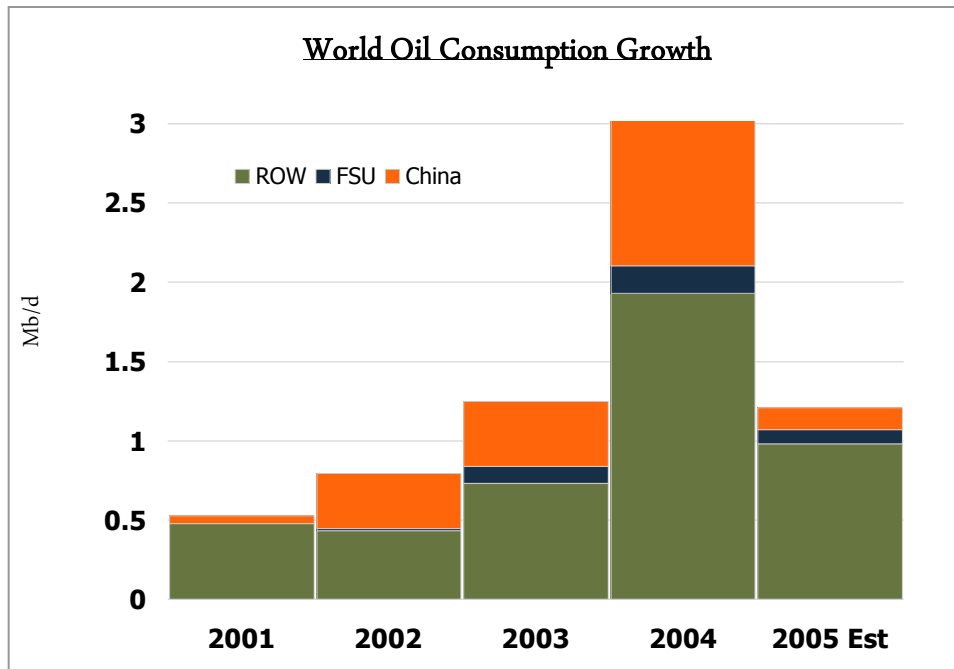
Brent Oil Prices



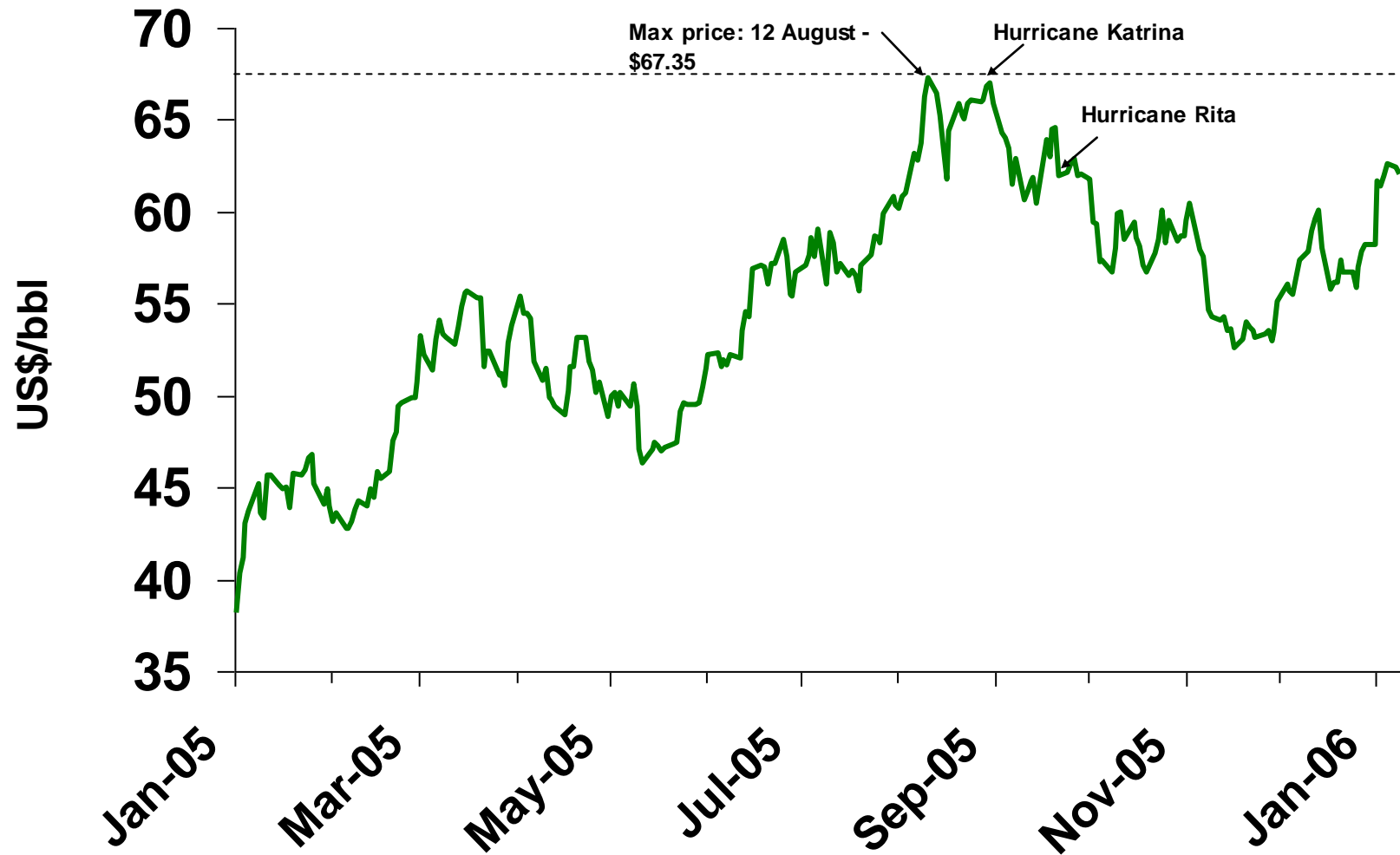
Why High Oil Prices?



- Driven by:
 - OPEC behaviour post 1999
 - Strong demand growth 2004
 - Low spare capacity
 - Geopolitics
 - Energy as a financial commodity

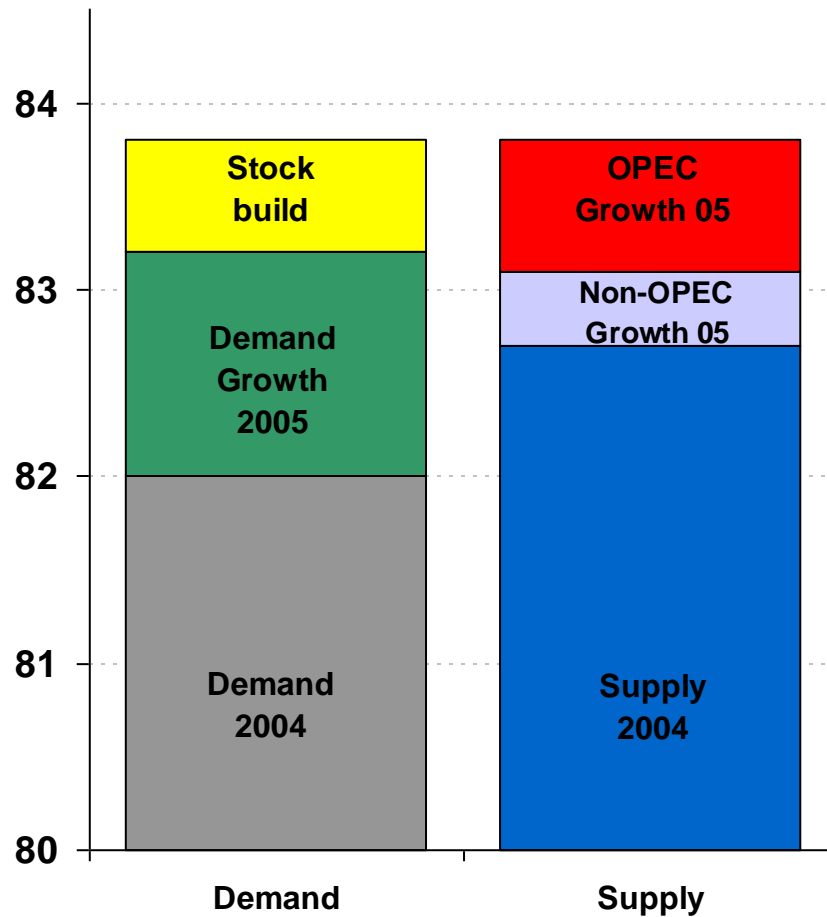


Brent Oil Prices 2005





Million b/d



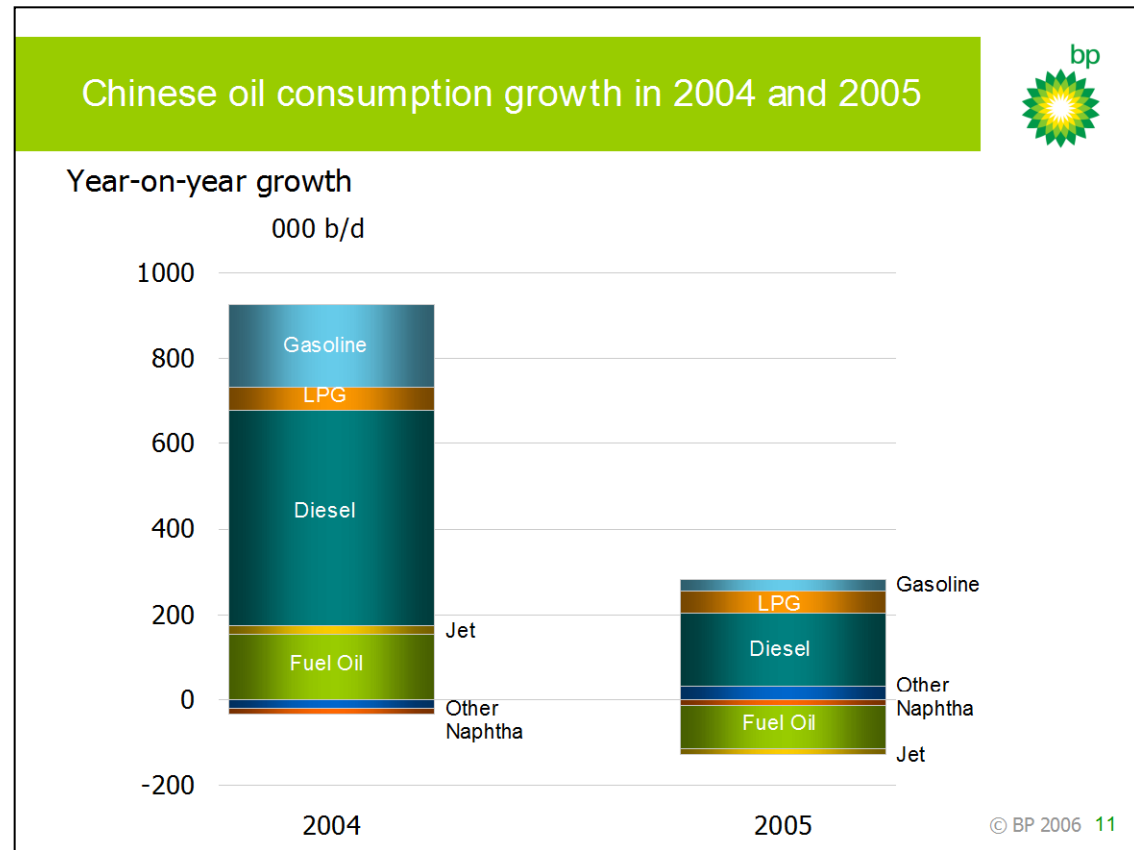
2005 Developments

- Trend demand growth but with Chinese weakness
- Non-OPEC weakness:
 - Hurricane disruption
 - Russian slowdown
 - Project delays
- OPEC production growth led to stockbuild

Oil Consumption in 2005



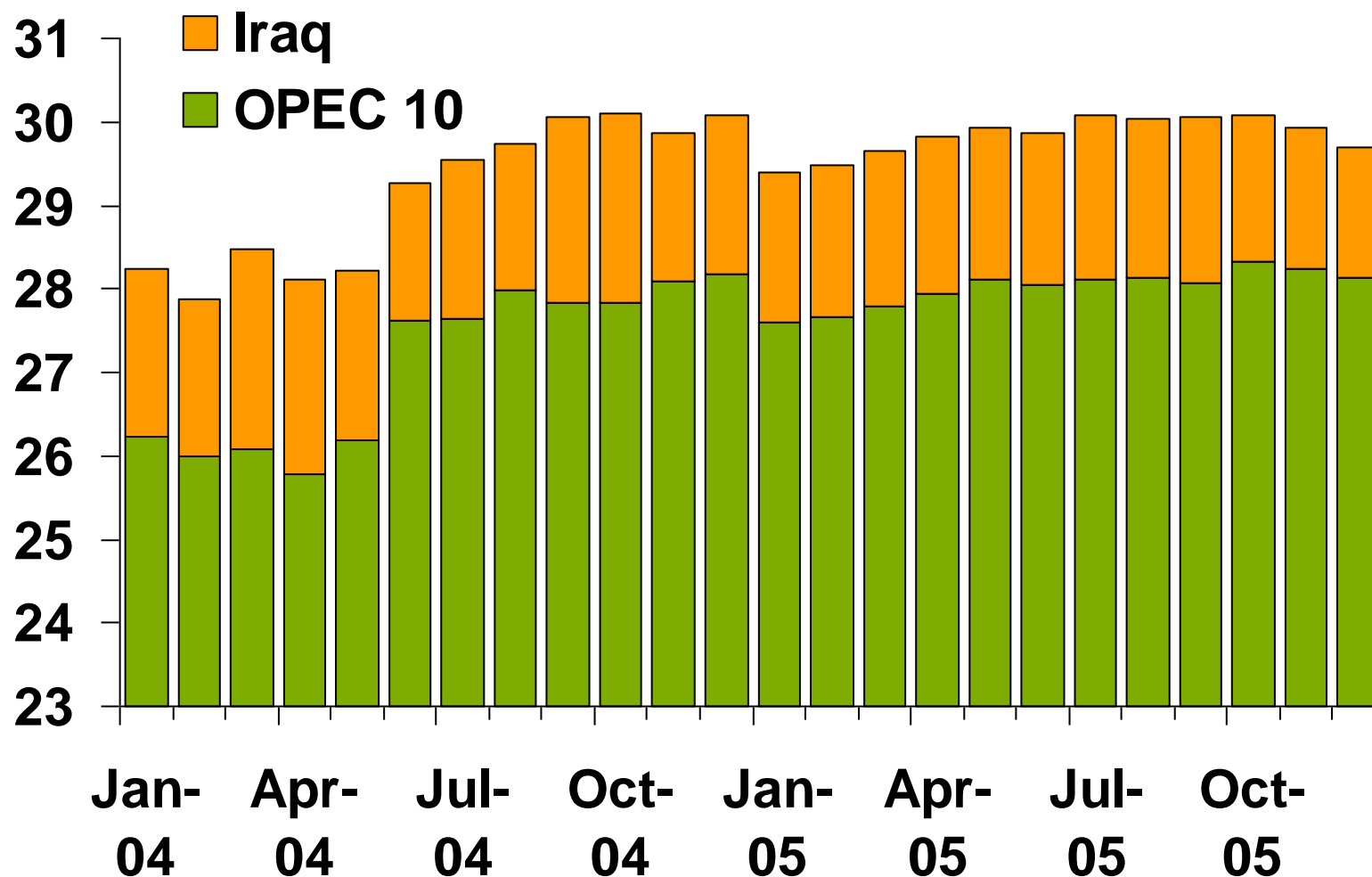
- GDP growth returns to trend
- Chinese oil consumption growth slows sharply



Hurricane Impacts



- net tightened crude oil market
- loss of refineries temporarily raised refining margins
- hit US gas harder than oil
- revealed new dimensions of energy security – it is not always the Middle East and embargoes

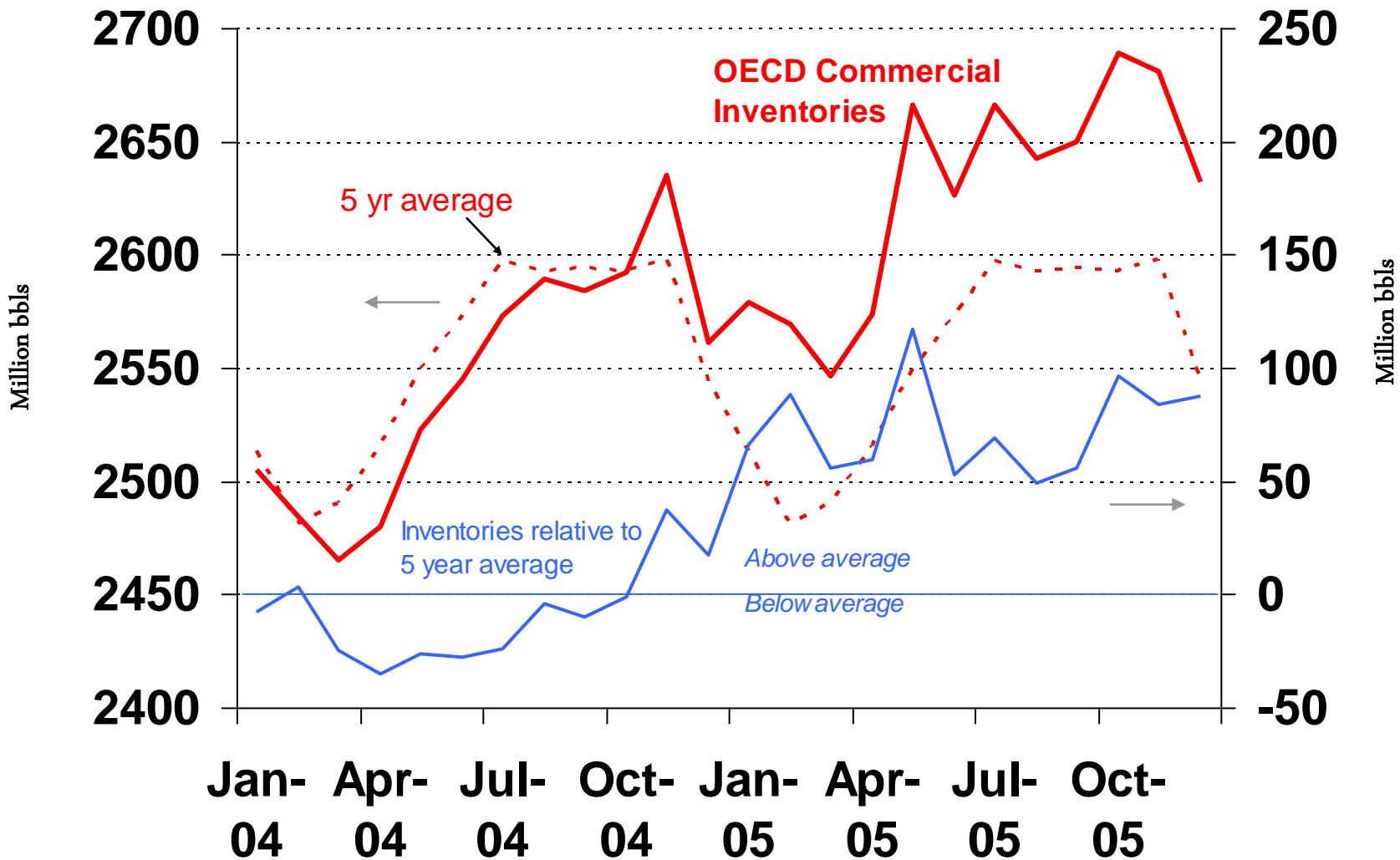


2005 Oil Markets: The Conundrum

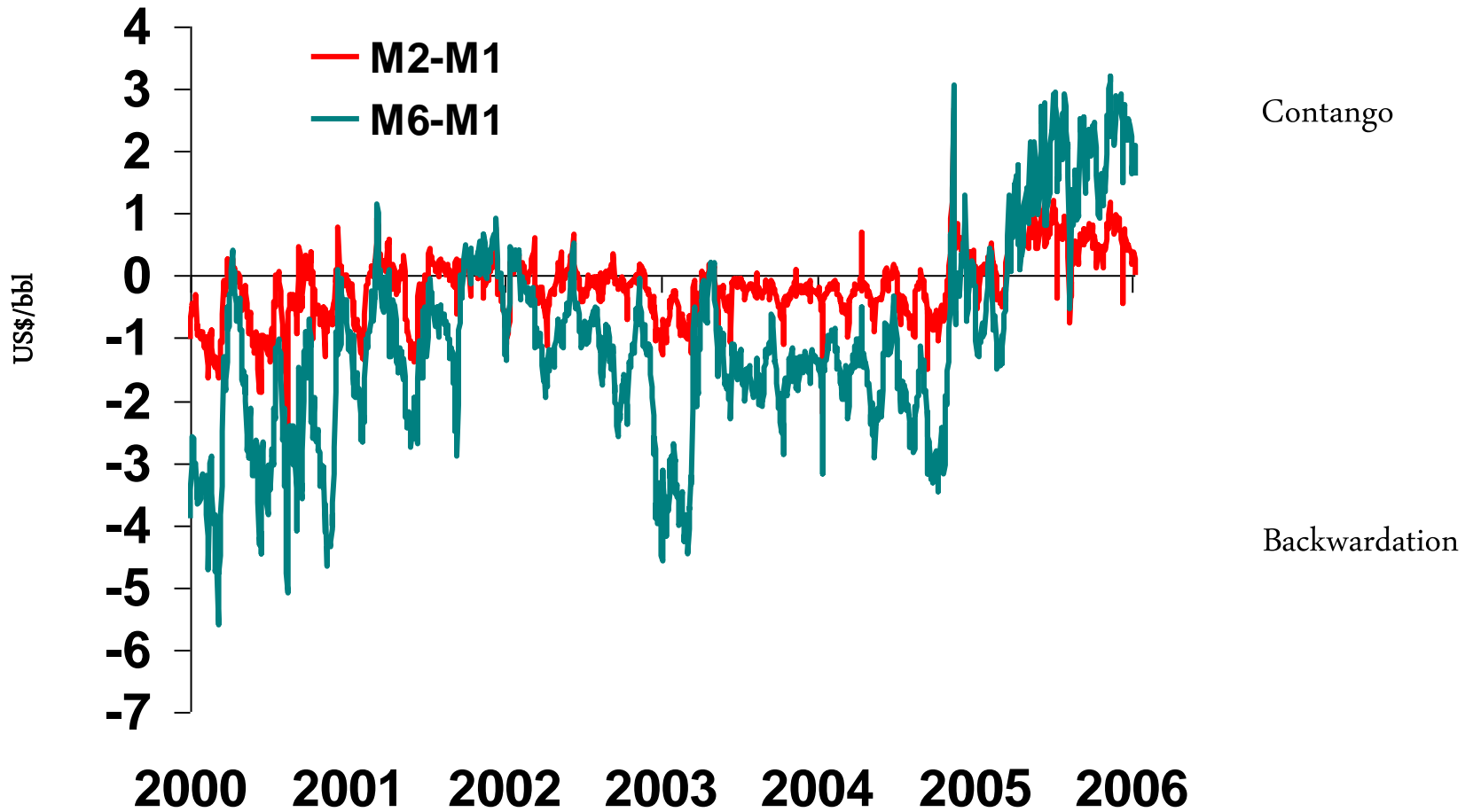


- Why did market fundamentals weaken but prices still rise?

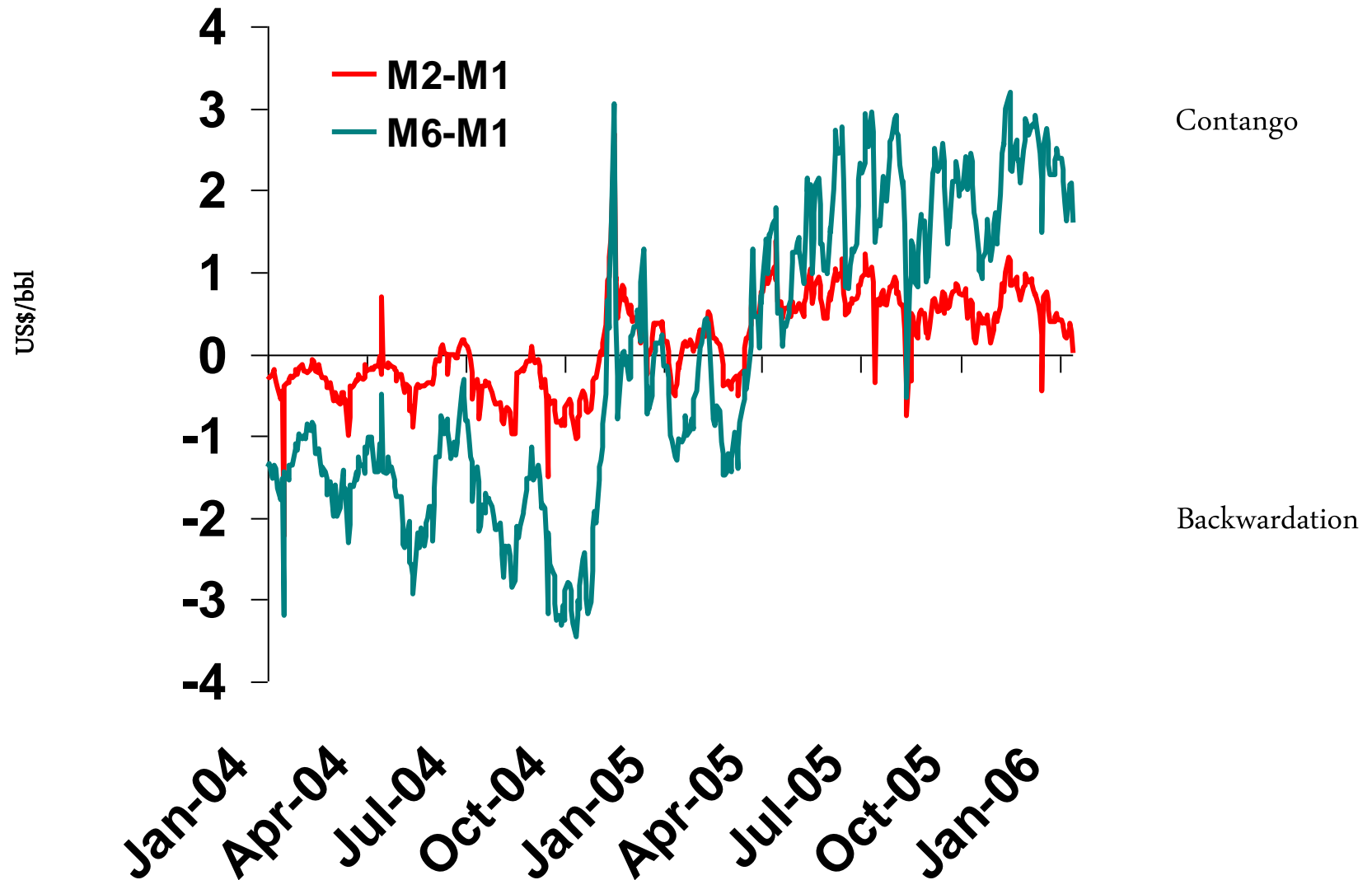
OECD Commercial Inventories



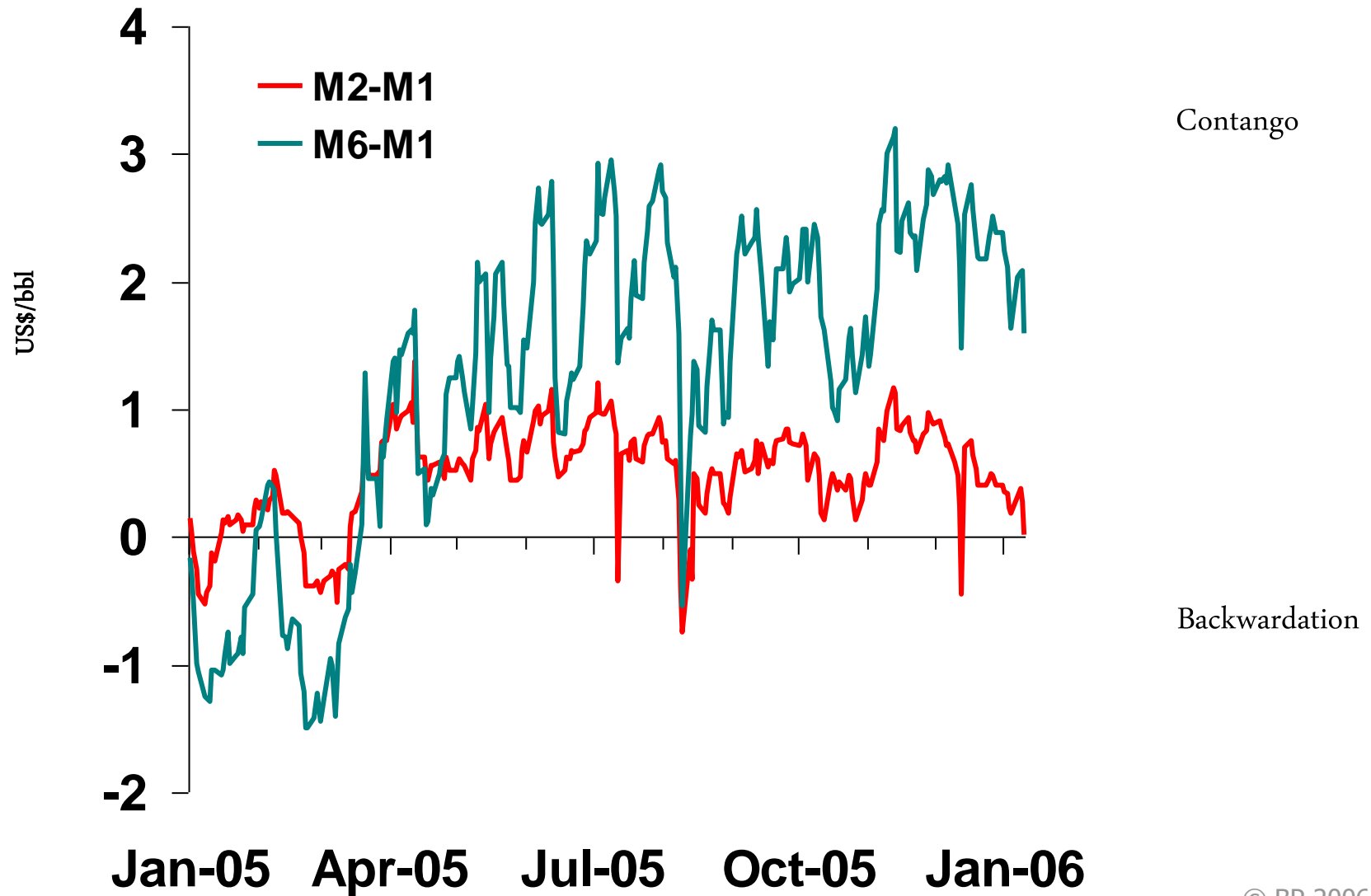
Brent Contango & Backwardation



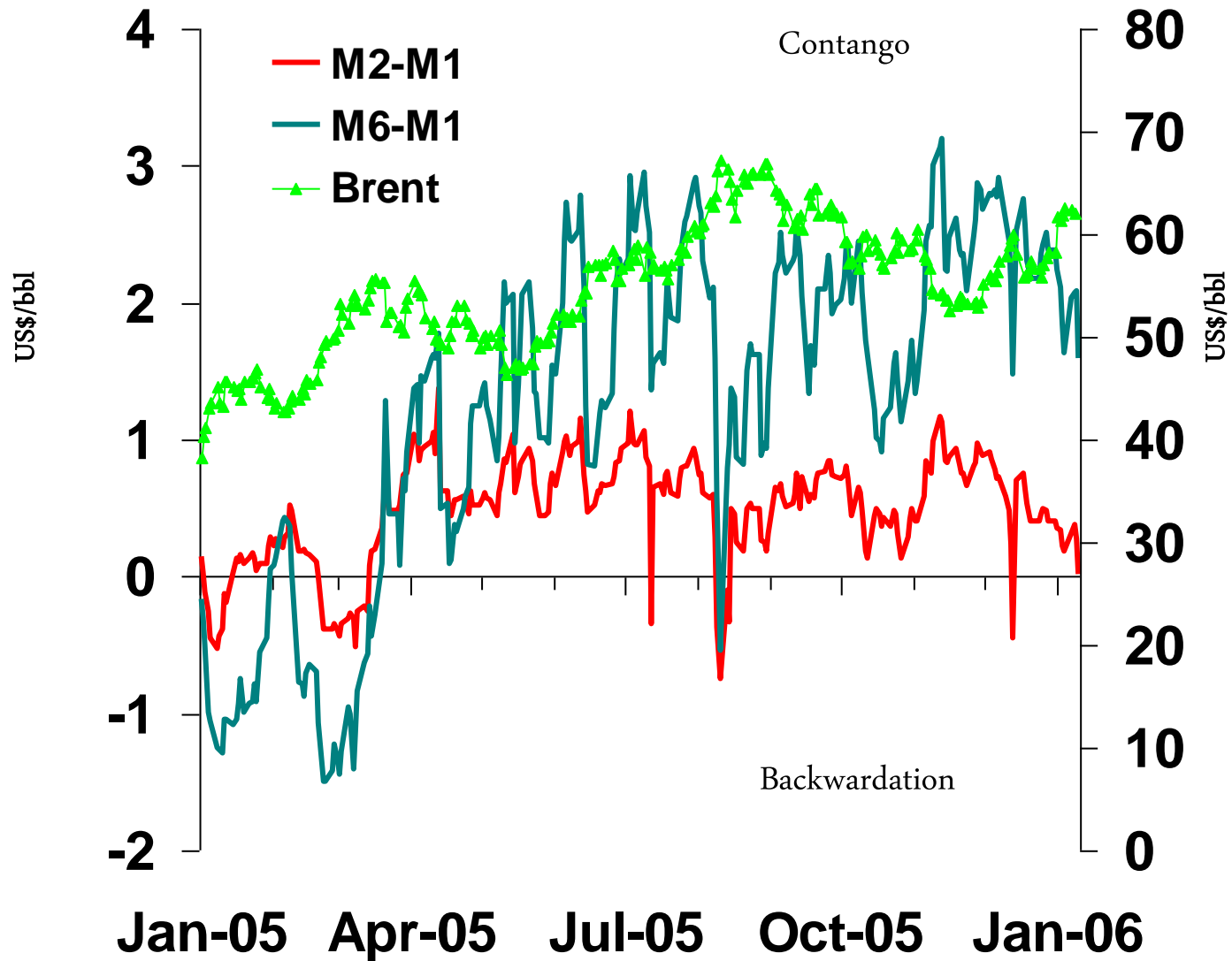
Brent Contango & Backwardation 2004-5



Brent Contango & Backwardation 2005



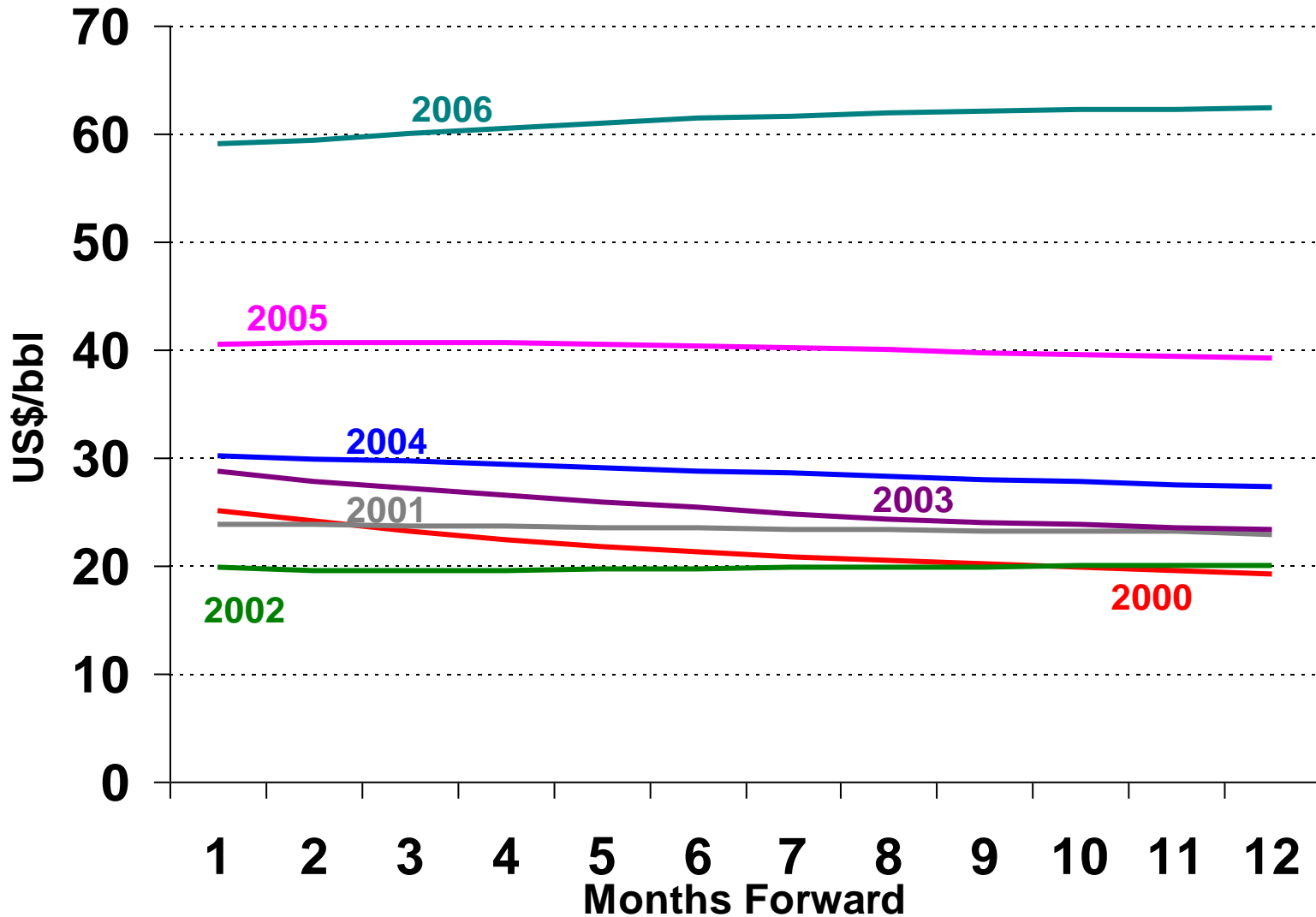
Brent Contango & Backwardation 2005



Brent Forward Price Curves



Forward Price Curves on 1st trading day of January



2005: The Explanation



- Inventories built in face of oversupply and enabled through 'flip' into contango
- 4Q saw:
 - Hurricane net tightening as production was slow to return
 - Colder than average weather
 - High gas prices stimulating resid demand
- Geopolitical concerns
 - Iran
 - Iraq
- Spare capacity remained low
- Emerging consensus on OPEC price objectives – floor of \$45-50 OPEC basket

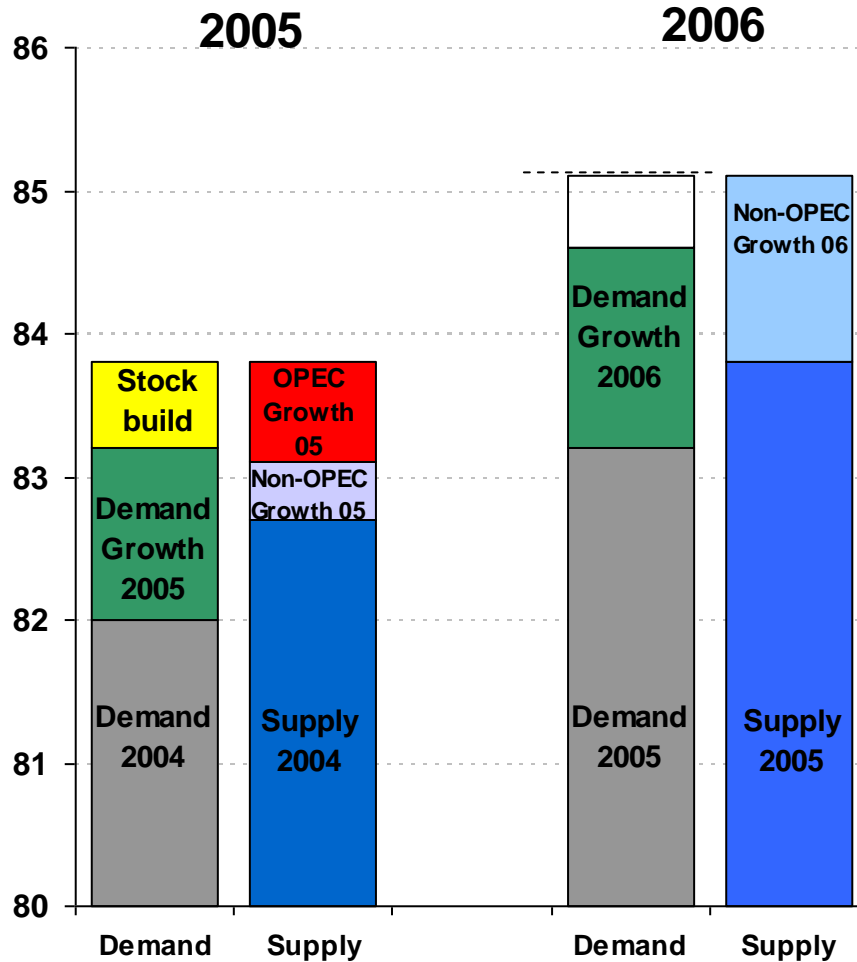
Entering 2006



- Prices breakthrough \$60 – in face of rising concerns over Iran
- Global economic momentum – and expectations of trend economic growth in 2006
- OPEC wait and see through the winter



Million b/d



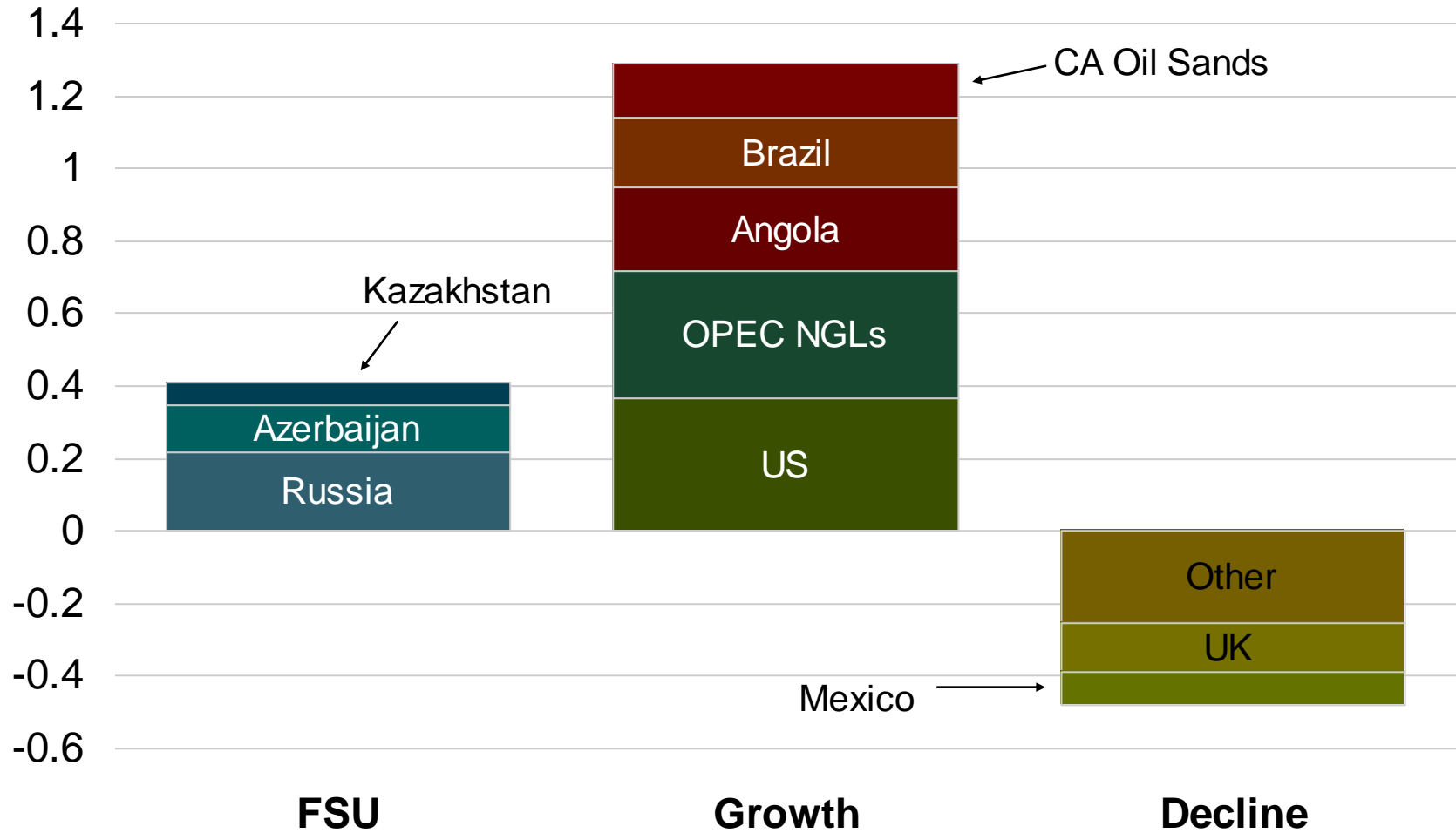
2006 Prospects

- Trend demand growth with Chinese acceleration
- Non-OPEC acceleration:
 - Hurricane restoration
 - Project delivery
- Starting from a stockbuild in 2005

2006 supply growth outside of OPEC quotas



Million b/d



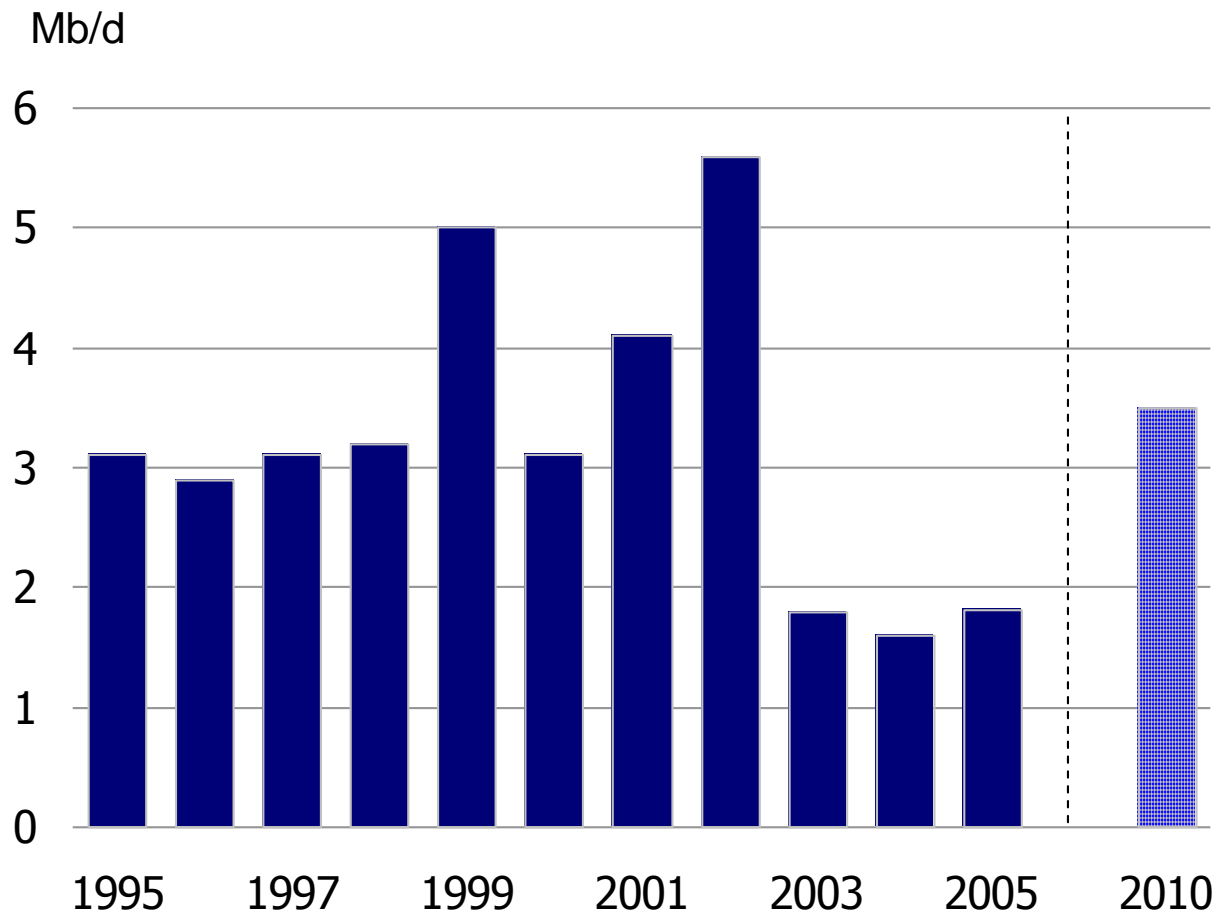


- Drivers
 - 2006 call on OPEC less than current OPEC production levels
 - OPEC capacity rising
 - Geopolitical uncertainties
- Risks
 - Economic growth
 - Supply delays and outages
 - Geopolitics
- OPEC may need to trim production to achieve price objectives – but production already at historical high levels
- Reasonable expectation of \$50-60 Brent for 2006

OPEC: Spare Capacity



Spare capacity should recover but OPEC likely to remain in control



Recession and demand destruction

Range

Delays and interruptions

Conclusions



- Oil prices driven up in 2004 by demand surge and low spare capacity – and further in 2005 despite rising inventories
- 2006 shows further momentum but OPEC may need to trim production. \$50-60 oil prices likely
- Spare capacity expected to build back to historic levels through 2010 – but call on OPEC still projected to edge upwards. Potential for prices to remain over \$40.
- Market forces expected to respond – but could take a long time to reassert.