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Domestic and global petroleum market outlook and challenges for 2015
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2015 crude oil price forecast

1. International trade prices for crude oil in 2015 (annual average) are projected at $65/bbl for Brent, $63/bbl for Dubai, and $60/bbl for WTI.
2. Various factors can affect the above price forecast. Some of the possible downward factors include continued increases in production, such as that of shale oil supplied from the US, and OPEC countries' prolonged aggressive strategy to maintain their share, as well as the sluggish economy and a further slow-down in demand in emerging countries. A potential upward driving force, on the other hand, may involve, geopolitical risk factors, such as political uncertainties in Iraq represented by the Islamic State activities, and the worsening situations in Libya, where there is deepened conflict among different regions and groups. Another possible supply-and-demand factor may include OPEC's revaluation of its production plan.

International oil market up to 2015

1. Following the summer of 2014, the international crude oil market saw an end to the "high price equilibrium" that had continued since 2012; such a constantly declining market, which had not been seen in recent years, recorded a drastic 40% drop in six months. If we consider that the pre-summer international crude oil market maintained a condition of stable balance thanks to the three factors of 1) increased demand from emerging countries, 2) intermittently developing geopolitical risk events, and 3) OPEC's preference to maintain high prices, the following four elements tipped the balance during the post summer period: 1) increased non-OPEC supply, particularly shale oil from the US, 2) sluggish global demand for oil, 3) unexpected increase of production in Libya, 4) OPEC's tolerance for lower oil prices. This may indicate that the international crude oil market is currently in transition to reach a new equilibrium, and the instability in prices is likely to remain in the near future.
2. With regard to the future supply-demand bbalance, oversupply is likely to continue during 2015 as long as OPEC maintains its daily production of 30 million barrels based on its November 2014 decision. The supply is predicted to exhibit a continuously weakened supply-demand balance, exceeding demand by a staggering 1 million to 2 million barrels per day for the first quarter of 2015 in particular.

3. One notable key trend to follow is how declining crude oil prices will affect supply by non-OPEC sources, such as shale oil from the US. While some experts have began to express their views that the crude oil price would need to fall to a level around $50/bbl for shale oil development and production to start slowing down, lower oil prices also affect other high-cost, unconventional oilfields, such as deep-sea oilfields and Canadian oil sand beyond shale oil. The market will progress to determine the pricing level where, generally, such supply by non-OPEC sources will clearly begin to decelerate.
4. Another point to note is the production policy of OPEC, Saudi Arabia in particular. The kingdom, which has a foreign exchange reserve of more than 700 billion dollars, is undoubtedly well prepared to ride out any short term sluggish oil pricing. In the medium term, however, Saudi Arabia faces ever-expanding government expenditure to support its increasing population and social security spending following the Arab Spring, under an environment where its total oil export amount is also anticipated to decrease due to larger domestic demand for oil and increased oil production from other OPEC and non-OPEC oil-producing countries. This will eventually force the country to shift back to higher oil prices. In the past cases where crude oil prices had showed sharp declines, such as in the mid-1980s, and more recently, in 2008, led by Saudi Arabia, OPEC's decisions to lower production almost always played a vital role in reversing the market. Closely observing Saudi Arabia's movement is vitally important in identifying a change in the international crude oil market orientation in the future.
5. Regarding geopolitical risks to consider, we continue to observe the current unrest in Iraq associated with Islamic State, without overlooking the conditions in Libya, where serious conflicts between the central government in Tripoli and its oilfield-rich eastern region remain troublesome. This is significant when we consider that Libya provides light low-sulfur crude oil, the same type as Brent crude oil, as its supply trend directly impacts the crude oil benchmark. As for possible financial factors, the termination of the quantitative monetary easing policy in the US may cause a fall in oil prices through US dollar appreciation. Although how the exchange rate will develop will affect crude oil prices as an indicator for the time being, the extent impact from financial factors is likely to remain limited due to a supply surplus in the crude oil market is well perceived.

Domestic oil industry in 2015

1. The domestic oil product market in 2014 experienced drastically weekend demand, marking a 4% sales decrease during January and October compared with the same period last year. This decline resulted, in addition to prolonged high oil price, increased importing costs due to the yen's depreciation, higher consumption tax since April, and poor weather conditions in summer vacation season. The domestic margin environment appears to have emerged from its most difficult period, yet the environment continues to slump without any sign of a fundamental change. As an approximate 2.0% average annual decline in supply is expected through 2019, oil

companies are under increasing pressure to optimize their assets, in preparation to take necessary published governmental measures to enhance the energy supply-demand structure.

2. Advancing the shale revolution in the US and increasing product exports from the US have relaxed the supply–demand balance and negatively affected refining margins in the Asian oil market. These factors do not contribute to a favorable export product market for the Japanese refiners. On the other hand, the same shale revolution is creating new opportunities to diversify crude oil supply sources for them. The declining crude oil price may also lead to lower acquisition prices of oil related assets overseas. Domestic oil companies are faced with important administrative decisions on how to take advantage of these rapid changes in the business environment for their own business growth strategy.

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