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# Prospects for Future Oil/Energy Situation: 26th International Panel Discussion

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On February 9, the 26th International Panel Discussion took place at Nikkei Hall on the future oil/energy situation, cosponsored by JX Nippon Oil & Energy Corporation, JX Nippon Research Institute, Ltd. and the Institute of Energy Economics, Japan. The panelists at the meeting were FACTS Global Energy Group Chairman Fereidun Fesharaki, Sierra Oil & Gas Chief Executive Officer Ivan Sandrea and Nikkei Shimbun columnist Yuzo Waki. I served as moderator. In the 26th international panel discussion on the matter, the panelists discussed a short-term and medium to long-term international oil market outlook and natural gas problems including the Asian LNG market under a new situation including the international oil market after a coordinated oil production cut agreement between the Organization of the Petroleum Exporting Countries and non-OPEC oil producing countries and the inauguration of the U.S. Trump administration. In the following, I would like to summarize the points that were particularly impressive to me at the panel discussion.

First, the panelists and I broadly agreed that the present international oil market has remained in a boxed range and that crude oil prices are likely to move within a $50-60 or $50-55 per barrel range in the immediate future. This view is based on a new market reality brought about by OPEC's decision to cut oil production in late November 2016 and its later agreement with non-OPEC oil producing countries on a coordinated production cut. The bottom of the boxed range is supported by the effects of the production and supply adjustments and hopes placed on them, while the ceiling is capped by high-level oil inventories, a possible increase in U.S. shale oil production and speculations on the possibility. The panelists noted that the crude oil market would remain in relative stability because the present situation is likely to be unshakable at this moment.

As a matter of course, there are various factors that could change the stability. The coordinated oil production cut made a good start as OPEC achieved more than 80% of their production cut target in January. However, the percentage or the compliance of the agreed cut could fall to 70%, 60% or lower levels as indicated by past practices. Meanwhile, there is a potential possibility that an unexpected supply disruption could emerge to affect the oil supply-demand balance. Other important factors that should be watched carefully include the emergence of world economy risks, the impact of crude oil prices' recovery above $50/bbl on U.S. shale oil production, the effects of the Trump administration's shale oil production promotion policy (and expectations and speculations about the policy) as explained later.

As oil prices remaining above $100/bbl until the first half of 2014 had been unsustainable, prices well below $50 or lower levels would be unsustainable for oil producing countries' budgets and economies and investment to cover future demand growth, the panelists pointed out. If downward pressure arises on crude oil prices for some reasons, major oil producing countries such as Saudi Arabia may conduct verbal market intervention or actual intervention (maintaining or enhancing production adjustments) as necessary. Attention may be paid to what factors would affect the boxed range expected to remain in the immediate future and how the boxed range itself would change (whether the boxed range would rise in line with "rebalancing" in the oil market).

Second, the biggest matter of concern at the panel discussion was how the inauguration and policies of the Trump administration would influence energy markets, as I had expected. Criticisms against and judicial decisions on U.S. President Donald Trump's executive order to temporarily entry ban from seven Middle Eastern and African countries have attracted global attention. At a time when the world is shaken by the moves of the Trump administration, how the new U.S. administration's energy and environmental policies could change the international energy situation is the biggest matter of concern to energy market stakeholders.

At the panel discussion, the panelists discussed the matter from a wide range of viewpoints. Regarding the first point of effects on crude oil prices, the discussion indicated that downside and upside factors for oil prices are mixed. Cited as an important downside factor for crude oil prices was President Trump's shale oil development promotion policy. This policy includes the removal or ease of regulation for shale resources development, the development of relevant infrastructure and the opening of federal land to development. Some of these measures have been put into practice or specified in executive orders. The policy will undoubtedly help expand U.S. oil supply, although how production and supply would increase and how fast the policy's effects would arise may have to be considered. Meanwhile, President Trump's protectionist trade policy could exert negative impacts on the world economy, trade and investment to affect global economic growth, working to decelerate oil demand growth, although the Dow Jones industrial average on the New York Stock Exchange has topped 20,000 in the so-called Trump Rally. The two factors will loosen the supply-demand balance, exerting downward pressure on oil prices.

Cited as the first upside factor for oil prices was growth in geopolitical risks in the Middle East under the new U.S. administration's Iran and Middle East policy. The administration is well expected to take a tougher policy against Iran. Tehran's possible reactions to such policy, its effects on Iran's domestic situation, growing U.S.-Iran tensions and rising regional tensions will be potential upside factors for oil prices as far as other conditions remain unchanged. The Middle Eastern situation could be complicated further, depending on how the U.S. administration would engage with Middle Eastern problems and whether the administration would take a unilateralist or interventionist approach. From financial viewpoints, the panelists noted that commodity investment could expand if the Trump administration's economic policy expands budget deficits to accelerate inflation and that the Trump administration's financial deregulation could encourage market players to expand leveraged investment to influence oil prices. In this way, the Trump administration's policies will influence international energy markets and crude oil prices through various paths. While this report focuses on Trump policies' influences on crude oil prices, these policies are expected to influence natural gas, coal, renewable and nuclear energy markets and global warming. Analyzing the impacts of Trump policies will remain significant for how to view the future energy situation.

The panel discussion also provided interesting arguments on improving oil-refining margins in Asia and the world, their favorable effects on downstream sector earnings and the significance of business strategies based on such change, as well as what LNG strategies would be required for Japan, Asia and individual companies to procure LNG more flexibly and competitively at a time when the Asian LNG market is expected to remain a buyer's market. Thus the panel discussion gave me an invaluable opportunity for the author, not only as a moderator of the discussion, but also as a researcher.

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