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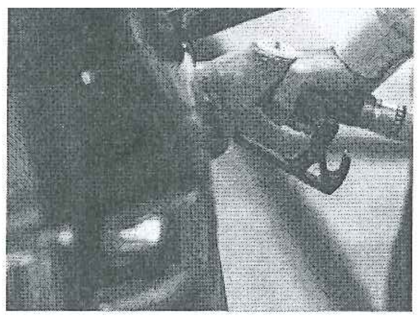
Oil's Nightmare Scenario Dominates Davos

Bloomberg By Javier Blas, Grant Smith
5 hours ago


A customer refuels his automobile on the forecourt of a gas station operated by Total SA in Luc-La-Primaube ...

The first mantra of the oil crisis was "lower for longer." Then "lower for even longer." Now in Davos, oil executives are starting to talk -- or rather, whisper -- about a new nightmare scenario: "A lot lower for a lot longer."

Oil executives, policy makers and banks said in the first days of the World Economic Forum that a recovery will remain elusive in 2016 as major producers keep pumping and China's fuel appetite slackens. And they fret that prices could take another hit as Iranian crude freed from sanctions flows back on to world markets.

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"It is the third year in a row we have more supply than demand," Fatih Birol, executive director of the International Energy Agency, told Francine Lacqua in a Bloomberg Television interview. "Prices will be still under pressure. I don't see any reason why we have a surprise increase in the price in 2016."

Things won't get better until energy markets have weathered the "supply shock," said Tony Hayward, chairman of Glencore Plc, one of the world's largest trading houses. Quite simply, there's "too much oil," he said.

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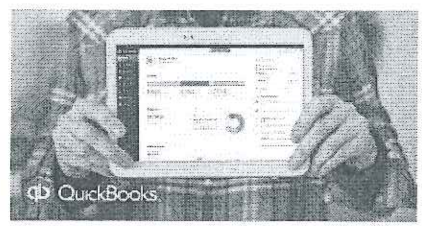

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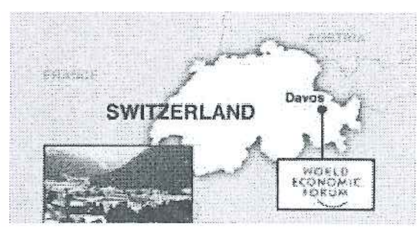
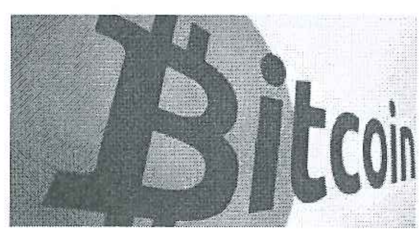


What is Davos?



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The end of nuclear-related sanctions on Iran on Jan. 16 has freed the OPEC member -- once the group's second-biggest producer -- to revive crude exports slashed in half by almost four years of restrictions. Impatient to claw back lost revenue, the Persian Gulf nation issued a directive to restore daily output by 500,000 barrels as soon as possible.

"The lifting of Iran sanctions will in my view continue to add supply, so I don't see a bottoming-out of oil prices and a re-spiking any time soon," said UBS Group AG Chairman Axel Weber. Depressed prices give Iran's rivals, such as OPEC leader Saudi Arabia, all the more incentive to keep pumping, he said.

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Unprecedented cutbacks in spending on new supply -- a 16 percent investment reduction this year will follow last year's 20 percent decline -- is setting the stage for a recovery, but it will be 2017 before this materializes, the IEA's Birol predicts. The scale of the spending cuts means the rebound will be all the harder when it comes, according to Crescent Petroleum Co.

"This will have an impact in the future, making the cycle more extreme," Majid Jafar, chief executive officer of U.A.E-based Crescent, said in an interview.

Sabic View

The rebound is more likely to take place in the second half of 2017 than the first, when Chinese economic growth will improve, according to Saudi Basic Industries Corp. CEO Yousef Al-Benyan. Sabic, as the company is known, is the largest publicly traded company in the Middle East and among the world's top five petrochemical groups.

"There is a lot of pressure from the supply side" preventing a recovery in the meantime, Al-Benyan said. "The second half of 2017 is going to be the time for a rebound."

Still, crude won't recover to levels seen during the boom years, said Daniel Yergin, vice chairman of consultants IHS Inc. Oil prices will probably be a "good deal higher than they are today" in the second half of 2016, but "not $100, not $70, not $60," Yergin said.

For Crescent's Jafar, "$50 is a possibility." That's about half the value oil was trading at only 18 months ago.

Updates with comment from Sabic starting in ninth paragraph.

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