

Oil Market Outlook to 2010

Guy Caruso

Administrator, Energy Information Administration

CERA Week - Oil Markets: Will the Supply Surge Arrive?

February 7, 2006
Houston, Texas



Has a Supply Surge Already Begun?

- Available data suggest that oil demand has been growing rapidly over the past two years.
- Although markets were undoubtedly tight, supply volumes rose substantially to meet consumption and stock growth.
- Plus, many new projects are very likely to come on line in 2006 and 2007.
- In this sense, it seems that the supply surge has already started.

What are Prospects for a Supply Surge by 2010?

Supply Factors

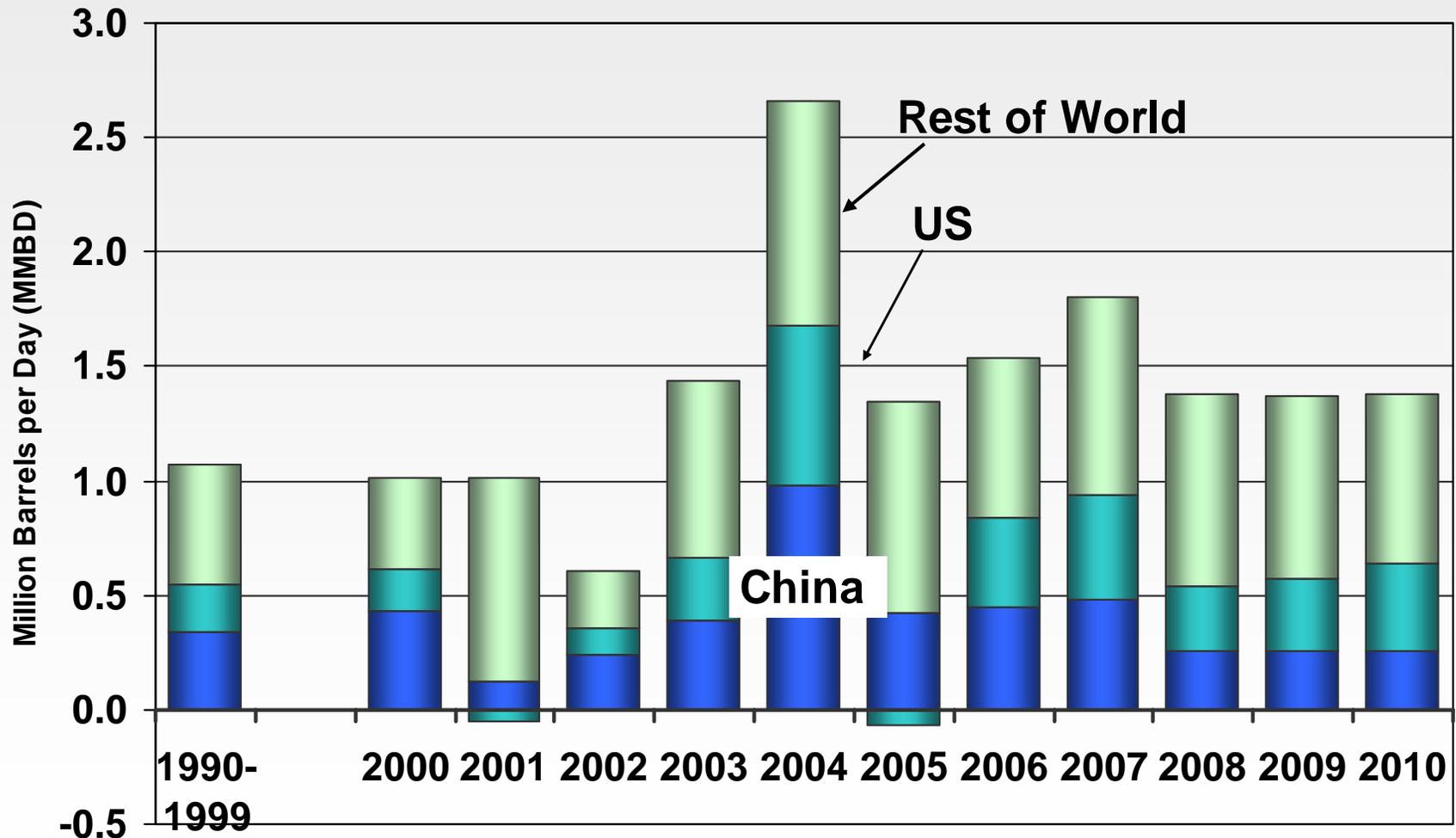
- New projects in the pipeline imply further capacity additions by 2010.
- While new projects are closely watched, decline rates in existing fields may be even more critical to the near-term supply picture.
- Investment future dependent on host of unpredictable variables.

What are Prospects for a Supply Surge by 2010?

Demand Factors

- Consumption is highly sensitive to economic growth, which is subject to unpredictable short-term cycles unrelated to energy drivers.
- Possibility of increasing sensitivity of oil consumption to sustained high oil prices.
- Future demand for stock holding (both commercial and strategic) is subject to considerable uncertainty.

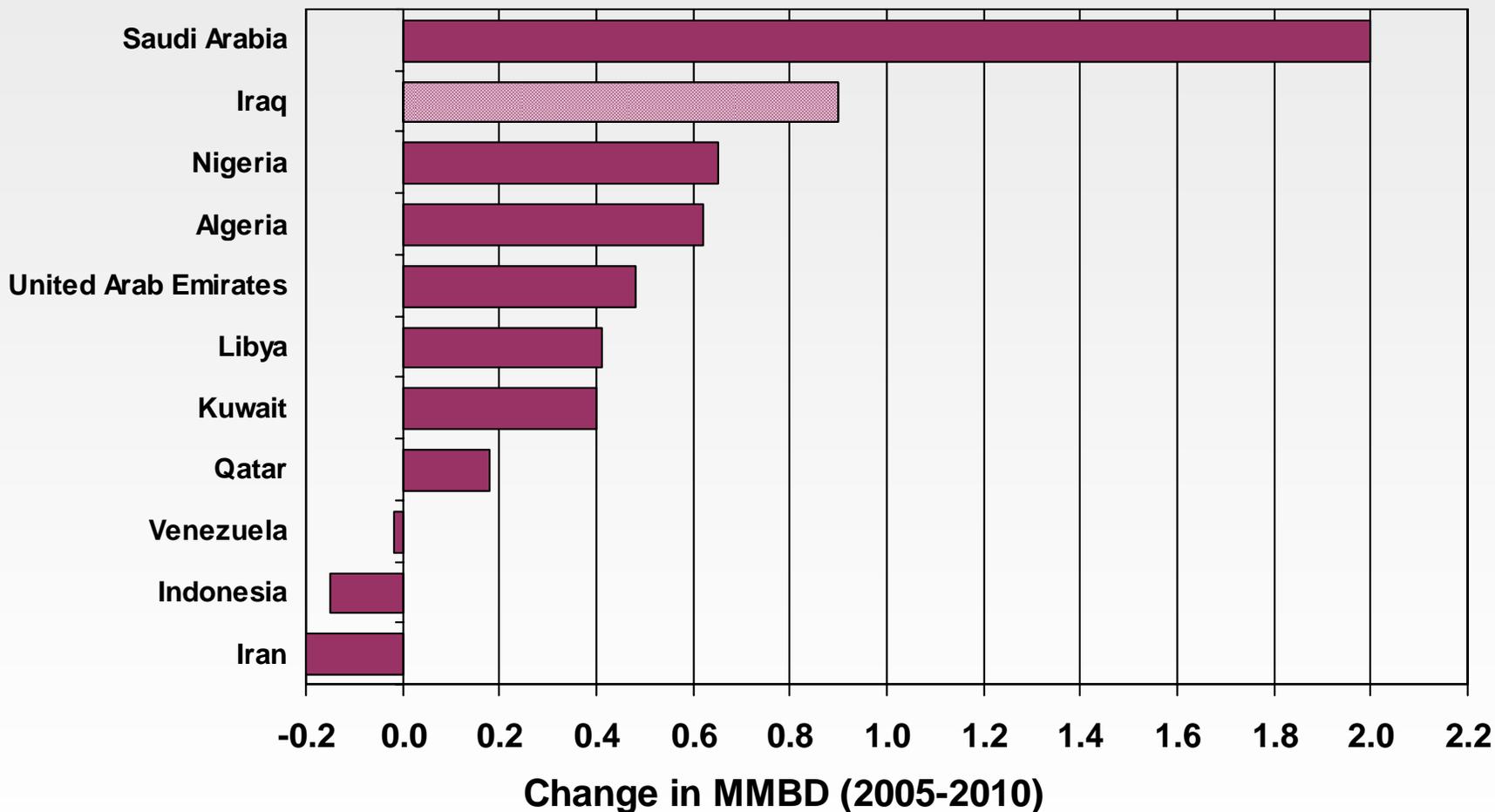
World oil demand growth slowed in 2005: we expect it to increase through 2010



Source: EIA. *Short-term Energy Outlook*, February 2006. *Annual Energy Outlook*, 2006.



OPEC crude oil production capacity could grow 4-5 MMBD through 2010

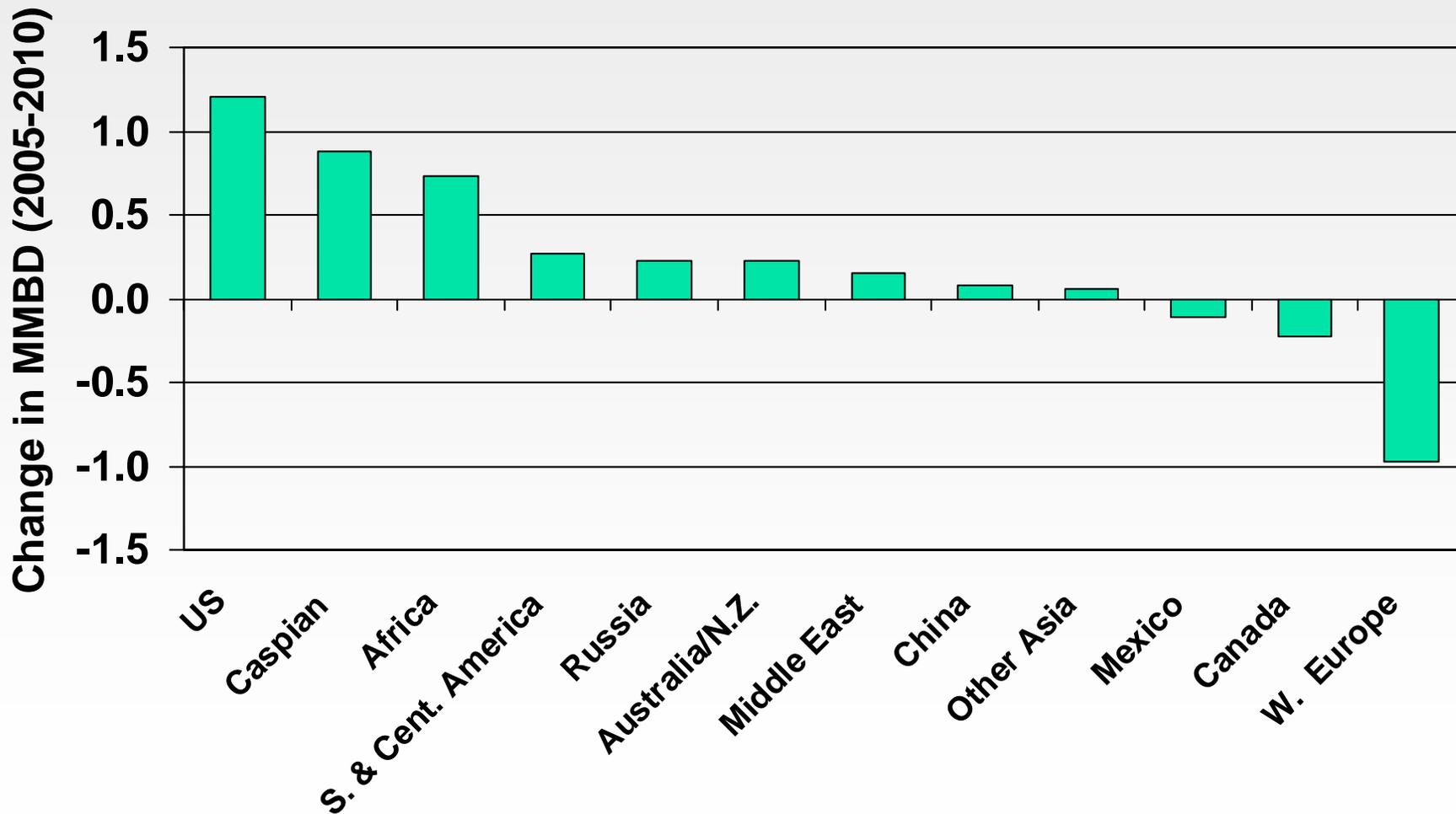


* Iraqi capacity increases are highly uncertain because of political and security issues

Source: EIA internal estimates



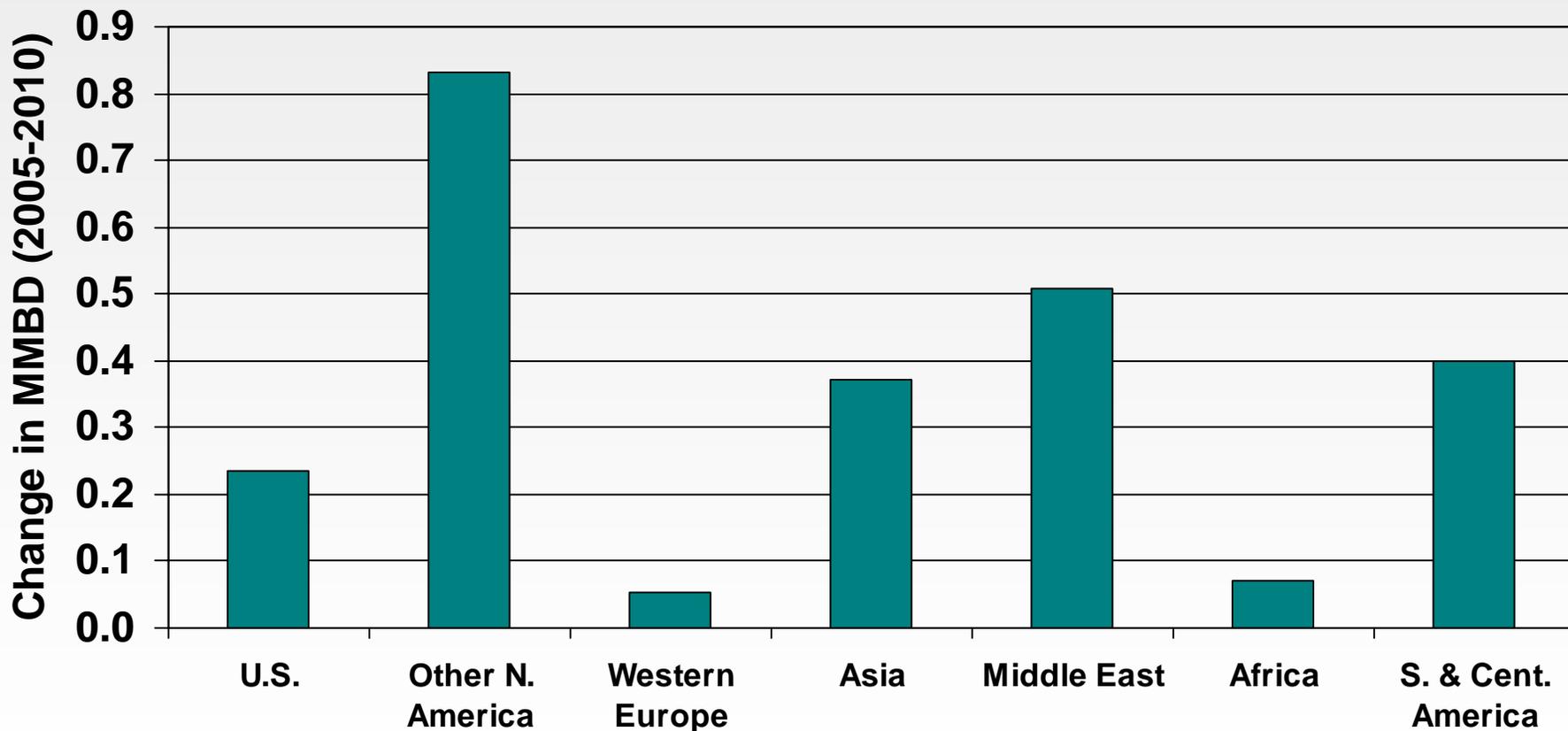
Conventional Non-OPEC supply is expected to grow by over 2 MMBD through 2010



Source: EIA. *Short-term Energy Outlook*, February 2006 and *Annual Energy Outlook*, 2006.



Non-conventional oil output expected to grow over 2 MMBD through 2010



Conclusions

- We expect global spare capacity to increase roughly 2-3 million barrels per day by 2010. This projection is sensitive to both supply and demand developments.
- Continued supply growth depends on price levels and price volatility, maintaining new project schedules, net decline rates in existing OPEC and non-OPEC production, and political environments in places like Iran and Iraq.
- Key demand uncertainties include economic growth rates, the sensitivity of consumption to sustained high prices, and net changes in stockholding.

Sources

- *Short Term Energy Outlook*, monthly
- *Annual Energy Outlook 2006*, December 2005, full report, February 2006
- *International Energy Outlook*, June 2005

available at:

www.eia.doe.gov

