

*RESEARCH &
KNOWLEDGE MANAGEMENT*



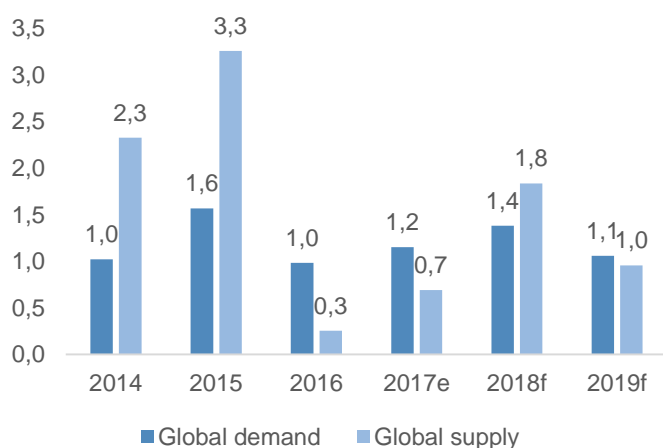
Oil & Gas update A closely balanced market in 2018?

28 DECEMBER 2017

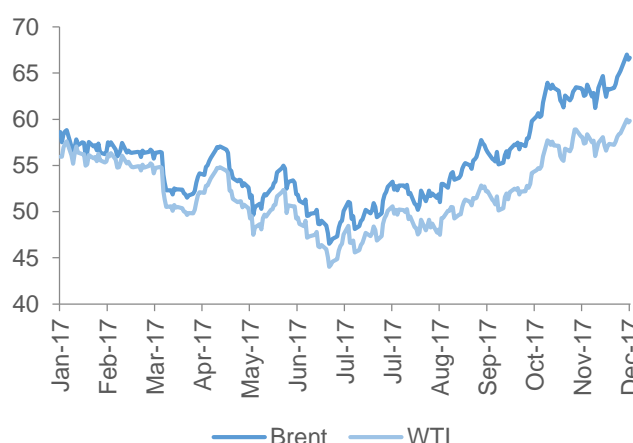
1. Key highlights

- In 2017, oil prices were volatile with a downward trend in 1H17 due to market concerns on OPEC and Russia's compliance with the oil production cut deal and rising US and Canadian output. However, in 2H17 prices began to rise on the back of better-than-expected compliance rate, fast growing demand for oil, increased geopolitical risks, extension of output cut deal to end-2018. **In 2017, Brent price is estimated to average at USD55pb, slightly higher than our forecast of USD52-54pb.**
- In 1H18, oil prices are expected to remain under pressure as high drilling activity in 2017 translates into continued growth of US production. US drillers adapted to lower oil prices by reducing drilling costs and increasing production efficiency. In 2H18, oil prices will be supported by expected decline in oil crude stocks and possible extension by OPEC and non-OPEC producers output cut deal beyond December 2018. **Brent oil price is forecast to average at US\$57.50pb in 2018 based on market consensus, while forward curve shows oil price at USD63.2pb. We forecast Brent price to average at USD55pb.**

Global oil demand and supply YoY change,
mln bpd



Brent vs. WTI Price Trend, USD pb



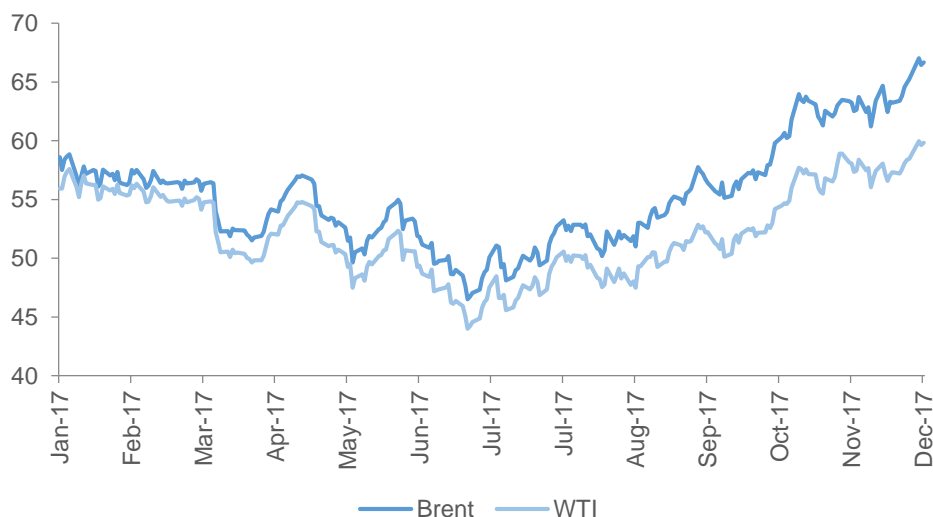
Source: Bloomberg, Wood Mackenzie, Samruk-Kazyna

- Higher economic growth will be supportive to global oil demand, which is expected to grow by 1.5mln bpd YoY to 98.96mln bpd in 2018, after an estimated YoY growth of 1.2mln bpd in 2017. China (+0.38mln bpd), India (+0.2mln bpd) and the US (+0.33mln bpd) are expected to be one of the largest contributors to oil demand growth in 2018. The growth of demand for petrochemical products in 2018 in China and the US will be the main driver of global oil demand growth.
- World oil supply growth is expected at 2.07mln bpd in 2018. The main contributor to the supply growth will be still non-OPEC supply, particularly US, while OPEC production is expected to remain barely flat at 32mln bpd. Wood Mackenzie expects the supply and demand balance to tighten in 2H19 subject to extension of output cut deal further through 2019. There is a risk of significant oversupply in 2019, if oil producers exit production cuts agreement. **At the same time, IEA estimated oil surplus of 0.2mln bpd in 1H18, before market sees a deficit of 0.2mln bpd later next year.**

2. Oil prices

In 2017, oil prices were volatile with a downward trend in 1H17 due to market concerns on OPEC and Russia's compliance with the oil production cut deal and rising US and Canadian output. However, in 2H17 prices began to rise on the back of better-than-expected compliance rate, fast growing demand for oil, increased geopolitical risks, extension of output cut deal to end-2018. As a result, oil prices reached a two-year highs in October and early November 2017. Brent is now trading at USD66.2pb, 14% higher than a year ago. In 2017, Brent price is estimated to average at USD55pb, slightly higher than our forecast of USD52-54pb.

Brent and WTI price trends, USD pb



Source: Bloomberg, Samruk-Kazyna

In 1H18, oil prices are expected to remain under pressure as high drilling activity in 2017 translates into continued growth of US production. US drillers adapted to lower oil prices by reducing drilling costs and increasing production efficiency. In 2H18, oil prices will be supported by expected decline in oil crude stocks and possible extension by OPEC and non-OPEC producers output cut deal beyond December 2018. Brent oil price is forecast to average at US\$57.50pb in 2018 based on market consensus, while forward curve shows oil price at USD63.2pb. We forecast Brent price to average at USD55pb.

Key oil market factors to watch in 2018 compliance of output cut deal by OPEC and Russia, US shale supply growth, and global oils stocks movement. We expect higher US output to limit further oil price growth and remains a key concern in 2018. However, there are supporting factors as Saudi Arabia aims at oil price stability and market rebalancing due to the planned IPO for Aramco next year. In addition, there will be president elections in Russia in March 2018. OPEC highlighted USD60-65pb as an acceptable oil price for both producers and consumers.

Oil price projections 2018, USD per barrel

Price	2017e average	2018 average Bloomberg consensus	2018 forward price	2018 average [^]
Brent	55.0	57.5	63.2	55.0

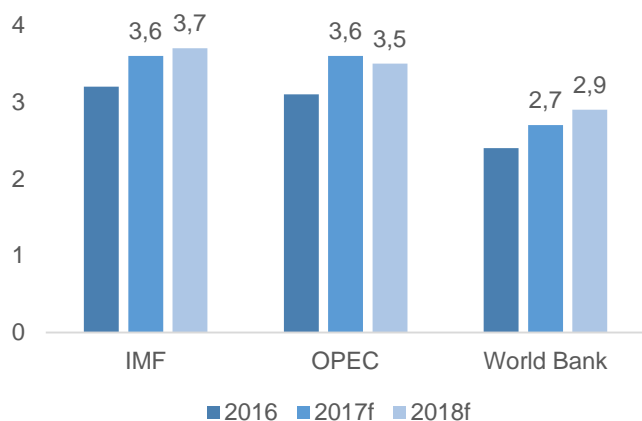
Source: Bloomberg, Samruk-Kazyna

[^]represents in-house projection by Samruk Kazyna, average price expected for 2018

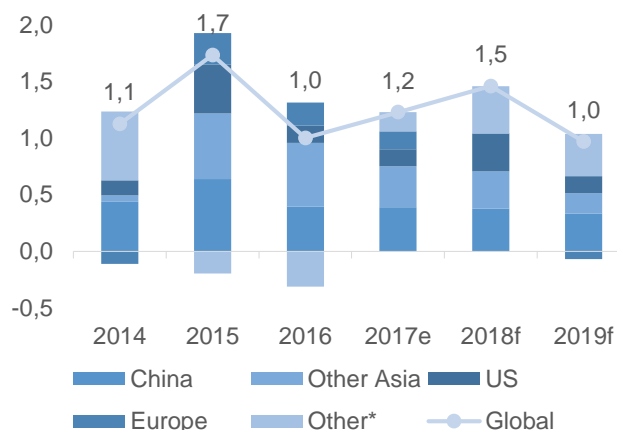
3. Global economic growth and oil demand

Global economic activity is strengthening, reflecting robust domestic demand growth in developed and large emerging economies. This was mainly supported by an improvement of global investment, trade and industrial production, leading to a stronger consumer and business confidence. The world economic growth is estimated at 2.7-3.7% in 2017. The strong momentum was observed in all major economies in 2017. This is expected to continue in 2018, with GDP growth accelerating to 2.9-3.7%. The GDP growth forecast is driven by the potential tax reforms in the US, strong growth in China and an improving situation in Russia and Brazil.

Global growth forecasts, % (2016-2018f)



Global oil demand growth, YoY mln bpd (2017-2019f)



* Other includes Middle East, Africa, Russia/Caspian, and Latin America

Source: IMF, World Bank, OPEC, Wood Mackenzie, Samruk-Kazyna

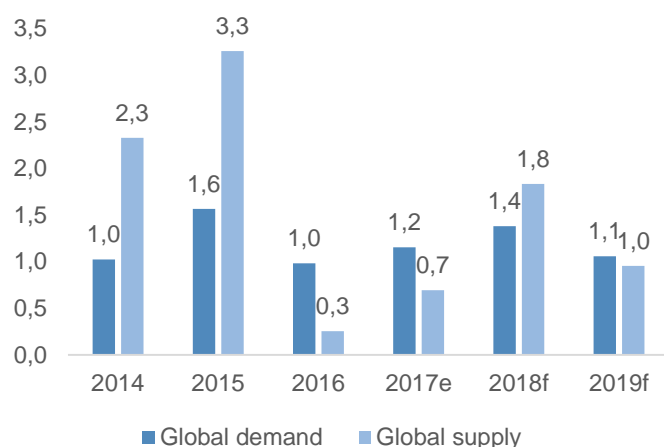
Higher economic growth will be supportive to global oil demand, which is expected to grow by 1.5mln bpd YoY to 98.96mln bpd in 2018, after an estimated YoY growth of 1.2mln bpd in 2017. China (+0.38mln bpd), India (+0.2mln bpd) and the US (+0.33mln bpd) are expected to be one of the largest contributors to oil demand growth in 2018. The growth of demand for petrochemical products in 2018 in China and the US will be the main driver of global oil demand growth. Oil demand in OECD Europe is less optimistic as there are some downsides risks such as higher taxation policies on oil use, high incentives for renewable energy, and fuel substitution.

There is also an uncertainty in the market whether the strong economic growth will be sufficient to deliver higher oil demand. High oil prices may create a hangover effect, i.e. negatively affecting Chinese import levels and oil demand growth.

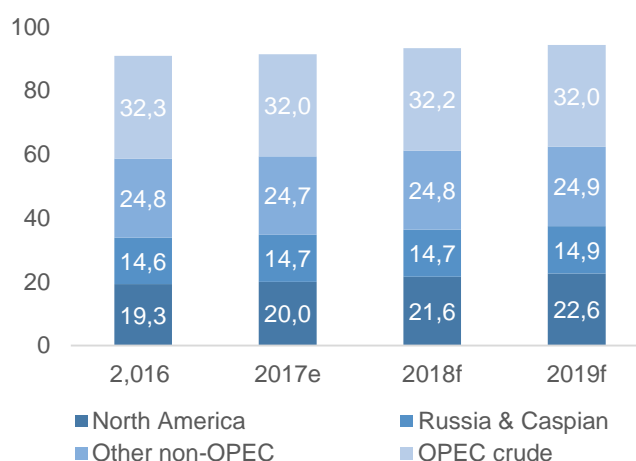
4. Global oil supply

The global oil supply is estimated at 97.55mln bpd, showing a growth of 0.67mln bpd compared to 2016 as a result of higher production flows from non-OPEC countries (+0.72mln bpd to 59.43mln bpd). This is partially offset by a decline in OPEC supply (-0.23mln bpd to 32.02bpd). World oil supply growth is expected at 2.07mln bpd in 2018. The main contributor to the supply growth will be still non-OPEC supply, particularly US, while OPEC production is expected to remain barely flat at 32mln bpd.

Wood Mackenzie expects the supply and demand balance to tighten in 2H19 subject to extension of output cut deal further through 2019. There is a risk of significant oversupply in 2019, if oil producers exit production cuts agreement. At the same time, IEA estimated oil surplus of 0.2mln bpd in 1H18, before market sees a deficit of 0.2mln bpd later next year.

Global oil demand and supply growth, YoY
mln bpd

Global oil supply by region, mln bpd



Source: Wood Mackenzie, Samruk-Kazyna

4.1 OPEC supply

On 30 November, OPEC and non-OPEC producers including Russia agreed to extend the output cut to end-2018 in order to rebalance oil market. They collectively will cut production by 1.8mln bpd until December 2018. Libya and Nigeria that were previously exempted from production cuts, have agreed to limit their output at combined 2.8mln bpd. OPEC will review the deal at its next meeting in June 2018, but without mentioning the mechanism that will be used to review it. By limiting their output oil, producers aim to return oil stocks to their five-year average.

OPEC oil supply, mln bpd

Country	2017e	2018f	2019f
Algeria	1.02	1.00	0.98
Angola	1.66	1.70	1.69
Ecuador	0.54	0.52	0.51
Gabon	0.20	0.20	0.20
Iran	3.80	3.80	3.81
Iraq	4.39	4.41	4.40
Kuwait	2.49	2.51	2.50
Libya	0.80	0.93	1.00
Nigeria	1.66	1.73	1.73
Qatar	0.62	0.62	0.62
Saudi Arabia	9.98	9.98	9.95
UAE	2.92	2.91	2.90
Venezuela	1.96	1.87	1.72
OPEC total crude oil	32.02	32.19	32.00

Source: Wood Mackenzie, Samruk-Kazyna

4.2 Non-OPEC supply

In 2018, non-OPEC oil supply is forecast to grow by 1.6mln bpd and expected to average at 61.2mln bpd. The main drivers of supply growth are the US, Canada, Brazil, the UK, Kazakhstan, Ghana and Australia. In particular, higher growth is attributable to the rise in the US shale production as a consequence of the current improving price environment, increased investments in US oil, improved efficiency and high drilling activity in 2017. Large-scale projects in Brazil and Canada are expected to come online rising supply by combined 0.5mln bpd in 2018. On the other hand, possible decline in oil output from Venezuela might be significant risk to supplies in 2018.

Non-OPEC oil supply, mln bpd

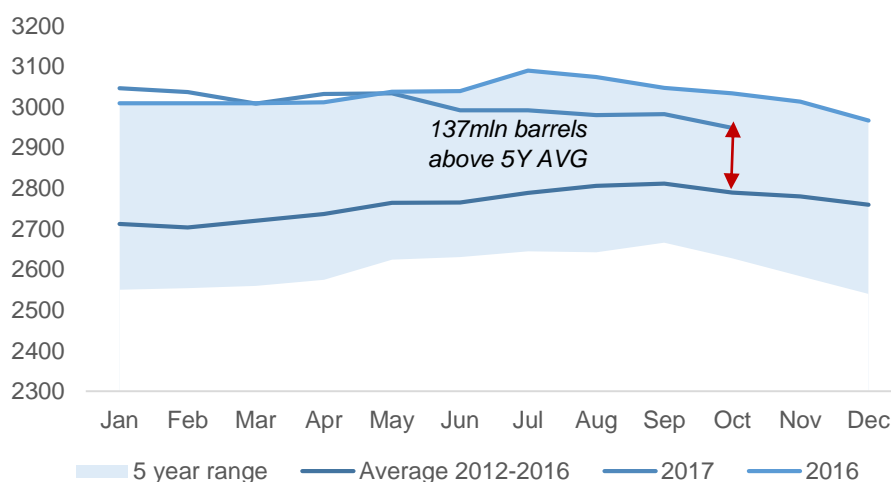
Region	2015	2016	2017e	2018f	2019f
North America	19,73	19,28	20,03	21,60	22,60
Russia & Caspian	14,43	14,62	14,75	14,74	14,89
Asia	8,38	8,03	7,76	7,56	7,42
Latin America	4,61	4,51	4,60	4,78	4,89
Europe	3,58	3,60	3,54	3,52	3,45
Middle East	1,27	1,27	1,24	1,26	1,30
Africa	2,05	1,94	1,96	1,94	1,98

Source: Wood Mackenzie, Samruk-Kazyna

OPEC's target to reduce OECD stocks

OECD commercial oil stocks decreased by 37mln barrels in October to 2,948mln barrels, 137mln barrels above the latest five-year average. The decline was for the third consecutive month. In January 2017, OECD stocks were 334mln barrels above the 5-year average. OECD crude stock fell by 11mln barrels to 1,499mln barrels, 110mln barrels above the latest five-year average. Most of stock draws were in OECD Americas, while stocks in OECD Europe rose due to lower demand in the European countries. In 1H18, a seasonal stock build is expected, while it will start to draw in 3Q18, which may support oil prices.

OECD commercial stocks, mln barrels



Source: Bloomberg, OPEC, Samruk-Kazyna

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