



**Why We Expect the Oil Price
to Rise Over the Next 5 Years**

We believe that the oil price will rise significantly over the next 5 years. There are several reasons why this might happen.

Oil Supply Is Shrinking

One of the main reasons is that oil supply is increasingly under pressure. This is due to a combination of factors, including declining production from existing oil fields, geopolitical tensions, and a lack of investment in new exploration and production.

Oil supply is shrinking while demand is growing. Oil companies are not investing enough to meet the future needs of the world. Oil is the lifeblood of the modern economy, but it is becoming scarcer and harder to produce. The world's oil production has barely increased in the last 20 years, despite rising demand. Only the US and Russia have boosted their output, but they face serious challenges that could limit their future supply.

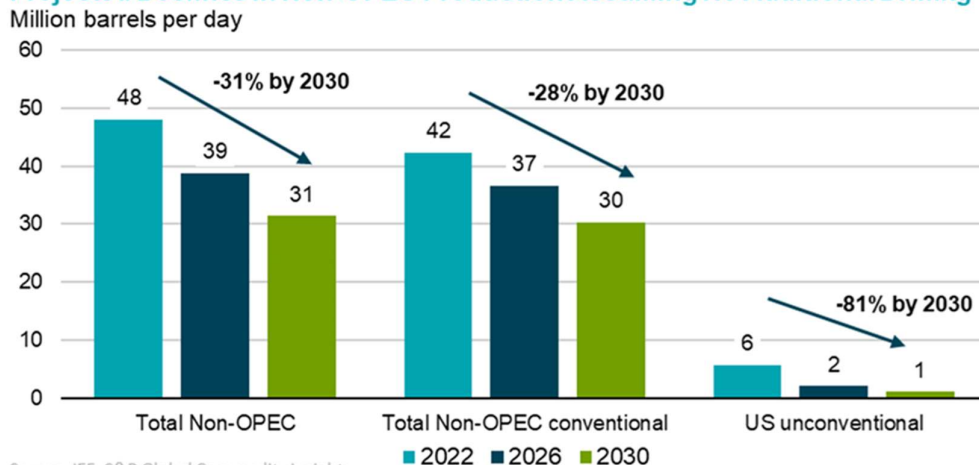
- The US has reached its peak oil production and is not drilling enough new wells to sustain it. Oil companies are afraid to invest in an industry that faces increasing pressure from environmentalists and regulators who want to phase out fossil fuels. Most of the new wells are only replacing the old ones that are running dry (82% of wells drilled in 2022 were for this purpose).
- Russia is under sanctions that prevent it from accessing the latest technology to improve its oil fields. Without this technology, Russia cannot increase its oil production or maintain its current levels.

These two countries have been the main drivers of oil production growth in the past, but now they are running out of steam.

The world needs more oil, but no one is willing to provide it. *Why are oil companies not drilling more when oil prices are high, considering they are highly profitable at these levels?*

Usually, high oil prices encourage oil companies to drill more and increase supply. But this time, it's different. Oil companies have been burned by three huge price crashes in the last 15 years, which made them lose money and anger their shareholders. They are now more cautious and focused on returning cash to shareholders rather than investing in new projects. They also face growing opposition from environmental groups and governments who want to end the use of fossil fuels as soon as possible.

Projected Declines in Non-OPEC Production Assuming No Additional Drilling



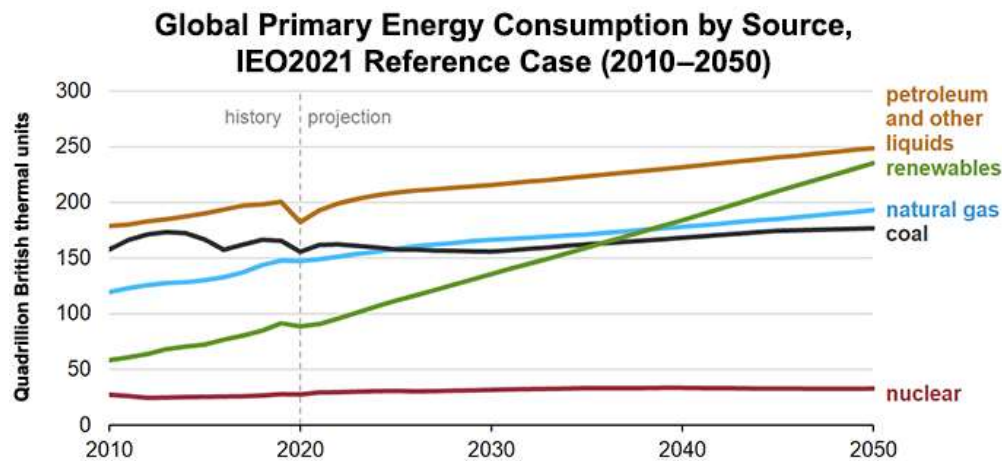
As a result, oil companies are not spending enough to meet the future demand for oil. Even though they have increased their spending in the last two years, most of it is only to offset the decline in existing production, not to add new supply. The world is facing a looming oil shortage that will drive prices higher and higher.

Energy Consumption Is Growing

At the same time, energy demand is soaring as billions of people want a better life. Renewables alone cannot meet this demand or replace fossil fuels. Energy is essential for human progress and well-being. While people in developed countries enjoy a high standard of living thanks to abundant energy, billions of people in developing countries still lack access to reliable and affordable power. They want and deserve more energy to improve their lives.

On average, global energy consumption has been growing at a rate of over 3% since 1966 and is showing no signs of slowing down. The developing world's population is expected to grow by 25% in the next 25-30 years, which means more people will need more energy. Even if all this additional energy came from renewable sources, it would not be enough to replace the current demand for oil and gas.

Moreover, since 1990, more than a billion people have escaped extreme poverty and more than 140 million people join the burgeoning middle class annually. As people's incomes rise, they tend to use more energy for transportation, heating, cooling, lighting, and entertainment. This will further increase the demand for energy in the coming years.



Note: Petroleum and other liquids includes biofuels.

Source: U.S. Energy Information Administration, International Energy Outlook 2021 (IEO2021)

Renewable Energy Cannot Replace Fossil Fuels

Some people think that we can replace fossil fuels with renewables and meet the growing demand for energy. We think this is unrealistic and impossible within the time frames set out. Renewables are important and have a role to play in the energy mix, but they cannot replace fossil fuels completely or quickly enough.

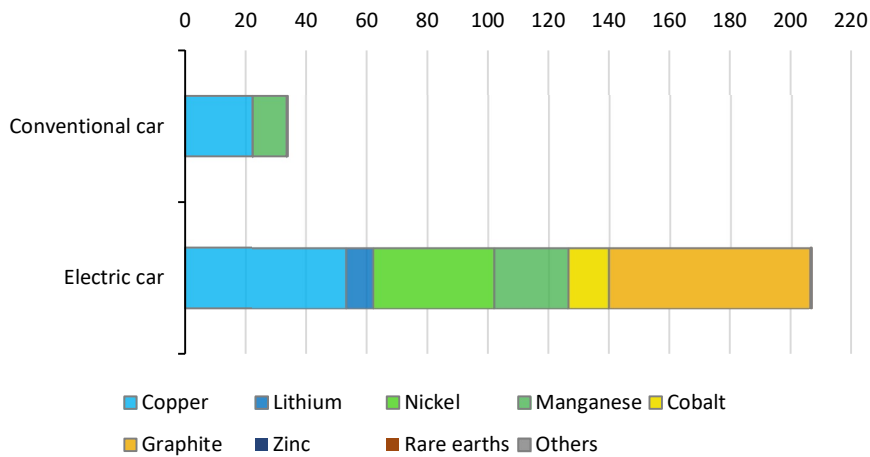
Renewables are intermittent, variable, and dependent on weather conditions. They do not produce electricity all the time. They also require a lot of land, water, and materials to produce and store. They cannot provide the reliable, affordable, and abundant energy that the world needs and wants.

This means that they need to be backed up by other sources of energy, such as fossil fuels, in order to ensure a reliable supply of electricity. Oil and gas are still vital for the world’s energy security and prosperity.

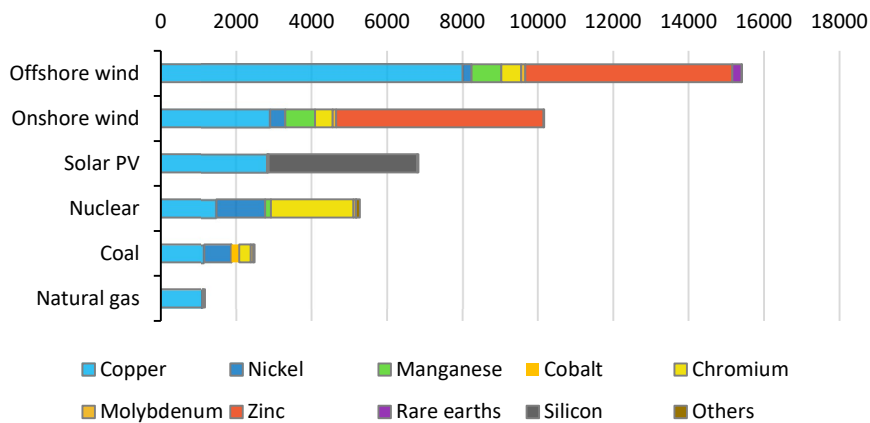
There are several reasons why transitioning to a renewable energy world may not be feasible. One of the main reasons is that we simply do not have enough resources. Producing renewable energy requires a significant amount of metals, such as copper, lithium, and rare earth metals. While these resources can be found, they often come from difficult environments and countries. For example, the United States has significant potential deposits of these metals, but getting approval to mine them can be extremely difficult. In addition, mining these metals requires the use of oil to run the mines and logistics.

This applies to both the build-out of renewable energy sources as well as electric vehicles.

Minerals used in electric cars compared to conventional cars



Minerals used in clean energy technologies compared to other power generation sources



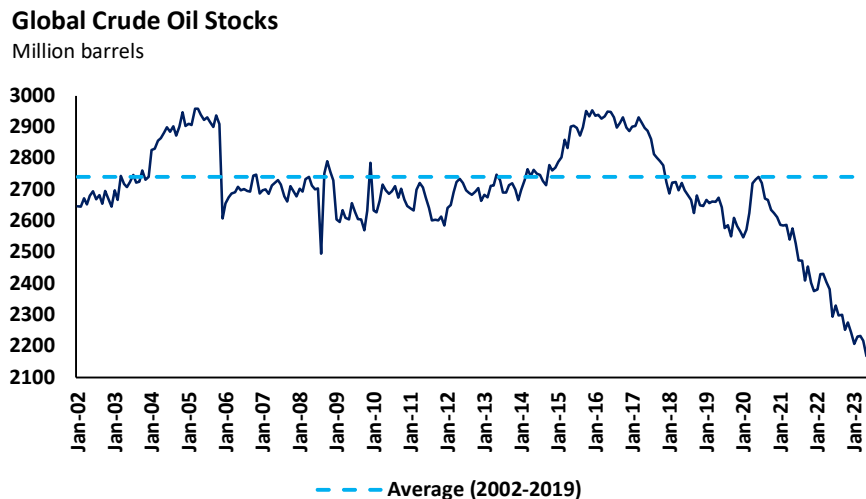
Another reason why transitioning to a renewable energy world may not be feasible is the cost. Since 2010, the world has spent more than \$4 trillion on renewable energy (excluding hydro). To put this into context, this is more than the GDP of Africa and Asia combined. Despite this investment, renewables only make up 7% of energy consumption. This highlights the long road to achieving a carbon-neutral world.

Lastly, the increase in energy demand in recent decades has been significant and is expected to continue for the foreseeable future. Even if countries invest in renewables, the pace of growth will barely keep up with the increasing energy consumption. This means that renewables are not replacing fossil fuels but rather meeting new demand.

The Time is Right to Invest in Oil

While medium-term oil supply and demand dynamics are in favour of higher prices, they are currently being held down by cyclical, short-term factors.

One of these factors is the reduction of oil inventories to dire levels by countries, to compensate for insufficient supply in the short-term. However, eventually, these inventories will have to be refilled. As part of this drawdown on inventories, the Biden administration has been draining the Strategic Petroleum Reserve (SPR), flooding the market with additional supply, and holding prices down. However, this too cannot be done indefinitely, and the reserve will need to be refilled in the future.



Another factor that is suppressing oil prices is the fear of a global recession and the fact that China's economy is slumping. While a recession will undoubtedly put downward pressure on oil demand, a lot of this has likely already been priced in and will be short-term in nature. Additionally, OPEC+ is set on defending the oil price and will likely cut production to support prices. On the China front, the People's Bank of China is getting ready to provide additional stimulus for the economy, which should help alleviate their poor growth outlook.

The oil and energy landscape is changing due to many factors. Oil companies are finding it hard to increase production because of market changes, pressure from shareholders, and concerns about the environment. At the same time, more and more people need energy, both because the population is growing and because people in poorer countries want to improve their lives. Even though renewable energy is becoming more popular, it is not easy to switch to it completely. There are not enough resources, and renewable energy is not always reliable. This means that we will still

need oil and gas for a while. Right now, the price of oil is being affected by things like countries using up their oil reserves, worries about the economy, and political problems. But as the economy gets better and countries start to refill their oil reserves, the price of oil is likely to go up.

Evidence of the structural tightness in the oil market is clear when looking at the WTI Crude Oil futures curve. As you can see below, the curve is currently sloping downward, a shape known as backwardation. Backwardation refers to a situation where the price of a commodity is higher in the current or near-term period compared to its price in the future. The most common cause is when there's high demand for a particular asset right now, leading to higher prices in the near term. People are willing to pay more to have it immediately because they are worried about future supply.

The fact that the oil price is in backwardation, is a clear sign that the market is worried about future supply dynamics and the fact that it cannot keep pace with current demand trends.

WTI Crude Oil Futures Curve - Backwardation

\$/barrel

