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Oil price

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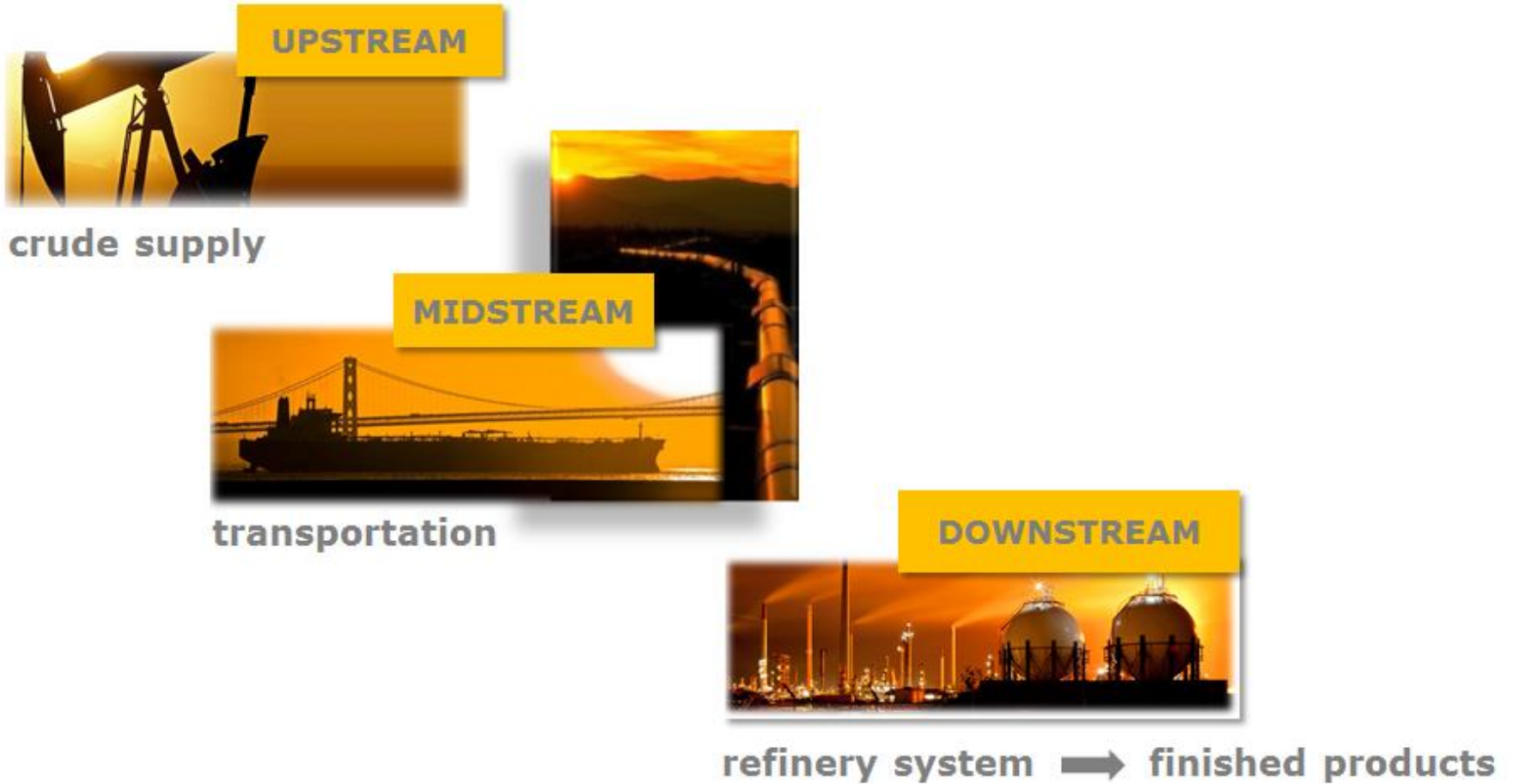


Agenda

- Crude oil market
- What is behind oil price
 - Fundamentals
 - Main Players
 - Geopolitics
 - Financial market
- The price determinant
 - Benchmark crude oils
 - Brent
 - Physical and paper market
 - Crude oil price evaluation
- Recent price dynamics



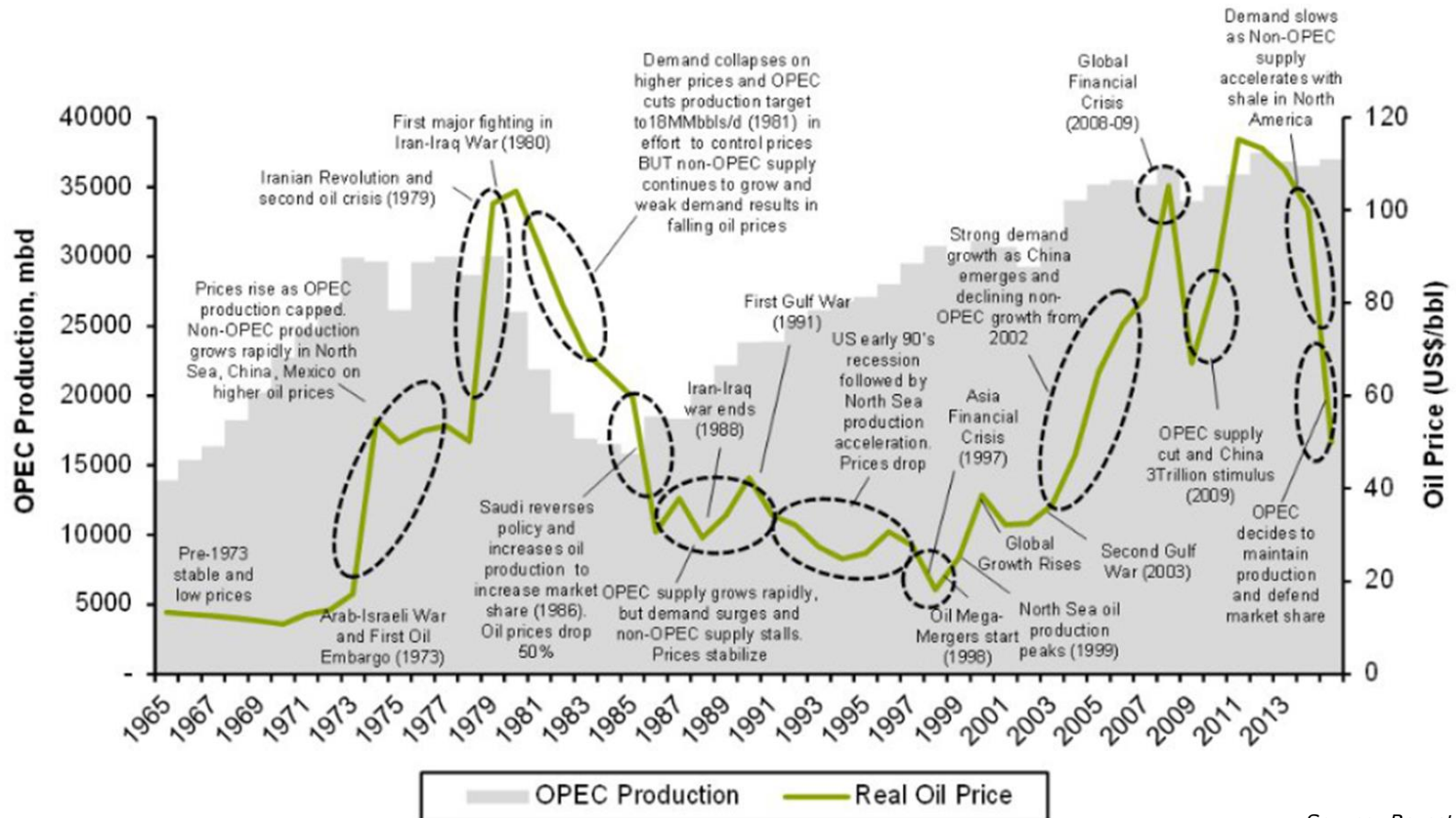
Understanding crude oil market



- Crude oil is a complex commodity, political, strategic and global in its nature.

What is behind oil price?

- **Fundamentals:** demand (economy), supply, market players
- **Geopolitics:** political tensions (Middle East and North Africa)
- **Financial** markets (speculation)

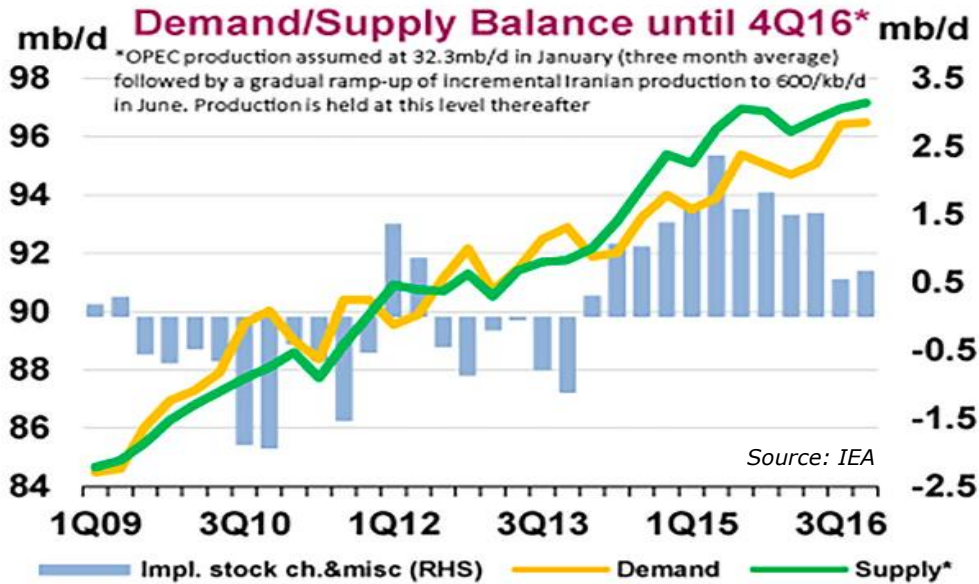


Source: Bernstein



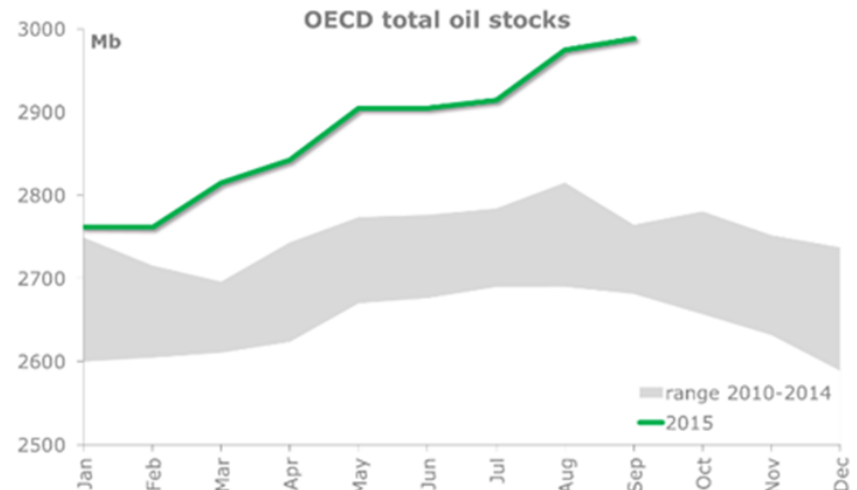
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Fundamentals – Oil balance and stocks



- $P = f(D, S)$: Demand/Supply imbalance is a key factor in oil price

- A huge building of oil stocks is a bearish factor on oil price



Fundamentals – market players



OPEC

Organization Petroleum Exporting Countries

Saudi Arabia, Iran, Iraq, Kuwait, UAE, Qatar, Algeria, Libya, Angola, Nigeria, Indonesia, Ecuador, Venezuela



IEA

International Energy Agency

organization in the framework of the OECD. Its mandate focuses on energy security, economic development, and environmental protection



USA

top consumer and producer



RUSSIA

key producer. Today it is the third oil producer after USA and Saudi Arabia



CHINA

key consumer. Today driver of oil demand growth



OIL COMPANIES



TRADERS BROKERS

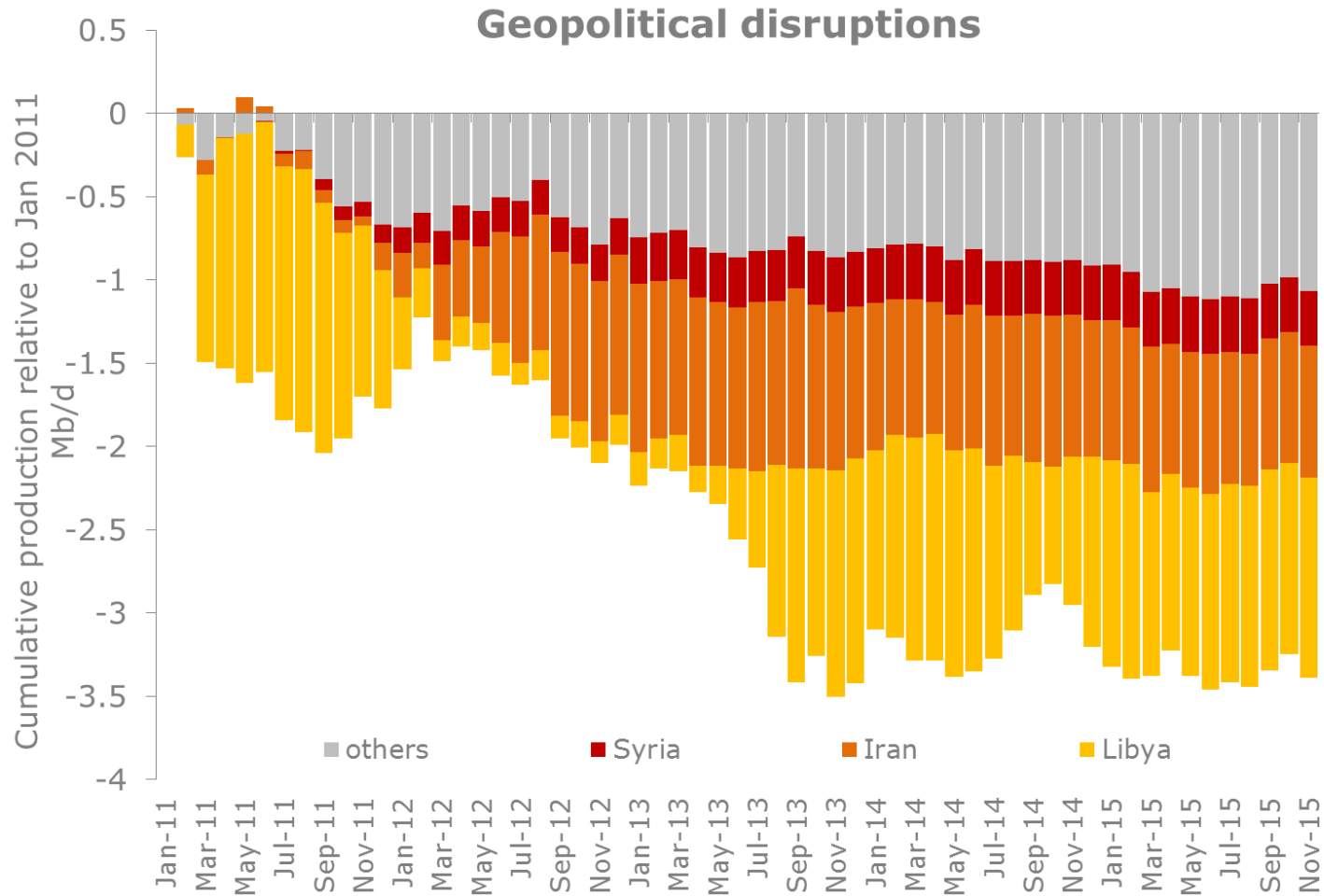


FINANCIAL INSTITUTION



Geopolitics

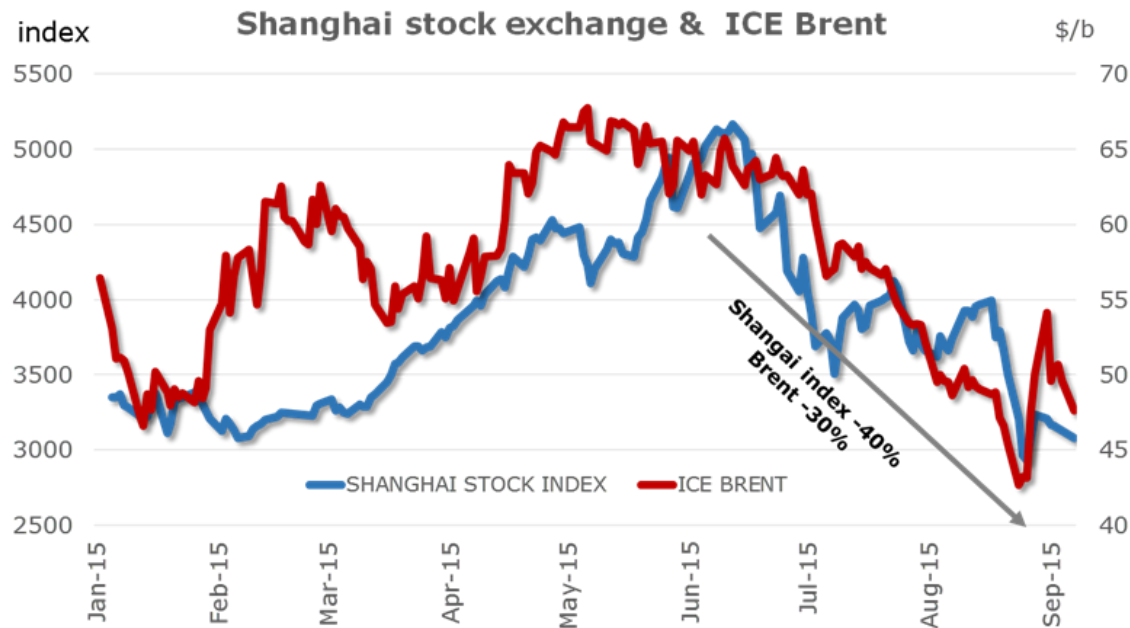
- More than 3 Mb/d of losses from countries affected by turmoils



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Financial market – Chinese stock crisis

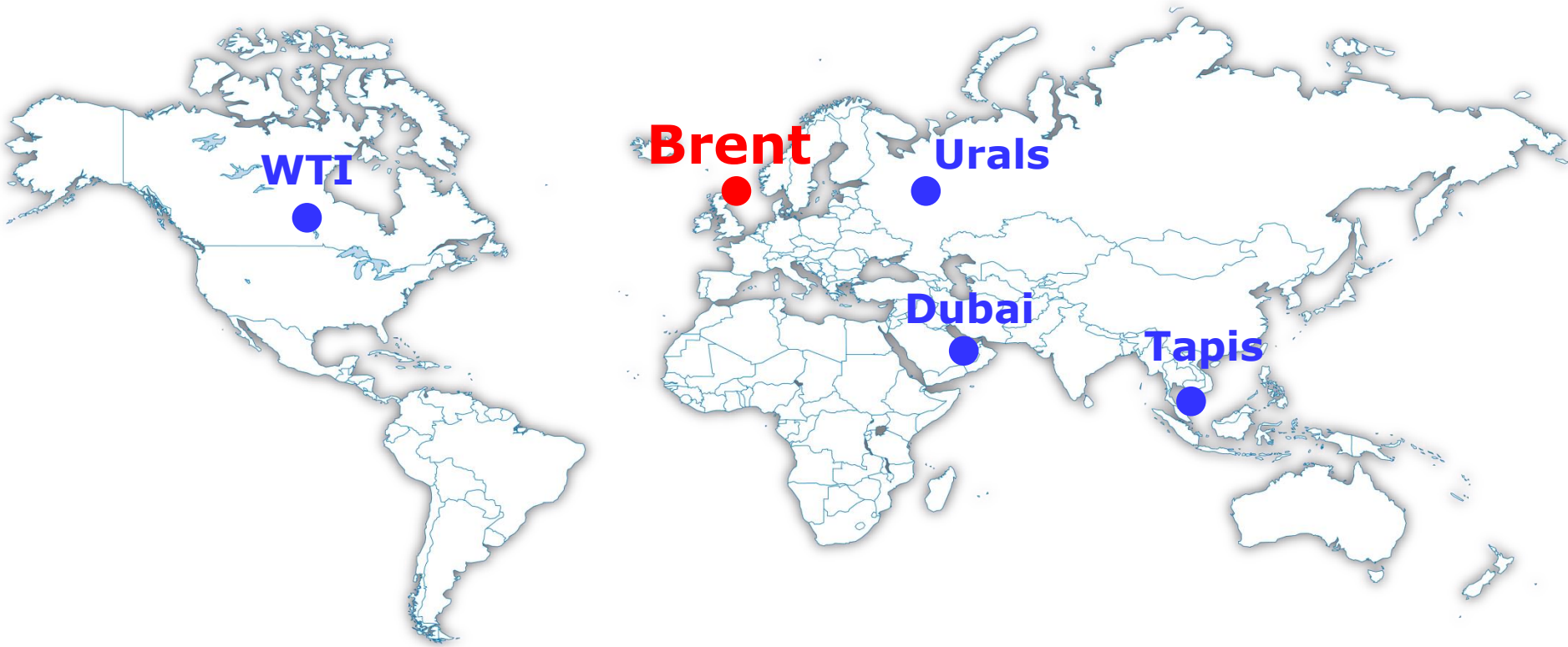
- Since late 80's oil traded as a commodity, with the number of paper traded volumes and number and type of operators strongly increased.



- Last summer uncertainty on the effect of chinese slowdown has been the main driver of oil price plunge.



Benchmark crude oils



Which Brent? Physical and Paper market

- The complex Brent market is a mixture of trading in physical barrels and trading in forward/future contracts.

SPOT MARKET

Dated Brent

assessment that reflects the price of physical Brent crude.

- reference point for 75% of the crudes around the world

FORWARD MARKET

Forward Brent

assessment of a transaction in the forward market.

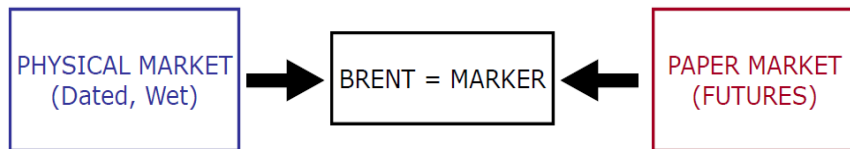
- commitment to supply or lift Brent during a specific month in the future
- informal market
- an elite market

FUTURE MARKET

ICE Brent

standardized futures contracts traded on a regulated exchange based on cash settlement and not on physical delivery.

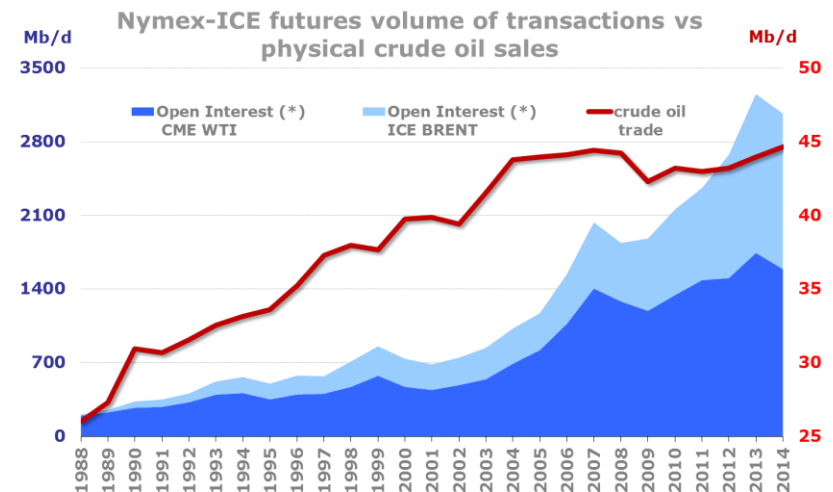
- broader range of participants
- price can be locked in advance (several months, or even years)



PRODUCING COUNTRIES
OIL COMPANIES
REFINERS
TRADERS
BROKERS

WALL STREET REFINERS
FINANCIAL OPERATORS
COMMODITIES TRADERS
RISK MANAGEMENT OPER.
OTHERS

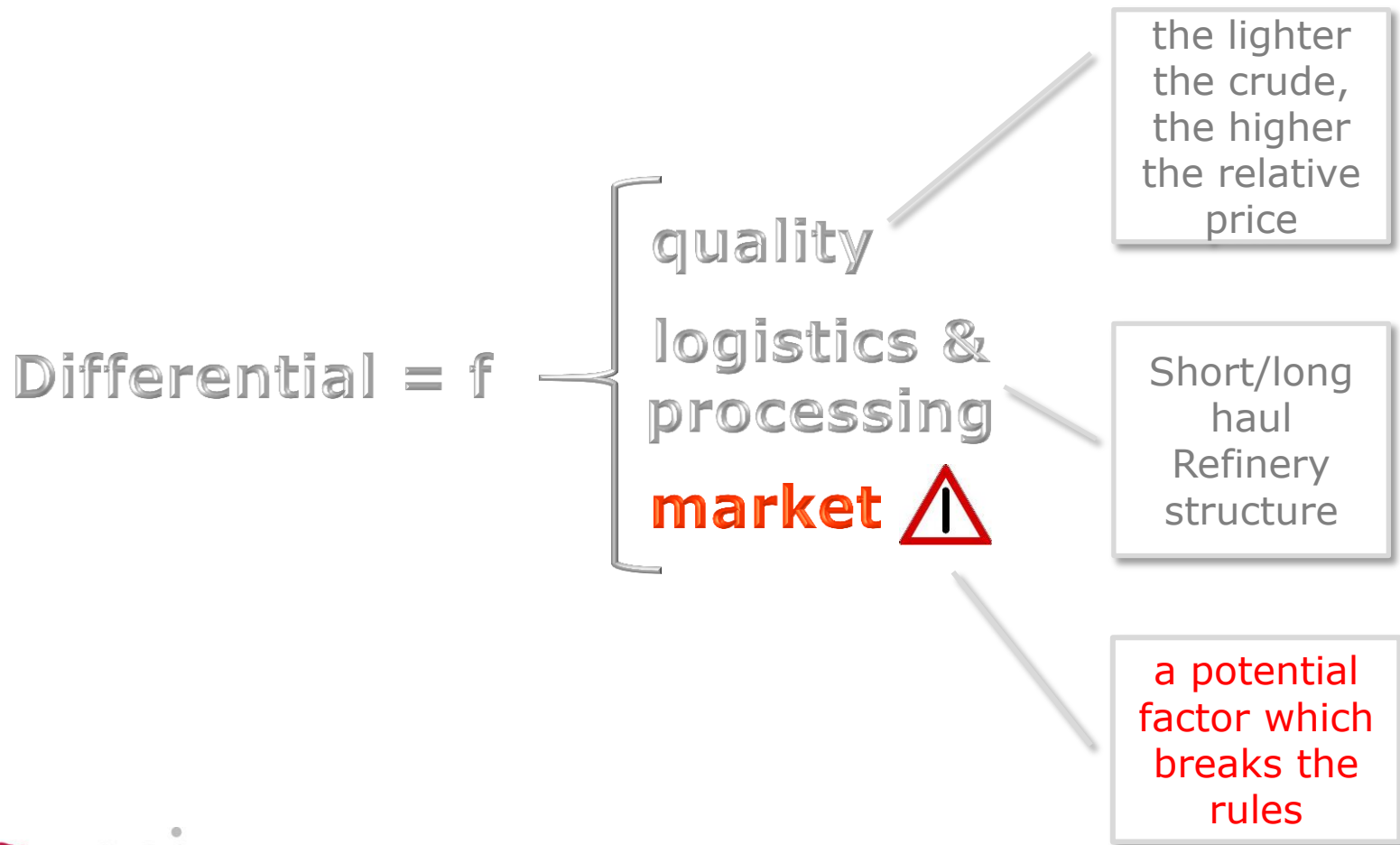
- Paper and wet barrels influence each other, but paper barrels are more important



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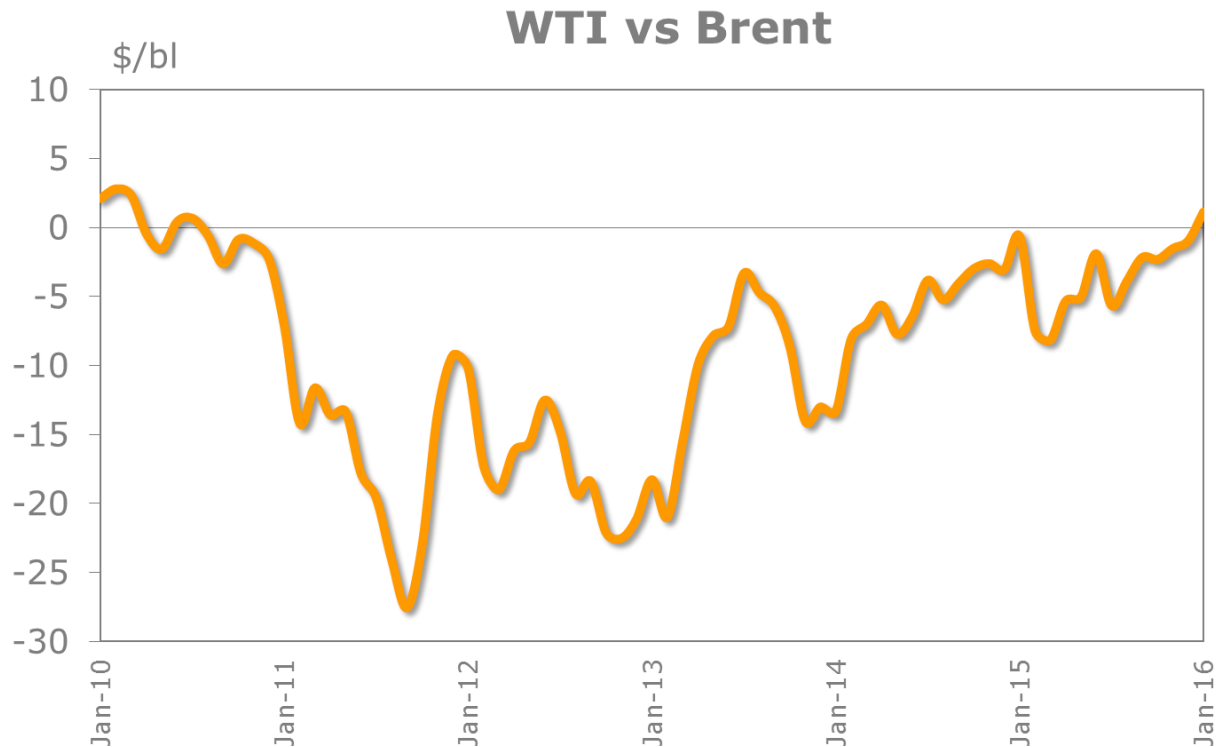
How to calculate the price of a crude oil

$$\text{Crude price} = \text{benchmark} \pm \text{differential}$$



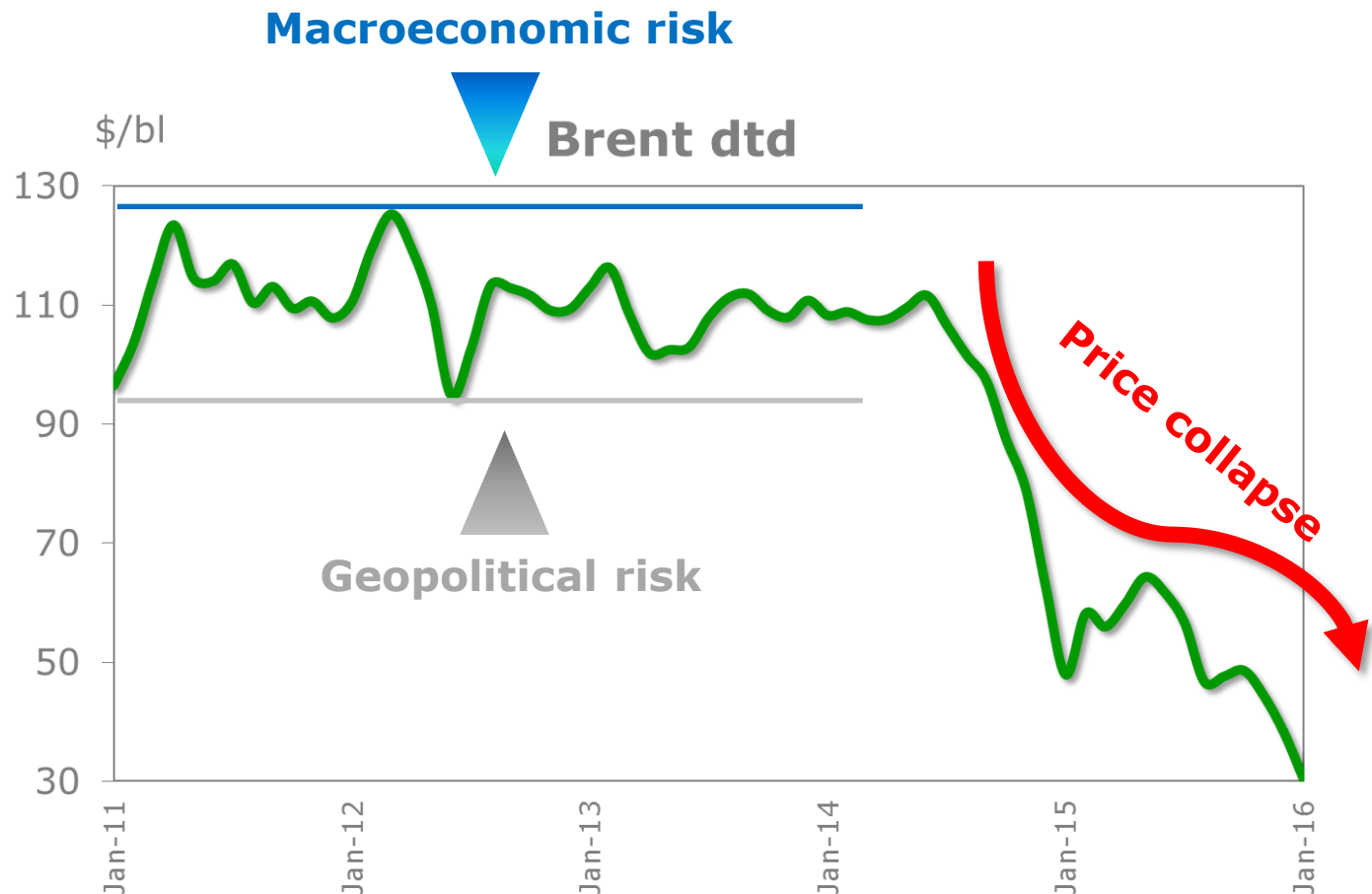
An example of a differential: WTI vs Brent

- WTI (US benchmark) which historically recorded a premium versus Brent saw its quality premium completely eroded by the huge increase of supply in USA and set a sharp discount (till 20 \$/b) in 2011-2013.



Oil price: 3 years in a range

- In the last few years, till the first half of 2014, oil price fluctuated in a range



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The last 18 months

