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The New Oil Order

Lower for longer to keep capital sidelined

Commodities Research

Shale is creating a new more dynamic margin of adjustment

E&Ps can conserve cash as impressively as they can spend it

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Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

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8. Once a 2H15 US supply growth slowdown is more certain and given the very high decline rates on US production, renewed Libyan disruptions and an already visible demand response in the US, we expect the market to rebalance with inventories drawing rapidly from 3Q15 onwards. To accommodate the substantial expected first half inventory build and using the storage arbitrage to the one-year ahead swap, we are revising down our 3-, 6- and 12-month price forecasts for Brent to $42/bbl, $43/bbl and $70/bbl, respectively, from $80/bbl, $85/bbl and $90/bbl, and for WTI to $41/bbl, $39/bbl and $65/bbl from $70/bbl, $75/bbl and $80/bbl. The later expected trough in WTI prices is due to excess US storage capacity.

9. A new industry will likely be born out of this environment with lower costs driven not only by cost deflation in other commodities, currencies, rig rates and oil services but also by substantial productivity gains created by engineers facing tighter margins.

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Exhibit 1: We now see prices staying lower for longer to keep capital sidelined
$/bbl

	WTI			Brent			WTI-Brent		
	New	Old	Forwards	New	Old	Forwards	New	Old	Forwards
1Q15	46.00	75.00	49.00	47.00	85.00	51.50	-1.00	-10.00	-2.50
2Q15	40.50	70.00	50.00	42.00	80.00	52.50	-1.50	-10.00	-3.00
3Q15	44.00	75.00	50.50	48.00	85.00	53.50	-4.00	-10.00	-3.00
4Q15	58.00	75.00	51.50	64.50	85.00	55.00	-6.50	-10.00	-3.50
1Q16	65.00	80.00	52.00	70.00	90.00	56.00	-5.00	-10.00	-4.00
2Q16	65.00	80.00	53.00	70.00	90.00	57.00	-5.00	-10.00	-4.00
3Q16	65.00	80.00	53.50	70.00	90.00	58.00	-5.00	-10.00	-4.50
4Q16	65.00	80.00	54.00	70.00	90.00	58.50	-5.00	-10.00	-4.50
2015	47.15	73.75	50.25	50.40	83.75	53.15	-3.25	-10.00	-3.00
2016	65.00	80.00	53.15	70.00	90.00	57.40	-5.00	-10.00	-4.25

Source: CME, ICE, Goldman Sachs Global Investment Research.