

Kazakstan Oil and Gas Report Q4 2010

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Abstracts

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The latest Kazakhstan Oil & Gas Report from BMI forecasts that the country will account for 4.13% of Central and Eastern European (CEE) regional oil demand by 2014, while providing 14.20% of supply. CEE regional oil use of 5.42mn barrels per day (b/d) in 2001 will rise to an estimated 6.02mn b/d in 2010. It should increase to around 6.68mn b/d by 2014. Regional oil production was 8.89mn b/d in 2001 and in 2010 will average a forecast 13.67mn b/d. It is set to rise to 14.44mn b/d by 2014. Oil exports are growing steadily because demand growth is lagging the pace of supply expansion. In 2001, the region was exporting an average of 3.47mn b/d. This total had risen to an estimated 7.65mn b/d in 2010 and is forecast to reach 7.76mn b/d by 2014. Azerbaijan and Kazakhstan have the greatest production growth potential, although Russia will remain the key exporter.

In terms of natural gas, the region in 2010 consumed an estimated 638.6bn cubic metres (bcm), with demand of 728.8bcm targeted for 2014, representing 14.1% growth. Production of an estimated 788.4bcm in 2010 should reach 936.4bcm in 2014, which implies net exports rising from an estimated 149.8bcm in 2010 to 207.5bcm by the end of the period. Kazakhstan's share of gas consumption in 2010 is an estimated 3.29%, while its share of production is put at 5.07%. By 2014, its share of demand is forecast to be 3.93%, with the country accounting for 6.84% of supply.

For 2010 as a whole, we continue to assume an average OPEC basket price of US\$83.00/bbl, +36.4% year-on-year (y-o-y). Risk is now clearly on the downside, thanks to the slow progress made during June. However, a full year outturn in excess of US\$80 remains a strong possibility and we see no need to review our assumptions at this point. The 2010 US WTI price is now put at US\$87.63/bbl. BMI is assuming an OPEC basket price of US\$85.00/bbl in 2011, with WTI averaging US\$89.74. Our central

assumption for 2012 and beyond is an OPEC price averaging US\$90.00/bbl, delivering WTI at just over US\$95.00.

For 2010, the BMI assumption for premium unleaded gasoline is an average global price of US\$95.45/bbl. The overall y-o-y rise in 2010 gasoline prices is put at 36%. Gasoil in 2010 is expected to average US\$93.23/bbl. The full-year outturn represents a 35% increase from the 2009 level. For 2010, the annual jet price level is forecast to be US\$95.90/bbl. This compares with US\$70.66/bbl in 2009. The 2010 average naphtha price is put by BMI at US\$83.53/bbl, up 41% from the previous year's level. BMI assumes that Kazakhstan's real GDP will rise by 7% in 2010 and we are forecasting an average annual increase of 7% in 2010-2014. Consumption growth should keep pace with the growing economy, but is unlikely to have much negative impact on export potential. We are forecasting that domestic oil demand will reach 276,000b/d by 2014. State-owned KazMunaiGaz (KMG) accounts for more than 10% of oil production and participates in joint venture (JV) projects with international oil companies (IOCs), which should deliver rapid volume growth after the Karachaganak field builds up to full output in excess of 200,000b/d. Expansion of the Tengiz field and activation of the offshore Kashagan project should push Kazakh production towards 2.05mn b/d by 2014. This implies that oil exports should rise from an estimated 1.42mn b/d in 2010 to 1.77mn b/d by the end of the forecast period.

Between 2010 and 2019, we are forecasting an increase in Kazakh oil and gas liquids production of 39.5%, with volumes reaching a peak of 2.40mn b/d in 2017/18, before falling to 2.35mn b/d by the end of the 10-year forecast period. Oil consumption between 2010 and 2019 is set to increase by 32.7%, with growth slowing to an assumed 5.0% per annum towards the end of the period and the country using 352,000b/d by 2019. Gas production should rise from estimated 2010 level of 40bcm to 77bcm by 2019. Gas demand rising 74.2% provides export potential increasing to 40bcm. Details of BMI's 10-year forecasts can be found in the appendix to this report.

Kazakhstan now holds second place, just behind Azerbaijan, in BMI's composite Business Environment (BE) ratings table, which combines upstream and downstream scores. It still occupies first place in BMI's updated upstream Business Environment rating, now two points ahead of neighbour Azerbaijan. Its oil and gas production growth outlook, asset immaturity, high reserves to production ratios (RPR) and competitive landscape work in the country's favour, but are undermined by a relatively unappealing risk environment. Kazakhstan is around the mid-point of the league table in BMI's updated downstream Business Environment rating, holding eighth place above Hungary. There are few particularly high scores, so progress further up the rankings

seems unlikely. The low level of retail-site intensity represents a strong suit, along with region-leading oil demand growth prospects.

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