

# Kuwait Oil and Gas Report Q4 2010

<https://marketpublishers.com/r/K0C1E82F8AEEN.html>

Date: October 2010

Pages: 84

Price: US\$ 1,295.00 (Single User License)

ID: K0C1E82F8AEEN

## Abstracts

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The latest Kuwait Oil & Gas Report from BMI forecasts that the country will account for 5.60% of Middle East (ME) regional oil demand by 2014, while providing 10.25% of supply. Regional oil use of 4.98mn barrels per day (b/d) in 2001 rose to 7.15mn b/d in 2009. It should average 7.42mn b/d in 2010 and then rise to around 8.38mn b/d by 2014. Regional oil production was 22.83mn b/d in 2001 and averaged 24.41mn b/d in 2009. After an estimated 24.86mn b/d in 210, it is set to rise to 26.67mn 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 17.85mn b/d. This total eases to an estimated 17.44mn b/d in 2010 and is forecast to reach 18.30mn b/d by 2014. Iraq has the greatest export growth potential, followed by Qatar.

In terms of natural gas, the region consumed 379.2bn cubic metres (bcm) in 2009, with demand of 481.4bcm targeted for 2014, representing 22.1% growth. Production of 407.2bcm in 2009 should reach 588.9bcm in 2014 (+26.2%), which implies net exports rising to 108.0bcm by the end of the period. Kuwait is set to consume an estimated 3.65% of the region's gas in 2010, with its market share forecast at 3.80% by 2014. It will have contributed an estimated 2.84% to 2010 regional gas production and by 2014 will account for 2.81% 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. Kuwait's real GDP is forecast by BMI to rise by 2.0% in 2010, followed by average annual growth of 2.3% in 2010-2014. We expect oil demand to rise from an estimated 423,000b/d in 2010 to 469,000b/d in 2014, lagging the underlying rate of economic expansion. State oil company Kuwait Petroleum Corporation (KPC) is responsible for all domestic oil and gas operations. In spite of the absence of nearterm international oil company (IOC) investment, crude production is forecast to increase from an estimated 2.50mn b/d in 2010 to 2.74mn b/d in 2014, subject to OPEC quotas. Gas production should reach 16.6bcm by 2014, up from an estimated 13.3bcm in 2010. Consumption is expected to rise from an estimated 14.4bcm to 18.3bcm by the end of the forecast period, requiring imports of 1.7bcm. Between 2010 and 2019, we are forecasting an increase in Kuwaiti oil production of 24.3%, with crude volumes rising steadily to 3.40mn b/d by the end of the 10-year forecast period. Oil consumption between 2010 and 2019 is set to increase by 18.8%, with growth slowing to an average 3.0% per annum towards the end of the period and the country using 557,000b/d by 2019. Gas production is expected to climb to 20.6bcm by the end of the period. With 2010-2019 demand growth of 64.3%, this provides an import requirement rising to 3.1bcm by 2019. Details of the BMI 10-year forecasts can be found in the appendix to this report.

Kuwait shares eighth and last place with Saudi Arabia in BMI's composite Business Environment (BE) ratings table, which combines upstream and downstream scores. The Gulf state now holds eighth place, above Saudi Arabia, in BMI's updated upstream Business Environment ratings, which is a surprising outcome in view of its vast oil and gas wealth. It is three points behind Oman and may ultimately be able to mount a challenge. Kuwait's score suffers from strict government control of the upstream industry, undermining the healthy resource position. Kuwait is in the lower half of the league table in BMI's downstream Business Environment ratings, with a few high scores and near-term progress up the rankings a possibility. It is ranked equal eighth and last alongside Bahrain, thanks to country risk factors that fail to counter the highly regulated and largely state-controlled industry.

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