Oil Market Update

Oil price drivers and the currency puzzle

Thina Margrethe Saltvedt
November 2010
Oil price drivers
Oil prices – expected to move up in the medium term, but may still face turbulence in the short term

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Year</th>
<th>USD per barrel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>58.62</td>
<td>68.66</td>
<td>74.55</td>
<td>88.53</td>
<td>72.59</td>
<td>USD per barrel</td>
</tr>
<tr>
<td>2008</td>
<td>96.31</td>
<td>122.79</td>
<td>117.15</td>
<td>57.49</td>
<td>98.43</td>
<td>USD per barrel</td>
</tr>
<tr>
<td>2009</td>
<td>45.72</td>
<td>59.90</td>
<td>68.87</td>
<td>75.54</td>
<td>62.51</td>
<td>USD per barrel</td>
</tr>
<tr>
<td>2010E</td>
<td>77.37</td>
<td>79.00</td>
<td>77.00</td>
<td>79.00</td>
<td>78.09</td>
<td>USD per barrel</td>
</tr>
<tr>
<td>2011E</td>
<td>81.00</td>
<td>85.00</td>
<td>87.00</td>
<td>90.00</td>
<td>85.75</td>
<td>USD per barrel</td>
</tr>
<tr>
<td>2012E</td>
<td>95.00</td>
<td>100.00</td>
<td>105.00</td>
<td>110.00</td>
<td>102.50</td>
<td>USD per barrel</td>
</tr>
</tbody>
</table>

- **Price too high?**
- **Price too low?**

**Baseline scenario**

**Forecast**

**High price**

**Low price**
Brent crude forward curve
November 2008, 2009 and 2010

Brent crude forward curve
Today, 3M, 6M and 1Y ago

Nordea
Less oil is found and field size becomes smaller, how do we adapt?

Reserve replacement - exploration

New oil discovered

Production

Source: Leif Magne Meling

Markets
Falling costs have counterbalanced fall in investments – but costs will soon start increasing again

Source: IMF and Reuters
Oil inventories and OPEC spare capacity at a robust level – but for how long?
Oil demand soon back at pre-crisis level...

Source: IEA
Oil demand growth in non-OECD – expected to rise with economic growth

Energy efficiency will reduce the need for oil in OECD countries

Source: IEA
Growing middle class and urbanisation in countries with large populations will lead to growing demand for energy.

Source: PIRA
The four game changers of 2010

1. Macondo
2. New power block emerging
3. Iraq
4. Shale gas
Oil prices and the currency puzzle
Correlation between oil prices, EUR/USD changes: inflation expectations, risk appetite and quantitative easing
The currency war and the oil importers: taxes and subsidies influence the FX pass-through

Reuters: IEA
Oil prices and the NOK

Higher oil prices may:

- influence the terms of trade
- increase demand for oil stocks – increase demand for the NOK
- increase economic activity in Norway, interest rate differentials and higher NOK
- Psychological effects: safer NOK

Source: Reuters and Norges Bank
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