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Oil supply crunch 'to hit in 2019' as investment in new projects dries up

2019 'marks a juncture where supply becomes a concern', Barclays analysts saidCREDIT: ALAMY

By Emily Gosden, energy editor
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An oil supply crunch could hit as soon as 2019 as investment in new projects dries up following the price crash, leading analysts have warned.

Delays and cancellations of projects by cash-strapped energy giants mean the volumes of new crude production coming onstream will not be enough to make up for the decline from existing fields and meet growing demand, Barclays analysts said in a research note.

They forecast that 2019 would see the "the lowest year for new capacity" on their records, which stretch back to the Nineties, with just 1.2m barrels per day (bpd) of new supply.

By contrast, decline from existing fields and growing demand would together equal 4m bpd, resulting in a gap of almost 3m bpd.

"2019 marks a juncture where supply becomes a concern. With current volatility and oil price uncertainty, project sanction approval continues to be difficult," they wrote.

Energy giants have slashed investment in new projects due to the low oil price CREDIT:REUTERS

The analysis comes after the International Energy Agency last week warned that the world was headed for another boom and bust cycle in the oil market, with supply shortages likely to cause rapid price increases by the early 2020s.

The IEA said that if project approvals remained at current lows through 2017, it was "increasingly unlikely that supply will be able to meet the rising demand without rapid price increases".

The Barclays analysis is even starker, suggesting that a supply crunch in 2019 may already be unavoidable.

Given long lead times for many projects that it is monitoring "no decision now makes 2019-20 start-up an impossibility", the analysts warned.

"Inventories could help fill the gap, as will the phased ramp-up of onshore developments and shorter development brownfield, but by then we feel it is not a question of the US shale ramping back up, but how much it can produce to fill the gap and how high an oil price is needed," they said.

Oil prices have rallied to near to $50 a barrel for Brent crude in recent days on rising optimism that Opec will agree new production curbs at a meeting in Vienna next week, helping to rebalance the market from the current supply glut.

But the Barclays analysis suggests that regardless of whether Opec decides to cut next week the fundamentals are tightening and that an increase in production by the cartel may actually be needed within the next couple of years to fill a looming gap.

Ole Hansen, head of commodity strategy at Saxo Bank, said: "Crude oil has rallied strongly, despite headwinds from a rising dollar, in response to increased speculation that

Opec will finally succeed in reaching a deal to cut production on November 30. The latest move once again highlights the cartel's role as a major driver of oil market volatility.

"On the assumption a deal to cut production by a minimum of 800,000 barrels can be struck we could see Brent crude oil once again challenge the ceiling around $54 per barrel."

However, he warned: "The initial move would be driven by short-covering and once that is done the market may pause and retrace in the realisation that Opec's ability to comply with its own production targets have been very poor in recent years."