KERATAN AKHBAR

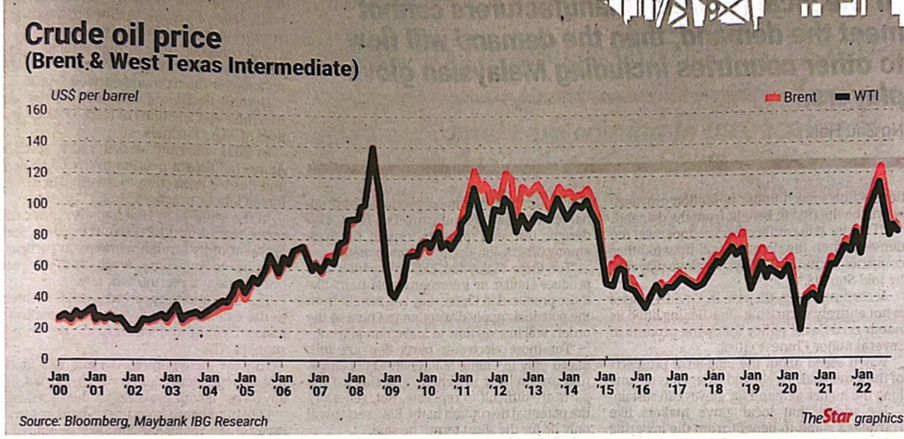
TARIKH : 27 DISEMBER 2022

AKHBAR : THE STAR

MUKA SURAT : 1 & 2

Oil remains on upward pressure

StarBiz Special



Source: Bloomberg, Maybank IBG Research

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Oil remains on upward pressure

Malaysia, as a net exporter, to gain from the high price

OIL AND GAS

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PETALING JAYA: Oil and gas (O&G) analysts and economists are projecting oil prices to remain firm at between US$83 (RM367) and US$127 (RM561) next year, fuelled by rising demand from China, upsurge in air travel worldwide and the prolong Russia-Ukraine war.

On the supply side, they expect global tightness in the oil market to continue and the Organisation of Petroleum Exporting Countries and its allies (Opec+), among others, to maintain oil price at elevated levels.

Malaysia, as a net exporter of the commodity, would stand in good stead as it would not only improve the country's fiscal position and the government's balance sheet but also spur O&G activities, they opined.

"The rising demand for crude, especially from China reopening its economy, and the increase in air travel worldwide would lead to higher oil prices."

Liaw Thong Jung

Maybank Investment Bank regional co-head, oil and gas research Liaw Thong Jung told *StarBiz* that he expects the oil market to remain strong in 2023, adding that he is looking at US$100 (RM442) per barrel for international benchmark Brent crude, similar to 2022.

As at press time, the international benchmark Brent crude was up 4.15% to US$84.34 (RM373 per barrel).

"The rising demand for crude, especially from China reopening its economy, and the increase in air travel worldwide would lead to higher oil prices," he said.

> TURN TO PAGE 2

Elevated commodities prices will help government in pursuing reforms

> FROM PAGE 1

He added that on the supply side, there appears to be no new sizeable production coming into place, with existing fields facing natural depletion due to the structural under-investment in the past.

"The role of Opec+ as a swing producer's priority will be to keep oil prices high, at the expense of higher production. They will be able to manage output expectations.

"Also, shale is not making a comeback in a big way akin to the 2008-2020 days. Their priority is to reward shareholders and to generate cash flows over increasing production.

"Financing on O&G is also a bigger challenge now versus the previous cycle," Liaw said.

The Opec+ group, led by Saudi Arabia and Russia, has decided to leave its production quotas unchanged.

The group would stick to the earlier agreed October 2022 plan to cut output by two million barrels per day (bpd), which amounted to an effective production cut of one million bpd (with Russia and Saudi Arabia sharing the output cut equally) from November 2022 until end-2023.

The group's next meeting is scheduled in February 2023, with the one after on June 4, 2023.

Juwai IQI global chief economist Shan Saeed said as the global economy remains in a fragile state amid recession in many advanced economies, coupled with stagflation in vogue in many first world economies with monetary lever getting stretched, commodities are back on the investors radar, especially oil and natural gas market.

"In my opinion, higher oil and natural gas prices would boost the economic outlook for many countries like Malaysia, Canada, Brazil, Gulf Cooperation Council and African region. We at Juwai IQI expect oil prices to meander around US$83 (RM367) to US$127 (RM RM561) per barrel.

"Key drivers for higher oil prices in 2023, among others, will be the depreciating US dollar, geopolitical risk, oil supply constraints and stronger demand for the commodity. Global daily demand is estimated to hover around 97 million to 103 million bpd next year.

"Apart from this, the backwardation phase in the oil market is expected to remain next year," he added.

Backwardation is when the current price, or spot price, is higher than prices trading in the futures market.

For this year, Shan said he expected oil prices to be at between US$77 (RM340) and US$110 (RM486).

Many global oil players like Bank of America, UBS, JP Morgan, Goldman Sachs expect oil prices to stay high in 2023 due to supply constraints and geopolitical risk.

Bank Islam Malaysia Bhd chief economist Firdaos Rosli, who is projecting Brent crude to hover at around US$86 (RM380) per barrel in 2022 and US$87 (RM385) per barrel in 2023, agrees that global oil prices would remain elevated in 2023 amid the prolonged Russia-Ukraine military conflict and China's easing of zero-Covid policy.

"Although moderating global growth may eventually suppress oil demand and prices, worldwide oil prices may still face upward pressure due to the two factors.

"Perhaps more so if economic sanctions on Russia become more widespread. China's economic reopening may push oil demand higher, despite the timid response from the Chinese as infection increases during the winter season," Firdaos noted.

On the downside risks for the oil market, Juwai's Shan said this would depend on the Federal Reserve's (Fed) decision to continue with increasing interest rates, slower demand from China in the energy market and a slowdown and a possible peaceful settlement in the Russia-Ukraine conflict.

Maybank Investment's Liaw foresees the challenge in the oil market to be geopolitical risk, noting that the looming recession would be another risk that may affect consumption and demand for oil.

As for Malaysia as a net exporter of oil, he said higher oil price is positive for the country and Petroliam Nasional Bhd, as the latter would be in a position to make higher payment and dividend payout to the government.

He said this would also lead to higher capital expenditure (capex) that would lead to increased O&G activities.

Shan said higher crude and commodities prices would help the government in pursuing structural and economic reforms and expansionary fiscal policy to support the economic momentum. It would also bolster the government's balance sheet.

"At Juwai IQI, we expect Malaysia's gross domestic product growth for 2023 to be around 4% to 5%, with consumption and investment to become the key driver of economic trajectory," he said.

Bank Islam's Firdaos said as a net exporter of crude oil, Malaysia would continue to benefit from elevated energy prices in 2023 and it would provide the necessary fiscal buffer in the year.

However, it is imperative for the country to reduce its reliance on commodities trade due to the price volatility nature of these goods.

"Uncertain economic conditions would mean oil-related revenues will also follow a similar pattern, so the government needs to diversify its revenue sources to ensure long-run fiscal sustainability.

"Perhaps the right thing to do is to start managing public expectations to prepare the country for the eventual revenue-side reforms in the near future," he said.