

Press Release

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Falling crude, LNG, coal prices huge positive for India

CRISIL Research, India's largest independent and integrated research house, believes that prices of crude oil, thermal coal and liquefied natural gas (LNG) will be under pressure in the long term because of structural shifts like surge in supplies, move to alternate fuel, and slowing demand. This is a huge blessing for India, since energy imports accounted for 36 per cent of its total imports last fiscal.

Between fiscals 2009 and 2014, India's energy import bill surged at an average 14 per cent annually to \$161 billion. We now expect this to rise only 1.6 per cent annually to \$175 billion by 2019 because prices of the three commodities are forecast to decline. Subdued prices will also help curb oil subsidies.

"In the last fifteen years, rising prices encouraged significant investments in the oil & gas and mining. Globally, investments in oil & gas exploration and production more than doubled to \$5.7 trillion between 1998 and 2013, vis-a-vis the previous fifteen years. This led to reserve accretion increasing by 1.6 times to 626 billion barrels of oil equivalent over 1998-2013 period" said Mukesh Agarwal, President, CRISIL Research. Over the next five years, significant supplies of oil are expected from the US, Canada, Brazil and Iraq [6-7 million barrels per day (mbpd), or about 8 per cent of demand in 2013]. Similarly, incremental thermal coal supplies of 1,000 million tonne (17 per cent of global demand in 2013) are expected, primarily from Australia and Indonesia.

The demand growth for oil is expected to be subdued at 0.8-1.0 per cent over 2014 to 2018 (compared with 1.2 per cent in the last five years) because of increasing energy efficiencies in North America and Europe, slower growth in China and a shift towards alternative fuels. Slowing economic growth in China and India will mean global demand for coal staying subdued at 3.2 per cent over the next five years (against 3.9 per cent in the last five years), leading to pressure on prices. Similarly, LNG demand is also expected to be muted due to lower requirement in Japan and India.

CRISIL Research expects Brent crude to decline to \$90-100 per barrel by 2018 from \$109 in 2013, while thermal coal is seen at \$77-82 per tonne compared with \$84 in 2013. Spot LNG is forecast at \$13-14 per mmbtu from \$15 per mmbtu in 2013 – all because of improved supplies and relatively subdued demand.

"Unlike past conflicts, fresh supplies from the US have offset supply disruptions because of tensions in Middle East and North Africa, and prices have not breached \$117 per barrel this year. Also, with OPEC spare capacity projected to more than double to 8 mbpd over 2013 to 2018, the impact of geopolitical tensions on oil prices will be even lesser and this is a seismic shift," said Prasad Koparkar, Senior Director - Industry and Customised Research, CRISIL Research. Thermal coal and LNG prices, on the other hand, have been muted despite rising costs because of rising supplies amid weak demand.

Media Contacts	Analytical Contacts
Tanuja Abhinandan Communications and Brand Management CRISIL Limited Phone: +91 22 3342 1818 Mobile: +91 98 1924 8980 Email: tanuja.abhinandan@crisil.com	Prasad Koparkar Senior Director, Industry and Customised Research CRISIL Research Tel: +91 22 334 23137 E-mail: prasad.koparkar@crisil.com
Jyoti Parmar Communications and Brand Management CRISIL Limited Tel: +91 22 3342 1835 Fax: +91 22 3342 3001 E-mail: jyoti.parmar@crisil.com	Rahul Prithiani Director, Industry Research CRISIL Research Tel: +91 22 334 23574 E-mail: rahul.prithiani@crisil.com

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