

ECONOMIC NEWS

The Drop in New Oil Discoveries Confirms That Last Year's Prices Were Unsustainable

Last week, the International Energy Agency (IEA) disclosed that new discoveries of conventional oil reserves had plummeted to a historic low of only 2.4 billion barrels in 2016, compared with an average of 9 billion barrels in the previous 15 years. What's more, sanctioned conventional drilling projects have tumbled 30% to a 70-year low. The IEA is warning that this downtrend could continue this year.

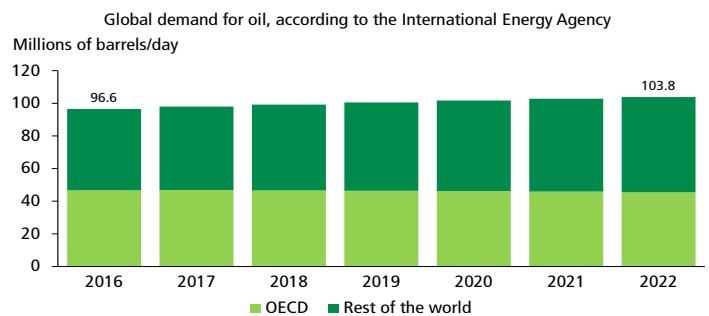
This sharp drop in oil discoveries is a concern, especially amid signs that global demand will keep rising at a good pace in the medium term. New technologies have enabled demand for oil to stabilize in advanced countries, and it could shrink significantly if a genuine movement toward electric cars ever takes hold. That said, demand for oil is poised to increase rapidly in several emerging countries, like India, where oil consumption per capita remains very low. As such, the IEA's medium-term forecasts call for global demand to rise by 7.3 mbd (million barrels per day) by 2022.

As oil price rise over the past year should not be enough to trigger a strong resurgence of investment in the conventional oil industry, shale oil production will have to expand to ensure the global oil supply. The news on this score is encouraging; the industry in the United States seems to once again be humming at full capacity. Compared to its low point, U.S. output is already up by about 0.8 mbd, and the surge in drilling suggests that this increase will continue.

IMPLICATIONS

The drop in the discovery of new oil reserves confirms that the oil price correction, which peaked in early 2016, was greatly exaggerated. Oil prices deeply below US\$50 a barrel and a lack of investments in the oil industry would quickly create an oil shortage. At a minimum, oil prices will have to remain high enough in the medium term to stimulate shale oil development in the United States. Whether the run-up in unconventional oil

GRAPH Demand for oil will continue to climb, especially in emerging countries



OECD: Organisation for Economic Co-operation and Development
Sources: International Energy Agency and Desjardins, Economic Studies

will be enough to offset the potentially persistent weakness in conventional oil remains to be seen.

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