



FUTURE WORLD ENERGY OUTLOOK AND GLOBAL OIL INDUSTRY

September 2019 was marked by an important milestone in the global oil industry when oil and gas stocks' weighting in the S&P 500 fell to the record low in 40 years since 1979. Exxon Mobil, one of the major oil companies, fell out of the top ten stocks of the S&P 500 for the first time in nine decades. In overall terms, we can observe that oil companies are gradually losing their positions to high technology stocks. Thus, over the past five years, the five largest information technology stocks of Apple, Alphabet, Facebook, Microsoft and Amazon generated 30% of the S&P 500 return. In the first half of 2019, the stock returns of the energy sector were only 13.1%, which is worse than all other 11 sectors except health care and during the last 12 years it hit the bottom of the list three times.

The current decline cycle of the energy sector's stock lasts since 2008 and shows signs of a further downward movement. Similar trends of the sector are present in other indices as well such as NASDAQ, Dow Jones and Russell 2000. However, it is important to bear in mind that oil prices and stock markets are much more sensitive to very short-term factors and events and, in general, do not respond as quickly to longer-term forecasts and robust data on demand and supply projections. Instead, stock markets mostly reflect amplified expectations and reactions of investors to current and near-future events.

One of the factors that produces a real downward pressure on the oil market is the ongoing trade war between the United States and China, which are both major players in the global oil market accounting for more than one fifth of the world's oil supply and 38% of its total demand, respectively. The U.S. domestic political tensions coupled with constant pressure on fossil fuel and rising environmental concerns also make investors to lose their faith in the traditional energy sector. However, it is important to acknowledge

that the current decline cycle of the oil sector is a rather long process that began long before the current geopolitical disruptions generated by the U.S.-China trade war and other events. Although the current drop of energy sector stocks might be a short-lasting swing propelled by low oil prices, a relative slowdown of stocks of the traditional oil sector against practically all other sectors throughout more than a decade provides more reasons to expect a further continuation of the process.

On the other hand, we have to admit that the volatility around the oil industry is not an adequate representation of the real situation in the oil market. The fundamental market factors like supply, demand and the stock volume are not capable of showing rapid changes since they are composed of an enormous amount of predetermined factors. Thus, the projections based on real data show that the supply side of the oil market will increase in the mid-term and long-term perspectives. In particular, oil supply is likely to rise from current 101 million barrels per day (mb/d) to 107.6 mb/d by 2030 and reach 111.3 mb/d in 2040. The most significant factor of the supply change in the short-term perspective is the soaring production in the United States, which is expected to peak by 2025. Moreover, the eventual increase in supply is expected to come from OPEC countries.

As for the global oil demand, its growth remains solid, although the rate at which it grows is slowing down gradually. The global oil demand is expected to keep increasing throughout the next couple of decades along with the overall world primary energy demand. According to the World Oil Outlook 2040 by OPEC, the global oil demand measured in million barrels of oil equivalent per day (mboe/d) is projected to reach 92.3 mboe/d by 2020, 97.9 mboe/d by 2030 and 100.7 mboe/d by 2040. Although oil presents

the second slowest demand growth projections after coal, with renewables being the leading energy source in terms of a forecasted demand growth, oil demand is likely to remain positive throughout the next two decades. Currently, oil is the most common fuel source accounting for nearly 31% of the global fuel shares whereas that of renewables is only 2.2%. By 2040, this indicator for oil is expected to drop to 27.1% and the share of renewables would more than double reaching 5.4%. Hence, the forecasts show that even two decades from now oil is likely to retain its leading position in the fuel market accounting for more than one fourth of it. The main factors driving the demand are rampant demographics in developing countries, their GDP growth, a rising number of vehicles in most parts of the world, as well as limited capacities of the majority of countries to adopt to new environmental standards.

Although the energy market's behavior follows a cyclical pattern, the current downturn of the oil industry is an important manifestation of a change of perception of the traditional energy sector and the oil industry, in particular. The actual projections of the oil market do not give reasons to expect drastic changes in the demand and supply sides of the market in the short-term and mid-term perspectives. Hence, there are no reasons to expect a collapse of the traditional energy sector. However, it is highly important to note that the oil market is rapidly losing its attractiveness for investments as new high-tech and knowledge intensive sectors start taking the lead in terms of investment returns. This fact should be taken as a warning sign for countries that are highly reliant on oil because under these conditions, the oil sector is no more a heaven for investors, and more efforts will be required to ensure an inflow of investments.

Politics, Foreign Affairs, and Security

- Baku hosted the 7th Summit of the Cooperation Council of Turkic Speaking States. During the event that coincided with the 10th anniversary of the organization, Uzbekistan was accepted as its new full member. The parties discussed issues of mutual multilateral cooperation in the political, economic and cultural spheres, and expressed support to Turkey's Peace Spring operation in Syria (Turkic Council, 15.10.2019).
- The 12th Republic of Korea-Central Asia Cooperation Forum was held in Nur-Sultan. During four panel sessions, government officials, representatives of national companies and experts discussed prospects for developing cooperation in management and use of water resources, technical standardization, green energy and information technology and adopted an action plan for 2020 (MFA of Kazakhstan, 16.10.19).
- The IAEA Low Enriched Uranium Bank located at Kazakhstan's Ulba Metallurgical Plant accepted the first shipment of uranium hexafluoride from France's Orano Cycle. Kazatomprom is expected to supply the second shipment by the end of 2019. A reserve of 90 tons of nuclear fuel will be used in case if any IAEA member state is unable to procure fuel at commercial markets for political reasons (IAEA, 17.10.2019).
- The lower house of Tajikistan's parliament approved the ratification of the agreement between the CIS member states on the use of joint groups of experts in response to security threats on the CIS external borders. According to the country's border guard officials, the situation on the Tajik-Afghan border has aggravated, increasing a risk of infiltrations by terrorist groups and armed smugglers (Asia-Plus, 16.10.2019).
- The Azerbaijani Naval Forces organized a tactical exercise on the protection of energy infrastructure in the territorial waters of Azerbaijan in the Caspian Sea. The purpose of the exercise was to improve the interoperability of naval tactical groups during the planning and conduct of combat operations (Trend, 17.10.2019).
- OSCE and the Academy of the Armed Forces of Uzbekistan organized an international conference themed "The Present Day Military Conflicts: Content and Lessons Learned" in Tashkent. More than 200 representatives of international and regional organizations, research centers and military educational institutions attended the event to discuss the nature of modern military conflicts and measures for their prevention (OSCE, 18.10.2019).
- The 18th meeting of heads of special services, security agencies, and law-enforcement organizations, including the UN counter-terrorism agencies, was held in the Russian city of Sochi. Participants from around the world discussed ways to enhance pragmatic and innovative international cooperation in the fight against terrorism and other evolving threats (UN, 17.10.2019).

Economy, Finance, and Energy

- The first meeting of the Kazakhstan-U.S. high-level commission on economic cooperation held in Washington focused on the implementation of joint investment and commercial projects. The parties also identified promising areas of bilateral cooperation, including in agriculture, energy, industry, high technology, tourism and the commercialization of space, and noted significant potential for increasing Kazakh exports to the U.S. market (MFA of Kazakhstan, 18.10.2019).
- The 7th China-Central Asia cooperation forum themed «Connect Cooperation by Land and Sea, Empower Development with Innovation» was held in the Chinese city of Nanning. The three-day event focused on cooperation within the Belt and Road Initiative and smart city projects, as well as in such fields as international logistics, e-commerce and satellite navigation systems (Xinhua, 18.10.2019).
- The 71st meeting of the CIS Council for Rail Transport was held in Minsk. Participants discussed such issues as the coordination of activities of the CIS member states in international passenger and cargo transportation, the joint use of freight cars and containers, mutual payments for transportation services, and the development of common regulatory documents (Belarus24.by, 15.10.2019).
- Ravon cars produced by UzAuto Motors ranked fourth in the list of five best-selling car brands in the market of Kazakhstan. In particular, Ravon R3 was recognized as the second most popular model overtaking most South Korean and Russian models. Ravon accounted for more than 8% of 6,641 cars sold in Kazakhstan in September 2019 (Kun.uz, 16.10.2019).
- The Russian Ministry of Finance plans to introduce an experimental tax regime for self-employed migrants from the CIS countries outside the Eurasian Economic Union. If approved, labor migrants from Azerbaijan, Moldova, Tajikistan, Ukraine and Uzbekistan will pay a reduced tax instead of obtaining a more expensive work patent. The new tax regime is expected to attract more migrants to Russia to compensate for labor shortage (Izvestiya, 14.10.2019).
- The Turkmen-Iranian business forum held in Ashgabat brought together government officials and businesspeople, including representatives of 38 Iranian companies. The purpose of the event was to present the economic potentials of Turkmenistan and Iran and help establish productive ties between their private sectors. In 2018, trade between the two countries reached \$560 million (Business Turkmenistan, 16.10.2019).
- According to the International Monetary Fund's World Economic Outlook report, the economy of Azerbaijan will continue to grow in 2019 and 2020. According to the forecast, the country's GDP growth, which equaled a mere 1% in 2018, will reach 2.7% in 2019 and will slow down to 2.1% in 2020 (Trend, 20.10.2019).

Society and Culture

- According to the World Bank, poverty rates in Central Asia continue to decline, but the pace of poverty reduction is slowing due to a number of factors, including the prevalence of unemployment and low-paid jobs, especially in rural and remote areas. The bank recommends policies aimed at expanding employment opportunities, encouraging faster wage growth and supporting vulnerable groups (World Bank, 17.10.2019).
- Georgia ranks 39th among 177 countries in the Global Hunger Index with a score of 9.2, which means a low level of hunger. At the same time, Georgia's neighbors demonstrate better results in the annual index, which measures hunger globally, as Turkey is on the 17th position, while Russia, Azerbaijan and Armenia rank 22nd, 29th and 30th, respectively (Agenda.ge, 15.10.2019).
- The Armenian government approved a proposal to sign a €10 million grant agreement with the French Development Agency. Funds will be spent on agricultural projects to be implemented in the Ararat and Armavir provinces that envisages the upgrade of irrigation infrastructure, land consolidation, and support to the establishment of cooperatives (News.am, 17.10.2019).
- According to the 2019 Women, Peace, and Security Index that ranks 167 countries on women's equality, the living environment for women in Tajikistan are worse than in other Central Asian countries. In the index headed by Norway, Tajikistan ranks 96th, while Kazakhstan leads the regional ranking, occupying the 43rd position (National Geographic, 15.10.2019).
- According to the ranking composed by Quacquarelli Symonds, two universities of Kyrgyzstan have been included in the list of 350 best universities in developing countries of Europe and Central Asia. The American University of Central Asia ranked 163rd, while the Kyrgyz-Turkish Manas University is on the 190th place (Kabar, 16.10.2019).
- The fourth international festival of documentary films of the Turkic World was held in Almaty. The event featured the best works devoted to relevant social, cultural, spiritual and socially significant topics from the Turkic states, as well as from Bosnia and Herzegovina, Hungary, Macedonia, and Cyprus. The festival was organized by the Federation of Journalists of the Turkic World and the Al-Farabi Kazakh National University (Kazinform, 19.10.2019).
- The OSCE and the International Center for Journalism MediaNet co-organized a seminar on the protection of freedom of expression and policies to counter disinformation and fake news on the Internet in Nur-Sultan. Participants from government agencies, civil society, and the diplomatic corps learned how to verify the authenticity of information and reduce the potential harm from destructive online behavior, such as trolling, cyberbullying, and hate speech (OSCE, 18.10.2019).