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Oil prices to increase, implications for Uganda

According to the most recent forecast from the US Energy Information Administration's, crude oil price are forecasted to average \$54.1 per barrel in 2018, a \$2.5 increase from the 2017 price of \$52.4 per barrel. Oil price has risen by more than 140% since the January 2016 collapse that saw oil prices drop to \$21.5 and is up 35% over since the July 2017 price of \$38.8. The oil price increase will largely depend on production cuts, planned to end in March 2018, and a modest increase in international demand. OPEC production caps have helped to clear a global supply overhang and drain stockpiles of crude oil, which has recently intensified speculative bets on oil prices.

This increase is likely to see an intensification of investments in oil and gas activities, especially in new emerging oil producers such as Uganda. Uganda expects a total investment of \$20b in exploration and production, refinery, pipeline and supportive infrastructure. Such investment are expected to create more than 300,000 direct, indirect and induced jobs.

Uganda has close to two billion barrels of recoverable oil in the Albertine Graben and projects to start production by 2021. At peak production, Uganda will produce about 230,000 barrels per day with an estimated revenue of \$43b over 25 years.

However, supply-side factors such as a robust US shale oil activity may limit future price gains. Particularly, OPEC monthly oil review forecast that world oil demand will increase by 1.3 million barrels per day in 2018 from a 2017 demand of 97 million barrel per day, which translate into a supply gap of just 0.1 million barrel per day. Also, if the oil price rally is due to speculation and the current fundamentals do not justify this kind of strength, then prices may self-correct by at least 10 to 15% over the first quarter of 2018. This calls for diversification of economic activities among oil producers such as Uganda.

Nevertheless, the World Bank's commodity forecast provides a more favourable long term oil price outlook of \$80 by 2030.

The strong market fundamentals suggest an increase in investments on Uganda oil and gas industry from 2018 and beyond.

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