

25 September 2020

## This Week

This week has been a mixed bag for the sector, with a range of factors providing contrary pressures. On balance, prices have generally advanced as inventory data offset the persistent concerns surrounding Covid-19's potential impact on future demand.

Crude and distillate inventories have posted significant declines internationally, underlining the impact that OPEC+'s moves to limit supply is having on the global supply/demand balance.

Post-it Note estimates suggest that 3 – 6 months of continued OPEC+ restraint will be needed for inventories return to more normal seasonal levels, which should then see some of the downward pressure on prices eased. However, remain significant.

Mercuria has warned that demand is still weak, and not bouncing back as quickly as expected. It is therefore, unsurprising that prices were undermined in the face of growing concerns that OPEC+ will press on with its planned production increases.

The most significant variable, however, remains Covid-19, with this week seeing a number of governments issue stark warnings of a stiffer response to growing infection numbers, in some cases warning of a second lockdown.

Here, however, is where Covid-19's impact is unlikely to be universal. As the northern hemisphere winter approaches, we are expecting the increase in "working from home" to drive up demand for gas for central heating and power, offsetting the decline due to lower office occupancy.

Rig rates have continued their recent declines, and although there is a sense that we are arriving at a nadir, the bigger question, in the near term at least, is how quickly they will recover.

If the above is any reflection of what is to come, it would appear unlikely that there will be a rapid recovery, and in fact, there could yet be more pain.

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## Fingertip Figures

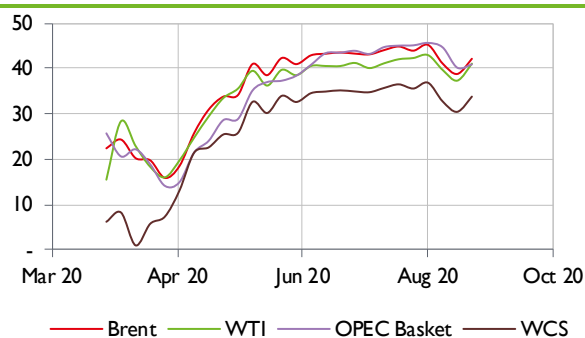
Table 1 – Commodity Prices

Item	Price	1 Week Change (Net)	(%)
<b>Crude</b>			
Brent (\$/bbl)	41.93	2.39	6.04%
WTI (\$/bbl)	40.31	2.03	5.30%
OPEC (\$/bbl)	41.40	(0.67)	(1.59%)
WCS (\$/bbl)	31.96	2.03	6.78%
<b>Natural Gas</b>			
Henry Hub (\$/mm btu)	2.90	0.32	12.50%
NBP (p/therm)	39.46	(0.04)	(0.10%)
JKM (\$/mm btu)	5.35	0.06	1.13%
PSV (€/MWh)	11.94	0.17	1.43%
De Gas Pool (€/MWh)	13.56	(0.05)	(0.40%)
<b>Currencies</b>			
GBP (\$/£)	1.272	(0.014)	(1.07%)
EUR (€/\$)	1.164	(0.021)	(1.77%)
JPY (¥/\$)	105.5	(0.005)	(0.00%)
NOK (Nkr/\$)	9.584	0.539	5.96%
RUB (R/\$)	77.34	2.294	3.06%

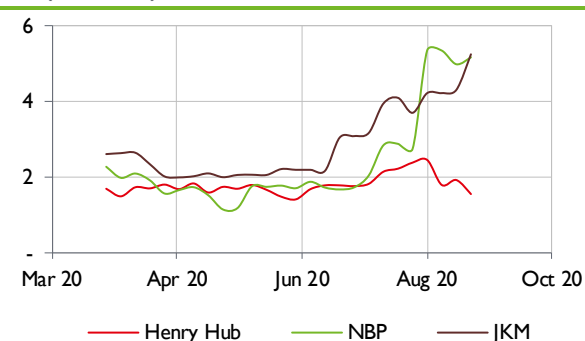
Source: FactSet & OGA data

Figure 1 – Commodity Charts

Oil (\$/bbl)



Gas (\$/mm btu)



Source: FactSet & OGA data



Oil & Gas Advisors

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## Oil Market

### Summary

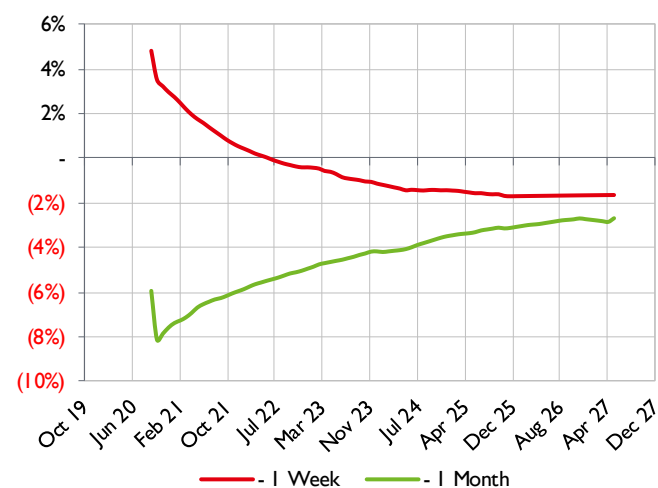
As you would imagine, short-dated forwards have followed spot prices, strengthening as the near-term outlook for immediate demand has recovered (Figure 4 – Brent, Figure 5 – WTI), driven principally by the outlook for inventories.

The longer end of the forward curve, however, continues to cause concern, as the uptick in short-dated prices has not been reflected at the longer end of the curve, underlining the growing unease at the future direction of demand.

While the longer term outlook has declined week on week, in comparison to a month ago, the decline in outlook is yet more pronounced; see Figure 2.

**Figure 2 – Brent Forward Differential**

% Change in Forwards Compared with Identical Point in Time



Source: FactSet & OGA data

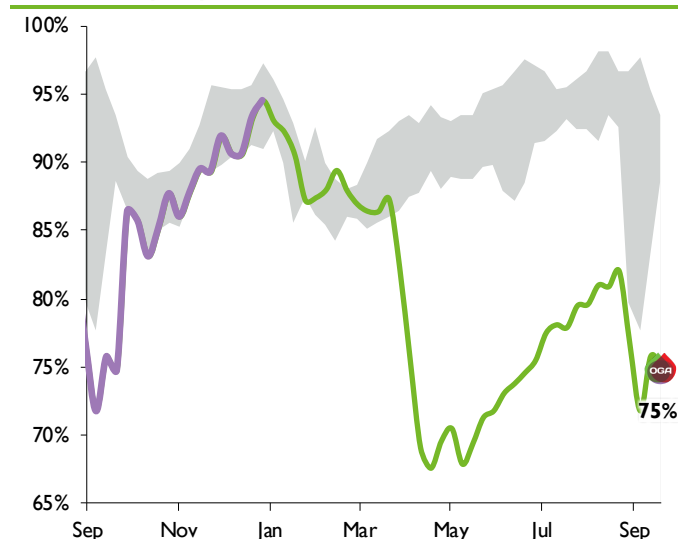
This is largely in keeping with wider anecdotal evidence, which has seen a steady deterioration in the belief that life will return to “normal” in the near-term, with some form of “new normal” now being expected.

Not that we think that this “new normal” will necessarily undermine the demand for oil, or rather chemical feedstocks, in and of itself, as we believe that the opposite will be true.

There is likely to be a greater demand for items relating to individual hygiene, such as, packaging, industrial cleansers and PPE (masks, gloves, etc.), all of which are majority derived from hydrocarbons. The key will be the extent to which the “new normal” hampers forward economic growth, hence demand.

That said, the refinery run rates are still at year lows (Figure 3), which indicates that any uptick in demand is likely to be met from existing stockpiles. However, even relatively small increases in demand at the end consumer level, will have a “multiplier effect” on the remainder of the supply chain.

**Figure 3 – Refinery Utilisation**  
% Installed Capacity



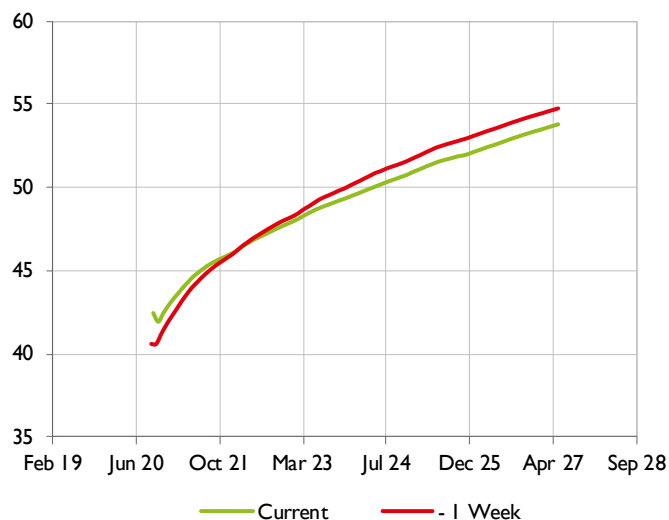
Source: FactSet & OGA data

If we then overlay this with the fact that OPEC+ is seeking to reverse its recent cuts, then it is no surprise that the longer term outlook continues to decline, week on week, month on month, when it when demand is uncertain and the known supply that has been taken out of the market, is looking to come back into the market.

## Forwards Pricing

**Figure 4 – Brent Forwards**

\$/bbl



Source: FactSet & OGA data

## Historic Pricing

**Figure 6 – Brent**

\$/bbl



Source: FactSet & OGA data

**Figure 7 – WTI**

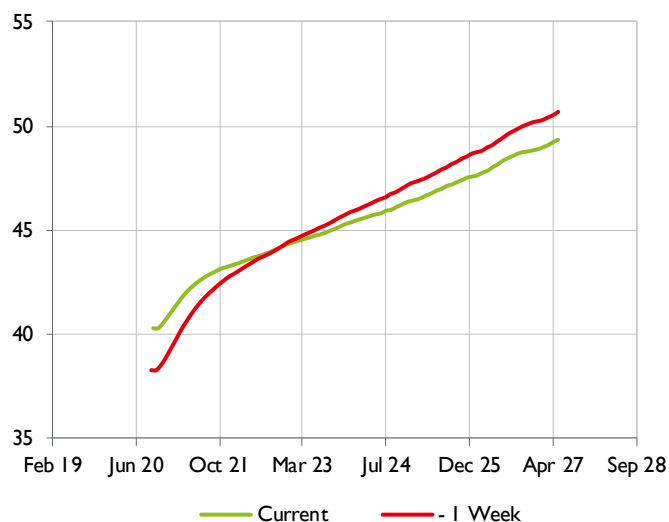
\$/bbl



Source: FactSet & OGA data

**Figure 5 – WTI Forwards**

\$/bbl



Source: FactSet & OGA data

**Figure 8 – OPEC**

\$/bbl



Source: FactSet & OGA data

**Figure 9 – WCS**

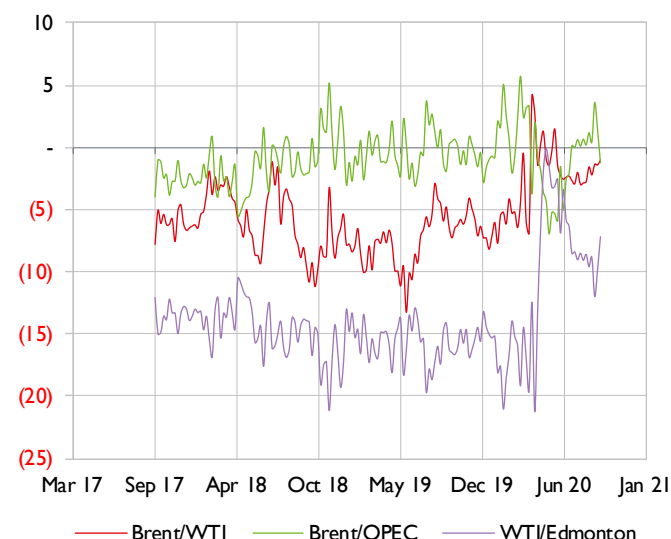
\$/bbl



Source: FactSet &amp; OGA data

**Figure 10 – Differentials**

\$/bbl



Source: FactSet &amp; OGA data

## Gas Market

### Summary

The forwards gas market remains somewhat separate from the wider oil market, not least since the oil market deeper and more liquid and more mature.

That said, this is where Covid-19's impact is unlikely to be universal. As the northern hemisphere winter approaches, we are expecting the increase in "working from home" to drive up demand for gas for central heating and power, offsetting the decline due to lower office occupancy.

This of course assumes that large commercial and industrial consumers resume more normal demand patterns; commercial and industrial consumers i.e. those

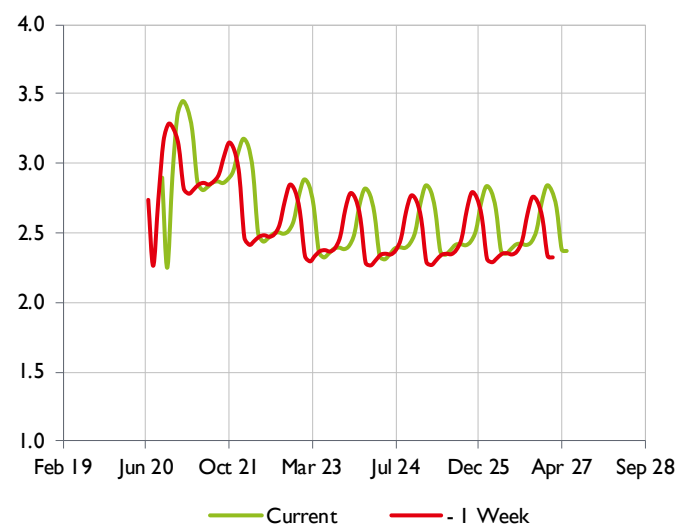
sectors whose normal operating mode does not lend itself to being able to be able to be relocated to domestic environments.

While currently we are not seeing a significant spike in forwards pricing, in either the US (Figure 11), Europe (Figure 12 to Figure 14) or Asia (Figure 15), to support this premise, but Covid-19's impact is still playing out live in the near-term, which means trying to analyse and predict what's going to happen in the longer term is even more difficult.

### Forwards Pricing

**Figure 11 – Henry Hub Forward**

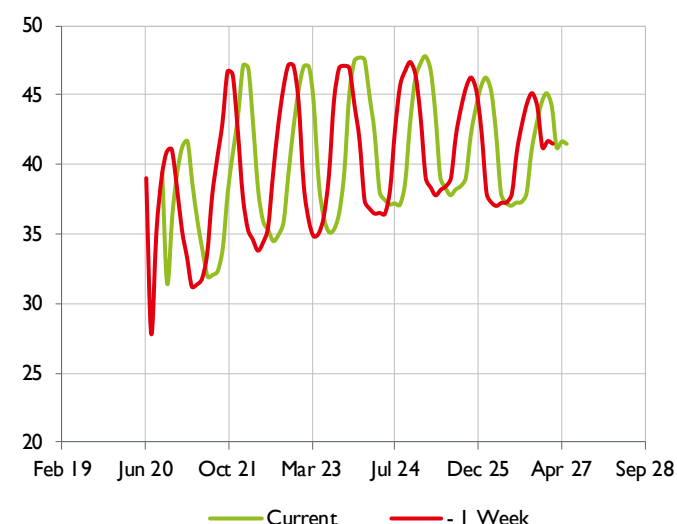
\$/mm btu



Source: FactSet &amp; OGA data

**Figure 12 – NBP Forward**

p/therm

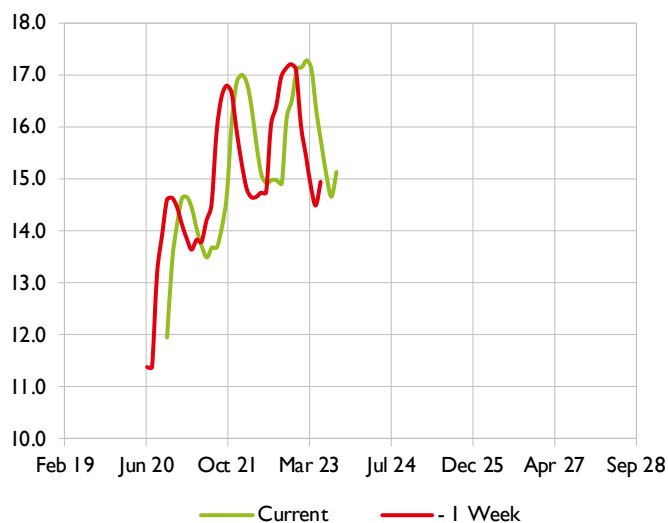


Source: FactSet &amp; OGA data

**Figure 13 – PSV Forwards**

€/MWh

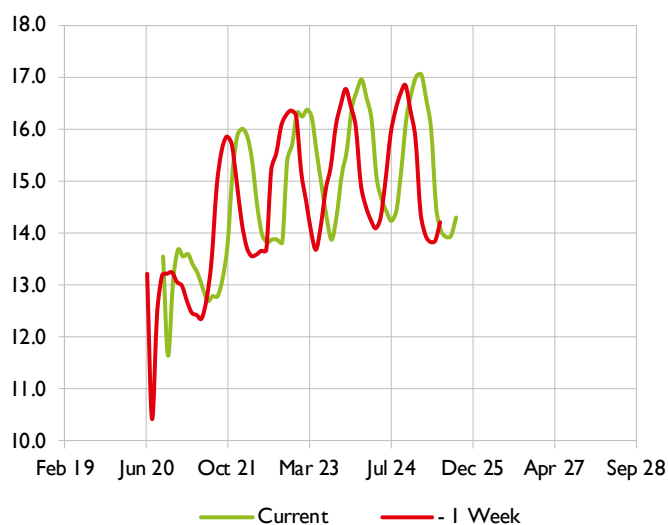
While currently were not seeing



Source: FactSet &amp; OGA data

**Figure 14 – German Gaspool Forward**

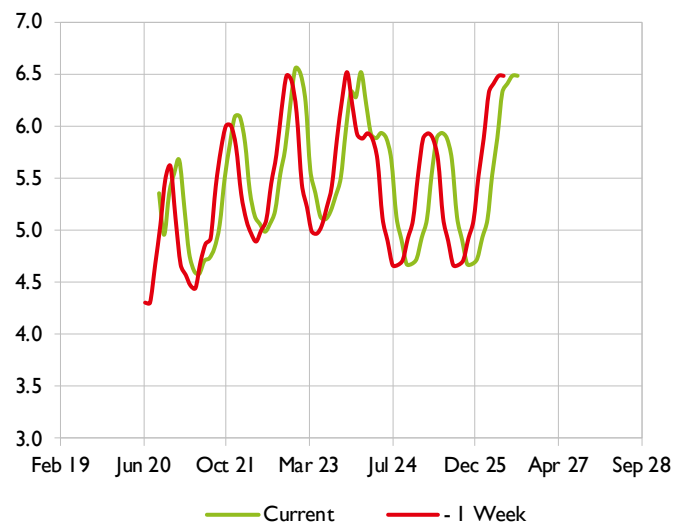
€/MWh



Source: FactSet &amp; OGA data

**Figure 15 – JKM Forward**

\$/mm btu



Source: FactSet &amp; OGA data

## Historic Pricing

**Figure 16 – Henry Hub**

\$/mm btu



Source: FactSet &amp; OGA data

**Figure 17 – NBP**

p/therm



Source: FactSet &amp; OGA data

**Figure 18 – JKM**

\$/mm btu



Source: FactSet &amp; OGA data

**Figure 19 – PSV**

€/MWh



Source: FactSet &amp; OGA data

**Figure 20 – De Gaspool**

€/MWh



Source: FactSet &amp; OGA data

## Rig Update

### Summary

Rig rates appear to have stabilised week on week, and although we are seeing large percentage in North America (Table 2), it must be remembered that this is from a historically low base (Figure 21).

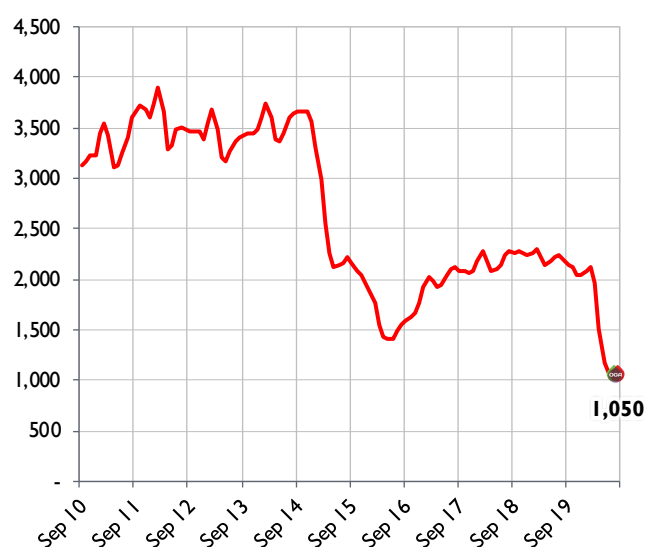
**Table 2 – Rotary Rig Data**

Item	Latest (6 %)	-1 Week (6 %)	-6 Months (6 %)
USA	255	255	771
	-	(66.9%)	-
Canada	64	56	133
	14.3%	(57.9%)	-
North America	319	311	904
	2.6%	(65.6%)	-
Rest of the World	747	747	1,085
	-	(31.2%)	-
<b>Total</b>	<b>1,066</b>	<b>1,058</b>	<b>1,989</b>
	<b>0.8%</b>	<b>(46.8%)</b>	<b>-</b>

Source: FactSet &amp; OGA data

**Figure 21 – Historic Rig Rates**

Regional Rig Count



Source: FactSet &amp; OGA data

To what degree the recent uptick is extended and can be deemed a recovery will by and large be a function of growing confidence in the future price and demand for oil.

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OGA's extensive experience with sovereign wealth funds has also such as Dubai World, where OGA formed part of the management team with responsibility for the economic, financial and legal management of Dubai World's oil & gas business, investments and subsidiary companies.

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