

06 November 2020

Wrapup

In what has been one of the most hotly contested presidential elections in recent history, it now appears as if (at the time of writing) the Biden and Harris ticket will be victorious, putting a Democrat in the White House.

Ordinarily, the Senate vote conducted the same time attracts less attention than the presidential election. However, given the Democrat's candidates' anti-oil & gas hustings pledges, that the Senate vote returned a Republican-controlled has been heralded as a silver lining for what remains a dark and uncertain cloud, not just for oil & gas.

Rhetoric from the Democrat Party amongst its elected members, representatives standing for office and its Democrat voter base, leaves the outside observer with the sense that a victory for Biden and Harris, more than any Democrat ticket before it, will engender a feeling of entitlement in the Party and its supporters, which if the arc of discourse continues, will present itself as demands for compliance with policy proposals, labelling any questioning or dissent as fascism.

Against this backdrop, the extremes of policy and the rate at which some have been dropped on the fly, leaves oil & gas with uncertainty as to what the Democrat White House will convert from "campaign talk" into policy action. It was imperative, therefore, that the Senate vote returned overall control to Republicans, especially if the Biden ticket is a Trojan Horse for a more extreme Harris presidency.

In this respect, it may well be that the lunatics have taken over the asylum (for now), but at least US oil & gas can comfort itself with the fact that the guards still have the keys.

In this Week's Edition

Section	Page
Oil Market	2
Commentary	2
Last 7 Days	2
Forwards Pricing	3
Historic Pricing	3
Gas Market	4
Commentary	4
Last 7 Days	4
Forwards Pricing	5
Historic Pricing	6
Rig Update	8
Commentary	8
About Us	9

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Fingertip Figures

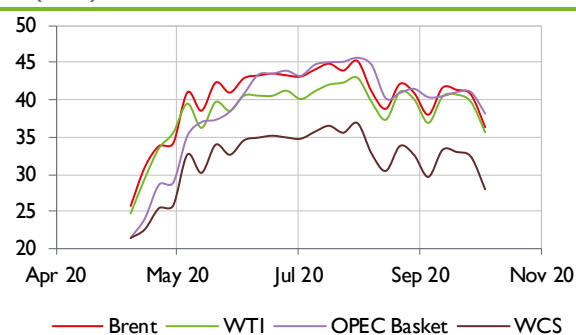
Table 1 – Commodity Prices

Item	Price	I Week Change (Net)	(%)
Crude			
Brent (\$/bbl)	40.93	0.22	0.54%
WTI (\$/bbl)	38.79	(1.06)	(2.66%)
OPEC (\$/bbl)	39.79	2.67	7.19%
WCS (\$/bbl)	30.44	(1.06)	(3.37%)
Natural Gas			
Henry Hub (\$/mm btu)	2.94	(0.03)	(0.98%)
NBP (p/therm)	40.29	(5.71)	(12.41%)
JKM (\$/mm btu)	6.86	(0.40)	(5.45%)
D-TTF (€/MWh)	14.43	(0.98)	(6.36%)
PSV (€/MWh)	14.65	(1.20)	(7.57%)
De Gas Pool (€/MWh)	14.52	(1.08)	(6.92%)
Currencies			
GBP (\$/£)	1.311	0.007	0.52%
EUR (€/€)	1.183	(0.001)	(0.08%)
JPY (¥/\$)	103.7	(1.180)	(1.13%)
NOK (Nkr/\$)	9.154	(0.109)	(1.17%)
RUB (R/\$)	76.87	0.620	0.81%

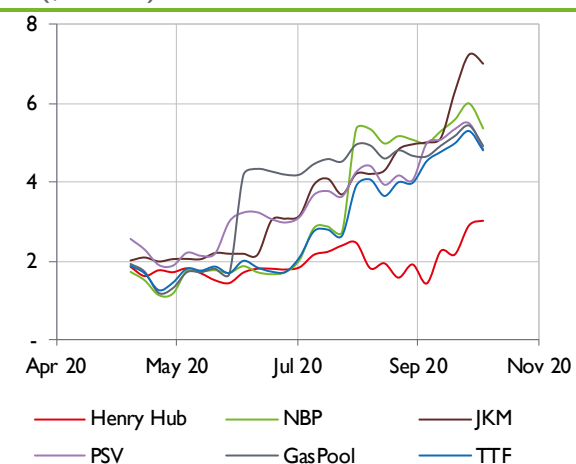
Source: FactSet & OGA data

Figure 1 – Commodity Charts

Oil (\$/bbl)



Gas (\$/mm btu)



Source: FactSet & OGA data

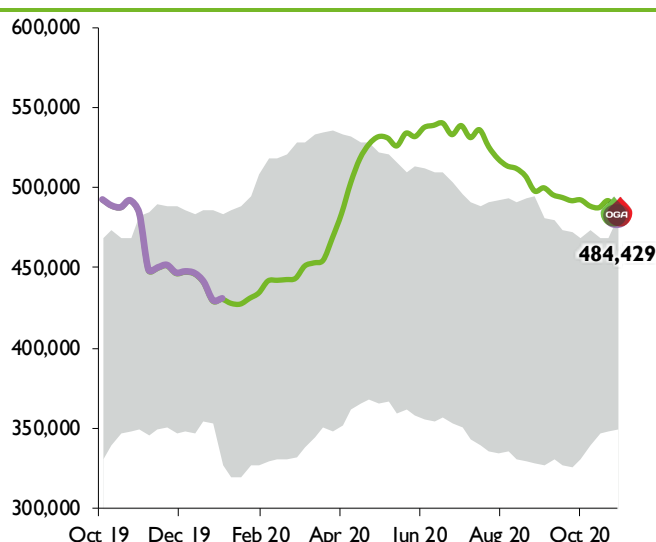
Oil Market

Commentary

This week, it's difficult to know where to start, as there have been so many significant factors, mostly negative, all vying for influence on the oil price. In that respect, that the oil price has held up as well as it has is a significant positive.

One of the few factors supporting the oil price has been the sharp decline in inventories (Figure 2), due (in our opinion) principally to the delayed impact of Hurricane Zeta.

Figure 2 – Crude Oil Inventories
m bbl



Source: EIA, FactSet & OGA data

Consequently, these effects are likely to be transitory, and fade over time. However, as time progresses, we are likely to see the emergence of two competing factors, both arising from the recent elections (presidential election and Senate election).

Following what looks like to be (at the time of writing) the election of Biden & Harris to the White House, the demand outlook has been lowered as the likelihood of a US-wide lockdown has been raised.

In the longer term, however, this is increasingly offset by the fact that the Democrats are likely to open the purse strings wider, re-inflating the economy, and matter what they say of the phasing out of oil & gas, it is a vital feedstock for the new economy, whether as a fuel or a raw material.

In the context of a Democrat presidency, the fact that the Republicans have retained control of the Senate is all important, as it will provide a measure of restraint against some of the more extreme elements of both the presidency and the Democrat Party apparatus.

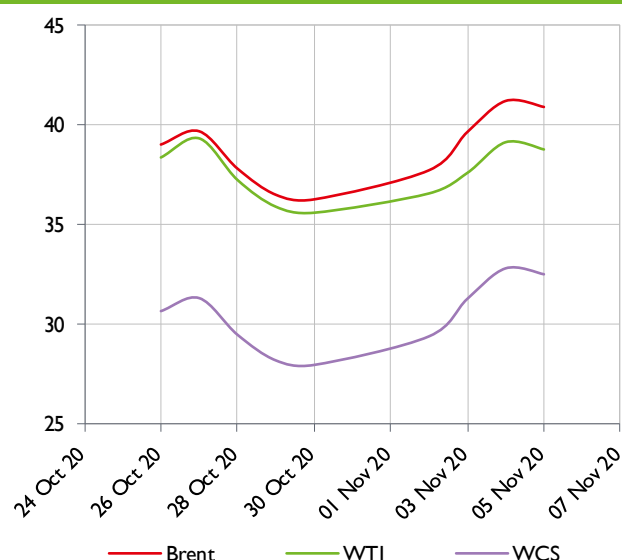
While the presidential election is in the process of being resolved, we believe the period between now and the inauguration of (what currently looks like being) a Democrat President, will see a lot of “soap boxing” by Democrat Senators attempting to influence future White House policy using the court of public opinion.

In this period, energy policy is likely to be a key focus, especially as the energy states are predominantly Republican, and there is likely to be some measure of “partisan politics,” aiming to “punish” those states.

Given that the inauguration isn't until January 2021, and there will only be supposition until the Democrat presidency assumes the reigns, we expect volatility to continue to increase until after there is clarity on what kind of White House will emerge, which is unlikely to be before June 2021.

Last 7 Days

Figure 3 – International Benchmark Prices – Last 7 Days
\$/mm btu

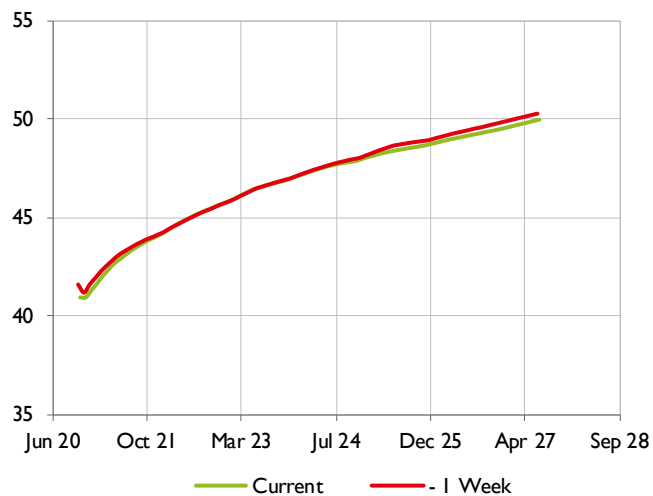


Source: FactSet & OGA data

Forwards Pricing

Figure 4 – Brent Forwards

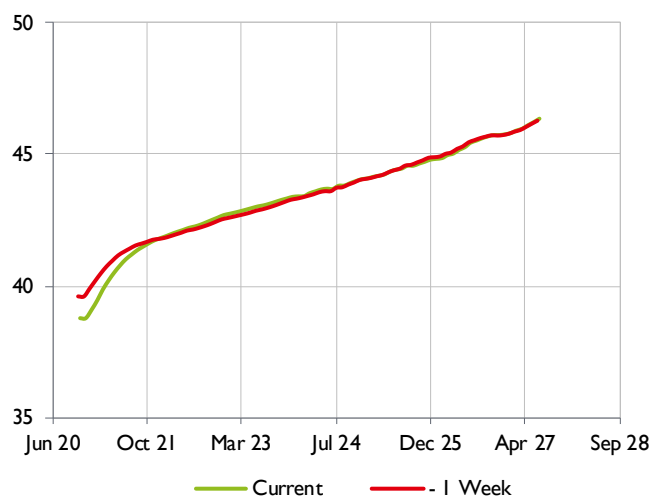
\$/bbl



Source: FactSet & OGA data

Figure 5 – WTI 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 8 – OPEC

\$/bbl



Source: FactSet & OGA data

Figure 9 – WCS

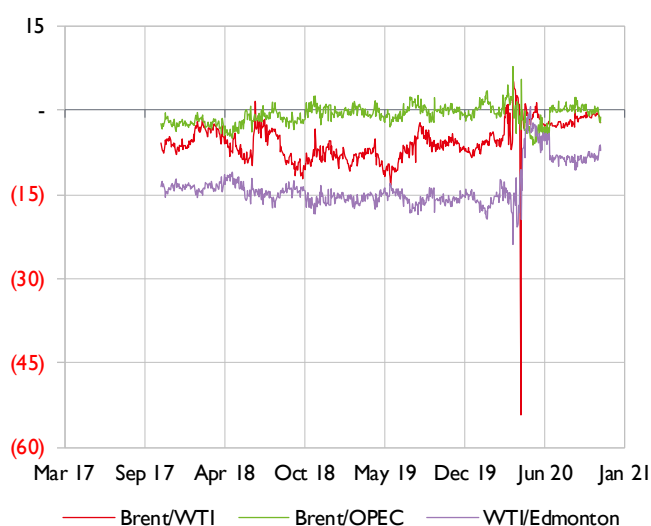
\$/bbl



Source: FactSet & OGA data

Figure 10 – Differentials

\$/bbl



Source: FactSet & OGA data

Gas Market

Commentary

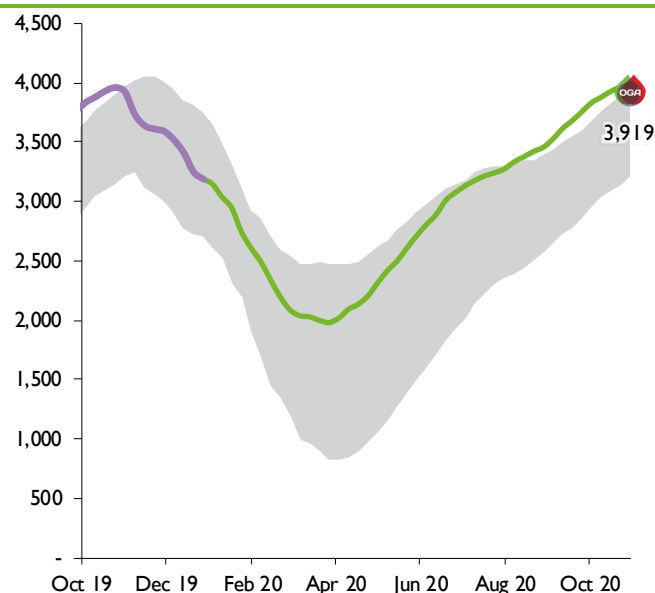
In comparison to the oil markets, the gas markets have been quiet, with all key benchmarks. Of these, the Henry Hub benchmark lost the least, as concerns over demand, due to Covid induced weakness, were partially offset by the decline in inventories (Figure 11).

This week also saw a milestone in the development of the global gas market, with oilprice.com reporting that the Dutch Title Transfer Facility (D-TTF), in reaching 1.6mm open contracts, had surpassed those on NYMEX for the US Henry Hub benchmark.

While there is a long way to go before it is the premier benchmark for LNG, it is inevitable that the D-TTF will continue to grow as Europe starts to become a significant importer of LNG.

Figure 11 – US Natural Gas Inventories

bcf



Source: FactSet & OGA data

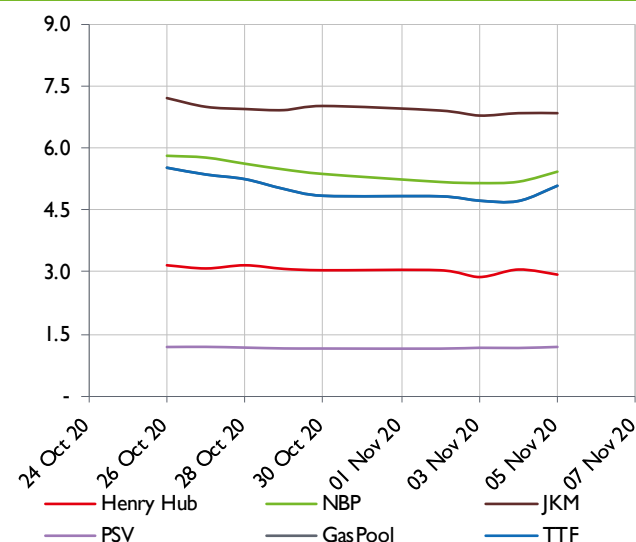
While historically the NBP has been the benchmark in Europe, this has been driven by the fact that it was the only truly free market for a long time, and the United Kingdom was a substantial participant in the cross-border trade. Fast forward to today, however, the growth in the emergence of the D-TTF benchmark has much to do with the decline in domestic European supply as it does with its strategic location in Europe.

Consequently, until such times as the infrastructure around the NBP changes, or the United Kingdom invests in a significant LNG reclassification infrastructure, we believe that the D-TTF benchmark is likely to continue to grow in stature and importance.

Last 7 Days

Figure 12 – International Benchmark Prices – Last 7 Days

\$/mm btu

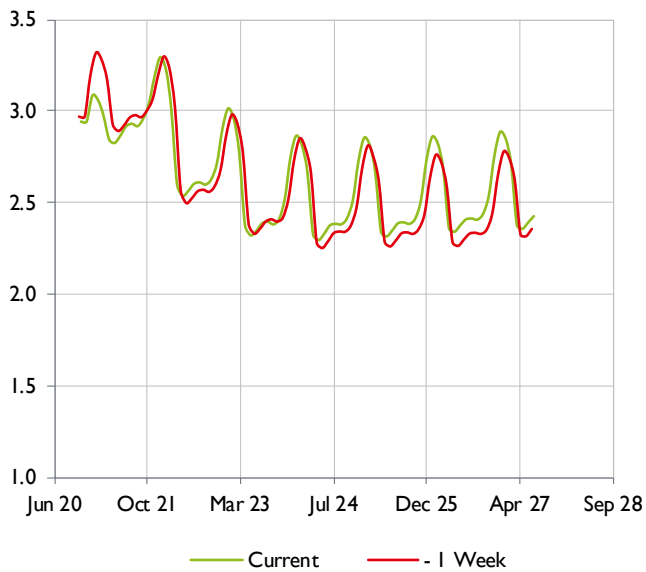


Source: FactSet & OGA data

Forwards Pricing

Figure 13 – Henry Hub Forward

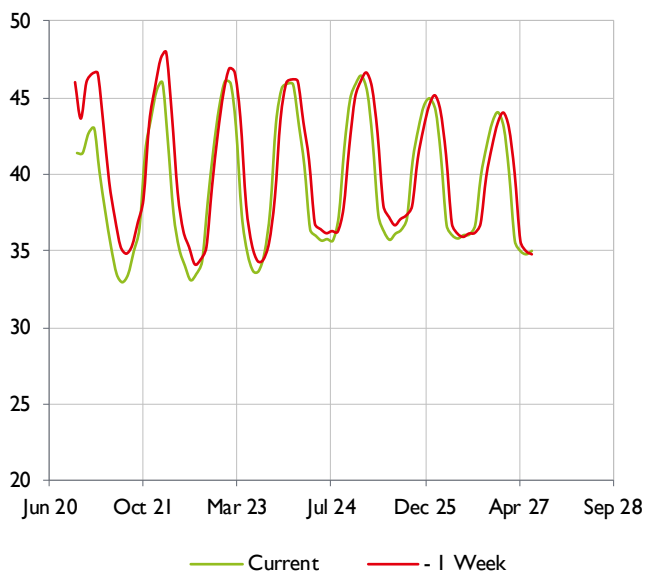
\$/mm btu



Source: FactSet & OGA data

Figure 14 – NBP Forward

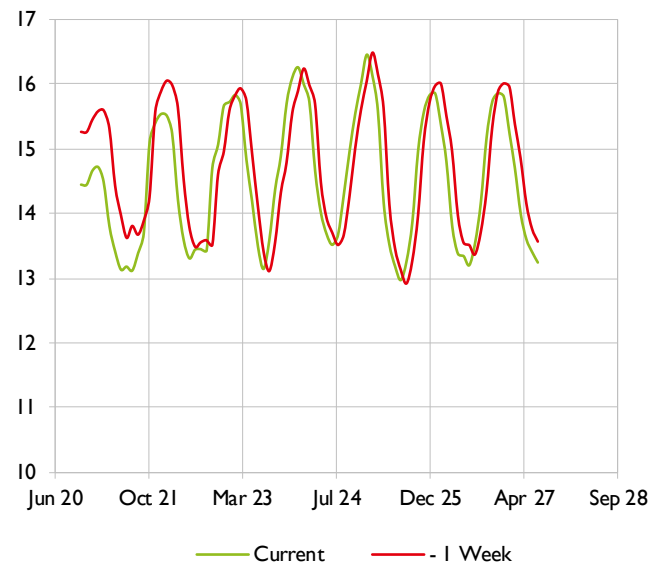
p/therm



Source: FactSet & OGA data

Figure 15 – Dutch-TTF Forward

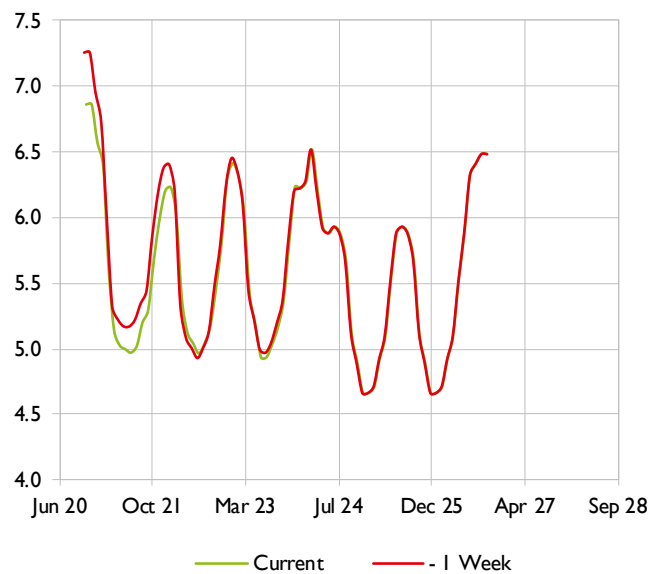
€/MWh



Source: FactSet & OGA data

Figure 16 – JKM Forward

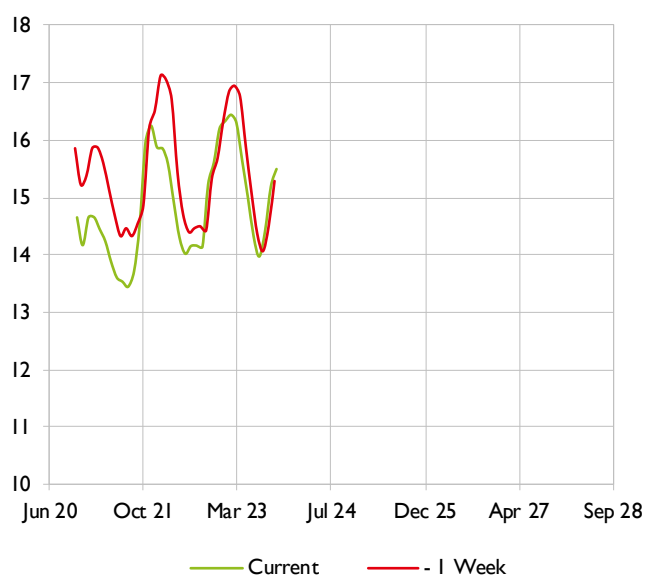
\$/mm btu



Source: FactSet & OGA data

Figure 17 – PSV Forwards

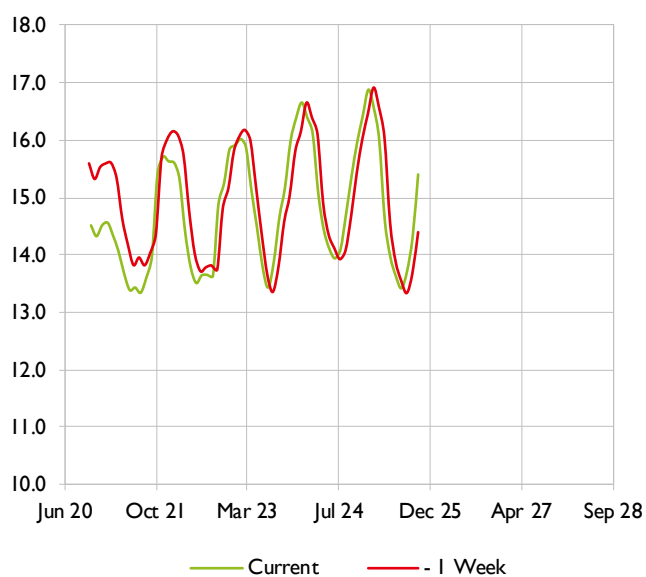
€/MWh



Source: FactSet & OGA data

Figure 18 – German Gaspool Forward

€/MWh



Source: FactSet & OGA data

Historic Pricing

Figure 19 – Henry Hub

\$/mm btu



Source: FactSet & OGA data

Figure 20 – NBP

p/therm



Source: FactSet & OGA data

Figure 21 – Dutch TTF

€/MWh



Source: FactSet & OGA data

Figure 23 – PSV

€/MWh



Source: FactSet & OGA data

Figure 22 – JKM

\$/mm btu



Source: FactSet & OGA data

Figure 24 – De Gaspool

€/MWh



Source: FactSet & OGA data

Rig Update

Commentary

Rig counts continue their recovery, in the United States and Canada at least, and with the rate of increase growing (Table 2), it suggests that the recovery is gathering pace.

Table 2 – Rotary Rig Data

Item	Latest (δ %)	-1 Week (δ %)	-6 Months (δ%)
USA	296	280	348
	5.7%	(19.5%)	-
Canada	86	81	23
	6.2%	252.2%	-
North America	382	361	371
	5.8%	(2.7%)	-
Rest of the World	656	702	915
	(6.6%)	(23.3%)	-
Total	1,038	1,063	1,286
	(2.4%)	(17.3%)	-

Source: FactSet & OGA data

Nevertheless, as the recount data shows for the rest of the world, however, not everything is quite as buoyant as it appears to be in North America.

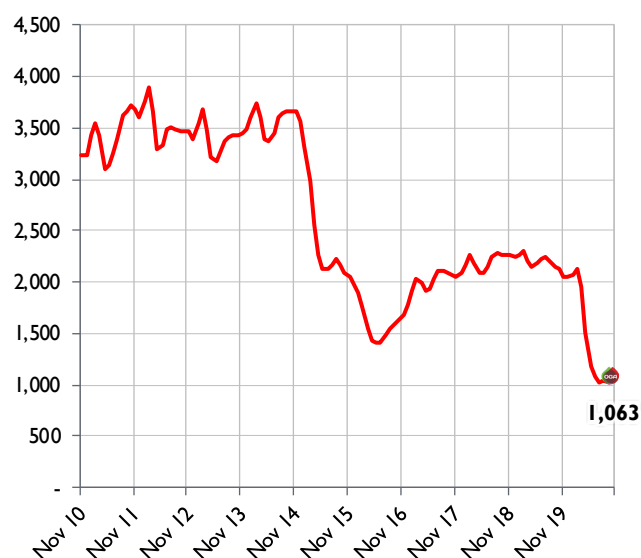
There is no doubt that the continued growth in North America's rig count is positive, but it must be remembered that low numbers in absolute terms are disproportionately impacted by what historically can be deemed small changes in the count week on week.

What continues to be a concern, however, is the fact that the global recount continues to be weak, which would indicate that while the North America may have a recovering rig market, the outlook elsewhere is not so positive.

In the context of the continued weakness in the global rig count, to what extent the week on week increases in North America's count points towards a recovery, and not a reflection of an increase in activity due to obligation or safety work, remains to be seen.

While we do not want to decry what is clearly a positive trend (Figure 25), we still feel that it is too early to call it a sustainable recovery.

**Figure 25 – Rig Count
Active Rigs**



Source: FactSet & OGA data

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We also assist our clients in gaining access to the capital markets, whether it is for debt via the issuance of corporate bonds, Reserves Based Lending (RBL), or structured credit instruments such as PrePay structures, or the equity markets, whether the seed, IPO or secondary markets.

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OGA's extensive experience with sovereign wealth funds 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.

OGA's project and transaction value exceeds \$65bn, experience which has been gained in all the hydrocarbon provinces. As a company, we understand that the areas in which it operates are often sensitive and key to the health and successful development of our clients.

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