

23 November 2020

Talking Point

Last week, there was a duality in the outlook for where Covid might take us, with the start of the week buoyed by news on other vaccines, offset by the news of the extent of the spread of the virus towards the end of the week.

It now seems as if the relative balance between these two factors, the outlook for the continued effect of the virus, versus the beneficial impact of the vaccine, is dominating the outlook for commodity prices, especially the deeper more liquid oil market.

We don't see this changing any time soon, which means that any data release, no matter what it relates to, will be fed into proprietary models.

Ordinarily, more data usually means convergence in differing models' results. However, currently, more data is resulting in a divergence in models' result, which causes concern that the data is not being treated uniformly by the models, or if it is, that the data itself is being misreported, for whatever reason. There is little doubt that whatever the outcome, it will not be resolved in the near-term, and will only be fully assessed once the pandemic has passed and an enquiry has been commissioned.

Until then, we think that the models' output will continue to be volatile. However, increasingly, we see the general population starting to apply their own data points to drive their activity, which means that we anticipate a return to "normality" far quicker than is currently being factored in, and the "official" data being increasingly marginalised.

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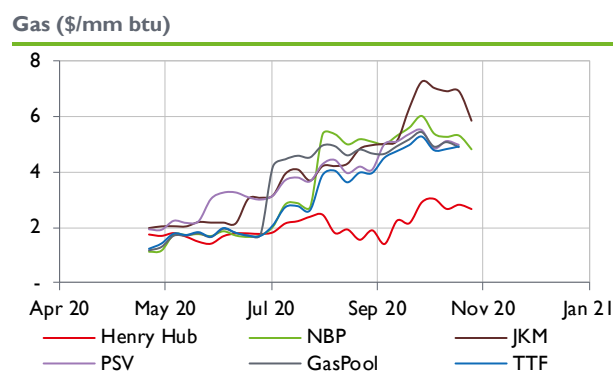
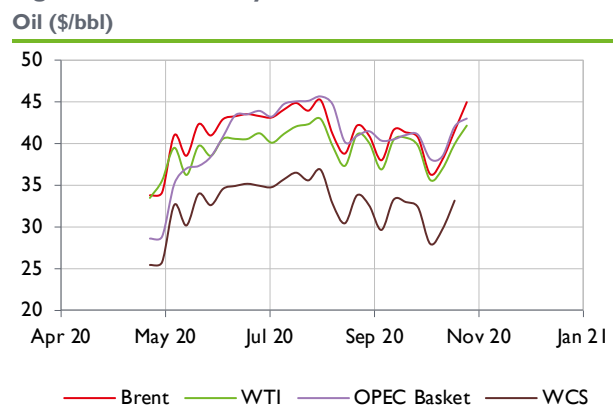
Fingertip Figures

Table 1 – Commodity Prices

Item	Price	I Week Change (Net)	(%)
Crude			
Brent (\$/bbl)	44.96	3.45	8.31%
WTI (\$/bbl)	42.15	2.02	5.03%
OPEC (\$/bbl)	43.12	1.07	2.54%
WCS (\$/bbl)	33.80	2.02	6.36%
Natural Gas			
Henry Hub (\$/mm btu)	2.65	(0.35)	(11.52%)
NBP (p/therm)	36.40	(3.87)	(9.61%)
JKM (\$/mm btu)	5.85	(1.05)	(15.21%)
Dutch-TTF (€/MWh)	12.90	(1.34)	(9.40%)
PSV (€/MWh)	13.45	(0.89)	(6.19%)
De Gas Pool (€/MWh)	12.99	(1.08)	(7.67%)
Currencies			
GBP (\$/£)	1.329	0.013	0.96%
EUR (€/€)	1.185	0.003	0.29%
JPY (¥/\$)	103.8	(0.825)	(0.79%)
NOK (Nk/\$)	9.003	(0.160)	(1.75%)
RUB (P/\$)	76.12	(1.494)	(1.92%)

Source: FactSet & OGA data

Figure 1 – Commodity Charts



Source: FactSet & OGA data



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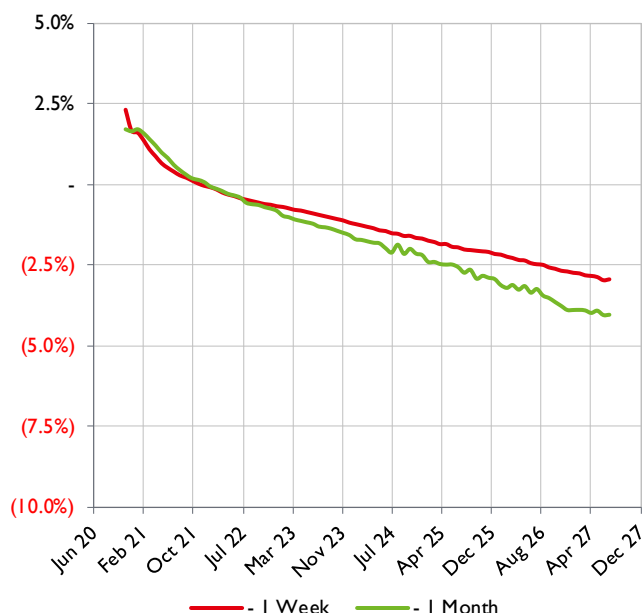
Oil Market

Commentary

This coming week will be a difficult one to call, as there is a sense that the apparently contradictory drivers that are influencing the short and long end of the curve is going to come to a head.

As can be seen in Figure 2, the surge in optimism that a vaccine will allow us to return to “normal,” is not universally reflected across the forward curve, which is curious, given that there is unbridled optimism about the rate of vaccine releases, and their associated efficacy.

Figure 2 – Forward Curve Differential
% Change Comparison



Source: FactSet & OGA data

This can be accounted for if you consider the fact that at the short end, the optimism is driven by the rate of vaccine data release and efficacy data, while at the long end it will be driven by the outlook for the potential impact those vaccines might have on the recovery/infection rates.

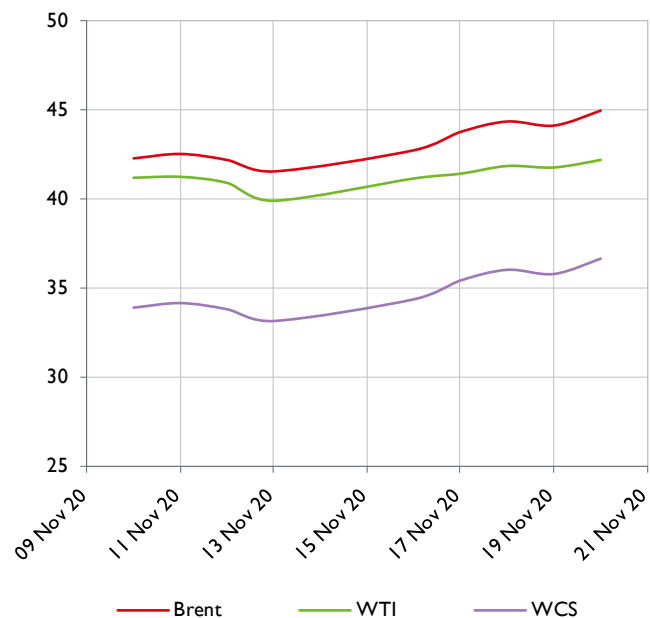
That the long end of the curve is weakening, it suggests that none of the short-term optimism is extending beyond October 2021.

If we assume that the markets are a perfect mechanism for pricing risk, the downside is at least large as the near-term upside, and the fact that the decline is greater in comparison to 1 month ago, the outlook at the longer

end of the curve is deteriorating the further out you look.

Last 7 Days

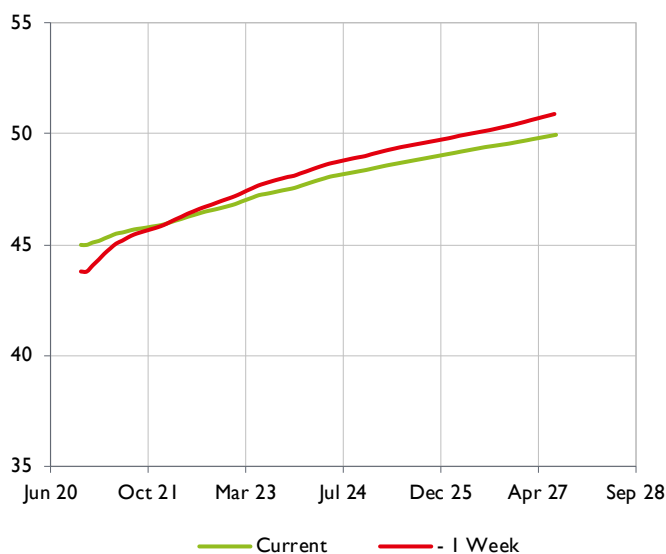
Figure 3 – International Benchmark Prices – Last 7 Days
\$/mm btu



Source: FactSet & OGA data

Forwards Pricing

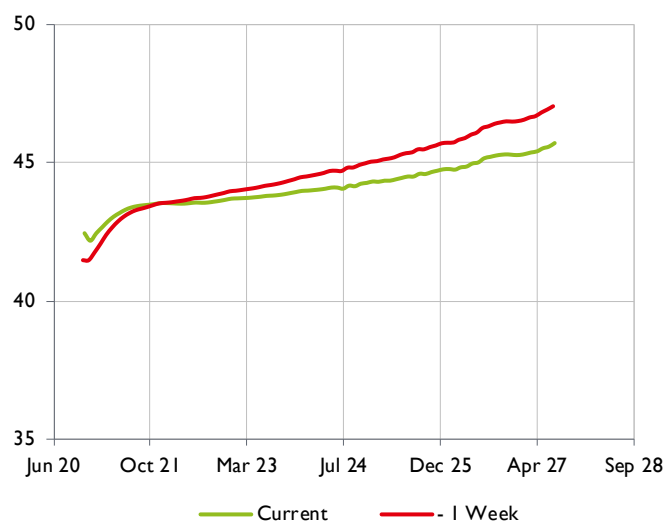
Figure 4 – Brent Forwards
\$/bbl



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

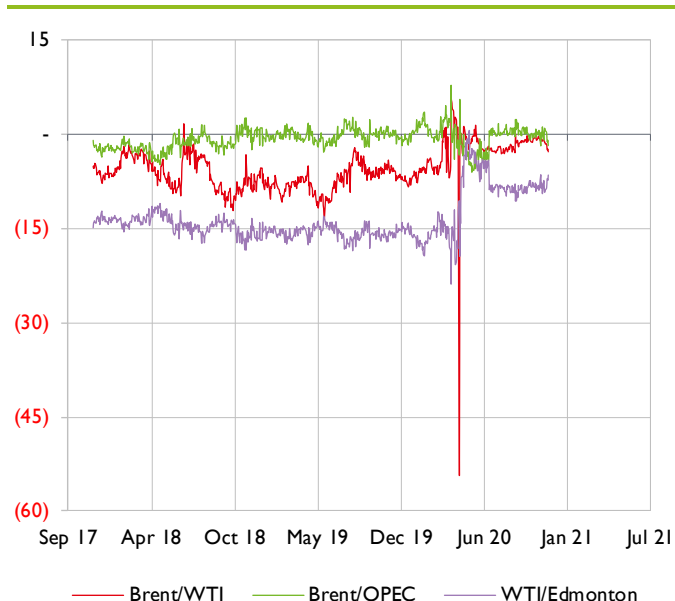
\$/bbl



Source: FactSet & OGA data

Figure 10 – Differentials

\$/bbl



Source: FactSet & OGA data

Gas Market

Commentary

The gas markets, by and large, have been flat, with the only real move registered by the JKM benchmark, declining continually over the week.

Given the generally mild weather for autumn, this is hardly surprising. However, an average sample of temperatures in northern Russia (Kozhva to Novosibirsk), has shown that the average temperature October to November (to date) is between 2 – 3°C lower than the 3-year average.

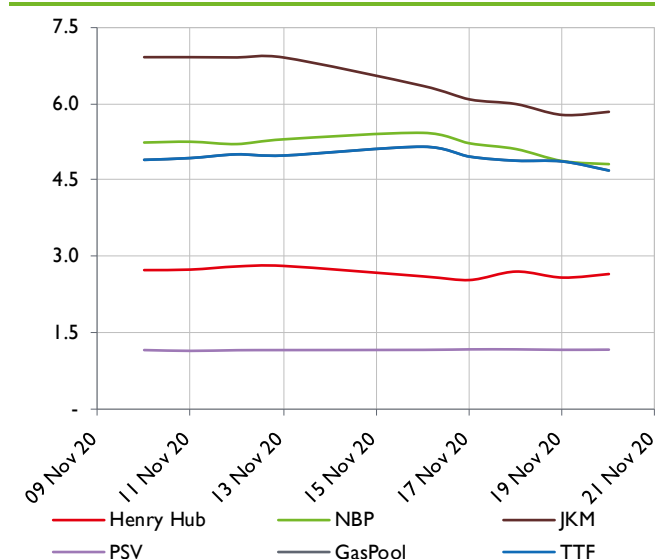
While this is not evidence of a colder northern hemisphere winter, it does provide some guidance to what may happen in the sphere of arctic weather influence, which extends across most of northern Europe.

In that respect, the prospect of cooler than average temperature within the next 7 – 10 days, suggests that the downward pressure on European gas prices is likely to ease, stabilising gas prices, before potentially rising.

To what extent this is reflected in international pricing will depend on not only the extent to which the cooler weather in northern Russia extends to the southern extremes of the sphere of arctic weather influence, and for how long the cooler temperature remains.

Last 7 Days

Figure 11 – International Benchmark Prices – Last 7 Days
\$/mm btu

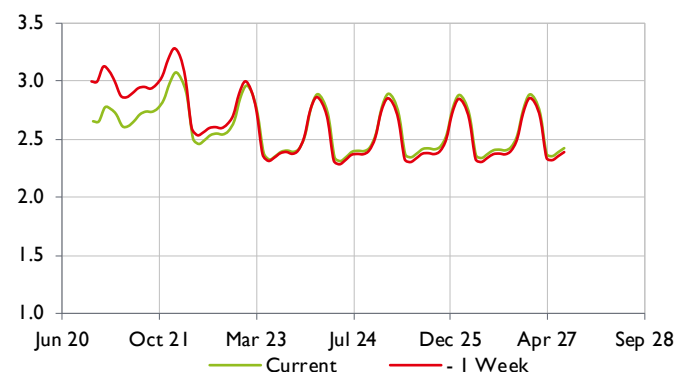


Source: FactSet & OGA data

Forwards Pricing

Figure 12 – Henry Hub Forward

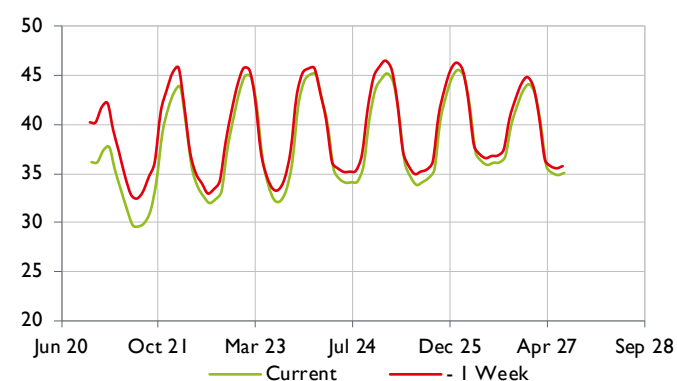
\$/mm btu



Source: FactSet & OGA data

Figure 13 – NBP Forward

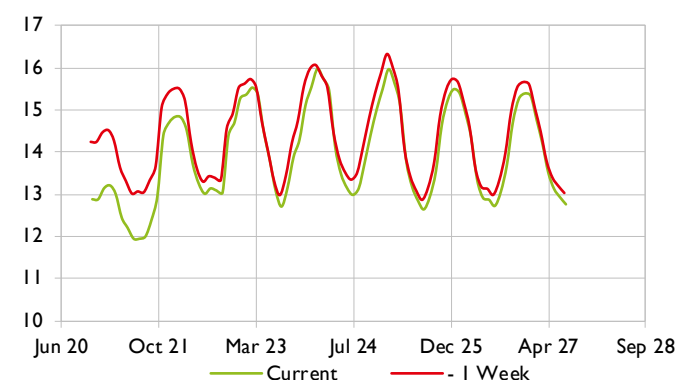
p/therm



Source: FactSet & OGA data

Figure 14 – Dutch-TTF Forward

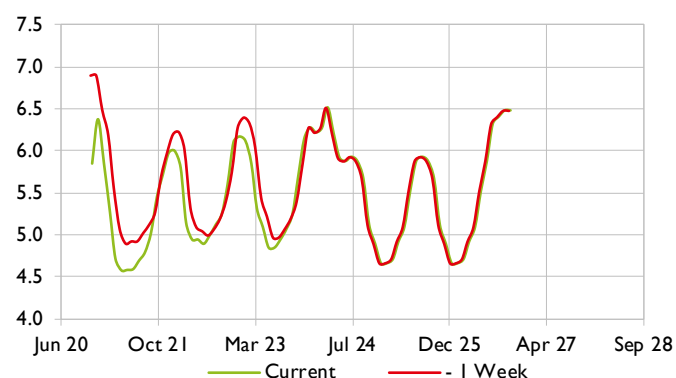
€/MWh



Source: FactSet & OGA data

Figure 15 – JKM Forward

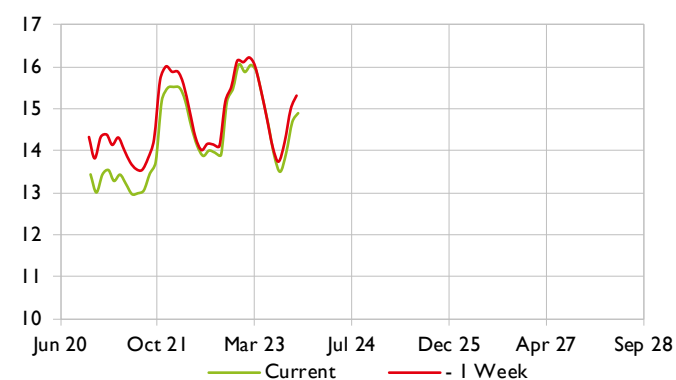
\$/mm btu



Source: FactSet & OGA data

Figure 16 – PSV Forwards

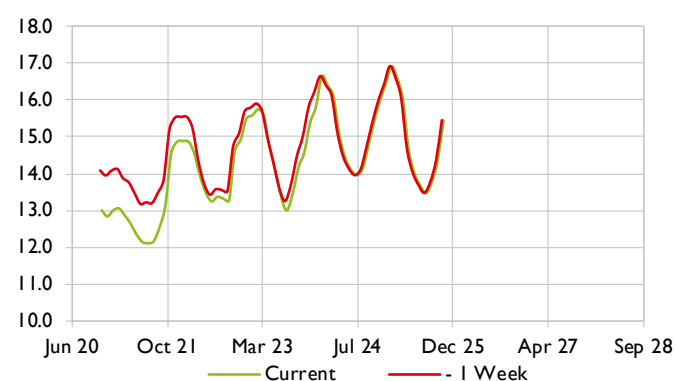
€/MWh



Source: FactSet & OGA data

Figure 17 – German Gaspool Forward

€/MWh



Source: FactSet & OGA data

Historic Pricing**Figure 18 – Henry Hub**

\$/mm btu



Source: FactSet & OGA data

Figure 19 – NBP

p/therm



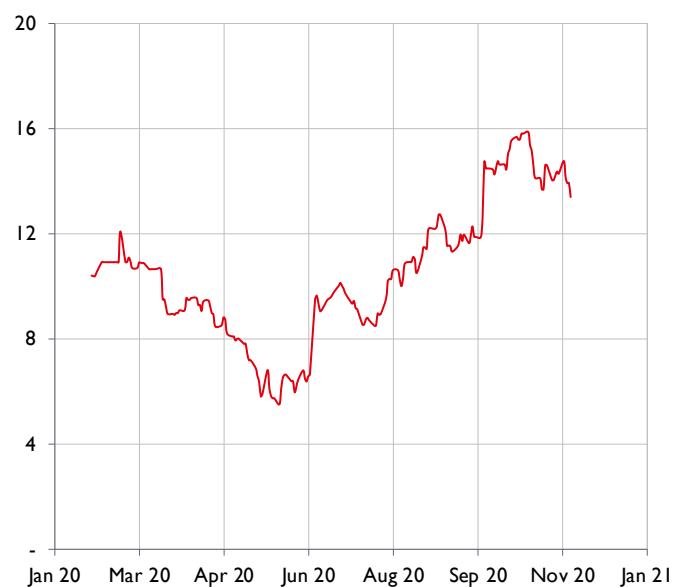
Source: FactSet & OGA data

Figure 20 – Dutch TTF
€/MWh



Source: FactSet & OGA data

Figure 22 – PSV
€/MWh



Source: FactSet & OGA data

Figure 21 – JKM
\$/mm btu



Source: FactSet & OGA data

Figure 23 – De Gaspool
€/MWh



Source: FactSet & OGA data

Rig Update

Commentary

While the headline rig rates suggest that the recovery is continuing, the detail is less prosaic. This week's numbers have only posted any gain at all is due to the strong growth in Canadian rig utilisation, which rose by 13.5% (Table 2).

Table 2 – Rotary Rig Data

Item	Latest (δ %)	-1 Week (δ %)	-6 Months (δ%)
USA	310 (0.6%)	312 (10.3%)	348 -
Canada	101 13.5%	89 287.0%	23 -
North America	411 2.5%	401 8.1%	371 -
Rest of the World	656 -	656 (28.3%)	915 -
Total	1,067 0.9%	1,057 (17.8%)	1,286 -

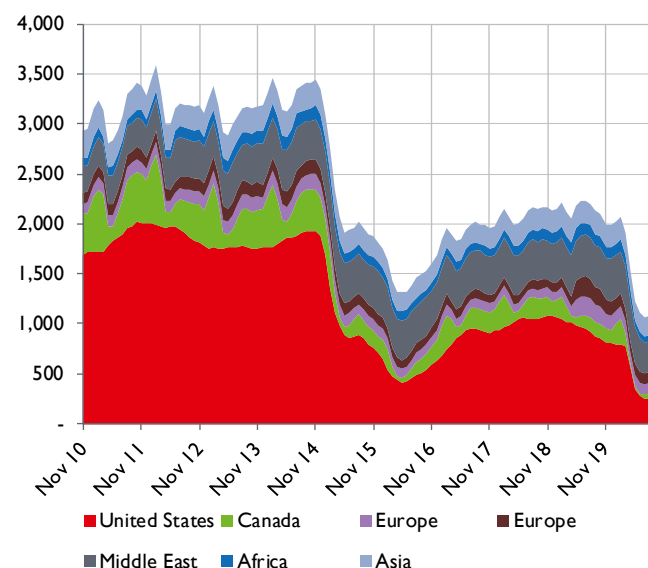
Source: FactSet & OGA data

One weeks' numbers do not indicate a trend, as we have said on numerous occasions when rig rates were increasing.

Nevertheless, that the international rig rates are stubbornly static, and the US rig rate growth has petered out post the US election, the concern is that the Canadian rig rates are more the effect of local factors, opposed to wider influences being reflecting in the Canadian market.

Figure 24 – Historic Rig Rates

Active Rigs



Source: BakerHughes, 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.

OGA has worked with a wide range of oil & gas companies, from start-ups and independent E&P companies, to BP and Chevron, Gulf Oil. OGA has also worked with a range of specialist financiers, from boutique investment and merchant banks, to Bank of America Merrill Lynch, HSBC and ING Barings.

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.

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