Commodity Week

14 December 2020

Talking Point

It is difficult to believe given the year that is now largely over, that oil broke $50/bbl this week. While there has undoubtedly been action on the supply side to help achieve this, it is nonetheless an amazing feat.

In any market price there is always an element of kidology and hubris, and the current pricing environment is no different. Perhaps the more sanguine view can be taken from the forwards, which are largely flat out to 2027, underlining the real uncertainty that is permeating the market currently.

While the current view for 2021 is positive, given that the global economy effectively shut down over parts of 2020, saying that 2021 is going to be better than this year is hardly anything startling. The question is whether that momentum can continue into 2022, and crucially how much further beyond.

With vaccinations in the US and the UK starting in earnest this week, there is going to be a six-month hiatus before we can get a clear picture of what impact the programme will have. The crucial thing here is that we don't need it to deliver before we can start living a "normal" life, once the efficacy of the respective vaccines has been proven amongst the vulnerable groups, we can start to move away from Covid-19

Consequently, the die has been cast on the outlook for the next 18 to 24 months, and now it is time to see if life will return to normal on the back of a vaccine, or whether it will be Covid fatigue.

This week's commodity week is the last until January 2021, so we just like to take this opportunity to wish everybody a Merry Christmas and a happy New Year; may 2021 bring us all better fortune.

In this Week's Edition

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Fingertip Figures

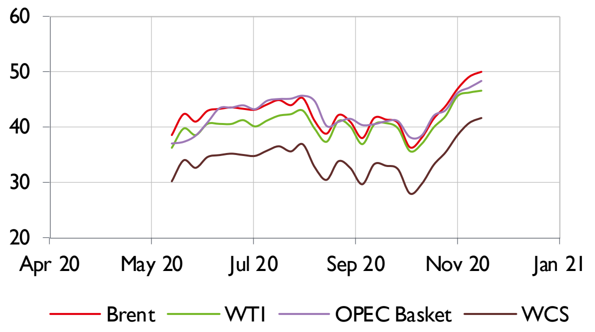
Table 1 – Commodity Prices

Item	Price	1 Week Change (Net)	(%)
Crude			
Brent ($/bbl)	49.97	0.87	1.77%
WTI ($/bbl)	46.57	0.31	0.67%
OPEC ($/bbl)	48.87	0.52	1.08%
WCS ($/bbl)	38.22	0.31	0.82%
Natural Gas			
Henry Hub ($/mm btu)	2.60	0.05	1.80%
NBP (p/therm)	46.25	3.68	8.64%
JKM ($/mm btu)	10.30	3.08	42.56%
Dutch-TTF (€/MWh)	15.96	1.34	9.16%
PSV (€/MWh)	16.10	1.07	7.13%
De Gas Pool (€/MWh)	15.83	1.31	9.05%
Currencies			
GBP ($/£)	1.321	(0.026)	(1.94%)
EUR (€/$)	1.211	(0.003)	(0.28%)
JPY (¥/$)	103.9	(0.250)	(0.24%)
NOK (N€/$)	8.824	0.038	0.43%
RUB (₽/$)	73.05	(0.853)	(1.15%)

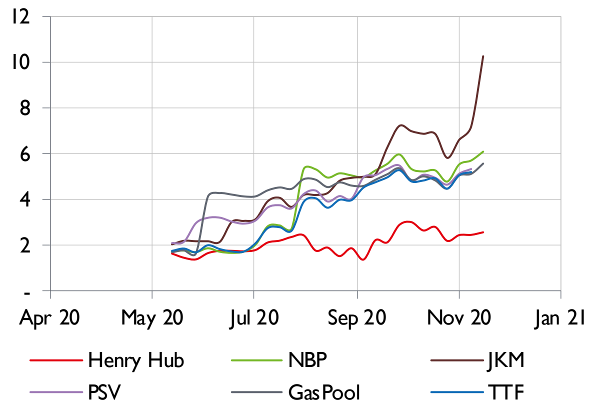
Source: FactSet & OGA data

Figure 1 – Commodity Charts

Oil ($/bbl)



Gas ($/mm btu)



Source: FactSet & OGA data

Oil Market

Commentary

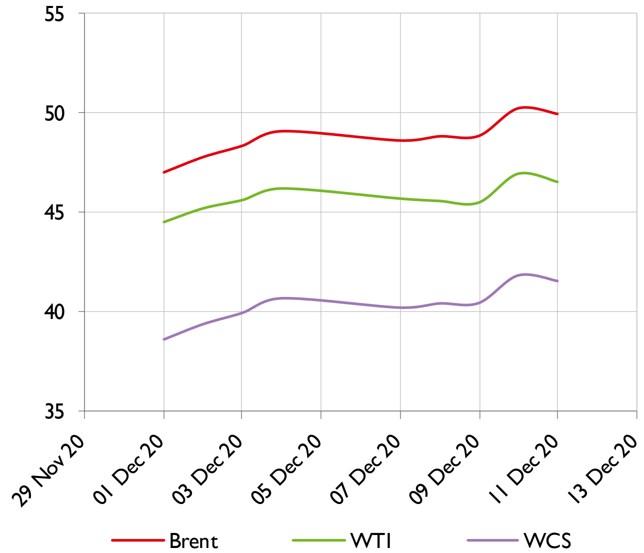
This week has seen the usual to-ing and fro-ing between "virus and vaccine," as improved economic output resulting from a successful vaccine program have been offset by concerns that irrespective of the outcome of the programme, that lockdowns and restricted movement will still be required.

It is therefore little surprise that the further out you look the less positive the price implies that then operating environment to be.

There is little doubt that this will remain the case until such times as there is greater clarity on what impact the vaccination programme will have on future demand.

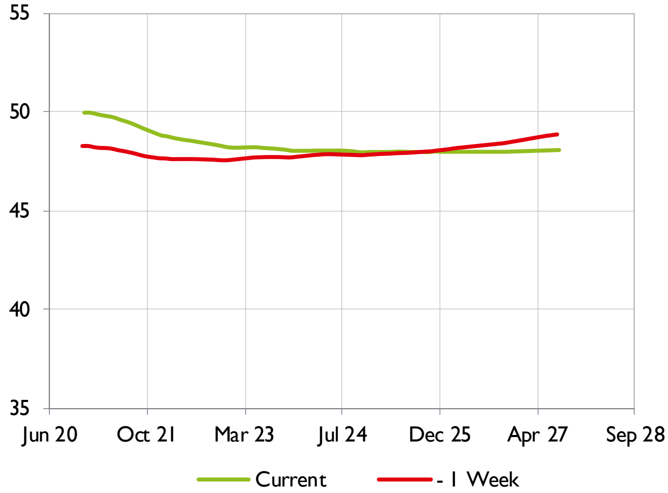
Recent Pricing & Forwards

Figure 2 – International Benchmark Prices – Last 7 Days
$/bbl



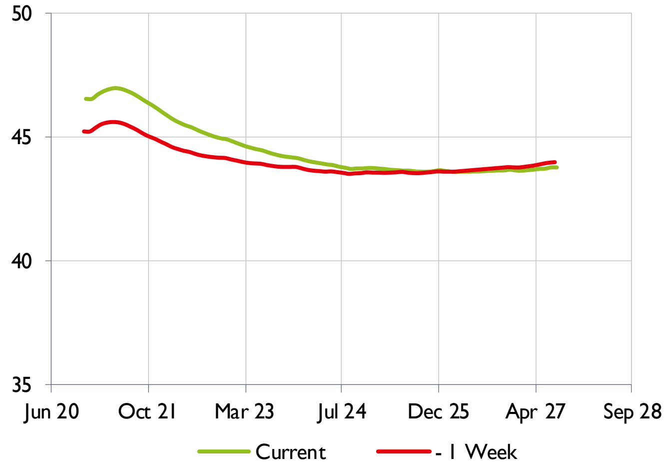
Source: FactSet & OGA data

Figure 3 – Brent Forwards
$/bbl



Source: FactSet & OGA data

Figure 4 – WTI Forwards
$/bbl



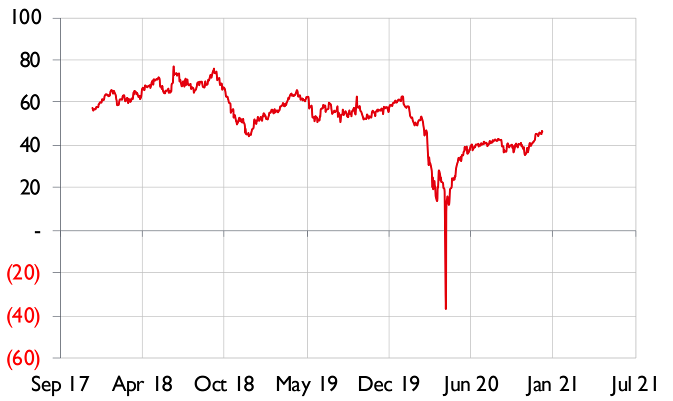
Source: FactSet & OGA data

Historic Pricing

Figure 5 – Brent
$/bbl

Source: FactSet & OGA data

Figure 6 – WTI
$/bbl



Source: FactSet & OGA data

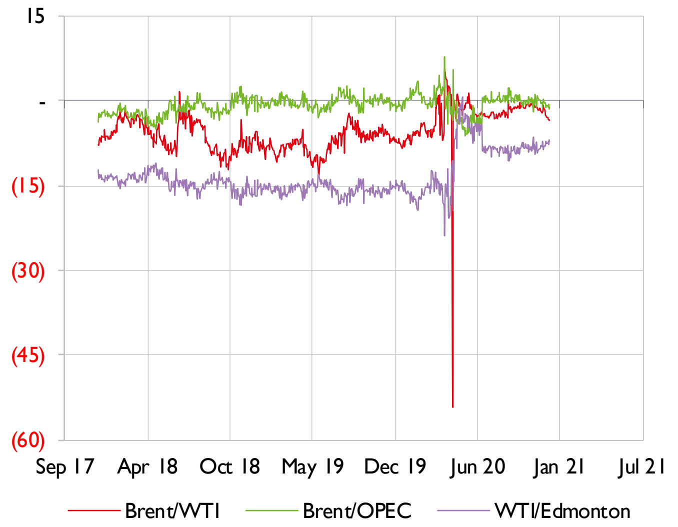
Figure 7 – OPEC
$/bbl

Source: FactSet & OGA data

Figure 8 – WCS
$/bbl

Source: FactSet & OGA data

Figure 9 – Differentials
$/bbl



Source: FactSet & OGA data

Gas Market

Commentary

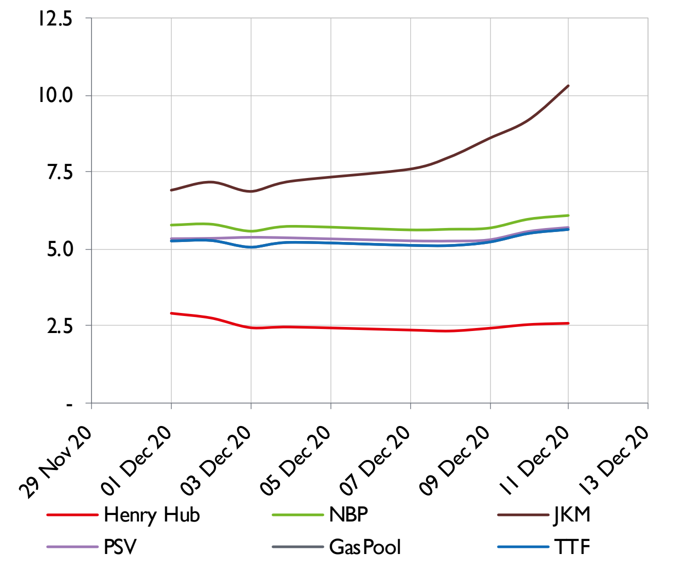
This week saw Asian buyers dip into the LNG market and started to by spot cargoes, pushing prices up by over 40%.

This was accompanied by the arrival of significantly cooler weather in Europe, pushing up domestic heating loads resulting in modest increases in prices.

The higher proportion of domestic end use has been one of the factors that has meant that gas prices, by and large, have recovered well.

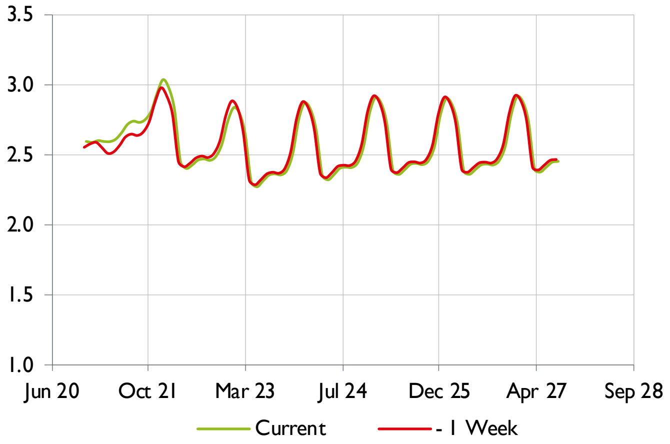
Recent Pricing & Forwards

Figure 10 – International Benchmark Prices – Last 7 Days
$/mm btu



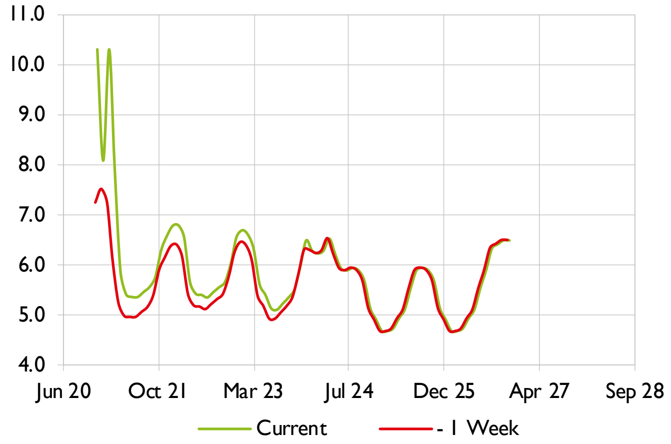
Source: FactSet & OGA data

Figure 11 – Henry Hub Forward
$/mm btu



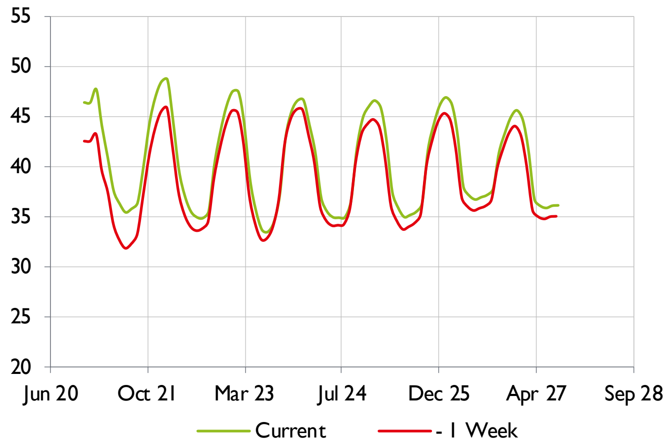
Source: FactSet & OGA data

Figure 14 – JKM Forward
$/mm btu



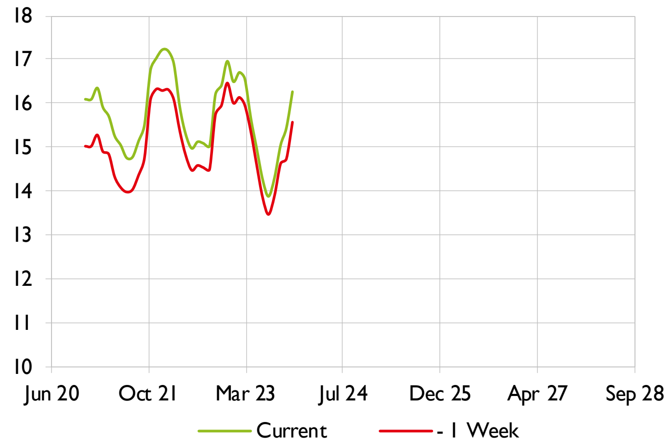
Source: FactSet & OGA data

Figure 12 – NBP Forward
p/therm



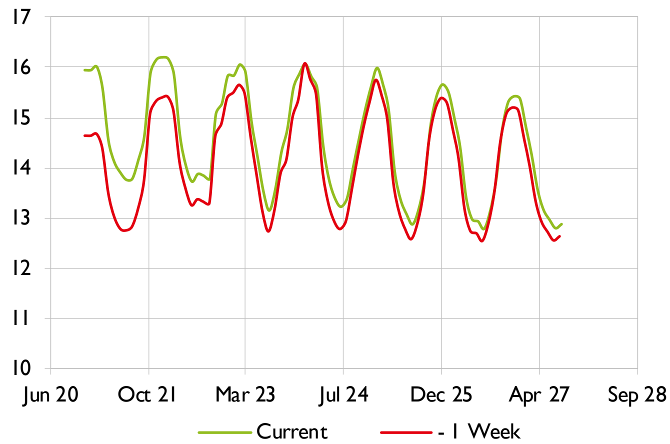
Source: FactSet & OGA data

Figure 15 – PSV Forwards
€/MWh



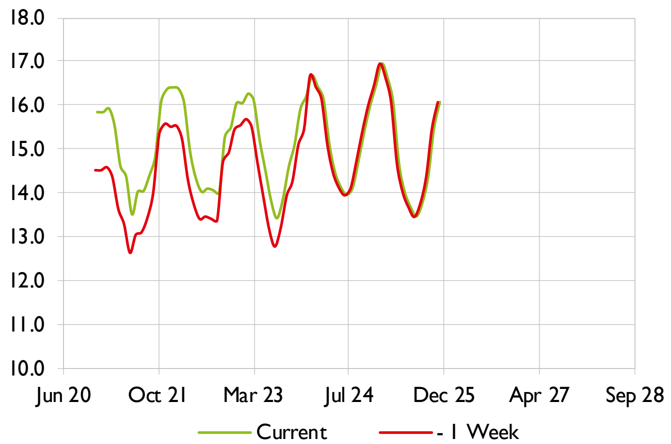
Source: FactSet & OGA data

Figure 13 – Dutch-TTF Forward
€/MWh



Source: FactSet & OGA data

Figure 16 – German Gaspool Forward
€/MWh



Source: FactSet & OGA data

Historic Pricing

Figure 17 – Henry Hub
$/mm btu

Source: FactSet & OGA data

Figure 19 – Dutch TTF
€/MWh

Source: FactSet & OGA data

Figure 18 – NBP
p/therm

Source: FactSet & OGA data

Figure 20 – JKM
$/mm btu

Source: FactSet & OGA data

Figure 21 – PSV
€/MWh

Source: FactSet & OGA data

Figure 22 – De Gaspool
€/MWh

Source: FactSet & OGA data

Rig Update

Commentary

Rig utilisation rates continue to recover, and sufficient data now exists to suggest that the recovery is now firmly underway.

With the range of competing in contradictory factors now becoming evident, whether this recovery continues, peters out or goes into reverse, remains to be seen.

Nevertheless, the continued growth in rig utilisation rates is a significant positive and indicative of the growing confidence in the market.

Table 2 – Rotary Rig Data

Item	Latest (δ %)	-1 Week (δ %)	-6 Months (δ%)
USA	338	323	274
	4.6%	17.9%	-
Canada	111	102	18
	8.8%	466.7%	-
North America	449	425	292
	5.6%	45.5%	-
Rest of the World	669	669	805
	-	(16.9%)	-
Total	**1,118**	**1,094**	**1,097**
	2.2%	(0.3%)	-

Source: FactSet & OGA data

About Us

Oil & Gas Advisors assists its clients in achieving their goals and objectives. We advise our clients on asset level acquisition and disposals (A&D), farmins and farmouts, corporate-level mergers and acquisitions (M&A), equity, debt, corporate and asset restructuring, and strategic matters.

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.

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.

We understand that honesty and integrity are of paramount importance. We are committed to developing an environment where our clients' needs are met, and expectations exceeded, which is reflected in our approach, core values, people and affiliations.

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