Commodity Week

22 March 2021

Is it: "It's the EU, Stupid!", Or "The Stupid EU!"?

Commodity prices have always been a reflection of the relative strengths of the competing influences. It is safe to say that currently, it is all about demand. While a stronger dollar may be providing some headwinds, the question of demand is less technical and more basic, it's about the vaccination programme and whether further lockdowns will be required.

What is really at play this week, and in the coming 7 to 10 days, is the fragile egos within the leadership of the EU. The EU has been found wanting over the vaccination programme, and the recent suspensions for the rollout of the AstraZeneca vaccine have more to do with realpolitik than they do with blood clots.

At no time has the difference between the countries that put their population first and those countries choosing to shore up the EU's reputation been starker. Denmark and Italy have publicly denounced the EU's realpolitik with the AstraZeneca vaccine, as has the WHO and the United Kingdom, the latter having the most experience with the vaccine given the success of its vaccination programme.

We will state here, for the sake of clarity, the incidence of blood clots in those having received the AstraZeneca vaccine is statistically consistent with the general population, i.e., there appears to be no elevated risk associated with the vaccine.

It says something about the leadership of the EU, if they make such an irresponsible and scientifically illiterate claim, putting the lives of their citizens at risk, to protect their own reputations.

Were that the damage that the EU has inflicted on its own vaccination programme be confined to the EU, then it would be of lesser concern, but in this world of interconnected travel and trade, the EU's rank stupidity could affect everybody, and it is this that is driving concern about the oil markets.

In this Week's Edition

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Fingertip Figures

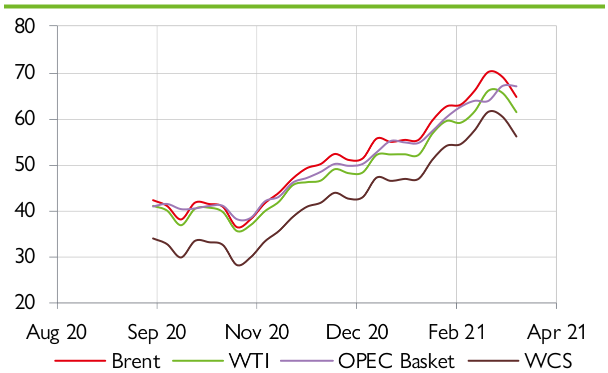
Table 1 – Commodity Prices

Item	Price	1 Week Change (Net)	(%)
Crude			
Brent ($/bbl)	64.53	(4.34)	(6.30%)
WTI ($/bbl)	61.42	(4.19)	(6.39%)
OPEC ($/bbl)	66.76	(1.38)	(2.03%)
WCS ($/bbl)	53.07	(4.19)	(7.32%)
Natural Gas			
Henry Hub ($/mm btu)	2.70	(0.07)	(2.71%)
NBP (p/therm)	43.55	(3.95)	(8.32%)
JKM ($/mm btu)	6.52	0.44	7.33%
Dutch-TTF (€/MWh)	17.26	(1.19)	(6.46%)
PSV (€/MWh)	18.03	(0.78)	(4.17%)
De Gas Pool (€/MWh)	17.64	(0.84)	(4.56%)
Currencies			
GBP ($/£)	1.387	(0.002)	(0.17%)
EUR (€/$)	1.191	(0.003)	(0.24%)
JPY (¥/$)	108.9	(0.130)	(0.12%)
NOK (N₭/$)	8.544	0.095	1.12%
RUB (₽/$)	74.25	0.865	1.18%

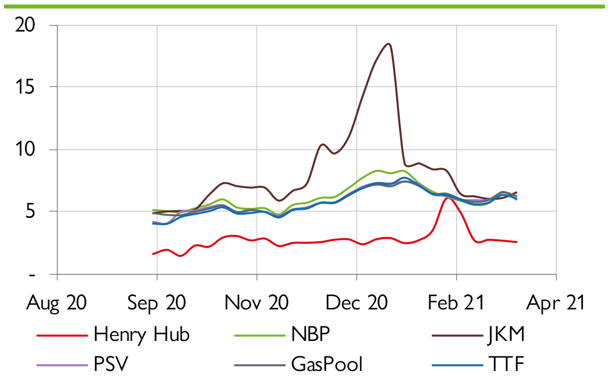
Source: FactSet & OGA data

Figure 1 – Commodity Charts

Oil ($/bbl)



Gas ($/mm btu)



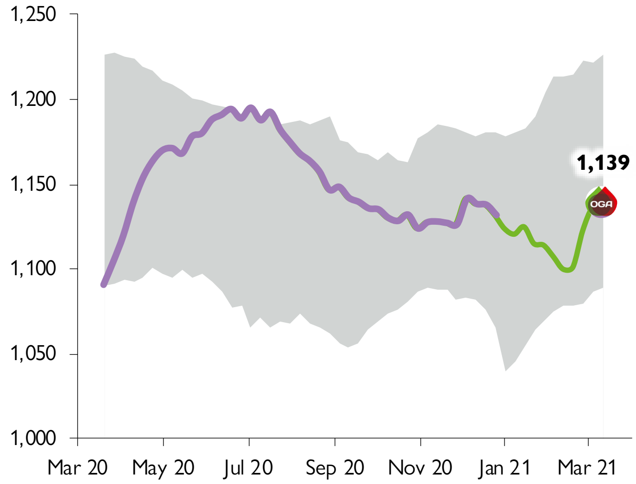
Source: FactSet & OGA data

Oil Market

Commentary

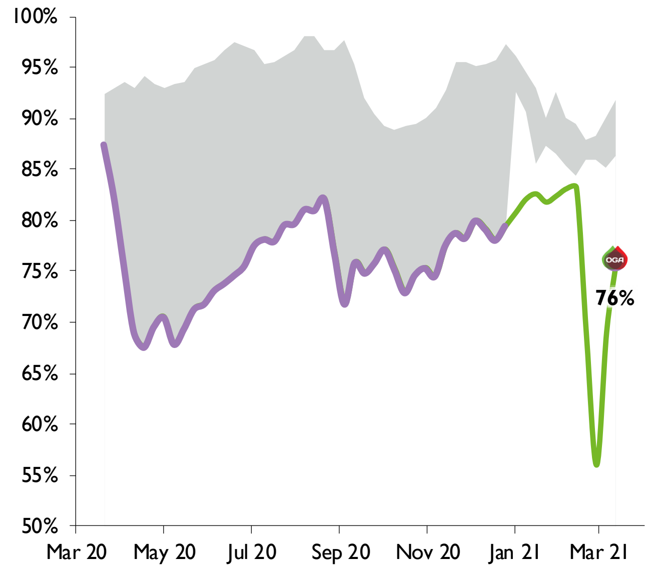
As we have seen in the inventory numbers (Figure 2), the restoration of production from the Permian Basin continues to impact inventory numbers, which is hardly a surprise seeing as refining utilisation, albeit recovering from its lows, is still at a low level (Figure 3).

Figure 2 – US Inventories
m bbl



Source: Energy Information Administration, FactSet & OGA data

Figure 3 – Refining Utilisation
Percent of Nameplate Capacity



Source: Energy Information Administration, FactSet & OGA data

given that over the last 10 years the United States has become less reliant on imports than it that historically observed, the WTI benchmark has largely become separated from the global benchmarks, such that even the Energy Information Administration (the "EIA"), has benchmarked against Brent.

That being the case, given that Brent has traded lockstep with WTI, is a reflection of measure of concern that is currently circulating the oil markets that the vaccine rollout programme is being thwarted.

As we highlight in our opening piece, the wanton and deliberate destruction of confidence in the AstraZeneca vaccine for realpolitik purposes, makes the EU resemble a dictatorial clique, out of step and disconnected with the wider world around them.

We have heard many commentators lamenting the "passing" of the oil industry and that this downward leg will be the opening gambit of what will ultimately be a destructive bear market.

We disagree.

Oil price progression is never linear, and there is always going to be periods of relative strength or weakness, resulting in a "sawtooth" pattern. To confuse this progression in the oil price with something more fundamental, we think is excessive.

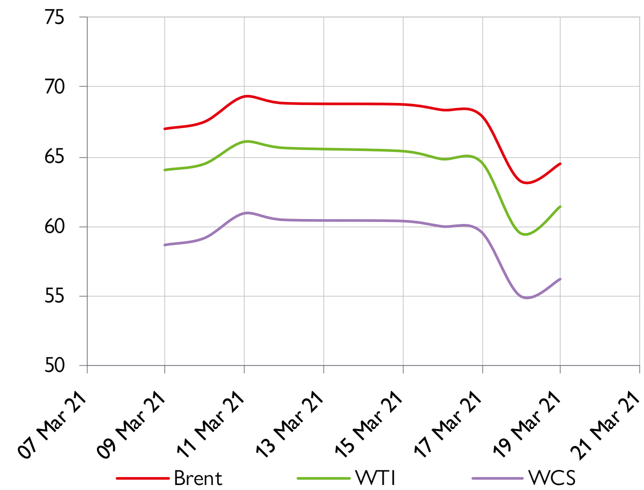
It is without doubt that what the EU has done has imperilled the lives of its citizens, but it has also raised the likelihood that third lockdown, which means that the demand side of the equation is likely to be significantly impacted.

Let us be clear, the outlook on the supply side has not changed, and the structural deficiencies that have been developing have been catalysed by Covid–19.

Whilst we may be due for a pause in the oil price, overall we believe that this will merely be a stepping stone to a significantly higher period of oil and gas prices.

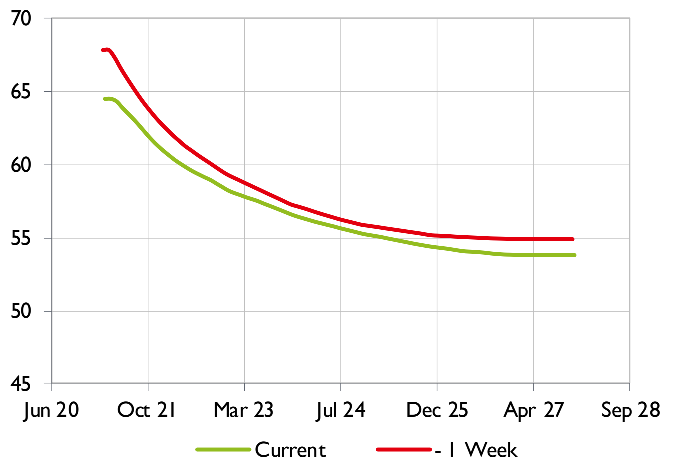
Recent Pricing & Forwards

Figure 4 – International Benchmark Prices – Last 7 Days
$/bbl



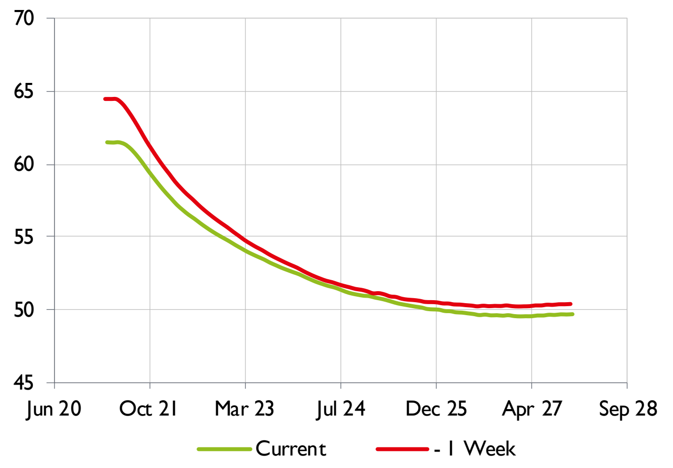
Source: FactSet & OGA data

Figure 5 – Brent Forwards
$/bbl



Source: FactSet & OGA data

Figure 6 – WTI Forwards
$/bbl



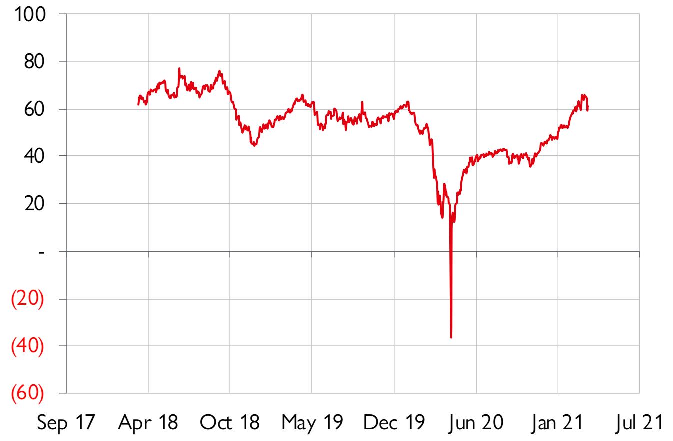
Source: FactSet & OGA data

Historic Pricing

Figure 7 – Brent
$/bbl

Source: FactSet & OGA data

Figure 8 – WTI
$/bbl



Source: FactSet & OGA data

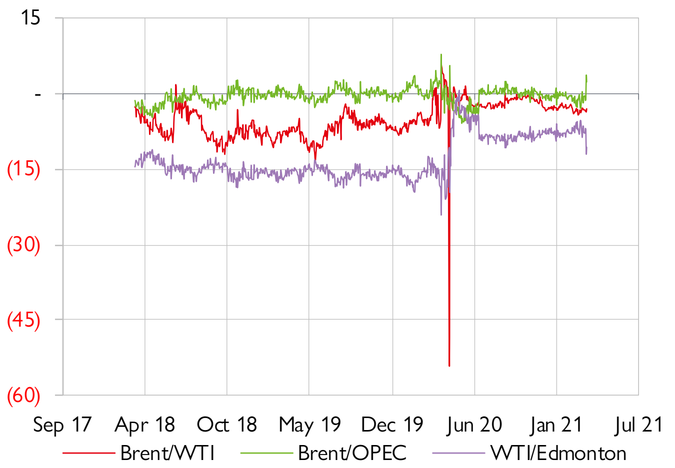
Figure 9 – OPEC
$/bbl

Source: FactSet & OGA data

Figure 10 – WCS
$/bbl

Source: FactSet & OGA data

Figure 11 – Differentials
$/bbl



Source: FactSet & OGA data

Gas Market

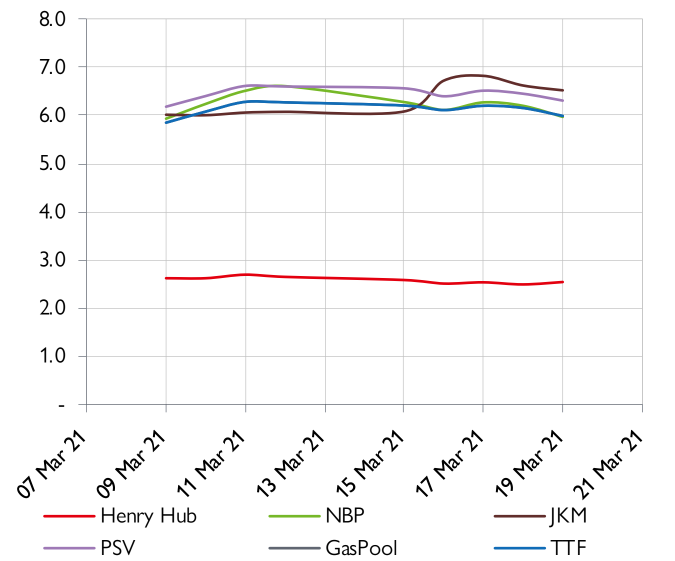
Commentary

As we begin to enter the northern hemisphere spring, we continue to believe that there will be downward pressure on gas prices.

As we can see in Figure 12, the US gas market has returned to "normal" after seeing prices spike in excess of $20/mm btu. Given the seasonality to gas demand, we will continue to see declining prices, in line with seasonal norms, ahead of the commencement of the air-conditioning season in around late May.

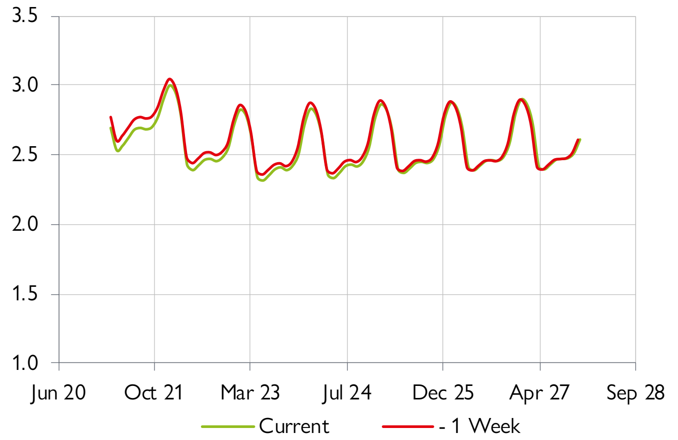
Recent Pricing & Forwards

Figure 12 – International Benchmark Prices – Last 7 Days
$/mm btu



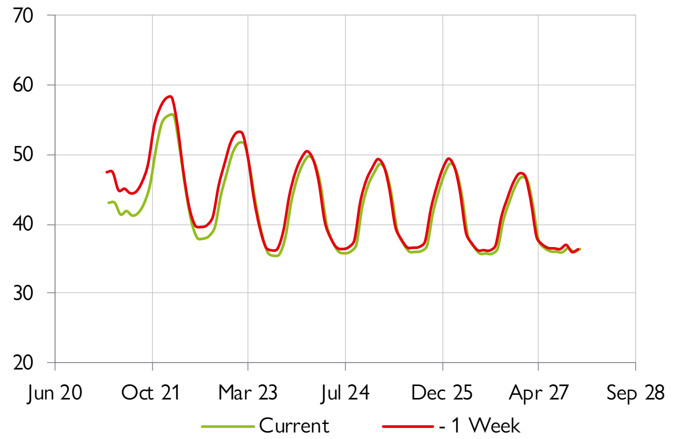
Source: FactSet & OGA data

Figure 13 – Henry Hub Forward
$/mm btu



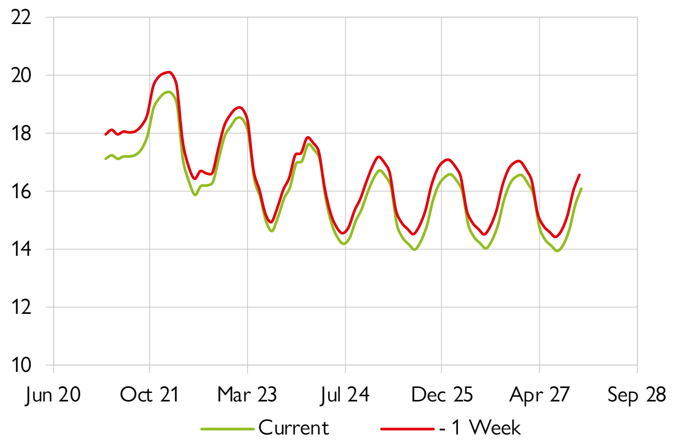
Source: FactSet & OGA data

Figure 14 – NBP Forward
p/therm



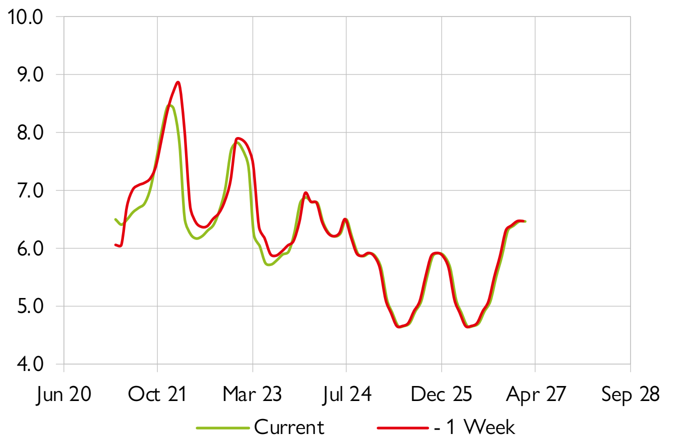
Source: FactSet & OGA data

Figure 15 – Dutch-TTF Forward
€/MWh



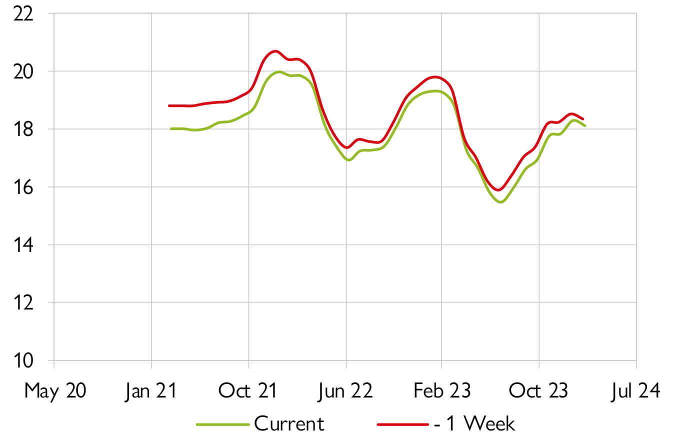
Source: FactSet & OGA data

Figure 16 – JKM Forward
$/mm btu



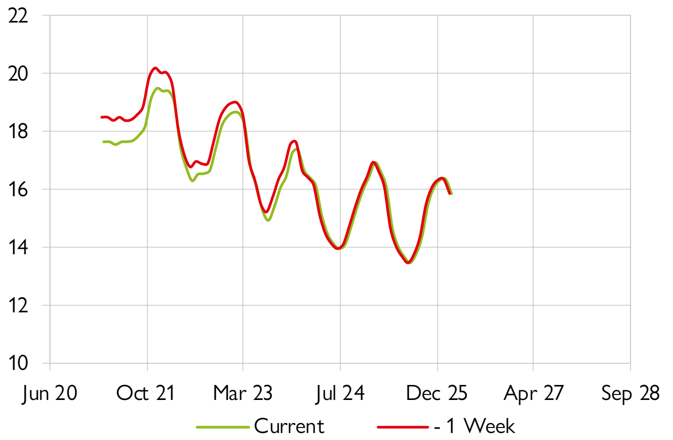
Source: FactSet & OGA data

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 22 – JKM
$/mm btu

Source: FactSet & OGA data

Figure 23 – PSV
€/MWh

Source: FactSet & OGA data

Figure 24 – De Gaspool
€/MWh

Source: FactSet & OGA data

Rig Update

Commentary

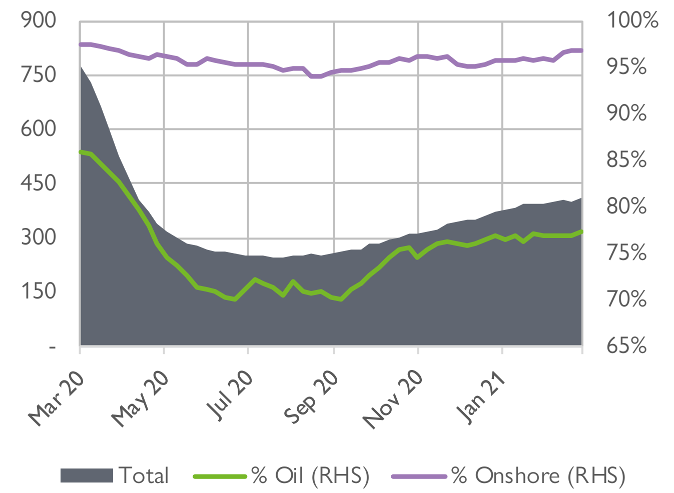
Rig utilisation rates continue to recover (Table 2) as the impact of the US' polar vortex continues to recede. Of more concern, however, is the rapid retrenchment in demand in Canada.

Table 2 – Rotary Rig Data

Item	Latest (δ %)	-1 Week (δ %)	-6 Months (δ%)
USA	411	402	255
	2.2%	57.6%	-
Canada	92	116	64
	(20.7%)	81.3%	-
North America	503	518	319
	(2.9%)	62.4%	-
Rest of the World	701	701	747
	-	(6.2%)	-
Total	**1,204**	**1,219**	**1,066**
	(1.2%)	**14.4%**	**-**

Source: FactSet & OGA data

Figure 25 – Rolling 12-Month Rig US Rates
Count



Source: Baker-Hughes, FactSet & OGA data

While the argument might be made that the polar vortex impacted Canada as much as it did the United States, we would argue that Canadian drillers are better prepared for cold and inhospitable weather, than their US counterparts, and certainly more so than their peers operating in Texan basins such as the Permian.

There can be little argument that the Canadian government has significantly undermined the Canadian oil and gas sector. So much so, we are concerned that such a dramatic decline (> 20%) could be evidence of a wider systemic erosion of Canadian oil and gas. We will need to keep a watching brief.

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.