

Commodity Update



11 May 2021

Grownup Politics to Return?

In this last week there have been local and national elections in the United Kingdom (the “UK”). What has been interesting isn’t so much the local elections, which are by their nature defined by local issues, but the elections for the respective parliamentary representative, or Member of Parliament (an “MP”).

Usually, mid-term elections, including those in the UK, result in a swing away from the government of the day, towards the opposition parties, which is what has made the recent electoral results so surprising. While the extent to which there was a swing towards the government was an anomaly in and of itself, more interestingly was that there was a marked and deliberate swing away from identity politics, and towards more balanced “real world” politics. What this means in the wider context is too early to say, but in moving away from identity politics feels like a significant step.

Furthermore, we believe that this means that there is an increased likelihood that any policy changes towards oil and gas would be measured and reflect the need to have an orderly transition period.

Specifically, we believe that oil and gas can begin to find its voice once more and start to participate in the climate change conversation including conversations about the energy transition and migration to “net zero.”

Furthermore, this may also herald the beginning of a wider conversation about the causation of climate change, or more specifically, the influence of man-made emissions. Ideally, we can start to discuss the multivariate drivers for climate change and start to put science back into the debate, enabling us to better understand climate change in the context of geological time (billions of years), as opposed to that captured by written history (hundreds of years), and favoured by the climate change lobby.

While we are happy for this transition away from student union politics to continue, strong government requires strong opposition, irrespective of whether it’s in the UK, or elsewhere. To that extent, having such a weak opposition in the United Kingdom is unproductive in the long run, and needs to be addressed.

Note

In response to feedback from the audience, we have decided to alter the publication frequency to a monthly basis and focus on the strategic outlook. We always welcome feedback and would welcome comments and suggestions to further improve the document.

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Fingertip Figures

Table 1 – Commodity Prices

Item	Price	1 Month Change	
		(Net)	(%)
Crude			
Brent (\$/bbl)	68.28	4.76	7.49%
WTI (\$/bbl)	64.90	5.74	9.70%
OPEC (\$/bbl)	66.57	1.15	1.76%
WCS (\$/bbl)	56.55	5.74	11.30%
Natural Gas			
Henry Hub (\$/mm btu)	3.01	0.26	9.37%
NBP (p/therm)	63.05	16.25	34.72%
JKM (\$/mm btu)	9.05	1.87	26.06%
Dutch-TTF (€/MWh)	23.93	4.96	26.17%
PSV (€/MWh)	24.63	4.68	23.45%
De Gas Pool (€/MWh)	24.10	4.77	24.68%
Currencies			
GBP (\$/£)	1.398	0.018	1.32%
EUR (€/€)	1.214	0.039	3.31%
JPY (¥/\$)	108.6	(1.935)	(1.75%)
NOK (Nk/\$)	8.229	(0.308)	(3.61%)
RUB (P/\$)	73.79	(1.729)	(2.29%)

Source: FactSet & OGA data

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Oil & Gas Advisors

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Commentary

Oil Markets

The oil markets have continued their upward trajectory and given that nearly every commentator now believes that 2022 will see near-record economic growth rates, is clear to see that is likely to be further upward pressure.

Balanced against this is the fact that Covid remains an issue, especially in countries with exceptionally high population densities, such as India, where the ease of transmission is overwhelming its healthcare infrastructure.

What is unclear at the moment is to what extent the Covid restrictions implemented during the northern hemisphere summer of 2020 and winter of 2020/21 will be repeated in the autumn and winter months of 2021/22.

We believe that it is exact point that is dominating the longer-term outlook. However, once the medium to longer term picture becomes clear, we believe that there will be a significant uptick in long dated interest, which could result in contango.

Gas Markets

Like the oil markets, gas prices have also been increasing, albeit at a significantly lower rate. We believe that the measured return to “normality” from Covid restrictions will significantly reduce the northern hemisphere seasonal highs as cooling loads are expected to be lower than historic averages.

Nevertheless, we would expect demand for the northern hemisphere 2021 summer to have staged a recovery from the lows of 2020.

While we expect economic activity to have a significant impact on the medium to longer term oil prices, it is uncertain thus far as to what extent “homeworking” will have an impact on heating and cooling loads.

From a longer-term perspective, irrespective of what climate change inspired limitations are imposed on consumption, the intermittent nature of renewables means that we see it as inevitable that natural gas will become the de facto swing energy source, which augers well for the longer term future of natural gas.

Rig Markets

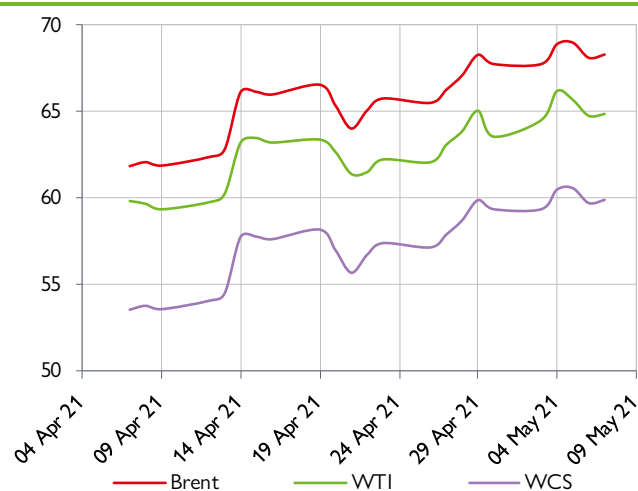
For the majority of regions, rig rates are in excess of those observed six months ago – with the exception of Canada, which continue to deteriorate.

While we are certain that there is a measure of uncertainty arising from the cancellation of the Keystone XL pipeline, we can't help but think that the Canadian government is playing a bigger hand in undermining its domestic oil and gas industry than Covid ever did.

Charts

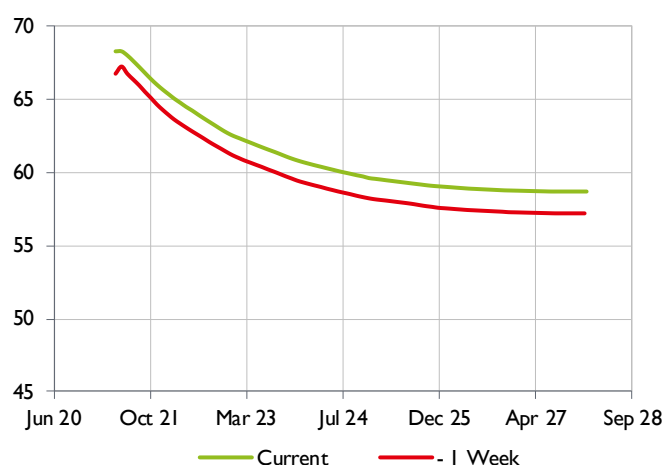
Oil Charts

Figure 1 – International Benchmark Prices – Last Month
\$/bbl



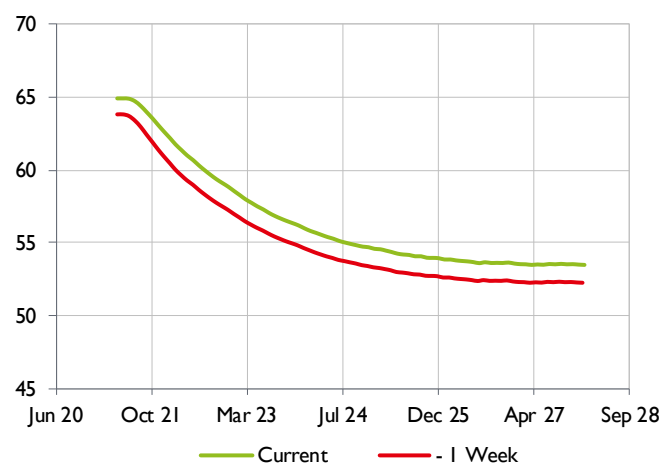
Source: FactSet & OGA data

Figure 2 – Brent Forwards
\$/bbl



Source: FactSet & OGA data

Figure 3 – WTI Forwards
\$/bbl



Source: FactSet & OGA data

Historic Pricing

Figure 4 – Brent
\$/bbl



Source: FactSet & OGA data

Figure 5 – WTI
\$/bbl



Source: FactSet & OGA data

Figure 6 – OPEC
\$/bbl



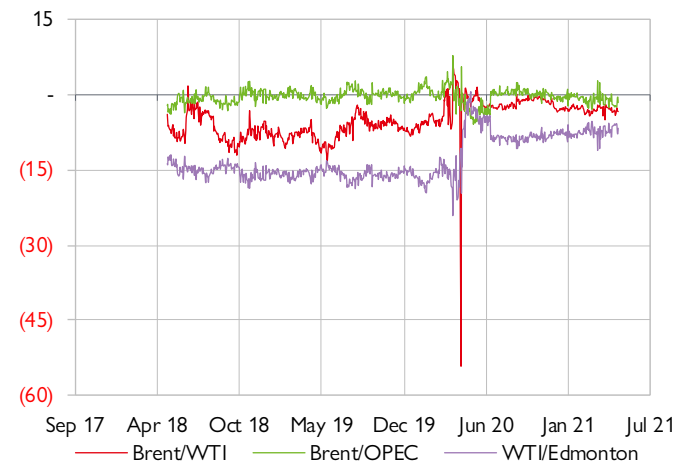
Source: FactSet & OGA data

Figure 7 – WCS
\$/bbl



Source: FactSet & OGA data

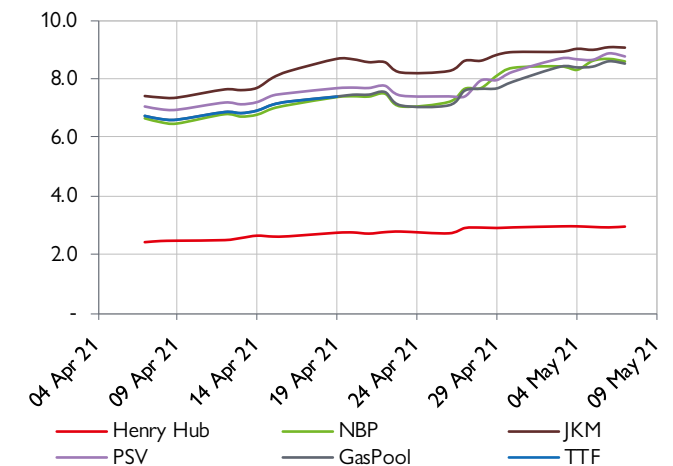
Figure 8 – Differentials
\$/bbl



Source: FactSet & OGA data

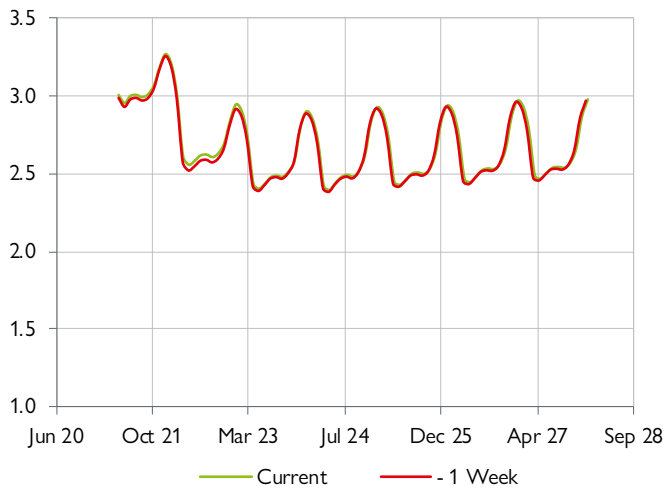
Gas Charts

Figure 9 – International Benchmark Prices – Last Month
\$/mm btu



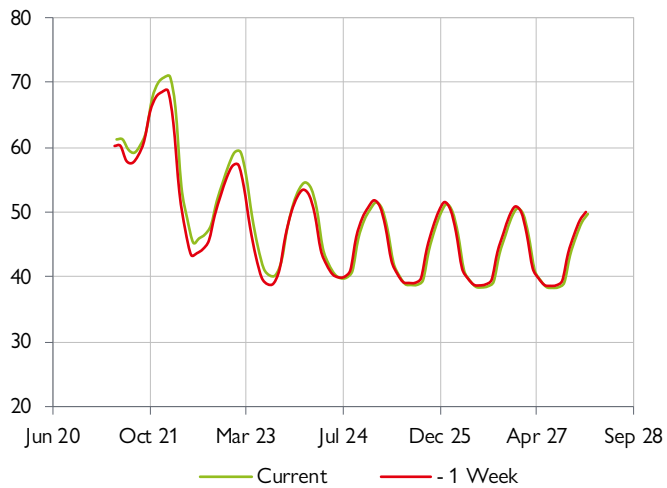
Source: FactSet & OGA data

Figure 10 – Henry Hub Forward
\$/mm btu



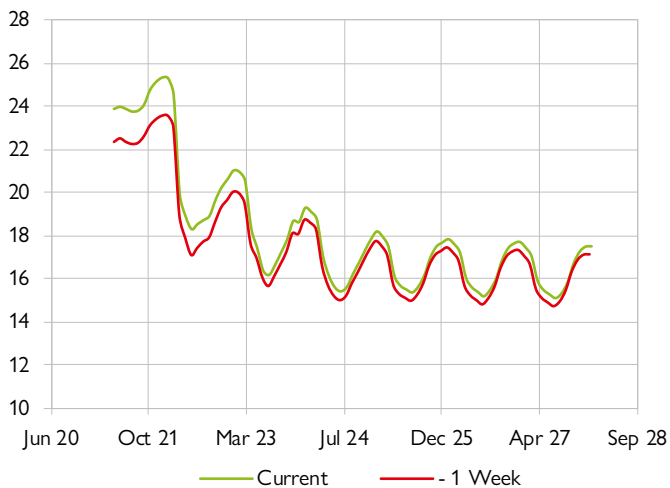
Source: FactSet & OGA data

Figure 11 – NBP Forward
p/therm



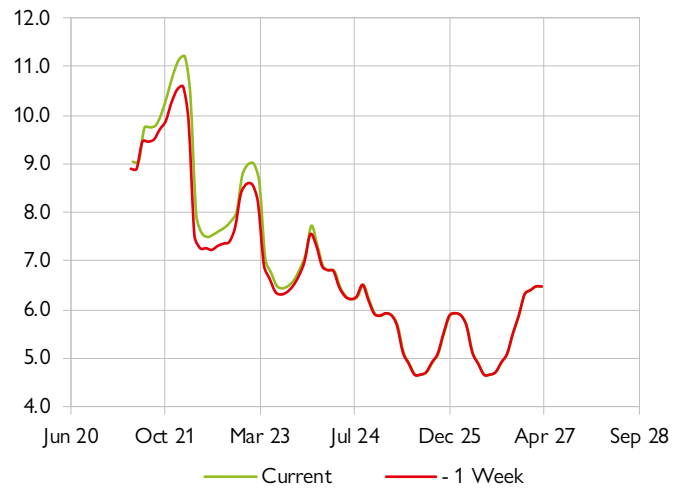
Source: FactSet & OGA data

Figure 12 – Dutch-TTF Forward
€/MWh



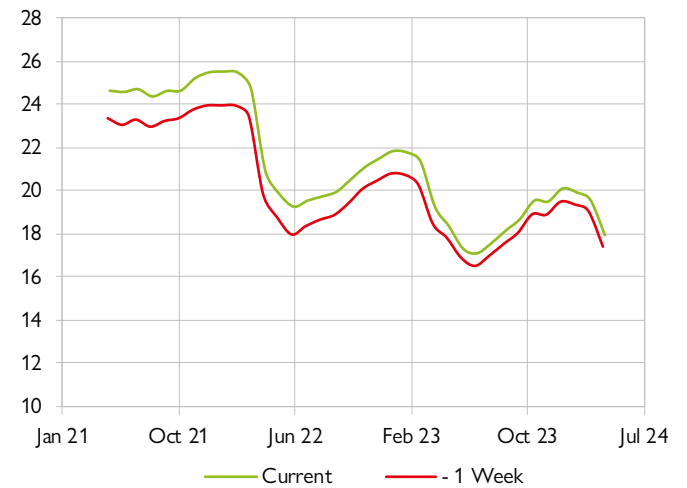
Source: FactSet & OGA data

Figure 13 – JKM Forward
\$/mm btu



Source: FactSet & OGA data

Figure 14 – PSV Forwards
€/MWh



Source: FactSet & OGA data

Figure 15 – German Gaspool Forward
€/MWh

None

Source: FactSet & OGA data

Historic Pricing

Figure 16 – Henry Hub
\$/mm btu



Source: FactSet & OGA data

Figure 17 – NBP
p/therm



Source: FactSet & OGA data

Figure 18 – Dutch TTF
€/MWh



Source: FactSet & OGA data

Figure 19 – JKM
\$/mm btu



Source: FactSet & OGA data

Figure 20 – PSV
€/MWh



Source: FactSet & OGA data

Figure 21 – De Gaspool
€/MWh



Source: FactSet & OGA data

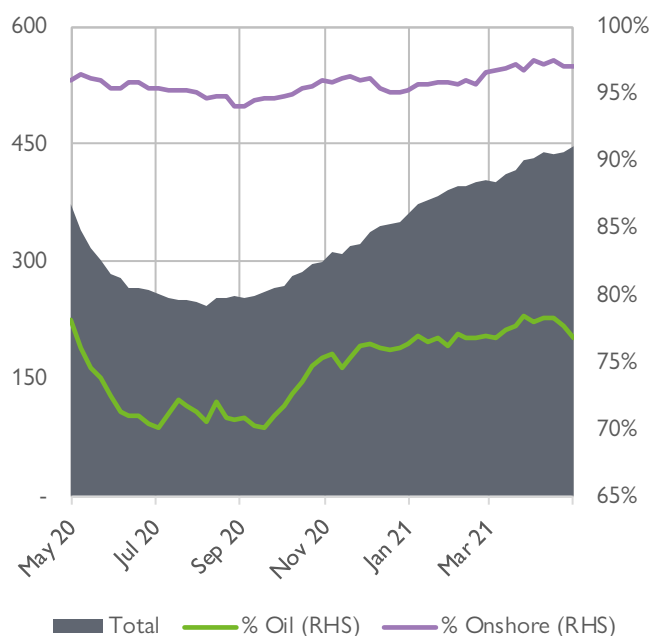
Rig Charts

Table 2 – Rotary Rig Data

Item	Latest (δ %)	-1 Month (δ %)	-6 Months (δ%)
USA	448 2.8%	436 45.3%	300 -
Canada	55 (5.2%)	58 (32.6%)	86 -
North America	503 1.8%	494 28.0%	386 -
Rest of the World	695 (2.8%)	715 9.0%	656 -
Total	1,198 (0.9%)	1,209 16.0%	1,042 -

Source: FactSet & OGA data

Figure 22 – Rolling 12-Month Rig US Rates Count



Source: Baker-Hughes, 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), farm-ins and farm-outs, 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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