Commodity Week

25 January 2021

Talking Point

So now we know. After all the angst generated in oil & gas about pre-campaign comments over proposed changes to oil and gas regulation, and strenuous denials emanating from the Democrat camp on the campaign trail, the first three days of the Biden presidency has set the tone – their denials were just lexical gymnastics.

The combination of the cancellation of Keystone XL and the growing rumours that the ban fracking on federal lands, so often banned on the campaign trail is becoming a reality, raises serious questions as to whether some of the more outlandish proposals that were dismissed by all elements of the Democratic campaign, now take on greater significance.

At this point, we spare a thought for those tens of thousands of families that now face an uncertain future in the middle of what is an unprecedented global pandemic. One thing that strikes us instantaneously, is that the next Senate elections in two years cannot come quick enough, and it will take an act of bravery to invest in US domestic oil and gas anywhere outside of a Republican state, which would provide some measure of protection.

What happens next could have a direct impact on the outlook for the US domestic oil and gas industry. If US domestic production starts to come under pressure earlier than expected, the knock-on impact that this has on the general outlook could be exacerbated and the Supercycle arrive a lot sooner than anybody currently predicts.

The corollary of that is that investment in oil and gas outside of the United States has taken on a greater significance, which is a significant positive for nearly every single hydrocarbon province.

In this Week's Edition

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Fingertip Figures

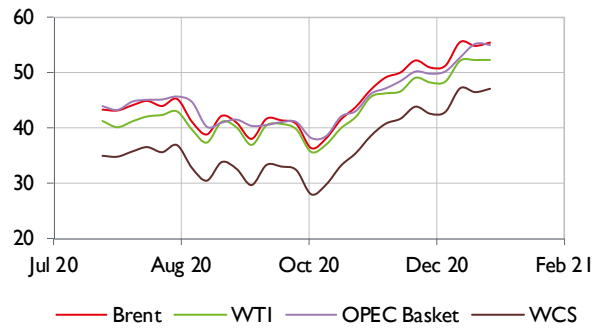
Table 1 – Commodity Prices

Item	Price	1 Week Change (Net)	(%)
Crude			
Brent ($/bbl)	55.41	0.61	1.11%
WTI ($/bbl)	52.27	(0.09)	(0.17%)
OPEC ($/bbl)	55.14	0.46	0.84%
WCS ($/bbl)	43.92	(0.09)	(0.20%)
Natural Gas			
Henry Hub ($/mm btu)	2.46	(0.24)	(8.90%)
NBP (p/therm)	60.15	0.80	1.35%
JKM ($/mm btu)	8.86	(9.45)	(51.64%)
Dutch-TTF (€/MWh)	21.45	1.29	6.40%
PSV (€/MWh)	20.79	0.30	1.44%
De Gas Pool (€/MWh)	20.56	0.93	4.76%
Currencies			
GBP ($/£)	1.367	0.009	0.67%
EUR (€/$)	1.217	0.008	0.66%
JPY (¥/$)	103.8	(0.075)	(0.07%)
NOK (N₦/$)	8.499	(0.057)	(0.66%)
RUB (₽/$)	75.14	1.454	1.97%

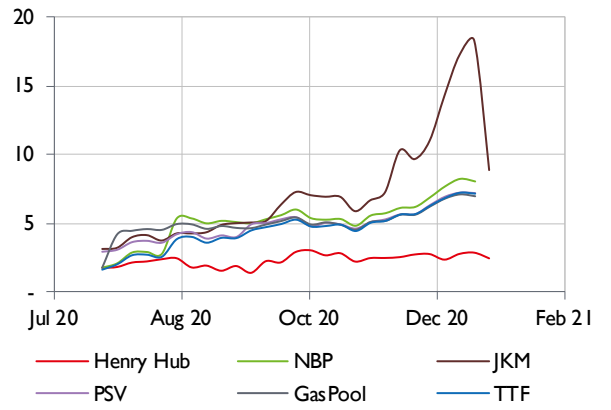
Source: FactSet & OGA data

Figure 1 – Commodity Charts

Oil ($/bbl)



Gas ($/mm btu)



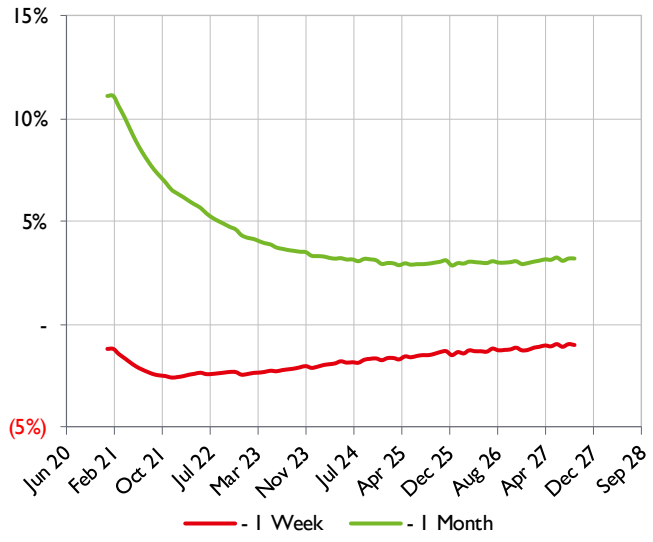
Source: FactSet & OGA data

Oil Market

Commentary

After the events immediately following the inauguration of President Biden, is hardly a surprise that oil prices, both at the long and short end of the curve, have fallen away, albeit up month on month (Figure 2).

Figure 2 – WTI Forwards Price Variance
% difference over period



Source: FactSet & OGA data

Until such times as the Democrats start to impact on US domestic production, as opposed to the cancellation of Keystone XL, which predominantly impacts Canadian producers, we believe that the oil price will continue to be driven by international events.

There is, however, a growing fear that what was once dismissed as idle speculation by and then campaigning Biden ticket, has been nothing more than campaign talk, and that the "sum of all fears" for the US domestic oil & gas industry is on the cusp of coming to fruition.

While it is undoubtedly true that much will need to happen before the US domestic oil & gas industry is mortally wounded and tipped into terminal decline, a ban on drilling on federal lands, on top of the already rumoured ban on fracking, would be a significant step in that direction.

This, therefore, raises the question as to what other measures could and emboldened Democrat White House undertake. It doesn't take a great deal of imagination to arrive at a situation where the voices from its voter base drowns out protest from those outside the Democrat bubble, and the White House seeks to implement a wider fracking Ban.

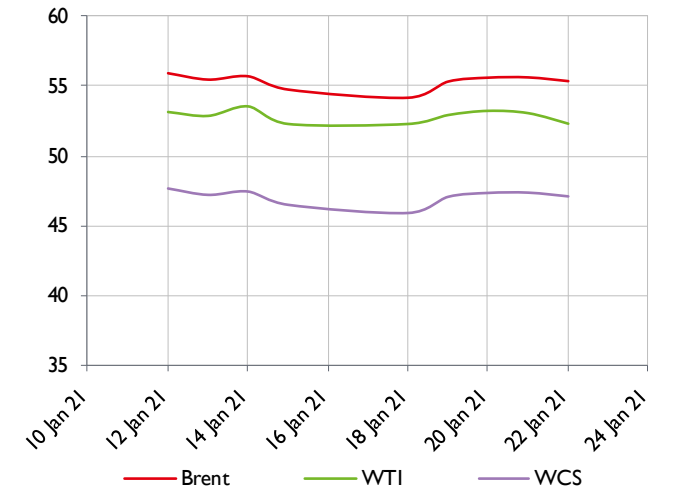
In this scenario we would see a divergence in the relationship between the valuation of US domestic producers and increased in oil and gas prices.

This would happen at the longer end initially, with an uptick in the volumes of ultra-long dated futures (>10 years), which will eventually feed through to prices.

We would anticipate that what started at the longer end of the curve would quickly travel through to the shorter end. As the direction of travel of a Democrat White House becomes more apparent, we would expect what started as an anomaly at the longer end of the forward curve, start to become the norm.

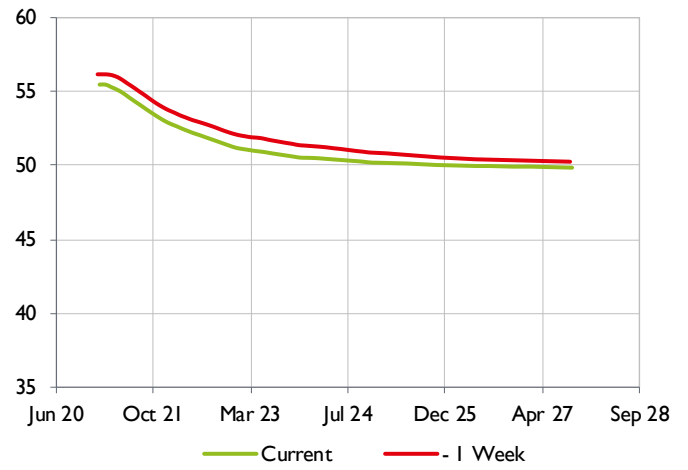
Recent Pricing & Forwards

Figure 3 – International Benchmark Prices – Last 7 Days
$/bbl



Source: FactSet & OGA data

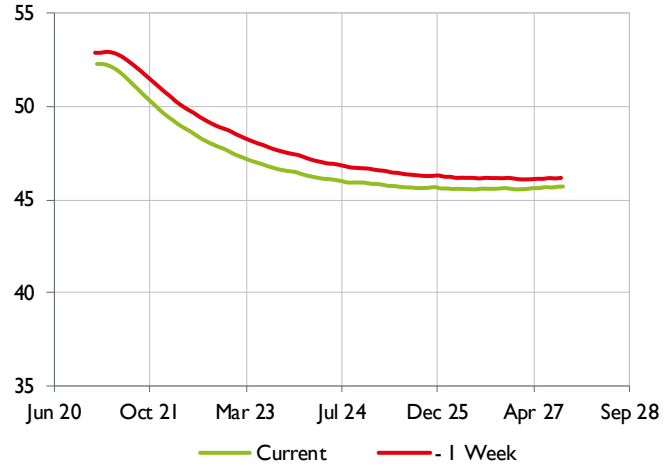
Figure 4 – Brent Forwards
$/bbl



Source: FactSet & OGA data

Figure 5 – WTI Forwards

$/bbl



Source: FactSet & OGA data

Historic Pricing

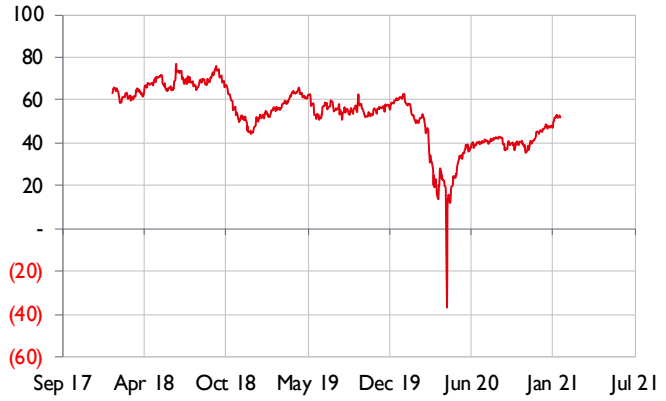
Figure 6 – Brent

$/bbl

Source: FactSet & OGA data

Figure 7 – WTI

$/bbl



Source: FactSet & OGA data

Figure 8 – OPEC

$/bbl

Source: FactSet & OGA data

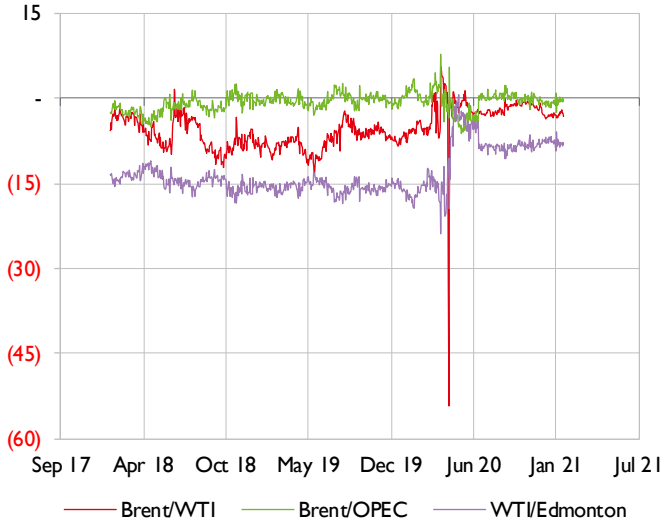
Figure 9 – WCS

$/bbl

Source: FactSet & OGA data

Figure 10 – Differentials

$/bbl



Source: FactSet & OGA data

Gas Market

Commentary

Of most note this week has been the decline in the JKM price (Figure 11), despite relative stability in the remaining underlying markets.

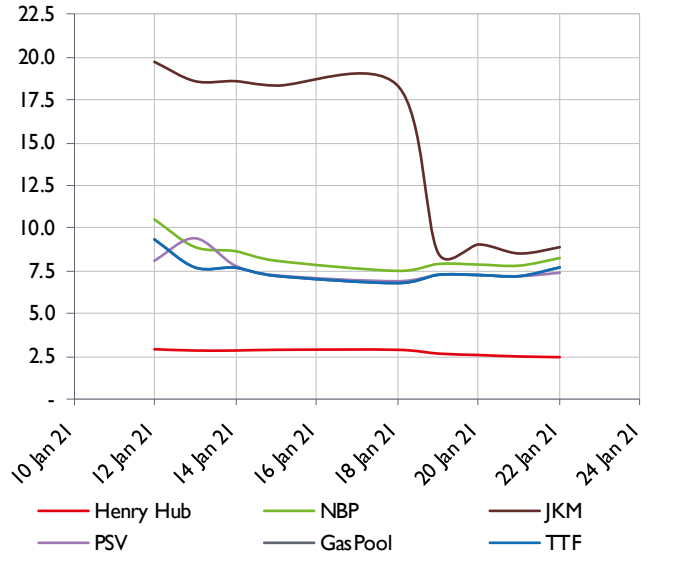
Whilst it would be compelling to think of a reason as to why it will return to the ~$15/mm btu level seen earlier in the week, it's difficult to see a situation in which this will come to pass.

While indicators continue to suggest that the cold front spreading across northern Europe will continue, this will only perhaps serve to offset unseasonably lower demand which has been precipitated by widespread lockdowns.

The coming weeks will start to provide us with greater clarity on which of the competing forces will dominate gas prices for the remainder of 2021.

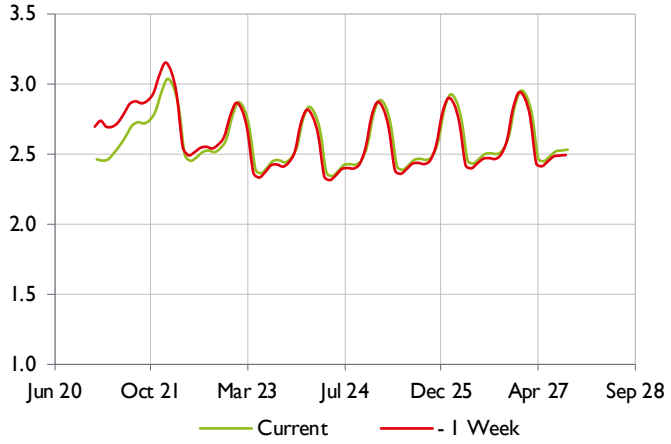
Recent Pricing & Forwards

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



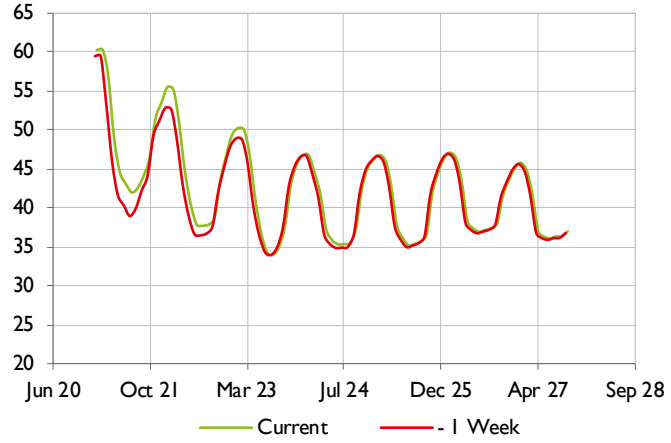
Source: FactSet & OGA data

Figure 12 – Henry Hub Forward
$/mm btu



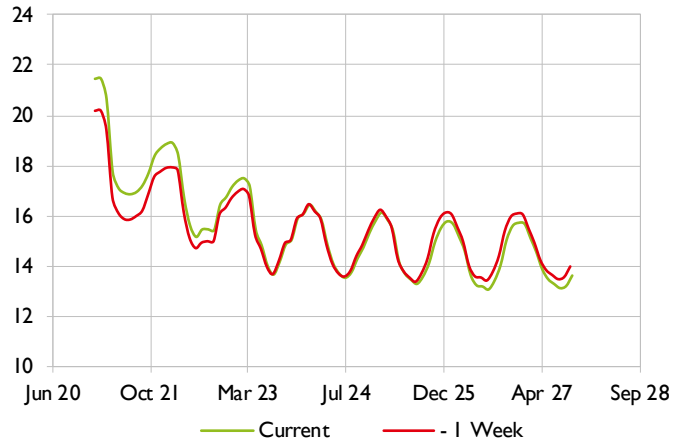
Source: FactSet & OGA data

Figure 13 – NBP Forward
p/therm



Source: FactSet & OGA data

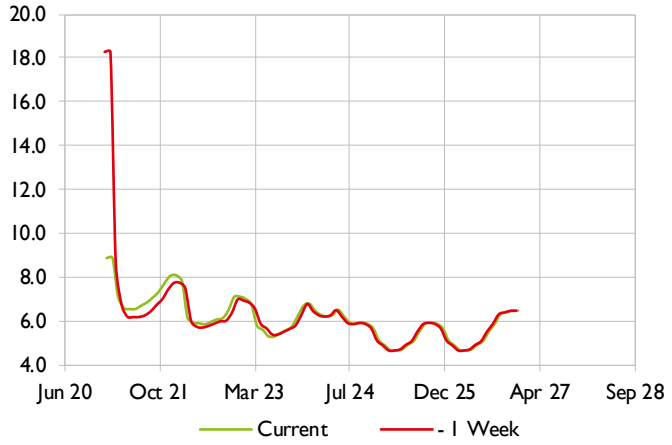
Figure 14 – Dutch-TTF Forward
€/MWh



Source: FactSet & OGA data

Figure 15 – JKM Forward

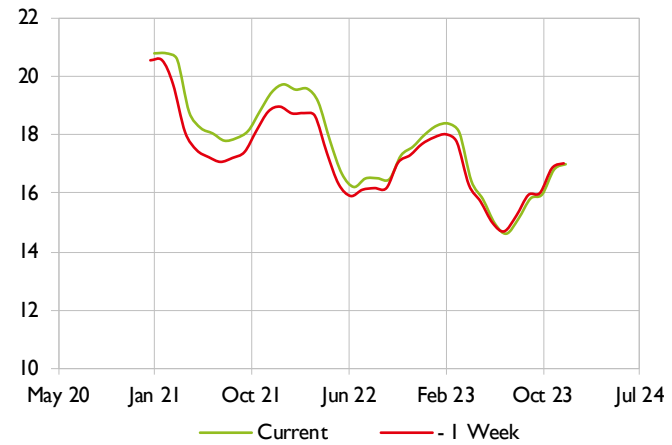
$/mm btu



Source: FactSet & OGA data

Figure 16 – PSV Forwards

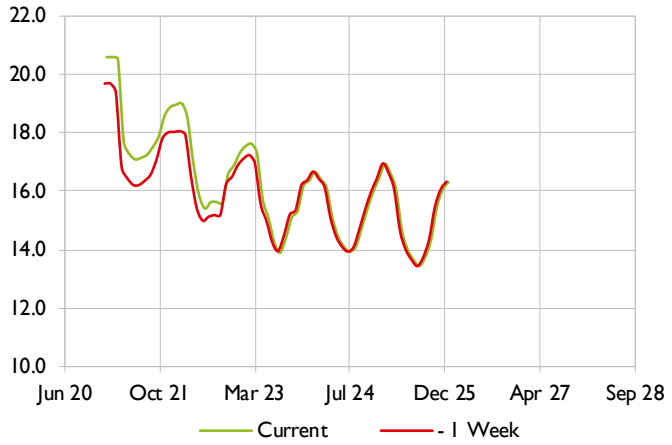
€/MWh



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 21 – JKM
$/mm btu

Source: FactSet & OGA data

Figure 22 – PSV
€/MWh

Source: FactSet & OGA data

Figure 23 – De Gaspool
€/MWh

Source: FactSet & OGA data

Rig Update

Commentary

last week, we commented that the utilisation rates would be one of the first indicators for declining confidence in the US oil & gas segment.

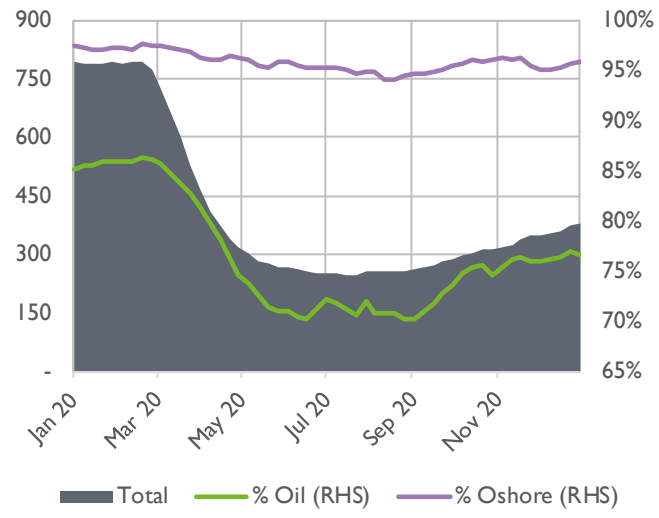
As Table 2 and Figure 24 show, growth in rig utilisation has continued into this week, albeit at a lower rate than we have seen previously.

Table 2 – Rotary Rig Data

Item	Latest (δ %)	-1 Week (δ %)	-6 Months (δ%)
USA	378	373	255
	1.3%	46.3%	-
Canada	172	161	33
	6.8%	387.9%	-
North America	550	534	288
	3.0%	85.4%	-
Rest of the World	665	665	781
	-	(14.9%)	-
Total	1,215	1,199	1,069
	1.3%	12.2%	-

Source: FactSet & OGA data

Figure 24 – Rolling 12-Month Rig US Rates
Count



Source: Baker-Hughes, FactSet & OGA data

We don't believe that the reduction in the growth rate in rig utilisation this week is due to the cancellation of the Keystone XL pipeline, or the rumours circulating that the fracking ban on federal lands, having previously been denied, is going to be implemented.

That notwithstanding, however, we believe that the swiftness of the move to cancel the Keystone XL pipeline, together with the increasingly persistent rumours that the ban on fracking on federal lands will come into play sooner rather than later, if they are going

to impact US domestic oil & gas conference, it will start to be reflected in the rig rates relatively quickly.

Whilst this is difficult to say with any confidence when that will materialise, should the Biden administration not move to quash the fracking ban rumours, or fail provide additional confidence to US domestic producers, we could well see the games in rig utilisation rates following the liberalisation of lockdown regulations in the US start to be reversed by the middle of February.

There is little doubt, that these are concerning times for the outlook for US domestic production not only maintaining current production levels, but any chance of growing further.

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.

Oil & Gas Advisors