

01 March 2021

One Swallow Does Not a Summer Make

Despite entering into a trade agreement, the EU has continued to escalate the restrictions on UK goods, prompting one French MP to cheer the imposition of a “Napoleonic Blockade.” French President Macron mooted as much in at the end of 2020, indicating that energy could also be a target.

The latest figures suggest that 15% of the UK’s total energy demand of 34.2GW is sourced from imports and 48% from gas. If we then factor in that the UK imports the majority of its gas (>60%), the majority of it from its European neighbours, should the EU be so inclined, it could remove 43% of the UK’s total energy mix. Some will call for an acceleration in the rollout of renewables, but as we have seen in Texas, renewables are not going to be the sole answer to maintaining a resilient energy network, which demands diversity of sources, preferably domestically sourced.

Against this backdrop, the fracking moratorium continues to make little sense, and could be seen to be inducing a destabilisation of the energy infrastructure. There is no guarantee that UK shale is will be suitable for fracking, but to continue to block research into something that is increasingly becoming a strategic imperative, looks foolhardy.

There is, however, some light at the end of the tunnel. Last week was the first time that an energy minister, using clear and unequivocal language rebuffed calls from green groups calling for proppant squeezes to fall under the fracking moratorium. While lifting the moratorium won’t immediately ensure the stability, security and resilience of its energy mix, it would be a solid step forward. The support for proppant squeezes could be a sign that a grown-up energy conversation is close, but as they say: “one swallow does not a summer make.”

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For further information, please contact:

+44 20 627 2385

office@og-advisors.com

www.og-advisors.com



Oil & Gas Advisors

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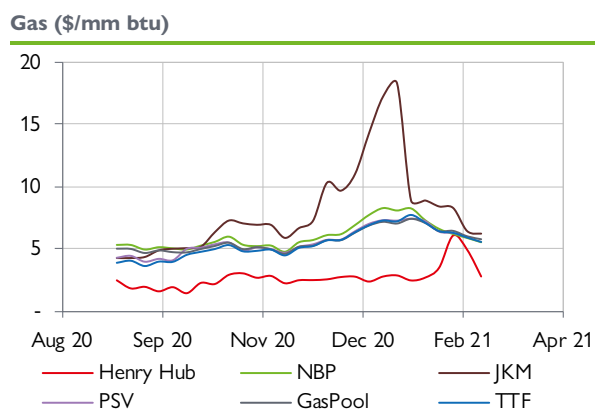
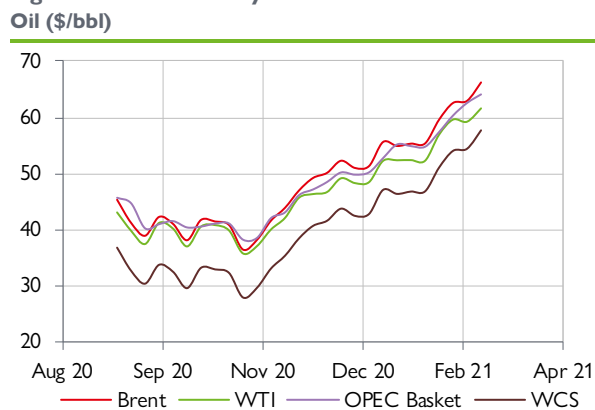
Fingertip Figures

Table 1 – Commodity Prices

Item	Price	1 Week Change (Net)	(%)
Crude			
Brent (\$/bbl)	66.13	3.29	5.24%
WTI (\$/bbl)	61.50	2.26	3.81%
OPEC (\$/bbl)	65.42	4.10	6.69%
WCS (\$/bbl)	53.15	2.26	4.44%
Natural Gas			
Henry Hub (\$/mm btu)	2.94	(0.13)	(4.27%)
NBP (p/therm)	39.75	(2.35)	(5.58%)
JKM (\$/mm btu)	6.20	(0.21)	(3.20%)
Dutch-TTF (€/MWh)	15.72	(0.83)	(5.01%)
PSV (€/MWh)	16.64	(0.13)	(0.76%)
De Gas Pool (€/MWh)	16.00	(0.68)	(4.07%)
Currencies			
GBP (\$/£)	1.398	(0.003)	(0.23%)
EUR (€/€)	1.214	0.001	0.09%
JPY (¥/\$)	106.5	0.910	0.86%
NOK (Nkr/\$)	8.612	0.167	1.98%
RUB (R/\$)	74.54	0.524	0.71%

Source: FactSet & OGA data

Figure 1 – Commodity Charts



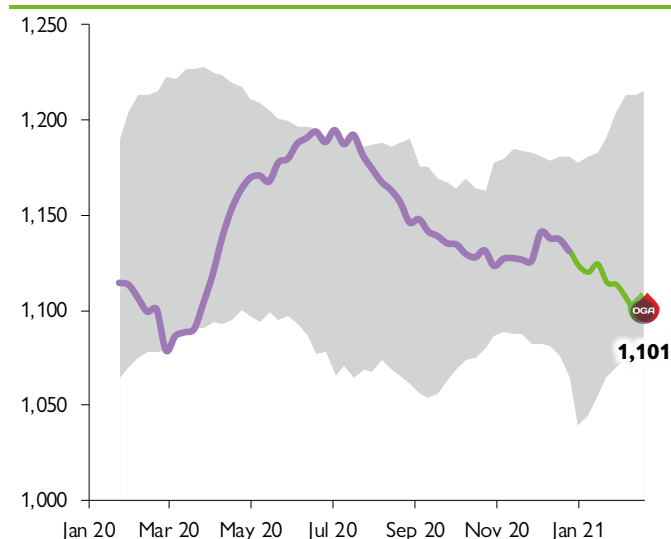
Source: FactSet & OGA data

Oil Market

Commentary

Much has been made of the recent inventory build (Figure 2), with some expressing shock given the fact that nearly all production in Texas, and particularly the Permian Basin, had been shut-in.

Figure 2 – DOE Inventories
mm bbl



Source: DOE, FactSet & OGA data

What seems to have been forgotten, however, is the fact that whilst production has ceased, so had the Gulf Coast refining network, who in suffering from power outages, needed to shut down for safety reasons.

This also needs to be set against the context of the continued decline in crude inventories since the middle of 2020 (Figure 2), some 3 months after the start of the global lockdown.

What this tells us, is that producers are far better at being able to tailor their production to suit the market's needs than refiners. This shouldn't really be a surprise, because refineries are large complex plants that require a minimum level of activity to be operational.

Although modern refineries have higher turndown ratios (the ratio of minimum permissible operating rate expressed as a percentage of the nameplate capacity) than older refineries, the US Gulf Coast's do not fall into this bracket, with the majority of the infrastructure dating from the 60s and 70s.

We believe that the refining network will be quicker to start up and come back to full capacity than the upstream producers, who in turn will most likely "feed in" over a period of weeks, if not months.

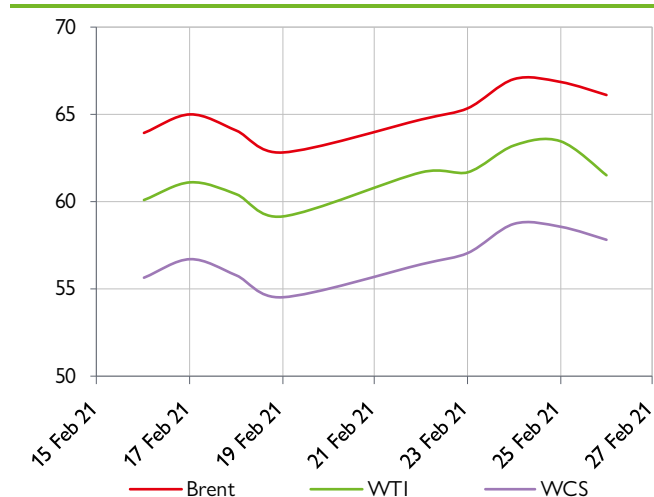
Under that scenario, we would expect to see renewed pressure on crude inventories, in the near term accelerating as the refining network comes back on stream.

In that context, the oil price, having eased a little on the back of the "surprise" build in inventories, will be more than offset once the inventory start to decline once more.

Furthermore, as Figure 2 shows, we are approaching the bottom of the 5-year range, which means that either we are going to set new lows, or (more likely) inventories will start to stabilise.

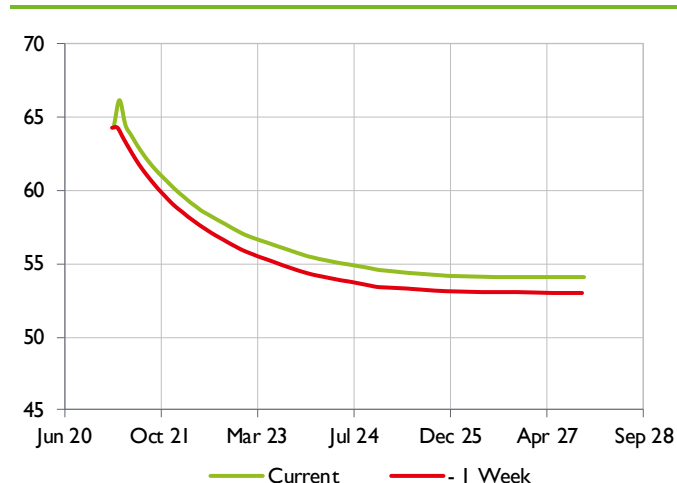
Recent Pricing & Forwards

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



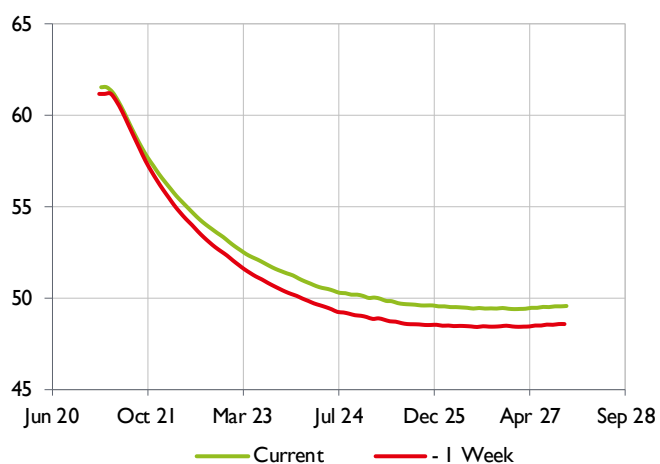
Source: FactSet & OGA data

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



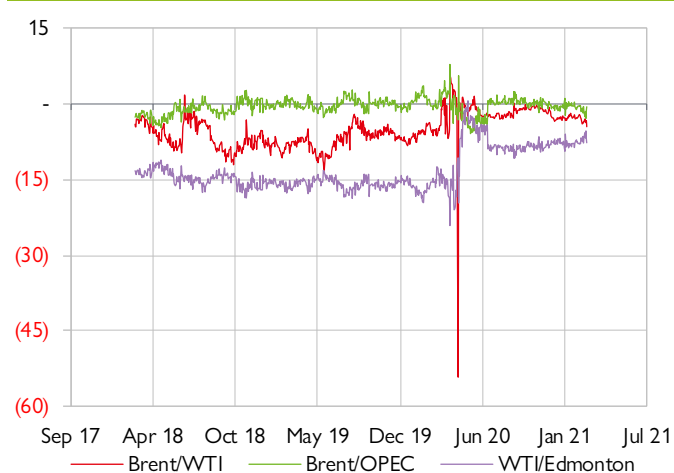
Source: FactSet & OGA data

Figure 9 – WCS
\$/bbl



Source: FactSet & OGA data

Figure 10 – Differentials
\$/bbl



Source: FactSet & OGA data

Gas Market

Commentary

As Figure 11 demonstrates, the gas markets this week have been dominated by the polar vortex in the United States, albeit short lived.

This week we expect more of the same, albeit in reverse as normality returns to the energy network in the Gulf states.

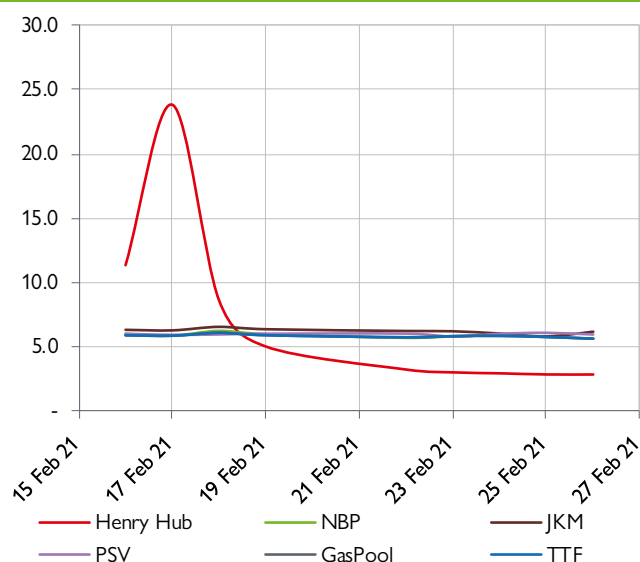
To some extent, the US gas markets have already, with Henry Hub returning to pre-polar vortex levels (Figure 18). What isn't clear, however, is to what extent the "America first" approach to gas production will impact the LNG markets.

We are uncertain as to whether there will be any further dislocation, especially as the LNG export volumes that have been delayed by the closure and temporary suspension of export permits has already been filled elsewhere.

What that means is that the polar vortex will most likely dent future volumes, albeit for a relatively short period of time.

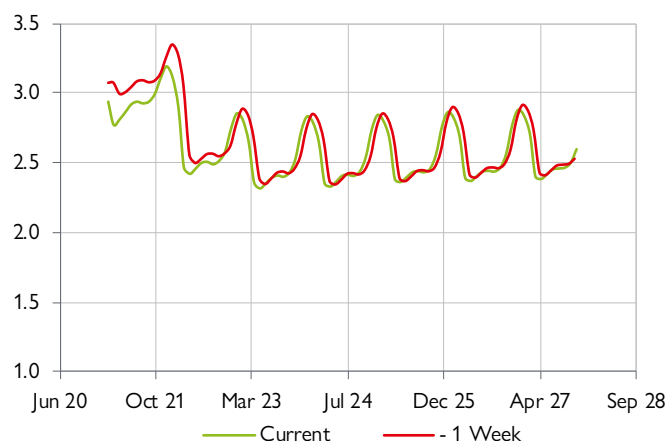
Recent Pricing & Forwards

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



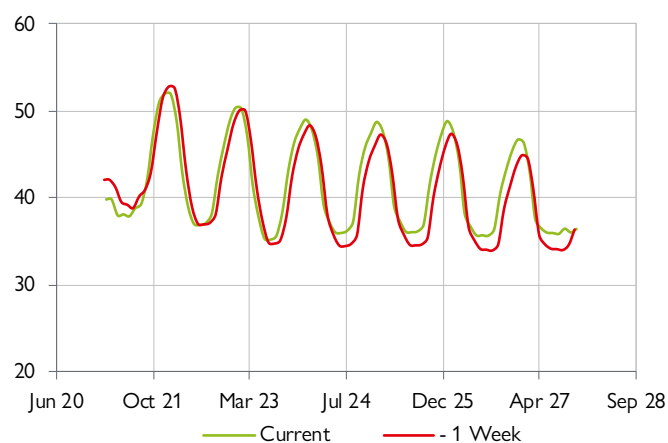
Source: FactSet & OGA data

Figure 12 – Henry Hub Forward
\$/mm btu



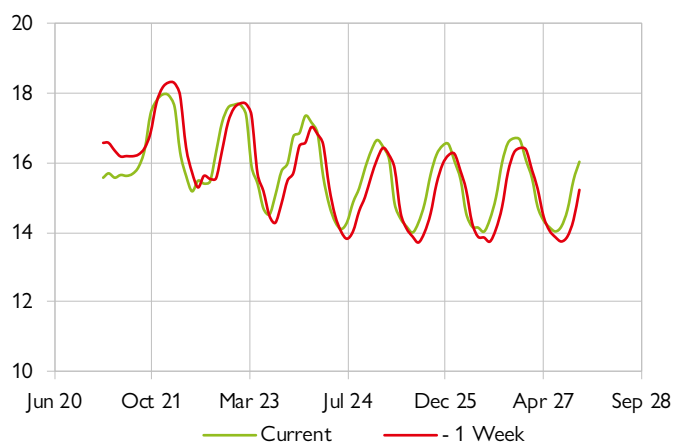
Source: FactSet & OGA data

Figure 13 – NBP Forward
p/therm



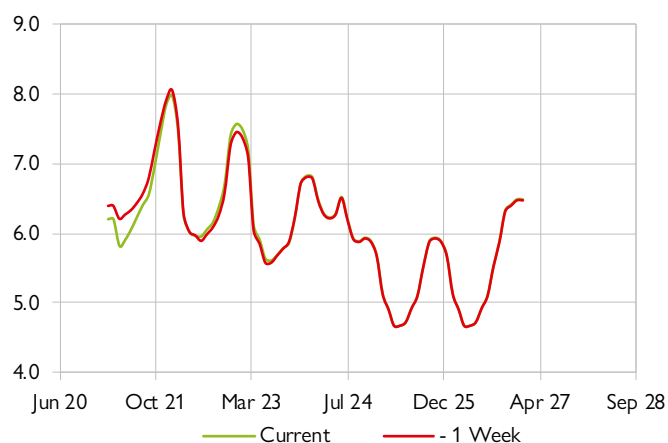
Source: FactSet & OGA data

Figure 14 – Dutch-TTF Forward
€/MWh



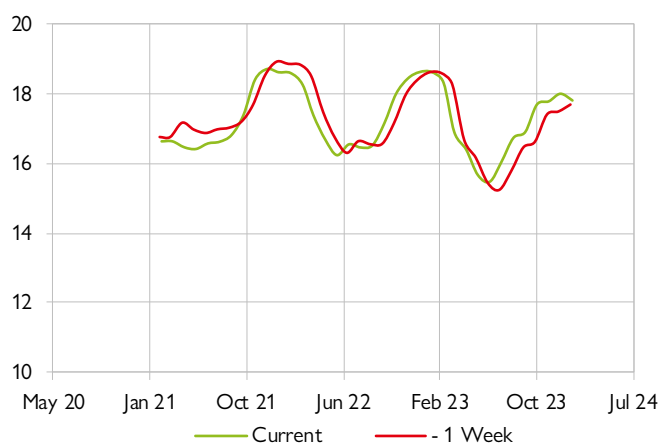
Source: FactSet & OGA data

Figure 15 – JKM Forward
\$/mm btu



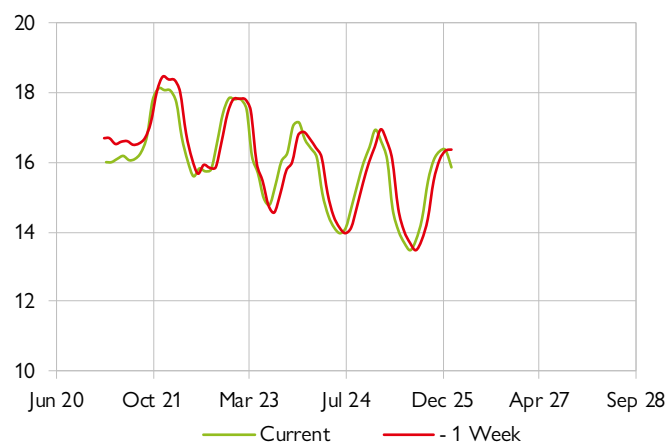
Source: FactSet & OGA data

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

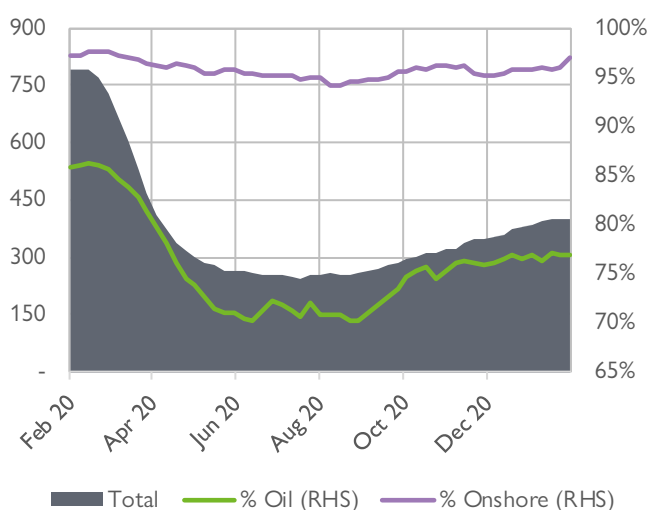
Rig utilisation rates have continued inch upwards (Table 2), which could be a surprise to some given the extent of the shutdown in the Permian Basin.

Table 2 – Rotary Rig Data

Item	Latest (5 %)	-1 Week (5 %)	-6 Months (5%)
USA	402	397	250
	1.3%	58.8%	-
Canada	163	172	53
	(5.2%)	224.5%	-
North America	565	569	303
	(0.7%)	87.8%	-
Rest of the World	677	677	743
	-	(8.9%)	-
Total	1,242	1,246	1,046
	(0.3%)	19.1%	-

Source: FactSet & OGA data

Figure 24 – Rolling 12-Month Rig US Rates Count



Source: Baker-Hughes, FactSet & OGA data

What must be remembered, however, is that the vast majority of land rigs in the United States are winterised, as they have to operate not only in the Permian Basin, but in some of the more harsher operating environments in the northern contiguous United States.

Consequently, while we expect there to be some weakness, we don't believe that it will be as excessive as people think, and that the continued recovery will have been given an extra impetus by the recent surge in the oil price.

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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.

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