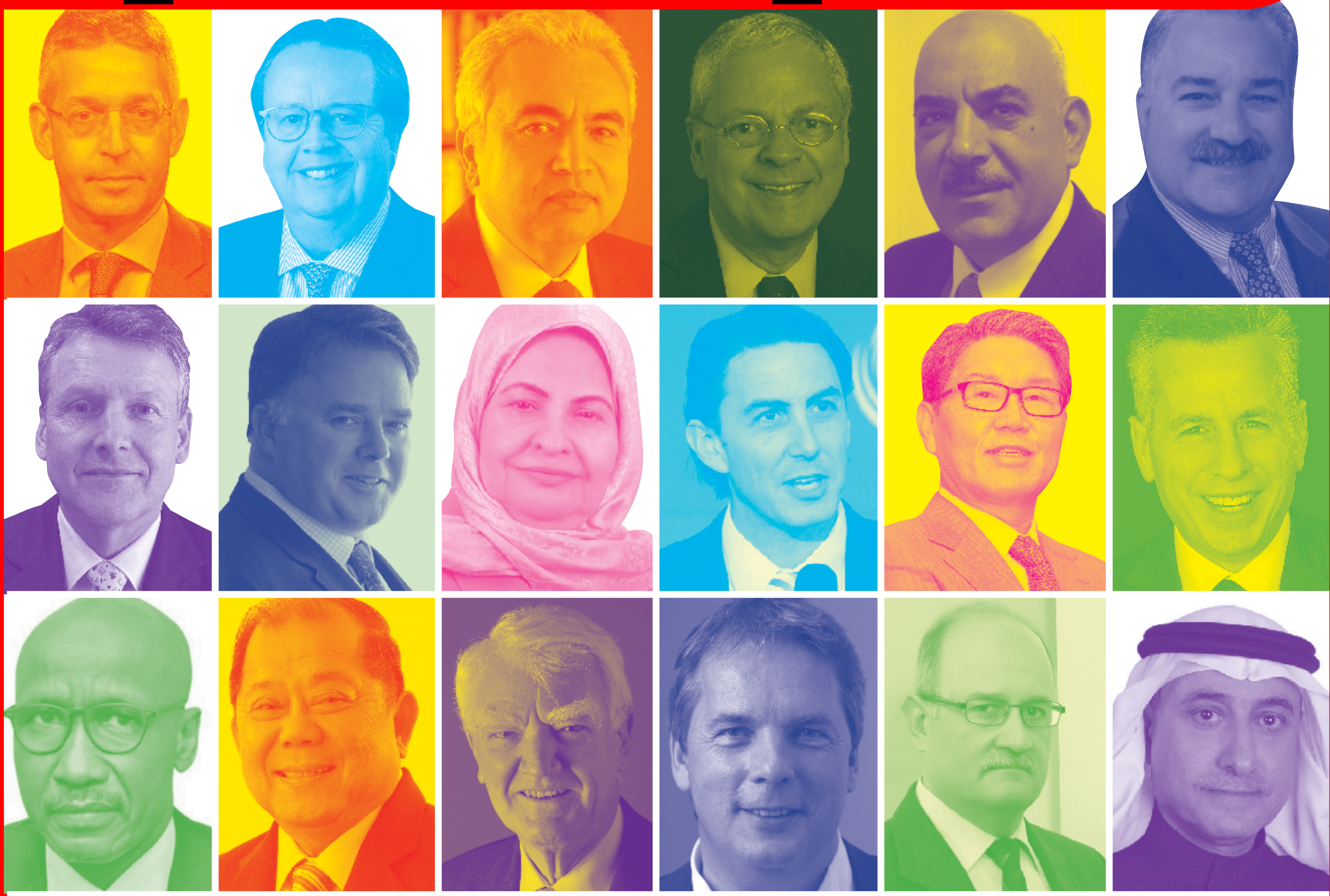
mashreq

GI

HALF-TIME TALK
Special Report

Q3, 2020



EXCLUSIVE OPINION EDITORIALS

HOW ARE OIL MARKETS NAVIGATING THE COVID-19 CRISIS?

GI Publishing
Thegulfintelligence.com

CONTENTS

EXCLUSIVE OPINION EDITORIALS

المشرق
mashreq

GI HALF-TIME TALK

Special Report

Q3, 2020

OIL: INDUSTRY'S GUESSING GAME...

STORAGE: WILL IT OR WON'T IT?

THE GLOBAL PICTURE?

OIL MAJORS' REACTIONS?

SOURCE: These Opinion Editorials by senior members of the energy industry have been harvested directly from Gulf Intelligence's exclusive Half-Time Talks. Held every Tuesday – the middle of the Middle East's working week – the high-level interviews detail critical trends and examine what energy stakeholders can expect next. Eighteen high-level interviews have been held since April 1, including on-the-record discussions with six CEOs.
Quotes for public use cannot be directly taken from this publication without notifying Gulf Intelligence, as each is comprised of edited transcripts.
Please cite Gulf Intelligence when using any information in this Special Report.

CHAPTER 1

OIL: INDUSTRY'S GUESSING GAME...

The Numbers Are Still Very Worrying

By Dr. Fatih Birol
Executive Director, International Energy Agency (IEA)

Interview date: May 14, 2020

April 2020 will go down in oil history known as "Black April". We saw negative oil prices for the first time ever. These are very hard times for oil producers and consumers alike. Oil, as a commodity, is one of the back bones of global financial stability. To see such extreme volatility is not only a major problem for oil producing economies, but also for the global economy.

> ***"Some people think that shale oil is going to die forever. I don't agree. It will come back at $40/bl. The technology is still there. The geology is there; they know how these rocks are."***

For this year, we have said oil demand will decline by about 9mn b/d. There will be a significant supply reduction coming from OPEC+ countries, the US, Canada, Brazil, Norway, and others. However, the real problem is that we have a huge decline in demand. We need to see numbers on the demand side move up. It is very important to have those production cut targets and to have full compliance from all countries involved to meet those targets. OPEC+ countries are in a more difficult situation than others. They are suffering from multiple pressures. One is the huge crash on their revenues. Another is the Covid-19 pandemic, with countries that don't have strong health systems. The third is social and political pressures at home.

> ***"Market balance will be dictated by demand and not supply. We still have a huge amount of surplus on the market and lots of floating oil around the world. In a global context, before the current crisis, we had about a 100mn b/d of oil consumption and we were talking about an oil glut. And then demand collapsed."***

FAIR PRICES

Extremely volatile oil prices are bad for everybody. We want to see fair prices. Prices may be low now, but people can't make use of it. For example, we have cheap gasoline prices, but nobody can drive. Consumers aren't benefiting at all. Still, you will definitely see some activity in the road transport segment.

Holistic effort?

I believe there may be a need for further effort from producing countries to make 2020 less bad than we thought at the beginning of this crisis. This is, of course, up to them to decide. Market balance will be dictated by demand and not supply. We still have a huge amount of surplus on the market and lots of floating oil around the world. In a global context, before the current crisis, we had about a 100mn b/d of oil consumption and we were talking an oil glut, and then demand collapsed.

There will be a lot of lessons learned, both on the demand side and on the supply side. However, it's far too early to make a concrete conclusion. I can tell you that there are a lot of lessons to teach. For example, some people think that shale oil is going to die forever. I don't agree. It will come back at $40/bl. The technology is still there in the shale business. They know how these rocks are. The geology is there. The US shale industry will come back, but maybe slowly. ■

CHINA AND ASIA

China, India, and the Middle East are three major demand centers with very strong growth opportunities. We may see oil demand growth come back to normal levels. However, 100mn b/d of demand will take some time. It will not happen in a year. It depends on global economic growth. But one thing is clear: we will need oil for years to come. We should be careful when we make our calculations on demand growth for the future. We can't forget our other challenge: the sustainable use of energy.

After the Abyss, Oil Stabilized at $40/bl

By Martin Fraenkel
President, S&P Global Platts

Interview date: July 9, 2020

We have never seen any crisis like the one we witnessed in Q2. Covid-19 dwarfs anything we have seen in our lifetime, especially for the oil and energy market at large. The impact on oil demand is something none of us ever envisaged. Furthermore, we must not forget that the beginning of the Covid-19 crisis coincided with the dislocation of the OPEC+ agreement and the price war that ensued. So, we had a massive supply-side rupture at the same time.

These twin crises, just as far as the oil markets were concerned, were a first. Taking all these factors in at the end of Q2, the oil market has done a remarkable job of stabilizing. They looked into the abyss, but found themselves relatively stable at the end of the quarter, at $40/bl.

Saudi-Russia alliance?

It certainly had a big wobble in Q2, but the alliance regrouped pretty effectively and succeeded in cutting supply to an unprecedented level. If you look at the analysis at the time, we all thought it would take longer for the supply correction to come. There was a lot of talk about the world running out of storage space and we had WTI famously expiring at minus $40/bl on April 20 due to the fear that there was nowhere to store oil.

Taking this all into consideration, the reaction from the supply side really averted that catastrophic situation. Things look better now. Our forecast for H2 is that stock levels will gradually go down. We're already beginning to see some drawdown on storage and floating storage, and freight rates are falling. There's obviously a long way to go and a lot of ways in which the demand side can be undermined by the world's economic situation. But things certainly look significantly more constructive at the end of Q2 than at the low point around the beginning of April. ■

> ***"Things certainly look significantly more constructive at the end of Q2 than at the low point around the beginning of April."***

COVID-19'S PATH?

Oil demand is going to be quite closely tied to the risk of a second wave of Covid-19. We will continue to see increasing demand in H2, provided that the world continues to move in the right direction. But it's not going to be uniform. This financial crisis is very different from the one in 2008. The latter emanated from the banking industry and affected every sector in the economy.

This crisis is segmented. If you look at the stock markets, they are being driven by two big factors. One is the massive liquidity, which is being injected by central banks. And the second is that there are clear winners and losers. Technology stocks are doing well, while other parts of the economy are being devastated.

The oil sector is certainly negatively impacted, and we are seeing contrasting factors emerge. We are probably going to see more of these localized or regional lockdowns in certain countries, like China, which have been relatively successful in dealing with the virus. This will impact the demand picture.

BENCHMARKS

The events of the last few months have brought some of the benchmarks into the spotlight. Our job is to reflect prices and transparency and give insight to the markets. We are confident that all our benchmarks stayed positive throughout.

WHAT'S NEXT?

The supply-demand gap will continue to stabilize towards the end of this year, with Brent around $40/bl, assuming that we don't get a big second wave of Covid-19. Going into 2021, we could continue to see some appreciation and get to $50/ bl.

Is $40/bl of Oil Justified? No.

By Martin Houston
Vice Chairman, Tellurian & Member of the Boards of CCED & BUPA

Interview date: June 4, 2020

The economic exit from Covid-19 across the globe seems rather disjointed. Going into this was chaotic and abrupt at first, but it was relatively easy. And if you go back to March, we had this surreal calm globally. Getting out, on the other hand, has been a Herculean task and not homogenous. It's going to be multispeed and fiercely political.

We had a solid economic outlook for the world going into this crisis. Coming out of it, we are looking at the stress of economic collapse, which seems to be overwhelming everything. The global tab is reaching $10trn, but we haven't even started to answer how we are going to pay for this. Or how it will impact personal and corporate taxation or pensions.

It feels like the other shoe hasn't dropped yet, as if we are waiting to face reality. One thing is for sure, once we do emerge, the exit will differ in different places. People will make their own choices in how they manage their risk and how and when they get back to work.

I don't see demand catching up at speed. There are still questions about what the OPEC group will do and questions around inventories. With shale oil, cuts in volumes provide some comfort. But I don't get the same reassurance from the number of companies that have been filing for Chapter 11. There is optimism today, which belies the demand supply situation and whether it's sustainable is questionable. False optimism is not good for making decisions. What we need is a stable set of prices, which balance the fundamentals in a way that we can logically track them and make decisions accordingly.

Finding our feet

Whether global demand is 80mn, 90mn or 95mn b/d by the end of the year, it will still be a big gap compared to the barrels being produced. An equilibrium oil price could be around $50-70/bl. That would stimulate new demand and satisfy the supply side in terms of the cost of production of certain barrels.

In terms of gas, we've seen LNG demand in China increasing year-on-year and low prices have stimulated that demand. On a macroeconomic basis, the LNG industry is going to pull back, and at some point, final investment decisions (FIDs) will be required to produce the LNG from 2024 onwards that the world will need to move towards its low carbon economy. The US is going to be an important part of that due to its favorable policies, its geography, and the access it provides to high quality yet low-cost supply. ■

SHALE PLAYERS' OUTLOOK?

Not all shale is created equal and you also have gas and associated gas, which all compound the economics, in addition to infrastructure considerations. Previous capital injections probably gave some shale companies too much leeway. My sense is that the capital will return for the stronger shale players, but more slowly. And the supply response is also going to come back slower than it did after the last downturn in 2015-2016.

WHAT'S NEXT?

The world is not going to be the same as it was at the beginning of March. Where will capital be deployed by governments? How will we use technology and how will people work and travel? What's going to happen to supply chains?

We have 40mn people unemployed in the US alone, with a short to medium-term prospect of 20% unemployment. And yet, equity markets are attracting capital. It's hard to understand this idiosyncratic situation. Should we expect a big correction or not? Once the realities of the Q2 numbers land, we may get out of what feels like an economic twilight zone. There will be debt to repay, a potential second wave of the virus, new working norms, and so much more to consider.

Institutions like the International Monetary Fund (IMF) and the World Health Organization (WHO) will have to drive this. They will be very necessary and relevant. They will also have to modernize somewhat because of this crisis and get on track with the future world.

As for climate change, does the fact that this crisis has demonstrated what it's like to have clean air trigger a societal and political response to where future investments flow? These are some of the questions facing today's decision makers.

GI Publishing
Thegulfintelligence.com

Demand Will Not Return to Previous Levels

By Sara Akbar
Chairperson & CEO, OiLSERV, Kuwait & Non-Executive Director, Petrofac

Interview date: May 28, 2020

The oil industry has faced a double hit. There's the Covid-19 pandemic and, at the same time, there's an oversupply in the market. The industry's initial reaction was slow. However, the indirect impact of this pandemic is much bigger in the longer-term. Covid-19 has accelerated the future forward, i.e. less movement of people and transportation. Demand will never recover to previous levels because people are much more comfortable utilizing digital systems.

For example, at Petrofac, all our meetings are now online. People are more comfortable with these new norms. If somebody at my age can do this, then think about the young people who have digitalization at their fingertips. This shift will impact demand.

ASIAN COMPETITION?

I'm sure many of the Southeast Asian companies in the service sector will be able to cut costs. I can't understand how they do it though. They probably have a fully integrated system where one thing subsidizes the other somehow. It's very challenging for the rest of the service companies to do what the Southeast Asian companies do.

Many of these countries also have a local content element in their contracts. If you wanted to cut costs to levels where you can create some margins, especially for these Asian companies, you won't be able to put any content into the local economy. That's a big problem for all the companies operating in this region. There is a shift in the business environment in the Middle East. Covid-19 opened everyone's eyes to the fact that if you don't have local content, such as nationals operating and working in these companies, then you will suffer. There will be new policies coming from all these governments to control how much you can boost their local content. This will be the element of balance between what international companies can do, and what Asian companies can do.

Supply dynamics

If you look at the supply side, we have two elements. One is that our industry is completely based on capital spending. Even for a developed oil field, you need to keep spending money to maintain production. Capital in this part of the world, and in many other countries like Russia and in Southeast Asia, always comes from governments and big companies. The big problem is in the US, as all the independent producers depend heavily on the availability of capital from the stock and debt market. And that is not there anymore. In the last five years, there was plenty of capital investment into this market. Now, you cannot find a single dollar. Investors are not interested in oil and gas and, as a result, many of these independent companies cannot recover. The IEA forecasts that US shale will come back, but it cannot come back without capital and that will impact supply from the US. So, we are shaving off the more expensive side of global supply.

The second element in the US is the cost of production, which is much higher than producing oil in this region, which has a lower cost base. Plus, capital comes directly from national oil companies (NOCs) and governments.

First victims of market crash?

Oil service companies. The first thing any of the NOCs or international oil companies (IOCs) did was go back to the service companies and demand cuts. We are bound to see some restructuring in this sector – mergers, bankruptcies, and a lot of other changes. Also, I don't think any of these companies will put any money into research and development (R&D) anymore. They simply can't afford it. The margins are very low.

OPEC+ MATURES

As far as OPEC+ goes, last year people thought it was an ineffective cartel that could not last. Now, we are in a situation where we heavily rely on the decisions of OPEC+ to save the industry. How far can this go in the future? Over time, we must move to a world where oil and gas is a commodity that is traded like any other, without any political interference. This industry has always been manipulated by one party or another. The impact of politics has completely ruined our industry. The impact is that we lose talent. We cannot attract the best talent to the industry because of the fluctuations that have occurred over the years. And in today's environment, the market recovery will be slower than many expect.

Many of the service companies try to find alternative methods of executing work, such as utilizing artificial intelligence (AI) and technology to do things in a much more cost-efficient way. Petrofac, for example, is a very good model and they were extremely successful in bringing the price down by doing this. But truly, at this time, there isn't any fat left to cut. They are barely working with current margins. Look at Schlumberger, Halliburton, Weatherford, and Baker Hughes. It's not easy for them. You will see consolidation. ■

Oil Could Rapidly Tighten in Q3

By Ed Morse
Global Head of Commodities Research, Citigroup

Interview date: July 2, 2020

The demand shock in Q2 was the largest in the history of the oil industry. But in retrospect, it was milder than people had feared it could be. The action and reaction on the supply side was greater than expected and as a result, we now have the elements of what should be a very strong Q3 and good remainder of the year.

We will certainly move from the period of dramatic, unprecedented inventory builds in Q2 to one where higher demand and lower supply lead to a tighter market. The extent of this will depend on factors like the recent surge in the US' Covid-19 cases, as well as other factors around the world. The main gamechanger in the past three months has been how Russia, the US, and Saudi Arabia collectively recognized their interdependency as suppliers in a market which is facing a dangerous collapse in demand. If they had not found a way to act together and to coax other countries along with them to trim supply, the world would not have emerged from the situation it was in. The question now is how durable that recognition of mutual interdependence will be.

There is real concern across the board about what the global recession will look like – and that will keep them communicating. The OPEC+ group has moved to monitoring the market monthly to ensure the momentum continues. It will be interesting to see whether the US can also be brought into regular meetings through some other mechanism, such as the G20. This happened after the 2008 financial crisis, when the G20 was established in recognition of the fact that central banks needed to pool information more frequently and in a very politicized way.

There's little downside in the US' production levels. The rig count is going to start to grow, slowly at first, and then pick up speed. At $35/bl, or $40/bl on the WTI, there is pro-table oil to be exploited, but it's not a level at which the system can grow. However, $45/bl to $50/bl would be. We see that price level being reached by the end of this year. We could see the US shale rig count back at 550 to 600 this time next year, but we expect shale producers to be more disciplined this time around. Unless there's a price level in the $60/bl range, they won't spend too much of their cash on drilling again. ■

> ***"The reality is that $70/bl would bring us back faster to $30/bl than $50/bl or $60/bl would."***

> ***"The main gamechanger in the past three months has been how Russia, the US, and Saudi Arabia collectively recognized their interdependency as suppliers in a market which is facing a dangerous collapse in demand. The question now is how durable that recognition of mutual interdependence will be."***

WHAT'S NEXT?

We expect late 2019 demand levels to take 18 more months to return. Let's remember that the demand loss we've had is not related to price. It's a recession and it's driven by unemployment. Even if demand does return, certain elements will never recover fully.

Brent should get back to $50/bl by the end of 2020, and possibly to $60/bl in 2021, because of the postponement of a lot of capital spending. Companies are not going to rush in to spend so long as there is available production capacity. So, there might be a little bit of a gap on the supply side in 2023-2024, which may keep prices at $60/bl.

A price level of $70/bl is not sustainable for anyone, partly because of the nature of the US shale industry and partly because of the nature of the global industry where we have seen new technology and seismic science ensure a continued supply of oil. The reality is that $70/bl would bring us back faster to $30/bl than $50/bl or $60/bl would.

US-CHINA TRADE WAR?

The US started putting up trade barriers with a vengeance in 2018 and this has led to a direct drop in demand of 500,000 b/d. This won't return unless there is a return to trade and that's critically important for oil producers and the global economy. We need to find another way to get onto a new foothold and I'm optimistic that we can. But for the world's two giant economies, I don't see any easy resolution to the underlying elements of the trade dispute.

GI Publishing
Thegulfintelligence.com

OPEC 5 Stages of Denial?

By Dr. Anas Al-Hajji
Managing Partner, Energy Outlook Advisors LLC

Interview date: April 9, 2020

The US shale oil industry has surged over the last decade and benefited greatly from the efforts of OPEC to support oil prices. But where was the US shale industry before the current market crisis?

"On the petrochemical side, ethane is abundant in the US and it is extremely cheap. Natural gas is abundant in the US and is cheap; in fact, we have negative prices for it at the moment."

"They were warned between 2011-2013 to pay attention. OPEC was advised to reduce prices at the time, which were between \$100/bl – \$110/bl because of the Arab Spring. The problem was their naivety. OPEC and its members finally woke up at the end of 2014, but it took them five years to realize the true impact of shale."

They were warned between 2011-2013 to pay attention. OPEC was advised to reduce prices at the time, which were between \$100/bl – \$110/bl because of the Arab Spring. The problem was their naivety behind the shale industry's potential. OPEC and its members finally woke up at the end of 2014, but it took them five years to realize the impact of shale. It's as if they went through the five stages of denial.

It worked fine for a while until the US shale industry came online. It hit all four of the strategic decisions that the Gulf nations and OPEC members implemented. On the petrochemical side, ethane is abundant in the US and it is extremely cheap. Natural gas is abundant in the US and is cheap; in fact, we have negative prices for it at the moment. Also, from the refining side, when the US export ban was lifted, refineries made a fortune exporting to other countries. Natural gas liquid (NGL) prices in the US are currently one third of their original price. ■

CHANGING TACT?

While all the focus is currently on oil and shale, this is only part of the story. The Gulf nations and other OPEC members made four strategic decisions over the past three decades to invest in energy intensive industries:

- **Developed petrochemical plants based on the idea that natural gas was very cheap.**
- **Built mega refineries that cost billions of dollars to produce petroleum products for exports.**
- **Shifted their focus to NGLs because they are not included in the OPEC quota.**
- **Made a giant pivot towards Asia because of the growing demand for crude.**

CHAPTER 2
STORAGE: WILL IT OR WON'T IT?

The World Will Never Run Out of Storage

By Ernie Barsamian
CEO & Principal, The Tank Tiger

Interview date: April 30, 2020

Oil prices were negative in April because it was a price discovery moment. The same thing is going to happen with oil storage. There will be a price discovery moment, when the signals that we get from pricing are going to reduce production, which it already has, or generate the need for more storage somehow.

The big hubs in North America, South America, and the Caribbean have a substantial amount of storage for crude, i.e. millions of barrels. Cushing in Oklahoma, with a 100mn barrel position and a 9x delivery point, is where everybody wants to store crude, so they can take advantage of the cash-and-carry situation in the easiest manner. However, the contango structure will feed on itself once it's established. Storage will become rare which, as a result, will create the contango curve to sustain itself until that inventory overhang gets pulled down.

Robust storage options

The world is never going to run out of storage. It cannot happen. We are never going to see oil on the ground. Essentially, wells will shut-in because it is not profitable for producers to deliver barrels at prices that do not cover their costs. Also, refineries are not going to run when it doesn't make sense for them to produce products. It will all slow to a halt and we will not be forced to go over the tops on tanks. Fundamentally, the oil will stop moving more than anything.

It is a lot like trying to stop the Titanic when it is headed for the iceberg. For the producers, the wells are already flowing. You can still generate cash even at very low prices, although you are losing money incrementally to cover your debt service. That is what must happen. It becomes a survivor's game. This will create an opportunity where an oil price floor is established and those prices firm up. Survivors can then sustain themselves a little bit longer.

When you look at the contango play, clients are asking: "What can I get that's the cheapest?" Ultimately, that is where the value is created. There are so many types of crudes that are now in prison and trading well below the WTI price. If you can find a place to store the barrels, then that contango play will be more rewarding. Of course, it is logistically more challenging to go get the crude, find a place to store it, and then sell it. However, all those costs are baked in when you decide to move forward on the contango play. ■

NEW TANKAGE?

Clearly, we are not going to be out of this contango structure until we see a reduction in inventory, i.e. a significant increase in demand. OPEC+ already announced their cut-back, but that wasn't even below where they were when all this mess started. It's going to take a long time to get those inventories down and for the contango structure to behave in a normal fashion. We are going to continue to see these contangos roll from month-to-month.

Terminals are looking at patching up tanks that have been historically out of service and underutilized. If you can get them going in 2-3 months, I'm confident that the contango structure is still going to be there. That is going to be the first wave of available tankage that comes in; tankage that exists but is currently out of service. This is not a small amount of tankage. There are millions of barrels of capacity there. On top of that, there are caverns. We just listed two new cabin facilities today. That is getting some interest on the crude side. Also, the gathering systems, which are certainly not going to be utilized as much if this flat price stays low, are available storage too. People are going to try and monetize their assets in any way they can. They're going to go for these storage opportunities to find customers they may not know about.

STORAGE RATES

It's easy to take advantage of the contango and then raise storage prices for traders who want to get in. Utilize your tanks. Traders always know if the price is too rich. They will not hesitate to step away from a deal because they know there are terminals out there that will gladly accommodate them. Terminals tend to benefit and get a larger percentage of the contango profitability when people do these storage plays. You want to establish relationships with these people. For example, if a trader wanted to take out storage for 12 months, instead doubling storage prices, you should see if they want to do 18 months at the same price. Ultimately, the backwardation will come back. At least you get a coupon for your tanks that are not being utilized.

GI Publishing
Thegulfintelligence.com

Jury's Out on Energy Demand

By John Roper
CEO, Middle East, Uniper Global Commodities SE

Interview date: June 25, 2020

Natural gas and LNG have not been immune from the hit on global energy demand. US LNG cargoes have felt a particular impact and it's simply been a matter of price. US LNG is at, or close to, pricing positions in Europe. The structure of LNG contracts for US tolling projects also allows buyers to exercise their right to cancel a certain amount of cargoes.

The 40-50 daily cancellations we have been witnessing is likely to continue through to Q4. Despite some countries now seemingly and slowly emerging from lockdown, demand remains tepid. And, unlike the oil market, LNG suppliers don't have the flexibility to turn off the taps when demand drops. Producers around the world have stuck to their quota commitments, and one result has been the active LNG trading in Asia. We have exchanged on more cargoes during Q1 this year than in previous periods.

"We still have 200mn barrels of crude oil in floating storage to consider. That's 300% more storage than we had at the beginning of 2019."

"Technical insolvency for shale is a real warning sign for directors of companies, as it means that their future value is not likely to be met by their current ability to produce. Firms must start taking measures to fix that. There's no doubt that US shale oil companies are going to go into bankruptcy, but they have a final opportunity during Chapter 11 to reorganize themselves."

What's next for US shale?

Technical insolvency for shale is a real warning sign for directors of companies because it means that their future value is not likely to be met by their current ability to produce. Firms must start taking measures to fix that. There's no doubt that US shale oil companies are going to go into bankruptcy, but they have a final opportunity during Chapter 11 to reorganize themselves.

This will inevitably mean a reduction in production, but shale will bounce back. It's an industrial manufacturing type of business and, if there's increased demand, it's a sector that can respond to that demand in a way that other parts of the world can't necessarily do. The big question will be whether these prices of $40/bl – $45/bl hold over Q3. Covid-19 is going to be with us for a lot longer than the optimistic economists think, and it has a direct impact on demand for energy and oil. We also still have 200mn barrels of crude oil in floating storage to consider. That's 300% more storage than we had at the start of 2019. Those barrels are going to come out of storage at some point. ■

IT KEEPS COMING...

The other big trend impacting the market is supply. We are seeing the crude market firming up as the world emerges and adjusts out of lockdown. But there is still the big unknown of whether – and when – a second wave of Covid-19 will happen. And we must expect that it will. So, we must temper the positive reports and forecasts for increased oil demand with caution for later in the year. There are also other unpredictable factors, like the US-China trade deal and the US election in November. These types of issues will influence people's perspective on what they expect from energy demand going forward.

GI Publishing
Thegulfintelligence.com

Fujairah Crude Oil Storage Full in 1 Week...

By Chris Bake
Member of Executive Committee, Vitol

Interview date: April 2, 2020

Globally, all incremental crude oil storage is basically full. Any storage that wasn't under contract three or four weeks ago, is now currently under contract. If it isn't already full, it'll be filing up. The availability of free-market incremental crude oil storage in Fujairah is limited. We will see all available storage full in the next week to 10 days. The demand floor is still evolving and has some way to run.

China is 6-8 weeks ahead of the rest of the world in oil demand recovery. However, over the past week, we have seen significant decisions being made on incremental demand loss. This is not only the tightening up of quarantine moves in the US, but also quite a lot of activity in Africa. India shut down on March 27, which caused a backlog for product and crude oil demand.

Demand destruction for April 2020 can easily be down by up to 30mn b/d. It's difficult to extrapolate that on an annual basis because the demand erosion has happened so fast. It started in the jet fuel market when 50-70% of global demand evaporated. It has now moved onto gasoline demand, which is down by approximately 50% in terms of draws across the rack over the past few days. Last weekend, US demand for gasoline was down by 40%. As the shutdown continues, we will extrapolate further. It is fast-moving and totally un-quantifiable in terms of previous experiences to see this kind of demand loss.

> ***"The demand loss is fast-moving and totally unquantifiable in terms of previous experiences."***

> ***"Part of the problem in the US, especially with shale oil, is that there is no experience in throttling back a fracked well. The nature of shale wells means they are not conducive to capacity restraints."***

Relieving pressure points?

Price pressure will continue. The only way to regulate supply is to stop producing crude oil. Somewhere there is going to have to be some capitulation to leave oil in the ground. We have seen small indications of this already. Canadian producers and some central US producers, who are getting netbacks well below $5/bl, are looking at production curtailment. Part of the problem in the US, especially with shale, is that there is no experience in terms of reducing well capacity.

The current experience is that a well is produced at full and then you move onto the next one. This is a major concern for shale producers in the US. Saudi Arabia has made it clear that they are not going to be the sole buffer at this point. Even at full capacity, if Saudi Arabia decided to cut back total exports, it still wouldn't be enough. You need to have a joined effort across every single producer. That is going to take some time and some coordination. Saudi Arabia has felt it has been the buffer for oil markets for the past few years and they don't want to continue to play that role. ■

WHAT'S NEXT?

Understanding continued demand destruction is essential. We have seen the Indian subcontinent and parts of Africa shutting down. Russia is shutting down. On the supply side, there will be political discussions with prices at historical lows, but this will take a bit of time to figure out. In the meantime, pricing pressure will continue to curtail production, which will be essential to re-balancing the market.

GI Publishing
Thegulfintelligence.com

Asia: Boom Time for Oil Storage Owners

By Roger Chia Kim Piow
Chairman & Managing Director, Rotary Group of Companies

Interview date: May 21, 2020

There is a shortage of storage everywhere. Vessels are also full of products. From what we understand, all storage capacity in Asia is full and not just contracted out. The contango structure is still very visual in Asia. However, things are moving very quickly and in a couple of weeks, the market will probably soften up.

I don't think there'll be any new storage builds. Depending on the size of the terminal, it would take at least 18 to 24 months to build. This timeframe is too long and, at this moment in time, new builds are not the best option. Still, a lot of people are very worried about whether it will stay, demand might drop, and then the holding might change.

However, there are a lot of tank rejuvenation projects accelerating in this region. These are the tanks that need to be repaired and have a shorter timeline to complete. For example, black tanks are being cleaned up. Tanks in Singapore, which usually last up to 40 years, are getting quite old, so conversion is now big business. Every terminal is doing this. Singapore has a shortage of land and the government has given clear instructions not to build any new terminals. Permits will only be given to tanks that are associated, or related, to the expansion projects of new process plants.

Crude tanks for national security storage are not viable anymore unless they are combined with trading. Otherwise, you don't have the throughput and you are paying for storage that is not viable for business. So, nobody is going to build new tanks just for national security reasons.

The infrastructure in Singapore, and wider Southeast Asia, is mature. For example, there aren't many new tanks that will be built in Malaysia and Singapore won't permit new builds. However, there is still some demand in Indonesia. They're looking at the Riau Islands, south of Singapore, because of the surrounding waters. Most of the water surrounding the Riau Islands is shallow, which will allow smaller vessels to carry white products rather than crude. There are only a couple of areas in the region with waters deep enough to accommodate very large crude carriers (VLCCs).

Mixed messages?

Most of our clients are long-term investors. Therefore, they are willing to build new terminals. But for speculation, it's difficult. Most of them have their own clients. We have not built any spot market tanks unless it's part of an extension phase of a project. On a separate note, I'm baffled by the recent increase in the oil price. Demand is still not there. Globally, nobody is going out. Even I only started my car once in the past month. This is probably all based on speculation.

US-China: Next move?

I always tell our teams to be prepared when it comes to these two giants. It will hit us to some extent. However, because of our reputation and our experience, we are not badly affected at the moment. There will be some spillover effect if the US-China relationship gets worse. Chinese investments are coming into Southeast Asia and there are more developments in Vietnam, Cambodia, and Myanmar. They need more energy; that's how it will affect us. ■

WHAT'S NEXT?

It's going to be challenging. The government is currently increasing its subsidies, but it can't continue to support us for that much longer. We must make it on our own. We don't want a second wave of Covid-19 cases and another round of lockdowns. We must be very responsible with what we are doing, not only for Singapore, but for the entire world. We are listening to advice from the government on how to properly start up again.

FUJAIRAH'S FUTURE?

I anticipate that more tanks will be built, but I don't think the returns on crude tanks are very good. So, Fujairah will probably have to build process plants, petrochemical plants, and refineries where they can get better usage from their tanks. This is a more economical approach and probably the way they are looking at it. Everything will be built to maximize exports. Look at the situation now in Indonesia. There are smaller refineries that are not economical to operate. So, a lot of them have shut down. Even in Australia and Europe, refineries are shutting down. Refining is not profitable anymore. They should close their refineries in Europe and buy finished products. In Singapore and surrounding countries, many will be building smaller tanks for petrochemicals and finished products. However, in the Middle East, i.e. Fujairah, crude tanks and rock caverns are still very prominent. It is critical that they establish an integrated value chain.

CHAPTER 3
THE GLOBAL PICTURE?

What Would President Biden Mean for US Energy Policy?

By Amos Hochstein
Former Obama Administration International Energy Envoy

Interview date: May 21, 2020

Oil companies in the US are going to have to adapt. They should have adapted sooner. They are living under a false narrative from the Trump administration, which is lulling them into a sense that the world that is changing outside the US is not going to change inside. That ship has sailed!

The peak demand for oil is an argument we can have of 'when', but no longer one of 'if'. The US oil majors will have to make the acquisitions into clean tech and renewables that their European and Asian counterparts have already done. This will be the best benefit that a Biden Presidency will deliver to these companies. It will save them in the long term. If they stay in the current posture of thinking we are not already in an energy transition, they will not survive.

A Democratic administration means we will see strict regulations reinstated on activities like gas flaring from shale production, and we will continue to see more money spent on energy infrastructure for renewables. American companies have been laggards at doing so thus far, as previous Obama-era regulations were admonished by the Trump administration. But we are already seeing some companies making a change. By contrast, European majors, like BP, have been transforming themselves tremendously.

> ***"A Democratic administration means we will see strict regulations reinstated on activities like gas flaring from shale production, and we will continue to see more money spent on energy infrastructure for renewables."***

US-KSA-Russia: Now what?

I believe this is a temporary alliance, because we are walking into a conflict that we seemingly can't avoid because of the unprecedented declines in oil production. We have recently seen a remarkable rally in oil prices, and some financial houses are already starting to predict that we are going to see \$50/bl oil by the end of this calendar year. If we see prices sustained above \$40/bl, US producers are going to produce. They have already begun increasing production. While we are seeing the declines continue in some shale basins, some basins in the US are already seeing a recovery. It's not to where they were, but some rigs are coming back. If prices move towards \$50/bl, you could see a significant increase in shale production and a natural conflict will then emerge with Russia, Saudi, and other OPEC members. They absorbed the pain of lower production and lower prices and they won't be happy to see US producers once again reap the benefits and take away market share. ■

US-GCC TIES?

Changes are coming. The Gulf is a very adaptable region. A Biden administration would change the posture towards Iran, as it will want to ensure that Iran's nuclear weapons program is once-again mothballed. We cannot ignore the fact that four years have passed and perhaps we will have to have a different sunset provision that delays things somewhat.

I believe a Biden administration will come in wanting to have a good relationship with the all the Gulf states, but nobody knows how that will work. A Democratic administration will also be facing challenges from its own constituencies and its own feelings about how to build these relationships.

THE ENERGY MYTH

There is no such thing as energy independence. There wasn't any during the Obama administration, and there isn't any today. We are living in a global world, dealing with global commodities. The idea that the more we produce, the more independent we become, is not only a fallacy, but it's a dangerous set of expectations that we can't live up to. We have seen with Covid-19 that a set of circumstances anywhere around the globe will impact our ability to produce and our ability to be independent.

Oil vs Gas: Gas Held Up Better

By Dr. Joo-Myung Kang
President, International Gas Union

Interview date: July 23, 2020

We have never experienced a pandemic like this in recent history. The energy industry has no immunity. For example, big players like Exxon, Chevron, Total, and Eni are making massive capex cuts and dividend reductions. I don't know how fast we will recover, or what the scale of recovery will look like.

For the gas industry, we have already seen a reduction of 10% in consumption for Q2 this year. Demand destruction has been huge, but gas has held up better than oil. For the future of oil, we will start to put more emphasis on the raw material and its by-products as opposed to the fuel.

The years 2017-2018 were the peak for the global gas industry. At the time, gas consumption was huge. If natural gas reaches a trading volume of 40% of the overall mix, then we can call it a truly global product. We haven't reached that stage yet. If natural gas becomes a global product, then we won't have any issues with premiums and segregated markets in Asia, Europe, and North America.

> ***"Ten years ago, the US built an LNG facility for the regasification of imports. Things have changed. Now, it is the world's number one producer and the second largest exporter of gas. We have a totally different gas economy."***

> ***"European coal-red power generation is nearly 38 years old. Sooner or later, they are going to retire it. However, Asian coal-red power generation is only 11 years old. They have another 20 years to go. Climate policy in Asia will dictate how fast they move away from it. Even if we have coal, it doesn't mean we have to burn it for power generation."***

US' game plan?

As far as the outlook for US gas exports after Covid-19 is concerned, we must look at the supply and demand side. Ten years ago, the US built an LNG facility for the regasification of imports. Things have changed. Now, it is the world's number one producer and the second largest exporter of gas. The Henry Hub price is now less than $2, which is a great achievement considering it was $8 about six years ago. We are facing a totally different gas economy.

The Asian market is already enjoying low natural gas prices, and Asian gas buyers are getting smart. They know what the cost of gas is. I don't think the Middle East can enjoy high prices anymore. Even US gas prices, due to shale development, have declined a lot. Henry Hub is around $3.5 per million British thermal Units (MBTU). The Asian premium market is around $7-$8/MBTU. This is a grim price. ■

GAS' GREENING CREDENTIALS?

Gas is not only a bridge fuel for the energy transition – it independently helps reduce carbon emissions and pollution. We also have hydrogen, renewable gas, blue gas, and biogas. All these sources will play a larger role in the energy mix moving forward. Also, renewables must still deal with seasonality. What is going to compensate for that seasonality? Gas. The more renewables contribute to the global energy mix, the more you will need gas to compensate.

GI Publishing
Thegulfintelligence.com

China's Export Credit Agencies Aggressive in Africa

By Marc Holtzman
Chairman of the Bank of Kigali & CBZ Holdings

Interview date: July 23, 2020

Twenty years ago, China's one export credit finance agency made $3bn in loans worldwide. Last year, the behemoth's five export credit finance agencies made $273bn in loans. Clearly, they're very present.

China is offering debt forgiveness in some parts of Africa, but people were quite traumatized by the experience of the Sri Lankans. Sri Lanka took an $8bn loan from China to create a port. Now, suddenly, they no longer own their port. The approach of China can be a mixed blessing. They always have their own strategic interests as a priority. But if you are looking at American, European, and Western investment, it's often more of a partnership. It's designed to advance the interests of both parties.

We see a lot of groups from the Middle East pursuing projects in East Africa, even in alternative energy sources, like solar. There is also a lot of oil and gas exploration in Uganda, Kenya, and elsewhere in the region. Most people think that this is just the start of Middle Eastern energy investments in the region.

US' future in Africa?

Nothing would please me more than to see the US play a much bigger and impactful role in Africa. But, and this is not just President Trump, the US has been slow to realize the opportunity for American businesses in Africa. Right now, there are more than a billion people on the continent with a middle class of more than 100mn people. That middle class in the next five to seven years is going to be around 250mn people. You'll have as big of a middle class in Africa as you do in the US and Europe. It's very short-sighted for companies, businesses, and countries not to focus on Africa. For example, the western policy towards countries like Zimbabwe is to insist that they become like Canada in one step, before they'll even be considered a trading and investment partner. It's so unrealistic.

Rwanda gets creative

Rwanda has done something unique. Controvert Global, a US company, has invested more than $400mn to create a methane-to-electricity system in the country. They're currently producing about 125MW and they expect to go up to 500MW of production. Lake Kivu is one of the world's largest methane reserves and Rwanda is taking this methane and using experimental technology. When they started approximately 15 years ago, no one was sure that this could be done scientifically. But it is working and proving to be very cost-effective. ■

COVID-19'S IMPACT?

Countries like Rwanda didn't miss a beat. They were ahead of the problem and were dealing with it. The banking system is strong and secure. I believe that when the dust settles, countries like Rwanda, Zimbabwe, and others in Africa will be even stronger. There is no question that there will be a rationalization of supply chains in East Africa. There will be recognition that it is imperative for supply chains to be regionalized and brought back to certain areas throughout the continent.

There is no doubt that international companies will look to establish new centers in East Africa. Rwanda will be at the top of the list of beneficiaries. It has already been happening pre Covid-19. For example, Volkswagen set up a huge assembly facility in East Africa and they're producing three models for the entire continent. This is just the beginning.

ZIMBABWE: FINALLY RISING?

Once considered the breadbasket of Africa, Zimbabwe is now a net importer of vital food commodities. Zimbabwe should be the richest country in Africa. It is abundantly blessed with natural resources. It's said to be the richest nation in the world when measured by mineralization per square kilometer. One of the challenges is to convert that wealth on the ground to the benefit of the population. There's no doubt that the country's gone through great hardship after nearly four decades of virtual dictatorship. But the new president, Emmerson Mnangagwa, is impressive and very committed to democratic and social reforms. For example, two countries – Turkey and India – are already investing in Zimbabwe. There is currently a big presence from both countries in construction, mining, and technology.

Nigeria Will 100% Meet OPEC Supply Cuts

By Mele Kyari
Group Managing Director, Nigerian National Petroleum Corp.

Interview date: June 11, 2020

THE OPEC+'s extension of the deeper oil supply cuts into July is understandable. It's obvious that the market has not achieved balance, and it's unlikely to do so even in 2021. Forecasts indicate an oversupply of up to 9mn b/d by the end of this year. The market has been driven more by sentiment than demand, and we also have not yet seen 100% conformity to the OPEC+ supply cuts. If we don't control supply, prices will slide back to early March levels.

Nigeria is one of those countries that has not yet met its target, but we are 100% committed to do so very soon. Our oversupply last month was approximately 100,000 b/d above the agreed numbers. The fact is that our reservoirs are very old, which makes it more difficult to manage reductions too quickly without risking irreversible damage. Having said that, the data in late May improved as we gradually cut production and we expect to be at full conformity by mid-July at the latest.

WHAT'S NEXT?

Firstly, the companies that will survive are the ones that can produce at the lowest cost possible. If you can't produce cheaply, nobody will buy from you, because there are many other options. Secondly, efficiency and the ability to deliver on time will become key in any operation. Thirdly, NOCs must look for third-party investment as their primary source of capital. This combination means the industry will become very dynamic and petrochemical centric.

Peak oil demand is still 20 years away. We will continue to witness strong growth in middle class families, particularly in African countries, where population growth is significant, as well as in China and India. If mobility continues to be reliant on petroleum, we will see strong energy demand. Oil demand will recover to 100mn b/d by the end of 2021, along with the global economy.

AFRICA'S REFINING CAPITAL

Nigeria accounts for 70% of gasoline consumption in West Africa, but we also have the opportunity to be a huge supplier for the region. The 650,000 b/d Dangote refinery should come onstream by early 2022. It will be a gamechanger as it will take volumes to a point where they exceed domestic consumption needs. We have another four refineries with a total capacity of 445,000 b/d under repair, coming onstream by early 2023, and condensate refineries with capacity of more than 200,000 b/d in 2022. Within three years, we will see a monumental shift in our refining capacity and the possibility of robust flows into Europe, with many refiners there shutting down permanently.

When we look for private finance for our refineries, it is oversubscribed, as we do have a lot of interest from private finance institutions. We try to seek private sector investment and make sure that we don't have to finance these projects from our cash flow. Maybe accessing capital is a global challenge for the energy industry, but we don't see this problem locally.

When you produce gasoline here, you have a natural market for it. We have 52mn to 60mn liters of personal consumption per day. And Nigeria is a country on a growth line. Everybody knows that the official 3% - 4% GDP growth projection is below the country's real growth. This is because the country has an informal economy, and we believe we will see 6%+ growth. We have the capacity and the advantage in our refineries. We will make sure that our production fulfils the national demand.

China's bounce

China did not panic like other countries. The lockdowns that we saw across the world didn't get to that extreme limit in China. Therefore, the impact on consumption was much lower than in any other country. Also, their reaction was much quicker, and they were able to come back to full deployment in a short period of time. That's why demand there has been a quick come back. The demand growth centers will certainly remain in China, India, and the Far East. This is where there is significant industrial growth. Every forecast about GDP growth is tilted towards that region.

Nigerian crude on the rise?

We are seeing significant appetite for Nigerian crudes. There isn't a major oversupply in the market from similar grades and until shale oil production comes back to full production, you will not see much movement from the US into Europe. Therefore, I see a great opportunity for Nigerian grades to be the grade of choice, as all the consumption recovery that we're seeing so far comes from gasoline. We have no fears. The whole world is our market today. ■

GI Publishing
Thegulfintelligence.com

CHAPTER 4
OIL MAJORS' REACTIONS?

Oil's New Face?

By Sir Mark Moody-Stuart
Longest Serving Member of the Board of Saudi Aramco;
Former Chairman of Shell & Chairman of UN Global Compact

Interview date: May 7, 2020

Oil is an unusual commodity. It's the only commodity where the lowest cost producers have restrained production for 45 years and allowed higher-cost production to grow. This has been going on since the 1970s. That system worked if demand was growing. However, a point is approaching where demand is flattening.

This is a point where oil transforms into a normal commodity. Low-cost producers dominate in market share and the higher-cost producers fill in the land. This has been coming for some time, but Covid-19 accelerated it. I don't think the market will decline very much, but demand will be flat. In this situation, you cannot keep cutting production to hold oil prices up. The high-cost producers must realize that the rules have changed. It will take them the rest of this year to get the situation under control.

The Russians concluded that you can't keep cutting. Then, there was the argument as to who cuts what. There is only one rationale for an equitable way of distributing production, and that's cost of production. The low- cost producers should have the biggest market share. This will be possible by the end of the year, when high-cost production has been seriously squeezed. There is, of course, a huge overhang of supply now, up to 25mn b/d. No amount of cutting is going to fix that. It may take a couple of years before supply and demand become balanced. We will come out of this situation with the lower cost producers, including Saudi Arabia, having upped their market share.

> ***"I hope the US president listens to businesses. They would persuade him that ending up in a Cold War situation with China is not a good idea. The president is hot and cold though. You can never tell what he is going to say on his next tweet."***

> ***"Now is not the time to start throwing bricks. Business across fractured political borders can be successful if we maintain solid commercial and mutually beneficial contracts. Then we have businesspeople realizing that the other side are not a bunch of devils."***

Calm US-China waters?

Now is not the time to start throwing bricks, It's a very faulty approach to China. Business across fractured political borders can be successful if we maintain solid commercial and mutually beneficial contracts. Then we have businesspeople realizing that the other side are not a bunch of devils. When Nixon went to China with Kissinger, they could have said: "It's an awful regime and we're not going to have anything to do with it." But instead, they had the wisdom to talk to them. That was one of the strokes of good fortune. They took a mutual approach, rather than an isolationist approach. It would be a huge tragedy if that changes. I hope the US president listens to businesses. They would persuade him that ending up in a Cold War situation with China is not a good idea. The president is hot and cold though. You can never tell what he is going to say on his next tweet. ■

SHELL'S SURPRISE MOVE

Firstly, I am a shareholder in Shell. I think their move is prudent. It's a useful signal. Now, whether they overdid it is out for debate; two-thirds is a big whack. But it's a move which will be followed by other oil majors. The interesting part is it will enable one or more of the energy majors to really begin to switch to low-carbon growth. However, there's nothing like a good oil field to give you a decent return. Renewables are profitable, but on a discounted cash flow basis, it always looks miserable.

If you look at long-term investors, i.e. the big pension funds, they've been saying to the majors: "We want you to demonstrate that you're really into this transition and that you're going ahead with it." But on the other hand, they were highly dependent on the dividend. Again, something had to give, and it has now begun to do so. Whether Shell overdid it or not, I don't know. They will get some support from long-term investors, but that support will be conditional on what they do with it. It is going to be interesting how it turns out.

When it comes to Saudi Aramco, will they hit dividends? Yes, they will deliver on their first dividend. When a company looks at its forecasts, it looks ahead for a year. However, what's going to happen to oil prices next year is anyone's guess. For this year, they will be fine.

GI Publishing
Thegulfintelligence.com

Oil Majors are in Trouble!

By Christof Rühl
Senior Research Scholar, Center on Global Energy Policy, Columbia University & Former Chief Economist, BP

Interview date: August 6, 2020

I'd say there's nothing over the horizon that would kick oil prices out of the current tight range of $40s/bl. The longer this continues, the more likely we'll see a movement downwards rather than upwards. A few months ago, we thought August would be when we'd see the second leg of a V-shaped recovery. Consequently, oil demand would pick up and oil demand and economic activity would be on track to return to the end of 2019 levels. But that's becoming an increasingly doubtful proposition.

The one thing that has been guiding this journey over the last few months are inventories building massively in Q2, and the expectation that they would start to come off in Q3. However, they've been very inconsistent. First, we must recognize that oil is at the receiving end of all this. We have energy markets that are hostage to the economic situation. And we have the economic global situation hostage to the efforts of fighting the pandemic. This idea of a synchronized recovery is increasingly unlikely.

Breaking the stalemate

The longer the current stalemate continues, the less likely it is that we'll see a smooth and synchronized recovery, simply because parts of the capital stock will start degrading. The human capital and the labor market will start to become more complicated, with people out of work for months. Then, you'll see more structural changes being necessary to achieve higher growth rates. And that makes it more complex for the economy.

OPEC+ must recognize that they must wipe out excess inventories to recapture their ability to impact the markets. That said, OPEC+ had little choice but to increase production from August because, to keep people online and keep the alliance together, you need to stick to the plan. They have already added an extra month to those cuts, given that demand hasn't recovered to the extent necessary to pick up the slack. But nobody could have known this back in April when the deal was struck. And the last thing you can do now is to undermine the deal.

Geopolitical oil puzzle

In the very long-term, it'll break up. What we must recognize is that the moment oil markets stop growing and start shrinking, the whole game changes. Then, it'll be almost impossible for cheap suppliers, like the OPEC countries, to increase prices by cutting production. When you're in a market which is falling, you need to take market share from somebody else to keep your own production levels constant. The only way to do this is by price competition. So, we switch to a mechanism where these parties start competing on price. The price war between Saudi Arabia and Russia was our first taste of what's yet to come.

The only conceivable alternative to me is one where the three big producers get together, continue the dialogue, and come up with a quota regime to stabilize market share. The US would have an incentive to do that because in a world where price competition rules, they'd lose their status as an oil exporter. Saudi Arabia certainly has a huge incentive to do that as they are so dependent on oil revenues. But Russia doesn't have an incentive to do so as they'd like to see the US use their own energy sources. ■

WHAT'S NEXT?

Majors are feeling the pinch. They're defending themselves with the best way they know how. Firstly, they are cutting costs, which will be beneficial in the long-term, but they'll also take huge impairment charges.

We are in a journey where you will see improvements everywhere in Q3 because of the low basis that has been established. You'll see the economy suddenly grow fast and you'll see oil markets recovering to some extent. This is not because something stellar has happened, but because Q2 was so miserable. My best guess is that oil companies will have to swim through that bad patch, which could be a long time, by adjusting costs and downsizing.

I believe that the promises made about making the energy transition journey will come back to haunt them, because there's no way they can finance it from extra profits from the oil and gas segment. There is no way you can suddenly start to act like a utility and produce wind and solar power to get a profit anywhere close to what you made from oil.

SHALE GUESSWORK

To think shale is disappearing is nonsense. Like any upstart industry, there are profitable parts, deeply indebted parts, and unprofitable parts. The increase in restructuring and reorganization will make the sector stronger. They may lose a few hundred thousand, or maybe a million barrels, but they'll come out stronger like they always have. What we've seen in the past will be replicated, especially when you have a very sensible bankruptcy and financial restructuring system. At the end of the day, we will see increased productivity from that segment of the industry. It will not disappear ten years down the road.

GI Publishing
Thegulfintelligence.com

NOCs & IOCs Drastically Rethink CAPEX

We are seeing all NOCs and IOCs slashing capex like crazy. Even without any reduction in output production, all oil companies have lost 50% of their revenue because of a 50% drop in oil prices. This will lead to a reduction in capex, which is one of the biggest concerns for the long-term recovery of the industry after the Covid-19 crisis.

I wouldn't be surprised to see the total capex cut reach more than $200bn by the end of 2021. What happens when you start cutting capex today? You are not going to see a reduction of flow anytime soon. But two years from now, when you need production after the economic recovery, you are not going to have it.

Operating companies have no choice because they are running out of revenue. When prices drop by 50%, the money that you would use to finance your projects is not there. Not only that, because of the crisis, the banks are being stressed and you will not get good terms on loans (if you get a loan at all). ■

> ***"I wouldn't be surprised to see the total capex cut reach more than $200bn by the end of 2021. What happens when you start cutting capex today? You are not going to see a reduction of flow anytime soon. But two years from now, when you need production after the economic recovery, you are not going to have it."***

By Hatem Al-Mosa
CEO, Sharjah National Oil Corporation (SNOC)

Interview date: April 16, 2020

WHAT'S NEXT?

From experience, the best guidance is to remember that the price of oil is much more sensitive to demand or supply than any other commodity. For example, if demand was higher than supply by 2%, you'll probably see a 10% increase in oil prices. When you're talking about cutting 10% of total production, like OPEC+ did in mid-June, then that's a 10% cut in revenue, but it could yield more than a 10% increase in the price of crude oil. Overall, it's a win. If the world cuts 30mn b/d, you could go back to the $50+/bl level, gaining all your 50% loss with a 30% cut in production.

Chemical Firms' Misery Not All Due to Covid-19

By Mutlaq Al-Morished
CEO, TASNEE

Interview date: July 23, 2020

The chemical industry had already started to see oversupply coming from the US (chemical-based and shale gas) around the middle of last year. This was nine months before Covid-19 was ever mentioned. That oversupply disturbed the pricing situation in the chemical industry. Then, Covid-19 came and added to all the misery.

To be honest, China and Asia have recovered remarkably well. Asia is faring better than what we have seen in Europe or North America. In our situation, most of the Gulf Arabian producers were able to ship what we made. It was not a situation where we could not deliver the molecules. But the drop in prices is what has impacted us the most.

Petchem potential?

One-time-use plastic got a huge boost from the Covid-19 situation. People do not want to touch things twice, for obvious reasons. A large amount of demand is coming from the packaging of products that are thrown away. This is continuing on a large scale. People in the past have always said that plastic is bad and that it generates a lot of waste. But we must face reality; single use items are one way to avoid Covid-19. We also have durable goods. For example, the plastics that are used in dryers, washers, refrigerators, cars, and planes. These plastics have taken a hit. A lot of countries stopped production, like China early on, and then the US and Europe after that. So, one side of the segment is doing well, and another side is not.

US charges on

We don't see a reduction in the US' shale gas. The contracts between the chemical industry and the US shale players are for up to two decades. I don't know of a chemical plant that has been shut down because shale gas was unavailable. I laugh when somebody tells me that companies are going bankrupt and that the market could improve. It won't, because when a chemical company or a shale company goes bankrupt, the tonnage doesn't leave the market. You're just changing owners. Once an owner leaves, a new one comes in and re-finances. The new owner is then hungry for cash and they start pumping more. Shale gas is here to stay. The chemical industry that was built around shale gas is not closing down. It's still getting feedstock and shale is still producing. The question is, will there be another wave? I doubt it. We are reaching a stabilization in US production capacity, especially in the chemical segment of the industry.

Reworking debt

We're glad we restructured our debt. Luckily, the financial situation in Saudi Arabia and the liquidity in the banking sector is quite healthy. Moving debt from short-term to long-term allows you to breathe a bit. There is capital in the Saudi market, but what's holding us back is the availability of feedstock. It's not the market, capital, or the people. It's the feedstock. If you're a blacksmith without steel, then you can't do much. ■

FIGHTING ELEPHANTS

When two large elephants fight in a forest, a lot of the small things around them get crushed. This is what's happening with the US-China discord. Unfortunately, a lot of us are among those small things that could easily get crushed if we do not move away from these elephants. But I'm a believer in logic. China and the US are both smart. They have a lot of joint interests involving billions of dollars in trade. There is a lot of rhetoric going on, with some of it related to elections. They will reach a deal at some point. The question is when and how much collateral damage will there be? So far, the impact of US-China tensions has not been that huge for the region. Don't get me wrong, we have seen some dislocation here and there, but it's not all gloom and doom.

WHAT'S NEXT?

From a financial point of view for H2, nothing will get worse than what it is now. Things being equal, we will see a better H2 than H1. We have seen an improvement in prices already.

Consultancy
Intelligence
Publishing