

# Energy Monitor

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## Oil prices flat, gas prices skyrocket

- ▶ **Cautious recovery of oil demand**
- ▶ **Drilling activities in the US remain limited, but production is becoming more efficient**
- ▶ **Gas prices jump higher in all regions**

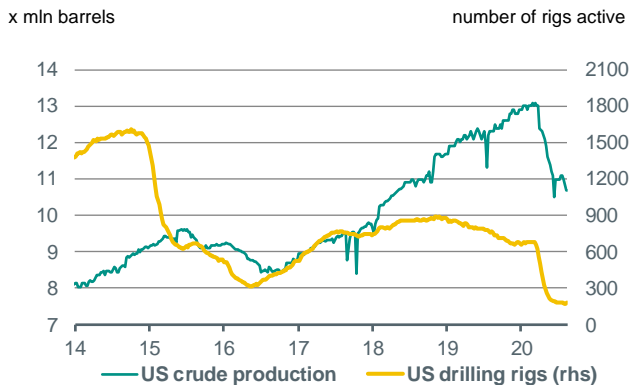
### **OPEC+ asks members to make a vital contribution to reducing production**

The OPEC+ (OPEC + partners led by Russia) has not made any changes in its policy last week. The Joint Ministerial Monitoring Committee (JMMC) has indicated that it is satisfied with the level of compliance in July. The participating countries in the production extension agreement actually achieved 95% of the target (production reduction of 9.7 million barrels per day (mv/d)). If the voluntary production reduction of Mexico is added to that, it is even 97%. However, the countries that did not comply with the agreements in May, June and/or July must indicate before 28 August how they will compensate for their overproduction. This compensation is not only fair to the countries that have kept the agreements, it is also necessary to be able to meet up to the promised market stability. The JMMC sees signs of recovery in oil demand, but it has also indicated that the pace of recovery is slower than previously assumed. In doing so, OPEC+ gave the same signal as the International Energy Agency (IEA) did earlier in their August Oil Market Report. The IEA increased its first and second quarter oil demand figures, but also lowered its estimates for the third and fourth quarters of this year (Q3 down from 94.3 to 93.8 mv/d; Q4 from 97.1 to 96.7 mv/d).

### **Drilling activity and oil production in the U.S. are increasing, but recovery is very small**

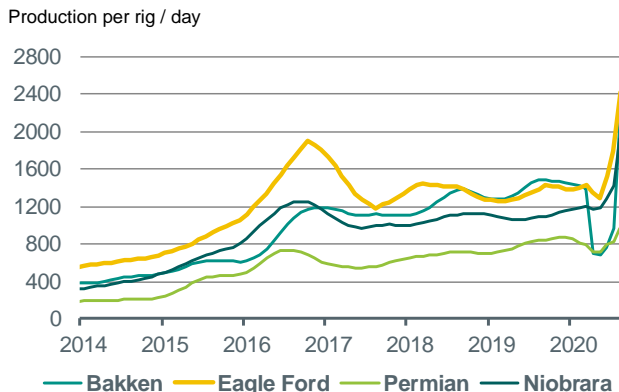
The number of active drilling installations reported by Baker Hughes increased by 11 to 183 last week. This may seem like a significant increase, but if we compare it to the number of drilling rigs in production earlier this year (683 in March), the sector is still not really recovered (see graph on page 1). The number of 'Drilled-but-Uncompleted' wells is also increasing slightly. This means that of the wells that are being drilled, there are a number that are still not being taken into production. Still, there is a striking development as we can see in the graph below. Oil production per drilling rig has increased significantly in some areas (see graph). The reason for this is that only the drilling rigs and fracking crews with the highest productivity continue to work. Commercial companies are already struggling because of the lower demand for oil and gas and, and because of, the low oil price. That is why they will now focus on drilling wells with the best potential. The production per drilling rig is therefore increasing. This time it will rise even faster than during the previous oil crisis in 2016.

**Oil production / drilling activity shows little recovery**



Source: Bloomberg

**Oil production per rig**



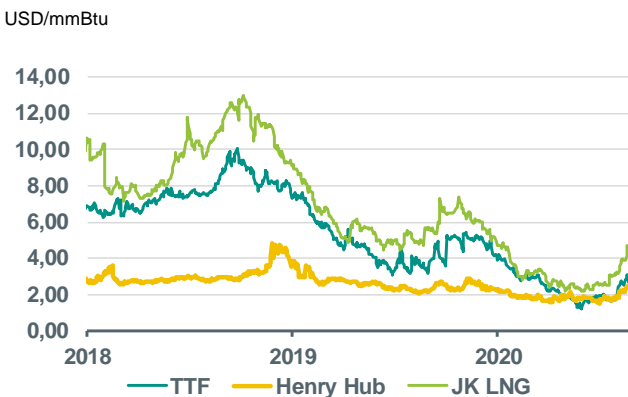
Source: Bloomberg

**Oil prices pending direction**

Back at the 89s and 90s oil prices were relatively stable. They fluctuated around a mid-price for months. Also now price seem to behave similarly. This after a period of large volatility. Brent oil price is now moving between USD 39 and 46 per barrel. WTI is in a similar range of USD 39 to 43 per barrel. The upward price potential is still limited. There is a moderate recovery in oil demand. The threat of being infected by the COVID-19 virus threatens a further recovery in oil demand. In recent days, we do see some support on the back of hurricane activity in the US Gulf of Mexico. This closed down more than 80% of the production rigs. Meanwhile the OPEC+ production reduction agreement mentioned above is limiting the downside potential in oil prices. In addition, the lower oil production in the US and Canada also weighs in.

We believe there is still a significant risk that investors will take profit on their open positions as soon as the upside potential is further threatened by new lockdowns or higher production. However, we have recently made some adjustments to our base case scenario. We no longer expect a period of market panic in the near term. Therefore we now think that the downside in oil prices is less severe than we originally had. For 2021 we expect a modest rise in oil prices.

**Gas prices on the rise**



Source: Bloomberg

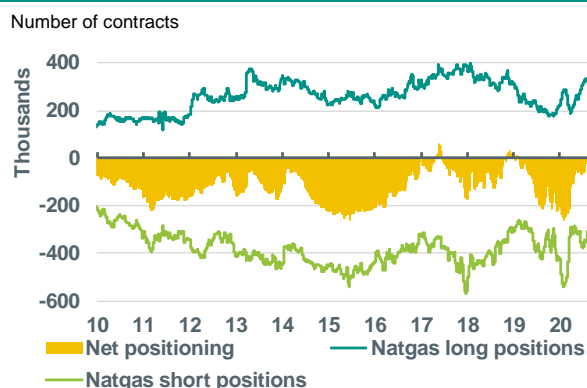
**Gas prices jump higher**

In contrast to oil prices, global gas prices are skyrocketing. The prices of Title Transfer Facility (TTF/NL), Henry Hub (HH/US) and Japan/Korea LNG (JKL LNG) have all risen sharply in recent weeks. As a result of the heat wave in several

parts of the world, the demand for electricity for cooling has risen sharply. In addition, gas stocks are still being replenished ahead of winter and production has come under further pressure. Although gas prices are still relatively low compared to the past few years, this price movement is a first signal that summer is really coming to an end as seasonal demand will start to rise soon.

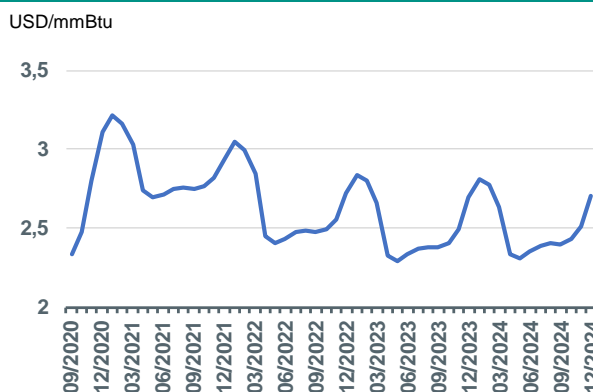
We also see a special behaviour of investors in the gas market. The net positioning of the speculative market positions is currently virtually neutral. As can be seen in the graph below, it is customary for the gas market that investors almost always hold net short positions. In other words, investors have the tendency to assume that there are sufficient gas stocks available to meet future demand. At the same time they also assume the possibility of a shortage of gas in the short term. This shortfall may be due to higher demand as a result of weather patterns that increase the demand for gas. This often a short-cycle pattern. While in the longer term there is sufficient supply and production potential to meet demand. The result of the growing LNG market is that gas markets are less locally driven and more globally driven. Gas prices react to this.

### Market speculation HH natgas almost neutral



Source: Bloomberg

### Henry Hub Forward Curve



Source: Bloomberg

Currently the net positioning for Henry Hub natural gas is almost neutral. This could be a strong signal that gas prices could fall again as soon as investors see a reason to return to their 'normal' positioning, anticipating price declines. But if we look at the forward curve (right graph), we see that 'the market' is expecting prices to rise in the coming months. The latter, in the case of a normal seasonal splash, would also be common. We think that gas prices could indeed rise further in the coming weeks on the basis of a further pick-up in (seasonal) demand. As soon as stocks are at the right level, and no strange situations arise around demand (in relation to COVID-19) and supply (with extreme weather conditions hampering production), the price could fall again from mid-October.

### Forecasts oil and gas prices

End of period		25-aug	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21	mrt-22	jun-22	sep-22	dec-22
Brent *	USD/bbl	45,26	35	45	50	45	45	50	55	55	55	55
WTI *	USD/bbl	42,57	32	40	45	42	41	45	50	50	50	50
Natural Gas (HH) *	USD/mmBtu	2,52	1,90	2,00	2,10	2,00	2,00	2,30	2,50	2,20	2,30	2,50
TTF *	EUR/MWh	13,18	14	15	15	14	15	17	18	17	18	18

Average		2019	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	2022
Brent	USD/bbl	64,17	38	40	40	48	48	45	48	47	53	55	55
WTI	USD/bbl	57,00	36	36	37	43	44	42	43	43	48	50	50
Natural Gas (HH)	USD/mmBtu	2,53	1,80	2,00	1,90	2,10	2,10	2,00	2,20	2,10	2,40	2,40	2,40
TTF	EUR/MWh	14,55	14	15	14	15	15	15	16	15	18	18	18

\* Brent, WTI and Henry Hub: active month contract; TTF: next calendar year

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