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Energy Monitor

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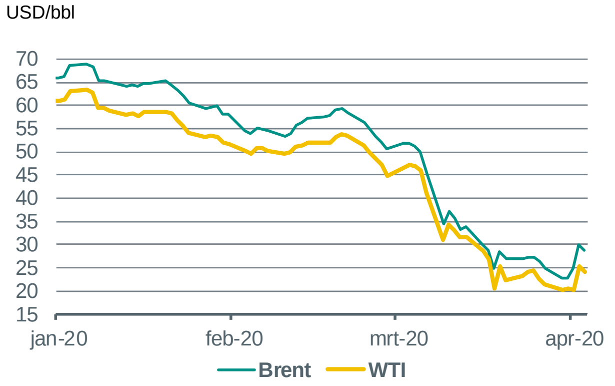
The High-Stake Oil Games

- **Trump triggers strong short covering by building strong production cut expectations**
- **OPEC+ will meet next week but expectations are tame**
- **Global oil demand to be 10-15 mb/d lower in Q2 than in Q1 2020**
- **Negative oil prices not realistic for the sector as a whole**
- **High volatility will linger as hopes and fears regarding supply and demand continue to switch driving seat**

Oil prices dropped to the lowest levels in 18 years before prices ballooned
Since our previous Energy Monitor on 18 March, oil prices have remained very volatile, and double-digit percentage declines or gains may look like being the new normal. Oil prices had tested the USD 22.50/bbl (Brent) and USD 20/bbl (WTI) support levels several times. These were the lowest levels seen since 2002. Yesterday, US President Trump tweeted that Saudi-Arabia and Russia would be willing to cut oil production by 10 mb/d or more. As a result, oil prices ballooned. The hopes for less oversupply have triggered short covering and pushed oil prices up by >35%, before the move then ran out of steam.

Brent and WTI oil price developments



Source: Bloomberg

Who's gonna blink first?

US President Trump earlier said that he had called both Russia's President Putin and Crown Prince of Saudi-Arabia Mohammed bin Salman (MBS) to bring them back to the OPEC+ negotiation table. Although Trump initially liked the low prices as they would be effectively a tax cut for the oil consumers, the president indicated that prices may have been pushed too low now. Since 1 April, OPEC and OPEC+ oil producers are free to produce as much as they want after the initial production cut agreement expired. Saudi Arabia indicated to increase production from 9.7 mb/d in February to 12.3 mb/d in the coming months after Russia did not agree with the initial proposal to cut production even further at the 6 March meeting. We think that increasing production from current levels would not make any sense. The market is already flooded with oil and prices may have pushed down much further than Russia and Saudi Arabia would have expected early March.

After the tweets of president Trump, Saudi Arabia indeed called for an OPEC+ emergency meeting. Saudi Arabia may be willing to lower its oil production to levels below 9 mb/d, but only if other producers (including the US) will join the effort to balance the market. Earlier in the week, Russian officials said that also they believe that prices may have pushed down too far. The (virtual) OPEC+ meeting is to be held on Monday.

We think that the high stake political poker games will continue and that it will also be hard to come to an agreement this time. It would be impossible for Russia and Saudi Arabia to balance a drop in demand of this magnitude by themselves and they may want to wait for a better momentum. This means that they may want to see other producers act too or to see global demand to pick up again. Even if there is a new production cut agreement possible next week, it will probably fall short of the expectations build by Trump and will not come close to the number of demand fallout expected for April. But although we are somewhat sceptical on the mentioned production cuts of 10-15m bpd, we are happy to see that geopolitical forces have started to move.

President Trump will also talk to CEO's of US oil companies to see if there could be found a solution to balance the market in the US and to save the local industry from collapsing. This might only work if they find a way to coordinate a production cut for all these hundreds of commercial parties. This may prove to be too hard as it is prohibited to agree upon a coordinated production cut. A voluntary cut in production by some of the major US producers could be a more realistic alternative. The question is whether this coordination will be needed as some of the production will be cut anyway as a result of the current low pricing.

Negative prices?

Some analysts expect oil prices to drop to USD 1/bbl or even fall into negative territory. We don't think that this is realistic. Indeed, some oil wells are very remote and these producers face difficulties to transport oil to the market against current prices. There is a risk that, if production in certain wells is halted, it will be too difficult or too expensive to bring it back into production at a later stage. So, in order to prevent to halt production at such wells, some of this oil is traded against very low, or even negative prices. However, we don't think that this is representative for the entire sector.

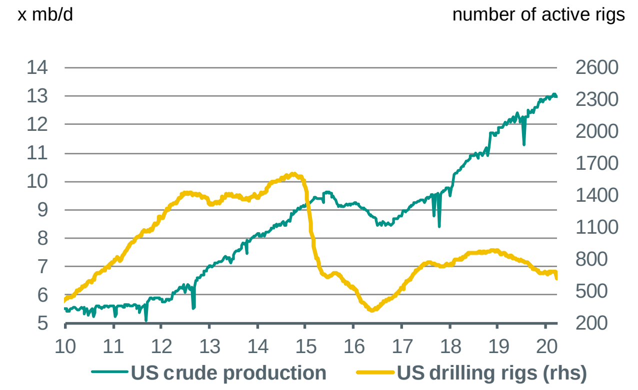
Demand drops, inventories rise

The assumption of a large demand shock has materialized. In April, global oil demand could be >20 million barrels per day (mb/d) lower than during the peak of 2019. If the local lockdowns are started to be scaled back in Europe and the US, similar to what we see today in China, global oil demand will start to recover again. We think that, on average, global oil demand will be 10-15 mb/d lower in Q2 than in Q1 2020.

This means that there is a huge overcapacity at this moment. According to IHS Markit, there is some 1.6 billion global crude oil storage left. However, if this situation lingers on for longer, there might be a need for 1.8 billion of crude oil storage. The US is planning to lease storage capacity out to commercial oil producers after the initial though of buying

Strategic Petroleum Reserves (SPR) by Washington had been cancelled. In China, buying cheap oil to fill SPR has been started again. Rumours suggest that the Chinese would be even willing to use commercial storage location to increase its SPR from 90 days to 180 days of consumption needs. With transportation and storage costs having increased significantly during the past few weeks, more and more commercial oil producers – especially in the US – will decide that it is cheaper to leave the resources in the ground instead. So although a shortage of storage should lead to even more pressure on oil prices, it could also trigger an acceleration in a drop of drilling rigs and crude production.

US crude production and nr of drilling rigs



Source: Bloomberg

In 2014-2016 it took several months before the number of drilling rigs dropped, and even longer for US shale oil production to react to the strong fall of oil prices. This time, the number of drilling rigs already dropped during the past two weeks. The number of drilling rigs were in a downtrend since the end of 2018 as oil prices were low already. However, the recent drop from 683 rigs on 13 March, to 624 on 27 March, indicates that this external demand shock makes the market to react much faster.

Oil prices

We have to wait and see what the OPEC+-meeting will bring next week. We think it will still be hard to come to an agreement. And if there will be an agreement, it will probably fall short of expectations. High volatility will remain as hopes on a better balance between supply and demand in the oil market will switch driving seat with fear of longer lockdowns and an even bigger impact on global oil demand.

Although oil prices have found support in recent days, this does not mean that further downside pressure is off the cards. In fact, if global demand is pressured even further due to extended or intensified coronavirus measures, or some OPEC oil producers indeed decide to increase production despite the current market conditions after all, oil prices could again fall under strong pressure and revisit the March lows again. Nevertheless, the fact that the major oil producers are starting to discuss a balancing of the market again, has made us become more optimistic that our latest oil & gas price expectations might be achievable. We continue to monitor all the developments closely. For this moment, there is no need to make new changes to our oil price forecasts.

Forecasts oil and gas prices

End of period		**3-apr**	**jun-20**	**sep-20**	**dec-20**	**mrt-21**	**jun-21**	**sep-21**	**dec-21**	**mrt-22**	**jun-22**	**sep-22**	**dec-22**
Brent	USD/bbl	*28,71*	25	35	45	50	45	45	50	55	55	55	55
WTI	USD/bbl	*24,18*	25	35	44	48	42	41	45	50	50	50	50
Natural Gas (HH)	USD/mmBtu	*1,56*	2,10	2,25	2,50	2,50	2,50	2,50	2,75	2,50	2,50	2,50	2,50
TTF	EUR/MWh	*6,85*	13	14	15	15	14	15	17	18	17	18	18

Average		**2019**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**	**Q1 21**	**Q2 21**	**Q3 21**	**Q4 21**	**2021**	**2022**
Brent	USD/bbl	64,17	28	30	40	36	48	48	45	48	48	55
WTI	USD/bbl	57,00	26	30	40	35	46	45	42	43	44	50
Natural Gas (HH)	USD/mmBtu	2,53	2,10	2,20	2,50	2,30	2,75	2,50	2,50	2,75	2,60	2,60
TTF	EUR/MWh	14,55	13	14	15	14	15	15	15	16	15	19