
# Market Update: Oil & Gas – March 2015

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## Oil & Gas Markets – monthly round up

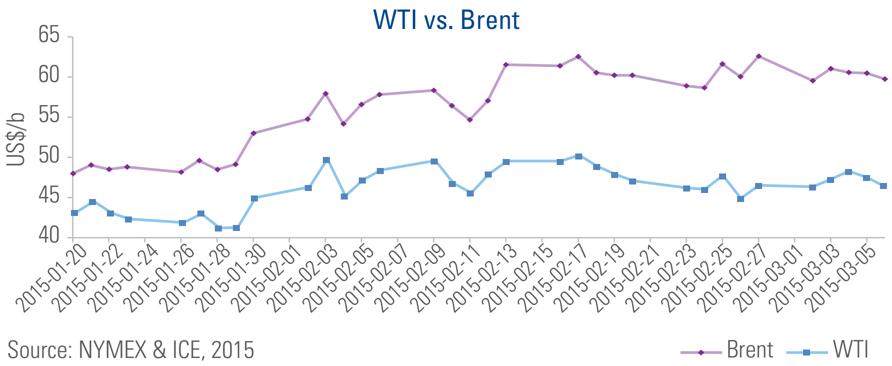
**Oil benchmarks remained volatile in February and early March as competing market fundamentals continued to drive fluctuating price movements.**

**New York Mercantile Exchange (NYMEX) West Texas Intermediate (WTI) futures increased through mid-February, rising to 54.24 US dollars (US$) per barrel (b), followed by a 14 percent slump to US$46.67/b by the end of the month. Concerns over rising gasoline supplies, strong production volumes and the strengthening US dollar contributed to the fall in WTI. ICE Brent, meanwhile, rose by 18 percent during February, with the front month contract hitting a high of US$63.00/b on 17 February 2015. Fears over Libyan and Iraqi crude oil supply helped the Brent contract trade higher during the second half of the month and widen its premium over WTI.**

**Geopolitical tensions supported European gas prices in February, as Ukraine's gas supply pre-payments to Russia ran out, sparking concerns over continuation of supplies. The market later found some relief when Ukraine pre-paid US$15 million to Russia, covering supplies until mid-March.**

### WTI-Brent spread

The spread between WTI and Brent crude prices spiked to minus US$12.82/b — the widest in over a year. The two contracts diverged as WTI futures edged lower on the back of booming US production volumes and inventory, while the ICE Brent contract was helped by Middle Eastern oil supply fears, and favorable macroeconomic news from the global markets — triggered by a Chinese manufacturing revival.




### US crude oil inventory

The inventory buildup in the US continued to dominate global oil market talk. For the week ending 20 February 2015, the total utilization of crude oil storage capacity in the US was close to 60 percent, compared with 48 percent at the same time last year. Capacity at Cushing (Oklahoma), the delivery point for WTI crude, was approximately 67 percent, against 50 percent a year previously. US crude oil stocks increased 8 percent month-on-month to reach 444.4 million barrels during February. As US tanks move closer to their physical limits, oil could be stranded at the well, due to limited storage options and weak end-user demand.

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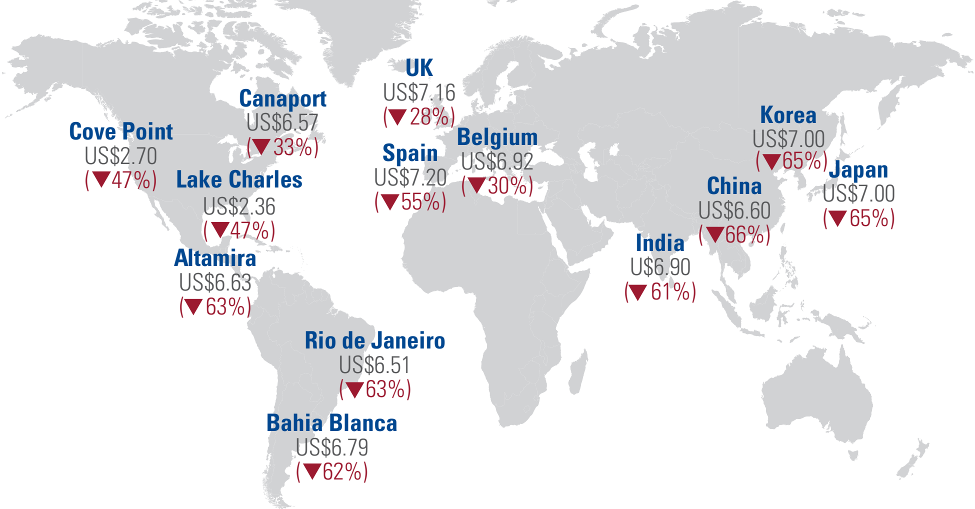
World LNG landed prices, March 2015 (% depicts change from March 2014 prices)




Source: FERC, 2015

## Global liquefied natural gas (LNG) prices suffer a similar fate to oil

Over the last 6 months, LNG spot prices have seen a significant deterioration. The price slide is no coincidence with almost 75 percent of LNG cargoes linked to oil prices. According to the US Federal Energy Regulatory Commission (FERC), LNG landed prices more than halved over the course of a year, with Asian prices, a key demand hub for LNG, hovering around US$6 to 7/million British Thermal Units (MMBtu), compared with US$17 to 20MMBtu in March 2014.

In early February, demand for non-Russian gas caused European LNG prices to surpass Asian prices. However, on 27 February 2015, prices converged as the Asian spot price rose to US$7.65/MMBtu, while the British front-month gas contract dropped to US$7.57/MMBtu, due to an influx of LNG arrivals from Qatar and reduced diversion of Atlantic-produced LNG to Asia.

## Analyst estimates – Oil

Brent price forecasts were revised down by analysts in anticipation of continued supply build-out and lower demand. Analysts predict that OPEC's firm stance on production volumes, combined with non-OPEC production growth, will create a period of oversupply until 2016. After this, current capital expenditure cuts should filter through, as oil is forecast above $80/b for 2017.

| Brent (US$/b) | 2015* | 2016** | 2017*** |
|---|---|---|---|
| January average | 68.1 | 75.9 | 82.3 |
| February average | 60.3 | 71.3 | 82.7 |
| January median | 69.9 | 75.0 | 80.0 |
| February median | 60.0 | 70.0 | 80.0 |

*19 estimates ** 16 estimates *** 10 estimates

Source: Based on a poll of 19 external energy market analysts

## Supply side headlines

- Organization of the Petroleum Exporting Countries (OPEC) trimmed its 2015 outlook for US supply growth by 130,000b/day and Canada by 20,000b/day, as falling capital investment and idled drilling rigs reduce planned production increases. (Source: OPEC)
- US oil production is expected to average 9.5 mb/day in 2016; the highest annual output since 1970. (Source: Energy Information Administration (EIA))
- Despite recent capital expenditure cuts, global capacity is still forecast to expand by 5.2mb/day by 2020. (Source: OPEC)
- In 2015, the US is projected to produce over 85 percent more crude oil than it did in 2008. (Source: American Petroleum Institute (API))

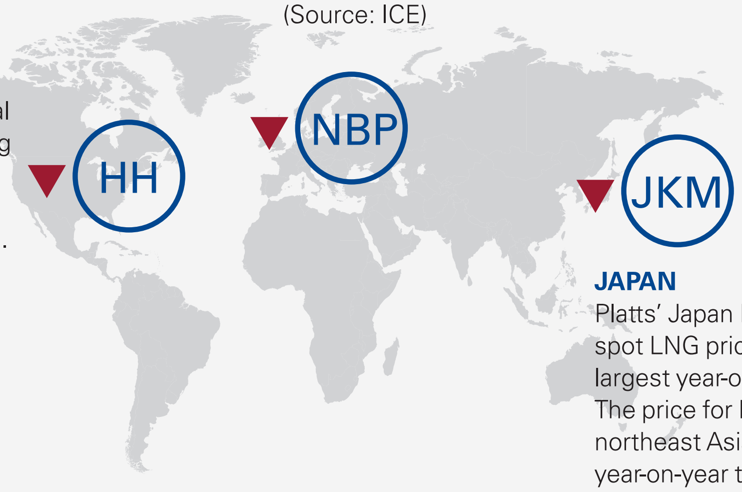
## Demand side headlines

- 2015 OPEC oil demand expected to increase by 430,000b/day to 29.2mb/day. (Source: OPEC)
- According to an ICF International/EnSys Energy study, gross US crude oil exports are forecast to reach approximately 1.8mb/day by 2017, if export restrictions are lifted. (Source: API)

## Gas Prices – monthly round up

### Industry benchmarks

**UK**
Natural gas prices increased in February due to aforementioned fears of Russia cutting supplies to Ukraine over pre-payment failure. The front-month National Balancing Point (NBP) contract averaged 49.63 pence per therm (p/th) for February, a 9.2 percent month-on-month rise. Prices stabilized in early March as Ukraine submitted US$15 million prepayment to Russia.
(Source: ICE)




**US**
Cold weather failed to lift natural gas prices in the US amid strong domestic production (which is getting a further boost from efficiency gains in drilling wells). Although prices increased slightly towards the end of February, the monthly average dropped to US$2.84/MMBtu — the lowest since September 2012. Citing rising production and a sluggish withdrawal season, EIA expects gas prices to average US$3.05/MMBtu for the full year, down US$1.34/MMBtu from 2014.
(Source: EIA)

**JAPAN**
Platts' Japan Korea Marker (JKM) spot LNG price witnessed the largest year-on-year fall since 2009. The price for March delivery to northeast Asia slumped 61.7 percent year-on-year to US$7.44/MMBtu as a result of moderate temperatures, limited end user demand, high inventory and fuel-switching.
(Source: Platts)

### Analyst estimates – Gas

Analysts lowered Henry Hub price forecasts in February following robust US production growth and an unseasonably mild winter. Gas prices are predicted to rise in 2017 and beyond.

| Henry Hub (US$/MMBtu) | 2015* | 2016** | 2017*** |
|---|---|---|---|
| January average | 3.7 | 4.1 | 4.4 |
| February average | 3.2 | 3.7 | 4.2 |
| January median | 3.8 | 4.0 | 4.3 |
| February median | 3.2 | 3.9 | 4.0 |

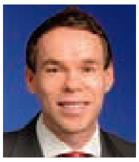
*17 estimates ** 17 estimates *** 7 estimates

Source: Based on a poll of 17 external energy market analysts

# KPMG global insight

Our industry specialists provide their views on recent market movements.

## Oil: Global Benchmarks

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*"The sudden decoupling of Brent and WTI prices has emerged as a major focal point in the oil market. The Brent benchmark, arguably a more reliable marker for global crude economics due to its worldwide reach, has recovered in recent weeks; flattening across prompt contracts and increasing in overall price. In the US, meanwhile, the storage play continues to reap pressure on the time spreads, which in turn incentivizes further inventory builds. This not only separates the US benchmark from the rest of the world on a per-barrel flat-price basis, but also perpetuates a supply excess that could suppress WTI prices for some time. OPEC benefits indirectly on two counts: a lower WTI price puts further pressure on US production volumes and therefore US global market share; and, the higher Brent price can help boost oil revenues, with which OPEC is more closely aligned."*

## Oil: WTI-Brent Spread


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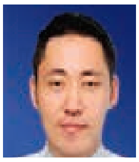
*"Last month, traders faced an obvious contango play and poured into storage to take advantage. Now, we see their activities played out as stored barrels in the US reaching near all-time highs. When stocks were last at these levels, the Brent-over-WTI spread sustained over US$10. We are beginning to see the same thing now. After year-long reversion to parity, the spread between these two indices has again widened to levels above US$10. While some traders may consider a reversion strategy, the impact on refining is arguably more interesting. Do independent refiners continue to price barrels off Brent? Or, do they embrace the current supply glut and move as many barrels as possible to WTI and other North American markers?"*

## Oil: Asian Downstream

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*"The global downstream sector has been revitalized by the continuing downward trend of low oil prices since the middle of 2014. In addition to a boost in profitability and a surge in storage play activities, refinery run-rates have increased inversely to sliding oil prices, particularly for European and Asian refiners. In Asia Pacific, sustained low oil prices should have several implications. We anticipate a resurgence in demand for light-end products, with energy consumers shifting their focus away from enhancing energy efficiency and alternative energy sources, towards minimizing costs. The low oil price has also had significant political ramifications. In the ASEAN region, for example, the leading oil and gas producing countries – Indonesia, Malaysia and Thailand – have leveraged the falling oil price, by cutting oil product subsidies in order to reduce spending in the face of declining oil-linked revenue sources."*

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