

Market Update: Oil & Gas – May 2015

Brought to you by the KPMG Global Energy Institute

Oil & gas markets: monthly roundup

Crude oil futures rallied throughout April and early May registering the biggest monthly gains since May 2009. Lower-than-expected inventory builds in the US, the appointment of a new Saudi Prince and a leadership reshuffle at the Saudi Arabian national oil company were all seen as bullish factors supporting the rally. Prices were further buoyed by a weaker US dollar; and news of a price hike of Saudi Arabian official selling prices (OSPs) for the Arab Light grade for European and US customers.

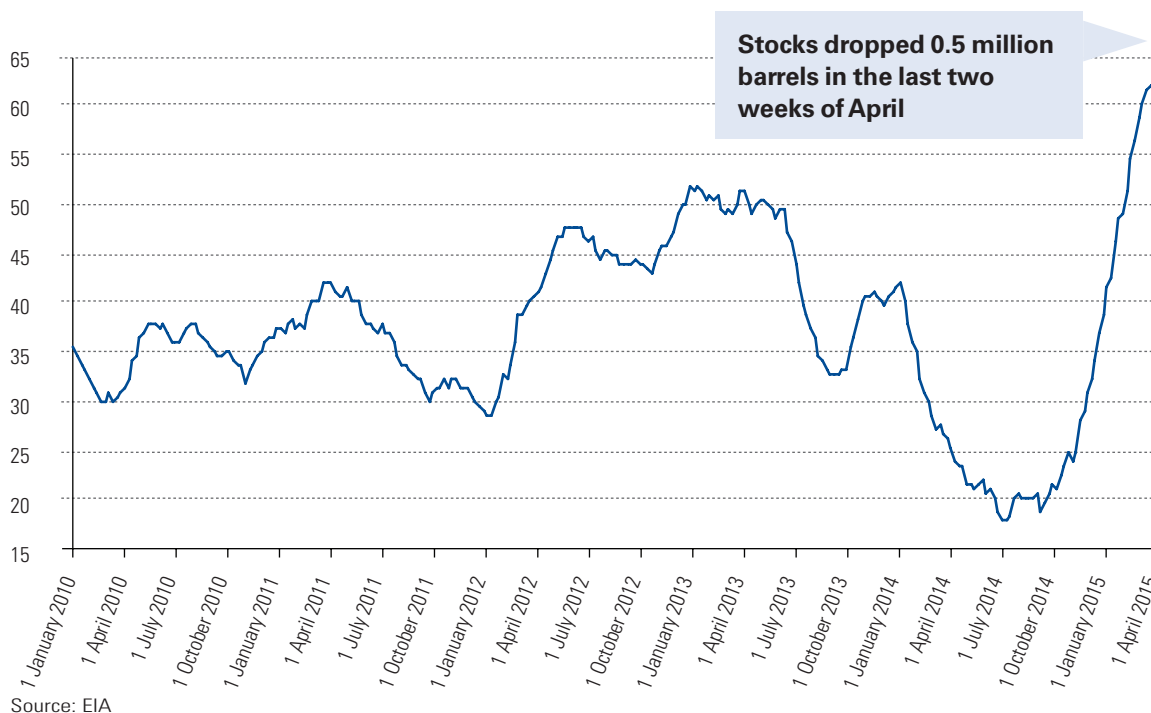
New York Mercantile Exchange (NYMEX) and West Texas Intermediate (WTI) crude futures peaked at 59.63 US dollars (US\$) per barrel (b) on 30 April – a 2015 high. ICE Brent crude futures edged closer to the US\$70 handle, hitting an intra-month and 2015 high of US\$66.93/b.^{1,2}

Drop in Cushing inventories growth

In the week ending 24 April 2015, crude inventories in Cushing, Oklahoma, broke a 20-week build streak falling by 514,000 barrels and crude oil stocks declined to 61.7 million barrels—although stocks remain plentiful with 87 percent of Energy Information Administration's (EIA) estimated working capacity fulfilled. Increased refinery crude run rates were seen as the catalyst behind the increase in draw-outs.

Refinery crude runs are expected to increase further as US refiners take advantage of positive Brent-WTI spread and rising domestic oil supply. Whether this alleviates storage pressures at Cushing will be largely depend on US crude oil production numbers entering the WTI delivery point.

Cushing ending stocks (excluding SPR of crude oil)



¹ "ICE Brent Crude Oil Futures, Continuous Contract #1 (B1) (Front Month)"; accessed May 2015

² "CME NYMEX WTI Crude Oil Futures (CL)"; accessed May 2015



Saudi royal reshuffle

On 29 April 2015, Saudi Arabia's King Salman bin Abdulaziz reshuffled the power in Royal Family by removing the Crown Prince and foreign minister. The King replaced his younger half-brother, Crown Prince Muqrin bin Abdulaziz with his nephew, Mohammed bin Nayef to the position.

In addition to the top level changes, King Salman also restructured the nation's oil and gas sector by splitting the Saudi national oil company from the Oil Ministry and, in turn, consolidating the powers with his son Mohammed bin Salman. A 10-member Supreme Council, led by the King's son will now manage the Saudi national oil company's decision making and operations.

Saudi national oil company: Key changes announced

Separated from Ministry of Petroleum

Appointment of new 10-member supreme council (headed by Deputy Crown Prince Mohammed bin Salman).

Supreme Economic Council to replace Supreme Petroleum Council.

Appointment of Khalid Al-Falih as Chairman (ex-CEO of Saudi national oil company).

Appointment of Amin H. Nasser – Acting president and CEO (ex-Senior VP for upstream operations)

Some of the council members:

- Petroleum and Mineral Resources Minister Ali Al-Naimi.
- Finance Minister Ibrahim Al-Assaf.
- Economy Minister Adel Fakeih.
- Water and Electricity Minister Abdullah Al-Husayen.

Supply side headlines

- In 2015, non-Organization of the Petroleum Exporting Countries (OPEC) oil supply is expected to grow by 0.68 million barrels per day (mbpd). US tight oil and Canadian oil sands output are expected to see lower growth following the recent strong declines in rig counts. (OPEC)³
- Disruption in Libya oil production as local protestors have shut oil flows to Port Zueitina. (Nasdaq)⁴

- Natural gas working inventories in the US increased 75 percent year-on-year to 1,461 billion cubic feet (Bcf) on 27 March 2015, however, 12 percent lower than the previous 5-year (2010–14) average. (EIA)⁵
- EIA projects natural gas inventories in the US will end in October 2015 at 3,781 Bcf, a net injection of 2,310 Bcf. This would be the fourth-highest injection season on record, but it would be 420 Bcf lower than last year's net April-October injection. (EIA)⁶

Demand side headlines

- Global oil demand expected to grow by 1.17 mbpd in 2015; almost two-thirds of oil demand will come from Asia and the Middle East. (OPEC)⁷
- The US' net imports of petroleum as a percent of US consumption is expected to fall to 14 percent in 2020 from 33 percent in 2013.
- US is expected to transition from a net importer of 1.3 trillion cubic feet (tcf) of natural gas in 2013 (5.5 percent of the 23.7 tcf delivered to consumers) to a net exporter by 2017. (EIA)⁸

Analyst estimates: oil

Analyst forecasts showed differing opinions on the market outlook with some anticipating geopolitical patterns (such as Saudi Arabia's intervention in Yemen) to hamper supply resulting in higher Brent prices. While, others anticipate crude oversupply to dominate the direction in crude oil prices. Overall, consensus estimates were revised down from the March estimates.

Brent (US\$/bbl)	2015	2016	2017	2018
March Average	60.8	72.5	82.7	87.4
April Average	60.3	70.8	80.3	85.5
March Median	60.0	70.0	80.0	90.0
April Median	59.0	70.0	80.0	84.0
Number of estimates	19	17	11	7

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

³ "Monthly Oil Market Report, 16 April 2015," accessed May 2015

⁴ "Libya's Oil Port Zueitina Shut by Protesters," accessed May 2015

⁵ "SHORT-TERM ENERGY AND SUMMER FUELS OUTLOOK," accessed May 2015

⁶ "SHORT-TERM ENERGY AND SUMMER FUELS OUTLOOK," accessed May 2015

⁷ "Monthly Oil Market Report, 16 April 2015," accessed May 2015

⁸ "ANNUAL ENERGY OUTLOOK 2015," accessed May 2015



Gas markets: monthly roundup

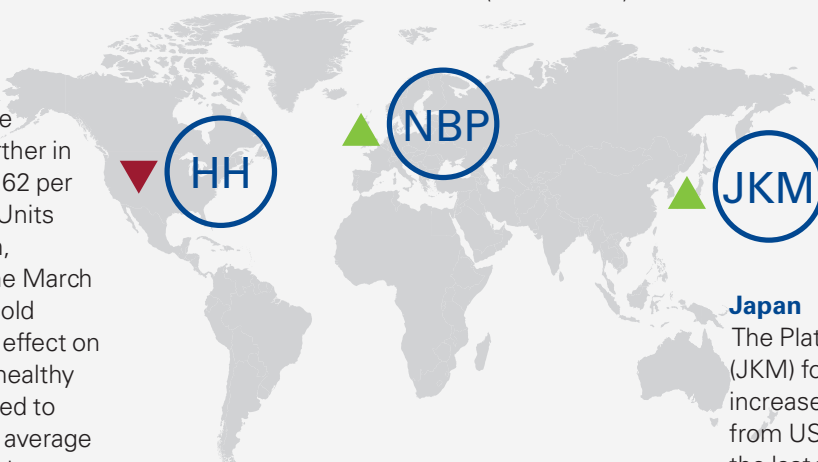
Industry benchmarks

US

Natural gas prices at the Henry Hub dropped further in April – averaging US\$2.62 per million British Thermal Units (MMBtu) for the month, 8 percent lower than the March average. Late-season cold weather had a minimal effect on prices in the region as healthy gas production continued to flood the market.⁹ April average prices were 44 percent lower year-on-year and 28 percent lower than the 5-year average.

UK

Natural gas futures prices increased in April as cold weather raised gas demand. ICE UK Natural Gas Futures, May 2015 contract, increased 5 percent month-on-month to 45.37 pence per therm (p/th). (Source: ICE)¹⁰



Japan

The Platts Japan Korea Marker (JKM) for June deliveries increased to US\$7.175/MMBtu from US\$7.15/MMBtu during the last week of April. Prices remain almost 60 percent down year-on-year, as inventory builds and mild temperatures continue to suppress prices. (Source: Platts)¹¹

Analyst estimates: gas

Analysts lowered Henry Hub price forecasts amid rising gas supply. The winter season could not pull prices higher in the last quarter and are expected to remain low in the summer months.

Henry Hub (US\$/MMBtu)	2015	2016	2017	2018
March Average	3.2	3.6	4.1	4.4
April Average	3.1	3.5	4.0	4.1
March Median	3.1	3.8	4.0	4.3
April Median	3.0	3.4	4.0	4.1
Number of estimates	17	17	10	6

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

⁹ "Henry Hub Natural Gas Spot Prices," accessed May 2015

¹⁰ "ICE UK Natural Gas Futures, May 2015, MK2015, ICE," accessed May 2015

¹¹ "Platts June Japan Korea Marker (JKM) edges up to \$7.175/MMBtu in shorter trading week," accessed May 2015



A global insight

Points of view from KPMG's Oil & Gas subject matter experts

UK



George Johnson
Executive Advisor, Oil & Gas
KPMG in the UK
T: +44 7879 498872
E: george.johnson@kpmg.co.uk

Build up to the OPEC meeting could lead to further price volatility

"An OPEC production cut in June seems less likely as Brent tracks towards US\$70/barrel. Whether these prices can be sustained is another matter. Profit taking by traders could soon unwind any upside momentum, as could further builds to US inventories and additional production to capitalize on the higher oil prices. Over the next few weeks, expect plenty of comments from OPEC ministers ahead of the June meeting which will undoubtedly roil the futures prices and add further volatility to the market."

ASEAN



Oliver Hsieh
**Associate Director, Commodity
& Energy Risk Management
for ASEAN**
KPMG in Singapore
T: +65 6411 8037
E: oliverhsieh@kpmg.com.sg

Despite persistent volatility, Asian demand anchors global oversupply

"Asia's downstream market, particularly the refineries, continues to be shaped by high utilization rates, despite falling refining margins. With the summer months on the horizon, expect increased volatility, as the Asian downstream sector self-balances as crude prices track upwards hesitantly. Conversely, the upstream sector has been surprised and re-energized by high-profile takeover speculation. With such price uncertainty permeating the markets, an array of independent and oil field services companies are prey for cash-backed companies looking to expand their portfolio. Nonetheless, many of these targets are playing a 'wait and see' game, holding out to see whether the oil market rebounds."

Switzerland



Christian Kurz
**Deputy Head Regulatory &
Risk Management,
Commodities Trading**
KPMG in Switzerland
T: +41 58 249 65 76
E: ckurz@kpmg.com

Overview of oil market technical indicators

"Overall the medium-term technical picture has improved quite clearly over the last 6 weeks. Nevertheless short-term momentum indicators for Brent prices have reached overbought conditions and have formed already an interim high. Short-term price support can be expected around the US\$55-60/barrel area. Long-term moving averages are still declining, whereas short term moving averages – like the 50 day – have already bottomed and providing another positive signal to the overall market condition."

kpmg.com/energy
kpmg.com/socialmedia



kpmg.com/app



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent member firms affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Market Update: Oil & Gas – May 2015

Publication number: 132411-G

Publication date: May 2015