OUTLOOK

Uneven Oil Price Recovery Seen as Various Factors Weighing on Market

The rebound in oil prices since the lows of April is expected to slow and future gains will depend on a variety of factors including the strength of oil demand and a global economic recovery as the world still wrestles with the Covid-19 pandemic, according to Moody’s Investors Service.

Moody’s expects constrained oil supply to continue underpinning the commodity, with near-term oil prices forecast to average $40-45/bbl, before slowly reaching the firm’s medium-term price assumptions of $45-65/bbl.

The initial rebound in oil prices has flattened since July, reflecting what Moody’s analysts said is

NEWS

BC Launches Oil, Gas Well Cleanups Backed by Covid Relief Funds

British Columbia (BC) on Monday launched a C$50 million ($38 million) first stage of its share in Canada’s government-financed Covid-19 pandemic relief program to clean up depleted and abandoned oil and gas wells.

Contracts to seal and reclaim 1,880 dormant wells were awarded to 79 service firms that expect to employ about 1,200 workers on the assignments in northern production fields, said BC and federal resources, energy and environment ministers.

The Canadian government in April had launched a C$2.47 billion ($1.8 billion) wells and emissions cleanup program to salvage jobs during the industry slump caused by the Covid-19 virus pandemic and fallen

REGULATORY

U.S. Trade Group Calls for ‘New Approach’ to Cut Carbon Emissions, Such as Carbon Taxes

A major U.S. business trade association, whose CEOs include some of the biggest oil and gas operators, is calling for a market-based solution to help curb carbon emissions, including imposing a carbon tax.

The Business Roundtable is made up of CEOs from companies with total annual revenues of around $7 trillion. While they did not recommend a particular market-based design to reduce emissions, pricing carbon could reduce emissions because “a clear price signal is the most important consideration for encouraging

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Continued from Page 1

a “slowdown in the recovery of demand, as well as oil production returning after shut-ins in March and April.” A dramatic rebound in oil prices from April, when Brent crude slipped below $20/bbl and West Texas Intermediate (WTI) plunged into negative territory, “reflected improving market fundamentals, both on the demand and supply side,” Moody’s said.

Global oil demand continues to recover and stood at about 92% of its pre-pandemic level, having shrunk by about 10 million b/d by August, and by more than 23 million b/d in April, according to Moody’s.

Going forward, the firm expects the demand rebound and price recovery to be not only gradual, but rocky as well. Prices are likely to be highly volatile, “with periods outside the top or bottom ends of our medium term price range,” the credit ratings agency said.

Fears have emerged in recent weeks over the sustainability of the oil market rebalancing. A resurgence of Covid-19 cases in many countries, lockdown measures, continued teleworking and a weakened transportation sector have clouded the outlook despite stimulus efforts that have lifted the global economy.

Goldman Sachs Commodities Research noted that those factors helped erase all the gains oil made over the summer during the first week of September. However, as stocks draw down and a supply deficit emerges as the year comes to an end, analysts are forecasting a year-end Brent crude price of $49/bbl.

Moody’s added that prices will continue getting support from the cooperation of producing nations, which cut production to protect prices earlier in 2020 as the pandemic took hold. In North America, the firm also expects oil production levels to continue recovering this year, but stressed that those volumes should flatten in 2021 even if prices accelerate, mainly because companies must now repair their balance sheets after the downturn.

Crude prices got a lift Thursday after the Organization of the Petroleum Exporting Countries and its allies, aka OPEC-plus met virtually to discuss production policy. While no additional output cuts were announced, members signaled that they will stick with current production quotas.

“The alliance today showed that it recognizes the unfavorable market...cont’ pg. 3
developments, acknowledging the risk of oil demand being reduced as a result of rising infections,” Rystad Energy’s Bjornar Tonhaugen, head of oil markets, said after the meeting. He added that OPEC-plus “gave the impression that it does not sweep troubles under the carpet.”

The group’s meeting came just days after both OPEC and the International Energy Agency reduced their projections for oil demand. After the meeting, Brent crude gained $1.08 on Thursday to finish at $43.40/bbl, while WTI followed with similarly strong gains, adding nearly $1.00 to finish at $40.97.

However, prices fell Monday as Libya was poised to resume some crude exports. Brent finished at $41.44 and WTI closed at $39.31.

“Geopolitical issues or attempts to manage supply by the OPEC-plus group of oil-producing nations may add to an uneven recovery in demand and drive wider price fluctuations from time to time,” Moody’s said of the volatility it expects as the market finds balance again.

Barclays increased its 2021 oil price outlook Monday. Analysts said they see limited downside risk next year, “due primarily to the evolving response function of governments as well as the general public towards the virus threat and continued OPEC-plus restraint, with risk-reward of the current strategy skewed to the upside for the group over the forecast horizon, in our view.”
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Continued from Page 1

energy prices.

Similar but larger federally financed discarded well cleanups are underway in Alberta and Saskatchewan, which are receiving C$1.4 billion ($1.1 billion) or 82% of the total C$1.7 ($1.3 billion) aid program.

The top share of the national grant program, C$1 billion ($750 million), goes to Alberta, which has a generations-old and growing backlog of 96,969 depleted and dormant wells. The program is forecast to support 5,200 jobs in Alberta alone.

The federal aid also provides a C$200 million ($150 million) loan to the Alberta Orphan Well Association, an industry and government agency responsible for cleaning up facilities deserted by bankrupt or disbanded oil and gas producers.

The Alberta oil and gas field orphan sites backlog includes 2,983 inactive wells, 283 discarded production facilities, and 3,844 disused pipeline segments. BC has 770 orphan wells. Both provinces have enacted deadlines and industry production levies for cleanups.

The federal government “is supporting workers across Canada and across sectors that face this crisis to support jobs today and ensure a strong, fair and cleaner Canada,” said the announcement of the BC share in the wells cleanup.
innovation, driving efficiency and ensuring sustained environmental and economic effectiveness.”

Warning of threats posed to the country from climate change, the CEOs said, “It’s time for a new approach.” Progress has been made to reduce greenhouse gas (GHG) emissions but there continues to be uncertainty because of the patchwork of federal and state efforts.

“This approach would reduce the administrative complexity and uncertainty associated with a regulatory approach to limiting emissions and help ensure that U.S. companies remain competitive,” members said. “It would also send an important market signal that would lead to greater efficiency; technological innovation; and deployment of the low-, no- and negative-GHG emissions technologies that will be necessary for reducing GHG emissions by at least 80% by 2050.”

Walmart CEO Doug McMillon, chairman of the Roundtable, said climate change is “one of the greatest challenges facing the planet today, and we believe businesses are an essential part of the solution.

“Representing more than 200 CEOs from America’s leading companies, the new Business Roundtable position on climate change reflects our belief that a national market-based emissions reduction policy is critical to reducing greenhouse gas emissions to levels designed to avoid the worst effects and mitigate the impacts of climate change.”

Oil and gas CEOs ...cont’ pg. 6
in the Roundtable include BP plc’s Bernard Looney, who last week laid out an aggressive plan for the London-based super major to reach net zero emissions by 2050.

Other oil and gas chiefs include Chevron Corp.’s Mike Wirth, ConocoPhillips’ Ryan Lance and ExxonMobil’s Darren Woods.

“We are committed to leading by example,” said Lance. “The U.S. can do the same by adopting a credible, durable and comprehensive climate change strategy with market-based solutions to reduce emissions across the economy while increasing adaptation, resilience and regulatory simplification.”

Members who run oil and gas firms also include Marathon Oil Corp.’s Lee Tillman, Marathon Petroleum Corp.’s Michael J. Hennigan, Noble Energy Inc.’s David Stover and Phillips 66’s Greg Garland, Sempra Energy’s Jeffrey Martin and TC Energy Inc.’s Russ Girling.