

# Near-term Outlook for Global Oil & Gas Markets

Presentation to:

Federal Reserve Banks of Dallas and Kansas City Joint Energy Conference:  
Energy and the Economy: Navigating the Changing Energy Landscape

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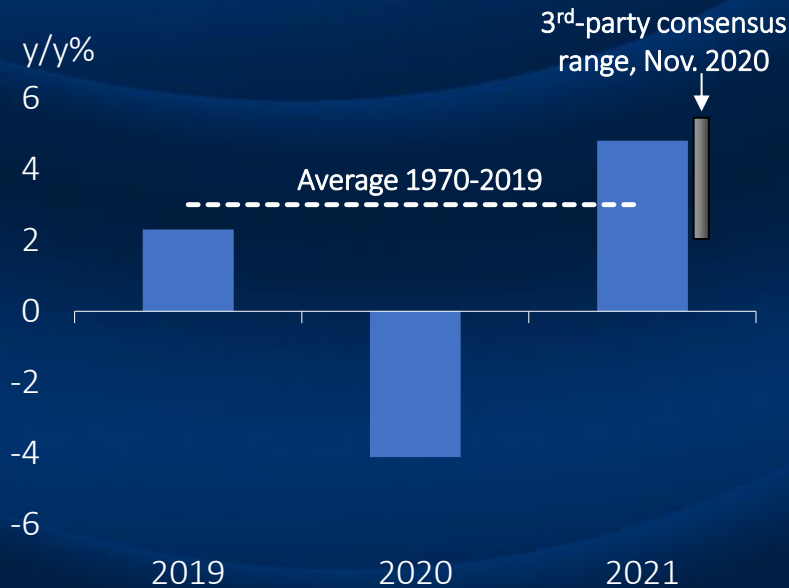
- ▶ Oil supply/demand fundamentals appear poised to improve along with broad expectations for **economic recovery in 2021**
  - EIA expects global demand to rebound by **6.0 million barrels per day** in 2021
  - U.S. petroleum **demand rebounded** into the 5-year range as November 12, 2020 (EIA)
  - U.S. poised to participate in a rebound as shale oil **productivity has risen** and estimated **breakeven prices have fallen** in most producing basins
- ▶ Pipeline capacity balances show the **essentiality** of egress for the Bakken production to recover, while the Permian basin has seen multiple projects reach completion, which could **enable** its production to grow
- ▶ Although industry-wide capital expenditures fell in Q3 2020 to their lowest levels in more than 12 years, the U.S. had approximately **\$288 billion** of oil & gas-related capital investment projects (not including upstream resource developments) under construction in October 2020



# World Bank and Bloomberg consensus expect a “one-and-done” recession

- ▶ The Bloomberg consensus expects economic recovery to take hold beginning in Q3 2020
- ▶ The COVID-19 global recession has been the most synchronized on record – and with the sharpest deterioration across multiple measures since 1960
- ▶ Consistent with the Bloomberg consensus, World Bank expect global economic growth to resume in 2021, and oil consumption has historically grown in tandem with the economy

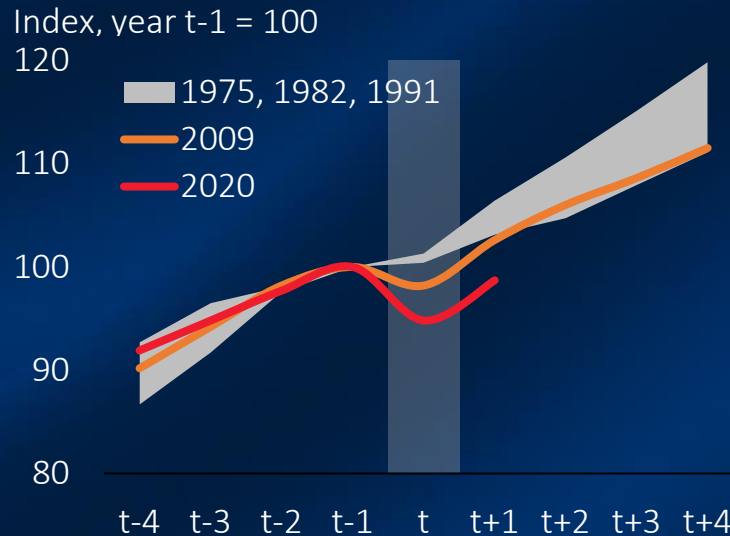
## Global real GDP outlook



sources: IMF; Bloomberg \* Market exchange rate basis

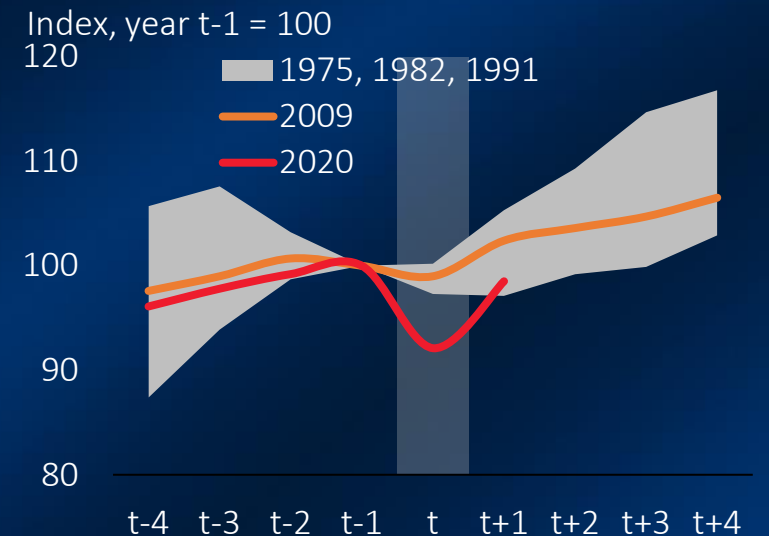
## Global activity comparisons during economic recessions, 1960 -2020

### Global real GDP



sources: World Bank; Kose, Sugawara, and Terrones (2019, 2020)

### Oil consumption



sources: World Bank; IEA; EIA; Kose, Sugawara, and Terrones (2019, 2020)

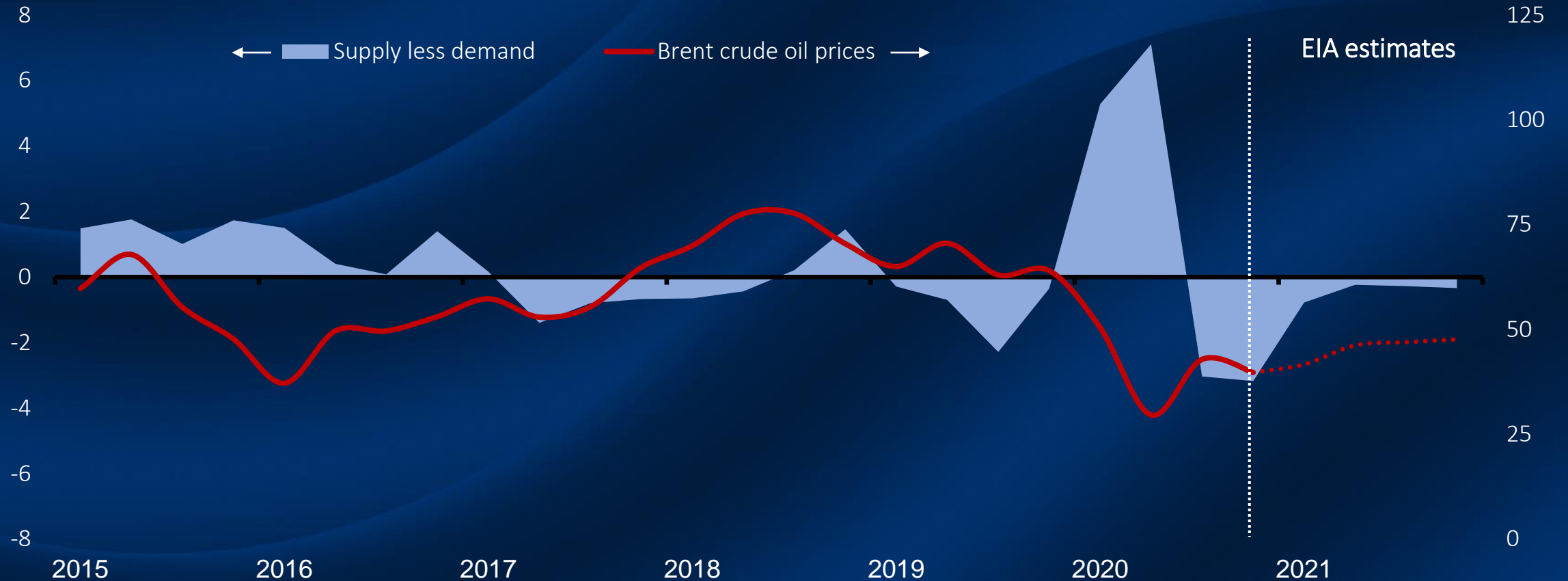


# EIA expects the global oil market rebalanced in Q3 2020 and could support oil prices of about \$50 per barrel in 2021

## EIA global supply/demand and Brent price estimates as of November 2020

Million barrels per day (mb/d)

2020\$/Bbl



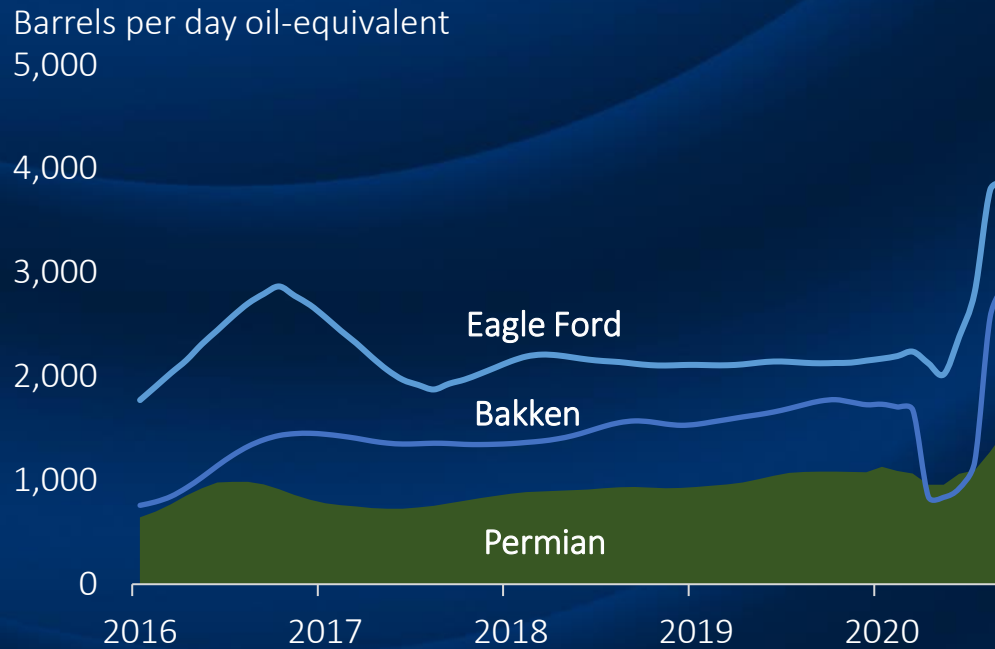
sources: EIA STEO (November 2020); Bloomberg



# U.S. oil well productivity gains have lowered estimated breakeven prices

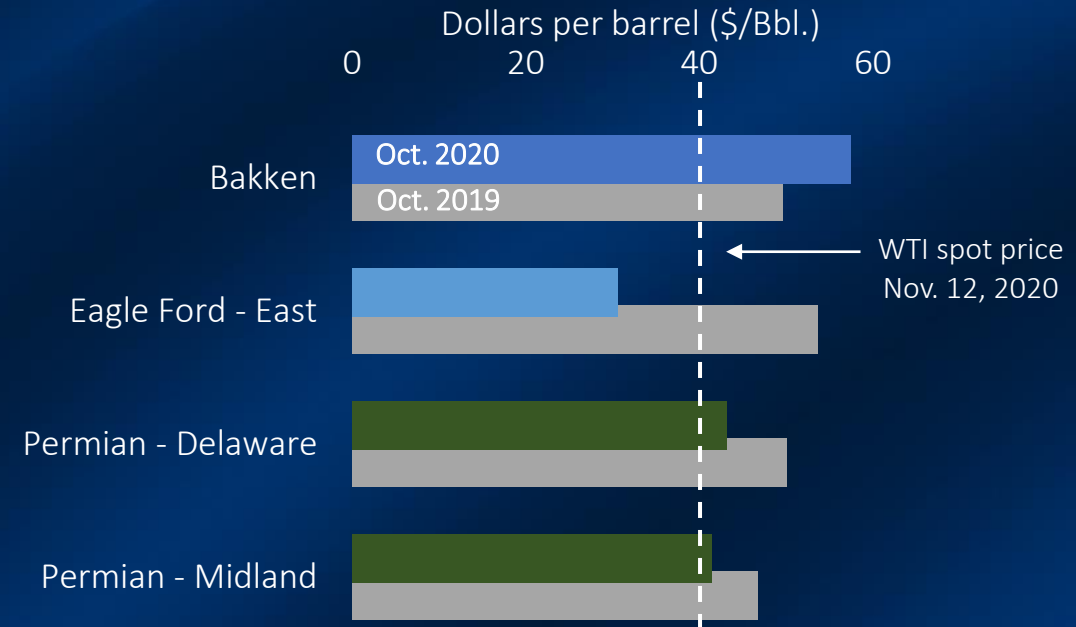
- ▶ EIA reported increased new well productivity as companies drilled tended to drill only their most prospective targets
- ▶ BTU Analytics estimated breakeven prices were near or below recent market prices among the major U.S. oil producing basins

## U.S. oil well productivity – new production per rig



source: EIA Drilling Productivity Report

## Oil estimated breakeven prices\*



\*Half cycle breakevens assuming 10% discount factor. source: BTU Analytics



# As EIA's oil production outlook remains uncertain, recent Permian pipeline capacity additions could enable production growth

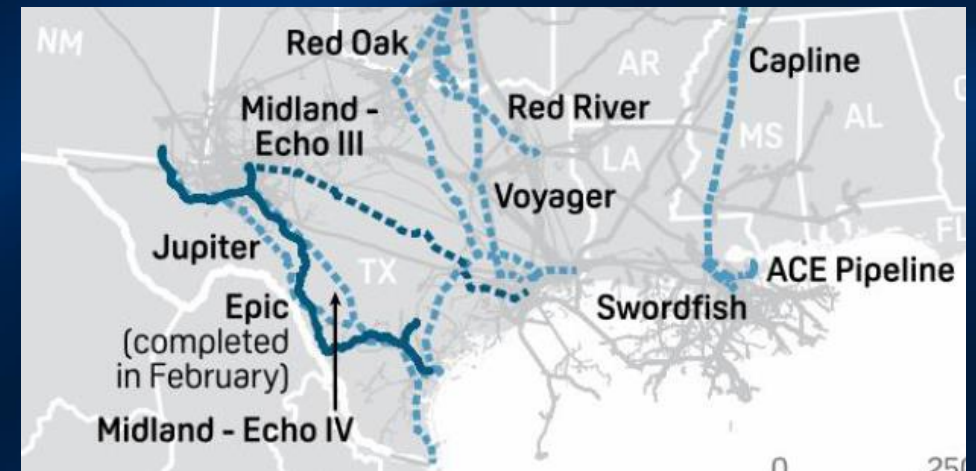
## Permian Basin pipeline capacity balance

Million barrels per day (mb/d)



sources: EnSys; Bloomberg; EIA; API Monthly Statistical Report

## Potential midstream project delays



sources: EnSys; S&P Global

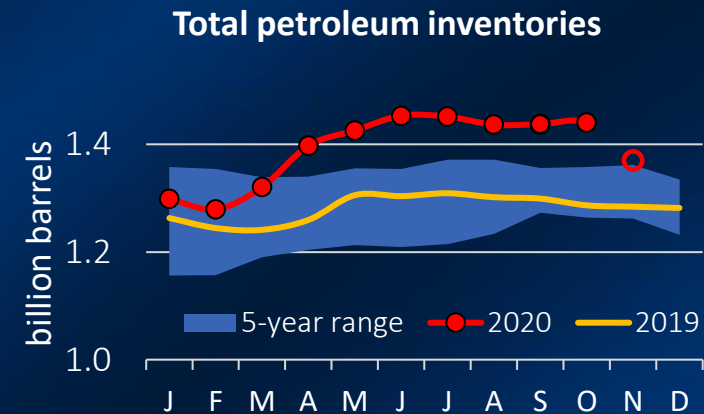
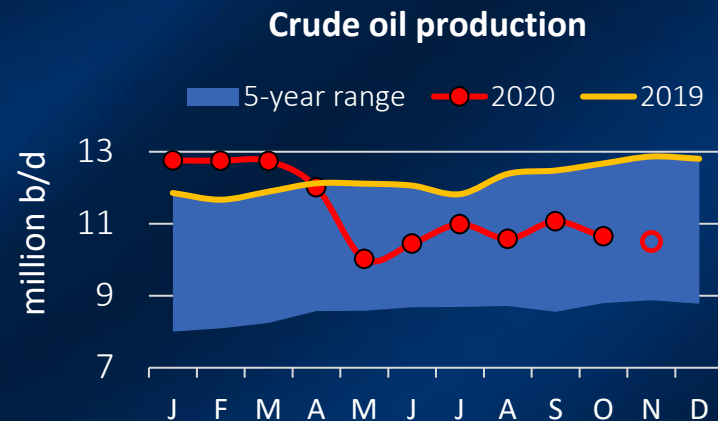
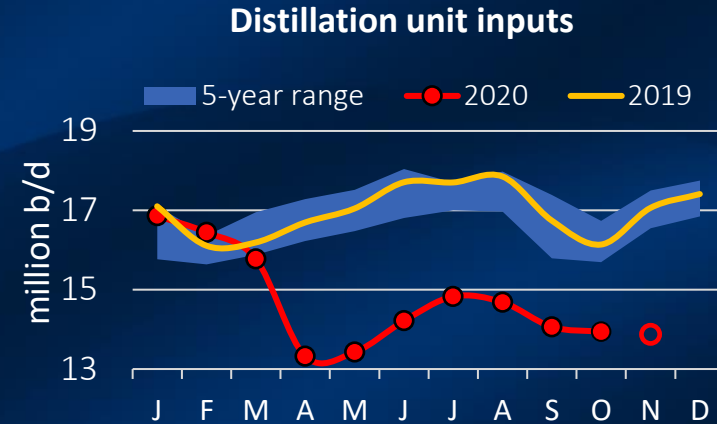
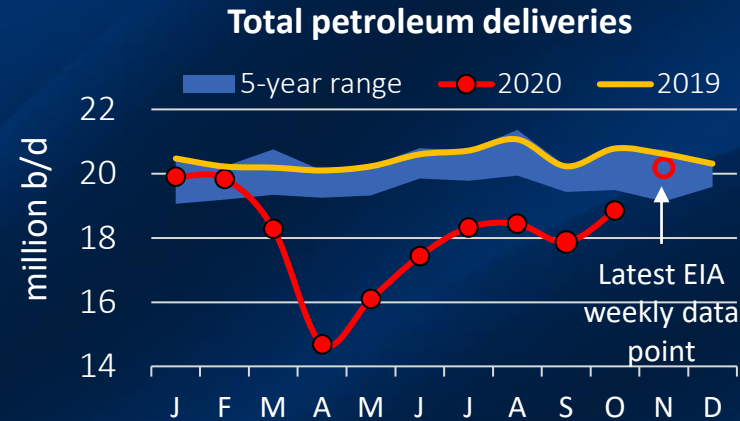


# API Fundamentals Brief – November 12, 2020

U.S. oil demand and prices increased; supply held steady; petroleum net exports contracted; and, inventories fell

For the week ended November 6, 2020:

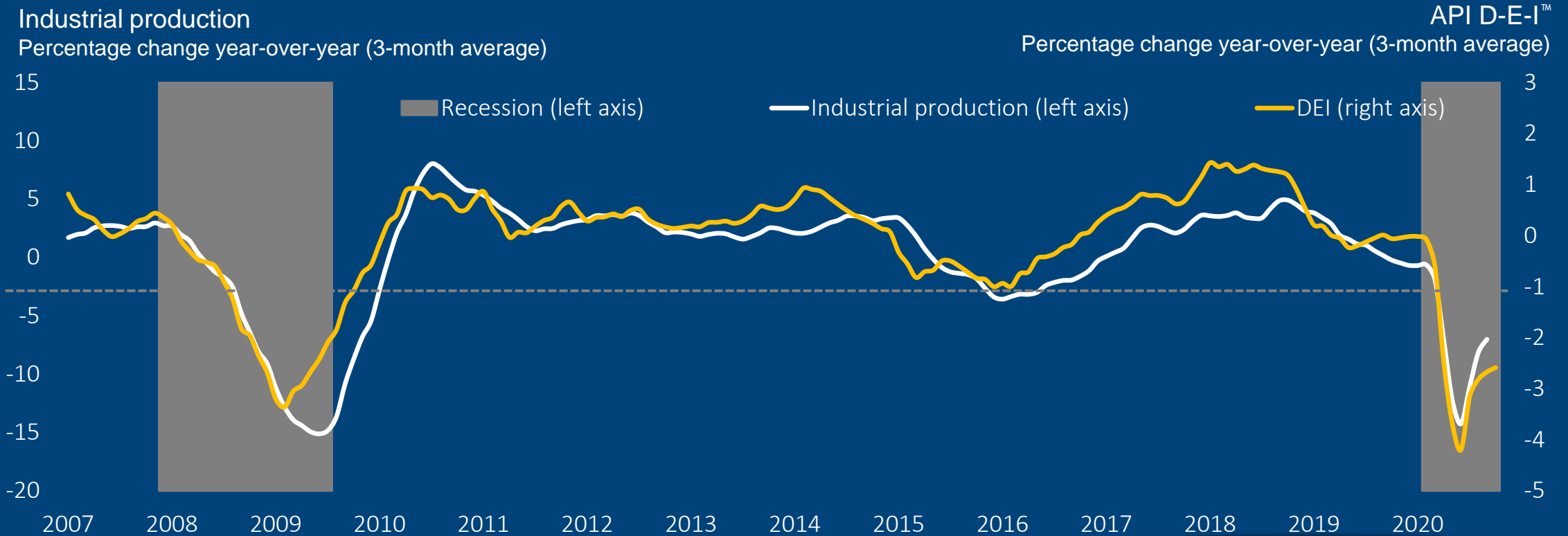
- U.S. total petroleum **deliveries 20.2 mb/d**, an increase of 1.8 mb/d (4.3%) for the week, but down 1.3 mb/d (11.3%) versus the same week one year ago
- Refinery gross inputs were 13.9 mb/d, a weekly decrease of 0.1 mb/d that implied a capacity utilization rate of 74.5% (-0.8 percentage points from last week)
- U.S. crude oil production held at **10.5 mb/d**; natural gas liquids slipped to **5.3 mb/d**; and natural gas marketed production rose by 1.5 bcf/d to **100.1 bcf/d**
- Total petroleum inventories (crude oil and refined products) were **1.37 billion barrels**, decreased by 11.5 million barrels for the week



# API's economic indicator: The API D-E-I™ - October 2020



- ▶ The D-E-I™ value of -2.3 for October 2020 and three-month average of -2.6 – gradual improvement for the second consecutive month – suggested increased monthly industrial production

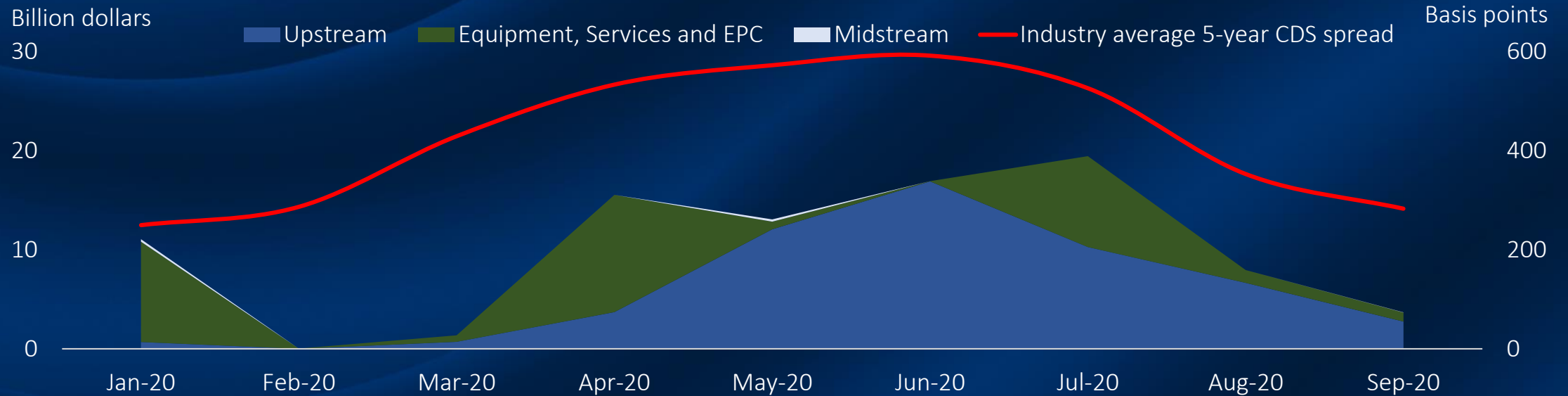






- ▶ A credit default swap (CDS) represents the market-based cost to insure a corporate bond against issuer default – lower amounts reflect less default risk
- ▶ Bankruptcies (\$89.1 billion through Q3 2020 year-to-date per Haynesboone) subsided along with industry-wide financial risk as measured by the 5-year CDS spread, which in September reverted below pre-COVID-19 levels

## Total debt in oil & gas industry bankruptcies by segment



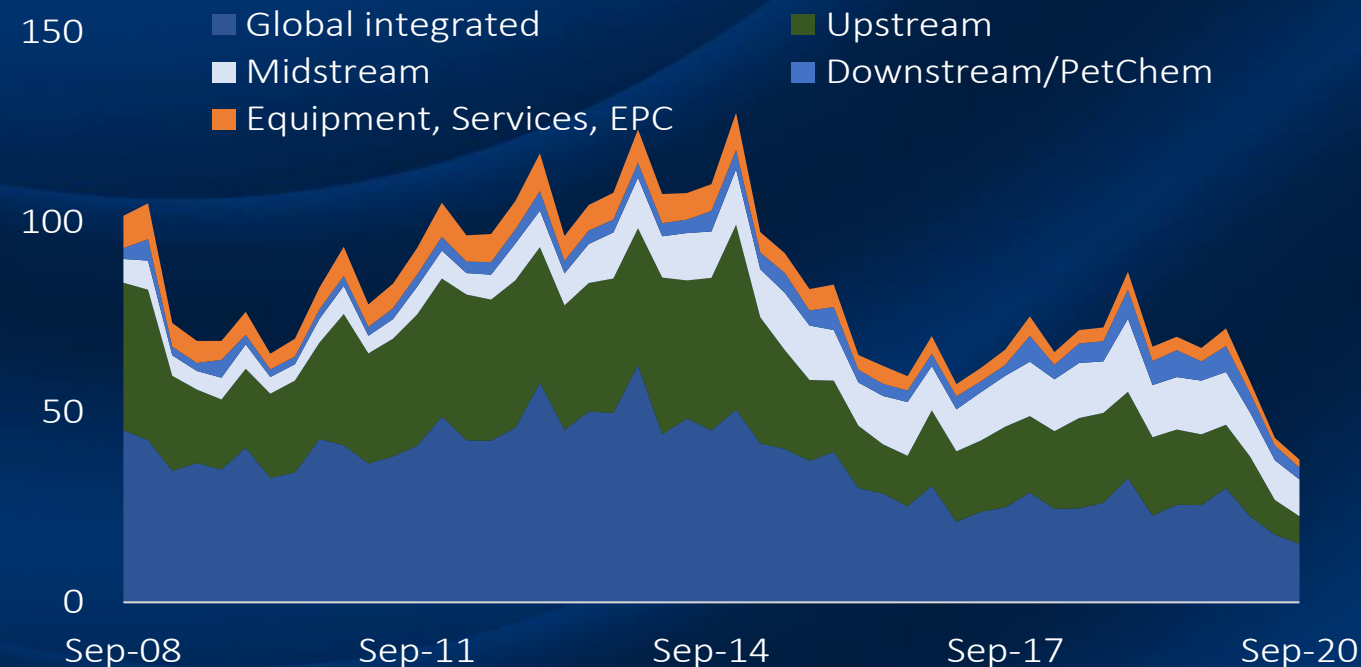
sources: Haynesboone; Bloomberg

# Industry capital expenditures fell in Q3 2020 to less than half their lowest point in the Great Financial Crisis (Q2 2009), but the \$288 billion investment queue has remained solid

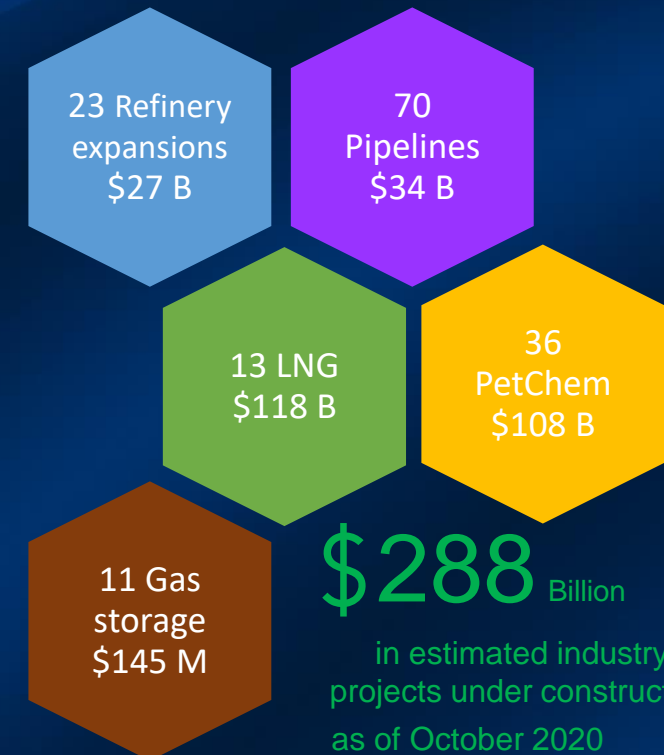
- ▶ The industry invested \$37.6 billion in Q3 2020, compared with \$65.7 billion in the same quarter one year ago
- ▶ Across the energy value chain, API is monitoring 153 oil & gas-related projects worth \$288 billion currently under construction

## Capital expenditures by industry segment

Billion dollars (2020\$)



## \$288 billion in current U.S. energy infrastructure investments



\* All other oil & gas industry companies  
sources: Bloomberg; publicly-available company reports; BLS



## API's Economic Industry Outlook

[Reports & Surveys](#)

[Weekly Statistical Bulletin](#)

[Monthly Statistical Report](#)

[Economic Outlook](#)



*Dean Foreman (left) and podcast hosts*

The API Industry Outlook, developed by API's Chief Economist, Dr. R. Dean Foreman, is a quarterly report that provides an overview of the natural gas and oil industry as it relates to the U.S. and global economies.