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.

Market Update: Oil & Gas – May 2015

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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
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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)

• Disruption in Libya oil production as local protestors have shut oil flows to Port Zueitina. (Nasdaq)

• 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)

• 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)

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)

• 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)

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.

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

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

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Market Update:

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. 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)

**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)

**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.

<table>
<thead>
<tr>
<th>Henry Hub (US$/MMBtu)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>March Average</td>
<td>3.2</td>
<td>3.6</td>
<td>4.1</td>
<td>4.4</td>
</tr>
<tr>
<td>April Average</td>
<td>3.1</td>
<td>3.5</td>
<td>4.0</td>
<td>4.1</td>
</tr>
<tr>
<td>March Median</td>
<td>3.1</td>
<td>3.8</td>
<td>4.0</td>
<td>4.3</td>
</tr>
<tr>
<td>April Median</td>
<td>3.0</td>
<td>3.4</td>
<td>4.0</td>
<td>4.1</td>
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<tr>
<td>Number of estimates</td>
<td>17</td>
<td>17</td>
<td>10</td>
<td>6</td>
</tr>
</tbody>
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A global insight

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

UK

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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

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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

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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$65-60/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.”

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