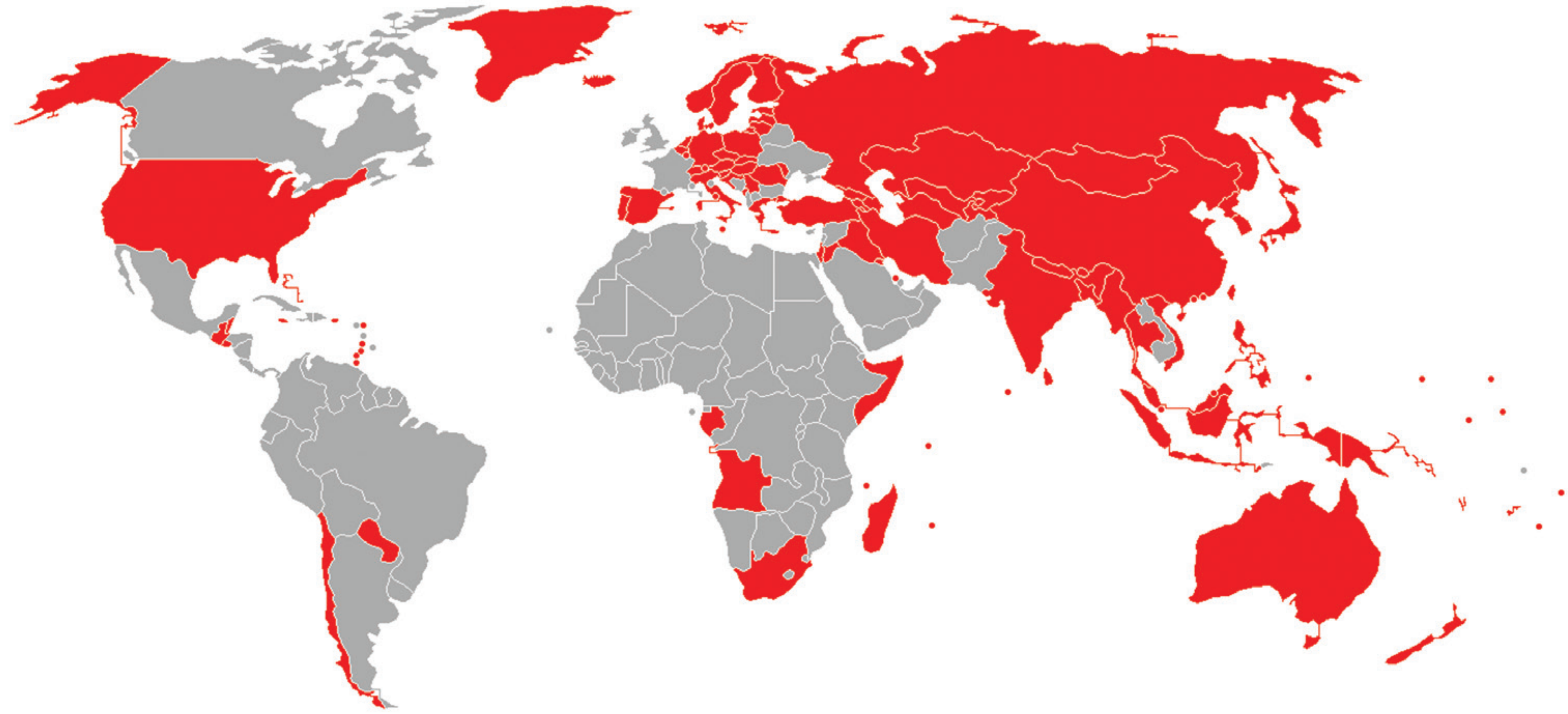


THE ONLY CERTAINTY IS UNCERTAINTY FOR CORONA-STRICKEN OIL INDUSTRY

The Coronavirus Pandemic has altered virtually every aspect of our lives, across the globe, in ways that were seemingly unimaginable to most even a month ago. The world has been thrust into what feels like a science fiction dystopia, with no clear end in sight. Streets and attractions are left eerily desolate and uncannily evocative of a post-apocalyptic landscape, countless sporting and cultural events have been cancelled along with innumerable school and business closures worldwide. Most saliently, the Tokyo 2020 Olympics have been postponed until 2021. While not unprecedented, since the opening of the modern Olympics Games in 1896, the international sports competition has only been cancelled three times and only during the most extenuating of circumstances: Once during the First World War and twice during the second.

In addition, the economy has taken a tremendous hit with unemployment data setting an alarming record; in the wake of the outbreak, 3.3 million unemployment claims were filed in the U.S., the highest number of initial jobless claims in history. This is all on top of the tremendous inundation of infirm patients affected by Covid-19 combined with a dearth of critical medical equipment. The U.S. now is at the epicenter of the pandemic, with the most confirmed cases, surpassing even Italy or China, with at least 81,321 people known to be infected, including more than 1,000 casualties to date. Nearly a third of the world's population are living under coronavirus-related restrictions, uniting us all in our shared strife and uncertainty. The Coronavirus death toll has risen to more than 7,900 globally. A total of more than 198,000 confirmed cases and 81,000 recoveries are confirmed as of March 17.

The oil industry is no exception to spheres which have been adversely affected by the novel coronavirus. In mid-February, oil prices began their precipitous decline driven by fears over demand in China after the coronavirus breakout, although the potential for steeper crude output cuts by the Organization of the Petroleum Exporting Countries (OPEC) and its allies offered some price support. As the pandemic curbed fuel demand in China, the world's biggest crude oil importer, refiner Sinopec Corp informed its facilities to reduce production throughout last month by about 600,000 barrels per day (bpd), or 12%, the steepest cut in more than a decade. Concurrently, independent refineries in Shandong province, which in aggregate import approximately a fifth of China's crude, cut output by 30-50% in a little more than a week according to analysts and executives as reported by Reuters.

Furthermore, OPEC and its allies, a group known as Opec+, are considering a further 500,000 bpd cut to their oil output, two OPEC sources and a third industry source told Reuters.

"The market needs assurances that the supply/demand equation remains in balance for prices to hit a floor. This suggests a commitment from OPEC not just to extend oil supply cuts, but even implement deeper ones beyond March," said FXTM analyst Hussein Sayed according to Reuters.

The same source reported that Iranian Oil Minister Bijan Zanganeh said that the oil market is under pressure, with prices dropping below US $60 a barrel, and "efforts must be made to balance it."

Going back to the first day of trade in China after the New Year Holiday, investors erased US $393 billion from the nation's benchmark equities index, sold the yuan currency and got rid of commodities as coronavirus concerns governed markets. In addition, in early February, in India, where retail fuel prices are set based on the movement of crude oil prices in the international markets, steep rate cuts were made.

The spread of the coronavirus is causing a domino effect to echo across the shipping markets with the tanker and cruise sectors being at the forefront. The effect of the virus outbreak is registering on oil markets as China, the world's largest importer of oil, strives to squelch the contagion while attempting to continue to balance business activities amid a precarious, life or death scenario of epic proportions. While the country's oil demand is already lowered due to flight cancellations and other efforts to thwart the spread of Covid-19, according to a comment from Wood Mackenzie, as reported by Reuters, the near-term impact of the coronavirus outbreak on oil demand remains uncertain as much depends on when and how China's manufacturing industry reanimates in the wake of the currently extended Lunar New Year public holiday. Wood Mackenzie has lowered its oil demand forecast for Q1 2020 by almost 900,000 barrels per day (b/d) to 98.8 million b/d.

The aforementioned report continued, "The Q1 2020 fall in Chinese demand – a 200,000 b/d drop to 13 million b/d – is the first year-on-year decline in the country's demand since 2009," Ann Louise Hittle, Vice President, Macro Oils, said.

Efforts are being made to cushion the blow of recent unforeseen circumstance as much as possible. For instance, OPEC is holding emergency discussions to consider an additional 500,000 b/d cut, on top of its already agreed upon lofty output quotas in a bid to balance the market and shore up crude prices. This is a major issue for the group since the duration of the hit to oil demand, most notably from China, is uncertain. However, without a further production cut, crude oil prices will remain under pressure and struggle to hold the mid-$50 per barrel price for Brent, not to mention rise again to above USD 60 per barrel before Q2 2020.

However, as I write the price for Brent is south of USD 25 per barrel, so a production cut seems the most likely outcome in this struggle to stabilise prices and then push for a barrel price of above USD 60 before Q2 2020.

Fitch Ratings believes that the coronavirus outbreak could halt oil demand growth if it continues to spread, subsequently resulting in a protracted production surplus as production increases in Brazil, Norway and the US. The surplus extent will depend on the amount of time the outbreak lasts and the ability of OPEC+ countries to adapt production levels, if necessary.

The rating agency underscored, "We expect oil prices to remain highly volatile in 2020, with geopolitical tensions and economic sentiment being other key drivers."

China accounts for about 15% of global oil consumption and is the primary impetus of global demand expansion. It's contribution to global consumption growth averaged 36% throughout the past five years and should have been close to 40% in 2020, according to the US Energy Information Administration (EIA). An additional 30% of demand growth is driven by other Asian countries, encompassing India.

In lieu of potential consequences from coronavirus, the oil market was expected to be well supplied in 2020. The EIA anticipated supply to exceed demand by about 250,000 barrels a day due to growing production in the US, Brazil, Norway and Guyana. The supplemental OPEC+ cuts in agreement for 1Q20 may be unable to fully offset this. If the outbreak lessens, the oversupply could become more pronounced, possibly resulting in more short-term pressure on oil prices.

Fitch ratings concluded according to Reuters, "A drop in production in Libya following the military conflict in the country could mitigate oversupply, although it is not clear how long Libyan production will remain depressed. OPEC+ policies to manage production in line with demand and price sensitivity of US shale make a protracted dip of oil prices below USD50/bbl for Brent not very likely even in a stress-case scenario. However, OPEC+ may need to cut production further if the outbreak lasts for several months."

By mid-March US Crude futures descended to a 17-year low amid escalating travel restrictions and social lockdowns contributing to market instability as a result of the coronavirus pandemic which is still in full swing and leaving all on high alert. Larger economies are now set to release trillions of dollars to reduce the damage from Covid-19. Several nations are also imposing social restrictions on par with those not seen since the Second world War.

In addition to the Pandemic, the price war between major oil producers Saudi Arabia and Russia wages on. Since the disintegration of an accord on supply cuts put forth by OPEC, the nations have continued to increase production, while outsiders such as the US have asked for de-escalation. The proposed cut of 1.5 million barrels per day would have offset lower demand due to the coronavirus outbreak. As it is now, investors anticipate a massive surplus of oil in 2020.

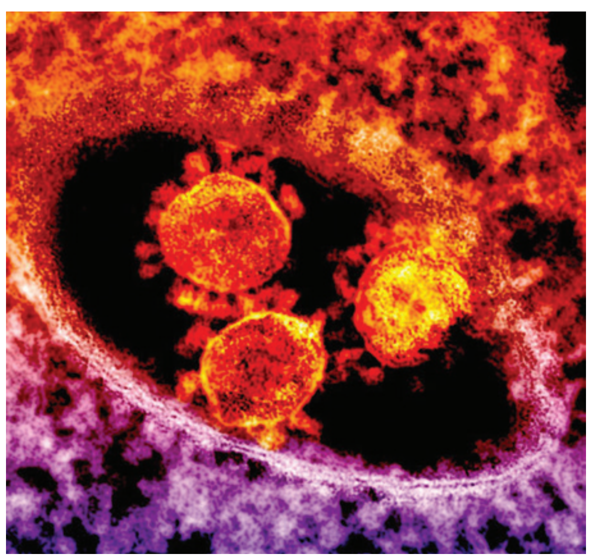
Currently, an oil and gas industry group is asking the Trump administration to ease certain regulations it is grappling with so that it can more adequately distribute fuel against the backdrop of the coronavirus scourge. American Petroleum Institute (API) executives contacted President Trump as well as the Environmental Protection Agency (EPA) petitioning that they temporarily waive "non-essential compliance obligations" such as record keeping, training and other non-safety requirements.

API President Mike Sommers wrote in a letter to Trump on March 20 stating, "The oil and natural gas industry needs to maintain safe and reliable operations, taking into consideration that there may be limited personnel requirements," according to TheHill.com.

This request was made as Congress decides whether to offer financial assistance to the oil industry. The Energy Department has requested $3 billion to procure crude for storage in the strategic petroleum reserve. This comes as the industry continues to grapple with dropping prices pertaining to a diminished demand and an increase in production via Saudi Arabia. This request is facing opposition to congressional assistance for fossil fuel companies by environmental groups who believe this allotment should instead go to alternate energy producers.

Sommer's plea for regulatory aid to the President details how the industry could benefit from waiving the regulatory requirements of the US Department of Transportation, the interior, Homeland Security and individual states, in addition to the EPA's.

Also, a letter from API's senior vice president of policy, economics and regulatory affairs, Frank Macchiarola, to the EPA, expounded on further specific appeals from the group. This included requesting the agency to postpone requirements for greenhouse gas reporting, provide flexibility on monitoring sampling and analysis required for drinking water permits and to add certain delays or deferrals to pollution monitoring. Furthermore, Macchiarola requested deferred monitoring and delayed reporting of detection and repair for certain leaks.



Oil prices rose in mid to late March as governments around the globe pledged a huge injection of funds and other measures to curb the economic fallout from the coronavirus pandemic, despite concerns that the outbreak will cut the demand for oil. Oil requirements are projected to drop as much as 20% as 3 billion people around the world remain in lockdown. According to CNBC.com, the head of the IEA said as he called on major producers such as Saudi Arabia to help stabilize oil markets.

Leaders of the Group of 20 major economies pledged on March 26 to inject more than $5 trillion into the global economy to limit job and income losses from the coronavirus.

"The U.S. is the most consequential oil demand region in the world and real-time GPS data suggests an 82% drop in congestion in major U.S. cities," Capital Economics said in a note according to MSNBC.com. It continued, "Ultimately, U.S. consumption has to lead the way for meaningful global oil demand recovery."

The availability of funds boosted oil price gains as other markets rose while more governments introduce additional stimulus strategies to battle the pandemic.

While vaccine trials are underway and offering some light at the end of the tunnel, not a single U.S. state has reached the critical point where case numbers are plateauing and beginning to subside, which means it is not likely that we have reached the peak yet. Therefore, it seems highly probable that the world will remain at a standstill for some time. However, this means that the coronavirus crisis and its effect on the oil industry remains an ongoing issue which we will have to watch and wait to unfold in the upcoming weeks and months. As most of the world is in lockdown, the state of the oil industry vis à vis the geopolitical implications of this global pandemic remains up in the air.

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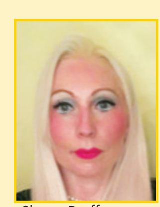

Shana Braff