

Oil prices have slumped to their lowest for two decades as doubts grew about Donald Trump's hopes of ending the US lockdown and investors braced for a week of potentially damaging figures about the impact of the coronavirus on the world economy.



The price of US crude oil plunged almost 20%, to below \$15, in early trading on Monday – its lowest point since 1999 – as stockpiles continued to build owing to a crash in demand

caused by the Covid-19 pandemic.

Concerns have been heightened by the growing standoff between the US president and state governors over whether the US can begin to lift restrictions on movement and businesses.

It came as the heads of all the UN's major agencies issued a graphic warning of the risk of coronavirus to the world's most vulnerable countries after disclosing that international donors had pledged only around a quarter of the \$2bn the UN requested for its emergency Covid-19 response in March.

At a daily media briefing that grew increasingly tetchy, Trump said on Sunday night that 4.18 million Americans had been tested for the coronavirus and that the widespread operation was paving the way for parts of the country to reopen for business. "That's a record anywhere in the world," he claimed.

But governors accused the president of being "delusional" and said they could not embark on Trump's recommended three-phase programme to ease stay-at-home restrictions because the testing regime was still not good enough.

Virginia's governor, Ralph Northam, a Democrat, told CNN's State of the Union he had been "fighting" for testing. "For the national level to say that we have what we need, and really to have no guidance to the state levels, is just irresponsible, because we're not there yet."

Maryland's Republican governor, Larry Hogan, agreed and said it was "absolutely false" to say that governors had enough testing capacity.

Despite the huge fall in the oil price – seen as a barometer of the prospects for the global economy – there were signs from other parts of the world that economies could soon begin getting back to normal.

In Germany, smaller shops were set to reopen on Monday for the

first time in a month after politicians declared the coronavirus “under control”. From florists to fashion stores, the majority of shops smaller than 800 square metres (8,600 square feet) will be allowed to welcome customers again, in a first wave of relaxations to strict curbs on public life introduced last month.

Chancellor Angela Merkel and regional state premiers announced the decision to reopen last week, though they have been careful to cast it as no more than a cautious first step.

On the other side of the world, New Zealand prime minister Jacinda Ardern said the country’s stringent lockdown would be eased next Monday barring any major upsets.

She said the measures had “stopped a wave of devastation” but even under the revised regime, most New Zealanders would still be required to stay at home most of the time. Meal deliveries would be permitted and shops would be allowed to re-open providing they only sell goods online.

In Australia, some beaches in Sydney were reopened in a sign that the country was moving towards normalising daily life. The government wants at least 40% of the population to download a tracing app on their phones to help track cases of the disease before lockdown curbs are eased.

In other global developments:

- There have now been more than 2.4 million confirmed cases and 165,000 deaths from Covid-19 worldwide. The news came as US deaths passed 40,000 on Sunday – nearly a quarter of the global total – with infections at just under 760,000, or just under a third of the world’s total.
- The lack of protective personal equipment for health service workers in the UK intensified after it emerged that 400,000 gowns ordered from Turkey did not arrive as planned on Sunday. The British government has been

widely criticised for failing to ensure that NHS staff have enough proper equipment to protect themselves from contracting Covid-19, along with other shortcomings in its virus response. The UK has more than 121,000 cases and 16,000 deaths.

- France reported another 395 coronavirus deaths on Sunday as hospital admissions continued to decline. The daily death toll also fell sharply in Spain and in Italy the official daily toll from coronavirus edged down to 433 on Sunday, the lowest figure in one week.
- South Korea reported fewer than 20 new cases of the virus for the third day in a row. On Monday it announced 13 new infections, bringing the nation's total infections to 10,674. For the third day running, no deaths were reported in China.
- A Japanese expert in infectious diseases, Kentaro Iwata, a professor at Kobe University Hospital, said he was pessimistic about the country's prospects of holding the Olympic Games despite their postponement until next year. Meanwhile, the country's trade surplus dropped 99% in March thanks to the impact of the virus on its large export sector.
- The world's top male tennis player, Novak Djokovic, has admitted that his opposition to vaccinations might prevent him from rejoining the tour.

SC is writing a great energy success story – and offshore

oil should be part of it



There are always ear-piercing protests and plenty of hand-wringing from anti-development activists who say that the United States is doing too little on the environmental front – and who reflexively oppose any kind of energy development.

These anti-energy activists along with a few politicians are starting to get attention in South Carolina for their efforts to oppose all energy production, including what might be available far off South Carolina's shores. These anti-energy critics are hiding behind the same old rhetoric; they are ignoring America's real and tangible environmental progress.

No one is saying that drilling off our coast would happen tomorrow, but South Carolinians should at least know and understand all of our energy options before they are taken away from us by misguided policies.

It's also time for Americans and South Carolinians to hear the United States' greatest untold success story. Thanks to natural gas, offshore energy technology, conservation, efficiency and increased wind and solar power use, America is

now leading the world in cutting air-polluting emissions.

Contrast that environmental victory with the opposite path being taken by China, the world's biggest greenhouse gas emitter. China hasn't even promised to make an overall reduction in emissions in the Paris agreement; it merely promised to stop increasing emissions by 2030.

The reality is that if we want to continue our environmental progress, we need to continue to utilize all our energy resources – including natural gas and offshore and onshore oil.

So what about the Palmetto State, where more than 65 percent of energy needs are met by oil and gas? From 1990 to 2017 emissions across South Carolina fell 89%, according to a recent analysis by the Consumer Energy Alliance. And these trends occurred while low-cost natural gas deliveries to fuel South Carolina electricity plants quadrupled over the last 10 years – and while manufacturing growth has surged 46% to the current \$38.7 billion annually.

Meanwhile, a recent Consumer Energy Alliance report found that South Carolina families and commercial and industrial businesses saved more than \$6.4 billion in natural gas costs between 2006 and 2017.

Energy options

We could go on and on, but the truth is clear: we are diversifying our energy portfolio while producing the cleanest energy on the planet during a time of record production – and this plainly demonstrates how energy production that fuels economic growth can and should happen alongside sound environmental stewardship.

When people start talking about offshore energy exploration bans in the name of environmental protection, let's tell them how we're already making the environmental progress we need

hand-in-hand with energy production.

Let's keep our energy options available, South Carolina, and let's not fall for the factually questionable rhetoric of anti-energy activists. At a time like this we need low-cost and environmentally responsible energy to keep prices low for our families and small businesses all across America.

It's how we can keep writing our greatest untold story.

Katon Dawson is the South Carolina director of the Consumer Energy Alliance, which is based in Columbia.

The Oil Industry's Recovery Lacks One Important Ingredient



The growing global oil and gas glut, partly caused by the coronavirus global lockdown but also due to mismanagement of the US shale sector and the OPEC+ price war fall-out, is causing mayhem in all energy sectors.

Most of the media's attention goes to upstream oil and gas operators and financial institutions. As US shale companies drown in debt, bankruptcies are expected to pile up within the next months. US shale, offshore oil and gas operators and most non-OPEC producers are going to be struggling to keep some air in the balloon that was filled the last years.

In the next couple of months, due to OPEC++ production cuts and bankruptcies, a vast part of the overproduction will be removed, shrinking the glut to a much more acceptable level. Some analysts are even expecting growth before the end of 2020, based on misconceptions that oil prices could be even hovering around \$40 per barrel at that time. Optimism based on simple Excel equations or mathematics are most probably going to be proven wrong.

As long as the impact of the extended Covid-19 crisis on energy and on the global economy is not fully visible, and storage volumes are still building up, oil prices will probably stay low. At the same time, even if all goes back to a 'pre-corona normal', the normal will be different if nothing will have been learned from history.

A demand collapse such as we are witnessing at present has never been seen before. Demand destruction to the tune of 20-25 million bpd is a giant shock to the total energy system. Market watchers, however, are focusing too much on E&Ps. The current financial situation of most NOCs, IOCs and large independent producers is not yet dire, while smaller drillers are already on life-support. The industry will, in the end, find the right balance again as much production from smaller producers will be shut in or disappear for good.

The main objective for many producers is to be able to produce significant volumes at the end of the crisis. This is partly misunderstood in the media, as most operators are not the ones directly responsible for the production of hydrocarbons. The main players here are the oilfield services, the companies

with the technical know-how and tools to produce a barrel of oil.

Premium: Oil Storage Nears Its Limit

Oilfield service companies offer technologies and equipment to oil and natural gas drillers and are crucial in the exploration and completion process, but are also responsible for the manufacturing and mending of equipment. Overall, the fate of all oil service firms is positively correlated to crude prices and also to the capital investment decisions of E&P operators.

The current correlation however is very negative, as low oil prices hit oilfield services exponentially harder. It's strange to see that non-oil and gas analysts are understanding the threat better for other sectors, than oil and gas does. The threat to the survival and revamp of the automotive sector worldwide is not the cash-flow and debt levels of VW, Mercedes, Toyota or GM, but the survivability of the automotive part suppliers. Without automotive suppliers, no car or vehicle will leave the factory in Stuttgart or Detroit.

The situation is no different for the oil, gas and energy sector. Without oilfield services, production will stall and decline within months. The situation is dire for mainstream independent oilfield services companies, not only in US shale, where giants like Schlumberger, Halliburton or National Oilwell Varco are cutting their investments and workforce, but also in other non-OPEC and OPEC regions.

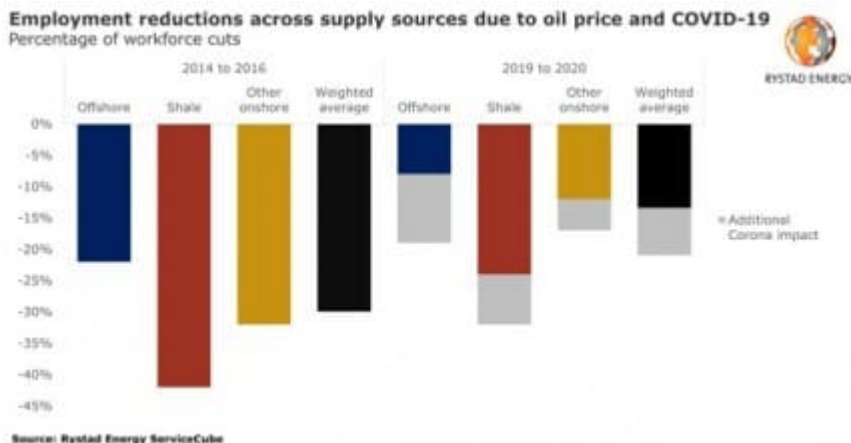
One Oil & Gas UK (OGUK) report already stated that the financial contagion triggered by historically low oil prices will threaten North Sea jobs, shrink its economic contribution and undermine energy security.

According to Energy and Restructuring law firm Hayes and Boone's, last year already a grand total of 50 energy companies filed for bankruptcy, including 33 oil and gas

producers, 15 oilfield services companies and two midstream companies. The law firm warns that as the crisis in 2020 continues, they fear that the ax could now fall on debt-ridden oilfield services companies. Just in North America, oilfield services companies debt is said to reach \$32 billion which is coming due between 2020 and 2024.

The poor financial state of the industry is well represented by the sector's favorite benchmark, the VanEck Vectors Oil Services ETF (NYSEARCA:OIH), which is down more than 70% YTD, considerably lower than the 30% plunge by the S&P 500. Rystad's report last month that 20 percent of global oilfield services workers could be laid off this year has been undervalued as a real threat for the future. The firing of 1 million or more experts, drillers, engineers and workers means a possible productivity loss at the end of the year that will constrain a possible upsurge in demand and supply.

Premium: The Oil Sector That Will Suffer The Most



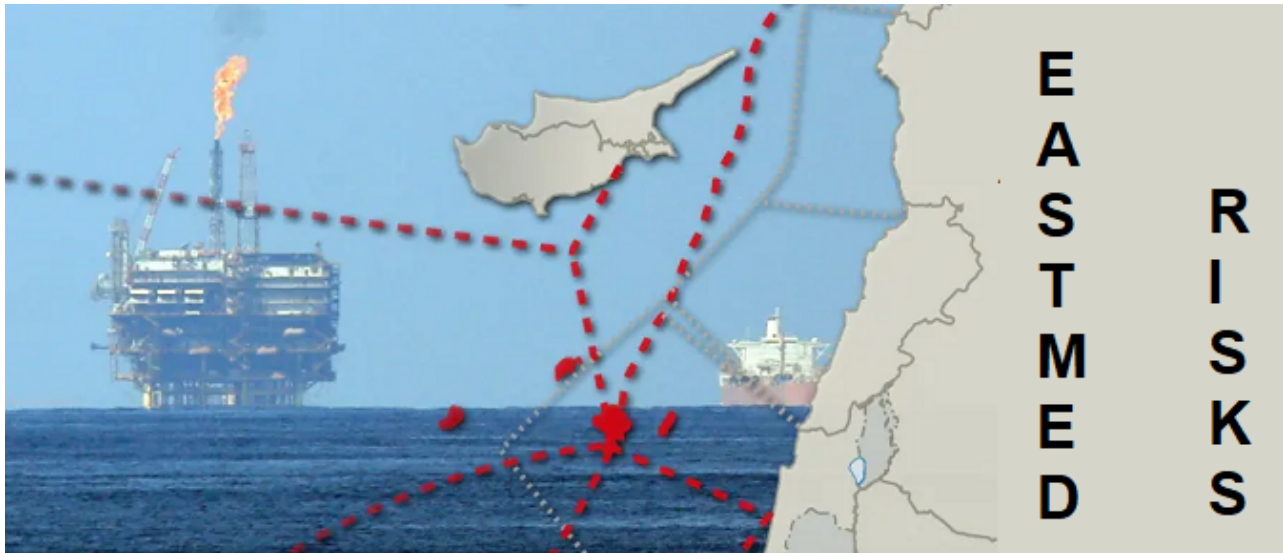
Former oil and gas crises in the 1980s or 2010s have shown that knowledge destruction because of layoffs can significantly slow down a recovery in the sector. Taking into account that the average oil and gas worker is above 45 years of age, a large part of those becoming unemployed will never come back again. Additionally, the possible bankruptcy of small specialized oilfield services also will destroy specific knowledge not easy to be regained if demand is growing again.

Former oil price collapses have led to a strategy change at IOCs, removing part of their inside capabilities in engineering and operations, cutting costs meant handing over project implementation to independent oilfield services. IOCs and NOCs are now doing the same again, putting most of the current crisis fall-out on oilfield services companies that will have no other option than to cut their workforce. Oilfield servicing margins, even in good times, have been under pressure.

Oil & gas' future faces several threats and lack of human capital is a very underestimated one that threatens profitability of the sector going forward. Without human capital, which in most cases is being provided by oilfield services, less oil and gas will be able to be produced, refined, stored or processed.

By Cyril Widdershoven for Oilprice.com

In Eastern Mediterranean, Resolving Maritime Boundary Disputes Becomes Key



The Eastern Mediterranean currently sits atop a veritable sea of potential. Energy discoveries in the past decade have transformed both economic and geopolitical perspectives of the region. With some experts making comparisons of the proven reserves ranging from the North Sea to Iraq, the region is widely regarded as a 'next big thing.' Large-scale projects and infrastructure agreements are already underway that will bring outside investment, needed financial windfalls, and rapid development.

Politically, partnerships have been established that foster needed intra-regional cooperation. Both Brussels and Capitol Hill have turned their eyes toward the Eastern Mediterranean. States from outside the region such as Quai d'Orsay and the U.S. State Department have sought to elevate engagement in the region. All this brings hope for the possibility of a bright and cooperative future for the Eastern Mediterranean.

However, the onset of hydrocarbon diplomacy in the Eastern Mediterranean is accompanied by a counterpart gunboat diplomacy. Firebrand rhetoric and tense foreign policy threatens to negate opportunities at hand. The region experiences increasing militarization as warships accompany drillships on exploration, or are sent from other countries, and alarming arms procurements and military exercises are conducted. Rivalry threatens to take away hard-won progress toward cooperation and instead manifest deadlock and contests

in which there is no winner.

At the heart of these tensions is the ongoing dispute over regional maritime boundaries. Of the 13 maritime boundaries in the Eastern Mediterranean, 11 of them remain unresolved or disputed. Inclusive and equitable resolution of such disputes is of urgent importance if the Eastern Mediterranean is to successfully realize its projects, attract further investment, and formulate lasting ties that bind among neighbors.

Disagreements over maritime boundaries occur precisely because of the economic opportunities within the waters. Rather than using the potential windfalls as a launching point for closer ties, the region's neighbors have felt undercut in the full extent of their Exclusive Economic Zone (EEZ) or excluded from consultation. This isn't necessarily always due to coercive action from another state; the most internationally agreed-upon method for defining maritime boundaries and a country's EEZ is in and of itself undefined, and always situational.

At the same time, one can only imagine the immense achievements that could follow boundary resolution in the Eastern Mediterranean. Delimitation would build upon the commendable efforts of actors inside and outside the region to use hydrocarbon discoveries as a launching point for reconciling political differences, and working together on deals that benefit all associated. Resolution would remove obstacles to windfalls so desperately needed in the region. It would empower the countries of the Eastern Mediterranean to take ownership in building a concrete framework for intra-regional development.

Without the stronger ties built by cooperation, the countries of the Eastern Mediterranean become sitting ducks to exogenous shocks, particularly given the ongoing COVID-19 crisis. Following the pandemic and its immense health concerns is a grim economic outlook that has world markets entering a recession and oil dropping to an 18-year low. Amid this, many

members of the international community have drawn together to prevent the spread of the virus, provide medical assistance, and to persevere. The countries of the Eastern Mediterranean can learn their lesson from this exemplary leadership; the time to stop goofy behavior in the Eastern Mediterranean is now, before halted investment or receding prices cripple the markets.

Understanding the need in the region and the potential that awaits the precise resolution of equitable delimitations, how is that best achieved? Energy executive **Roudi Baroudi** offers up the United Nations Convention on the Law of the Seas (UNCLOS) as a pathway to this achievement in his expert commentary and seminal work, soon to be published by the Transatlantic Leadership Network and distributed by Brookings Institution Press.

Using precise satellite imagery produced by the maritime boundary software used by the UN and by international courts and tribunals, Baroudi makes the following contention: when followed with a by-the-book approach, inclusive of all associated actors, and gaining precedent from successfully-resolved maritime issues, UNCLOS can be an effective tool in reaching legal certainty and mutual agreement of boundary conflicts in the Eastern Mediterranean.

Whatever the solution may be, the independent international legal experts on maritime borders must be engaged through an equally independent and preferably US-based platform to address best ways to link the methods of delimiting contentious areas to achieve equitable outcomes that UNCLOS has not fully addressed, allowing judicial decisions on best methods available.

Exclusion, unilateral decision-making, and aggression will only maintain, if not intensify, the status quo.

Characterization of the Eastern Mediterranean must go beyond

the dispute and conflict to include the opportunities awaiting it. Many actors are already beginning to do their part and must be celebrated for it. Coming to inclusive agreements on energy exploration holds immense potential for the region.

Jonathan Roberts is a researcher at the Transatlantic Leadership Network in Washington DC. Ambassador

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<http://www.lebanongasandoil.com/index.php/news-details/196>

**In Eastern Mediterranean,
resolving maritime boundary
disputes becomes key**



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<https://thehill.com/opinion/international/492341-as-eyes-turn-to-the-eastern-mediterranean-resolving-maritime-boundary>

Billion-Barrel Oil Flood From OPEC Fight to Strain World's Tanks



(Bloomberg) – The oil-price war between Saudi Arabia and Russia is set to unleash the biggest flood of crude ever seen, perhaps more than the world can even store.

As producers ramp up shipments in a battle for dominance of global markets, and the coronavirus crushes demand, more than a billion extra barrels could flow into storage tanks. That could strain the available space and send oil prices crashing further, with brutal consequences for the petroleum industry and producing nations.

“I don’t see how you don’t exhaust global storage capacity, if this goes on until summer at the production numbers being talked about,” said Jeffrey Currie, global head of commodities research at Goldman Sachs Group Inc.

The feud between Riyadh and Moscow has already inflicted a heavy toll.

Oil prices have slumped 32%, to about \$34 a barrel, since the two exporters fell out over how to deal with the virus, severing the global alliance of producers they’d led for three

years and launching a competition to offer customers the steepest discounts. The rout has driven American shale drillers such as Occidental Petroleum Corp. and Apache Corp. to cut dividends and spending.

The looming glut may still be held in check: President Donald Trump promised to take oil off the market on Friday by filling up the U.S. strategic reserve. Producers could take months to fully activate the idle assets they need to flood the market. And as low crude prices batter the two belligerents' economies, a "truce" will probably be reached, according to Ed Morse, head of commodities research at Citigroup Inc.

But if hostilities continue, the tide of oil is likely to become a tsunami.

Saudi Arabia announced it will supply record volumes, of more than 12 million barrels a day next month, and the United Arab Emirates will push oil fields beyond their normal capacity to bolster output by about a third. Russia will add 500,000 barrels a day, while others in the fractured OPEC+ coalition, such as Iraq and Nigeria, also plan production increases.

If storage is maxed out, oil prices will likely fall until producers with the highest operating costs, most probably American shale drillers, are forced to halt output. Or the loss of revenues could strain one of the more politically-fragile producing nations – such as Venezuela or Iran – to breaking point.

U.S. shale production "won't really start dropping until the end of the year," said Paola Rodriguez-Masiu, an analyst at consultant Rystad Energy AS in Oslo. "So the market will be completely saturated."

Global supply is already exceeding demand at an unprecedented rate of 3.5 million barrels a day, due to the impact of the coronavirus, according to the International Energy Agency, which advises major economies.

Surplus Supply

Once the OPEC+ nations increase supply, the surplus will balloon in the second quarter, to more than 6 million a day, Bloomberg calculations show. Goldman Sachs anticipates stock builds of a similar magnitude. By the end of the year, more than 1 billion extra barrels will have been dumped onto world markets.

In total, global crude inventories stand to expand by 1.7 billion barrels this year, according to Bloomberg's calculations, about three times as much as during the biggest-ever surplus recorded by the IEA. That was in 1998, when Brent fell to an all-time low of less than \$10 a barrel.

About 65% of the world's total 5.7 billion barrels of oil-storage is currently in use, according to energy data provider Kayrros SAS. At current rates the theoretical limits, which are somewhat below the full figure, could be approached in just over a year, the company estimates.

"The fill rate that we are experiencing now is totally unprecedented," said Antoine Halff, Kayrros' chief analyst. "But even at this staggering pace, we are not running out of storage altogether. On paper, we still have some runway."

For oil traders, there are opportunities to earn massive profits by hoarding barrels and then exploiting the difference between low short-term and higher long-term prices. Vitol Group, the largest independent trading house, has leased tanks in South Korea that could be used to take advantage of the price spread.

As tanks on land are exhausted, companies will increasingly use supertankers at sea to accommodate the excess, said Rodriguez-Masiu. The cost for storing crude on such vessels has doubled in the past three months, E.A. Gibson ship brokers estimates.

But when there's no longer anywhere to put unwanted barrels, oil producers will have no choice but to reduce operations.

"At some point the oil price will have to drop in such a way that makes it uneconomical for producers in the U.S. to keep pumping oil," she said.

As many of these companies have locked in revenues by selling futures contracts as a hedge, the production slowdown probably won't occur until the end of year, Rodriguez-Masiu said. For some of the countries that rely on high oil prices to fund government spending, that may be too late.

Even before the latest crisis, prices were challenging for the "fragile five" OPEC members of Algeria, Iraq, Libya, Nigeria and Venezuela, said Helima Croft, head of commodity strategy at RBC Capital Markets LLC. Iran, facing the twin onslaught of American sanctions and depressed oil prices, is now high on the list of the vulnerable.

"This is a catastrophe for the fragile five," she said. "It's now become the shaky six."

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Why the OPEC-Russia Blowup Sparked All-Out Oil Price War



First Russia tossed a hand grenade into global oil markets. Then Saudi Arabia dropped a bomb. After the dramatic collapse of an alliance between the OPEC oil cartel and Russia, a one-day plunge of more than 30% in oil prices sent shockwaves through global financial markets already reeling from the fallout of the coronavirus epidemic. The blowup of Russia's deal with the 13-member club of oil exporters – an alliance that has underpinned world oil prices for three years – triggered a sudden price war.

1. What's the bustup?

Russia had joined forces with OPEC in 2016, along with nine other non-member countries, and the alliance controlled almost half of the world's oil production. The "OPEC+" pact led to a resurgence of the cartel, which wields immense power over the world's most critical commodity. Russia stunned oil traders when it refused to go along with production cuts pushed by Saudi Arabia at a March 6 meeting in Vienna. The kingdom –

OPEC's biggest producer and its driving force – wanted to trim output further to prop up prices as the coronavirus ravaged energy demand. Saudi Arabia responded aggressively just hours later: Its state-owned oil behemoth said it would reverse course on March 8, open the taps and slash crude prices.

2. What led to the fallout?

Talks between Russia and the Organization of Petroleum Exporting Countries broke down because the country didn't want to be strong-armed into further cuts to its lucrative oil production. It complained that the OPEC+ deal had aided America's shale industry. Russia was also increasingly angry with the willingness of U.S. President Donald Trump to employ energy as a political and economic tool. It was irked by the use of U.S. sanctions to prevent the completion of a pipeline linking Siberia's gas fields with Germany, known as Nord Stream 2.

3. What does this have to do with shale?

The Kremlin was reluctant to cede further market share to U.S. shale drillers – known as frackers – that have been adding millions of barrels of oil to the global markets. An attack on shale has been tried before: When the new technique was expanding in 2014, Saudi Arabia's strategy was to flood the market, expecting that a collapse in prices would thwart the new competition. As shale producers found cheaper ways to operate and a global supply glut dragged on, OPEC then returned to its traditional tool of constraining output, sending oil to a four-year high of more than \$85 a barrel by mid-2018. The victory proved self-defeating. Higher prices re-invigorated U.S. fracking, propelling the U.S. to overtake Saudi Arabia and Russia as the world's No. 1 crude producer. Many drillers in Texas and other shale regions look vulnerable, as they're overly indebted and already battered by rock-bottom natural gas prices.

4. Can Russia and Saudi Arabia live with lower prices?

That remains to be seen – the two sides could always return to the negotiating table. In the short run, Russia is in a good position to withstand a price slump. Its government budget breaks even at a price of \$42 a barrel and it has squirreled away billions of dollars in a rainy-day fund. Saudi Arabia, which is almost entirely dependent on oil to fund lavish government spending, holds about \$500 billion in foreign currency reserves to cushion the blow. One source of potential stress: The kingdom's currency, the riyal, has been pegged to the U.S. dollar for more than three decades, providing economic and financial stability. OPEC has a built-in competitive advantage, since its Middle Eastern members can produce crude at about a third of the cost of U.S. shale.

5. What about other countries?

Such a dramatic crash in the price of oil, if it were sustained, would savage national budgets of petro-states from Venezuela to Iran, threatening to upend politics around the world. To policy makers, volatile oil prices are an added complication as they try to shield economies from the impact of the coronavirus epidemic.

6. What's the wider fallout?

There are winners from rock-bottom oil prices – among them China, the world's largest oil importer, whose recovery from the virus will be key for the global economy. The U.S. – once a beneficiary of low oil prices – is now an exporter rather than a buyer. Sudden surges in oil prices are feared because of the way they could jack up costs across the global economy and slow economic growth. Now a world reeling from an economic slump triggered by the virus is enduring another sort of oil shock.

Shale's New Reality: Almost All Wells Drilled Now Lose Money



America's shale producers already had a profitability problem. It just got a lot worse.

At a stroke, Saudi Arabia and Russia and their battle for market share have made almost all U.S. shale drilling unprofitable. Only five companies in two areas of the country have breakeven costs lower than the current oil price, according to data compiled by Rystad Energy, an Oslo-based consultancy.

Wells drilled by Exxon Mobil Corp., Occidental Petroleum Corp. Chevron Corp. and Crownquest Operating LLC in the Permian Basin, which stretches across West Texas and southeastern New

Mexico, can turn profits at \$31 a barrel, Rystad's data show. Occidental's wells in the DJ Basin of Colorado are also in the money at that price, which is where oil settled Monday.

But that's not the case for the rest of the shale industry – more than 100 operators in a dozen fields. For them, drilling new wells will almost certainly mean going into the red.

Shale projects are heralded for their ability to be quickly ramped up and down. But because output from these wells declines much faster than from their old-school, conventional cousins, companies have to drill more of them just to keep output flat. That has meant sluggish investor returns, one of the main reasons oil and gas represents less than 4% of the S&P 500 Index.

At this point, “companies should not be burning capital to be keeping the production base at an unsustainable level,” said Tom Loughrey, a former hedge fund manager who started his own shale-data firm, Friezo Loughrey Oil Well Partners LLC. “This is swing production – and that means you're going to have to swing down.”

Already, producers including Diamondback Energy Inc. and Parsley Energy Inc. have said they're cutting their drilling budgets and dropping rigs. Others, such as Apache Corp. and Occidental, have indicated they'll rein in activity.

“What they're not saying is that they're going to suspend activity,” Loughrey said.

In his view, a typical well in the Midland sub-basin of the Permian requires \$68 oil for investors to make an adequate return within 24 months.

BloombergNEF expects producers to move away from using breakeven costs that leave out overhead and other necessary expenses as investors shift their focus to cash flow.

“At a minimum, they will need to add back interest costs to their calculus,” BloombergNEF said in a report. That means the profitability floor for most new wells will rise to \$50 a barrel “in the not too distant future,” according to the report, up from \$45 in the past.

The shale boom turned the U.S. into the biggest oil producer in the world and, in recent months, a net exporter of petroleum. But if prices remain near \$30 a barrel, producers will be forced to ax so much drilling activity that U.S. oil production could fall by 2 million barrels a day from the end of this year to the end of next, according to Rystad.

That would be about a 20% drop.

On Monday, West Texas Intermediate crude fell 25% to settle at \$31.13 a barrel, and some forecasters see it falling toward \$20. Prices clawed back some of those losses Tuesday, reaching as high as \$33.73.

“Even the best operators will have to reduce activity,” said Artem Abramov, head of shale research at Rystad. “It’s not only about commerciality of the wells. It’s a lot about corporate cash flow balances. It’s almost impossible to be fully cash flow neutral this year with this price decline.”

IEA: Oil Demand To Drop For First Time Since 2009



Global oil demand is set to drop this year for the first time since the financial crisis in 2009, the International Energy Agency (IEA) said on Monday, as it slashed its demand outlook by 1.1 million bpd due to the coronavirus outbreak and its impact on economies.

The IEA now sees global demand falling by 90,000 bpd year on year in 2020, the agency said in its Monthly Oil Market for March 2020, after its executive director Fatih Birol warned two weeks ago that the coronavirus outbreak could hit global oil demand growth more than initially expected.

In the February market report, the IEA had slashed its 2020 oil demand growth forecast by 365,000 bpd to just 825,000 bpd—the lowest oil demand growth since 2011, and warned that the coronavirus outbreak would lead to the first quarterly contraction in global oil demand in more than 10 years.

In view of the global spread of the coronavirus and its impact on the global economy, the agency now expects full-year oil demand to drop.

“While the situation remains fluid, we expect global oil demand to fall in 2020 – the first full-year decline in more than a decade – because of the deep contraction in China, which accounted for more than 80% of global oil demand growth in 2019, and major disruptions to travel and trade,” the IEA said in its March report.

The report commented on the collapse of the OPEC+ coalition, saying that the implication is that “the OPEC+ countries will be free to exercise their commercial judgement when assessing future levels of production.”

The IEA report comes a day after Saudi Arabia effectively launched an oil price war on Russia after the former allies abruptly ended the OPEC+ agreement last Friday. Over the weekend, the Saudis slashed their official selling prices by \$6-7 a barrel to all markets including Asia, and signaled they would boost production as of April, sending oil prices into a tailspin on Monday to the biggest fall since 1991.

How oil's plunge might end up boosting US natural gas prices



A sharp reduction in shale oil drilling because of crude's crash could end up boosting US natural gas prices and potentially curb an oversupply in the global market for liquefied natural gas.

Oil markets have crashed by almost a third to less than \$35 a barrel after the disintegration Friday of the Opec+ alliance, which has triggered a price war between Saudi Arabia and Russia. If the plunging price discourages shale oil drilling,

the knock-on effect could be a cut in the supply of gas extracted as a byproduct, according to Goldman Sachs Group Inc.

If shale producers invest on the basis of \$30-\$45 per barrel of crude over the next 5 quarters, there will be about 1bn cubic feet a day less US gas production, said Goldman analysts including Brian Singer. That's about 1% of US daily natural gas output in December.

"US producers tend to respond to prices with a lag of a couple of months, though we see the response time narrowing, given flexibility of shale and greater focus on free cash flow," the Goldman analysts said.

Front-month US gas futures fell as much as 9.8 cents, or 5.7%, to \$1.610 per million British thermal units, the lowest intraday level since August 27, 1998. Prices losing just 1/10th of a cent from there would put it at the lowest since September 1995.

The US is brimming with gas as production booms. This has been particularly acute in the Permian formation, where prices for gas extracted from oil drilling have tumbled below zero, meaning producers will pay others to take the fuel off their hands. Output from the West Texas and New Mexico shale play is rising faster than pipelines can be built to carry it away.

In Europe, which has boosted imports of US LNG, front-month benchmark Dutch prices were down 3.2% Monday after earlier falling as much as 5.8%.

If European gas prices "were to drop any further, we should see a downward adjustment in LNG exports from the US to Europe as exporters of spot cargoes would not be covering their operational costs," said Carlos Torres Diaz, head of gas and power markets at Rystad Energy AS.

The plunge in oil may turn the global gas industry on its head. Gas supply contracts linked to oil prices, which have been out of favour as gas dropped faster than oil, will probably become attractive again. "You could certainly see gas prices in the US supported by low oil prices," said Ciaran Roe, global director of LNG at S&P Global Platts, in an

interview. Last year's view where oil linkages were frowned upon "looks to be receding into the rear-view mirror."