

PLATA ENERGY

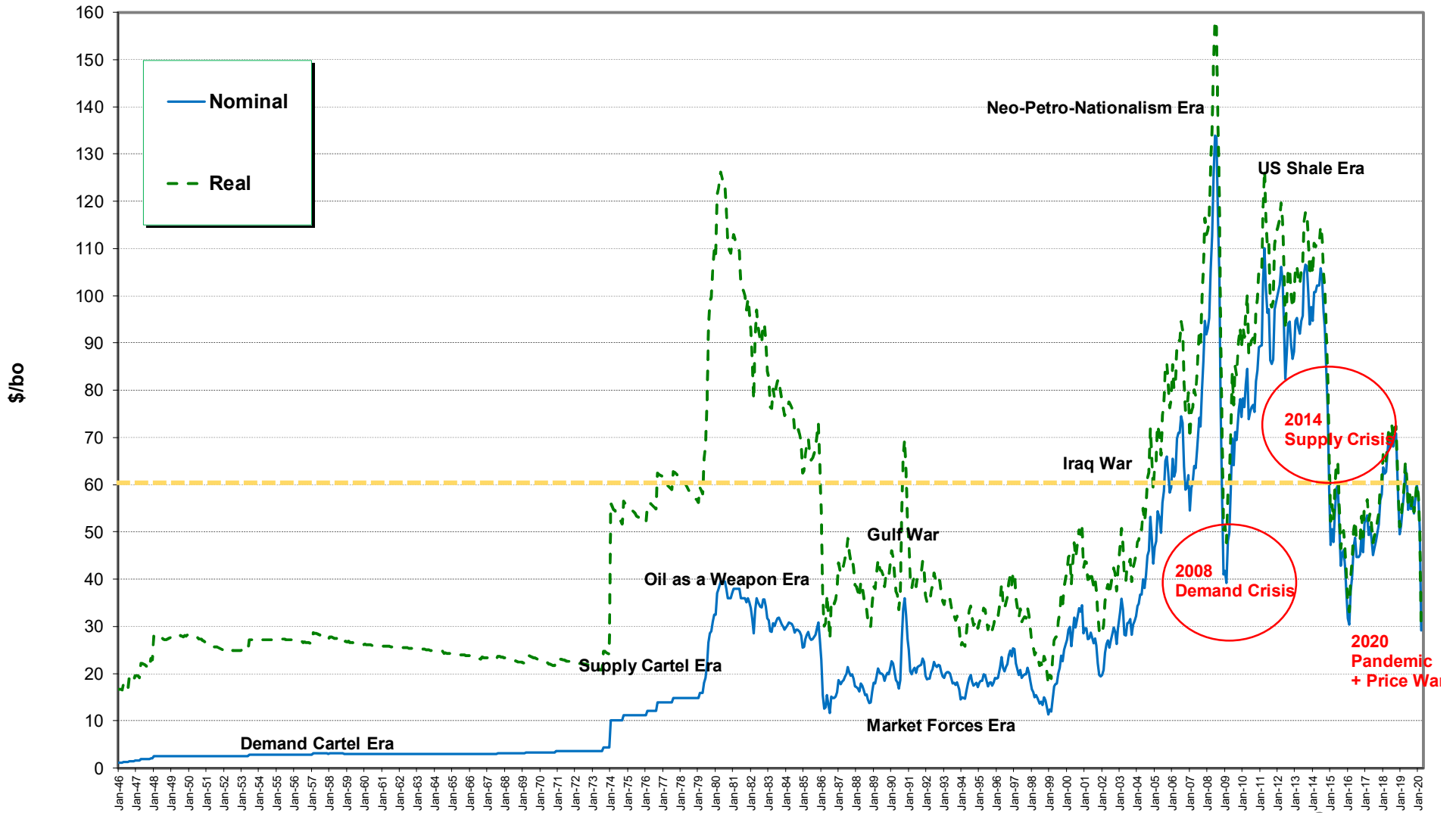
OIL & GAS CONSULTANTS

How long will low oil prices last, this time?

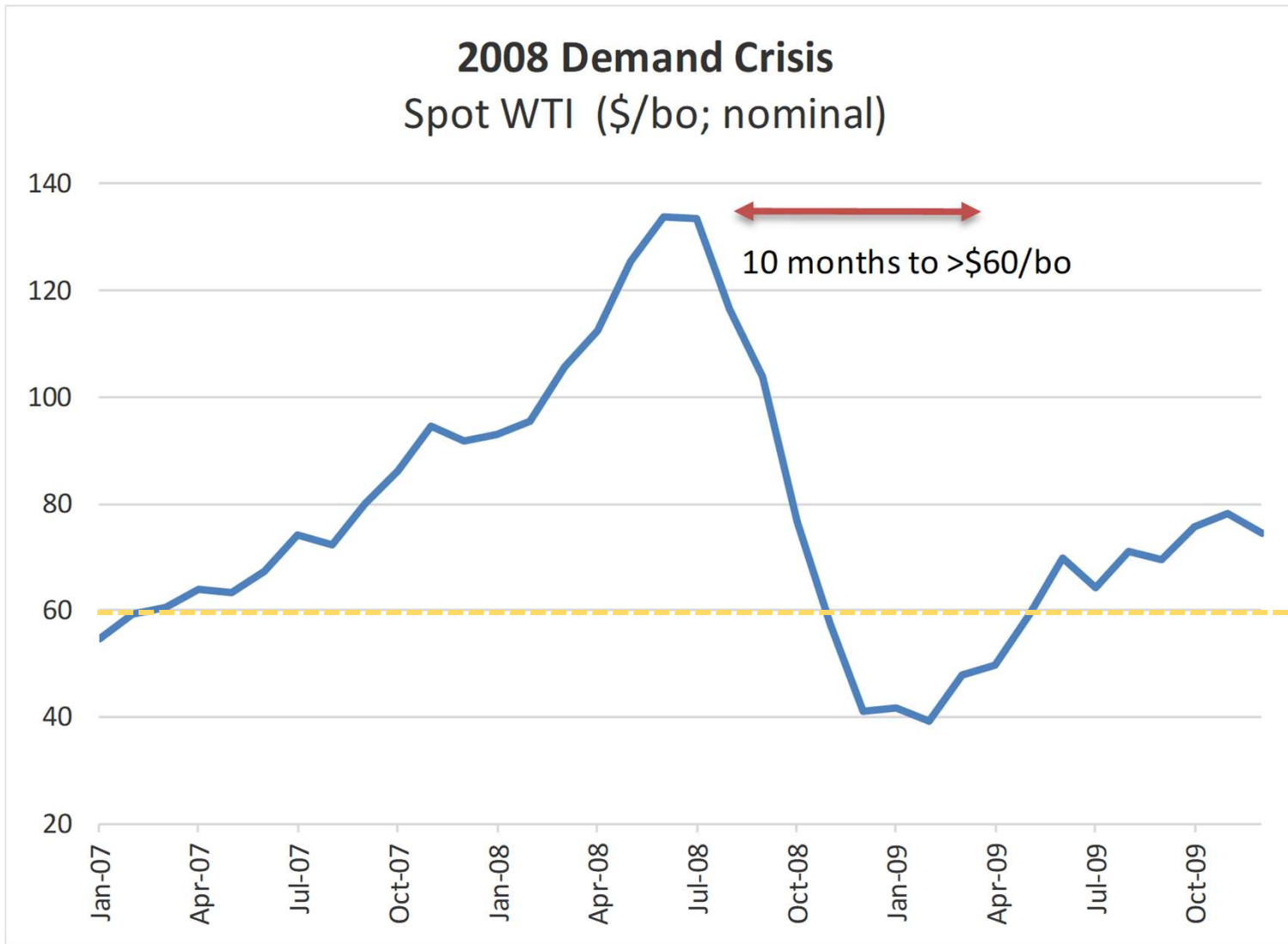
April 14, 2020

WTI Eras and Crises

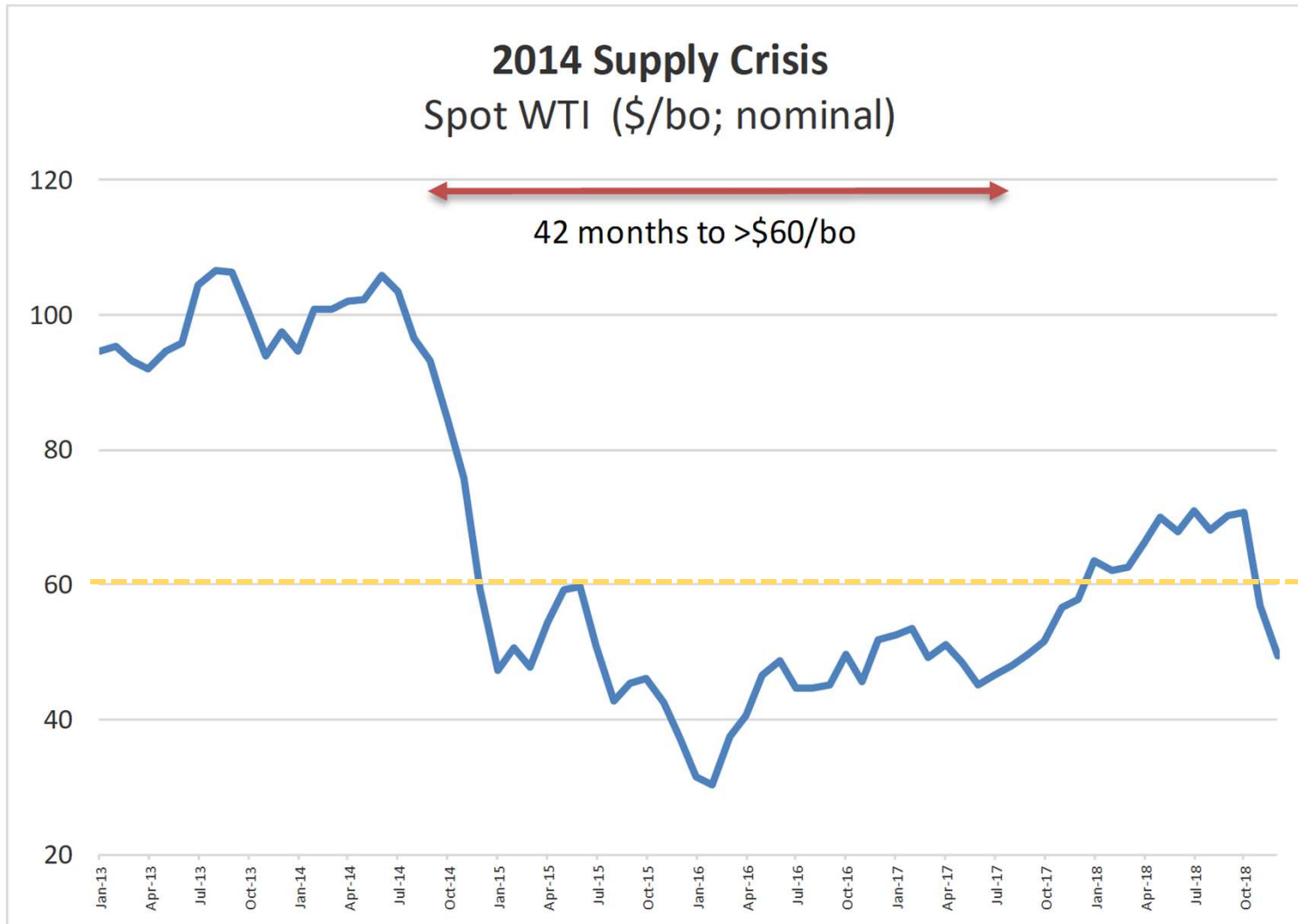
WTI Spot History (Jan 1946 - Mar 2020)
(adjusted with US CPI to Feb 2020 \$)



2008 Demand Crisis



2014 Supply Crisis



This is not our first Rodeo

- Since 2002, excess supply has become the norm, causing high Oil Price volatility (acute reverse elasticity to Supply-Demand imbalances)
- *2008 Demand Crisis:*
 - 2007-08 global banking crisis created credit contraction, slowed-down economic growth, rose unemployment, dropped consumer demand. Largest Recession since Great Depression
 - Oil dropped rapidly from \$147 to \$32/bo and Gas from \$14 to \$4/MMbtu
 - Excess Supply was 2%, 1.9 MMbo/d
 - **Oil Price took 10 months to breach \$60/bo again**
- *2014 Supply Crisis:*
 - NorAm shales disruption and ingenious efficiencies, eventually hurling US to top world producer
 - OPEC with low specific weigh; Saudi relinquished the swing producer wheel to US; Russia under tentative cooperation
 - Economic growth slowed in China, Russia, India and Brazil
 - Peak Demand expectations due to societal pressures
 - Oil dropped slowly from \$106 to \$30/bo
 - Excess Supply was 3%, 2.7 MMbo/d
 - **Oil Price took 42 months to breach \$60/bo again**

This time, low Oil Prices could be with us for quite long...
Will \$45/bo be the new steady-state equilibrium?

- *2020 Perfect Storm: Covid-19 pandemic + Russia-Saudi price war:*
 - Pandemic shutting-down economies, combined with crude oversupply
 - Oil dropped rapidly from \$60 to \$25/bo
 - IHS Markit and Standard Chartered assessed demand to drop by 10 MMbo/d in April.
 - According to IHS Markit, 2020 Demand will drop by 4.5%; EIA says 4%.
 - **Traders are much more bearish.** Demand could drop as far as 35%, pointing at a major Recession, or even a Depression
- *After much posturing, finally, a Supply-side Agreement*
 - With US and G20 pressure, **agreement to curtail Supply by 9.7 MMbo/d (10%),** the largest ever voluntary output cut. It will scale down along two years
 - Will it suffice?
 - Will the agreement hold? Will Iraq, Mexico rebel? Will Saudi and Russia continue to underwrite the highest marginal cost producer (USA)?
 - WoodMac forecasts **\$36/bo** for 2020 and **\$46/bo** for 2021 with recovering Demand
 - For what they are worth as predictors, Futures today indicate ~**\$36/bo** by 12/20, **\$39** by 12/21, **\$41/bo** by 12/22 , **\$43/bo** by 12/23 and **\$44** by 12/24



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