PORTLAND MARKET REPORT

JUNE IN VIEW

PERHAPS IT'S THE CALM BEFORE ANOTHER STORM, BUT JUNE'S OIL MARKET WAS ANYTHING BUT VOLATILE AND EVEN (MAY WE SAY IT) A LITTLE BORING!

Prices stayed within the $30-$40 per barrel range, which as we know, is an unsustainable price level for most oil companies in their current form. What next then for the oil industry and more intriguingly, how will the renewables sector fare in these straitened economic times?

An entirely logical conclusion is that the oil industry will be bouncing back strongly sometime in the near future, because that is what it has done in the past. What better way is there to rebuild a post-pandemic, depression-hit economy than to push cheap oil and gas? Construction projects, new infrastructure, retail therapy and a return to global travel are all tried and tested ways of rebounding economies and all benefit from cheap oil. This is absolutely what happened in the period after the financial crisis of 2008-09, where low-priced oil was greedily devoured by countries coming out of recession. The inevitable result was that prices didn't stay low for very long – demand surged and by the end of 2010, oil was knocking at the door of $100 per barrel!

However, the circumstances around Covid-19 look quite different to the financial crash. The latter was a speculative bubble that brought the house down, only for builders to arrive in short order, with the tools and materials to rebuild quickly. This time around, it doesn't look like it will be quite as easy to put things right, with any economic recovery likely to be a slow, prolonged and stuttering affair – as intermittent "second-wave" lockdowns hamper progress and dampen investor confidence. In that light, it seems unlikely that sky-rocketing demand for oil will be a factor to force prices back up.

When it comes to supply however, we know that this latest oil price crash has created an unparalleled cut in oil investment – spending is down 30% globally and in the shale fields, it has halved. As crazy as it sounds today – when we have a 20m barrel per day oil surplus – we could easily be looking at supply shortages by the end of the year! This could lead to surging prices as oil production dries up and don't forget that once oil wells are "shut-in", they are extremely difficult to reactivate quickly. For those legislators around the world, tasked with the unenviable job of plotting an exit from recession, neither the crazy volatility of the oil markets, nor the possibility of a turbo-charged price bounce-back are helpful. Oil in fact, could end-up weighing very heavily on any economic recovery.

Is it possible then, that renewable fuels and green energy can provide the reliability that looks currently out of reach for oil? Has Portland perhaps been in lockdown for too long to even suggest such a thing?! Well…yes and no. Of course it would be preposterous to suggest that oil will not make some form of comeback post pandemic. On the other hand, legislators and investors alike, are increasingly making anti-oil noises. Governments around the world have been at pains to say that their green targets will not be blown off course by the coronavirus pandemic and in the case of the EU, the €2trn (!) recovery plan stipulates that a minimum of 25% of the money made available, must be spent on climate friendly expenditure.

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Furthermore, new green legislation must be viewed through the prism of the bizarre economic circumstances in which the world now finds itself. Hitherto, the biggest impediment to green energy was the (mostly accurate) accusation that it "just didn't make economic sense" and that fossil fuels "were cheaper" and therefore provided "better value for money". But in a world where the government has paid the salaries of 80% of the nation's workforce, has effectively nationalised our public transport system and has underwritten virtually all credit risk for commercial companies, does anything now make conventional economic sense? Furthermore, the fact that green infrastructure projects are likely to take many years before they come to fruition, will paradoxically, now make them more, not less, attractive to democratic governments. Any environmental "New Deal" will generate extra jobs, precisely because it will be more inefficient than equivalent fossil fuel programmes, and it is jobs rather than efficiency that will keep governments in power at the ballot box going forward. Finally, if Portland is right and a lack of investment in oil exploration does push oil prices rocketing upwards, then the economic comparisons become more favourable for green projects anyway.

Those of us who work in the oil industry have to accept that alongside arms and tobacco, we operate in what is now one of the most disliked industries on the planet. We can rail at the fact that the general public expects a shift to clean energy without having the slightest notion of how that can be achieved, or indeed, we can point out that green solutions simply do not exist at scale to sustain everything from concrete to contact lenses. But it won't change the fact that going green is now a vote winner, whilst investments in fossil fuels look increasingly risky. The money men and women will look at the diminishing and volatile returns offered by the oil industry, they will consider its deep societal unpopularity versus the generous government subsidies available to climate friendly enterprises, and the money will inevitably start to flow away from oil. Few will want to admit it publicly (and understandably so!), but Covid-19 could turn out to be an environmentalist's dream!

For more pricing information, see page 22

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