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CHANGING TIMES: FIVE THINGS TO WATCH IN THE GLOBAL OIL & GAS SECTOR IN 2018

The oil industry appears to be back on track. What's in store for 2018?

For many observers, 2017 was the year that the oil & gas industry finally got back on track. After three years of bottom basement prices, the shedding of over 440,000 jobs (according to Houston-based consulting firm Graves & Co.), and continual negative headlines, 2017 saw the industry bounce back – led by the remarkable resilience of the US shale industry. Yet, what lies in store for 2018 and beyond?

Drillinginfo looks at 5 things to follow in 2018 and makes a number of cautious predictions!

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DRILLINGINFO'S 2018 PREDICTION OVERVIEW

1. There will be a continued increase in US and global oil & gas production.
2. OPEC will look long and hard at their continued production cuts.
3. Shale companies will put a stronger emphasis on profits.
4. Capital expenditure will increase, but cautiously.
5. There will be more consolidation and M&A activity.
6. There will be an increased focus on reserves potential and better completion designs and per well yields.
7. There will be a continued growth in digital technologies and turning data into decision-making information.
8. The link between digital strategies and business performance will be put under the microscope.
9. Natural gas will continue to increase its percentage of the energy mix.
10. The percentage of natural gas in the energy mix will continue to increase.

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DRILLINGINFO'S TOP 5 THINGS TO FOLLOW DURING 2018

1. The Rise and Rise of US Production

When it comes to production in the US, there seems no end in sight to the increases, with the US continuing to take advantage of not being encumbered by OPEC-led production cuts.

According to S&P Global Platts Analytics, there has been an astonishing 38% increase in the number of rigs in the US over the past 12 months, with the Drillinginfo daily rig count showing 1,055 as of March 21, 2018.

Rystand Energy estimates that US production will rise to 11 million barrels a day (b/d) by the end of 2018, and the US government's own forecasts more conservatively estimate that US crude oil production will rise from an average of 9.2 million b/d in 2017 to 9.9 million b/d in 2018. According to Deloitte, "2017 was the year the United States confirmed its growing status as an energy exporter."

What are the implications of this, and what does this mean globally? Firstly, it shows the continued resilience of US shale producers despite the attempt by countries, such as Saudi Arabia, to bring it to heel.

It also means that at current rates the US will be able to meet growing global demand and raises hard questions as to the relevance of OPEC if its current cuts (1.8 million barrels per day, have currently been taken off the market) fail to reduce global oil & gas inventories. Whether OPEC decides to bring an end to production restraints during 2018 (at present, they have committed to extend their production curbs until the end of the year) will be something to look out for.

Attention should also be focused on the profitability of shale companies who, while increasing production, have not necessarily delivered for their investors. According to Al Rajhi Capital, the average return on asset for US shale companies is just 0.8%. While, as long as the financing keeps flowing production will increase, there's likely to be a stronger emphasis on profits from shale companies over the next few months. To this end, a strong focus on well economics will be crucial.

2. Cautious Capital Expenditure Increases

One of the main reasons for the success of US shale over the past few years has been the dramatic reduction in costs. According to Deloitte, breakeven costs across the major US shale plays are 30-50% below the levels of early 2015 and Wood Mackenzie calculates that the downturn resulted in close to US$1 trillion being taken out of company spending.

However, are such cost reductions sustainable against the backdrop of struggling oilfield companies and equipment manufacturers?

It's important to understand here that a healthy oil & gas industry needs to be one where all parties benefit. Subsequently, there are strong signs that the era of continual belt-tightening is over and a cautious growth in capital spending has started.

Wood Mackenzie now expects global capital expenditures to increase slightly in 2018 to a total of US $400 billion, and according to a recent survey by Reinsvold & Associates, 42% of senior oil & gas executives feel that their companies will increase their capital spending during 2018. The Barclays' Midyear Global Spending Survey also predicts that oil & gas capital spending in the US will rise by 10-15% during 2018.

3. An Increase in Deal-Making

Due to the continued pressure on costs, consolidation and M&As are also more likely in 2018 as well.

In the Reinsvold & Associates Oil & Gas Executive Outlook 2018 survey, 61% of executives expected more M&A activity during 2018. It's also likely that private equity firms will keep looking for opportunities, particularly in the US and Europe, with such firms having committed $11 billion to 63 new companies in 2017 according to oil & gas research firm 1Derrick.

Drivers here include the need for oilfield services companies to expand their completion offerings as the US uncompleted well count continues to increase and the fact that operators need to replenish their portfolios following underinvestment during the downturn.

It's therefore likely that significant deals, such as EQT's $8.2 billion purchase of Rice Energy and Exxon's $5.6 billion acquisition of Permian Basin companies, are likely to be replicated over the coming months.

In such cases, targeting the right acreage and the right companies and partners will be crucial. It's also important to note that many acquisitions decisions will not be based around proved developed producing reserves, but on the basis of development potential. In such cases, operators will be more interested in improving per-well yields through efficiencies and better completion designs – areas where Drillinginfo can play a key role.

4. New Technology Innovations

It's clear that digital technologies will have a crucial role to play in containing costs, supporting production and delivering to the bottom line throughout 2018 and beyond Where are we likely to see the impact of digital technologies?

Across the entire value chain from how we manage drilling and operations (technical improvements in hydraulic factures and completions, drilling systems, rig technologies and subsea systems, for example) through to how we procure goods and services and how we understand our reservoirs. Big-data analytics, real-time reservoir monitoring, machine learning and artificial intelligence are all likely to play an important role in the industry moving forward.

The acquisition and analysis of industry data will also be essential as operators look to find and evaluate investment opportunities, reduce risk, and gain competitive advantage. From examining recent lease purchases to identifying best practices in drilling and completions, designing optimal spacing and calculating well economics, technologies and the ability to acquire, integrate and turn data into valuable decision-making information quickly will be vital to future profitability.

Yet, the fact remains that too often technologies are still not delivering where they really count – contributing to better financial and business growth. 2018 needs to see oil & gas companies articulate clear and coherent business strategies and act upon them. As Accenture puts it in their 2017 report, the central question remains: "How can I manage my investment processes and my capital allocation over time in my core business and in my new business, and get the balance right?" Oil companies that are using new digital technologies in order to achieve this balance this will come out on top.

5. The Rise in Natural Gas

The final key area to track in 2018 is the rise in natural gas. Despite prices remaining stubbornly low, the last few years have seen the continued growth of natural gas production – both in the US and overseas. In the US, for example, pipeline exports of natural gas to Mexico have surged as has the exporting of LNG, with the US challenging Australia and Qatar for global leadership. The continued extraction of shale, tight gas and coal-bed methane is also boosting supply.

On the consumption side, global natural gas consumption is expected to reach 485 billion cubic feet per day (Bcf/d) according to the US Energy Information Administration, with the Middle East and Asia leading the way on the demand side. What are the implications of natural gas in the energy mix and will this impact oil? Will natural gas start to become the dominant fuel of the future?

While such a scenario is a while out, the International Energy Agency (IEA)'s 2018 World Energy Outlook believes that gas will grow faster than oil over the next five years. Furthermore, operators, such as BP, Chevron, ExxonMobil, Shell, and Total, have indicated that they intend to increase the share of gas in their reserves with the lack of carbon emissions a key driver.

Natural gas will be an influential part of the energy mix for many years to come. According to a recent ExxonMobil report, "the abundance and versatility of natural gas, in addition to its significant air quality benefits, make it a valuable energy source to meet a wide variety of needs, while also helping the world to shift to a less carbon-intensive source of energy."

Of course, whether it be oil prices or global energy demand, no one knows exactly where the oil & gas sector will be 24 months or even 12 months from now. What is clear is that it continues to be quite a ride, and Drillinginfo will be supporting you every step of the way.

- Accenture, The Digital Oil Economy – Getting Ahead of the Energy Transition, 2017
- Al Rajhi Capital, Oil Market Update, January 2018
- Barclays' Midyear Global Spending Survey, August 2017
- Deloitte, 2018 Oil & Gas Industry Outlook
- ExxonMobil, 'Energy & Carbon Summary: Positioning for a Lower-Carbon Future' and its 'Outlook for Energy: A View to 2040', 2018
- International Energy Agency (IEA)'s 2018 World Energy Outlook Information Administration, Short-Term Energy Outlook, March 2018
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- S&P Global Platts Analytics, January 2018 Rig Count
- Wood Mackenzie, 2018 Outlook

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