TOP 6 TRENDS TO WATCH IN THE GLOBAL OIL & GAS SECTOR IN 2019

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The upstream oil & gas sector faced some unexpected challenges over the last few years.

Here, Drillinginfo experts look at six top trends to track in 2019 and look back at how our 2018 predictions matched up.

Drillinginfo 2019 Predictions

- WTI Oil prices will slowly rise
- U.S. production will continue to increase with the Permian still the key focus
- Expect the majors to continue to invest in shale and more deal making on the Permian
- The Permian production bottleneck should be significantly alleviated in 2019
- Shale operators will focus more on generating profits rather than just production
- Natural gas production will continue to increase
- Offshore exploration will see a resurgence
- Expect another year of volatility

Here Are the Six Trends to Watch in the Global Oil and Gas Sector in 2019

1. Oil Prices Will Continue to Rise – Slowly!

It might be seen as a brave call given the dramatic price reversal during December 2018, but we believe oil prices will continue to slowly rise in 2019, particularly in the second half of the year.

Why do we think that? Demand. Despite the talk of a global economic slowdown and reduced growth in China, demand remains relatively robust with the International Energy Agency (IEA) reporting that demand grew 1.3 million barrels to more than 100 million barrels a day (b/d) for the first time in 2018.

In addition, inventory levels are decreasing; the OPEC decision to cut supply by 1.8 million b/d throughout 2018 has seen a significant rebalancing of the market, with more cuts earmarked for 2019. There has also been a reduction of bottlenecks in the Permian which should negate one of the main pressures on prices in the western Texas region.

Drillinginfo's FundamentalEdge report for January 2019 also suggests that a supply deficit is possible from 2020 onwards, offering an opportunity for higher prices. However, this could take some time with supply currently outpacing demand. In November 2018, the International Energy Agency (IEA) raised its forecast for oil output growth from non-OPEC countries to 2.4 million b/d in 2018 and 1.9 b/d in 2019 – against its previous estimate of 2.2 million and 1.8 million respectively. Other challenges to prices include the potential economic slowdown, increased shale production, and further U.S. waivers to Iran. The December 2018 collapse in prices was mainly due to the unexpected granting of waivers by the Trump administration to some of Iran's key buyers leading to fears of an oil glut.

However, we still see cause for optimism. In regard to the low prices of December 2018, our advice would be to hold steady and avoid revisiting budgeting decisions made earlier in 2018 when prices were a healthy $75. It may well be an up and down year but the long-term oil price trajectory is, we believe, positive.

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2. The Permian Leads the Way and U.S. Domestic Production Remains on an Upward Trajectory

Our prediction for 2018 was correct. U.S. domestic oil & gas production had a bumper year with – according to the U.S. Energy Information Administration (EIA) – crude oil production averaging 10.9 million b/d in 2018 - up 1.6 million b/d from 2017 and surpassing the previous record level of annual production set in 1970.

Although 2019 has started off relatively quietly (according to Drillinginfo's Daily Rig Count, there has been a drop from 1,160 rigs to 1,086 over the past two months), we expect U.S. domestic production to continue to rise rapidly in 2019 as the impact of technology and efficiency gains take hold.

The Permian is leading the way with many of the majors such as BP, ExxonMobil, and Chevron joining the larger independents in developing the Permian and other plays. With the new focus on economies of scale and operational efficiencies in the Permian, there are also likely to be more deals in 2019 with the smaller players looking to acquire and scale up as well as being vulnerable to being acquired themselves. "Big will be beautiful in the new Permian landscape," according to Wood Mackenzie.

Furthermore, we expect to see the pipeline capacity bottleneck in the Permian be addressed in 2019, leading to higher production numbers and the enhanced ability to move oil from fields to refineries and ports. Companies, such as EPIC Midstream, for example, have converted a natural gas liquids pipeline to transport 600,000 b/d of crude. U.S. production and shale remains an important element of the global energy market and a counterbalance to OPEC which can no longer rebalance the market on its own.

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3. Shale Operators Have a Laser Focus on Making Money

The last few years have seen a 'production at all costs' model in the Permian and other basins. The focus was to keep opening up acreages, keep producing, and the profits will come later.

With capital expenses having exceeded cash from operations for much of the past decade, operators are now under pressure from investors to start delivering to the bottom line. We referenced this in our 2018 predictions and see no reason to change this for 2019.

How will this changing approach manifest itself? In some cases, through slowing down production. Drillinginfo's FundamentalEdge report found that Appalachia producers are slowing down operations to favor the market trends of bringing cash to shareholders.

We also expect modest, if any, CAPEX increases in 2019 as the costs for equipment and other oilfield services continue to rise, and operators face a tight and increasingly expensive labor market. It is likely that smaller, less cash-rich independents will cut back on expansion plans.

Independents – Diamondback Energy, Parsley Energy and Rosehill Resources, for example – all recently announced 2019 capital budgets with up to a 15 percent drop in 2019 spending levels (S&P Global Platts). With scale and efficiencies rewarding larger players, it's probable that consolidation will continue, building on the $32 billion of M&A activity during Q3 2018, according to FundamentalEdge. Drillinginfo analysts expect a strong focus on capital discipline and well economics with the number of drilled-but-uncompleted (DUC) wells likely to rise and greater use of technologies.

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4. Natural Gas Production Will Continue to Grow

Drillinginfo analysts predicted this in 2018 and expect the same in 2019 - that natural gas production will continue to grow. According to BP's Global Energy Outlook 2018, global demand for natural gas is likely to overtake coal as the second largest source of energy "supported by broad-based demand, strong increases in low-cost supplies, and continuing expansion of supplies of liquefied natural gas (LNG)."

Drillinginfo's FundamentalEdge report predicts that natural gas prices may range from $2.60 to $2.75 per million British thermal units (MMBtu) over the next five years, allowing production growth to keep pace with expected demand growth.

In 2017, the U.S. became a net exporter of natural gas and the world's largest natural gas producer with 2018 seeing dramatic increases from certain plays. Appalachia, for example, produced 15 percent more gas in December 2018, 30.4 billion cubic feet per day (Bcf/d) more than it did in December 2017 (Forbes).

LNG projects are also rising, such as the $40 billion Canada LNG project, the $10 billion Jordan Cove LNG project in Oregon, and the $30 billion Driftwood LNG project in Louisiana. Globally, there are also mega LNG projects in Qatar, Papua New Guinea, and Nigeria waiting for the go-ahead, with potential investment spend of up to U.S. $100 billion, according to Wood Mackenzie.

5. Going Offshore Again

Offshore and, in particular deepwater exploration, is likely to see a resurgence in 2019.

Likely destinations for these investments include several new leases that have opened up in the Gulf of Mexico as well as potential hot spots in West Africa, Brazil, and Asia. A recent article from Rigzone pointed to offshore spending increasing between four to five percent in 2019, with the deepwater industry growing up to 25 percent over the next three years.

New offshore technologies that drive efficiencies and improve production volumes will also see more investment and lead to increased production from existing fields, in the North Sea for example. The area saw 15 final investment decisions in 2018 – more than the previous three years combined.

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6. Expect Volatility – It's Going to Be a Bumpy Ride!

All predictions are vulnerable to external influences and we can expect the same volatility in 2019 as we did in 2018, with extreme oil price variations, the U.S./China trade wars, and other areas of unpredictability.

What will be OPEC's strategy moving forward as it looks to contain a global oil surplus, bolster prices, and balance markets? Will there be cracks in the OPEC consensus with Russia already indicating that it is unwilling to take on too much of the 2019 planned cuts?

What impact will the continuing political instability in Venezuela have on oil prices, although production has already completely collapsed? How hard of a line will the U.S. take with Iran in terms of oil production and granting waivers? How will the China/U.S. trade war pan out and will it further impact Chinese growth and global energy demand?

We live in interesting times and look forward to seeing the answers to these questions in the coming months.

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An Optimistic Picture

As long as commodity prices stay strong, the midstream sector today represents one of considerable opportunity. Yet, in order for midstream companies to fill capacity, efficiently allocate resources and effectively plan for the future, they need access to the very best industry forecasting and analytics tools.

Drillinginfo provides this – optimizing midstream infrastructures and delivering direct to the bottom line for long-term success. To see our midstream capabilities, visit https://info.drillinginfo.com/midstream/

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