Ten Commandments for Oil and Gas in 2023

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OIL Gas/LNG

Ten Commandments for Oil and Gas in 2023

1. **This year, oil demand is in a tug-of-war between COVID recovery and the economy.** There is about 1.5-2.0 mmb/d of COVID recovery ahead, but if a global recession comes, it can displace a similar amount. We expect 1.7 mmb/d of demand growth in 2023.

2. **Russia's strategy on gas versus oil is hugely different.** Cut off gas and you upset Europe. Cut off oil and you upset your few remaining friends. With an unpredictable Putin at the helm, never say never to politically driven oil cuts. **But markets will inevitably find a way to move the oil if both the buyer and seller want it.** Many have missed—and will continue to miss—this basic fact amidst worries about sanctions and price caps.

3. **OPEC+ are extremely pleased with their own performance**. Recent cuts in the face of criticism proved prescient as demand weakened. Absent a global recession, key OPEC members have room to further cut supply to support price. **If price drops to US$70/bbl near-term, watch for OPEC+ action.**
   - **The attitudes of key Middle East OPEC+ suppliers have shifted radically.** Before they worried that high prices would cause US shale to boom and kill off demand. Now they don't worry about US shale…and are **focusing on monetizing oil resources through high prices** before demand peaks. They don't worry about demand destruction.

4. **Although investors are forcing suppliers to invest conservatively, we can find the barrels needed to satisfy demand growth.** The US, Canada, Guyana, and Brazil—plus about 4 mmb/d of NGLs—will come by 2030. Supply and demand growth will not be perfectly matched, we will see volatility, and OPEC+ will need to remain diligent to police the market.
   - Looking to the 2030s, when oil demand peaks, non-OPEC costs will rise with ever-rising carbon cost pressures. OPEC's market share will rise. Our long-run price outlook remains around US$70/bbl (real 2023$).

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5. **The golden age of refining we had expected came early.** Refiners (pre-maturely) cutting 4 mmb/d of refining capacity during COVID set the stage…and sky-rocketing natural gas prices sealed the deal, resulting in 2022's stellar refining margins. For Europe, a US$10/MMBtu gas price increase translates into a US$1.5/bbl cost increase for the marginal refiner—which must be covered by higher cracks/margins. **To put it bluntly, European refiners' pain translates into non-European refineries' crack/margin gain.**

6. **Both bad news and good news ahead for refiners.** The **bad news** is that 2 mmb/d of new capacity theoretically comes onstream in 2023. Also, China recently roughly doubled oil product exports versus typical 2H 2021-1H 2022 levels. The **good news** is that slow refinery ramp-ups and likely delays means the actual impact of the new capacity in 2023 is more limited—only 800 kb/d y-o-y. Additionally, Chinese demand growth will surge by 1 mmb/d in 2H 2023, contributing to a pull-back in product exports. **On balance, margins will certainly be lower in 2023 than a stellar 2022, but still solid.**
   - **Looking further ahead in the 2020s our view is unchanged.** Oil demand grows by 8 mmb/d during 2022-30 but there is little appetite for major new refining capacity ahead of peak demand in the 2030s. **Result? A last golden age of refining margins.**

7. **LNG prices must remain high through 2025.** The warm weather gods have disrupted Putin's strategy for making the EU suffer. Although TTF has recently fallen, **the fact remains that only 11 mtpa of new LNG liquefaction capacity starts up over 2023-24.** LNG supply grows more than capacity as existing projects return from unplanned outages, but it is still not enough to meet demand growth. Demand destruction must continue, and the European and Asian buyers must compete for LNG.

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8. **The market equation for LNG is clear: Suddenly—and unexpectedly—adding a huge buyer (Europe at 120-130 mtpa) plus quickly losing two major potential sellers (Russia and Mozambique) sums to an extremely tight LNG market.**
   - Those seeking MT/LT oil-linked LNG have been shell-shocked by the new equation, as the **prospect of slopes in the 10 and 11s quickly vanished.**
   - Buyers are **left with two main options**: sign on for long-term US LNG on a North American hub linkage, or pay higher slopes for oil-linked volumes—and only for supplies starting in 2026 (apart from volumes from Oman). **Before 2026, be prepared to pay spot or spot equivalent.**
   - Looking further ahead, unlike oil, LNG demand does not peak and will grow into the 2040s. Following a new wave of supply, LNG prices will eventually be around US$8.5-US$9.0/MMBtu (real 2023$ delivered in northeast Asia).

9. **The commercial balance between old and new energy is pretty-much restored: From a climate perspective, the faster the world moves to alternative energies, the better. But commercially, timing is everything.**
   - There is no doubt EVs are the future. Government mandates, subsidies, and Tesla's (still) massive market cap ensure car manufacturers are moving full speed in this direction. Blue/green hydrogen is moving quickly for similar reasons. But last year we had numerous conversations with companies we worried would sacrifice millions or even billions by moving too quickly ahead of consumers. **Recent market developments have restored the balance between old and new energy. Energy security trumps energy transition for now.**

10. **Bottom line: There are exciting opportunities in new energy, but companies can win by being second place!** Let governments and companies under the highest investor pressures pay the big costs. See what works best and follow closely behind. **This is not the internet, where the winner may take all…there can be multiple winners.**

Thank You

If you have any questions regarding this presentation, please contact us at

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