What's new in the oil market over the past two weeks (Rough speaker notes)
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First, let me note that today is the 50th anniversary of the safe return of Apollo 13. We may feel like we're having a 'Houston we have a problem' moment today, but like then, we'll get through this.

Turning to the oil market. What's changed since our last webinar two weeks ago?

Bottom line: Historic cuts announced this week not big enough to balance market, but can avoid/delay another big downward move IF it keeps inventories from hitting storage capacity

- But may be too little, too late: Prices falling since announcement
  - WTI $18; Brent $28
- And certainly already seeing limitations in US with pipeline bottlenecks, etc
  - Large WTI-Brent diff…and huge WTI time spread ($29 for July)
  - Single-digit pricing for "stranded" mid-continent production (in US and Canada)

The biggest coordinated production cuts the world has ever seen

- OPEC+ agrees to cut 9.7 Mb/d for May/June; moderating to 7.7 Mb/d thru year-end; and 5.8 Mb/d thru **April 2022**
  - …and rumor of add'l 2 Mb/d from Saudi/GCC-3
- Assertions that contributions (unspecified) by G20 to bring total closer to 20 Mb/d
  - US/Can/Brz nearly 4 Mb/d
  - SPR purchases

OPEC++ agreement – something for everybody

- Saudi & Russia get a face-saving way out (by President Trump's involvement & G20 endorsement)
- President Trump gets to play dealmaker without US having to do anything other than let markets work; and bolsters oil state support by defending domestic jobs/production
  - No firm contribution but US DOE -2 Mb/d by year-end
- AMLO (MX president) gets to look tough, getting spotlight time with US, Russia & Saudi leaders...and the one exception for OPEC+ members
- G20 and IEA get a seat at the table but weren't asked to do any heavy lifting. (G20 statement was a pretty watered-down affair; no commitment re: production cuts or to purchase crude for strategic stocks)
- Everybody else gets a bottom to oil prices…or at least that's what they hoped

Lots to criticize

- US didn't commit to anything other than market forces working
- Saudi/Russia questions with their baseline level of production
- Bad precedent with an exception for Mexico

- Obvious questions about compliance given the size of cuts & number of participants with poor compliance records
- And of course: The biggest cuts in history are nonetheless small compared with the size of the ongoing demand destruction

US supply response already visible

- US oil rig count -245 (-36%) in five weeks (lowest since 2016)
  - In last cycle, took 2x/3x that many weeks to reach similar declines
- DOE weekly data showing US crude -800 Kb/d in past four weeks
  - ND regulator -4600 wells, -260 Kb/d since beginning of March
  - CoP shut-in announcement (-200 Kb/doe)
  - Un-noticed: Biofuels down by -500 Kb/d as gasoline consumption crashed

Meanwhile scope of demand destruction becoming clearer:

- IEA says global demand fell by 29 Mb/d in April & expects average annual decline for all of 2020 to be 9.3 Mb/d. Almost 4 times the previous record: -2.6 Mb/d in 1980
- US weekly demand ("product supplied") has fallen by 8 Mb/d (-37%) since 1st week of March, to lowest (weekly) on record, going back to 1990
  - Gasoline -4.6 Mb/d (-48%) in past four weeks
  - Jet -70%
  - Diesel a bit better "only" down one-third

US inventories soaring
Total +70 Mbbls since end-Feb (mostly crude, +60 Mbbls)
Commercial crude: 30 Mbbls below previous record (Mar 2017)—but filling fast.

- EIA says national crude storage is 57% full with nearly 280 Mbbls of spare…but untested
- Also: Nearly 80 Mbbls of SPR capacity (635 Mbbls vs capacity 713.5 Mbbls)

Gasoline storage at record levels

- Diesel holding up better; 60 Mbbls below prev record

Refinery thru-put -3 Mb/d to 12.7 Mb/d

- Not as much as demand decline so far, but still the lowest since '08

Biggest uncertainty: Remember: This is a demand shock!

- So depth & length of COVID-19 impact (GDP and policy)
  - V-shaped recovery? U-shaped? L-shaped?
- On supply side: OPEC+ compliance & US response