Oil Market Report: June 2020

Perhaps it is the calm before another storm, but June's oil market was anything but volatile and even (dare we say it) a little bit boring! Prices in general did start to recover, but stayed largely within the $35 - $40 per barrel range – a price that is still unsustainable for most oil companies in their current form. This begs the question, what next 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 will benefit from cheap oil. This is absolutely what happened in the period after the financial crisis of 2008-09, when low-priced oil was greedily devoured by countries coming out of recession.

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. Any economic recovery is likely to be a slow and stuttering affair, with intermittent "second-wave" lockdowns hampering progress and dampening investor confidence. In that light, it seems unlikely that rocketing demand for oil will be a factor to force prices back up. When it comes to supply though, we know that this latest oil price crash has created an unparalleled cut in oil investment - spending is down 30% globally and in the US shale fields, it has halved. As crazy as it sounds today (with a 15m barrel per day oil surplus), we could easily be looking at supply shortages by the end of the year and this could easily lead to surging prices. For those individuals plotting a recovery from the current economic malaise, neither the crazy volatility of oil markets, nor the possibility of a turbo-charged price bounce-back are helpful. Oil in fact, could quickly end-up weighing heavily on any tentative recovery.

Is it possible that renewable fuels and green energy could provide the reliability that looks currently out of reach for oil? Has Portland been in lockdown for too long to even suggest such a thing?! It would certainly be preposterous to suggest that oil will not make some form of comeback post-pandemic. Put simply, the world still relies on oil for most of its energy needs. On the other hand however, 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 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.

Furthermore, new green legislation must now 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 50% of the nation's workforce, has effectively nationalised our public transport system and has underwritten large swathes of commercial credit risk, does anything now really make conventional economic sense?

Furthermore, the fact that green infrastructure projects are likely to be large in scale and take many years to complete will now make them not less, but more attractive to democratic governments. Long-term green investment programmes will generate a greater number of jobs than equivalent and "efficient" fossil fuel ventures, and it is jobs (rather than efficiency) that will keep governments in power at the ballot box going forward. Plus, if Portland is right and a lack of investment in oil exploration does push oil prices back upwards, then the economic comparisons become more favourable for green developments anyway.

Those of us who work in the oil industry have to accept that alongside arms, tobacco and banking, 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 a clear notion of how that can be achieved. We can also point out that environmental 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 and investments in fossil fuels look increasingly risky. Financiers will look at the diminishing and volatile returns offered by the oil industry, they will consider its deep societal unpopularity (in stark comparison to 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!