Brent Crude Price Assumption For 2019 And 2020 Raised To $60 Per Barrel

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S&P Global Ratings has raised its average annual price assumptions for Brent crude oil for 2019 and 2020 by $5 per barrel (bbl) to $60/bbl. Our West Texas Intermediate (WTI) price decks and long-term Brent oil price deck for 2021 and thereafter, are unchanged. Our Henry Hub natural gas price assumptions also are unchanged at $3 per million Btu through 2021. These revisions are effective immediately.

Key Takeaways

- We have raised our 2019 and 2020 average price assumptions for Brent crude oil to $60/bbl from $55/bbl.
- Our Henry Hub natural gas assumptions remain at $3 per million Btu.
- Natural gas supplies remain healthy, with no sigh of letting up.

We use this price deck (see table 1) to assess sovereign and corporate credit quality, in particular for exploration and production (E&P) companies, in accordance with our published criteria (see How S&P Global Ratings Formulates, Uses, And Reviews Commodity Price Assumptions, published Sept. 28, 2018).

S&P Global Ratings' Oil And Natural Gas Price Assumptions

	--New prices--				--Old prices--		
	Brent	WTI	Henry Hub	AECO	Brent	WTI	Henry Hub
	$/bbl	$/bbl	$/mil. Btu	$/mil. Btu	$/bbl	$/bbl	$/mil. Btu
2019	60	50	3	1.25	55	50	3
2020	60	50	3	1.25	55	50	3
2021 and beyond	55	55	3	1.50	55	55	3

Source: S&P Global Ratings. WTI--West Texas Intermediate. bbl--Barrel. NOTE: Prices are rounded to the nearest $5/bbl and $0.25/million Btu.

We had lowered our price deck on Jan. 3, 2019 as oil prices retreated due to concerns over the ongoing trade war between the U.S. and China as well as news of China's economic slowdown.

Moreover OPEC, particularly Saudi Arabia, along with Russia, were producing at record levels to offset what was expected to be a meaningful reduction in global supply due to the Iranian economic sanctions. However, the sanctions themselves fell short of expectations on Nov. 2, 2018, when the U.S. government announced that eight countries would be exempt from Iranian oil import sanctions for six months. This had the effect of drastically increasing the amount of oil expected to be on the market. All the while, U.S. production, driven by unrelenting growth from shale, continued to increase.

Russia And OPEC

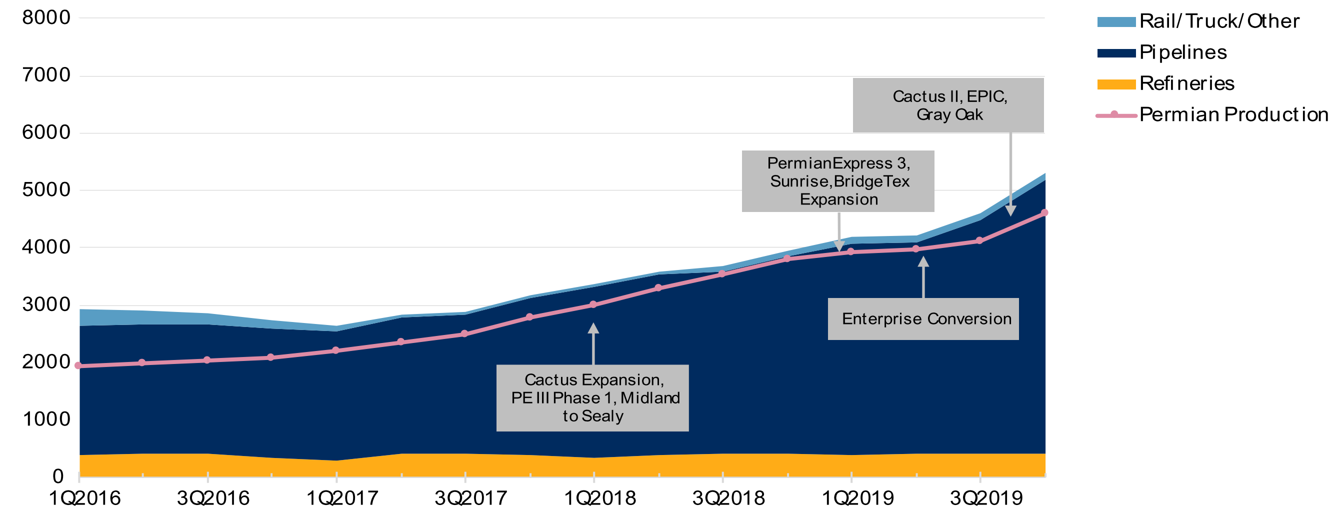
It now appears, however, that once again, measures taken by OPEC and Russia to cut production by a combined 1.2 million barrels per day from October levels, for six months—beginning January 2019—has led to a rally for oil prices, particularly Brent. The price of Brent, which had closed at $50.57/bbl on Dec. 28, 2018, rose to $65.06 per barrel by March 15, 2019. Based on announcements from OPEC, it appears that production cuts by Russia and OPEC will continue to support oil markets for the foreseeable future.

Moreover, more positive news about the delay in tariffs between the U.S. and China, as well as the potential for a trade agreement, alleviated some concerns about the impact on oil demand. In addition, looser monetary policy guidance from several central banks has reduced concerns about global economic activity. Other factors which we deem to be wildcards, but we deem supportive for oil prices , are the continuing and rapid declines in production from Venezuela, fluctuating exports from Libya and rhetoric from the U.S. State Department that currently seems to indicate that waiver sanctions will be lifted for the eight countries originally exempt from Iranian sanctions, which could reduce oil supply.

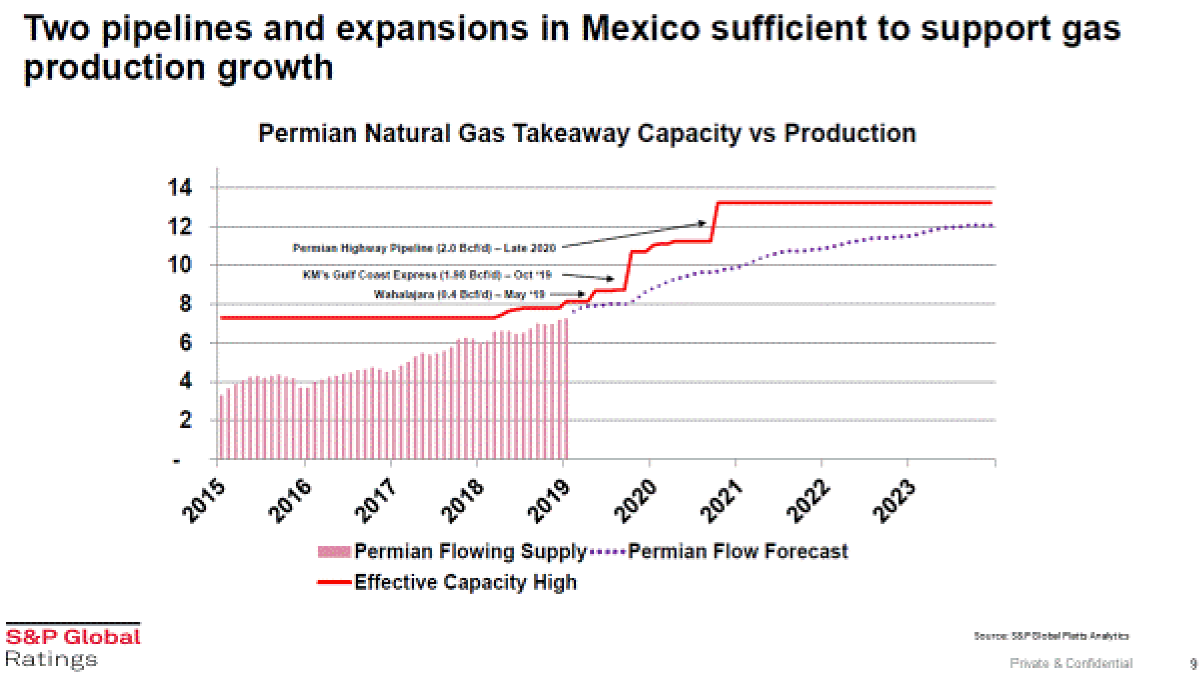
While the price of WTI has also responded positively, it has not rebounded quite as strongly as Brent. This is largely due to expectations about the continuing growth of oil production from the Permian Basin. Permian production is constrained by a lack of pipeline capacity. Production from the region had bumped right up against the 3.4 million bbl/d of regional takeout capacity. However, S&P Global Platts expects that an additional 2.6 million bbl/d of pipeline capacity will come on line in 2019 and early 2020, which will alleviate the takeout issues. The U.S. Energy Information Administration expects Permian production to grow close to 800,000 bbl/d in 2019. We also recognize that oil demand growth for the next few years is likely to remain positive, albeit moderating over time.

Chart 1

By Late-2019, The Permian Will Have More Than Sufficient Takeaway Capacity



Source: Source: S&P Global Platts Analytics



Lower Production Costs

Our long-term price deck assumptions of $55/bbl for both Brent and WTI mostly reflect our view of the pronounced industry cost deflation that has taken place. Over the past few years, marginal production costs have declined significantly due to engineering optimization, improved drilling efficiencies, and cost reductions, especially in higher-cost U.S. shale formations. Drillers, forced to improvise because of low prices, continue to employ new drilling, fracking, and well-completion techniques that have resulted in more permanent cost reductions. While we've seen some nominal upward pricing pressure recently from oilfield service companies, particularly for onshore U.S. completions, many operators are targeting at least flat or lower unit costs through ongoing improvements in efficiency, digitization, or closer cooperation with service companies and drillers

We continue to see a fundamental shift occurring in the U.S. natural gas production profile as production has veered from the Southwest and Rockies to the prolific and economic Marcellus and Utica shale plays in the Northeast. We expect the significant ongoing build-out of takeaway capacity will lead to further narrowing of the differentials and production increases. The boom in U.S. oil shale drilling in recent years has also produced natural gas as a by-product of liquids extraction, with a significant ramp-up in natural gas production from the Permian basin and other oil regions. However, natural gas production has exceeded existing processing and takeaway capacity, resulting in wide natural gas basis differentials in the Permian. Several new pipelines are under construction, which should alleviate this bottleneck over the next two years. Once the takeaway capacity constraints are relieved, we believe these low-cost plays will be able to quickly meet any uptick in demand (e.g., from increased power generation, industrial production, or liquefied natural gas exports), which will effectively cap natural gas prices.

Related Research

- S&P Global Ratings Expands Its Published Price Assumptions To Include Canadian AECO Benchmark Gas Price, Feb. 7, 2019
- S&P Global Ratings Lowers Brent And WTI Oil Price Assumptions For 2019 Through 2020; Natural Gas Price Assumptions Are Unchanged, Jan. 3, 2019
- FAQ: How S&P Global Ratings Formulates, Uses, And Reviews Commodity Price Assumptions, Sept. 28, 2018
- Methodology For Crude Oil And Natural Gas Price Assumptions For Corporates And Sovereigns, Nov. 19, 2013

This report does not constitute a rating action.