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EDITORIAL: Brittle recovery masks deep malaise in face of unfathomable uncertainty

Crude oil prices are firmly back in the black [1] after a brief foray into negative territory, and there is once again an 'Asian premium' for gas – albeit a very modest one [2]. India is back in the market for spot LNG, China's oil demand has apparently returned to pre-coronavirus levels and Beijing is even buying US LNG again, in dribs and drabs, after a year-long hiatus.

Most benchmarks point to a recovery of sorts. The world is returning to its old energy consumption habits as countries emerge from lockdown, propelling bullish sentiment in capital markets: the S&P 500 has risen by a third in two months. Prophecies of doom for the energy sector, which along with airlines and the tourism industry bore the brunt of the Covid-19 shock, proved to be a little wayward – or at least premature.

But all is not well, and any optimism is at best superficial. The recovery is extremely fragile and at great risk of a second wave of coronavirus infections that could prompt fresh economic shutdowns. If localised 'whack-a-mole' lockdowns or worse are to be avoided, it will require rigorous adherence to social distancing, testing, contact tracing and quarantine measures that are severely impeding construction projects, particularly at remote sites that must fly workers in and out.

LNG plant construction sites in Russia [3]and Mozambique [4]have become riddled with disease, and infections are now blossoming on oil and gas platforms offshore Brazil. All of this is pushing up capital and operational costs, just as margins are being severely squeezed by lower commodity prices. Little wonder that new project investments are being delayed and shelved, as oil majors and minnows alike scramble to preserve cash to weather the storm.

Staff layoffs are gaining pace across the corporate space, with Shell pursuing [5]voluntary redundancies, BP reportedly halving the size of its senior management team and smaller companies following suit in droves. Mass bankruptcies have so far not happened even in the vulnerable US shale sector, but survival is now the number one priority for all – even if few companies will admit it, preferring to articulate their focus on 'financial resilience'.

The question to which there is no knowable answer is for how long this state of affairs will persist. In the face of intense demand volatility several upstream players have suspended [6]or scrapped full-year guidance, leaving analysts to fill in the blanks by deciphering the sentiment [7]projected by CEOs during quarterly earnings calls.

Behind the scenes, there can be little doubt that many corporate leaders are battening down the hatches while they drift on an unfathomable sea of uncertainty. Beyond Covid-19, a great recession is festering. And then there is climate change.

Fundamentals can provide anchor points. Energy is central to the functioning of all modern economies. With every investment postponement, the risk of surplus flipping into deficit increases. The energy transition will remain a slow burn for the foreseeable future, perhaps more so as investment decelerates [8].

These truths will provide scant comfort to directors or shareholders debating whether to stick or twist while watching profits evaporate. But they might offer a basis from which to start the decision-making process.

Sebastian Kennedy
Editor, Gas Matters Today

The views contained in this Editorial are solely those of the editor and do not necessarily reflect those of Gas Strategies.

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