

# A Conversation with PESA

## *Energy Market Outlook*

Dan Pickering  
October 2, 2019



May 2019

# Overview

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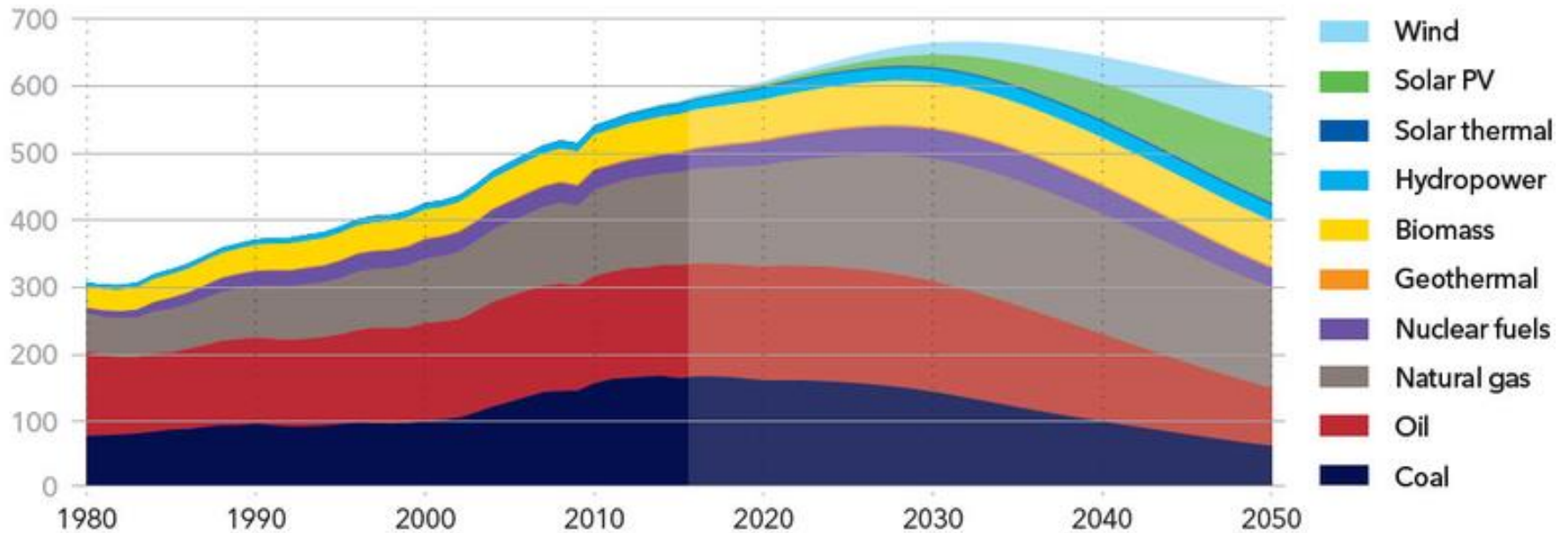
- Energy Sources
- Energy History
- OPEC
- US Shale
- Market Assessment
- Outlook



# World Energy Sources

World primary energy supply by source

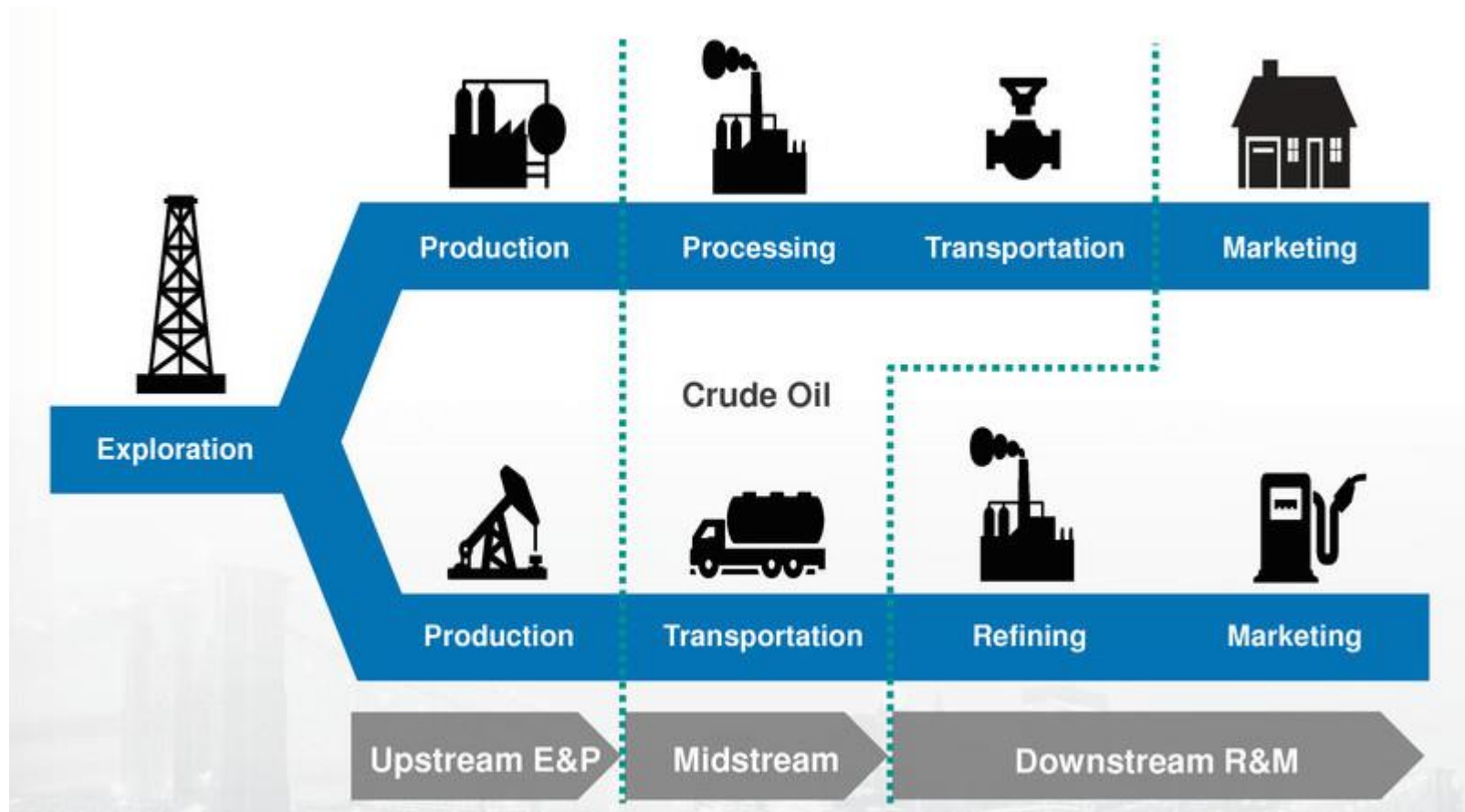
Units: EJ/yr



This information is for illustrative purposes only  
Source: Ocean News & Technology

# Wellhead To Burner Tip

## Many Subsectors Within The Oilpatch



This information is for illustrative purposes only  
Source: Petrol Malaysia

# Sizing The Oilpatch

Oil



+

Gas



=

3-4% of  
Global GDP

100mmbbls/day

X

\$60/bbl

~\$2.2 Trillion

3.8tcm/year

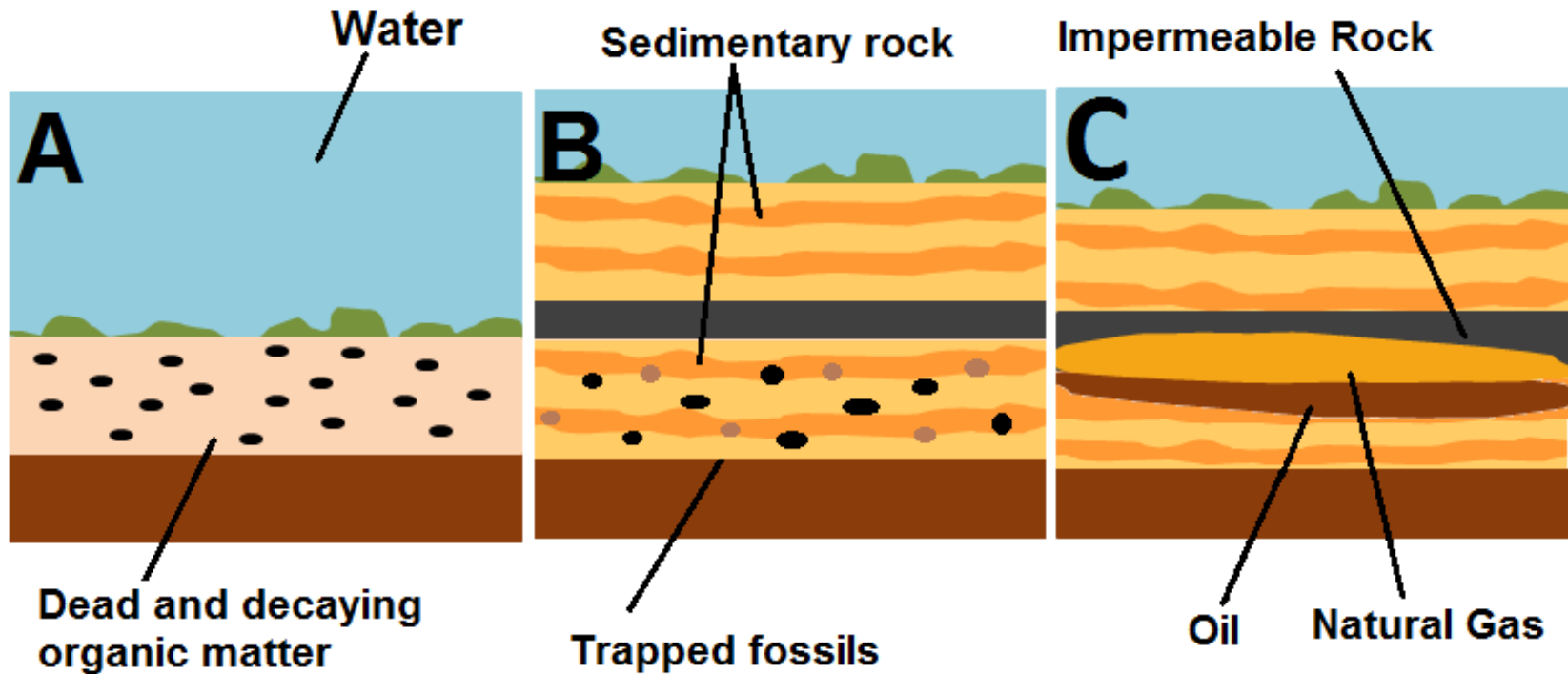
X

\$3/mcf

~\$400 Billion

Source: Pickering Energy Partners

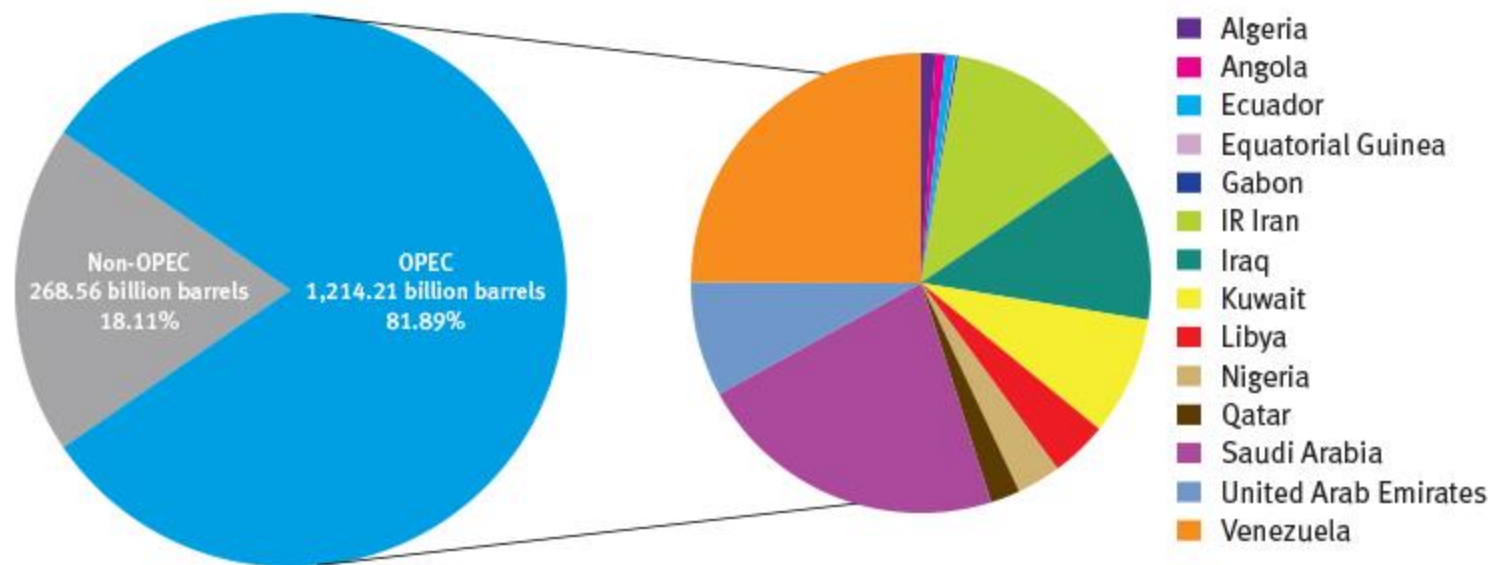
# Where Do (Oil and Gas) Babies Come From?



This information is for illustrative purposes only  
Source: Energy Education

# OPEC

## OPEC share of world crude oil reserves, 2017



OPEC proven crude oil reserves , at end 2017 (billion barrels, OPEC share)

Venezuela	302,81	24,9%	Kuwait	101,50	8,4%	Qatar	25,24	2,1%	Gabon	2,00	0,2%
Saudi Arabia	266,26	21,9%	UAE	97,80	8,1%	Algeria	12,20	1,0%	Equat. Guinea	1,10	0,1%
IR Iran	155,60	12,8%	Libya	48,36	4,0%	Angola	8,38	0,7%			
Iraq	147,22	12,1%	Nigeria	37,45	3,1%	Ecuador	8,27	0,7%			

Source: OPEC Annual Statistical Bulletin 2018.

Source: OPEC Annual Statistical Bulletin 2018

# How Much Can We Count On OPEC Discipline?

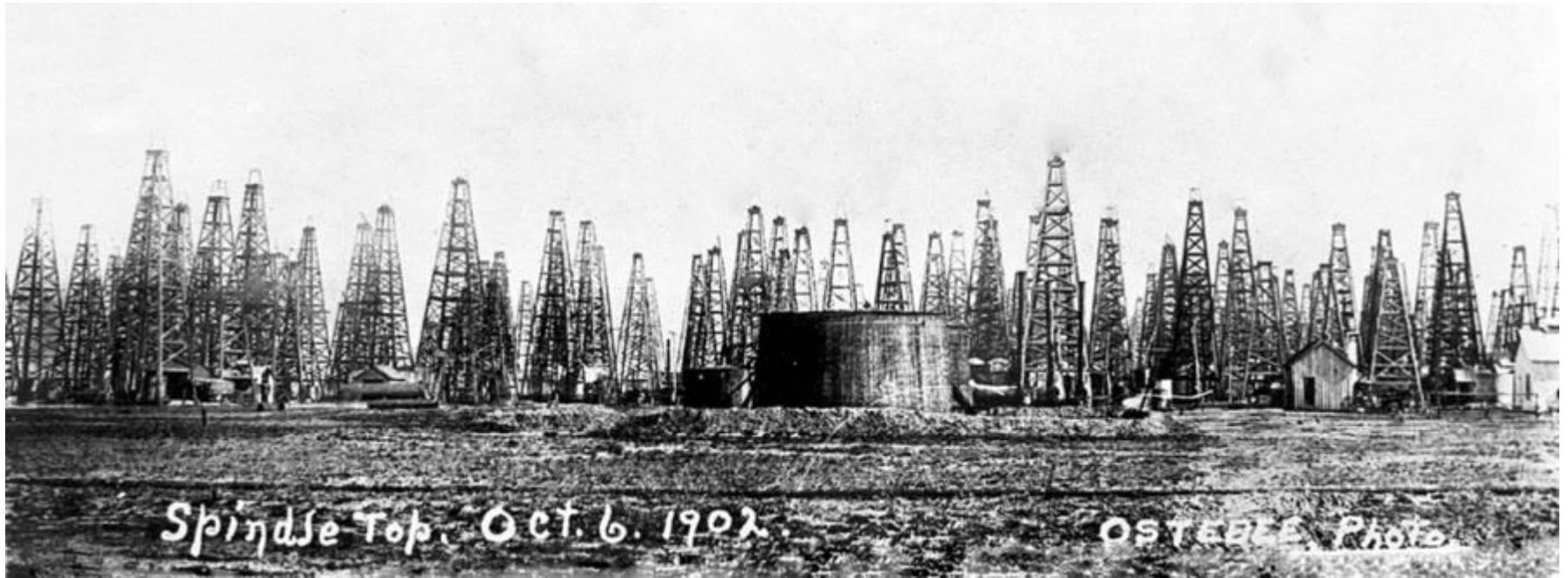


- Supply Risk More Obvious Now
- Escalating Tensions
- Is Game of Drones Good or Bad for OPEC Cohesion?
- Will Iran Come to the Table?



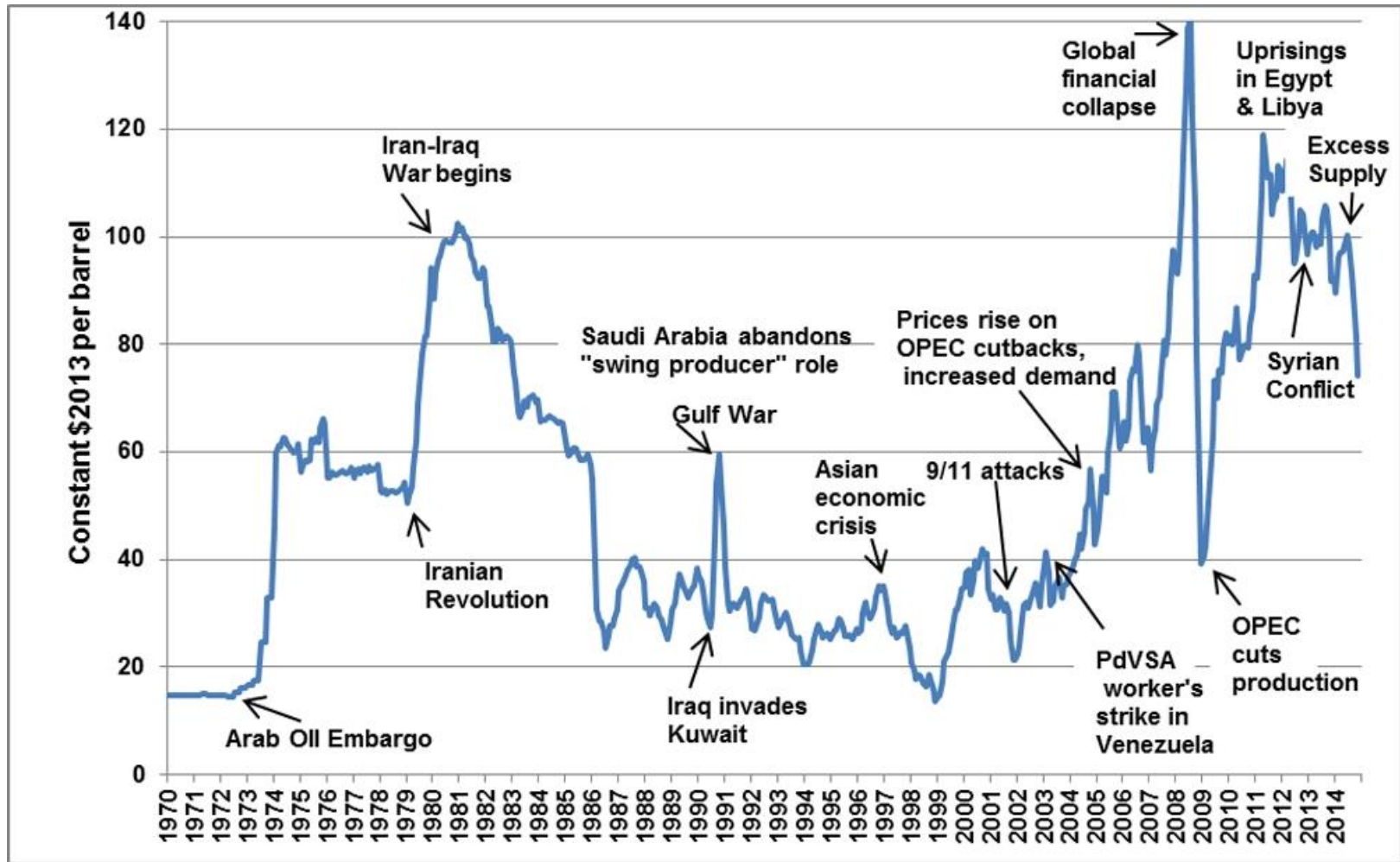
# Spindletop - 1902

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Source: Lamar University

# A Volatile Business

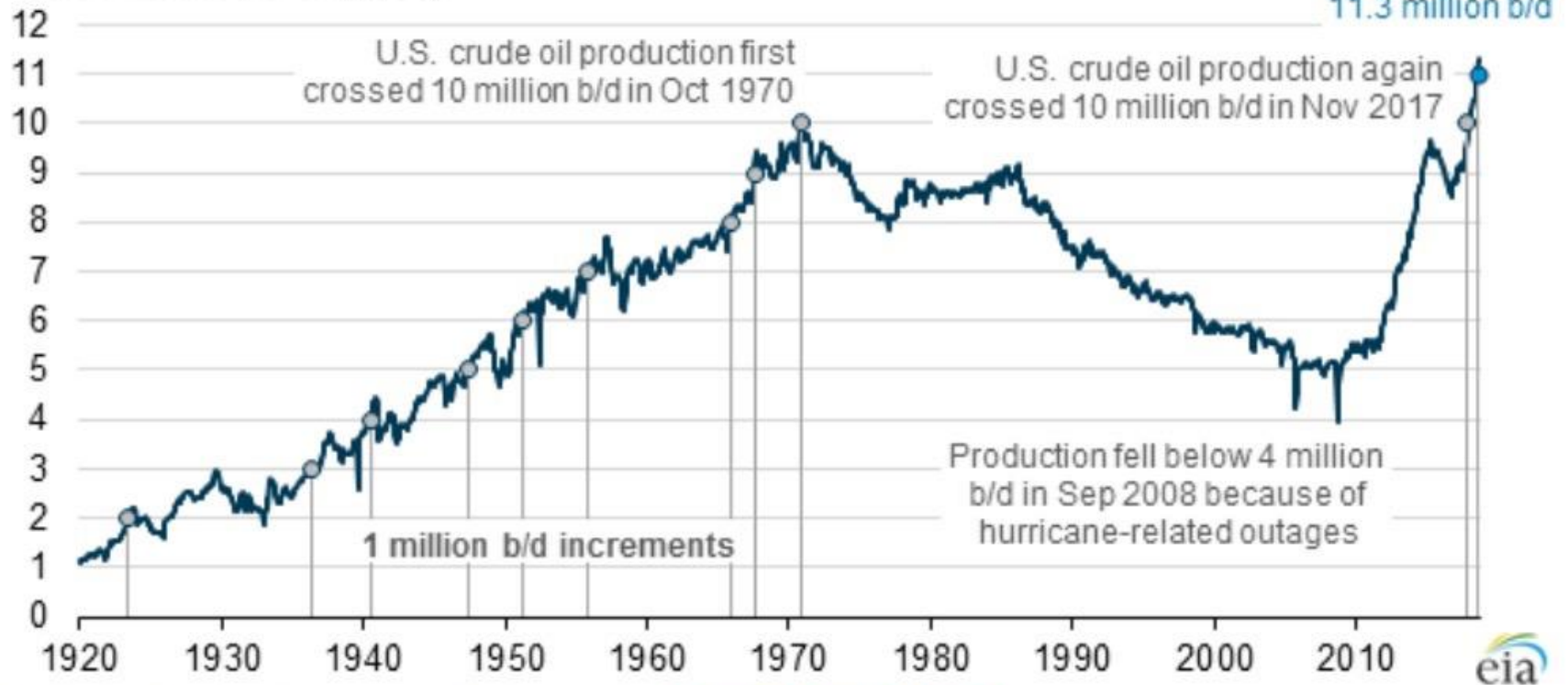


Source: Department of Energy

# US Production History

## Monthly U.S. field production of crude oil (Jan 1920-Aug 2018)

million barrels per day (b/d)

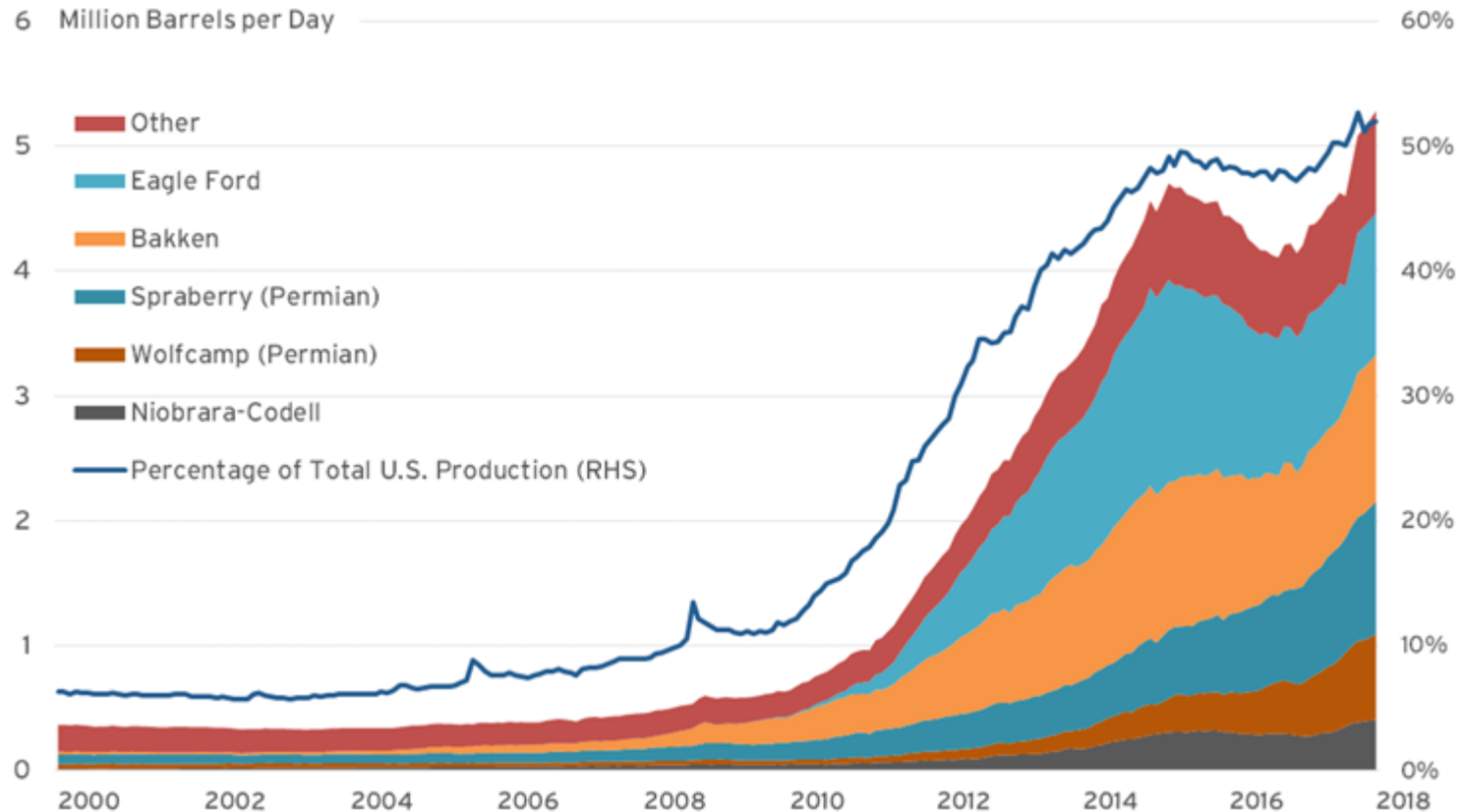


Source: U.S. Energy Information Administration, *Petroleum Supply Monthly*

Source: EIA

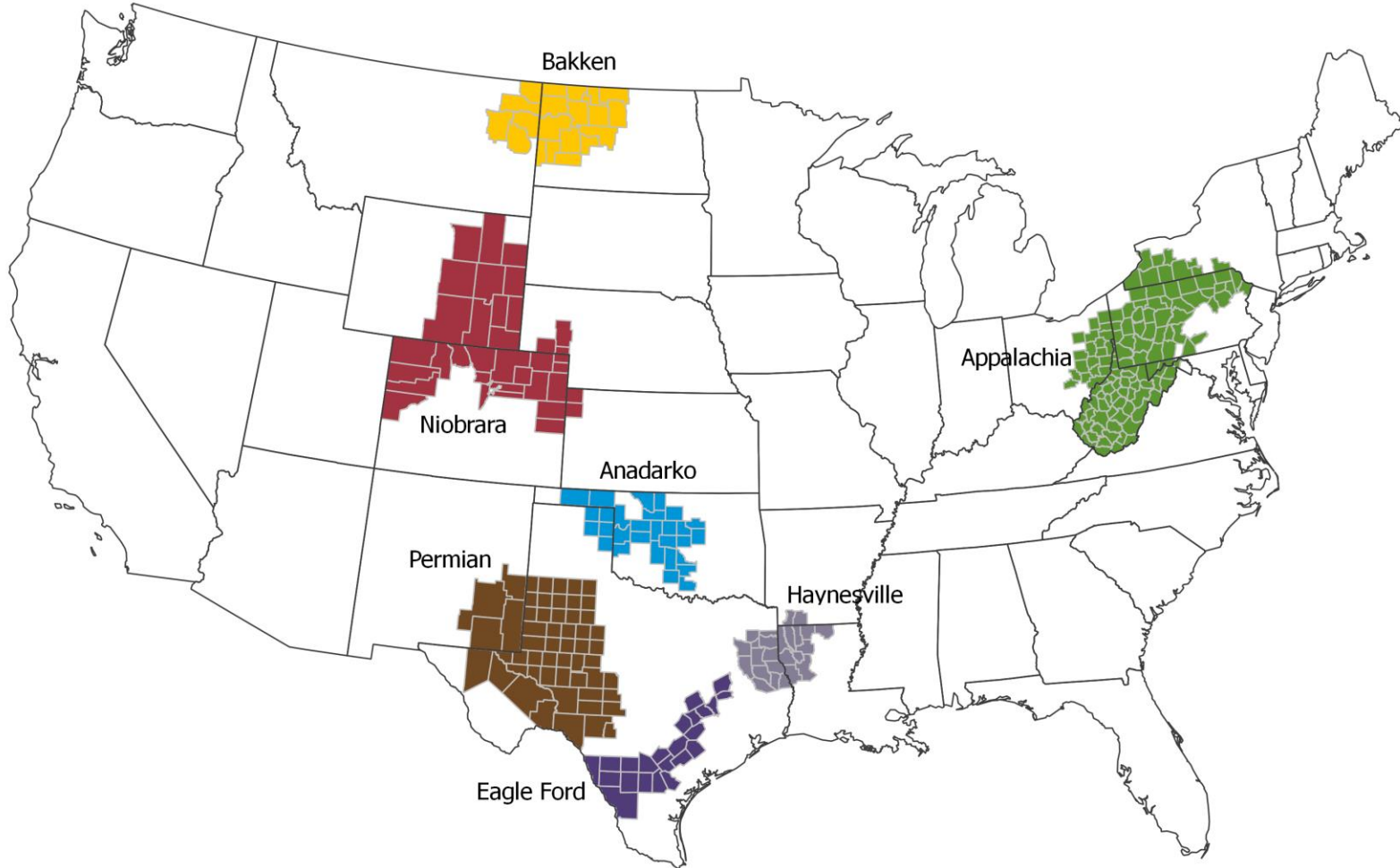
# Shale Is The Big Story

## Shale Accounts for More Than Half of U.S. Crude Oil



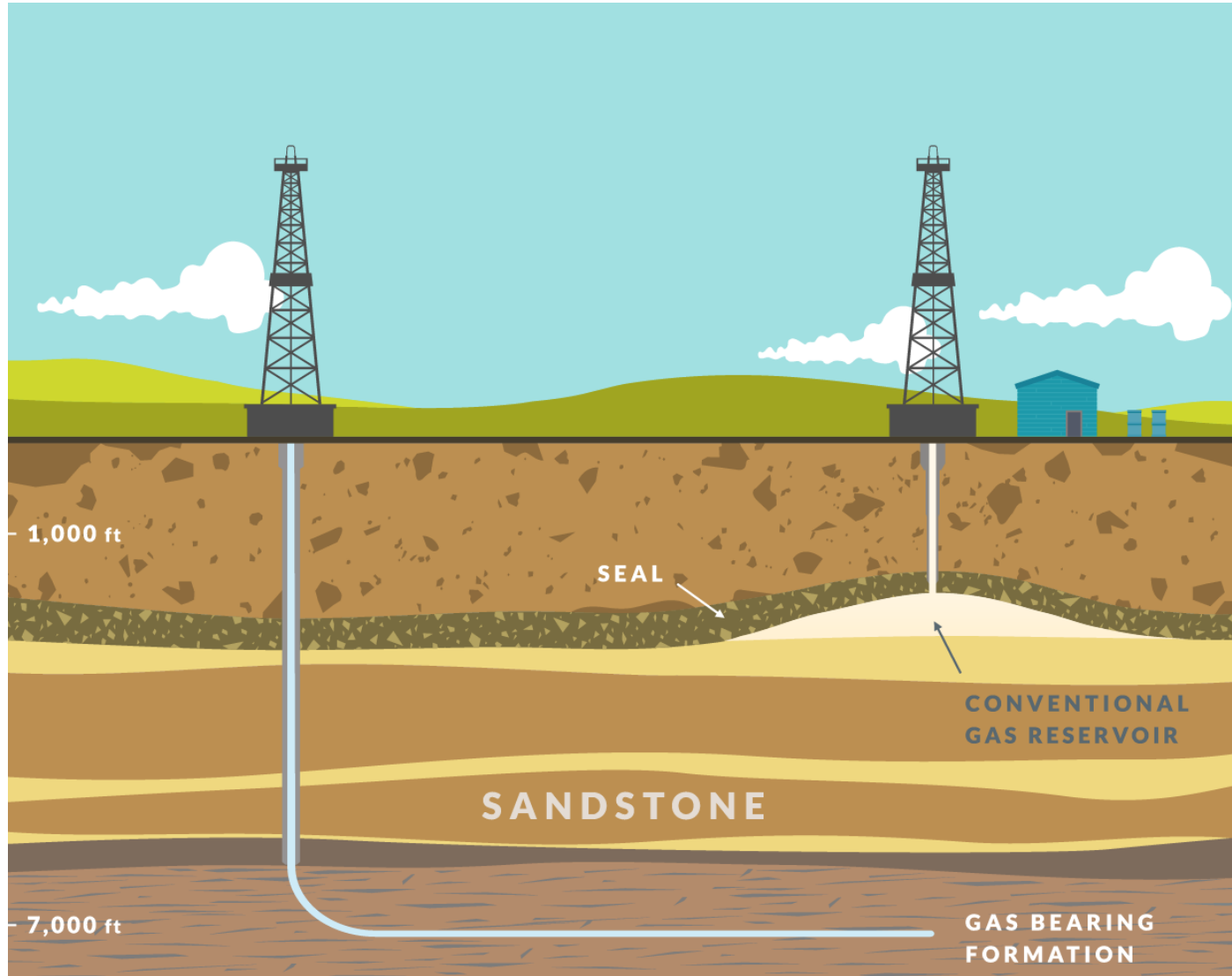
Source: The Fuse

# US Shale Basins



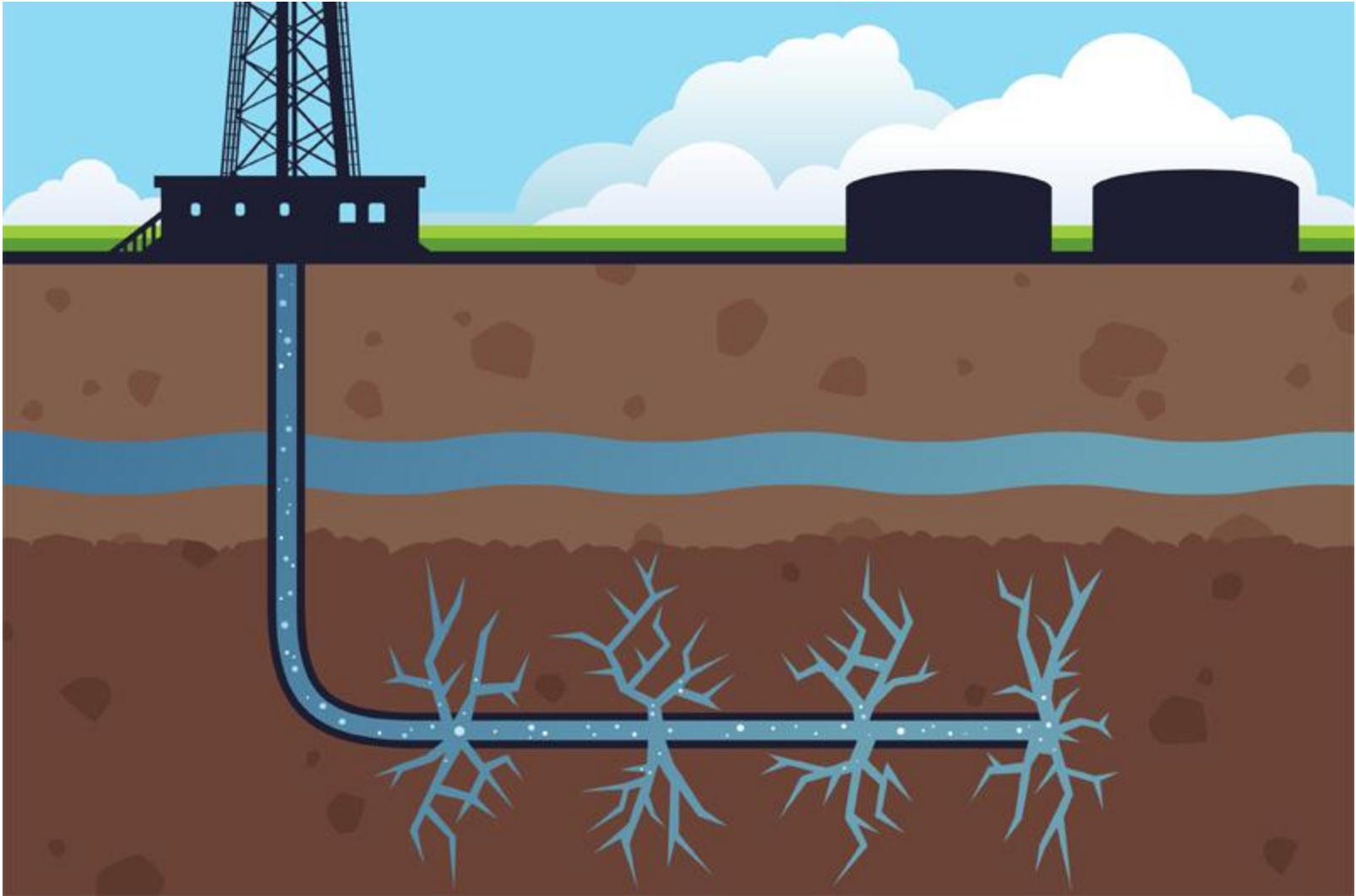
Source: CNBC.com

# Horizontal Drilling



Source: Rigzone News

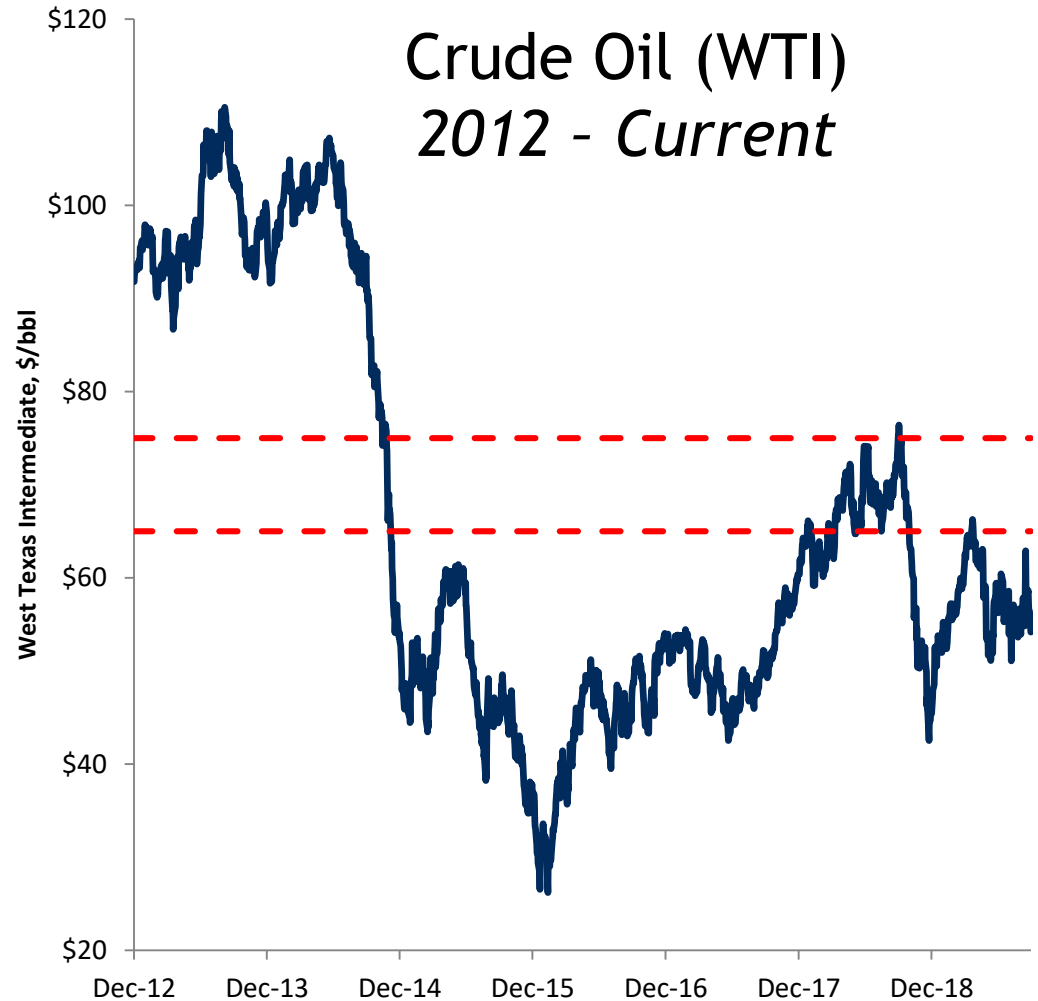
# Multi-Stage Fracking



Source: Texas A&M University

# Where Are We?

- 5<sup>th</sup> Year Of A Downturn
- Underperforming Stocks
- Apathetic Investors
- Production Boom
- US Energy Superpower
- Green New Deal!
- Peak Demand Fears
- Industry Focus Shifting
- Stymied Capital Markets

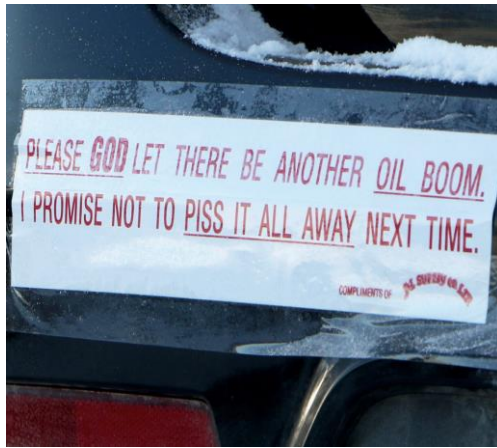


This information is for illustrative purposes only  
Source: Bloomberg as of 9/30/2019



# Cyclical Business

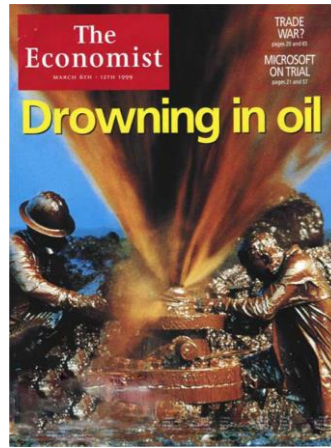
1980's



1985

- Oil bottoms at \$10/Bbl in 1986
- Rallies to \$25/Bbl in 1987

1998-2001



March 1999

- Oil \$15/Bbl in March 1999
- Rallies to \$35/Bbl by June 2000

2003-2018



October 2003

- U.S. Production**
- 5.5 MMbopd October 2003
- 11.7 MMbopd November 2018
- Global Consumption**
- 2003 = ~80MMbopd
- 2018 = ~100MMbopd

2008-2009



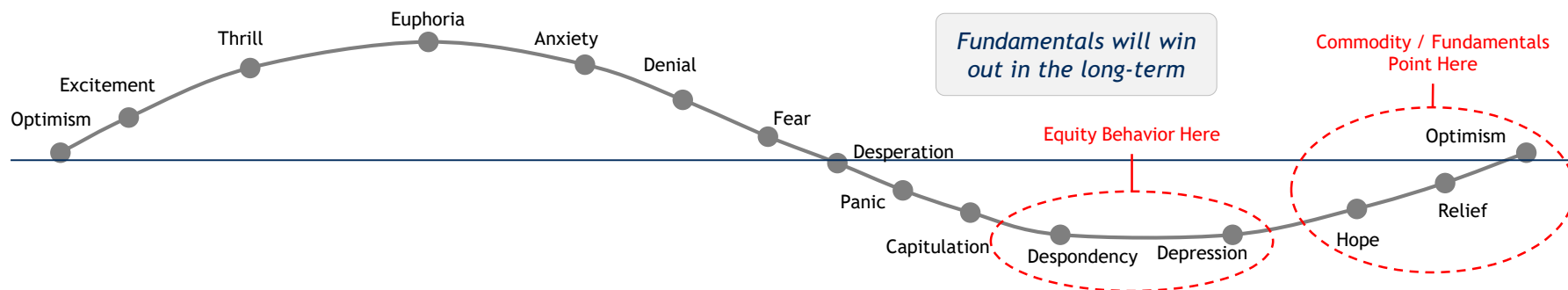
September 2008

- Oil bottoms at \$40/Bbl in December 2008
- Rallies to \$80/Bbl by September 2009 and to \$100/Bbl by March 2011

Source: EIA

# Investor Perspective

## Investor Psychology Overriding Fundamentals

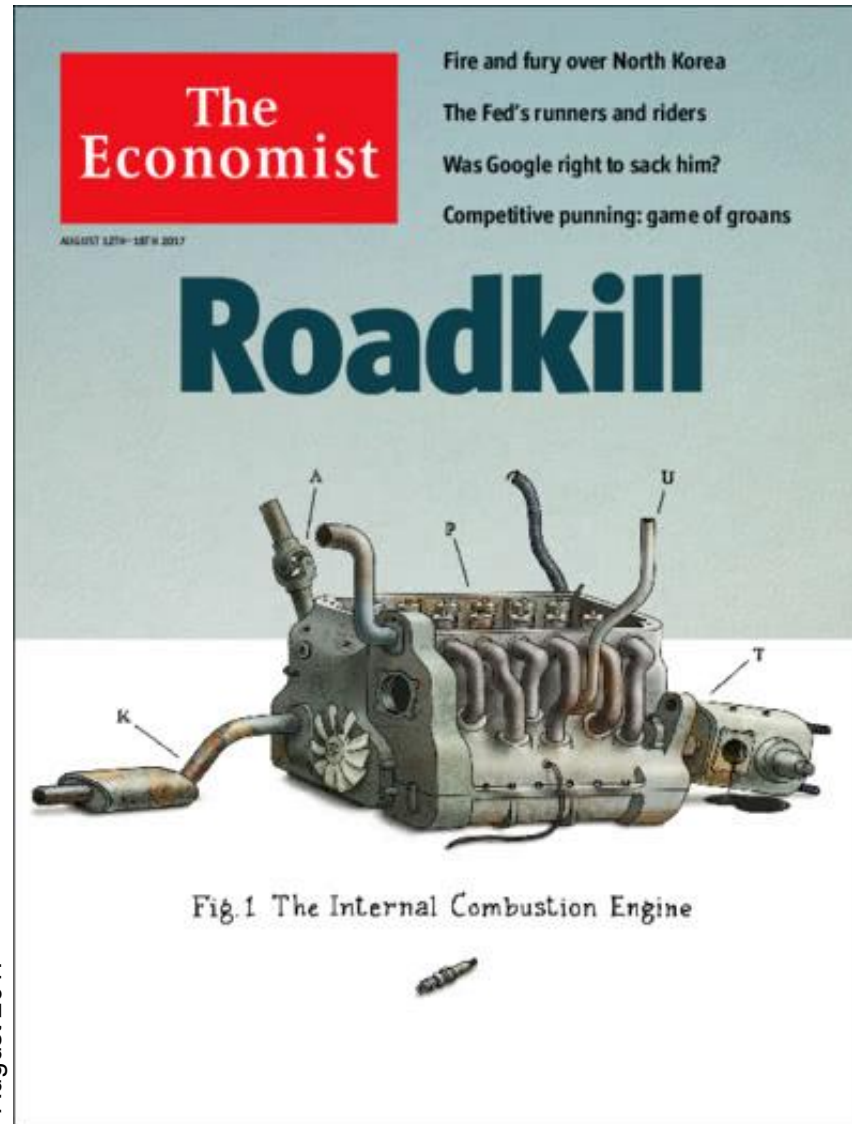


- “This Is A Bad Business”
- Not Competitive With Other Sectors
- US Growth Has Killed The Macro
- Returns Are Not Good Enough
- 4 Of Past 5 Years Are Bad
  - Absolute
  - Relative

## PEP View - Classic Cyclical Trough Ongoing

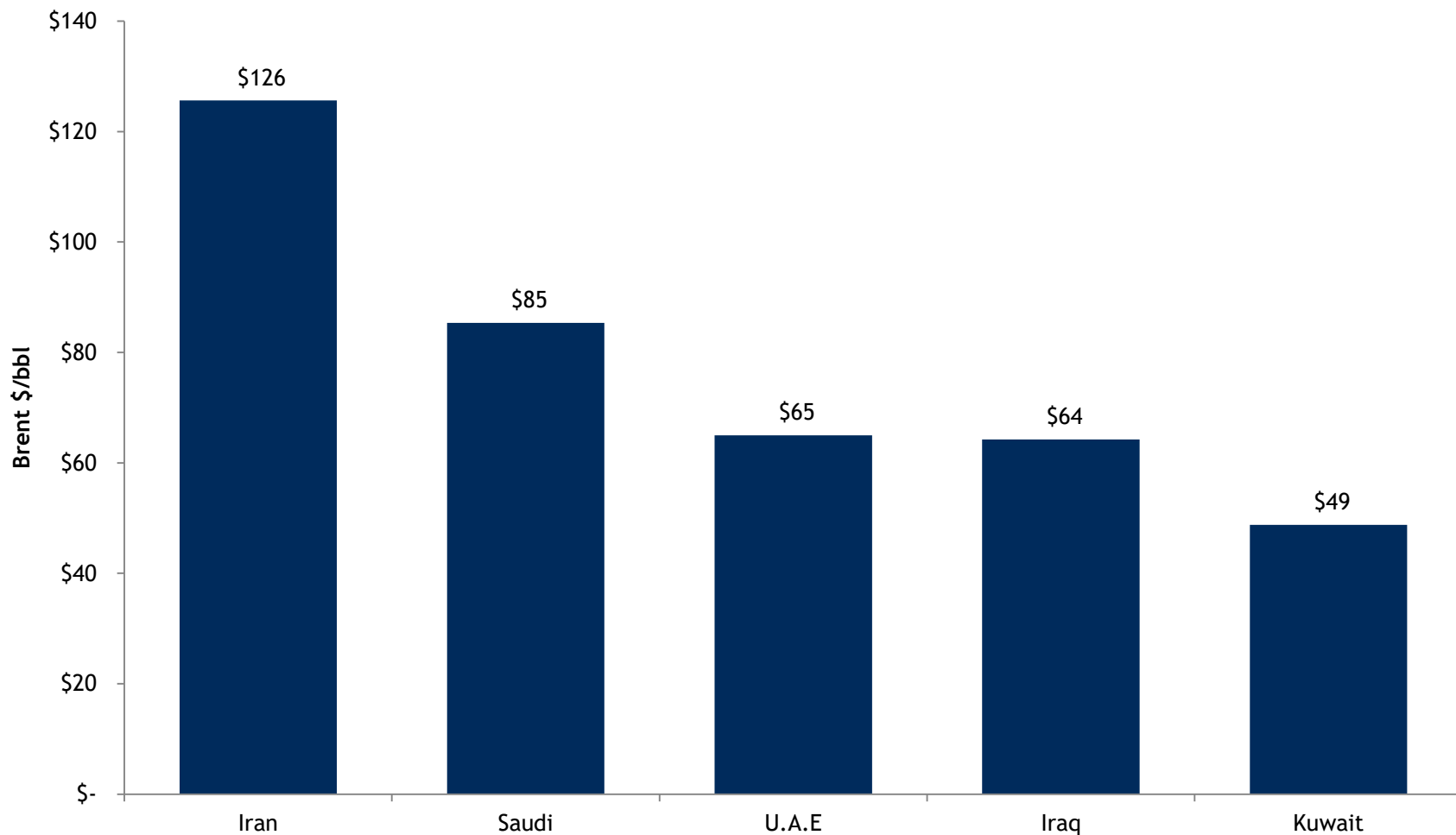
Source: Raymond James Research, Bloomberg. This information is for illustrative purposes only.

# Competitive Threats



# OPEC Isn't Necessarily The Lowest Cost Producer

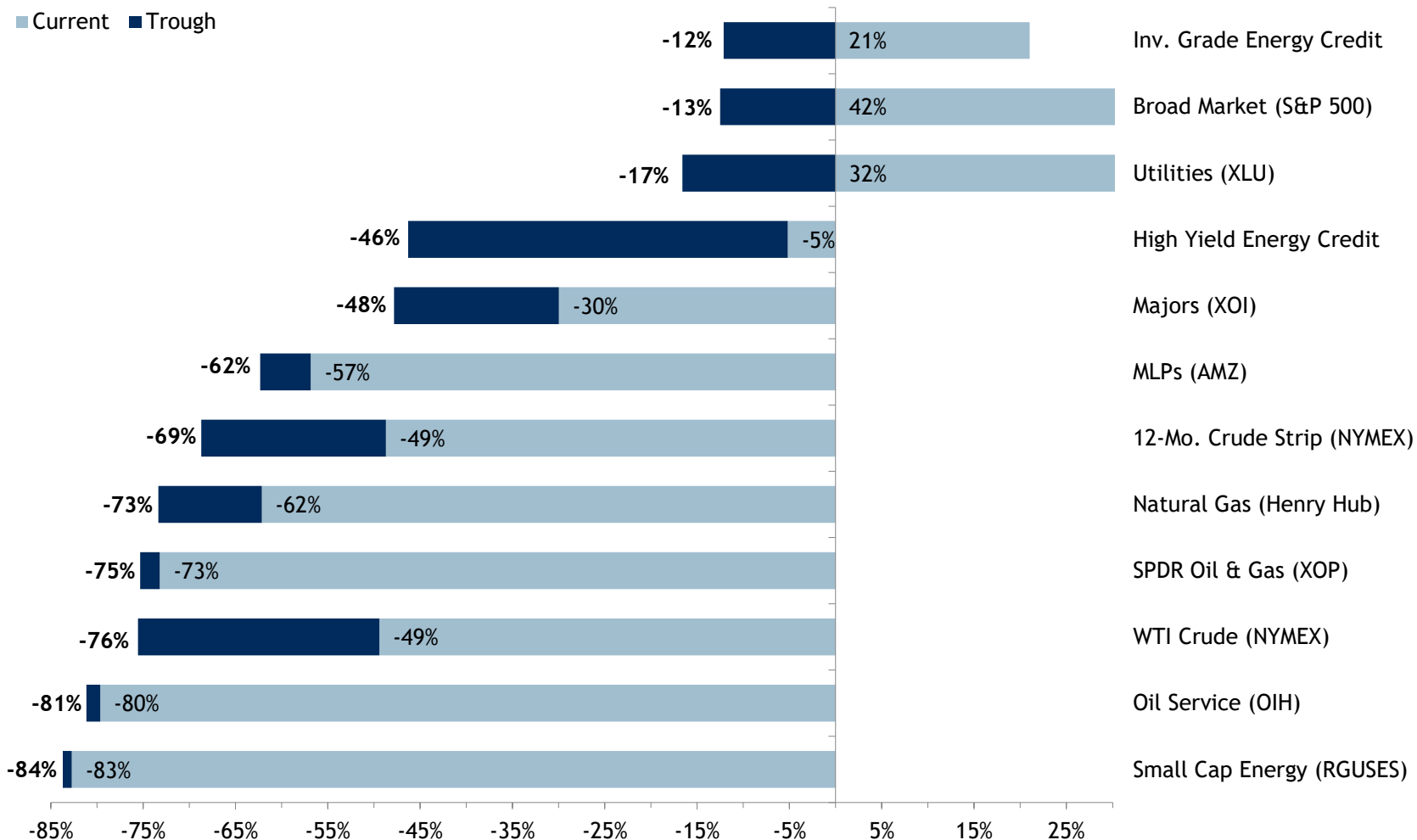
## OPEC Breakeven With Social Cost



This information is for illustrative purposes only  
Source: IMF, Bloomberg

# Energy Stock Performance

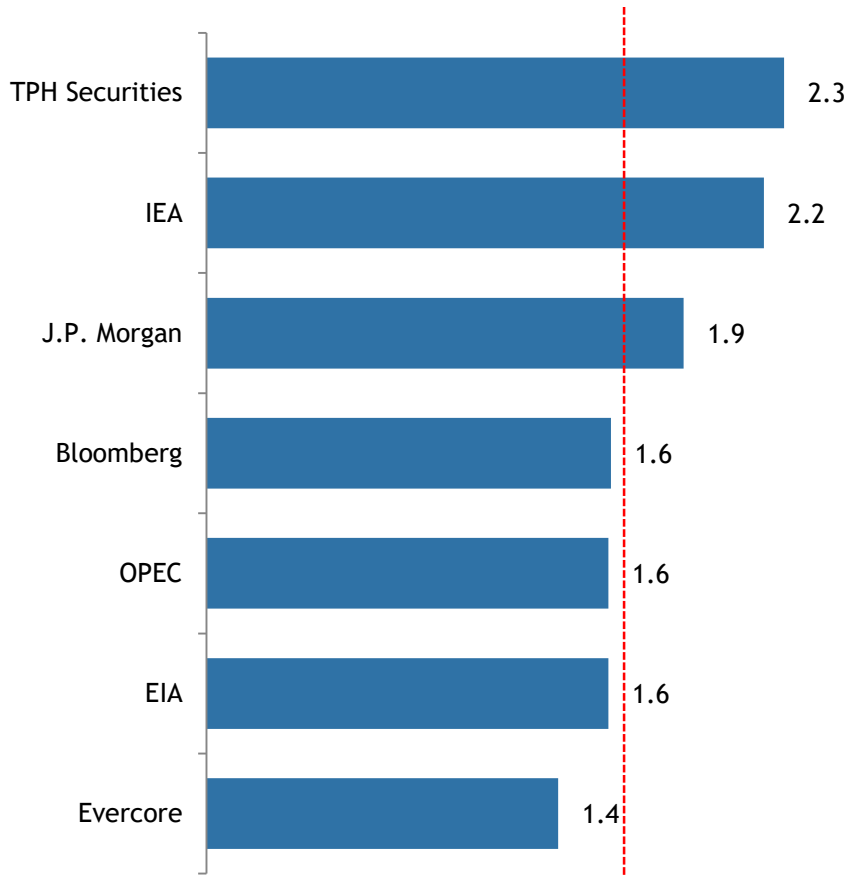
## Market Reaction From 2014 Peaks



Source: Bloomberg as of 9/30/2019

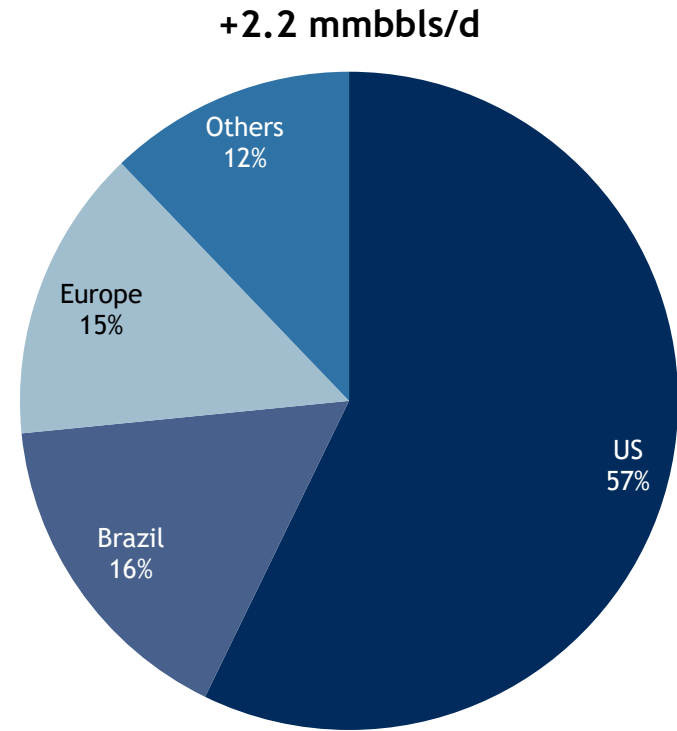
# Storm Clouds Are Brewing (Supply)

2020E Global Oil Supply Growth (mmbbls/d)



+1.7 mmbbls/d on average

2020E Supply Growth per IEA

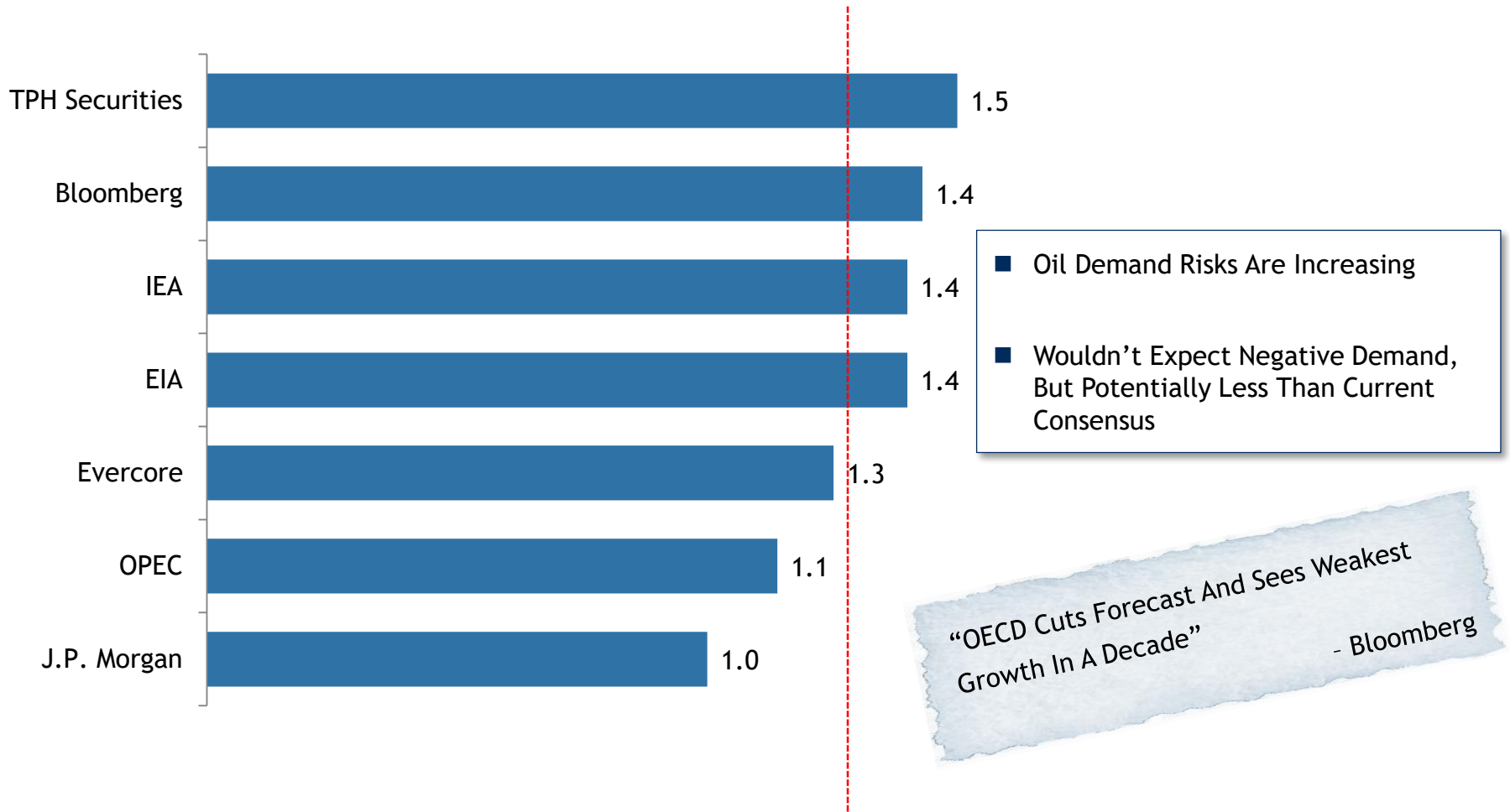


US Remains The Biggest Supply Driver (+1.3 mmbbls/d)

Source: Bloomberg, TPH Securities, IEA, J.P. Morgan, OPEC, EIA, Evercore

# Storm Clouds Are Brewing (Demand)

2020E Global Oil Demand Growth (mmbbls/d)



Source: Bloomberg, TPH Securities, IEA, J.P. Morgan, OPEC, EIA, Evercore

**+1.3mmbbls/d on average**

# 2019 Outlook

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- **\$50/bbl Doesn't Work**
- **Risk Level Higher**
- **OPEC Doing Its Job**
- **US Shale Juggernaut**
- **Industry Better Behaved**
- **Industry Better Prepared**
- **Investors Exhausted**
- **We're a Long Way Away From Irrelevancy**





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- A hedge fund of funds invests in other funds and fees are charged at both the fund and sub-fund level. Thus, the overall fees you will pay will be higher than you would pay by investing directly in the sub-funds. In addition, each sub-fund charges an incentive fee on new profits regardless of whether the overall operations of the fund are profitable.
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