Industry Top Trends Update

Oil and Gas

The use of today's cash flow will impact future resilience

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What's changed?

Oil demand is rebounding. Underpinned by OPEC+ supply restraints, oil prices are enjoying a strong recovery. Even so, global demand may not return to 100 million barrels per day until late 2022.

Gas prices are up too. Annual average TTF prices for 2021 will likely be more than double the 2020 average of $3.2 million British thermal units, having sunk below U.S. Henry Hub prices at times in 2020.

Oil refining margins improved, but remain weak. Aggregate demand below 2019 levels and surplus refining capacity means margins remain pressured by low utilization and high input crude prices.

How is recovery taking shape?

Oil and gas producers are banking strong cash flows. The rebounding oil and gas prices with low costs and restrained capital expenditure (capex) are a dramatic reversal from 2020.

Producers remain prudent with regard to spending, for now. Capex is unlikely to jump in 2021, and will probably end the year comfortably inside companies' caps or guidance ranges.

With net debt down, financial policies will become more important. More cash means choices about how far to cut net debt, and how much to release to shareholders. We revised to stable our negative outlooks on some companies where we have visibility on sustainable debt and leverage profiles.

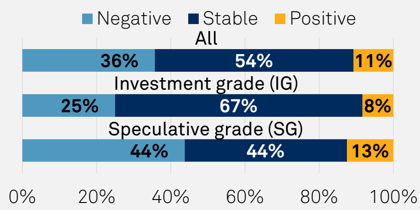
What are the key risks around the baseline?

Loss of market confidence. Oil prices are benefiting from expectations of a continued demand recovery and supply discipline. If COVID-19 become materially impactful or supply returns too rapidly, prices could soften.

Big capex plans for 2022. A more robust price outlook implies more investment options--in both oil and alternatives. Committing to big plans could become a burden if prices fall.

A U.S. shale rebound. Public companies are exhibiting operating and financial discipline, but if WTI oil remains at $70 per barrel investment and production growth could come back too fast for demand.

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	12	18	30
Downgrades	2	3	5
Upgrades	0	5	5

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Oil And Gas	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	No

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
25%-50%	40%-60%	<5%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
10%-20%	10%-20%

Latest Related Research

- S&P Global Ratings Raises Short-Term Oil And Gas Price Assumptions On Improving Market Conditions, June 16, 2021
- Credit Conditions Europe Q3 2021: Late-Cycle Redux, June 29, 2021
- The ESG Winds Of Change Could Become A Tempest For Global Oil And Gas Producers, June 2, 2021