

## Oil and Gas

### Cash flow builds resilience, but challenges abound

This report does not constitute a rating action

#### What's changed?

**Global gas demand and prices are weaker.** Prices fell substantially due to mild winter weather leading to weak demand for gas, and high storage levels in Europe.

**OPEC+ and non-OPEC production.** Decisive OPEC+ cuts avoided further declines in oil prices and restored spare capacity as non-OPEC supply meets still growing demand.

**Companies are adapting strategies.** As government policies and demand dynamics evolve, companies are reprioritizing investments in oil and across low-carbon activities.

#### What to look out for?

**Global and national (geo)politics.** Government actions and policies remain critical and sometimes unpredictable factors for energy demand and supply.

**Cost and capital expenditure inflation look manageable.** Financial discipline and cost control remain the watchwords for public companies, but oilfield service companies have better prospects for passing through wage and other cost increases. While lower commodity prices are beginning to impact North American drilling activity, longer-cycle international and offshore projects continue to move forward.

**Shifts in gas markets.** Europe's structural move away from Russian piped gas is underpinning liquefied natural gas (LNG) demand, even as its overall gas demand declines.

#### What are the key risks around the baseline?

**The Russia/Ukraine conflict.** Supply concerns for both oil and gas have moderated but could easily flare up and lift prices.

**Oil market balances.** Our baseline assumes tighter markets and stock draws in the second half of 2023 with Brent at \$85 per barrel (/bbl) and WTI at \$80/bbl. Recession or deflation risks could sap demand growth, keeping prices soft.

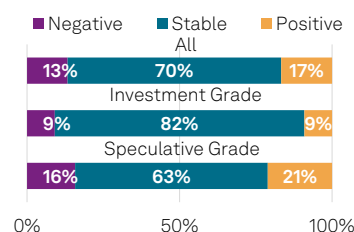
**A loss of financial discipline.** There is a risk that producers might step-up investment significantly, only for prices and operating cash flow to fall further. This could erode the balance sheet strength built up since 2021.

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#### Rating Trends

##### Outlook Distribution

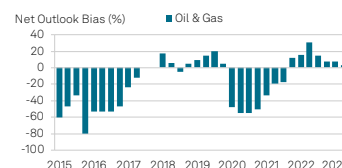


##### Ratings Statistics (YTD)\*

	IG	SG	All
Ratings	11	19	30
Downgrades	0	1	1
Upgrades	0	4	4

Ratings data as of end-Jun 2023. \* Year-to-date. Current ratings only.

##### Ratings Outlook Net Bias



#### Related Research

[Clear LNG Outlook Could Turn Murky Near End Of Decade](#), June 27, 2023

[S&P Global Ratings Lowers Hydrocarbon Price Assumptions On Moderate Demand](#), June 22, 2023

[Credit FAQ: How S&P Global Ratings Formulates, Uses, And Reviews Commodity Price Assumptions](#), April 20, 2023