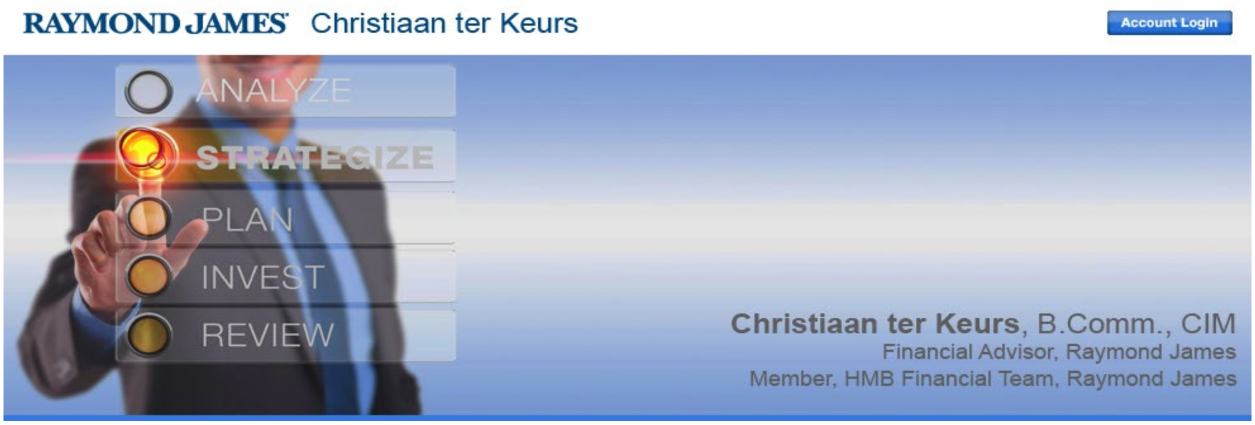
Energy Drives…Everything



The shift in sentiment towards the energy sector has begun as the energy market continues to be divorced from reality. In past cycles, energy sector value managers and energy sector funds would have been actively accumulating positions in good Canadian energy sector companies. However, the energy funds are still facing tax lose selling pressures and the traditional value investor remains on the sideline. This time value investor leadership is coming from a different angle. Unconventional value oriented investors, as seen from the bullet points below have become active investors the energy space.

- Warren Buffett (value investor) bought a stake $10 billion stake in an energy company
- Goldman Sachs is recommending clients go long (energy) on the premise the industry is depressed.
- Sam Zell (value investor) Says He's Buying Distressed Oil Assets During the Slowdown

The disconnect between fundamentals and the price of Canadian energy producers having high environmental, Social and Governance (ESG) standards is too lucrative to ignore. Canadian energy companies are among the leaders as to how to responsibly bridge the insatiable demand for energy and our responsibility to the environment. Canadian energy companies also lead the way in being positioned to be the beneficiary of a move higher in energy prices.

Fundamental drivers

"U.S. Oil Production Growth Heading for a Major Slowdown" according to IHS Markit, a leader in global energy intelligence and data. The energy sector is starting to reflect the impact of banks not lending and weak energy prices. Operating budgets and drilling activities of energy companies started reflecting this during November 2018 when the rig counts started to drop, illustration 1.

Source: Bloomberg

Illustration 1

Despite the 20% drop in oil rig activity this past year the International Energy Agency (IEA) maintains its view that US shale will grow at a rate of 1.6 million bpd for 2019. Furthermore, the IEA is still calling for US shale production to grow a baffling 1.2 million bpd in 2020.

Those days are now clearly in the past. Shale production growth for the first 8 months of 2019 has come in at only 327,000 bpd, well below the projected 1.6 million bpd for 2019. US production growth for 2020 has also been ratcheted down significantly at with industry experts calling for a mere the US subdued growth of 440,000 bpd then declining to no growth at all in 2021.

Commentary about the supply demand fundamentals by Goehring & Rozenwajg recently was especially relevant as I have been tracking global demand and supply data (illustration 2) which has indicated a supply deficit. Goehring & Rozenwajg came up with a similar conclusion, a deficit of 1 million bpd for the remainder of the 2019

International Energy Agency 11-Oct-19

World Oil Supply and Demand

(million barrels per day)

	2015	2016	2017	2018	3Q19	4Q19	2019	1Q20	2Q20	3Q20	4Q20	2020
OECD DEMAND												
Total OECD	46.5	47.0	47.4	47.8	48.5	48.3	48.1	47.7	47.7	48.4	48.4	48.1
Total Non-OECD	48.7	49.4	50.5	51.4	52.9	53.0	52.5	51.4	52.6	52.9	53.0	52.5
Total Demand[1]	**95.3**	**96.4**	**97.9**	**99.2**	**101.3**	**101.4**	**100.3**	100.0	100.8	102.6	102.7	101.6
World Productrion including supply cuts from OPEC + Russia + Alberta					**98.83**	**99.3**						
Total Global Oil Production Deficit in millions of barrels per day					**2.47**	**2.10**						

Illustration 2

The physical energy markets are extremely tight. [Energy Aspect's Amrita Sen]() recently said "crude prices actually should be in the $70-75 range now, based on fundamentals."

Sincerely,

Christiaan ter Keurs