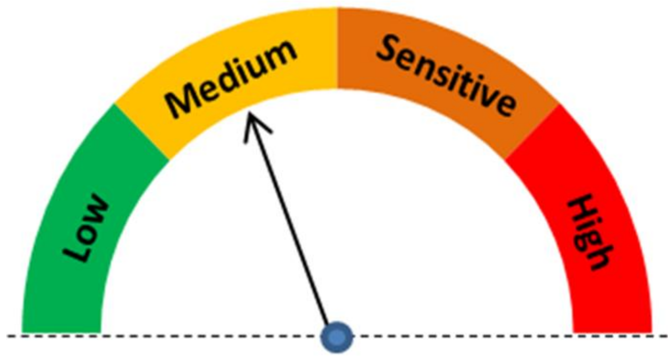
Euler Hermes Economic Research

Global Sector Report

ENERGY

Sector Risk Rating



What to Watch?

- OPEC's real ability to enforce oil output cuts agreement in the first half of 2017
- Recent rise in the oil price mitigating the US energy sector's debt burden
- Domestic demand for fuel products depending heavily on China's ongoing rebalancing
- Durable recovery of the oil companies' spending on new equipment goods yet to be confirmed

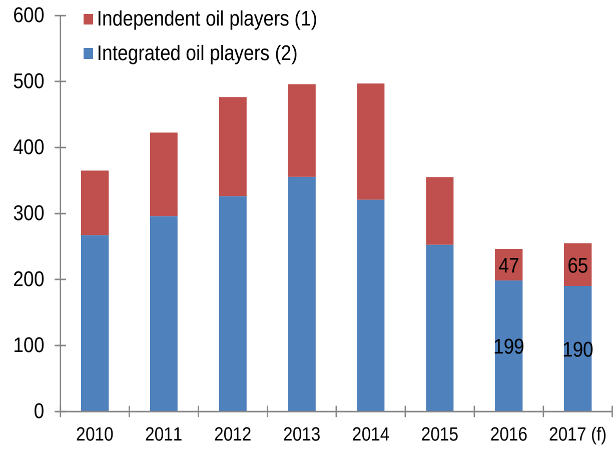
The good oil times: Energy prices are up - will Exploration and Production follow?

We expect the Brent price to level off at USD54/bbl. in 2017. This would be a 20% rise compared to the 2016 yearly average. Measures meant to combat climate change put more pressure on oil demand worldwide. However, our forecast hinges more on OPEC agreements being observed by all parties. These includes Iran, Libya and, above all, Russia. Last November, OPEC signed an unexpected deal to cut oil production by 1.2 MMb/d. One month later, it struck an agreement with several non-OPEC countries, including Russia, for a further cut of 0.6 MMb/d. Combined, these amount to cutting about 2% of global oil output, starting January 2017. On the face of it, OPEC is very much alive and kicking.

But once unleashed, market forces cannot be easily restrained. U.S. shale – oil and gas - producers lead the independence movement. Having made impressive productivity gains, these companies can quickly ramp up activity.

CAPEX investments came under intense pressure in 2015 and 2016 due to stricter balance sheet discipline and cash flow concerns. Thus a real recovery of oil and gas investments might take some time. In 2017, we expect exploration and production (E&P) spending to rise by a mere +4%, remaining 50% below its level in 2014.

Total CAPEX in the oil industry (USD billion)



(1) Panel of 18 major companies (BP, Total, Shell…)
(2) Panel of 60 companies (Anadarko, Marathon, Apache…)

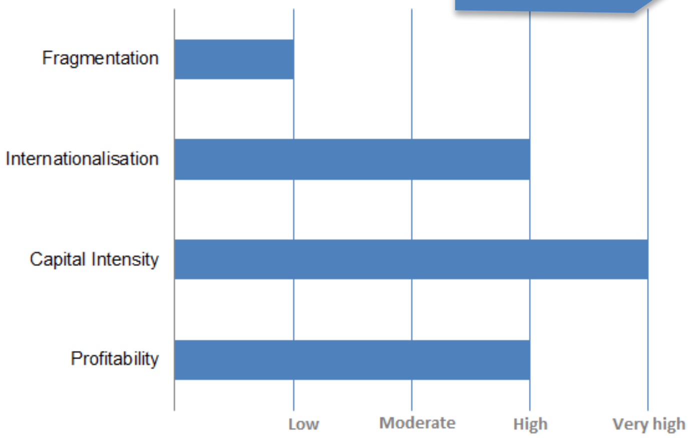
Sources: Bloomberg, Euler Hermes forecasts

Sector Value:
7,100bn
USD

Key Players

Country	Role	Sector Risk
Saudi Arabia	#1 producer	
Russia	#2 producer	
United States	#3 producer	

ID Card



Strengths

- Global population on the rise: power prices pushed up in the long run
- Refined fuel (products) are still a must-have for various means of transportation - boats, planes, and cars

Weaknesses

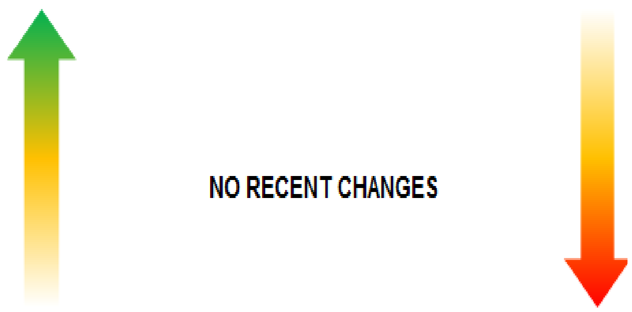
- Fossil fuels growth hit by the slowdown in Asia, especially China
- Rising awareness of coal's impact and nuclear potential fallout
- Too low energy prices contributing to a gloomy outlook for renewables

Subsectors Insight

Coal: Still the dirtiest fossil fuel, coal remains essential for producing electricity in many countries like Japan, China or India despite major pollution fallout. Germany and the US are exceptions

Renewables: Although largely subsidized for producing electricity, especially across Europe, power companies still struggle to avoid losses. Low fossil fuel prices barely provide financial breathing room

Recent Sector Risk Changes



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