Industry Top Trends Update

Oil and Gas

As good as it gets for producers and refiners?

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What's changed?

Hydrocarbon prices. Oil prices have risen further due to the global supply shock linked to the Russia-Ukraine conflict, compounding an already tight market. Market concerns persist about Russian oil exports since additional supply will likely remain limited. Record natural gas prices in Europe are pulling up prices in the U.S., as demand for liquefied natural gas leaps on shortages in Europe.

Ensuring supply is paramount. At least for the near term. Potential natural gas shortages in Europe and possibly higher oil prices have shifted priorities to securing supply--while weaning the EU off of Russian hydrocarbons--from addressing climate change.

Refining margins. Gasoline, distillate, and jet fuel margins are historically high, for now. Insufficient global capacity and strong demand for refined products, plus an EU ban on most Russian oil imports, have aggravated the shortages.

What to look out for?

Hydrocarbon prices may keep climbing. Natural gas prices could soar as Europe tries to trim its exposure to Russian gas by two-thirds and replenish inventory levels to 80% of capacity by Nov.1--ready for the heating season. Even if this works, Russia could cut remaining supply to Europe, thereby sparking another spike in global natural gas prices. Given the low global inventory, additional reductions in Russian exports could push up oil prices.

Fiscal policy and investment. We don't see meaningful step-ups in producers' spending despite high hydrocarbon prices, inflation, and supply chain issues. Markets are still dictating public producers should pay down debt and reward shareholders, and companies have made emissions pledges.

Policy headwinds, demand pullback. To tackle high gasoline, diesel, and energy prices, the U.S. and the EU, among other authorities, are enacting or considering policies that impact oil and gas groups, including crude export bans or windfall profits taxes. Higher retail prices seem to be tempering demand.

What if there's a recession?

Lower hydrocarbon prices. The questions are about the severity and the duration of a recession. Balances in the oil and natural gas markets would improve with softer demand, allowing prices to decline. However, in a mild recession, oil and natural gas prices are unlikely to decline and stay below midcycle prices given the supply constraints

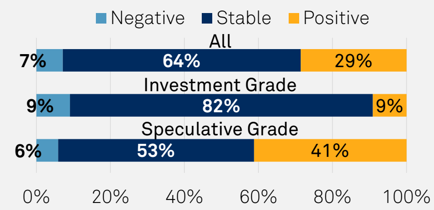
Rating actions. Downgrades for investment-grade issuers in the upstream industry probably would not rival prior cyclical troughs given debt reduction seen since 2020.

Refiners likely to pull through. Refining companies have significantly improved their credit profiles, using rising free cash flow to repay debt raised during the pandemic and retain more excess cash after rewarding shareholders. Credit ratios should reach pre-COVID-19 levels, softening economic headwinds.

Latest Related Research

- The Dash For Gas Fuels Risks For European Utilities, Slows Energy Transition, June 29, 2022
- S&P Global Ratings Raises Oil And Natural Gas Price Assumptions On Further Market Price Step-Ups, June 8, 2022

Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	11	18	29
Downgrades	0	1	1
Upgrades	3	0	3

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias