

What to look out for in the energy sector in 2019 - Energy Institute Singapore branch event



It was standing-room only for the audience including members of the [Energy Institute Asia Pacific](#) and the [Society of Petroleum Engineers International](#) who came to hear energy experts representing a cross-section of the sector share their global outlook for the year ahead with a special focus on matters related to Singapore and Southeast Asia.

The panel discussion in January 2019 was facilitated by [Tim Rockell](#) of KPMG and Vice-Chairman of the Energy Institute Singapore. Panellists included [Mark Keenan](#), [Vandana Hari](#), [Kerry Anne Shanks](#), [Andrew Duncan](#), and [Katarina Uherova Hasbani](#), who shared their views on fundamentals and non-fundamentals of the commodity markets, US interest rates, disruption and innovation, upstream in ASEAN, gas markets in China, mobility, IMO 2020 and air quality, held at the [KPMG Singapore](#) Ignition Centre and Clubhouse.

The discussion reflected on macro, geopolitical and regulatory issues to more operationally-focused dialogue on investment dynamics, value-enhancement, operational issues, and other opportunities that may develop over the year ahead. The principal aim of the session was to focus on the short-term outlook for the year.

The oil markets, after five years of being fixated on over-supply, have flipped to worrying about demand in 2019. The last time global oil demand growth was the biggest concern in market balance was nearly 10 years ago, during the global financial crisis, according to **Vandana Hari** CEO & Founder of Vanda Insights. Oil demand is notoriously harder to project than supply. What

makes it tougher this time around is that the variance between the different possible outcomes of the various factors threatening global economic growth is huge. Growth worries and risk aversion in the broader financial markets has been the primary driver of oil market sentiment since Q4 2018. That will likely remain the case, at least till the US-China trade dispute is resolved. OPEC/non-OPEC compliance with the latest round of production cuts is expected to be strong, but given the number and range of uncertainties, they will need to fine-tune their strategy more frequently. Brent is likely to be range-bound around \$60-70/barrel.

Mark Keenan, Managing Director, Global Commodities Strategist & Head of Research Asia-Pacific at Société Générale noted that oil markets remained very vulnerable to macroeconomic risks, with over 25% of variance in the crude oil markets not driven by fundamentals. One of the key ways of tracking the evolution of negative systemic risk is via newsflow analytics, including policy uncertainty indices, which remain elevated, especially in China. One of the most effective ways of incorporating changes in these risks into a hedging or trading framework in the oil market is by tracking the evolution of spikes in indices like the VIX and VVIX. Intuitively, as these indicators rise, oil prices typically weaken, but it is the persistence of this effect, as negative sentiment propagates through risk assets, that makes the relationship tradeable due to the lag. He is working with clients to include these signals into their trading mandates. Positioning remains a key driver of oil prices, with speculative flows driving a large proportion of the weakness in oil prices into year-end (2018). He is cautiously bullish on prices for the rest of 2019 but expects them to remain vulnerable to downside macro risk – particularly in Q1.

While the LNG spot market is looking softer in 2019 due to supply growth, the LNG contracting market has improved. Several major buyers have started procurement again, said **Kerry Anne Shanks**, Senior Consultant at Poten & Partners. It would be worth looking out for increased pipeline gas supplies from Russia. The Power of Siberia pipeline is due to start flowing in December, supplying gas to China. In Europe, the transit deal for Russian gas deliveries through Ukraine is due to expire at the end of the year.

IMO 2020, which mandates a 0.5% maximum sulfur level in bunker fuel globally from 1 January 2020, could bring about upheavals in the shipping and refining sectors. It presents a peculiar problem for Singapore's power market, because the pricing of the island nation's pipeline gas imports from Malaysia and Indonesia is linked to high sulfur fuel oil, whose production and use is expected to shrink rapidly from next year, Kerry Anne pointed out.

Singapore is a FinTech hub. It's also one of the world's major energy cities without any fossil fuel resources. An incredible opportunity for start-ups in the country lies in helping the oil & gas industry understand the past and predict future market developments, said **Katarina Uherova Hasbani**, Founder of EnRupt. Solutions that address human-to-machine, machine-to-machine and machine-to-human interactions in the value chain will have a fantastic deployment opportunity. We need to look at the "what else" scenario and come up with new ways to leverage the incredible amount of data the energy industry is producing.

Not forgetting Southeast Asia's E&P industry, we are seeing a slow but steady increase in activity levels, said **Andrew Duncan**, Facilities and Costs Engineer at Gaffney Cline. Andrew is observing more M&As in the sector, exploration blocks being awarded in the region, and project FIDs. There is a growing diversity in upstream project financing: banks are back in the game and private equity firms as well as service companies are lining up behind them. Due-diligence requirements are getting more stringent. Local and regional companies are playing a bigger role

in the upstream sector. In 2019, look out for increased attention to tail-end field management, cost-control, enhanced recovery in oil and gas fields, and decommissioning and abandonment liabilities. Further ahead, Andrew sees the Southeast Asian upstream sector becoming increasingly gas- and LNG-focused.

Panellists included:

Mark Keenan, Managing Director, Global Commodities Strategist and Head of Research Asia Pacific at Société Générale in Singapore.

Vandana Hari, Founder & CEO of Vanda Insights, a Singapore-based provider of global oil markets macro-analysis.

Katarina Uherova Hasbani, Founder of EnRupt, open innovation platform for energy sector.

Kerry Anne Shanks, Senior LNG Consultant, Poten and Partners, a recognised expert on the dynamics of gas and LNG markets and the evolution of global gas trading.

Andrew Duncan, Facilities and Costs Engineer, Gaffney Cline, a Chartered Engineer (IMech E.) with a background in Facilities Engineering,

Tim Rockell, Director, Energy & Natural Resources, KPMG; leading the KPMG Global Energy Institute Asia Pacific, based in Singapore, panel moderator and author of this article.