

1 March 2018

FOCUS RISPARMIO

OIL AT A HIGH, FURTHER RISES UNLIKELY. EQUITY: FOCUS ON OIL SERVICES

By Eugenio Montesano

Brent heading for \$70/barrel, with stocks in decline and expectations of OPEC's exit strategy. In the rush for crude, for managers and analysts the time to lift the foot from the gas pedal is drawing near. The 6/12 month outlook

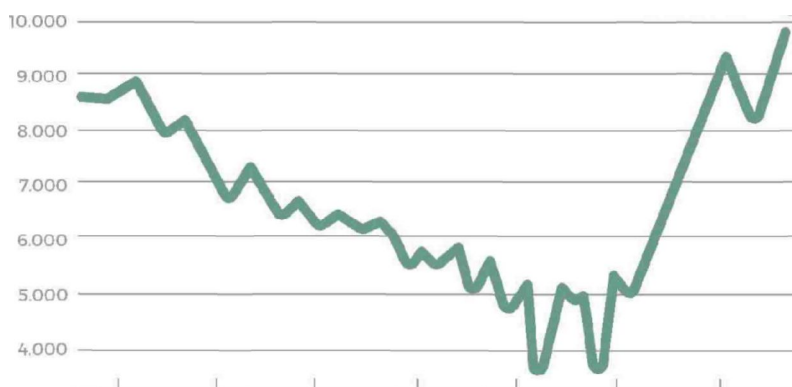


Luca Riboldi
Banor SIM



Hannes Loacker
Raiffeisen Capital
Management

CHART: US oil production at a high



Source: Bloomberg

2018 opened with the headlong rush for oil continuing. The rising price of Brent – from about \$50 in August to nearly \$70 at present – seems justified, in a global market with falling supplies that are feeling the impact of higher than anticipated demand, supply constrained by the restrictive policies introduced a year ago by OPEC and Russia, and the dollar in retreat.

Trends which, at least until now, have had positive repercussions on the performance of oil companies' share prices. But whose bullish impetus may be coming to an end, at least in the opinion of certain experts who are advising caution. "The demand for oil has increased by about 1.4-1.5 million barrels a day, thanks to the strong growth of the global economy", observes Luca Riboldi, investment officer at Banor SIM. "If these figures are confirmed, next year OPEC will increase production to cope with the growth in demand", which Riboldi estimates at 1.2-1.3 million barrels/day.

His views are echoed by Hannes Loacker, an analyst at Raiffeisen Capital Management specialising in the oil, gas and alternative energy sector. "We expect a fall in the price of crude in the first half of 2018", he comments. A fall that's a result of the probable exit strategy from the production cuts that OPEC will adopt to respond to the high-powered shale gas producers in America, where production has reached an all-time high.

So the months leading up to the next OPEC meeting in June will be decisive. "Even if the OPEC states have agreed on measures to avoid an increase in reserve levels, we expect those levels to rise, at least in the first quarter of 2018", is Loacker's analysis. "Therefore we expect the price of Brent to fall to around \$60 in the first half of the year and a bounce around that level in the second half. As a consequence, our position on shares in the oil and gas sectors remains cautious".

Riboldi agrees: "We're no longer seeing excess stocks like we did until 6/12 months ago. Since OPEC cut production, the levels of global reserves have come back into line with the historic average". That's why, as the Banor SIM CIO explains, "we don't think oil still has a great deal of margin for a rise with respect to current prices, which are around \$70 for Brent and \$65 for WTI".

Where should we be investing, then? Over a 12-month time horizon both Loacker and Riboldi explain that they prefer companies specialising in exploration and production, and oil services companies. As Raiffeisen's analyst explains, these "should benefit from growing activity in US shale".

And Riboldi adds: "After years of major crises the oil services sector is looking interesting indeed. Companies worthy of note include Schlumberger, and we're also looking closely at Saipem. The latter is riskier but, if oil stays above \$60 for the duration, could have a significant upside".

Valid considerations, with or without an intensification of geopolitical risks. And should that occur, explains Loacker, "the additional risk premium of \$3-5/barrel, which currently reflects a range of geopolitical conflicts, including Saudi Arabia-Iran Iraq-Kurdistan and Venezuela, will partly re-appreciate".