Oil & Gas Weekly

30 July, 2017 **Email "oilandgasweekly@gmail.com" for Subscription Details** **Vol 28 /17**

WTI ended the week up US$3.94 at US$49.71 a barrel; Brent closed at US$52.52 up US$4.50.

Start of Mth	Oil WTI*	Gas (US)**
July 14	105.74	4.41
Dec	66.15	4.09
Jan 15	52.69	3.00
Feb	47.66	2.69
March	49.76	2.73
April	48.14	2.71
May	59.15	2.76
June	60.32	2.64
July	55.52	2.77
Aug	47.12	2.72
Sept	44.79	2.65
Oct	45.54	2.45
Nov	46.61	2.32
Dec	41.71	2.21
Jan 16	37.56	2.29
19 Jan	26.19	2.05
Feb	33.62	2.30
March	32.78	1.79
April	36.79	1.96
May	45.92	2.18
June	49.33	2.17
July	45.41	2.82
Aug	41.80	2.77
Sept	43.03	2.95
Oct	48.24	2.91
Nov	48.70	2.79
Dec	51.68	3.46
Jan 17	53.90	3.76
Feb	53.14	3.39
Mar	53.33	2.83
April	52.24	3.26
May	49.33	3.28
June	47.66	3.00
July	46.04	3.04
Aug	49.71.	2.94

***US$, **MMBtu in US$. US gas flat at US$2.94 an MMBtu.**

Oil Prices

On Monday last week, OPEC and non-OPEC countries met in St Petersburg to review and re-commit to their agreement to reduce oil output in support of prices. Saudi Arabia and Russia called for greater compliance to the arrangement after reports indicated some members of both groups had increased their production above agreed limits in the June quarter.

The meeting saw no new deals and the market was unimpressed with the outcome remaining more concerned with the untrammelled increases in Libyan and Nigerian production in 2017 and the continuing rise of US shale oil output.

It wasn't until the US EIA data appeared mid-week that oil prices started to move substantially higher. That data showed another large draw in US commercial crude inventories and a smaller decline in total motor gasoline and diesel stocks. US crude inventories have now fallen in each of the past four weeks.

The data also showed US production fell by 19,000 barrels a day though that was entirely due to a likely one off 54,000 barrel a day drop in Alaskan output, Lower 48 production actually increased by 35,000 barrels a day.

At the end of the week the Baker Hughes rig data showed another eight rigs were added to the national fleet, two drilling for oil six for gas. The Permian Basin rig fleet increased by five oil rigs indicating there is no lessening of interest in this premier Texas oil play, the main contributor to the US shale oil revival.

The US inventory drawdowns, a weaker US dollar and Saudi Arabia's commitment to reduce its own exports and hold other OPEC members to account, saw oil prices enjoy the strongest seven day rise since December with WTI up 8.6% and Brent 9%.

Whether oil prices can build on these gains is anybody's guess. The insurgencies raging in Nigeria and Libya could impact their production at any time. Some observers see US production plateauing claiming increased production has failed to reduce company debt levels. OPEC's Secretary General is confident demand is strong enough to support a market rebalancing by early 2018.

On the other hand the oil majors Shell, Eni, Statoil and ExxonMobil have all announced stronger profits in the second quarter indicating they are adapting to lower oil prices. Shell's CEO Ben van Beurden even suggested last week that oil prices will likely remain "lower forever".

Beurden is one producer who acknowledges the threat to demand from the coming wave of EV adoption. Last week the UK joined the growing number of European nations to foreshadow a ban on the sale of new cars with internal combustion engines by 2040.

And also last week Tesla began delivering its first Mark3 EV to customers.

	The US Economy
A divergence of opinion between currency traders and stock market investors as to the strength of the US recovery is a cause for concern.	A curious thing is happening in the United States. The US dollar has fallen some 9% since January not something you would expect given the US Federal Reserve has increased rates once this year and signalled an intention or raise rates again before December. It has also signalled it will begin decreasing its balance sheet. In other words reversing "quantitative easing". The Fed raising interest rates would normally be good for the US dollar, a signal that the bank believes the US economic recovery is well underway. In its latest policy statements however the Fed has been cautious rather than confident about future economic growth. That has led some analysts to question the strength of the US economic recovery and the speed at which the Federal Reserve will normalise interest rates and improve its balance sheet. But no such hesitation hobbles investors. In the first six months of 2017 the US stock markets have surged to record highs on the back of the so called Trump trade, the promise of lower company taxes, fewer regulations and a massive fiscal stimulus. And of course cheap money. The vastly different performance of the US stock market and the US dollar suggests a divergence in confidence about the US economy between the currency traders and stock market investors. Who is right? If the currency traders are correct are we in for a US market meltdown? The US economy grew 2.6% in the second quarter after a tepid 1.2% in the first quarter. Employment appears to be at record levels. But not everybody believes the numbers. For example one commentator noted that if the same inflation number used in the first quarter calculations had been used in the second quarter assessment the growth rate would have only been 1.6%. Inflation in the second quarter was assessed at 1% compared to 2% in the three months to March The employment numbers are said to hide a huge growth in part time jobs and the high work force non-participation rate.
Gold, the traditional safe haven, has surged more than US$65 off its early July lows.	As the dollar has fallen gold has bounced strongly off its 10 July lows of US$1,205 to finish last week at US$1,270. Gold is a safe haven investment and its movement is generally a barometer of the health of the global economy. Should it soar over US$1,300 in coming weeks we will have reason to worry about the state of that economy. Last week US markets were decidedly wobbly resulting in big falls in the Australian market on Friday. European and Japanese stocks all ended weaker with the Euro and Yen marching higher. It could be a sign that the US market is topping out.
Political issues as well as economic issues are part of the debate as the shambles that is the White House seems to worsen.	Political issues as well as economic issues are part of the debate, a result of the Trump White House being in such obvious disarray. The Republican failure to repeal Obamacare last week has raised doubts about the future of Trump's other policies, indeed the future of Trump himself. The underlying issue and the reason why so many "experts" are flying blind is the fact that, as Deutsche Bank credit strategist Jim Reid stated: "Never before have so many of the most important countries in the world printed so much money and left base rates so low for so long". And we have to add: "In so doing created the biggest mountain of debt in recorded history". Is it all about to come tumbling down?

	Winners and Losers
Stronger Aussie dollar limits gains from oil price increase.	Of the 122 oil and gas companies we now cover, ten of the 25 stocks that traded in any substantial volume and value last week ended Friday higher than where they began Monday. That was two more winners than reported the previous week. Five stocks finished flat, unchanged from a week ago and thirteen stocks fell, three more losers than reported last week.
	Blue Chips
Blue chips and Cooper Basin mid cap producers mixed.	The bellwether blue chips were mixed. **Woodside** fell from $29.46 to $28.84. **Santos** moved up from $3.26 to $3.37 after announcing an increase in sales revenue in the June quarter and a $600 million reduction in net debt to $2.9 billion over the first six months of 2017. **Origin Energy** dropped from $7.15 to $6.86 while **Oil Search** was also marginally weaker down from $6.64 to $6.59.
	Cooper Basin Producers
	Beach Energy rose from $0.65 to $0.67. **Senex Energy** was a shade stronger up from $0.28 to $0.285 and **Cooper Energy** fell from $0.355 to $0.34.
	Winners
Sundance Energy higher.	**Sundance Energy** was higher up from 5.9 cents to 6.6 cents on good volume. The company is due to release its June quarter activity and cash flow statements today Monday, 31 July. It will be interesting to see whether the company is still losing cash from its operations in the Eagle Ford shale.
Strike Energy recovers.	**Strike Energy** was also higher up from 5.7 to 7.5 cents. **Strike** had traded as high as 8.1 cents in trading on Thursday on reasonable volume. The company announced the appointment of Justin Ferravant to the role of Chief Financial Officer and Company Secretary after the current CFO, Matthew Montano elected not to relocate with the company to Adelaide.
Horizon lifts revenue and production in the June quarter. Debt level remains an issue with investors.	**Horizon Oil** was up from 4.6 cents to 5.1 cents on light volume. **Horizon** had traded as high as 5.6 cents on Wednesday on better than average volume. The company released its Quarterly Report for June on Monday. It increased both production and revenue in the June quarter to take its cash balance to US$24.5million. **Horizon** is paying down debt but the amount still outstanding some US$108.5 million remains a concern for investors in a low oil price environment.
Unexplained interest lifts Austex Oil.	**Austex Oil** was up from $0.007 to $0.010 on unusual volume for this Oklahoma focused junior eking out production from the Mississippi Lime formation. There was nothing in the public domain to explain the sudden investor interest last week.
	Losers
FAR Limited weaker ahead of the drilling of the SNE North #1 well targeting the 294 mmbbls Sirius Prospect.	**FAR Limited** fell from 8.0 cents to 7.5 cents. The Senegal JV is about to spud the SNE North #1 well at a location 15 km north of the #1 discovery well and will be the most northerly location yet tested on trend with the highly successful SNE field. The target is the Sirius Prospect which has been independently assessed by RISC Operations Pty Ltd to contain 294 million barrels of oil on a prospective, recoverable best estimate gross basis with a 60% chance of geological success.
Real Energy in retreat.	**Real Energy** fell from 8.6 cents to 7.8 cents on light volume. On 24 July Credit Suisse announced it was no longer a substantial holder.

Update on Potential Company Making Wells

The following wells could be game changing for the companies involved.

Melbana Energy will need a farmin partner to drill Beehive #1.	**Beehive #1** **MAY 100%**	In WA 688P in the offshore Bonaparte Basin. Defined by 2D seismic and is made up of two main objectives with combined mean Prospective Resource of 1.5 billion barrels. **MAY** unchanged at 1.3c.
Melbana suggests Pukatea potentially transformational. To spud Oct/Nov 2017.	**Pukatea #1** **MAY 30%**	In PEP 1153 onshore New Zealand. Best estimate prosp. Resource of 12.4 mmboe. TAG Oil Ltd operator. A conventional target. According to MAY "success at Pukatea transformational". **MAY** as above.
These wells have the potential to do for Melbana what Icewine project once did for 88 Energy.	**Alameda/ Zapato** **MAY 100%**	Melbana on track to drill two wells on its 100% owned Block 9 PSC in Cuba in early 2018. The wells are targeting 130 and 71 million barrels respectively. **MAY** as above.
3 D Oil's Flanagan prospect in offshore Otway Basin drill ready.	**Flanagan** **TDO 100%**	Drill ready Flanagan prospect In T/49P in the offshore Otway Basin. Seismic suggest best estimate prospective resource of 1.38 Tcf of gas. **Beach** exits its 30%. Well in 2017/18. **TDO** last traded at 3.9c. Negligible volume.
Ironbark a major target in Carnarvon Basin. BP's option extended to October.	**Ironbark** **BP 80%** **CUE 20%**	Mungaroo Formation objective with multiple targets in WA 359 P and WA 409 P. Best internal estimate of more than 15 Tcf of unrisked prospective gas resource. BP has option to farm in for 80%. **CUE** down from 5.8c to 5.2c.
Dempsey and Alvares prospects in California. Drilling permit granted 6 July.	**Dempsey** **SGC 50% wi** **XST 10% wi** **PCL 10%**	Multi Tcf of gas in Dempsey and Alvares prospects in the Sacramento Basin, Calif. Conventional targets. Pancon acquires Bombora to get its 10%. **SGC** down 9.5c to 9.1c; **XST** unchanged at $0.007. **PCL** unchanged at $0.002
First of four wells resumes operations.	**Uruguay** **PRL 51%**	Partner **Schuenbach** drilling four wells on Piedra Sola and Salto concession in Uruguay. Targets mainly conventional. Drilling resumes after suspension due to operational issues. **PRL** down from 2.6 c to 2.5c.
Xanadu to spud in 2H 2017. Well now fully funded.	**Xanadu** **NWE 25%** **WBE 15%** **TEG 30%**	Norwest now free carried. The well will be directionally drilled from onshore targeting the 160 million barrel Xanadu prospect. **NWE** up from $0.003 to $0.004; **TEG** up from 5.5 to 6.0c. **WBE** unchanged at $0.007.
Dorado may deliver the recognition that has so far escaped Carnarvon.	**Dorado** **CVN 20%** **Q'drant 80%**	A large target some 15 km from the Roc discoveries and many times larger. Hydrocarbons expected from the same high generating rocks that charge Roc. Drilling in late 2017. **CVN** dropped from 7.5c to 7.3c.

Additional Wells - Progress Reports and Results

Senex, Origin and Planet Gas drilling exploration well Silver Star #1 to test for basin centred gas in PL 638.

Senex Energy (53.75%), **Origin Energy** (33.75%) and **Planet Gas** (12.5%) are drilling the Silver Star #1 exploration well in PEL 638 in the Cooper Basin targeting basin centred gas in the Permian sandstones.

On 19 June the operator reported that while running production casing, unstable coals in the horizontal section collapsed and damaged the casing.

	The well will be suspended while replacement casing is procured and a forward plan reviewed. No updates while forward plan being finalised.
88 Energy production testing Icewine #2.	**88 Energy's** Icewine #2 well onshore the North Slope of Alaska has been drilled to total depth. The operator has perforated and fracked two zones in the well and has commenced flow back operations. The lower zone was comingled with the higher zone when the upper zone was determined to be in communication with the lower zone. On 10 July the company reported that 16.0% of the simulation fluid had been recovered. The well has now been shut in for six weeks to allow a pressure build up. There are three weeks to go!
AWE testing southern extension of the Waitsia gas field with two wells. Second well Waitsia #4 spuds.	**AWE** spudded the Waitsia #4 well on 10 July. It is designed to appraise the gas potential in the eastern extension of the Waitsia field with primary targets being conventional reservoirs in the Kingia and High Cliff Sandstones. On 24 July the well was at 2,595 metres and drilling ahead to next casing point at 3,065 metres. Well will be logged and the result positive it will be completed as a production well and the flow test may be performed. Waitsia #4 is the last appraisal well planned for the Waitsia field in 2017.
Winchester spuds White Hat 38 #3ML well in Texas.	**Winchester Energy** has commenced drilling the White Hat 38#3ML multi-lateral well on its White Hat lease in Nolan County, Texas. **Winchester** is paying 80% of the well cost to earn a 70% interest. US-based drilling company Ultra Short Radius Drilling is paying its 20% working interest on a heads up basis. **Winchester** will test the USR technology by drilling for 500 foot lateral sections from one vertical well bore all in the Ellenberger formation. The well will cost $1.7 million almost double the cost of a single vertical well but will increase the wellbores exposure to the formation from 100 feet 2,000 feet a 20 fold increase.
	Triangle Energy
Malaysian entity acquires 9.86% of Triangle Energy.	Malaysian company **T7 Global Berhad Company (T7)** has taken a 9.86% strategic state in Triangle Energy purchasing 16.476 million shares from **Tamarind Classic Resources Private Limited** for US $500,000. **Tamarind** has a Convertible Loan Agreement with Triangle for US$1.215 million and converted $439,000 US dollars of that to facilitate the purchase by T7. The balance of the loan outstanding is US$776,000. **Triangle's** managing Dir Rob Taylor said the company had extensive plans to develop both the producing Cliff Head oilfield and other Perth Basin opportunities. He said since taking over operator ship and a majority 78.75% interest in the Cliff Head oil field, including the onshore Arrowsmith Stabilisation Plant, the company had achieved significant cost reductions in operations allowing it to retain more cash from production to direct towards development opportunities. **Triangle** is one of those rare breeds of junior oilers that actually have production, 1,000 barrels of oil a day net from Cliff Head, and cash flow an attributable $24 million. It has relatively few shares on issue following an earlier share consolidation, some 152.8 million and $1.632 million in cash at the end of March with US$776,000 in debt. The company has a 30% interest (paying 40%) in the Xanadu #1 well in TP/15 in the offshore Perth Basin to spud from an onshore location in September.

Aurora intends to make a takeover bid for Molopo Energy at 18 cents a share.	***Molopo Energy*** It's all happening at **Molopo Energy.** On 27 July Aurora Funds Management announced it intended to make a takeover bid for 100% of the ordinary shares in **Molopo Energy** at 18 cents per share. Under the bid, **Molopo** shareholders will be able to elect to receive the bid consideration in cash (capped at $5 million) or the equivalent value in units of the **Aurora Fortitude Absolute Return Fund (AFARF).** On 7 June, **Molopo** notified the market that the ASX required it to demonstrate a sufficient level of oil and gas operations by 31 July to warrant the continued quotation of its shares and its continued listing. On 25 July trading in **Molopo** shares was suspended pending an announcement about a strategic investment scheduled to be delivered today 31 July. **Molopo** has $66.2 million in cash reserves at the end of June with some $8 million set aside as a contingency in the event of an adverse finding in the current litigation it faces in Canada.
Gold's recovery continues with the yellow metal up US$15oz over the week.	***Gold*** Gold finished the week at US$1,270 a troy ounce up US$15 on the previous week and well up on the US$1,205. hit in early July trading. According to Mining.com the revival of gold was due to a "Trump slump in the US dollar". As we said last week, Deutsche Bank's Larry Adam claimed "delays in the pro-growth administration's policies have not bolstered growth and in fact, the delay has led to disappointments in the US growth trajectory". Elsewhere in the US lower retail sales in June and stubbornly low CPI has analysts now saying the Fed will push back its plans for further interest rate rises this year. The question marks being raised over the strength of the US economy's supposed recovery have been weighing on the US dollar. Unfortunately that also means for Australian gold producers the higher gold prices have been partly offset by a rising Aussie dollar.

Disclaimer