

An investment outlook on oil and gas in the aftermath of the Gulf of Mexico oil spill

Paul Strand, US Head of Resources at RCM, a company of Allianz Global Investors, presents his investment outlook on oil and gas, in the aftermath of the Gulf of Mexico oil spill:

“We believe the Gulf of Mexico oil spill has several near term implications for the Energy sector. First, in order to help reduce the risk of another disaster, we expect there will be substantially increased regulation of the deep water drilling process, likely leading to improved safety but a slower pace of deepwater resource development. Second, we expect that operating costs in the Gulf of Mexico will move higher driven by the increased regulations, higher equipment and insurance costs, and increased drilling time. Third, we expect many oil and gas companies will continue to reallocate a portion of their capital spending away from the Gulf of Mexico towards other regions of the world; we would also expect that many oil and gas companies, especially the small to mid sized companies that lack the balance sheet to take on the potentially huge liabilities risk, may exit the Gulf of Mexico entirely. Fourth, we may see an acceleration of the consolidation theme among oil and gas producers.

“We expect that the longer-term implications for the energy sector will be upward pressure on oil prices and a greater dependency for the US on imported oil. Almost 2% of the world’s oil supply and 25% of the US supply comes from the Gulf of Mexico. Prior to the oil spill, the deepwater Gulf of Mexico was regarded as one of the few regions in the world where oil production was expected to show meaningful growth over the next 10 years.

Companies that could be positively impacted by the oil spill

“We believe that oil and gas companies with a focus on onshore US production and reserves will be the primary beneficiaries from an investment standpoint of the deepwater Gulf of Mexico drilling moratorium. We expect the value of these onshore reserves will increase due to their substantially lower risk vs. offshore.

Alternative energy sources

“We expect there is a good chance that the case for alternative energy sources will be strengthened by this crisis over the long-term. At a recent energy conference, while companies did not yet appear to be incrementally encouraged about the near term prospects for their business, we believe that from a political point of view, as emphasized by the President in a recent address, there is a higher chance of supportive legislation in the US for alternative sources.”

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