



Peak Values Ltd

Thoughts on Oil and Gas.

20.09.2018

Investment Committee



During the last months, the US has been stepping up its trade war with China, with the most recent step being the announcement of USD 200 billion tariffs on Chinese imports. The announcement didn't stop here, but hinted to even a larger one, waiting to be announced.

So far the trade war between US and China did not visibly affect the global economy. But it could, for the following reasons:

The first US tariff rounds were confined to a limited set of products, with an increasing number of tariffs being announced, the range of products affected is widening. This could have an adverse effect on the price of consumer goods in the US and consequently slow the US economy.

So far the trade war did not affect the Oil and Gas market. However, last Tuesday, China announced a 10% tariff on imported LNG from the United States. This Chinese move on LNG could be considered as a warning shot, as China has so far refrained from putting tariffs on US crude oil, in fact China increased its US oil purchases in the past two years. In May 2017, China passed South Korea for the first time and became the world's second largest LNG importer, after Japan. By 2030, China will about triple its share of global LNG to nearly 20% of all imports. Any country or project considering expanding its LNG capabilities will, and has, put China in the heart of its economic calculations. China could replace US supply from other countries, which in return would compete, probably through heavy pricing cuts, in an attempt to replace the US as supplier. Those countries could be: Russia, Iran and Qatar.

So far oil prices did not exhibit any significant swings. Consequently, last Tuesday, i.e. on the same day when China has announced a 10% tariff on US LNG import, the news broke out from Saudi Arabia stating that Kingdom is content to let the Brent rise above USD 80 level. Usually such news from Saudi Arabia sends oil prices higher, but they didn't. An indication, that traders have taken the trade war escalation between US and China in consideration.

So, the larger effect on the Oil and Gas market will be felt indirectly through the negative impact on the world economy.

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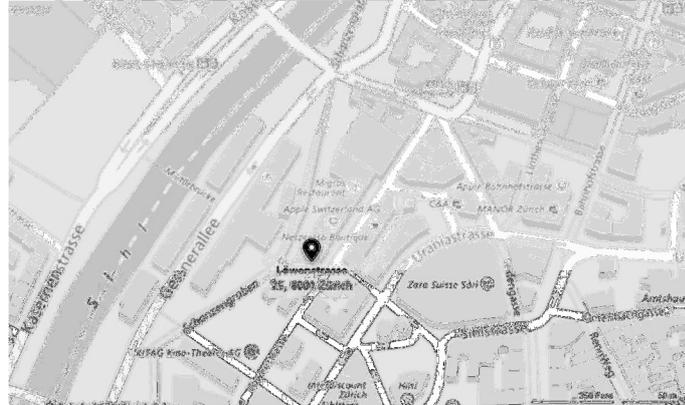
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