Canadian oil and gas companies plunge to lows not seen in decades as travel ban strikes another blow

Drop comes amid analyst expectations jet fuel demand for the year will fall 11 per cent as air traffic declines 16 per cent

CALGARY – Energy stocks were pummelled once again Thursday as concerns over the spread of the coronavirus deal fresh blows to global oil demand and analysts expect big drops for jet fuel.

As markets reacted to news of a travel ban on flights between Europe and the United States, affecting the demand for jet fuel, the S&P/TSX Capped Energy Index dropped 16.5 per cent by close on Thursday, surpassing the 12.4 per cent drop in the wider market. It
Air travel between Europe and the U.S. accounts for a minuscule amount of global oil demand but analysts said a broader slowdown in air traffic would have an effect on refining margins and quarantines in countries such as Italy, the world’s eighth largest economy, will also drag down oil demand.

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The spread of the virus and quarantines in affected countries is now expected to lead to an overall 0.6 per cent decline in global oil demand this year, Norwegian market research firm Rystad Energy wrote in a report Thursday.

The report also noted that jet fuel demand for the year is expected to fall 11 per cent as air traffic declines 16 per cent.

“This is a severe downgrade compared to previous estimates and takes into account the quarantine lockdown in Italy, massive cancellation of flights by airlines, the travel ban between Europe and the U.S. that was announced yesterday and our simulations of the virus’ growth patterns this year,” the report noted.

While the overall decline in air traffic will have a large effect, U.S. President Donald Trump’s ban on air traffic will only knock 200,000 barrels per day out of global oil demand, which is “not much,” said Alan Gelder, vice-president, refining, chemicals markets at Wood Mackenzie in London.

The bigger knock on global oil demand could come from quarantines in the U.S. if the virus continues to spread.

“A lot depends on what happens next in the U.S.,” Gelder said. “If the U.S. stops driving because people are working from home, that has a much larger effect.”

Jet fuel demand in the U.S. is approximately 1.8 million barrels of oil per day, or approximately 9 per cent of total U.S. oil demand.

By contrast, demand for gasoline accounts for 9.2 million bpd, close to half of total U.S. oil demand of 20.7 million bpd. “If cities (in the U.S.) are quarantined, that will have a bigger impact on demand,” Gelder said.
banks cut price targets for oil and gas companies across the board to reflect prices hammered by a price war between Saudi Arabia and Russia and the virus’s impact on demand.

“At this stage, it’s all about survivability and strategic positioning and, as such, we continue to have a strong bias to being overweight larger, more stable and less-capital-intensive platforms that have stronger margins of safety,” analysts at CIBC World Markets wrote in a research report Thursday, in which they also cut their price targets on 17 Canadian oil and gas producers.

Even the larger Canadian oil producers tumbled Thursday as markets fell and few were spared.

Cenovus Energy Inc., which fell over 50 per cent on Monday after Saudi Arabia and Russia entered into an oil price war, fell another 12 per cent, to a fresh all-time low of $3.61 per share.

Investors have been particularly hard on Cenovus, which had not hedged its production prior to the oil price crash.

“Investors will certainly be questioning why a low-margin bitumen producer would not buy protective puts as insurance against such a scenario,” Stifel FirstEnergy analyst Michael Dunn said in a research note Thursday. Dunn cut his price target on Cenovus to $4.50 in a research note on Thursday. Prior to the price crash, the target was $16 per share.

“In terms of liquidity, Cenovus appears in good shape for now,” Dunn said, noting the companies’ debt maturities are scheduled in late 2022.

Many Canadian oil companies fell to lows not seen in decades.

Canadian Natural Resources Ltd., the country’s largest oil and gas producer by volume, tumbled close to 15.6 per cent, to $17.46 each, Suncor Energy Inc. was down 20.6 per cent to $20.55 and Imperial contracted 17.7 per cent to $16.48 per share.

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