

Seismic reflections

Risk off, again

In our *Oil & Gas Macro Outlook* note last month we concluded a softening near-term sector outlook afflicted by easing supply-side tensions and a suppressed demand-side recovery. And so it has to date proved. Add to the mix the broader market malaise since the beginning of the month and there is much for the oils sector to ponder. From our Sydney and Wellington offices down under we are seeing much heat come out of the Australian market, the teas leaves from which provide much food for thought.

Yet more political and market pain

More political and economic chaos in Greece, major political and philosophical change in France and ongoing concern towards the very future of the eurozone has continued to spook investors over the past month. News last week of US\$2bn of losses made by JP Morgan's London office reignited fears of further carnage within blue-chip financial institutions, drawing investors to check and review their exposures. Risk-off is, once again, the theme of the moment as investors rethink, retreat and repatriate.

Oils sentiment also off

A general easing of concerns held towards tensions in the Middle East, flat demand in key markets and strengthening supply-side fundamentals compound to imply a supply-heavy near-term market. The result, as we foreshadowed last month, has been falling price indices across all regions and a consequent flattening of the previously sharply-backwardated forward curve. Comments made by Saudi Arabia's oil minister and OPEC heavyweight Ali al-Naimi at a major conference held in Adelaide earlier this week that oil prices were too high and Brent should trade at US\$100/bbl reaffirm the room for more downwards movement on price. Currently Brent sits at US\$109/bbl.

Two-speed Australia

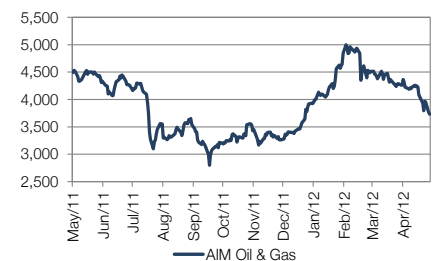
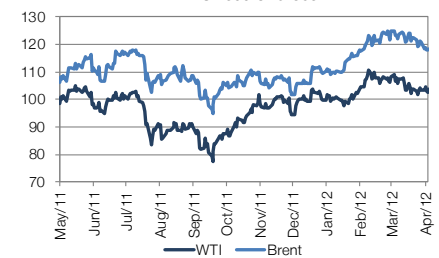
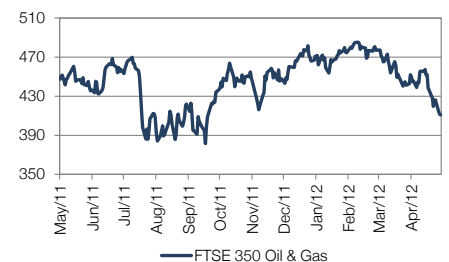
Of course, macro themes of broader market turmoil and commodity price volatility are a fact of life for resource powerhouse Australia. What has not been a fact of Australian life until recently, however, is concern over the health of the domestic economy. Australia strolled through the global financial crisis relatively unscathed due largely to the dominance of its resources sector and the immense scale of investment being pumped into the sector. The top-end oils numbers are of a global scale: 404tcf of gas reserves and seven new LNG builds are underway at a total cost of A\$170bn. Within the next few years, Australia is expected to overtake Qatar as the world's largest LNG producer. However, what we have noticed over the past year since we opened our Sydney and Wellington offices that Australia is now clearly a two-speed economy, with the non-resources sector under increasing pressure. Activity levels are well down and lower market confidence is seeing the financial sector at the sharp end of the wedge. How this will affect those many early-stage companies with Australian oils projects and a need for ongoing access to capital is yet to play out, but there is no denying that the fund-raising challenge is now much tougher than it was.



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Exhibit 1: Best and worst performers

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	KEA PETROLEUM PLC	8.6%	1	CHARIOT OIL & GAS LTD	-51.0%
2	GASOL PLC	8.1%	2	BANKERS PETROLEUM LTD	-29.8%
3	PROVIDENCE RESOURCES PLC	6.8%	3	RANGE RESOURCES LTD	-22.8%
4	COVE ENERGY PLC	1.8%	4	BAHAMAS PETROLEUM CO PLC	-22.4%
5	JKX OIL & GAS PLC	1.5%	5	SERICA ENERGY PLC	-21.1%

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	93.2%	1	CHARIOT OIL & GAS LTD	-58.5%
2	GASOL PLC	60.0%	2	ENDEAVOUR INTERNATIONAL CORP	-44.5%
3	FALKLAND OIL & GAS LTD	19.6%	3	FRONTERA RESOURCES CORP	-43.7%
4	GEOPARK HOLDINGS LTD	19.3%	4	BANKERS PETROLEUM LTD	-35.9%
5	IGAS ENERGY PLC	17.5%	5	BAHAMAS PETROLEUM CO PLC	-35.5%

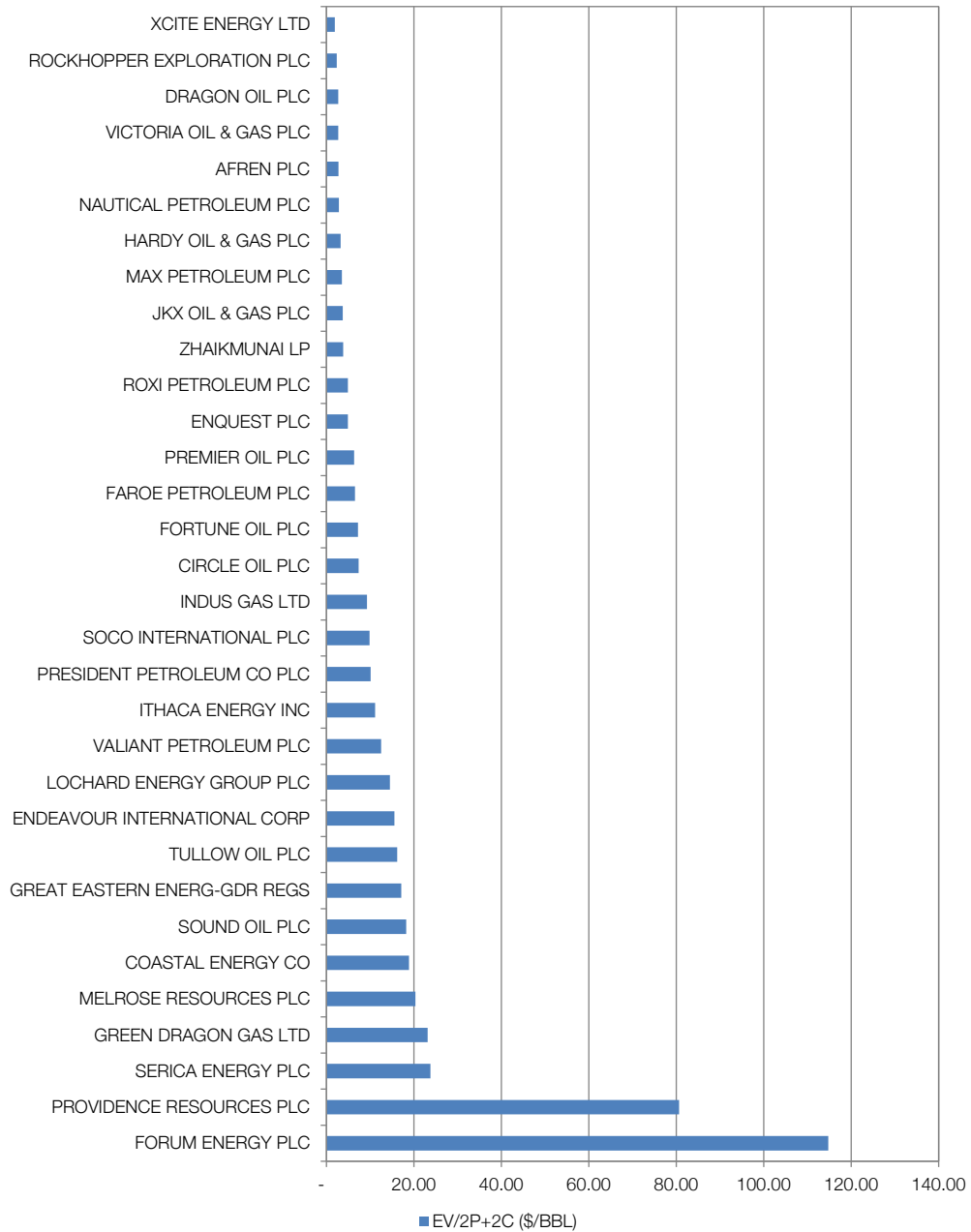
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	PROVIDENCE RESOURCES PLC	106.0%	1	FRONTERA RESOURCES CORP	-64.4%
2	FORUM ENERGY PLC	75.9%	2	EXILLON ENERGY PLC	-58.0%
3	COVE ENERGY PLC	52.0%	3	GULF KEYSTONE PETROLEUM LTD	-53.0%
4	KEA PETROLEUM PLC	46.2%	4	CHARIOT OIL & GAS LTD	-51.8%
5	GASOL PLC	41.2%	5	BANKERS PETROLEUM LTD	-50.0%

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	COVE ENERGY PLC	169.6%	1	PETRONEFT RESOURCES PLC	-70.0%
2	PROVIDENCE RESOURCES PLC	151.7%	2	FRONTERA RESOURCES CORP	-66.4%
3	FORUM ENERGY PLC	125.7%	3	EXILLON ENERGY PLC	-65.9%
4	KEA PETROLEUM PLC	105.4%	4	BANKERS PETROLEUM LTD	-54.3%
5	AMERISUR RESOURCES PLC	64.2%	5	SOUND OIL PLC	-51.6%

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	COVE ENERGY PLC	168.8%	1	FRONTERA RESOURCES CORP	-90.9%
2	FORUM ENERGY PLC	168.4%	2	PETRO MATAD LTD	-89.4%
3	PROVIDENCE RESOURCES PLC	115.7%	3	PETRONEFT RESOURCES PLC	-88.4%
4	COASTAL ENERGY CO	112.7%	4	BOWLEVEN PLC	-78.9%
5	DESIRE PETROLEUM PLC	78.0%	5	SOUND OIL PLC	-77.0%

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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