



# Capex Reductions

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Show me the money (or lack thereof)

In addition to the relatively robust queue of project starts, the production outlook is largely supported by what we have seen in global capex trends, where cuts have been disproportionately driven by major project deferral (ie. FID delays, with volume impact felt 3-5 years out), rather than cuts to brownfield/maintenance spend. In other words, the nature of the capex cuts are likely to have a significant impact on production growth in the latter part of this decade, but a far lesser impact on near-term production (2015-2016) and/or decline rates.

A brief survey of capex trends across ~50 global oil and gas producers shows an average cut of 20% in 2015 vs. 2014 (\$300Bn to \$375Bn in 2014). However, drilling down a bit reveals a number of important details. 1) Capex cuts tend to be largest in the US and amongst independent E&Ps (35%), a reflection of both relatively high financial leverage, short cycle nature of US onshore spend and concentrated business models; 2) average capex cut across global IOCs is more moderate on average (13%), with the largest portion of cuts a result of: a) FID deferrals and delays to large-project spend, b) exploration spend, or c) downstream investment, none of which have any impact on crude production in the next 2-3 years. Further, dollar strength has offset, or partially offset the fall in crude prices in many parts of the world, none more evident than in Russia, where YoY activity levels are nearly flat in Roubles, despite the fall in crude.

While certainly a limited cross section of global supply, these trends are largely validated by corporate level guidance across the largest global IOCs (XOM, CVX, COP, BP, RDS, TOT, ENI, STO), where a 13% reduction to 2015 capital spend was accompanied by a negligible reduction to 2017 production forecasts. Spending by Petrobras (PBR, covered by DB analyst Alexander Burgansky) will also be closely monitored given Brazil's role in driving non-OPEC production growth. During their late April presentation, PBR noted that they would be reducing 2016 capex spend by ~40% from prior guidance and with speculation that long-term spend may also be slashed, the June budget presentation will have implications on the Call on US onshore growth.

While this cycle clearly has differences, the trends to capital are consistent with those seen during 2008-2009, where brownfield capex as a share of total budgets increased materially as capital budgets were reduced.