



Ninepoint Energy Fund Market View

March 8, 2020

After the disastrous Friday meeting which essentially resulted in the dissolution of OPEC+ (ie. Russia leaving the cartel saying that producers were free to “pump at will” as of April 1st) things have escalated rather dramatically. Yesterday afternoon Saudi Aramco priced its April barrels well below market (essentially discounting their oil by as much as \$10/bbl below various benchmarks...a near historic move) while at the same time “sources” said production could increase from 9.7MM Bbl/d to as much as 11MM Bbl/d. At face value they are basically burning down the house. In a matter of days Saudi Arabia has gone from championing for a 1.5MM Bbl/d incremental cut as a means of offsetting the as-of-yet unquantifiable demand destruction resulting from the coronavirus outbreak to a scorched earth policy of flooding the market with unnecessary production. At face value, Russia and Saudi Arabia have just entered into a price war.

Investment Team



Eric Nuttall, CIM
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Given that both Russia and Saudi Arabia are hugely reliant on oil sales (80% and 90% of state revenues respectively) having the oil price crash achieves nothing and these escalations cannot be logically explained. While articles suggest that Russia is targeting US shale producers the reality is that US shale production was already imploding. Permian production was set to go negative on a year-over-year basis as of July/August without a meaningful activity pickup and capital discipline is now largely enshrined in the ethos of the industry. The days of hyper growth are over. Under normalized demand growth (ie. post coronavirus) this year was to be the first where US shale production was to not fully satisfy global demand growth allowing for the gradual reduction of OPEC+'s curtailment (and result in nil spare capacity in 2-3 years time).

Saudi's weekend actions are intended to cause maximum pain in the shortest time period possible. Is this an extreme negotiating tactic to bring all parties back to the table? Only time will tell but even at current oil pricing (\$40WTI) all parties are suffering tremendously.

With energy stocks already at all-time lows it is challenging to quantify how much further downside exists (Saudi Aramco is -9% right now for perspective). The energy market is facing an unprecedented level of uncertainty...demand is being temporarily impacted by a virus while OPEC+ has just unexpectedly pivoted 180 degrees in a matter of days. Under any normalized oil price (\$55-\$60) valuations were already at their lowest in history. With that said, pragmatically speaking both the oil price and oil stocks are likely to aggressively sell off tomorrow.

From a positioning perspective we are currently 98% weighted in oil producers with a 91% exposure to Canada. Most of our companies are well hedged this year (8 of our 10 holdings are on average 48% hedged at ~\$59/bbl) and none have any short-term liquidity concerns (2 of the most financially levered extended their debt maturities out to 2027 vs. 2021/22). All holdings can weather the coming storm.

We will keep you updated on our thoughts over the coming days and this clearly remains a very

fluid situation. Russia has a limited ability to ramp production as they were chronic cheaters and are only ~200k bbl/d below their recent highs...Saudi Arabia is driving the bus at the moment. They alone will determine how this ends.

Eric Nuttall
Partner, Senior Portfolio Manager

Ninepoint Partners

Ninepoint Energy Fund - Compounded Returns¹

	1MTH	YTD	3MTH	6MTH	1YR	3YR	5YR	10YR	15YR	INCEPTION
FUND	-12.9%	-30.9%	-16.6%	-3.9%	-23.5%	-27.1%	-17.5%	-7.8%	-5.2%	-1.5%
INDEX	-11.2%	-21.0%	-11.6%	-6.6%	-24.2%	-13.9%	-9.7%	-5.9%	-1.9%	0.2%

¹ All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at February 29, 2020; e) 2004 annual returns are from 04/15/04 to 12/31/04. The index is 100% S&P/TSX Capped Energy TRI and is computed by Ninepoint Partners LP based on publicly available index information.

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