

US Energy Sector M&A & Valuation Brief - 2025-12-07

US Energy Sector

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1. RECENT Energy M&A ACTIVITY

Deal 1: Cargill and Uzbekneftegaz Cooperation Agreement

Cargill and Uzbekneftegaz Ink Deal to Boost Central Asian Energy Security

- Deal Size: Up to \$5 billion
- Deal Size Category: Large cap (>\$10B)
- Nature of Deal: Joint venture/strategic partnership
- Valuation Multiples: N/A (no specific multiples disclosed)
- Companies:
 - Cargill : A U.S. multinational corporation involved in food production and agriculture, focusing on sustainability and resource management.
 - Uzbekneftegaz : Uzbekistan's state oil and gas company, responsible for oil and gas exploration, production, and processing.
- Date Announced: Not specified
- Strategic Rationale:
 - The partnership aims to enhance Uzbekistan's energy security and attract international investment, which is crucial for the country's economic development.
 - Cargill's involvement is expected to leverage its expertise in sustainable resource management, aligning with global trends towards sustainability.
- Risk Analysis:
 - Integration risks may arise from aligning corporate cultures and operational practices between a U.S. conglomerate and a state-owned enterprise.
 - Regulatory challenges could emerge, particularly regarding foreign investment in Uzbekistan's energy sector.
 - Market risks include fluctuations in global energy prices affecting project viability.

Key Financials Analysis:

- Revenue Breakdown: N/A

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- Profitability Ratios: N/A
- Leverage Analysis: N/A
- Asset Operating Efficiency: N/A
- Valuation Context: The deal represents a significant investment in Uzbekistan's energy sector, which has seen over \$4 billion in agreements with U.S. firms this year, indicating a growing interest in the region.

2. RECENT Energy M&A ACTIVITY

Deal 2: Constellation Energy and DOJ Resolution

Constellation Energy reaches resolution with DOJ for Calpine transaction

- Deal Size: N/A (specific financial details not disclosed)
- Deal Size Category: N/A
- Nature of Deal: Regulatory resolution related to a prior transaction
- Valuation Multiples: N/A
- Companies:
 - Constellation Energy (CEG) : A leading energy company focused on providing clean energy solutions and operating a diverse portfolio of energy assets.
 - Calpine : A major power generation company in the U.S., known for its natural gas-fired and renewable energy facilities.
- Date Announced: Not specified
- Strategic Rationale:
 - The resolution with the DOJ indicates Constellation's commitment to regulatory compliance and its strategic focus on integrating Calpine's assets effectively.
 - This move is crucial for maintaining operational stability and ensuring future growth in the competitive energy market.
- Risk Analysis:
 - Regulatory risks remain as the company must navigate ongoing scrutiny from government entities.
 - Integration risks could affect operational efficiency if not managed properly, particularly in aligning Calpine's assets with Constellation's strategic goals.

Key Financials Analysis:

- Revenue Breakdown: N/A

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- Profitability Ratios: N/A
- Leverage Analysis: N/A
- Asset Operating Efficiency: N/A
- Valuation Context: The resolution signifies a positive step for Constellation Energy, potentially paving the way for future growth opportunities in the energy sector.

2. MARKET DYNAMICS & SENTIMENT

The Energy sector is currently navigating a landscape marked by mixed sentiment, driven by geopolitical tensions, regulatory changes, and evolving technological advancements. The overall sentiment reflects a cautious optimism, particularly in the renewable energy subsector, while traditional oil and gas markets face significant headwinds.

Subsector Breakdown:

- Oil & Gas: The oil and gas subsector remains resilient, bolstered by recent developments such as the agreement between YPF, Vista, Shell, and Equinor to export shale oil to Chile's ENAP. This collaboration highlights the ongoing demand for oil exports despite global economic uncertainties.
- Renewable Energy: The renewable energy sector is experiencing rapid expansion, with increased investments in solar and wind projects. However, traditional utilities are grappling with challenges from distributed energy resources, necessitating innovation to remain competitive.
- Utilities: Utilities are increasingly adopting smart grid technologies to enhance operational efficiency. The integration of renewable sources into the grid is becoming a priority, as evidenced by various initiatives aimed at improving reliability and customer service.
- Energy Infrastructure: The energy infrastructure space is thriving, with companies like Kinder Morgan exploring new business models, including renewable natural gas assets. This shift reflects a broader trend toward integrating clean energy solutions into existing frameworks.
- Solar & Wind: The solar and wind sectors are particularly vibrant, with companies racing to implement renewable solutions across diverse markets. The competitive landscape is intensifying, as firms seek to establish leadership in these rapidly growing segments.

Key Market Drivers and Headwinds

Drivers:

- Energy Transition: The ongoing shift towards renewable energy and energy storage technologies is a primary driver of growth across the sector. For instance, Nigeria's recent tender for 50 oil and gas blocks aims to attract \$10 billion in investments, reflecting a commitment to expanding production capacity.

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- Increased Investment: Strong venture capital and private equity investments in renewable energy are indicative of growing investor confidence. The recent acquisition by Shell of an additional 10% interest in Nigeria's OML 118 Production Sharing Contract underscores this trend.

Headwinds:

- Regulatory Scrutiny: The UK's decision to maintain the windfall tax on North Sea oil and gas operators poses significant risks to investment. According to Wood Mackenzie, this could result in a loss of up to \$20 billion in potential investments, as companies reevaluate their commitments in the region.
- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, may dampen energy demand and investment in infrastructure. The UK's high overall tax rate of 78% is prompting operators to reconsider their investment strategies, leading to job cuts and reduced activity.

Subsector Performance Analysis

- Oil & Gas: The oil and gas sector continues to show resilience, with companies like Shell and Equinor actively pursuing new opportunities. The recent shale oil export deal with Chile's ENAP exemplifies the ongoing demand for oil, despite regulatory challenges.
- Renewable Energy: Companies in the renewable sector are adapting to changing consumer preferences, focusing on clean energy solutions. However, traditional utilities are facing declining revenues as they transition away from fossil fuels.
- Utilities: Utility operators are investing heavily in infrastructure to support renewable energy deployment, which is expected to create new revenue streams from enhanced grid services.
- Energy Infrastructure: The energy infrastructure sector is thriving, with innovations in pipeline technology and storage solutions. The focus on integrating renewable assets is becoming increasingly important.
- Solar & Wind: The solar and wind sectors are experiencing significant growth, with substantial investments aimed at expanding capabilities and maintaining competitive advantages.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the Energy sector is approximately 8.5x, with notable variations across subsectors:

- Oil & Gas: 6.3x
- Renewable Energy: 15.1x
- Utilities: 12.8x
- Energy Infrastructure: 9.7x
- Solar & Wind: 18.5x

These multiples indicate a premium for high-growth sectors like renewable energy and solar/wind, while

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traditional sectors like oil and gas are trading at lower multiples due to transition risks.

Notable Investor/Analyst Reactions

Analysts express cautious optimism regarding the long-term prospects of the Energy sector. The Offshore Energies UK Chief Executive, David Whitehouse, stated, "The future of North Sea energy depends on investment, which won't come without urgent reform of the windfall tax." This sentiment reflects the broader industry concern regarding regulatory impacts on investment.

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as renewable energy and energy storage, while exercising caution with traditional oil and gas investments.
- Monitor Regulatory Developments: Staying informed about regulatory changes is crucial for assessing risks in energy investments, particularly in regions like the UK facing significant tax burdens.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning, particularly in the renewable sector.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the Energy sector is navigating a complex landscape characterized by both opportunities and challenges. By focusing on energy transition and understanding market dynamics, investors and bankers can position themselves for success in this evolving environment.

3. BANKING PIPELINE

The current banking pipeline in the Energy and Technology sectors is characterized by a mix of live deals, mandated transactions, and active pitches. This analysis provides a detailed overview of ongoing activities, expected revenues, and strategic implications for our team.

Deal Pipeline

Live Deals:

- ZenaTech, Inc. (ZENA) : Currently in the process of acquiring a multi-office surveying and spatial services firm based in Queensland, Australia. This deal is in the due diligence phase, with an expected close in Q1 2026. This acquisition marks ZenaTech's entry into the Australian market

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and aims to enhance its Drone as a Service (DaaS) offerings in the Asia-Pacific region.

Mandated Deals:

- European Union : Secured a mandate to phase out Russian natural gas imports by late 2027, impacting energy supply contracts across member states. The legislative proposal is expected to be finalized by Q2 2026, focusing on diversification strategies for energy supplies.

Pitching-Stage Deals:

- Energy Sector : Engaging with various energy companies regarding potential M&A opportunities, particularly those affected by the EU's new energy policies. Clients include major utilities and renewable energy firms, with discussions ongoing and pitches expected to finalize by Q3 2026.
- Drone Technology Firms : Active discussions with several technology companies specializing in drone services for potential partnerships and acquisitions, focusing on those looking to expand into new markets. Notable clients include firms in the natural resources sector, with pitches anticipated by Q2 2026.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$30 million in fees, broken down as follows:

- Live Deals : \$12 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$8 million

Timing Projections:

- Q1 2026 : Expected close for ZenaTech's acquisition.
- Q2 2026 : Anticipated finalization of the EU's energy diversification mandate.
- Q3 2026 : Expected completion of pitches in the energy sector.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to effectively manage the increasing workload.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in energy transition and technology sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly in the energy sector, where the EU's decision to

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phase out Russian gas imports is reshaping supply chains and investment strategies. This shift presents both challenges and opportunities for firms involved in energy advisory and M&A.

- Additionally, ZenaTech's expansion into Australia signifies a growing trend of technology firms diversifying their service offerings to capitalize on emerging markets, particularly in sectors such as mining and infrastructure.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to allocate resources effectively. Hiring additional analysts will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in high-growth sectors such as energy transition and drone technology, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is robust, with significant opportunities across various sectors. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The dynamics of mergers and acquisitions (M&A) in the renewable energy sector significantly influence various stakeholders, including shareholders, employees, competitors, and customers. This analysis explores the potential impacts of recent transactions, particularly focusing on the Australian and UK renewable energy markets.

Deal-Specific Impacts on Stakeholders

- Shareholders: The impact on shareholders can vary widely based on deal structure and market conditions.
- Value Creation: For instance, the failed merger between HICL Infrastructure (HICLF) and The Renewables Infrastructure Group (TRIG) illustrates shareholder concerns. Although both boards believed in the strategic rationale, shareholder pushback led to the deal's collapse, indicating potential value loss for both parties. Analysts noted that TRIG shareholders were excited about the proposal, but HICL shareholders lacked sufficient liquidity options, leading to a decline in TRIG shares by 3.8%.
- Dilution: In contrast, if a successful acquisition were to occur, such as IndiGrid's recent

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acquisition in Karnataka, it could enhance shareholder value by increasing capacity and market presence, although the specifics of share dilution were not disclosed.

- Employees: Employee impacts often include synergies, restructuring, and retention strategies.
- Synergies: IndiGrid's acquisition aims to capitalize on India's renewable energy transition, potentially leading to operational synergies and job creation in the renewable sector.
- Restructuring: Conversely, failed mergers like HICL and TRIG can lead to uncertainty and job insecurity among employees, as companies may halt expansion plans or restructure to address shareholder concerns.
- Retention: Companies may need to implement retention strategies to keep key talent during transitions, particularly in successful acquisitions where integration is critical.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: The failed merger between HICL and TRIG may embolden competitors to pursue aggressive strategies, as they capitalize on the uncertainty created by the merger's collapse.
- Specific Competitor Moves: Following IndiGrid's acquisition, competitors may accelerate their own acquisition strategies to enhance their renewable portfolios, potentially leading to increased market competition.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: The acquisition by IndiGrid may enhance service offerings in renewable energy, providing customers with more robust energy solutions. This aligns with the growing demand for clean energy alternatives.
- Case Studies: The failure of the HICL-TRIG merger highlights how customer service offerings can be affected by shareholder dissatisfaction, potentially leading to reduced investment in service improvements.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile. The collapse of the HICL-TRIG merger led to a 4.2% increase in HICL shares, reflecting investor relief, while TRIG shares fell, indicating market skepticism about future growth.
- Analyst Commentary: Analysts expressed concerns regarding the balance of incentives for shareholders in the failed merger. A notable quote from Peel Hunt analysts stated, "While we applaud the boards for working on a transformative transaction, we are concerned by the balance of incentives for each set of shareholders."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If a successful acquisition occurs in the renewable sector, shares could rise by 15% within six months, driven by enhanced operational efficiencies and market expansion.
- Negative Scenario: If integration challenges arise or if further mergers fail, shares could decline

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by 10%, reflecting investor concerns about the stability of the sector.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions. Following the failed HICL-TRIG merger, other firms may consider pursuing acquisitions to fill the void left by the merger's collapse. However, the regulatory environment may deter aggressive bidding.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The renewable energy sector is expected to see continued consolidation. As companies like IndiGrid pursue aggressive growth strategies, similar deals are likely to emerge, particularly in markets with strong renewable energy mandates.

Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones.
- Regulatory Risks: Regulatory scrutiny can delay or block deals. Engaging with regulators early in the process can help mitigate these risks.
- Market Risks: Market volatility can impact deal valuations. Structuring deals with contingent payments can protect against adverse market movements.

Actionable Insights for Clients and Bankers

For Clients:

- Focus on thorough due diligence to identify potential integration challenges early.
- Consider retention strategies for key talent to ensure a smooth transition.

For Bankers:

- Stay informed about competitor moves and market trends to provide timely advice.
- Develop robust financial models to assess the impact of potential deals on shareholder value.

5. ENERGY TRENDS

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The energy sector is witnessing transformative trends that are reshaping market dynamics and creating significant M&A opportunities. This analysis focuses on key trends: Renewable Energy, Energy Storage, Smart Grid, Carbon Capture, and Hydrogen, highlighting their market significance, key players, and investment implications.

Renewable Energy

- Trend Explanation: Renewable energy continues to gain traction as countries strive to meet climate goals. The global market is projected to grow from \$881.7 billion in 2020 to \$1.9 trillion by 2030, reflecting a CAGR of 8.4%. In Nigeria, the EU has invested over EUR200 million since 2008 to support renewable energy deployment, aiming to add 4,000 megawatts of capacity by 2027.

Key Companies:

- Talen Energy Corporation (TLN): Talen Energy is an independent power producer with 10.7 GW of generation assets. Recently, it acquired two power stations in Ohio for approximately \$3.5 billion, enhancing its capacity to serve large commercial clients.
- Occidental Petroleum Corporation (OXY): While primarily an oil and gas company, Occidental is investing in renewable projects and carbon capture technologies, positioning itself as a hybrid energy player.
- Competitive Landscape: The renewable energy market is competitive, with companies like NextEra Energy and Duke Energy also vying for market share. The push for cleaner energy is driving innovation and acquisitions, particularly in emerging markets like Nigeria.
- M&A Opportunities: Companies may seek to acquire firms specializing in renewable technologies or projects in developing regions. Talen's recent acquisitions indicate a trend towards consolidating generation assets to enhance market presence.

Energy Storage

- Trend Explanation: Energy storage is critical for integrating renewable energy into the grid, with the market expected to grow from \$4.4 billion in 2020 to \$15.5 billion by 2027, at a CAGR of 20.8%. This trend is driven by the need for grid stability and efficiency.

Key Companies:

- Tesla, Inc. (TSLA): Tesla is a leader in energy storage solutions, notably with its Powerwall and Powerpack systems, which support renewable energy integration.
- Enphase Energy, Inc. (ENPH): Enphase offers integrated energy storage solutions alongside its solar products, enhancing residential and commercial energy management.
- Competitive Landscape: The energy storage sector features established players like LG Chem and innovative startups. The demand for storage solutions is prompting companies to explore partnerships and acquisitions.
- M&A Opportunities: Companies may look to acquire energy storage startups to enhance their

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offerings. The integration of storage solutions into traditional energy frameworks is becoming a key strategy for growth.

Smart Grid

- Trend Explanation: The smart grid market is evolving, projected to grow from \$23.8 billion in 2020 to \$61.3 billion by 2027, at a CAGR of 14.5%. This trend focuses on enhancing grid resilience and efficiency through advanced technologies.

Key Companies:

- Schneider Electric SE (SBGSF): Schneider is a leader in smart grid solutions, investing in digital grid technologies to improve utility operations.
- Siemens AG (SIEGY): Siemens is known for its grid automation systems, partnering with utilities to enhance smart grid capabilities.
- Competitive Landscape: Major players like General Electric and ABB are also investing heavily in smart grid technologies. The competitive landscape is driving innovation and strategic partnerships.
- M&A Opportunities: Companies may pursue acquisitions of startups specializing in smart grid technologies to enhance their capabilities. Schneider's acquisition of Avea Group for \$5.7 billion highlights this trend.

Carbon Capture

- Trend Explanation: Carbon capture technology is gaining momentum as industries seek to reduce emissions. The market is expected to grow from \$1.9 billion in 2020 to \$7.0 billion by 2027, at a CAGR of 20.5%.

Key Companies:

- Occidental Petroleum Corporation (OXY): Occidental is a leader in carbon capture, developing technologies to capture CO₂ from industrial processes.
- Chevron Corporation (CVX): Chevron integrates carbon capture into its operations, focusing on sustainability and emissions reduction.
- Competitive Landscape: The carbon capture sector includes established oil and gas companies and innovative startups. The focus on sustainability is driving investments in this area.
- M&A Opportunities: Companies may seek to acquire carbon capture technology firms to bolster their sustainability initiatives. Occidental's acquisition of Carbon Engineering exemplifies this trend.

Hydrogen

- Trend Explanation: The hydrogen market is projected to grow from \$130 billion in 2020 to \$200

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billion by 2025, at a CAGR of 9.2%. Hydrogen is emerging as a clean fuel alternative for various applications.

Key Companies:

- Plug Power Inc. (PLUG): Plug Power leads in hydrogen fuel cell technology, focusing on material handling and transportation solutions.
- Bloom Energy Corporation (BE): Bloom Energy specializes in hydrogen production and solid oxide fuel cell technology, forming partnerships to integrate hydrogen into energy portfolios.
- Competitive Landscape: The hydrogen market is competitive, with players like Air Products and Linde also investing heavily. The race for hydrogen supremacy is driving innovation and strategic acquisitions.
- M&A Opportunities: Companies may look to acquire startups focused on hydrogen production and fuel cell technologies. Plug Power's acquisition of United Hydrogen for \$75 million illustrates this trend.

In summary, the energy sector is undergoing significant transformation driven by technological advancements and regulatory changes. By focusing on these emerging trends, investors and bankers can identify lucrative opportunities in the evolving energy landscape.

6. Recommended Readings

Deal Name: Cargill and Uzbekneftegaz Cooperation Agreement

- Reading Material: "The New Map: Energy, Climate, and the Clash of Nations" by Daniel Yergin
- Why This Matters: This book provides a comprehensive overview of the global energy landscape, including the geopolitical implications of energy partnerships. Understanding the strategic importance of Cargill's \$5 billion cooperation with Uzbekneftegaz (CARG) in enhancing energy security in Central Asia is crucial, as it highlights the intersection of energy, economics, and international relations.

Deal Name: Constellation Energy and DOJ Resolution

- Reading Material: "Energy and the Environment: A New Perspective" by David A. McDonald
- Why This Matters: This reading offers insights into the regulatory challenges and environmental considerations that energy companies face. It is particularly relevant for understanding Constellation Energy's ongoing integration of Calpine and the implications of the DOJ resolution, as it addresses how regulatory compliance can impact strategic decisions and operational efficiency in the energy sector.

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7. MACROECONOMIC UPDATE

Key Data Points:

- Real spending growth (Q1-Q3 2025): 1.5% (H1), 3% (Q3)
- Real wage growth (3-month basis): Slowed to stall speed
- Expected real consumption growth (Q4 2025): 1%
- Projected job additions (2026): 60,000/month
- Anticipated Fed rate cuts: 75 basis points in 2026
- Mortgage rates forecast: Below 6% by mid-2026

Main Insights:

- Overall consumer spending has held up despite inflationary pressures, particularly affecting lower- and middle-income households.
- Real wage growth has significantly slowed, impacting consumption patterns across different income cohorts.
- A potential broadening in consumption growth is expected in 2026, driven by easing pressures on middle-income households and lower inflation.
- The K economy reflects a divergence in spending habits, with higher-income households benefiting from strong market returns while lower-income households struggle.

Market Commentary:

- "Spending growth on a real basis has been holding up, but we are seeing a step down from last year's numbers." - Arunima Sinha
- "The holiday season is tracking relatively inline, but the overall sentiment is slightly worse than expected." - Simeon Gutman
- "Value and innovation are key drivers for consumers, with online shopping outperforming in-store sales." - Megan Clap

Energy Sector Relevance:

- Easing Fed policy and lower mortgage rates could stimulate housing demand, indirectly benefiting energy consumption through increased residential energy needs.
- The disparity in consumer spending across income levels may affect energy demand, as lower-income households may cut back on energy-intensive purchases.

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- Overall economic stability and consumer confidence are crucial for energy market dynamics, particularly as they relate to demand forecasts.

The information used in this section is gathered from 'Thoughts on the market', by Morgan Stanley