Oil and Gas News Briefs
Compiled by Larry Persily
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Russia and Saudis open to further oil cuts if ‘deemed necessary’

(Bloomberg; April 16) - Saudi Arabia and Russia have signaled they may be open to further output cuts after the latest OPEC+ deal to curb global oil supplies has failed to stem crude’s downward price spiral. The two nations said they will “continue to closely monitor the oil market and are prepared to take further measures jointly with OPEC+ and other producers if these are deemed necessary,” Russian Energy Minister Alexander Novak and his Saudi counterpart Prince Abdulaziz bin Salman said April 16.

Oil has plunged more than 10% since the group agreed on April 12 to trim worldwide production by an unprecedented 9.7 million barrels a day. The continuing fall in prices indicates that even the historic production cuts won’t be enough to offset the demand loss expected from the coronavirus pandemic. OPEC on April 16 said it projects that global demand for the cartel’s crude will fall to the lowest level in three decades.

The joint statement echoes earlier comments by Saudi Arabia’s bin Salman, who has said that his country is ready to cut oil production further if needed when the OPEC+ alliance meets again in June. “Flexibility and pragmatism will enable us to continue do more if we have to,” he said April 12. Even if OPEC members fully implement their shares of the agreed 9.7-million-barrel cutback, they’d still be producing far more than the market requires in the second quarter, according to the group’s own estimates.

WTI drops to $11, but futures market has it at $33 in November

(The Wall Street Journal; April 20) - A barrel of West Texas Intermediate crude to be delivered next month fell 40% to $11 in trading this morning (April 20), the lowest price in two decades. If that barrel were to be delivered to a buyer in November, it would be worth $33 as of late morning trading. The unusually large spread in price between oil now and then has traders filling up tankers for storage. The bet is that the coronavirus pandemic runs its course and later this year demand for oil — and the price — will jump.

Some may have little else to do with their oil other than put it on a boat, given the historic collapse in transportation fuel demand that has accompanied shelter-in-place orders around the world. Producers are running out of places to send crude as refineries choke back their output to match the meager demand for gasoline or jet fuel.

The price gap widened April 20 with expiration of the May crude futures contract set for April 21. The price of oil futures converges with the price of actual barrels of oil as the delivery date of the contracts approach. “If you can find storage, you can make good money,” said Reid I’Anson, economist for market-data firm Kpler. At the end of March there were about 109 million barrels of oil stowed at sea, according to Kpler. By April 17, it was up to 141 million barrels. The coast of South Africa offers popular anchorage since it is relatively equidistant to markets in Asia, Europe, and the Americas.

Saudi oil exports to U.S. doubled from February to March

(CNBC; April 17) - Saudi Arabia oil exports to the U.S. more than doubled from February to March as prices crashed and U.S. shale producers reeled over demand destruction from the COVID-19 pandemic, data from analytics firm TankerTrackers.com shows. Saudi shipments to U.S. ports went from an average of 366,000 barrels per day in February to 829,540 barrels per day in March, totaling more than 25 million barrels.

Data from TankerTrackers.com shows that figure is on track to be surpassed in April. Satellite monitoring of VLCCs (very large crude carriers, each with capacity to haul 2 million barrels), tracked a whopping 1.46 million barrels per day of Saudi oil shipped to the U.S. in the first two weeks of April — four times February’s volume and the highest since 2014. The majority went to the Gulf Coast with a smaller volume to California.

According to Saudi state oil producer Aramco’s website, the company was loading 15 tankers for its international customers on April 1 — the day a previous OPEC production cut agreement expired — filling the tankers with a record 18.8 million barrels in one day. The boost in exports comes amid one of the most dramatic periods in oil history: Record output from the world’s largest producers juxtaposed with eviscerated demand.

Saudi oil headed to its top buyer, China, likely had to be rerouted due to China’s extensive lockdown to stem the spread of the virus. From February to March, Saudi exports to China fell by nearly 800,000 barrels per day — and the oil had to go somewhere. For many American refineries, buying Saudi crude over U.S. shale is a necessity — older refineries aren’t designed to process the lighter crudes coming from U.S. shale, and need medium and heavy Saudi crudes, particularly to make diesel.

Supertankers with 40 million barrels of Saudi crude headed to U.S.

(Wall Street Journal; April 17) – A fleet of tankers full of Saudi oil is slowly making its way to the U.S. Gulf Coast, threatening to worsen an already historic oversupply of crude. The oil, about seven times as much as the Gulf Coast took from Saudi Arabia in a typical month last year, will fill rapidly dwindling storage capacity, depress already low prices in key shale regions and increase pressure on U.S. drillers to shut off their wells.

The tankers were loaded in March and early April when Saudi Arabia was pursuing a strategy of boosting its output and increasing its market share. Since then two dozen countries, including Saudi Arabia, agreed to a historic cut in oil output. Nonetheless, the 20 tankers holding a combined 40 million barrels of crude are still headed to ports in Louisiana and Texas, according to shipping sources and market intelligence firms Vortexa and Kpler. They are due to arrive in Texas and Louisiana through late May.

"This is the American energy producers' Pearl Harbor. We know the ships are coming in, and yet nobody is doing anything about it," said Kirk Edwards, president of West Texas oil company Latigo Petroleum. "Every barrel they're bringing in on those ships backs out a barrel of oil produced here in the Permian Basin." A substantial majority, if not all, of the crude coming from Saudi Arabia has buyers, market sources said. The 40 million barrels is equivalent to more than a week of Permian Basin oil production.

Russian oil companies squabble over how to share production cuts

(Financial Times; UK; April 16) - Russia's oil producers are at odds over their roles in the world's largest deal ever to cut crude output, throwing into doubt Moscow's promise to slash output. The suppliers are wrangling over how to allocate the country's pledged reductions, according to three people with knowledge of the talks, with companies seeking to protect their own projects and avoid expensive shutdowns.

The squabble comes just two weeks before the cuts are due to come into effect, with Russia having promised to cut oil production in May and June by about 2.5 million barrels per day. The targeted cut is about eight times larger than the biggest reductions Russia managed to make under a previous three-year deal with Saudi Arabia and other OPEC members that expired last month. Even those earlier cuts were enough to spark discord among some Russian companies that were reluctant to reduce their flow.

Some companies are lobbying against a proportional calculation and arguing for smaller reductions to protect new investments and avoid shutdowns of oil fields that can be costly or even fatal to close down — geological conditions can make some halted fields impossible to restart. With cuts promised into 2022, analysts say many big fields in Siberia require a level of production to stop them from freezing up in winter. The people, who declined to be identified as the talks are commercially sensitive, said the talks involving the government and companies have not reached a final agreement.

Global oil demand and prices not likely to recover to old 'normal'

(Asia Times commentary; April 16) - Reactions to the COVID-19 crisis have shared much in common with the stages of grief, but one key difference is the ability to believe that after the storm passes, we will return to "business as usual." In the energy world, reeling from the spectacular crash of global oil prices from about US$60 to $20 a barrel, the question is posed as to when something like a "normal" will price return.

I have news for you: It won't. The oil price could again become spectacularly volatile, but will not rise above $30 to $40 a barrel for any sustained period again. Ever. Given the fundamental importance of oil to the global economy, government revenues, your pension funds, and much besides, that may be the most enduring shock of all from the crises. If it were "just" COVID-19, oil would recover. But oil already faced two other challenges. COVID-19 has just prematurely thrown the world's most valuable commodity over a cliff toward which it was anyway stumbling during this decade.

The first reason is oversupply coming from multiple sources. The second challenge — also amplified by COVID-19 — is demand. In oil's premier market as a transport fuel, growth in the West had largely stalled anyway over the past 10 to 15 years. People will resume travel, but probably less as they have discovered videoconferencing. In 2019 oil demand breached 100 million barrels a day for the first time: It may well be the last. COVID-19 has already ensured that 2020 demand will be much lower. Some inevitable post-COVID-19 bounce doesn't mean oil demand will ever again reach triple figures.

It's possible 2019 was the peak for global oil demand

(Financial Times commentary; UK; April 16) - What if some of the demand destruction for oil worldwide turns out to be permanent? Could 2019 mark the all-time peak in global demand? If the question sounds deluded, consider the structural pressures on the oil market already in evidence before coronavirus hit and then add to these the behavioral changes prompted by the pandemic, some of which seem likely to stick.

First, take the structural pressure of efficiency improvements, clearly visible in U.S. oil demand over the past decade and a half. According to the U.S. Energy Information Administration, the highest level of U.S. oil demand was back in 2005 at 20.8 million barrels per day. Despite the population growing by 20 million people over 2005-2019, and vehicle miles traveled increasing by nearly 10% 2005-2019, U.S. oil consumption dropped. The increases in population and driving were outweighed by vehicle efficiency.

And there is the backlash against globalization. This was mainly a political phenomenon before the pandemic struck, but with the virus having revealed the fragility of over-extended industry supply chains there is likely to be more debate over the prudent limits of outsourcing once the public health crisis has passed. More locally sourced production would mean less oil demand for transportation. Next, consider the behavioral changes caused by the pandemic. Hundreds of millions of daily commutes have been eliminated under the global lockdown as all but essential workers are working from home.

International air travel has collapsed over the past few weeks, yet air travel was one of the fastest growing sources of oil demand in the past decade. Growth will return, but as businesses have learned to substitute face-to-face meetings with videoconference services, will air travel ever return to the rates seen over the past decade?

Oil prices really could go negative

(Wall Street Journal; April 15)- The coronavirus pandemic is turning oil markets upside down. While U.S. crude futures have shed more than half their value this year, prices for actual barrels of oil in some places have fallen even further. Storage around the globe is rapidly filling and, in areas where crude is hard to transport, producers could soon be forced to pay consumers to take the oil — effectively pushing prices below zero.

The collapse is upending the energy industry and even the math used in trading energy derivatives. CME Group, the world's largest exchange by market capitalization for trading futures and options, said it is reprogramming its software in order to process negative prices for energy-related financial instruments. Efforts to curb the spread of the virus have driven oil demand to record lows and threaten to overwhelm storage.

U.S. crude inventories surged by a record 19.2 million barrels during the week ended April 10, according to the Energy Information Administration. Gasoline stockpiles climbed by 4.9 million barrels to a record of 262.2 million barrels, while refining activity hit its lowest level since September 2008. The buildup of crude is overwhelming storage space. And in areas where tanker-ship storage isn't readily available, producers could need to go to extremes to get rid of the oil, said Jeffrey Currie, head of commodities research at Goldman Sachs. Those might include paying for it to be taken away.

U.S. storage capacity tighter for refined products

(Reuters commentary; April 17) - U.S. crude storage facilities are filling rapidly, albeit from a low starting level, and tank space will become a problem if the global oil market remains heavily oversupplied in June and beyond. With global lockdowns sharply reducing demand for oil, a lack of storage would weigh further on depressed prices, leaving producers with few financial or physical alternatives but to turn off the taps.

The system still has the capacity to continue absorbing crude at the current rate for a few more weeks, and longer if the inflow is slowed by production cuts from OPEC and its allies as well as U.S. and Canadian producers. But a more severe constraint is likely to come from the refined fuels system, where storage capacity is lower and logistics constraints are tougher. Once fuel storage is full, refineries will have no choice but to cut back crude processing, which will cause crude stocks to back up even more rapidly.

Working storage capacity for crude oil at refineries and tank farms totaled 653 million barrels at the end of September, the latest data available. Net stocks of crude held at refineries and tank farms totaled 375 million barrels at the end of last week, implying storage was about 57% full. Stockpiles have been rising an average of 16 million barrels per week over the past three weeks. U.S. petroleum markets, refining, and storage are organized regionally rather than nationally with limited transfer capacity and flexibility between regions. Most storage capacity is concentrated on the Gulf Coast and Midwest.

At-sea oil storage estimated at record 160 million barrels

(Reuters; April 17) - Traders are storing an estimated record 160 million barrels of oil on ships — double the level from two weeks ago as they seek to tackle a glut created by a slide in global demand from the coronavirus pandemic, shipping sources say. Despite efforts to scale back production, traders have rushed to find storage on land and at sea in what is believed to be the biggest oil glut in history.

The last time floating storage reached levels close to this was in 2009, when traders stored over 100 million barrels at sea before offloading stocks. “This is an unprecedented time in the history of tankers and while VLCC (very large crude carriers, at 2 million barrels each) tanker storage is garnering the headlines, smaller crude and product tankers are also being used for storage,” Gregory Lewis, shipping analyst with global financial services group BTIG, said in a note this week.

At-sea locations typically include the U.S. Gulf and Singapore, where major oil hubs are situated. The crude market is currently trading in what is known as contango, where forward prices are higher than immediate prices. This market structure encourages traders to park barrels in storage in the hopes of selling them for a profit later. There are over 770 VLCCs in the world and analysts have estimated as many as 100 to 200 supertankers could be deployed for floating storage in coming months.

Marathon shuts down Northern California oil refinery

(Argus Media; April 17) - Sharply lower demand will idle Marathon Petroleum's Northern California refining complex at the end of the month, the largest U.S. facility so far to confirm halting operations as COVID-19 mitigation efforts throttle gasoline and jet fuel consumption. The independent refiner, which operates the largest U.S. refining footprint by crude capacity, said it would start idling the 166,000-barrel-per-day Martinez refinery on April 27. Marathon will keep staff and resume operations based on market demand.

Gasoline and jet fuel demand have collapsed as local governments restrict travel to limit the spread of the coronavirus. Implied gasoline demand nationwide last week averaged just 54% of year-ago volumes. Refiners have deferred maintenance and cut rates on gasoline-producing units in particular to manage the plunge. Marathon idled its much smaller 26,000-barrel-per-day refinery in Gallup, New Mexico, over demand concerns earlier this week. The Martinez refinery is about 25 miles northeast of San Francisco.

Chevron, Phillips 66, PBF Energy, and Valero have all confirmed some level of reduction either in California or across their national refining systems. U.S. refiners have reduced crude processing to roughly 80% of the five-year average for early April. Northern California has led the nation in restricting movement and gatherings, so refiners supplying that region have endured the longest curtailed market. California refineries by last week had reduced crude processing to less than 70% of the five-year average.

ConocoPhillips will cut 200,000 barrels a day in Canada, Lower 48

(Bloomberg; April 16) - ConocoPhillips is slashing more than one-fourth of its North American production and halting all U.S. fracking in the continent's largest pandemic-related cutback to date. The dramatic retrenchment in the company's biggest-producing region accompanies deep spending reductions and a suspension of share buybacks.

Oil explorers, refiners, and shippers around the globe are reeling as the COVID-19 outbreak crushes demand for fuels in a market already saturated with excess supplies. Exxon Mobil, Shell, and Chevron have also taken steps to conserve cash amid the most severe collapse any living oil executives have ever witnessed. "No one has yet really done what Conoco intends to do," said Scott Hanold, an analyst at RBC Capital Markets. "We anticipate other industry production curtailments in the coming months."

Conoco CEO Ryan Lance told analysts and investors that the 2020 guidance provided just four weeks ago no longer applies. Oil and gas output will be scaled back at the Surmont oil sands complex in Canada and unspecified fields in the Lower 48 states. All fracking in U.S. shale projects will be halted. In total, the cuts amount to the equivalent of 200,000 barrels of Conoco's daily output, or 27% of the company's overall North American production, based on data compiled by Bloomberg. The continent accounted for more than half of Conoco's worldwide output last year, more than any other region.

Chevron, Conoco and Occidental announce biggest oil cuts

(Reuters; April 17) - Numerous U.S. and Canadian oil companies have said they are reducing output in 2020, but a Reuters analysis of the announcements show that three companies — Chevron, ConocoPhillips, and Occidental Petroleum — account for more than half of the cuts. Producers are deep into crisis mode as a result of the worldwide slump in demand caused by coronavirus lockdowns. Fuel demand is down over 30%, and the world's big producers cannot produce oil profitability at under $30 per barrel.

While members of the Organization of the Petroleum Exporting Countries and their allies, a group known as OPEC+, which includes Russia, will cut 9.7 million barrels per day in output starting May 1, other nations could reduce output by as much as 10 million barrels — including the U.S. and Canada. Those cuts will come over time, however, due to poor economics, not government orders.

ConocoPhillips on April 16 announced the biggest drop so far, saying it would slash oil output by 200,000 barrels of oil equivalent per day from earlier forecasts. Along with Chevron, which cut its Permian output by 20%, or 125,000 barrels, and Occidental, which reduced 2020 output by 85,000, the three companies account for 410,000 barrels of the reductions announced so far by U.S. and Canadian companies. More companies are expected to detail production cuts alongside quarterly results in the coming weeks.

Texas oil men think now is a good time to buy assets

(Bloomberg; April 15) - Amid the largest oil rout in a generation, two men are planning to use a $750 million war chest to make acquisitions in the Permian Basin. DoublePoint Energy's co-CEOs Cody Campbell and John Sellers, both 38, had planned to sell their 95,000 net acres in the Midland part of the Permian this year. Instead, the company — backed by private-equity giants including Apollo Global Management — now say they'll buy assets that may include acreage, royalties and water or pipeline infrastructure.

With the oil rout increasing the opportunity for acquisitions, Campbell said, "it makes sense to go out and utilize the committed capital that we have and see if we can't grow the business." Campbell and Sellers are prodigious deal makers, starting out signing leases on the hoods of trucks in the Eagle Ford shale play of south Texas a decade ago, graduating to a $2.8 billion sale of Permian land to Parsley Energy in 2017.

Most U.S. independent oil producers are bleeding cash at current prices and weighed down by high debt burdens. Whiting Petroleum, once a powerhouse in North Dakota's Bakken formation, filed for bankruptcy protection last week. "The reality is it's pretty tough right now," Sellers said. "We think there's a number of opportunities out there." DoublePoint produces about 40,000 barrels of oil a day, but is "heavily hedged" through the end of 2021, insulating it from the current oil-price downturn, Campbell said.

Price collapse could drive oil field service firms into bankruptcy

(Bloomberg; April 16) - No one is feeling the pain of an oil collapse more than U.S. shale producers. Except, perhaps, their suppliers. Take Stacy Locke, CEO for Pioneer Energy Services. Locke said he had no choice but to abandon drilling in the Bakken shale basin after roughly 20 years there as plunging oil prices slashed activity, and a major customer in the region — Whiting Petroleum — went bankrupt. Pioneer will lose the last six rigs it has in the Bakken with each one ending jobs for 20 or so workers.

Since the start of 2019, the oil field services sector has lost almost 50,000 jobs, or about 13% of its workforce. Meanwhile, the falloff in fracking — the technology used to shake loose oil from shale — is forecast to face its worst year ever with at least half of all work expected to be stopped by July 1, according to Citigroup. The domino effect for workers across a wide spectrum of companies can be devastating, said Skip Locken, Pioneer's vice president of drilling operations.

"There are so many different companies that are involved in drilling one well," said Locken. Contractors hired to map underground pockets of oil, drill new wells and open them are expected to be among the hardest hit as producers slam on the brakes to survive a crude-price crash triggered by a demand-destroying pandemic and a battle for market share between Saudi Arabia and Russia. "It's just terribly painful," said Locke, whose own company filed for Chapter 11 restructuring in March. "I think we're going to have quite a few bankruptcies this go-around," Locke said.

Hope for U.S. energy exports as China slowly reopens

(S&P Global Platts; April 16) - The boost to North American energy exports from an economic recovery in China and parts of Asia where people are being encouraged to return to work may be short-lived if a second wave of the coronavirus blunts commercial activity again, observers said April 16. As the first U.S. LNG cargo to be delivered to China in more than a year nears its port, and at least five other tankers loaded on the U.S. Gulf Coast follow behind, there is hope for greater trade flow as producers, traders and end-users scramble to find homes for the fuel amid weak prices and weak demand.

During a webcast, experts from advisory firms KPMG and the Eurasia Group said they were cautious about signs of China's increased appetite for oil and gas. Separately, a report issued by the Center for Energy Studies at Rice University's Baker Institute for Public Policy said new long-term contract purchases of U.S. energy would be a healthier sign for the market than the spot volumes that are now moving to China.

The flow of LNG and other energy products from the U.S. to China was already under pressure well before the coronavirus pandemic, due to the trade war between the two countries that began in 2018 and escalated in 2019. An initial trade agreement was announced in January, around the same time the respiratory virus began to spread from

China across the world. Over the ensuing months, energy demand cratered amid extensive stay-at-home orders. There's hope for more exports as China slowly reopens.

Canada will contribute US$1.8 billion to help its oil and gas industry

(Reuters; April 17) - Canada will invest C$2.5 billion (US$1.8 billion) in measures to help the hard-hit oil and gas industry during the coronavirus outbreak, Prime Minister Justin Trudeau said on April 17. The oil and gas sector, which accounts for 10.6% of Canada's gross domestic product, has urged Ottawa to free up credit and cash to tackle the effects of the pandemic and the hurt of rock-bottom oil prices.

Trudeau said energy sector workers have faced "layers of calamity" and Ottawa would invest C$1.7 billion (US$1.2 billion) to clean up orphan and abandoned wells in three provinces. "Our goal is to create immediate jobs in these provinces while helping companies avoid bankruptcy and supporting our environmental targets," he said. The measures would maintain 10,000 jobs. Funding to clean up orphan wells — those without a legal owner — is welcome news for farmers who lease land to oil companies, said Todd Plandowski, owner of a company that negotiates land agreements.

Ottawa is also setting up a C$750 million fund to provide loans to companies so they can cut emissions of gases such as methane. The government said later that the Business Development Bank of Canada will offer energy companies commercial loans, worth C$15 million to C$60 million each, to supply cash flow for 12 months.

U.S. LNG at price disadvantage in oversupplied market

(S&P Global Platts; April 16) - Global LNG markets see supply curtailments at gas liquefaction facilities as the only way to help rebalance demand and supply as natural gas prices hit record lows and there's little demand support on the horizon with the pandemic still raging out of control. Platts Japan Korea Marker spot-market LNG prices have dropped below $2.30 per million Btu with bearish sentiment prevailing. Oil-linked term LNG prices have plummeted to $4.20 with no hope for near-term recovery.

Prices are far below the breakeven costs of many LNG producers and make a strong case for companies to cut their losses by turning off the taps. While shut-ins are inevitable, some producers will be more affected than others. U.S. LNG, due to higher transportation costs to Asian markets and high breakeven economics, has been in the crosshairs for shut-ins. The Platts Gulf Coast Marker, which reflects U.S. LNG export economics, fell below the U.S. Henry Hub benchmark price of natural gas last month, meaning the LNG exports were no longer profitable.

Qatar starts drilling new wells to feed LNG expansion

(Natural Gas Intelligence; April 15) - State-owned Qatar Petroleum said April 15 that it had spud the first of 80 wells as part of its ambitious North Field East project aimed at significantly expanding its liquefied natural gas output in the coming years. The first well was spud on March 29 by an offshore jack-up rig. Qatar Petroleum has awarded a number of contracts for jack-up drilling rigs for 80 development wells for the project.

Qatar already is the world's largest LNG exporter. The first phase of the project would increase the country's capacity from 77 million tonnes per year to 110 million tonnes. The expansion was announced in 2018 and later grew after successful appraisal efforts determined additional gas reserves. Qatar now plans to boost LNG capacity to 126 million tonnes per year with six more mega-trains, each with output capacity of 8 million tonnes. First LNG was slated for 2024, but Reuters reported that the timeline has been pushed to 2025 due to contractor bidding delays caused by the coronavirus outbreak.

European leaders want economic recovery to promote Green Deal

(Reuters; April 14) - European politicians, companies, lawmakers and activists on April 14 called for green investment to restart growth after the coronavirus pandemic, saying fighting climate change and promoting biodiversity would rebuild stronger economies. The European Union is headed for a steep recession and EU leaders will meet next week to discuss a recovery plan. A group of 180 business leaders, political decision-makers, unions, and think tanks have urged the bloc to adopt green stimulus measures.

"After the crisis, the time will come to rebuild," they said in the letter. "The transition to a climate-neutral economy, the protection of biodiversity and the transformation of agri-food systems have the potential to rapidly deliver jobs, growth ... and to contribute to building more resilient societies." Signatories included ministers from 10 countries from Italy to Luxembourg, 79 EU lawmakers, and CEOs from L'Oréal, IKEA, and Danone.

Calling fallout from the coronavirus pandemic a shock worse than the 2008 financial crisis, the signatories said rescue measures should advance the EU's landmark Green Deal policy package, which aims to bring the 27-nation bloc to net zero greenhouse gas emissions by 2050. Ten EU countries, including Germany, France, and Greece, signed a separate letter urging the EU to ensure its rescue package includes the Green Deal.