Oil and Gas News Briefs
Compiled by Larry Persily
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About 30% of North Dakota oil production is shut in

(Bloomberg; April 25) - Negative oil prices, ships dawdling at sea with unwanted cargoes, traders getting creative about where to stash crude. The next chapter in the oil crisis is now inevitable: Great swathes of the industry are about to start shutting down. "We are moving into the end-game," said Torbjorn Tornqvist, CEO of global commodity trading giant Gunvor Group. "Early-to-mid May could be the peak. We are weeks, not months, away from it."

The best indicator of how the U.S. industry is reacting is the rapid drop in the number of drilling rigs in operation, which last week fell to a four-year low. Before the crisis hit, oil companies ran about 650 rigs in the U.S. By April 24, more than 40% of them had stopped working, with only 378 left. The negative oil prices of April 20 "really focused people's minds that production needs to slow down," Ben Luckock, co-head of oil trading at commodity merchant Trafigura Group, said. "It's the smack in the face the market needed to realize this is serious."

Trafigura, one of the largest exporters of U.S. crude from the U.S. Gulf of Mexico, believes that output in Texas, New Mexico, North Dakota, and other states will now fall much faster than expected as companies react to negative prices. North Dakota, which for years was synonymous with the U.S. shale revolution, is witnessing a rapid retrenchment. Producers have already closed more than 6,000 wells, curtailing about 405,000 barrels a day in production, or about 30% of the state's total.

Independent international producers in better shape than U.S. shale

(Reuters; April 27) - Independent international oil producers can cope with low prices better than higher-cost U.S. shale firms, but persistent weak prices may still leave them struggling to repay debts and renew hedging facilities needed to protect revenues. The drop in Brent crude to $20 a barrel and less, or the even deeper slide of U.S. crude into negative territory, has hammered U.S. shale producers, which typically need more than $40 to breakeven, forcing shut-ins and threatening insolvencies.

Independent international have lower costs than shale producers, despite working in tough areas like the North Sea or Africa. Independent producers such as Tullow, Kosmos, Genel, Premier, and EnQuest put their 2020 cash flow breakeven at $35 a barrel or less after cutting budgets, while hedging has further protected income for now. Hundreds of thousands of barrels per day of North American oil production has been shut in since prices began crashing in March. Yet in the North Sea, just two fields have been shut in. EnQuest operated both halting output of 6,000 barrels per day.

Some U.S. shale companies have not hedged against price falls or have programs that still leave them vulnerable to this year's price slump, which has sent prices down 70% since the end of 2019. Independent international producers, however, typically hedge about half of their output 12 to 18 months in advance with fixed-floor prices, protecting them from any price slide below that level. Tullow, an Africa-focused producer, had hedged 40% of its 2021 output with a floor price of $53 a barrel. But the costs of such insurance options are rising, making it a challenge to hedge further into the future.

Another oil industry company files for bankruptcy

(CNN; April 27) - The cratering oil market has tipped yet another energy company into bankruptcy. Diamond Offshore, which was posting losses even before the current plunge in oil prices, filed for bankruptcy protection on April 27. It conducts offshore drilling with 15 rigs working for Hess, Occidental, Petroleo Brasileiro, and BP. Diamond lost $357 million last year — nearly twice the loss it posted in 2018. It has posted losses in four of the past five years, totaling $1.2 billion.

The company had nearly $2 billion in long-term debt on its balance sheet as of Dec. 31, and only $156 million in cash. Diamond employs 2,500 workers. "After a careful and diligent review of our financial alternatives, [we] concluded that the best path forward for Diamond and its stakeholders is to seek Chapter 11 protection," said CEO Marc Edwards. "Through this process, we intend to restructure our balance sheet to achieve a more sustainable debt level to reposition the business for long-term success."

According to BankruptcyData.com, this is the fifth publicly traded oil company to file for bankruptcy in the past 30 days — and many more are expected to follow. The largest to file so far is North Dakota producer Whiting Petroleum, which filed for bankruptcy on April 1. Whiting was once a rising star in the shale industry, with $1.6 billion in sales last year. But like Diamond, Whiting posted a net loss in four of the past five years.

Oil prices again hit hard by trade in futures

(Bloomberg; April 27) - Oil prices plunged to within a whisker of $10 a barrel April 27 after a major index tracked by billions of dollars in funds bailed out of June futures contracts for fear prices may turn negative again. The abrupt decision by S&P Global to tell clients to sell their June West Texas Intermediate holdings unleashed another day of chaos in the energy market, only days after WTI prices briefly fell below zero for the first time ever. At one point on April 27, WTI fell to $10.07, down more than 20% on the day.

It's the latest "exodus away" from the June futures contract, said Harry Tchilinguirian, head of commodities strategy at BNP Paribas. The move follows "the risk of negative pricing associated with the potential saturation of storage capacity" at the U.S. tank farm hub of Cushing, Oklahoma. Oil's 85% plunge this year has come as the coronavirus outbreak destroys demand for fuels globally, testing storage limits worldwide.

S&P is behind the GSCI commodity index, a popular investment product tracked by pension funds and other global investors. When S&P changes the investment policy, the banks that sell the product in turn move their holdings, triggering volatile energy markets. "This unscheduled roll is being implemented based on the potential for the June 2020 WTI Crude Oil contract to price at or below zero," S&P said in a notice. Exchanged-traded products have also rolled positions from June futures into later contracts, looking to stem losses and betting that prices will look better later in the year.

Coal the big loser as world needs less electricity

(Bloomberg; April 27) - As silent factories and deserted offices hobble demand for electricity worldwide, the biggest loser is coal. In the U.S., coal's share of power generation has dropped more than 5 percentage points since February on the nation's biggest grid while output from natural gas plants and wind farms held steady. In Europe, it's down 2 points. Even in China and India, where coal still dominates, it's losing market share during the pandemic.

It comes down to cost. Coal power is more expensive than gas and renewables in many places and, hence, is the first fuel priced out of the market when demand falls. Its plunging use amid the lockdowns is a boon for efforts to fight climate change, hastening a shift that was already underway to weed out the dirtiest fossil fuel. "It's accelerating coal's demise," said Hannah Newstadt, a power market analyst for Genscape.

In the U.S., coal is now supplying just 14% of power on the grid for 65 million people from Illinois to New Jersey. That's down from almost 20% in February, according to a Bloomberg analysis of data from grid operator PJM Interconnection. Miners are feeling the pain, too. While output has been falling for years, it accelerated when states began shutting down economic activities. U.S. coal mine production has plunged 21% the past three weeks. In Europe, coal's share of power generation has dipped to 12%, from 14% a year ago, according to Wartsila Oyj, the Finnish energy technology company.

U.S. utilities accelerate reduction in coal-fired power generation

(The Wall Street Journal; April 23) - As Americans consume less electricity during the coronavirus pandemic, many utilities are cutting back on coal power first. That bodes poorly for the future of coal power in the U.S., which has already been in a steep decline. The slowdown is expected to accelerate closures of plants already challenged to compete with natural gas, wind, and solar sources, all cheaper power than coal.

Before the pandemic, a number of companies were already planning to retire at least some of their coal plants to reduce generation costs and carbon emissions. Southern Co., which provides electricity and gas in much of the South and Midwest, said it has been steadily retiring its coal plants over the past decade and last year relied on coal for about 22% of its power generation, down from 70% in 2007. "Coal is kind of what's on the margin," said Jeff Burleson, Southern's environmental vice president.

The precipitous drop could serve as a final blow to coal plants on shaky financial footing, particularly ones that need upgrades, said Greg Marmon, an analyst with energy consulting firm Wood Mackenzie. The analytical firm recently upped its forecast for coal use to decline 25% in the U.S. this year. Already utilities have been relying more heavily on gas-fired generation after a mild winter drove down prices as natural gas plummeted alongside crude oil prices. Wind and solar power have become increasingly cost competitive in recent years, putting pressure on fossil fuels.

Falling global prices could make U.S. gas most expensive in the world

(Bloomberg; April 23) - For the first time in more than a decade, U.S. natural gas is set to be the world's most expensive gas as COVID-19 lockdowns wallop demand — and prices — in other regions. Gas futures in the U.S. have rallied about 10% this month as traders bet that a historic crash in oil prices will drive American shale companies to halt more drilling and curb their output of gas, which comes up as a byproduct of oil drilling.

In Europe and Asia, meanwhile, natural gas prices are sliding to fresh lows due to a supply glut and languishing consumption amid the pandemic. U.S. gas had consistently been the cheapest since the shale revolution, which flooded the country with fuel and turned it into the world's biggest producer. Giant liquefied natural gas export terminals were built, attracting customers through contracts linked to cheap U.S. gas prices.

But that edge is eroding as prices in Asia and Europe confront the twin forces of rising supply and plunging demand. An LNG cargo for delivery to North Asia was sold this week in the high-$1 per million Btu range, likely to be the cheapest spot cargo ever transacted in the region. Asia's benchmark LNG price, the Japan Korea Marker, fell to $1.94 per million Btu on April 23, according to S&P Global Platts. U.S. gas futures ended the day at $1.815, while U.K. prices were at $1.71.

U.S. LNG exports in October could be half January's level

(S&P Global Platts; April 23) – U.S. LNG producers could see 20 to 25 cargoes canceled in June, kicking off a wave of cancellations that will last through October as the combined global health and economic crisis of the coronavirus pandemic hammers world natural gas demand, shipbroker Poten & Partners said in a market outlook April 22. Significant uncertainty remains about the ability of the domestic U.S. gas market to absorb a wave of LNG cargo cancellations, which the shipbroker expects to become most pronounced in October as already-high storage starts to fill up in Europe.

Poten & Partners forecasts U.S. LNG exports in October will be less than half of what they were in January, when feed gas deliveries to the six major LNG terminals in operation ended the month at about 9.3 billion cubic feet per day, according to pipeline flow data from S&P Global Market Intelligence. "The U.S. economics (of LNG exports) have been hit really hard, so we expect the U.S. supply to be hit really hard," Poten & Partners LNG forecasting manager Kristen Holmquist said on a webinar.

The duration and severity of the crisis are unclear, as is the ultimate level of demand destruction. Poten & Partners projects global LNG demand to decline by about 11 million tonnes year-over-year from 2019. U.S. LNG supplies will be most vulnerable to cancellations because they have greater offtake flexibility than other supplies and because global LNG prices are at historic lows — insufficient to cover the cost of U.S. feed gas, liquefaction and shipping.

New U.S. LNG projects vulnerable to delay or cancellation

(Reuters commentary; April 26) - While the coronavirus-led plunge in oil prices has grabbed most of the headlines, the collapse in spot liquefied natural gas prices in Asia has been just as dramatic and just as likely to have lasting consequences. Spot LNG prices for delivery to North Asia slipped to $1.95 per million Btu in the week ended April 24 — the lowest on record and also the first time they have closed below the $2 mark. That means a slump of 71.3% since their pre-winter peak of $6.80 in October last year.

One of the consequences of the decline in Asian spot LNG prices is that they are now almost as low as U.S. gas futures, serving to underline that the first casualty of the weakness in LNG will be U.S. exports to Asia. U.S. natural gas closed at $1.75 per million Btu on April 24. That does not include the cost to pipe the gas to a liquefaction plant, the process of liquefaction and the shipping from the U.S. Gulf coast to Asia. Liquefaction costs around $3 per million Btu, and shipping from the U.S. Gulf Coast to Asia currently varies from about 60 cents to Japan and 81 cents to China.

This puts the breakeven price of U.S. LNG delivered to China at around $5.56 — a long way above spot prices. Of course, current spot prices are also well below the breakeven point for much of the LNG delivered to Asia by the world's top exporter

Australia and other suppliers. But the loss on those cargoes will be smaller than the loss for U.S. LNG suppliers. Most Australian LNG is likely to need about $3 to break even. The impact from the coronavirus is likely to lead to deferment of final investment decisions, with projects in the U.S. and Australia particularly vulnerable to delays — or cancellations.

Changing global LNG market not good news for producers

(Bloomberg; April 22) - A decade ago, suppliers earned hefty premiums for shipping liquefied natural gas to places such as Asia. These days LNG has grown into a global industry with more suppliers shipping more gas than ever before. That change along with the demand slump as the global economy deals with the coronavirus pandemic is gutting margins. “I joined LNG when there was a $3 margin” on every million Btu of gas shipped, Sarah Behbehani, a 20-year gas veteran and senior vice president of LNG at Japan’s JERA Global Markets, said in February. “Now we scramble for 2 cents.”

As recently as two years ago, traders could depend on gas prices of $4 in the U.S., $8 in Europe, and $11 in Japan and South Korea, fully covering the cost of liquefaction and shipping to Asia. Today there’s less than 25 cents difference between the rates in those regions. With no end in sight to those trends, the narrow margins reduce the incentive for exporters to send gas to Asia. Atlantic cargoes are staying in the Atlantic and the same is happening in the Pacific, said Singapore brokerage Tullett Prebon Energy.

The growth of the trade also has complicated the LNG business, favoring sophisticated traders and the biggest companies. No longer is the business dominated by long-term contracts arranged between gas producers and consumers. Now a growing array of intermediaries and contract terms allow traders to swap cargoes with each other, divert shipments, or sail on even longer routes to play the market. As vessels become more efficient, they can act as long-term storage, holding cargoes until prices improve.

Low prices, weak economics block reopening of Egyptian LNG plant

(S&P Global Platts; April 24) - A deal designed to allow the restart of Egypt's idled Damietta LNG export facility, operated by a partnership between Italy's Eni and Spain's Naturgy, has fallen through. The collapse of the deal, reached in February between the companies, the Egyptian government, and state-owned EGAS, means a targeted restart of the plant by June looks unlikely. The production capacity is 5 million tonnes per year.

The restart of Damietta, which has been idled since 2012, would have provided a much-needed export option for Egypt, which currently has a surplus of gas. However, with spot LNG prices currently at record lows, the plant may have struggled to be economic. "The February agreement was subject to certain conditions and milestones that have not been met, so the agreement has fallen through," Naturgy said in a regulatory filing. Damietta is operated by a 50-50 joint venture between Eni and Naturgy.

Egypt currently only exports from the Idku facility operated by Shell, and weak prices have led to a collapse in shipments even from there, with a halving of cargoes shipped in the first quarter compared with a year earlier. Idku's capacity is 7.2 million tonnes per year. Damietta LNG was idled in 2012 after feed gas to the plant was diverted for use on the domestic market. New discoveries have boosted Egypt's gas production in the past year, allowing it to stop LNG imports and restart gas exports.

Chinese investors lose $1 billion when U.S. oil futures went negative

(Bloomberg; April 27) - Bank of China's estimate for the carnage to retail investors from the collapse in a product linked to U.S. crude oil futures surged 11-fold to more than 7 billion yuan ($1 billion) as it consolidated reports from its nationwide network, according to people familiar with the matter. The estimate of losses to customers across China increased from about 600 million yuan in the middle of last week as more information was gathered from its more than 10,000 outlets, the sources said.

The number isn't final and subject to further change as more branch data are examined. The losses stem from the bank settling May West Texas Intermediate contracts that underpinned its "Crude Oil Treasure" investment product on April 20 at minus $37.63 a barrel, leaving Bank of China customers caught in the middle of oil's unprecedented collapse below zero. Hundreds have taken to the Internet to protest the lender's handling of the contract rollover and to demand it shoulder some of the losses.

The bank declined to comment. The investment vehicle had offered Chinese retail investors access to WTI futures without opening an offshore account. Bank of China suspended trading in the product last week. China's biggest banks including China Construction Bank and Bank of Communications also halted sales of similar vehicles that had become a popular way for individuals to speculate on swings in oil. More than 60,000 clients have invested in Bank of China's product, Caixin news service reported.