Oil and Gas News Briefs
Compiled by Larry Persily
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Putin calls for solution; China will buy up cheap oil; prices surge

(Reuters; April 2) - Russian President Vladimir Putin called April 1 for global oil producers and consumers to address “challenging” oil markets. Oil prices have fallen nearly 70% since Jan. 1 as lockdowns due to the coronavirus have hammered the global economy and knocked down oil demand, while Saudi Arabia and Russia have flooded the market in a race for market share after a deal they engineered on supply curbs broke down. Oil and gas sales are a key revenue source for Russia’s treasury.

Oil prices surged when markets opened April 2, moving up about 25% by late morning. Beijing had instructed government agencies to start filling state stockpiles with cheap crude and China also may start filling its commercial stocks as well, Bloomberg News reported. The market was reacting not only to the expectation of more sales to China, but also hope for a truce in the debilitating price war based on Putin’s statement and President Donald Trump’s scheduled meeting with oil company executives on April 3.

Speaking at a video conferenced government meeting, Putin said oil producers and consuming nations should find a solution to help stabilize global oil markets and prevent subsequent problems. Prices are sure to spike later if investments in the oil sector fall, something “no one needs,” he said. U.S. shale oil producers need around $40 per barrel to turn a profit, and “that’s why this is also a hard challenge for the American economy,” Putin said. The Kremlin said Russia and Saudi Arabia were not holding any oil talks at the moment, but the Kremlin said such talks could be set up quickly, if necessary.

U.S.-to-China oil tanker charter triples in a month to $10 a barrel

(Bloomberg; April 1) - The cost of hauling oil from the U.S. to China has skyrocketed to nearly $10 a barrel — almost half the current value of benchmark West Texas Intermediate crude — as the oil-price war spurs a rush for ships. Global commodity trader Glencore’s shipping arm has provisionally booked a very large crude carrier (2-million-barrel capacity) to transport oil from the U.S. Gulf Coast to China in the first half of May at $19.5 million, according to shipbrokers and documents seen by Bloomberg.

The charter rate for the voyage has tripled from $6.55 million in early March as Saudi Arabia has been booking multiple vessels as it unleashes a flood of crude and traders scramble for ships to use for floating storage. Everything from crude to refined products such as jet fuel is being hoarded due to market structures where later-dated prices are higher than prompt contracts, making it attractive to hold supplies and sell them later.

In addition, more oil tankers are needed to export U.S. crude as the world's biggest consuming nation sheds demand for fuels as the lockdowns and economic shutdowns caused by the coronavirus grow, adding to the nation's crude surplus.

U.S. oil output could start dropping in 3 months, maybe sooner

(Reuters; April 1) - Ultra-low oil prices and full storage tanks and pipelines will force an unprecedentedly fast decline in U.S. output this year as producers are forced to choke or shut old wells and cut back new drilling. It usually takes an average of four to five months for lower prices to filter through into a reduction in new drilling and nine to 12 months to show up as a decline in output. But it will likely be much faster as the industry struggles with the biggest economic and price shock since the Great Depression.

Production warfare between Saudi Arabia and Russia, compounded by the shutdown of much of the world's business and transport system as a result of the coronavirus, has created an enormous oversupply. Global oil inventories are estimated to be increasing at the rate of 25 million barrels per day and storage capacity in pipelines, refineries, tank farms, and vessels at sea is rapidly filling up. Oil prices have plunged as traders are concerned whether there will be enough storage to hold it all until demand picks up.

After adjusting for inflation, prices in the fields of West Texas have fallen to their lowest level, or close to it, since before the 1973 oil shock. In response, U.S. shale firms have slashed the number of drilling rigs by 59% the past two weeks, with 40 idled last week alone, the fastest one-week reduction in five years. The result is that U.S. crude output should start to decline significantly within the next three to four months at the outside, possibly sooner. Output is likely to be falling year-on-year well before the end of 2020.

Several grades of U.S crude selling at less than $10 a barrel

(Bloomberg; March 31) - Oil is selling for less than $10 a barrel across several North American hubs as the global demand shock leaves crude with nowhere to go. The U.S. benchmark futures price has crashed to its lowest in 18 years as oil is backing up throughout the distribution system, raising the prospect that producers will need to shut in wells. Refiners across the U.S. are slowing fuel production as restrictions on travel and work have reduced gasoline and jet fuel demand to a trickle.

Bakken crude in Guernsey, Wyoming, sank to a record low $3.18 a barrel March 30, according to data compiled by Bloomberg, while Western Canadian Select in Hardisty, Alberta, was worth just $4.18. Even oil in West Texas is as cheap as it's ever been. West Texas Intermediate in Midland was $10.68, just above its all-time low from 1998. It's lower-quality counterpart, West Texas Sour, slid to $7.18, the lowest back to 1988.

West Texas Intermediate Light traded at around $7.50 a barrel below the WTI Midland benchmark on March 30, traders said, the equivalent of about $3 a barrel outright. Including transportation costs from the wellhead, that would mean the very light crude is worth near-zero, if not negative, when it comes out of the ground.

China buying U.S. crude at steep discounts to benchmark

(Reuters; April 1) - China has increased its purchases of U.S. crude, with some buyers snapping up cargoes at the widest discounts ever as sellers seek to offload excess supplies in Asia, six trade sources said April 1. Beijing in March started processing applications from Chinese companies to waive import tariffs on U.S. energy goods as part of the Sino-U.S. Phase 1 trade deal, and Chinese companies have since bought liquefied natural gas and liquefied petroleum gas from the United States.

Cheap U.S. energy supplies will help China lower its import costs, but the deep discounts will add further pressure on U.S. producers to shut in production after U.S. crude futures slumped to their lowest since 2002. U.S. Mars Sour crude has been sold to Chinese buyers at discounts between $7 and $9 a barrel to September ICE Brent futures for July arrival, while the discounts for West Texas Intermediate crude in Midland were between $6 and $7 a barrel, the sources told Reuters.

"Only the Chinese are buying and the rest of the world is selling," a Singapore-based trader said, leading to some "very aggressive offers" for U.S. crude. Benchmark WTI has been trading at around $20 per barrel this week, before any discounts.

Analyst predicts U.S. gasoline demand could fall to half of normal

(Wall Street Journal; March 30) - Gasoline cost only $1.31 a gallon March 29 at Bill Douglass's convenience stores north of Dallas, the lowest price he can recall in more than two decades. Yet sales were down roughly 50% in some stores. "It's dropped so much that I'm bewildered," Douglass said of retail prices. "We're under siege." Lower prices typically encourage people to log more miles. Not this time. Fuel demand is plummeting as millions hunker down to stem the spread of the new coronavirus.

In the U.S., gasoline has actually been worth less than crude in recent days, even with U.S. benchmark oil fetching around $22 a barrel. The numbers increase the likelihood that refineries will need to shutter in coming weeks to balance supply and demand. It could get worse. Analytics firm IHS Markit said gasoline demand in the U.S. could be less than half of normal over the next four to six weeks, as people isolate themselves.

“There’s not a lot you can do if nobody wants your products,” said Amy Kalt, with Baker & O’Brien, an energy consulting firm. The domestic response to the coronavirus is still in its early days, but some think gasoline consumption may never fully rebound. “I think we will have a permanent and long-term reduction in travel patterns,” said Ramin Shabanpour, an assistant professor of engineering at the University of Illinois at Chicago who has written on telecommuting and its impact on transportation.

U.S. drilling company says ‘we don’t know where the bottom is’

(The New York Times; March 31) - The once mighty oil industry is shrinking quickly around the world, hunkering down in survival mode. With the coronavirus pandemic eliminating travel and commutes, demand for energy is tumbling and oil companies are slashing budgets. Refineries are cutting production of gasoline, diesel, and jet fuel. Pipeline operators are telling producers that they can ship crude only if there is a buyer willing to take the fuel because storage tanks are filling up fast. And U.S. oil companies are dropping rigs, dismissing fracking crews and beginning to shut down wells.

As much as 20 percent, or 20 million barrels a day, of demand may be lost as the global economy slows, according to the International Energy Agency. To make matters worse, Saudi Arabia and Russia are increasing production to regain market share from U.S. oil companies that increased production and exports in recent years. If low prices persist, a big wave of bankruptcies is inevitable by the end of the year, experts say.

“The picture looks bleak,” said Trent Latshaw, president of Latshaw Drilling, active in Texas and Oklahoma but with only 10 of its 41 rigs deployed. “We have never had this situation where you have a huge increase in supply and a huge decrease in demand at the same time. Oil prices are down to $20, and we don’t know where the bottom is.” Global investments in exploration and production are expected to fall in 2020 by $100 billion, or 17% below last year, said Rystad Energy, a research firm based in Oslo.

One of the Bakken’s largest producers files for bankruptcy

(Reuters; April 1) - Whiting Petroleum, facing more than a $250 million debt maturity, filed for bankruptcy April 1, perhaps the most illustrious of the shale explorers thus far humbled by an unforgiving rout in every corner of the oil business. Whiting, once the largest oil producer in North Dakota’s Bakken, has seen its market capitalization shrink to $61.5 million from as much as $15 billion at its peak in 2011. Whiting lost money in four of the past five years and sank deeper into debt as the COVID-19 outbreak crushed oil demand.

Whiting's fall from grace comes at a time when the coronavirus pandemic and an oil-price war between Russia and Saudi Arabia have led to a 50% drop in crude prices since the beginning of March, forcing oil and gas producers to restructure their debt. The company said it reached an agreement with its creditors to cut its debt by about $2.2 billion through an exchange of some of its debt for 97% of new equity. Existing shareholders will own 3% of the reorganized company.

Whiting, which was expected to produce about 42 million barrels of oil equivalent in 2020, said it would continue to operate its business in the normal course without material disruption to its vendors, partners or employees. SunTrust Robinson Humphrey analyst Neal Dingmann said filing for bankruptcy "was more of a temporary solution than a long-term sustainable plan."

Global oversupply 'opportunity of a lifetime' for storage operators

(Bloomberg; March 31) - When it comes to commodities, the only thing in demand right now is somewhere to put them. From oil tanks in Oklahoma to wagyu beef refrigerators in Kobe, Japan, facilities around the world are filling up with products that can't get where they're needed or are simply not wanted at all. The cost of storage is exploding, in sharp contrast to the price of the commodities themselves, which are collapsing amid the economic chaos caused by the coronavirus and nations' efforts to slow its spread.

It's a potential windfall for the companies that inhabit this critical corner of the commodities universe, like oil tank firm Royal Vopak and ship owners like Euronav. And as conventional storage rapidly fills up, anyone holding onto products is having to get creative in the hunt for space or in some cases resort to just giving them away. "If you're a storage operator, this is the opportunity of a lifetime to capitalize on your assets," said Michael Tran, managing director of global energy strategy at RBC Capital Markets.

"During times of pandemic and distress, when people generally have less optionality, that optionality comes at a premium. Storage offers that because storage offers time value," Tran said. It's costly and disruptive to shut down an oil field or refinery and, furthermore, customers may be under contract to take delivery anyway, regardless of whether they need the crude. So the supply keeps coming and storage fills up. Storage-tank fees have more than doubled in the past few months, and oil traders are desperately chartering vessels at a historic pace to hoard the fuel on the open sea.

Reducing Texas oil production will not boost prices, economist says

(Houston Public Media; March 30) - Texas oil and gas companies are trying to figure out how to stay financially afloat as the coronavirus crisis and global oversupply have hit oil prices hard. Many have already cut spending, some have furloughed workers, and most have said they wouldn’t be able to make a profit if they started new drilling. Some have even suggested state regulators should put a cap on production, arguing it would make prices go up and save jobs. But experts and industry trade groups don’t agree.

“They’ve gone to the referee to ask for some sort of assistance in enforcing something that really is just nonsense on the rest of the Texas market,” said University of Houston Energy Fellow and economist Ed Hirs. “Even if they were able to reduce production in Texas, it would not have the desired impact of raising prices. … These companies could themselves shut down production and reduce production, to — in their view — help alleviate the supply overhang,” Hirs said. “But they’re unwilling to do this alone.”

It’s too much foreign oil that’s hurting the Texas market the most, Hirs said. Russia and Saudi Arabia are in a price dispute, and it’s unknown when or if they will reach a deal — and that’s something Texas regulators have no control over. Limiting production would just put small producers at a greater risk, he said. “There’s no question we were going to see bankruptcies over this season as the 2019 results came in and as banks pulled their lines of credit,” Hirs said. “Now, of course, everything’s going to be accelerated, and then if they were to limit production, it would just happen a heck of a lot faster.”

Yergin tells Goldman Sachs that low prices could persist for months

(Reuters; April 1) - Oil prices could continue to tumble and even fall to single digits as global demand slumps due to the coronavirus crisis, industry experts said in interviews published by Goldman Sachs. The fall will be exacerbated by a market-share tussle among top producers as the world runs out of storage space. But the slide could give way to a "healthier global industry," the bank said in the note dated March 31, rebounding as production is reduced.

Oil expert and Pulitzer Prize-winning author Daniel Yergin told Goldman Sachs that demand could fall by 20 million barrels per day in April, or even more, referring to the "biggest demand drop in modern times," while Saudi Arabia and Russia engage in a price war. "If we run out of oil storage and oil can't be moved, as in 1988, we'll see prices go sharply lower — to very low double digits, and in some cases to single digits," Yergin said, adding that low prices could prevail for the several months or even longer.

How long it takes for the current oil surplus to be eliminated, and how long prices would stay low, depends more on the trajectory of the coronavirus pandemic, said PIRA Energy Group founder Gary Ross. "If efforts to control the pandemic are successful within the next three to four months, and we start to rebound in the summer, then we could see a surge in demand growth in 2021," Ross said.

Goldman analyst says U.S. shale could emerge a winner

(Bloomberg; April 1) - The bruised and battered U.S. shale industry is poised to emerge from the oil crash a winner, according to Goldman Sachs. Shale's high-pressured wells and short drilling time mean the industry is well positioned to benefit if the current lunge in oil prices inflicts long-term damage to production capacity, resulting in a price jump when demand returns, Goldman analyst Damien Courvalin said in a note March 31.

Shale's flexibility is similar to the spare capacity that OPEC stalwarts such as Saudi Arabia and the United Arab Emirates keep on hand to be able to boost production on short notice, Courvalin said. "This implies that the coronavirus-led demand collapse may ultimately benefit shale and low-cost producers alike." The note of optimism runs counter to the steady drumbeat of bad news that has hit the shale patch since oil prices collapsed amid simultaneous supply and demand shocks. The price plunge instantly made thousands of prospective shale sites money-losing propositions.

Shale wells' high initial pressure means that there is a strong likelihood that companies can shut them in and later resume production with limited lost capacity, Courvalin said. That's not the case for many more mature wells that face being shut-in amid low prices and storage and logistics constraints, with production being potentially lost forever, he said. "Shale's flexibility is likely to be finally monetized by producers once demand starts to recover to fill any global supply gap," Courvalin said.

Oil-price crash 'truly sobering' for Louisiana economy

(The Advocate; Baton Rouge, Louisiana; March 30) - An oil price war and the coronavirus causing a collapse in the global economy have smacked Louisiana's oil and gas industry with a devastating one-two punch. West Texas Intermediate, the U.S. benchmark price, reached $20.25 per barrel on March 30, a price not seen since 1999 and a drop of 66% over the past 90 days. The world has so much oil that producers are beginning to worry they will soon have no place to store it.

Producers and oil-field service companies are canceling contracts and reducing workers. The overall situation "is an existential threat for companies," said David Dismukes, executive director of Louisiana State University's Center for Energy Studies. "Nobody is walking out of this unscathed. It is truly sobering." The price drop will have major implications for Louisiana, even though the economy has diversified since a mid-1980s' oil bust. Today direct oil-and-gas sector jobs account for nearly 2% of the state workforce and about 6% of state revenue, said Jim Richardson, an LSU economist.

"Oil companies have been cutting the heck out of their capital budgets — multibillion-dollar cutbacks," said Loren Scott, an economist who closely tracks the industry. "If a project hasn't started, they'll delay it. They're going to their suppliers and saying they have to cut them. In the short run it's not happy for the state of Louisiana." Low prices will hit state's finances. For every $1 drop in oil over a year, the state loses about $12 million in revenue. State officials had expected oil to average $59 a barrel in 2020.

Collapse in U.S. natural gas prices possible, bank analyst says

(Bloomberg; March 31) - After two warm winters gutted demand for energy, natural gas is headed for an even more difficult summer because of the coronavirus. The price of the fuel used for everything from power generation to home heating is at record lows in Amsterdam, one of the world's deepest and most liquid market for the fuel. Higher temperatures in the Northern Hemisphere meant less need for energy during the winter, leaving the industry overstocked as virus-related closures hit the global economy.

The result puts the gas industry on course for the biggest upheaval in its modern history, gutting profits of shippers to energy majors and paring back the cost of imports for big buyers led by China and Japan. "The virus outbreak has exacerbated the oversupply situation in the global gas market," said Samantha Dart, head of natural gas research at Goldman Sachs in New York. In Amsterdam, gas prices have plunged 58% since the heating season started in October. The outlook is worse still.

This winter, weak demand pushed more fuel into storage, leaving sites unusually full in Europe, the U.S. and parts of Asia. Inventories at the start of April will only accumulate. That sets up the industry for a crunch in August and September when tanks will be brimming at or even beyond their capacity. "There's a chance we will see a collapse in prices in the U.S.," said Francisco Blanch, head of global commodities research at Bank of America. U.S. natural gas prices fell below $1.60 per million Btu on April 1.

Opponents file lawsuits against proposed Texas LNG projects

(Houston Chronicle; March 30) - Opponents of three proposed liquefied natural gas projects in the Rio Grande Valley have hit the projects with three simultaneous federal lawsuits. Texas RioGrande Legal Aid filed a lawsuit on behalf of Shrimpers and Fisherman of the RGV, challenging the issuance of a U.S. Army Corps of Engineers wetlands permit for Rio Grande LNG and the Rio Bravo Pipeline, two projects being developed by Houston-based developer NextDecade.

In addition, Save RGV From LNG, the Sierra Club, Vecinos para el Bienestar de la Comunidad Costera, and the city of Port Isabel filed two lawsuits challenging the permits issued by the Federal Energy Regulatory Commission for the Annova LNG and Texas LNG projects. "In their approvals of these three highly polluting fracked gas export facilities, federal agencies violated the law by ignoring serious threats to local communities and the environment," Sierra Club Senior Attorney Nathan Matthews said.

FERC issued approvals for the projects in November. The companies and their supporters say the plants will provide a much-needed outlet to excess gas being burned in shale fields and bring nearly $40 billion of private investment to one of the poorest metropolitan areas in the country, where nearly one in three people live in poverty.

South Asian nations cut LNG imports as lockdowns reduce demand

(S&P Global Platts; March 31) - Pakistan has cut back on its April LNG deliveries as the coronavirus lockdown eats into the country’s gas consumption, while Bangladesh could be the next South Asian country to reduce LNG imports after it introduced its own lockdown last week. Nationwide closures now pose major risks to LNG markets after a 21-day shutdown prompted Indian gas importers and ports to declare force majeure last week, raising concerns about surplus cargoes being dumped on the spot market.

Pakistan has long-term contracts for the import of eight LNG cargoes per month on a take-or-pay basis, with five of the cargoes from Qatar, a government spokesman said, adding that the Qatari volumes had been reduced to three deliveries for April through mutual agreement, without invoking any force majeure. "COVID-19 pandemic has resulted in reduced gas demand in Pakistan like many other countries," the spokesman said. "Lower gas consumption has posed challenges for the LNG supply."

Unsold cargoes are already affecting Asian spot LNG prices. The S&P Global Platts Japan-Korea Marker for May deliveries was assessed at $2.797 per million Btu on March 27 and looks to be headed to record lows in the coming days. “I think it's likely that the majority of this growth (LNG demand growth in South Asia) will be wiped out and we could see some year-over-year declines for the next few months," said Jeff Moore, manager for Asian LNG at Platts Analytics.

Workforce slowdown could delay LNG expansion in Indonesia

(Energy Voice; March 30) - BP will be bracing for a delay in the start-up of its third liquefied natural gas train at the Tangguh LNG project in West Papua province, Indonesia, due to the COVID-19 pandemic. The project was already delayed one year from the original completion target of third-quarter 2020 to third-quarter 2021 due to disruption caused by two tsunamis in 2018. It now looks likely to be delayed further as the workforce has been drastically reduced to stem the spread of the coronavirus.

Deputy chairman of operations at Indonesian upstream regulator SKK Migas, Julius Wiratno, told local media that the project has adopted physical distancing among workers. This triggered a drastic cutback in workers on site — from 13,000 to 10,000 as of the third week of March. This will be cut further to 3,000 core workers only. The consortium of contractors building the third LNG train decided they would stop work based on the World Health Organization declaration of COVID-19 as a global pandemic.

However, analysts at Jakarta-based research firm Tenggara Strategics said the consortium's decision reportedly angered SKK Migas and BP, as it was not yet clear who would be responsible for cost overruns. The expansion project comes under a cost-recovery contract, meaning SKK Migas — or the government — would ultimately bear the cost, predicted Tenggara. When Train 3, initially expected to cost $8 billion before delays, comes online, the total capacity at Tangguh will be 11.4 million tonnes per year.

Poland wins $1.5 billion arbitration ruling against Gazprom

(Reuters; March 31) - Poland's dominant gas firm PGNiG says it will take immediate steps to collect from Russian gas supplier Gazprom the $1.5 billion it won in a pricing dispute, PGNiG Chief Executive Jerzy Kwiecinski said March 31. An international arbitration court ruled that Gazprom must pay PGNiG about $1.5 billion. The tribunal in Stockholm also ruled that a pricing formula in PGNiG's long-term deal with Gazprom should be changed to take into account gas market conditions.

PGNiG buys from Gazprom most of the gas it resells, and it often paid more than its western European peers, the company said. "Please do not expect that the money will be transferred on our accounts tomorrow. This ruling shows that we were right and sets up a new pricing formula. It says nothing on how we are to reclaim the money. So we are starting this process immediately," Kwiecinski told a videoconference.

Poland wants to reduce its reliance on Russian gas and does not plan to extend its deal with Gazprom when it expires in 2022. PGNiG has been buying more liquefied natural gas through a terminal on the Baltic Sea to replace Russian gas. Poland also plans to build a pipeline link to Norway, which would give it access to gas from the North Sea. "Poland was a subject of (Gazprom's) blackmail … Poland was also a subject of blackmail when it comes to prices. Now, thanks to Poland's determination, this blackmail turned out ineffective," Poland's Minister of State Assets Jacek Sasin said.