Oil and Gas News Briefs
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Oil prices down 16% in worst January start since 1991

(Bloomberg; Jan. 31) - Oil is off to the worst start to a year since 1991, tumbling 16% in January on concern that the spread of coronavirus will curb demand for transportation fuels. Futures fell 1.1% in New York on Jan. 31, capping the worst month since May as investors were rattled by the fear of demand destruction after the World Health Organization declared the outbreak a global health emergency. The U.S. Centers for Disease Control and Prevention called the virus an unprecedented public health threat.

China, the world's second largest economy and key driver of global oil demand, has resorted to unprecedented measures to slow the outbreak, including extending the Lunar New Year holiday and a lock-down in the country's major cities and provinces. At least two-thirds of China's economy will stay shut next week. West Texas Intermediate crude for March delivery fell 58 cents to settle at $51.56 a barrel on the New York Mercantile Exchange on Jan. 31. Brent for April delivery closed at $56.62 in London.

The plunge in prices has prompted a push by Saudi Arabia for OPEC and its allies to hold a session in February, with Russia signaling for the first time on Jan. 31 it was open to talking. The coalition is considering deeper production curbs of about 500,000 barrels a day, though there's no consensus, said consultancy Energy Aspects. "This virus is requiring more out of the group as the demand picture gets weaker," said Rebecca Babin, an equity trader at CIBC Private Wealth Management.

Saudi Arabia pushing for short-term oil production cut

(Wall Street Journal; Feb. 3) - Saudi Arabia is pushing for a major, short-term oil production cut as it seeks to respond to the impact of China's deadly coronavirus on crude demand, according to OPEC officials. Representatives of the Organization of the Petroleum Exporting Countries and its allies are set to meet Tuesday and Wednesday to debate possible action after the outbreak in China, the world's largest oil consumer, has led to the biggest monthly crude-price drop in 30 years.

Under one scenario, Saudi Arabia, OPEC's kingpin, would lead a collective reduction of 500,000 barrels a day that would stand until the crisis is over, cartel officials said. Another option being considered would involve a temporary cut of 1 million barrels a day by the Saudis to jolt oil markets, the officials said. OPEC and its allies are split over how to manage oil supply in the face of the deadly coronavirus, which has eroded demand in China. Oil prices have lost about 16% in the past month.

Despite the Saudi prodding, the cartel and 10 allied nations led by Russia stopped short of scheduling an emergency meeting of its full delegation this week and will instead hold a technical meeting to access the effects of the virus and make recommendations to members. Producers would then decide if they hold a small gathering led by Saudi Arabia and Russia — called a Joint Ministerial Monitoring Committee — or a summit of all 23 producers in Vienna, the officials said.

Virus hits at vulnerable time for global oil market

(Bloomberg; Jan. 30) - For the global oil market, the coronavirus epidemic couldn't have hit at a worse place. As the industry banks on strong demand growth to overcome too much supply, China, the epicenter of the disease, has been cherished as the engine of that growing consumption. Last year it imported more oil crude than any country ever. That's now at risk as the government locks down cities and shuts transportation networks in an effort to contain the virus that's already infected thousands.

China's "unflinching appetite for crude has provided a floor to oil prices over the past few volatile quarters," said Peter Lee, senior oil and gas analyst at Fitch Solutions in Singapore. "The timing of the coronavirus outbreak is unfortunate, coming when both sentiment and actual demand for fuels are already being hit by lingering growth concerns and unfavorable weather." A drop in gasoline, jet fuel and diesel use means that Chinese refineries will likely cut output, leading to less demand growth for crude oil.

China surpassed the U.S. as the world's top oil importer in 2017 and last year took in more foreign crude than America ever did at its import peak. The virus is hitting at a vulnerable time for the oil market. Prices had been crawling back amid optimism that a U.S.-China trade deal could spur demand and, along with production cuts from OPEC and its partners, help shrink the oversupply. Brent has fallen more than 9% to below $60 since Jan. 20, when worry about the virus began to grow, and it could fall further.

China's oil demand falls by 3 million barrels a day

(Bloomberg; Feb. 2) - Chinese oil demand has dropped by about 3 million barrels a day, or 20% of the country's total consumption, as the coronavirus squeezes the economy, according to people with inside knowledge of China's energy industry. It's probably the largest demand shock the oil market has suffered since the global financial crisis of 2008-2009, and the most sudden since the Sept. 11 attacks. It could force the hand of OPEC, which may hold an emergency meeting to cut output and staunch the price fall.

"It is truly a black swan event for the oil market," said John Kilduff, a partner at Again Capital in New York with more than 15 years of experience in energy trading. "There was some hope for the demand outlook this year before the outbreak, but that has been

knocked off its block. OPEC+ has to react. If there are no further production cuts, there will only be more price losses."

China is the world's largest oil importer after surpassing the U.S. in 2016, so any change in consumption has an outsize impact on the global energy market. The country consumes about 14 million barrels a day — equivalent to the combined needs of France, Germany, Italy, Spain, the U.K., Japan, and South Korea. Chinese and Western oil executives said the decline was measured against normal levels for this time of year. The collapse in Chinese oil demand is starting to reverberate across the global market.

Oil market is 'testing investors,' analyst says

(Bloomberg; Jan. 31) - Oil spiraled toward its worst monthly performance since May on growing alarm that China's viral outbreak is crippling fuel demand, prompting OPEC to consider an emergency meeting. U.S. futures prices fell 2.2% on Jan. 30 and an additional 2% on Jan. 31, dropping to a five-month low and down $12 a barrel in just four weeks. The Organization of Petroleum Exporting Countries is considering moving its March meeting to February, though cartel ally Russia was said to be resistant.

"This is a panic and the market is testing investors," said Mark Waggoner, president of Excel Futures. "We haven't hit the real lows yet and it's hard for me to believe it will stop here." U.S. crude may slip to $50.50 a barrel before rebounding, Waggoner said. West Texas Intermediate crude for March delivery fell $1.19 to $52.14 a barrel on the New York Mercantile Exchange on Jan. 30, slipping further to $51.56 on Jan. 31. The U.S. benchmark has tumbled 15% this month. The global benchmark, Brent, has fallen about the same, down to $56.62 on Jan. 31.

Impact of virus could reduce China's demand for LNG imports

(Independent Commodity Intelligence Services; Jan. 30) - The rising epidemic of the coronavirus that started in China's Wuhan has triggered further bearishness in the Asian liquefied natural gas market, with signs of a slowdown in Chinese import demand. Sources from Chinese state-owned majors said the impact of the virus will slow the local economy and hit China's demand for natural gas, particularly the industrial sector. This in turn will feed through to reduce China's demand for LNG imports.

The impact on LNG demand will depend on how long the epidemic lasts. The retail and tourism-related sectors are expected to be most affected by the outbreak, while the industrial and investment-related segments should be less impacted, according to a Jan. 26 report by Oxford Economics.

The virus is expected to reduce domestic LNG sales at Chinese import terminals, said a source from a state-owned major. As a result, all three state-owned majors could face high inventories over the next few months, with China National Offshore Oil Corp. likely to be the most oversupplied, he said. The market could see the overstocked state-owned majors deferring or selling their contractual cargoes in the next few months.

Spreading effects of virus hit already weak LNG market

(Reuters; Jan. 31) - Asian spot prices for liquefied natural gas fell this week as the heavily oversupplied market was pressured by concerns over effects of the coronavirus outbreak on China's imports. The average LNG price for March delivery into northeast Asia was estimated at $3.80 per million Btu, down $0.20 from the previous week.

With demand across Asia subdued due to a warmer-than-usual winter, concerns are growing that the coronavirus may further cut into gas consumption. "Any slowdown in Chinese GDP growth as a result of the virus will feed directly into gas consumption and through to LNG imports," said Michael Stoppard, chief strategist for global gas at IHS Markit. "This will hurt a global market already in search of demand support."

China's Council for the Promotion of International Trade has said it will offer force majeure certificates to companies struggling to cope with the impact of the virus on their business with overseas partners — allowing the business to escape some contractual commitments. With warm weather keeping storage levels high, a fall in downstream demand would easily lead to a so-called tank-top situation at Chinese import terminals, an LNG analyst said.

China restarts talks to buy U.S. LNG, but it will not be easy

(Reuters; Jan. 30) - China has restarted talks with U.S. liquefied natural gas marketers to buy more LNG, several industry executives told Reuters, but they are worried that any purchases may come too late to keep natural gas prices from falling further due to a glut of global supply. China pledged this month to buy an additional $18.5 billion in U.S. energy products this year, but the U.S.-China trade agreement left tariffs in place, including a 25% levy on U.S. LNG imports that puts American LNG at a disadvantage.

"The U.S. doesn't have a margin that would allow any country to charge 25%" above global prices, said Michael Smith, chief executive of Freeport LNG, referring to the tariff. Until that tax is removed, "it's a non-starter," he said. U.S. LNG exports have more than doubled since 2017, largely on Asian demand. But prices have tumbled due to rising global supply, and the glut is expected to grow, pressuring LNG producers to cut output and putting up hurdles for developers looking to finance new multibillion-dollar projects.

The Phase 1 accord between the U.S. and China has only a two-year term, making it harder for buyers and sellers to enter long-term deals, executives said. Phase 1 should be viewed as a “ceasefire” as opposed to an accord, said Jason Feer, head of business intelligence at LNG shipbroker and consultancy Poten & Partners. LNG buyers in China will avoid long-term U.S. deals as long as there is a chance that the Phase 1 accord lapses without a real end to the trade dispute, he said. They risk having to sell off U.S. purchases or absorb the hefty tariff if the current deal expires without a replacement.

Unsold Latin America oil cargoes stack up as China cuts back

(Bloomberg; Jan. 30) - Sales of Latin American oil cargoes to China have ground to a halt this week as the deepening crisis around the coronavirus further stifles an already quiet holiday period. Zero sales have been reported since last week for March cargoes from Brazil and Colombia and unsold cargoes are piling up, according to people familiar with the matter. Interest from buyers has been sluggish, though China hasn’t so far canceled or postponed any cargoes set to load in February, the people said.

It’s the latest effect from the coronavirus, which is threatening to hit economic growth in the world’s biggest oil importer. Crude futures are heading for their worst month since May, prompting OPEC and its allies to consider an emergency meeting for February. Refineries in China — which take 30% of the shipments from Brazil, Colombia, and other Latin American exporters — are expected to cut output amid speculation that travel restrictions to halt the spread of the virus will dampen demand for gasoline, diesel, and jet fuel.

China’s importance to the oil market has grown sharply in recent years, with its share of global oil consumption doubling since 2003. Brazil has become the main Latin American oil supplier to China, surpassing Venezuela, which is plagued by U.S. economic sanctions and an economic and humanitarian crisis. China has long feasted on heavy, high-sulfur Latin American oil as a cheap feedstock for its expanding refinery capacity.

Oil production terms at issue in Guyana’s March 2 election

(Argus Media; Jan. 30) - ExxonMobil's growing oil discoveries offshore Guyana are amplifying domestic calls for a review of production-sharing contract terms on the eve of the small South American country's first elections as an oil exporter. Opposition political parties vying to unseat the ruling coalition in March 2 parliamentary elections contend that existing production-sharing terms are "generous" to foreign oil companies, robbing Guyana of its fair share of the country's newfound oil wealth.

ExxonMobil started production from the deepwater Stabroek block in December. The U.S. major projects output to reach 120,000 barrels per day by March, ramping up to 750,000 by 2025. Exxon increased the estimate for recoverable resources from the area to more than 8 billion barrels of oil equivalent after its 16th discovery reported Jan. 27.

The ruling coalition led by the People's National Congress is facing a challenge from the main opposition People's Progressive Party (PPP) and other small parties that espouse an overhaul of contract terms. The PPP is unhappy with the terms, said the party's presidential candidate, Irfaan Ali. Among the concerns is the royalty rate, which the party said is too low. Nonetheless, the party said it would respect Exxon's contract.

An April 2018 review of the country´s production-sharing model by the International Monetary Fund concluded it was "relatively favorable to investors by international standards." The government later said it would delay any additional contracts with oil companies, saying it needs to update the law to increase the country's benefits. The agreements are based on a 1986 model, well before Guyana's potential became clear.

Papua New Guinea unable to reach agreement on LNG expansion

(Reuters; Jan. 31) - Papua New Guinea has been unable to reach a mutually beneficial deal with ExxonMobil regarding the Pnyang gas project, despite offering significant concessions, the prime minister said Jan. 31. PNG's new government is pushing to extract more financial and local benefits from the project as part of a wider effort to reap more rewards from mineral and petroleum resources to lift the country out of poverty.

The country's petroleum minister in November said talks with ExxonMobil were at a standoff for the $13 billion gas expansion effort. "It is disappointing Exxon has refused to even consider these terms and we urge them to reconsider their position," Kua said in November. The delay to the Pnyang agreement will make it harder for Exxon and its partners Total, Oil Search, and Santos to reach a final investment decision in 2020 on their plans to more than double LNG exports from the country.

An agreement is needed before decisions on preliminary engineering and design for the expansion. The Pnyang gas deal is one of two agreements needed for Exxon and its partners to go ahead with their plan to expand LNG exports. The other agreement, the Papua LNG pact, was sealed with Total in September. The country's first LNG project started operations in 2012, with a rated output capacity of just under 7 million tonnes a year. Exxon and Oil Search are partners in that first development. The two companies, plus Total, are partners in the tandem gas development expansion projects.

Oil majors hit by low prices and weak refinery margins

(Reuters; Jan. 31) - The world's largest oil companies invested billions of dollars to boost crude production and their success has turned around and bit them — and their shareholders. Oil majors ExxonMobil, Chevron, and Shell all reported earnings on Jan. 30-31 that showed key units significantly underperformed, particularly refining and chemicals. Investor discontent with weak returns, previously concentrated on smaller shale companies or oil services firms, has worked its way up to the majors.

In the past six months, the S&P 500 is up 10.4%, while Chevron shares have lost 8%, Shell is down 10% and Exxon is off 12%. The world's oil-and-gas giants have been hit by falling oil and gas prices, weaker margins in chemicals and refining due to sagging demand, and growing investor discontent with their response to a warming planet. To keep investors onboard, the majors are cutting costs and selling billions of dollars of assets to focus on new developments and the most profitable businesses.

"This quarter is disappointing. These companies need to focus on cutting more cost, selling their most unproductive assets, and returning excess cash to shareholders," said Kevin Holt, Houston-based manager of Invesco's Comstock Fund, which has about $20 billion under management. "They have to do a better job." Booming output in the United States and elsewhere has sharply boosted world crude production in the past few years. But weak oil prices have left many companies out of pocket to cover capital budgets.

U.S. oil output could start slow decline in mid-2030s

(S&P Global Platts; Jan. 29) - The U.S. shale oil boom will not burn out but will spend the next 20 years fading away, the U.S. Energy Information Administration said Jan. 29 in its latest annual energy outlook. Annual crude oil output will climb to 14 million barrels per day by 2022, an increase of nearly 7.6 million in a decade, but production will then level off, rising by less than 400,000 barrels per day over the next decade as operators move to less productive plays and well productivity slips, according to EIA projections.

U.S. oil output will begin a slow decline in the mid-2030s, falling by 500,000 barrels per day over the next decade and declining below 12 million by 2050, EIA said. Current production is close to 13 million barrels per day. The projection is the reference case for EIA's production outlook, a forecast in between low and high oil and gas supply cases.

EIA said U.S. Gulf of Mexico production will reach a record 2.4 million barrels per day in 2026, due to deepwater discoveries of oil and gas resources. "Many of these discoveries occurred during exploration that took place before 2015, when oil prices were higher than $100 per barrel," EIA said. "Offshore production increases through

2035 before generally declining through 2050 as a result of new discoveries only partially offsetting declines in legacy fields."

EIA expects renewables to overtake gas for power generation by 2045

(S&P Global Platts; Jan. 30) - Renewable energy is projected to crowd out coal-fired and nuclear power and even overtake natural gas as the dominant fuel for electricity generation by 2045 under the main reference case considered by the U.S. Energy Information Administration in its 2020 annual outlook released Jan. 29. Pointing to declining capital costs and more aggressive renewable portfolio targets set by some states, the outlook expects renewable generation to grow faster than electricity demand.

Slow load growth with electricity demand projected to remain close to historical lows through 2050, "means the power markets do not need to add large amounts of new generating capacity," the EIA said. The reference case projects the U.S. will add 153 gigawatts of new wind and solar capacity between 2020 and 2025, while 110 gigawatts of coal and nuclear plants retire. Coal's share of the power mix is seen tumbling from 24% in 2019 to 13% in 2050, and nuclear's share to 12% in 2050 from its current 19%.

Though gas-fired combined-cycle generation capacity is expected to be "added steadily throughout the projection period to meet rising demand," the reference case shows gas use for electricity dipping slightly to 36% of the power mix in 2050, compared with 37% in 2019. EIA this year raised projections of renewable generation market share to 38% in 2050, compared with 31% projected in 2019. Renewables made up 19% of the generation mix in 2019.

Partnership plans $50 million LNG plant in northern British Columbia

(Alaska Highway News; Fort St. John, BC; Jan. 28) - Plans for a new natural gas liquefaction facility in Fort Nelson have been approved by the British Columbia Oil and Gas Commission. GasNorth Energy said Jan. 28 that it has received commission approval to build the C$50 million facility, using locally produced gas to supply LNG by tanker truck to existing and emerging markets in the Yukon and Northwest Territories.

The plant will have an initial capacity of 50,000 gallons per day of LNG — more than 4 million cubic feet of gas when the LNG is warmed back to its gaseous state for use. The plant can be expanded as the market develops. The company sees Fort Nelson, in far northeastern British Columbia, as a potential LNG hub to supply gas to off-grid communities and mining operations now burning diesel. GasNorth said it is working with its partners on equipment procurement and site development, with start-up set for 2021.

The GasNorth development will be an equity partnership with the Fort Nelson First Nation. Sharleen Gage, chief of the Fort Nelson First Nation, said the LNG will go out by tanker truck to northern communities where "people are running on diesel power generators and other things that aren't very good for the environment."

Company develops mobile gas liquefaction plant

(Bloomberg; Jan. 30) - Perched on the back of a semi-trailer is the latest weapon in tackling the problem of wasted natural gas that oil producers often vent into the air or burn off at the wellhead. Cryobox takes fuel directly from wells and turns it into liquefied natural gas, which is easy to store and transport. This small-scale LNG plant could be a solution for small gas fields uneconomical or too distant to connect to a pipeline — it could stem greenhouse gas emissions and solve a growing problem for the industry.

Cryobox can produce as much as 15 tonnes (10,000 gallons) a day of LNG. Cryobox is a product of Edge Gathering Virtual Pipelines 2 and is backed by a closely held Buenos Aries compressor maker Galileo Technologies and Blue Water Energy, a private-equity investor. Edge LNG is using its technology in the Marcellus shale in Appalachia to truck LNG to the Northeast. By the end of the year, the company aims to have 26 Cryoboxes deployed. It also is targeting the gas-rich Permian in Texas and New Mexico.

The Cryobox mobile LNG station is one of a growing number of systems that aim to reduce flaring and get gas to where it's needed. They vary from the basic to the more complex micro-LNG plants like Cryobox or another solution being built by Siemens. One company even installs data centers at shale sites, generating electricity from the surplus gas to mine Bitcoin.

Claims over tainted Russian oil could total $1 billion

(Reuters; Jan. 30) - Russian oil pipeline monopoly Transneft faces claims of up to $1 billion related to contaminated crude oil, more than double its own estimates, industry sources said, setting the stage for protracted haggling with customers. Up to 36 million barrels of tainted Russian oil was contaminated on route to central Europe via the Druzhba pipeline. Organic chlorides were found in Urals crude in late April last year.

State-owned Transneft, the supplier of Urals crude to Russia's Baltic port of Ust-Luga, as well as the operator of the Druzhba pipeline, has set aside 23 billion roubles ($371 million) for compensation related to tainted oil. The company has said it would pay compensation of no more than $15 per barrel. But according to multiple oil company, industry and trading sources, as well as Reuters' own calculations, the claims from Urals buyers, on average, stand at around $30 to $40 per barrel, or almost $1 billion.

It was agreed last June that buyers such as BP, Shell, Total, and Eni would submit claims to Russian suppliers, while Transneft agreed to cover most of the contamination-related costs. Russian exporters, such as Rosneft, would then address buyers' claims to Transneft for compensation. Contaminated oil is very difficult to sell as the only way to make it acceptable for a refinery is to mix it with clean oil in a proportion of one to 10 or even more depending on the organic chloride content in the crude, traders have said.