Oil and Gas News Briefs
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OPEC+ may extend output cuts another month or two

(Reuters; June 1) - OPEC and Russia are moving closer to a compromise on extending their oil production cuts, discussing a proposal to roll over supply curbs for one to two more months, three OPEC+ sources told Reuters on June 1. OPEC+ decided in April to cut output by a record 9.7 million barrels per day, or about 10% of global output to lift prices battered by a demand drop linked to lockdown measures aimed at stopping the spread of the coronavirus. The production cutbacks are set to start easing up in July.

But rather than easing output cuts in July, sources told Reuters last week that de-facto OPEC leader Saudi Arabia was leading discussions on continuing them until the end of the year. However, it was yet to win support for that much time from Russia, which believes curbs could be eased sooner. "It is the proposal now, but it is yet to be finalized," one OPEC+ source said of the one- to two-month extension. "It's for a month or two, not for half a year," one Russian source said on the rollover of the existing cuts.

Another OPEC+ source said there was some support for Russia's proposal for an extension of one month, but "we still do not have consensus over it." The OPEC+ group is likely to hold an online meeting June 4 to discuss output limits after Algeria, which holds the OPEC presidency, proposed a meeting planned for June 9-10 be brought forward. Reduced production from OPEC+, combined with a record decline in output from non-members such as the United States and Canada, have helped to lift oil prices past $35 per barrel, but they remain at only half the level of the start of the year.

Rosneft needs to ease up on output cuts to fulfill its contracts

(Reuters; May 29) - Rosneft does not have enough crude to ship to buyers with which it has long-term supply deals, making it hard for the Russian company to continue with record oil production cuts beyond June, four sources said on May 28. Rosneft has told Russia's Energy Ministry it would be difficult to maintain cuts to the end of the year, as it has had to cut shipments to major buyers, such as oil traders Glencore and Trafigura, despite good demand, sources close to the talks said on condition of anonymity.

Glencore and Trafigura declined to comment. Russia's Energy Ministry did not respond to Reuters' request for comment. "Rosneft is in pain. ... They must supply refineries, term buyers. There are simply no resources," a source familiar with Rosneft's operations said. Rosneft, run by one of President Vladimir Putin's closest allies, Igor

Sechin, has long opposed cooperative output cuts with OPEC, but has been overruled by Putin, who is keen to deepen Russia's political cooperation with the Middle East.

Rosneft, which sells mostly to long-term buyers, has cut its output by 17% so far in May versus April, a source familiar with daily output data said. It will export 800,000 tonnes in 8 cargoes from Baltic ports in June compared to 27 cargoes in April and 13 in May, even though buyers wanted more oil as demand recovers in Europe. Glencore, which has a five-year supply deal with Rosneft, will get two Baltic cargoes in June compared to eight in April. Trafigura will get one cargo in June compared to 10.

Analysts expect consolidation in oil and gas industry

(S&P Global Platts; May 29) - The oil tailspin created by glutted markets, weak demand and lingering apprehension over coronavirus shutdowns worldwide will lead to a wave of consolidation, energy experts agreed. If history is a guide, megadeals may be on the horizon. The biggest deals follow oil-price crashes, according to an S&P Global Market Intelligence analysis of the past 25 years of mergers and acquisitions in oil and gas.

Since 1995 more than 50 deals valued over $10 billion have been completed in the sector. The priciest deals, excluding pipeline partnership reorganizations, all came after the market collapse in the late 1990s or the price fall that began in the second half of 2014. Conditions are somewhat similar to the waning years of the 20th century that led to the demise of iconic companies such as Amoco, Mobil, Texaco, Phillips Petroleum, and Atlantic Richfield as stand-alone entities, oil industry insiders and observers said.

The industry is fragmented, profitability prospects diminished, and the strongest firms have cash ready to spend. "The current oil seismic shock will likely serve as a catalyst for a new consolidation phase that is necessary to bring a fragmented [shale] industry into a more rational and sustainable level," Goldman Sachs analysts wrote recently.

"There is no question" that production shut-ins and a collapse in U.S. drilling activity will produce enough pain that even financially strong shale producers will consider mergers, said Rene Santos, senior director for exploration and production analysis at S&P Global Platts. "Everyone will be hurting, so it's who's hurting less, and are they willing to pick up someone else? And the answer is yes. I just don't know how much."

U.S. oil imports surge as Saudi cargoes unload

(Financial Times; London; May 29) - U.S. oil imports surged last week, with almost half the extra crude arriving from Saudi Arabia, as foreign producers took market share from the struggling American shale patch. The U.S. Energy Information Administration on May 28 said Saudi supplies to the U.S. jumped by almost 1 million barrels a day during the week ending May 22, to an average 1.6 million barrels per day, while commercial imports from all countries soared to 7.2 million, almost 40% more than the week before.

“The armada of ships bringing Saudi crude to the U.S. has arrived,” said Amrita Sen, a director at Energy Aspects, a consultancy. The vessels were launched by the kingdom before it called a halt to the price war on April 12 and agreed to new production cuts with Russia. Those supply curbs began in May — but the scale of the kingdom’s original assault on the U.S. shale patch is now becoming clear, analysts said.

“The optics for Saudi crude aren’t so great in Texas right now,” said Bill Farren-Price, director at RS Energy Group, a consultancy. “Despite their huge cuts, the April export surge has just started unloading.” Meanwhile, U.S. oil output continues to fall sharply, as operators shut wells and reduce capital expenditures to cope with the worst price crash in decades. Saudi imports “are likely to remain high in the next few weeks but they will fall sharply from mid-June,” as the OPEC cuts from May take effect, said Sen.

U.S. crude futures back up over $35 a barrel

(Bloomberg; May 29) - Oil has posted its biggest monthly advance on record, just a few weeks after prices made a dramatic plunge below zero. Crude surged about 88% in May with U.S. futures on May 29 rising above $35 a barrel for the first time since March, driven by massive supply curbs by producers worldwide. Still prices are well below levels at the start of the year, and demand that was crushed by the coronavirus crisis may need to show a sustained improvement for the price rally to extend further.

For now, the outlook for consumption looks bleak, though it’s on the mend. While virus-related lockdowns are easing, demand isn’t yet roaring back in the United States. Fuel sales that were clobbered in European nations such as Spain and Italy will take time to recover. China is a bright spot, but the rest of Asia is still struggling. “At the end of the day, what is driving everything is fuel demand,” said Tom O’Connor, senior director of petroleum markets at global consultancy ICF. “There is going to be an underlying depression in demand that is going to be there for some time.”

Largest number of oil tankers in years headed to China

(Bloomberg; May 29) - As Chinese oil demand rises to near pre-coronavirus levels, more and more tankers are hauling crude to the Asian nation from almost everywhere. The number of supertankers heading to China has hit 127, the highest level since at least the start of 2017, and probably ever, vessel-tracking data compiled by Bloomberg show. That amounts to about 250 million barrels of oil, assuming each ship is full.

As the world slowly recovers from the pandemic, oil demand in China is outpacing that in the U.S. and Europe. It's the natural destination for the glut of crude that is now just starting to dwindle as record output cuts by the Organization of Petroleum Exporting Countries and its allies take hold. Ships are now hauling crude to the Asian country from Brazil, northwestern Europe, West Africa, and countries in the Middle East. Many of the shipments will arrive between now and the end of August.

Traders have also booked multiple oil cargoes from the U.S. Gulf Coast to the Far East, according to Clarksons Platou analysts including Frode Morkedal. At least six supertankers have been chartered to haul U.S. crude to Asia for June loading, fixture reports compiled by Bloomberg show. Oil demand in China plunged by about 20% when the country went into lockdown in February to prevent the spread of the virus. It's now about 13 million barrels a day, just shy of the 13.4 million barrels a day in May 2019, according to executives and traders who monitor the country's consumption.

U.S. shale producers turn to hedging to lock in prices

(S&P Global Platts; May 29) – U.S. shale oil producers have moved in droves during the past couple of months to protect themselves from market turmoil by hedging (pre-selling oil to lock in a price), and using a variety of derivative instruments to protect against exposure to volatile oil prices. As prices plunged amid low demand as the coronavirus pandemic ravaged the globe, producers cut 2020 capital budgets in half and released huge numbers of drilling rigs. They also shut in their lower-margin production.

Many also used a variety of contractual arrangements to ensure that their oil and gas output — and therefore, their revenues — weren't roughed up too badly during a period of dismally low oil prices and near-term cloudy visibility. "They want to be able to stop the bleeding," or at least minimize it, Thomas Watters, a managing director at S&P Global Ratings, said. After the end of the first quarter, upstream operators hedged their 2020 estimated oil production at the highest levels in at least five years, investment bank Goldman Sachs said in a recent investor note.

The producers that Goldman Sachs covers have hedged 66% of their projected oil production for the rest of this year, a sharp increase over 48% before the downturn, the bank said. For example, a swap is an agreement whereby a floating (i.e., market) price is exchanged for a fixed price over a specified time period. Or they can use collars, which protect against downside risks while maintaining some gain on the upside.

Remote oil and gas sites at risk from coronavirus outbreaks

(The Wall Street Journal; May 28) - Oil majors including Chevron, ExxonMobil, Shell, and Total are scrambling to cope with coronavirus outbreaks among their workers that could threaten the profitability of some of their largest projects. Even as many parts of the world begin to emerge from COVID-19 lockdowns, work camps and oil platforms in remote locations, where employees live and work in close quarters, remain vulnerable. In recent weeks hundreds of workers at remote oil and gas sites have been infected, including in the Gulf of Mexico, Mozambique, the North Sea, Canada, and Kazakhstan.

Exxon-owned Imperial Oil has been battling an outbreak at its Kearl Lake oil sands project in northern Alberta. About 100 infections spread out across four Canadian provinces have been linked to the Kearl Lake work camp by health authorities. In Kazakhstan, more than 900 workers have been infected at the giant Tengiz oil field, according to state media reports. The field, which produces about 600,000 barrels a day, is operated by a consortium led by Chevron. The outbreaks have caused only limited interruptions, though staff has been reduced by two-thirds to about 10,000 workers over the past two months, Chevron CEO Mike Wirth reported May 27.

Outbreaks at large oil projects could lead to production cuts, said Chris Midgley, head of analytics with S&P Global Platts. In Russia oil company Rosneft and gas producer Gazprom have reported outbreaks in Siberia, forcing them to quarantine workers and close airports. “If this escalates, it’s a big risk,” Midgely said.

Work-from-home trend could hurt oil demand, weaken prices

(CNBC; May 28) - Working from home has become the norm, and if the trend continues even after the pandemic abates it could pose a big risk for oil, analysts are warning. “The biggest threat to oil demand is the rise of remote working,” investment analysts at Bernstein said in a recent note to clients. “A decrease in commuting and business air travel is clearly negative for oil demand.”

Gasoline represents a sizable portion of overall oil demand — within each barrel of refined crude, about 45% is used for gasoline — and, according to Canada’s largest banking firm, RBC, about 28% of gasoline demand in the U.S. is from people driving to and from work. Oil prices are driven by supply and demand dynamics, so a change on one side of the equation can send prices into a tailspin.

“While it’s probably too early to tell how prevalent this structural shift in working from home will become after the restrictions are lifted, it’s clear a certain percentage of workers will never go back to commuting, at least every day,” said Dan Klein, head of scenario planning at S&P Global Platts. The firm believes between 1 million 1.5 million barrels per day of demand will be permanently lost. Some changes, however, could be supportive for oil demand. People might be wary of taking public transport, which could lead to a boost in driving, and low gas prices could slow the turn to electric vehicles.

Drop in demand for fuels could accelerate refinery closures

(Bloomberg; May 27) - Who needs a loss-making, inflexible oil refinery in a world where demand for petroleum has been obliterated? When demand for transport fuels collapsed this year because of the coronavirus shutdowns, much of the industry moved to survival mode, cutting output and even temporarily stopping refining in some cases. With many oil traders and analysts expecting a slow and uncertain recovery in demand, there's now an open question about where that leaves refineries. It seems likely that many of the weaker plants will be permanently shuttered.

"The COVID situation has accelerated the rationalization process that was always coming," said Spencer Welch, vice president of oil markets and downstream consulting at IHS Markit. "It will hit Europe hardest and first. But it will also hit North America, particularly the East Coast." The refiners in Europe and the U.S. have long grappled with overcapacity as bigger, more efficient plants got built in the Mideast and Asia.

The plants making fuel in France or Belgium, for example, have found themselves increasingly competing against supplies imported from the likes of India, Saudi Arabia, or even as far afield as South Korea. In recent weeks, Asian refineries have enjoyed stronger local demand that's kept the region's plants busy, while a recovery in Europe and the U.S. has lagged. IHS estimates that Europe could lose about 2 million barrels a day of oil-processing capacity by 2025, roughly equivalent to 13%.

Louisiana oil industry loses legislative bid to block lawsuits

(The Advocate; Baton Rouge, Louisiana; May 29) - A day after suffering a stinging legislative defeat, oil and companies won a lesser victory May 29 when the Louisiana House gave final passage to a resolution that urges parish governments to drop lawsuits that accuse the companies of destroying coastal marshes and wetlands. The bill that died May 28 would have outright killed the parish lawsuits retroactively.

What exactly the companies achieved with the resolution is not clear. It does not change the law, and is only an expression of legislative intent. The vote was mostly along party lines with Republican support. The resolution's sponsor, State Sen. Sharon Hewitt, R-Slidell, said she hopes the parishes will take heed. The lawsuits, Hewitt said, have "a chilling impact on oil and gas investment in the state."

The industry worked hard to win passage for the bill that would have blocked parish lawsuits over damage to coastal marshes and wetlands from decades of drilling and exploration activities. It was a major defeat for oil and gas companies, which labeled it their biggest priority during the legislative session. The bill passed the Senate and its first committee in the House but stalled out in the House Appropriations Committee because of the possibility the state might have to pick up the cost of the parish lawsuits.

Court ruling against Keystone XL line could help oil markets

(S&P Global Platts; May 29) - A U.S. appellate court ruling May 28 that may delay crude oil pipeline construction nationwide could also play a role in helping to balance global supply and demand in the next couple of years as the energy sector recovers from the coronavirus pandemic. The court ruling is specific not only to the controversial Keystone XL pipeline from Canada to the U.S., but it also extends to stalling the U.S. Army Corps of Engineers' wide-ranging, expedited review system for new pipeline construction.

While the longer-term regulatory and legal hurdles for pipelines will remain a source of woe for the industry in the years ahead, the shorter-term impacts could "perversely" help the oil sector recover a bit over the next couple of years, said Ethan Bellamy, an energy analyst with Robert W. Baird & Co. That's primarily because it's going to take a long time to work through the global oversupply of crude built up during the pandemic.

"If legal issues keep Canadian oil out of U.S. and international markets, every other producer benefits," Bellamy said. "We have plenty of time to work through pipeline permitting issues before production growth and demand return," he said. Without additional delays, the Keystone pipeline could have been completed ahead of schedule in 2022, analysts said, but now won't be built until 2023 at the earliest, if ever.

None of this means the industry welcomes legal rulings that could make it harder to build pipelines. The Keystone XL project will need to win on appeal or the Army Corps will have to issue localized permits rather than using the broader, fast-tracked approval process, said Matthew Taylor, a midstream analyst with Tudor, Pickering, Holt & Co.

With latest purchase, Irving Oil will be only refiner in Atlantic Canada

(Financial Post; Canada; May 28) - One of Canada's richest families is buying Newfoundland and Labrador's only oil refinery, which will be a "building block" in a strategy to process more Canadian oil. Saint John, New Brunswick-based Irving Oil said May 28 it plans to buy North Atlantic Refining and its Come By Chance, Newfoundland, refinery from New York-based investment firm Silverpeak for an undisclosed sum, which marks the seventh time the refinery has changed hands in its storied history.

The deal would make family-controlled Irving Oil the only refinery operator in Atlantic Canada. The deal comes weeks after Irving Oil secured government permission to bring Western Canadian crude by tanker to the East Coast and forms part of a larger strategy to strengthen its business, a company spokeswoman said. Irving owns a refinery in Saint John, at 320,000 barrels' annual capacity, and one near Cork, Ireland, at 71,000 barrels' annual capacity. The Come By Chance refinery capacity is 135,000 barrels.

Analysts believe the Come By Chance refinery and associated retail fuel station network in Newfoundland and Labrador are a strategic fit for Irving, which operates filling stations across Atlantic Canada and the U.S. Northeast. Irving operates a distribution network in Newfoundland, including its flagship Big Stop trucking stations in multiple locations across the province. Historically, the top five foreign sources of oil to the Come By Chance refinery were the United States, Saudi Arabia, Algeria, Nigeria and Norway, said Dinara Millington, Canadian Energy Research Institute vice president of research.

Customers fill up as heating oil prices drop as much as 75% in U.K.

(BBC News; May 29) - The dramatic fall in oil prices may be bad news for the industry — but is providing a brief windfall for U.K. households fueled by heating oil. The U.K.'s oil and gas industry is warning that 30,000 jobs could be lost as a result of the coronavirus pandemic with oil prices at their lowest in 20 years. That has seen bills for homes that are heated by oil fall by as much as 75%. However, there are concerns that those customers storing additional cheap fuel could be targeted by thieves.

About 1.5 million homes in the U.K. use heating oil, including nearly 114,000 in Wales. The majority of those are across rural areas where houses are not connected to gas lines. Heating oil suppliers say some customers are even buying extra tanks to be able to store the cheap fuel. "Fuel, and heating oil in particular, is one of the highest expenditures for anybody throughout the year," said Andrew Cooper of Certas, the largest heating oil supplier in mid and west Wales. "Normally at this time of year a lot of customers top up their tanks, but at the moment they are filling up completely," he said.

"I would certainly fill up the tanks, but ensure the security measures are in place," Cooper said. "With everybody buying fuel, there is the threat of theft with people knowing they are full." Quad Fuels, based in Wrexham, said the price fall was a "small positive in difficult times" and predicted it would be "several months" until the markets fully recover. However, managing director Anthony Saunders predicted a slump in business later in the year with so many customers stocking up now.

Oil tanker rates have fallen 77% since March

(The Wall Street Journal; May 29) - The cost of shipping oil around the world is sliding as sweeping production cuts reduce competition for hiring tankers. Charter prices for vessels that transport crude have dropped 77% from their March peak, which came during a short-lived battle for market share between Saudi Arabia and Russia. On May 28, it cost about $59,000 a day to charter a very large crude carrier, or VLCC, that can hold 2 million barrels of oil, according to Norwegian bank Clarksons Platou Securities.

The cost of renting VLCCs had soared to over $260,000 a day in mid-March as Saudi Arabia rushed to export oil and take customers from rival producers. Prices jumped again in April, a symptom of upheaval in the oil market caused by the pandemic. With demand for energy slumping due to coronavirus-related restrictions, and space for storing crude on land depleting, traders scrambled to charter vessels to store oil at sea. Euronav, which owns 71 oil tankers, is still making a healthy profit — around $30,000 a day per VLCC — and its CEO doesn't expect rates for tankers to fall much further.

U.S. natural gas prices could fall below $1.50, Goldman Sachs warns

(The Wall Street Journal; May 28) - Even the biggest producer in the country is backing away from the dismal market for natural gas. EQT Corp. has curtailed nearly 25% of the output from its wells in Appalachia, keeping the gas in the ground for when prices for the power-generation fuel are not so depressed. And given the way canceled orders are piling up for export cargoes of U.S. liquefied natural gas, it may be a while.

Natural gas futures for July delivery fell to $1.83 per million Btu on May 28, down 29% from a year ago and well below what's needed to cover production costs for many companies. A month ago, prices appeared ready to pop. Major producers, including EQT, had cut back on drilling in response to falling prices as a historic crash in crude prices prompted drillers to shut in oil wells, which produce a lot of gas as a byproduct. And it was coal, not gas, that bore the brunt of the reduced demand for electricity during the coronavirus pandemic. Gas futures nosed above $2 for the first time since January.

The rallies have been fleeting, though. Mild May weather has limited domestic demand, brimming LNG storage facilities abroad have reduced exports and the flow from oil wells hasn't declined by as much as expected. Plus, oil prices have been rising, suggesting that the crude curtailments won't last long, which will mean more gas output, too. Goldman Sachs analysts last week warned clients that prices could fall below $1.50 if domestic demand fails to pick up and overseas buyers keep canceling orders for LNG.

U.S. LNG exports to Europe decline due to poor economics

(S&P Global Platts; May 28) - After a dominant display this past winter, U.S. LNG sales to Europe weakened considerably in May, even before widespread cargo cancellations are poised to make it worse in the coming months, an analysis of S&P Global Platts Analytics data indicates. Poor economics for U.S. exports of the fuel appear to have already ravaged the viability of shipping to Europe. As European gas hub prices languish below the key U.S. Henry Hub benchmark and feedstock gas valuations, other Atlantic Basin exporters are now making inroads where appetite still exists in Europe.

Of the 6.34 million tonnes of LNG — equivalent to 310 billion cubic feet of gas — exported so far in May to Europe's key trading hubs, only 15.6% originated from the U.S. That share is a sharp decline from 23.6% in April and a shadow of the former position for the U.S. as a market leader, which saw it deliver a third of all imports to Europe at its peak in November. There has been no U.S. LNG in May to the U.K.

As for June, it is understood that 20 LNG cargoes that might otherwise have been shipped from U.S. liquefaction plants to Europe have been canceled, while this figure is estimated to reach between 40 and 50 shipments for July. Other LNG producers are capitalizing on faltering U.S. exports, the analysis suggests. So far in May, Qatar remains the market leader with 27.7% of European LNG imports, while Nigeria captured a 13.5% share of European trade, its best month ever. "Qatari production costs are super cheap and they are not going to be the first ones to shut," a source said.

Golden Pass LNG asks FERC for permission to boost capacity

(Natural Gas Intelligence Daily; May 29) - Golden Pass LNG, a joint venture of ExxonMobil and state-owned Qatar Petroleum, has asked the Federal Energy Regulatory Commission to increase by 2.5 million tonnes per year the liquefied natural gas production capacity of its planned export facilities on the Texas coast. If approved by FERC, the motion would increase the allowable capacity to 18.1 million tonnes. The $10 billion project is under construction with start-up now planned for 2025.

“Golden Pass LNG has determined … that the total LNG production capacity of its permitted export facilities is substantially higher than the capacity authorization requested without any modifications to the facilities,” the venture said in its May 21 filing with FERC. “The capacity increase is based on, among other things, capturing the design margins, richer feed-gas composition, and maintenance processes that promote production efficiencies (e.g., reduced downtime).”

The filing further explained, “The capacity proposed in Golden Pass LNG’s original application was based on more conservative assumptions and does not reflect the capacity of the facilities under optimal operating conditions.” The project will include three liquefaction trains. The Golden Pass terminal started operations a decade ago as an import facility. After U.S. shale gas production essentially ended the need for imports, the partners decided to build a gas liquefaction and export facilities at the site.