Oil and Gas News Briefs
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Oil market recovery depends on burning through surplus crude

(Bloomberg; June 1) - While OPEC has helped global oil markets recover from the coronavirus crisis, the cartel will soon face a new challenge: the mountain of unwanted crude that piled up during the pandemic. When the Organization of Petroleum Exporting Countries and its partners meet in a few days, vast production cuts by the cartel, along with a recovery in demand, will have started to bring the market back into balance.

Still, more than a billion barrels of crude will have poured into the world's storage tanks in the past few months, according to a range of analysts and consultants. Burning through that surplus — a key driver for crude prices — will be OPEC's next big obstacle. "Even with a conservative view — assuming a recovery in demand and OPEC sticking to the deeper cuts — it will take until the middle of next year to reverse the inventory build," said Harry Tchilinguirian, head of commodity markets strategy at BNP Paribas.

The most important factor behind a price recovery in oil markets isn't the inventory level, but how quickly it changes, said Ed Morse, head of commodities research at Citigroup. During a slump in 1998-1999, the price recovery took hold only after the increase in stockpiles began to slow. "The rate at which inventories are building or drawing is far more significant than the level of inventories," Morse said.

There are a number of risks that could impede the market recovery. A second wave of coronavirus infections could derail the rebuild in oil demand, U.S. shale output could bounce back, or higher prices could tempt OPEC+ nations into ramping up sales again. "A word of caution is warranted," said Bjornar Tonhaugen, Rystad's head of oil markets. "The recovery in oil prices back to 'normal' levels of $50 to $60 will take time and only possible through a simultaneous recovery in demand and production management."

Commentary: It's too soon for OPEC+ to relax production curbs

(Bloomberg commentary; May 30) - With oil prices roaring back, the OPEC+ cuts are undoubtedly doing their job. But they're due to be reviewed in a little over a week, and the unwieldy group needs to ensure the fault lines between its leaders, Saudi Arabia and Russia, don't resurface. We know what happened last time they couldn't agree on the way forward. For now, the results of collaboration are almost too good to be true.

In the first month of execution, the level of compliance achieved by most of the 20 countries that signed up to the deal has been astonishingly good. That may be a sign of their desperation as crude prices plunged or a reflection of the struggle to sell cargoes in a world where demand has collapsed. Perhaps not surprisingly, countries outside the deal have played their parts too, as economic forces drove companies to slash output.

The results are eye-popping as Brent has climbed past $38. Data show U.S. production down by 1.6 million barrels a day, or 12%, in two months. In Canada, output in Alberta has fallen by 25%, or 1 million barrels a day. Things are definitely moving in the right direction, but the question is how producers should respond. The view from Russia's Energy Ministry is that the output cuts, combined with recovering Chinese oil demand, will bring global supply and demand back into balance in June or July. That may be glossing over the details a little too quickly. It's really too soon for producers to relax.

Producers should keep this in mind as they prepare to assess the effectiveness of their production curbs and plan the next steps. The temptation to start raising output is all too seductive — the oil-price recovery should not be taken as a license to open the taps.

Oil tankers line up to unload as China boosts refinery output

(Bloomberg; June 1) - Queues of tankers have formed off China's busiest oil ports as the vessels wait to offload crude for refineries that are quickly ramping up production amid a rapid rebound in fuel demand. Two dozen or more crude-laden tankers are waiting to discharge at terminals on China's East Coast that supply state-owned and independent refiners in the region, according shipbrokers and vessel-tracking data.

Asia's largest economy is leading a recovery in oil consumption, with demand in May almost back to levels seen before the coronavirus triggered stay-at-home orders. Chinese refineries are increasing operations to convert more crude into gasoline and diesel after factories reopened and millions of people returned to work following the easing of restrictions. Government policy dictating that the retail price of fuels will not be cut in line with sub-$40-barrel oil has also boosted refining profit margins in the country.

"China's demand recovery and current low oil prices have prompted refiners, especially the independents, to ramp up crude runs," said Serena Huang, a Singapore-based analyst at analytics firm Vortexa. The fleet of tankers arrived in the second half of May and the ships have been idling off ports in Shandong and Liaoning provinces, according to data compiled by Bloomberg. The oil is from Russia, Colombia, Angola, Brazil, and elsewhere. Meanwhile, the queues might get even longer, with the highest number of supertankers in at least three years hauling crude to China from across the globe.

Canadian producer says energy transition could disrupt oil demand

(Reuters; June 1) - The shift to electric vehicles and other low-carbon technologies could disrupt crude oil demand on a similar scale to the coronavirus pandemic, Suncor Energy's chief executive said June 1. The comments are a stark prediction in an industry that frequently downplays the impact of electrification and points to forecasts of rising global oil demand to justify new investment and pipeline expansions.

"While Canadian oil and gas will remain a significant part of the global energy mix for some time, we have to take advantage of new opportunities that offer attractive growth prospects," Suncor CEO Mark Little said in an opinion article for Canada's Corporate Knights magazine. "The temporary economic lockdown triggered by the 2020 pandemic is giving us a glimpse into a not-too-distant future where the transformation of our energy system could disrupt demand on a similar scale," Little said.

Economic shutdowns to limit the outbreak's spread ground travel to a halt, cutting fuel demand by roughly 30% worldwide and leading Suncor, Canada's No. 2 oil producer, to curtail its output. The sector also faces mounting pressure from a growing number of investors who screen companies based on environmental, social, and governance guidelines. Little called for federal investment to help the industry diversify into hydrogen, renewable jet fuel and carbon fiber. Bitumen is rich in asphaltenes, the feedstock for carbon fiber, used for producing lighter vehicles including EVs, he said.

China drops 'clean coal' from eligible financing list

(Reuters; May 29) - China has excluded "clean coal" from a list of projects eligible for green bonds, according to long-awaited new draft guidelines published by the central bank May 29. The new catalog of eligible projects replaces one from 2015 and will be open to public consultation until June 12, the People's Bank of China said in a notice.

China has sought to use green financing to pay for its transition to cleaner forms of growth, but the 2015 list allowed bond sales for the "clean use of coal," including coal-washing plants to remove impurities and technologies to cut pollution from combustion. The inclusion of "clean coal" in 2015 had put China at odds with global standards, a point of contention for some international investors and many environmental groups.

China's financial institutions provided substantial green financing to coal-related projects last year, and have also supported other fossil fuel projects including expansion of an oil refinery. Sean Kidney, chief executive of the London-based Climate Bonds Initiative, said the new list is "a hugely significant step that will be welcomed by international investors." The new guidelines include projects to help replace coal with cleaner energy for winter heating. Green finance will also be available for renewable energy or carbon-capture projects and for steel mills to pay for mandatory upgrades to emissions control.

Renewable energy passes coal as U.S. power source

(The Wall Street Journal; May 28) - The U.S. consumed more renewable energy than coal last year, according to the Energy Information Administration. The inflection point mainly reflects a steep drop in the use of coal as source of electricity, as well as steady growth in wind and solar power, trends driven by economic as well as environmental factors. Coal consumption fell 15% in 2019 compared with the year before. Wind is now the most-used source of renewable-power generation in the U.S. annually.

The shift from coal is widely expected to continue for the foreseeable future as utilities commit to ambitious goals to address climate change. That is expected to accelerate closures of coal-fired power plants already challenged to compete with gas, wind and solar power — which are all now cheaper than coal. Ben Nelson, lead coal analyst for Moody's Investors Service, said he expects the economic effects of the pandemic will do permanent damage to U.S. coal production, which has been declining for years.

AES Corp., a global power company based in Arlington, Virginia, plans for coal to account for less than 10% of its electricity generation by 2030, down from about 34% last year. In 2019, U.S. coal-energy consumption decreased for the sixth consecutive year to its lowest level since 1964, according to the EIA. Coal-fired power generation accounts for the majority of U.S. coal demand. Gas surpassed coal as the leading source of U.S. electricity generation in 2016, as fracking unlocked massive amounts of the fuel and made it cheap and abundant. Now renewables have passed coal.

Qatar signs $19 billion deal for LNG carriers from Korean shipyards

(Bloomberg; June 1) - Qatar has signed a deal worth about $19 billion with South Korean shipbuilders to help cement its position as the world's largest producer of liquefied natural gas. The emirate entered into agreements with Daewoo Shipbuilding & Marine Engineering, Hyundai Heavy Industries and Samsung Heavy Industries, according to a statement June 1 from state producer Qatar Petroleum. The three firms will reserve a "major portion" of their LNG shipbuilding capacity for Qatar through 2027.

The deal, valued at about 70 billion Qatari rials ($19.1 billion), could see the companies build more than 100 LNG carriers, Qatar Petroleum said. "We have everything in place to commence the largest LNG shipbuilding program in history," said Saad Al-Kaabi, QP's chief executive officer and Qatar's energy minister. "We have secured approximately 60% of the global LNG shipbuilding capacity through 2027."

QP signed a separate agreement to secure shipbuilding capacity with Hudong-Zhonghua Shipbuilding Group, a wholly owned subsidiary of China State Shipbuilding, in April. Qatar needs a bigger fleet of LNG carriers because of new export projects in Qatar and the United States. Qatar is "moving full steam ahead" with the expansion of

its massive North Field deposits, al-Kaabi said, raising the country's output capacity from 77 million tonnes per year to 126 million tonnes by 2027.

U.S. LNG terminals run at 40% capacity in weak market

(S&P Global Platts; June 1) – Feed gas deliveries to the six major U.S. LNG export terminals plunged June 1 to their lowest level in almost 10 months amid a wave of cargo cancellations due to weak market conditions, according to S&P Global Platts Analytics data. The biggest drops in flows were seen at Cheniere Energy's two terminals — Sabine Pass in Louisiana and Corpus Christi in Texas — and at Freeport LNG south of Houston. Both companies declined to comment.

About 45 LNG cargoes scheduled to be loaded in July at U.S. export terminals were reportedly canceled by customers, approximately double the number of cancellations for June, according to market sources. More than two dozen of the total canceled U.S. cargo loadings for July are tied to Cheniere's facilities. Japanese buyers Osaka Gas and JERA are said to have canceled a total of three July cargoes from Freeport LNG.

Feed gas deliveries to the major U.S. liquefaction terminals totaled 4.3 billion cubic feet of gas June 1, the lowest in almost a year, Platts data show. The near 40% utilization of U.S. liquefaction capacity is likely price driven. Global LNG demand continues to languish below available supply, leaving LNG prices from Asia to Europe trending just above record lows. At such low prices — even with U.S. gas also at its lowest in years — U.S. LNG cargoes cannot cover the cost of feed gas, liquefaction, and shipping.

Russian LNG tanker completes Northern Sea Route May voyage

(Reuters; June 1) - Russian gas producer Novatek said June 1 that the Christophe de Margerie tanker carrying liquefied natural gas from its Yamal LNG plant successfully completed the ice-covered eastbound Northern Sea Route. The route across the Arctic Ocean is seen as strategic for Russia, which wants to use it to speed up deliveries of cargoes between Europe and Asia, supplanting the longer route via the Suez Canal.

The ice-class tanker left the port of Sabetta on May 18 and then met up with nuclear icebreaker Yamal, owned by a subsidiary of state nuclear corporation Rosatom, which escorted it along the route. Novatek, which is Russia's largest non-state gas producer, said the tanker bound for China reached the Bering Strait between Russia and the Alaska in 12 days, a voyage of 2,563 nautical miles.

"Eastbound transportation of LNG along the NSR is not normally performed in May, as this represents one of the most difficult months for navigation," Novatek said. Russian government plans envisage the Northern Sea Route, which trims 4,000 nautical miles

off the southern alternative via Suez, being used to export 80 million tonnes of cargoes per year by 2024 to Europe and Asia.

Sinopec signs deal to build $2.8 billion LNG import terminal

(Reuters; May 28) - Sinopec has signed an investment contract with the government of Zhoushan city in China to build a 20 billion yuan ($2.8 billion) liquefied natural gas import terminal, the Zhejiang provincial government announced on May 28. The project, which will be jointly constructed and operated with a local government-backed company, will have annual LNG receiving capacity of 15 million tonnes and become the third LNG terminal in the eastern Chinese port city.

Construction is expected to begin in the first half of 2021, with operations to start in 2024, the government statement said. It will be Sinopec's fourth LNG terminal. The company already operates import facilities in Tianjin, Qingdao and Beihai.

Orders for new LNG carriers put on hold as market weakens

(Wall Street Journal; May 31) – Liquefied natural gas tankers had provided a seemingly surefire way for shipping investors and vessel operators to tap into changing energy markets and the raft of U.S. export projects aimed at meeting demand in Asia. But the coronavirus pandemic is hitting the market hard, undercutting hopes for a rich new vein for profits on the water. It is making the business of moving LNG look more like other commodities that have sent operators of cargo ships through wild peaks and valleys.

Some LNG projects are now being put on hold on the back of record low prices and brimming storage, and some operators are pushing back orders for the new vessels they had been counting on as big profit engines. At about $175 million each, LNG carriers cost much more than other ships because of the special equipment needed to keep the fuel cold. The LNG business has long been a small piece of the global tanker market, but the trade has been surging as the world looks for cleaner sources of power.

“Up until a year ago, it looked like if you are in shipping, you must have LNG ships,” said a Greek owner who operates a handful of gas carriers and spoke on condition of anonymity. “But cargoes are now canceled, storage facilities are full, and demand depends on whether the virus will go away. We planned to order two more ships over the summer, but now we'll wait because the market is quite uncertain.” For shipowners, that means the gas market may start looking just as uncertain as other shipping sectors.

Opinions differ on value of east-west gas line in Australia

(Australian Broadcasting Corp.; May 29) - A trans-Australia gas pipeline could either deliver cheap energy to East Coast manufacturers while boosting Western Australia's economy, or be a white elephant that private industry would never touch. The federal government's proposal to underwrite a $6 billion gas pipeline is back on the agenda. The government hopes to link the gas fields in the north of Western Australia to manufacturers along the East Coast to snap the economy out of a post-COVID funk.

Roberto Aguilera, an energy economist at Curtin University in Perth, said Australia will rely on gas for many decades to come, making the pipeline a positive investment. He said the line could tap into Australia's biggest undeveloped gas reserves and drive the economy for generations. Brian Evans, a professor in petroleum engineering at Curtin University, said a pipeline underwritten by the government could pave the way for an adjacent water pipeline and long-distance electricity transmission.

But an economic feasibility study commissioned by the government in 2017 found the project's high costs and rapid changes in energy markets presented unacceptable risks for the government. Paul Hyslop is CEO of Australia's largest economics consulting firm Acil Allen, the company that did the study. "It means that we transfer risk that the private sector doesn't want to take to the government, and ultimately onto the taxpayer, at a time when the government is borrowing a lot of money to basically keep the economy going," Hyslop said. "This gas pipeline does not give you good bang for your buck."

Australia's manufacturers complain of high contract gas prices

(Australian Financial Review; June 1) - Stubbornly high prices for contracted gas on Australia's East Coast have driven Brickworks, a building products company, to invest $126 million in a new, more efficient production plant at its western Sydney site as it seeks to stretch out supplies of the fuel that are costing more than double spot prices in the domestic and international market. "You've got to pull costs out somewhere," said managing director Lindsay Partridge, noting that the company's gas supply contract with Santos is priced at north of US$7 per million Btu, well above short-term supply rates.

Partridge said he can't rely on the spot market for supplies given the need for certainty of delivery and the risk that prices could shoot higher, adding, "we need to pay a fair price." He hopes the manufacturing task force of the National COVID-19 Coordination Commission can make headway in reducing prices. Some manufacturers are voicing frustration that offers for new supply contracts haven't come down closer to spot prices.

"The producers are quoting prices that have not come off anything like what we've seen on the spot market," said Stephen Bell, CEO of basic plastics manufacturer Qenos, which has plants near Sydney and Melbourne. Spot prices for gas in Sydney and

Melbourne were $4.25 to $4.50 on June 1. Brisbane prices even lower at $3.22. Sources say price offers on the East Coast are close to $6 for a contract of one to two years, while longer contracts can be even more expensive. Gas industry officials said fluctuating spot prices are not representative of prices needed for new production.