Oil and Gas News Briefs
Compiled by Larry Persily
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Analysts expect oil demand to fall by millions of barrels per day

(Bloomberg; March 15) - Global oil consumption is in freefall, heading for the biggest annual contraction in history, as more countries introduce unprecedented measures to fight the coronavirus outbreak. Travel bans, work-from-home, canceled vacations, and disrupted supply chains all mean reduced demand for fuel. Oil traders, executives, hedge fund managers, and consultants are revising down their forecasts for oil demand.

The growing fear among many traders is that oil demand, which averaged just over 100 million barrels a day in 2019, may drop by the most ever this year, surpassing the loss of 2.65 million barrels a day in 1980, when the world economy crashed after the second oil crisis. “This global pandemic is something the world hasn’t witnessed since 1918,” said Pierre Andurand, who runs oil hedge fund Andurand Capital Management.

“We haven’t seen a demand event like this in history,” said Saad Rahim, oil trader Trafigura Group’s chief economist. “Every day is going to be worse for demand for some time.” Goldman Sachs forecasts oil demand will contract by more than 4 million barrels a day through April. Other investors see much larger drops in the short term. Andurand estimates demand could easily drop by 10 million barrels a day in this quarter and even beyond. “The situation we are witnessing today seems to have no equal in oil-market history,” said Fatih Birol, executive director of the International Energy Agency.

Saudis say they are ‘very comfortable’ with $30 oil

(Reuters; March 16) - Saudi Aramco said March 16 it likely will sustain higher oil output planned for April into May, and that it is “very comfortable” with a price of $30 a barrel. Aramco said last week it would raise its output in April to a record 12.3 million barrels per day in a fight for market share with Russia that has helped to hammer oil prices.

“In a nutshell, Saudi Aramco can sustain the very low price and can sustain it for a long time,” CEO Amin Nasser said during an earnings call with investors and analysts. “For the production in May ... I doubt it would be any different from next month.” Nasser said the boost in output and exports would reflect positively on the company despite low prices. Aramco has some of the lowest production costs in the world.

Chief Financial Officer Khalid al-Dabbagh said Aramco was “very comfortable” with oil at $30 a barrel and would be able to meet its dividend commitments and shareholder expectations, even at that price. Nasser said Aramco would draw 300,000 barrels per day from its inventories to hit the record supply in April and sustain its maximum output of 12 million barrels per day for a year with no need for further spending. Saudi Arabia, the world's top oil exporter, has hundreds of millions of barrels of crude in storage.

Former OPEC president fears oil could go below $20

(S&P Global Platts commentary; March 16) – Oil-price wars rarely achieve their objectives. Saudi Arabia and Russia racing to out-pump each other is unlikely to be any different. Instead of declaring a victory in seizing market share back from their common rival of U.S. shale, Moscow and Riyadh are more likely to cause long-lasting damage to petrodollar economies already under pressure from demand destruction caused by climate change action and the global financial hit from the coronavirus pandemic.

The collapse of the OPEC+ coalition when the group and its allies failed to agree March 6 on additional cuts of 1.5 million barrels per day has triggered a 30% collapse in prices — with no floor in sight. Abdullah bin Hamad al-Attiyah, Qatar's former oil minister and OPEC president, fears markets are entering virtually uncharted territory. "I saw the first shock and the first collapse and this is worse," said the former OPEC grandee on March 9. "My expectation is for oil to fall below $20. We have seen it before."

Al-Attiyah was referring to the time when the Saudis launched the OPEC cartel into a price war with ascendant North Sea producers. The strategy saw crude fall to $10 and the Saudi oil minister losing his job. Within a year Saudi Arabia was forced to reverse tactics in a desperate move to boost prices. Al-Attiyah sees echoes of that playing out today. "I was there when OPEC had its emergency meeting in 1985." The idea, he said, was that if OPEC opened the taps, "North Sea producers will come begging to Vienna. They never came and it took us 15 years to properly recover. We have to learn."

Oil-price collapse could drive Russia into recession

(Bloomberg; March 16) - Until just a few weeks ago, President Vladimir Putin was promising Russians their stagnant incomes would pick up along with the economy this year. But his oil market gambit and the fallout from coronavirus have all but demolished those hopes. As crude suffered its worst weekly collapse since 2008 following Russia's bitter breakup with OPEC, economists slashed their growth forecasts. Even if oil stays roughly where it is now, the economy might not grow at all this year, said Alexey Kudrin, a former finance minister who now runs a government oversight agency.

"The Russian economy is experiencing a double shock this year from oil and the virus," said Sofya Donets, an economist at Renaissance Capital in Moscow. "If the epidemic follows the European scenario, a recession is inevitable." Putin appointed a new prospending Cabinet in January headed by Prime Minister Mikhail Mishustin, who promised that people would “feel the difference” in their lives as soon as possible.

On March 16, Mishustin said the government has set up a 300-billion-ruble fund ($4 billion) to assist businesses and citizens affected by the virus and will allow affected industries to pay taxes late. Russia has only registered 63 cases of coronavirus so far, with no reported deaths, but the economy will be hurt by any signs of recession in the European Union, a major trading partner. Russia needs oil prices of around $40 a barrel to balance its budget. An average oil price of $25 a barrel would tip the economy into recession, according to a “risk scenario” published by the central bank last year.

Global oil surplus could reach the largest ever

(Oil & Gas Journal; March 16) - If the current state of oil markets — caused by a drop in global demand and Saudi plans to boost production — persists amid a recession, markets could see the most extreme global oil supply surplus ever recorded, according to IHS Markit. “Counting barrels is challenging enough under normal circumstances, but the looming imbalance on current trajectory between demand and supply is so large now that it is well beyond any typical margin of error or uncertainty about data.”

IHS Markit estimates that the global oil demand could be down as much as 10 million barrels per day in March and April. This translates into an inventory build of about 800 million barrels to 1.3 billion barrels in the first six months of 2020. The higher end of the range foreshadows the impact of increasing travel restrictions, reduced commuting, and the likelihood of a severe global economic slowdown continuing in the second quarter.

Up until now the largest half-year global surplus since 2000 was in first-half 2015, when it was a cumulative 352 million barrels. “The last time that there was a global surplus of this magnitude was never. Prior to this the largest six-month global surplus this century was 360 million barrels,” said Jim Burkhard, head of oil markets at IHS Markit. The firm sees three potential scenarios going forward: 1) Truce and eventual demand recovery with some production restraint; 2) prolonged demand decline, no supply restraint and the lowest prices in a generation; 3) a rapid recovery and reconciliation by mid-year.

Very few U.S. shale producers can profit at these low prices

(Reuters; March 15) - For the past five years, U.S. shale oil producers have battled suppliers for lower costs, running equipment and crews hard to drive drilling costs down by about $20 a barrel. The oil market rout last week, however, has left most shale firms facing prices below their costs of production. OPEC and Russia have turned on each other in a price war that threatens to sink shale companies burdened with higher costs.

With U.S. crude falling 50% this year to near $31 a barrel, only a handful of the hundreds of U.S. shale firms today can profit from their newest wells, according to a Reuters analysis of field-by-field data provided by consultancy Rystad Energy. Shale producers, most of which budgeted for oil between $55 per barrel and $65 per barrel in 2020, have moved quickly to idle rigs, cut staff, and generate cash for expenses.

The industry is on the ropes for the second time since 2014, when the Saudis launched a price war to drive shale producers out of the market. That pushed many to bankruptcy but ultimately failed because the industry made technological advances that drove down costs. Despite those efforts, just 16 U.S. shale companies operate in fields where the average new-well costs are below $35 per barrel, according to Rystad. The very few able to cover production costs will lead to a wholesale reduction in industry spending as unprofitable producers stop drilling, analysts said.

Oil-exposed banks have reason to worry

(Wall Street Journal; March 16) - Lenders are bracing for loan losses and depressed earnings from an oil crash that is bruising the North American energy industry. U.S. and Canadian banks have more than $100 billion in loans outstanding to energy companies. An oil-price crash set in motion by Saudi Arabia earlier this month could cause many of those energy companies to struggle to make good on those loans. Especially vulnerable are regional banks with big energy-lending portfolios.

"It's a big deal for these oil-exposed banks," said analyst Brady Gailey of a New York investment bank. Larger banks also are on the hook for billions of dollars in loans to the energy industry but are less exposed because their balance sheets are much bigger and their lending businesses more diversified. Energy accounts for 3.2% of Citigroup's loan portfolio and 2.1% of JPMorgan Chase's loan book, according to Goldman Sachs.

Lofty debt levels could become a big problem if prices stay low for a while, leading to a new round of defaults and bankruptcies that could result in loan losses. The loans were last evaluated in the fall, when crude was above $50 a barrel. If prices remain in the $30s or keep falling, much of the oil won't be economical to extract, meaning companies can no longer borrow against it and must repay banks. For energy companies already struggling with big debt burdens and shrinking cash flows, a bank's sudden demand for repayment or a reduction in borrowing capacity can set off a spiral into default.

U.S. oil producers slash spending; oil field layoffs are coming

(Washington Post; March 13) – U.S. oil producers are slashing their budgets for new operations for the rest of this year, which means a painful downturn for oil field service companies and layoffs from Texas to North Dakota. Worldwide the coronavirus pandemic has kneecapped the petroleum business, sparking a price war that the Saudis launched last weekend against the Russians. U.S. companies are directly in the line of fire of what Goldman Sachs analysts call “a swift and violent rebalancing.”

U.S. oil producers — slow to move when the Saudis launched a price war five years ago — showed no such hesitation to cut spending this week. Goldman Sachs on March 13 predicted that, in any scenario, the falloff in U.S. oil production alone would reach a million barrels a day. It has been averaging close to 13 million barrels a day. The Goldman Sachs study showed that U.S. firms had moved to cut capital spending by 30 percent, led by cuts at Occidental Petroleum, Apache, Marathon Oil, and Continental Resources.

The slowdown in oil spending and production, however, will significantly lag the downturn in demand. The rigs that are operating will generally keep pumping and the Goldman Sachs study suggests that the biggest declines in production will occur at the end of this year and the beginning of next, primarily in the Bakken in the northern plains and in the Eagle Ford fields of South Texas. The loss of jobs and income for companies that rely on oil production — from suppliers to field servicers to truckers to railroads to trailer camp operators to diners — could extend onward for months to come.

Houston lost 55,000 jobs in last oil-price crash

(Longview News-Journal; March 15) - While the Texas economy and state budget are highly sensitive to oil prices as the nation’s top oil-producing state, economic and energy experts and state officials said last week it’s too soon to say how big an economic hit the state will take. That will depend on how long both the Saudi-Russia deadlock and COVID-19 outbreak persist. If either becomes a prolonged crisis, they say, the effect could be devastating.

“The consequences for Texas of the drop in prices over the weekend will depend on two questions: How low and how long,” said Dale Craymer, president of the Texas Taxpayers and Research Association. The last time oil plunged so much, in a two-year rout that began in 2014, the impact cascaded across energy-dependent regions of the U.S. By late 2016, Houston had lost 55,000 jobs in oil production, manufacturing, and scientific and technical services. Oklahoma bled 37,300 jobs.

When oil production slows in Texas, employment and tax revenues decline, and budget cuts at the state and local levels often follow. Craymer has estimated the state loses $85 million per year for every $1 drop in oil prices. Texas Comptroller Glenn Hegar, the state’s chief revenue estimator, predicted last year that prices would hover in the low- to mid-$50-per-barrel range through the latter half of 2021 and budgets were built on that forecast. Prices by March 13 were down 40 percent from the bottom end of that range.

[Cheap Saudi oil pushes Canadian crude out of U.S. Gulf Coast]

(Bloomberg; March 11) - As if pipeline bottlenecks, mandatory output curbs, and growing hostility to the oil sands were not enough, Canada's energy patch now faces competition from cheap Saudi crude headed to the U.S. Gulf Coast. Saudi Arabia has booked at least eight supertankers to load this month and next from the kingdom's main oil ports, with most of the bookings destined for the Texas and Louisiana coast. The tankers were contracted as the Saudis slashed their official selling price to the U.S. by $7 a barrel.

Canadian oil exports to the U.S. Gulf Coast, the world's biggest refining market, have more than tripled since 2014, when new pipeline capacity was added to reach buyers. Heavy crude from the oil sands has steadily displaced declining imports from other countries into Gulf refineries, including Mexico and Venezuela. Now, however, the Saudis are muscling up. "If other suppliers are willing to give up the kitchen sink, Canadian crude will suffer," said Sandy Fielden, director of research for Morningstar.

As output grew and pipeline capacity did not keep pace, Canadian exporters sent by rail almost 40% of the 17.7 million barrels of crude they shipped to the Gulf Coast in December. But rail shipments are now expected to drop 80% to 100,000 barrels a day in April, Alberta Premier Jason Kenney said March 11. The main reason for the collapse in crude-by-rail is that Western Canadian Select generally has to be at least $15 a barrel cheaper than West Texas Intermediate to cover the higher costs of rail. Since oil prices tanked, that discount has shrunk with the growing competition from the Saudis.

[Spike in oil tanker rates pushes refineries to look for cheaper ships]

(Bloomberg; March 15) - A growing number of Asian oil refiners are looking to hire smaller vessels to carry crude from the Persian Gulf after a Saudi Arabian booking spree spurred a surge in supertanker rates. The cost of shipping oil on very large crude carriers on the widely referenced Middle East-to-China route has jumped about 350% over the past week. However, chartering rates for smaller Suezmax and Aframax vessels have not caught up yet with the cost to hire an Aframax up just 34%.

Malaysia's state-owned oil company Petronas, for example, provisionally booked the Suezmax Odessa to carry Middle Eastern crude to its Malaysian refinery, according to three traders and shipbrokers. Two Indian refiners also said they will use more smaller ships to import oil from the Persian Gulf. But shipowners are reluctant to rent out their smaller vessels in hopes that those charter rates may rise even higher, too.

Bharat Petroleum and Hindustan Petroleum said they will use more Suezmaxes, which are capable of carrying 1 million barrels of crude, and even Aframaxes that can load about 650,000 barrels, rather than supertankers for the relatively short voyage to India.

It normally takes less than a week to transport crude from the Middle East to the South Asian nation. The supertanker VLCCs can carry 2 million barrels of crude.

Permian production gains drive U.S. shale to new record

(Reuters; March 16) - U.S. oil output growth from the Permian Basin is expected to offset declines in every other shale formation in the country in April, helping push overall U.S. shale production to a record 9.08 million barrels per day, data showed on March 16. Output from the Permian Basin of West Texas and eastern New Mexico is expected to rise 38,000 barrels per day to a record 4.79 million, data from the U.S. Energy Information Administration showed.

The Permian, the country's biggest shale basin, has been one of the biggest drivers of a shale oil boom that helped make the U.S. the biggest oil producer in the world ahead of Saudi Arabia and Russia. However, the growth has slowed as independent producers cut spending on new drilling and completions to focus more on improving their earnings. U.S. oil producers have slashed spending and announced further cuts over the past week as a price war between Saudi Arabia and Russia has sent crude prices plunging. But it's expected that the spending cuts will take time to show up in lower production.