Oil and Gas News Briefs
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Oil Search puts work on hold in Papua New Guinea and Alaska

(Sydney Morning Herald; March 18) - The deep crash in global oil prices has prompted Australia-listed oil and gas producer Oil Search to slash spending for the rest of this year by up to $675 million by shelving projects around the world, including Alaska. Oil Search said March 18 it has immediately suspended all discretionary spending. "These unprecedented times require us to take immediate and decisive steps to position us for a potentially extended period of lower oil prices and business uncertainty," said Keiran Wulff, managing director.

The deep cuts will reduce the company's investment spending this year by about 40% to between US$440 million to US$530 million. Among Oil Search's cutbacks for 2020 is suspension of all non-essential projects and activities in Papua New Guinea, where it is part of a US$13 billion effort with ExxonMobil and Total to more than double the country’s liquefied natural gas export capacity. In Alaska, work to begin early production at the North Slope Pikka project has been put on hold with no further exploration work.

"Limited engineering work on the Pikka Unit full field development will continue so that the project is ready to move promptly toward a final investment decision when market developments improve," Oil Search said. The company said the slowdown amounts to a $70 million pullback in Alaska for the rest of the year, down from a $230 million spend.

Oil Search said it had also decided to suspend the formal process to sell off a 15% stake in its Alaska assets to help fund development costs of the promising oil field. Oil Search's shares have been hit hard plummeting by over 50% the past two weeks to a 15-year low. "We believe this is a prudent approach in what is a treacherous oil price environment," Royal Bank of Canada oil and gas analyst Ben Wilson said March 18.

Crude falls to 18-year low as WTI futures close at $20.37

(CNBC; March 18) - Oil futures dropped 24% to an 18-year low on March 18 as the coronavirus pandemic continues to sap demand for crude and as rising worries about a recession lead to fears of longer-term demand destruction. West Texas Intermediate fell $6.58 to settle at $20.37 per barrel on the New York Mercantile Exchange, its lowest since March 2002. It was WTI’s third worst day on record. International benchmark Brent crude lost $3.85, or 13%, to close at $24.88, also its lowest in about 18 years.

Oil is getting hit on both the supply and demand side. A slowdown in worldwide travel and business activity is weighing on demand just as powerhouse producers Saudi Arabia and Russia prepare to ramp up production. "The oil market is about to flood with surplus barrels," Bank of America said in a note to clients on March 18. As demand grinds to a halt, the OPEC+ production cuts currently in place expire at the end of the month, meaning nations will soon be allowed to pump as much as they please.

"With each day there seems to be yet another trapdoor lying beneath oil prices, and we expect to see prices continue to roil until a cost equilibrium is reached and production is shut in," said Rystad Energy analyst Louise Dickson . "This is the most dismal oil demand picture we have witnessed in a long time with a simultaneous collapse in jet fuel, gasoline, shipping fuel, petrochemicals, and oil used for power generation." WTI and Brent are on pace for their worst month ever, down 54% and 50%, respectively.

Canadian heavy crude crashes to below $10 a barrel

(Financial Post; Canada; March 18) - The Canadian oil patch absorbed yet another gut punch on March 18 as the price of Western Canadian Select (WCS) plummeted by one-third during intraday trading, falling to its lowest ever at US$7.63 a barrel before closing above US$9 and raising questions of how long the sector can survive at low prices. The heavy crude trades at a discount to lighter blends because it is more difficult to transport and refine — the global oversupply has hit WCS prices even harder than other crudes.

The combination of sharply dropping demand for oil, because of containment measures related to the coronavirus health pandemic, and on top of that a price war, in which Saudi Arabia and its OPEC counterparts aim to add 3 million barrels of oil per day to the global supply, has created a one-two punch. The result is that Canada's oil sector plunged into a crisis of unparalleled scale at lightning speed, diving far below the break-even point for nearly all Canadian producers.

The prospects for higher prices are not good. Citigroup Global Markets estimates Brent crude to fall to US$17 per barrel as global oil demand contracts by around 11 million barrels per day in the second quarter. In the past week Canadian companies have eliminated an estimated $3.5 billion in capital expenditures by reducing drilling, trimming salaries, cutting office expenses and imposing layoffs, said Todd Kepler, a Calgary-based oil and gas research analyst at Laurentian Bank Securities.

Russia admits crude is too cheap, but offers no sign of negotiations

(Bloomberg; March 18) - With oil plummeting to an 18-year low amid unprecedented supply and demand shocks, Russia finally admitted: Crude is too cheap. "Of course it's a low price, we would like to see it higher," Kremlin spokesman Dmitry Peskov said on a conference call March 18, signaling for the first time that the country's tolerance of low prices may be wearing thin. Yet he stopped short of reaching out to partners in the OPEC+ alliance as the brinkmanship between Russia and Saudi Arabia persists.

U.S. crude sank below $23 a barrel on March 18 as the Saudis vowed to keep production at a record while the biggest producers in OPEC+ continue to pull oil prices lower by pumping flat out with no sign of a thaw in the war. "We're very closely monitoring the situation on global oil markets, analyzing the situation, trying to make forecasts for the near- and mid-term future," Peskov said. Russia will decide on any potential cooperation with OPEC depending on the outcome of the analysis, he said.

Iraq, OPEC's second-largest producer, on March 17 urged the group and its partners to hold talks to address the crisis. Yet Saudi Arabia on March 18 said it would pump about 12.3 million barrels a day in the coming months, while Russia has insisted its low costs would allow it to keep pumping even if prices move toward $10 — but Russia's national coffers be less resilient. Finance Minister Anton Siluanov warned March 18 that the state budget, which gets 40% of its revenues from the oil and gas industry, will turn to a deficit this year. The budget is based on an average Urals price of $42.45 a barrel.

Goldman Sachs cuts second-quarter oil forecast to $20-$22

(CNBC; March 17) - Goldman Sachs slashed its oil forecast on March 17 as the COVID-19 outbreak continues to cut into oil demand. "Demand losses across the complex are now unprecedented," Goldman's global head of commodities research Jeffrey Currie wrote in a note to clients. The firm said oil use has fallen by 8 million barrels per day as the coronavirus pandemic has led to a near standstill in travel, among other things.

Goldman now sees West Texas Intermediate crude averaging $22 per barrel in the second quarter with international benchmark Brent crude at $20. This is Goldman's second cut to price forecasts in less than two weeks. The firm had lowered its target for WTI to $29 and Brent to $30 after the breakdown in OPEC talks the first week of March. The drop in demand comes as Saudi Arabia and Russia get set to ramp up production beginning April 1, which is when the OPEC+ production cuts currently in place expire.

Goldman said the sudden drop-off in demand, which began in January when the virus started hitting China's fuel consumption, helped prompt the price war that's broken out between OPEC and its allies, which includes Russia. While it is tempting to view the COVID-19 oil-demand shock and the oil 'price war' as separate events, we like to emphasize that OPEC+ pursuing a market-share strategy is simply a second-order effect of the virus made possible by extremely weak demand," Currie said.

Global oversupply of oil 'insane and unprecedented'

(CNBC; March 17) - An end to the oil-price plunge is nowhere in sight, energy experts say, as futures for international benchmark Brent crude fell below $30 a barrel March 16 for the first time since 2016. That's a stunning 54% drop year-to-date. "Oil could easily be in the teens at the bottom. Could even be low teens at the lowest," Abhi Rajendran, director of research at Energy Intelligence, told CNBC on March 16.

"The main driver is for, a week or two, we could have global market oversupply of over 10 million barrels per day. Which is insane and unprecedented," he said. Energy stocks have been hammered as demand plummets amid the escalating coronavirus crisis, while moves to unleash a flood of supply are driving prices into the ground. Saudi Arabia has slashed its prices and will be maxing out its production, as will Russia, as the two producers throw themselves into an all-out price war to fight for market share.

The biggest shocks will likely come after April 1, when a previous production-cutting deal between OPEC and non-OPEC states including Russia, meant to boost prices, expires. Saudi Arabia has announced plans to increase its production to 12.3 million barrels per day in April, compared to roughly 9.7 million in February. Russia's energy minister said last week that Russia can increase its production by 200,000 to 300,000 in the short term, and 500,000 barrels per day in the longer term. "In the coming weeks, with no Saudi-Russia discourse, oil is likely (to be) in the teens," Rajendran said.

Low oil prices could threaten tax breaks for Russian Arctic project

(Bloomberg; March 17) - Oil's freefall amid a price war and a global pandemic threatens to complicate Russian efforts to turn the Arctic into a major new energy zone. Just last month Igor Sechin, the boss of top Russian producer Rosneft, told President Vladimir Putin the company would invest more than 10 trillion rubles ($134 billion) in its Vostok oil project on the Taymyr Peninsula. Yet government reimbursement of infrastructure costs is dependent on crude prices, which have crashed to a four-year low.

A drop in funds from the state could be a setback for Rosneft, which estimates potential resources in the region at more than 37 billion barrels of oil equivalent with a production plateau equal to "the largest projects in the Middle East." In return for investing in the province, the government has offered tax breaks to one of Rosneft's flagship fields in East Siberia, Vankor, about 250 miles south of Vostok. That would allow Rosneft to reduce its annual extraction taxes by as much as 60 billion rubles for the next 10 years.

Under legislation awaiting final approval from Putin, Rosneft would get tax breaks for Vankor as long as oil trades above $42.45 a barrel this year, $43.30 in 2021 and $44.16 a barrel in 2022. Such prices would allow the government to cover all of its spending toward the Arctic development without seeking extra funds. Yet benchmark Brent crude is currently trading near $30, having been battered by the simultaneous shocks of the coronavirus and a price war. “Amid low oil prices, Rosneft may minimize investment in its Arctic project,” said Vasily Tanurkov, director of Russia’s ACRA Ratings.

Exxon will cut spending as stock sinks to 17-year low

(Reuters; March 16) - ExxonMobil on March 16 said it will make “significant” cuts to spending in the face of the unprecedented slide in oil prices due to the global coronavirus outbreak, which has sent its shares to a 17-year low. It was a stunning reversal for the largest U.S. oil producer, which two weeks ago pledged to maintain outlays in a belief that oil demand would rise in the long run.

Other major oil companies have slashed costs amid falling demand and unbridled output by top producers Saudi Arabia and Russia. U.S. shale firms have outlined plans to cut expenses by 25% to 30% to cope with this year’s massive drop in oil prices and demand. Exxon had earlier budgeted between $30 billion and $33 billion for projects this year, sharply up from $23 billion in 2017, Woods’ first year as CEO. Exxon could cut 10% to 12% from its outlays and reduce this year’s capital spending to between $28 billion and $29 billion, said Matt Murphy, an analyst at Tudor, Pickering, Holt & Co.

Exxon could quickly lower spending in U.S. shale, where it paid $6 billion in 2017 for drilling leases in the Permian Basin and where it has run 58 drilling rigs, analysts said. It aimed to pump 1 million barrels a day from the field by 2024. Exxon also is spending billions of dollars on oil exploration and production off the coast of Guyana, on liquefied natural gas production, and on boosting chemicals output along the U.S. Gulf Coast.

Oil storage rates double at hub in Cushing, Oklahoma

(Reuters; March 16) - Rates to store oil at one of the world's biggest trading hubs are surging, as traders globally scramble to secure space in tanks to cope with slumping demand due to the coronavirus outbreak and a flood of supply from the Saudi-Russia price war. The need for a place to park all that surplus crude is breathing new life into the market at Cushing, Oklahoma, the nation's hub for trading of billions of dollars of crude a day and the town that bills itself "the pipeline crossroads of the world."

Analysts estimate the glut could reach more than 1 billion barrels worldwide. Some of the excess crude will be absorbed by nations snapping up cheap oil for their strategic reserves, including India and the United States, but that will only mop up some of the supply. Oil majors have shown interest in storing oil offshore in tankers, shipping sources said, although most vessels have already been chartered for transporting crude instead. "They can ask, but ship owners don't want it," one shipping source said.

Storage rates at Cushing doubled over the past month and were seen as high as about 50 cents per barrel per month, two traders said. "Last week we booked 60 deals," said Ernie Barsamian, founder and CEO of The Tank Tiger, a terminal storage clearinghouse. The oil-price crash has sparked numerous storage inquiries, particularly at Cushing, the delivery point for benchmark U.S. crude futures. "Everyone and their mother is scrambling to fill up tankage," a trader said.

Oil sands producers delay maintenance shutdowns, adding to oil glut

(Bloomberg; March 17) - Canadian oil sands producers are delaying maintenance at production sites, pushing more oil into the market at the worst possible time. Concerns about flying workers in from out of town as the coronavirus continues to spread have led Syncrude Canada to delay coker maintenance at its upgrader and Suncor Energy to push back planned work scheduled for May. The delays mean that crude that wasn't expected to be entering the market will continue to flow, adding to the oversupply.

It comes as crude prices have fallen to a four-year low while the coronavirus pandemic pummels fuel demand and Saudi Arabia and Russia flood the market. Canadian crude prices plummeted to record lows March 17 as demand declined. Light synthetic crude dropped to $23.23 a barrel, the lowest in data compiled by Bloomberg back to 2006. Heavy Western Canadian Select (heavier crude) fell to a record low $12.23 a barrel.

On March 17, Alberta's Premier Jason Kenney declared a state of public emergency, prohibiting gatherings of 50 or more people. The energy ministry is working out how the directive will apply to the oil industry, said energy ministry spokesman Kavi Bal.

Russian oil and gas producers extend Arctic work shifts to limit travel

(Reuters; March 18) - Russian oil and gas workers in the Arctic Yamal Peninsula could see their shifts extended by months to shield the energy industry and its employees from the spread of coronavirus. The region's governor recommended in an order published March 17 that the shifts of those currently working in the region be extended, while those not working have their time off lengthened to reduce the chances of coming to the region and possibly spreading the infection.

Some of Russia's largest companies operate in the Yamal-Nenets region in western Siberia, including gas giant Gazprom and its oil subsidiary Gazprom Neft, as well as private gas producer Novatek, which manages the Yamal liquefied natural gas plant. Russia has reported 114 confirmed cases of coronavirus in 26 different regions, but none in Yamal-Nenets. Those suspected of having come into contact with the virus who visit plants and factories there are tested, the region's governor Dmitry Artyukhov said.

Artyukhov said a number of companies on the peninsula had already switched to three-month-long shifts. Shift work in Russia does not usually last longer than one month and extensions have to be agreed with employees. Gazprom Neft, which is developing the Novoportovskoye field in the south of the peninsula, said it is boosting medical controls for incoming workers and intends to increase shifts by one to two months for workers.

Crash in oil prices could drive energy debt to junk status

(Bloomberg; March 16) - The latest crash in oil prices is threatening to push $140 billion of investment-grade energy debt over the edge into junk. The U.S. shale sector has exhausted the patience of many investors with consistently poor returns just as the industry has been blindsided by the double hit of a supply shock from the coronavirus and an oil price war. That's left exploration and production companies in a weaker position coming into the latest crisis with U.S. benchmark crude falling below $30.

Companies are cutting spending wherever possible, but bond traders seem to have already made up their minds — some of the companies' debt is trading around 70 cents on the dollar, a far cry from near par where most traded just a few weeks ago. "When you have these investment-grade companies trading in the 60s, 70s, and 80s, that tells you that the market certainly doesn't look at them as investment grade," said James Spicer, a high-yield analyst at TD Securities focused on energy.

It may be too late for oil producers to refinance their way out of this one. Capital markets have been mostly shut for weeks as corporate-debt traders price in a greater chance of recession. If companies can't service their debt, the possibility of downgrades pales in comparison to the threat of default. The exploration and production sector makes up the biggest chunk of riskiest high-grade companies and would be the first on the chopping block when credit raters start downgrading, according to CreditSights.

Few options for Gulf nations facing declining oil revenues

(Reuters; March 16) - The coronavirus outbreak and plunging crude prices are a double blow that leaves Gulf Arab governments with few options to manage fiscal stability while trying to shield their economies. Even the largest economy, Saudi Arabia, which launched a war for market share with Russia following collapse of an output deal between OPEC and its allies that has wiped off 30% from oil prices, will face strains.

The oil-price rout in 2014 saw the region, which relies on energy exports, slash subsidies, introduce taxes to diversify revenue sources and try to shrink lavish cradle-to-grave welfare systems and bloated public sectors. Now a focus on stimulating economic activity and easing the impact on their populations of the spreading coronavirus makes it difficult for the six Gulf Cooperation Council governments to hike taxes or cut subsidies.

Most can fall back on hefty financial reserves if oil prices do not recover. They could slash capital expenditures or buy time by raising more debt. But “monetary reserves can’t sustain the current spending for too long” meaning “they may have to cut spending,” said a Saudi banker. Fiscal discipline slipped in recent years as oil prices recovered and governments prioritized economic growth. Some countries, such as Oman, have delayed introducing taxes or deeper subsidy cuts to avoid political unrest.

Oil price war could hit developing countries hardest

(CNBC; March 17) - Developing countries’ oil and gas income could fall to their lowest levels in more than two decades if current energy market conditions persist, the International Energy Agency and OPEC warned in a rare joint statement. IEA Executive Director Fatih Birol and OPEC Secretary General Mohammed Barkindo expressed “deep concerns” about the coronavirus pandemic on March 16, warning it could have “potentially far-reaching economic and social consequences.”

Birol and Barkindo said they expect developing countries to see their oil and gas income fall by 50% to 85% in 2020 as the Saudi-Russia price war and global oversupply of crude drives prices under $30 per barrel. They singled out public-sector spending in vital areas such as health care and education as especially vulnerable in the countries.

Last week Birol said countries like Iraq, Algeria, and Nigeria — all OPEC producers — were in a “very, very difficult situation” and would require support from the rest of the world. Iraq, OPEC’s second-largest producer, is thought to be particularly exposed to an all-out price war because it has one of the least diversified economies of the producer group, although it has relatively low production costs.

Los Angeles confronts nearly 1,000 abandoned oil wells

(Los Angeles Times; March 16) - Thick oil was once so abundant beneath southern California that it bubbled to the surface, most famously at the La Brea Tar Pits. But after more than a century of aggressive drilling, most of Los Angeles’ profitable oil is gone. What remains is a costly legacy: nearly 1,000 wells across the city, in rich and poor neighborhoods, deserted by their owners and left to the state to clean up, according to an analysis of state records by the Los Angeles Times and Center for Public Integrity.

Few U.S. cities are punctured by such a concentration of old drilling sites, with tens of thousands of residents living nearby. If not plugged and cleaned up, many of these orphaned wells will continue to expose people to toxic gases, complicate redevelopment efforts, and pose rare but serious threats of explosions. If the state were to tackle the cleanup, it would cost tens of millions of dollars.

Despite its regulatory powers, Los Angeles has been slow and inconsistent in forcing the industry to take responsibility. Part of the problem is staffing. Until recently the city Fire Department was operating with just one full-time well inspector, resulting in sporadic enforcement. Battalion Chief James Hayden acknowledged that the city hadn't provided adequate oversight of the industry. But with a second full-time inspector added this year and other employees trained to conduct additional inspections, he said, the department will work to ensure that operators "adequately manage their idle wells."