Oil and Gas News Briefs
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Oil prices continue dropping, down 27% this year — WTI below $45

(Bloomberg; Feb 28) - Oil had its worst week since the financial crisis as panic over the coronavirus pandemic battered global markets. Oil futures in New York fell 16% this week marking the biggest weekly drop since December 2008. West Texas Intermediate futures for April delivery fell $2.33, or 5%, on Feb. 28 to settle at $44.76 a barrel on the New York Mercantile Exchange. Brent for April settlement lost $1.66, or 3.2%, to close at $50.52 on the ICE Futures Europe exchange. The May contract fell 4% to $49.67.

"A month ago, the concern was only China," said Pavel Molchanov, energy research analyst at Raymond James & Associates. "This meltdown is a fear of a global pandemic. The risk is we will see the same disruptions we saw in Asia, from travel restrictions to quarantines, materialize all over the world." Oil prices have tumbled almost 27% this year on concerns the coronavirus outbreak will dent crude demand.

OPEC and its allies have signaled the coalition could reach an agreement to stem the rout before meeting next week. Saudi Arabia is reportedly pushing for collective OPEC+ production cuts of an additional 1 million barrels a day, of which it would bear the brunt. However, Riyadh's proposal may not be enough to balance the oil market, according to a coronavirus-scenario analysis by Bloomberg Intelligence analysts Salih Yilmaz and Rob Barnett. "We may be too far deep for any OPEC cuts to have a meaningful impact," said Peter McGinn, market strategist at RJ O'Brien & Associates.

Saudis pushing for OPEC+ to cut output 1 million barrels a day

(Financial Times; London; Feb. 28) - Saudi Arabia is pushing to make a substantial cut in oil production when OPEC and its allies meet next week, as producers scramble to respond to the coronavirus outbreak that has crippled demand. The kingdom is asking producers including Russia to sign up to a collective production cut of an additional 1 million barrels a day, according to five people familiar with the talks, a significantly higher amount than discussed when the so-called OPEC+ group agreed to convene.

The plan, which was discussed during a visit by OPEC Secretary-General Mohammad Barkindo to Riyadh last week, is designed to show that producers are able to respond to the sharp fall in demand created by a virus that has paralyzed global supply chains and stifled international travel. Under the proposal, Saudi Arabia would account for most of the cutback, while Kuwait, the United Arab Emirates and Russia would split the rest.

The deal has not yet been agreed, however, with Moscow hesitant to participate. Earlier this month, a technical meeting of top OPEC and non-OPEC members of the alliance recommended reducing output by an additional 600,000 barrels per day to help balance the market, but that was before the coronavirus had spread far beyond China's borders.

Brent crude, the international benchmark, has fallen to around $50 a barrel, dropping as coronavirus outbreaks have spread. Oil traders fear demand for fuel will be severely curtailed if governments decide to impose further lockdowns. "The market is a falling knife," said Roger Diwan at consultancy IHS Markit. "We don't know what will happen."

Russia ready to cooperate with OPEC+ on more production cuts

(Bloomberg; March 1) - Russia is ready to cooperate with its OPEC+ partners to support the world oil market, even though it's comfortable with current crude prices, President Vladimir Putin said. The OPEC+ mechanism "has already established itself as an effective tool in ensuring long-term stability in global energy markets," Putin told a meeting with his ministers in Moscow on March 1.

Putin commented ahead of the March 5-6 OPEC+ meeting in Vienna, where Saudi Arabia is pushing for swift production cuts to compensate for the drop in oil demand due to the coronavirus and help prop up prices. Russia, the most important non-OPEC partner in the coalition, has so far rebuffed those entreaties, underscoring the dominant role that Putin has played since forging an alliance with the Saudis three years ago.

Current oil prices are "acceptable" for the Russian budget and economy, though "it is difficult to predict how long-term the trend will be," Putin said. The past week was the worst for the oil market since the 2008 financial crash and "we need to be prepared for a variety of scenarios," he said. Brent crude, the global benchmark, fell under $50 a barrel on Feb. 28, its lowest price since July 2017. It started 2020 at around $66 per barrel.

Failure will be costly if OPEC+ cannot reach deal to cut production

(Bloomberg commentary; Feb. 29) - It's finally upon us. The week when ministers from the oil-producing countries of OPEC and their allies meet to decide on the future of their latest round of output cuts. Having failed to persuade Russia to bring the meeting forward, Saudi Arabia will now hope to convince its biggest non-OPEC ally of the need to make deeper cuts in the face of a demand slump triggered by the Covid-19 virus. Success is not a foregone conclusion — and failure will be costly.

The pandemic has made its mark on oil markets. U.S. West Texas Intermediate crude is now firmly below $50 a barrel and global benchmark Brent followed it on Feb. 28. That is uncomfortable territory for producers everywhere and, without a clear indication of deeper output cuts from OPEC, prices will fall further. This is no longer just a Chinese problem. The economic hit of the spread of the virus to other parts of the world is clear. Four-week average jet fuel demand in the U.S. has dropped 18% in the past 10 weeks.

Any hopes that demand will rebound late this year in a robust enough way to offset the first-half slump are built on shaky foundations. The flights that have been cancelled are gone, not postponed. This is the situation that will face the OPEC+ oil ministers later this week. They need a credible plan that will take actual barrels off the market. I have no doubt that an agreement will be hammered out — the cost of failure is too great. It "would leave the market vulnerable to a short-term swing below $30 a barrel," analysts Emily Ashford and Paul Horsnell from Standard Chartered said in a report.

Platts analyst says weak oil prices could persist to April

(CNBC; Feb. 28) - Even if OPEC cuts production by 600,000 barrels a day, oil prices could remain weak until April, according to a senior analyst at S&P Global Platts. That's because inventories are rising amid lower oil demand due to the coronavirus outbreak, Kang Wu, Asia's head of analytics, told CNBC's "Capital Connection" on Feb. 27. Oil prices have been under pressure because of the virus that has shuttered Chinese businesses for weeks and forced flight cancellations around the world.

As the economic impact of the coronavirus unfolded, the Organization of the Petroleum Exporting Countries slashed its global oil demand outlook. OPEC's Joint Technical Committee met over three days in early February and reportedly recommended a cut of 600,000 barrels a day, according to Reuters. That's what S&P Global Platts expects at the March 5-6 OPEC meeting, Wu said. The global benchmark, Brent crude, was trading around $51 a barrel Feb. 27, down from $66 at the start of the year.

Tentative deal allows gas pipeline work to resume in British Columbia

(Reuters; March 1) - Canadian authorities on March 1 reached a tentative deal with an indigenous group in British Columbia that could end solidarity protests across Canada which have been blocking rail lines and roads for weeks. Activists have disrupted passenger and freight traffic to show solidarity with the Wet'suwet'en people, who are seeking to stop the Coastal GasLink gas pipeline from being built across their land.

Indigenous affairs ministers from British Columbia and Canada said they reached an agreement that would address future land rights disputes while allowing construction to restart on the C$6.6 billion project. Coastal GasLink said work would resume March 2. The agreement will be reviewed by the Wet'suwet'en people, which should take about two weeks, hereditary leader Chief Woos said March 1. Talks between hereditary chiefs and government officials focused over the weekend on the status of the Wet’suwet’en’s unceded traditional territory covering 8,500 square miles in British Columbia.

The agreement will "create certainty and clarity for the Wet'suwet'en and all British Columbians," British Columbia's Indigenous Relations Minister Scott Fraser said, without providing details. The proposed agreement includes establishing a permanent structure to address legacy land rights and title issues, a federal government source said. Federal Minister of Crown-Indigenous Relations Carolyn Bennett called the agreement a "milestone" in indigenous relations.

Analyst ‘numb to all of these delays’ for Canadian gas projects

(Financial Post; Canada; Feb. 27) - The Coastal GasLink pipeline that will connect to a massive liquefied natural gas export project in Kitimat, British Columbia, is not the only gas project facing challenges on the West Coast, though rail blockades across Canada against the pipeline have dominated the headlines. Last week the U.S. Federal Energy Regulatory Commission dealt Calgary-based Pembina Pipeline a surprise setback in its bid to build a US$10 billion LNG export project on the Oregon coast.

FERC voted 2-1 to delay a decision on the export facility in Coos Bay. It was the second time it had denied or deferred the application, and it again stymies efforts by landlocked Canadian gas producers to find new markets. “I’ve become so numb to all of these delays,” Raymond James analyst Jeremy McCrea said, adding that it was disappointing but not necessarily surprising given it’s become more difficult to build energy projects across North America. “It’s more of a surprise if something does go through.”

At one point, there were more than 20 LNG projects proposed on the B.C. coast, but so far the Shell-led LNG Canada terminal in Kitimat is the only one under construction. The others have been abandoned or delayed. Amid all the turmoil, producers and pipeline companies are looking for more inventive ways to move gas out of Western Canada, clearing a glut in Alberta and B.C. that has resulted in rock-bottom prices. Data from AltaCorp Capital shows hub prices in Alberta averaged US$1.40 per 1,000 cubic feet on Feb. 25, 47 cents off the U.S. benchmark price in Louisiana.

Louisiana LNG developer says it needs cash or could shut down

(S&P Global Platts; Feb. 28) - Australia's LNG Ltd. urged shareholders Feb. 28 to accept a buyout from a Singaporean investor with ties to floating regasification facilities in Asia and Europe in a bid to save its Magnolia LNG export project in Louisiana. The deal, which values the company at $75 million, follows the developer's warning Jan. 31 that it must immediately raise cash to continue operating amid challenges securing sufficient commercial agreements to advance the Magnolia project to construction.

LNG Ltd. said at the time that the additional cash was needed "in order to maintain operations as a going concern." Since then global LNG markets have faced increasing pressure from low prices, weaker-than-expected demand in key end-user markets and trade flow restrictions from the deepening global crisis over the coronavirus outbreak. The company’s U.S. shares have traded below $1 since last May. In its statement, LNG Ltd. said the buyout is its only option in an increasingly challenging marketplace.

"Shareholders who accept the offer avoid the risk of [LNG Ltd.] entering administration or liquidation," the developer said in a memorandum to investors posted on its website. Magnolia LNG has approval from U.S. regulators and an engineering, procurement and construction contract for the 8-million-tonne-per-year project. What it does not have are any firm offtake deals. The privately held entity that has offered to buy LNG Ltd. is called LNG9. It’s based in Singapore and offers services along the LNG value chain.

Indian LNG buyer shopping around before signing with U.S. supplier

(Bloomberg; Feb. 27) - An emerging U.S. liquefied natural gas developer — along with its proposed $28 billion export project — has been rattled by the attempts of a potential major customer in India to probe the market for competing supply, highlighting mounting pressure on sellers amid a global glut of the fuel. India’s largest LNG buyer, Petronet LNG, has started soliciting offers for supply under terms similar to a tentative agreement it signed with Tellurian last year, according to people with knowledge of the matter.

The Petronet tender adds to doubts that Tellurian will be able to secure a sizable anchor investment from Petronet for its Driftwood LNG project, according to Michael Webber, managing partner of Webber Research & Advisory. “It’s supportive of our overall skepticism of the deal,” he said. The news spooked investors, sending Tellurian shares down 23%, the biggest one-day drop since January 2016.

The development highlights how a flood of new supply and record low spot prices are strengthening buyers’ hands and ramping up competitive pressure among sellers. Petronet issued the tender to glean price and market information that it will use to back its position during talks with Tellurian, which are expected next month, one of the people said. For most LNG projects, locking up long-term deals for the bulk of the production is a key requirement to secure financing. Tellurian has said it plans to make a final investment decision on the first phase of Driftwood in the “next couple of months.”

LNG suppliers trying to sell cargoes rather than storing them at sea

(S&P Global Platts; Feb. 27) - LNG suppliers are reaching out to potential alternate buyers in Asia and Europe to sell cargoes diverted from China amid the coronavirus outbreak as they scramble to cut floating storage positions they have been forced to hold even though it does not make commercial sense. A dramatic fall in China's LNG appetite prompting cargo diversions, as well as the limited bandwidth in Asia to absorb higher volumes, have left suppliers with little option but to hold the floating cargoes.

While an anticipated resumption of commercial activity in China might provide a ray of hope for demand to rebound from low levels, analysts are of the view that this many not happen at breakneck speed. As a result, the volume of floating storage — the bulk of it in Asia — could rise in the coming weeks. "With demand continuing to decline as we head into the shoulder season, LNG floating storage volumes could increase in the next few weeks," said Jeff Moore, manager at Asian LNG Analytics at S&P Global Platts.

James Waddell, senior global gas analyst at Energy Aspects, said 16 vessels were being used as floating LNG storage at the start of the week — most of them in the Asia-Pacific region — and all were distressed cargoes. "There are small demand responses from a few players,” Waddell said. “There is no economic incentive to store LNG on vessels … so the floating storage is simply an inability to find a market for the LNG," he said. The daily charter rate for an LNG carrier for storage is about $40,000.

Louisiana LNG developer signs 20-year deal with French buyer

(Natural Gas Intelligence; Feb. 26) - Venture Global LNG has signed a deal to supply Paris-based utility Électricité de France with liquefied natural gas for 20 years from its proposed export terminal in Plaquemines Parish, Louisiana. Under a sales-and-purchase agreement announced Feb. 25, EDF will buy 1 million tonnes of LNG from the facility for a 20-year term when it starts service. Under its business plan, Venture Global will purchase the gas, liquefy it and then transfer the fuel to buyers at the dock.

The announcement comes at a time of unprecedented global supply and historically low prices across the world that have created a highly competitive market for sanctioning new U.S. LNG projects and made buyers less inclined to sign long-term deals. The Plaquemines facility would produce up to 20 million tonnes per year. Construction could begin this year, pending a final investment decision. The company already has sold 2.5 million tonnes to Poland’s state-owned natural gas company under a 20-year deal.

Venture Global also is developing the 10-million-tonne Calcasieu Pass LNG terminal, which currently is under construction in Cameron Parish, Louisiana. Both the Calcasieu terminal and the proposed Plaquemines LNG plant will use the same mid-scale, modular, factory-fabricated liquefaction units to reduce construction costs.

Sempra plans investment decision on two LNG projects this year

(Reuters; Feb. 27) - California energy company Sempra Energy said Feb. 27 it expects to make final investment decisions this year on two liquefied natural gas export plants — one in the United States and one in Mexico. It plans to decide on the first phase of the Costa Azul export plant in Baja California, Mexico, in the first quarter and the Port Arthur plant in Texas in the third quarter.

Sempra has said Energia Costa Azul LNG has non-binding 20-year agreements with units of Total of France and Mitsui and Tokyo Gas of Japan to buy about 0.8 million tonnes per year of LNG each. The first phase of Costa Azul is designed for one liquefaction train at 2.4 million tonnes annual capacity, about 320 million cubic feet of gas per day. The company has said Costa Azul could make its first LNG deliveries in 2023. The export project would be built adjacent to a 12-year-old LNG import terminal.

Sempra said Port Arthur LNG is working on agreements with units of Saudi Arabian Oil Co. (Aramco) for the purchase of 5 million tonnes per year of LNG and a 25% equity investment in the project, and with Polish Oil & Gas to buy 2 million tonnes per year. The initial phase of the Port Arthur project is expected to include two liquefaction trains at 11 million tonnes annual capacity. Sempra already operates the Cameron LNG export terminal on the Louisiana coast. The company has said its goal is to develop projects capable of producing a combined 45 million tonnes per year of LNG.

Quebec will start environmental review of LNG project

(CBC News; Canada; Feb. 23) - Quebec's environmental review agency will begin examining next month a controversial natural gas project that already is facing opposition from indigenous communities, but which has the provincial government's support. Quebec's Environment Minister Benoit Charrette sent a letter last week to the head of the agency, known by its French acronym BAPE, in which he indicates the review process will begin March 16, according to Radio-Canada.

The gas project is comprised of a pipeline and a C$9.5 billion liquefaction plant near the Saguenay port, roughly 140 miles northeast of Quebec City, with access through the St. Lawrence River to the North Atlantic and export markets. The LNG plant, backed by GNL Quebec, will be reviewed first. The pipeline, which would stretch 485 miles from

Ontario to Saguenay-Lac-Saint-Jean and cost an estimated C$4.5 billion, will be studied separately. The pipeline would move Western Canadian gas to the LNG terminal.

Charrette's letter said the environmental review was necessary because the liquefied natural gas project raises a number of potential issues, including greenhouse gas emissions, damage to wetlands and water environments and risk of accidents. Premier Francois Legault has repeatedly indicated he is favorable to the project, claiming among other things that it will help reduce emissions globally by facilitating exports of LNG, which emits less carbon dioxide than coal burned to generate electricity.

Egypt negotiates deal to restart second LNG export terminal

(Reuters; Feb. 27) - Italy's Eni and Spain's Naturgy have reached an agreement with Egypt to resolve a series of disputes over the Damietta gas liquefaction plant in northern Egypt, paving the way for the facility to restart by June, the companies said Feb. 27. The agreement will end Naturgy's business interests in Egypt and dissolve a joint venture between Naturgy and Eni, while Eni and state-owned Egyptian firms will increase their holdings in the plant. The Spanish firm will pocket $600 million in cash.

The LNG plant, which has a capacity of more than 265 billion cubic feet of gas per year, has been idle since 2012 when a popular uprising hit gas supplies in Egypt and the government was forced to import gas to meet domestic demand. But recent discoveries mean Cairo now has a surplus of gas that it can export through liquefied natural gas plants. Last year, through its other LNG export terminal, Egypt shipped more than 3 million tonnes of LNG, up from 1.5 million tonnes in 2018 and 850,000 tonnes in 2017.

The Damietta plant was 80% owned by Union Fenosa Gas, the joint venture between Eni and Naturgy, with the rest split evenly between Egyptian Natural Gas Holding Co. (EGAS) and Egyptian General Petroleum Corp. (EGPC). Under the new agreement, the plant will be 50% owned by Eni, 40% by EGAS and 10% by EGPC. Eni found Egypt's biggest-ever gas field, Zohr, in 2015 and has several other assets in the Mediterranean.

Russian gas pipeline to China averages 350 million cubic feet a day

(Reuters; Feb. 26) - China imported almost 30 billion cubic feet of natural gas by Feb. 25 through the Power of Siberia pipeline, launched in December, an average of about 350 million cubic feet a day, state-run Xinhua news agency said Feb. 26. The 1,900-mile pipeline supplies gas from Russia's Siberian fields to China's coal-burning northeastern rust belt region, aiming to replace dirty coal with cleaner fuel.

The pipeline, which will deliver gas under a 30-year, $400 billion deal signed in 2014, has the potential to transform northeast China's energy landscape and even slow the country's surging imports of liquefied natural gas. Russia's Gazprom is set to supply more than 175 bcf of gas this year, or almost 500 million cubic feet per day, China's Commerce Ministry said. The supply of gas is expected to triple by 2023, eventually reaching more than 3 bcf a day.

Eni plans for oil and gas production to plateau in 5 years

(S&P Global Platts; Feb. 28) - Italian oil major Eni announced Feb. 28 plans for a clean energy "evolution" for its business to 2050, which will see its oil and gas production plateau in five years as it spends more on renewable power and biofuels. Under the plans, Eni said its upstream production growth will average 3.5% a year up to 2025, with a subsequent "flexible decline" mainly for oil afterward. Gas production will make up about 60% of total production by 2030 and rise to 85% in 2050, Eni said.

"The strategy we announce today represents a fundamental step for Eni," CEO Claudio Descalzi said. "The result will be a portfolio that is more balanced and integrated and will be stronger for its adaptability and competitive shareholder remuneration." Eni's long-term strategy builds on an existing goal to reach net-zero emissions from its exploration and production by 2030. By 2050, Eni said it plans an 80% reduction in carbon emissions of its energy products sold compared to 2018.

Eni's ambitious long-term strategy comes on the heels of BP's plan to become a "net-zero" carbon emitter across its business by 2050 as pressure mounts on oil companies to shift to cleaner energy and offset their emissions. Shell plans to cut emissions from its products by 50% by 2050 and Total and Repsol also have carbon reduction targets. Key to Eni's emission cuts will be the progressive expansion of its installed global renewables power capacity to 3 gigawatts by 2023 and more than 55 GW by 2050.