Oil and Gas News Briefs
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OPEC cuts 'deeper and more spectacular' than expected

(Bloomberg; May 15) - OPEC+ is responding to the oil market collapse with an urgency never seen before. The alliance's plan for production cuts this month is well on the way to surpassing the anticipated 9.7 million barrels of daily crude output — roughly 10% of global supplies, according to tanker-tracking data, interviews with traders and refiners, and assessments by consultants. And that's just in the first two weeks of the agreement.

"The actual production cuts are deeper and more spectacular than any reasonable person would have thought a week ago," said Ed Morse, head of commodities research at Citigroup. Although there was skepticism over the efficacy of the cutbacks unveiled in mid-April by Saudi Arabia, Russia, and their allies — measured against the even greater hit to global oil demand — the impact has been substantial and quick. Prices have recovered by 60% in the past three weeks with Brent passing $32 a barrel on May 15, as a noticeable pickup in fuel use has accompanied the supply cuts.

Much of the prodigious effort undertaken by OPEC and its allies has been unavoidable. With a dearth of buyers and storage, they've had little choice. "Partly it's because they couldn't sell the oil anyway," said Morse. "But this is a moment when they really do recognize their mutual interdependence and commonly-shared vulnerability." Petro-Logistics, which has observed OPEC for four decades, said exports from the 23 nations are down 15% so far this month. Saudi Arabia slashed exports by 2.6 million barrels a day — about 28% — to 6.7 million during the first half of May, tanker tracking shows.

Over 7 million barrels of Saudi crude heading to U.S. West Coast

(Bloomberg; May 14) - A fleet of tankers filled with Saudi crude heading to American shores is raising concern that storage may fill again just as a U.S. glut shows signs of easing. More than 30 tankers are set to arrive at the U.S. Gulf Coast and West Coast in May and June, according to ship-tracking data compiled by Bloomberg. The more than 50 million barrels of Saudi crude on the water threaten to disrupt the positive supply development that U.S. crude stockpiles declined for the first time since January.

"The expected Saudi deliveries could push U.S. inventories back to builds depending on their timing," said Sandy Fielden, director of oil and products research at Morningstar. "If the shipments land at a rate that isn't balanced by falling production or an uptick in exports, then we'll see a domestic (storage) build." The oil industry has been on edge for months, with onshore and offshore storage capacity levels tested worldwide due to ballooning oil inventories spurred by the COVID-19 demand slowdown.

On the West Coast, crude stockpiles are less than 5 million barrels short of reaching the region’s storage capacity. Federal data this week showed U.S. crude production fell for a sixth straight week to the lowest in nearly a year. Even at those reduced levels, the U.S. oil will have to jostle with Saudi crude for storage space. The vessels will deliver over 45 million barrels of Saudi crude to Gulf Coast buyers and at least 7 million to Pacific users, about equal to four days of refinery feedstock. The volume of oil in May and June is equal to nearly a third of all Saudi crude delivered to the U.S. last year.

Goldman Sachs forecasts oil price recovery as demand rebounds

(S&P Global Platts; May 14) - The prospects of a modest but sustained oil price recovery in the coming months are growing as output curbs and a demand rebound from coronavirus lockdowns easing drains the world's oil surplus faster than expected, according to oil analysts. On the demand side, signs that the global oil market is rebalancing ahead of expectations are being led by data showing fuel demand is recovering steadily after bottoming out in April when some lockdowns began to be lifted.

Goldman Sachs on May 14 raised its May global oil demand estimate by 1.4 million barrels per day, citing a better than expected improvement in gasoline demand in key markets such as the U.S., China, and Germany. Although still some 17 million barrels per day below pre-COVID levels, Goldman estimates that current oil demand is up 2 million barrels a day from the previous week and up from 6 million from its mid-April low.

Despite a faster than expected recovery in demand and steep output cuts by OPEC+ and U.S. shale producers, oil-price gains could remain limited in the near term due to huge global oil stock overhang and the potential that price-sensitive U.S. shale producers could restart wells quickly, Goldman Sachs said.

Barclays boosts 2021 oil forecast to $53 per barrel for Brent

(Reuters; May 15) - Oil prices touched a one-and-a-half-month high on May 15 amid signs demand for crude is picking up, with China reporting increased refinery runs and rounding out a week of bullish news on the supply front. West Texas Intermediate climbed past $29 a barrel, highest since early mid-March. Brent crude was up over $32 a barrel on May 15. It was the third consecutive week of gains for both contracts.

“Further signs of demand recovery, together with deepening production cuts from OPEC+ as well as shut-ins and natural declines by non-OPEC+, is helping oil prices to recover,” said Bjarne Schieldrop, chief commodities analyst at SEB, a Swedish financial group. Amid supply cuts by OPEC nations and other major producers, bright spots are also emerging on the demand side. Data released on May 15 showed China's daily crude oil use rebounded in April as refineries ramped up operations.

"Oil prices have been up significantly since yesterday thanks to a better assessment of the situation by the International Energy Agency," Germany's Commerzbank said in a note. Barclays raised its forecasts for Brent and WTI by $5 to $6 a barrel for 2020 and by $16 a barrel for 2021. It now sees 2020 Brent prices averaging $37 a barrel and WTI at $33. The bank expects Brent and WTI in 2021 to average $53 and $50 per barrel, respectively. "The sheer size and speed of the disruption and associated inventory overhang will take time to get fully absorbed, in our view," a Barclays analyst said.

U.S. shut-ins forecast to reach at least 2 million barrels a day in June

(Bloomberg; May 15) - Few expected that the cuts in U.S. shale oil production would run this deep — and happen so quickly. Drillers are laying down rigs and shutting in wells at a frantic pace in response to the plunge in oil prices. A week after West Texas Intermediate crude settled below zero for the first time ever, analysts at JPMorgan projected the U.S. would cut output by 1.5 million barrels a day by June. Two weeks into May, production is already down by at least that much and continues to decline.

The declines include 758,000 barrels a day of announced reductions in the U.S. by some of the country's biggest producers including ConocoPhillips, Chevron, and Continental Resources, according to data compiled by BloombergNEF. More than 500,000 barrels a day of production in the Bakken region of North Dakota and Montana has been shut in. Daily output from Alaska's North Slope is down by about 100,000 barrels from early March.

Rystad Energy said U.S. production shut-ins will reach at least 2 million barrels a day in June, including natural gas liquids, with Permian-focused producers in West Texas and New Mexico driving 42% of the curtailments. Some producers expect that the projected June cuts may eventually increase depending on oil prices, but oil volumes should mostly return to pre-cut levels in the third quarter, Rystad said in a research note.

Oil production cuts have helped start price recovery, IEA says

(CNBC; May 14) - The International Energy Agency said on May 14 that market forces had "demonstrated their power" to reduce oil supplies in recent weeks, but concerns remain over the potential for a second wave of COVID-19 infections. It comes after what the IEA Executive Director Fatih Birol described as "Black April," when the price of U.S. crude futures tumbled into negative territory. Since then the outlook has somewhat improved in energy markets and international prices have rebounded past $30.

“Oil production is reacting in a big way to market forces and economic activity is beginning a gradual but fragile recovery,” the IEA said. "It is on the supply side where market forces … have shown that the pain of lower prices affects all producers," the agency said. “However, major uncertainties remain,” for the future, the IEA said. “The biggest is whether governments can ease the lockdown measures without sparking a resurgence of COVID-19 outbreaks.”

Another risk, the group said, is whether OPEC and its allies will achieve a high level of compliance with output cuts. “These are big questions. … The answers we get in the coming weeks will have major consequences for the oil market.” Facing the biggest drop in oil consumption in history, the OPEC+ participants, along with producers in the U.S., Canada, Norway, and elsewhere, have combined to implement a “spectacular” cut in output to help balance the market, the IEA said, “with perhaps more to come.”

OPEC forecasts oil demand dropping 9.1% for the full year

(The Wall Street Journal; May 13) - Global oil demand this quarter is expected to drop 18% from a year earlier as coronavirus lockdowns continue to sap demand for transport fuel, the Organization of the Petroleum Exporting Countries said May 13. In its monthly report, OPEC said that the world’s demand for crude would likely fall to 81.3 million barrels a day in the second quarter of 2020, down from 98.6 million barrels a year ago. For the full year, OPEC forecasts demand dropping 9.1% to an average of 90.6 million.

Meanwhile, data from the U.S. Energy Information Administration for last week showed a strong rise in fuel demand as shelter-in-place mandates eased and drivers returned to the road. Hopes that demand recovery is starting has helped boost oil prices. “Speedy supply adjustments in addressing the current acute imbalance in the global oil market has already started showing positive response,” OPEC said.

Saudis cut back further on oil sales to Asia, Europe and U.S.

(Bloomberg; May 14) - Saudi Arabia will trim oil shipments to the prized Asian market in June and cut exports even more aggressively to Europe and the U.S. in a possible sop to President Donald Trump and hard-pressed U.S. shale producers. OPEC’s biggest member is seeking to shore up a tentative recovery in oil markets after the coronavirus crushed energy demand and sparked the oil industry’s worst crisis in decades. The Saudis are voluntarily reducing their exports to the lowest level in 18 years.

State-producer Saudi Aramco will cut June exports to at least a dozen Asian customers, according to traders notified by the company. Aramco plans even deeper reductions in the amount of crude it will send to the U.S. and Europe, according to people with knowledge of the situation. “It’s politically important to the U.S. and to Trump” that the

Saudis send less oil to the Atlantic Basin, said Olivier Jakob, managing director at consultant Petromatrix in Zug, Switzerland. "It's also a gesture toward the Russians that the Saudis aren't looking to crash the European market."

Aramco media officials declined comment. Eight of the 12 refiners in Asia that had their supplies cut said the reductions were substantial, at 20% to 30% or more from contract amounts. Most of the larger cuts were among buyers in China and India, and some of them said they were in talks with Aramco to try and get more crude. Three other regional buyers received what they asked for. The world's largest oil exporter will go even further, however, in curbing shipments to the U.S. and Europe, where buyers will receive only about half of the volumes they normally purchase, according to sources.

Canadian oil production down nearly 25%

(Calgary Herald; May 14) - Starting his oil-patch career in the early 1980s, Roger Tang has navigated through several booms and busts that have sporadically swept through Canada's energy sector. But he believes the crash of 2020 is worse than when oil fell to US$10 a barrel in the late '90s, or the prolonged price slide that began in 2014. When markets went into a steep and deep tailspin in February, the CEO of Deltastream Energy, a privately held oil producer in Alberta's Slave Lake region, took drastic action.

"Before April we were producing about 12,000 barrels per day. As of today we've shut everything in," Tang said. "You are basically paying somebody to take it away. What's the point?" The response by Alberta producers has been immediate. Most have slashed capital programs as cash flow has dissipated. Almost $9 billion in planned capital spending in Canada this year has vanished since March. "It is in crisis mode," said Jackie Forrest, senior director with Calgary-based ARC Energy Research Institute.

Heading into 2020, the Canadian Association of Petroleum Producers (CAPP) expected industry capital spending would climb by $2 billion this year, including the first increase in oil sands expenditures in five years. Those hopes have been dashed. "Some companies are most certainly going to fail," said CAPP President Tim McMillan. Pipeline giant Enbridge and the country's largest producer, Canadian Natural Resources, both estimate domestic oil output has fallen by 1 million barrels per day — nearly a quarter of all Canadian production — and it could drop further.

Australian refiner says motor fuel sales down 16%, jet fuel down 90%

(The Sydney Morning Herald; May 14) - Australian fuel giant Caltex says the pain of the coronavirus-driven collapse in demand has become even more acute as traders turn to ships to store crude nobody is buying. Caltex and the country's three other refiners have been approaching breaking point since lockdowns to stem the spreading pandemic wiped out demand for petrol and jet fuel and slashed their already-sinking profits.

The crisis has forced the companies to dramatically wind back output as they run out of on-site storage capacity, while Caltex has said it will bring forward a planned shutdown of its Brisbane refinery and keep it closed until conditions improve. The glut has become so severe that refiners and traders have been using ships to store oil out at sea, with Caltex interim CEO Matt Halliday warning May 14 that freight rates for oil tankers were rising as a result. Caltex said retail fuel sales so far this year were 16% below last year, while jet fuel was expected to fall as much 90% while travel restrictions remain in place.

States' attorneys general ask FERC to halt project approvals

(Houston Chronicle; May 15) - A longstanding political battle over the construction of natural gas pipelines is intensifying amid the coronavirus pandemic as clean-energy advocates increase pressure on the federal government not to let up on climate change. Democratic attorneys general from 10 states and the District of Columbia are urging the Federal Energy Regulatory Commission to stop permitting gas pipelines, LNG facilities and other fossil fuel projects until the "end of the COVID-19 crisis."

"COVID-19 has required individuals and state and local governments to attend to matters of pressing, existential urgency," the attorneys general wrote in a letter to FERC last week, asking that the commission slow down its approvals of fossil fuel projects. The letter comes as the Trump administration is working on an update of federal environmental rules to limit states' ability to block pipelines because of climate change.

For the gas industry, the coronavirus protest by the state attorneys general represents the latest in a campaign by environmental groups and some Democrats to turn the country away from fossil fuel to focus more on renewable energy. The pressure is not likely to let up soon. Between Trump's move to limit states' authority on pipelines and environmentalists' campaigns to halt the construction of LNG export terminals, a rash of litigation is expected over the next year. In addition, investors and banks are pulling back from projects such as pipelines, export terminals and oil drilling in the Arctic.

Louisiana Senate ready to vote on bill to shield oil and gas companies

(WWL TV; New Orleans; May 14) - A vote on a contentious Louisiana state Senate bill that would undermine parish lawsuits against oil and gas companies keeps getting delayed in spite of pressure by business and industry to get it passed. On May 14, a spokeswoman for Gov. John Bel Edwards said he opposes the bill. "Some of these coastal lawsuits were filed by the parishes years ago … under statutory authority that was expressly given to them by the Legislature decades ago,” the spokeswoman said.

The Republican-led bill would change state law on coastal-use permits to prevent six coastal parishes from enforcing permit violations and bringing lawsuits, giving that power exclusively to the state. But those parishes already filed lawsuits against dozens of oil and gas companies back in 2013, seeking hundreds of millions of dollars for damages. They agreed on a settlement with one of the companies, Freeport McMoRan, that stands to net them $100 million for coastal restoration.

A coalition of business and industry groups has taken out full-page ads in newspapers urging support for the bill, saying Louisiana should "work with the oil and gas industry, not against it." The bill passed out of the Natural Resources Committee on a 4-3 vote on May 7 but has been in the Senate without coming to a vote ever since. On May 14, after sitting on the agenda for three straight days without a vote, the bill was calendared for a special vote on May 18. A parish official said municipalities are prepared to challenge the constitutionality of retroactively removing them from their 7-year-old lawsuits.

Support grows for federally funded program to plug abandoned wells

(Pittsburgh Post-Gazette; May 14) - Proposals to plug abandoned oil and gas wells are gaining support across the U.S. as a way to restore jobs for oil workers displaced during the pandemic-driven price crash. The idea is being promoted by state regulators, industry groups and environmental organizations as a way to sustain employment while cleaning up a longstanding environmental problem that’s been drastically underfunded.

States have identified more than 55,000 ownerless wells left unplugged. Estimates of existing but unidentified wells has swelled to 750,000 or more nationwide. Pennsylvania alone has 8,500 verified orphan and abandoned wells, plus an estimated 200,000 that have not been identified. The decaying wells can leak oil and gas into water, soil and even nearby homes, creating an explosion hazard and adding to greenhouse gases. Orphan wells are commonly many decades or even a century old.

In recent weeks, the idea of paying oil workers to plug wells has been endorsed by energy regulators in North Dakota and Oklahoma; environmental groups; the Natural Resources Committee in the Democratic-controlled U.S. House; and the Interstate Oil and Gas Compact Commission, a consortium of 31 oil and gas-producing states.

States have underfunded regulatory programs set up to plug orphan wells, “which means that the money could flow relatively quickly and you could get people to work relatively quickly,” said Daniel Raimi, a researcher at the think tank Resources for the Future. Canada recently committed C$1.7 billion to plug orphan wells to aid struggling oil producers and address a problem the prime minister said has been “festering for years or even decades.” In Alberta the funding is expected to maintain 5,200 jobs.

Saudis will have to balance natural gas needs as they cut oil output

(Reuters; May 14) - Saudi Arabia’s sweltering summer may complicate the kingdom’s pledge to deepen its cuts to oil production. Less crude means less associated gas, a byproduct of crude extraction, which Saudi Arabia uses to power air conditioners during the summer months and as feedstock for its petrochemical industry. While industry sources do not question Saudi Arabia’s ability to deliver on the oil cuts, the country will need to ensure an adequate supply of gas for the residential sector and industry.

Because Saudi fields pumping lighter crude tend to produce more associated gas than fields with heavier and sour grades, where the cost of production is higher, Saudi oil output will likely drift more toward the lighter-quality grades, analysts and experts said. That will help maintain the nation’s gas supply. Though Gulf oil producers have the world’s lowest per-barrel production cost, the relative cost of production of different grades — and the market — is important when deciding where to make cuts.

However, concentrating output cuts on offshore fields — which produce heavy crudes with less associated gas — is an option often taken by Saudi Aramco, industry sources and analysts said. For example, a barrel of Arab Light may have an associated 500 to 600 cubic feet of gas, while a heavy crude from Manifa may have as little as 90 cubic feet. Saudi Arabia consumes all of the gas it produces. In 2018, Aramco produced 8.9 billion cubic feet per day of natural gas and 1 billion cubic feet per day of ethane.

U.S.-China energy trade targets ‘were never realistic’

(Natural Gas Intelligence Daily; May 14) - U.S. liquefied natural gas deliveries to China are steadily increasing following an agreement earlier this year to ease trade tensions, but the deal is in jeopardy given the economic hit of COVID-19 and the pandemic’s role in souring relations between the countries. In a trade deal signed in January, China committed to a lofty target of buying $200 billion of U.S. goods over the next two years, including $52.4 billion of energy products including LNG, oil, refined products, and coal.

“The targets were never realistic,” said senior adviser Scott Kennedy, of the Center for Strategic and International Studies in Washington, D.C. “They were gaudy numbers meant to impress,” he wrote in a recent analysis. Since April 20, when a U.S. LNG cargo discharged in China for the first time in 13 months, an additional six vessels have delivered gas to the country, the world’s second-largest LNG importer, according to ClipperData. Those seven cargoes likely were worth about $100 million.

“The real payday for U.S. projects would be if tariffs (Chinese tariffs on U.S. gas) are lifted and then the Chinese might sign some long-term contracts and that might backstop some project development,” said Poten & Partners’ Jason Feer, global head of business intelligence. “It’s just sort of a two-year truce right now, and that’s not long enough to be willing to sign long-term contracts.” Several U.S. projects have postponed final investment decisions lacking enough long-term offtake deals to obtain financing.

Spot-market LNG cargoes into Japan averaged $2.40 in April

(Reuters; May 14) - Prices for spot liquefied natural gas cargoes imported into Japan, the world’s biggest buyer of the fuel, fell in April to their lowest since the country’s trade ministry started compiling data in 2014. The low for LNG cargoes into Japan — reflecting actual prices paid rather than those derived from surveys or indices — highlights the evisceration of demand for natural gas, along with other commodities, brought about by the coronavirus pandemic.

The outbreak has turned markets on their heads. In Japan electricity prices effectively have hit zero on regular occasions as industrial activity has slowed. The average contract price for spot LNG cargoes shipped to Japan in April fell to $2.40 per million Btu, according to data released by the Ministry of Economy, Trade and Industry on May 14. That was the lowest since the METI started publishing the data in March 2014 and was down from $3.40 in March.

Asian spot LNG prices fell to a record low of less than $2 earlier this month with buyers in Asia and Europe cancelling several cargoes from the United States. The Ministry of Economy surveys spot cargoes bought by Japanese utilities and other importers, but excludes deals linked to price benchmarks such as the U.S. Henry Hub gas index.

Australian gas producers vie to supply LNG plant

(Reuters; May 14) - A slump in energy prices that has led to deferral of liquefied natural gas projects around the world could be an unexpected boon for some producers trying to kick-start new ventures in gas-rich western Australia. Offshore and onshore projects led by Woodside, Chevron and Japan's Mitsui are in the mix to plug a looming supply gap at North West Shelf, Australia's oldest and biggest LNG export plant.

The shortfall follows a decision in March to put the giant offshore Browse gas project on ice after its owners, led by Woodside, balked at the $20 billion price tag to develop the field amid a slump in LNG prices to record lows. Browse had been lined up as the new anchor source for the North West Shelf from the mid-2020s, eventually feeding gas to cover 10 million tonnes a year of LNG of the plant's full capacity of 18.5 million tonnes.

The 31-year-old plant has been supplied by fields owned by BHP, BP, Chevron, Shell, Woodside, and a joint venture of Japan's Mitsui and Mitsubishi. Keeping the plant's five production trains at full tilt and maintaining the project's market share in Asia is a priority for the partners, as well as the state government that earns rich revenues from sales.

With Browse out, the plant is likely to have 5.5 million tonnes a year of unused capacity in 2026, consultants Wood Mackenzie estimate. Supplying that gas pits Chevron's Clio Acme project against two owned by Woodside — Pluto, which is already producing, and Scarborough, which is co-owned by BHP and due for a final investment decision in 2021. The supply push also opens up new possibilities for onshore gas projects.

Volume of oil stored aboard tankers starts to recede, a little

(Bloomberg; May 15) - One of the oil market’s most obvious signs of oversupply — millions of barrels being stored on tankers all over the world — is showing very tentative signs of shrinking. On May 14, North Sea oil traders offered almost 8 million barrels of crude for sale on a pricing window organized by S&P Global Platts. Some of the 13 cargoes were being stored at sea. The offers — most did not end in deals — were the first of their kind since a global surplus began overflowing onto tankers early last month.

The offers provide an insight into how physical crude traders view the all-important North Sea oil market, where prices serve as benchmark for millions of barrels all over the world. The amount stored on ships globally is tentatively showing signs of falling. It stood at 155 million barrels on May 14, down from 176 million barrels last week, according to Vortexa, a tanker analytics firm. Though volumes have fallen, the amount floating is still more than double what it was two months ago.

“Crude in floating storage is likely to fall first and fastest upon any demand strength, as it’s typically the most expensive form of storage available,” said Jay Maroo, a senior analyst at Vortexa. In the North Sea alone, there are 10.8 million barrels of oil floating off European ports, according to Bloomberg data. It’s too soon to say if the shrinking floating hoard will mark the start of a trend, or whether it’s just the ebb and flow of trading. Most estimates indicate that oil production continues to exceed demand by millions of barrels a day, implying there’s an excess that still needs to be stored.