Oil and Gas News Briefs
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February 25, 2021

Analysts say global oil demand could recover by year-end

(S&P Global Platts; Feb. 23) - Global oil demand is expected to recover to pre-COVID-19 levels of around 100 million barrels per day by the end of the year, driven by a strong rebound for gasoline, diesel, and fuel oil, several analysts said Feb 23. But jet/kerosene, which used to account for about 8% of total global demand, is likely to remain very sluggish, and aviation fuel will not reach pre-crisis levels until 2022 or 2023, they added.

Speaking at a webinar hosted by Bloomberg, Giovanni Serio, energy trader Vitol's global head of research, said oil demand could reach the magic number of 100 million barrels per day by year-end, though it will depend heavily on the vaccination rollout that is expected to gather pace this summer. Serio said the guidance behind this was supported by resilient manufacturing activity, which will continue to rebound. "We believe gasoline, gasoil, and other fuels will reach strong levels by the end of the year."

Natasha Kaneva, head of the global commodities strategy team at JP Morgan, said oil demand would reach 2019 levels by December 2021, but he did not expect jet fuel demand to fully recover until May 2022. Roger Brown, CEO of European refiner Varo Energy, said he did not see jet fuel recovering until at least 2023, or even 2024, but he was hopeful of a strong rebound for gasoline and diesel. "This is not just a matter of consumer behavior but the pace of vaccinations," he said.

Goldman Sachs revises oil-price forecast to $70 - $75 this year

(Bloomberg; Feb. 22) - Oil prices will rally sooner and higher than previously thought as the global energy demand recovery outpaces the supply response from the OPEC+ alliance, U.S. shale and Iran, according to Goldman Sachs. Consumption will get back to pre-virus levels by late July, while output from major producers is likely to remain "highly inelastic" to the rising prices, the bank said in a note. Goldman raised its Brent forecasts by $10 a barrel to $70 next quarter and $75 in the following three months.

"This faster rebalancing during what was expected to be the dark days of winter will be followed by a widening (supply) deficit this spring as the ramp-up in OPEC+ production lags our above-consensus demand recovery forecast," bank analysts said. Oil's price rebound to levels last seen before COVID-19 wreaked havoc on the global economy has been driven by Saudi Arabia's unilateral output cuts, together with the improving demand outlook. Global benchmark Brent oil traded above $63 a barrel on Feb. 22.

Supply will keep lagging behind demand for several reasons, the bank said: OPEC+ will fall behind the market rebalancing, especially as the pace of global drawdowns of oil stockpiles has accelerated; there are no signs of more activity from most non-OPEC+ producers outside of North America, creating a risk that supply will fall 900,000 barrels a day short of the bank's estimates in the coming year; and U.S. explorers and producers, the key drivers of U.S. shale output, remain focused on returning cash to shareholders.

Some traders start thinking of oil-price spikes to $100

(Bloomberg; Feb. 24) - While oil's dizzying collapse is still fresh for many traders, rumblings are starting to emerge that by the end of next year prices could once again top $100 a barrel. Azerbaijan's Socar Trading predicts global benchmark Brent could hit triple digits in the next 18 to 24 months, and Bank of America sees potential spikes above $100 over the next few years on improving fundamentals and global stimulus.

Speculators are also getting in on the action, increasing bets in the options market that oil will reach the vaunted level by December 2022. The views highlight increased confidence in the oil market after Brent has rallied more than 200% since hitting an 18-year low during the pandemic. Demand has bounced back in key Asian markets, while OPEC+ is withholding barrels and a lack of investment is keeping U.S. shale supplies at bay. Goldman Sachs this week lifted its third-quarter forecast by $10 to $75 a barrel.

The $100 mark occupies a special place in the mind of many traders, as oil hovered around that level in the early 2010s as strong demand from emerging markets enticed drillers into ever more expensive locales. That ended in 2014, when U.S. shale firms proved they could pump massive amounts at far lower costs. But while the price has been out of reach since then, it hasn't been out of mind. It was just a little more than two years ago that major trading houses made $100 predictions that ended up far short.

Forecasts for $100 are far from the current consensus. The median analyst forecast compiled by Bloomberg has Brent staying below $65 a barrel through 2025. And there are reasons to be skeptical of higher prices. OPEC cuts have artificially limited supply, and the cartel has enough spare capacity to meet any shortfall should demand rocket following a worldwide recovery from the pandemic, according to Bloomberg Intelligence.

Idle OPEC+ production capacity could upend price rally

(Bloomberg opinion; Feb. 20) - The snowstorm that slammed Texas and neighboring states last week is just the latest in a series of factors that have sent oil prices soaring. But it risks burying visibility of the one thing that might undo the rally — a huge reservoir of idle production capacity. Oil demand has started to recover and is expected to return even more quickly in the months ahead. Meanwhile, there are still constraints on supply, and that's helping to drain excess stockpiles and support prices.

However, 10 OPEC+ countries hold about 7.75 million barrels a day of spare capacity. Even excluding Saudi Arabia, the champion for full compliance with output cuts and the most wary of easing up too quickly, that capacity is still close to 5.25 million barrels. That's more than enough to upend the price rally. And it doesn't take into account anything that may come from Iran. With that backdrop, the OPEC+ alliance is scheduled to meet in less than two weeks to decide whether to adjust its output targets in April.

Outside of Saudi Arabia, most of the group's spare capacity is held in three countries: the United Arab Emirates, Russia, and Iraq. The UAE is already chafing under an output target it believes is too low. Russia demanded (and got) output increases for February and March. It and Kazakhstan were the only countries not to see their targets frozen. Iraq has consistently failed to cut as much as it should have and has failed to make up for past overproduction. If output-cut fatigue grows, things could get very ugly, very fast.

Southern U.S. shale oil producers will need time to restore output

(Reuters; Feb. 22) - Shale oil producers in the southern United States could take at least two weeks to restart the more than 2 million barrels per day of crude output that shut down because of cold weather, as frozen pipes and power supply interruptions slow their recovery, sources said. The winter storm that gripped Texas and much of the country over the past week forced the biggest ever weather-related shutdown in the Permian Basin, cutting 2 million to 4 million barrels per day from nationwide oil output.

The shut-in oil production represents 2% to 4% of global supply, so a slow recovery in output would tighten worldwide crude markets and may bolster prices that already hit a one-year peak earlier this week. And there may be glitches in supply as utilities assess and repair damage, sources said. "I think it will be a while before things get better out in the field," one executive at a Permian producer said, on condition of anonymity.

Typically, oil production can be restarted quickly after cold weather, but the scale of the shutdown is unique, said Jodi Quinnell, research director at energy research and consulting firm Wood Mackenzie. "Within the Permian, it's definitely different this time around, partially because of the sheer amount of production taken offline," Quinnell said. Permian Basin oil production is down 35%, dipping below 3 million barrels a day in output for the first time since 2018, according to Wood Mackenzie data.

[Oil in floating storage at sea declines to lowest level in a year]

(S&P Global Platts; Feb. 24) - The volume of crude oil and condensate in tankers worldwide has fallen to a one-year low as the market's recovery gathers pace with a strongly backward dated price structure in the Brent crude market discouraging storage. Floating storage had risen around the turn of the year due to port congestion off China and Southeast Asia, but that situation has eased considerably in the past few weeks, boosted by the oil market's recent strength, industry analysts said.

According to commodity data company Kpler, the volume of crude and condensate in floating storage totaled 80 million barrels in the week beginning Feb. 22, the lowest since late February 2020. The volume peaked at more than 210 million barrels last June. About 30% of current storage volume is parked offshore China, Indonesia, Malaysia, and Singapore, which accounted for almost 65% of the total three weeks ago.

Fabio Kuhn, CEO of data analytics company Vortexa, said the oil market has seen a significant turnaround since the second quarter of 2020, largely because supply had been carefully managed. Despite the drawdown on storage, “there is a still a lot of oversupply across the barrel from crude to products," Kuhn said. The strength on the oil market is reflected in the Brent forward curve, which has moved to steep backwardation — meaning the prompt-delivery price is higher than the price for future delivery.

[OPEC+ will discuss modest easing of production curbs]

(Reuters; Feb. 24) - OPEC+ producers will discuss a modest easing of oil supply curbs in April, given a recovery in prices, OPEC+ sources said, although some suggest holding output steady given the risk of new setbacks in the battle against the pandemic. The Organization of the Petroleum Exporting Countries and allies, known as OPEC+, cut output by a record 9.7 million barrels per day last year as demand collapsed due to the pandemic. As of February, it is still withholding 7.125 million from the market.

Three OPEC+ sources said an output increase of 500,000 barrels per day from April looked possible without building up inventories, although updated supply and demand balances that ministers will consider at their March 4 meeting will determine their decision. "The oil price is definitely high and the market needs more oil to cool the prices down," one of the OPEC+ sources said. "A 500,000-barrel-per-day increase from April is an option — looks like a good one."

A rally in prices toward $67 a barrel, the highest since January 2020, the rollout of vaccines, and economic recovery hopes have boosted confidence the market could take more oil. India, the world's third-biggest oil importer, has urged OPEC+ to ease production cuts. Saudi Arabia's voluntary cut of 1 million barrels per day ends next month. While Riyadh hasn't shared its plans beyond March, expectations in the group are growing that Saudi Arabia will bring back the supply from April, perhaps gradually.

[Exxon drops 98% of oil sands reserves from its balance sheet]

(Bloomberg; Feb. 24) - ExxonMobil erased almost every drop of oil sands crude from its books in a sweeping revision of worldwide reserves to depths never before seen in the company's modern history. With the revisions, Exxon counted the equivalent of 15.2 billion barrels of reserves as of Dec. 31, down from 22.44 billion a year earlier, according to a regulatory filing Feb. 24. The company's reserves of the dense, heavy crude extracted from Western Canada's sandy bogs dropped by 98%.

In practical terms, the revision clipped Exxon's future growth prospects until oil prices rise, costs slide or technological advances make it profitable to drill those fields. Exxon has enough reserves to sustain current production levels for 11 years, down from 15.5 years a year ago, based on Bloomberg calculations. The pandemic-driven price crash that rocked global energy markets was the main driver of Exxon's reserve downgrade, along with internal budget cuts that took out a significant portion of its U.S. shale assets.

The oil sands have historically been among Exxon's higher-cost operations, making them more vulnerable to removal at low oil prices. The reserves accounting doesn't mean Exxon is closing up shop or walking away from Canada — the company can bring them back onto its ledger as crude prices rise. "Among the factors that could result in portions of these amounts being recognized again as proved reserves at some point in the future are a recovery in the … price basis, cost reductions, operating efficiencies, and increases in planned capital spending," Exxon said in the filing.

CEO Darren Woods has prioritized high-return projects such as offshore oil in Guyana, shale in the Permian Basin, and chemical and gas operations on the U.S. Gulf Coast.

[Growing number of cities and states move to block natural gas]

(Washington Post; Feb. 23) - A new front has opened in the battle over climate change: the kitchen. Cities and towns across the country are rewriting building codes to block new homes and offices from using natural gas, a fossil fuel that emits carbon dioxide into the atmosphere. New laws would force builders to install heat pumps instead of gas furnaces and electric kitchen stoves instead of gas burners. Local leaders say reducing the carbon and methane pollution associated with buildings, the source of 12.3% of U.S. greenhouse gas emissions, is the only way they can meet 2050 zero-emission goals.

But the American Gas Association and its members are campaigning in statehouses across the country to prohibit the new local ordinances. Four states last year adopted such laws, and this year similar legislation has been introduced in 12 more. The issue started heating up in 2019, when Berkeley, California, became the first city in the nation to ban gas hookups in new construction or substantially renovated structures. Gas is marketed as the "clean" fossil fuel because when burned it produces about 30% less carbon dioxide than oil and 45% less than coal. The ordinance passed unanimously.

Since then municipalities across the country have followed suit. In California alone, 42 municipalities, including San Francisco, changed their building codes to make gas use impossible or difficult. Denver's Office of Climate Action, Sustainability and Resiliency endorsed a plan that calls for newly built homes and buildings to be mostly electrified by 2027. Boulder changed its code and imposed a maximum energy use per square foot on new residential construction of 3,000 square feet or larger, leaving little room for gas.

Angola revokes ban on oil and gas exploration in protected reserves

(Bloomberg; Feb. 19) - Angola lawmakers have revoked a ban on exploration for oil and gas in protected natural reserves, including the Kassanje Basin and the wildlife-rich Okavango River Basin. Prospecting will be allowed in 5% of protected zones and "possibly" only 3% will be drilled, Mineral Resources Minister Diamantino Azevedo said. "What we're doing is not unheard of," he said, citing the U.S., Norway, and Gabon as examples of countries that allow exploration in protected zones. Oil revenues will benefit local communities and the parks themselves, Azevedo said.

The move may breach international agreements because Angola receives donor funding to protect the sites, according to Luanda-based environmental activist Eufrazina Paiva. Angola will respect its commitments to protect habitats, State Secretary for Social Communication Nuno Caldas Albino said. The change still needs to be signed into law by President Joao Lourenco, who had proposed the amendment.

Algeria dumps energy minister as it struggles to rebuild production

(S&P Global Platts; Feb. 22) - Politically volatile and fiscally challenged Algeria has replaced its energy minister again in yet another cabinet shuffle, putting familiar face Mohamed Arkab back in charge of the OPEC member's stagnating oil and gas portfolio. Arkab replaces Abdelmadjid Attar, the former state oil company CEO who was named to the post last June, supplanting Arkab, who had the post 14 months and was shifted to mining minister. The mining ministry has now been merged with the energy ministry.

President Abdelmadjid Tebboune announced the moves in a Feb. 21 decree. Algeria, a member of OPEC and also the Gas Exporting Countries Forum, has struggled to attract much needed foreign investment in its critical oil and gas sector, which has seen its production fall over the past several years. The government in late 2019 announced a new hydrocarbons law that improves fiscal terms for investors in an attempt to kick-start a new wave of upstream developments.

The government, which faces public discontent over the pace of economic and political reforms, is on track to approve the new law by the end of March, an industry source close to the matter said earlier this month. That could pave the way for Algeria's state-owned regulator to launch a new exploration licensing round by the end of June. The political turmoil and years of underinvestment have seen Algeria's oil production decline from a peak of 1.4 million barrels per day in 2008 to about 1 million in early 2020, before OPEC and its allies imposed drastic quotas after the market crash caused by COVID.

FERC will reevaluate its gas pipeline approval process

(Natural Gas Intelligence; Feb. 21) – The Federal Energy Regulatory Commission will reevaluate its approach to approving natural gas pipelines. Current policy dates to the late 1990s. As climate change concerns mount, some regulators say a reexamination of how infrastructure proposals are approved is overdue. At its meeting Feb. 18, FERC said it would examine the policy that guides its evaluations of proposed gas facilities.

Critics have long complained that FERC approves projects without carefully assessing greenhouse gas emissions or other environmental concerns of nearby communities and residents. Former FERC Chairman Kevin McIntyre, a Republican, launched a similar process three years ago, beginning with a request for public input that yielded more than 3,000 comments. McIntyre died in 2019, however, and the review he led stalled.

Richard Glick, the senior Democrat chosen by President Biden in January to lead FERC, said Feb. 18 the commission is looking to build upon the record of McIntyre’s inquiry. FERC called for documents that that speak to potential health or environmental effects of pipeline certification programs and policies, as well as FERC decisions on communities vulnerable to environmental injustice. FERC said it will also seek comments on how the commission determines the need for a project, its exercise of eminent domain and assessments of landowner interests in deciding on pipelines.

Cancellation of Keystone XL oil line moves crude to rail

(Bloomberg; Feb. 23) - President Joe Biden’s decision to cancel the Keystone XL pipeline is sparking renewed interest in shipping Canadian oil sands crude by rail, though that comes with its own environmental risks. Cenovus Energy and Imperial Oil have increasingly turned to trains to move their crude, with oil exports by rail from Canada more than tripling since July. Gibson Energy — an oil shipping company that signed a 10-year contract with ConocoPhillips to process oil sands crude before loading it at its train terminal — expects other producers to follow suit.

Without Keystone XL, which was scheduled to enter service in 2023, rail is poised to become a more important way for Canadian oil to reach U.S. Gulf Coast refineries, which need the heavy crude to replace declining supplies from Mexico and Venezuela. That means the risk of derailments may also rise. “Those U.S. refineries need that heavy crude oil produced by Canada,” Sean Brown, Calgary-based Gibson’s chief financial officer, said in a conference call Feb. 23. “Discussions continue to heat up.”

Gibson expects that by the third or fourth quarter it will start a 50,000-barrel-a-day facility that will maximize the crude content in rail shipments by removing diluent from the flow that had been used to move the crude through pipelines to its terminal in Hardisty, Alberta. Plans for other diluent recovery units are also emerging.

Russian LNG carrier completes Northern Sea Route winter voyage

(CBS; Feb. 23) - A Russian liquefied natural gas tanker has completed an experimental round trip along the Northern Sea Route — the first time the Arctic path has been forged at this time of year. The voyage by the Christophe de Margerie through the ice is the latest indicator of climate change’s impact in the region. The ship, run by the Sovcomflot shipping company, docked at the Yamal LNG terminal in Sabetta on Feb. 19, taking Russia a step closer to its goal of year-round traffic through the warming arctic.

The LNG tanker set out from the Chinese port of Jiangsu on Jan. 27 after delivering its cargo. It entered the Northern Sea Route, which traverses Russia's north coast, a few days later near Cape Dezhnev, where it was met by the Russian nuclear icebreaker 50 Let Pobedy (“50 Years of Victory”). Together they completed the 2,500-nautical-mile voyage through the ice in 11 days and 10 hours. The vessel managed to complete the first leg of the trip from Russia to China without an icebreaker.

Both of the journeys broke records for winter navigation due to the changing climate in the Arctic allowing passage through thinner ice. Using the Northern Sea Route enables shippers in Russia and other countries sending goods to Asia to avoid a much lengthier journey around Europe, the Middle East, and southern Asia, saving millions of dollars. The deepest ice encountered by the LNG carrier was about five feet thick. It encountered no multi-year buildup of old ice on the route. However, meteorologist and journalist Eric Holthaus called that lack of ice a clear indicator of "a climate emergency."

Australia’s gas pipeline owners look to hydrogen in their future

(Reuters; Feb. 21) - Australia’s natural gas pipeline owners are working to future-proof their A$75 billion (US$59 billion) in assets amid a global push toward clean energy, running tests to blend hydrogen with gas and produce green methane to replace the fossil fuel. Cashing in on rare bipartisan support for hydrogen across Australia’s national and state governments to help cut carbon emissions, pipeline and network owners have already committed A$180 million to a range of projects involving green hydrogen.

Australian states have pledged to achieve net-zero carbon emissions by 2050, in line with many developed countries. “It’s a business risk we all need to manage,” said Ben Wilson, CEO of Australian Gas Infrastructure Group, owned by units of Hong Kong-based CK Group. “What started out as defensive has become an opportunity, particularly given our renewable-energy sources. We can become the world’s largest exporter of green hydrogen,” he said.

Pipeline owners seeking government funding for hydrogen projects aim to show how their infrastructure can be used to deliver hydrogen in blends with gas, and also store hydrogen as a form of renewable energy storage. “At the end of the day, we also think that continuing to use this infrastructure allows the whole economy to decarbonize at a lower cost,” said Dennis Van Puyvelde, head of gas for Energy Networks Australia.

Saudi Aramco wants ‘world-scale’ hydrogen business by 2030

(S&P Global Platts; Feb. 22) - Saudi Aramco is aiming for its hydrogen business to be "world scale" by 2030, as that is when it expects the market for the clean fuel to scale up, Ahmed al-Khowaiter, the company's chief technology officer, said Feb. 22. "We don't see much growth in [the hydrogen] market until 2030, when the infrastructure and policies will be in place," Khowaiter said at an online event hosted by Aramco, Saudi Arabia's state-run oil giant. "We think Japan and South Korea will be where the first hydrogen-trading markets will begin in the end of 2020s, early 2030s."

The company is still analyzing potential demand volume for hydrogen and pricing, and Khowaiter said it is too early to set a timeline. In September, Aramco made the world's first blue ammonia shipment — from Saudi Arabia to Japan — for use in power generation. "It is a natural progression to take on the responsibility for the huge demand for hydrogen. But we need to invest in carbon capture and sequestration technologies," he said. "We are looking to diversifying our portfolio to include zero-carbon products."

Blue ammonia is created from natural gas and is expected to be a major form of transportable hydrogen, given its lower production costs compared with renewable ammonia and ease of transport compared with liquified hydrogen. Green ammonia is created from carbon-free energy sources and therefore is cleaner than blue ammonia, but faces much higher development costs.

New pipeline will carry Israeli gas to feed Egyptian LNG terminals

(Reuters; Feb. 21) - Israel and Egypt have agreed to build a pipeline to connect Israel's offshore Leviathan natural gas field to liquefied natural gas terminals in northern Egypt, an Israeli minister said Feb. 21. In addition, the Palestinians said they had signed an agreement with Egypt's energy minister on developing a gas field off the coast of Gaza. Israeli Energy Minister Yuval Steinitz met with Egypt's Tarek El Molla as both countries look for new ways to expand the development of east Mediterranean natural gas.

Israel's Leviathan field, 80 miles off Israel's coast, already supplies the Israeli domestic market and exports gas to Jordan and Egypt. Its shareholders include Chevron and Delek Drilling. Leviathan's partners have been exploring options to expand the project, including a floating LNG facility or a subsea pipeline to link up with LNG terminals in Egypt that have been idled or run at less than full capacity. Steinitz said Israel and Egypt are moving ahead with the pipeline and are working on a formal agreement.

In addition, Molla this weekend said he had signed a memorandum of understanding for Egypt to help develop the Gaza Marine field with the project's two partners, the Palestine Investment Fund, the sovereign fund of the Palestinian Authority, and Consolidated Contractors Co. Gaza Marine sits about 19 miles off the Palestinian enclave's coast and is estimated to hold more than 1 trillion cubic feet of gas.

Potential bidders line up for $10 billion stake in Saudi oil pipelines

(Bloomberg; Feb. 23) - Apollo Global Management and Global Infrastructure Partners are among suitors that bid for a roughly $10 billion stake in Saudi Aramco's oil pipelines, sources said. Canada's Brookfield Asset Management, BlackRock, sovereign wealth fund China Investment Corp. and Beijing-backed Silk Road Fund have also made non-binding offers, the people said, asking not to be identified on the private matter. Pension funds in Abu Dhabi and Saudi Arabia also have submitted initial bids, the people said.

Aramco is studying the proposals before deciding which companies will be invited to make binding offers, the people said. Bidders may team up later in the process, the people said. Some prominent family-owned groups in Saudi Arabia are also considering partnering with other investors, according to the sources. The world's largest oil company is mulling asset disposals as a way of maintaining its $75 billion of annual dividend payments, almost all of which go to the Saudi government.

That dividends — the biggest of any listed company in the world — became harder to sustain after the pandemic caused crude prices to plunge last year. The company hired New York-based investment bank Moelis & Co. last year to devise a strategy for selling stakes in some of its subsidiaries, Bloomberg News reported in December.

Mexico saves money buying LNG instead of costly Texas pipeline gas

(Reuters; Feb. 23) - Oil trading firms, including Trafigura, are supplying Mexico with emergency cargoes of liquefied natural gas to overcome a power crisis caused by interrupted U.S. gas supplies, three sources close to the purchases said. Mexico's state-run power company Comision Federal de Electricidad (CFE) last week resorted to LNG imports as gas supplies from the southern United States, especially neighboring Texas, were hit by frozen pipelines and rocketing prices caused by a cold snap.

The trading companies were able to divert LNG cargoes from Asia, while offering Mexico unsold cargoes that were anchored off the U.S. Gulf Coast, the sources said. Trafigura declined to comment. Mexico's energy secretary and CFE did not reply to requests for comment. The first two LNG cargoes bought by CFE discharged last week, one each at Pacific and Atlantic ports, according to Refinitiv Eikon vessel tracking data. CFE officials said at least two more cargoes were purchased to address the emergency.

Mexico's President Andres Manuel Lopez Obrador last week said the country ended up paying much less for the LNG it bought than imports that could have been delivered through pipelines amid the U.S. price spike. Lopez Obrador said Mexico was asked to pay up to $100 per million Btu for piped U.S. gas, 30 times the usual winter rate.