Oil and Gas News Briefs
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Rising oil prices will test OPEC+ ability to maintain market balance

(Bloomberg opinion; Feb. 6) - The OPEC+ alliance of oil producers will face a big test of its cohesion in a few weeks' time, when ministers meet to discuss the next step in their historic production deal aimed at rebalancing the world's oil supply while demand recovers. Things have almost moved too quickly in their favor. Recent increases in crude prices and the rapid drawing down of crude stockpiles will undoubtedly lead to calls for a more rapid boost of production targets than was envisaged in December.

That may well reignite tensions between co-leaders Saudi Arabia and Russia with the potential for more brinkmanship that could undermine the price recovery. The report card was very good when the producer group's monitoring committee met last week to evaluate progress so far: Aggregate compliance with the deal since it came into effect in May is at an unprecedented 99%; Brent crude prices are testing \$60 a barrel, a level not seen in more than a year; and commercial oil stockpiles are coming down and the group now expects them to fall below their five-year (2015-2019) average by August.

But the Saudis still seem obsessed with making every member but one honor its output commitments. After all, though compliance is good in aggregate, more than half of the countries have failed to meet their obligations in full. And, as has often happened in the past, the lion's share of responsibility for meeting the group's goals has fallen on Saudi Arabia which, by December, had cut 37 million barrels more than it had signed up for originally. Meanwhile, Russia, the biggest over-producer, is under no pressure. Turning a blind eye to Russia and letting it raise its output indicates just how fragile the group is.

Oil traders caution market 'is getting ahead of itself'

(Bloomberg; Feb. 7) - The world's largest independent oil trader, Vitol, joined rival Gunvor Group in expressing caution about the recent surge in crude prices. "The market is getting ahead of itself in terms of a post-vaccine euphoria but also continued belief in the ability of OPEC to manage supply," Mike Muller, head of Vitol's Asian operations, said Feb. 7 in an interview with Dubai-based consultant Gulf Intelligence.

Crude prices have soared since early November on optimism that COVID-19 vaccines will restore energy demand and because of deep supply cuts by the Organization of Petroleum Exporting Countries and its partners such as Russia. Yet many major economies remain in strict lockdowns and some are struggling to source enough vaccine doses. Brent crude futures gained more than 6% last week to $59.34 a barrel, while West Texas Intermediate was up 9% — each at its highest in more than a year.

Gains beyond $60 a barrel are unlikely because that would prompt energy companies to ramp up production, Gunvor CEO Torbjorn Tornqvist said on Feb. 5. Vaccines have been rolled out faster than energy markets predicted and China's oil demand has rebounded rapidly, Vitol's Muller said. But full recovery depends on global consumption picking up, he said. "The onus is on the rest of the world to start with the demand catch-up because China can't consume much faster than it's already been doing."

Global oil trader sees $60 as upper limit for crude

(Bloomberg; Feb. 5) - The head of Gunvor Group said oil will not go much beyond $60 a barrel because further gains would trigger an avalanche of shuttered supply. "Once you hit $60 a barrel, any oil production out there is profitable, and the incentive for oil producers to hold back erodes real fast," Torbjorn Tornqvist, Gunvor's chairman and CEO, said in an email. Crude prices have been on a tear amid optimism that effective COVID-19 vaccines will restore demand. Benchmark Brent has surged to more than $59 a barrel this week, a gain of almost 60% since late October.

Tornqvist's view reflects concern in the market that another price step higher could prompt U.S. shale producers to restart idled wells, filling the gap left by OPEC+ supply cuts. "The high-$50s are the higher end of our expectation for the first half, and we're not sure we will see much higher," the CEO said. Gunvor is one of the biggest independent energy traders, giving Tornqvist and his army of crude and petroleum-product watchers keen insight into global supply and demand.

The market is rebalancing, Tornqvist said. Output cuts by the Organization of Petroleum Exporting Countries and its allies have so far been effective, and the curbs are sufficient to spur a significant drawdown in oil stockpiles. Big traders, such as Gunvor, which handles about 2.7 million barrels a day, have largely thrived during the pandemic by taking advantage of price swings and regional price differences. Demand "all comes down to China," he said. "Europe is clearly the worst hit. The U.S. is more stable."

Oil recovery moving at faster pace than many had expected

(Bloomberg; Feb. 6) - A year after the first glimmers of the catastrophe started to hit global oil markets — from deserted Chinese cities to grounded jets — crude is staging a remarkable turnaround. The crisis triggered by the deadly coronavirus was the worst the petroleum industry has ever seen. Demand crashed by a fifth, prices slumped below zero, producers fought over customers, and more than a billion surplus barrels poured into storage around the world. Yet oil's emergence from the calamity has been stark.

Futures rallied to a one-year high near $60 a barrel in London last week as China's consumption surpasses pre-virus levels, the vaccine rollout restores confidence, and as the OPEC cartel and its allies keep a tight leash on supply. With western economies still pounded by a high death toll and lockdowns, demand for transport fuels — particularly in aviation — remains depressed, but demand is roaring back for the petroleum products that cater to a society working and consuming at home.

"The recovery is proceeding at a faster rate than people perceived," said Ed Morse, head of commodities research at Citigroup. "The demand recovery is going to look stellar. The inventory draw is significantly greater than what many people thought." The strongest sign of the recovery is a price structure known as backwardation. Near-term futures contracts have built up a sizable premium to later months, indicating immediate supplies are tightening. That's a signal for refiners to dig into the stockpiles that built up during the worst of last year's slump. All that crude in storage is now worth more.

Production cuts, stockpile drawdowns help drive oil prices higher

(Wall Street Journal; Feb. 7) - A booming rally has pushed crude prices to their highest levels since near the start of the coronavirus pandemic, powered by production curbs and recovering demand. Brent crude futures, the benchmark in energy markets, have risen more than 50% since the end of October and are approaching $60 a barrel for the first time since COVID-19 began to erode oil demand in early 2020. Futures for West Texas Intermediate last week surpassed $55 a barrel for the first time in over a year.

The speed of the recovery has surprised some investors and analysts, given that coronavirus continues to curtail demand. "The market definitely has some momentum," said John Kilduff, partner at Again Capital, a hedge fund that invests in energy derivatives. "WTI is going to be targeting $60, too." Behind oil's rally: Huge stockpiles that accumulated in the early stages of the pandemic have winnowed down faster than many expected. Traders say that could pave the way for further price gains if demand, which has already recovered in China and India, picks up in developed economies.

The fall in inventories is largely due to efforts by the Organization of the Petroleum Exporting Countries and its allies, led by Russia, to restrain production. Since agreeing to the cuts at the peak of the crisis in energy markets in April, producers have held back a cumulative 2.1 billion barrels of oil, OPEC said last week. And U.S. producers are pumping 17% less crude than they did on the eve of the pandemic, according to the U.S. Energy Information Administration. All this has pulled down the amount of crude oil and petroleum products stored around the world by about 5% since its peak in 2020.

It looks like China is stockpiling crude again

(Bloomberg; Feb. 5) - Is China piling into the crude oil market again? A snapshot of where the world's supertankers are headed suggests it may well be. The number of vessels sailing toward the shores of world's largest importer jumped to a six-month high of 127 on Feb. 5. Fully laden, they would deliver in excess of 250 million barrels. The last time the number was higher was in the aftermath of oil's plunge below zero, when China binged on ultra-cheap crude to bolster its domestic stockpiles.

An increase in shipments would chime with signs of optimism over the health of demand in the country. Shell CEO Ben Van Beurden said this week that fuel sales in the China are back into "significant growth mode." While last time around it was cheap crude that helped spur the surge in China's consumption, this time a collapse in charter rates is proving helpful. The cost for supertankers has dipped to its lowest since at least 2017.

Another indication of more buying comes from a snapshot of China's stockpiles. The volume of crude stored that are linked to the Shanghai oil futures contract fell to its lowest level since June, according to data analytics company OilX.

Analysts turn hopeful on Exxon stock

(CNBC; Feb. 5) - ExxonMobil endured a dreadful year by virtually every measure in 2020. The company reported four consecutive quarters of losses, incurred the biggest write-down in its modern history, laid off thousands of employees, saw its market value plunge over 40% and was dropped from the blue-chip Dow Jones Industrial Average. CEO Darren Woods has since said the past 12 months "presented the most challenging market conditions ExxonMobil has ever experienced." It came as the pandemic coincided with a historic fuel demand shock and a sharp drop in commodity prices.

Exxon announced in November that it would rein in capital spending for years to come, choosing to prioritize only investments that it believes have the highest potential future value. The new approach, alongside the firm's dramatic underperformance of the broader market for most of the past decade, appears to have been enough to win back Wall Street. Analysts at JPMorgan, Goldman Sachs, Wells Fargo, and Morgan Stanley have all issued positive recommendations for the oil titan in recent weeks.

The analysts say now is the time for investors to buy shares of Exxon with stronger oil and gas prices likely to boost the chances of it being able to keep its highly prized dividend intact over the coming months. However, looking further ahead, other energy experts have expressed deep concern about the company's future profitability.

[Nigeria negotiating overhaul of oil contract terms to draw investment]

(Reuters; Feb. 5) - Nigeria's state oil company is renegotiating commercial contract terms with oil firms, its boss said, in an attempt to keep investment flowing into a sector crucial for its economy at a time when corporate spending is being slashed. Africa's largest oil exporter and biggest economy relies on the oil sector for half of its budget and 90% of its foreign exchange. It wants to raise revenue but also attract investment.

Oil companies, meanwhile, including Shell, ExxonMobil, Total, and Eni, are cutting billions in spending after taking hits to their profits, shifting money to renewable fuels and focusing only on the most cost-effective markets. Mele Kyari, group managing director of the Nigerian National Petroleum Corp., said Feb. 5 that commercial terms were being negotiated and would be finalized before an oil overhaul bill is passed.

"No company will invest where they cannot get the appropriate margin," Kyari said, declining to say what is being negotiated. "We're very conscious of the fact that … companies will make choices to leave countries when they have to." The parliament has promised to pass the long-awaited oil overhaul bill by May, but companies have criticized the draft for not doing enough to attract development dollars. They have raised issues over taxation, royalties, and local community obligations.

[BP deflects criticism of its stake in Russian Arctic oil]

(Bloomberg; Feb. 4) - As Rosneft and its largest foreign shareholder BP join efforts to reduce carbon emissions, the specter of the Russian oil giant's Arctic development threatens to make the task far more challenging. The two producers have agreed "to cooperate in identifying and developing new low-carbon solutions and programs," they said in a joint statement Feb. 4. Rosneft and BP will look into production of cleaner fuels, trading of forest carbon offsets, as well as launching carbon-capture, utilization and storage projects.

The agreement's goal of developing low-carbon solutions and driving down emissions aligns with the green plan BP revealed last year. Rosneft's strategy, however, which includes long-term climate goals, is still focused on expanding hydrocarbon production. BP's stake in Rosneft has drawn criticism from investors and environmental groups who say that is at odds with BP's own climate goals. Under its transition plan, BP CEO Bernard Looney has promised to cut 40% of its oil and gas production and to increase low-carbon investments to $5 billion a year by the end of the decade.

In contrast, Rosneft's most ambitious new project, Arctic Vostok Oil, which is valued at $85 billion, envisions production of 1 million barrels of oil per day by 2027 and as much as 2 million at its peak in the 2030s. Looney has gone to great lengths to defend BP's 19.75% stake in Rosneft, which analysts and investors criticize for being at odds with the low-carbon ambitions. Rosneft's lifting costs of $3 per barrel fit with BP's focus on "resilient hydrocarbons," Looney said in an investor call Feb. 2, adding that BP had received $4 billion in Rosneft dividends since 2013. "It's a good financial investment."

Activists target banks to cut off financing for fossil fuels

(Bloomberg Businessweek; Feb. 4) - Johan Frijns says that on his best days, he takes to the streets in the morning in jeans and a T-shirt to protest climate change, then in the afternoon dons a suit to visit a bank, where he tells executives they must do more to combat global warming. For the better part of two decades, Frijns has sought to rein in carbon emissions by hitting fossil fuel producers where it hurts most: their cash pipeline. The way to do that, the 55-year-old Dutchman says, is pressing lenders to cut off funding to coal, oil, gas, and industrial polluters.

"Banks have great leverage over their clients," says Frijns, a founder of BankTrack, a nonprofit that focuses on the role the finance industry plays in climate change. Frijns is a pioneer of a fast-growing environmental movement insisting that without restricting the flow of cash to fossil fuel producers, there's little chance the world can meet the climate goals of the 2015 Paris Agreement. He's had some notable successes, forcing bankers to recognize that lending to oil explorers, arranging share offerings for coal miners, or underwriting bonds for pipeline operators makes them complicit in global warming.

But for the people whose fortunes depend on providing that money, it's tough to walk away. In the four years after the Paris accord, major banks arranged $2.7 trillion in financing for legacy energy companies, according to a report co-authored by BankTrack. Fees those clients paid to the top 12 global financial houses doubled last year, to $4.2 billion, consulting firm Coalition Development estimates. BankTrack has been joined by multiple organizations such as Reclaim Finance and BankFWD (founded by members of the Rockefeller family) that are pursuing similar goals.

Record winter spot prices may drive LNG buyers to contracts

(S&P Global Platts; Feb. 4) - This winter's LNG supply constraints and surge in Asian spot LNG prices past $30 per million Btu in mid-January have prompted buyers to rethink their procurement strategies, giving sellers an opportunity to market long-term deals with renewed vigor and maybe triggering some lasting changes in contracting behavior. The supply disruptions exposed vulnerabilities in the procurement system for many importers with countries like Japan focusing on energy-security implications.

Other countries with more demand elasticity like India, Pakistan, and Bangladesh responded by deferring imports, but this flexibility is enabled by lesser dependency on gas-fired power generation and could hinder the growth of the sector in the longer term. In Southeast Asia, the record spot prices last month reignited interest from buyers in the

Philippines and Vietnam for long-term supply deals. As buyers go back to the drawing board, term suppliers like Qatar have renewed cause to promote the price stability of their contracted volumes over the price volatility of spot-market cargoes.

Spot-price movements can be a relevant factor in contract negotiations and influence ongoing contractual relationships, Agnieszka Ason, a research fellow at Oxford Institute for Energy Studies, said. "Record (high) spot prices naturally increase the attractiveness of oil-linked LNG sale-and-purchase agreements and, following a period of all-time low spot prices and related multiple price review requests from the buyers last year, should generally have a positive impact on long-term contractual relationships," Ason said.

CNOOC boosts capital spending to find more domestic oil and gas

(Reuters; Feb. 4) - Chinese offshore oil and gas major CNOOC said Feb. 4 it plans to raise its capital spending this year to 90 billion to 100 billion yuan ($13.93 billion to $15.48 billion), the highest since 2014, as it prioritizes domestic drilling and steps up natural gas development. CNOOC, one of the industry's lowest-cost explorers and producers, said estimated net oil and gas output reached 528 million barrels of oil equivalent last year, up 5% from 2019.

Production offshore China will account for about 68% of the 2021 target, and overseas operations will account for 32%, as compared to a 64%-36% split the past two years, the company said. For 2021, CNOOC aims for production up an additional 3% to 5%. Standing out among the 19 new projects to start operation this year will be CNOOC's first major fully owned deepwater gas field, Lingshui 17-2 in the South China Sea. It is aiming for first gas output late this year with a peak of almost 3 billion cubic feet per day.

Aside from oil and gas, the company has pledged to use 3% to 5% of its total annual spending on offshore wind power, having launched its first wind power farm in eastern China last September with future expansion planned in several other coastal provinces.

Japan's trading houses turn away from coal in decarbonization push

(Reuters; Feb. 5) – Japan's trading houses are speeding up their efforts to shift away from coal and other fossil fuel assets amid a growing decarbonization push worldwide, and also to match an ambitious pledge by the government of becoming carbon neutral by 2050. The move comes as the trading houses are rethinking their long-term strategies around upstream investment, Wood Mackenzie Asia Pacific Vice Chair Gavin Thompson said in a recent note.

For example, Itochu said Feb. 4 it will offload its stake in a Colombian coal mine, shedding 80% of its thermal coal assets, and will sell its remaining stake in two Australian mines as soon as possible. "Even at a hefty cost, we have decided to show our commitment to tackle global warming by showing concrete actions," Itochu Chief Financial Officer Tsuyoshi Hachimura said this week. Mitsui is pulling out from a coal mine in Mozambique after impairment losses cut the book value of the stake to zero.

Marubeni is expediting its plan to halve its stakes in coal-fired power stations by 2030. "Combating global warming is a priority," Marubeni CFO Takayuki Furuya said. Sumitomo has quit the shale oil business by selling its stake in a U.S. project last year, while Sojitz has trimmed its oil and gas assets. The upstream oil and gas assets of Japanese companies are valued at more than US$70 billion, with trading houses holding almost 30% of the total, Wood Mackenzie's Thompson said.

U.S. LNG cargoes through Panama Canal set record in January

(S&P Global Platts; Feb. 3) - A new monthly record was set in January for LNG tanker transits of the Panama Canal, as U.S. shipments of the fuel to Asia surged, according to the operator of the canal. Fifty-eight LNG vessels transited through the Neopanamax Locks last month, breaking the previous monthly record of 54 transits in January 2020, the Panama Canal Authority said in a statement Feb. 3.

Wait times for LNG carriers passing through without a reservation have eased this month. The average wait stood at six days in both directions on Feb. 3, the Canal Authority said. Two weeks earlier, the average for LNG tankers without reservations was 11 days for vessels headed to the Atlantic and 10 days for vessels headed to the Pacific. The canal is the shortest passageway from the U.S. Gulf Coast to East Asia, the world's biggest import market for LNG. There are four LNG export terminals in operation on the Gulf Coast with two more under construction.

Legal, regulatory delays push back pipeline start-ups

(Reuters; Feb. 1) - There are numerous large U.S. and Canadian oil and gas pipelines in progress, but several have been delayed in recent years due to legal and regulatory battles. One of those is the Mountain Valley gas line, at almost $6 billion, to transport about 2 billion cubic feet per day of gas from West Virginia to Virginia. The project was originally expected to enter service in 2018. Legal and regulatory delays due to environmental issues have pushed the likely start date to the end of 2021. That could be extended, however, as the line now needs numerous permits for water crossings.

The $2.5 billion Mariner East 2 natural gas liquids pipeline will increase the capacity of the Mariner East system by 275,000 barrels per day from Ohio, West Virginia, and western Pennsylvania to eastern Pennsylvania. The pipe was originally expected to enter service in the third quarter of 2017. After delays caused by drilling fluid spills, Energy Transfer put the project's first phase into service in December 2018. The final phase is not expected to be finished until the second quarter of 2021.

Alberta may file claim against U.S. for Keystone XL cancellation

(Bloomberg; Feb. 4) - The oil-rich province of Alberta was hit hard by President Joe Biden's move to kill the Keystone XL pipeline, and is considering seeking compensation from the U.S. through an old free-trade rule that's still in place. Alberta, which spent C$1.5 billion (US$1.2 billion) in public funds to help jump-start construction of the project, may resort to a North American Free Trade Agreement provision allowing compensation claims for lost investments, Alberta Premier Jason Kenney said.

While NAFTA was replaced by the U.S.-Mexico-Canada Agreement during the Trump administration, the rule remains in place during a phase-out period. To "retroactively remove regulatory approval on the basis of which an investment was made is, in my view, a slam-dunk case of a claim for damages through NAFTA under the investor-protection provisions," Kenney said on Facebook on Feb. 2. "We believe we have a very strong case for damages, and we'll be continuing to work with TC Energy on that."

TC Energy's Keystone XL line would ship more than 800,000 barrels a day from Alberta's oil sands to U.S. refineries. The project's demise prompted TC Energy to let go of about 1,000 union workers on both sides of the border. After the U.S. president's decision on his first day in office, Kenney said Alberta would consider legal action. The pipeline cancellation dealt another blow to an oil-dependent province already reeling from two crude-market crashes since 2014.

Sempra applies to build gas storage near Gulf Coast LNG terminals

(S&P Global Platts; Feb. 2) - Sempra LNG's LA Storage project has filed with the Federal Energy Regulatory Commission for permission to build a new salt dome facility capable of providing about 20 billion cubic feet of working gas storage capacity near Hackberry, Louisiana, to meet needs of Gulf Coast LNG export facilities and other regional demand. Sempra is majority owner of the Cameron LNG project in Hackberry.

U.S. LNG feed gas demand is forecast to rise by 4.25 bcf per day from 2021 to 2026, with several projects being built along the Gulf Coast, according to S&P Global Platts Analytics. The application for the Hackberry storage project, posted Jan. 31 on FERC's website, requests a certificate of convenience and necessity from FERC no later than Jan. 31, 2022, with plans to begin service first-quarter 2024.

"Once placed into service, the project will include four salt dome storage caverns, interconnecting pipelines, compression and other facilities ... capable of providing high-deliverability natural gas storage capacity in the Gulf Coast to serve the needs of LNG facilities, electric generation facilities, industrial customers, utilities, and other customers in the region," LA Storage said in its application. The project would entail the conversion of salt dome caverns, currently filled with brine, to gas storage.

Poland will start moving away from coal, but says it needs time

(Reuters; Feb. 2) - Poland has adopted an energy strategy to 2040, which the climate minister said would provide a compass as the country seeks to navigate away from coal. The strategy has been subject to changes and delays as the government sought to align it with European Union climate policies while also fending off opposition from powerful coal unions. But rising carbon-emission costs and COVID-19 have forced the government to focus on strategic allocation of state funds to kick-start the economy.

The government's energy policy goals include developing renewable-energy sources and nuclear power, although it said it would seek to use its own energy resources, chiefly coal, as long as possible. Under the plan, the share of renewable energy in final energy consumption will rise to at least 23% by 2030, when the country's offshore wind capacity is projected at 5.9 gigawatts compared to zero now.

The government also pledged to start the country's first nuclear plant. Poland gets the bulk of its electricity from carbon-intensive coal and it is the only EU state that has refused to pledge climate neutrality by 2050, saying it needs more time and money to complete the shift to zero emissions. Instead, the government said Poland will reduce greenhouse gas emissions by 30% in 2030.

Japan, Saudi Arabia partner on hydrogen energy work

(Nikkei Asia; Feb. 2) - As Japanese companies look to build a supply chain to import clean energy rather than fossil fuels, Saudi Arabia is a promising partner. The oil-rich kingdom is trying to take the lead in supplying hydrogen-based products as the world shifts to low-carbon energy sources. Rather than hydrogen itself, state-owned oil company Saudi Aramco is keen to export ammonia, a compound of hydrogen and nitrogen that can be burned in power stations without emitting carbon dioxide.

The company can separate hydrogen from natural gas to produce ammonia, capturing the carbon dioxide emitted in the process. Aramco's "processing, pipeline, and refining infrastructure and expertise in carbon capture means [sic] the company is well placed to contribute to a potential hydrogen-powered low-carbon economy," the company's chief technology officer, Ahmad Al Khowaiter, told Nikkei Asia.

The world's largest oil company last year produced 40 tons of "carbon-emissions-free" ammonia and sent it to Japan in a pilot project. The partners in the world's first such demonstration project included Japanese trading house Mitsubishi and engineering company JGC. Japan's Ministry of Economy, Trade and Industry backed the project. The carbon dioxide created in processing hydrogen is managed with carbon capture, utilization, and storage. The CO2 can be injected into oil fields to boost production.

BP says hydrogen will play bigger role in the company after 2030

(S&P Global Platts; Feb. 2) - Hydrogen will only become a "material" part of BP's business from 2030 onward, CEO Bernard Looney said Feb. 2. BP has committed to becoming an integrated energy major with less focus on traditional oil and gas production. Hydrogen, Looney said on a fourth-quarter earnings call with analysts, will be an important fuel for the future, "but it's not something that's going to happen overnight in terms of being a material part of BP's portfolio."

He explained, "In terms of [being] material parts of the company, you are really looking at 2030 plus." Nonetheless, Looney said BP believes in hydrogen and would "get after" building new projects. BP in November said it was joining forces with Denmark's Orsted for the industrial-scale production of green hydrogen at BP's Lingen refinery in northwestern Germany. The companies plan to build an initial 50-megawatt electrolyzer and associated infrastructure at the plant, powered by renewable energy generated by an Orsted North Sea offshore wind farm. The hydrogen will be used in the refinery.

BP is looking to expand its position in renewable energy, but Looney said the company would be "disciplined" when it came to selecting projects to invest in, stressing the need for good returns. "We're looking at all sorts of things, all the time," Looney said, adding that BP would pursue opportunities that can generate project returns of at least 8% to 10%. Most recently, BP closed a $1.1 billion deal at the end of January to buy a 50% interest from Norway's Equinor in two major wind lease areas off the U.S. East Coast.