Oil and Gas News Briefs
Compiled by Larry Persily
November 11, 2021

U.S. energy agency forecasts oil could drop to $62 by end of next year

(Bloomberg; Nov. 9) – A U.S. energy data agency projects that the global oil market will become oversupplied and prices will fall by early next year, cooling expectations that the White House may tap the nation's emergency reserves. Supply increases next year from OPEC nations as well as U.S. drillers will ultimately push prices lower. The U.S. benchmark crude will fall below $80 a barrel by December and reach as low as $62 by the end of next year, and its global counterpart Brent will average $72 a barrel in 2022, the Energy Information Administration said in its Short-Term Energy Outlook on Nov. 9.

Average U.S. pump prices will drop below $3 a gallon by February, the data show. "We forecast that global oil stocks will begin building in 2022, driven by rising production from OPEC+ and the United States, along with slowing growth in global oil demand," the EIA said. The Biden administration has been under pressure to move to suppress rising gasoline prices that are now at the highest levels since 2014. But the report may weaken the argument for a release of oil from the U.S. Strategic Petroleum Reserve.

The reserve holds more than 600 million barrels in underground caverns in Louisiana and Texas for emergencies. "There is no real reason for an imminent release," said Spencer Vosko, director for crude oil at Black Diamond Commodities. "The bigger question here is production. While U.S. shale producers are showing constraint it looks like global supplies could be on the mend." Global oil supply is set to average 101.42 million barrels a day in 2022, with demand at 100.88 million. Meanwhile, U.S. output is expected to rise to average 11.9 million barrels a day in 2022 as drillers return to work.

UAE energy minister says OPEC+ is smart to be cautious in supply

(Bloomberg; Nov. 8) - The United Arab Emirates said oil prices would be even higher today if it wasn't for OPEC+, signaling the group will continue resisting U.S. pressure to pump more crude. "Fortunately, we have OPEC+," UAE Energy Minister Suhail Al-Mazrouei said Nov. 8 at the Africa Oil Week conference in Dubai. The 23-nation alliance of major crude exporters has prevented "us from having double or triple the prices, and that's something we need to appreciate."

Brent crude has climbed 62% this year to almost $84 a barrel thanks to the global economic recovery from the coronavirus pandemic and OPEC+'s supply cuts, which started early last year. OPEC+ is easing those restrictions at a rate of 400,000 barrels a day each month. The U.S. and other consumers such as Japan and India have called on the UAE, Saudi Arabia, Russia and others to accelerate their output increases.

Mazrouei echoed his Saudi counterpart by saying the oil market has been far calmer than those for gas and coal. Prices for gas have more than doubled in Europe and Asia amid shortages, causing electricity costs to soar and hitting economies from China to India. "If OPEC+ wasn't there you would see something similar to what happened with gas and coal," Mazrouei said. "We are working together to balance the market." OPEC+ is cautious because the oil market will switch to a surplus in early 2022, he said, "due to demand softening." There are still COVID flare-ups, "so we have to be careful," he said.

Saudi Aramco warns of shrinking spare oil production capacity

(Bloomberg; Nov. 8) - Spare capacity in the oil market will shrink significantly next year as travel rebounds and due to a lack of investment among producers, according to Saudi Aramco. Surplus capacity, now at 3 million to 4 million barrels a day, will drop as demand for jet fuel increases, CEO Amin Nasser said. "The buffer might diminish, especially next year," he said Nov. 9 via video at the Nikkei Global Management Forum.

Airline fuel is one of the last oil products for which demand is still down heavily since the onset of the coronavirus pandemic. Daily use of jet fuel and kerosene stands at about 5.5 million barrels, compared with almost 8 million in 2019, according to the International Energy Agency. Overall oil consumption will climb above 100 million barrels a day in 2022, according to Nasser. That would take it close to record levels.

Diminishing spare capacity is made worse because too few oil companies are working to raise their output capacity, he said. "Renewable energy can't yet meet the world's energy needs," he said. "Oil and gas demand will remain healthy" for decades.

Kenya plans to borrow $1 billion to buy into oil project

(Bloomberg; Nov. 9) - Kenya plans to raise $1 billion of debt to buy a stake in an oil project operated by Tullow Oil and its partners. The fundraising is likely to happen next year as Tullow, Africa Oil Corp. and France's TotalEnergies have until December to submit a plan to develop the resource before their production-sharing agreement with the Kenyan government expires, Leparan ole Morintat, chief executive at the National Oil Corp. of Kenya, said in an interview.

National Oil Corp. will commence the fundraising to take up the back-in rights as soon as the field development plan has been submitted, Morintat said. The $3.4 billion project will be a game changer for East Africa's largest economy that is a net fuel importer. Once complete, the project will include a pipeline to the coast for exports and an estimated output of 120,000 barrels a day, with expected gross oil recovery of 585 million barrels over the full life of the field.

The debt will be used as an equity injection in Kenya's oil company to fund its portion of the project, which includes a heated pipeline. Tullow and its joint-venture partners are also seeking strategic investors for the project. The national oil company is currently in talks with energy giant Saudi Aramco as well as other firms as it searches for a non-equity strategic partner for its downstream business.

Lack of new LNG projects in 2020-2021 adds to market tightness

(Reuters; Nov. 7) - Demand for liquefied natural gas has never been higher, but North American developers are headed to the end of the year without having approved one new project. Global gas prices are near record highs, as European and Asian utilities compete for whatever LNG cargoes they can get before winter. LNG demand worldwide has increased every year since 2012 and soared by 40% the past five years as utilities substitute gas for dirtier-burning coal, but supply has not kept up with demand.

The market growth spurred rapid development of liquefaction terminals in big exporters including the U.S., slated to become the largest LNG producer by capacity next year. However, spending on new projects halted in 2020, as low prices from coronavirus-induced demand destruction caused buyers to back away from signing long-term supply contracts. At the start of 2020 and again in 2021, a dozen firms signaled plans for final investment decisions on projects. But just one, Sempra Energy's Costa Azul in Mexico, started construction in 2020, while numerous others have been pushed into 2022.

"We're setting up for a structural shortage of LNG capacity," said Reid Morrison, global energy advisory leader at PwC in Houston. "There is reticence to taking a long-term position in gas given the net-zero commitments that different governments are making." Several North American projects could go forward in 2022, mostly in Louisiana and Texas. But those will do little to meet growing demand in the short term since it takes three to five years to build a new project. "This tight market could extend well through 2025," said Anatol Feygin, chief commercial officer at U.S. producer Cheniere Energy.

PetroChina exec sees natural gas markets easing a bit in 2022

(S&P Global Platts; Nov. 9) - The tight natural gas supply in global markets is expected to ease a little in 2022 as production growth is forecast to outpace demand, said Luo Yizhou, vice president of a subsidiary of state-owned PetroChina. "With the normalization of COVID-19 pandemic prevention and control measures, the continuous recovery of the world economy, and the stabilization of international oil prices, global natural gas demand is estimated to grow to almost 144 trillion cubic feet in 2022, up 2.3% year on year," Luo said at an oil and gas conference in Shanghai on Nov. 8.

"On the other hand, global natural gas production is expected to be a little more than 145 tcf in 2022, up 4% year on year," he said, expecting the tight gas supply to ease based on that scenario. The tight supply has pushed up global gas prices in 2021, with benchmark prices in Asia and Europe all rising to historical highs in September-October. "Supply has not been able to keep up with the rebound in demand post-pandemic," Chris Midgley, global head of analytics with S&P Global Platts, said at the conference. This was the main reason that caused the tight supply situation this year, Midgley said.

Global demand for natural gas is expected to grow steadily in the next few decades due to accelerated actions against climate change. "About 50% of the incremental global natural gas demand will come from Asia by 2035, with China and India as the main engines to boost the development of the LNG market," Luo said. PetroChina targets reaching peak carbon by 2025, and the company is scheduled to have a changeover to renewable energy by 2035 and a near-zero emissions and green transformation by 2050, according to Luo. China's natural gas demand is expected to peak in 2040.

TotalEngeries weighs restart of Mozambique LNG project

(S&P Global Platts; Nov. 9) - France's TotalEnergies said the security situation in Mozambique is "improving" as it weighs a restart of construction at its two-train Mozambique LNG project in the southeast African country. "We are looking at the situation and, so far, the steps taken by the Mozambican government are going in the right direction," Henri-Max Ndong Nzue, the company's senior vice president of Africa, told S&P Global Platts Nov. 9 on the sidelines of the Africa Oil Week conference.

In April, TotalEnergies declared force majeure on the LNG project and removed all of its staff from the site, after Islamist militants attacked the nearby town of Palma in March, killing dozens. The situation has pushed back the start of first production to at least 2025 from 2024, with full production possible in 2026. The project is designed for 13.1 million tonnes per year of production capacity. In February, TotalEnergies CEO Patrick Pouyanne said the Mozambique LNG project was 21% complete as of the end of 2020.

Since the Palma attack, military forces have secured the province in the north of the country. Mozambique's more than three-year-old insurgency has imperiled the country's ambitions to join the ranks of the world's LNG exporters, affecting not just Mozambique LNG but also ExxonMobil's planned Rovuma LNG project. Mozambique LNG has secured long-term offtake agreements amounting to more than 11 million tonnes per year with the likes of Shell, France's EDF, China's CNOOC, a partnership of the U.K.'s Centrica and Tokyo Gas, and a joint venture of Japan's JERA and Taiwan's CPC Corp.

Tanzania says it has resumed negotiations on LNG project

(Reuters; Nov. 8) - Tanzania's government has resumed negotiations with energy companies over construction of an estimated $30 billion liquefied natural gas project, Energy Minister January Makamba said Nov. 8. Norway's Equinor, one of the companies that has a stake in the project, last week said that talks with Tanzanian authorities were expected to focus on conditions that would enable companies to invest.

"For the past two months, we've worked hard behind the scenes to get here. We're confident that a final investment decision will come sooner than is traditionally the case," Makamba said on Twitter. The Norwegian company said it was too early to give any timeline for the decision process. "There is much more work to do, but we are pleased to be engaging and framing the commercial, fiscal, regulatory and legal priorities," an Equinor spokesperson said in an email.

A $30 billion price tag had been communicated by the companies some years ago, but Equinor does not yet have a revised estimate, the spokesperson added. Equinor operates Tanzania's Block 2, in which ExxonMobil also holds a stake and which is estimated to hold more than 20 trillion cubic feet of gas. Equinor aims to work on the LNG project with Shell, which operates Block 1 and Block 4 off Tanzania, with 16 trillion cubic feet in estimated recoverable gas.

Pakistan pays its highest price ever for LNG at $30.60 per million Btu

(Dawn; Pakistan; Nov. 7) - Pakistan on Nov. 6 accepted an LNG cargo at the highest-ever price of $30.60 per million Btu from Qatar Petroleum on the grounds of averting a possible gas crisis in the upcoming peak winter months. Pakistan LNG Ltd. had floated emergency bids for two cargoes to be supplied in November, as the firms booked to supply the gas, trader Gunvor and Italian major Eni, defaulted on their commitments.

The Pakistani importer has short- and long-term agreements with Gunvor and Eni for one LNG cargo every month, but both suppliers refused to honor their part of the agreements. As a result, the state-owned firm had to call a tender on an emergency basis for two LNG cargoes for the months of December and January.

While the bids were called for cargoes to be supplied between Nov. 19-20 and Nov. 26-27, the company decided not to accept the first bid for the middle of November. For the delivery Nov. 26-27, the lowest tender was filed by Qatar Petroleum Trading at $30.60, followed by Total Energies at $30.96 and Vitol Bahrain at $31.05. Pakistan LNG Ltd. accepted the Qatari bid. The company has faced criticism for lacking proper strategies and ensuring adequate LNG supplies when prices were low in the international market.

India’s LNG importer wants more gas at lower price from Qatar

(Reuters; Nov. 10) - India's top gas importer, Petronet LNG, will seek higher volumes at better prices from Qatar Gas during negotiations for an extension of its long-term liquefied natural gas deal beyond 2028, its head of finance said Nov. 10. Petronet and Qatar Gas need to negotiate the extension of their current deal for 7.5 million tonnes per year of LNG by the end of 2023. "We are trying to extend the contract beyond 2028, we are making all efforts to renegotiate and perhaps expand that contract," Vinod Kumar Mishra told analysts as Petronet announced quarterly earnings.

Any extension of the deal would be based on recent contracts signed by Qatar Gas with China, Bangladesh and Pakistan, where gas prices are to at 10.2% of the Brent crude per-barrel price, Mishra said. In contrast, India's current LNG supply deal with Qatar is based on a slope of about 12.7% of the three-month average Brent price. At current prices, the lower rate could cut about $2 per million Btu from India’s LNG cost.

Gas demand in India is set to surge as the nation wants to raise the share of the cleaner fuel in its energy mix to 15% by 2030 from the current 6%. Mishra said buying gas under long-term contracts is the best bet. Gas under such deals is costing Petronet about $10.20 per million Btu, compared to spot prices of about $30. "If you need gas on a regular, permanent basis you cannot rely on spot or short-term cargoes.”

Qatar bulks up its fleet, orders 6 LNG carriers from Korean shipyards

(Bloomberg; Nov. 6) - Qatar has ordered six liquefied natural gas carriers from South Korean shipyards as it pushes ahead with a multibillion-dollar project to boost production of the fuel. The world’s biggest LNG exporter is buying four vessels from Daewoo Shipbuilding & Marine Engineering and two from Samsung Heavy Industries, state producer Qatar Energy said Nov. 6. They’re the first batch of orders under a $19 billion deal signed between Qatar and South Korean shipbuilders last year.

Daewoo, Hyundai Heavy Industries and Samsung were selected to build more than 100 LNG carriers for Qatar by 2027. The Persian Gulf state is spending about $30 billion to increase its LNG production capacity by 50% by 2027. Qatar also ordered four LNG tankers worth more than $760 million from China in October as it expands its fleet.

Pipeline debate in Michigan comes as propane prices spike

(Politico; Nov. 7) - President Joe Biden's plans to push the country away from fossil fuels and toward clean energy are facing an unexpected hurdle: The price of propane in Escanaba, Michigan. This comes as pipeline fights are putting his administration in the crossfire between environmentalists and Indigenous groups eager to block fossil fuel projects and Republicans ramping up attacks blaming Biden for rising energy prices.

The president was quick to win plaudits from greens for quashing the Keystone XL oil line upon taking office, but he has drawn criticism from some of the same advocates for not stopping another pipeline project in Minnesota. Now, the administration is studying what to do about a pipeline stretching across Michigan that activists — and the state's Democratic governor — contend poses a catastrophic pollution risk to the Great Lakes.

The oil and gas industry, backed by the Canadian government, warns that closing the Michigan line will drive fuel prices even higher. Word that the Biden administration was quietly studying the potential market impact of killing the Enbridge pipeline set off criticism from Republicans, saying the move would worsen the spike that has already driven propane prices up 50% from a year ago just as Michigan residents — the No. 1 U.S. consumers of the fuel — stock up for winter. Propane is stripped out of the line at the small port city of Escanaba to supply communities in the state's Upper Peninsula.

New England natural gas prices down 20% from October highs

(S&P Global Platts; Nov. 9) – Winter-forwards natural gas prices at New England's Algonquin city-gate are down nearly 20% from early October highs, as global LNG prices dip and concerns over seasonal demand in the gas market ease. On Nov. 9, forwards prices for the peak-demand months of January and February 2022 settled at \$20.42 and \$19.41 per million Btu, respectively, with both contracts now trading \$5 below their early October highs, S&P Global Platts' most recently published data shows.

The steep drop in New England's peak-winter gas prices comes as a rally in global LNG market has cooled recently. After topping \$56 per million Btu in early October, the Japan-Korea Marker prompt-month import price has remained in the mid-\$30s for much of the past month. In early November, the contract price has fallen further, settling Nov. 9 at \$30.56 — still a historical high for the global market.

As LNG import prices ease, so too has the outlook for winter demand in New England. In its latest outlook, the National Weather Service predicted a 40% to 50% probability for above-average temperatures along the entire Eastern Seaboard from December to February. Already this season, residential-commercial gas demand in the Northeast has underperformed compared to the historical average. The region imported an average of eight LNG cargoes each of the past two winters to help meet heating needs.

Transportation Department wants to suspend LNG-by-rail rule

(Trains; Nov. 9) - The U.S. Department of Transportation is proposing to suspend a year-old rule that allows transport of liquefied natural gas by rail while it considers potential modifications to the rule. In a notice of proposed rulemaking published Nov. 8 in the Federal Register, the Pipeline and Hazardous Materials Safety Administration said it would suspend the rule which took effect in July 2020 until June 2024, or until the completion of possible modifications to the rule.

The proposal indicates “uncertainty regarding the potential benefits and safety and environmental risks of rail transportation of LNG … has persisted longer than PHMSA anticipated when it issued the LNG-by-rail final rule, and has in fact increased,” as the result of a report issued earlier this year by the Transportation Research Board. The report expressed concerns over testing and risk assessment. The proposal also notes that market changes have created more uncertainty about demand for shipment of LNG by rail, “and by extension, any potential benefits and public safety/environmental risks.”

The suspension will ensure no LNG is moved by rail until a rule regarding movement of the commodity reflects additional information from ongoing research. Comments on the proposed suspension will be accepted through Dec. 23. The controversial LNG rule was finalized in June 2020 in response to an executive order issued in 2019 by then-President Donald Trump. That decision spawned a number of legal challenges, which are in abeyance pending review of the rule.

Phillips 66 will convert Louisiana refinery to oil terminal

(Reuters; Nov. 9) - Phillips 66 on Nov. 8 said it would convert its Alliance refinery in Belle Chasse, Louisiana, to an oil terminal, after a short-lived attempt to sell the hurricane-damaged facility. The 50-year-old oil refinery was severely damaged after several feet of water flooded it during Hurricane Ida in August. The complex sits about 20 miles south of New Orleans on the Mississippi River and has its own docks to receive and ship petroleum.

The conversion will further reduce U.S. oil-refining capacity, which shrank by 4.5% last year as demand for motor fuels tumbled. U.S. motor fuel demand has largely recovered from last year’s drop, though jet fuel demand is still down 20%. The conversion to an oil storage and export facility is expected in 2022, the company said. Phillips 66 last month wrote down the plant’s value by $1.3 billion. The refinery employs about 900 workers including 400 contractors. About 425 Phillips employees likely will lose their jobs.

Phillips years ago considered shutting the facility because of poor profit margins but the shale boom gave it a temporary reprieve, said Garfield Miller, at Aegis Energy Advisors. Phillips had begun marketing the 255,600 barrel-per-day refinery before Ida’s flood waters swamped the facility, causing tens of millions of dollars in damage. Potential buyers including Hilcorp, Valero Energy and Saudi Aramco's Motiva Enterprises had looked at the facility. Three other Gulf Coast refineries have been offered for sale this year. A total of six facilities have stopped refining oil or closed during the pandemic.

Exxon decides to build another petrochemical complex in China

(Reuters; Nov. 9) - ExxonMobil announced it had made a final investment decision to build a multibillion-dollar petrochemical complex in south China's Guangdong province. The firm did not specify the size of its investment. The decision, announced Nov. 8, came nearly 18 months after China's state news agency reported that the U.S. firm had kicked off construction of a separate $10 billion venture in Dayawan in Huizhou city.

One of the few petrochemical complexes in China wholly owned by a foreign investor, Exxon said the Dayawan plant will produce polymers used in packaging, automotive, agricultural and consumer products for hygiene and personal care. China is the world's largest petrochemicals consumer and importer. Construction is underway on the project. The two projects are part of an initial agreement Exxon signed with China in 2018.

Conoco announces plans for North Sea oil and gas development

(Reuters; Nov. 8) - ConocoPhillips on Nov. 8 presented plans for the development of Norway's Tommeliten A gas and condensate discovery, with total investments expected to reach 12.5 billion crowns ($1.46 billion), the U.S. oil firm said. Located in the southern sector of Norway's North Sea, Tommeliten A is estimated to hold reserves of up to 125 million barrels of oil equivalent, the company said. Conoco, the operator of the discovery, and its partners plan to produce the reserves with a seafloor installation connected to existing infrastructure at Conoco's Ekofisk field, some 16 miles away.

The company expects Tommeliten A to start production in 2024, with gas transported via pipe to Emden, Germany, and liquids piped to Teeside in Britain. ConocoPhillips holds a 28.3% stake in the license where the field is located, while Poland's PGNiG has 42.4%, France's TotalEnergies holds 20.2% and Italian Eni's Vaar Energi 9.1%.

China boosts coal imports and domestic production to meet demand

(Bloomberg; Nov. 7) - China's coal imports nearly doubled in October from a year ago as the government leaned on importers to help ease a nationwide power shortage caused in large part by a coal shortage. However, imports of nearly 27 million tons were still 18% below the year's high reached in September — and at their lowest since May

— after Beijing also boosted efforts to raise domestic production of China's mainstay fuel. Imports for the first 10 months of 2021 were less than 2% higher than last year.

The effort to raise coal imports is just one element of a multi-pronged intervention by the government that has successfully brought down coal prices from record levels. As well as inducing more domestic supply, Beijing has also cracked down on speculation and hoarding, allowed electricity rates to rise, and persuaded coal miners to impose price caps. As a result, only a handful of provinces in China are still contending with major power outages, although the likelihood of a chillier-than-usual winter could quickly heap more pressure on a market that typically sees its worst shortfalls in January.

China's success in delivering an adequate supply of power isn't entirely clear-cut, based on the latest factory activity data. While a slowdown in manufacturing output suggests that the need for electricity in coming months will be far less acute than earlier in the year, it may also show that efforts to boost power supplies still aren't sufficient to support robust economic growth.

Fuel crisis in China and India starts to ease up

(Bloomberg; Nov. 6) - An energy crisis in two of Asia's key economies that caused power shortages, sent fuel prices surging and risked slowing growth is beginning to ease, though bitter winter weather would pose further challenges. Supplies of coal, the key source of electricity generation in China and India, are beginning to rise again after governments pressed miners to rapidly boost output and lifted imports, allowing power plants and major industrial consumers to start rebuilding stockpiles.

Only a handful of provinces in China are still contending with major power outages as a result of tight fuel supply, down from about 20 regions in mid-October, while spot power prices have tumbled in India as electricity shortfalls have been addressed. "Both countries continue to face some risks in winter supply, but the shortages have moderated," said Xizhou Zhou, Washington-based managing director of global power and renewables at IHS Markit.

Global coal prices that had surged to records on the supply squeeze have cratered in recent weeks. High-quality thermal coal at Newcastle port in Australia — a benchmark in Asia, the largest market for the fuel — have tumbled more than a third since last month. Coal futures in China have lost almost 50% since a dramatic rise through mid-October. The turnaround in the region's energy supply follows a blitz of government interventions. Both China and India pushed state-backed miners to boost coal output.