Oil and Gas News Briefs
Compiled by Larry Persily
August 22, 2022

Volatility drives traders, investors away from oil markets

(Reuters; Aug. 17) - Traders and fund managers have left oil markets in recent months, dropping activity to a seven-year low amid the worst global energy crisis in decades as investors are unwilling to deal with persistently high volatility. The exodus, especially hedge funds and speculators, has made daily price swings far greater than in previous years, making it harder for companies to hedge against physical purchases of oil.

The volatility has harmed companies that need energy-market stability for their operations, which includes oil and gas companies, but also manufacturing and food and beverage industries. Brent crude futures are swinging sharply on a daily basis. Between Russia's invasion of Ukraine on Feb. 24 through Aug. 15, the daily range between Brent's session highs and lows averaged $5.64. For the same time period last year, the average was $1.99, a Reuters analysis of Refinitiv Eikon data showed.

The high volatility is delaying increased capital expenditures that would help supply keep pace with energy demand, said Arjun Murti, a veteran energy analyst. When volatility is high, oil companies have less confidence in price forecasts, he said. "There will be concern that prices could fall back to lower levels that wouldn't justify new capex." Many different types of investors, including banks, funds and producers, have exited the market, participants said, as the market on some days surges on threats to supply, while on other days the cloudy economic outlook causes equally wild sell-offs.

OPEC leader says insufficient investment to blame for high prices

(Reuters; Aug. 18) - Policymakers, lawmakers and insufficient oil and gas sector investments by others are to blame for high energy prices, not OPEC, the producer group's new Secretary General Haitham Al Ghais told Reuters on Aug. 18. A lack of investment in the oil and gas sector following a price slump sparked by COVID-19 has cut into future supply and significantly reduced OPEC's spare production capacity, limiting the group's ability to respond quickly to further potential supply disruption.

The price of Brent crude came close to an all-time high of $147 a barrel in March, after Russia's invasion of Ukraine exacerbated oil supply concerns. While prices have since declined, they are still painfully high for consumers and businesses globally. "Don't blame OPEC, blame your own policymakers and lawmakers, because OPEC and the producing countries have been pushing time and time again for investing in oil (and gas)," Al Ghais, who took office on Aug. 1, said in an online interview.

Oil and gas investment is up 10% from last year but remains well below 2019 levels, the International Energy Agency said last month. The OPEC official also pointed the finger at a lack of investment by others in the downstream sector, adding that OPEC members had increased refining capacity to balance the decline in Europe and the U.S. "We are not saying that the world will live on fossil fuels forever ... but by saying we're not going to invest in fossil fuels ... you have to move from point A to point B overnight," Al Ghais said. The next meeting of OPEC and its partners is set for Sept. 5.

Iran could unleash 100 million barrels oil and condensate

(Bloomberg analysis; Aug. 21) - The return of Iranian crude remains uncertain, but if a deal is reached to restore the 2015 nuclear accord, the Persian Gulf nation's production could rise quickly and exports would surge even sooner. Lengthy negotiations over the restoration of the Joint Comprehensive Plan of Action (the deal between Iran, the five permanent members of the U.N. Security Council, Germany and the European Union) seem to be approaching their end. The U.S. is examining the Iranian response to a "final" accord tabled by EU. The reply from Tehran has been described as constructive.

But nothing's agreed until everything's agreed, and there are as many reasons to be pessimistic as there are for optimism. For oil buyers, the return of Iranian crude to a market that's about to face a big loss of Russian oil can't come soon enough. EU nations are still importing about 1.2 million barrels a day of Russian crude by sea, two-thirds of the amount they were taking before troops invaded Ukraine. But sanctions due to take effect in December will curb that flow. Cargoes from Iran could help fill the gap.

There are an estimated 100 million barrels of Iranian crude and condensate in storage that can be released almost immediately, though the International Energy Agency has cautioned that "it would likely take many months to fully off-load the oil" because Iranian tankers would "need to be recertified and insured." However, China has been willing to accept Iranian tankers throughout the most recent period of sanctions, whether certified or not. India, another big buyer of Iranian oil in the past, has been willing to facilitate its new imports of Russian crude by quickly certifying Russian tankers shunned elsewhere.

Exports of Russian crude and refined products highest since April

(S&P Global; Aug. 18) - Russia's seaborne exports of crude and oil products continued to elude the thrust of Western sanctions during the first half of August, exceeding 6 million barrels per day for the first time since hitting a post-pandemic high in April, according to tanker tracking data. Russia's crude exports rose by 140,000 barrels per day on the month to average 3.36 million from Aug. 1-16 to remain above pre-war levels for the fifth month in a row, preliminary data from vessel analytics provider Kpler shows.

Oil product exports from Russia also rose for the third consecutive month in the period to average 2.75 million barrels per day, the highest since Russia's invasion of Ukraine on Feb. 24. Although refiners in Asia continue to snap up discounted Russian crude, the data shows the pace of Moscow's crude exports to India slowed to 670,000 barrels per day in the period, the lowest since exports surged to a record of almost 1 million in April.

Flows to China rose slightly on the month. By contrast, Russian exports to the Netherlands, Italy and Turkey all rose sharply in early August, the data shows. The three importers saw flows of Russian crude rise by a combined 400,000 barrels per day compared to July. Flows of Russian oil into the Netherlands — home to the Amsterdam-Rotterdam-Antwerp refining hub — are under the spotlight as EU sanctions will ban most Russian oil flows to the trade bloc by early next year.

Iran undercuts Russian crude, boosts exports to China

(Reuters; Aug. 17) - Iran increased its oil exports in June and July and could raise them further this month by offering a deeper discount to Russian oil for its main buyer China, firms tracking the flows said. Despite U.S. sanctions, Iran has boosted exports, largely to China, the past couple years, but it has recently slowed due to Russian competition. "Iran has been exporting more since the new U.S. administration — oil, products and petrochemical goods," said Sara Vakhshouri, of Energy consultant SVB International.

And while high oil prices have reduced pressure on Iran to reach a nuclear deal, if talks to resurrect an agreement succeed, it would allow Iran to boost oil sales beyond China to former buyers in South Korea and Europe. China has been taking advantage of discounted Russian oil after Western sanctions over the war in Ukraine cut Russia's sales, particularly in Europe. By importing heavily discounted Russian and Iranian crude, China is boosting the competitiveness of its economy versus the West which is paying much higher prices for alternative crude from the Mideast, Africa and the U.S.

SVB estimates Iran's overall crude exports in July rose by 110,000 barrels per day from June to 810,000. Vortexa, meanwhile, estimates China's July Iranian imports, all supplied to independent refiners or commercial storage, was about 500,000 barrels per day. Iranian crude for August was offered at a discount of $11 a barrel to the Brent benchmark on a delivered basis to China, some $8 below Russian crude Urals, traders said. The price difference has widened from $3.50 to $4 a barrel in late July.

U.S. natural gas futures climb to 14-year high of $9.33

(Reuters; Aug. 19) - U.S. natural gas futures rose about 2% to a 14-year high on Aug. 19 on record global gas prices, concerns about Russian gas export to Europe and forecasts for hotter U.S. weather that will boost air conditioning demand through early

September. That price increase came despite record gas production and the ongoing outage at the Freeport liquefied natural gas export plant in Texas, which has left more gas in the United States for utilities to inject into stockpiles for next winter.

Freeport, the second-biggest U.S. LNG export plant, was taking about 2 billion cubic feet per day of gas before it shut on June 8. Freeport expects to return to at least partial service in October. Front-month U.S. gas futures rose 14.8 cents, or 1.6%, to settle at $9.336 per million Btu, their highest close since August 2008. For the week, the front-month was up about 6% after gaining 9% last week. So far this year, gas futures are up about 150% as higher prices in Europe and Asia keep demand for U.S. LNG exports.

Meanwhile, the price is moving in the opposite direction in Alberta, where Canadian producers were having a tough time getting gas out of the province due to a lack of pipeline capacity and maintenance on existing pipes amid rising production. Prices on Aug. 19 at the AECO hub in Alberta plunged 73% to just 74 cents per million Btu, their lowest since September 2019.

Lack of pipeline capacity hurts U.S. natural gas production

(Natural Gas Intelligence; Aug. 17) - U.S. LNG producers have had their busiest year signing up new customers since before exports began from the Lower 48 in 2016, but additional pipeline capacity and natural gas production will be needed to send more of the fuel overseas. While the United States easily has the world's largest backlog of near-shovel-ready liquefied natural gas export projects, takeaway constraints to deliver gas to the liquefaction plants remain a hurdle to getting more of the facilities built.

This year alone, five developers have signed over 20 long-term deals to supply more than 30 million tonnes per year of LNG, or roughly 4 billion cubic feet of gas per day, to gas-thirsty buyers in Asia and Europe. "Overall, more LNG exports in the U.S. increases demand for North American gas, and that is going to tighten the U.S. market," said RBN Energy analyst Lindsay Schneider. "We can produce sufficient supplies to meet that demand as long as there is pipeline capacity to get the gas to export locations."

The Appalachian Basin is the nation's largest gas-producing region, churning out more than 35 bcf of gas per day. Over the past decade, however, opponents have stopped or slowed down pipeline projects and limited growth in the Northeast. That isn't likely to change meaningfully in the coming years, which could leave the Permian Basin and Haynesville Shale to shoulder much of the growth forecast for LNG exports. EQT Corp. CEO Toby Rice acknowledged during the company's second-quarter earnings call late last month that Appalachian pipeline capacity has "hit a wall." EQT, an Appalachian pure-play and the nation's largest gas producer, is keeping production flat as a result.

Mozambique expected to load first LNG exports this month

(Bloomberg; Aug. 18) - Mozambique is poised to ship its first cargo of liquefied natural gas overseas, joining the ranks of the world's exporters as a global energy crunch pushes prices of the fuel to record highs. The LNG tanker British Mentor, operated by BP, is set to arrive Aug. 24 at a new floating terminal that Eni is completing off Mozambique's northern coastline, ship-tracking data compiled by Bloomberg show. The Italian company has said it's already planning a second floating export platform in the southern African country that could be brought into service in less than four years.

Mozambique is firing up its first export terminal as tight supplies after Russia's invasion of Ukraine have sent gas prices soaring in Europe, where countries including the U.K. and Germany have warned that a fuel squeeze could prompt rationing and trigger a recession. Seeking to end their dependence on Russian gas, European buyers are paying a hefty premium as they compete with Asia to secure LNG ahead of the winter.

Eni's $7 billion Coral-Sul project had been targeting first exports by October and has moved forward despite the pandemic and an Islamic State-linked insurgency in Mozambique that has delayed a much larger $20 billion TotalEnergies onshore export facility. BP in 2016 signed a deal to buy all of the output for 20 years from Coral-Sul, which is designed to produce 3.4 million tonnes of LNG per year.

LNG shortage stretches market; Australian gas goes to Europe

(Reuters; Aug. 17) - Britain is set to receive a rare shipment of liquefied natural gas from Australia and Oman later this month, as countries across Europe strive to obtain enough supplies ahead of winter. European nations are seeking to diversify their energy supplies following Russia's invasion of Ukraine and a sharp drop in Russian gas flows to the continent. The LNG tanker Attalos is set to arrive at Britain's Isle of Grain terminal on Aug. 22, according to data and analytics firm Kpler.

"The (LNG tanker) Patris was the original vessel that loaded at the North West Shelf liquefaction plant in Australia. It did a ship-to-ship transfer with the Attalos in Malaysian waters, and the Attalos is now headed to the U.K.," said Laura Page, senior LNG analyst at Kpler. Australian cargoes are rare in Europe due to the massive cost related to the distance, and due to high demand for the fuel from nearby Asian buyers.

In addition to the Australian cargo, the Attalos picked up the rest of its cargo via ship-to-ship transfer at Linggi, Malaysia, from the LNG carrier Lesmes, which was laden with Omani gas, said Olumide Ajayi, senior LNG analyst at Refinitiv. "Both (suppliers) are very rare, Australian cargoes to the U.K. were last seen some six years ago, while this is the first time the U.K. is receiving an Omani cargo," he added. Britain is home to three of the largest LNG import terminals in Europe, where the fuel is converted back into gas, with some volumes transferred via pipeline to mainland Europe.

Australia faces choice between LNG exports and keeping gas at home

(The Wall Street Journal; Aug. 18) - Australia is shipping so much natural gas overseas that authorities could block some exports to plug shortages at home. Such a move would put global energy supply under further strain as Europe faces the prospect of severe fuel shortages this winter and Asian economies including Japan and China store more gas ahead of seasonal peaks in demand. The Ukraine war cut gas supplies at a time when much of Europe experienced a severe heat wave that drove demand higher.

Europe’s energy crisis has elevated the importance of stability of supply from Australia, one of the world’s largest exporters of liquefied natural gas following a multibillion-dollar investment spree about a decade ago. Australia accounted for a fifth of global LNG exports last year. While most of its supply is committed to buyers in Asia, companies can choose to sell a portion of their output into the open market when prices are high.

However, businesses and regulators warn Australia is facing a gas shortage of its own. Longstanding energy problems in the country’s east — such as output falling from aging gas fields — have intersected with recent setbacks including flooding in coal regions that led power plants to use a lot more gas instead. As a result, wholesale energy prices in the country’s biggest electricity market tripled in the three months through June. The Australian Competition and Consumer Commission has urged the government to work with producers to immediately redirect LNG from export or risk a gas shortfall next year.

European leaders differ on views of new gas pipeline from Spain

(Reuters; Aug. 19) - A third gas pipeline between Spain and France would cost at least 3 billion euros ($3 billion) and take years to complete, making it a less attractive option to address Europe’s supply worries than new LNG import terminals elsewhere in Europe to receive the fuel, France's energy transition ministry said. The European Union is bracing for a further fall in gas flows from Russia, which had been the 27-nation bloc's biggest supplier before it invaded Ukraine in February and trade was disrupted.

The French ministry said in a statement that new floating LNG import terminals in northern and eastern Europe, particularly Germany, would be a quicker and cheaper option than a new pipeline. However, German Chancellor Olaf Scholz said last week that building a pipeline from Portugal through Spain and France to central Europe, which is more reliant on Russian gas, would "massively relieve the supply situation.” Spain hosts Europe's largest fleet of liquefied natural gas import terminals but has limited capacity to move that gas to other countries.

Discussions around new infrastructure have included reviving a project to build a pipeline across the Pyrenees that was partially constructed before being shelved in 2019. Regulators on both sides of the border decided at the time the project did not meet market needs. It met local opposition in the Rhone Valley and from environmental associations, the French ministry said. “Such a project would take many years to become operational ... and would therefore not respond to the current crisis.”

Germany cuts tax on natural gas to ease burden on consumers

(DW; Germany; Aug. 18) – German Chancellor Olaf Scholz has announced a tax reduction on natural gas as the war in Ukraine drives up prices. A lower tax rate of 7% will be charged until 2024, a drop from 19%. Scholz also promised more support for consumers. Germany is trying to prepare for a winter of expensive gas for heating.

The lower 7% rate generally is levied on goods that are deemed either essential or of cultural value, including groceries, local public transport journeys, books, magazines, and theater and museum tickets. Other goods and services are subject to the 19% tax, including gas, but the tax on gas will drop to 7% for two years. Gas is the most popular means of household heating in Germany, used by just under half the homes.

Germany’s economy minister rules out extending nuclear power

(Reuters; Aug. 21) - German Economy Minister Robert Habeck on Aug. 21 ruled out extending the life of the country's three remaining nuclear power plants in order to save natural gas, saying it would save at most 2% of gas use. The savings are not sufficient to be worth reopening the debate about exiting nuclear energy given the consensus on the topic, he said during a discussion with citizens at the government's open-door day.

Former Chancellor Angela Merkel initiated legislation to halt the use of nuclear power by the end of this year after the Fukushima nuclear disaster of 2011, with a majority of voters in favor. But attitudes are shifting amid fears of an energy crisis this winter following a decline in Russian gas deliveries — with Germany’s three-way governing coalition divided on the matter. "It is the wrong decision given the little we would save," said Habeck, a member of the Greens, which is rooted in the anti-nuclear movement.

On the other side of the debate, Finance Minister Christian Lindner of the pro-business Free Democrats, reiterated his stance that it would be better to extend the lifespans of nuclear plants for a limited time than to bring coal plants back online. "We shouldn't be too picky, but reserve all possibilities," he said, adding that he would be open to an extension of "several years" for nuclear power under the current circumstances.

Germany sees little chance of Canadian LNG anytime soon

(Bloomberg; Aug. 19) - Germany's push to find alternative sources of gas and end its dependence on Russia has yielded limited success, and there is no short-term relief in sight ahead of Chancellor Olaf Scholz's trip to Canada starting Aug. 21. Canada is one of the world's biggest gas producers and Scholz will discuss closer energy cooperation with Prime Minister Justin Trudeau. But the government in Berlin does not expect an agreement anytime soon to buy Canadian liquefied natural gas, and instead has shifted its focus to a partnership on green hydrogen, according to officials.

Regulatory and environmental hurdles to building a new export LNG terminal on Canada's eastern shore for shipping the fuel to Germany are partly to blame for the lack of progress, according to one official. The most promising Canadian project would add an export facility to an existing LNG import terminal in Saint John, New Brunswick. But even if approved and implemented quickly, LNG shipments would not reach Germany within the next two years, said the official.

Talks with gas suppliers have proven similarly complex, underlining the uphill struggle Scholz and his government face in sealing short-term delivery contracts for gas which could help Europe's biggest economy avoid rationing this fall and winter. Negotiations with Qatar, one of the world's biggest LNG exporters, have been especially difficult, one of the German government officials said, describing Qatar's strategy as playing hardball over the price and duration of potential agreements with German companies.

Canada needs to stop dithering and embrace LNG

(Calgary Herald columnist; Aug. 20) - European natural gas prices hit record levels this week and countries on the continent are bracing to cut their gas use during the fall and winter. This is the tumultuous backdrop in place as German Chancellor Olaf Scholz comes to Canada next week. It's expected the issue of energy security will be high on the menu for discussions. Is Canada willing to put its entire buffet of energy options on the table, including development of an LNG industry needed to export the fuel abroad?

A report by the Public Policy Forum makes the compelling case that it's high time this country stops dithering over LNG — only one project is under construction — and embrace the fact Canada has vast supplies of low-cost gas that could dislodge higher-emitting sources of energy in the world. "Canadians have important decisions to make. Do we develop our gas and make it available to our world partners," the report asks.

"At the heart of the matter lies a surprising paradox: While developing Canadian gas would put upward pressure on our own national climate targets, it could help lower global emissions. It comes down to what is essentially a moral choice about being a good neighbor to our friends abroad while protecting our energy independence at home.” It’s an argument industry and provincial leaders have made for years, although it hasn’t resonated with federal decision-makers, who seem uneasy with the idea.

In Canada, LNG expert Geoffrey Cann believes it will take at least seven years to construct a large export project and even longer to get through environmental and regulatory reviews. However, countries in Asia will need more gas for decades to come as they shift away from burning coal for power generation. “This is a marathon,” said Cann. “The demand looks to be very, very strong, but the opposition is equally robust.”

Canada’s ‘big opportunity’ is hydrogen exports to Europe

(Reuters; Aug. 19) - Providing clean hydrogen to Germany and the rest of Europe is a better opportunity for Canada than trying to build liquefied natural gas export terminals as the world moves away from fossil fuels, Canada's natural resources minister said Aug. 18. Canada and Germany are discussing LNG exports from Canada’s Atlantic Coast within the next five years as Germany has been trying to wean itself from its dependence on Russian gas since Russia's invasion of Ukraine in February.

But the costs of transporting gas from Alberta in Western Canada to the East Coast would be high. A new pipeline would be needed, and the global shift away from fossil fuels means the terminal's lifetime would be too short to be profitable unless converted into a hydrogen terminal when gas demand declines. "We're working through those issues. But what I would say is ... on the East Coast the big opportunity is hydrogen," Natural Resources Minister Jonathan Wilkinson told Reuters.

Wilkinson's comments reflect a shift away from supporting possible new East Coast LNG projects to underscoring the difficulties. On Aug. 18, a German official said Canadian LNG would be only "a medium-term solution.” German Chancellor Olaf Scholz will sign a deal to establish hydrogen supply chains with Canada during a two-day visit next week. His delegation, which will include German corporate executives, will be in Montreal, Toronto and Stephenville, Newfoundland. The agreement will accelerate a partnership to develop hydrogen exports from the East Coast by as early as 2025.

Enbridge wins latest court case to avoid pipeline shutdown

(The Canadian Press; Aug. 18) - The international dispute over Enbridge’s Line 5 pipeline belongs in federal court, a Michigan judge declared Aug. 18, dealing a critical blow to Gov. Gretchen Whitmer’s bid to shut down the controversial cross-border pipeline. It’s the second time in nine months that District Court Judge Janet Neff ruled in favor of pipeline owner Enbridge, which wants the dispute elevated to the federal level.

Whitmer ordered Line 5 shut down in November 2020. She cited a risk of an ecological disaster in the Straits of Mackinac, the environmentally sensitive passage between Lake Michigan and Lake Huron where the 69-year-old pipeline runs underwater between the state's upper and lower peninsulas. The governor and her attorney general went to state court, where Enbridge pushed back hard, arguing that Michigan had overstepped its jurisdiction and that the case needed to be heard in federal court.

The pipeline moves upward of 540,000 barrels per day of oil and natural gas liquids across the Canada-U. S. border and the Great Lakes by way of a twin line along the lake bed. Critics want the line shut down, arguing it's only a matter of time before an anchor strike or technical failure triggers a disaster in one of the area's most important watersheds. Proponents call the line an indispensable source of energy, especially propane, for several Midwestern states. It is also a key source of feedstock for refineries in Canada, including those that supply jet fuel to some of Canada's busiest airports.