Oil and Gas News Briefs
Compiled by Larry Persily
August 8, 2022

U.S. benchmark crude suffers biggest weekly drop since early April

(Bloomberg; Aug. 5) - Oil suffered its biggest weekly decline since early April on increasing evidence that a global economic slowdown is reducing demand, with prices near the lowest level in six months. West Texas Intermediate ended at $89 a barrel on Aug. 5, down 10% for the week. Brent closed at just under $95. Market factors include news that U.S. gasoline consumption has softened while crude stockpiles have risen, and supply from Libya has picked up, helping to ease the tightness in global supply.

The pullback has been broad-based. U.S. gasoline futures also were down 10% in the week, a sign of further relief at the pump. After surging in the first five months of the year, crude's rally has been thrown into reverse, with losses growing this month after declines in June and July. The sell-off, which has wiped out gains triggered by Russia's invasion of Ukraine, will ease inflationary pressures running through the global economy that have spurred central banks including the U.S. Federal Reserve to hike rates.

This week's drop "has started to cause panic in many who were previously dedicated oil bulls," said Keshav Lohiya, founder of consultant Oilytics. China has also shown signs of economic and oil-demand weakness, clouding the outlook for crude consumption by the world's top importer. Recent data showed factory activity shrank, while China Beige Book International warned that the country's economy was deteriorating.

Crude oil futures fall as U.S. commercial stockpiles grow

(S&P Global; Aug. 3) - Crude oil futures fell to a five-month low and hit pre-Ukraine war levels Aug. 3 as a surprise buildup in U.S. crude supply overshadowed a modest production quota increase by OPEC and its allies. U.S. commercial crude stockpiles climbed 4.5 million barrels in the week ended July 29 to about 426.6 million barrels, U.S. Energy Information Administration data showed Aug. 3. The build left stockpiles 6.7% behind the five-year average, compared with 7.7% the week prior.

American Petroleum Institute data released Aug. 2 also showed a buildup in U.S. crude supply in the week to July 29, more than analysts surveyed by S&P Global Commodity Insights had expected. Prompt-dated U.S. crude futures have reached their lowest level since Russia's invasion of Ukraine created widespread disruptions in global supply networks and sent prices soaring. "The demand outlook might be much worse than everyone was thinking as U.S. gasoline demand fell 7.1%, despite lower prices and this still being peak summer vacationing time," OANDA senior market analyst Ed Moya said.

Saudis, UAE reportedly hold capacity in reserve if needed in crisis

(Reuters; Aug. 4) - OPEC leaders Saudi Arabia and the United Arab Emirates stand ready to deliver a "significant increase" in oil output should the world face a severe supply crisis this winter, sources familiar with the thinking of the top Gulf exporters said. When the Organization of the Petroleum Exporting Countries and its allies (OPEC+) decided on Aug. 3 to raise oil output by a mere 100,000 barrels per day, it broke a taboo with a rare reference to the group's spare production capacity.

The statement referred to "the severely limited availability" of spare capacity, saying it needed to keep it in reserve for "severe supply disruptions." Three sources, speaking on condition of anonymity, said Saudi Arabia and the UAE could pump "significantly more," but would only do so if the supply crisis worsened. "With possibly of no gas in Europe this winter, with a potential price cap on Russian oil sales in the New Year, we can't be throwing every barrel on the market at the moment," one of the sources said.

The sources did not quantify any increase, but said Saudi Arabia, the UAE and some other OPEC members 2 million to 2.7 million barrels per day of spare capacity. "The only time we can prove we have more spare capacity is when it comes to a long-lasting crisis," a source said. "We believe OPEC+ preferred to keep their powder dry and use their buffer to address potential future disruptions," PVM's Tamas Varga said in a note. "There are growing fears of demand destruction," Varga said of the market outlook. "If the current trend continues, additional barrels would put unwanted downside pressure on prices and, at the same time, would unnecessarily deplete … spare capacity."

Rising costs another factor holding back U.S. shale drillers

(Bloomberg; Aug. 6) – U.S. shale oil drillers continue to show little sign of responding to high prices with more production, only now it's not just their focus on rewarding shareholders that's holding them back — but also a preoccupation with soaring costs. The combined oil and gas production forecasts from a dozen companies that have reported second-quarter results in recent days is barely changed from three months earlier, down just 0.6%, despite oil prices surging to $120 a barrel earlier this year.

At the same time, higher diesel, steel, chemical, contractor and labor costs have pushed the companies to raise capital budgets by 7%. Shale executives' unwillingness to spend more on production means the world market has effectively lost its two biggest growth engines. The Organization of Petroleum Exporting Countries admitted to "severely limited availability of excess capacity" this week, and said what little is left can only be tapped with "great caution." Meanwhile, U.S. drillers have concluded that record profits and cash flows are better spent on share buybacks and dividends rather than more rigs.

U.S. oil fields currently pump about 12 million barrels a day, 8% higher than a year ago but still 1 million barrels a day below the pre-pandemic all-time high. Just about the only companies planning to significantly expand output are supermajors like ExxonMobil and Chevron or some family-owned operators. Even the jump in prices after Russia’s invasion of Ukraine, and pleas from President Joe Biden for supply hikes, haven’t lured shale drillers back to the growth mode. They’re finally learning “discipline” after back-to-back market crashes, said Bill Smead, of Smead Capital Management.

Europe refilling natural gas storage, but at a heavy cost

(Reuters; Aug. 4) - European nations are on track to reach a natural gas storage filling target by the start of this winter, but the cost of replenishing stocks will be over 50 billion euros ($51 billion), 10 times more than the historical average of filling up for winter. Governments had been concerned that Russia's cut in gas supplies through its main pipeline to Germany would leave countries unable to meet storage goals for winter.

European countries have managed to build up gas storage steadily by curbing demand, switching from gas to coal for some power plants and increasing imports of liquefied natural gas. The EU imported 21.36 million tonnes of LNG in the first half of 2022 (about 1 trillion cubic feet of natural gas), up from 8.21 million tonnes in the same period a year ago, according to information service ICIS. Storage levels were 70.54% full on Aug. 2, surpassing the five-year average of 70.32%, according to Gas Infrastructure Europe.

The European Union aims to refill storage to 80% capacity by Nov. 1 to provide a buffer for peak-demand winter. Germany, hardest-hit by Russia's reduced gas flows, has set a higher goal for itself and aims for 95% full by November. In June, for the first time ever, U.S. LNG contributed more gas to Europe than Russian pipelines. Private firms are primarily responsible for storage, though governments have offered incentives such as credit lines, loans and subsidies to help them buy gas as prices hit record highs.

Cold winter could heighten fuel competition between Europe and Asia

(Bloomberg; Aug. 4) - As it weans itself off Russian fuel and races to secure enough gas and coal, Europe’s quest to stay warm this winter will depend heavily on three nations on the other side of the world: Japan, South Korea and China. The countries, among the world’s biggest importers of liquefied natural gas and seaborne coal, share a peak heating-demand winter season with Europe. It’s too early for meteorologists to make accurate predictions for winter weather patterns, but any forecast for steep dips in temperatures in the three nations could spark a more intense tussle for fuel cargoes.

International competition for fuel has increased since Russia’s invasion of Ukraine upended global trade flows, helping push coal and gas to record prices. In Europe, the squeeze is about to get tighter. The European Commission will implement a full ban on Russian coal next week, while Gazprom has slashed pipeline gas to Europe. “Weather is of course a wild card, especially for Japan and Korea," said Abhishek Rohatgi, a BloombergNEF analyst. "A colder-than-normal winter could spike prices if Russian supplies to Europe stay low, as it will be very difficult to find additional spot cargoes."

European nations are racing to prepare for winter, cutting gas consumption and boosting LNG imports to fill storage, while also restarting mothballed coal power plants. They've received a helping hand from Asia so far: China has slashed imports of coal and LNG after boosting domestic output, and is suffering an economic slowdown due to coronavirus lockdowns. All three Asian countries have also produced more energy from renewable sources. Japan and South Korea set records for solar power in May.

Norway may limit hydropower exports to avoid domestic shortage

(Bloomberg; Aug. 5) - Norway, one of Europe's biggest electricity exporters, is considering measures to limit power shipments to prevent domestic shortages amid surging prices, according to local media reports. The government may propose a rule to limit exports if the water levels at Norway's hydroelectric reservoirs drop to "very low," to ensure security of supply, said Energy Minister Terje Aasland. The limit would take account of seasonality and would differ across the 1,800 reservoirs, he said.

Russia's gas supply cuts in retaliation for European sanctions over the war in Ukraine have triggered the continent's worst energy crisis in decades, with demand surging for cheap Norwegian hydroelectricity. Yet the government faces increasing calls from the public and opposition to limit flows abroad. Prices are near record highs in some areas as reservoir levels have plunged in the south after a drier-than-normal spring.

The government has been under pressure to do something about exports since before April. Power flows are regulated by deals with both the European Union and the U.K., and Norway can't simply cut its supply. It's the latest test of European solidarity when it comes to energy supplies. Back in May, grid operator Statnett SF warned that Norway could face a strained power situation after less snowfall than usual during the winter. At the end of last week, the fill level in Norway's hydro reservoirs was 66.5%, compared with a median 74.9% for the corresponding time in 2002-2021, regulator NVE said.

Cheniere looking at more expansion of LNG production capacity

(Natural Gas Intelligence; Aug. 4) - Cheniere Energy is in the early stages to again expand its liquefied natural gas export facilities in Louisiana and Texas following a series of supply deals that could underpin the next stage of growth, management said Aug. 4. Chief Commercial Officer Anatol Feygin said the company has had its most productive year for LNG contracting since it started signing deals in 2011.

The company has been “racking up frequent-flier miles,” added CEO Jack Fusco during the call to discuss second-quarter results. Cheniere, like other global LNG producers, has seized on high spot prices, supply issues and a pivot from Russian exports to sign more long-term deals that are the bedrock of its business. Feygin said buyers across the world signed supply deals to take 38 million tonnes per year during the first six months, with U.S. LNG producers accounting for 28 million tonnes of those deals.

Fusco said management plans to provide an update about its growth plans later this year. Cheniere may add large- or small-scale liquefaction capacity at the Corpus Christi LNG export terminal in South Texas near the expansion work sanctioned in June. Meanwhile, a third marine berth is nearing completion at its Sabine Pass terminal in Louisiana, adding capacity that could help pave the way for more production there. A sixth liquefaction train came online at Sabine Pass earlier this year.

Freeport LNG in Texas on track to restart operations in October

(S&P Global Platts; Aug. 3) - Freeport LNG has reached an agreement with U.S. regulators on certain corrective actions that must be taken before it can resume operations, the company said Aug. 3. The three-train facility in Texas, with capacity to produce 15 million tonnes per year of LNG, has remained offline since an explosion and fire June 8. The terminal accounts for about 15% of U.S. LNG supply, which is important to meeting European demand amid sharp cuts in Russian pipeline gas to the continent.

Privately owned Freeport LNG said it believes it can complete the necessary corrective measures, along with repair and restoration work, in order to resume initial operations in early October, maintaining its most recent target. It had previously targeted resumption of full service by the end of the year. "Obligations under the consent agreement are intended to ensure that Freeport LNG can safely and confidently resume initial LNG production and thereafter ultimately return to full operation," the operator said.

The explosion and associated fire at Freeport LNG occurred in a pipe rack near the LNG storage tanks at the liquefaction facility. An estimated 120,000 cubic feet of gas was reportedly released within the facility, according to federal regulators.

Russian crude apparently transferred at Egyptian terminal

(Bloomberg; Aug. 3) - Russia appears to have found a new means of getting its oil to market despite Western sanctions. A cargo of about 700,000 barrels of Russian crude was delivered to Egypt’s El Hamra oil terminal on its Mediterranean coast early on July 24. A few hours later, another vessel collected a consignment from the port — which may have included some or all of the Russian barrels — according to vessel-tracking data monitored by Bloomberg.

The unusual move makes the cargo's destination harder to track, adding to a trend of Russian oil shipments becoming increasingly obscured since European buyers began to shun them following the nation's invasion of Ukraine. El Hamra, operated by Egypt's Western Desert Operating Petroleum Co., has six storage tanks, able to hold 1.5 million barrels of crude. The terminal was built to handle crude produced in Egypt's western desert, creating possibilities to blend the Russian barrels with local volumes.

A few hours after the first tanker left El Hamra on July 24, another arrived. It had already been at the terminal for several days, but moved off the mooring to allow the Russian oil to offload, the tracking data show. When the second tanker left El Hamra on July 28, its cargo tanks were almost full. It is now moored at the Ras Shukheir terminal on Egypt's Red Sea coast, offering further possibilities to blend Russian crude with Egyptian oil. Egypt is already being used by Russia as a transit route for fuel oil. It's unclear if El Hamra is a one-off, or will become a more commonly used port for Russian oil flows.

Low river water limits coal deliveries to German power plant

(Bloomberg; Aug. 4) – German utility Uniper warned of "irregular operation" at a key coal-fired plant in Germany as the company struggles to move coal supplies along the Rhine River. Water levels on the Rhine have fallen so low that the river may effectively close soon. Uniper's 510-megawatt Staudinger-5 power plant has limited volumes of coal on site and can't easily get more, the company said.

Europe is already facing its worst energy-supply crunch in decades as Russia curbs gas supplies. The restriction of traffic on the river, exacerbated by climate change, could disrupt the flow of everything from fuel to chemicals as governments try to prevent the energy crisis from tipping the region into recession. Uniper expects the limitations to last until September, leaving just a few weeks before the start of the colder months, when coal will be needed to help plug the gap left by dwindling supplies of gas from Russia.

Low river levels are also affecting nuclear plants in France. A heat wave is pushing up water temperatures, limiting the ability of Electricite de France to cool some facilities. The French utility said power stations on the Rhone and Garonne rivers will likely produce less electricity in the coming days, but there will be a minimum level of output to keep the grid stable. Power plants typically need cooling water that's usually brought in from a river or the sea before it's returned.

Climate activists speak against East Coast Canada LNG projects

(The Canadian Press; Aug. 4) - A coalition of environmental groups is calling on Ottawa to reject any proposals to build liquefied natural gas export facilities on Canada's East Coast, saying such projects will produce "climate-wrecking emissions." The coalition, which includes the Sierra Club Canada Foundation and Climate Action Network Canada, issued a statement Aug. 4 that also takes aim at the financial risks associated with multibillion-dollar ventures that could take several years to come on stream.

“On the world stage, Canadian politicians deliver passionate speeches about climate action, but their words will be revealed as empty promises if the federal government approves new fossil gas infrastructure on the East Coast,” Kelsey Lane, climate policy coordinator for the Halifax-based Ecology Action Centre, said in the statement. Canadian Foreign Affairs Minister Mélanie Joly told a chamber of commerce audience in Montreal on Aug. 3 that Germany is looking to invest in LNG projects in Canada.

Pieridae Energy has been promoting construction of an LNG terminal in Goldboro, Nova Scotia, since 2011, but put the project on hold last summer because of “cost pressures and time constraints.” The company had planned to get gas from Western Canada via pipeline and then ship it by tanker to European customers. Pieridae CEO Alfred Sorensen said the project makes sense, but would need Canadian government support.

On June 29, New Brunswick Premier Blaine Higgs said an LNG import facility in Saint John, New Brunswick could be modified to reverse its flow and help reduce Europe’s reliance on fossil fuels from Russia. Higgs said the owner of the plant, Repsol, has talked to the federal government about transforming the facility into an export terminal.