Oil and Gas News Briefs
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Multiple factors create fear of oil supply squeeze and rising prices

(Bloomberg; April 7) - When oil rose above $90 a barrel just days ago, military tensions between Israel and Iran were the trigger. But the rally's foundations go deeper — global supply shocks that are intensifying fears of a commodity-driven inflation resurgence. A move by Mexico to slash its oil exports to refine more crude at home is compounding a global squeeze. U.S. sanctions have stranded Russian crude at sea, with Venezuelan supply a potential next loss. Houthi attacks on tankers in the Red Sea have delayed oil shipments. And despite the turmoil, OPEC+ players are sticking with their output cuts.

It all adds up to a magnitude of supply disruption that has taken traders by surprise. The crunch is turbocharging an oil-price rally ahead of the U.S. summer driving season, threatening to push the global benchmark to $100 for the first time in almost two years, while amplifying inflation worries and complicating central banks' rate-cut deliberations.

Oil shipments from Mexico, a major supplier in the Americas, slid 35% last month to their lowest since 2019 as President Andres Manuel Lopez Obrador tries to make good on promises to wean the country off costly fuel imports. The country exports of heavy, dense crude that many refineries are designed to process now stand to shrink further as state-controlled Pemex has canceled some supply contracts to foreign refiners.

The crude price surge could ultimately force OPEC+ to dial back some production cuts, said Vikas Dwivedi, a global oil and gas strategist for Macquarie Group. And oil substantially above $90 can lead to global demand destruction and ultimately lower prices, according to JPMorgan. But so far, there's little sign of that happening yet.

Oil could reach $100 if OPEC+ does not ease up on output cuts

(Bloomberg commentary; April 4) - You'd be forgiven for thinking that oil producers might have contemplated opening the taps a little when they met April 3. Think again. Prices are at six-month highs and climbing. Market forecasts show a supply deficit for the rest of 2024. Gasoline in Europe and North America is up by 5% to 10% this year, even as broader inflation levels are in retreat. Brent crude is within touching distance of $90 a barrel, up nearly 3% on the week so far, and it's likely to go higher. Banks including JPMorgan Chase are dusting off triple-digit oil price forecasts.

The producer group has slashed its overall output target by about 3.8 million barrels a day in the past 12 months, and the cuts will deepen over the course of this quarter as

Russia switches from export restraints to tighter pumping limits. But the curbs haven't been shared across the whole group. Only nine of the 23 OPEC members at the time offered "voluntary" reductions in the first half of last year, and some of those appeared to have been pressured into doing so. Call it a coalition of the (mostly) willing.

The April 3 Joint Ministerial Monitoring Committee meeting gave no hints about a future easing of restrictions. Instead, it again urged those who hadn't implemented their cuts in full — particularly Iraq and Kazakhstan — to toe the line and provide details by April 30 of how they will compensate for earlier failures. OPEC+ is due to hold a full ministerial meeting in June. A decision to extend the supply quota into the second half of the year cannot be ruled out. That may propel oil past $100 a barrel for the first time since 2022.

While OPEC+ likes $90 oil, the challenge will be keeping it there

(Reuters; April 4) - There was no surprise that a top meeting of OPEC+ ministers opted to keep output policy unchanged, since the global crude oil market is almost exactly where the exporter group wants it. OPEC+'s ministerial committee on April 3 kept the current output targets but did note that some countries had been overproducing and had undertaken to increase their compliance. This means that the voluntary production cuts of 2.2 million barrels per day will remain in place until at least the end of June, joining the existing 3.66 million barrels per day of cuts agreed to in 2022.

Crude oil prices have rallied in recent months, with benchmark Brent futures hitting a six-month high and coming within one cent of $90 a barrel during April 3 trading. Lower production from OPEC+, tensions in the Middle East from the Israel-Hamas conflict and signs of stronger demand have all contributed to Brent's rally from a low of $72.29 a barrel on Dec. 13 to the close of $89.35 on April 3. OPEC+ doesn't formally target an oil-price level, but it's believed that most of the member countries currently favor a price closer to $90 a barrel than the $70 levels from late last year.

With the price now at that level, the trick for OPEC+ is getting $90 to act as an anchor around which the price can trade with the usual daily volatility, which is often driven by news headlines on events that threaten supply or change anticipated demand. The risk is that $90 a barrel is surpassed and crude heads back toward $100, which is likely to fuel a new round of inflation in importing countries, as well as hurting anticipated demand growth. Stronger oil prices may also crimp demand, especially in the price-sensitive developing economies in Asia, the world's top importing region.

OPEC+ risks a repeat of last year's boom and bust

(Bloomberg; April 5) - The OPEC+ alliance may be risking a repeat of last year's oil market boom and bust. Brent crude shot above $90 a barrel on April 4 and analysts warned of a further increase to $100. The rally came after Saudi Arabia and its partners signaled they will continue to squeeze supplies despite robust fuel demand and flaring Mideast geopolitical tensions. It’s starting to look a lot like the 2023 market narrative.

Last April, crude traded in the high $80s as OPEC+ launched new supply cuts despite resilient fuel demand and geopolitical tensions over Russia’s war on Ukraine. Analysts predicted a return to $100 a barrel, which nearly arrived a few months later. But for the Organization of the Petroleum Exporting Countries — and bullish crude traders — things began to sour soon after. High oil prices triggered fears of “demand destruction” and stoked a flood of additional supplies from the U.S. and across the Americas.

Expectations of scarcity flipped to surplus, slashing Brent futures by 19% in the fourth quarter and compelling OPEC+ to announce more cuts. Whether the market plays out in the same fashion this year may hinge on the OPEC+ meeting in June. At least year’s gathering, Saudi Arabia unveiled an extra 1 million barrel-a-day cut that it described as a “lollipop” — a treat for oil producers and bullish traders alike. The big question this time around is whether OPEC+ could decide it’s safer to calm the market’s sugar rush.

Gasoline prices climb higher as oil prices move up

(Wall Street Journal; April 4) - Drone attacks in Russia, unrest in the Middle East and strong consumer demand have propelled oil prices to their highest level in months, setting the stage for what could be a summer surge in U.S. gasoline prices. The rally in crude picked up speed this week after an Israeli strike on an Iranian diplomatic building fanned worries of a broader regional war. Undergirding prices is a relative lack of crude in global markets thanks to production cuts from OPEC and its allies.

Benchmark Brent crude futures have climbed 18% in 2024 to exceed $90 a barrel for the first time since October. That is feeding into gasoline, with average national prices measured by AAA up 15% this year at $3.57 a gallon. “The market in general is only just waking up to just how … tight supplies will increasingly be,” said Paul Horsnell, head of commodities research at Standard Chartered.

Horsnell has been one of the few bullish oil analysts, forecasting that Brent will rise to $94 a barrel this quarter. The fact that prices started rising when many on Wall Street expected them to go sideways suggests they could keep heading higher — especially if investors crowd into the trade. Gasoline supplies are a possible pinch point ahead of the busy summer driving season. Inventories in the U.S. are 3% below the recent average for this time of year, close to the lowest for this time of year in the past five years.

U.S. decides prices are too high to buy oil for strategic reserve

(Bloomberg; April 3) - The Biden administration won't move forward with its latest plans to buy oil for the Strategic Petroleum Reserve amid rising prices. The Energy Department said it was "keeping the taxpayer's interest at the forefront" in its decision not to purchase as many as 3 million barrels of oil for a Strategic Petroleum Reserve site in Louisiana. The plan for the barrels to be delivered in August and September was announced in mid-March.

The move follows a rally in oil prices, with U.S. benchmark West Texas Intermediate on April 2 breaking above $85 a barrel for the first time since October. The administration has a target to buy oil at $79 or lower to refill the reserve, though it spent an average of about $81 a barrel in its latest purchase of 2.8 million barrels late last month.

The Energy Department has been slowly refilling the emergency oil supply after it reached a 40-year-low following the administration's unprecedented drawdown of a record 180 million barrels in the wake of Russia's invasion of Ukraine. It currently holds about 363 million barrels, according to Energy Department data, down from almost 600 million at the start of 2022.

Local climate change lawsuits against oil companies headed to trial

(Stateline.org; April 4) - After years of legal appeals and delays, some oil companies are set to stand trial in lawsuits brought by state and local governments over the damage caused by climate change. Meanwhile, dozens more governments have brought new claims against the industry as the initial cases inch closer to the courtroom. "It's all building toward more cases in more places using more legal theories to hold these companies accountable," said Richard Wiles, president of the Center for Climate Integrity, a nonprofit that offers support to communities suing oil companies.

Wiles' group has tracked 32 cases filed by state attorneys general, cities, counties and tribal nations against companies including ExxonMobil, BP and Shell. The lawsuits cite extensive news reporting showing oil companies' own research projected the dangers of climate change decades ago, even as the industry tried to undermine scientific consensus about the crisis. Those practices, the claims argue, violate a variety of laws including consumer protection, public nuisance, failure to warn, fraud and racketeering.

Some of the suits seek to force oil companies to help pay for the damage caused by climate change. Others aim to impose penalties for deceptive business practices. Some want to compel the companies to fund an education campaign about the climate threats they once downplayed. Oil companies have long sought to move such cases to federal court, where they believe national regulations could supersede local government claims. But a string of U.S. Circuit Court and U.S. Supreme Court decisions have ruled that the cases alleging violations of state laws belong in state court, clearing the way for trials.

Multibillion-dollar Canadian oil line on track for May 1 start-up

(Bloomberg; April 4) - The expansion of Canada's Trans Mountain oil pipeline is almost complete and the project is on track to start up on May 1 after the government-owned company finished a mountainous segment in British Columbia that had delayed operations. Trans Mountain expects to provide service for all contracted volumes next month after completing a drilling project in the Fraser Valley, according to a statement on its website. The company encountered technical problems on the section in January, pushing back the start of commercial operations by a month.

The Trans Mountain expansion twins the existing 715-mile pipeline from Edmonton, Alberta, to Burnaby, B.C., nearly tripling the conduit's capacity to almost 900,000 barrels per day. The project, initially slated to start in 2017, has faced years of delays and cost overruns because of construction mishaps and regulatory hurdles. The most recent cost estimate is C$34 billion, almost seven times the original price tag. Prime Minister Justin Trudeau's government purchased the pipeline from Kinder Morgan in 2018 to save the expansion from cancellation and help open new export markets for Canadian oil via the Pacific Ocean. The government plans to sell the line after a successful start-up.

B.C. LNG project awaits OK of floating hotel for construction crew

(Vancouver Sun; April 4) – Construction of a C$5.1 billion liquefied natural gas export facility planned for Howe Sound, southwest of Squamish, British Columbia, is awaiting municipal approval so it can moor a floating hotel at the site. The Woodfibre LNG project has been approved by the federal and provincial governments as well as the Squamish Nation. A wrinkle in the project timeline has appeared, however, with the District of Squamish needing to give the go-ahead to a floating hotel to accommodate workers.

The project was approved in 2015, with workers expected to live in and around Squamish. But as the rental vacancy rate dropped in Squamish, a floating hotel was proposed to reduce the impact on the community. That led the project owner — Indonesian billionaire Sukanto Tanoto — to contract Bridgemans Services Group to convert a cruise ship into housing for up to 650 workers.

Tanoto owns the Singapore-based Royal Golden Eagle Group, which owns Pacific Energy Canada, which owns 70% of Woodfibre LNG. The remaining 30% is owned by Enbridge. In January, the former cruise ship Isabelle arrived in Vancouver, where it received additional work. The ship is now moored in Nanaimo Harbor, awaiting a vote from the District of Squamish council on a three-year permit to allow moorage on site. Preliminary site work began in November, with full construction to commence once the hotel permit is received. The LNG project is expected to start production by 2027.

Small-scale Canadian LNG project moves closer to FID this year

(Business in Vancouver; April 4) - Developers of the Cedar LNG project in Kitimat, British Columbia, have marked a critical milestone with the signing of long-term offtake agreements and a notice to proceed with engineering, procurement and construction (EPC) contracts. Cedar LNG on April 4 also revealed the cost of the project — US$3.4 billion — and its anticipated commercial operations date of 2028. The latest cost estimate is almost 50% higher than the previous estimate of $2.4 billion for the facility designed to produce 3 million tonnes per year.

Cedar LNG is being developed by the Haisla First Nation and Calgary-based Pembina Pipleine. The venture announced it was issuing a notice to proceed on EPC contracts with Samsung Heavy Industries and Black and Veatch, following signing of a long-term gas supply agreement with ARC Resources for 200 million cubic feet per day of gas for a 20-year period, pulling the gas from ARC's Montney shale holdings in northeastern British Columbia. The agreement is contingent on a final investment decision.

Cedar LNG is being designed as a floating terminal. It will be designed and built in South Korea by Samsung Heavy Industries and Black and Veatch. "With major development milestones achieved, Cedar LNG is preparing for construction, with pre-FID early works commencing in May, including tree clearing and rough grading activities at our proposed marine terminal near Kitimat," Cedar LNG said in its news release. Cedar LNG is aiming for a final investment decision mid-year.

Developer starts FERC process for Permian Basin gas pipeline

(S&P Global; April 5) - The developer of an interstate pipeline to transport up to 2 billion cubic feet per day of liquids-rich Permian natural gas to the Louisiana Gulf Coast has requested to initiate the prefiling review process with the Federal Energy Regulatory Commission, targeting a 2028 in-service date. DeLa Express is an affiliate of private energy infrastructure firm Moss Lake Partners.

The 42-inch, 690-mile pipeline would begin in the Delaware Basin at Loving County, Texas, and supply "markets on the Gulf Coast from Port Arthur, Texas, to Cameron Parish, Louisiana, including growing demand from liquified natural gas export facilities as well as Moss Lake's affiliated natural gas liquids export project, Hackberry NGL," the developer said April 2 in its prefiling request with FERC.

The prefiling process would allow DeLa Express to work with stakeholders to address any environmental issues before filing its FERC certificate application, DeLa Express said. Under its anticipated timeline, DeLa would file its certificate application with FERC in February 2025; receive its FERC certificate in April 2026; begin construction in June 2026; and place the facilities into service in July 2028. Gas production in the Permian has risen sharply in recent years, often as fast as long-haul pipeline capacity can be built. S&P Global analysts forecast it will reach almost 24 bcf a day by December 2028.

Declining gas production pushes Egypt to resume LNG imports

(Bloomberg; April 3) - Egypt has started buying liquefied natural gas, a rare move by the fuel exporter to avoid shortages this summer. Egyptian Natural Gas recently bought at least one shipment for delivery in the next month and is looking for several more, according to traders with knowledge of the matter. The country, which uses gas to generate electricity for cooling to escape extreme heat, is securing supply early in the year to potentially avoid the chronic power blackouts of last summer.

The LNG purchases mark a major shift for Egypt, which largely stopped importing the fuel in 2018 when the massive Zohr field boosted domestic gas production and turned the country into an exporter of the fuel, including liquefied natural gas. Domestic gas output, however, has dropped to the lowest level in years, which Oil Minister Tarek El-Molla said in February was because of natural decline at its fields.

Egypt is coming into the LNG market at a time when prices have dropped from the record highs of 2022. The higher LNG availability will come as relief for Egypt, where summer temperatures have caused blackouts that can last up to two hours a day. Last year was the hottest on record, and experts are predicting 2024 could be even worse. Besides use in power, the country needs gas to feed energy-intensive industries such as fertilizer producers. Egypt halted LNG exports during the hottest months last year, and may be forced to do so again this year, according to El-Molla.

Shell wants long-term U.S. license for Trinidad, Venezuela gas project

(Reuters; April 3) - Oil major Shell is seeking a long-term license from the U.S. before making a final investment decision on the Dragon natural gas project in Venezuela, four people familiar with the matter said. The Dragon field lies in Venezuelan waters near the maritime border with Trinidad and Tobago, and holds up to 4.2 trillion cubic feet of gas. Trinidad needs the fuel to supply its liquefied natural gas and petrochemical industries, and Venezuela wants to open a new source of revenue from exports.

Washington in January 2023 gave Trinidad a two-year license to negotiate and develop Dragon, with Shell as operator and state firms PDVSA from Venezuela and the National Gas Co. from Trinidad as participants in the project. The U.S. amended the license in October 2023, extending its validity until October 2025 and allowing Venezuela to receive proceeds from gas sales in cash. The Venezuelan government, on its side, in December green-lit the project through a 30-year license, granting Shell and NGC the rights to produce the gas and export it to Trinidad.

Trinidad expects a final investment decision for Dragon, the last step in determining whether to move forward with construction, to come next year. By the time the current U.S. license expires, the FID and first gas might not be ready, creating the need for a new authorization. Shell is pressing to have a longer U.S. license; it had initially proposed a 15-year license. One of the sources said that Shell hopes the U.S. will award the license, even if not this year, because Washington officials would not expect the company to invest over $1 billion "without certainty of that investment."

Chinese equipment and workers on the job at Russian LNG project

(High North News; April 4) - Russian gas producer Novatek continues to assemble the next production line for its Arctic LNG-2 project while, at the same time, it shutters liquefaction of natural gas from the plant's first unit due to a lack of ice-capable LNG carriers, stymied by Western sanctions on Russia. The company will look to the summer months, when conventional carriers can reach the project, to initiate shipments.

Uncertainty over the future of Arctic LNG-2 continues to mount. Recent reports suggesting the company ceased liquefaction of natural gas at the facility contrast with a flurry of activity at the construction yard in the Russian Arctic, where Novatek is readying the second production line. Over the weekend, a heavy-lift vessel delivered the final module for the second train of Arctic LNG-2 after its long journey from China. The transfer of such technology to Russia has been banned under Western sanctions.

Almost simultaneously, hundreds of Chinese workers arrived on site, likely to assist with the installation of up to 20 300-kilowatt turbines, delivered by Harbin Guanghan Gas Turbine, sources said. The LNG plant's second production train will employ an all-electric drive using Chinese technology, compensating for the lack of American Baker Hughes turbines. The dispatching of Chinese workers to help install critical components is likely an attempt to offset the departure of workers from former Western and Japanese project partners that have left the development after Western sanctions.

Ample local supplies avoid export restrictions on Australia LNG

(Sydney Morning Herald; April 4) – Australia East Coast gas producers will avoid facing unprecedented orders to break export contracts and redirect supplies to domestic buyers this winter after the country's consumer watchdog determined there will be enough gas available to meet local demand. The federal government last year moved from a yearly to a quarterly review of whether it needs to cap liquefied natural gas exports from Queensland's three shippers of the fuel to avert energy shortfalls for millions of gas-connected homes and businesses.

While LNG has boomed to become one of Australia’s biggest exports, concerns have been building about dwindling domestic gas supplies amid rapid output declines from offshore fields in the Bass Strait, which have traditionally supplied as much as two-thirds of gas for the local market on the eastern seaboard. However, Resources Minister Madeleine King on April 4 said the government would not need to trigger export restrictions under the Australian Domestic Gas Security Mechanism through to Sept. 30.

“The government is confident that the ADGSM doesn’t need to be activated for the third quarter of 2024 because Australia’s gas market will likely have enough supply,” she said. The decision follows an update from the Australian Competition and Consumer Commission on April 4, calculating that the East Coast market will have a gas surplus during the period, even if the LNG ventures exported all their uncontracted gas.