Oil and Gas News Briefs
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Lack of accurate data makes it hard to forecast oil supply, demand

(Financial Times; London; Oct. 29) - Oil prices fell more than 5% on Oct. 28 after Iran's Ayatollah Ali Khamenei over the weekend seemed to play down the prospect of retaliatory strikes against Israel. With the risk of a full-blown war between the two states having abated for at least a few more minutes, attention among oil investors "is once again shifting back to market fundamentals," JPMorgan analysts write.

There's just one problem: OPEC's relative opacity about its production and China's use of underground storage facilities mean few analysts, including those at America's biggest bank, seem to know with much confidence what those "fundamentals" are. "Forecasting future supply and demand in the current environment is a waste of time because we cannot even measure what's happening in the present," said Ilia Bouchouev, former president of Koch Global Partners and an authority on all things oil.

JPM commodities strategists Natasha Kaneva, Prateek Kedia and Cole Wolf admitted to their own confusion in a note on Oct. 28. Back in June, the JPMorgan trio said they expected global demand for oil to exceed supply this summer and fall. But it turns out the supply deficits may be smaller than expected. Maybe JPM's demand estimates were wrong? Weaker-than-expected Chinese demand in the second and third quarters was effectively cancelled out by stronger-than-expected demand in the Middle East, where soaring temperatures meant more power was required to keep everyone cool.

Neither demand nor inventories are observable with any degree of accuracy that could impact prices, so if you are missing two out of the three components (inventories, supply and demand) then you cannot draw any meaningful conclusions. There are just too many different uses of petroleum products spread out across a zillion global locations, and way too many storage sites where owners have no interest in disclosing the truth and more often even have incentives to mislead analysts and observers.

OPEC+ may delay oil production increase planned for December

(Reuters; Oct. 30) - OPEC+ could delay a planned hike in oil production scheduled to take effect in December by a month or more, three sources told Reuters on Oct. 30, citing concern about soft oil demand and rising supply. The 180,000-barrels-per-day hike in December, which is due to come from eight members of OPEC+, which groups the Organization of the Petroleum Exporting Countries, plus Russia and other allies, was already delayed from October amid falling prices.

But oil prices remain under pressure in part from weak demand data, raising concern in OPEC+ about adding supply. A decision to delay the increase could come as soon as early next week, two of the sources said. "The December hike could be postponed as the market is not healthy enough," one of the sources said. The prospect of a further delay in OPEC+'s increase helped lift oil prices by 2% on Oct. 30. Even so, Brent crude is trading around $72 a barrel, not far above its lows for the year reached in September.

Two of the sources said the December increase could be delayed for a month at least, while the third, an OPEC+ delegate, did not specify a time frame. All declined to be identified by name. The planned hike of 180,000 barrels per day is a fraction of the 5.86 million barrels per day OPEC+ is holding back, equal to about 5.7% of global demand, to support the market due to uncertainty about the demand outlook and rising supply outside the group. OPEC+ ministers hold a full meeting to decide policy on Dec. 1.

Big Oil may need to borrow money to fund more share buybacks

(Bloomberg; Oct. 28) - Weaker crude prices and refining margins are likely forcing four of the five supermajor oil companies to borrow money to fund $15 billion in share buybacks for the most recent quarter, raising doubts over the payouts' long-term sustainability. ExxonMobil, Chevron, Shell, TotalEnergies and BP are expected to post a 12% dip in earnings from last quarter to a combined $24.4 billion when they give results this week, according to the average of analysts' estimates compiled by Bloomberg.

That will leave them all — except Shell — unable to cover their dividends and buybacks with free cash flow, which is expected to be 30% lower than a year ago. Share buybacks have become a cornerstone of Big Oil's strategy as the post-Covid commodities rally spurred record profits and provided an opportunity to court investors betting against a fast energy transition. But with cash flow declining, those shareholder return pledges are now under strain.

Crude prices are down more than 20% from this year's high even as tensions have escalated in the Middle East. Third-quarter profits will be half the level of their record highs in 2022 and the lowest since 2021. "The scales are tilting more bearish for oil prices as we look ahead," said Noah Barrett, Denver-based lead energy research analyst at Janus Henderson, which manages about $361 billion. "They'll likely have to lean on the balance sheet if they want to maintain the current pace of buybacks."

Kuwait Petroleum Corp. has big plans to reach net-zero emissions

(S&P Global; Oct. 28) - State-owned Kuwait Petroleum Corp. has developed plans to rely on liquefied natural gas, reduced flaring of gas, renewables and a refocus of the country's giant Al-Zour refinery to achieve its goal of net-zero emissions by 2050, a KPC source told S&P Global Commodity Insights. Kuwait has budgeted $110 billion for the transition, including a commitment to achieve a sustainable crude capacity of 3.5 million barrels per day by 2030 and 4 million by 2035 through 2040, the person said. Kuwait's current OPEC quota is 2.41 million barrels per day, with output at 2.43 million in September, according to the latest Platts OPEC survey from Commodity Insights.

"Oil is still anticipated to retain the highest share of the world's primary energy demand until 2040, and KPC will keep on supplying crude at the lowest emissions intensity," the source said. New energy efforts include installing 18,000 electric vehicle charging points in and outside of Kuwait by 2050, 120,000 tonnes a year of plastics recycling capacity by 2050, 13 million tonnes a year of second-generation biofuels production worldwide by 2050 and 1 million tonnes a year of green hydrogen output by 2050, the source said.

KPC is in the feasibility stage on which renewables to use to achieve 17 gigawatts of capacity by 2050, with current operations mostly small-scale, including solar panels in parking areas and buildings, the person said. Kuwait is the Middle East's largest LNG importer, with 6.57 million tonnes of the fuel imported so far in 2024, already higher than last year's 6.52 million. In August, QatarEnergy announced an agreement with KPC to provide up to 3 million tonnes per year of LNG over 15 years starting in January 2025. The LNG is used by Kuwait's power plants, which face growing demand for electricity.

Ammonia faces cost and safety challenges as marine fuel

(Reuters; Oct. 28) - At one of the world’s biggest bulk export ports in Western Australia, shippers safely completed the first transfer of ammonia from one vessel to another last month, a key test for its adoption as a marine fuel in the push for cleaner energy. The first cargo ships that would be powered by ammonia are set to enter service in 2026, one of several alternatives the industry is tapping to shrink a carbon footprint that accounts for nearly 3% of global emissions.

But ammonia faces major cost and safety hurdles as a shipping fuel compared to others, such as liquefied natural gas, methanol and biofuels. Ammonia's appeal is that it is carbon free and would be a zero-emission fuel if made from hydrogen produced with renewable electricity. But safety is a big challenge for the product typically used for fertilizers and explosives. "Currently the lack of regulation, experience in use and toxicity of ammonia on board ships constitute major safety deterrents," said Laure Baratgin, head of commercial operations at mining giant Rio Tinto.

Top global iron ore producer Rio is the biggest exporter at the port of Dampier, where the ammonia transfer trial was run. It operates dual-fueled bulk ships that run on traditional marine fuel or LNG but has yet to charter or order ammonia-fueled vessels. Only two smaller ammonia-fueled vessels are in service now, including a tugboat in Japan. Refueling ships, or bunkering, poses particular challenges with ammonia, which can cause acute poisoning and damage to the skin, eyes and respiratory tract.

[LNG tanker charter rates down 80% from last year amid oversupply]

(Reuters; Oct. 28) - Liquefied natural gas shipping rates have hit multi-year lows and may extend losses going into 2025, analysts and shipping sources said, with new tankers being added at a faster rate than LNG production is rising and spot demand for gas in global markets still tepid. New LNG tankers, built in anticipation of rising U.S. exports after a plunge in Russian gas supplies to Europe in 2022, are coming online earlier than liquefaction projects, which have been delayed amid inflation from strong wage growth and a shortage of skilled labor and equipment.

With more ships expected, freight rates for tankers may remain depressed until late 2025 when new LNG production starts up, said Samuel Good, head of LNG pricing at commodity pricing agency Argus. "Some liquefaction capacity delays, mainly in the U.S., have helped cause this mismatch between fleet growth and LNG supply growth," he said. LNG freight rates for the Atlantic and Pacific basins fell on Oct. 25 to $20,750 and $36,750 per day, respectively, according to pricing agency Spark Commodities.

The rates are down 87% in the Atlantic and 78% in the Pacific from a year ago and are the weakest for that period since at least 2019. About 45 newbuild LNG carriers have been delivered this year up to early October, according to Good, with at least as many scheduled in the next six months. "We don't see this pace of additions slowing significantly until mid-2026," he said. A shipbroker estimated nearly 70 new ships this year will be added to the global fleet of almost 800 vessels, with more coming next year.

[Vessels arrive with Chinese power plant modules for Russian LNG]

(gCaptain; Oct. 28) - Two Chinese heavy-lift vessels arrived off the coast of the sanctioned Russian Arctic LNG 2 project after a five-week journey through challenging early winter sea ice. The ships are carrying large-scale power generation modules constructed over the past two years by China's Wison New Energies, an engineering, procurement and construction company. The power plant is key to commissioning the second production train of Russia's flagship liquefied natural gas project.

For much of the voyage the two vessels traveled in convoy as they passed through more than 1,500 nautical miles of partially ice-covered seas. At times progress was slow-going at only 1 to 2 knots, searching for a path through broken first-year ice. One of the ships does not have any ice classification. For the later parts of the journey, they were escorted by the nuclear icebreaker Sibir before emerging in open water in the western Kara Sea over the weekend. A third vessel, Hunter Star, carrying the remaining sections of the power station remains en route, about a week behind.

The arrival of the power plant before winter is indispensable if Novatek, the majority owner of Arctic LNG 2, wants to launch the facility's second liquefaction train in 2025. The vessels are currently holding at the mouth of Ob Bay, about 150 nautical miles north of their final destination at the Utrenniy terminal. The unloading of the 5,000- to 7,000-tonne modules will require several days and close coordination with tidal conditions. Over the past 24 months Chinese yards have defied U.S. sanctions and continued providing material assistance to Russia’s largest LNG project.

Russia’s Arctic LNG 2 could remain shut down until next summer

(Reuters; Oct. 25) - Russia's Novatek shut down commercial operations at the first and only operational train of its Arctic LNG 2 project earlier this month, with no plans to restart it during winter, one source familiar with the matter told Reuters on Oct 25. The train was shut down on Oct. 11, the source said. The project, 60% owned by Novatek, had been set to become Russia's largest LNG plants with eventual output of 19.8 million tonnes per year, but its prospects have been clouded by Western sanctions over Russia's war on Ukraine and it has struggled to sell the seaborne gas.

The plant loaded eight LNG cargoes between Aug. 1 and Oct. 7, according to Kpler's data, but failed to find buyers. "The shutdown of the plant is ultimately a reflection of a lack of appetite from buyers and a lack of Arc7 ice-class vessels needed to lift LNG during the winter months," said Laura Page, manager of gas and LNG insight at Kpler. "The U.S. has succeeded in its efforts to kill the project, for now. Kpler Insight expects the plant to remain shut until at least next summer, when Novatek will likely re-assess appetite from potential buyers," she added.

Tankers carrying Russian LNG park off the coast, waiting for buyers

(Bloomberg; Oct. 30) - Tankers carrying liquefied natural gas from Russia are gathering off the country’s far eastern coast, a sign of the difficulties in finding buyers amid ever-tightening Western restrictions. The vessels — Nova Energy, Pioneer and Asya Energy — all loaded shipments from the Arctic LNG 2 facility in northern Russia, which has been targeted by U.S. sanctions. Pioneer is now anchored off the port of Nakhodka, with the two other ships also nearby, ship-tracking data compiled by Bloomberg show.

The ships’ journeys highlight the complications in trading gas from Arctic LNG 2, which began exporting fuel in August. None of the shipments, however, have arrived at overseas ports. Any inability to sell the gas would be a blow to President Vladimir Putin’s plans to use the Arctic to help expand the country’s trade potential. Earlier this month, the plant stopped liquefying natural gas, as Western bans limited its ability to ship and sell cargoes. The Arctic LNG 2 shipments had been offered to buyers in China and Asian nations at a discount, Bloomberg reported last month.

All three of the ships — controlled via entities with opaque management and believed to be part of a so-called shadow fleet — are under U.S. sanctions. The restrictions have also left the project without new, specialized ice-class vessels needed to transit the Northern Sea Route. Meanwhile, Russia's Zvezda shipyard won't be able to deliver the domestically built lead ice-class tanker for Arctic LNG 2 by the end of this year, Russia's Kommersant daily reported Oct 30. Delivery is now expected in early 2025.

Panama Canal wants to get back lost LNG carrier traffic

(Reuters; Oct. 29) - Following a 65% decline in traffic, the Panama Canal aims to regain lost vessel traffic carrying U.S. liquefied natural gas to Asia as demand in that market rises and a new reservation system allows shippers to lock in slots, the Panama Canal Authority told Reuters. A U.S. LNG switch to Europe in the aftermath of Russia's invasion of Ukraine, combined with long waiting times and expensive fees to transit through Panama due to severe drought, have kept many LNG ships out of the canal.

Many gas exporters to Asia continue to take longer routes around South America even after the waterway's authority lifted the traffic restrictions this year. The canal is the shortest route to Asia for gas exporters from U.S. Gulf Coast terminals, whose sales to Japan, China, South Korea and India have grown substantially in the past decade. "We lost 65% (of traffic), which … now goes through Cape Horn, compared to what we had last year, two years ago," said the Canal's administrator, Ricaurte Vazquez.

Because the Panama Canal Authority charges a set fee per passage, it can be more convenient for U.S. producers to take longer routes to Asia depending on global LNG prices, delivery terms in contracts and seasonal demand. "Sometimes people forget that going through the canal ... is not a free shortcut," said Anatol Feygin, an executive vice president at Cheniere Energy, the top U.S. LNG producer. But a recovery in Asian LNG demand, likely to continue next year, might require increased shipments through the canal. "We do think that growth in LNG demand will be driven by Asia," Feygin added.

Growing demand for electricity threatens China's climate targets

(Bloomberg; Oct. 29) - Surging Chinese power demand is raising doubts about whether the booming renewables sector can keep pace and what that means for targets to cap greenhouse gas emissions. China's coal plants are the largest contributors to global warming, and robust electricity use is prolonging their lifespan even as the nation adds record wind and solar power Thermal generation is up 1.9% through September from a year ago — although that would be higher without clean energy picking up the slack.

During the same period, electricity consumption increased 7.9%, the highest since the post-Covid manufacturing boom of 2021. That year, the rise in demand was matched by strong growth, but this time the electron feast comes as the country struggles with a gloomy economy. China is behind only Japan among major economies for electrification rates. Power accounted for 28% of its energy consumption in 2022, compared with 11% in 2000, as heating and transportation electrify. That puts more pressure on coal but is still good for the climate because it replaces less efficient fossil-fuel use.

The danger for the climate is new demand sources such as data centers and cooling. Manufacturing of air conditioners jumped 15% in China last year after record heat in 2022, while September's hot weather sent residential energy use surging. No one wants to deprive people of lifesaving cooling during more-frequent bouts of extreme heat. But if Chinese consumers keep guzzling electricity at this pace, it will mean the clean-energy revolution has even more work to do than previously believed.

Canadian drilling rig contractor hopes for uptick with LNG exports

(The Canadian Press; Oct. 30) - Canada's largest drilling rig contractor says it will be closely watching the start-up of this country's first liquefied natural gas export facility after being caught off guard by the dramatic increase in drilling following the opening of the Trans Mountain oil pipeline expansion. Precision Drilling often is a barometer for the overall health of the country's energy sector due to its position as a market leader in providing equipment and expertise to companies in the country's oil fields.

But CEO Kevin Neveu said even Precision itself was surprised by what he called the "near instantaneous" uptick in drilling in Western Canada that took place following the opening six months ago of the Trans Mountain oil line expansion. "We were surprised by how quickly customers responded to [new export] capacity with the Trans Mountain pipeline. I'd say the demand [for Precision's drilling rigs] was 10% to 15% higher than we expected resulting from that pipeline expansion," Neveu said on a conference call Oct. 30 to discuss the company's third-quarter financial results.

"We're watching anxiously to see how LNG Canada fires up," Neveu said. The massive Shell-led LNG Canada facility nearing completion near Kitimat, British Columbia, is expected to start operations by mid-2025. Industry insiders hope the facility — which will allow Canadian LNG to be shipped to Asian markets for the first time — will provide the same boost to natural gas drillers in Alberta and British Columbia that the Trans Mountain pipeline expansion gave to oil drillers.

U.K. boosts oil and gas taxes, but less than it had considered

(S&P Global; Sept. 30) – U.K. Chancellor Rachel Reeves on Oct. 30 confirmed a three percentage point hike in North Sea oil and gas taxation along with the removal of an investment allowance, but refrained from a more draconian hike amid industry warnings of a hit to investment and a risk of accelerating output decline. The chancellor in her first budget since the Labor Party took office confirmed the increase already announced in

July to the Energy Profits Levy, lifting the headline rate of tax for the North Sea industry to 78% and also removing an investment allowance that provided tax relief.

A "decarbonization allowance" is also being retained, though at a reduced level. The changes in the oil and gas tax regime take effect Nov. 1. The government previously described the allowances as overly generous "loopholes" and officials have noted the new headline rate is the same as Norway's.

Critics note U.K. oil and gas resources are more depleted than Norway's — and less attractive for investment — amid signs of reduced activity particularly east of the Shetland Islands. U.K. crude and natural gas liquids production fell by 11% year over year in the first half of 2024 to 653,000 barrels per day, according to government figures. Overall U.K oil and gas output is expected to fall by 10% annually in the near term, with a particularly pronounced decline for gas, according to an industry forecast.

CEO of BP says AI technology will drive demand for gas-fired power

(Bloomberg; Oct. 29) - A surge in energy demand from technology giants that are rapidly developing cloud computing and artificial intelligence — known as hyperscalers — is becoming a major boon for the fossil fuel industry. That's the view of Murray Auchincloss, CEO of BP, who sees the technology sector's hunger for reliable energy supplies driving natural gas demand growth in the U.S.

"Hyperscalers are driving crazy demand into gas right now," Auchincloss said on Oct. 29 during a presentation to investors. "I'm pretty optimistic on natural gas prices through the decade." The surge in energy demand from the technology sector in the U.S. is straining the electric grid, parts of which are struggling to provide enough supply. That's ignited a debate on whether the AI boom will be positive for the effort to combat climate change or stimulate further investment in the technologies that cause global warming.

So far, the U.S. has been in the lead when it comes to AI, but that demand boom will probably spread to other parts of the world, Auchincloss said. "We'll start to see the hyperscalers really start to move in the U.K. and Europe and other parts of the world a little bit later than the U.S.," he said. "If you want to remain competitive in AI, you'll have to do that. And I think everyone wants to maintain competition in the AI space."

Greenwashing case against Santos opens in Australia court

(Bloomberg; Oct. 28) - One of the world's first legal challenges over corporate "greenwashing" kicked off in an Australia court, with an activist shareholder group claiming gas producer Santos misled investors on its climate targets. The Australasian Centre for Corporate Responsibility said Oct. 28 in federal court that Santos breached laws with claims in 2020 and 2021 that it would reduce Scope 1 and 2 emissions by 30% by 2030, zero out those emissions by 2040, and that its gas is a “clean fuel.”

The Adelaide-based company, a major producer of liquefied natural gas for buyers in Asia, didn’t respond to an emailed request for comment. It denied the claims in court, according to the Australian Associated Press. The case highlights the controversy over the role of gas as nations seek to limit pollution to curb the effects of climate change. Gas producers have argued that the fuel emits just half the carbon dioxide of coal in electricity generation and is therefore vital in the transition to renewable energy, but critics argue that doesn’t account for factors such as methane leaks.

Santos has no “clear pathway” to achieve its emissions reduction goals and no “reasonable grounds” to set them, given its planned expansion of oil and gas projects, the plaintiffs’ lawyers said in court. “They are all targets, they’re not promises or predictions to achieve those outcomes,” the company said in its opening statement, according to the Australian Associated Press. The case will continue for several more weeks, with closing submissions due to be heard in mid-November.