Oil and Gas News Briefs
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IEA says 2020 could be worst year in history of oil markets

(Bloomberg; April 15) - Just days after OPEC and its allies announced their big deal to rescue the oil industry, it's becoming brutally clear that all they've done is limit the worst of the damage. The largest coordinated production cut in history is already withering in the face of a demand collapse unlike anything the world has ever seen. After a brief rally, crude has fallen back and everyone from the leaders of petro-states to the bosses of major oil companies is facing more financial pain from the coronavirus pandemic.

The International Energy Agency on April 15 laid out in detail the market's dire state. Oil demand is heading for the biggest annual collapse in history with global consumption slashed by as much as a third this month by widespread lockdowns aimed at containing the coronavirus. This summer the world may run out of space to store unwanted crude — a worst-case scenario for the oil industry that could push prices even lower.

"In a few years time, when we look back at 2020, we may well see that it was the worst year in the history of global oil markets," said IEA Executive Director Fatih Birol. The deal between the Organization of Petroleum Exporting Countries and its allies is helping the market, but the demand loss is so big that there is "no feasible agreement that could cut supply by enough" to offset it, the IEA said in its monthly report.

Industry producing $500 million of oil a day without buyers

(Wall Street Journal; April 14) - No one expected 2020 would unleash a worldwide oil-production cut led by the U.S., Saudi Arabia, and Russia. But since the new coronavirus hit, the world's thirst for oil has vanished, creating an unprecedented crisis for one of the planet's most powerful industries. With billions of people in lockdown to avoid the virus, crude oil demand has collapsed as people stop driving and airplanes are grounded.

There is too much gasoline and jet fuel on the market, so refineries are slowing their oil purchases. Oil storage facilities are filling up, and pipelines don't want producers to park their excess crude in the line. Producers have begun to shut in wells whose oil has nowhere to go. The industry has been producing more than $500 million a day of crude no one wants to buy. "The global oil industry is experiencing a shock like no other in its history," said Fatih Birol, executive director of the International Energy Agency.

Over the weekend a coalition of nearly two dozen of the world's largest oil-producing countries agreed to withhold 9.7 million barrels a day from markets, but it is unclear if this level of coordinated cuts is enough to erase the glut. Global demand for crude is normally around 100 million barrels a day. Estimates of the decline vary widely and change daily, but most put current demand at 65 million to 80 million barrels a day. "Since humans started using oil, we have never seen anything like this," said Saad Rahim, chief economist at Trafigura Group, a Singapore commodity-trading company.

U.S. could lose a third of oil-related jobs this year, analysts estimate

(Reuters; April 14) - Texas oil man Mike Shellman has kept his MCA Petroleum going for four decades, drilling wells through booms and busts and always selling his crude to U.S. refiners. But now the second-generation owner has abandoned drilling new wells this year and postponed maintenance amid a sharp drop in oil prices and brimming storage tanks. He is considering shutting down most of his output for the first time ever.

Oil fields from Texas and New Mexico to Oklahoma and North Dakota are going quiet as drilling halts and tens of thousands of oil workers lose their livelihood. "What scares me is not even being able to sell the product," the grizzled oil hand said from his firm's San Marcos, Texas, headquarters. Refiners and other buyers are warning they may refuse his oil once contracts expire this month, he said. Or they may offer to buy at a price below his costs, so he is preparing to dip into retirement savings to pay workers.

Up to 240,000 oil-related jobs will be lost across the U.S. this year, about a third of the onshore and offshore total, estimates consultancy Rystad Energy. "As soon as the virus hit and prices dropped, they sent everybody home," said Joel Rodriguez, administrator of La Salle County, home of Texas' second-most productive oil field. A Denver-based driller, Payzone Directional Services, said last month it will shut down. "We could have stayed open and run until the money was gone, but sometimes you just have to know when to cash in your chips and leave the table," said Payzone CEO Beth Thibodeaux.

Russia made a deal, but can they keep it

(Bloomberg commentary; April 14) - For Lukoil's billionaire shareholder, Leonid Fedun, Russia's decision to sign the OPEC+ deal to cut oil output was akin to signing the 1918 Treaty of Brest-Litovsk, which pulled Russia out of World War I. Both were humiliating, but necessary. The alternative was far worse. The real challenge lies ahead.

Back in early March, Russia, with its low-cost producers, had expected to ride out the misery of tumbling crude prices in an oversupplied world. Unable to extend an existing output reduction deal with its fellow oil exporters, it saw a chance to squeeze out those it saw as free riders: namely, U.S. shale producers that benefited from others' production restraint, only to flood the market with their own supply. In the end, though, the damage inflicted by the coronavirus lockdowns on oil demand was too great.

The geopolitical gains from participating in a solution — and the losses from hindering one — were too significant. Storage was running out. So Russia agreed to cut, but its concessions mean greater technical risks and future costs for its oil companies, which have had to become increasingly ingenious to keep mature fields alive. To hit its target for May and June, Russia will need to remove 2.8 million barrels a day from its reported March liquids production. It would take Russia back to levels last seen in 2003.

The difficulty isn't cutting back. Indeed, that's the easy bit. The trouble is that Russia's mature fields account for some 80 percent of its production, and they aren't easy to just turn off and on again. Cuts need to be made without hurting companies' ability to ramp back up at a reasonable cost. The question, then, is how Russia's commitment will be spread between producers, not all of them state controlled. Compliance will be tricky.

Russian oil producers need to decide where to cut to reach quota

(Reuters; April 15) - Russian oil companies are examining which wells they will cork, looking mainly at mature fields where production was falling anyway as Moscow needs to deliver its biggest output cut ever to comply with the new global supply deal, sources said. The Organization of the Petroleum Exporting Countries and other oil nations including Russia, the group known as OPEC+, agreed to their deepest oil cut ever — almost 10 million barrels per day — starting May 1 amid collapsing global demand.

Russia currently pumps 11.24 million barrels per day and needs to cut it to 8.5 million — its lowest since 2003 — according to the deal. It has never cut its output that deeply and quickly. Companies will need to pick assets carefully as freezing temperatures, notably in eastern Siberia and in the north, mean that if a well is stopped, the oil lines will freeze too. Some production may be lost forever. "Oil companies are calling nonstop … asking how and where cuts could be done," said a consultant who works with producers.

Russia's energy ministry, which was holding online meetings with oil companies, has yet to say how the cuts would be allocated. Companies will, however, look to target mature fields, where investments have been largely returned and where oil production was falling anyway, two sources at different oil companies said. "It would require more costs to restart greenfields," the first source said.

Price crash hits Russia hard; treasury may get less than $1 per barrel

(Bloomberg; April 15) - The Kremlin may have succeeded in ending its oil war with Saudi Arabia, yet the pain of crude's price crash is only just starting to hit Russia's budget. Next month the nation's coffers will get less than $1 for each exported barrel of oil, according to Bloomberg calculations based on the data from the Russian Finance Ministry. Revenues from the country's oil export duty in May is set to tumble by 87%, compared to April, reflecting crude's biggest crash in a generation.

Russia's oil-export duty is recalculated monthly, based on the average price for Urals, the nation's main export blend, over a mid-month to mid-month period. The system cushions the budget from any immediate impacts of low prices. Between March 15 and April 14, Urals crude averaged just over $19 a barrel, according to the Finance Ministry.

A separate oil production tax based on a monthly average Urals price is also declining sharply. While the level for April is yet to be determined, the March tax, based on the Urals price of $28.95, reached just $6.70 per barrel, Bloomberg calculations show. That is the lowest since January 2016. Some fields enjoy tax breaks, so the actual revenues per barrel are even lower. The record-low duty and tax rates are alarming for Russia, which gets about 40% of its total revenues from oil and gas and is facing billions in extra spending to cushion the economic effects of coronavirus lockdowns around the globe.

U.S. shale output to fall almost 380,000 barrels per day in April-May

(Reuters; April 13) - U.S. shale oil output is expected to drop by 194,000 barrels per day in April to about 8.7 million barrels, according to the U.S. Energy Information Administration, as producers slash drilling activity in the face of plunging oil prices. Shale production has been sliding for several months, but the declines are expected to accelerate as oil demand has fallen by roughly 30% worldwide due to the coronavirus pandemic. Numerous producers, including ExxonMobil and Chevron, have announced plans to rein in spending and are forecasting reduced output in coming months.

April's decline is forecast to be followed by a drop in May of an additional 183,000 barrels per day to 8.53 million, the lowest shale oil output since June 2019 and a sixth straight month of declines, the EIA said in its monthly forecast. Crude oil prices dropped by more than 65% in the first quarter as demand plummeted due to the coronavirus pandemic and oversupply due to a price war between Saudi Arabia and Russia.

Output at every shale formation is expected to fall in May with the largest drop forecast in the Permian, the biggest U.S. basin, the EIA said. Production in the Permian in Texas and New Mexico is expected to drop by 86,500 barrels per day in April and then by 76,000 in May to 4.51 million barrels, the lowest since September 2019. Overall U.S. oil production hit a record of 12.9 million barrels per day in November 2019. Of that, shale production was 9.1 million, also a record, according to U.S. Energy Department figures.

North Dakota producers curtail output by 260,000 barrels a day

(Grand Forks Herald; North Dakota; April 14) - Plummeting energy demand and a glut from a price war have forced operators in North Dakota's oil patch to curtail daily production by about 260,000 barrels of crude. At the beginning of March, North Dakota had more than 16,000 operating oil wells, a figure that was reduced by about 3,600 wells by the end of the month, Lynn Helms, director of the North Dakota Department of Mineral Resources, said April 14.

The number of wells since has decreased by about another 1,000, he said, as operators have taken advantage of regulatory flexibility to idle wells without permanently shutting them down, he said. "Industry is rapidly taking advantage of the regulatory relief offered," Helms said. The North Dakota Industrial Commission is granting waivers to allow inactive or non-completed wells to remain idle until prices recover without going through the costly process of closing wells.

As of February — before demand cratered from the coronavirus pandemic and before a price war between Russia and Saudi Arabia erupted — North Dakota was pumping 1.45 million barrels of crude a day according to state figures. Some companies are looking at building tank farms to store large quantities of oil for sale later when prices rebound, Helms said. One firm believes it could build a tank farm in four to six weeks, he said.

Texas producers battle over proposal for state to restrict output

(Bloomberg; April 14) - One of the biggest shale explorers in Texas warned it will halt all drilling if the state imposes OPEC-style production caps, raising the stakes in a debate over a contentious proposal to arrest free-falling oil prices. The stark pronouncement from Diamondback Energy stunned observers at the April 14 hearing of the Texas Railroad Commission, which oversees oil output in the state. At issue is whether the state should restrict crude output for the first time in roughly 50 years. No immediate decision was expected at the hearing.

The proposal has deeply divided an industry struggling with oversupply, escalating financial losses and the demand-killing COVID-19 outbreak. Diamondback Chief Financial Officer Kaes Van't Hof said the company is in the process of shutting down 30% of its drilling and would take it to zero if the state clamps down on production. Such a move would have dire consequences in lost jobs and disrupted families, he said.

Opponents of quotas insinuated that some drillers are supporting such restrictions for selfish reasons such as voiding contractual obligations. Enterprise Products Partners Co-CEO Jim Teague suggested that advocates of mandatory output cuts may be asking for a government order that would allow them to negate contracts. Marathon Oil's Lee Tillman voiced similar concerns. The hearing began with executives from the biggest pro-quota producers, Pioneer Natural Resources and Parsley Energy, urging regulators to cap production or risk deep and long-lasting damage to the industry and economy.

Montana/Wyoming crude price in single digits

(KTVQ TV; Billings, Montana; April 13) - It's been tough times in Montana's oil patch, as the industry has dealt with the COVID-19 pandemic and a collapse in crude prices. Alan Olson, executive director of the Montana Petroleum Association, said you only need to look at prices to see why optimism is hard to come by. "Southern Montana/northern Wyoming crude this morning was $8.54 per barrel," Olson said April 13. "You get into the Shelby/Cut Bank area, $14. One year ago in that same area it was $54 barrel."

Olson said the current downturn has already cost Montana hundreds of jobs. Producers are choosing to shut in their wells turning off the pumps, and that has Olson worried about small refineries. "How long are the refineries going to be able to hold out at their current rate of production if we're not moving fuel?" he said. "There are some projections that gasoline and diesel use could drop by as much as 30 percent. I wouldn't be surprised if we see some of the smaller refineries shutting down at that point."

Olson has been through the good and bad times in oil. "It hasn't been that long ago we saw $140/barrel crude oil. Hopefully, some people put some money in the bank at that time," he said. "It's not all that different than farming. It's a commodity market. You have to have a willing buyer, and right now we don't have a lot of willing buyers."

Middle East, North Africa oil exports could fall $230 billion this year

(S&P Global Platts; April 15) - Middle East and North Africa oil exporters are likely to lose more than $230 billion in crude revenue this year if oil prices persist at current levels, while their breakeven oil prices are set to soar amid higher government spending needs, the International Monetary Fund said in a report April 15. "Measured in real terms (adjusted for inflation), oil prices have not been this low since 2001," the IMF said in its regional economic outlook report on the Middle East and Central Asia.

The OPEC+-led output cuts announced April 12, "complemented by further production cuts by oil-exporting G20 economies, could provide some support to oil prices, particularly if global demand increases," the IMF said in the report. Even so, the IMF said the world is likely set for the worst recession this year since the Great Depression. The IMF assumes oil prices will average $35.61 per barrel in 2020 and $37.87 in 2021.

The oil price crash and coronavirus pandemic will become a strain on Middle East and North Africa budgets amid higher spending. This situation will lead to soaring fiscal breakeven crude prices that are needed to balance the budgets of regional oil exporters. "Notwithstanding some improvement over the past two years, breakeven oil prices (oil prices needed to balance the budget) are much higher than current oil prices … exceeding $80 in some countries (Algeria, Bahrain, Iran, and Oman)," the IMF said.

Countries may buy up more oil for storage to help boost prices

(Reuters; April 14) - An unprecedented deal by oil producers to curb supply to match demand hollowed out by the coronavirus pandemic is set to depend partly on purchases by consuming countries for their strategic stockpiles on a scale not before seen. Officials and sources indicated the International Energy Agency, the energy watchdog for the world’s industrialized nations, may announce purchases of millions of barrels to buoy the deal. The IEA requires its 30 members to hold strategic petroleum reserves (SPRs) of crude and refined products equivalent to at least 90 days of net imports.

However, the IEA has never before performed a coordinated purchase and has no effective mandate to do so, industry sources said. “When (U.S. Secretary of State) Henry Kissinger worked to establish the IEA, after the 1973 oil price shock, the goal was to help member states have a secure source of supply,” said Ann-Louise Hittle from Wood Mackenzie consultancy. “There isn’t a mandate that member nations must buy more for their storage when they are already at the required 90 days,” she said.

Saudi Arabia’s Energy Minister Prince Abdulaziz bin Salman said April 13 that oil purchases into SPRs would reach 200 million barrels over the next couple of months, citing the IEA, while three OPEC+ sources said stockpile purchases by IEA countries would reach around 3 million barrels per day in the next couple of months. UBS commodities analyst Giovanni Staunovo sees little incentive for developed nations to stock up beyond long-standing agreed levels, noting it would require additional funds at a time of far larger economic problems. “I am skeptical,” Staunovo said.

Pipeline operator wants to move coastal crude to Oklahoma storage

(Bloomberg; April 14) - In the latest sign that the oil market has gone off-kilter, crude oil is once again set to move from the U.S. Gulf Coast to Cushing, Oklahoma, reversing years of flows as storage along the coast fills up. Enterprise Interstate Crude, a subsidiary of Enterprise Products Partners, said in a filing to regulators April 13 that it planned to start a temporary service using leased pipeline capacity after receiving interest from at least one shipper to move oil inland to America's biggest storage hub.

Measures to stem the COVID-19 outbreak have cut U.S. gasoline demand by almost half. Gulf Coast refineries have been forced to cut output to a minimum just as a price war between Saudi Arabia and Russia flooded the world with oil. That makes Cushing, which can hold just over 76 million barrels of crude, an attractive spot to store the excess. The hub held 49.2 million barrels as of April 3, according to government data.

"The reversal, albeit likely short lived, will cause Cushing stock builds at a continuing blistering pace in May," Stephen Wolfe, head of crude oil at consultant Energy Aspects. "With any reversal into the hub, even if at low volumes, Cushing easily hits tank tops by early May," he said.

India expects to fill its crude reserves by May

(Reuters; April 14) - India plans to completely fill its strategic petroleum reserve (SPR) by the third week of May by adding about 19 million barrels to the sites, the managing director of the country's crude reserves said April 14. India is moving the oil to the SPR to help the country's refineries reduce their excess crude as the lockdown to contain the outbreak of COVID-19 has put a big dent in transportation and industrial fuel consumption in Asia's third-largest economy.

India this month will divert cargoes into the reserves that had been bought by several refiners, which cut their output after fuel demand collapsed and they are unable to store the excess oil themselves. "As of now the plan is to fill the caverns by (the third week of May), before the arrival of monsoon rains," H.P.S. Ahuja, managing director of the Indian Strategic Petroleum Reserves said. ISPRL is responsible for building and filling the country's SPR sites.

ISPRL wants to receive the cargoes before India's monsoon begins in May as the single-point mooring system that can unload very large crude carriers (VLCC) at the port of Mangalore, which will feed two SPR sites, is shut during the three-month rainy season. The SPR is divided between three locations in southern India and can store about 37 million barrels of oil, equivalent to about 9.5 days of India's oil demand. About half of the capacity is already filled.

Researcher says China should hedge against low oil prices

(Bloomberg; April 14) - A researcher at China's biggest oil company said the country's drillers should copy the hedging strategies of Mexico and U.S. shale firms, which use financial derivatives to protect against falling oil prices. Most of China's oil production is unhedged, leaving the stability of the sector exposed to global market fluctuations, said Dai Jiaquan, director of the oil market research department at China National Petroleum Corp.'s Economics & Technology Research Institute.

Chinese firms should use derivatives to ensure stable returns, Dai said in an interview published in CNPC-owned China Petroleum Daily. Oil prices are down by about half so far this year, straining the finances of China's state oil firms. Despite the billions of dollars they pour into old, high-cost fields each year to keep China's reliance on overseas oil in check, the country still has grown to become the world's largest importer.

But the use of hedging by Chinese firms came under government scrutiny after Sinopec suffered a loss of nearly $700 million in 2018, which it blamed on "inappropriate hedging techniques" and "misjudgment" of oil prices. Regulators have since tightened rules on hedging and reiterated that trading should be purely for the purpose of hedging, not speculation. Mexico's hedging program, which includes using put options to set a price floor, has shielded it in every oil downturn the past 20 years. It costs about $1 billion a year in fees, though Mexico can profit when prices fall below the hedging bet.

Federal judge cancels Army Corps permit for Keystone XL line

(The Associated Press; April 15) - A U.S. judge canceled a key permit April 15 for the Keystone XL oil pipeline that's expected to stretch from the Canadian oil sands to Nebraska, another setback for the disputed project that got underway fewer than two weeks ago following years of delays. Judge Brian Morris said the U.S. Army Corps of Engineers failed to adequately consider effects on endangered species such as pallid sturgeon, a massive, dinosaur-like fish that lives in rivers the pipeline would cross.

The ruling, however, does not shut down construction work that has begun at the U.S.-Canada border crossing in Montana, according to attorneys in the case. Pipeline developer TC Energy will need the Army Corps permit for future construction across hundreds of rivers and streams along Keystone's 1,200-mile route. "It creates another significant hurdle for the project," said Anthony Swift with the Natural Resources Defense Council, one of the groups that challenged the permit.

"Regardless of whether they have the cross-border segment ... Keystone XL has basically lost all of its Clean Water Act permits for water crossings," Swift said. TC Energy said it was reviewing the ruling but remained "committed to building this important energy infrastructure project." The Keystone authorization came under a so-called nationwide permit issued by the Army Corps in 2017, essentially giving blanket approval to pipeline or similar utility projects with minimal effects on waterways.

Buyer of proposed Louisiana LNG developer loses financing

(Houston Chronicle; April 14) - A $75 million bid to buy Australia-based LNG Ltd. has been put on hold because the Singapore company behind the deal failed to get financing to take over the developer of a liquefied natural gas export terminal proposed for the Louisiana coast. New York-based First Wall Street Capital would not provide funding for the deal, LNG Ltd. said April 13, adding that the Singapore company will continue to seek backing to complete the deal.

Meanwhile, seeking other sources of working capital, a Houston-based subsidiary of LNG Ltd. received Paycheck Protection Program funding of $388,552 from the U.S. Small Business Administration. LNG Ltd. holds federal authorization to build the $4.4 billion Magnolia LNG export terminal at 8 million tonnes per year. The developer, however, has only one tentative deal to take 25% of the plant's production and has delayed an investment decision until lining up more sales contracts and partners.

LNG Ltd. urged shareholders Feb. 28 to accept a buyout from the Singapore investor in a bid to save Magnolia LNG. The deal followed the developer's warning that it must immediately raise cash to continue operating. Shares of LNG Ltd. have tumbled to a record low 5 cents Australian.

First U.S. LNG cargo in a year due in China April 19

(S&P Global Platts; April; 13) - The first shipment of U.S. LNG to China in more than a year could arrive this weekend, S&P Global Platts trade flow software cFlow showed. The approaching milestone follows Beijing’s decision to grant tariff exemptions on U.S. LNG. At least six tankers loaded at U.S. Gulf Coast export terminals in March and early April are on their way to China, according to cFlow and market sources.

Even amid weak prices in end-user markets and depressed demand due to the coronavirus pandemic, utilization at the six major U.S. liquefaction terminals remains robust with almost 9 billion cubic feet of feed gas flowing to the facilities on April 13, S&P Global Platts Analytics data showed. The resumption of Chinese deliveries will help — no U.S. LNG has been delivered to China since March 2019 amid tariffs of 25% that Beijing imposed on U.S. gas in retaliation for U.S. duties on Chinese goods.

The BP-chartered Maran Gas Vergina, which loaded at Freeport LNG in Texas, was scheduled to arrive in China on April 19, according to a market source. Right behind it, the RWE-chartered Palu LNG that loaded at Cheniere Energy's Corpus Christi terminal in Texas was expected April 22, cFlow showed. But how much China can absorb and how much sellers can afford to deliver are questions for market participants. The Japan Korea Marker for North Asia spot prices was a record low $2.35 per million Btu April 13.

Western Canada gas liquids producers have price troubles, too

(Business in Vancouver; April 14) - The biggest concern for natural gas producers in British Columbia isn't necessarily the impact of COVID-19 and low prices on their natural gas. A bigger concern is the effect on natural gas liquids such as propane and condensate, otherwise known as wet gas, which carry a higher value than dry gas. The Montney shale formation in northeastern B.C. and western Alberta is liquids rich. Many of the operators there focus mainly on liquids with gas being something of a byproduct.

The biggest concern for companies focused on natural gas liquids is the falling demand for propane in Asia, and the impact of low oil prices on condensate. A new propane export terminal that AltaGas built in Prince Rupert has given producers access to the Asian market. But demand in Asia has fallen due to the general contraction of economic activity in response to the COVID-19 pandemic. "Unfortunately, the Far East prices have collapsed so badly that new export market doesn't look very attractive," said Darren Gee, president of Peyto Exploration & Development, which works in Alberta.

Gas liquids prices are directly affected by oil prices, which have fallen by more than half this year. "It's the one product that we produce a lot of … but we really have no storage capability, so any interruptions to demand put us in a real pickle," Gee said.

Coronavirus cases linked to Total's Mozambique gas project

(Bloomberg; April 14) - Two-thirds of Mozambique's 28 confirmed cases of the coronavirus are linked to the work site of Total's $23 billion natural gas project, which has been put under quarantine. The government said April 13 that seven new cases are all connected to the project. That adds to the first person to test positive at the site, known as "patient number 10," who transmitted the disease to at least 10 others, according to the health ministry. Contact tracing and testing is ongoing.

Total has "business continuity plans in place to ensure the impact to the project of an event like this is mitigated as much as possible," it said in a statement. "We are focused on critical activity including security, logistics and forward planning." The spread of the virus may be another setback for the liquefied natural gas export project, following an increase in the scale and frequency of attacks by insurgents linked to Islamic State in the Cabo Delgado province in recent weeks. Total made a final investment decision on the development last year with production scheduled to start in 2024.

Separately, ExxonMobil last week said it will delay a final investment decision for its $30 billion Rovuma liquefied natural gas project next to Total's development in the East African nation. Total's project is designed for 12.9 million tonnes annual capacity with the Exxon-led venture targeting 15.2 million tonnes a year of LNG.