Oil and Gas News Briefs
Compiled by Larry Persily
July 27, 2020

Next move in oil prices could be down, not up

(Bloomberg opinion; July 25) - Oil's recovery is being hit from both sides. Benchmark Brent crude prices have risen by 128% from their April low, holding above $40 a barrel since mid-June. But rising supply and faltering demand bode ill for those who want prices to keep climbing. The OPEC+ group, which has implemented unprecedented output cuts since May, will soon begin to relax their restraint, adding more crude to a market that is also seeing the first signs of recovery in North American production.

But it's not just rising supply that will put pressure on prices. The recovery in oil demand is running into trouble as well. After a record purchasing spree in April, when prices were at rock bottom, China's oil buying has eased off. The amount of oil held in storage tanks in Shandong province, home to the country's independent refiners, is close to hitting a five-month high. And there is still a huge backlog of vessels waiting off the coast to discharge their cargoes — some have been there for two months.

In the U.S., the crucial summer driving season is shaping up to be a miserable one as far as fuel consumption is concerned. In addition, the recovery in air travel has come to a halt. All of these figures paint a picture of crude being squeezed between rising supply and a stagnating demand recovery. That's going to make the oil bulls uncomfortable, since the next major move in prices looks more likely to be down than up.

Schlumberger will cut 21,000 jobs, about 20% of workforce

(The Wall Street Journal; July 24) – Schlumberger, the world's largest oil-field services company, is cutting about 21,000 jobs as oil producers slash spending in response to a historic drop in prices amid the coronavirus pandemic. Schlumberger said July 24 that it recorded $3.7 billion in impairment charges in the second quarter, including about $1 billion related to the job cuts, which represent one-fifth of its workforce. "This has probably been the most challenging quarter in past decades," CEO Olivier Le Peuch said. Revenue fell sharply with the unprecedented fall in oil activity in North America.

Schlumberger's sweeping reduction is the latest example of how companies are having to sharply tighten their belts and cut staff as demand for their products and services plummets due to the pandemic. The oil price crash prompted U.S. oil companies to sharply cut capital spending on drilling and fracking new wells, the lifeblood of oil-field service companies such as Schlumberger and rivals Halliburton and Baker Hughes.

Schlumberger's Le Peuch said the company has accelerated a plan to restructure its North American business, shutting down scores of facilities in a move to position itself "for a market of smaller scale and lower growth outlook, but with higher returns." Schlumberger said it employed approximately 85,000 people as of the end of the second quarter. It had said in the first quarter it employed about 103,000. Halliburton has also cut thousands of jobs, reporting July 20 it had more than 40,000 employees as of the end of the second quarter, down from about 55,000 at the end of 2019.

China moves to single pipeline company to boost exploration

(Bloomberg; July 24) - Chinese President Xi Jinping has a plan to help meet the country's growing energy needs and clear its dirty air: Spin off the tens of thousands of miles of pipelines held by three state-owned oil and gas giants and merge them into one new company. The company's launch was officially announced in December. The resulting firm, called PipeChina, will aim to attract private investors to help expand the $70 billion network and diversify energy supply.

The overhaul will radically reshape China's energy sector, although it still leaves control in a single pair of hands. Almost all developed markets separate oil and gas production from transport to promote a fair playing field and encourage new entrants in the market. An independent company also would be more likely, in theory, to decide on new routes based on national need rather than what serves an individual producer. More broadly, it's part of Xi's strategy to enhance energy security by encouraging domestic exploration and multiple sources of supply by ensuring open access to pipeline transport.

China imports about 70% of its crude and half its gas, and Xi wants to produce more at home. He also wants more private capital to get involved in exploration, since the Big Three producers — PetroChina, Sinopec, and China National Offshore Oil Corp. — haven't moved fast enough to meet growing demand. Currently, pipeline access can be blocked or is prohibitively expensive for smaller private or foreign firms. Taking the lines out of the hands of the Big Three is seen as necessary to attract outside investors.

PipeChina agrees to pay $55.9 billion for PetroChina, Sinopec assets

(Bloomberg; July 24) - China took a major step in the reform of its national oil and gas pipeline network, with newly formed PipeChina agreeing to buy pipelines and storage facilities valued at 391.4 billion yuan ($55.9 billion). Under the deal, PipeChina, known formally as China Oil and Gas Pipeline Network, will take over oil and gas pipelines and storage facilities from state-owned energy giants PetroChina and Sinopec in return for cash and equity in the pipeline company.

The creation of PipeChina is aimed at providing neutral access to the country's pipeline infrastructure, much of which is owned by PetroChina, in a bid to help small and non-state-owned companies and encourage investment in the sector. Investment banks Morgan Stanley and Goldman Sachs had been tapped to act as advisers in the transfer of pipeline assets, which analysts had previously valued at more than $40 billion. The government aims to have PipeChina operating by the end of September.

The new company will take on the pipelines, storage facilities, and natural gas receiving terminals operated by behemoths China National Petroleum Corp. (PetroChina), China Petroleum and Chemical Corp. (Sinopec), and China National Offshore Oil Corp. (CNOOC). After the deals, expected to be completed before Sept. 30, PetroChina and Sinopec will hold 29.9% and 14%, respectively, of PipeChina.

Norway's Equinor profits from storing crude for sale later

(Bloomberg; July 24) - In March and April, as oil prices plunged to their lowest in a generation, Norwegian energy giant Equinor was busy doing the opposite of what oil companies usually do: pumping as much crude as possible underground into giant caverns on the North Sea coast. Equinor also filled oil tankers with crude, turning them into floating storage facilities, and put even more barrels into onshore tanks elsewhere. Its traders were trying to soften the blow of rock-bottom prices by buying cheap crude, storing it, and simultaneously selling it on the forward market at higher prices.

The trade, known in industry jargon as a contango play, combined with other oil trading activity delivered a record of about $1 billion in pre-tax adjusted earnings in a single quarter. And the Norwegian oil company wasn't alone: It's a pattern likely to be repeated throughout the industry from oil majors such as Shell to independent commodity trading houses like Glencore. The price difference between a Brent contract for immediate delivery and the six-month forward contract plunged to a record of nearly $14 a barrel in early April, surpassing the contango witnessed during the 2008-09 financial crisis.

The key to the contango play is access to a place to park millions of barrels of crude, perhaps for as long as a year. And Equinor had plenty. "We have storage at Mongstad," Eldar Saetre, the company's boss, said, referring to the underground caverns able to hold almost 9.5 million barrels of crude under the country's West Coast. "And we have storage capacity that we rent in Korea, we've done that for many years, and some other storages here and there," he said. As onshore storage ran out, oil companies turned to tankers. "We have a lot of floating storage for this purpose," Saetre said.

Tankers carrying 120 million barrels wait to offload in China

(Reuters; July 23) – Congestion at China's East Coast oil ports that is adding to costs for shippers and importers is likely to run well into August, with oil shipments set to hit another record high this month, according to analysts and Refinitiv data. The massive inflows are straining facilities, while refiners and port operators in Shandong province — home to a quarter of China's refining capacity — are rushing to build new storage tanks.

July seaborne arrivals into the world's biggest oil importer are expected to surge to 14.4 million barrels per day, Refinitiv analyst Emma Li said, well above record imports of 12.9 million in June. China waded into oil markets in April when prices collapsed to multi-decade lows, snapping up cargoes for delivery in the coming months. As of July 23, about 120 million barrels of crude were waiting off Chinese ports to discharge, up from around 80 million barrels in early July, Refinitiv data showed.

China's commercial crude inventories had already grown to 1.12 billion barrels by the end of June, said SIA Energy analyst Seng Yick Tee, enough oil to operate China's refineries at 2019 levels for nearly three months. Port officials and analysts estimate the pile-up could extend well into August or even September if traders transfer oil stored on floating tankers to onshore facilities. It could take up to two months to fully discharge floating storage of about 70 million to 80 million barrels, said FGE analyst Jiyao Chen.

Russian central bank opposes oil hedging

(Reuters; July 24) - The Russian central bank opposes the idea of using money from the National Wealth Fund (NWF) to hedge against fluctuations in prices for oil, Russia's main export and source of revenue, Bank Gov. Elvira Nabiullina told a news conference on July 24. The Kremlin said this week that President Vladimir Putin had ordered officials to again study the idea of hedging, which Russia — the world's second-biggest oil exporter after Saudi Arabia — has looked at in the past but never implemented.

Interfax news agency, citing a source, said Putin's aide Maxim Oreshkin, a former economy minister, had proposed using part of Russia's $173.5 billion sovereign wealth fund to pay for hedges. The cash cushion was built up using oil revenues received by the state. Nabiullina said she was not familiar with the specific proposal, due to be delivered to Putin by July 30. She said, however, that she was opposed to emulating Mexico's hedging policy or touching the wealth fund for such operations.

Mexico's oil hedge is the world's largest and has been a fiscal policy pillar for more than two decades. It ensures Mexico, which exports much less crude than Russia, can sell oil at a predetermined price, guaranteeing a portion of revenues crucial for the state budget no matter what happens in the global market. "We have big doubts that hedging markets would allow this operation to happen or it will be very expensive ... This is not

the best way to spend the NWF," Nabiullina said. Russia's existing rule, which redirects oil revenues to the fund if oil is above $42 per barrel, works well, the bank chief added.

Without new drilling, U.S. shale output is unsustainable

(Reuters; July 22) - A reopening of several major economies locked down due to the coronavirus has lifted global oil prices and encouraged U.S. shale producers to return at least a third of the 2 million barrels per day of output curtailed since April. But that bump is unlikely to be sustained as shale wells lose up to half their initial output after the first year, and require constant drilling to maintain and increase production.

With most new drilling halted and OPEC relaxing its production curtailments that have underpinned the oil-price recovery, U.S. shale output will slide again in autumn, said oil executives and analysts. Shale output falls off faster than at conventional wells, a factor that will lead to output declining by September. The decline means further economic damage from an industry that contributed nearly 1 percentage point to U.S. GDP early last decade. U.S. pipeline and oil export terminal projects have been delayed or canceled as shale production forecasts have been cut.

"You shut down like this, reduce activity like this, and it is going to be felt for a while," said David Dell'Osso, chief operating officer of shale producer Parsley Energy. This year's oil-price collapse led the 25 largest public U.S. producers to cut capital spending by 47%, and idle more than 75% of drilling rigs since last year, according to data firm Enverus. As rig counts fall to all-time lows, a return to record levels of output is likely to take years due to the sharp, natural decline rates of shale wells. Some analysts call it the treadmill effect — producers must keep drilling just to remain in place.

Banks cut back on loans to U.S. shale producers

(Bloomberg; July 23) - One of the key sources of funding for U.S. shale production is evaporating, just as the sector needs it more than ever. Banks lending against oil and gas reserves of hundreds of independent U.S. drilling companies have pulled back from the sector at an unprecedented rate this year after energy prices slumped. There's every indication they're not done: Many in the industry expect further reductions to credit facilities in the fall, with higher costs and more stringent protections for lenders.

All that comes at a time that could scarcely be more challenging for shale producers. Weakened by poor returns to shareholders, they were getting shut out of the bond and equity markets even before the COVID-19 pandemic decimated global oil demand. With crude prices staging a limited recovery in the past two months to around $40 a barrel, shale operators face an uncertain future, one where they must drill to generate cash flow while facing a higher cost of capital.

“As long as oil prices stay at $40 or less and gas stays at $2 or less, I think banks are going to continue to be very cautious and continue to pull back,” said Spencer Cutter, an analyst at Bloomberg Intelligence. Shale lending doesn’t just involve behemoths like JPMorgan Chase and Wells Fargo but smaller regional entities. Banks slashed many loans this spring after looking at low prices. According to S&P Global Ratings, borrowing bases, which are determined by the collateral value of oil and gas reserves, were reduced by an average of 23%. Credit commitments were lowered by 15% on average.

Dakota oil line supporters file in court to oppose shutdown order

(Bemidji Pioneer; Minnesota; July 25) - A wave of interest groups is rushing to the aid of the Dakota Access Pipeline, which is appealing a federal court order to close down next month. Fourteen briefs were filed in court in support of the line, coming from energy and agriculture groups and state governments, arguing for continued operation of the controversial pipeline through the long appeals process. The pipeline owner has been fighting over the project for years with environmentalists and Native American tribes.

The American Petroleum Institute, the Association of Oil Pipelines and American Fuel & Petrochemical Manufacturers filed arguments in favor of continued operation of the 1,172-mile line, which runs to a connection point in Illinois. North Dakota's Western Dakota Energy Association also filed a brief before a federal appeals court, arguing that the judge erred this month in calling for a new environmental review of the line. The pipeline has also found allies in oil-producing and oil-friendly states across the country.

A list of 18 states filed a joint amicus brief earlier this month, including the governments of Wyoming, South Dakota, Montana, Louisiana, and Texas. Among other arguments, the states wrote that a major shift from pipeline transport to rail transport required by the pipeline closure would displace rail cars needed for agricultural transportation in other parts of the country. The state of North Dakota was quick to file its own brief, too, arguing that a shutdown would inflict "immediate and irreparable harm" on the economy.

Sempra expects FID this year on Mexico’s Pacific Coast LNG project

(S&P Global Platts; July 23) - IEnova, the Mexican unit of California-based Sempra Energy, is confident it will secure a key government permit this year to make a final investment decision on its planned Energia Costa Azul LNG liquefaction project on Mexico's Baja California Pacific Coast, the company said July 23. The firm is working closely with authorities as they evaluate the merits of the permit, executives said during the company's second-quarter 2020 earnings conference call.

"We are quite confident that we are going to get it before the year ends," said Carlos Ruiz Sacristan, chairman of the board. IEnova had expected to reach an FID for Energia Costa Azul in the first quarter of the year, but the coronavirus pandemic caused government offices to shut down and halt all permit processing. The gas will most likely end up in Asia and Europe. The route to Asia from the Pacific Coast is shorter than from the U.S. Gulf Coast, and avoids Panama Canal congestion and fees.

IEnova is also making progress on other requirements for reaching FID this year. It has executed sale-and-purchase agreements with Total and Mitsui that together with the import permit are the key to reaching FID. The first phase of development would produce 2.4 million tonnes per year of LNG. Ruiz Sacristan said one of the off-takers had expressed interest in taking equity in the project, without providing details. The project would add a liquefaction plant at the site of an existing LNG import terminal.

U.S. steps in front of China to provide financing for Mozambique LNG

(Bloomberg; July 23) - The Export-Import Bank of the U.S. opened a new front in the trade war between America and China with its biggest loan yet in sub-Saharan Africa, as it plans to compete more aggressively on the continent. The lender has provided $4.7 billion to fund the Mozambique LNG project — the largest share of about $15 billion raised for the venture led by French major Total. The project will employ U.S. businesses that have been awarded contracts worth billions to help build the facility.

The deal helped secure U.S. jobs and displaced earlier financing efforts by China and Russia, according to Stephen Renna, the Exim Bank's chief banking officer. "China is our competitor and one that we want to compete with to win," he said. "We do have a mandate from Congress to emphasize what we can do in sub-Saharan Africa, so we're clearly open for business there." Over the past decade, the Exim Bank has authorized about $12.4 billion for U.S. exports to sub-Saharan Africa, the lender said in February.

Exim became fully functional again after being reauthorized in December with the mandate to offer loans that rival rates and terms offered by China. At least $27 billion of the agency's total financing has been directed toward this purpose. The bank's board quorum was also re-established in May last year after more than three years during which it was unable to approve transactions greater than $10 million.

ConocoPhillips spends $375 million to add Canadian acreage

(Natural Gas Intelligence; July 23) - ConocoPhillips is nearly doubling its leasehold and adding substantial production in Western Canada's natural gas-rich Montney Shale following a $375 million bolt-on purchase from Calgary-based Kelt Exploration. The transaction in northeastern British Columbia announced July 22 would add 140,000 net

acres and an estimated 15,000 barrels of oil equivalent of daily output in a liquids-rich zone known as Inga-Fireweed.

ConocoPhillips would assume 100% control of the parcel, and it would give the Houston-based independent 295,000 net acres total in the play. Completion of the transaction is expected by the end of September. "We have tracked and analyzed this adjacent acreage position for a long time," said Matt Fox, chief operating officer. "It represents a high-value extension of our existing Montney position," he said.

"We view the Montney as a very attractive long-term asset," Fox said. The deal is estimated to provide liquids and gas reserves of more than 1 billion barrels of oil equivalent, which could be developed at oil price per barrel in the mid-$30s West Texas Intermediate, according to ConocoPhillips. The acquisition cost was estimated at about $2 per barrel of oil equivalent. The Montney is considered paramount to supplying gas to the Shell -led LNG Canada project under construction on the British Columbia coast.

India will cancel bids to buy LNG on 10-year contract

(Reuters; July 23) - India's top gas importer Petronet LNG is set to cancel its offer to buy 1 million tonnes of liquefied natural gas per year for 10 years, two sources said, as signing long-term contracts are not attractive in the current market. India is scouting for cheap gas for price-sensitive consumers as Prime Minister Narendra Modi wants to raise the share of natural gas in the national energy mix to 15% by 2030 from the current 6.2% to reduce pollution.

Earlier this year, Petronet invited bids to buy LNG with pricing linked to Henry Hub natural gas futures in the United States and Dutch gas futures. "This month, an internal committee decided to cancel the tender," said one of two sources familiar with the matter who both confirmed the plan to end the tender. "Long-term deals don't make sense in current scenario," the source added. Gas importer GAIL (India) already is struggling to sell its costly LNG sourced under long-term deals with U.S. companies.

Asian spot LNG prices have been languishing near record lows first reached in May due to new supply entering the market from the United States and the coronavirus pandemic slamming gas demand globally. Current spot market prices of under $2.50 per million Btu are almost half the cost of traditional oil-price-linked term contract prices — though that could spread could change if supplies tighten and push up the spot market.

Novatek ships first Yamal LNG cargo to Japan via Northern Sea Route

(S&P Global Platts; July 24) - Russian gas producer Novatek said July 24 it had shipped its first cargo from the Yamal LNG Arctic project to Japan eastbound through the

Northern Sea Route, giving the company further scope to increase its sales to Japan. The sea route is closed to eastbound shipping for about half the year due to ice, but cargoes can be shipped eastward during the summer and autumn, significantly reducing the time it takes for deliveries from Yamal LNG to reach northeast Asian markets.

This year the Northern Sea Route was opened up much earlier than in previous years, with the first cargo sent to China on May 18, more than a month earlier than the first shipment in 2019. The first ever cargo delivered via the eastbound route to Japan was delivered aboard the ice-class Vladimir Rusanov under a spot contract and unloaded at the Ohgishima LNG Terminal, Novatek said. Yamal LNG started service in 2017. Novatek and partners are building a second project nearby, Arctic LNG-2.

Novatek is developing a transshipment terminal in Kamchatka in the Russian Far East to enable offloading of LNG cargoes from the expensive, specialized ice-class carriers to traditional, lower-cost LNG tankers. The company said the transshipment operation would "significantly expand our opportunities to cost-competitively deliver and supply LNG to the entire Asia-Pacific region." About 15 Arc7 ice-class carriers are in operation shuttling back and forth from the Yamal LNG plant.

Sinopec reportedly seeking 10-year LNG supply contract

(Reuters; July 23) - China's Sinopec is seeking liquefied natural gas supplies for delivery over a 10-year period to take advantage of the current low prices as global demand for the fuel has fallen because of the coronavirus pandemic. Sinopec is seeking 1 million tonnes of LNG a year starting from 2023, said six industry sources. Sinopec declined to comment.

The firm is seeking long-term LNG at a time when prices for both long-term contracts and spot cargoes are low, a source said. Asian spot LNG prices, which buyers are increasingly using as a gauge to negotiate their long-term contracts, are hovering near record lows of around $2 per million Btu. Prices of long-term contracts that are typically priced on Brent oil are also being negotiated at lower levels.

"Expectations for long-term demand are still bullish, so it's a good time to buy long-term cargoes," another of the sources, based in Beijing said, declining to be named as he was not authorized to speak with the news media. "It's the lowest price range now and so it is a good time to discuss long-term deals." Sinopec is also looking for volumes from the United States as part of the tender requirement, a fourth source said.

LNG spot prices inch up to $2.40, but gains will be limited

(Reuters commentary; July 22) - There are some tentative signs that demand and spot prices for liquefied natural gas are starting to recover in the top-consuming Asian region. The spot price for delivery to Northeast Asia climbed to $2.40 per million Btu in the week to July 17, putting it 30% above the record low of $1.85 in the week to May 29. While that percentage rise may seem impressive, it's worth noting that the price remains at historically depressed levels, at about half the price that prevailed a year ago.

Warmer weather across North Asia prompting more use of air conditioners and a gradual recovery from the economic hit caused by lockdowns to combat the spread of COVID-19 are expected to increase LNG import demand in July and August. But the positive news comes with caveats for producers. The first is that the small recovery in demand won't be enough to offset the surplus in supply, and there will still be too many spare cargoes looking for a home. Both will hold down any gain in spot prices.

U.S. producers are likely to bear the brunt of any adjustment to reduce supplies, as can be seen by the rate of cargo cancellations. About 40 to 50 cancellations of U.S. LNG shipments were reported for July and August. This is likely to drop to around 25 or 26 cancellations by September, some sources said. However, the fact that U.S. cargoes are still being cancelled underlines that the global LNG market remains oversupplied, and this will limit the extent of gains in the spot price.

New Mexico proposes new rules to cut oil and gas industry emissions

(Reuters; July 21) - New Mexico this week proposed rules that would require its oil and gas industry to capture at least 98% of emissions of the powerful greenhouse gas methane by 2026, a standard it said would be among the strongest in the nation. The proposal, announced by state officials on July 20 after consultations with industry, would affect drillers in New Mexico's portion of the Permian Basin where oil and gas production has surged in recent years.

"The draft rules lay out an achievable but ambitious timeline and leaves room for innovation in the oil and gas industry," said New Mexico Oil Conservation Division Director Adrienne Sandoval. Other states have also implemented plans to cut methane emissions, including Colorado and Pennsylvania. The Trump administration, meanwhile, has reversed Obama-era regulations seeking to cut emissions, calling them unnecessary and harmful to development. New Mexico is seeking public comment on the proposal before finalizing the new rules.

Egypt doesn’t need as much gas, reduces deliveries from Israel

(S&P Global Platts; July 23) - Gas supply to Egypt from the Tamar and Leviathan fields offshore Israel is expected to be at minimum take-or-pay levels in 2020 and 2021, according to project partner Delek Drilling. Gas demand in Egypt has been weakened by the coronavirus pandemic, with the North African country already producing more of its own gas than it can consume.

Israeli company Delek is a partner at both Tamar and Leviathan — which are operated by U.S.-based Noble Energy — from which gas started to flow to Egypt this year under an agreement with Egyptian buyer Dolphinus Holdings. Delek said July 22 that the contractual quantities sold from Tamar to Egypt would be "reduced down to the minimum mandated under the agreement" in 2020 and 2021. Under the agreement, Dolphinus can reduce the take-or-pay quantity to 50% under certain conditions.

Noble and its partners signed a supply deal with Dolphinus in February 2018 for a total of 2.26 trillion cubic feet of gas from Leviathan and Tamar over a 10-year period. The contracts were extended last October to 15 years and total volumes contracted raised to 3 tcf with Leviathan gas making up more of the share of the supply between the two fields. Israeli gas is piped to Egypt.

Coronavirus delays push back Norwegian offshore start-up to 2023

(S&P Global Platts; July 24) - Norway's Equinor expects the start-up of its flagship Barents Sea oil project, Johan Castberg, will be delayed into 2023 as the coronavirus pandemic holds up work across the construction yards involved, it said July 24. The project, entailing construction work in Norway and Singapore, is the poster child for the Norwegian industry's somewhat faltering expansion in the Barents Sea. It is expected to produce 205,000 barrels per day at peak with the oil loaded directly onto tankers.

It had been due on stream in the fourth-quarter 2022, but this is no longer likely, Equinor said. "The COVID-19 situation continues to affect progress at Johan Castberg with limited activities at the yards. This is expected to shift the production start to 2023," Equinor said. Norway's only producing oil field in the Barents Sea is Goliat, operated by Var Energi, a subsidiary of Italy's Eni. That field has produced well below expectations since it came on stream in 2016, averaging 41,000 barrels per day last year, and has been accompanied by numerous technical and safety-related issues.