Oil and Gas News Briefs
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Goldman Sachs forecasts pullback in oil prices

(Bloomberg; June 8) - Oil fell back after the OPEC+ weekend deal to extend its supply curbs, with prices sliding on Saudi Arabia's decision to end additional reductions in its own output. Market futures slid 3.4% on June 8, just over a day after Saudi Arabia and Russia led OPEC and its allies in a one-month extension of record oil production cuts. Adding to the price slip, Libyan oil is making its way to the market for the first time since January as the country's conflict-ravaged output limps toward a revival.

Meanwhile, the outlook for demand is still gloomy. The OPEC+ agreement is already more than priced in, and consumption forecasts are "running ahead of a more gradual and still highly uncertain recovery," according to Goldman Sachs. "With OPEC's latest cut already more than priced in, we now forecast a pullback in prices in coming weeks," Damien Courvalin, an analyst at Goldman Sachs, said in a note to clients. Brent could slump to $35 a barrel in the short-term, the report said. It closed June 8 around $40.

"The nature of the OPEC+ deal is not the golden bullet solution that it is advertised to be," said Robert Yawger, director of the futures division at Mizuho Securities in a June 8 note to clients. The OPEC+ agreement calls for cheaters to cut by levels above and beyond their agreed production number to compensate for earlier levels of cheating. "That will never happen," Yawger said, adding that Iraq would have to cut 80% above their quota agreement to compensate.

Saudi pressure to stop production cheating focused on four countries

(Bloomberg commentary; June 7) - Saudi Arabia called out the cheats when OPEC met June 6 — the ones that hadn't fully reduced output in May as agreed — and extracted promises that they would compensate with even deeper reductions in the third quarter. Saudi Arabia was done turning a blind eye to the cheats, and spent a week threatening and cajoling them. Four countries, in particular, were held to account for falling short of their commitments to cut back on production — Iraq, Nigeria, Angola, and Kazakhstan.

Iraq and Nigeria have long histories of failing to make promised cuts under previous OPEC+ agreements. Iraq especially angered the Saudis by admitting that, not only had it failed to meet its obligations in May, but it wouldn't be able to get output down to its target level until the end of July. Nigeria had insisted that its production numbers were reported incorrectly by the secondary sources that OPEC relies on to monitor production, but its oil minister eventually admitted in an Instagram post that the country had cut production by 216,000 barrels a day — 52% of the reduction it had promised.

All four countries eventually agreed to the principle of making additional compensatory output cuts in the coming months. The real tests will be whether they do, and how Saudi Arabia reacts if they don't. Iraq, in particular, will find it difficult to meet its numbers. In fact, I don't see any way that it can meet its obligations by the end of September. Iraq would have to reduce output in August and September by more than 1.3 million barrels a day from what it pumped in April — taking production down to a level not seen in six years. That is going to be a very tough sell for the newly installed Iraqi government.

Iraq admits it far exceeded OPEC+ quota in May

(S&P Global Platts; June 7) - Iraq on June 7 acknowledged its May crude oil production was 4.213 million barrels per day, well above its OPEC+ quota, one day after it agreed to improve its compliance with the group's output cuts. The country's exports were 3.633 million barrels per day, Iraq's state-owned marketing company SOMO said in a statement. The output and export figures include federal Iraq and the semi-autonomous northern Kurdistan Regional Government.

Iraq's output was well above its quota of 3.592 million for May and June as agreed under the historic production cuts of OPEC and its allies led by Russia. The OPEC+ ministers on June 6 approved a one-month rollover of their production accord through July after receiving pledges of improved compliance from Iraq, Nigeria, Angola, and Kazakhstan. Under the deal, those countries will compensate by implementing deeper cuts in July, August, and September to cover for their overproduction in April and May.

The hard bargain, which Iraq had resisted, according to delegates involved in the talks, came at the insistence of the Saudi and Russian energy ministers. Iraq's lack of compliance has long been a sore spot for OPEC+ members. Analysts say Iraq's fractured politics and potential financial hit if it forces international oil company partners to shut in production make the country unlikely to meet its quota, let alone come through with more cuts. Iraq's Oil Ministry said Iraq is committed to the latest OPEC+ deal and attributed its overproduction to its need for revenues to rebuild after years of war.

U.S. shale producers start turning wells back on

(The Wall Street Journal; June 7) – U.S. shale oil producers are reopening the spigots, complicating the crude market's recovery. Scores of shale producers turned off wells to reduce output when prices fell to negative territory in late April after millions worldwide stopped driving and flying due to the coronavirus, causing a steep drop in global demand. Now that more of the world is reopening, demand is rebuilding and U.S.

prices are rebounding to nearly $40 a barrel, companies are starting to turn some of those wells back on. The bounceback is sufficient for many to start up existing wells.

But the increased volumes remain far below peak levels before the pandemic, when the U.S. was pumping more than 13 million barrels a day, the most in the world. Still the U.S. restarts come at a time when many of the world's other producers are voluntarily curtailing their own output to help rebalance global markets and boost prices. OPEC and its allies agreed June 6 to continue curbing production through July at 9.6 million barrels a day, just shy of the cuts targeted in their April pact.

Though lobal demand is starting to recover, the International Energy Agency estimates this month it will be just 86 million barrels a day, still 13% below last year's levels. And while turning existing wells back on is likely to temporarily boost U.S. production this summer, the country's output is still widely expected to decline for the full year. That is because shale wells lose steam quickly, and companies have dramatically cut back on the number of new wells they are drilling. Current prices remain below the levels many companies need to drill new wells profitably.

China in May set record for oil imports; buys up cheap crude

(Bloomberg; June 7) - China's oil imports soared to an all-time high last month, capping an astounding rebound in demand after the nation's economy was flattened by lockdowns to contain the coronavirus pandemic. Imports surged to 47.97 million tonnes in May, or 11.34 million barrels a day, according to customs data June 7. That is a 15% jump from April and 160,000 barrels a day more than the record set last November.

The figure underlines how complete the demand recovery has been in the world's largest oil importer, even as other countries are still struggling with the impact of bruising lockdowns on their economies. It also suggests that China has been taking advantage of the collapse in prices this year to fill its strategic reserves on the cheap. "Much of it is likely opportunistic buying to capitalize on low crude costs," said Michal Meidan, head of China research at the Oxford Institute for Energy Studies. "Demand for products is recovering, but there is still plenty of crude and product in tanks."

The surge was predicted by ship-tracking data, which showed tanker arrivals in China rising to pre-virus levels, as cargoes bought during oil's crash into the $20s began to land. At least two dozen tankers on China's East Coast were awaiting to discharge earlier this month. The collapse in Chinese consumption in early February marked the beginning of one of the darkest chapters in the history of the oil industry, and foreshadowed the damage to the global economy wrought by the virus.

New Brunswick premier says refinery received free cargo of oil

(CBC News, Canada; June 8) - It was the darkest of days for Canadian oil producers in April when prices freakishly dropped below $0 per barrel, but it was a windfall for buyers and refiner Irving Oil jumped on it, said New Brunswick Premier Blaine Higgs. "I worked in the refinery for many years and apparently in the last month there was actually a free load of crude that came through the Panama Canal," Higgs told a business audience two weeks ago. "They had to pay transportation but imagine, a negative cost for crude."

Irving has not confirmed the story and did not respond to an email inquiry. But in April, a series of market events mostly in the U.S. culminated with holders of futures contracts of West Texas Intermediate crude offering product they were obliged to accept delivery of in May for free, or less. At the low point April 20, sellers of contracts that were timed to lock in on April 21 were offering to pay more than $30 per barrel to anyone willing to accept deliveries tied to the contracts that were coming in May and had nowhere to go.

For those able to accept delivery of oil, it was a historic windfall. Irving's refinery is Canada's largest and can process 320,000 barrels daily. Irving Oil has six million barrels of storage capacity at an onshore tank farm next to its deepwater offloading facility in Saint John, New Brunswick. According to Port Saint John records, 11 tankers with capacities between 500,000 and 2 million barrels have unloaded at the terminal since the end of April, although which of those Higgs was referring to, if any, is a mystery.

Saudis boost oil prices for July delivery

(Bloomberg; June 8) – Saudi Arabia's steep hikes to its crude prices for July have shocked some Asian refiners even as the region leads a rebound in global energy consumption following coronavirus lockdowns. Saudi Aramco's price boost for its flagship Arab Light crude to Asia — which accounts for more than half of Saudi oil sales — was the biggest in at least 20 years, exceeding the most bullish expectations in a Bloomberg survey.

At least two refiners are still seeking to buy their regular volumes because of the lack of alternative options, while another processor is weighing whether to replace some cargoes from the kingdom with oil out of floating storage or arbitrage supplies, according to people familiar with the matter. Aramco increased Arab Light by $6.10 a barrel from June, according to a pricing list seen by Bloomberg.

While crude demand across Asia has been on the mend since the easing of lockdowns, particularly in China, the recovery is uneven. Saudi Arabia made the move to increase prices after OPEC+ agreed over the weekend to extend historic production cuts by another month. Middle Eastern sellers such as Abu Dhabi's Adnoc, Iraq's SOMO and Kuwait's KPC are set to announce their official selling prices in the coming days.

Cleanup, testing underway at diesel spill in Russia's Arctic

(Barents Observer; Norway; June 8) - The diesel tank spill in Russia's Arctic Peninsula Taymyr is unprecedented in size and will have major negative impacts on the vulnerable environment, authorities said as the magnitude of last week's catastrophe is becoming clearer. The country's environmental control agency, Rosprirodnarzor, is taking daily soil and water samples and said a preliminary evaluation will be ready by late June.

About 160,000 barrels spilled May 29 from a reservoir owned by Norilsk-Taymyr Energy, a subsidiary of Norilsk Nickel. About 70% of the fuel is believed to have ended up in rivers and creeks. The harm to nature can be valued in several billion rubles (tens of millions of dollars), Rosprirodnarzor leader Svetlana Radionova told President Vladimir Putin, who said a comprehensive restoration plan for the area will be required.

Burning was first thought the best way to get rid of the oil products, but that idea has now been abandoned. Instead, special containers are being flown into the area and placed along the worst affected rivers and streams. Spilled oil is pumped into the tanks, which will be removed when the tundra freezes and they can be hauled on ice roads. Nornickel has a dubious environmental reputation. Air pollution around the company's industrial plants in Norilsk and the Kola Peninsula is among the worst in Russia.

As Europe's storage fills up, Trinidad LNG cargo arrives in U.S.

(Reuters; June 8) - The Kinisis, a ship carrying liquefied natural gas from Trinidad, arrived at Dominion Energy's Cove Point LNG plant in Maryland on June 6 as some energy firms look to send cargoes to the United States as stockpiles in Europe fill up fast. Another LNG carrier, the Madrid Spirit, is moving across the Atlantic Ocean from Nigeria and may also unload its cargo in the United States.

Global LNG demand growth has slowed this year as coronavirus lockdowns cut energy use, causing prices in Europe and Asia to drop to record lows. Those price declines created a situation where U.S. gas futures were trading higher than major European benchmarks for the first time in a decade. With gas more expensive in the United States than Europe where stockpiles are expected to be full by the end of summer, U.S. LNG buyers canceled dozens of cargoes for June and July. Analysts said it made sense for some energy firms to send LNG to the United States for storage.

The U.S., which is the world's third-biggest LNG exporter behind Australia and Qatar, does not receive a lot of LNG imports, but they do occur. There were 21 LNG deliveries to the U.S. last year, mostly from Trinidad, while the U.S. exported over 500 cargoes. European gas prices, however, have soared about 60% since the start of June after falling to record lows in late May, again making gas in Europe more costly than the U.S.

BP will cut 15% of its workforce, most by end of the year

(Reuters; June 8) - BP said June 8 it will cut about 15% of its workforce in response to the coronavirus crisis and as part of CEO Bernard Looney's plan to shift the oil and gas major to renewable energy. Looney told employees in a global online call that the London-based company will cut 10,000 jobs from the current 70,100. "We will now begin a process that will see close to 10,000 people leaving BP — most by the end of this year," Looney said in a statement.

The affected roles will be mostly senior office-based positions and not front-line operational staff, the company said of the cuts that follow April's announcement of a 25% reduction in 2020 spending after the coronavirus pandemic brought an unprecedented drop in demand for oil. BP also said it would find US$2.5 billion in cost savings by the end of 2021 through digitalization and integration of its businesses.

The job reductions are also part of Looney's drive to make the 111-year-old oil company more nimble as it prepares for the shift to low-carbon energy, sources said. "It was always part of the plan to make BP a leaner, faster-moving and lower-carbon company," Looney said. BP last month announced a large round of senior management appointments, halving the size of its leadership team under Looney's plan to reshape the company's structure.

Detractors say LNG may not be such a clean marine fuel

(S&P Global Platts; June 4) - LNG has the shipping industry's attention as the next step to meeting climate change goals. Investment is being poured in and LNG prices are likely to stay low for some time, encouraging its use as a marine fuel. However, its credentials as a clean alternative on the sea may not hold up. Supporters of liquefied natural gas in the marine sector claim it has fewer greenhouse gas emissions than oil-based fuels, while cleaner alternatives such as biofuels, hydrogen, ammonia, and methanol are still in developmental phases and with many challenges to overcome.

There are already more than 150 ships on the water powered by LNG — with more to come — and some oil majors such as Shell are developing delivery infrastructure and backing its cause. But the fuel faces an unavoidable fact: It is still a hydrocarbon. Hugo de Stoop, CEO of leading tanker operator Euronav, questions LNG's long-term viability as a marine fuel. "LNG … is still a fossil fuel and if you account for the methane slippage in the supply chain, it is probably not a better fuel than fuel oil," he said.

Platts Analytics Scenario Planning Service shares a similar view. "Using LNG does not deliver the emissions reductions required by the International Maritime Organization's initial greenhouse gas strategy, and ... using it could actually worsen shipping's climate impact," it noted. Platts sees LNG growing to around 12% of total bunker fuel demand by 2040 from around 3% now, but with risks to the downside. Policy support in favor of LNG investment in shipping could easily flip to regulation against LNG as a fossil fuel.