# Oil and Gas News Briefs
# Compiled by Larry Persily
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## Oil trader warns prices could slide 'into the high $30s'

(Bloomberg; Sept. 14) - Commodity trading giant Trafigura believes the oil market is about to go back into surplus as the demand recovery stagnates. "We expect crude stocks to build into the year-end," said Ben Luckock, co-head of oil trading at Trafigura. "Oil prices were a bit higher than they needed to be," he said. "$40 a barrel Brent is more sensible, and my gut feeling is that we will drift into the high $30s."

The comments mark a bearish start to the annual Asia Pacific Petroleum Conference in Singapore, one of the world's biggest oil-trading industry gatherings. With the coronavirus still ravaging countries around the world, the conference has moved online this year. Trafigura has a vantage point over the global oil market as the world's second-largest independent energy trader, behind only Vitol. It was among the first to forecast the magnitude of the demand collapse in March and April.

Now, Trafigura is betting the oil market is about to enter another bearish phase despite the efforts of OPEC+ to balance supply and demand. "This market looks worse in a couple of months than now," Luckock said in an interview. "I think lower oil prices are warranted." Traders including Trafigura are gearing up for a possible glut in crude and refined petroleum products, snapping up tankers for months-long charters so that they can be ready to store excess barrels if necessary. The market is getting "very close" to the point where floating storage with larger vessels becomes economic, Luckock said.

## Citigroup forecasts Brent back to $60 by end of 2021

(Bloomberg; Sept. 13) - Citigroup has a message to cheer up despairing oil bulls: Prices will get back to $60 a barrel before the end of 2021. "We're bullish, definitely," Ed Morse, global head of commodities research at Citi, said in an interview during the S&P Global Platts Asia Pacific Petroleum Conference. "In our base case, prices go up because the market balances" and gigantic inventories are drawn down, he said.

The rate at which stockpiles are shrinking appears to have slowed in recent weeks as the coronavirus has proved stubbornly persistent and the OPEC+ alliance returned barrels to the market. That's pushed global benchmark Brent crude down around 12% so far this month. It will take until late 2021 for global oil consumption to return to the 2019 level of 101 million barrels a day with growth in the world economy, Morse said.

Citi sees global benchmark Brent crude, which is currently trading near $40 a barrel, averaging around $55 in 2021 before getting back to $60 by the end of 2021. West Texas Intermediate will recover to $58 by then. Commodity trading giant Trafigura, however, expects crude stockpiles to increase through the end of this year on weak demand with the market to look “worse in a couple of months from now.” That compares with Citi’s prediction for Brent to climb and average $48 in the fourth quarter.

## Ongoing pandemic cuts into hopes of oil market recovery

(Reuters; Sept. 15) - Major oil industry producers and traders are forecasting a bleak near-term future for global fuel demand due to the coronavirus pandemic’s ongoing assault on the economy. “The outlook appears even more fragile ... the path ahead is treacherous amid surging COVID-19 cases in many parts of the world,” the International Energy Agency warned in its monthly report on Sept. 15. “The economic slowdown will take months to reverse completely, while certain sectors such as aviation are unlikely to return to their pre-pandemic levels of consumption even next year.”

The Paris-based energy watchdog revised down its forecast for global oil demand in 2020 by 200,000 barrels per day and noted that a draw on abundant oil stocks in June had faltered in July. A dent in demand caused by a continuing rise in COVID-19 cases or a second wave is “the most likely shock that the oil market needs to be considering in the next 12 to 24 months,” Giovanni Serio, global head of research at commodity trade Vitol, said at Platts Asia Pacific Petroleum Conference on Sept. 14.

“As economies around the world opened up, there was optimism and enthusiasm that we would just head back to normal over some period of time,” Andrew Lipow, president of Lipow Oil Associates, said at the online conference. “What we’re seeing now is that there’s more pessimism because we’re seeing a resurgence of the virus.”

## OPEC revises down oil demand forecast

(CNBC; Sept. 14) - OPEC has cut its forecast for oil demand growth this year, citing a weaker-than-expected recovery in India and other Asian countries and warning that risks remain “elevated and skewed to the downside” for the first half of 2021. In its monthly report published Sept. 14, the group of oil-producing nations revised its outlook for oil demand to an average of 90.2 million barrels per day in 2020, down 400,000 from the previous month’s estimate. It reflects a contraction of 9.5 million year-on-year.

The report comes as energy market participants become increasingly concerned about a faltering economic recovery and stumbling fuel demand in the wake of the coronavirus pandemic. Looking ahead, OPEC said the negative impact on oil demand in Asia was expected to persist through the first six months of 2021. “Additionally, risks remain elevated and skewed to the downside, particularly in relation to the development of COVID-19 infection cases and potential vaccines," the group said in the report.

As such, OPEC now expects global oil demand to grow to an average of 96.9 million barrels per day next year, down 400,000 from its previous estimate.  Marking the group's 60th anniversary, OPEC Secretary-General Mohammad Barkindo said on Sept. 14 that the coronavirus pandemic was "one of the greatest global challenges of modern times."  "Beyond the terrible human suffering it has caused, it has triggered one of the worst global economic recessions and oil market downturns in OPEC's history," he said.

## Gulf nations in a tight spot with low oil prices

(Reuters; Sept. 13) - Oil-rich Gulf nations are relying on a well-worn playbook of spending less and borrowing more to get through the coronavirus crisis, but with the outlook for oil demand and prices clouded by uncertainty the strategy is riskier than before.  Previous bouts of belt-tightening have relied on rebounding prices to replenish state coffers.  But Gulf states have bigger funding needs and lower foreign assets than in previous crises, while the pandemic may keep energy demand subdued for longer.

Brent crude prices have rebounded since plunging to a more than 20-year low in April, but at just over $40 per barrel they are significantly below what most Gulf states need to balance their budgets.  Meanwhile, the shift to austerity in a region where government spending is the main engine of economic growth — along with a move in some nations to protect citizens' jobs at the expense of foreign workers — is hurting growth prospects.

"The problem faced by the GCC (Gulf Cooperation Council) is that domestic demand is driven by government spending and this would need significantly higher oil prices," said Monica Malik, chief economist at Abu Dhabi Commercial Bank.  "Fiscal buffers have deteriorated over the past few years, limiting the space to support growth and requiring fiscal reforms."  Budget deficits there currently range from an expected 11.4% of GDP for Saudi Arabia to 16.9% for Oman, according to the International Monetary Fund.

## Lower demand pressures oil nations and threatens OPEC+ deal

(CNBC; Sept. 15) - The next big shock to the oil industry could be yet another hit to demand, analysts said.  "A lot of us, we're talking about another demand shock.  It's like fighting the last battle," Ed Morse, managing director and global head of commodities research at Citigroup, said at the S&P Global Platts' online Asia Pacific Petroleum Conference on Sept. 14.  Morse and others warned that oil-producing countries could experience a big setback.

“We’re seeing countries that are overly dependent on oil earnings, that can’t pay for the civil service, can’t pay for health care … education … security,” Morse said. “I think the biggest worry is what happens to the fragility of the oil-producing countries.” Even after recovering from the extreme lows of this past spring, global oil demand will be down by 8 million barrels per day at the end of the year, said Martin Fraenkel, president of S&P Global Platts. “The demand destruction this year has been extraordinary.”

Speaking to CNBC on Sept. 14, Frankel said OPEC+ has a “delicate maneuvering act” if demand does not bounce back, referring to the Organization of the Petroleum Exporting Countries and its allies. “If demand doesn’t come back, how long is OPEC+ going to be able to sustain cohesion to keep supply under control when prices are hovering around $40 per barrel?” he said. “In that environment, that cohesion among OPEC+ is going to come under strain.”

## Global oil trader says surplus is shrinking

(Bloomberg; Sept. 15) - The world’s biggest independent oil trader says global stockpiles of the commodity will keep shrinking, offering a starkly more bullish view of the crude market than some of its rivals. Vitol Group said inventories have been falling sharply and will continue to decline this year, but Trafigura Group, the second-biggest trader, says there is too much oil and the market will go back into a surplus. Both expect demand to stagnate and foresee a volatile time before a gradual recovery next year.

Global stockpile growth peaked at about 1.2 billion barrels in early summer and inventories have since been drawn down by about 300 million barrels, Vitol CEO Russell Hardy said. They should drop by a further 250 million to 300 million barrels in the last four months of the year, he said. “You can’t lose sight of the fact that production has been curtailed,” Hardy said in an interview during the Platts Asia Pacific Petroleum Conference this week.

A lot of stock draws are expected to come from refineries digesting what they had amassed during the frenzied buying of cheap oil, he said. Months after the coronavirus caused nationwide lockdowns, the hoarding of crude at sea, and a plunge in prices, the industry is coming to terms with some of the longer-lasting impacts on fuel consumption. The CEO cautioned that the recovery would be bumpy. “It’s going to be choppier in the next two to three months,” Hardy said. “Things may get a little more difficult before it gets better, but we do believe that we’ll get through it and things will steadily improve.”

## BP's oil and gas trading unit appears highly profitable

(Bloomberg; Sept. 15) - BP offered a glimpse of the profitability of its huge and secretive trading arm, suggesting it makes annual returns of as much as $2.5 billion. The revelation, which came during presentations this week about the company's clean-energy plans, follows the emergence of trading in the first half of the year as one of the few bright spots for BP and its peers. The operations brought a torrent of cash that partly offset the damages of the coronavirus crisis on oil prices and energy demand.

BP's in-house trading business has a "long track record" of boosting the company's return on average capital employed by "close to" 2 percentage points, according to CEO Bernard Looney. Unlike the closely guarded trading profit, the company does disclose the average capital it employs each year. From 2015 to 2019, that figure was $124.2 billion a year, according to last year's annual report. That suggests a 2% uplift to the return on capital equates to about $2.5 billion a year.

BP declined comment. The company published the figures this week as part of its bid to convince investors that its trading unit can help boost returns for less-profitable renewables. Although better known for its oil fields, refineries and fuel stations, BP is one of the world's largest commodity traders. Alongside rivals Shell and Total, it bets its own money on the ups and downs of the global oil and gas markets. The company said it traded just under 11 million barrels a day of crude oil last year, more than the best-known names of the commodity trading industry such as Vitol, Trafigura, and Glencore.

## BP forecasts world oil demand in unstoppable decline

(Bloomberg; Sept. 14) - BP believes the relentless growth in global oil demand is over, becoming the first supermajor to call the end of an era many thought would last another decade or more. Oil consumption may never return to levels seen before the coronavirus crisis took hold, BP said in a report on Sept. 14. Even its most bullish scenario sees demand no better than "broadly flat" for the next two decades as the energy transition shifts the world away from fossil fuels.

BP is making a profound break from orthodoxy. From the bosses of corporate energy giants to ministers of OPEC states, senior figures from the industry have insisted that oil consumption will see decades of growth. Time and again, they have described it as the only commodity that can satisfy the demands of an increasing global population and expanding middle class. The U.K. giant sees a different future, where oil's supremacy is challenged, and ultimately fades. That explains why BP has taken the boldest steps so far among peers to align its business with the goals of the Paris climate accord.

CEO Bernard Looney said in August he will shrink oil and gas output by 40% over the next decade and spend as much as $5 billion a year building one of the world's largest renewable-power businesses. That's because he suspects oil use may already have peaked as a result of the pandemic, stricter government policies, and changes in consumer behavior. BP's energy outlook shows consumption slumping 50% by 2050 in one scenario within a range of 7% to 70% declines depending on multiple factors.

## [Climate change lawsuits now target oil industry trade group]

(Bloomberg; Sept. 14) - State and local governments taking Big Oil to court over climate change have a new target: the American Petroleum Institute. It is an approach that could pay off for plaintiffs and create headaches for the industry's biggest trade group, lawyers say. Recent lawsuits from Delaware, Minnesota, and Hoboken, New Jersey, name API as a defendant, saying the group should be on the hook alongside oil companies for allegedly misleading the public about fossil fuels' climate impacts.

"API has participated in and led several coalitions and front groups, often in collaboration with the Fossil Fuel Company Defendants, that have organized deceptive advertising and communications campaigns that promote climate disinformation and denialism," Hoboken lawyers said in the city's Sept. 2 complaint. Minnesota and Delaware made similar allegations in recent cases. API offered the same response to the lawsuits, defending the industry's history of reducing greenhouse gas emissions.

Outside legal experts say the cases pose a serious problem for API by targeting internal documents going back decades and requiring expensive courtroom defense — no matter if the plaintiffs are successful in the end. "Litigation risk alone is still leverage on the part of plaintiffs," said Donald J. Kochan, a professor at George Mason University specializing in environmental law. API is a behemoth in oil and gas, representing nearly 600 producers, refiners and others across the industry. Formed in 1919, it aims to influence public policy, conduct research, and set industry standards.

## [North Dakota production recovers to 1 million barrels per day]

(Reuters; Sept. 16) - North Dakota oil production jumped to more than 1 million barrels a day in July for the first time in two months but remained below its peak of almost 1.5 million as the coronavirus pandemic continues to hamper output in the state's Bakken shale field, a state official said Sept. 15. Crude output rose about 20% in July over June, North Dakota Department of Mineral Resources Director Lynn Helms said.

August numbers are also expected to be on the upswing, and could reach as much as 1.3 million barrels per day, but the trend will likely reverse itself as the summer driving season fades and recent lower U.S. benchmark oil prices take their toll, he said during the state's monthly oil update. "We don't see pre-COVID demand coming back until late 2022, so we're facing this for the next couple of years, this up and down," Helms said.

Oil production across the country was slashed after a historic price crash in April and the shut-ins have been particularly sharp in North Dakota. The current price of crude produced in the Bakken, the second-largest U.S. shale basin, is $33 a barrel, sharply down from more than $60 a barrel before the health crisis curtailed fuel demand. Current prices are not enough to prompt more drilling in the state, Helms said, noting it has a higher break-even cost than in other shale formations, like Texas' Permian Basin.

## Alberta-to-BC coast oil line expansion plans 2022 completion

(Calgary Herald; Sept. 15) - Despite the drop in global oil demand and declines in upstream investment, the head of the company developing the Trans Mountain expansion expects the pipeline to be full of oil when construction wraps up in 2022. But he acknowledged the line may find itself competing for shipper attention from two other projects that are also underway to move Canadian oil sands production to markets.

Currently, 5,000 workers are employed on the project in Alberta and British Columbia, with work ramping up in the metro Vancouver area and other parts of B.C. next year. How quickly oil producers fill the expanded line, which is underpinned by long-term take-or-pay contracts on 80% of the volume, will depend on whether the other pipeline projects are available in the same time frame, Trans Mountain CEO Ian Anderson said Sept. 15. That includes the proposed Keystone XL line into the United States.

The existing Trans Mountain line, which runs from Alberta to Burnaby, British Columbia, has been running full due to demand in the Pacific Basin for Canada’s heavy oil. The C$12.6 billion expansion, which will nearly triple the line’s capacity to 890,000 barrels per day, will be 30% complete by the end of this year. Work restarted a year ago after Canada’s federal government bought the line and expansion project from Kinder Morgan, which wanted out due to regulatory and legal uncertainty over the project.

## Uganda says it has deal for oil export pipeline to Tanzania port

(The Associated Press; Sept. 13) - The leaders of Uganda and Tanzania have signed an agreement for construction of what they say will be the world's longest heated oil pipeline, linking Uganda's oil fields in the country's west to the Indian Ocean port of Tanga. Ugandan President Yoweri Museveni and President John Magufuli of Tanzania signed the agreement on Sept. 13 in the remote Tanzanian town of Chato. The high-wax content of Uganda’s oil requires heating the crude for pipeline transport.

Construction of the 897-mile pipeline is expected to begin in 2021 and will cost an estimated $3.5 billion, according to Ugandan authorities who expressed optimism that money Uganda will earn from its oil deposits will finance ambitious infrastructure projects and launch the country into middle-income status. No further details about the agreement were released, including who will build the pipeline or how it will be financed.

French oil giant Total, a major investor in Uganda's oil industry, announced last week it had reached a deal with Ugandan authorities governing the export line that will cross sensitive protected areas, rivers, and farmland. Local and outside watchdog groups have warned, however, that the rights of local communities are at risk because of the pipeline project, which could displace more than 12,000 families and endanger vital ecosystems.

## Conference speakers optimistic of long-term LNG demand

(Reuters; Sept. 15) - Demand for liquefied natural gas is set to increase steadily for several decades, helped by economic growth in Asia, industry executives said at this week's Gastech summit, with the pandemic seen as a short-term setback. "While the world continues to grapple with the severe impacts of market demand and the impact of COVID-19, long-term fundamentals remain strong, supported by growing population and energy demand," said Irtiza Sayyed, of ExxonMobil LNG Market Development.

Global gas demand is forecast to decline by around 3% in 2020 and make a robust recovery after that, according to the International Energy Forum. With the world seeking cleaner energy to reduce pollution and carbon dioxide emissions, gas is expected to provide a bridge to a net-zero future. "LNG is and will remain a high-growth industry based on a growing economy worldwide, particularly in Asia, with a desire for secure, affordable, and cleaner-burning fuels," said Douglas Wharton, of Cheniere Marketing.

The global gas and LNG conference, launched in London in 1972, was held virtually this year due to the COVID-19 pandemic. Cheniere forecasts LNG trade demand will grow by an average 3.4% a year between 2019 and 2040 with new supply required to achieve such growth. But as the coronavirus has reduced investment in new LNG production capacity, supply may not recover as fast as demand, some executives said.

## Louisiana LNG project developer asks FERC for more time to decide

(S&P Global Platts; Sept. 15) - The developer of the proposed Magnolia LNG export terminal in Louisiana has asked the Federal Energy Regulatory Commission for an additional five years to build the estimated $6 billion project, telling the agency that global market conditions got in the way of efforts to sign the long-term supply contracts needed to secure financing. FERC approved the original permit for Magnolia LNG in April 2016 and set a deadline of April 2021, to complete the project.

But the original project sponsor, Australia's LNG Ltd., struggled to reach any firm deals with buyers for the LNG it planned to produce. As the coronavirus pandemic crisis set in earlier this year, LNG Ltd. found itself on the verge of insolvency. Ultimately, the private U.S. investment firm Glenfarne Group agreed to acquire Magnolia LNG in late May for $2 million. The new developer now wants until April 2026, to complete the project.

"Unforeseeable developments in the global LNG market have affected Magnolia LNG's ability to enter into long-term offtake contracts with international customers, which are critical to securing project financing and achieving FID," Magnolia LNG said in the Sept. 11 request, referring to a final investment decision. "A short-term oversupply across the global LNG market, coupled with disruptions in the China-United States LNG trade and the ongoing COVID-19 pandemic, have delayed these offtake contracts and further delayed FID for the project," which is planned for 8.8 million tonnes of LNG per year.

## Abu Dhabi wealth fund takes 5.1% stake in U.S. LNG exporter

(Bloomberg; Sept. 16) - Abu Dhabi's main sovereign wealth fund has taken a 5.1% stake in Cheniere Energy, the largest U.S. exporter of liquefied natural gas. Abu Dhabi Investment Authority disclosed its holding in a filing dated Sept. 14, giving it an interest in Cheniere valued at $615 million. It is Cheniere's fourth-largest shareholder, according to data compiled by Bloomberg. Houston-based Cheniere operates two LNG export facilities: Corpus Christi in Texas and Sabine Pass in Louisiana. ADIA has almost $580 billion in assets and is the world's third-biggest government wealth fund, according to the Sovereign Wealth Fund Institute.

## Kuwait plans to open largest LNG import terminal in Mideast in March

(Bloomberg; Sept. 15) - Kuwait aims to open what will be the Middle East's largest import terminal for liquefied natural gas in March, according to two people familiar with the project. The Al-Zour plant will allow Kuwait to receive 22 million tonnes of LNG a year, almost doubling the region's capacity. The LNG market is expected to grow quickly in the next few decades as countries shift from oil and coal to cleaner energy. The global trade in LNG will probably more than double to 735 million tonnes per year by 2035, according to BP's annual Energy Outlook.

Kuwait is one of the world's biggest oil exporters, shipping almost 2 million barrels a day, but pumps relatively little gas. The OPEC member produced 650 billion cubic feet of gas in 2019 and consumed 830 bcf, BP said in its report. It was the Middle East's biggest gas importer last year and the 14th globally, according to data compiled by Bloomberg. South Korea's Hyundai Engineering & Construction and Korea Gas won a $2.9 billion contract in 2016 to build the new LNG import terminal.

## Rising LNG prices push China's distributors back to pipeline gas

(S&P Global Platts; Sept. 15) - China's trucked liquefied natural gas prices are expected to become less competitive than pipeline gas as Asian spot LNG prices rise in the run-up to winter, putting pressure on LNG imports at a time when inventories already are high and demand is uncertain.  This is likely to reverse a trend over the past few months when city gas distributors favored trucked LNG over pipeline gas, as LNG imports traded at record lows of $2 to $2.50 per million Btu for most of the April-June period.

But spot LNG prices have been on the uptrend in recent weeks.  The S&P Platts Japan-Korea Marker has more than doubled to over $4.50 for October delivery with projections for a winter peak of over $6.  Only a handful of downstream city gas distributors have access to both trunk lines on China's pipeline network and LNG trucked in from coastal terminals.  But they are enough to move the needle on China's gas procurement due to flexible uncontracted volumes.

For example, local affiliates of China Resources Gas in eastern China buy pipeline gas from PetroChina, Sinopec and Zhejiang Energy, as well as trucked LNG from nearby LNG import terminals.  A supplier to China Resources Gas said some city gas distributors have already started buying more pipeline gas since August when LNG prices started to rise.

## Australia's plan to boost gas supplies encounters opposition

(Reuters; Sept. 14) - Australia's government set out a strategy on Sept. 15 to boost natural gas supplies and drive down energy prices, including a possible state-funded gas-fired power plant, as part of an effort to drive the nation's economic recovery after COVID-19.  The proposals follow pressure from parts of the manufacturing sector to increase gas supply and lower prices, but were criticized by the power industry and green groups as heading in the wrong direction.

The government hopes to develop new gas basins in northern Australia and has set up a panel to map out pipelines that would bring that gas to market with construction by the private sector or state backing.  The strategy was welcomed as a "good first step" by gas producers, while major energy users such as chemical, fertilizer, and explosive manufacturers cautioned the plans would need "tough negotiations" on market reforms.

The government also told the power industry to make final investment decisions by the end of April to build 1,000 megawatts of flexible power capacity to replace an aging coal-fired plant that is set to shut in 2023, or else the government would build a gas-fired plant to prevent blackouts.  The industry attacked the plan, saying it would deter private investment if the government becomes a competitor.  Environmental groups said it makes no sense for the government to promote a fossil fuel at a time when Australia needs to cut its carbon emissions.

## Australia proposes incentives to keep refineries open

(Reuters; Sept. 15) - Australia on Sept. 14 proposed offering incentives worth A$2.3 billion ($1.67 billion) over 10 years to keep the country's four remaining oil refineries open and said it would invest in building fuel storage as part of a long-term fuel security plan. The country's refiners have been battered by the coronavirus-driven collapse in fuel demand, racking up losses which they say threaten the future of their plants as they compete against much bigger refineries around Asia.

"The government is committed to a sovereign on-shore refinery capacity despite the threat to the viability of the industry," Prime Minister Scott Morrison said. To shore up near-term fuel security, the government said it would include A$211 million in its upcoming budget to boost storage of diesel, crucial for farms, mines, trucks, and back-up power. "The events of 2020 have reminded us that we cannot be complacent. We need a sovereign fuel supply to shield us from potential shocks in the future," he said.

The government said it would work with the industry to design a "refinery production payment" as an incentive to keep the four plants open. Together with an exemption from new fuel storage requirements, the incentives would be worth about A$2.3 billion over 10 years. The four refiners — BP, ExxonMobil, Viva Energy Group, and Ampol — all welcomed the proposals but made no commitment to keep their plants open.