Oil and Gas News Briefs
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Goldman Sachs says oil could top $100 next year unless more supply

(CNN: Sept. 6) - Oil prices could climb into triple-digit territory by next year if Russia and Saudi Arabia don't unwind their aggressive supply cuts, Goldman Sachs warned its clients. The Wall Street bank had already factored in the possibility of high oil prices long before Russia and Saudi Arabia announced this week that they were extending production cuts through the end of 2023. That announcement lifted the global benchmark Brent crude above $91 a barrel for the first time in 10 months.

Goldman Sachs had forecast Brent to reach $86 in December and $93 at the end of 2024. Now the bank sees two risks to its prediction. First, Goldman Sachs expects Saudi oil supply to be 500,000 barrels per day less than previously anticipated. That alone should add $2 to the per-barrel price. Secondly, the bank warned that some of its assumptions for oil production may be incorrect if the OPEC+ cut extensions continue.

The bank had expected that in January the countries would bring back half of the 1.7 million-barrel-per-day cut that was announced in April. Now the bank is floating the possibility of an even longer extension. "Consider a bullish scenario where OPEC+ keeps the 2023 cuts … fully in place through end-2024 and where Saudi Arabia only gradually raises production," analysts wrote in the report. In that scenario, Brent oil prices would likely climb to $107 a barrel in December 2024, the bank said.

Goldman Sachs stressed that this is not the bank's "baseline view" because such a strategy could backfire. Even though higher prices would help Saudi Arabia balance its budget and Russia fund its war machine, the bank said triple-digit oil prices could cause U.S. shale producers to increase their supply, pushing down prices.

Saudi Arabia and Russia agree to continue oil production cuts

(Associated Press; Sept. 5) - Saudi Arabia and Russia agreed on Sept. 5 to extend their voluntary oil production cuts through the end of this year, keeping 1.3 million barrels per day of crude out of the global market and boosting energy prices. The dual announcements from Riyadh and Moscow pushed benchmark Brent crude above $90 a barrel in trading, a price unseen in the market since November. The countries' moves could increase inflation and the cost for motorists at gasoline pumps.

Saudi Arabia's announcement, at 1 million barrels per day, said the country would monitor the market and could take further action if necessary. "This additional voluntary cut comes to reinforce the precautionary efforts made by OPEC+ countries with the aim of supporting the stability and balance of oil markets," the Saudi Press Agency report said, citing an unnamed Energy Ministry official.

State-run Russian news agency Tass quoted Alexander Novak, Russia's deputy prime minister, as saying Moscow would continue its 300,000-barrel-a-day cut. Benchmark Brent crude traded on Sept. 5 above $90 a barrel after the announcement. Brent had largely hovered between $75 and $85 a barrel since last October. U.S. benchmark West Texas Intermediate traded over $87 a barrel. The Saudis are particularly keen to boost oil prices in order to fund Vision 2030, an ambitious plan to overhaul the kingdom's economy, reduce its dependence on oil and to create jobs for a young population.

"Today's move still managed to catch many market participants by surprise. Once again proves that (Saudi Energy Minister) Prince Abdulaziz (bin Salman) remains firmly in whatever-it-takes mode," said RBC Capital Markets analyst Helima Croft.

Tight global refinery supply will exacerbate price volatility

(Bloomberg; Sept. 6) - An increasingly stretched global refining system means fuel price volatility is set to become more common, according to top oil executives. A lack of spare crude-processing capacity due to underinvestment, and shutdowns happening more frequently with refiners ramping up on better margins and deferring planned work were common themes at the APPEC by S&P Global Insights conference in Singapore this week. That has left fuels like diesel and gasoline vulnerable to sudden swings when there are unplanned refinery outages.

There have been unplanned plant shutdowns almost every week or two in Europe, Frederic Lasserre, global head of research and analysis at commodity trader Gunvor, said in an interview. Many refiners have postponed regular maintenance, leaving them open to technical issues that lead to surprise outages, he said. "The market is overly sensitive to any unexpected supply disruption anywhere," he said. "Everyone knows there's no Plan B. We have no stocks, and we have no excess capacity anywhere."

The recent spate of unplanned outages and tightness in refining capacity highlight the challenges as the world transitions from fossil fuels to cleaner energy. "Refining capacity is very tight," commodity trader Vitol CEO Russell Hardy said. A lot of plants closed during COVID-19 and Western markets are lacking sufficient oil products, he said. The price of diesel has outpaced the rise in crude after a slew of refinery outages partly due to excessive heat. It's becoming more expensive to fund normal refining projects, said Alex Grant, senior vice president for crude, products and liquids at Equinor.

Interior cancels ANWR leases held by Alaska state agency

(Reuters; Sept. 6) - The U.S. Interior Department on Sept. 6 said it would cancel oil and gas leases in a federal wildlife refuge that were bought by an Alaska state development agency in the final days of President Donald Trump's tenure. The Trump administration issued leases to the Alaska Industrial Development and Export Authority in the Arctic National Wildlife Refuge a day before the inauguration of President Joe Biden.

Environmentalists and an Alaska Indigenous group praised the move while the state's congressional delegation slammed it. The state agency holding the leases said it will go to court to overturn Interior's decision. In a statement, Interior said a new environmental review had determined that the analysis behind the agency's 2021 lease sale was "seriously flawed," giving Secretary Deb Haaland authority to cancel the leases. The oil and gas industry stayed away from the 2021 lease sale, with the state agency the only successful bidder that has followed through with annual lease payments to Interior.

"Climate change is the crisis of our lifetime and we cannot ignore the disproportionate impacts being felt in the Arctic," Haaland told reporters. "We must do everything within our control to meet the highest standards of care to protect this fragile ecosystem."

Interior also said on Sept. 6 it would protect more acreage in the National Petroleum Reserve-Alaska, a 23-million-acre area on the state's North Slope, west of the giant Prudhoe Bay oil field. The agency's action will prohibit new leasing on more than 10 million acres, or more than 40% of the reserve. Earlier this year, Interior approved a $7 billion ConocoPhillips drilling project in NPR-A that drew heavy criticism. The move to further restrict activity in the area will not affect Interior's approval of Conoco's work.

Market watches China's economic health for LNG demand

(Bloomberg; Sept. 5) - Hundreds of oil and gas traders, hedge fund managers, producers and analysts will fill high-end bars and hotels in Singapore this week, hoping to answer one question: Is China really back? The past months have been a roller-coaster, with natural gas prices swung by strike threats at Australia liquefied natural gas export plants and continuing fallout from the war in Ukraine, and crude prices by OPEC+ supply cuts — all accompanied by global efforts to rein in inflation.

But it's the health of China's economy that will be animating the largest Asian gathering of the oil and gas community since Beijing began easing draconian COVID restrictions late last year. High natural gas prices, an economic slowdown and pandemic restrictions dashed China's LNG imports last year, providing price and supply relief for the rest of the world reeling from the energy crisis. When COVID-zero measures were eased, the market prepared for a rush of Chinese LNG spot buying in 2023 — pitting the nation against a Europe racing to replace Russian pipeline deliveries.

China's LNG imports for the first eight months of 2023 were up 11% from the same period last year but still aren't at 2021 levels, when the nation was the biggest buyer of the fuel. Now, with winter on the horizon, China is the multibillion-dollar question once more. Moves to secure shipments for the coldest months risk upsetting a delicate global LNG supply balance and jolting prices. But with Asian LNG prices down 75% from this time last year, it appears that traders aren't betting on a sudden Beijing shopping spree.

Conoco works with Japanese, German companies on green energy

(Upstream; Sept. 5) - The world's largest liquefied natural gas importer, Japan's JERA, its wholly owned subsidiary JERA Americas, and German energy company Uniper have teamed up to jointly pursue LNG supply projects to help meet their respective short-, medium- and long-term demand. JERA on Sept. 5 confirmed that it is working with Uniper to meet their immediate requirements for LNG supply and for new supply extending into the longer term.

Tokyo-headquartered JERA — the joint venture between Tokyo Electric and Chubu Electric — currently handles approximately 40 million tonnes per year of LNG. JERA and Uniper are also developing clean-energy export projects in collaboration with ConocoPhillips for initial production of 2 million tonnes per year — with expansion potential — from the U.S. Gulf Coast, including green and blue clean ammonia production where carbon capture and sequestration facilities are available.

The proposed Gulf Coast facility, developed by JERA Americas and ConocoPhillips, aims to produce hydrogen and convert it into clean ammonia to be supplied to JERA and Uniper under long-term sale and purchase agreements. Europe is viewed as the primary initial market, with Uniper targeting about 1 million tonnes per year of green ammonia by the end of the decade. A project engineering study will be completed by year-end to develop the first phase and to assess green and blue hydrogen opportunities. The project is expected to start commercial operation in the late 2020s.

Global LNG import capacity continues to expand

(LNG Industry; Sept. 4) - Global LNG import capacity is set to expand by 16%, or 23 billion cubic feet per day, by the end of 2024 compared with 2022. The U.S. Energy Information Administration estimate is based on trade news and data of the International Group of Liquefied Natural Gas Importers. In the first seven months of 2023, three countries — Germany, the Philippines and Vietnam — began importing LNG for the first time. By the end of 2024, EIA expects Antigua, Australia, Cyprus and Nicaragua to start imports. Several more countries are in advanced stages of developing import capacity.

Over the past 10 years (2013 – 2022), global LNG import capacity — regasification capacity — has grown by 49% (45.8 bcf a day) to reach 140 billion bcf per day across

48 countries. By the end of 2024, the EIA expects 55 countries to have LNG regasification terminals with a combined capacity of 163 bcf per day.

Globally, available regasification capacity always exceeds LNG imports. Historically, up to 39% of global regasification capacity is used every year. Spare capacity, most of which is in Japan, South Korea and China, allows countries to meet occasional demand spikes, particularly in winter. Last year, global trade used 37% of available regasification capacity. Regionally, the EIA expects Asia to lead the growth in global regasification capacity, accounting for 52% of the total capacity additions in 2023 and 2024.

Shell exec criticizes U.S. LNG project for failure to supply cargoes

(Reuters; Sept. 5) - U.S. liquefied natural gas developer Venture Global LNG was accused of “deceitful actions” by Shell Executive Vice President Steve Hill, who said failing to meet contracts was “damaging and dangerous to the industry.” Shell is among the energy companies that have filed arbitration cases against Venture Global LNG over its failure to supply fuel under long-term contracts even as it has shipped at least 190 cargoes to non-contract customers from its 18-month-old Louisiana export terminal.

“This is a wake-up call for the industry. The LNG business is underpinned by trust in long-term contracts,” Hill said during the Gastech conference in Singapore on Sept. 5. “The long-term commitment that foundation buyers make enable the regulatory certainty, the financing and the development of your LNG projects. If contracts are seen as options for suppliers, then buyers simply won’t sign them and the industry won’t grow,” he said of the situation where Shell and other customers are losing out on supply.

Venture Global LNG has blamed equipment failures for its inability to supply long-term contract holders with LNG cargoes and called the shipments to date “pre-commission cargoes,” which it says it is free to sell on the spot market. The company said it expects commercial operations to begin in the first quarter of 2024. The company started gas processing at its Calcasieu Pass facility in Louisiana in March 2022 and had delivered at least 177 cargoes valued at $15.3 billion through May, according to a Reuters tally.

LNG traders can profit by holding gas in floating storage for winter

(Bloomberg; Sept. 5) - A higher natural gas price in Europe in November is making it lucrative to hold back supplies for a month until the arrival of lower temperatures can boost profits. Futures for November are about €10 euros (US$10.70) a megawatt-hour more expensive than gas delivered in October. That presents an opportunity for traders to keep liquefied natural gas on tankers and unload their cargo when colder weather lifts demand and prices.

“The steep contango on European gas, particularly the very large premium of November over October, is likely to tempt market participants to float LNG storage as we go into winter,” said Tom Marzec-Manser, head of gas analytics at ICIS. “Moving the arrival of a cargo back a few weeks could result in some noticeable additional returns.” While Europe made it out of last year’s energy crisis better than many initially expected, winter continues to pose risks, and will do so until more LNG becomes available worldwide.

BP signs up for all of the output from small Canadian LNG project

(Oil & Gas Journal; Sept. 5) - BP Gas Marketing, a wholly owned subsidiary of BP, has entered its third long-term liquefied natural gas offtake contract from the 2.1 million tonne-per-year Woodfibre LNG plant planned for a coastal site just north of Vancouver, British Columbia. With the additional contract to offtake 0.45 million tonnes per year of LNG for 15 years, all of the production from Woodfibre LNG is now committed to BP.

Woodfibre LNG is scheduled to begin construction in September, with operations expected to begin in 2027. The $5 billion project is 70% owned by Pacific Energy Corp., which is part of a Singapore group of companies, and Canadian energy company Enbridge at 30%. Production modules for the plant will be constructed in China and delivered to the site for installation.

Exxon sees strong growth market for LNG in China

(Reuters; Sept. 6) - ExxonMobil sees China as a strong long-term growth market for liquefied natural gas despite a recent slowdown in demand there, and is looking at potential downstream opportunities in the country, an executive said on Sept. 6. "We are talking about different downstream market opportunities and also investments in the downstream in China," Andrew Barry, vice president global LNG marketing at Exxon, told Reuters in an interview on the sidelines of the Gastech conference in Singapore.

"We are progressing those, particularly Guangdong. We are in discussions and are working through opportunities," he said, referring to the economic powerhouse province in southern China. Downstream typically refers to processing, terminals, sales and distribution. China lost its crown to Japan last year as the world's biggest LNG importer, but regained the title in the first half of 2023.

"We expect to see (China) demand to come back, probably quicker than Europe," Barry said. "Some of the demand destruction that’s happened in Europe is potentially a bit more sticky." While the global LNG market is well-stocked, he said it was thinly balanced and winter weather would dictate prices. Barry added that the industry would continue to see a challenging supply situation in the next couple of years before new LNG projects come online.

Louisiana LNG project developer continues search for equity partners

(Reuters; Sept. 6) - Tellurian, the developer of the long-delayed Driftwood LNG project in Louisiana, said on Sept. 6 that it was in talks with potential equity partners who were primarily evaluating the cost risks of entry into the development. Tellurian has been struggling to recruit customers and investors for the first phase of the gas export plant, worth up to $14.5 billion, after suffering setbacks.

"The risk of execution was not high on the list," CEO Octavio Simoes said in an interview on the sidelines of the Gastech industry conference in Singapore. "But the risk of cost, yes, they have to get comfortable with." The project was hit by cancellation of sales deals last year after two customers raised concerns about Tellurian's ability to finish the financing and construction. Potential equity partners were also evaluating image risks in choosing to deal with a fossil fuel project, as well as political risks if the potential partner is not a U.S. firm, Simoes said.

Such partners could be oil majors, LNG buyers or end-users or trading houses, he added. "The other type that is coming to play recently, which we're seriously considering, are people that essentially raise funds and then invest for an equity return for their fund holders." In August, Tellurian told potential investors it might sell the first six months of its LNG output to help finance the project. Simoes said Tellurian still aims to announce equity partners by year-end and start commercial deliveries by 2028.

India directs gas-fueled power plants to step up output

(Reuters; Sept. 6) - India is seeking additional volumes of natural gas and has asked utilities to expedite completion of power plant maintenance as part of emergency steps to stop electricity outages, according to a government note seen by Reuters. The move follows extension of an emergency law that forces power plants running on imported coal to maximize output as record power demand in August due to unusually dry weather and a sharp decline in hydro and wind energy output resulted in the country's widest electricity shortage in 16 months.

"States may ensure that all gas-based power plants with whom they have power purchase agreements must be brought into use during high demand days and non-solar hours," the power ministry note dated Sept. 5 said. Over half of about 25 gigawatts of India's gas-fired capacity is non-operational due to relatively high LNG prices. The share of gas-fired power in overall output has fallen from an average of over 3% in the past decade to less than 2% currently due to high LNG prices.

The latest move could boost demand for gas and push India to seek more liquefied natural gas cargoes on the spot market. India's LNG imports have fallen for three consecutive financial years, government data shows. India's power demand has been growing rapidly after the pandemic, with strong economic growth boosting demand from factories and the summer heat increasing household consumption. Coal accounted for over 73% of India's power generation during the year ended in March, while renewable energy sources including wind and solar make up over 11% of total generation.

Chevron Australia LNG workers union delays strike one day

(Reuters; Sept. 6) - Workers at Chevron's liquefied natural gas production facilities in Australia have agreed to pause planned strike action for one day, hours before they were due to begin industrial action in an ongoing dispute that has rattled gas markets. The workers will delay strike action until 6 a.m. local time in Perth on Sept. 8, two union representatives, who declined to be identified, told Reuters late on Sept. 6. The reason for the pause was not immediately clear.

Industrial action had been scheduled to begin at 1 a.m. local time on Sept. 7 as ongoing disputes over pay and conditions remained unresolved. Unions and Chevron have been participating in mediation talks hosted by the Fair Work Commission, Australia's industrial umpire, all this week. "There must have been progress on the negotiations, with Chevron moving more toward the unions requests, that has seen the unions willing to allow some more time before striking," said energy analyst Saul Kavonic.

Australia is one of the world's three biggest LNG exporters and the ongoing dispute has stoked volatility in natural gas markets, as traders worry about the risk of long-term disruption. Chevron's Gorgon, Australia's second-largest LNG plant, and its Wheatstone operations account for more than 5% of global LNG capacity.

China’s EV advocate sees hydrogen vehicles as next breakthrough

(Bloomberg; Sept. 6) - The architect of China’s world-leading electric vehicle push is convinced hydrogen vehicles will play an important role in the world’s biggest auto market. They will be key especially in China’s northwest, where distances between cities are long and electric car adoption is low, Wan Gang said on Sept. 6 in Munich.

“First we need to build a green hydrogen system,” Wan said at a German-Chinese conference on the sidelines of a car show. In some regions, plug-in hybrid and hydrogen cars could even be more prevalent than fully electric models, he said. A former Audi executive who went on to become China’s science and technology minister, Wan convinced leaders two decades ago to bet on vehicle electrification, selling it not only as a way to boost economic growth but also to tackle China’s dependence on oil imports and pollution. His strategy made China the dominant market for EVs.

Promoting hydrogen is “very beneficial” as the fuel can also be used in maritime and rail transport, said Wan, a mechanical engineer trained in Germany. Hydrogen vehicles are struggling to take off because of high costs and a fledgling fueling infrastructure.