Options trading firm blows up amid natural gas volatility



Accounts managed by Optionsellers.com "had to be liquidated as a result of these moves," said INTL FCStone, the company's futures broker. As its name made plain, Optionsellers.com specialised in selling options contracts to earn income for its investors.

The Tampa, Florida-based company, headed by James Cordier, has been registered as a commodity trading adviser since 2010, according to records at the National Futures Association, a regulatory body. NFA declined further comment.

On Monday, the Optionsellers.com website contained only its name and contact information. Calls to the company were not returned.

Options give holders the right to buy or sell financial products at an agreed price by a given date. Selling options can be a reliable source of revenue when markets do not fluctuate.

However, it can also be an extremely risky strategy. If prices

suddenly dive or jump — as they did in oil and gas — the seller can lose almost everything.

Natural gas was long one of the most volatile commodity markets, but surging production from shale formations reduced shortages and damped price moves. In August realised volatility in Nymex gas futures dropped to the lowest level since 1991.

Last week's move "was out of the ordinary given we had such low volatility for the past four, five, six years. You get kind of lulled," said Joe Raia, managing director at RJ O'Brien, a futures broker.

An archived version of Optionsellers.com website said the company specialised in dealing options on commodities. "There is only a small segment of the investment community that knows how to deploy it in a portfolio. The tough part is finding somebody that knows how to do it — right," the website said.

Opening a "starter account" required an initial investment of \$500,000, with "founder's club" and "platinum club" tiers set at \$1m and \$10m, respectively.

"Once you're in, you're one of our family. One of us. One of the elite. You're an Option Seller," the website said.

FCStone, a clearing firm at the futures exchange, is required to collect collateral from traders and post it at the exchange clearing house. An FCStone spokesman declined to comment on whether Optionsellers.com customers faced calls to repay any debit balances, but said their accounts were well collateralised.

"Liquidation of these accounts was in accordance with our customer agreements and our obligations under market regulation and standards," the New York-based broker said.

Last week's turmoil in energy markets began when crude oil

futures dropped about 7 per cent on Tuesday. This was followed in natural gas by a rise of 18 per cent on Wednesday, then a 16.5 per cent fall on Thursday.

The volatility continues: on Monday, Nymex December gas closed 10 per cent higher at \$4.70 per million British thermal units.

IEA: Too early to tell if Opec+ oil supply reductions will succeed



The International Energy Agency said it's too early to tell whether oil-supply cuts announced by OPEC and its allies last

week will succeed in balancing global markets.

Even if the Organization of Petroleum Exporting Countries and its partners reduce production as promised, there could be some surplus in 2019, according to a monthly report from the agency. The IEA slashed its forecast for new supplies outside OPEC next year because of a lower outlook for Russia — which is cooperating with OPEC — and Canada, which is separately suppressing output to deplete brimming inventories.

"Time will tell how effective the new production agreement will be in rebalancing the oil market," said the Paris-based IEA, which advises most of the world's major economies on energy policy. "Stocks have been building with the potential for significant oversupply next year."

Too Early to Tell

OPEC's cuts may not eliminate the surplus, but further losses from Iran and Venezuela could further shift the market's balance, the IEA says

Note: Both sets of figures still include production from Qatar, which will leave OPEC next month

Oil prices remain stuck in a bear market, trading near \$60 a barrel in London, despite the agreement by the 24-nation coalition known as OPEC+ to curb production by 1.2 million barrels a day. Traders are speculating that the cutbacks aren't deep enough, and that booming U.S. shale production will unleash a new surplus.

At just over 33 million barrels a day in November, OPEC is pumping well in excess of the 31.6 million a day the IEA estimates is required on average next year. Even if the coalition delivers its pledged cutback in full, it might not be enough to check a glut, though the IEA noted the potential for continued declines in supply from Iran and Venezuela.

OPEC Report

OPEC's own monthly report, published Wednesday, presented similar findings. While the cuts might be sufficient to keep supply and demand in balance in the first half of next year, the coalition may need to almost double the reduction in the fourth quarter, data from the report indicated.

The IEA assumes that Russia will participate in the cutbacks as agreed, and lowered projections for non-OPEC supply accordingly. The non-OPEC outlook was also reduced as the Canadian province of Alberta dials back output to clear a backlog that's clogging up local infrastructure.

Non-OPEC oil production is now forecast to increase by 1.5 million barrels a day in 2019, down 22 percent from the 1.9 million a day estimated in last month's report. Forecasts for global oil demand were kept unchanged.

Supply growth outside OPEC, which is driven by the U.S. shale-oil industry, is also being constrained as the construction of pipelines and other infrastructure fails to keep up with surging output at the Permian Basin and Bakken formation.

Despite the reduced supply outlook, the IEA report showed how OPEC's task of keeping markets balanced remains formidable.

Stockpiles Grow

Oil inventories in developed nations are above average levels again, after increasing for a fourth month in October. They stood at 2.87 billion barrels, the highest since January.

Although the IEA had warned OPEC that efforts to boost prices could hurt the global economy, the report didn't criticize the group's strategy.

Just last month IEA Executive Director Fatih Birol said that output curbs risked tightening markets excessively, having previously cautioned that prices had approached the "red zone" that inflicts damage on economic growth.

"Recently, prices have been volatile," the agency said in its latest report. OPEC is due to meet again in April, "and we hope that the intervening period is less volatile."

IEA Says OPEC's Unplanned Supply Losses Could Double Its Cut



OPEC may be about to succeed by accident, again.

Unplanned supply losses from members Iran and Venezuela could effectively double the intended cutback of 800,000 barrels a day the cartel pledged last week, according to the International Energy Agency.

There's a precedent for this: It was the Latin American country's collapsing oil industry that accelerated OPEC's effort to clear a supply glut in 2017. This time, U.S. sanctions on the Persian Gulf nation could amplify that effect.

Going Deeper

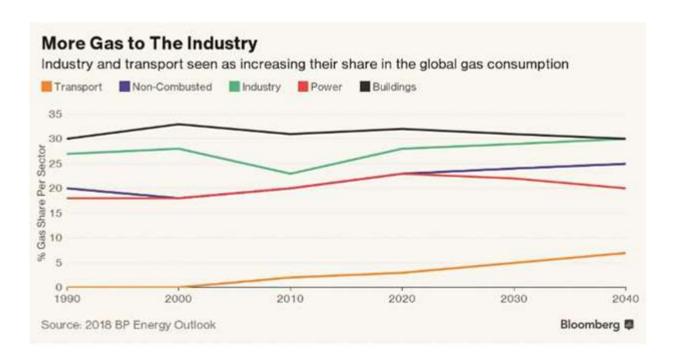
The IEA assumes Iran and Venezuela's losses will double the size of OPEC's cuts

OPEC production may decline by 1.4 million barrels a day from October levels to 31.5 million a day during the first quarter and then slip further to 31.2 million in the second, according to the IEA's monthly oil market report.

The reduction, which the agency says is an assumption rather than a forecast, includes both the planned OPEC cutback of 800,000 barrels a day, plus involuntary losses of 600,000 barrels day in the first quarter from Iran and Venezuela — both of whom are exempt from making voluntary cuts. In the second quarter, the pair's reduction will rise to 900,000 barrels a day, the IEA said.

If the agency's assumptions are correct, global oil inventories could shrink substantially in the second quarter, a phenomenon that's often accompanied by rising prices.

Natural gas tries to eke out a future in greener world



Bloomberg/Frankfurt

The natural gas industry is trying to up its green credentials as it bids to join electric cars and renewable power plants in a lower-emission future.

European energy companies spent years touting the role gas can play as a transition fuel to replace dirtier sources of roundthe-clock power. Now they are increasingly promoting gas as a cleaner alternative to oil products in transportation and investing in technology to produce less-polluting fuel.

"Natural gas will play a bigger role in a greener world," Guy Smith, head of gas trading at Swedish utility Vattenfall AB, said on Tuesday. "It will be the fuel of choice for an intermediary situation towards a greener economy, and after that, new technologies will come and drive the markets."

With governments and investors increasingly concerned about climate change, and meeting in Poland for UN climate talks, the natural gas industry has questioned its own survival. The fuel's share in primary energy supply is expected to rise to a quarter by 2040, though annual consumption growth is expected to slow to 1.6% from 2.3% over the 25 years to 2016, according to the International Energy Agency.

The fact that natural gas is less polluting than other fossil

fuels, with emissions as much as 55% below those of coal, have made it an energy company darling. Companies from Scania AB to Royal Dutch Shell Plc are investing to increase the role of natural gas in the transportation sector.

"The view that gas is just a transition fuel is changing," said Eva Hennig, chairwoman of the distribution system operators committee at Brussels-based industry lobby group Eurogas.

Austria's OMV AG is assessing a liquefied natural gas corridor for trucks from Germany to Bulgaria, one of the main traffic routes for international heavy traffic in Europe, it said in an emailed statement. The company, which operates more than 2,000 filling stations in 10 countries, declined to provide more details on the investment.

"If you want to stay in the game, you have to play it and decarbonise," said Kaloyan Tsilev, EU affairs manager at Brussels-based lobby group Natural & Bio Gas Vehicle Association Europe. "Change the portfolio to accommodate the demand."

Shell expects the global market for LNG as a transport fuel to quadruple by 2030 as implementation of government policies that tax carbon emissions prompts demand for cleaner sources.

"Transport is an area where gas hasn't played a role historically, but it can," Steve Hill, executive vice-president at Shell Energy, said at a conference in Lisbon last month. "Cars will be electrified eventually, but heavy-duty transport, where you have to move heavy loads long distances is not very suitable for batteries and electricity, which can be a segment for LNG."

The challenge for natural gas to expand into transportation is the lack of political will and a better regulation framework, according to Manfred Leitner, an executive board member at OMV. Current European legislation focuses on vehicles emissions, which put electric cars in a better position than other technologies.

"There are incentives only for electric cars. They are defined as low emitters, but when you look at the whole chain you ask

yourself where the electricity comes from?," Leitner said in a telephone interview. "The gas for mobility market would fly if there was political will. We see a better future with a mix of technologies."

Natural gas companies are also investing in technology to clean the fuel. Green gas should help Engie SA, Snam SpA, Gas Natural SDG SA and other electricity generators as well as operators of gas pipelines and storage facilities to ensure long-term demand for existing infrastructure, Elchin Mammadov, a Bloomberg Intelligence industry analyst, said in a recent report.

"The decarbonisation of gas is possible and is a very important part of the narrative of the climate talks" taking place this week in Poland, said Dr Ludwig Mohring, head of German oil, gas and geothermal energy lobby BVEG said at a conference in Berlin last month. "Natural gas will be the second element next to renewables."

U.S. Oil Surge Makes Bank of Russia Skeptical on OPEC+ Success



Russia's central bank is not convinced that OPEC and its allies' supply cuts can revive the oil market as it's being countered by surging U.S. production.

The Bank of Russia cut its crude price outlook for next year to \$55 a barrel from \$63 on higher supply risks, mainly related to "fast output increase" in America, according to Governor Elvira Nabiullina. Just a week ago the country's Energy Minister Alexander Novak brokered a deal that led to the so-called OPEC+ group agreeing to cut production by 1.2 million barrels a day in an effort to boost prices.

Crude remains stuck in a bear market, trading around \$60 a barrel in London, despite the larger-than-expected output reduction. While most, including the International Energy Agency, expect the curbs to reduce global stockpiles in the first half of 2019, resultant higher prices could help American drillers boost production. Legendary oil trader Andy Hall said the U.S. shale boom has made it far harder to predict global supplies.

OPEC kept 2019 forecasts for global oil supply and demand

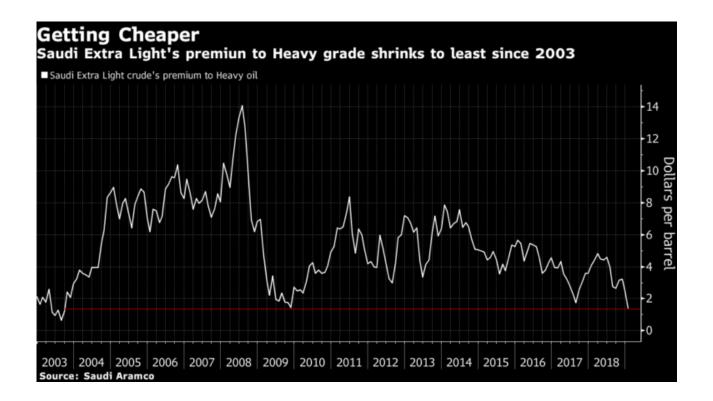
mostly unchanged in its most recent monthly report this week. However, it said production from outside the group, powered by U.S. shale drillers, is poised to expand 2.16 million barrels a day next year, faster than the 1.29 million a day increase in demand, the report showed.

U.S. oil production is expected to top 12 million barrels a day next year, up from 10.88 million in 2018, according to the Energy Information Administration.

Though the Bank of Russia is traditionally cautious in its outlook, it cited crude market risks as a key factor in raising the benchmark interest rate for the second time this year on Friday. Besides shale output exceeding "expectations of many," softening global demand is also a concern, Nabiullina said.

"We see risks of oil-price reduction related to demand and supply factors," she said. "We see how outlooks for global economic growth are gradually being revised down."

Saudi Oil Premium Drops to 15-Year Low as Fuel Profits Crash



Saudi Arabia's crude pricing in the world's biggest oil market is reflecting tumbling profits from making cleaner fuels in Asia.

State-run Saudi Aramco slashed the premium of its Extra Light grade to its Heavy crude to the lowest since 2003, data compiled by Bloomberg show. When lighter varieties of oil are refined, they typically yield more of relatively clean products such as gasoline and petrochemical ingredient naphtha. The market for such fuels has been mired in a glut over the past two months.

While the world's biggest oil exporter cut pricing on all its grades for January sales to Asia in a bid to take back market share lost to the likes of Russia and the U.S., the significant reduction in the premium for its lighter varieties shows the kingdom is probably taking into account the shrinking margins in the region for cleaner fuels as well as focusing on tackling competition from other sellers.

Fereidun FesharakiPhotographer: Charles Pertwee/Bloomberg "Gasoline and naphtha are dying and margins still haven't

reached their worst," Fereidun Fesharaki, chairman of industry consultant FGE, said in an interview in Singapore. "In Asia, Saudi prices are based on purely product yields and the competition they see from the outside."

Oil refiners in Asia are fetching better returns by producing dirty fuel oil than from cleaner naphtha for the first time in more than a year, data compiled by Bloomberg show. Concern over falling petrochemical consumption is said to be dragging down prices of the so-called light distillate, while stockpiles swell in the regional trading hub in Singapore.

The gasoline refining margin in Asia was at a discount of 14 cents a barrel to Brent crude on Tuesday, according to PVM Oil Associates data. It had dropped to 66 cents on Nov. 28, the biggest discount since 2011.

In China — one of the key markets where Saudi Arabia is seeking to reassert its crude dominance — refineries are doubling down on processing to boost diesel output aimed at heating millions of homes this winter, and therefore contributing to an increase in supplies of other products such as gasoline and naphtha. The nation has also raised its total fuel-export quotas by 12 percent for 2018 in a move that would allow more seaborne sales.

The premium of Saudi Arab Light crude, which yields more light as well as middle-distillate fuels such as diesel, over Arab Heavy for January sales to Asia also shrank to the smallest since November 2009, data compiled by Bloomberg show.

Meanwhile, with global crude prices stuck in a bear market, OPEC — in which Saudi Arabia is the largest producer — and its allies including Russia will decide this week on output curbs that may reduce export flows starting as early as January. Still, Saudi and Russian officials are said to differ on how to share the burden of any cuts. At the same time, the U.S. is pumping record amounts and shipping more to Asia.

"Saudi is facing more competition now and the U.S. competition becomes much bigger next year," FGE's Fesharaki said.

Total denied Brazil off shore drilling licences in Amazon Reef



Total SA was denied per- mission to drill fi ve deep- water blocks in the Ama- zon Reef off Brazil's coast over biodiversity concerns. The Brazilian Environment Agency, known as Ibama, said on Friday that oil exploration in the area could threaten sea life in case of a spill. Plus, documents presented during the fi ve- year assessment failed to ensure an adequate emergency plan would be in place, the agency said. The denial comes three weeks before President-Elect Jair Bolsonaro — who has strongly criticised Ibama's environmental

licensing and promised more resource explo- ration in the Amazon — takes office on January 1. Total won the licences during Brazil's 11th oil round in 2013 in partnerships with BP Plc and state-controlled Petroleo Bra- sileiro SA.

The company will an- alyse documents sent by Ibama and decide on the next steps, ac- cording to an e-mailed response to questions. "Ibama did the right thing in denying Total its licence to drill," said Thiago Almeida, a climate and energy campaigner for Greenpeace Brazil. "More than 2mn Amazon Reef defend- ers from all around the world stood up against Total's reck- less plans to drill for oil near this unique and biologically signifi — cant area."

Huawei Arrest Keeps U.S.-China LNG Spat Alive, Developer Says



The arrest of a top Chinese technology executive means the tariff war that ensnared liquefied natural gas may not have reached a cease-fire, according to the developer of a U.S. project to export the fuel.

Liquefied Natural Gas Ltd. has been cautioned by prospective Chinese buyers of supply from the terminal it plans to build in Louisiana "that things are not resolved" on the trade front, Chief Executive Officer Greg Vesey said in an interview Friday. The potential purchasers' comments came after Canada said the U.S. is seeking to extradite Huawei Technologies Co. Chief Financial Officer Wanzhou Meng over potential violations of sanctions on Iran.

The snag comes just days after Chinese officials were said to have started preparing to resume imports of U.S. LNG and soybeans as President Donald Trump touted a breakthrough in talks between the two nations. Developers of multi-billion-dollar U.S. gas export terminals — projects typically underpinned by long-term supply contracts — have been courting China, which emerged this year as the world's biggest gas importer.

"The whole trade issue put a damper on things directly with

Chinese customers and the rest of the buyers are also sitting back," Vesey said. Still, the developer has had ongoing conversations with Chinese companies, he said.

Vesey aims to sign deals and make a final investment decision to proceed with the Magnolia LNG project in the first half of 2019. But as the trade dispute persists, the timing "is a little iffy," he said.

Where to American Fuel?

China is the U.S.'s third-biggest LNG market, but trade war stands to clip shipments

Sources: Bloomberg Vessel Tracking, IHS, Genscape, DOE

Shale will take Opec cut but no longer needs it



U.S. shale's response to OPEC's decision to cut supply and boost prices: We'll take it, but we don't need it.

In 2014, the U.S. oil industry's fate seemed to rest in the hands of OPEC ministers who were flooding the market with cheap oil in a push to obliterate them. Now, the cartel is in full retreat, agreeing to cut output to keep their own economies healthy even as U.S. production continues to surge.

The move came in a week in which oil fell to near \$50 a barrel, a price that four years ago would have panicked U.S. drillers. But since then, shale explorers have cut costs, boosted fracking efficiency and made wells longer and more productive. The result: Break evens for a 30 percent profit have been almost halved to just \$45 a barrel in the prolific Permian Basin.

"The shale industry can now thrive in a \$50 oil world," David Deckelbaum, a New York-based analyst at Cowen & Co., said by phone. The OPEC decision to support prices over \$50 in the U.S. "underwrites most of the industry."

U.S. oil producers are now generating 11.7 million barrels of oil a day, about a third more than in 2014, with almost half the number of rigs. And last week, the industry became a net exporter for the first time in 75 years.

To be sure, the breakevens companies often cite don't necessarily mean producers will be pumping big profits at \$50-a-barrel oil. They exclude corporate expenses and land acquisition costs, which can be substantial. Still, they remain strongly indicative of the "drill or no drill decision," said Ian Nieboer, an analyst at RS Energy Group who sees the U.S. pumping an extra 1 million barrels a day in 2019.

"The full pace and capability of the U.S. industry is not yet completely appreciated" by OPEC and its allies, Nieboer said in an interview. "Everybody is still catching up to how efficient this industry has become."

Oil producers in the U.S. are "breathing a sigh of relief" as a result of the OPEC agreement, said Saudi Arabia's oil minister Khalid Al-Falih said at a news conference in Vienna on Friday. Low oil prices are "not good for the U.S. economy,"Al-Falih said, adding that America now has "more at stake" alongside Saudi Arabia because U.S. oil output has increased.

In 2014, wells drilled in the Permian, home to a third of U.S. output and the world's fastest-growing major oil field, needed a price of \$86.10 a barrel to turn a 30 percent profit, according to Calgary-based RS Energy Group. Now that figure is \$45 a barrel, giving producers incentive to drill at current prices. The story is similar story for the Eagle Ford in south Texas and the Bakken in North Dakota.

OPEC and their allies, including Russia, met in Vienna on Thursday and Friday. The agreement they made was to remove 1.2 million barrels a day from the market, with OPEC itself

shouldering 800,000 barrels of the burden. Following the announcement, oil in New York jumped by as much as 5 percent to \$54.22 a barrel.

OPEC Cut Throws Wrench Into Record Oil Short-Selling Streak

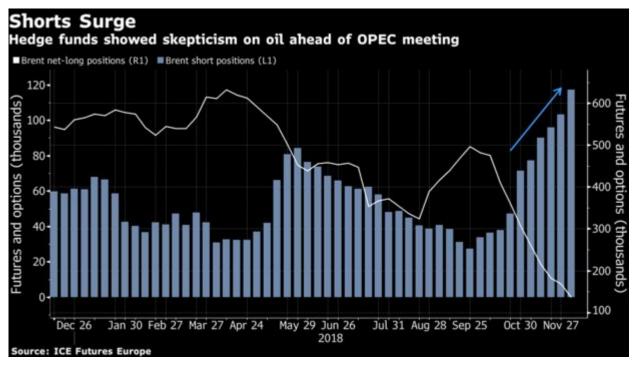


OPEC's surprise output reduction has wrong-footed short-sellers.

Hedge funds cut bets on rising Brent crude prices to the lowest in more than three years in the week through Tuesday as short positions increased for a 10th straight time, the longest streak on record. Then on Friday, OPEC and its allies

surprised the oil market with a bigger-than-expected cut, sending futures surging and leaving money managers pressed to unwind their bearish wagers.

"Now that we've seen this fundamental shift in the market, I would expect there to be good support down at these prices levels and lead those newly established shorts to start covering," said Ryan Fitzmaurice, an energy strategist at Rabobank.

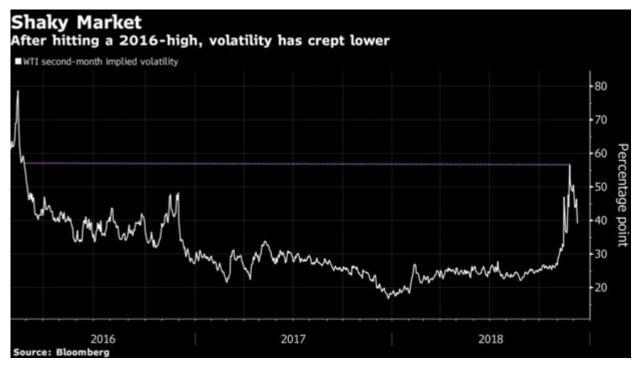


After much back-and-forth between producers in Vienna, OPEC and allies agreed to collectively cut production by 1.2 million barrels a day, with the cartel shouldering 800,000 barrels a day. Saudi Arabia had previously said a 1 million barrel-a-day cut was the likely scenario. The agreement will be reviewed in April.

Hedge funds' net-long position — the difference between bets on higher Brent prices and wagers on a drop — declined 19 percent to 136,466 contracts, ICE Futures Europe data show for the week ended Dec 4. That's the least bullish since August 2015. Longs slid 6.6 percent, while shorts jumped 14 percent to the highest since July 2017.

After OPEC's announcement, "people will start to be a little

more comfortable deploying net-length into the sector," said Chris Kettenmann, chief energy strategist at Macro Risk Advisors LLC. "OPEC has basically said, we've got you, we're going to take down production."



Ahead of OPEC's deal, observers were also focusing on how tense the market has been. Implied volatility for second-month West Texas Intermediate futures hit a 2016-high late last month before slowly creeping lower.

Volatility at these levels is "untenable for not only market participants, but industry participants needing to deploy capex into next year," said Kettenmann. "OPEC is doing what they should do, managing volatility to attract capital back to the sector."

But, some remain skeptical that the deal is enough to make a dramatic change in the oil market.

"A fair question the market has to ask now is, will this be enough?" said Rob Haworth, who helps oversee about \$151 billion at U.S. Bank Wealth Management in Seattle. Are there enough signs that this \$50-\$55 price range is low enough to limit the growth of U.S. shale production so 1.2 million barrels is enough, and will it be enough in the face of what

we see as a slowing global economic environment?"

The report from the U.S. Commodity Futures Trading Commission on WTI wagers was delayed until Monday, following a day of mourning earlier last week for former President George H.W. Bush.