Saudi triumphs in oil market with comeback from the Covid crisis

Bloomberg Riyadh/London

When the Opec+ alliance of oil producers gathers next week, group leader Saudi Arabia can savour a moment of triumph.
Eighteen months after slashing crude production during the pandemic, Riyadh is set to pump at almost pre-Covid levels of 9.8mn barrels a day this month as a recovering global economy clamours for energy supplies.
Furthermore, by bringing those shipments back slowly enough to avert a new surplus, Saudi Energy Minister Prince Abdulaziz bin Salman has revived crude prices to $80 a barrel. That’s swelled the kingdom’s petroleum revenues to a three-year high, putting them on track for an even bigger payout in 2022.
“Opec+ has had a very good year,” said Ben Luckock, co-head of oil trading at commodities merchant Trafigura Group. “They have delivered: they have managed to thread the needle.”
That’s a far cry from the tumult of last March, when the

plunge in fuel demand briefly pitched Organization of Petroleum Exporting Countries and its partners into a vicious fight over customers. Those bitter memories seem very distant as the 23-nation network — jointly led by the Saudis and Russia — prepares to meet on Monday.

If there's a threat to the delicate balance Opec+ has achieved, it's that the market could overheat and prices rise too high.

The alliance has signalled it will stick with its schedule of modest production increases by approving another 400,000 barrel-a-day increment for November. But the market has shifted since that road map was agreed in July.

The shortage of natural gas, which has sent prices to the equivalent of $190 a barrel, is spurring a switch to oil products for heating and manufacturing, boosting overall demand. US oil production is still recovering from Hurricane Ida, which has knocked out a total of almost 35mn barrels after slamming the Gulf of Mexico a month ago — equivalent to almost two full months of Opec+ supply increases.

Anxiety among key consuming nations is palpable, especially if they end up experiencing a cold winter. China has instructed top energy firms to secure supplies at any cost. US President Joe Biden's administration says it has reminded Opec of the need to support the recovery, and National Security Adviser Jake Sullivan met with Saudi Crown Prince Mohamed bin Salman last week.

"Opec will come under increasingly intense pressure from Washington to open the production release valve and cap the upside" in prices, said Helima Croft, chief commodities strategist at RBC Capital Markets. "An increase beyond the 400,000 barrels a day is a live option for Monday."

That's a view shared by the world's largest independent trader, Vitol Group. Not only is demand being boosted by the shortage of natural gas, the supply outlook is tightening as prospects diminish for a swift deal to revive Iranian exports, said Chris Bake, the company's head of origination.

Tehran and Washington have been involved in negotiations to reactivate a nuclear accord — and lift US sanctions on Iranian oil shipments — but the talks have so far made little headway. As a result, roughly 1.4mn barrels a day of Iranian crude that traders thought might be entering the market in late 2021 remains absent.

Some Opec+ delegates say privately that the increase approved at Monday’s meeting could be bigger than the scheduled 400,000 barrels a day. Scenarios for larger hikes have been considered, said one official.

Saudi Arabia doesn’t want to see prices spiral toward $100 a barrel, as excessive fuel costs would curtail demand and stimulate a revival in US shale output, according to people familiar with the kingdom’s thinking.

A spike in crude prices — just weeks before world leaders gather in Glasgow, Scotland, for a fresh round of climate talks intended to shift the world away from fossil fuels — could boost support for the transition to renewable energy.

Another headwind?: global gas price spike worries energy execs

DUBAI/LONDON, Sept 21 (Reuters) — Energy executives gathered in Dubai on Tuesday for the first time since the COVID-19 pandemic started, but despite being upbeat on economic recovery, they were concerned about another headwind: a global gas price spike.

Natural gas prices have soared by around 280% in Europe this year and by more than 100% in the United States, pushing up winter fuel bills, and exacerbating a near-term spike in inflation in another blow to a world economy as it recovers from the coronavirus crisis.

Low storage inventories, high demand for gas in Asia, less Russian and liquefied natural gas (LNG) supply to Europe than usual, high carbon prices and outages have led to the spike and analysts expect prices to remain elevated until 2022 or even 2023. read more

At the Gastech industry conference, energy executives were concerned about the “sweet spot” of prices acceptable for customers and still high enough to incentivise investments, while others warned of shortfalls in the event of a severe upcoming winter.

The chief executive of Malaysia’s state energy firm Petronas (PETRA.UL) said that a gas price of $7-$8/mmBtu could be a “sweet spot” for customers and allow infrastructure investments to continue.

“Natural gas needs to be embraced as a transition fuel. A decarbonised future does not mean a hydrocarbon-free future,” Tengku Muhammad Taufik said.

Meanwhile, OPEC Secretary General Mohammed Barkindo blamed high prices on the shift to renewable energy sources.

The average LNG price for November delivery into Northeast Asia was estimated at about $24-$25 per metric million British thermal units (mmBtu) last week, while benchmark European natural gas prices have surged to around $25/mmBtu from around $6-7/mmBtu at the start of the year.

BURDEN BUT 'NOT A CRISIS'

Qatar's energy minister said he believes high gas prices reflect a lack of investment, as well as a shortage of supply, but stopped short of calling the situation a crisis.

"I don't think it is a crisis (yet). Unfortunately, in my view, this (price spike) is due to the market not investing enough in the industry," said Saad al-Kaabi, Qatar's energy minister and the CEO of state-owned Qatar Petroleum (QATPE.UL), the world's top liquefied natural gas (LNG) supplier.

"We don't want these high prices: we don't think it is good for consumers. We don't want $2 and we don't want $20, we want to have a reasonable price that is sustainable."

United Arab Emirates energy minister, Suhail al-Mazrouei, said current prices could be a burden on many countries.

He too blamed the spike on a slowed pace of investments in gas, adding that gas prices were not sustainable at a level of $2 or $3 either.

"New investments need to be there, we are talking about investments to the north of a trillion dollars to satisfy (demand) requirements for the years to come," Mazrouei said.

"I am afraid it is not going to be magical…we will go through ups and downs until the market realises the right price," he added.

Some countries have agreed to reduce emissions to net zero by 2050 or earlier, meaning a shift away from fossil fuels, but many energy officials said consumers will pay the price.

The Qatari energy minister said the "euphoria around energy transition" was pressuring companies not to invest in gas or oil projects, while his Emirate counterpart called for honest, practical plans.

“There is a drive for being emotional about net-zero carbon emissions, but I think we need to be honest with the consumers and tell them what is going to be the cost associated with net zero,” UAE’s Mazrouie said.

Analysts at WoodMackenzie said separately on Tuesday that the economics of existing gas operators are difficult and new-buld can present a substantial and unattractive risk, particularly in climate-wary Europe.

For French energy group Engie (ENGIE.PA), the price spike was “not good news” and the company’s deputy chief executive, Didier Holleaux, said he was worried that current gas prices may continue for foreseeable future with gas storage levels not as high as usual for this time of year.

“Hopefully the start of the winter will not be so cold in the north hemisphere. If not, we are in trouble. Forecasts for temperatures in three months’ time are just the worst.”

(This story was refiled to remove reference to event being held in hotel in lede)

Additional reporting by Yousef Saba in Dubai, writing by Marwa Rashad and Nina Chestney in London; editing by Jason Neely and Barbara Lewis

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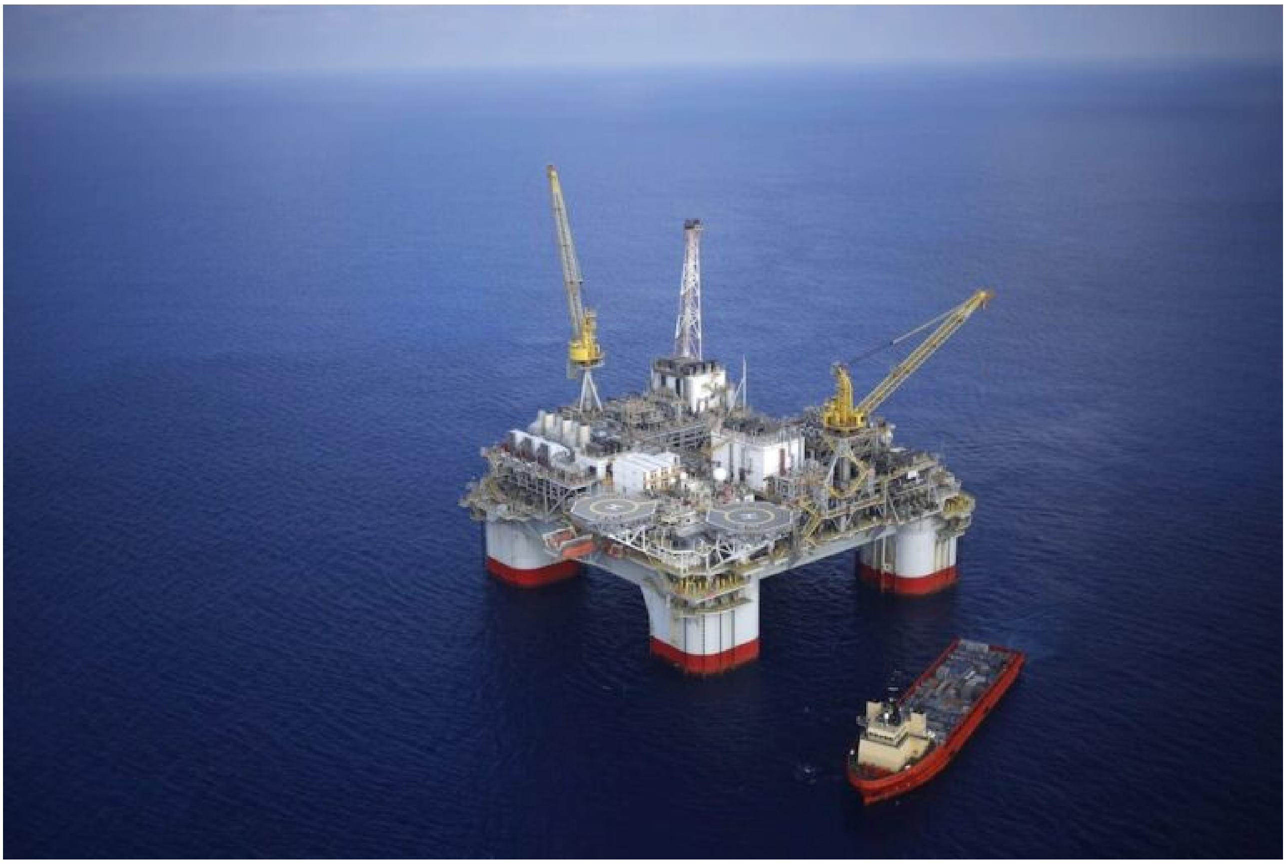
How U.S. Presidents Use the Strategic Petroleum Reserve



As U.S. president, Joe Biden can tap the nation’s emergency oil stockpile to make up for supply shortages — be they disruptions to crude flows such as in Louisiana this week after Hurricane Ida, or price spikes caused by geopolitical instability in the Middle East. The tool at his disposal is the Strategic Petroleum Reserve, set up in the aftermath of the Arab oil embargo in the 1970s as a national energy safety net. It’s the world’s largest supply of emergency crude, stored in deep and heavily guarded underground salt caverns along the U.S. Gulf Coast.

1. How much oil is in reserve?

The reserve stood at 621.3 million barrels as of Aug. 20, enough to replace more than half a year’s worth of U.S. crude net imports. Current inventory is about 87% of its maximum authorized storage capacity.

2. In what circumstances can presidents release stockpiled oil?

It’s pretty much the president’s prerogative. But the 1975 law that established the reserve says a president can order a full drawdown in the event of a “severe energy supply interruption” that threatens national security or the economy. A limited drawdown (up to 30 million barrels) can be ordered in the event of “a domestic or international energy supply shortage of significant scope or duration.”

3. Have presidents tapped the reserve before?

Yes. In 2011, President Barack Obama released 30 million barrels as part of a joint effort with other nations to counter supply disruptions from Libya. In 2005, President George W. Bush released 11 million barrels in the wake of Hurricane Katrina. And in 1991, under President George H.W. Bush, 17 million barrels were released during the first Gulf War. Test releases take place from time to time, as well as limited releases in the form of swaps. In 2017, the Energy Department authorized the release of 5 million barrels to Gulf Coast refineries when Hurricane Harvey wreaked havoc on the region. Such arrangements are designed to address short-term emergency needs, and the crude is repaid, in kind, at a future date.

4. What’s happening in the wake of Hurricane Ida?

Exxon Mobil Corp. is starting its huge Baton Rouge refinery and needs a large amount of crude to process, and fast. Major disruptions to nearby pipelines and production facilities in the wake of the storm have spurred the oil giant to ask for up to 1.5 million barrels of oil from the reserve to temporarily replace its usual supply sources. The Department of Energy is encouraging refiners to prioritize making products such as gasoline, which is badly needed in the area for cars and generators.

5. What does a release entail?

The maximum drawdown capability is 4.4 million barrels a day, according to the Energy Department’s website, and it takes 13 days for SPR oil to reach the open market after a presidential decision. But the mere announcement that the SPR is being deployed could have an immediate, if short-lived, effect on oil prices.

6. What’s the outlook for the U.S. stockpile?

The domestic shale boom has allowed the U.S. to join the ranks of the world’s biggest oil producers, lending weight to arguments that the emergency reserve is past its sell-by date. But in recent months shale production has stalled, demand has increased and imports have also gone up. In the past the reserve has been used to pay government bills ranging from roads to deficit reduction and drugs, and current plans are for the stockpile to be cut almost in half over several years. But periodic use of the reserve after natural disasters may be the most effective rebuttal to the case for doing away with it.

More stories like this are available on bloomberg.com

Oil survey reveals a divide on when global demand will peak

The accelerating shift to cleaner energy poses a challenge for global oil demand in the next decade, according to a Bloomberg Intelligence survey, but responses were divided as to whether consumption will return to pre-pandemic highs.

About 39 percent of respondents see demand slightly above the pre-COVID level of 100 million barrels a day in 2030, while 30 percent expect consumption to fall short of that mark. With fuel efficiency, electric vehicles and green reforms enacted in the wake of the pandemic creating headwinds for crude sales, OPEC is likely rein in output for a prolonged period to avoid oversupply, BI said.

Some forecasters expect crude demand to peak sooner rather than later. Goldman Sachs Group Inc. sees consumption topping out in 2026, while BP has said the era of demand growth may already be over. The International Energy Agency has taken a more conservative view, predicting a plateau around 2030.

QP received offers for double the amount of equity available in NFE project: Kaabi

Tribune News Network
Doha
Minister of State for Energy Affairs and Qatar Petroleum President and CEO HE Saad Sherida Al Kaabi said that Qatar Petroleum has received offers for double the equity available to potential partners in the bidding process for the North Field East project.
Speaking at the Qatar Economic Forum (QEF), Kaabi stated that Qatar Petroleum was in the process of evaluating commercial offers received for participation in the largest LNG development in the world with a capacity of 32 million tonnes per annum of LNG, and that Qatar Petroleum had received offers

that cover double the offered equity stake.
As part of the same process, Kaabi said, Qatar Petroleum had received offtake commitments, sales and purchase agreements for double the 32 million tonnes per annum volume on offer.
The NFE project is unique in the LNG world because of its advanced environmental characters, including significant carbon capture and sequestration capacity.
These remarks were made during a Qatar Economic Forum session on ‘Energy Shifts’ in which Kaabi was a panellist along with Royal Dutch Shell CEO Ben van Beurden, TotalEnergies Chairman and CEO Patrick Pouyanne and ExxonMobil Chairman and CEO Darren Woods.
The session, which was also broadcast on Bloomberg TV and its media platforms focused on the energy transition and the underlying climate change concerns driving net zero emissions targets.
Discussing the ongoing energy transition, Kaabi said, “We see natural gas and the energy transition joined at the hip. Gas and LNG is part of the solution for a longer-term transition. We are investing the majority of our capex in LNG, but we are also investing in renewables such as solar, here in Qatar and also worldwide.”
Kaabi, however, raised concerns about underinvestment in oil and gas projects, given the focus on energy transition.
“Gas and LNG are important for the energy transition. However, there is a lack of investment in oil and gas projects that could drive energy prices higher. It could cause a significant shortage in gas between 2025 and 2030 that, in turn, could cause a spike in the gas market,” he said.
On carbon capture and sequestration, Kaabi highlighted the fact that Qatar started decarbonising its LNG a while ago and that it currently captures and sequesters two million tonnes per annum of CO_2, which will grow to 9 million tonnes by 2030.
“We are doing it very responsibly and we will be part of the solution for the long term,” Kaabi said.
The panellists warned that energy transition is not only about

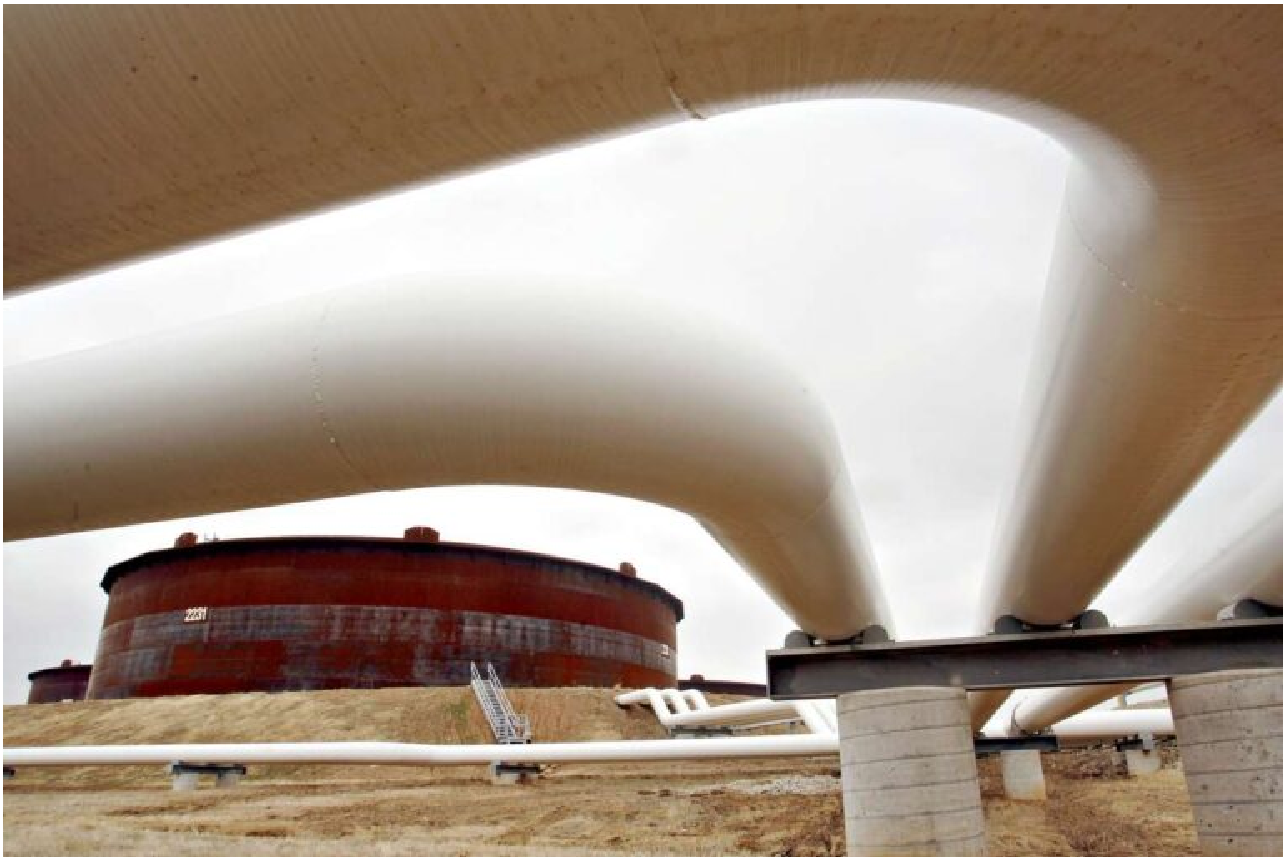
the producers, but also about end-users and their consuming behaviours.

Kaabi also highlighted the fact that the energy transition needs to take into consideration the requirements of the developing world, including the 0.8-1.0 billion people who are deprived of electricity and basic fuels today to ensure a balanced approach that takes human development and economic growth in these developing nations into account, and that actions taken need to be responsible for the collective wellbeing of all of humanity.

Kaabi said that in the effort to put policies in place to reduce CO_2 level, there is a challenge represented by the bill that has to be paid to bridge that gap, and called for collective work for a carbon pricing mechanism that is fair and equitable and that can be applied seamlessly on a global basis.

The Qatar Economic Forum, Powered by Bloomberg, brings together some of the world’s leaders and the most influential thinkers, executives, and policymakers to prepare a blueprint for the next stage of global growth. Discussion themes during the Qatar Economic Forum cover issues such as leadership in a post-pandemic world changes to the human-technology nexus, a more sustainable global economy, markets and investing, power and trade flows, and the future of commerce.

Empty oil tanks at key storage hub show speedy demand rebound



Crude storage tanks that were brimming a year ago when the pandemic grounded flights and kept drivers at home are beginning to empty in the main U.S. distribution hub, the latest sign of strengthening demand in the world's biggest oil-consuming country.

For the first time since before the pandemic, empty tanks are being offered for lease at Cushing, Oklahoma, the delivery point for West Texas Intermediate oil futures. At least 1.4 million barrels of storage is up for rental starting in July, for roughly 12 cents per barrel a month, said Steven Barsamian, chief operating officer at storage brokerage Tank Tiger. That's a stark contrast to at least 60 cents charged when there was little space left about a year ago.

Americans are taking to the roads and skies at increasing numbers as the summer nears and the country emerges from months of lockdowns, with oil refiners speeding up fuel making to meet the rising demand. This week, California, America's most populous state, re-opened its economy, while New York ended most of its curbs.

It’s a dramatic turnaround from a market crash that saw traders storing unwanted crude in tankers at sea, and U.S. producers at one point having to pay for customers to take their oil last year.

Meanwhile, shale producers are sticking to their pledges to focus on balancing their books and boosting returns to shareholders, rather than increasing output. U.S. production is 15% below its peak last year, limiting flows to the storage center.

So, traders are rapidly draining their storage tanks to supply refineries with every barrel of crude feedstock they need.

Empty tanks are typical of a market where demand is outpacing supplies and traders are getting a premium on the nearest deliveries, making it unprofitable to keep oil in storage — a pattern known as backwardation.

A year ago, when traders were storing as much oil as possible to wait for better prices, the nearest deliveries for WTI were selling at a discount to longer-dated ones. That structure is known as contango.

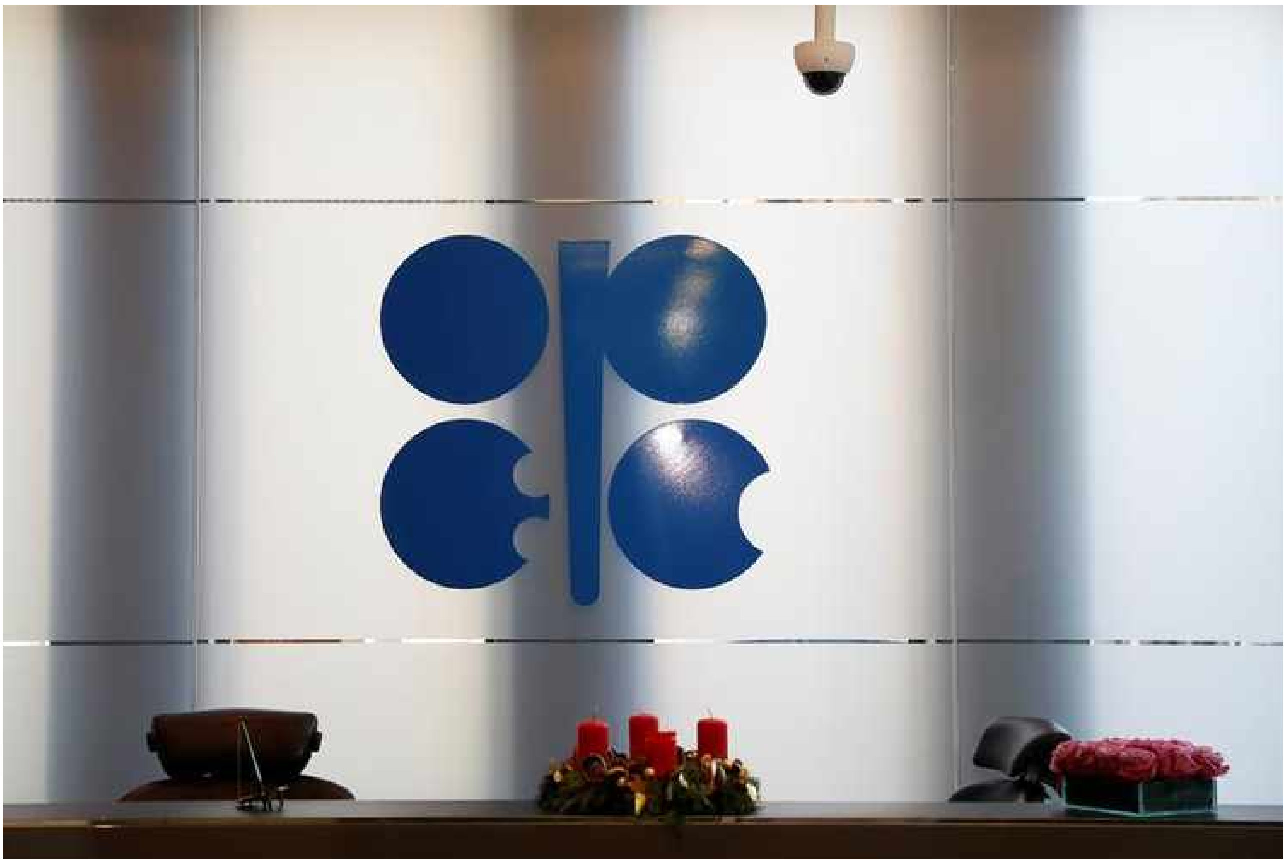
These patterns affect especially the commercial storages used in speculative trading, such as the ones in Cushing.

“Typically, in a backwardated market, its the storage that isn’t being used for operational purpose like the ones in Cushing, Oklahoma, that get emptied out first,” Barsamian said. “Storage at most other locations such as in Houston and Midland in Texas are used for operational purposes and get emptied out later.”

Traders might see more of the bottom of tanks across America in the coming months. Global oil demand is expected to recover to pre-pandemic levels late next year, according to the International Energy Agency. The agency sees a supply shortfall starting from the second half of this year, with

OPEC and its allies still keeping part of their production capacity offline.

OPEC sticks to forecast of oil demand surge in second half of 2021



LONDON- OPEC stuck to its prediction of a strong world oil demand recovery in 2021 led by the United States and China, although it cited uncertainties around the path of the pandemic.

In a monthly report on Thursday, the Organization of the Petroleum Exporting Countries said demand would rise by 5.95 million barrels per day (bpd) this year, or 6.6%. The forecast was unchanged for a second consecutive month.

The report’s forecast comes even after a slower-than-expected recovery in the first half of this year, and as it warns of “significant uncertainties,” around the pandemic, such as the potential emergence of new variants.

“Global economic recovery has been delayed due to the resurgence of COVID-19 infections and renewed lockdowns in key economies, including the Eurozone, Japan and India,” OPEC said in its monthly report.

“Overall, the recovery in global economic growth, and hence oil demand, are expected to gain momentum in the second half,” it said.

OPEC sees 2021 world economic growth at 5.5%, unchanged from last month, assuming the impact of the pandemic will have been “largely contained” by the beginning of the second half.

Oil was trading above $72 a barrel before the report was released. The price has gained 39% this year LCOc1 on rising demand and supply cuts by OPEC and its allies, known as OPEC+.

OPEC+ agreed in April to gradually ease oil output cuts from May to July and confirmed the decision at a meeting on June 1. Most of its output cuts will remain after July.

The efforts of OPEC+ have “have substantially led the way towards a market rebalance,” OPEC said.

The report showed higher OPEC oil output, reflecting the decision to pump more and gains from Iran, exempt from making voluntary cuts due to U.S. sanctions. Output in May rose 390,000 bpd to 25.46 million bpd, OPEC said.

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Aramco raises $6bn with debut global sukuk to fund dividend

Saudi Arabian oil giant Aramco locked in another $6bn yesterday to help fund a large dividend as it returned to the international debt markets with its first USdollar-denominated sukuk sale, a document showed.

The debt issuance, which will help fund a $75bn dividend commitment that will mostly go to the government, comprises tranches of three, five and 10 years, adocument from one of the banks arranging the deal and seen by Reuters showed.

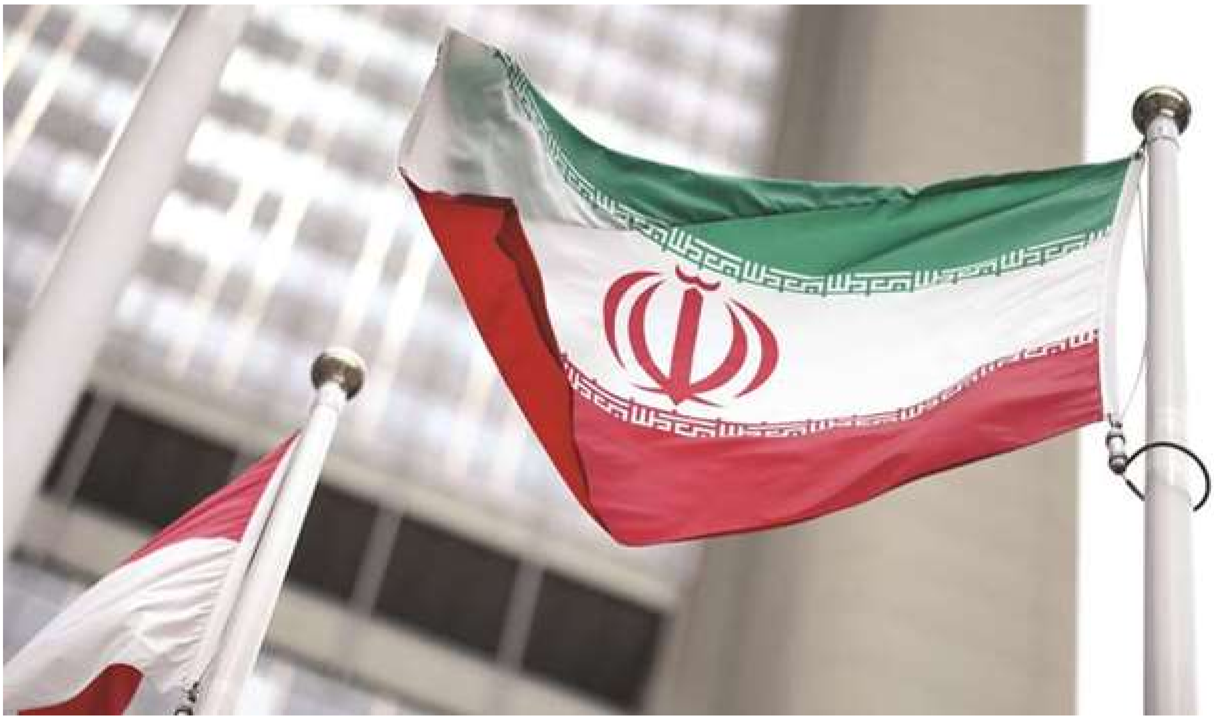
Aramco sold $1bn in the three-year tranche at 65 basis points (bps) over US Treasuries (UST), $2bn in the five-year portion at 85 bps over UST and $3bn in 10-year paper at 120 bps over UST.

Initial price guidance was around 105 bps over UST for the three-year bonds, around 125 bps over UST for the five-year notes and around 160 bps over UST forthe 10-year tranche.

The spreads were tightened after the deal attracted combined

orders of more than $60bn.
Aramco last year maintained its promised $75bn annual dividend to shareholders despite lower oil prices, and is expected to shoulder significant domesticinvestments in Saudi Arabia’s plans to transform the economy.
Fitch assigned Aramco’s sukuk issuance programme an A1 rating with a negative outlook, in line with the negative outlook on existing Aramco ratings andtracking a change in Saudi Arabia’s sovereign outlook to negative in May last year.
“The company has displayed a strong commitment to pay $75bn in annual dividends, which in Moody’s view is not sustainable should oil prices fall and remainsignificantly below $60/bbl,” Fitch said.
“Interlinkages between Saudi Arabia and the company imply that any change in rating outlook on the government of Saudi Arabia would be mirrored on SaudiAramco’s rating outlook.”
The company chose to issue Islamic bonds over conventional ones due to high demand for the instrument as a result of the low number of dollar sukuk sales inthe Gulf this year, a source told Reuters on Monday.
Aramco has been widely expected to become a regular bond issuer after its debut $12bn issuance in 2019 was followed by an $8bn, five-part transaction inNovember last year, also used to fund its dividend.
A source had told Reuters that Aramco was expected to raise up to $5bn with the deal, which had 29 active and passive bookrunners working on it.
Active bookrunners on the deal included Citi, HSBC, JPMorgan, NCB Capital and Standard Chartered Bank.

Iran plans oil output hike as it sees nuclear talks progress



Bloomberg / Tehran

Iran said it’s preparing to hike oil production even as talks with world powers over how to lift sanctions curbing the nation’s crude exports have so far failed to clinch an agreement.

Parties to the 2015 nuclear deal, led by the European Union, are attempting to fully restore the landmark accord that all but collapsed after then-President Donald Trump withdrew three years ago. The negotiations in Vienna aim to ease US sanctions on the Islamic Republic’s economy and scale back a significant expansion of its atomic activities.

In Tehran, President Hassan Rouhani’s chief of staff, Mahmoud Vaezi, said that while there had been “great progress” on some economic issues, the fate of oil sanctions hadn’t yet been resolved, according to the semi-official Iranian Students’ News Agency.

The comments, and an industry report showing another fall in US crude inventories, saw crude extend its gains.

Iran's national oil company, though, laid out plans to revive oil production in the event that US sanctions are removed, starting with an output hike to 3.3mn barrels a day within one month of the penalties being lifted, the official Shana news agency reported.

In a gesture to Iran's leaders, Washington's top diplomat to the International Atomic Energy Agency acknowledged late Tuesday that trust needs to be rebuilt after the damage caused by Trump's policies and appealed to Iran to accept a "mutual return" to the agreement.
Iran's lead negotiator in the talks, Abbas Araghchi, said yesterday that diplomats are set to reconvene in the Austrian capital at some point from Saturday, without giving further details.

"The negotiations are at a point where some key issues still remain outstanding and decisions need to be made regarding those," Araghchi told reporters after briefing lawmakers in Tehran.

The talks coincide with Iran's fast-approaching June 18 presidential election that is widely expected to replace President Hassan Rouhani – a champion of the nuclear deal – with a hardliner who's been very critical of the accord.

Oil markets are closely watching the talks as the removal of sanctions could trigger a flood of Iranian oil onto markets as the Opec founder-member seeks to reclaim the market share it had before the Trump era.

Libya Oil Production Picks Up After Pipeline Leak Fixed

(Bloomberg) — Libya has cut crude production by nearly 20% due to maintenance at its largest oil field and leaks on pipelines linking other desert deposits to the Mediterranean coast.

The OPEC producer began reducing output at fields operated by the Waha Oil Co. over the last two days because of leaks, Mustafa Sanalla, chairman of the country’s National Oil Co., said in an online conference. Production has also dropped at its biggest field, Sharara, over the past two weeks, he said. The outages total more than 200,000 barrels a day, according to people with knowledge of the matter.

Libya holds Africa’s largest crude reserves, but it’s struggled to pump a fraction of the oil it produced under late dictator Moammar Qaddafi. Fighting between rival factions has put the country’s oil fields, ports and workers in the firing line, and faltering sales have starved the nation of the income needed to rebuild its infrastructure. Freeing up access to investment would help expand the country’s output beyond previous levels, Sanalla said.

“The NOC is facing tremendous challenges in the rehabilitation and restoration of oil installations,” Sanalla said. “The lack of funds needed for the projects” and the country’s fragile security situation hurt its ability to complete needed work and upgrades, he said.

That means the country is missing out on taking full advantage of oil prices that have surged by 40% this year. Production cuts by the Organization of Petroleum Exporting Countries and partners like Russia have pushed crude to about $70 a barrel as economies exit coronavirus-linked lockdowns and energy demand recovers.

Production Capacity

Libya pumped 1.14 million barrels a day in May, according to data compiled by Bloomberg. The country wants to boost production capacity to 2.1 million barrels a day over the next few years but faces enormous obstacles to that aim, Sanalla said. Analysts surveyed by Bloomberg estimate the country can pump at most 1.3 million barrels daily.

With the latest problems, production at Sharara is down by about 50,000 barrels a day, Sanalla said, without saying when output might be restored.

Fields operated by Waha Oil have cut production to about 140,000 barrels a day from normal output of 300,000 barrels, according to two people with knowledge of the situation who asked not to be identified discussing operational matters.