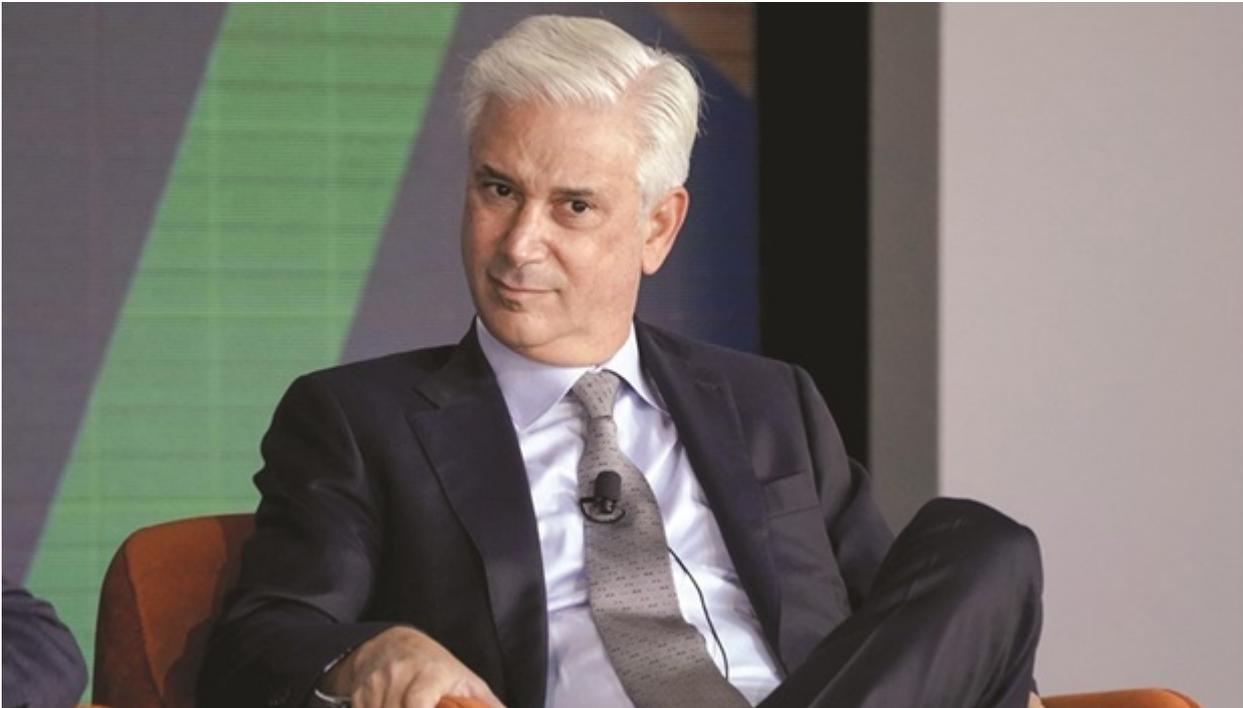


# Wells Fargo's \$28bn oil lenders ready for boom



One year after Wells Fargo & Co became one of the last big US banks to make a net-zero promise, essentially marking its enormous oil and gas loan business for extinction, the bankers who dole out billions of dollars to fossil fuel aren't panicking.

The specialists in oil and gas have worked through a streak of money-burning years capped by a brutal pandemic. Now the hydrocarbon business is roaring back, and Wells Fargo's lenders sit right at the top. No one in the world put together more fossil fuel loans last year as book runner, according to data Bloomberg compiled: The bank's 2021 tally in the sector topped \$28bn; it's racked up more than \$188bn in oil and gas loans since late 2015, when the landmark Paris Agreement was adopted. That sum is more than the market capitalisation of BP, Marathon Petroleum, and Valero Energy – combined.

There are good reasons for the leaders in fossil finance to be anxious. Start with the bank's net-zero goal: Wells has joined more than 100 financial institutions with midcentury deadlines for axing greenhouse gas. Few bankers like to be in a line of

work practically marked for elimination. Even if you happen to distrust corporate pledges, the explosion of environmental, social, and governance considerations into a multi-trillion dollar industry puts pressure on those in the business of funding oil, gas, and coal.

But Wells bankers are playing the long game. "There's this idea or dynamic that it's a light switch," says Scott Warrender, who runs the energy and power team. The green revolution? "Our view – and in reality – it will play out over a much longer time frame."

Wells executives won't stop making hydrocarbon loans when the rest of us are consuming so much of it, according to interviews with 10 current and former people there. Few veterans of this business are quite sure where it goes from here. Their attitude toward the crisis of climate change veers between pragmatism and, in the case of one former executive, disdain.

It all adds up to a high-stakes moment for the energy industry, the warming world, and Wall Street, especially for a bank that chief executive officer Charlie Scharf is trying to turn around after years of scandals. Since access to capital is so important to the fossil fuel industry, which ploughs through money, the moral and financial calculations of bankers like those at Wells will play a key role in the future of the climate.

Until the economy and society both evolve, Warrender says, "our view is we need to bank the broad energy sector in all of its forms." Over decades as an energy banker, he's watched the hydrocarbon industry dive into busts and then climb back into big-money booms. He's survived the tumult and learned to stick it out through the endgame, he told a journalist over a decade ago, back when he likened his job as an energy banker to his pastime of amateur boxing. Today, he says, his hobby has switched to cycling, but his focus on energy is unchanged.

"That's going to be what's interesting," says Derek Detring, who had a stint eight years ago as a Wells energy banker before he started a firm advising the energy industry. "Now

that we're making money again, will investors stay away?" As the long-suffering industry returns to being lucrative, he says, "it will be harder for them to leave."

Indeed, oil prices soared after the invasion of Ukraine and moves by the US and UK to ban Russian oil. Energy executives and their bankers are used to volatility. Wells Fargo's fossil fuel lending has stayed at the top of the industry even as annual totals bounced around – from \$23bn in 2016, up to \$48.3bn in 2018, and then back down to \$28.7bn last year.

Historically, bankers haven't been under much pressure from shareholders to move faster on climate. But that could change. Last year, ahead of the United Nations climate conference, Wells joined the Glasgow Financial Alliance for Net Zero, a group of banks and fund managers representing \$130tn in assets. (Michael Bloomberg, the owner and founder of Bloomberg LP, is co-chair of the alliance.) The big banks, in addition to pledging to zero out emissions, have agreed to eventually begin accounting for the carbon in their vast portfolios. Coming up with measurements for "financed emissions" will be hotly contested, and activists will be watching. In December the investor group Interfaith Center on Corporate Responsibility asked Wells and other banks to adopt a policy by the end of 2022 to ensure that lending and underwriting don't contribute to new fossil fuel development.

For now, though, a Wall Street giant can go green and underwrite the clean-energy future while also doing deals on gas pipelines and oil fields. Wells was just ahead of JPMorgan Chase & Co last year as the book runner on syndicated loans, which means being the bank in charge when several are involved. Looking at loans gives a good sense of how fossil fuel companies finance themselves, but they also work with Wall Street to issue bonds. Wells wasn't the biggest in that space last year – the \$7.7bn it managed was about half of JPMorgan's \$15.8bn.

"We've been a leading financial partner to traditional energy companies, such as oil and gas producers and electric utilities, as well as the emerging renewables business, for

many years,” said a Wells spokesperson. “We will continue to support our clients in this industry as they provide the fuel that powers society today, and as they respond to the evolving market.”

None of the bank’s recent oil and gas lending deals have been bigger than the \$5bn revolving loan it led in 2018 for Energy Transfer LP, whose Dakota Access Pipeline is at the heart of the battle between the oil industry and the Standing Rock Sioux Tribe. Billionaire Kelcy Warren, the chairman of the Dallas-based pipeline operator, has a relationship with Wells that stretches back decades. Not long before the loan, advisory group Institutional Shareholder Services Inc recommended that Wells investors support a resolution requiring policies to help protect Indigenous groups. Protesters made their way in 2017 to the California home of Tim Sloan, then the boss of the bank, and set up an inflatable pipeline.

That didn’t scare Wells out of the business. Its most significant syndicated fossil fuel loan last year was a \$3bn deal with Enterprise Products Partners LP. The Houston pipeline owner agreed in January to buy Navitas Midstream Partners and its 1,750 miles of pipeline in the Permian Basin for \$3.25bn in cash.

The story of energy lending isn’t just about the future of climate – it’s also about consolidation turning dozens of banks into just a few. Wells ended up a giant in fossil loans after a string of acquisitions.

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## **Faced with energy turmoil,**

# China turns to its old reliable: Coal



Bloomberg

Anyone who's ever tried to make a lifestyle change knows that it's easy to start a new habit when times are good. It's sticking with it when times are tough that's the hard part.

That's what's made the past few months in China, capped off by this month's National People's Congress in Beijing, so difficult for people who want to see the nation succeed in helping stave off the worst impacts of climate change.

Gone are the heady days of late 2020, when think tanks, newspapers and state-run enterprises issued a flurry of optimistic outlooks and officials talked about completing the largest energy transition in mankind's history by zeroing out emissions in the world's biggest polluter by 2060. Now, with fears of energy shortages growing around the world and concerns that rising coronavirus cases could hinder economic growth at home, the country's leaders are doubling down on fossil fuels.

Faced with energy turmoil, China is returning to its old habit

of coal, no matter what damage it does to climate momentum.

“To a country where coal has been dominant for so long, one of the biggest challenges to get to net-zero is a mindset shift,” said Qin Yan, a carbon analyst at Refinitiv. “Giving the power back to coal now only makes the shift, which had only just begun to slowly take off, harder to complete.”

The shift has been months in the making. Ever since a shortage of coal sparked widespread power curtailments in September and October, leaders have drummed home the message that the dirtiest fossil fuel is also the most important to ensuring continued growth. China has approved mining expansions that’s pushed output to record levels and started construction on new generators powered by the fuel, even as such efforts are shunned in most other parts of the world.

Recent comments from top officials have made clear this isn’t a temporary shift. In a high-level climate meeting this month, Han Zheng, China’s vice-premier, called coal the country’s “last barrier” to energy security. In the same week, President Xi Jinping told a group of lawmakers from China’s coal hub of Inner Mongolia that “we can’t toss away what’s feeding us now while what will feed us next is not yet in our pocket.”

The National Development and Reform Commission, the nation’s top economic planner, told officials from major mining regions at a meeting late last week that it wants to boost domestic production capacity by about 300mn tonnes, according to people familiar with the matter, Bloomberg reported on Monday. It also plans to build a 620mn-tonne stockpile of the fuel.

“The risks China faces now are at a high level unseen for years, and the uncertainties they bring to China’s climate work are still growing,” said Li Shuo, a climate analyst at Greenpeace East Asia, “In the short term, it’s obvious a preference for coal is swinging back.”

That doesn’t mean the country is turning its back on renewables, a sector dominated by Chinese manufacturers. Officials confirmed this month that a massive desert wind and solar power program will grow to at least 450 gigawatts in size, larger than most countries’ total power fleets. And

China's main solar industry group has already projected a record amount of new panels this year.

But pushing both coal and renewables to grow at the same time carries added risks. Investments in new coal facilities could take decades to be paid off, and a growing renewable sector could make them obsolete before that's done. The government needs a long-term plan to write those coal projects off when renewables are ready to take over, which would involve another round of struggling among different interest groups.

And in the near-term, Xi's plans to secure a third term at the 20th Party Congress this November mean stability and economic growth will be prioritised at any cost, including the climate. The government set a gross domestic product growth target of 5.5% for this year, higher than most estimates. That means a likely return to Beijing's old doctrine of massive infrastructure spending, which means more energy required to produce steel and concrete and move goods and materials around the country.

"Looking forward at China's climate work in 2022, it would mark a 'success' if there isn't a big regression," said Li Shuo.

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## Oil surges as Russian supply shortfall looms



Oil surged on Friday, ending the week at multi-year highs as Russia's invasion of Ukraine intensified and oil buyers avoided barrels from Russia. Brent futures rose \$7.65, or 6.9%, to settle at \$118.11 a barrel, while U.S. West Texas Intermediate crude (WTI) rose \$8.01, or 7.4%, to end at \$115.68. Crude prices posted their largest weekly gains since the middle of 2020, with the Brent benchmark up 21% and U.S. crude gaining 26%. Oil surged throughout last week as the United States and allies heaped sanctions on Russia that, while not aimed at Russian oil and gas sales, nonetheless squeezed its industry, and threatens a growing supply crunch in coming months. Russia exports 4 million to 5 million barrels of oil daily, making it the second-largest crude exporter in the world after Saudi Arabia. Meanwhile, the Biden administration, under pressure from lawmakers, said it is considering options for cutting U.S. imports of Russian oil even as it tries to minimize the impact on global supplies and on consumers. Britain will look to target Russia's energy sector in future rounds of sanctions, its foreign minister said Friday. The government has resisted this move so far, due to concerns that it will push up energy bills.

Asian LNG prices surge as buyers shun Russian gas

Asian spot liquefied natural gas prices rose last week, buoyed by concerns over Russian supply to Europe as buyers shun Russian gas and LNG in response to its invasion of Ukraine. The average LNG price for April delivery into north-east Asia was estimated at \$40.5 per metric million British thermal units (mmBtu), up \$3, or 8% from the previous week, industry sources said. Although the market remains extremely strong and extremely volatile, Asian buyers may be unwilling to replicate the price surge in Europe beyond a notional \$50 per mmBtu, according to analysts, and may adopt a wait-and-see approach or switch to cheaper alternative fuels such as coal. In Europe, gas prices soared on Friday, with some contracts hitting all-time highs, as market participants continued to fear disruptions to Russian gas supplies to Europe in light of the war in Ukraine. The Dutch front-month contract rose by

\$17.65 per mmBtu on Friday, as the volatile and uncertain geopolitical landscape continues to drive prices. Meanwhile, an export ban by the Ukrainian government of gas held in the country, including stored gas usually held by Western Europe operators, was not impacting transit flows of Russian gas.

– By the Al-Attiyah Foundation

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## The Economic Consequences of the Ukraine War



Feb 25, 2022 JASON FURMAN

Russia's invasion of Ukraine has been rapid and dramatic, but the global economic consequences will be much slower to materialize and less spectacular. Yet, other than Ukraine, Russia will likely be the biggest long-term economic loser from the conflict.

CAMBRIDGE – Russia's invasion of Ukraine has been rapid and dramatic, but the economic consequences will be much slower to

materialize and less spectacular. The war itself is enormously tragic, first and foremost for the Ukrainian people, but also for the Russian people and the global order more generally. When something like this happens, we expect it to be like a morality play in which all the bad consequences play out equally dramatically in every dimension, including the economy. But the economy does not work that way.

True, financial markets reacted swiftly to news of Russia's invasion. The MSCI All Country World Index, a leading global equity gauge, fell to its lowest level in almost a year. The price of oil rose above \$100 a barrel, while European natural gas prices initially surged by almost 70%.

These energy-price increases will negatively affect the global economy. Europe is especially vulnerable, because it did little in recent years to reduce its dependence on Russian gas, and in some cases – notably, Germany, which abandoned nuclear power – even exacerbated it.

Oil-importing countries will experience a headwind from higher prices. The United States is more hedged: Because its oil production is equal to its oil consumption, more expensive oil is roughly neutral for GDP. But higher oil prices will hurt US consumers while helping a more limited segment of businesses and workers tied to the oil and gas industry. The price surge will also add to inflation, which is already at its highest levels in a generation in the US, Europe, and other advanced economies.

But some perspective on these immediate consequences is in order. At \$100 a barrel, oil is about one-quarter below its inflation-adjusted price during 2011 to 2014. Moreover, prices for oil futures are lower than spot prices, suggesting that the market expects this increase to be temporary. Central banks may therefore largely look through events in Ukraine, neither holding off on tightening nor speeding it up in response to higher headline inflation. And global stock

markets are still up over the last year.

Similarly, although the Russian stock market has fallen significantly since the start of the invasion, Western sanctions are unlikely to have immediate dramatic effects. Sanctions rarely do; they are simply not the economic equivalent of the bombs that Russia is currently dropping on Ukraine.

Moreover, Russia is better prepared than most countries to weather sanctions. The country has been running an enormous current-account surplus and has accumulated record foreign-exchange reserves of \$630 billion – sufficient to cover nearly two years of imports. And while Russia is dependent on revenue from Europe, Europeans are dependent on Russia's oil and gas – which may be even harder to replace in the short run.

But, in the longer term, Russia will likely be the biggest economic loser from the conflict (after Ukraine, whose losses will go well beyond what can be measured in the national accounts). Russia's economy, and the well-being of its population, have been stagnant since the Kremlin's 2014 annexation of Crimea. The fallout from its current, large-scale invasion will almost certainly be more severe over time. Sanctions will increasingly take a toll, and Russia's growing isolation, as well as heightened investor uncertainty, will weaken trade and other economic links. In addition, Europe can be expected to reduce its fossil-fuel dependence on Russia.

The longer-term economic consequences for the rest of the world will be far less severe than they are for Russia, but they will still be a persistent challenge for policymakers. There is a risk, albeit a relatively unlikely one, that higher short-run inflation will become embedded in increasingly unanchored inflation expectations, and thus persist. If that happens, central banks' already difficult job will become even more complicated.

In addition, defense budgets are likely to rise in Europe, the US, and some other countries to reflect the increasingly dangerous global situation. This will not reduce GDP growth, but it will reduce people's well-being, because resources dedicated to defense are resources that cannot go toward consumption or investment in education, health care, or infrastructure.

The medium- and long-term consequences for the global economy of Russia's invasion of Ukraine will depend on choices. By invading, Russia has already made one terrible choice. The US, the European Union, and other governments have made initial choices on sanctions, but it remains to be seen how Russia will react to them or whether further penalties will be imposed. To the extent that sanctions and counter-responses escalate, the costs will be larger – first and foremost for Russia, but also to some degree for the rest of the global economy.

Global economic relations are positive-sum, and Russia's growing isolation will remove a small positive. More broadly, uncertainty is never good for the economy.

But, as the world continues to respond to the Russian invasion, concerns about GDP seem minor by comparison. Far more important is a world where people and countries feel secure. And that is something worth paying for – even more than the world's leaders have paid so far.

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## **U.S. oil drilling rises in**

# response to higher prices



By John Kemp

LONDON, Feb 25 (Reuters) – Prominent business leaders in the U.S. shale industry have been proselytising about their newfound commitment to restricting output growth to protect prices and profit margins.

But the rate of new drilling and production is climbing in response to rising prices – albeit more slowly than during the frenzied growth of the first (2009–2014) and second (2016–2019) shale booms.

Nearly 80 weeks after hitting a cyclical low, the number of rigs drilling for oil has risen by 348 (an average of 4.4 per week), according to data from oilfield services company Baker Hughes.

The rise compares with increases of 433 (5.5 per week) and 584 (7.4 per week) at the same point after the last two cyclical

lows in 2016 and 2009 respectively.

The number of rigs is rising at roughly similar rates in the Permian Basin (2.4 per week) and the other oil-rich shale plays (2.0 per week).

As a result, onshore production from the Lower 48 states rose in six of the seven months between May 2021 and November 2021, the most recent month for which production statistics are available.

Onshore production was rising at an annual rate of roughly 630,000 barrels per day (bpd) at the end of 2021, according to the U.S. Energy Information Administration.

The agency predicts a similar increase of 630,000 bpd by the end of 2022 and a slightly slower one of 470,000 bpd by the end of 2023 ("Short-term energy outlook", EIA, Feb. 8).

Output is increasing much more slowly, only a quarter to a third as fast, as at height of the last boom in 2018, when onshore production was increasing by as much as 1.8 million bpd over twelve months.

In that sense, shale industry leaders are being true to their word, increasing the number of new wells and production more slowly than before to protect prices and profit margins and return capital to shareholders.

But the industry's commitment to limiting investment is being tested as prices continue rising to levels that are well above the long-term average after adjusting for inflation.

Faster production increases look likely as a result of the continued escalation in oil prices since the start of the year.

DELAYED RESPONSE

Shale drilling has become much more efficient since horizontal

drilling and hydraulic fracturing techniques began to be widely applied to oil-rich plays at the start of the last decade.

In the short run, however, drilling exhibits diminishing marginal returns during an upswing; additional rigs add smaller increments to output as they are deployed to less promising sites with less experienced crews using older equipment.

Current rig counts cannot usefully be compared with those five let alone ten years ago, but short-term changes in the rig count can provide a useful directional indicator for output changes over the next 12 months.

Changes in oil futures prices generally filter through into changes in drilling activity with a lag of just under 20 weeks.

The explanation is that it takes four-to-five months for producers to see if price changes will be sustained before deciding to alter the drilling programme, contract with drilling firms, wait for rigs to arrive on site, set up and begin boring.

Current drilling rates therefore reflect prices in September–October 2021, when front-month futures were trading around \$70–80 per barrel.

On average, it will take another six months for wells being drilled at present to be fractured, completed, hooked up to gathering systems and enter commercial production, which should keep output rising through at least August.

Since September–October, however, prices have risen by another \$10–15 per barrel which will ensure the number of rigs keeps rising throughout the second quarter, and production climbs faster through the end of the year.

The rapid escalation in spot prices and severe backwardation in futures is signalling the urgent need for more crude to meet strong consumption growth as the economy rebounds after the pandemic-driven recession.

U.S. oil producers are starting to respond by increasing their drilling programmes in the core shale plays of Texas and more marginal ones elsewhere, which should improve oil availability later this year and especially in 2023.

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## **COMMODITIES Feb 22, 2022 OPEC+ sees no need to pump faster as oil heads toward US\$100**



Several key OPEC+ members see no need to accelerate output increases even as oil heads toward US\$100 a barrel amid worsening tension over Ukraine.

Iraq and Nigeria said the group's strategy of gradually raising production is enough to balance the market and the group has no need to be more aggressive.

Many delegates echoed that view privately on Tuesday, saying it wouldn't make a difference if crude did hit triple digits.

The 23-nation alliance, led by Saudi Arabia and Russia, next meets on March 2. It is factoring in growth in output from non-OPEC+ members such as Brazil and Canada and doesn't want to see any increase in commercially-stored oil around the world, according to Iraq's Energy Minister Ihsan Abdul Jabbar.

"The market will have more and more oil so we think there's no need" to diverge from today's strategy, he said in an interview in Qatar, where he's attending a natural gas conference. "We will not create any growth to the commercial storage. We will secure all the demand by making the required supply."

Brent crude rose 3.6 per cent to US\$98.94 a barrel as of 10:04 a.m. in London, extending this year's jump to 27 per cent. Tuesday's gain came after Russian President Vladimir Putin announced he's recognizing two self-proclaimed separatist republics in eastern Ukraine and plans to send "peacekeeping forces" to the region in a dramatic escalation of the conflict. Moscow has consistently denied having plans to invade Ukraine.

## **KEEP STEADY**

Nigeria's energy minister, Timipre Sylva, backed Jabbar's comments.

"We won't do anything extraordinary at this time because we

are expecting a lot of production" from outside of OPEC+, Sylva told reporters at the same event. There's "no need at all to bring on more barrels than the current plan."

Several of OPEC+'s biggest producers want to continue to add 400,000 barrels a day of crude to the market each month, Bloomberg reported on Monday.

Iraq's Jabbar said the Organization of Petroleum Exporting Countries and its partners will make their decision for April at the March meeting, after reviewing fresh data on supply and demand.

Some major oil importers have called on OPEC+ to pump faster and put pressure on the likes of Saudi Arabia to use up some of their spare capacity.

Read more: [OPEC+ Must Fix Its Million-Barrel Supply Gap, IEA Says](#)

Jabbar said it would be "unfair" for any OPEC+ state to raise output beyond its quota, despite many members struggling to reach theirs. Last week, the International Energy Agency, which advises rich countries, said OPEC+ was pumping almost 1 million barrels a day below its target.

"We have come from the recovery from COVID," the Iraqi minister said. "It is not fair that you will give the increase just for some countries."

Iraq undershot its output target last month because of bad weather at ports, Jabbar said. The country should meet its quota for February of around 4.3 million barrels a day, he said.

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# Wall St Week Ahead Surging oil prices add another worry for frazzled investors



NEW YORK, Feb 20 (Reuters) – A U.S. stock market, already on edge from a hawkish Federal Reserve and a conflict between Russia and Ukraine, now has another worry: higher oil prices.

U.S. crude prices stand at around \$91 a barrel after surging some 40% since Dec. 1 and earlier this week touched their highest level since 2014. Prices for Brent crude, the global benchmark, have also soared and are near 7-year highs.

Rapidly rising oil prices can be a troubling development for markets, as they cloud the economic outlook by increasing costs for businesses and consumers. Higher crude also threatens to accelerate already-surging inflation, compounding worries that the Fed will need to aggressively tighten monetary policy to tamp down consumer prices.

“The stock market would really run into trouble if we went north of \$125 per barrel and stayed there for a while because

that would overheat high levels of inflation,” said Peter Cardillo, chief market economist at Spartan Capital Securities. “That means that the Fed would have to be a lot more aggressive and that certainly would not be a pleasant scenario for the stock market.”

Rising tensions between Russia – one of the world’s largest oil producers – and Ukraine recently helped drive the rally in oil, which had been supported by a recovery in demand from the coronavirus pandemic.

Capital Economics analysts said earlier this week that crude oil and natural gas prices would surge if the conflict in Ukraine escalated “even if they fall back relatively quickly as the dust settles.”

Elevated oil prices contributed to the rise in U.S. inflation, which grew at its fastest pace in nearly four decades last month: While overall consumer prices rose 7.5% year-over-year in January, the index’s energy component rose by 27%.

Each “sustained” \$10 increase in the price of oil per barrel adds about 0.3 percentage points to the overall consumer price index, on a year-over-year basis, according to analysts at Oxford Economics.

“The largest impact of higher oil prices is on consumer price inflation and it adds further to the pressure for the Fed to be more aggressive,” Kathy Bostjancic, chief U.S. financial economist at Oxford Economics, said in emailed comments to Reuters.

The benchmark S&P 500 (.SPX) is down over 8% this year while the yield on the benchmark 10-year Treasury note has risen by 40 basis points to over 1.9%. Investors are pricing the Fed funds rate to rise to above 1.50% by the end of 2022, from near zero now, according to Refinitiv’s Fedwatch tool.

CONSUMER SPENDING IMPACT

Rising crude is already raising costs for businesses and drivers. The national U.S. average for gasoline recently stood at \$3.48 a gallon, automobile group AAA said earlier this week, up 18 cents from a month earlier and 98 cents from a year ago.

As gasoline prices rise, investors are monitoring trends for consumers, whose spending accounts for over two-thirds of U.S. economic activity. Data on Wednesday showed U.S. retail sales increased by the most in 10 months in January, but last week's consumer sentiment reading came in at its lowest level in more than a decade in early February. [read more](#)

"The risk is that if gas prices at the pump start going up that means less discretionary spending for consumers at a time when a lot of their fiscal benefits from the last couple years are fading," said Michael Arone, chief investment strategist at State Street Global Advisors.

Investors are gauging the effect of higher oil on companies' earnings. Typically, rising oil prices are estimated to lift overall S&P 500 earnings by about \$1 per share for every \$5 increase in the price of crude, according to David Bianco, Americas chief investment officer at DWS Group, with benefits to energy firms outweighing the drag on earnings of airlines and other companies potentially hurt by higher crude costs. That amounts to about 0.4% of total S&P 500 earnings expected for 2022.

The S&P 500 energy sector (.SPNY) is up 22% so far in 2022 while fund managers in the latest BofA Global Research survey reported their highest allocation to energy stocks since March 2012.

But with oil prices already near seven-year highs, and energy stocks comprising a far lower share of the market than a decade ago, those slim bottom-line benefits may be overshadowed by inflation worries if crude keeps charging

higher, some investors said.

“Higher oil prices, without a recession, raise S&P profits,” Bianco said. “But not as much as it used to and you definitely don’t want this happening when the Fed is fighting inflation.”

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## How Giant Saudi Wealth Fund Is Building a Post-Oil Future: QuickTake



Saudi Arabia’s sovereign wealth fund has been transforming almost as quickly as the country itself. In 2015, the Public Investment Fund, or PIF as it’s widely known, was a sleepy holding company for government investments that hardly anyone outside the kingdom had heard of. Now it’s closing in on \$1

trillion in assets as it snaps up everything from soccer clubs to electric carmakers and bankrolls new cities in the desert. The shift underscores the urgency of its mission: to prepare the world's biggest crude-exporting nation for a post-oil future.

## 1. What does PIF invest in?

Its biggest holdings are still in local businesses such as Saudi National Bank, Saudi Telecom Co. and national projects like Neom, a \$500-billion city-state that would run entirely on renewable power and export green energy. Since 2016, when it committed \$45 billion to SoftBank Group Corp.'s technology-focused Vision Fund, PIF's foreign interests have mushroomed. A 2018 investment in electric carmaker Lucid Motors Inc. has soared in value to almost \$40 billion. It also has stakes in video game makers Activision Blizzard Inc. and Electronic Arts Inc. and the digital services and retail businesses of Indian billionaire Mukesh Ambani. In February, the government transferred an \$80 billion stake in Saudi state oil giant Aramco to PIF to boost its assets as the fund prepared to tap the international bond market for the first time.

## 2. What is the fund's purpose?

To project Saudi influence and diversify the economy, a goal laid out by de facto ruler Crown Prince Mohammed Bin Salman under a plan known as Vision 2030. PIF's job is to stimulate inward investment, develop new industries, bring the kingdom access to new technologies through its foreign investments and create jobs. It's also helping to make Saudi Arabia more attractive to outsiders. In a country largely closed off to foreign tourists, and with entertainment a taboo until a few years ago, PIF is investing in luxury resorts, cinemas and entertainment complexes to lure more visitors (and to stop Saudis seeking fun abroad). It also does deals just to make money. When the coronavirus pandemic crashed markets in 2020, PIF invested \$40 billion of currency reserves received from

the central bank in a bet on a swift recovery. It sold most of those investments a few months later as stocks rebounded.

### 3. Why is PIF borrowing money?

While a traditional sovereign fund invests excess national wealth to generate profits in the future, PIF was repurposed as a global investor while the Saudi budget was in deficit. As a result, borrowing has always been part of the plan as it looks to hit its growth ambitions. It's already tapped global banks for multi-billion-dollar loans. Next up is a green bond. While it may seem incongruous for a petrodollar-fueled fund to be raising money from climate-conscious investors, PIF has plenty of environmental projects to target. Saudi Arabia is crafting its tourism strategy around eco-tourism and the fund is the main backer of most of Saudi Arabia's renewable energy projects. Through Neom, it's funding the world's largest project to produce hydrogen fuel without creating any harmful emissions.

### 4. How big does PIF want to be?

Prince Mohammed is well known for setting ambitious targets and PIF is no exception. He wants it to be overseeing assets of \$2 trillion by 2030, which would make it bigger than Norway's sovereign fund, currently the world's largest at about \$1.4 trillion. PIF's assets have almost quadrupled since 2015 to around \$580 billion. The path to \$2 trillion will involve more big asset transfers from the state. The government expects its first budget surplus in almost a decade in 2022 and the Finance Ministry has said an oil windfall could go into PIF. The fund has also been a major recipient of undeveloped land that's worth zero on paper. If it's used for building, its value can soar.

### 5. Why did PIF buy a football club?

Soccer teams are often acquired by wealthy individuals as trophy assets and their volatile fortunes can be a turn-off for pension and wealth funds. PIF's acquisition of struggling English Premier League club Newcastle United in 2021 was part

of an effort to boost Saudi Arabia's soft power through investments in sports and e-sports. The kingdom's detractors saw the deal as "sportswashing" – an attempt to improve the nation's image and divert attention from a poor human rights record. Saudi Arabia may be following the playbook of neighboring Abu Dhabi, whose Sheikh Mansour bin Zayed Al Nahyan bought another English club, Manchester City, in 2008 and used it as a platform to market the emirate and its state-owned companies around the world.

More stories like this are available on [bloomberg.com](https://www.bloomberg.com)

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## **LA DOTE ENERGETICA DELL'IRAN TORNA A FAR GOLA AI MERCATI**



Roberto Bongiorno – Il Sole 24 Ore Sabato 12 Febbraio 2022–  
N.42

E se una mano per alleggerire in futuro la dipendenza energetica europea dalla Russia, e raffreddare oggi le quotazioni del greggio, arrivasse proprio dal Paese più sanzionato di tutti?

In questi giorni gli occhi del mondo sono puntati su Vienna, dove è in corso l'8° round di negoziati tra il gruppo 5+1 e la delegazione iraniana sul programma nucleare. È un momento cruciale. I progressi compiuti da Teheran nel processo di arricchimento dell'uranio hanno posto gli Stati Uniti davanti a un bivio; o si conclude un accordo entro febbraio, o poco dopo, oppure sarà troppo tardi.

I mercati del petrolio sono in trepidazione. Se dovesse venire riconfermato il Jpcoa, l'accordo firmato nel luglio 2015, verrebbero rimosse le sanzioni. La riconferma del Jpcoa raffredderebbe subito i prezzi del greggio, oggi sopra i 90 dollari al barile.

D'altronde la dote energetica dell'Iran è invidiabile. Possiede le seconde riserve di gas naturale al mondo e le terze di petrolio. Quando, a inizio 2016, vennero rimosse le sanzioni internazionali contro Teheran, l'Iran sorprese il mondo aumentando in tempi molto più rapidi delle attese la sua offerta di greggio. In 12 mesi l'export più che raddoppiò a due milioni di barili al giorno (mbg). Poi arrivò la doccia fredda: l'8 maggio del 2018 il presidente americano Donald Trump decise di uscire abbandonare il Jpcoa. Le "sanzioni più dure di sempre", volute Trump, assestarono un durissimo colpo sulle vendite iraniane di greggio. Prima del maggio 2018, l'Iran arrivò a produrre un picco di 4,8 milioni di barili al giorno, esportandone circa tre. Nel 2019, quando si abbatté la scure delle sanzioni, l'export crollò, precipitando nel febbraio 2020 a 400mila barili al giorno, il livello più basso da 30 anni. Oggi la situazione si ripete. Ma lo scenario in cui avviene è diverso. Il prezzo del barile sta puntando ai 100 dollari. Sul mercato europeo, le quotazioni del metano, che in alcune circostanze seguono in parte quelle del greggio, sono quintuplicate in soli sette mesi.

**LA DOTE ENERGETICA DELL'IRAN TORNA A FAR GOLA AI MERCATI**

La futura ricchezza dell'Iran è invece il gas naturale. L'Iran galleggia su un mare di metano; ha le seconde riserve mondiali. Condivide con il Qatar il giacimento più grande al mondo, South Pars, nelle acque del Golfo Persico. Il Qatar lo sfrutta da tempo ed è divenuto il primo produttore mondiale di gas naturale liquefatto (Lng). L'Iran ne sfrutta solo una minima parte. Nel corso degli anni, nonostante le sanzioni, Teheran è comunque riuscita ad aumentare la produzione di metano, spesso associata all'estrazione di greggio. Ma ne ha esportato molto poco. La gran parte è destinata al mercato interno, dove i consumi sono in costante crescita. Il 73% dell'elettricità prodotta in Iran, Paese da oltre 80 milioni di abitanti, è ricavata proprio dal gas.

Per l'Iran il gas naturale liquefatto è la via più facile, più rapida e più redditizia, spiega da Doha Roudi Baroudi, esperto di energia ed autore di studi sui gasdotti mediterranei. «L'Iran ha realizzato una serie di gasdotti con la Turchia e l'Iraq (Nel 2020 Iraq e Turchia hanno rappresentato rispettivamente il 64% ed il 33% delle esportazioni iraniane di metano, Ndr) – continua Baroudi -. Per raggiungere l'Europa dovrebbe aumentarne la capacità e costruire nuove tratte. In una regione tuttavia estremamente instabile. L'Lng è molto più flessibile».

Nell'Iran settentrionale potrebbe aprirsi un potenziale nuovo corridoio. In agosto il ministero dell'Energia ha infatti ufficializzato la scoperta del più grande giacimento di gas naturale nel settore iraniano del Mar Caspio. Il campo Chalous potrebbe così contribuire alla realizzazione di un nuovo hub del metano nel nord dell'Iran.

Certo, in ogni caso Tehran non potrà prescindere dagli investimenti stranieri. «L'Iran non può fare a meno della tecnologia che solo le compagnie occidentali possono offrire. Ci vorranno investimenti per 60 miliardi di dollari. Si potrebbe rimettere in vita l'accordo con Total», continua Baroudi. Nel 2017 fu proprio la compagnia francese ad essere la prima major a firmare, dopo la rimozione delle sanzioni, un accordo da cinque miliardi di dollari con la National Iranian

Oil Company per lo sviluppo e la produzione della fase 11 di South Pars.

Se tutto andrà liscio, ci vorrà comunque del tempo prima che il gas iraniano potrà raggiungere le coste europee. «Prima occorre incrementare la produzione a South Pars. Ci vogliono da uno a tre anni. Poi servono altri 12-24 mesi realizzare gli impianti per liquefare il gas e acquistare le navi per trasportarlo », conclude Baroudi.

Se venisse raggiunto un accordo a Vienna, sul breve termine il greggio iraniano potrebbe dunque raffreddare le quotazioni attuali. Mentre nell'arco di qualche anno il gas di Teheran potrebbe contribuire a diversificare gli approvvigionamenti europei permettendo a Bruxelles di ridurre la dipendenza dalla Russia. Nello scenario peggiore – un'invasione russa dell'Ucraina e un mancato accordo sul nucleare – gli Usa imporrebbero sanzioni energetiche sul primo produttore mondiale di greggio e gas, e manterrebbero al contempo quelle su uno dei primi cinque esportatori di greggio (con le seconde riserve di gas). L'America possiede gas e greggio in abbondanza per soddisfare la domanda della sua industria. Chi ci rimetterebbe sarebbero proprio i Paesi europei, Italia in testa.

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## **Aramco Revives Talks on Multi-Billion Dollar Refinery in China**



Saudi Arabia's state oil company Aramco has revived discussions to build a multi-billion dollar refining and petrochemicals complex in China, according to several people with knowledge of the matter.

Aramco is holding preliminary negotiations about a facility in the Northeastern province of Liaoning with partners including Norinco, a state-owned defense contractor, said the people.

Talks over what was meant to be a \$10 billion venture were suspended in 2020 as oil crashed at the start of the pandemic. Now, with crude approaching \$100 a barrel, Aramco's finances have been transformed, freeing up money for investment in its biggest export market.

China and Saudi Arabia's ties have strengthened as Beijing's need for oil has grown along with its economy. The kingdom was the biggest supplier of crude to China last year, according to data compiled by Bloomberg.

As part of the Chinese refinery plan, Aramco is negotiating terms that could include its trading unit providing crude to the venture, said two of the people. Aramco Trading Co. purchases and sells oil from Saudi Arabia and other countries. An agreement is not imminent and it's still unclear how much of the original plan still stands, said the people.

Aramco didn't immediately respond to a request for comment. Calls to a Norinco spokesman's office after business hours weren't answered. An email to a spokesman and the general address of the company wasn't immediately answered.

### Downstream Expansion

Aramco and Norinco signed a framework agreement in 2017 to construct a refinery capable of handling 300,000 barrel per day of crude. They were also meant to build a 1.5-million-ton-per-year ethylene plant.

Saudi Aramco cut spending and shelved several projects in 2020 to protect its \$75 billion annual dividend, the world's biggest. Its cashflow has jumped this year and rose above its quarterly dividend in the second and third quarters.

The company's downstream business, which includes chemicals subsidiary Sabic, swung to a profit as margins for refined fuel climbed. The unit – which includes refineries, retail operations, trading and Sabic – made a \$4 billion profit before interest and tax in the third quarter.

Aramco aims to roughly double its global refining network to handle as much as 10 million barrels a day by 2030. It was mulling a \$15 billion investment in Reliance Industries Ltd.'s oil-to-chemicals unit in India, but the plan was scrapped late last year.