

Engine No. 1 converts tiny ExxonMobil stake into big win



NEW YORK: ExxonMobil has spent more than two decades sparring with activists over climate change, turning back virtually every shareholder challenge at its annual meeting each spring.

But late last month, the oil giant, which has shunned renewable energy investments embraced by some rivals, suffered a landmark defeat when upstart investment fund Engine No.1 successfully won election of three of its four board candidates, overcoming fierce campaigning from management.

A newly formed San Francisco-based investment group, Engine No.1 is a relative minnow in the world of finance, but now stands poised to steer the iconic US petroleum heavyweight in a new direction.

Its victory points to the increased vulnerability of incumbent energy players to insurgent investors as public concern mounts over climate change.

Engine No. 1's stake in ExxonMobil amounts to 0.02 percent of

total shares, a pittance that may have led the Texas company to underestimate the broader investor frustration it faces after it was kicked out of the prestigious Dow index last year.

“It’s ironic that an entity with such a small stake was able to effect such change,” said CFRA Research analyst Stewart Glickman, who noted that BlackRock and other funds with large stakes sided with Engine No.1 and played a critical role in its victory.

“They used institutional investors that are more climate change-focused to get this done,” Glickman added.

Andrew Logan, a veteran of shareholder campaigns at ExxonMobil as director of the oil and gas program at activist investor group Ceres, said Engine No.1 ‘s newness was an advantage.

“With Exxon, everyone has a history,” Logan said. “Having a new face without that baggage led them to open doors.”

Engine No. 1’s board nominees were not environmentalists, but longtime corporate executives with energy industry experience. The group was skillful in tying ExxonMobil’s carbon policy to a broader corporate strategy that struck investors as out-of-touch, Logan said.

Engine No. 1 “struck a powerful balance of nodding to climate change, but they focused on the core issue of Exxon’s capital plan and its strategy,” he said.

– Arguing for diversification –

Named for San Francisco’s first firehouse, Engine No. 1 was founded last year by Christopher James, a wealthy technology investor.

Another key player in the ExxonMobil campaign was Charlie Penner, a former partner with activist hedge fund Janus who is well known to key asset managers.

The firm currently has \$240 million under management and just 22 employees, according to a securities filing.

Neither James nor Penner were available for an interview, but Engine No. 1 pointed AFP to earlier statements that criticized ExxonMobil's investments on low-return petroleum projects and its lack of a plan in case government climate mitigation policies are accelerated.

ExxonMobil should "seriously explore opportunities to profitably diversify... with the assistance of new directors with notable track records of agile and adaptative innovation in energy," Engine No. 1 said in its initial letter to the company.

The three nominees elected by ExxonMobil shareholders are Gregory Goff, the former chief executive of refiner Andeavor; Kaisa Hietala, a former Neste executive who oversaw the company's expansion into renewable fuel; and Alexander Karsner, a strategist at Alphabet's X innovation lab and a former US assistant energy secretary.

Anders Runevad, former chief executive of Vestas Wind Systems, was not elected.

ExxonMobil deemed that none of Engine No. 1's nominees "meet the standards or needs of the company's board," according to a securities document. The board named two other candidates, who were elected last week by shareholders, along with the three Engine No. 1 candidates and seven other incumbents.

Engine No. 1 noted during the campaign that ExxonMobil did not meet with its nominees, and said the company's picks lack a "diverse track record of success in the energy industry who can position the company for success in a changing world."

– What will change? –

ExxonMobil has changed its tone since Engine No. 1's

victories, saying, “We welcome the new directors to the board and look forward to working with them constructively and collectively to benefit all shareholders.”

Only time will tell exactly how much the company shifts course and whether it will follow other oil majors into renewable energy, focus on executing long-discussed efforts at carbon capture, or go in a different direction.

The vote “means the status quo is no longer acceptable,” said Dan Pickering, founder of Pickering Energy Partners in Houston. “The net impact is more of their capital is directed at energy transition or carbon abatement of some sort and less goes to the oil and gas business.”

World’s Top Oil Trader Vitol Sees OPEC+ Controlling Crude Market



(Bloomberg) – OPEC+ seems in charge of crude costs as U.S. manufacturing is lagging pre-pandemic ranges, in line with a senior govt on the world’s greatest unbiased oil dealer, Vitol Group.

The decline in U.S. drilling and output leaves little competitors to efforts by the producers’ group to handle markets, Mike Muller, Vitol’s head of Asia, stated throughout an internet convention on Sunday. Brent crude closed above \$70 a barrel final week for the primary time in two years, as patrons demand extra oil than producers are pumping.

U.S. oil producers are nonetheless using solely half the rigs they used earlier than the coronavirus struck. Meanwhile OPEC+, because the group led by Saudi Arabia and Russia is thought, is easing barrels again on to the market as demand recovers.

“There’s a perception in the market that control is with OPEC+,” Muller stated on the occasion hosted by the consultancy Gulf Intelligence. “It will take a long time for

U.S. oil to come back" to manufacturing ranges seen earlier than the coronavirus outbreak, he stated.

The Organization of Petroleum Exporting Countries and companions agreed final week to proceed easing manufacturing restraints in July however left markets guessing about what it should do for the remainder of the yr. After reducing manufacturing by some 10 million barrels a day, or a tenth of every day international demand, the group nonetheless has about 6 million barrels a day of idle capability.

China's economic system will proceed to develop, serving to bolster oil demand and bringing down crude stockpiles, Muller stated. Economic enlargement and regulatory adjustments there'll doubtless trigger home refineries to course of extra crude, he stated. "It doesn't pay to hold inventory at all," Muller stated. "De-stocking must continue from a purely commercial perspective."

More Iranian crude oil is more likely to hit markets this yr after an anticipated deal to restrict the nation's nuclear program in return for the U.S. easing sanctions. Iran is restricted in how shortly it could actually carry oil again to the market since a variety of its saved barrels are condensate, a lightweight and sulfurous liquid which can be more durable to promote, he stated.

Given delays in negotiations final week, Muller stated it's much less doubtless extra Iranian barrels will hit the market earlier than the fourth quarter.

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Canada's Pembina agrees to buy rival Inter for \$6.9bn



Pembina Pipeline Corporation agreed to acquire Inter Pipeline for about C\$8.3 billion (\$6.9bn) in an all-stock deal that will create one of the largest energy companies in Canada.

The proposal from Pembina trumps a hostile takeover offer for Inter made by Brookfield Infrastructure Partners earlier this year. Inter spurned that approach and began a review of its options, which included a sale.

The Pembina-Inter combination is the largest Canadian energy transaction in four years. It continues a trend of consolidation in the sector in the face of low oil prices and regulatory uncertainty, highlighted by US President Joe Biden's cancellation of TC Energy's Keystone XL oil export pipeline in January.

Adding Inter will give Pembina additional pipeline infrastructure across Western Canada, connecting the region's oil sands and natural gas producers with domestic and foreign

customers. Pembina, a major processor of natural gas liquids, will increase its ability to deliver condensate on Inter's system to the oil sands, where the product is used to dilute the thick bitumen that's dug out of the ground so that it can be transported by pipeline or rail.

The two Calgary-based pipeline companies said on Tuesday the takeover will lead to annual cost savings of as much as C\$200 million and create an operator with capacity to transport 6.2 million barrels a day of gas, oil and natural gas liquids throughout the region. The merged company will run by Pembina's senior executive team.

Pembina said its offer values Inter at C\$19.45 per share prior to the start of trading, while Brookfield's offer was C\$16.50. Brookfield declined to comment on Tuesday's merger announcement.

"Brookfield could easily come back at a \$19.50 to \$20 cash offer and probably still make the numbers work," Ryan Bushell, a portfolio manager at Newhaven Asset Management, said. "We'll find out pretty shortly how badly Brookfield wanted this in the first place. But if I had to guess, I'd say they'd probably want to wash their hands of it."

Inter shares rose 8.8 per cent to C\$19.09 while Pembina fell 1.9 per cent to C\$38.15 at 12.26 pm in Toronto.

The Inter acquisition follows Pembina's purchase of a Canadian unit and pipeline assets from Kinder Morgan for about \$4.5bn in 2019 and its takeover of British Columbia pipeline operator Veresen for C\$5.8bn two years earlier. Pembina chief executive Michael Dilger said his company has tried to buy Inter on two previous occasions.

"Third time is lucky," he said on a conference call. "This is just the right time."

Pembina will also take on Inter's Heartland Petrochemical

Complex, which is under construction in Alberta. Inter has been looking for a partner to help fund the C\$4.2bn construction cost while also trying to sign long-term sales contracts for 70 per cent of the plant's capacity.

Pembina previously suspended work on the petrochemical plant it was planning to build in Alberta in a venture with Kuwait's Petrochemical Industries. The odds of reviving that project "go up a lot now," Mr Dilger said. "If you can add another plant, you are amortising those costs by half."

Buying Inter gives Pembina energy terminals in Sweden and Denmark. Inter chief executive Christian Bayle had plans to sell the European assets, Mr Dilger said. "It looks like a good business," he added. "It is strategic. We will see."

Scotia Capital is Pembina's financial adviser, while TD Securities advised Inter. JPMorgan Chase & Co. is the financial adviser to the special committee of Inter's board and gave a fairness opinion.

**Opec+ signs off on July
increase at meet as oil
market tightens**



LONDON (BLOOMBERG) – The Opec group of oil producers and its allies, or Opec+, stuck to its plan to hike oil output next month, as Saudi Arabia’s energy minister struck a bullish tone about the global recovery.

The group will press ahead with an increase of 841,000 barrels a day next month, following hikes in May and June, according to delegates.

As the market tightens, a more difficult decision looms for the group as it tackles the deficit that is set to emerge later this year.

“The demand picture has shown clear signs of improvement,” Saudi Energy Minister Abdulaziz bin Salman said as the meeting started.

Russian Energy Minister Alexander Novak also spoke of the “gradual economic recovery”.

The Organisation of Petroleum Exporting Countries (Opec) and its allies have spent more than a year rescuing prices from

historic lows and only cautiously adding supply.

Now the story is shifting: Oil prices above US\$71 are fuelling inflation concerns and if Opec does not add more oil, there is a risk the market becomes too tight, undermining the global recovery.

But the cartel is also embracing caution. Prince Abdulaziz echoed the concerns of his fellow delegates when he said there are still “clouds” on the horizon. Iran’s potential return to international markets is one factor weighing on ministers’ decision-making. The impact of new variants of Covid-19 is another.

And while there is a wide deficit in the market to fill in the second half of the year, those two considerations could see some producers argue for a pause before further hikes.

“Covid-19 is a persistent and unpredictable foe and vicious mutations remain a threat,” Opec secretary-general Mohammad Barkindo said.

After next month, Opec+ is scheduled to hold supply until April 2022, according to the deal signed a year ago to rescue producers from a bitter price war.

While the agreement can be renegotiated – and there will be pressure to do so as demand continues to recover – it provides a fallback position for the group.

Tuesday’s meeting did not tackle the period after next month, according to two delegates.

If the alliance does not boost output later this year, prices will face further upward pressure, International Energy Agency executive director Fatih Birol told Bloomberg Television earlier on Tuesday.

“One thing is clear: In the absence of changing the policies, with the strong growth coming from the United States, China,

Europe, we will see a widening gap” between demand and supply, Mr Birol said.

This Time Is Different: Outside OPEC+, Oil Growth Stalls



(Bloomberg) – “This time is different” may be the most dangerous words in business: billions of dollars have been lost betting that history won’t repeat itself. And yet now, in the oil world, it looks like this time really will be.

For the first time in decades, oil companies aren’t rushing to increase production to chase rising oil prices as Brent crude approaches \$70. Even in the Permian, the prolific shale basin

at the center of the U.S. energy boom, drillers are resisting their traditional boom-and-bust cycle of spending.

The oil industry is on the ropes, constrained by Wall Street investors demanding that companies spend less on drilling and instead return more money to shareholders, and climate change activists pushing against fossil fuels. Exxon Mobil Corp. is paradigmatic of the trend, after its humiliating defeat at the hands of a tiny activist elbowing itself onto the board.

The dramatic events in the industry last week only add to what is emerging as an opportunity for the producers of OPEC+, giving the coalition led by Saudi Arabia and Russia more room for maneuver to bring back their own production. As non-OPEC output fails to rebound as fast as many expected – or feared based on past experience – the cartel is likely to continue adding more supply when it meets on June 1.

‘Criminalization’

Shareholders are asking Exxon to drill less and focus on returning money to investors. “They have been throwing money down the drill hole like crazy,” Christopher Ailman, chief investment officer for CalSTRS. “We really saw that company just heading down the hole, not surviving into the future, unless they change and adapt. And now they have to.”

Exxon is unlikely to be alone. Royal Dutch Shell Plc lost a landmark legal battle last week when a Dutch court told it to cut emissions significantly by 2030 – something that would require less oil production. Many in the industry fear a wave of lawsuits elsewhere, with western oil majors more immediate targets than the state-owned oil companies that make up much of OPEC production.

“We see a shift from stigmatization toward criminalization of investing in higher oil production,” said Bob McNally, president of consultant Rapidan Energy Group and a former White House official.

While it's true that non-OPEC+ output is creeping back from the crash of 2020 – and the ultra-depressed levels of April and May last year – it's far from a full recovery. Overall, non-OPEC+ output will grow this year by 620,000 barrels a day, less than half the 1.3 million barrels a day it fell in 2020. The supply growth forecast through the rest of this year “comes nowhere close to matching” the expected increase in demand, according to the International Energy Agency.

Beyond 2021, oil output is likely to rise in a handful of nations, including the U.S., Brazil, Canada and new oil-producer Guyana. But production will decline elsewhere, from the U.K. to Colombia, Malaysia and Argentina.

As non-OPEC+ production increases less than global oil demand, the cartel will be in control of the market, executives and traders said. It's a major break with the past, when oil companies responded to higher prices by rushing to invest again, boosting non-OPEC output and leaving the ministers led by Saudi Arabia's Abdulaziz bin Salman with a much more difficult balancing act.

Drilling Down

So far, the lack of non-OPEC+ oil production growth isn't registering much in the market. After all, the coronavirus pandemic continues to constrain global oil demand. It may be more noticeable later this year and into 2022. By then, vaccination campaigns against Covid-19 are likely to be bearing fruit, and the world will need more oil. The expected return of Iran into the market will provide some of that, but there will likely be a need for more.

When that happens, it will be largely up to OPEC to plug the gap. One signal of how the recovery will be different this time is the U.S. drilling count: It is gradually increasing, but the recovery is slower than it was after the last big oil price crash in 2008-09. Shale companies are sticking to their

commitment to return more money to shareholders via dividends. While before the pandemic shale companies re-used 70-90% of their cash flow into further drilling, they are now keeping that metric at around 50%.

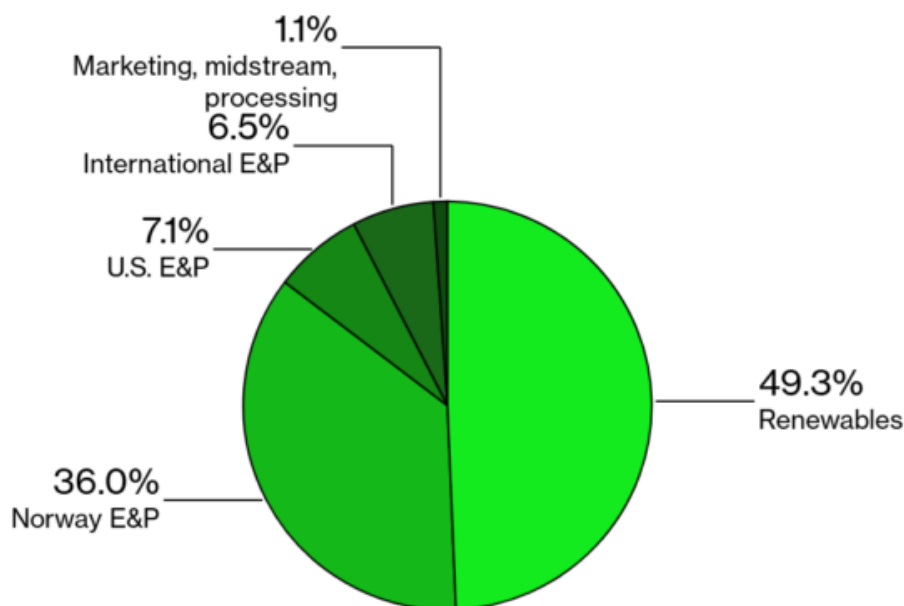
The result is that U.S. crude production has flat-lined at around 11 million barrels a day since July 2020. Outside the U.S. and Canada, the outlook is even more somber: at the end of April, the ex-North America oil rig count stood at 523, lower than it was a year ago, and nearly 40% below the same month two years earlier, according to data from Baker Hughes Co.

When Saudi Energy Minister Prince Abdulaziz predicted earlier this year that “‘drill, baby, drill’ is gone for ever,” it sounded like a bold call. As ministers meet this week, they may dare to hope he’s right.

How an Oil Company Becomes a Renewables Company

How to Earn \$2.6 Billion

Equinor 1Q 2021 earnings by segment



Source: Equinor, Bloomberg

Note: E&P is exploration and production. Earnings omit \$53 million loss from "other"

Bloomberg Green

Last week a raft of oil majors released their first-quarter results, with companies like Royal Dutch Shell Plc showing a return to pre-pandemic profit levels. At the same time, some of the majors increased their energy transition commitments: as my Bloomberg Intelligence colleagues Salih Yilmaz and Will Hares noted on Twitter, Spanish firm Repsol SA devoted 40% of its capital expenditure to low-carbon projects, and France's Total SE stated plans to increase its renewable energy capacity five-fold over the next four years.

There are energy-transition commitments, though, and then there are energy-transition results. And on the latter side, one company shines: Norway's state-owned oil producer, Equinor ASA. It posted more than \$2.6 billion of earnings in the first quarter of 2021, 49% of which was from renewable energy. Last quarter, Equinor earned more from renewables than it did from oil and gas exploration and production.

But Equinor's results are more than evidence of a successful renewable-energy strategy. They're also a sign of the

challenge ahead for other oil majors with similar ambitions.

Equinor's capital gains in renewables came from "farm downs," i.e. the selling of assets at various stages of development to new owners. (Another term for farm down is "asset rotation," which I discussed last week.) Equinor divested a 50% interest in two U.S. offshore wind projects and a 10% interest in two U.K. offshore wind farms. While asset rotation is slowing down in the power utility sector, it seems to be working fine for Equinor.

More interesting than the farming down itself is who Equinor is farming down to: two other European oil majors! BP Plc is buying into the U.S. projects, and Italy's Eni SpA is buying into the U.K. projects—or in other words, BP and Eni are paying Equinor for the privilege of taking on the earlier stages of developing offshore wind.

Therein lies the challenge for Big Oil's energy transition plans. Equinor's way to benefit from renewable-energy assets is, essentially, to put in the early work of developing them—and then reap the cash benefits of selling them to others.

Importantly, early wind development is more time-dependent and expertise-dependent than it is capital-dependent. Equinor's U.S. wind assets are the result of its success in the country's 2018 offshore-lease auction, when it won stakes with a bid of \$135 million. In its latest earnings statement, the company says BP paid \$1.2 billion for those same assets, netting the Norwegian company \$1 billion on the deal.

Equinor is a special creature in a few ways. First, one of the reasons it could be an early developer of U.S. offshore wind is that it has decades of experience developing and operating offshore oil and gas assets. Other oil majors (in particular BP) can claim the same expertise, but Equinor seems particularly adept at it.

Second, the company is two-thirds owned by the Kingdom of

Norway, with Norway's Government Pension Fund Global, also known as Norges Bank, owning another 3.59% of the company via Folketrygdfondet, which is authorized to invest 85% of its funds in Norwegian companies. Not only is the government a particularly patient and committed shareholder, it also has a hand in its portfolio companies' strategies. The Folketrygdfondet "has an interest in an orderly transition in line with the Paris Agreement" and expects that its portfolio companies "integrate climate change considerations into policies and strategy."

So to recap: Norway reinvests its state-oil company's revenues back into said oil company, while also helping drive said oil company's energy transition strategy. As Equinor's first-quarter results show, all of this effort and coordination has made it possible for an oil company to get half its revenues from renewable energy, at least for now. Other oil majors reaching for that same brass ring will have their work cut out for them, certainly—and may continue to resort to buying assets from each other in their quest to get there.

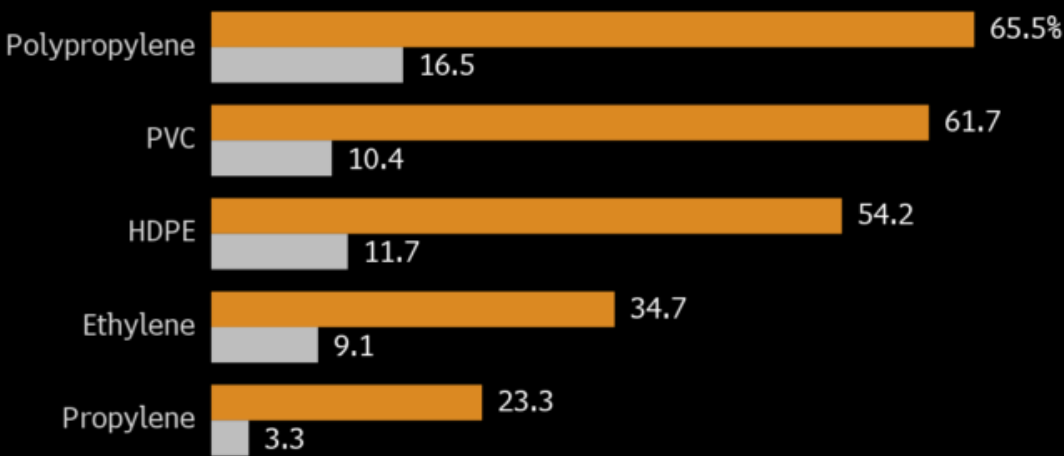
Nathaniel Bullard is BloombergNEF's Chief Content Officer.

**Big Oil's Chemical Profits
Show Inflationary Double
Whammy**

Shutdowns Easing

U.S. chemical capacity is slowly returning after the Texas freeze

■ Capacity offline (March) ■ Capacity offline (May)



Source: ICIS

Bloomberg

(Bloomberg) – Drive down any highway in the world and you’ll see countless reminders that the price of Big Oil’s primary product is rising. What’s less obvious is how the inflationary pressures from transport fuel are being amplified by another part of this sprawling industry – chemicals.

The cost of the building blocks for everything from plastics to paint has surged over the past year. That’s great for companies like Exxon Mobil Corp. and Royal Dutch Shell Plc, whose petrochemical units just earned their biggest profit in years.

But it’s unwelcome news for consumers as commodities from copper to lumber are already testing record highs. The price of materials like PVC and ethylene, staples of construction and manufacturing, have risen to the highest in at least seven years on a combination of pandemic-driven demand, the broader post-Covid recovery and once-in-a generation supply disruptions.

“The demand is coming from food, packaging, medical goods, protective equipment,” said Oswald Clint, senior research

analysts at Sanford C Bernstein Ltd. “Does it add to inflation? Yes.”

Oil has advanced steadily this year, coming within a whisker of \$70 a barrel in London this week. Yet even as higher crude prices boosted earnings from the oil majors’ exploration and production units, the performance of their petrochemical businesses really stood out.

In the first three months of this year, Exxon made \$1.4 billion from chemicals, more than in any quarter since at least 2014, when oil prices were above \$100 a barrel. More than a fifth of Shell’s \$3.23 billion of adjusted net income for the period came from the division, the highest in four years.

Global Winners

It’s not just the oil majors seeing sales surge. Chemicals was the fastest growing unit at Indian conglomerate Reliance Industries Ltd. in the first three months of 2021, compared with the prior quarter.

Other winners from the boom include Brazil’s Braskem SA, Indorama Ventures PCL from Thailand, Celanese Corp., Dow Inc. and LyondellBasell Industries NV in the U.S., and Saudi Basic Industries Corp., according to Jason Miner, Bloomberg Intelligence chemicals analyst.

“It’s a story of the strength of the intermediates,” Shell chief financial officer Jessica Uhl told investors on April 29, referring to compounds that are derived from basic petrochemical feedstocks. Demand is growing as the economy recovers, notably in Asia, she said.

For example, the price of styrene monomer – used in medical devices and latex – surpassed \$1,000 a ton in the first quarter, Uhl said. The average price of the chemical at the port of Rotterdam in the Netherlands was about \$700 a ton in

2020, according to data compiled by Bloomberg.

The global vaccination drive and large stimulus packages are boosting consumer sentiment and demand from health care, packaging, consumer durables, textiles and automobiles, Reliance said in its earnings presentation last week. Demand for polymers and polyesters has been particularly strong in India, it said.

Trouble in Texas

This isn't just a story about strong demand. The chemicals industry is also just coming back from several major supply disruptions.

Back-to-back hurricanes on the U.S. Gulf Coast last year were followed by unusually cold weather in February, which knocked out much of the electricity grid in Texas and forced giant petrochemical facilities to shut down. Two months later, many are still not back working at full-capacity.

The region has become a dominant player in the world's plastics trade thanks to natural gas liquids – a cheap petrochemical feedstock – coming out of the Texas shale boom. For example, North America is the world's biggest producer of high-density polyethylene, used in everything from shampoo bottles to snowboards. It's also the largest exporter of PVC.

"The big freeze sent a shockwave through global petrochemical markets," Vienna-based consultant JBC Energy GmbH said in a note. While almost all of the plants that were disabled by the weather have been brought back online, inventories of many chemicals are still low, keeping prices elevated, it said.

The price of ethylene, the chemical building block for everything from plastics to solvents, reached a seven-year high of 59.5 cents a pound in March, according to ICIS, a data and analytics provider. PVC reached a record high of \$1,625 a ton that month.

Even recycled plastic is in high demand, with the price of polyethylene terephthalate, or PET, used for drinks bottles and packaged food, reaching a 10-year high of 1,250 euros (\$1,519) a metric ton in northwest Europe on Wednesday, according to S&P Global Platts. The price remained at that level Friday.

“If you were able to get back up and running quickly after the storm” you found a marketplace desperate for your product that “would almost pay any price to get it,” said Jeremy Pafford, head of North America at ICIS.

The tight supply and demand balance for many chemicals looks set to continue in the second quarter, Exxon Chief Executive Officer Darren Woods said on a call with analysts last week. Dow and LyondellBasell have said they are currently selling everything they produce and don’t anticipate being able to restock inventories until the third or fourth quarter.

To manufacture enough chemicals to satisfy customer demand and start building up its stockpiles again, the U.S. needs “four dull months” without any further disruption, said Pafford.

But hurricane season is just around the corner, and the global economy does not have time on its side.

The world is expected to see a surge in spending in the coming months as many countries end their lockdowns and cooped-up consumers dip into their savings or stimulus checks. That could happen alongside the continuation of pandemic-driven trends such as high demand for plastic medical goods as new strains of Covid-19 trigger fresh outbreaks around the world.

“Demand for personal protective equipment is unlikely to fade soon,” said Armaan Ashraf, an analyst at consultant FGE. “E-commerce, retail, durable goods demand is also likely to remain strong through the rest of this year as well.”

(Updates PET price in 17th paragraph)

Saudi cuts oil prices for Asia as India battles virus



Bloomberg / Dubai

Saudi Arabia lowered oil prices for customers in its main market of Asia as a surge in coronavirus cases crimps demand in India, the world's third-largest crude importer.

The kingdom's state energy firm, Saudi Aramco, reduced pricing for June shipments to the continent by between 10 and 30 cents per barrel.

The key Arab Light grade for Asia was cut to \$1.70 a barrel above the benchmark from \$1.80 for May. That's the first reduction in official selling prices for the grade since December, signalling weakness in Asian oil markets.

The reductions had been anticipated in the market. Aramco had been expected to lower Arab Light's premium by 20 cents, according to a Bloomberg survey of seven traders and refiners. Saudi Energy Minister Prince Abdulaziz bin Salman has urged fellow members of Opec+ to be cautious as the group eases supply cuts started last year when the pandemic was hammering energy markets. The 23-nation alliance plans to increase daily output by just over 2mn barrels through to July, beginning with 600,000 this month. That would still leave production roughly 5mn barrels a day below pre-pandemic levels.

Aramco raised pricing to the US by 20 cents a barrel for all grades. The nation is adding jobs amid economic growth and a push for widespread vaccinations. The company cut pricing for all shipments to Northwestern Europe and the Mediterranean, where efforts to bolster the economy and ease lockdowns have met with mixed results.

Brent crude has climbed almost 35% this year, closing in on \$70 a barrel as vaccination rollouts enable the US, Europe and some other major economies to reopen. Aramco chief executive officer Amin Nasser said on Tuesday he's more optimistic about the outlook for oil.

Still, the pandemic has rapidly worsened in India since the start of April. The country is now reporting around 400,000 cases every day.

Most Middle Eastern countries set monthly prices as a premium or discount to a benchmark. Aramco's OSPs serve as a bellwether for oil markets and often lead the pricing trend in the region. Abu Dhabi issued its first OSP based on trading in crude futures this month, a step in its efforts to establish its oil as the regional benchmark.

BP emerges as another big winner from Texas freeze



(Bloomberg) – Two months on from the winter freeze that paralyzed Texas and sent electricity and gas prices soaring, another big winner has emerged.

BP Plc said Tuesday its gas trading unit had an “exceptional” first quarter, helping to drive profit well above pre-pandemic levels. While executives didn’t spell it out, all signs point to large gains from the frigid weather in Texas.

“It was a very exceptional quarter in gas trading,” Chief Executive Officer Bernard Looney said in an interview. “We were well-positioned for colder-than-normal weather in the U.S.,” as well as in Asia.

The London-based oil major doesn’t disclose trading results, but its quarterly earnings suggest the gas and power unit “easily topped \$1 billion,” according to Citigroup Inc. analyst Alastair Syme. “Although not mentioned by name, we think positioning around the February storm in Texas – Storm Uri – has been the biggest driver of these gains.”

The next-biggest supplier, Macquarie Group Ltd., also enjoyed a windfall from gas and power price swings, pocketing \$210 million. Other companies to profit included pipeline operator Kinder Morgan Inc., which reported a \$1 billion gain, and more may emerge as earnings season progresses.

Yet among BP's oil peers, some have already flagged that their results will suffer from the deep freeze. Royal Dutch Shell Plc has warned its adjusted earnings will take a hit of about \$200 million, while Exxon Mobil Corp. expects profit to be curtailed by as much as \$800 million.

Trading Giant

BP benefits from having one of the largest in-house trading units in the industry. Last year, the company offered a glimpse into just how profitable the secretive trading operation is: it boosts returns on average capital employed by around 2 percentage points, suggesting it brings in as much as \$2.5 billion a year.

On Tuesday, BP's executives batted away repeated questions from analysts calling for more details on the scale of the trading wins. "I don't really want to give up commercial advantage," Chief Financial Officer Murray Auchincloss said. "I don't think I'm going to go any further in describing what we do commercially. It's just not helpful to our traders."

For now, BP will only give a steer using adjectives such as average, strong or exceptional. The company has had three "exceptional" quarters in the past decade, the latest example – before the one just reported – being the second quarter of 2020, Auchincloss said.

The trading business will mostly remain a black box for investors and analysts, but Auchincloss said the company would "probably" give guidance on the unit's contribution to returns once a year, starting next February or March. Giving away more details than that would be a distraction, he said in an

interview.

Analysts questioned whether the gains reflected an outsized appetite for risk in trading. But the CFO countered that the successes were down to managing long and short positions, and arbitrage.

“We have a very, very strong and long history of knowing how to manage these disruptions and doing well,” he said. “And of course we had disruptions in the first quarter in Asia and the United States.” ©2021 Bloomberg L.P.

Opec+ sticks to plan to ease oil output cuts from May 1



Reuters/Dubai/Moscow/London

Opec, Russia and their allies will stick to plans for a phased easing of oil production restrictions from May to July amid

upbeat forecasts for a recovery in global demand and despite surging coronavirus cases in India, Brazil and Japan.

The group known as Opec+ ditched plans to hold a ministerial meeting on Wednesday, four Opec+ sources said, following Tuesday's meeting of ministers who are members of a market monitoring panel.

The panel decided to stick to policies broadly agreed at a previous April 1 meeting of Opec+, Russian Deputy Prime Minister Alexander Novak said after the talks.

He said the next Opec+ ministerial meeting was scheduled for June 1 to review output levels for July and August.

An Opec+ statement also confirmed the June 1 date for the next meeting.

Opec+, which is responsible for more than a third of global production, has cut output by around 8mn barrels per day (bpd), equivalent to over 8% of global demand.

The reduction includes a 1mn bpd voluntary cut by Saudi Arabia. At the April 1 meeting, the group agreed to bring 2.1mn bpd back to the market from May to July, easing cuts to 5.8mn bpd.

In a report by Opec+ experts, the group forecast global oil demand in 2021 would grow by 6mn bpd, after falling 9.5mn bpd last year.

But the group said that, even though more than 1bn Covid-19 vaccine doses had been administered globally, it was concerned that surges in new virus cases in India, Brazil and Japan might derail recovering demand for crude.

Oil prices rebounded on Tuesday after falling the previous session, with gains capped by growing concern about fuel demand in India, the world's third-biggest crude importer.

The Opec+ report said it expected commercial oil stocks to reach 2.95bn barrels in July, taking them below the 2015-2019 average, and expected them to remain below that average for the rest of the year.

It said it saw stocks at about 70mn barrels below the average for the whole of 2021, a more optimistic outlook than its previous forecast of 20mn barrels below the average.

