

Norway new crude a threat to rivals in prized Asia market



Norway's new oil grade is making inroads in Asia, threatening to undermine sales of similar crudes from Africa and South America.

China's Unipet, at least one of the nation's independent refiners and South Korea's Hyundai Oilbank Co have bought Johan Sverdrup for December delivery, said traders and refinery officials in Asia. The North Sea oil produced by Equinor ASA has been likened to Brazil's Lula and Angola's Saturno crudes.

Oil with low-sulphur content is in demand ahead of stricter ship-fuel rules that take effect January 1, while supply of medium-density crude has been tight due to the attacks on Saudi Arabia and US sanctions on Iran and Venezuela. Johan Sverdrup has both of those qualities, and it's also attractively priced, which may have lured refiners that are typically cautious about new grades.

If Johan Sverdrup continues to gain traction it may jeopardize exports of its rival grades to the world's top crude-consuming region. Angolan and Brazilian oil accounted for 10% and 8%,

respectively, of Chinese imports in the first eight months of the year, according to government data. By comparison, Norwegian crude had a minuscule 0.04% share.

“I have no doubt we’ll see a trend of more Norwegian flows to Asia, especially China, in the coming months,” said Sengyick Tee, an oil analyst at SIA Energy in Beijing. “Given the soaring freight rates and high Chinese stockpiles, Equinor will need to price it attractively,” he said, adding that the company has a strong presence among Shandong’s teapots.

Shandong Qingyuan Group, a Chinese teapot, bought about 1mn barrels of Johan Sverdrup at a premium of \$6 to \$6.50 a barrel to Brent crude on a delivered basis, said traders who asked not to be identified as the information isn’t public. That’s around \$1 a barrel cheaper than Lula and 20 to 30 cents less than Saturno, the traders said.

Unipecc – the trading arm of Chinese giant Sinopec – has bought two shipments of Johan Sverdrup for October loading, while Hyundai Oilbank took an undisclosed volume of the grade, the traders said. The prices for these deals aren’t available.

Whether or not Equinor can keep offering the grade at lower prices over the longer term remains to be seen.

The Norwegian company may have hedged shipping costs in advance, said one of the traders. Equinor is also giving buyers the option to co-load with other varieties, which may help reduce the cost of shipping to Asia.

Johan Sverdrup has an API gravity reading of 27 degrees with sulphur content of 0.8%. While that’s a slightly higher sulphur reading than most sweet crudes – loosely defined as having 0.5% or less of sulphur – processors looking to produce more IMO 2020-compliant fuel may seek out the grade as part of a lower-sulphur oil feedstock blend.

Oil market bulls regroup, but don't bet on a rally just yet



Calgary: Oil bulls are rebuilding their positions, but it will probably take some major news to shake the market out of its current mood and trigger a sustained rally.

Money managers boosted their net-long position on West Texas Intermediate crude for the first time since mid-September in the week ended Oct. 22, data released Friday show. Those bets are still at half the level they reached last month, though, while short-selling wagers have tripled in that period.

That signals there's still a lot of scepticism in the market, despite crude's 5.4 per cent gain this week. But it also shows there's growing support for a meaningful rally once short-sellers start unwinding their positions. It's just that they don't seem to have a reason to do that yet.

"We had some events recently that were unusual, including the unprecedented attacks on Saudi Arabia," said Stewart Glickman,

an analyst at CFRA Research Inc. “The market saw a quick uptick but then shrugged it off a bit pretty quickly.”

This week was marked by news of a decline in US crude stockpiles, a brief shutdown of a critical pipeline and signs of progress on US-China trade talks. The market has seen similar pieces of bullish news over the past few months that weren't enough to dispel uncertainty over demand in the face of growing supplies.



“Every other day, it seems like we get a new statement from the [Trump] administration related to the trade talks,” said Gene McGillian, manager of market research at Tradition Energy. “We’ve gone down this road too many times.”

Money managers’ WTI net-long position, or the difference between bullish and bearish bets, rose 8.5 per cent to 93,856 futures and options, according to US Commodity Futures Trading Commission data. That compares with more than 200,000 about a month ago.

Long-only bets rose 9.3 per cent, while short positions climbed 10 per cent. Short-selling is near a peak reached in January, before massive short covering through the end of April helped support crude’s rally during the first four months of the year.

GECF, Opec in pact to strengthen co-operation in

research and sharing of best practices



Doha-headquartered Gas Exporting Countries Forum (GECF) and the Vienna-based Organisation of the Petroleum Exporting Countries (Opec) have entered into a pact to strengthen co-operation in research and the sharing of best practices.

GECF secretary-general Yury Sentyurin and his Opec counterpart Mohamad Sanusi Barkindo signed a memorandum of understanding (MoU) in Moscow on the sidelines of Russian Energy Week.

The purpose of the MoU is to establish and strengthen co-operation in order to carry out activities and share experiences, views, information and best practices in areas of mutual interest.

The potential areas of co-operation identified include energy market monitoring, analysis, modelling and forecasting; energy market research studies covering the short- medium- and long-term, and their methodologies; energy market data and statistics, data and statistical operational topics (such as methodologies of data gathering, assessment and dissemination); energy initiatives and developments aimed at sustainability, along with environmental and social responsibility; and other areas and matters involving common interests and concerns.

Both the organisations have also agreed to co-operate, where possible and appropriate, on the exchange of information and

data; hold expert meetings and internal bilateral workshops to promote the exchange of knowledge and experiences; and cooperate on seminars, workshops, conferences and publications.

The MoU follows discussions that took place earlier this year between the secretaries general on the sidelines of the ninth International Energy Forum-Opec symposium on Energy Outlooks.

At their meeting of February 27, 2019, the secretaries general recognised the numerous areas of mutual interest to both organisations and emphasised their desire to continue working closely together, both at a high-level, as well as on a technical level.

Qatar set to host sixth Gas Summit of GECF in 2021



Qatar will host the sixth Gas Summit of the Gas Exporting Countries Forum (GECF) in 2021, offering an opportunity for

dialogue at the highest levels on the latest developments and trends related to the global gas industry.

The announcement was made during the conclusion of the 21st GECF ministerial meeting in Moscow. This will be the second summit to be held in Doha after the forum's first summit on November 15, 2011.

"We look forward to a highly successful meeting that reflects our deep belief in dialogue and co-operation in the effort to meet the world's growing demand for energy," said HE Saad bin Sherida al-Kaabi, Minister of State for Energy Affairs, the president and chief executive of Qatar Petroleum.

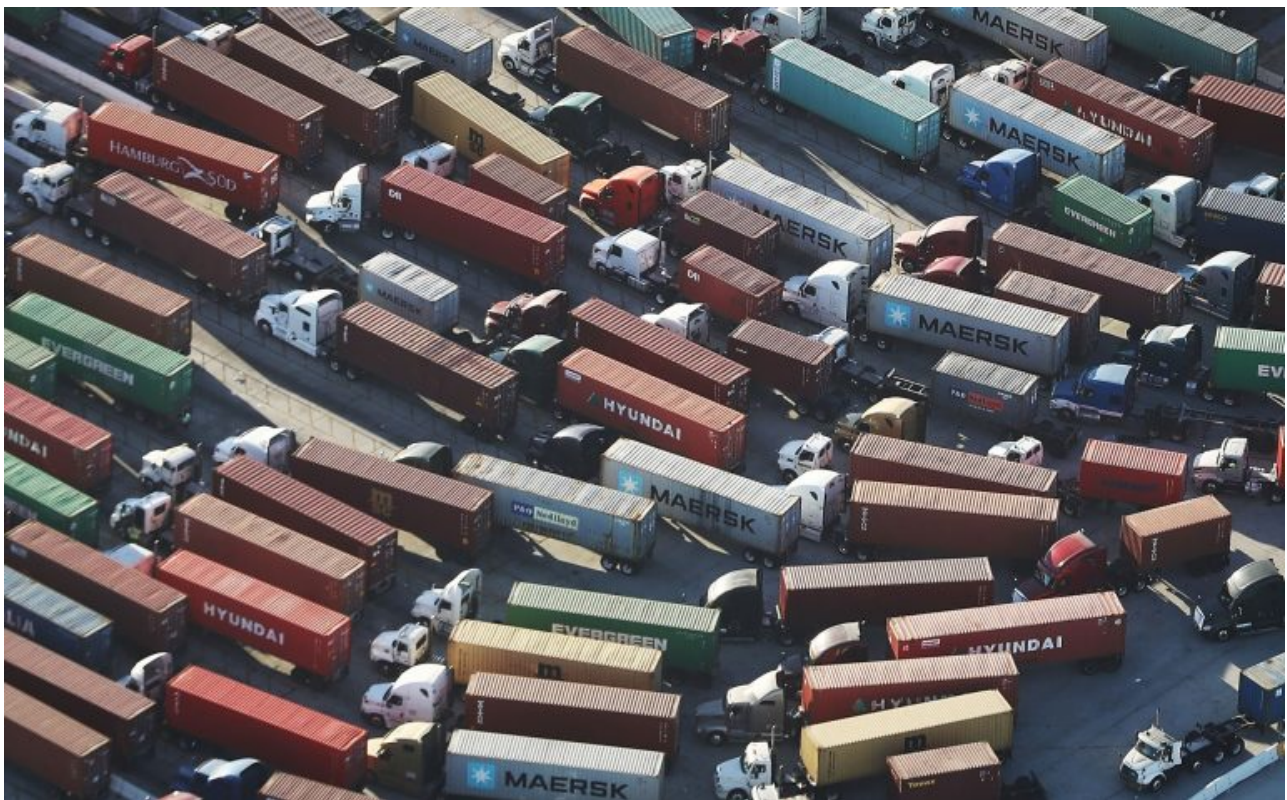
He said Qatar is committed to the responsibilities it carries as the world's leading liquefied natural gas producer, foremost of which is encouraging regional and international dialogue as well as promoting natural gas as the cleanest of fossil fuels and the destination fuel in the transition to low carbon economies.

Earlier addressing the ministerial meet in Moscow, al-Kaabi had stressed the importance of natural gas in meeting the economic and environmental challenges facing energy consumers around the world.

Drawing attention to unprecedented recurrent climatic conditions, including mean temperatures, turbulent seasonal cycles and extreme events, he had said it is time to take another look at natural gas and the number of advantages it has to make it a pivotal element in any strategy to tackle environmental challenges.

The GECF, which is headquartered in Doha, is an international governmental organisation that provides a framework for knowledge sharing among its member countries. It is made up of the world's leading gas exporting countries and was set up with the objective to increase the level of co-ordination and strengthen the collaboration among its member countries.

Oil tanker rates spike is now bleeding into fuels trading



Record-high shipping costs are spilling over into the prices for refined fuels in Europe, Asia and the US. As freight rates rocket amid US sanctions and geopolitical risks, the prices of oil products such as gasoline and diesel are being forced to adapt in order to enable trade. Europe has long made excess gasoline, giving traders a lucrative opportunity to ship it to the US. Now, the increase in tanker rates is hitting at a time when crude flows have also been disrupted by the same surge in shipping costs.

The cost of hauling freight on the route has soared to its highest since 2015, according to Baltic Exchange data. That helped make US gasoline the most expensive it's been relative to Europe, on a seasonal basis, since 2016. "This is all because the explosion in dirty freight costs creates the risk

that larger clean tankers switch to dirty service,” said Robert Campbell, head analyst for global oil products markets at Energy Aspects. Clean tankers refer to those carrying refined fuels; dirty tankers haul crude or fuel oil. The cost of shipping oil products such as diesel and jet fuel on a mid-sized tanker on the Middle East-to- northwest Europe route has surged as well. Earlier this week it reached \$50 a tonne, the highest since 2008. Rates from India to northwest Europe have also increased. While the seaborne trade of refined products is only about half that of crude oil, it’s still the market’s main way of balancing structural surpluses and shortages that routinely emerge in different parts of the world. As such, it performs a vital role in avoiding supply scarcity. The more expensive shipping gets, the higher a buyer has to bid and/ or the lower a seller has to offer in order to make the trade viable.

Since the spike in freight rates several weeks ago, the value of diesel relative to crude in Europe – a net diesel importer – has edged up to its highest since 2018. Other factors, such as refinery maintenance and looming ship-fuel rules that are putting upward pressure on diesel prices, may also be playing into that number. At the same time, the price of diesel cargoes in the Middle East is generally falling, a trader said on Wednesday. Ripples are also being felt in the market for naphtha, a petroleum product used to make gasoline and as a feedstock for petrochemicals. Regularly shipped from Europe to East Asia, the cost of that voyage has surged to \$3.97mn, the highest it’s been since at least 2016. How long the situation lasts is unclear.

The cost of hiring tankers that typically ship crude and fuel oil has retreated after spiking last week, with analysts saying the high costs weren’t sustainable. Rates initially rose in the wake of the US sanctioning units of China COSCO Shipping Corp, the world’s largest merchant vessel owner, as well as an attack on an Iranian ship. As shippers get their

vessels ready for a sulphur cap on marine fuels, a number of tankers are also at repair yards, further tightening the freight market.

Opec faces serious 2020 challenge defending oil prices, says IEA



Opec faces a “serious challenge” if it wants to defend oil prices next year, as fuel-demand growth could slow further and rival supplies continue to grow, according to the International Energy Agency.

The IEA – which advises major economies – could lower its forecasts for demand growth again as the economic backdrop continues to weaken, Neil Atkinson, head of the agency’s oil industry and markets division, said in a Bloomberg television interview Wednesday. The agency lowered its projections in its

monthly report last week.

At the same time, there is “a wave of new supply growth” from the US, Brazil and the North Sea, Atkinson said. As a result, it will be tough for the Organization of Petroleum Exporting Countries and its allies – who have cut production this year to prevent a surplus – to buoy prices in 2020, he said.

“There is a lot of supply coming into the market, and that suggests that the Opec countries and Russia, who is working with them to manage the oil market, will face a serious challenge as we head into 2020 to keep prices at the level with which they feel comfortable,” Atkinson said.

Brent crude futures traded below \$59 a barrel in London on Wednesday, below the levels needed by most members of Opec to cover government spending.

The group and its partners will do “whatever it takes” to prevent another oil slump, Opec secretary-general, Mohammad Barkindo said in London last week.

The IEA, which is based in Paris, trimmed its 2020 estimate for global oil-demand growth by 100,000 barrels a day to 1.2mn a day last week.

The IEA incorporates forecasts from the International Monetary Fund, which on Monday reduced its outlook for global economic growth next year to 3.4% from 3.5%. The IMF anticipates that this year’s expansion will be the weakest in a decade.

“What the IMF numbers are doing is confirming a picture we have seen as 2019 has developed, and we are now looking at a possibility, no more than that, that the demand outlook could get weaker,” Atkinson said.

Still, oil-demand data in recent months has been surprisingly strong, and so “the jury is still out as to whether we are definitively going to slash oil demand growth any further,” he added.

Il gas del Qatar guarda all'Europa



È l'opinione di Roudi Baroudi, veterano del business energetico, spesso d'aiuto per delineare la policy energetica per aziende, governi, e organismi sovranazionali come l'Unione Europea. Baroudi, attualmente Ceo della Energy and Environment Holding, con sede a Doha, è intervenuto sul tema: «Perché il Qatar è cresciuto così tanto nel business del gas». «Una volta capita l'estensione delle riserve naturali di gas del paese – spiega Baroudi – il governo ha intrapreso studi organici per comprendere le condizioni di mercato e le possibilità di sviluppo, definire le necessità interne, e identificare i migliori partner commerciali. Come risultato di questa immediata scommessa, il Qatar in poco tempo è diventato l'esportatore numero uno di gas liquido. Posizione che detiene tutt'ora». E non solo da un punto di vista interno. Ad esempio Qatar Petroleum è in trattative con vari partner per la costruzione di un nuovo terminale di gas liquido sulla costa tedesca del mare del Nord. E un nuovo impianto di distribuzione verrà implementato nel porto belga di Zeebrugge entro il 2044. Ulteriori sviluppi dipingono il Qatar in prima posizione per quanto riguarda l'aspetto mercantile e finanziario. Nel luglio scorso Qatar Petroleum ha raggiunto la quota del 49 per cento in una joint venture con la Chevron, per lo sviluppo di un imponente complesso petrolifero sulla costa degli Stati Uniti, in prossimità della zona più

interessante per la produzione di «shale gas». E solo qualche settimana fa QatarGas è entrato nella storia, quando una delle sue navi da trasporto per il gas, la Thumama, è riuscita – per prima – a completare il trasferimento di una unità di rigassificazione dal terminal di Moheshkhali, in Bangladesh. «Come si vede, le attività di estrazione, e trasformazione qatariote sono lanciate verso il futuro, e ci si aspettano grandi cose», ha commentato Baroudi.

U.S. shale firms cut budgets, staff as oil-price outlook dim



ODESSA, Texas (Reuters) – Oil producers and their suppliers are cutting budgets, staffs and production goals amid a

growing consensus of forecasts that oil and gas prices will stay low for several years.

The U.S. has 904 working rigs, down 14% from a year ago, and even that is probably too many, estimated Harold Hamm, chief executive of shale producer Continental Resources (CLR.N), which has reduced the number of rigs at work.

Bankruptcy filings by U.S. energy producers through mid-August this year have nearly matched the total for the whole of 2018. A stock index of oil and gas producers hit an all-time low in August, a sign investors are expecting more trouble ahead.

“You’re going to see activity drop across the industry,” Earl Reynolds, CEO of Chaparral Energy (CHAP.N), told Reuters at the EnerCom oil and gas conference last month.

The Oklahoma energy firm has slashed its workforce by nearly a quarter, trimmed its spending plan by 5%, and agreed to sell its headquarters and use some of the proceeds to reduce debt.

Investment bank Cowen & Co estimated last month that oil-and-gas producers spent 56% of their 2019 budgets through June, based on its review of 48 U.S. companies. It expects total spending this year to fall 11% over last year, based on proposed budgets.

The slowdown in drilling is spurring cost-cutting in oilfield services, including staff cuts and restructurings at top firms Schlumberger and Halliburton Co. Schlumberger plans a writedown yet to be determined this quarter, noting its results in North America have been “under significant pressure,” CEO Olivier Le Peuch said on Wednesday.

Halliburton is paring its North American workforce by 8% because of customer spending cuts, and National Oilwell Varco recently offered buyouts to its U.S. workers.

“The service sector I think is going to be flat,” said

Superior Drilling Services CEO Troy Meier, whose firm canceled plans to add new machinery.

Such signs of a downturn come as the shale sector had just started generating the cash flow long demanded by investors, who have grown weary of drilling expansions without returns. Last quarter, a group of 29 top publicly-traded producers generated more in cash – \$26 million – than it spent on drilling and dividends, according to Morningstar (MORN.0) data provided by the Sightline Institute and the Institute for Energy Economics and Financial Analysis. A year earlier, the same group had spent \$2.4 billion more than it generated.

Despite that progress, many small to mid-sized shale firms are now pulling back on production targets amid the gloomy price projections.

A slowing oil industry could weigh on the United States economy. The boom in shale oil output added about 1 percent to U.S. gross domestic product, or 10% of growth, between 2010 to 2015, according to the Federal Reserve Bank of Dallas. In Texas, the center of shale oil production, energy employment dipped 1.8 percent in the first six months of 2019, according to the Dallas Fed. New drilling permits in the state fell 21% in July compared with the same month last year, according to state data.

MAJORS STAY THE COURSE

Any broader economic impact, however, could be limited by the massive investments in shale drilling by some of the world's biggest oil firms – Exxon Mobil (XOM.N), Chevron (CVX.N), Royal Dutch Shell (RDSA.L) and BP PLC (BP.L). Even as small and mid-sized firms dial back, the majors continue to pour billions of dollars into years-long shale drilling plans. They have argued their integrated well-to-refinery networks allow them to control costs enough to withstand a sustained period of low prices.

Spokespeople for Exxon, Chevron and BP declined to comment on the industry downturn but referred to previous statements of their longterm commitment to shale. Shell did not respond to requests for comment.

Chevron has focused much of its production growth plans on shale, and CEO Michael Wirth has called its Permian Basin holdings in West Texas and eastern New Mexico the “highest return use of our dollars.”

Exxon CEO Darren Woods told a Barclays energy conference on Sept. 4 that the company continues to take the long view.

“The way we look at the business is tied to some very basic fundamentals that haven’t changed for decades, if not hundreds of years,” he said, noting it took oil a century to replace coal as the world’s dominant energy source.

Exxon has estimated it can earn a double-digit return in the Permian Basin even if oil falls to \$35 a barrel.

BRACING FOR LOW PRICES

U.S. oil prices largely have traded just above \$50 a barrel since last November, requiring higher output to generate the same profit as when prices were higher. Prices this quarter are about 18% lower than this time last year, according to U.S. government data.

U.S. oil prices are likely to remain below \$55 a barrel for the next three years, said Scott Sheffield, CEO of Pioneer Natural Resources (PXD.N), one of the largest oil producers in the Permian Basin. Lackluster prices will result in a “significant fallback in Permian growth” and probably “no growth for most,” he said on a recent earnings call.

Part of the slowdown comes as the best drilling spots in some areas of the field are being “exhausted at a very quick rate,” Sheffield said.

The severity of the looming downturn is a matter of debate.

Flotek Industries Inc (FTK.N), a supplier of oilfield chemicals, has cut staff twice this year. CEO John Chisholm told Reuters that the industry is just “pumping the brakes” as it grapples with well-design issues.

Matt Sallee, a portfolio manager at energy investors Tortoise Capital, expects a longer industry decline.

“It’s hard to see how this gets any better for several quarters,” he said.

Bearish signal for crude as China closes in on filling oil storage



One of the fascinating tidbits to come to light in the wake of the attacks on Saudi Arabia's crude facilities was China's disclosure that it has enough oil inventories to last 80 days. There isn't too much short-term significance in this, other than to confirm that China probably won't be frantic to find replacements for any loss of imports from Saudi Arabia.

But the information is vitally important from a medium to longer term view of the crude oil markets.

China's strategic petroleum reserve (SPR) is largely shrouded in mystery, with no official disclosure of the actual level of inventories in the world's largest crude importer.

It likely surprised the market, however, that Beijing is quite close to the 90 days of import cover recommended by the International Energy Agency (IEA) as the level of reserves that importing nations should hold.

Earlier this year it was estimated by some analysts that China had around 40 to 50 days of import cover.

The figure of 80 days of crude oil in both commercial and strategic storage was released on Sept. 20 by Li Fulong, the head of development and planning at the National Energy Administration.

While Li didn't disclose the exact amount of stored crude, it is likely to be around 788 million barrels, based on taking the average daily imports of 9.85 million barrels per day (bpd) for the first eight months of 2019.

The last time inventories were officially acknowledged was in December 2017, when it was disclosed that reserves as of end-June 2017 were 277 million barrels.

This implies that from July 2017 to Sept. 20 this year, China added 511 million barrels of crude, about 630,000 bpd.

It would also seem that the rate of stock building has been accelerating in 2019, if the difference between the total crude processed at China's refineries and the amount of crude available from both imports and domestic output is calculated.

Domestic output in the first eight months of 2019 was 3.83 million bpd and imports were 9.85 million bpd, giving a combined total of 13.68 million bpd.

Refinery throughput for the same period was 12.74 million bpd, implying that about 940,000 bpd went into either commercial or strategic stocks.

If China does conclude its stockpiling at 90 days of import cover, the implication is that it has about 98.5 million barrels still to go.

At a 940,000 bpd rate, this further implies that the filling of China's storage could be finished in about 105 days.

There is no guarantee, of course, that China will continue to build inventories at the same clip it has been, or indeed that it will stop at 90 days worth of import cover.

But the risk for the global crude market is that sometime in the next six months, and possibly earlier, China may dial back the amount of crude it is buying for storage.

‘Saudi oil output to recover in two or three weeks after attack’



Reuters London/Dubai

Tuesday, 17 September 2019 09:35 PM

Saudi Arabia sought to calm markets yesterday after an attack on its oil facilities, with sources in the kingdom saying

output was recovering much more quickly than initially forecast and could be fully back in two or three weeks.

International oil companies, fellow members of the Opec oil group and global energy policy makers had heard no updates on the impact of the weekend attack from the Saudis for 48 hours, according to sources with knowledge of the situation. And on Monday, sources briefed on state oil giant Aramco's operations had said it could take months for output to recover.

The attack knocked out half of Saudi Arabia's oil production, or 5% of global output, sending prices soaring when trading resumed on Monday.

So the new prediction of a quick return to normal output sent prices down sharply yesterday.

The kingdom is close to restoring 70% of the 5.7mn barrels per day lost due to the attack, a top Saudi official said, adding that Aramco's output would be fully back online in the next two to three weeks.