

Gazprom eyes Eurobond issue in July



Gazprom PJSC is considering testing the market's appetite for its debt this year by issuing Eurobonds through a Russian or UK unit said a person familiar with the company's plans. The Russian gas producer is working to set up a UK unit because a legal spat with JSC Naftogaz Ukrainy makes it difficult to use its existing Luxembourg-based financial arms, the person said, asking not to be named because the plans aren't public. Earlier this month, a court in Luxembourg confirmed the Ukrainian company's right to demand a freeze of Gazprom's local assets and debt. The energy giant may use the British unit by the end of the year for a small Eurobond issue, the person said. Since December 2018, securities legislation also allows Russian corporate issuers to make direct placements of Eurobonds compliant with foreign regulations, without needing to use a special purpose vehicle, or SPV, based overseas. Gazprom does not need external financing, so any bond issue would be mainly aimed at gauging investors' enthusiasm for the assets, the person said.

Gazprom's spokesman Sergei Kupriyanov declined to comment. Gazprom issued \$1.25bn of Eurobonds in February, in what became the biggest single-tranche dollar transaction for the company since 2009. Investors initially bid more than \$5.5bn amid positive sentiment for emerging-market bonds. Investors will have an appetite for Gazprom's new debt as long as the issuer is located in a safe jurisdiction, Lutz Roeh-Meyer, chief investment officer at Berlin-based Capitulum Asset Management GmbH, said by e-mail. "Which SPV is doing it, is unimportant," he said, adding that he views both the UK and Luxembourg as safe. Gazprom has said it has enough liquidity as it aims to complete three major gas pipeline projects this year – Nord Stream 2 to Europe, TurkStream to Turkey and Power of Siberia to China. Last week, it raised a further \$2.2bn when its subsidiaries sold quasi-treasury shares equivalent to 2.9% of the company to an unidentified buyer. Gazprom's legal battle with Ukraine is over multibillion-dollar gas transit debt payments. The Russian company has been trying to fence off Naftogaz's attempts to arrest its assets across Europe with mixed success.

BP can't sell tainted oil as market struggles to deal with crude



Bloomberg/London

Russia's contaminated oil crisis isn't over yet – at least not for the traders trying to find a home for the cargoes they unwittingly bought.

BP Plc, the London-based oil giant, failed to find a purchaser for more than 700,000 barrels of Urals crude that got loaded onto a tanker almost three months ago at a port in the Baltic Sea, people with knowledge of a sales tender said, asking not to be identified because the matter is private. The cargo has excessive levels of organic chlorides that could damage a refinery if not removed.

In late April, it emerged that Russia was inadvertently sending millions of barrels laced with the contaminant through its Druzhba pipeline system to refineries across Europe, a situation that eventually caused flows to be halted. Some barrels also got sent to the port of Ust-Luga in the Baltic, where BP and other companies loaded them onto tankers.

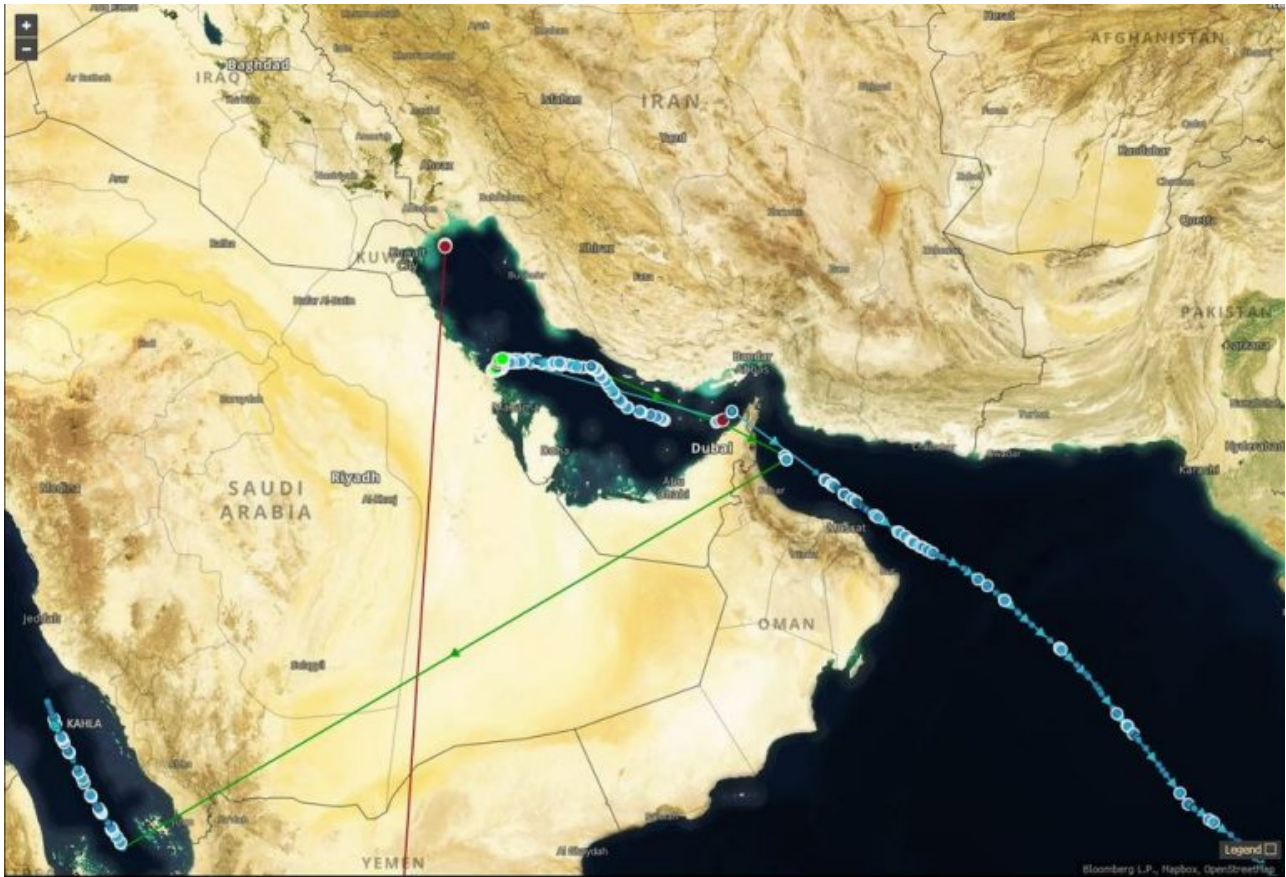
Russia's pipeline operator Transneft said last month that it would pay \$15 a barrel in compensation to Belarus for supplies sent by pipeline. Its eastern neighbour said recompense should not be dictated.

It's unclear what traders have been told about compensation.

There was insufficient interest in the cargo for BP to be able to sell it, the people said. The shipment has an organic chloride content of about 29 parts per million. It needs to be less than 10. A spokesman for BP declined to comment.

There are still about 5mn barrels of the tainted oil on tankers in northwest Europe, Singapore and other locations, according to traders and tanker tracking data compiled by Bloomberg. That represents about 40% of the roughly 12mn barrels that were on ships at one stage during the height of the contamination crisis.

Oil Tankers' Tracking Signals Are Vanishing in the Strait of Hormuz



Oil tanker owners are finding a way to reduce the risks of navigating the Strait of Hormuz, the world's most important – and lately most dangerous – energy chokepoint: vanish from global tracking systems.

Copying from Iran's own playbook, at least 20 ships turned off their transponders while passing through the strait this month, tanker-tracking data compiled by Bloomberg show. Others appear to have slightly altered their routes once inside the Persian Gulf, sailing closer than usual to Saudi Arabia's coast en route to ports in Kuwait or Iraq.

Before the latest increase in tensions with Iran, ships were more consistent about signaling their positions as they passed through a waterway that handles a third of seaborne petroleum. Once inside the Gulf, shipping routes took them fairly close to the Iranian coast, skirting the offshore South Pars/North gas field shared by Iran and Qatar. Most still do, but a growing number appear to be trying something new.

It's little surprise that ships are doing everything possible

to minimize risk. The Gulf region has witnessed a spate of vessel attacks, tanker seizures and drone shoot-downs since May, all against the backdrop of U.S. sanctions aimed at crippling Iran. War-risk insurance soared for tanker owners seeking to load cargoes in the region.

Two British warships are now situated in the waters around Hormuz where they were recently escorting the nation's ships. The U.S. 5th Fleet also permanently operates in the region. On Wednesday, the Norwegian Maritime Authority advised the country's flagged vessels to minimize transit time in Iran's territorial waters. Tanker captains have become increasingly nervous about the risks of getting caught up in the conflict.

See QuickTake on the Strait of Hormuz

At least 12 vessels loaded in Saudi Arabia and shut off their transponders while passing through the strait within the past month. They include the supertanker Kahla, which turned off its signal on July 20 before passing through the strait. It reappeared two days later on the other side of the waterway.

Likewise, at least eight vessels that loaded in Iraq and Kuwait went dark while leaving the Strait of Hormuz. A vessel shipping from the U.A.E. also dropped off tracking systems.

The apparent shutdown of signals coincides with a slew of disruptions in the region. On July 11, the Royal Navy intervened to prevent Iran from impeding a tanker operated by BP Plc from passing through Hormuz. Three days later, Iran seized a Panama-flagged vessel. On July 19, Iranian forces took control of a British-flagged tanker in retaliation for similar action by U.K. authorities. The vessel, the Stena Impero, remains impounded.

Oil Industry Poised to Attack as Trump Boosts Ethanol in Fuels



Oil industry foes are preparing to go to court to fight the Environmental Protection Agency regulation issued Friday that allows year-round sales of higher-ethanol E15 gasoline nationwide.

The agency's final rule offers ethanol producers and corn farmers the promise of greater market access and demand – but the coming legal battle will be the true test of that potential.

The regulation fulfills President Donald Trump's promise to unleash ethanol sales and is a potent show of support to Midwestern farmers who are suffering from Chinese tariffs on soybeans, flooding that destroyed stockpiled grain and a deluge of rain that has delayed plantings. With some 37% of

America's corn production going to ethanol mills, any regulatory move lifting demand for the fuel could buttress farmers who helped propel Trump to the White House.

Iowa Republican leaders and biofuel industry boosters will celebrate the shift with EPA's Region 7 administrator during an event at Elite Octane LLC's dry mill ethanol plant in Atlantic, Iowa later Friday. Trump is expected to address the issue during a visit to the state next month.

The EPA rule waives E15 gasoline containing 15% ethanol from vapor pressure requirements that have blocked sales from June 1 to September 15 in areas where smog is a problem, said Bill Wehrum, the assistant administrator for the EPA Office of Air and Radiation. That should cause "a bump" in sales at the roughly 1,200 filling stations that already sell E15 today, while encouraging more of them to offer it, Wehrum told reporters on a conference call.

"Over time, we believe and the industry believes you will see more E15 sold as the infrastructure in the gasoline distribution system and especially at gas stations catches up to the availability of this fuel," Wehrum said. This is going to result in a "substantial increase" in E15 sales, he said.

At Trump's direction, the EPA bundled the E15 shift with modest changes meant to boost transparency and prevent price manipulation in the trading of credits used by refiners to prove compliance with annual biofuel blending quotas. Large integrated oil companies, including ExxonMobil Corp., BP America Inc. and Chevron Corp., had argued against the EPA's initial proposal of more aggressive trading limitations.

Wehrum said the agency would continue examining allegations of market manipulation and respond to them if needed. "We're applying the theory of first do no harm," he said, noting that proposed position limits and sale requirements "could reduce the flexibility of the market and the efficiency of the market." While the agency takes the issue seriously, he said, the EPA has not yet found clear evidence of significant

manipulation.

Senator Joni Ernst, a Republican from Iowa, praised the EPA's action, saying it would mean more consumer choice and savings at the pump.

"The president had made this promise a long time ago: He was really going to work hard for farmers' support and the Renewable Fuel Standard," she said by phone. "And he's coming through with that promise at a time when it's desperately needed. It's something we were going to work toward anyway, but it does bring much-needed relief at a very critical time for our farmers."

Ethanol is already a staple of America's fuel supply, accounting for about 10% of total consumption. Biofuel boosters who have lobbied for the regulatory shift are betting 15% will eventually emerge as the standard. Green Plains Inc. Chief Executive Officer Todd Becker said this month that the higher blend puts in play "year-round demand growth of at least 200 million gallons of annualized incremental demand as only the starting point."

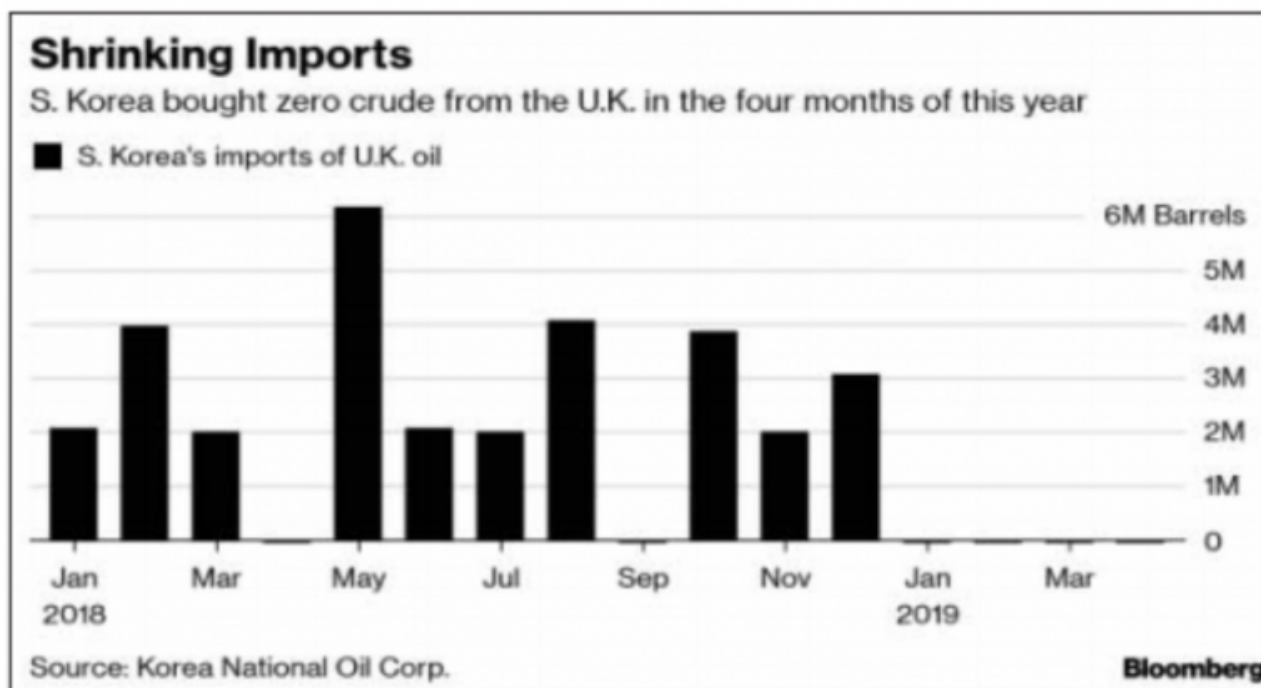
That would come at the expense of oil.

"This action by EPA makes no sense and is contrary to the law, congressional intent and decades of agency precedence," said Frank Macchiarola, a group director at the American Petroleum Institute. "We will challenge it vigorously."

The American Petroleum Institute previewed its legal argument in public comments, arguing that the agency is flouting the plain text of the Clean Air Act by extending an existing waiver to E15. Marathon Petroleum Corp. warned the EPA's move to consider E15 "substantially similar" to conventional E10 gasoline is "arbitrary and capricious" – a fatal failing under a federal law governing rulemaking. And the American Fuel and Petrochemical Manufacturers insisted the EPA is taking action previously rejected by Congress.

Ethanol advocates argue the EPA is on solid legal footing. The agency's move to grant a waiver to E15 "reflects the best, most natural reading" of the Clean Air Act, and that higher-ethanol blend is substantially similar to E10, said Growth Energy Chief Executive Officer Emily Skor.

UK oil's appeal returns for S Korea even as Brexit looms



After staying away for four months, South Korea is back in the market for North Sea crude. Hyundai Oilbank Co bought 2mn barrels of North Sea Forties crude for August delivery, a rare purchase this year, said traders who asked not to be identified because the information is private. The import was made after refiners in the Asian nation were given incentives to look beyond the Middle East for oil, and it followed a discharge of UK crude in May, the first such purchase this year. South Korea imported zero oil from the United Kingdom in

the first four months of this year as the possibility of Brexit threatened to erode the appeal of the crude to one of Asia's top refining hubs. Britain's exit will mean the return of a 3% import tariff on Forties purchases that was waived by South Korea under a free-trade agreement with the European Union since 2011. While the Asian country is a steady buyer of UK oil, purchasing an average of over 2.6mn barrels a month in 2018, refiners were reluctant to bring cargoes earlier this year as the government delayed renewing a freight rebate scheme that encouraged purchases from regions other than the Middle East. The very-large crude carrier Farhah is scheduled to load Forties crude from Hound Point on June 20 for delivery to Daesan in August, according to traders and shipping fixtures compiled by Bloomberg. Last month, supertanker Athenian Freedom also made a similar voyage, discharging a smaller cargo of the grade, ship-tracking data showed. Hyundai Oilbank operates a refinery in Daesan with crude processing capacity of 650,000 barrels a day.

Chevron wins 90-day Venezuela waiver despite opposition



Bloomberg/Houston

Chevron Corp and four oil services companies won a last-minute US government reprieve to continue producing oil in Venezuela, albeit only for a 90-day period.

The US Treasury Department supported Chevron's request to extend its sanctions waiver by six months, but the majority of other government agencies involved opposed any extension at all, a senior administration official told reporters on a call on Friday. President Donald Trump backed a compromise between the two positions, resulting in the three-month time period.

The extension allows San Ramon, California-based Chevron to essentially keep the lights on and the facility running, but another extension will be harder, the official said.

The company has operated in Venezuela for almost a century, since the discovery of the Boscan field in the 1920s. It has outlasted many other oil companies, including Exxon Mobil Corp, which left after a series of industry nationalisations during Hugo Chavez's tenure as president.

The US Treasury Department's Office of Foreign Assets Control said in a statement Friday that Chevron can continue its joint venture with state-owned Petroleos de Venezuela SA until October 25. The previous waiver was due to end yesterday.

Oilfield service companies Schlumberger Ltd, Halliburton Co, Baker Hughes and Weatherford International Plc were also allowed to continue their work in Venezuela for three months. Chevron closed 1.5% lower in New York, at \$123.72.

It's a partial victory for Chevron that leaves the Trump administration with the option of pulling the company out later this year. The impact of any eventual refusal of a Chevron waiver is rising as other production falters, giving the company a bigger and bigger size of the market in the country, the official said.

"Our advice to Chevron would be to start preparing to leave after October," Joseph McMonigle, an analyst for HedgeEye Risk Management, wrote in a note. "We are highly doubtful there will be another extension granted." While Venezuela only accounted for 1% of Chevron's global crude production last year, it remains strategically important as home to the world's largest oil reserves. As the only US major still in the country, it could be first in line for any investments under a new government.

"Our operations in Venezuela continue in compliance with all applicable laws and regulations," Chevron spokesman Ray Fohr said in an e-mailed statement.

In recent months, Chevron made the case to the Trump administration that if it were to leave, its Venezuelan assets could easily be turned over to another operator with little effect on overall production. That could mean the state, or even Russian or Chinese interests would benefit.

The ruling "does indicate Chevron has the ear of key government officials," said Muhammed Ghulam, a Houston-based analyst at Raymond James & Associates.

Venezuela has seen its oil output drop precipitously in recent years. Production is currently below 800,000 barrels a day, down from as much as 3.71mn in 1970, according to data from the oil ministry. At least half of that oil is produced by joint ventures with foreign companies.

Chevron's joint ventures with PDVSA produce more crude in Venezuela on average than those with other companies –

including China National Petroleum Corp and Russia's Rosneft Oil Co. The US producer only receives a portion of that supply, however, amounting to about 40,000 barrels a day from its Venezuelan affiliate in 2018.

The US has refused to recognise Nicolas Maduro as Venezuela's president after an election last year. Sanctions have become its main tool for depriving Maduro of cash and pressuring the military to turn against him.

Earlier this week, Venezuela's opposition-led National Assembly issued a decree that guaranteed Chevron's assets in the country would be protected under a new government led by Juan Guaido.

Oil purchases from Venezuela have become complicated since the US expanded its sanctions regime to include any business done with PDVSA, as the national oil company is also known. Other companies, including Spain's Repsol SA and Italy's Eni SpA, continue to do business with Venezuela.

Halliburton second-quarter profit beats analysts' estimates



(Reuters) – Halliburton Co (HAL.N) on Monday reported a second-quarter profit that beat analysts' estimates as its largest oil-well services unit exceeded expectations, sending shares to their biggest one-day gain in nearly three years.

The Houston-based oilfield company is the largest provider of hydraulic fracturing services in North America, a segment of the business that has been hard-hit by overcapacity, making it difficult to raise prices.

Halliburton Chief Executive Officer Jeff Miller said that market remains oversupplied and the company idled equipment during the quarter and will continue to do so. It has also taken steps to cut costs by reorganizing its North American business.

Halliburton shares, which have declined nearly 18.2% this year, closed up 9.15%, or \$1.99 a share, to \$23.74, marking the largest percentage gain since November 2016.

Revenues for the Completion and Production unit, which provides hydraulic fracturing services and tools to complete

oil and gas wells, rose 4% from the prior quarter to \$3.8 billion. Margins were boosted by cost-cutting and maximizing equipment usage, Miller said on a conference call.

The company cut the number of North American employees by 8% in the second quarter, spokeswoman Emily Mir said on Monday.

Byron Pope, an oilfield analyst for Tudor, Pickering, Holt & Co, said, "The magnitude of the improvement in the Completions and Production margin performance" was encouraging, adding that it was good to hear the company publicly acknowledge that it has idled equipment.

Despite the improvements, CEO Miller warned investors that third-quarter activity would decline as producer customers continue to focus on reducing spending.

"We expect that activity in North America will be slightly down in the third quarter. We anticipate the slowdown to be more pronounced in the gassier basins due to persisting lower gas prices," he said.

Halliburton posted a strong increase in revenue from international markets, jumping more than 12% to \$2.60 billion, in contrast to the 13.2% decline in North America to \$3.33 billion.

"Momentum is building internationally and activity improvement should continue into 2020," Miller said in a statement.

Rival Schlumberger NV (SLB.N) on Friday reported a profit increase on demand from markets outside North America.

Net profit attributable to Halliburton fell 85% to \$75 million, or 9 cents per share, in the quarter, hurt by impairments and other charges.

Excluding one-time items, the company earned 35 cents per share, beating Wall Street's average estimate of 30 cents per share, according to IBES data from Refinitiv.

Revenue fell 3.5% to \$5.93 billion and missed estimates of \$5.97 billion.

Reporting by Nishara Karuvalli Pathikkal and Arathy S Nair in Bengaluru, and Liz Hampton in Houston; editing by Steve Orlofsky and Grant McCoolOur Standards: The Thomson Reuters Trust Principles.

IEA ready to act quickly to keep global oil market supplied



PARIS (Reuters) – The International Energy Agency (IEA) is closely monitoring developments in the Strait of Hormuz and ready to take swift action if needed to keep the global oil market supplied, it said on Monday.

The Paris-based agency said the right of free energy transit

through the strait was critical to the global economy and must be maintained.

Iranian Revolutionary Guards seized British-flagged oil tanker Stena Impero at the Strait of Hormuz on Friday in apparent retaliation for the British capture of an Iranian tanker two weeks earlier.

Oil prices rose on Monday on concerns that Iran's seizure the tanker could lead to supply disruptions in the energy-rich Gulf. [O/R]

The Strait of Hormuz is a vital maritime transit route for world energy trade. About 20 million barrels of oil, or about 20% of global supply, are transported through the strait each day, the IEA said.

"The IEA is ready to act quickly and decisively in the event of a disruption to ensure that global markets remain adequately supplied," it said, adding that executive director Fatih Birol has been in talks with IEA member and associate governments as well as other nations that are major oil consumers or producers.

"Consumers can be reassured that the oil market is currently well supplied, with oil production exceeding demand in the first half of 2019, pushing up global stocks by 900,000 barrels per day," the IEA said in a statement.

countries hold 1.55 billion barrels of public emergency oil stocks. In addition, 650 million barrels are held by industry under government obligations and can be released as needed, it said.

The stocks are enough to cover any supply disruptions from the strait for an extended period, it added without saying how long that might be.

Reporting by Bate Felix; Editing by David Evans and David

Goodman

Our Standards: The Thomson Reuters Trust Principles.

<https://www.reuters.com/article/us-mideast-iran-ia/iea-ready-to-act-quickly-to-keep-oil-market-supplied-idUSKCN1UH1SN>

Exclusive: Russian output falls to three-year low as oil rivals clash



MOSCOW (Reuters) – Russian oil production fell close to a three-year low in early July, as output was undermined by a row between Russian oil pipeline monopoly Transneft (TRNF_p.MM) and the country's biggest producer Rosneft (ROSN.MM). Transneft curbed oil intake from Yuganskneftegaz,

Rosneft's main upstream unit, the oil producer said, hurting production that has already been depressed by an oil contamination crisis. Rosneft confirmed intake limits first reported by Reuters. Transneft also confirmed to local media it had capped the amount of oil received from Yuganskneftegaz. Transneft said it put the restrictions in place after Rosneft sent oil to the pipeline network without clearly stating the destination for 3.5 million tonnes of crude as of July 1, local news agencies reported. It said it had limited intake from Yuganskneftegaz by 0.5 percent of its annual production, TASS reported. The unit produces more than 70 million tonnes of oil annually, or 1.4 million barrels per day. Industry sources said Russian oil output fell to 10.79 million barrels per day (bpd) in early July, lower than the level agreed under a deal on curbing supply reached with OPEC and other producers. Transneft and Rosneft have been at loggerheads over efforts to resolve the problem of contaminated oil found in April in the Druzhba export pipeline to Europe. Supplies have only partially resumed since then, after weeks of disruption. Transneft criticized Rosneft on Monday over its handling of the tainted oil issue, saying the oil producer had dragged its feet over setting up quality controls for its oil and had made unsubstantiated claims from the pipeline firm. Rosneft said it had read Transneft's remarks with "regret". The heads of the two firms, Rosneft's Igor Sechin and Nikolai Tokarev at Transneft, have often rowed in the past. Despite formally denying any strife between their CEOs, the two companies have often clashed over issues such as oil transportation fees and Rosneft's rising oil exports to China. Sechin, 58, has been close to President Vladimir Putin for two decades, while Tokarev, 68, is also a long-time ally. Putin, Tokarev and Sechin all worked in the city administration for St Petersburg in the 1990s after the collapse of the Soviet Union. When asked to comment on the row, Kremlin spokesman Dmitry Peskov told reporters on a daily conference call that it was a "corporate matter". Transneft transports 83% of Russian oil via its network, while Rosneft accounts for over 40% of

Russian output. An industry source said oil output at Yuganskneftegaz in West Siberia fell 30% during July 1-8 compared with the June average. Rosneft said its oil production had declined due to a decision by Transneft to reduce intake of oil due to the contaminated oil issue, adding Transneft had imposed a “significant” cap on oil intake from Yuganskneftegaz. “The enforced output reduction is related to Transneft’s cuts of intake of oil into the system of trunk pipelines,” a Rosneft spokesman said, adding that the pipelines were blocked by contaminated crude.

Reporting by Alla Afanasyeva, Olga Yagova and Dmitry Zhdannikov; additional reporting by Tom Balmforth; Editing by Edmund Blair, Louise Heavens and Kirsten Donovan

China refiners curb fuel output after massive new plants stoke glut



Reuters/Singapore/Beijing

China's fuel producers are making extended curbs to their output in the third quarter after supply from mammoth new refineries stoked an already-sizeable glut, potentially dragging on crude oil demand from the world's biggest importer of the commodity. Private refiner Hengli Petrochemical ramped up its 400,000-barrels per day (bpd) plant in northeast China to full capacity in May, while Zhejiang Petrochemical began trial runs around the same time at a similar-sized refinery on the east coast. In the wake of that wave of fresh supply and amid slowing local demand for fuels such as gasoline and diesel, refiners are cutting their crude processing, or throughput, industry sources and analysts said. That drop should sap their appetite for crude imports, pulling down on international oil prices that have already been hit by fears over a slowing global economy. The swollen surplus of fuel products could also send China's fuel exports surging to new highs and further pinch Asian refining profits. "For markets that are already consumed with fears about a global recession...headline numbers of oil demand growth slowing alongside talk of run cuts seem to reinforce a bearish narrative," said Michal Meidan, a London-based analyst at Energy Aspects. Small-scale refiners known as 'teapots',

mainly located in Shandong province, are coming under most pressure to make fresh output cuts, analysts said, extending curbs many of them made in May and June. Teapots have been seen as a bellwether for China's oil demand since 2015 when they became first-time crude oil importers. They now make up a fifth of the nation's total crude imports. Dongming Petrochemical Group, the province's largest independent refinery, is closing its 240,000-bpd plant this week for two months of maintenance in the wake of "poor margins", according to a company source. That comes after plants were losing 300-350 yuan (\$44-\$51) on each tonne of crude oil they processed in June, their largest such loss in nearly four years, said Shi Linlin, an analyst at consultancy JLC, and analyst Wang Zhao at Sublime China Information, another consultancy in the province. Seven plants in Shandong – including Dongming – with total crude processing capacity of 470,000 bpd will be offline in July for overhauls, JLC estimates. That's equivalent to a throughput cut of 14mn barrels of crude in July alone, or nearly 4% of the country's processing levels in May. Meanwhile, two major coastal plants run by Sinopec Corp, Asia's largest refiner, are planning to trim throughput by nearly 2%, or roughly 10,400 barrels per day, in July-September from the second quarter, plant sources said. That comes after these two plants were hit by refining losses in June for the first time this year. Sinopec did not respond to a request for comment. All refinery sources declined to be named as they were not authorised to speak to the media. The losses at small refiners come a month after behemoth Hengli cranked up operations at its plant in the northeastern port of Dalian. Hengli, traditionally a polyester maker, shipped its first gasoline cargo in early June. That was 80,000 tonnes sold to Sinopec at 5,300 yuan (\$769.48) a tonne at an ex-plant rate, which is 700 yuan, or 12%, below prices offered by Shandong teapots, said two sources with direct knowledge of the transaction. The refiner in June placed a total of over 500,000 tonnes of gasoline at 300 to 500 yuan a tonne below market rates on average and sold a

similar amount of off-specification diesel fuel with smaller discounts as its fuel quality has yet to stabilise, the sources said. "We were indeed marketing at promotional rates to build our customer base. But this is a temporary marketing strategy as we are new to the market," said a Hengli spokesman, without elaborating. The Hengli and Zhejiang plants are together expected to account for about 6.4% of total Chinese crude oil throughput.