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 Houstogn; 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-iea/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.

OPEC warns that trade tensions are hurting global oil demand

LONDON (Bloomberg) — OPEC said that international trade tensions are hurting demand for oil, slashing its estimates for consumption earlier in the year and predicting further challenges ahead.

The organization, due to meet in the coming weeks to set production levels for the second half, said demand increased by less than 1 MMbpd in the first quarter after cutting its assessment by more than 20%. The world economy is headed for its weakest growth in a decade, buffeted by a prolonged tariff battle between the U.S. and China.

“Throughout the first half of this year, ongoing global trade tensions have escalated,” resulting in “weaker growth in global oil demand,” the cartel’s Vienna-based secretariat said in its monthly report. “The observed slowdown in the global economy in the first half will be further challenged in the second half.”

Oil prices slumped into a bear market last week, sinking below $60/bbl in London for the first time since January, on concerns that faltering demand would lead to a crude surplus even as the Organization of Petroleum Exporting Countries and its allies keep supply in check. Prices surged 3% today on suspected attacks on oil tankers in the Persian Gulf.

Although OPEC reduced demand estimates for the first quarter, it kept forecasts for 2019 as a whole mostly unchanged and projects that consumption growth will accelerate during the rest of the year. World demand will rise by 1.14 MMbpd, or 1.2%, on average this year, down from an estimate of 1.21 MMbpd in last month's report.

As a result, the report signaled that if OPEC maintains production at current levels then global markets should tighten significantly during the third quarter, by about 1.3 MMbpd. Output from its 14 members fell by 236,000 bpd to 29.9 MMbpd last month as the U.S. tightened its squeeze on Iranian exports, it said.

Nonetheless, as OPEC and its partners prepare to meet in Vienna, its members appear focused on continuing to restrict supplies.

Saudi Arabian Energy Minister Khalid Al-Falih said in St. Petersburg last week that the organization is aligned on maintaining its output curbs during the rest of 2019, and awaits only a similar commitment from its ally, Russia.

As the booming American shale industry propels U.S. production to new records, United Arab Emirates Energy Minister Suhail Al Mazrouei even indicated that OPEC may also need to constrain supply in 2020. The cartel pumps about 40% of the world's oil.

Although the policy decision looks straightforward when OPEC and its partners convene, the producers are still struggling with one issue. As the tensions between Saudi Arabia and Iran continue to heat up, members are bickering over exactly which date to meet.

Saudi Arabian crude inventories sink to historic low

Riyadh’s production cuts to support the oil price have caused domestic stocks to plummet

Saudi Arabia’s crude oil inventories have fallen under 200 mn bl for the first time in a decade as the Kingdom’s production cuts continue, according to Jodi data released on Wednesday.

The Kingdom’s oil stocks fell to 193.4mn bl in April, representing a 17pc drop year-on-year. It is the lowest inventory level since February 2009, when the price of WTI was just $35/bl.

The decline in stocks continues a trend that has gathered speed since the inventory peaked at 329mn bl in September 2015. The trend accelerated in Q1 due to crude refinery runs growing 8pc to 2.653mn bl/d and a 7.4mn bl draw during April alone.

However, the inventory decline comes despite a rise in average production in the Q1, year-on-year, by 0.7pc to 9.993mn bl/d. Average monthly oil exports during Q1 2019 were 1pc lower than the same period in 2018, at 7.137mn bl/d.

Opec+ production

Opec+ members agreed last December to cut a combined 1.2 mn b/d of production. Saudi Arabia is contributing the lion’s share of Opec’s 800,000 bl/d contribution, which equates to roughly 6pc of its income.

Saudi Arabia needs to maintain stable production and export figures to limit the damage to the government’s coffers.

Saudi rulers are also mindful maintaining good relations with the US Trump administration. By ensuring the global oil market is well supplied it bolsters the partnership that is aligned against the shared regional rival, Iran.

The price of WTI plummeted 23pc from a high of $66.5/ bl in mid-April to $50.82/ bl in early June, led by global demand concerns worsened by the US-China trade war as well as continued growth of US inventories.

The price slide persisted until a bomb attack on shipping in the Gulf led to rising tensions and a subsequent price surge starting 19 June.

All eyes are now on the Opec+ meeting to be held in in Vienna on 1-2 July, where the organisation will decide whether to extend the cuts.

Saudi Aramco allows sneak peek into its finances

The world’s focus, not surprisingly, has been on Saudi Aramco’s $111bn of net income recorded in 2018, making it the most profitable company in the world. But elements of the upstream story were largely ignored.

For example, the prospectus showed the company’s largest oilfield, Ghawar, undershooting what many had thought was its current capacity of around 5mn bl/d, instead coming in at 3.8mn bl/d.

Ghawar has contributed about half of the estimated 150bn barrels of crude that Saudi Arabia has produced to date. Without doubt, Ghawar is an enormous field. Its remaining reserves are put at 48bn bl, so there is still a lot of oil out there, but it will get harder to recover, and require substantive expenditure.

Aramco is developing new fields to plug depletion, with half a dozen expected to come on stream by 2026 – adding an extra 1.25mn bl/d, according to data from consultancy Energy Aspects. Its co-founder Richard Mallinson emphasises that future upstream development is designed to keep things steady “at current capacity levels…Aramco is not talking, as it has done in the past, about possibly raising potential capacity from 12mn bl/d to 15mn bl/d."

Still, Aramco is not giving up on Ghawar anytime soon. The prospectus says field facilities and infrastructure there remain a central component in the company's long-term strategic framework.

"The scope of the utilisation and maintenance of the established infrastructure has expanded to be a hub for development of secondary reservoirs and satellite fields," says the prospectus.

The prospectus also shows how it has boosted production at other fields. At Shaybah in the south of the kingdom, and at the offshore Safaniyah field in the Gulf, Aramco reported production was close to double earlier Western estimates. At the Khurais field, near Ghawar in the east of the country, a "mega-project that started in 2009 with initial capacity of 1.2mn bl/d, has hoisted production to 1.5mn bl." In 2018, Aramco produced 13.6mn bl/d of oil, including 10.3mn bl/d of crude.

Half a century of reserves

Overall, Aramco's reserves come in at a similar level to an independent audit published earlier this year: 261.5bn bl of crude and condensate, sufficient for proved reserves life of 54 years, "significantly longer than the 9 to 15 year proved reserves life of any of the five major IOCs based on publicly available information", claims the prospectus. The document also records 36.1bn bl of NGLs and 233.8tn ft^3 of natural gas.

Another scarcely mentioned disclosure in the prospectus was Aramco's shift to lighter-grade oil, in terms of projects that have come on line, and new ones in the pipeline. The question now is the extent to which Aramco can match this type of product to demand in the marketplace. The move to lighter is good in terms of petrochemical demand and positive when gasoline/diesel demand is strong.

The prospectus flags Aramco's rock-bottom cost of production based on a comparison of data of the five major IOCs and other leading oil and gas companies. The company's "average upstream lifting cost was $2.80/bl" of oil equivalent produced in 2018. Revenue from upstream operations stood at around $217bn, while downstream revenue was $139bn. It had $86bn in free cash flow at the end of 2018, with minimal debt.

But all that glistens is not gold. Aramco may be the world's most profitable oil company, producing more than 10pc of global crude, but the prospectus shows the state's reliance on the company means it generates less per barrel than privately-owned competitors. Riyadh relied on the oil sector for 63pc of its total revenue in 2017, according to the prospectus. In 2018, Aramco paid about $160bn to the government in dividends, taxes and royalties.

Top credit rating

The transfer of funds from Aramco to the kingdom meant the oil company made about $26/bl last year, compared with $38/bl for Shell and $31/bl for Total. That's why Moody's and Fitch assigned the company ratings of A1 and A+, respectively, arguing the government's reliance on the oil producer to fund its budget acted as a cap on its creditworthiness. ExxonMobil is rated AAA by Moody's.

The linkage between the state and company is an important one in the debate about whether Riyadh really does intend to float a minority stake in Aramco in 2021. Investors worry about the government's control over the oil giant and whether future decisions will be made for the benefit of the state or shareholders.

Andy Critchlow of S&P Global Platts says "investors may be cautious about an IPO because of uncertainty linked to sovereign risk and the kingdom's future potential financing needs [particularly if prices crash due to a swifter switch to green technologies]".

In the interim, the company is shoring up its defences in an uncertain world. It plans to double its refining network, mostly outside the country. The idea is to feed about 50pc of its oil into its fully-owned or joint-venture refineries, making it the largest consumer of its own crude. The prospectus states categorically that refinery expansion was a means "to secure crude oil demand by selling to its captive system" of refineries.

Also revealed is the way Aramco ensures it always has enough spare capacity up its sleeve. The aim is to have "the average maximum number of barrels per day of crude oil (MSC) that can be produced for one year during any future planning period".

Sovereign wealth boost

As of 31 December 2018, MSC stood at 12mn bl/d of crude. Spare capacity afforded by maintaining MSC enables the company "to increase production above planned levels rapidly in response to changes in global crude oil supply and demand".

Saudi Arabia is drawing on Aramco's cash to bolster its sovereign wealth fund to develop new industries to break the kingdom's reliance on oil. It is also trying to extract more profit from the crude it pumps by turning it into gasoline and diesel, as well as plastics and other materials used in consumer goods. The $69bn purchase of Sabic was a case in point and a major factor behind the bond offering.

The aim is to provide more cash for the Public Investment Fund, the kingdom's sovereign wealth fund, to invest both internally and overseas to wean Saudi off its addiction to fossil fuels. It is a race against time as the bond prospectus indirectly acknowledges via its references to risk factors that span climate change, among others. And that raises, once again, the issue of an IPO down the line in which the Saudis would like to raise a cool $100bn.

A listing may be better sooner than later if you believe in the relentless switch to cleaner fuel sources. That said, traders are wondering whether Aramco and Riyadh really need the money.

After all, have they not demonstrated how easily they can tap the bond markets for credit?

Scott Modell, head of geopolitical risk at Washington-based consultancy Rapidan Energy, disagrees with this thesis. “An IPO is necessary [otherwise MBS’s] ambitious Vision 2030 programme designed to reduce oil dependence [could end up becoming] Vision 2130,” he says. “And for that reason, the IPO [postponed last year] is certainly back on the table.”

Trump talks to Saudi crown prince on Iran, oil

(Reuters) – U.S. President Donald Trump spoke on Friday to Saudi Crown Prince Mohammed bin Salman about Middle East stability and the oil market, the White House said, after tensions with Iran prompted a rise in oil prices.

“The two leaders discussed Saudi Arabia’s critical role in ensuring stability in the Middle East and in the global oil market. They also discussed the threat posed by the Iranian regime’s escalatory behavior,” White House spokesman Hogan Gidley said in a statement.

The phone call took place in the wake of Iran’s shooting down of an unmanned U.S. drone in the Gulf region, which prompted Trump to prepare but ultimately hold back from launching a retaliatory attack.

There was no word from the White House statement on whether Trump raised with the crown prince the death last October of Saudi journalist Jamal Khashoggi.

A 100-page report by the U.N. special rapporteur on extrajudicial executions, Agnes Callamard, earlier this week accused Saudi Arabia of a “deliberate, premeditated execution” and said the crown prince should be investigated for it.

(Reporting by Steve Holland; Writing by Doina Chiacu; Editing by David Alexander and James Dalgleish)