

# The Euro



A stack of 50, 20 and 10 euro notes is arranged for a photograph inside a Travelex store, operated by Travelex Holdings Ltd., in London, U.K., on Wednesday, March 6, 2013. The U.K. currency weakened against all except one of its 16 major counterparts as 11 of the 39 economists surveyed by Bloomberg News predict the central bank will tomorrow increase its asset-purchase target to at least 400 billion pounds (\$603

billion) from the current 375 billion pounds. Photographer: Simon Dawson/Bloomberg

Hey, euro! For a while there, you looked like a goner. During those debt crisis days in 2012 when Greece was imploding and Spain's banks were teetering and the Germans were asking why they had to pick up the bill, there was a serious wobble. Common European currency? Remind us, please, what Europeans actually have in common. Now with Britain heading out of the European Union and Greece in a perpetual pinch, there are constant reminders of the euro's shortcomings. Though the rules governing the 19-nation shared currency have been tightened since the crisis, there's still a regular chorus of business leaders and politicians who say that its demise is just a matter of time. The latest challenge: populist politicians capitalizing on discontent and targeting the euro. Can the world's most ambitious financial experiment survive?

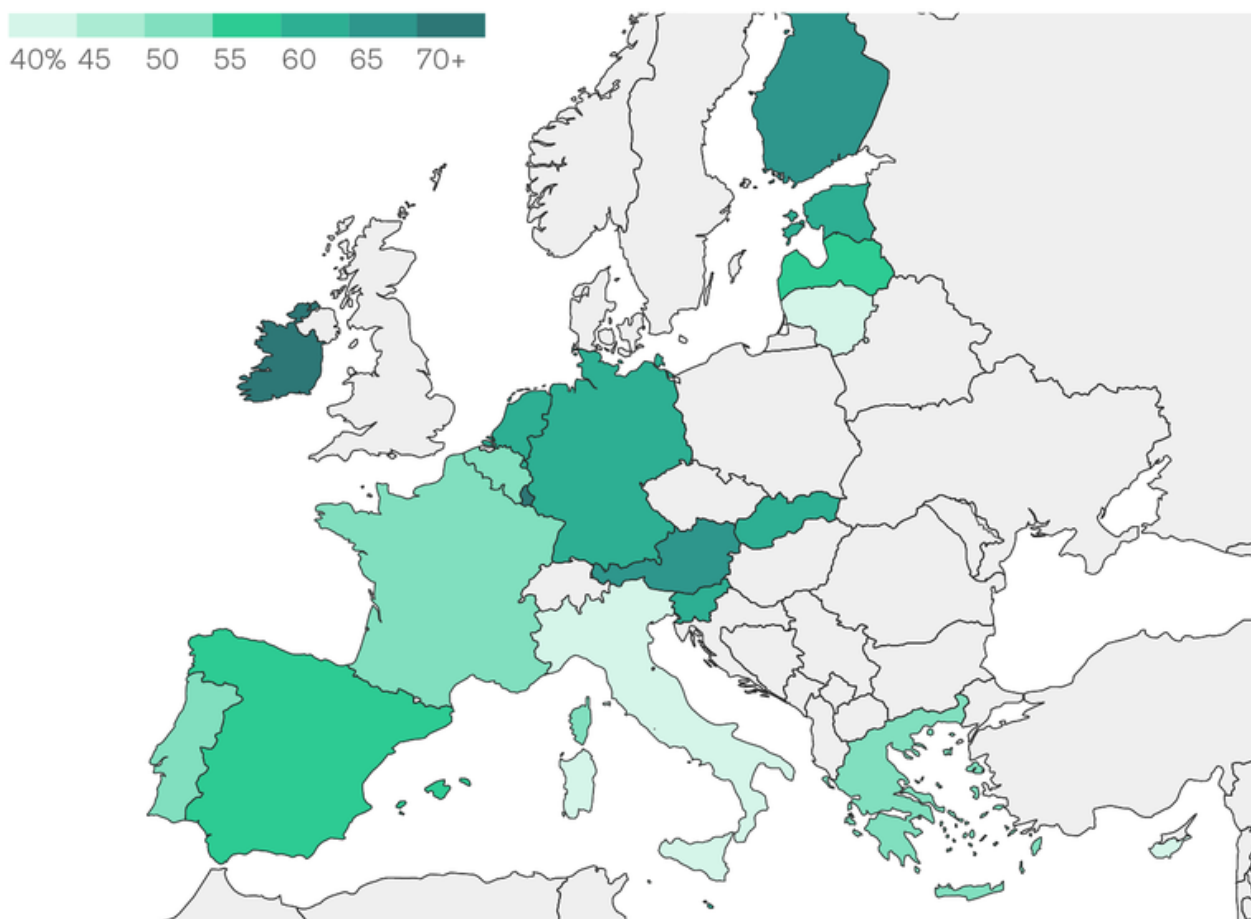
## **The Situation**

As the euro stumbled on, wealthier nations in the north were often pitted against poorer ones in the south, amplifying the differences among them. Anti-EU protest parties have gained support from voters fed up with the failings of other member countries and the loss of control to bureaucrats in Brussels. Withdraw from the euro is a rallying cry for Italy's Five Star Movement and Marine Le Pen's National Front in France, which rattled investors before a presidential election in May with promises to redenominate the country's debt. Greece has struggled to qualify for crucial loans after surrendering to its third bailout in five years in 2015 to remain part of the euro. Months of bitter disagreement and Germany's insistence on more austerity left a lingering sense that Greece will have to leave the currency union eventually. Europe's slow recovery from a double-dip recession hasn't helped, with euro-zone unemployment forecast to remain above 9

percent for a ninth year in 2017. The euro dropped by the most on record in June 2016 on the surprise decision by British voters to leave the EU, even though the U.K. is not part of the common currency.

## Support for the Euro

Share of people who say the euro is good for their country ranges from 40% in Cyprus to 81% in Ireland



Note: 17,535 people surveyed by telephone, 17-18 Oct. 2016  
Source: European Commission report 2016

BloombergQuickTake

## The Background

The precursor to the EU was set up in 1958, as the continent's leaders vowed to make another war between them all but impossible. The euro came in 1999, when a group of 11 countries jettisoned marks, francs and lire and turned control of interest rates over to a new central bank. The common currency's scale provided exchange-rate stability and

better access to world markets. It Un homme tabassé par les gendarmes \_ Comores Infosdid not, however, impose uniform financial discipline; to avoid surrendering national sovereignty, politicians largely sidestepped a unified approach to bank regulation and government spending. To the extent that there were rules, they were flouted. The events that brought the euro to its knees came during the global rout in 2009, when Greece came clean and said its budget deficit was twice as wide as forecast. Investors started dumping assets of the most indebted nations and borrowing costs soared. The shared euro made it impossible to devalue individual currencies of weaker economies, limiting options for recovery. Politicians lurched through bailouts for Greece, Ireland, Portugal and Cyprus plus a rescue of banks in Spain. The panic fueled fears of a breakup as fragile banks and their holdings of government bonds exposed the common currency's vulnerabilities. The firestorm abated in July 2012, when European Central Bank President Mario Draghi pledged to do "whatever it takes" to save the euro.

### **The Argument**

Euro-area leaders say the common currency is now more resilient in the face of shocks. They argue that even if Greece were to fall out of the euro, the currency would survive, though there's a vigorous debate about how serious the economic and political consequences would be. New systems have been put in place to centralize bank supervision and build firewalls between troubled debtors and taxpayers. The measures still may not have gone far enough. Aspirations by the euro's founders for an "ever closer union" – including more oversight of national budgets and the pooling of debt – have not been realized. For some observers, the euro's flaws simply sow the seeds for another crisis.

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# Deutsche Bank Hits Record Low as It Defends Troubled U.S. Unit



- U.S. Fed, FDIC said to place lender on troubled firm lists
- Deutsche Bank says it has 'significant liquidity reserves'

Deutsche Bank AG fell to a record low Thursday after reports that U.S. regulators added it to a group of troubled lenders they monitor. The firm said it's overhauling the operations at issue, and that there are "no concerns" about its financial stability.

The stock dropped 7.2 percent to 9.16 euros in Frankfurt, the lowest close since Bloomberg began keeping records in 1992. The bank's U.S. business was added to a group of troubled

lenders monitored by the deposit insurance regulator, months after the Federal Reserve placed the lender on its own list of problem banks, a person familiar with the matter said Thursday.

The news compounds the challenges for new Chief Executive Officer Christian Sewing as he seeks to restore profitability. U.S. regulators warned Europe's biggest investment bank in March that it must more urgently fix lapses described in a series of settlements with the Fed over the past few years. After failing to make a profit for three years, Deutsche Bank is accelerating a plan to refocus on clients in Europe, though Sewing has said the U.S. will remain an important market.

"I'm concerned about Deutsche Bank's ability to fix problems in their controls and monitoring capacities," said Michael Huenseler, a portfolio manager at Assenagon Asset Management. "Regulators are continuing to keep a close eye on this, as well as rating agencies, and so should investors."

#### Risk Controls

Laura Benedict, a spokeswoman for the Fed, declined to comment on any matter that involves confidential supervisory material. David Barr, a spokesman for the FDIC, also declined to comment. The person familiar with the U.S. regulators' moves, who requested anonymity, confirmed reports earlier Thursday by the Wall Street Journal and Financial Times.

The decision means the FDIC views Deutsche Bank's federally insured U.S. business as having financial, operational or managerial weaknesses that threaten its continued financial viability. The Fed's decision dates from a year ago, and Deutsche Bank has had to seek the central bank's approval for hiring and firing senior U.S. managers, the Journal said.

In a statement late Thursday, Deutsche Bank said there are "no concerns with regard to the financial stability" of the parent company, and that its main U.S. banking subsidiary has "a very

robust balance sheet.”

“We have previously indicated that our regulators have identified various areas for improvement relating to our control environment and infrastructure,” it said. “We are highly focused on addressing identified weaknesses in our U.S. operations.”

Deutsche Bank’s risk controls have been under scrutiny for years, yet remain problematic. Bloomberg News has reported that the lender inadvertently transferred 28 billion euros (\$33 billion) to one of its outside accounts in March, a so-called “fat finger” error that echoed a similar 21-billion euro mistake in 2014. In both cases, the errant transfers were quickly spotted and the money returned.

The lender may have reduced some risk-taking as a result of the Fed’s scrutiny, according to the Journal.

#### 2016 Lows

Deutsche Bank’s shares have tumbled 42 percent this year, the worst performance in the 42-member Bloomberg Europe Banks and Financial Services Index.

Deutsche Bank is “very well capitalized and has significant liquidity reserves,” Charlie Olivier, a spokesman for the German lender in London, said in a statement earlier Thursday.

Sewing replaced his ousted predecessor John Cryan in April. S&P Global Ratings has been reviewing Deutsche Bank’s credit profile since then, saying that repeated changes of leadership raised questions over the firm’s long-term direction amid a background of chronically low profitability. The German lender is predicting a return to profit in 2018.

The FDIC considers “problem” lenders to have “financial, operational, or managerial weaknesses that threaten their continued financial viability,” according to the regulator’s website.

Sewing, who has spent his whole career at Deutsche Bank, has tried to put to rest such concerns in his first two months in charge, announcing sharp cuts in capital-intensive and competitive businesses such as prime finance and global equities, and promising to eliminate at least 7,000 jobs from the current staffing level of 97,000.

U.S. regulators scolded top Deutsche Bank executives in March and urged them to fix problems that had emerged in a series of investigations. Last year, the Fed fined the firm almost \$157 million for lax oversight of employees in New York, including a failure to ensure that workers abided by the Volcker Rule, which bans risky market bets with shareholders' money, and not detecting that currency traders were engaging in "unsafe and unsound conduct," the Fed said.

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## **OPEC, non-OPEC sticking to oil pact but may raise output if needed: Gulf source**



DUBAI (Reuters) – Saudi Arabia, other OPEC states and non-OPEC



allies aim to stick to a global pact on cutting oil supplies until the end of 2018 but are ready to make gradual adjustments to offset any supply shortage, a Gulf source familiar with Saudi thinking said.

The oil producers participating in the output reduction deal are satisfied with the result of their agreement, which was due to end at the end of 2018, the Gulf source told Reuters.

The deal could be extended to achieve its objectives of keeping a balanced oil market, the source said, adding that, when needed, any rise in output would be “in a gradual and deliberate fashion.”

The Organization of the Petroleum Exporting Countries with Russia and several other producers agreed to cut output by about 1.8 million barrels per day (bpd) starting from January 2017. The curbs have driven down inventories and pushed up prices.

The oil market is moving towards balancing and fundamentals are better than last year, “but the group is not ready yet to fully lift controls,” the Gulf source said.

The source added that the market was driven by “a fear of shortage” triggered by a steep decline in Venezuela’s output and worries about the impact of U.S. sanctions on Iranian production, rather than an actual lack of supply.

“Saudi Arabia, OPEC and non-OPEC... are continuing their cooperation this year and beyond, it is not something temporary, it is going to be a long-term cooperation for the sake of a stable oil market,” the Gulf source said.

“However, if any shortage takes place, the producers will coordinate closely and promptly take necessary actions. The OPEC and non-OPEC agreement will remain in place. But the level of the cut may be adjusted if a physical shortage arises.”

The energy ministers of Saudi Arabia and Russia said last week

they were prepared to ease output cuts to calm consumer worries about supply adequacy.

Raising output would ease about 18 months of strict supply curbs amid concerns that a price rally has gone too far, with oil hitting its highest since late 2014, rising above \$80.50 a barrel this month. Prices have since eased.

Sources told Reuters last week that Saudi Arabia and Russia were discussing the possibility of raising output by about 1 million bpd. OPEC meets next on June 22 to decide on policy.

The Gulf source said no decision has been taken about the timing of any increase or the amount, and said Saudi Arabia, OPEC's biggest producer, favoured "a gradual increase" in output if there was a need.

The source said any decision to increase output in June would coincide with anticipated higher demand in the second half of the year.

"Saudi Arabia favours a gradual approach to increase output to compensate for any unplanned outages. The decision about the timing and amount of oil to raise will be decided when the ministers meet in June," the Gulf source said.

"The increase in output will be dictated by market conditions and all the numbers circulated about size of the increase or the timing are mere speculation," the source said, adding that any move would be "a collective action."

Reporting by Rania El Gamal; Editing by Edmund Blair

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# **Qatar has managed impact of siege: IMF**

## **\*Growth performance resilient; Banking sector remains healthy**

Considerable buffers and sound macroeconomic policies have helped Doha absorb shocks from lower hydrocarbon prices and the diplomatic rift with some countries in the region, according to the International Monetary Fund (IMF).

Qatar's growth performance remains resilient and the direct economic and financial impact of the Gulf crisis has been "manageable", IMF said in its Article IV consultation with Qatar.

"The availability of significant external and fiscal buffers and the strong financial sector should enable the country to withstand downside risks, including lower-than-envisaged oil prices, tighter global conditions and an escalation of the diplomatic rift," it said.

Terming that the near-term growth outlook is broadly "positive", it said overall, GDP (gross domestic product) growth of 2.6% is projected for 2018.

Non-hydrocarbon real GDP growth is estimated to have moderated to about 4% in 2017 due to on-going fiscal consolidation and the effect of the diplomatic rift.

"Inflation is expected to peak at 3.9% in 2018 – as the impact of the value-added tax being introduced during the second half of 2018 would mostly be felt in that year—before easing to 2.2% in the medium term," IMF said.

Headline inflation remains subdued, primarily due to lower rental prices, it said, adding the realty price index fell 11% in 2017 (year-on-year) after a 53% cumulative during 2013–16,

reflecting increased supply of new properties and reduced effective demand.

Finding that the underlying fiscal position continues to improve, it said fiscal deficit is estimated to have narrowed to about 6% of GDP in 2017 from 9.2% in 2016 with the deficit been financed by a combination of domestic and external financing.

Public debt (estimated at 54% of GDP as at end-2017) remains “sustainable”, it said, adding the current account is improving in the context of increased oil and gas.

Qatar’s banking sector remains healthy overall, reflecting high asset quality and strong capitalization. At end-September 2017, banks had high capitalization (capital adequacy ratio of 15.4%), high profitability despite recent moderation (return on assets of 1.6%), low non-performing loans (1.5%), and reasonable provisioning ratio of non-performing loans (85%).

“Liquidity has been generally comfortable—with a liquid asset to total asset ratio of 27.3% —though bank reserves have declined since 2015,” IMF said.

The IMF directors noted that strengthened expenditure control, with emphasis on further public-service reform and accelerated reform of the public utility companies, would help Qatar improve economic efficiency. They also emphasised the importance of wage reform to reduce the public to private wage gap.

- It is still possible to deal with the direct economic and financial impact of the diplomatic crisis between Qatar and some countries in the region.
- 2.6% expected growth in GDP in 2018.
- The banking sector's situation is sound because of high asset quality and strong capitalization.
- Liquidity levels remained generally satisfactory, with liquid assets to total assets at 27.3%.

- Short-term growth prospects are generally positive.
  - Current account is improving steadily as oil and gas prices rise.
  - Banks recorded at the end of September 2017 high levels of capitalization and profitability.
  - Qatar has ample financial space to continue to gradually adjust fiscal conditions to ensure that sufficient hydrocarbon wealth is saved for future generations.
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# Headache for ECB as populists take power in debt-laden Italy



EUROPEAN CENTRAL BANK

FRANKFURT AM MAIN (AFP) –

The arrival of an anti-austerity, populist government in Italy has revived concerns about the country's massive debt pile, underscoring the pitfalls ahead for the European Central Bank as it tries to wean the eurozone off its massive monetary support.

"It's the elephant in the room, because the problem was never resolved," said Pictet Wealth Management economist Frederik Ducrozet, noting that Italy was the only "highly indebted"

euro nation not to embark on a structural reforms programme.

After a political rollercoaster ride that sent markets into a spin this week, a coalition government between the far-right League party and the anti-establishment Five Star Movement is to be sworn in Friday.

While immediate fears that the eurosceptic parties could yank Italy out of the single currency have been calmed with their pick of a pro-euro economy minister, the drama in the eurozone's third largest economy is far from over.

Both parties came to power promising tax cuts and higher spending – in a country already saddled with 2.3 trillion euros (\$2.7 trillion) of debt and plagued by low growth.

At 132 percent of gross domestic product (GDP), Italy's debt burden is second only to bailed-out Greece, and more than double the European Union's 60-percent ceiling.

The near-collapse of the two populist parties' efforts to form a government and the prospect of snap elections sent Italian bond yields spiking in recent days, making it more expensive for the government to borrow money.

The bond market turbulence spread to Spain and Portugal, prompting the Frankfurter Allgemeine Zeitung to warn of "contagion danger" that could send Italy's debt woes spiralling out of control, dwarfing the Greek debt crises and posing a threat to the single currency in the long run.

That doomsday scenario appears to have been averted for now, and Italian yields fell on Friday as investors heaved a sigh of relief over the deal clinched in Rome – a welcome birthday present for the ECB on the day the Frankfurt institution celebrates its 20th anniversary.

– Balancing act –

The markets' anxiety about Italy comes at a sensitive time for the ECB, the eurozone's chief firefighter in a financial crisis.

After years of ultra-loose monetary policy aimed at bolstering growth and pushing up inflation to the bank's target of just under 2.0 percent, the ECB is inching towards turning off the easy money taps as the eurozone recovery has gathered strength.

Although it is still buying 30 billion euros in bonds each month, including Italian debt, it is widely expected to phase out the so-called "quantitative easing" programme this year, before raising its record-low interest rates in the second half of next year.

But the bank's slow-motion stimulus exit has been complicated by the euro area's shaky first-quarter growth figures, leaving observers to debate whether the region has hit a mere soft patch or if a downswing is in sight.

For now, most expect the ECB to stay on the sidelines of the Italian turmoil and continue carefully preparing markets for its stimulus wind-down at the next governing council meeting on June 14.

Already holding some 22 to 25 percent of Italian public debt, the independent ECB "doesn't want to and can't be perceived as aiding any specific country," said Ducrozet.

– 'No easy option' –

In the short-term, the Italian woes could paradoxically even boost the ECB's efforts by weakening the euro against the dollar. A weaker euro makes imports more expensive, driving up eurozone inflation.

Provisional inflation data released this week also seemed to support the ECB's plan to begin phasing out QE, with inflation



hitting 1.9 percent in the eurozone, 2.0 percent in France 2.2 percent in Germany – well past the ECB’s target.

But as calls mount for the central bank to withdraw its crisis-era medicine, particularly in Germany, a return to higher interest rates will make it harder for heavily indebted nations like Italy and Spain to service their debt.

And if the populists in Rome stick to their spendthrift campaign pledges – including a universal basic income for Italy’s poorest and rolling back pensions reforms – Italy’s deficit could climb to between “five and seven percent” of GDP, according to analysts at M.M. Warburg bank, putting the country on “a collision course” with European partners.

The Warburg economists predicted that Italy may eventually need some kind of European aid or debt relief to prevent a full-blown crisis.

“There’s no easy option if Italy needed help tomorrow,” said Pictet’s Ducrozet. “And that’s why the ECB will be very cautious about when to raise interest rates.”

by Coralie FEBVRE

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**Russia to boost presence on global LNG market, helped by lower costs**



FILE PHOTO: Russian Deputy Energy Minister Pavel Sorokin speaks during an interview with Reuters in St. Petersburg, Russia May 26, 2018. REUTERS/Sergei Karpukhin/File Photo

\* Russia plans to produce up to 120 mln T LNG per year by 2035

\* To compete with Australia, U.S. on global LNG market

By Oksana Kobzeva and Olesya Astakhova

ST PETERSBURG, June 1 (Reuters) – Russia plans to raise its annual production of seaborne liquefied natural gas (LNG) to as much as 120 million tonnes by 2035 and take market share from Australia and the United States by capitalising on low costs, a deputy energy minister said.

In December, Russia's No.2 gas producer Novatek and its partners including France's Total launched the Yamal LNG plant in the Arctic, with capacity of 17.4 million tonnes per year seen reachable by the end of 2019.

The project highlights Russia's ability to produce LNG in

harsh climates and further strengthens its foothold in the global energy market.

“Russia may set a goal of producing 100-120 million tonnes (of LNG) per year by 2035,” Deputy Energy Minister Pavel Sorokin said in an interview.

“We understand this from our discussions with the companies about their potential, which they can add to their previously announced projects.”

Yamal LNG aims to help Russia double the country’s share of the global LNG market by 2020 from about 4 percent now. Qatar, aided by production costs that are among the world’s lowest, is the biggest LNG exporter with a 30 percent market share.

Novatek also plans to launch LNG production at the neighbouring Gydan peninsula.

Russia’s Gazprom, jointly with partners including Shell, launched the country’s first LNG plant in 2009 on the Pacific island of Sakhalin with a capacity of more than 10 million tonnes per year.

Yamal LNG has produced around 2 million tonnes since its launch in December.

So far, Russia has been the dominant player in pipeline gas supplies to Europe, with Gazprom supplying around a third of the continent’s needs.

Demand for seaborne LNG has taken off in recent years as it is cleaner than oil or coal, and can reach markets worldwide because it does not depend on pipeline networks. LNG is typically more expensive than pipeline gas, however.

Sorokin said he expects global LNG demand almost to double in the next 20 years to exceed 500 million tonnes per year.

U.S. export capacity has shot up from less than 2 million tonnes per year in 2015 to 18 million tonnes in 2017, and is

projected to top 77 million by 2022. That would see the United States leapfrog Australia to become the world's No. 2 exporter.

“What will trigger the rivalry are the additional volumes that the U.S. or Australia could supply,” Sorokin said, adding that Russian companies are highly competitive due to their low costs for production and transportation.

According to the Moscow-based Skolkovo think tank, average production and transportation costs at Yamal LNG for exports to Shanghai are seen at just above \$8 per million British thermal units (mBtu) by 2025.

That is roughly the same as the cost for LNG projects in Western Australia and less than the approximately \$9 for LNG exports from the southeastern United States.

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## **Big Utilities Back Proposed EU Deal with Gazprom**

## EU imports of Russian gas

Brussels wants to reduce reliance on Russian gas export monopoly Gazprom, which supplies around a third of the EU's gas. In 2011, it launched an antitrust probe into the Russian firm's abuse of market power in eastern Europe—markets with few alternatives to buying from Gazprom.



Some big utilities in eastern Europe are backing a proposed EU antitrust settlement with Russian state gas exporter Gazprom, increasing the chances of a deal that is opposed by countries striving to loosen the Kremlin's grip over their energy sectors.

The provisional agreement, announced last month, would see Gazprom avoid a fine of up to 10% of its global turnover over EU charges it abused its dominant market position and overcharged clients in eight eastern European nations. In return the Kremlin's gas giant, which denies the charges, has offered concessions on contract terms and pricing to settle one of the EU's largest, longest-running antitrust cases.

However, the deal is subject to feedback from EU states and market players in the region and could still be amended or even abandoned.

Many of the countries involved – once in the orbit of Moscow and reliant on Gazprom for the bulk of their gas supplies – are disappointed at the EU's deal-making.

They believe Russia has been exploiting their dependence in a region where gas prices can make or break governments and want to see Gazprom punished, EU diplomats said.

“Russia uses the full arsenal of tools to deploy influence: military, economic, political and even cultural,” an EU diplomat said. “Is there a country that doesn’t want this case solved? Probably not...but there is a lot of anger.”

EU antitrust authorities say the case is not political and that the market response will take priority.

A settlement would smooth business ties with Russia, which supplies around a third of its gas, despite tensions over Ukraine and Syria.

The agreement has drawn a positive response from some big utilities and network operators which said it would allow them to strike better deals with Gazprom, increasing the likelihood the EU will accept the Russian company’s concessions.

Bowing to EU conditions, Gazprom’s offer would see it do away with contract terms that bar clients from exporting its gas to other countries and tie deals to investments in pipelines.

The company would also link its prices to benchmarks such as European gas market hub prices, rather than oil, and allow clients to renegotiate the prices every two years.

“It (the deal) is a very welcome step if it is made a reality,” the head of Latvia’s public utilities commission, Rolands Irklis, told Reuters. “It would give Latvia a direct access to the European markets even if (it) is not directly connected to the infrastructure,” he said.

Aigars Kalvitis, head of gas utility Latvijas Gaze, which is partly owned by Gazprom, said the settlement could help it negotiate more favourable terms for its long-term Russian gas contracts, which expire in 2030.

Slovakian gas utility SPP said Gazprom had already scrapped curbs on cross-border trade and shown more flexibility on pricing in recent years.

The pledges could further boost integration on gas markets, a spokesman said, leading to “higher energy security”. The EU member states where Gazprom has allegedly engaged in anti-competitive behaviour are Poland, Estonia, Latvia, Lithuania, Bulgaria, Hungary, Slovakia and the Czech Republic. The eight

governments and industry players have until May 4 to lodge objections to the proposal in the final chapter of a case which began with raids on offices in 10 countries in 2011.

A spokeswoman for the European Commission declined to comment ahead of the EU executive's final assessment, saying there "no formal deadline" for its decision.

Its complex, politically-charged investigation has played out against the backdrop of tense relations since the EU imposed sanctions on Russia over the annexation of Crimea in 2014 and the subsequent conflict in east Ukraine, as well as deep disagreements over the Syrian civil war.

Brussels officials have repeatedly said they want to reduce the EU's reliance on Russian gas.

Moscow argues the antitrust case is politically motivated – something denied by Brussels.

With a settlement, however, Russia would accept EU authority in applying competition law – something it has long balked at. If it fails to abide, the EU could still impose fines.

In the five years since the EU began its antitrust probe, Gazprom has shifted its strategy under pressure from increased competition from LNG imports, price arbitration cases brought by Western customers and more liquidity on Europe's energy markets.

It abandoned some of its most contentious practices and sold stakes in some gas pipelines in response to new EU energy rules.

Gazprom "is offering new trade tools, adapting and perfecting the contract model in accordance with our clients' needs," Elena Burmistrova, who heads its export arm, wrote in an industry publication earlier this year.

Some EU diplomats have questioned the Commission's decision to pursue a case against US tech giant Google that will likely lead to hefty fines while settling with Russia's gas exporter. Poland has threatened to take the European Commission to court if it settles on a deal that its state-run energy company

PGNiG called “far from enough”. PGNiG estimates it has been losing almost \$1bn per year from buying Russian gas at oil-linked prices but reselling it at hub-linked prices.

Others say the settlement is too little, too late – particularly in the Baltic states and Czech Republic, which have taken their own steps to break Gazprom’s supply monopoly. The Czech Republic, for example, has been buying Norwegian gas for several years.

“We have done the homework,” Czech energy security ambassador Vaclav Bartuska told Reuters. “You can only force your supplier to behave if he knows you have alternatives...fines and investigations can alleviate the situation for some time but are not a permanent solution.”

After Lithuania broke Gazprom’s supply monopoly by opening a Liquefied Natural Gas terminal in 2014, it won a 20% discount on Russian gas supplies.

Since 2015, it has been trading gas with Estonia and plans to include Latvia this year.

“Gazprom no longer has meaningful levers for influence in the Baltic states,” the head of its state-owned gas network operator Dalius Misiunas said.

Latvia, meanwhile, regards Gazprom’s settlement pledges as simply agreeing to abide by existing EU energy rules rather than making meaningful concessions, said Olga Bogdanova, head of energy at the economics ministry.

Despite the cautious optimism from bigger market players, traders and smaller clients said Gazprom’s concessions came with too many strings attached, such as restrictions on time, volume, location and fees for gas swapping.

“What kind of commitment is this, if I have to walk through fire to use them?” one executive in the Baltics said. “These commitments do not cost Gazprom anything...Gazprom should be punished.”

For Bulgaria, almost wholly dependent on buying Russian gas under a contract that runs until 2022, the stakes are high and



the clock's ticking.

A speedy deal is the priority for the EU's poorest nation.

The country's independent energy regulator said it hoped a settlement would allow to renegotiate contracts pegged to oil prices before next winter.

If not, it said hot water and heating bills would rise by up to 35%, squeezing households and industries.

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## Lebanon Starts Offshore Energy Exploration, Defying Israel





**Lebanon has started exploration of oil and gas at its offshore energy reserves in the Mediterranean waters disputed by the Israeli regime.**

Lebanon's Energy and Water Minister Cesar Abi Khalil said in a televised statement that the exploration project for the country's first oil and gas reserves began on Tuesday after Lebanese officials approved a plan submitted by a consortium of France's Total, Italy's Eni and Russia's Novatek.

Khalil expressed hope that Lebanon would launch the second phase of offshore licensing by the end of 2018 or early 2019.

The announcement came after months of tensions between Lebanon and Israel over the disputed energy reserves.

No immediate reaction has been observed on the part of Israeli officials.

In December 2017, the Lebanese government granted licenses to a consortium of three international companies to carry out exploratory drilling in Lebanon's Block 4 and Block 9 territorial waters and determine whether they contain oil and gas reserves.

Israel lashed out at the three international firms for making "a grave error" by accepting the offer. Israeli minister of military affairs Avigdor Lieberman warned that Lebanon would "pay the full price" should another war erupt between the two sides.

Lebanon, however, was quick to respond to the blatant threat, with Energy Minister Abi Khalil pledging that Beirut was going to push ahead with its exploration plans.

Lebanese President Michel Aoun also vowed to use all the diplomatic powers vested in him to resolve the dispute, saying the country had a right to "defend its sovereignty and territorial integrity by all means available."

The territorial dispute between Israel and Lebanon runs over 776 square kilometers (300 square miles) of waters claimed by both sides.

The underlying Levant basin of the Eastern Mediterranean has been proven to contain large natural gas reserves and maybe even crude oil.

Israel itself has long been developing a number of offshore gas deposits in the Mediterranean Sea, with the Tamar gas field, with proven reserves of 200 billion cubic meters, already producing gas, while the larger Leviathan field is expected to go online in the coming months.

A source close to Israeli Prime Minister Benjamin Netanyahu said in 2012 that Israel's natural gas reserves were worth around \$130 billion. A Businessweek estimate later that year put the reserves' value at \$240 billion.

Israel relies heavily on gas. According to estimates by the Israel Natural Gas Lines, the Israeli-occupied Palestinian territories consumed around 9.5 Billion Cubic Meters (BCM) in 2016. The number is expected to reach 10.1 BCM in 2018.

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## American Boom Seen Tempting Ships to Steer Clear of Iran's Oil



BloombergSingapore

The latest standoff between the US and Iran may be leaving oil-tanker owners in more of a bind than in previous years. As the US reimposes sanctions on the Islamic Republic, firms that

help ferry Iranian oil risk losing access to the American financial system, similar to earlier in the decade when such measures were enforced. Additionally, this time around, they'll have to contend with being cut off from the booming business of transporting crude pumped from shale fields in Texas or wells in the Gulf of Mexico, according to shipbroker Braemar ACM.

The US is shipping record amounts of crude following the end of an export ban in late 2015, a few months after Iran and world powers reached a deal that eased sanctions on the Middle East nation in exchange for curbs on its nuclear programme. After President Donald Trump pulled out of that accord earlier this month, the jump in American shipments is making tanker owners consider whether to stick with or shy away from the Gulf state.

"If you're an operator of young, modern tonnage that can berth and lift cargoes from the US, you won't want to be exposed to Iran," said Anoop Singh, an analyst at Braemar ACM. "Vessels associated with Iranian oil are likely to be banned from US oil trade for about two years – and this would matter more now that the US exports its crude oil."

Shipowners will have to make a decision – to transport Iranian oil and petroleum products or shun dealings with Opec's third-largest producer – at a time when they are trying to revive their business after years of malaise from a global oversupply of ships and thin margins. They are also facing higher expenses from looming regulation seeking to lower emissions. While the US may not currently feature among the biggest clients of some shipowners, few can afford to turn their backs to a market from which both exports of crude as well as refined fuel are rapidly rising. With more shale oil finding its way to the Gulf Coast for exports, or being diverted to domestic refineries to make products that are shipped abroad, more tankers of different classes are seen being drawn in to American ports.

“With a spike in exportable US crude and fuel comes a push to move more barrels faster,” Singapore-based Singh said in an interview. “This has encouraged more dredging works at shallower harbours, supporting demand for everything from small oil-product carriers to supertankers with the capability of carrying 2mn barrels of oil to destinations as far away as Asia.”

For instance, China – the world’s biggest oil importer – purchased about 3.9mn metric tonnes of crude from the US in the first three months of 2018, eight times higher than imports in the first quarter of 2017, according to customs data.

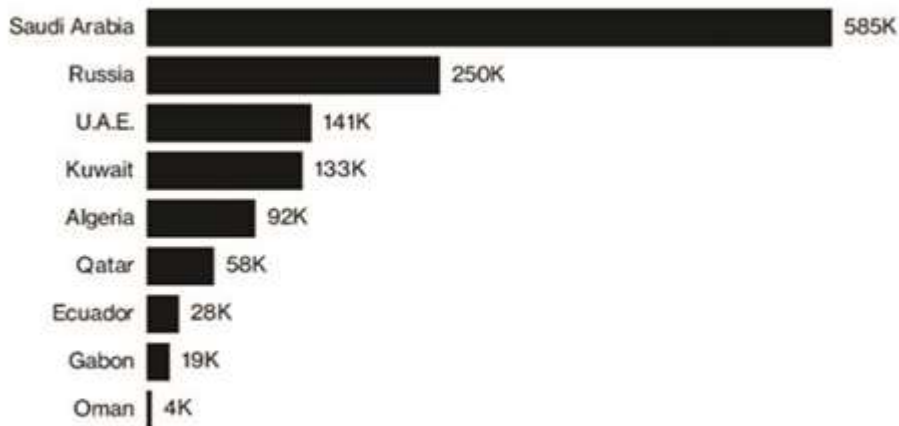
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## **Saudi-Russia Policy Shift Sets Stage for Tense Opec Meeting**

## Who's Got the Juice?

Saudi Arabia and Russia could potentially return the most oil to the market.

■ Size of output cut since 2016 in barrels a day



Note: Excludes countries the IEA says aren't capable of rolling back their output cuts

Source: IEA, OPEC

**Bloomberg**



BloombergLondon

When Saudi Arabia and Russia announced a new policy to revive oil production last week, one thing was missing: most of the other partners in their grand coalition.

With oil supplies tightening and prices soaring, the two countries agreed to restore some of the output they halted as part of an accord with 22 other producers, drawn from the Organization of Petroleum Exporting Countries and beyond. The trouble is, officials from several countries in the agreement, both inside Opec and outside, said they disapproved of the proposal to raise output and saw difficulties in reaching a consensus when they meet in Vienna next month.

“It might be a contentious meeting,” said Ed Morse, head of commodities research at Citigroup Inc in New York.

The matter is particularly sensitive because Russia and Saudi Arabia are proposing raising production to make up for losses from other members, notably a worsening slump in Venezuelan supply and a potential drop in Iran as renewed US sanctions kick in. Those countries have nothing to gain from looser output caps, and plenty to lose if oil prices extend Friday’s steep decline.

Most nations in the agreement weren’t consulted about the Saudi-Russia policy to revive output. Suhail al-Mazrouei, UAE Energy Minister and current holder of Opec’s rotating presidency, said the group as a whole will decide whether to adjust output.

“No decisions made by two countries or three countries are going to be taken,” he said in an interview in St Petersburg, Russia, on Friday after meeting with his Saudi and Russian counterparts. “We respect all the member countries.”

Saudi Arabia and Russia could simply go ahead with their plan without the blessing of other players. Because they’re the only countries capable of increasing production significantly, the impact on the market would be almost as great if they chose to go it alone.

“If the rest are not on board, Saudi will do it alone, so it’s not much of a choice,” said Roger Diwan, an analyst at consultant IHS Markit Ltd in Washington.

Yet the success of the 24-nation alliance that agreed to the



supply cuts seems to be valuable to the kingdom, and so they may prefer a more diplomatic route by seeking consensus. If so, it would be a tough sell.

Though they're not always enforced, Opec's rules do require policy changes be approved by all members – many of which would lose out in this case. Outside the Arab members in the Arabian Gulf, most countries aren't able to boost supplies and would face lower revenue if prices slide further.

US oil futures fell 4.5% to \$67.50 a barrel in New York on Friday. That's the biggest drop in almost a year, erasing most of the gains for May.

In Venezuela, which lobbied hard to set up the 2016 accord, output has plunged to the lowest level since the 1950s as a spiralling economic crisis batters its oil industry. Losing further earnings could accelerate its financial collapse.

Iran, a long-standing political antagonist of Saudi Arabia, faces the prospect of losing customers to its rival as renewed US sanctions – imposed after President Donald Trump quit an agreement on the country's nuclear programme – force buyers to reduce purchases.

It could be that the production increases aren't substantial enough to need much consultation within the group, according to Helima Croft, chief commodities analyst at RBC Capital Markets LLC. The lower end of the range the producers are discussing – a return to levels agreed at the outset of the deal – is just a few hundred thousand barrels a day above current output.

"I strongly believe that we will find a compromise, because all countries are interested in a stable market," Russian Energy Minister Alexander Novak said in a Bloomberg television interview in St Petersburg on Friday.