

# Oil prices decline as wave of supply meets global economic gloom



NEW YORK (Reuters) – Oil fell nearly 3 percent on Thursday, with U.S. crude futures hitting lows not seen since April, due to growing concerns that global demand is weakening at a time when output from the world’s major oil producers is surging.

Record production from the United States and post-Soviet Russia, along with a big move upward in output from the Organization of the Petroleum Exporting Countries, has culminated in a move to the exits by speculators.

Oil has also been under pressure on growing concern over a possible slowdown in global growth as the U.S-China trade dispute remains unresolved, and is starting to hit emerging market economies in particular.

U.S. crude prices are 17 percent below highs reached in early October. Analysts said they anticipate more selling in coming days, noting that oil was unable to capitalize on weakness in the dollar on Thursday, nor did it benefit from a rebound in equity markets. [USD/] [.N]

“The sellers seem to be in charge,” said Gene McGillian, vice president of market research at Tradition Energy in Stamford, Connecticut.

Brent crude futures LC0c1 settled down \$2.15, or 2.9 percent, at \$72.89 a barrel, while U.S. crude CLc1 lost \$1.62, or 2.5 percent, at \$63.69, its lowest close since April 9.

The declines accelerated on Thursday after U.S. futures broke through \$65, which had served as a buying level throughout the spring and summer. More than 750 million contracts changed hands, exceeding the 200-day moving average of 576 million contracts a day.

“As we drop down we see additional liquidation from speculators, and that keeps things heading south,” said Jim Ritterbusch, president of Ritterbusch & Associates.

Both benchmarks posted their biggest monthly percentage decline since July 2016 in October, with Brent down 8.8 percent for the month and U.S. crude losing nearly 11 percent.

On Wednesday, the U.S. Energy Department said overall U.S. crude output hit a record 11.35 million barrels per day in August, and it is expected to keep growing. Russia is producing 11.41 million bpd, and a Reuters survey of OPEC production showed that group pumping out more oil daily since 2016. [EIA/PSM]

The flood of oil is overwhelming any lingering worries that the market would be unable to offset further expected declines in exports out of Iran when renewed U.S. sanctions take effect next week. [OPEC/0]

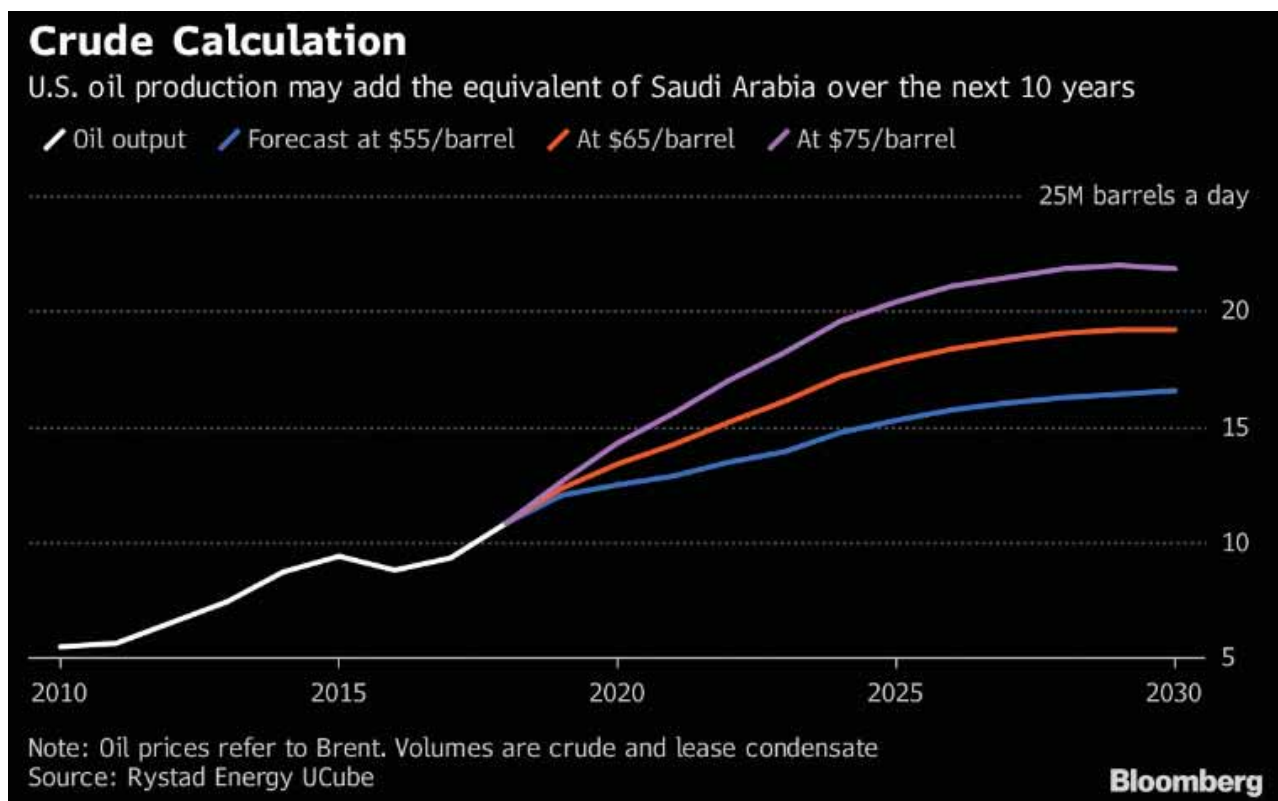
The increase in OPEC production “has really started to tamp

down concerns surrounding the loss of Iranian barrels,” Tradition’s McGillian said.

China’s manufacturing sector in October expanded at its weakest pace in over two years, hurt by slowing domestic and external demand, in a sign of deepening cracks in the economy from the trade war with the United States.

“Oil investors are now betting on the potential of a global slowdown,” said Bruce Xue, an analyst with Huatai Great Wall Capital Management.

## ‘US oil could add one Saudi in next 10 years’



US oil could add the equivalent of Saudi Arabia’s total production over the next 10 years if a favourable price

environment persists, according to a report by Rystad Energy quoted by Bloomberg. Even in a price scenario of \$55 a barrel the consultant sees America's oil output growing by about 5.7mn bpd to 16.5mn bpd by 2030, and unlocking a further 5.3mn bpd at \$75 barrels. This would also result in "faster acceleration of base decline and earlier plateau in production," it said in the report.

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## Angela Merkel's tragedy



By Ashoka Mody/Berlin

What we care about most is often our undoing. So it was for Angela Merkel, who recently announced her intention to step down as leader of the Christian Democratic Union (CDU) in December and as Germany's chancellor in 2021.

History placed Merkel amid raging storms: a series of eurozone crises that drove wedges between Europeans; economic tensions

at home that fuelled social fragmentation; and the largest migration wave since World War II, which intensified European and domestic anxieties. But, rather than rocking the boat, risking her survival, she chose temporary fixes that let the vulnerabilities fester.

Perhaps her nail-biting ascent to the chancellorship conditioned her. In the September 2005 election, she enjoyed a large early lead in opinion polls. Then-Chancellor Gerhard Schröder had failed to bring down the unemployment rate, which stood at almost 12%, and his Social Democratic Party had lost a string of state elections. Yet Merkel's poor communication of her policy priorities, together with a lackluster debate performance, nearly cost her the election.

In subsequent elections, Merkel refused to campaign on substantive policy matters. In 2009, her campaign was deliberately boring and banal, embracing – however reluctantly – her opponents' characterisation of her as a "Mutti," an unflattering stereotype of a mother managing the family home. In 2013, she bolstered the Mutti image with the slogan "You know me."

Having established no clear policy platform, Merkel has governed largely without a mandate. After each election, various interest groups have hoped that she would adopt a position favourably aligned with their particular preferences. But she knew that refusing to do so was precisely what had enabled her to survive.

Merkel's preference for muddling through has been apparent in her approach to eurozone reform. She has long known that fixing the monetary union would require her to issue a politically risky call for financial sacrifice by Germans. The call was risky, because the former Chancellor Helmut Kohl, the man who single-handedly carried the euro across the finish line, had promised that no sacrifice would be required.

Hence, for fear of alienating Germans, Merkel has consistently done the minimum to hold the eurozone together. She agreed – after an agonising delay – to a joint European Union-International Monetary Fund lending package to Greece in May

2010. That led to the creation of a more permanent bailout facility, the European Stability Mechanism.

Moreover, during the euro's existential crisis in July 2012, Merkel supported European Central Bank President Mario Draghi's initiative to create an "outright monetary transactions" mechanism, whereby the ECB could purchase the bonds of struggling eurozone countries. Although these fixes helped to prevent the eurozone from collapsing, they were not enough to ensure the monetary union's long-term resilience – a failing that has left the eurozone vulnerable to Italy's brewing crisis.

Merkel was felled by the one principled stand she took. In 2015, with Europe being inundated by asylum seekers and economic migrants, Merkel announced an open-door policy for Syrian refugees. When Hungary's nationalist prime minister, Viktor Orban, suggested that Germany should build a fence to keep migrants out, she flashed rare (and raw) emotion. Recalling her East German upbringing, she said, "I lived a long time behind a fence. It is not something I wish to do again."

Merkel's humanity won her praise from the international community. But, at home, opposition to her refugee policy gathered momentum. The Alternative für Deutschland (AfD), created in February 2013 to oppose the euro, gained a new lease on life as a strident nationalist anti-migration party, siphoning supporters from Merkel's CDU and its Bavarian sister party, the Christian Social Union (CSU).

In 2016, Merkel successfully eased migration pressure on Europe by securing a deal to keep migrants in Turkey. But the deal remains highly controversial, not least because of humanitarian concerns. With the same model being applied elsewhere, migrants are at increasing risk.

Although Merkel's characteristically dull campaign approach won her a fourth term as chancellor last year, her electoral base has weakened considerably – a trend that has been reinforced by domestic economic failures. Merkel has to cope with the legacy of Schroder's controversial labour-market and

welfare reforms, which, among other things, made it easier to fire workers and, by reducing unemployment benefits, forced many unemployed people to take insecure jobs with few benefits. The reforms helped to reduce the jobless rate, but at the cost of stagnant inflation-adjusted wages and widespread personal financial stress.

To be sure, rising inequality, wage stagnation, and working-class frustration are evident across the developed world. Merkel, like her counterparts elsewhere, did little to address the problems. This is not because Merkel lacked vision: in April 2010, she described a Germany powered by improved education and innovation. Only a society that advanced technologically, she concluded, could provide decent opportunities for all.

But, unwilling to challenge the domestic political consensus on fiscal austerity, Merkel refused to invest in Germany's future, say, by repairing decaying infrastructure and upgrading educational opportunities. Instead, she made flailing efforts to protect the increasingly obsolete diesel technology base of Germany's car producers. Such delays in reinvigorating the country's auto industry could drag down the entire economy.

Merkel's failure to reverse social fragmentation led to rising support for the AfD. In the 2017 election, AfD voters tended to be men between the ages of 30 and 59 with only secondary education or vocational training, working blue-collar jobs – often with little job security – in small cities and rural areas. Many such voters once supported the CDU and CSU, but were attracted by the AfD's nationalist, xenophobic platform. The CDU has been weakened, and Merkel's hold over her own party has eroded. It is time for her to step down.

Merkel held the ship steady, but the storms continued to rage. Amid continuing widespread popular frustration and political turmoil, future chancellors could easily be swept away. – Project Syndicate

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## US oil titans flood Permian zone with armada of rigs



An oil drilling rig stands in Reeves County, Texas. Once an afterthought, the Permian Basin is now first and foremost for the biggest American oil producers, according to Bloomberg. The arid backwater of West Texas and New Mexico was a prime driver in the outsized profit reports on Friday from Exxon Mobil Corp and Chevron Corp that investors cheered. Decades after Big Oil gave up on the Permian to drill new frontiers like the North Sea and West Africa, the titans of American energy have returned in force. Exxon has already surpassed its plan to mobilise about



30 rigs in the region by year's end: The company has 38 drilling Permian wells now, a 40% increase in just six months. For Chevron, which only recently began drilling assets it controlled for more than a century, the jump in rig count was even more dramatic at 59%. In fact, Chevron is so busy in the Permian that the region now accounts for about one in every 10 barrels the company pumps worldwide. Permian gushers have been so prolific that Chevron is a year ahead of its production target in the area, chief financial officer Pat Yarrington said during a conference call on Friday.

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## **Democrats regaining House seen raising odds of anti-Opec bill in US**



Bloomberg/Washington

If the Democrats take over the US House of Representatives in this week's midterm elections, it could renew momentum in favour of legislation targeting Opec.

"The odds of passage are a little bit higher" in the event that the Democrats take over the House in the November 6 vote, according to Glenn Schwartz, director of energy policy at the Rapidan Energy Group in Washington.

They may be more inclined to use anti-Opec legislation to pressure the Trump administration over its response to the death of Jamal Khashoggi, he said, referring to the journalist killed at the Saudi consulate in Istanbul earlier this month.

While the House introduced a version of the "No Oil Producing and Exporting Cartels Act" bill in May, the Senate has also revived legislation against the oil alliance. Although past presidents have threatened to use their veto power to prevent previous bills from becoming law, what's different this time around is that President Donald Trump has repeatedly attacked the Organisation of the Petroleum Exporting Countries both before after being elected.

"Our impression is that the Democrats see Saudi Arabia as a winning game for them and they would like to keep it in the news as much as possible, with the understanding that even if they think it's not the best policy, it would box in President Trump and be watered down or killed in the Senate," Schwartz said.

Trump's antitrust chief has said that the administration is "still studying that legislation," in reference to NOpec. "We don't have an administration position on that," US Assistant Attorney General Makan Delrahim said after a Senate Judiciary subcommittee hearing on October 3.

Still, a renewed surge in oil prices could spur momentum for the NOpec bill in the post-election "lame-duck" session, ClearView Energy Partners, a Washington-based consultancy, said earlier this month. It sees high energy prices rather than the Khashoggi affair as a more likely catalyst.

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# Iran sanctions move hits European firms



AFP/Paris

US President Donald Trump's decision to pull the US out of the 2015 nuclear accord with Iran and reimpose a raft of sanctions puts European businesses on the spot.

While the European Union insists it will stick by the nuclear accord to allow trade to continue with Iran, European companies are wary of being caught out by the US sanctions regime and many have already cut back their presence.

The sanctions introduced in August spooked the major automakers who were already cautious about their future in Iran and mindful of their much bigger business interests in the US.

Germany's Daimler, which was teaming up with two Iranian firms to assemble Mercedes-Benz trucks, said it had decided against going ahead.

Volkswagen had said last year it planned to resume business after a 17-year break but was very guarded in response to the latest US decision.

VW "conforms with all the applicable national and international laws and regulations concerning exports," a spokesman said.

French automakers Renault and PSA, who make nearly half the cars sold in Iran, were cautious.

PSA, behind the Peugeot, Citroen and Opel brands, said in June it was preparing to suspend activities in Iran.

Renault says it intends to keep its activities in Iran but stands ready "to reduce the scale very sharply" if need be.

Aviation saw large contracts reached following the 2015 nuclear accord as Iran set about modernising an ageing fleet.

Airbus booked deals for 100 jets and was looking forward to many more.

However, the potential loss of business in Iran would not weigh overly heavily on Airbus given its total outstanding order book of some 7,168 planes at end-June.

Oil is the key issue with global implications for all concerned as Washington aims to cut off Iran's key source of foreign income.

French energy giant Total announced in August it was pulling out of a massive natural gas project.

Italian energy giant ENI meanwhile has a contract to take 2mn barrels of oil per month which it will not renew after it finishes this year.

German engineering giant Siemens signed a contract in 2016 to supply gas turbines to Iranian company Mapna.

A spokesman told AFP the company "will take the appropriate measures to bring its affairs into conformity with the multilateral framework concerning Iran."

Italy stands to lose most in these sectors, national railway operator Ferrovie dello Stato Italiano having signed a deal in 2017 to build a high-speed line linking Qom to Arak in northern Iran.

Shipmaker Fincantieri, engineering firm Maire Tecnimont and

gas boiler maker Immergas all signed a string of deals with Iran which are also threatened.

Italy was Iran's largest European trade partner in 2017, with its exports rising 12.5% to €1.7bn.

Iran is potentially a major tourist destination but European companies were quick to pull back after the August US announcement.

British Airways and Air France halted services in September, saying the flights were not commercially viable.

German carrier Lufthansa, Austrian Airlines and Alitalia for the moment continue flights to Tehran.

French hotel chain AccorHotels, which opened an establishment in Iran in 2015, declined to comment on its plans for the future.

Spain's Melia Hotels International chain, which signed a 2016 deal to run a five star hotel in Iran, the Gran Melia Ghoos, said in November it was still going ahead.

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**Ten EU countries call for clear debt-restructuring option in EU rules**



BRUSSELS (Reuters) – Ten European Union finance ministers want any unsustainable public debt in the euro zone to undergo restructuring, with losses imposed on the private sector, before a public bailout is organized, a joint position paper by the 10 ministers said.

It comes amid growing concern that spending by Italy, the euro zone's third-largest economy, could trigger another debt crisis. Italy's proposed budget includes greater borrowing and spending despite its public debt, which amounts to 133 percent of gross domestic product.

The paper was drafted for a meeting on Monday of all EU finance ministers except Britain's, which will be devoted to changes to the euro zone bailout fund. It was signed by the Czech Republic, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands, Sweden and Slovakia.

Although it did not sign, Germany, the euro zone's biggest economy, is of the same opinion and Austria is also sympathetic.

The 19 countries that share the euro have a bailout fund, the European Stability Mechanism (ESM), which is a lender of last

resort to governments that have lost market access.

Talks are under way among the 27 countries that will remain in the EU after Britain leaves next year to give the ESM more powers to monitor economies so it can provide a bailout at short notice when a crisis hits.

But the 10 ministers also called for the ESM's role in debt restructuring to be spelled out more clearly. The topic has been shunned by Italy in discussions at deputy minister level. "The current ESM treaty already recognizes the possibility of private sector involvement in exceptional circumstances and an amendment of the treaty should be used to reaffirm this principle," the paper of the ministers said.

The ESM should verify the repayment capacity of the country before lending and restructure the debt if needed, it said.

"In the unlikely situation where strict conditionality alone could not reasonably be expected to restore adequate repayment capacity, financial assistance would only be granted after measures to improve debt sustainability, taken in cooperation with existing creditors," it said.

The euro zone has so far helped organize only one debt restructuring, in Greece in 2012, to accompany a second bailout loan package for Athens.

But concern is growing over the planned debt increase in Italy, which already has 2.3 trillion-euro of public debt. Many euro zone officials say there is no political will to bail out such a huge economy should Rome lose market confidence.

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# Exxon Mobil third-quarter profits jump on higher oil prices



Exxon Mobil reported a big jump in third-quarter profits yesterday on higher oil prices and refining margins, and said the production ramp-up at key new US oilfields was on track. Net income surged 57.1% increase in profits to \$6.2bn. Revenues advanced 25.4% to \$76.6bn.

The results topped analyst expectations and follow a number of earnings disappointments in recent quarters, pushing the company's shares higher in pre-market trading. US oil prices were in the \$60 to \$70 a barrel range in the third quarter, well above the year-ago period, which was in the \$40 to \$50 range.

The US oil giant has struggled to maintain and grow production as old oil and natural gas projects suffer field decline and new investments take time to come online.

Oil and gas production was down 2.3% from the comparable quarter of the previous year, but rose 3.8% from the second quarter, which executives had described as a bottom due in



part to outages at key projects.

The company is bullish on new projects in the Permian Basin, a key US shale territory in Texas that helped the company notch higher output in its home market. "We're pleased with the increase in production from the second quarter of 2018 recognising it reflects contributions from just one of our key growth areas, the Permian," said chief executive Darren Woods. "We expect to continue to increase volumes over time as we ramp up activity in the Permian and new projects start up."

Shares rose 1.8% to \$82.15 in pre-market trading.

## Chevron

US oil and natural gas producer Chevron Corp said yesterday its quarterly profit doubled as record oil and gas production helped overcome a series of one-time items.

With the price of crude in the third quarter up 44% from the same period a year ago, major oil companies' earnings have returned to levels not seen in as much as four years. Chevron topped analysts' estimates with third-quarter net income of \$4.05bn, or \$2.11 a share, compared with \$1.95bn, or \$1.03 per share, in the same quarter a year earlier.

"Our strong financial results reflect higher production and crude oil prices coupled with a continued focus on efficiency and productivity," said chief executive Michael Wirth in a statement.

Analysts were looking for the company to report \$2.06 per share profit, according to I/B/E/S data on Refinitiv.

Shares rose 2% in pre-market trading to \$113.53.

The stock declined 9% in October and was off 11% year to date through Thursday's close.

Chevron's production rose to 2.96mn barrels of oil equivalent per day (boed) from 2.72mn boed a year ago.

Quarterly results included \$930mn in one-time expenses for an asset impairment, a write-off and contract settlement offset by a \$350mn gain from the sale of its South African refining and marketing operations, the company said.

Profit in the company's downstream business, which refines

crude oil into gasoline and other products, fell 24% reflecting lower margins and year-earlier gains on asset sales.

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## **French Plan to Store Wind, Solar Energy Stymied by EU Deadlock**



Energy storage on a commercial scale is the holy grail for supporters of renewables, including French President Emmanuel Macron.

Unfortunately for his government, a dispute with the European Union is blocking investment for facilities which could store enough wind or solar power for hundreds of thousands of homes.

At the heart of the deadlock is a series of hydroelectric dams operated by Electricite de France SA. The state-controlled utility's rights to run several facilities expired a few years ago and the EU wants to boost competition by giving other companies a chance to operate them. EDF says it would be unfair to exclude it from new tenders, and Macron's government is seeking a compromise.

As the spat enters its fourth year, more than 2 billion euros (\$2.3 billion) of potential investment in pumped-hydro projects remain frozen. As long as the fate of their expired concessions is unclear, EDF and Engie SA, France's dominant hydro producers, are reluctant to invest in new reservoirs and more powerful turbines. But the country will need additional storage capacity for its planned expansion in wind and solar power.

"Today, some investments on concessions are blocked because of our disagreement with the competition department" of the EU, Virginie Schwarz, director of energy at the French Environment Ministry, said at a conference this month. The government, which is about to present France's energy road map for the next decade, is assessing ways to fund regeneration of old dams and the development of small hydro projects, she said.

That would boost France's existing 25.5 gigawatts of hydropower capacity, which generates more than a 10th of the country's electricity. EDF, which operates more than 20 gigawatts of these dams, has the most to lose in future tenders. That's because it still operates most of the almost 3 gigawatts of concessions that have expired, and this number will climb to 5 gigawatts in the next few years.

French oil giant Total SA and Norwegian state utility Statkraft AS are among the companies that are prepared to bid for EDF's and Engie's hydro concessions when they come up for grabs. The issue has been a contentious one for the

government, which owns 84 percent of EDF, as it risks being left with smaller, unprofitable dams.

## **Window Extension**

Still, there may be a “political window” of opportunity for France to make a deal with the EU after European parliamentary elections in May next year, said Regis Collon, a spokesman for Statkraft France, which aims to operate at least 1 gigawatt of French hydro concessions by 2025.

The French government has asked the EU to extend EDF’s concession on the Truyere river in southern France. In exchange, the utility would build a pumped-hydro facility of about 1 gigawatt, according to Yves Giraud, EDF’s hydro chief, who says he hasn’t heard of any response from the EU.

France has identified as many as 2 gigawatts of storage for pumped hydro projects, where turbines pump water in uphill reservoirs when power demand troughs and generate electricity like any traditional dam when demand is most needed. They’re currently used to store energy during the night, but could also do so during the day if there’s an excess of solar or wind generation. France already has 4.2 gigawatts of such storage, which can provide power for much longer than batteries that typically discharge in a few hours.



An EDF pumped-hydro reservoir in Revin (Champagne Ardennes region).

Copyright: EDF/ Jean-Louis Burnod

“You can’t go through a windless week with a battery, while you actually can with some pumped hydro,” said EDF’s hydro chief.

The cost of building 1 gigawatt of pumped hydro is around 1 billion euros. However the next gigawatt would be more expensive because the best locations have been used already, according to Arnaud Renaud, head of consultant Artelys. Such costly investments may require some financial support mechanism because of fluctuating power costs, he said.

“Even if we’ll probably need them, it’s difficult to make such long-term investments with uncertain revenues,” Renaud said.

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# Chesapeake to buy oil producer WildHorse in \$4bn deal



Chesapeake Energy Corp is buying oil producer WildHorse Resource Development Corp in a nearly \$4bn deal, it said yesterday, as it looks to increase oil production capacity during a period of rising crude prices. The Oklahoma-based oil and natural gas producer said each WildHorse shareholder will get either 5.989 shares of Chesapeake common stock, or a combination of 5.336 shares of Chesapeake stock and \$3 in cash, for each share they hold. WildHorse's shares surged 13.5% to \$20.50 in premarket trading, while Chesapeake shares slumped 8% to \$3.42. The acquisition is expected to give Chesapeake about 420,000 high-margin net acres in the Eagle Ford shale and Austin Chalk formations in Southeast Texas, and help it save between \$200mn and \$280mn in annual costs. Chesapeake has been directing its capital toward oil production and shifting away from natural gas amid a rise in crude prices and a slump in natural gas prices. "We plan to focus the vast majority of our projected 2019 activity on our high-margin, higher-return oil opportunities in the PRB and Eagle Ford Shale, while decreasing capital and activity directed toward our natural gas portfolio," Chesapeake Chief Executive Officer Doug Lawler said in a statement. Chesapeake also reported third-quarter results yesterday, which showed a

net profit of \$60mn for the three months ended September 30, compared with a loss of \$41mn a year earlier. Excluding one-time items, the company earned 19 cents per share. Wall Street analysts on average had expected 15 cents, according to Refinitiv data. It was not immediately clear if the figures were comparable. Revenue jumped to \$2.42bn from \$1.94bn.