

# TurkStream Project



Turkey's president Recep Tayyip Erdogan (right) with Russia's president Vladimir Putin during a ceremony to celebrate the TurkStream gas pipeline in Istanbul on November 19.

TurkStream is part of the Kremlin's plans to bypass Ukraine, currently the main transit route for Russian gas to Europe, and strengthen its position in the European market.

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**Bulgaria prepares to transport Russian gas to central Europe**



Bulgaria will go ahead with plans to spend €1.4bn (\$1.59bn) to build a new gas link to Turkey to transport Russian gas from the Turk- Stream pipeline to Europe, by- passing Ukraine to the south. Bulgarian lawmakers gave the green light to the state gas com- pany Bulgartransgaz to launch tenders to build a new 484km gas link that will carry mainly Russian natural gas. TurkStream is part of the Kremlin's plans to bypass Ukraine, currently the main transit route for Russian gas to Europe, and strengthen its posi- tion in the European market. Its two lines will each have an annual capacity of 15.75bn cubic metres. Russian energy giant Gazprom has completed the fi rst line of pipeline to Turkey for local gas consumption. Gazprom said yesterday it was considering booking capacity, which would eff ectively ensure that the gas Russia plans to send to Europe through its Black Sea pipeline will pass through its land. The news comes at a time of increased tensions between Russia and Ukraine, and Sofi a is concerned that the confl ict may once again put the brakes on Russia's plans to ship gas through Bulgaria to Europe, by- passing Kiev. "What follows from now on is strict observation of European Union rules and procedures, so that we can eliminate all even- tual mistakes that in the past have led to the

cancellation of South Stream,” Energy Minister Temenuzhka Petkova said. Bulgaria is still smarting from the 2014 cancellation of Russia’s plan to bring gas to its shores with its South Stream pipeline. The project, which had promised the Balkan country on the European Union’s periphery money and clout, was dropped by Russia after it blamed opposition from Brussels. At present, Gazprom transports about 14bn of cubic metres (bcm) of gas a year to Turkey via Bulgaria through a contract that runs through 2030. Bulgaria is ready to give up on its take-or-pay option in the current contract, if it gets a new 20-year deal to transport Russian gas through the new pipeline and says its net profit for the period could be as much as €2.2bn. Brussels has been concerned that Bulgaria may opt to simply send Russian gas onto Europe to earn transit fees rather than allowing it to be traded at its planned Balkan Gas Hub, cementing its almost complete dependence on Gazprom. Some energy experts have also voiced concerns that Bulgaria is rushing too quickly with projects linked to Russian gas and dragging its feet with plans to develop gas links that would allow diversification. In a bid to ease such concerns, Sofia says the new pipeline will be built in line with EU energy rules. Bulgaria’s parliament voted that Bulgartransgaz should set up a gas trading bourse and take a 20% stake in a liquefied natural gas terminal off the coast in northern Greece.

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**Greece’s Eurobank plots revival in \$8bn bad-loan sale**



Greece's Eurobank Ergasias SA isn't waiting around for a state rescue, with a plan to sell about €7bn (\$8bn) of troubled loans and merge with a real estate fund. The shares soared, leading the country's banking index higher. As part of the plan, the bank will merge with real estate fund Grivalia Properties REIC to create a new business named Eurobank, the two companies said. It will then shift non-performing debt to a separate vehicle that will issue senior, mezzanine and junior notes that the bank will initially retain. Some of the lower level notes would then be sold off to investors. Eurobank is seeking its own solution to a mountain of bad debt while Greece races to find a nationwide approach to accelerating the sale of soured loans. The government and central bank are weighing solutions that include providing state guarantees and easing payments for borrowers with modest means. "The merger is equivalent to a stealth recap for Eurobank, not in cash but in real estate," Thanassis Drogossis, head of equities at Athens-based Pantelakis Securities wrote in a note to clients. The deal, if approved by regulators, will result in "faster balance sheet healing," he said. Under the plan, Eurobank will retain the most senior

portion of the securitised non-performing exposures, while the first losses will be borne by Eurobank shareholders who will be allocated junior notes. Between those will be a mezzanine tranche, some of which will go to Eurobank shareholders with some sold to investors. The deal will see Eurobank's non-performing exposures drop to about 15% of total loans by the end of 2019 from the current 39%, then into single digits by 2021, according to the statement. The deal will also strengthen the restructured lender's capital ratio. Eurobank jumped by as much as 25%, the biggest gain since February 2016. The shares later retreated and were up 7.7% as of 1:27pm. Grivalia gained as much as 15.2%, its largest increase since June 2012. The benchmark FTSE/Athex index climbed by 4%. The transaction values Grivalia shares at a 9% premium on their Friday close, the companies said. That sets the price of the acquisition at about €790mn. The deal reunites Eurobank with Grivalia, which was first listed in its real estate unit in 2006 under the name Eurobank Properties REIC. The name was changed to Grivalia in 2014 as Eurobank cut its stake under regulatory pressure. Eurobank's plan for bad loans is a positive step for Greek banking and it proves that there is a lot of resilience and value, Piraeus Bank chief executive officer Christos Megalou said in a Bloomberg TV interview. Fairfax Financial Holdings Ltd, which currently holds an 18% stake in Eurobank and a 51% stake in Grivalia, will become the largest shareholder in the new lender with 33%, according to the statement.

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**ECB singles out Italy as**

# risks to financial stability increase



Bloomberg/Frankfurt

The European Central Bank singled out Italy as an example of how quickly investors lose confidence in a government if they're confronted with policy uncertainty, as it said the risks to financial stability in the bloc have become "more challenging."

In its twice-yearly Financial Stability Review, the ECB said concerns relating to debt-sustainability and liquidity at investment funds have both risen since the previous report. Two other key risks – disorderly adjustments in financial markets, and the ability of banks to provide credit – were largely unchanged.

"Despite limited spillovers so far, the stress in Italian sovereign debt markets illustrates how quickly policy uncertainties and the ensuing sudden shift in market sentiment can unearth risks to financial stability via higher risk premia and rising public debt sustainability concerns."

Still, the ECB noted that contagion from Italy's surging bond

yields to other euro-area countries – unlike at the height of the financial crisis in 2012 – was limited.

ECB Vice President Luis de Guindos said in a press conference that the country's bond spreads have fallen in response to signals recently that populists in Rome are ready to find a compromise with the European Commission. "I expect that at the end of the day the Italian government will reach an agreement."

The ECB also said stress in emerging markets and trade tensions have added to downside risks to global growth, with the possibility of a cliff-edge Brexit posing an additional threat. At the same time, bank resilience has improved despite profitability remaining restrained. Momentum is building in real estate markets across the euro area, according to the ECB. "We start to see there's some mild overvaluation," Guindos said, after President Draghi last month labeled valuations in the prime commercial property market "stretched."

In its report, the ECB said vulnerabilities are building in financial markets amid high valuations relative to risk. With a maturing global business cycle, a number of indicators appear to signal downside risks to asset prices, according to the report.

Emerging markets are particularly vulnerable. Higher interest rates in the US and rising trade tensions could spark more stress, after Argentina and Turkey saw bonds, stocks and currencies plunge over the summer months.

The FSR also highlighted risks outside the banking sector. After assets held by euro-area investment funds more than doubled in the past ten years, growing exposures to illiquid and risky securities make them vulnerable to potential shocks in global financial markets.

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# Deutsche Bank raided in money-laundering probe



Bloomberg/Berlin

German authorities descended on Deutsche Bank AG, including its downtown Frankfurt headquarters, in a co-ordinated raid related to a money-laundering investigation.

More than six police vehicles, their blue lights flashing, pulled up to Deutsche Bank's main offices shortly before 9am, in an operation involving about 170 officers. The main suspects in the probe stemming from 2016 disclosures known as the Panama Papers were two bank employees who were not identified beyond their ages – 50 and 46. Authorities seized documents and electronic files and said they were also looking at whether others might have been involved.

“As far as we are concerned, we have already provided the authorities with all the relevant information regarding the Panama Papers,” Deutsche Bank spokesman Joerg Eigendorf told reporters in Frankfurt.

For the beleaguered German lender, the raid adds to a panoply of headaches – commercial, regulatory and legal – facing chief



executive officer Christian Sewing and chairman Paul Achleitner. The stock has lost almost half its value this year, after sliding about 3% yesterday. The cost of insuring its junior debt against losses jumped 11 basis points to 383 basis points, the highest in two years, according to data compiled by CMA.

“This must be associated with criminal behaviour and not just a trivial offence,” said Stefan Mueller chief executive officer of DGWA, an investment advisory boutique based in Frankfurt. He believes the bank will now be paralysed for months until it becomes clear how it will be affected by new potential fines.

“Maybe this time, Achleitner will fall. The bank needs fresh blood to make a radical cut at its management.”

Police vehicles were present outside Deutsche Bank HQ in Frankfurt amidst raids by prosecutors over money laundering probe.

The Panama Papers refer to a collection of documents leaked in 2016 from Mossack Fonseca, a Panama-based law firm that created shell companies to facilitate tax avoidance. At the time, Deutsche Bank severed ties with a Cypriot lender partly owned by VTB Group that was identified in the reporting.

The subsequent investigations exposed evidence Deutsche Bank helped clients set up off-shore accounts, prosecutors said. The officials said the Thursday raid wasn't related to its role as a correspondent bank for money laundering at Denmark's Danske Bank.

The German lender may have helped clients in setting up offshore companies in tax havens. Money obtained illegally may have been transferred to accounts at Deutsche Bank, which failed to report the suspicions that the accounts may have been used to launder money, Frankfurt prosecutors said. The investigation is focused on a Deutsche Bank unit based on the British Virgin Islands, which dealt with more than 900 clients and processed €311mn (\$354mn) in 2016 alone, according to the prosecutors.

The timing of the raid inflicts more pain on Deutsche Bank

after a series of setbacks and repeated failures in keeping misconduct in check have pushed the shares to all-time lows. Investor worries have mounted over its role as a correspondent bank in the multi-billion-dollar money-laundering scandal at Danske, and Germany's markets regulator has taken the unprecedented step of appointing a monitor to oversee the firm's efforts to improve money-laundering and terrorism-financing controls.

Deutsche Bank has spent more than \$18bn paying fines and settling legal disputes since the start of 2008, according to company disclosures compiled by Bloomberg News. In Europe, Royal Bank of Scotland Group Plc is the only lender to have faced a bigger tab, at \$18.1bn, the Bloomberg calculations show.

"Just when you thought Deutsche Bank had left its legal troubles behind it, there's more," said Markus Riesselmann, an analyst at Independent Research who recommends investors sell Deutsche Bank shares.

"Investors really want to be able to focus on the bank's operating business, so this noise around them is quite unhelpful for the mood."

Sewing, who took the top job in April, is replacing key executives as part of a management shakeup as he struggles to get Germany's biggest lender back on track.

Sylvie Matherat, a management board member who serves as the bank's chief regulatory officer, and Tom Patrick, who runs operations in the Americas, are among executives who might ultimately leave, people familiar with the matter said this week.

In a June 2017 interview, Matherat described the monumental task of modernizing the company's compliance methods. After years of acquisitions and overseas expansion, the lender was left with a patchwork of computer programs to monitor transactions. The bank didn't have a complete picture of the compliance controls in the organisation's businesses and regions, she said.

"I hate surprises, but you don't know what you don't know,"

said Matherat, a lawyer and former deputy director general at the French central bank.

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# Booming LNG industry weighs up headwinds from oil to renewables



Bloomberg/London

Liquefied natural gas may be one of the fastest-growing fossil fuels but that didn't stop market participants spotting clouds on the horizon when they met on the first day of the CWC World LNG Summit in Lisbon.

Below are some of the most pressing issues discussed at the biggest annual event for the industry in Europe.

Oil and economy

Brent crude is trading below \$60 a barrel, having lost almost

11% this year. A perceived economic slowdown, which is affecting oil, is a challenge for the gas and LNG industry, said Eric Bensaude, managing director at Cheniere Marketing. The booming US projects tend to offer contracts linked to the US Henry Hub natural gas benchmark, which has gained 50% this year, making competition difficult with the oil-linked contracts that dominate in long-term LNG supply deals.

“We have to remain competitive,” Bensaude said. “You don’t want oil to be too high because otherwise the LNG industry gets carried away, you don’t want it to be low because otherwise Henry Hub becomes unaffordable and it switches to oil again.”

### Renewables

As the costs of renewable energy fall and battery technology is developed to store it, the natural gas industry sees a role for itself in the future energy mix. “We should embrace the growth of renewables, we have no alternative, it makes no sense to confront that, that has to be part of our global landscape,” said Galp chief executive officer Carlos Gomes da Silva said. “I am seeing natural gas and LNG in particular as not a transitional energy but as destination energy.”

### Investment shortfall

A lack of final investment decisions in the past years is expected to weigh on supply by the middle of the next decade, when it is seen falling short of demand. This year, Cheniere’s Corpus Christi Train 3 and Royal Dutch Shell Plc’s LNG Canada got the green light, but more multibillion-dollar projects are needed and expected next year to secure the second wave of supply. The lack of FIDs could generate a jump in prices in the early 2020s and potentially make LNG unaffordable, risking a shift back to cheaper and dirtier coal, Bensaude said.

### Spike in US gas?

The rally in US benchmark Henry Hub futures earlier this month was seasonal and related to a cold snap and is unlikely to be sustained, according to panellists at the conference.

Cheniere's Bensaude sees a long-term range of \$3 to \$4 per million British thermal units. Michael Sabel, co-CEO of Global Venture LNG, another US export project developer, sees the range at \$2.25 to \$3.25 on average.

## China

China has led LNG demand growth but those increases are becoming less certain. China imposed a 10% tariff on US LNG, and sellers are re-organizing flows to bring alternative sources of supply.

What's more, from October industrial demand started to decline to avoid the higher costs observed at the same time last winter, said Yanyan Zhu, general manager of the trading department at CNOOC Gas & Power. Longer term, China's LNG imports face increasing pressure from cheaper pipeline gas, including from Russia, and by government support for domestic gas production. "In the future when the government is encouraging domestic production, pipeline gas is coming, I think the role of LNG will be reduced to some extent," Zhu said.

## Impact of US LNG expansion on other exporters

US LNG production has been rising since Cheniere started its Sabine Pass project in Louisiana in 2016. That is becoming a concern to other exporters, who are rushing to get their projects finished.

Tavares Martinho, vice president for exploration and production at Mozambique's national oil company, Empresa Nacional de Hidrocarbonetos EP, compared competing with US LNG to "a monkey with a stick trying to hit a lion." Mozambique is among the most promising future LNG exporters in Africa. "Competing with the US is very difficult," he said.

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# Qatar takes part in GCC transport ministers' meeting



Qatar took part in the 21st meeting of the Ministers of Transport in the Gulf Co-operation Council (GCC), held on Thursday in Kuwait.

HE the Minister of Transport and Communications Jassim bin Seif al-Sulaiti headed the Qatari delegation to the meeting.

During the meeting, the ministers discussed a number of key topics including the GCC railway project, the memorandum of understanding on the Joint Data Centre for the Remote Ship Tracking System and the latest updates regarding the Manual on Uniform Traffic Control Devices.

The meeting raised the recommendations necessary for the implementation of the decisions of the Supreme Council on the mechanism of work for the completion of studies and strategic projects for the transport and communications sector, which will deepen the economic integration between the GCC States.

A preparatory meeting was held for Undersecretaries of



transport and communications in the GCC countries on Wednesday.

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## New lanes to open on Rayyan Road



The Public Works Authority (Ashghal) has announced that it will open eastbound lanes along 2km of the main carriageway on Al Rayyan Road, including an underpass at Bin Zaben Interchange (Al Mukafaha I/C), today.

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# Saudi Contractor Defaults on \$2 Billion of Debt



One of Saudi Arabia's major contractors defaulted on almost \$2 billion after a falling out among its owners and delays in payments from the government, according to people with knowledge of the matter.

The Saudi unit of Cyprus-based Joannou & Paraskevaides Group defaulted on about 7 billion riyals (\$1.9 billion) in bank loans about two months ago, said the people, asking not to be identified as the information is private. The defaults are largely the result of problems getting paid by the Ministry of Interior, the people said.

Lenders, which include Arab National Bank, Alawal Bank, Banque Saudi Fransi, Emirates NBD PJSC, Saudi British Bank and Samba Financial Group, don't expect to recover much of the money, the people said.

Faced with a budget deficit that ballooned to \$100 billion in

2015, Saudi Arabia suddenly halted payments to government contractors. The move wreaked havoc among local construction firms as many projects stopped, leaving them unable to pay employees. Saudi Oger Ltd., once one of country's top contractors, collapsed as a result.

J&P's Saudi unit has been struggling since then and has also been impacted by a dispute between the parent company's shareholders, which distracted management attention from the issues in the kingdom, the people said. As a result of that dispute, the parent company is being liquidated by Alvarez & Marsal in Cyprus. That liquidation does not directly impact the Saudi unit's operations, the people said.

The Finance Ministry says it honors payments that fulfill all of the government's requirements. A committee to deal with contractor payments has been set up and most disputes have been resolved, Finance Minister Mohammed Al-Jadaan, said last month. In May, many companies were said to have complained about delays.

Alvarez & Marsal didn't respond to requests to comment on behalf of J&P. Calls and emails to J&P's Saudi office weren't answered. The Saudi government's Center for International Communication didn't immediately respond to a request for comment.

Spokesmen for the lenders either declined to comment, didn't respond, or couldn't immediately be reached.

J&P's projects in the kingdom include large housing developments for the Ministry of Interior and building parts of the King Abdullah Financial District in Riyadh.

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# Qatar to leave OPEC and focus on gas as it takes swipe at Riyadh



DOHA (Reuters) – Qatar said on Monday it was quitting OPEC from January to focus on its gas ambitions, taking a swipe at the group’s de facto leader Saudi Arabia and marring efforts to show unity before this week’s meeting of exporters to tackle an oil price slide.

Doha, one of OPEC’s smallest oil producers but the world’s biggest liquefied natural gas (LNG) exporter, is embroiled in a protracted diplomatic row with Saudi Arabia and some other Arab states.

Qatar said its surprise decision was not driven by politics but in an apparent swipe at Riyadh, Minister of State for Energy Affairs Saad al-Kaabi said: “We are not saying we are going to get out of the oil business but it is controlled by an organisation managed by a country.” He did not name the nation.

Al-Kaabi told a news conference that Doha's decision "was communicated to OPEC" but said Qatar would attend the group's meeting on Thursday and Friday in Vienna, and would abide by its commitments.

He said Doha would focus on its gas potential because it was not practical "to put efforts and resources and time in an organisation that we are a very small player in and I don't have a say in what happens."

Delegates at OPEC, which has 15 members including Qatar, sought to play down the impact. But losing a long-standing member undermines a bid to show a united front before a meeting that is expected to back a supply cut to shore up crude prices that have lost almost 30 percent since an October peak.

"They are not a big producer, but have played a big part in (OPEC's) history," one OPEC source said.

It highlights the growing dominance over policy making in the oil market of Saudi Arabia, Russia and the United States, the world's top three oil producers which together account for more than a third of global output.

Riyadh and Moscow have been increasingly deciding output policies together, under pressure from U.S. President Donald Trump on OPEC to bring down prices. Benchmark Brent is trading at around \$62 a barrel, down from more than \$86 in October.

"It could signal a historic turning point of the organisation towards Russia, Saudi Arabia and the United States," said Algeria's former energy minister and OPEC chairman, Chakib Khelil, commenting on Qatar's move.

For a graphic on Who produces what within OPEC?, see  
– [tmsnrt.rs/2RxkhwC](https://tmsnrt.rs/2RxkhwC)

## “UNILATERAL DECISIONS”

He said Doha's exit would have a “psychological impact” because of the row with Riyadh and could prove “an example to be followed by other members in the wake of unilateral decisions of Saudi Arabia in the recent past.”

Qatar, which Al-Kaabi said had been a member of OPEC for 57 years, has oil output of just 600,000 barrels per day (bpd), compared with Saudi Arabia's 11 million bpd.

FILE PHOTO: Saad al-Kaabi, chief executive of Qatar Petroleum, gestures as he speaks to reporters in Doha, Qatar, July 4, 2017. REUTERS/Naseem Zeitoun/File Photo

But Doha is an influential player in the global LNG market with annual production of 77 million tonnes per year, based on its huge reserves of the fuel in the Gulf.

OPEC members Saudi Arabia and the United Arab Emirates, and fellow Arab states Bahrain and Egypt, have imposed a political and economic boycott on Qatar since June 2017, accusing it of supporting terrorism. Doha denies the charges and says the boycott aims to impinge on its sovereignty.

Al-Kaabi, who is heading Qatar's OPEC delegation, said the decision was related to the country's long-term strategy and plans to develop its gas industry and increase LNG output to 110 million tonnes by 2024.

“A lot of people will politicise it,” Al-Kaabi said. “I assure you this purely was a decision on what's right for Qatar long term. It's a strategy decision.”

The exit is the latest example of Qatar charting a course away from its Gulf neighbours since the rift began last year. It comes before an annual summit of Gulf Arab states expected to grapple with the roughly 18-month standoff.

Once close partners with Saudi Arabia and the UAE on trade and security, Qatar has since struck scores of new trade deals



with countries further afield while investing heavily to scale up local food production and ramp up military power.

“There is a sentiment in Qatar that Saudi Arabia’s dominance in the region and the region’s many institutions has been counterproductive to Qatar achieving its development goals,” said Andreas Krieg, a political risk analyst at King’s College London. “It is about Qatar breaking free as an independent market and state from external interference.”

Oil surged about 5 percent on Monday after the United States and China agreed to a 90-day truce in their trade war, but prices remain well off October’s peak.

Asked if Qatar’s withdrawal would complicate OPEC’s decision this week, a non-Gulf OPEC source said: “Not really, even if it’s a regrettable and sad decision from one of our member countries.”

Amrita Sen, chief oil analyst at consultancy Energy Aspects, said the move “doesn’t affect OPEC’s ability to influence as Qatar was a very small player.”

Al-Kaabi said state oil company Qatar Petroleum planned to raise its production capability from 4.8 million barrels oil equivalent per day to 6.5 million barrels in the next decade.

Doha also plans to build the largest ethane cracker in the Middle East.

Qatar would still look to expand its oil investments abroad and would “make a big splash in the oil and gas business”, he Al-Kaabi added.