Oil and Gas News Briefs
Compiled by Larry Persily
August 29, 2024

Morgan Stanley, Goldman Sachs see oil in the high $70s next year

(Bloomberg; Aug 27) - Wall Street is beginning to sour on the outlook for oil next year, with Goldman Sachs and Morgan Stanley lowering price forecasts as global supplies rise, including potentially from OPEC+. The two banks now foresee global benchmark Brent averaging less than $80 a barrel in 2025, with Goldman's revised forecast cut to $77, while Morgan Stanley sees futures ranging from $75 to $78. Both expect that the crude market will be in surplus, with prices trending lower over the 12 months.

A decision by OPEC+ to reverse supply cuts may mean that the cartel is aiming at "strategically disciplining non-OPEC supply," Goldman analysts including Daan Struyven said in a note, while warning that crude prices could undershoot its revised forecasts in a number of scenarios. Oil has fallen in recent months — temporarily losing all year-to-date gains — as investors fretted about slowing demand growth in China, rising supplies from outside OPEC+, as well as OPEC+ plans to relax its output curbs.

While the cartel has been willing to sacrifice market by withholding barrels to support prices, the tentative plan to restore output may alter that stance. "Crude oil markets remain in deficit but are likely as tight as they will be for some time," Morgan Stanley analysts including Martijn Rats and Charlotte Firkins said in a report. Among Goldman's scenarios, it said Brent could fall to $60 if Chinese oil demand were to stay flat; $63 if the U.S. imposed an across-the-board tariff of 10% on imported goods; and $61 if OPEC fully reversed its 2.2 million barrels a day of extra cuts through September 2025.

New Mexico counties the hottest play in the Permian

(Bloomberg; Aug. 26) - About 100 miles east of UFO-capital Roswell, a dusty corner of New Mexico with more cattle than people is quietly buttressing the U.S.'s world oil dominance. After pumping less crude in the years leading up to the pandemic than top counties in Texas, New Mexico's Lea County has been rapidly gaining ground. Output has expanded faster than in any other U.S. county, last year becoming the first to ever produce more than 1 million barrels per day, according to energy research firm Enverus.

Neighboring Eddy County will hit the million-barrel-a-day milestone by September next year, predicts energy analytics firm Novi Labs. In fact, data show the two New Mexico counties accounted for 17% of all onshore oil output in the contiguous U.S. last year, and before the next decade they're expected to pump more oil than the next five biggest counties combined.

Straddling Texas and New Mexico, the oil-rich Permian was generally seen as the best tool to help offset the dominance of OPEC and its allies. Originally, much of the fracking activity was centered around the Midland side of the basin, where an experienced workforce plus Texas' light regulatory touch attracted wildcatters and Big Oil alike. Texas ranch owners in general offered more sprawling leases than in New Mexico, where tracts are often smaller and sometimes controlled by the state or federal government.

Texas was originally better on geology, too. Oil in the Delaware, a sub-basin of the Permian that pushes into New Mexico, is trapped in more difficult-to-reach formations than in Texas. New Mexico's stricter drilling and environmental rules didn't make drilling as easy. That preference has since shifted. Although Texas is still flush with oil, it's being churned out at a slower pace as the basin ages. In New Mexico, there's still plenty of untapped acreage, with only about one-third of the Delaware Basin already drilled.

Exxon looking to sell conventional oil assets in Permian Basin

(Bloomberg; Aug. 27) – ExxonMobil is looking to sell a package of conventional oil assets in the Permian Basin as the company focuses on growing shale production after buying Pioneer Natural Resources earlier this year. The package includes older wells in the Permian's Central Basin that produce small but stable amounts of oil, according to people familiar with the matter who declined to be named because sale negotiations are private. It could fetch about $1 billion but is highly dependent on oil prices, they said.

Exxon is "exploring market interest for select conventional assets in West Texas and Southeast New Mexico," the company said in a statement responding to questions from Bloomberg News. "This decision is consistent with our strategy to continually evaluate our portfolio." Operations will continue "as normal throughout the marketing process," Exxon said. The oil giant's global production is expected to reach 4.3 million barrels a day this year, the highest in more than a decade, after completing the $60 billion purchase of Pioneer in May.

Exxon forecasts global oil demand in 2050 similar to today

(Reuters; Aug. 26) - Exxon Mobil said Aug. 26 that it expects global demand for crude to stay above 100 million barrels per day through 2050, similar to today's levels, a forecast 25% higher than top rival BP. The stronger demand projected by the largest U.S. oil company in its latest global oil outlook underpins Exxon's production growth plans, the most ambitious among Western oil majors. It did not have a 2050 demand figure in its previous outlook released in 2023.

BP projects oil consumption will peak in 2025 and decline to 75 million barrels per day in 2050. Exxon also painted a more somber view on global carbon emissions reductions than BP. Advancements in technology will allow for emissions reductions after 2029, compared to the middle of this decade according to BP. Exxon plans to pump 4.3 million barrels of oil and gas per day this year, 30% more than U.S. top rival Chevron's current output. BP is cutting production to about 2 million barrels per day by 2030.

"Oil and gas demand have a very, very long runway and will continue to grow over the next few years," Exxon Economics, Energy and Strategic Planning Director Chris Birdsall told Reuters. Exxon estimates electric vehicles will not significantly alter long-term global oil demand, as the world's population is expected to increase from 8 billion today to nearly 10 billion in 2050, adding to demand for energy.

China’s oil imports decline; Sinopec cites lower output at its refineries

(S&P Global; Aug. 26) - China's state-owned Sinopec aims to lower its crude throughput by 1.6% in the second half of 2024 to 5.03 million barrels per day from the first half, according to the company's interim report released on Aug. 25, suggesting the country's crude imports may be capped for the remainder of the year. Sinopec is the top refiner in the world in terms of its processing capacity of 5.78 million barrels per day. The company relied on imports for about 86% of the feedstocks for its operations, according to the company report and data from the National Bureau of Statistics.

China's overall imports fell 2.9% year on year to 11.1 million barrels per day in the first half of 2024, data from the General Administration of Customs showed. As the world's second-biggest oil consumer, the country's peak demand season for refined products usually occurs in September-October, with the maintenance season in March-June

Sinopec said in the report that domestic consumption of refined oil products fell 0.5% year-on-year in the first six months, and it cut utilization or shut those selected petrochemical production units with negative margins. Its domestic refined product sales volume also reflected slow consumption, which fell 4.7% year-on-year in the first half of the year. Sinopec owned the widest retail sales network with 30,959 stations nationwide as of June 30, accounting for nearly one-third of China's service stations.

China’s top oil producer may rekindle its appetite for global deals

(Reuters; Aug. 27) - CNPC, Asia's top oil producer, is reviewing its global strategy as it looks to revive dealmaking, eyeing gas liquefaction and deep-sea drilling as well as building on its record of producing more from aging wells, the head of its research arm said. China National Petroleum Corp. and its listed arm PetroChina face stagnant oil output at home and a scarcity of new projects globally to boost reserves even as slowing economic growth and surging electric vehicle use erode domestic demand, although mounting geopolitical barriers limit its room to maneuver.

CNPC may rekindle investing in large oil and gas assets as an operator, as it did two decades ago with its $4 billion purchase of Canada's PetroKazakhstan and its takeover of Devon Energy's operations in Indonesia, said Lu Ruquan, director of CNPC's Economics and Technology Research Institute (ETRI). The shift in strategy for Asia's biggest oil producer would be a return to the more acquisitive 1990s and 2000s when it moved into Sudan and Chad and carried out the Kazakh and Indonesian deals.

Lu likened the company's three decades of overseas investment to "a vessel sailing to midstream," as he described the need for CNPC to embark on more global acquisitions. "One needs to paddle harder, or else it will retreat backward," said Lu, the former head of strategy and development at the group's acquisition arm CNPC International before moving to ETRI, offering a rare glimpse into the strategic thinking of one of China's most powerful state enterprises. CNPC has the firepower to make an impact on the oil and gas deals landscape, with PetroChina holding $37.5 billion in cash equivalents in 2023.

Russia likely to set record for oil transits via Arctic this summer

(gCaptain; Aug. 27) - Crude oil shipments via the Arctic look set to reach a new highpoint in the coming weeks. The largest oil tanker to venture onto Russia’s Northern Sea Route, the Prisma, at 164,565 deadweight tons, began its icy transit over the weekend, headed to Tianjin in China. The Suezmax-size vessel can carry about one million barrels of oil, the same volume as the tanker Sounion, which was exploded by Yemeni Houthi militants in the Red Sea on Aug. 23.

Prisma surpasses all previous oil tankers on the Arctic route in size. Russia began deliveries via the Arctic shortcut in 2022. The tanker departed from the Baltic port of Ust-Luga on Aug. 10 — likely loaded with Urals crude — and is set to complete the voyage to the Far East in around 35 days, compared to 45 days for the Suez Canal and 55 days via the southern tip of Africa. The Arctic offers an attractive shortcut to Asia as the majority of vessels continue to detour around Africa due to Houthi activity.

A smaller Aframax tanker, Viktor Bakaev, completed an Arctic routing from the Baltics to Dongying, China, on Aug. 23 after a 33-day trip. In total at least seven vessels carrying some 650,000 tons of crude (more than 4.5 million barrels) have completed the northern route this summer. Prisma will likely be followed by up to a dozen more tankers this summer. During the summer of 2023 Russia dispatched 13 vessels across the Arctic, carrying nearly 1.5 million tons of crude to China (10 million barrels). Ice has retreated sufficiently to allow low ice-class or even conventional tankers to make the transit.

[Equinor says its investments in U.K. oil could depend on tax changes]

(Reuters; Aug. 28) - Norway's Equinor may reconsider investing in oil and gas in Britain if the Labor party-led government changes the industry's tax regime, a top company executive told Reuters. Equinor's head of international operations said it may not be as attractive to invest in the British oil and gas sector if taxation of oil companies changes, as is expected. "We need to look at our appetite to invest further in the U.K. based on the fiscal regime. ... It could be that the economics are really, really hard impacted," Philippe Francois Mathieu said in an interview on the sidelines of an energy conference.

"And in that case, we need to look into what we want to do further with the Rosebank project," he added, referring to the huge oil field off the Shetland Islands which it is developing with Ithaca Energy. The companies have decided to invest $3.8 billion in the first phase of the project — the largest oil project offshore Britain in recent years — with an eye on a second phase, with more investments after that. “We need to understand … the fiscal regime by the new Labor government," he said.

Labor, which won elections in July, said in its election manifesto it would halt new oil and gas exploration licenses and hike by 3 percentage points a windfall tax first imposed on oil companies in 2022, after energy prices spiked following Russia's invasion of Ukraine. The current 35% windfall tax, which will run until 2029, brings the total tax burden on producers to 75%, among the highest in the world.

[Owner wants to restart nuclear plant on shore of Lake Michigan]

(Wall Street Journal; Aug. 27) - When Michigan mothballed the Palisades nuclear power plant in 2022, the facility looked like a perfect relic of nuclear power’s 1970s heyday. Walls were painted salmon pink and pale green. Control panels had analog dials, manual switches and hundreds of lights that flash green or red to indicate on or off. Just two years later, the 53-year-old plant’s new owners are implementing a historic decision to give it another go. The federal government and the state of Michigan are spending nearly $2 billion to restart the reactor on the shores of Lake Michigan.

If it reopens, Palisades will become the first decommissioned nuclear plant anywhere to be put back to work. Driving the rethink: soaring demand for electricity from AI server farms, and billions on offer in state and federal loans and tax subsidies for nuclear energy in infrastructure and green power investment programs. Data centers alone are projected to account for 8% of U.S. electricity demand by 2030, up from around 3% in 2022, according to an April report by Goldman Sachs.

For years, it’s been cheaper to generate electricity with natural gas, and big sections of the public have been uncomfortable with nuclear power after devastating accidents at Three Mile Island in Pennsylvania, Chernobyl in Ukraine and Fukushima in Japan. That feeling has shifted, with a revived understanding of nuclear energy as green power that could add to renewable energy sources such as wind, solar and hydropower. Nuclear-produced electricity is also seen as more consistent than wind or solar. Utilities have asked regulators to extend the licenses of 14 aging reactors in the past year.

Natural gas prices in Southern California fall below U.S. benchmark

(S&P Global; Aug. 28) - Natural gas cash prices in Southern California have been below the U.S. Henry Hub benchmark for much of August, and the forwards market is pricing in a rare basis discount continuing through October amid strong storage inventories and gas production in the western U.S. The SoCal Gas city-gate cash price has been below Henry Hub throughout Aug. 10-28, averaging a 28 cents per million Btu discount in this period, Platts data showed. The region usually commands premium pricing.

Earlier in the summer, it went on an extended stretch below Henry Hub, with the basis discount averaging 64 cents in May and 70 cents in July. Throughout 2024 the basis discount has averaged 24 cents. This is unusual for what is a typically premium pricing point. The region had an average premium of more than $4 to Henry Hub in 2023 and roughly averaged a $3 premium in 2021 and 2022.

High inventories have been weighing on prices in California this summer, particularly due to additional storage capacity at Aliso Canyon. On Aug. 28, total storage on the SoCalGas system was over 107 billion cubic feet, its highest since 2015, Commodity Insights data showed Aug. 28. And while the U.S. has seen some production cuts this summer, these have chiefly come from producers in Appalachia and the Haynesville Shale, while production has held up in further west in the Permian and the Rockies.

Permian adds gas processing capacity to handle growing output

(S&P Global; Aug. 26) - Midstream operators continue to rapidly build out natural gas processing capacity in the Permian Basin in anticipation of strong production growth. Brazos Midstream announced on Aug. 15 the Sundance 1 processing facility in Martin County, at 200 million cubic feet per day of gas, its first in the Midland Basin, is mechanically complete and would start operations in October. At the same time, it announced it had begun construction on Sundance II, a plant with an expected start by the end of 2025 at 300 million cubic feet per day capacity.

While the Permian has struggled with pipeline capacity this summer, regularly sending natural gas cash prices below zero, a tight processing market is "the larger issue at hand that is limiting the upstream customers' development," Brazos CEO Brad Iles said. "Everything is operating on a razor's edge," he added. "Any kind of interruption from electricity or the heat of the summer that doesn't allow compressors to run quite as efficient ... any small impact to the operations cause a pretty dramatic domino effect."

"There are certain areas in the Midland Basin that are busting at the seams because there is more production in that area than there actually is processing," Iles said. "So you have shut-ins, you have flaring." Brazos is far from the only operator building out processing capacity. Targa Resources is building almost 1.4 billion cubic feet per day of gas processing capacity in the Permian. Another is Enterprise Products Partners, which has placed two new plants into service this year and plans to expand capacity by a further 900 million cubic feet per day across three plants by the end of 2026.

Australia LNG plant will take production unit offline due to lack of gas

(Upstream; Aug. 27) - Woodside Energy is preparing to take offline one of the five production trains at its 16.9-million-tonnes-per-year North West Shelf liquefied natural gas project in Australia. "As the NWS celebrates 40 years of operations, the project is entering a period of production decline. The Karratha gas plant currently has processing ullage (unused capacity) due to natural field decline and the current level of third-party gas processing demand," the company said.

"To manage both operating costs and emissions, NWS is preparing to take one LNG train offline between late 2024 and mid-2025," Woodside said on Aug. 27 as it reported its first-half 2024 results and operations update. The NWS project comprises three offshore platforms and the onshore gas plant, which includes five liquefaction trains and two gas processing trains to serve the domestic market.

Woodside's 33% share of NWS production in the first half of the year was down 14% year-on-year due to planned offshore maintenance and natural field decline. The NWS operator said it continues to look for opportunities to harness value from its late-life assets. Earlier this year, the NWS partners took the final investment decision on the Lambert West gas project, which will support ongoing production from NWS. Meanwhile, discussions continue between the NWS participants and other resource owners for the processing of third-party gas to utilize the ullage at KGP.

LNG carrier transfers Russian cargo to non-sanctioned ship

(Bloomberg; Aug. 25) - A sanctioned liquefied natural gas tanker appears to be transferring its Russian cargo to another ship in the Mediterranean, a sign of the lengths to which Moscow is going to circumvent U.S. actions. The Pioneer, sanctioned by the U.S. on Apil 23, is currently anchored next to another vessel about 19 miles northeast of Egypt's Port Said, according to satellite images. That's an indication that it's executing a so-called open water ship-to-ship transfer, which is rare for LNG. The recipient vessel is the New Energy, which isn't subject to restrictions, according to TankerTrackers.com.

The Pioneer’s cargo is the first to load from Arctic LNG 2, Russia’s newest gas export plant, which was sanctioned by the U.S. last year. In response to the U.S. actions, Moscow is developing a shadow fleet of LNG tankers in a similar way it did for transporting crude oil and products. The U.S. upped the ante last week by imposing restrictions on seven LNG carriers linked to Russia, including the Pioneer and Ocean Speedstar Solutions, the India-based manager of the ship.

New Energy has been managed by Plio Energy Cargo Shipping since June, according to Equasis, a global shipping database, and was previously suspected to be part of the shadow fleet due to its opaque ownership. The India-based Plio Energy was incorporated on June 20, according to India’s Ministry of Corporate Affairs. Once the transfer is finished, New Energy may head through the Suez Canal to Asia, where there could be willing buyers of the Russian gas.

U.S. imposes more sanctions on companies supporting Russian LNG

(Reuters; Aug. 26) - The U.S. imposed sanctions on over 400 entities and individuals for supporting Russia's war effort in Ukraine, the State Department said on Aug. 23, including companies supporting the development of Russia's Arctic LNG 2 project and its shipment of liquefied natural gas, as well as other future energy projects. The Arctic LNG 2 project, led by Russia's Novatek, is subject to Western sanctions over Russia's war on Ukraine. The project had been due to become Russia's largest LNG plant with eventual output of 19.8 million tonnes per year from three trains.

The latest sanctions include LNG shipping companies from India and the United Arab Emirates. Novatek may be forced to scale back the project following the sanctions, but a tanker under U.S. sanctions that picked up a cargo from Arctic LNG 2 has been found to be carrying out a ship-to-ship transfer, suggesting Moscow is managing to continue some exports from the project. The U.S. State Department said the Pioneer and Asya Energy vessels had entered Russian waters in late July and had shut off and manipulated their automatic identification system to broadcast false locations.

Kuwait signs 15-year deal to buy more LNG from Qatar

(Bloomberg; Aug. 26) - Qatar signed a new 15-year deal with Kuwait to supply liquefied natural gas, its second supply contract that will help ease the strain on power plants that have already been forced to cut output this summer. Kuwait was forced to start power supply cuts in June in a rare occurrence for the Middle Eastern petrostate as brutal summer heat increased demand and gas supply wasn’t able to keep up.

Kuwait’s Ministry of Electricity, Water and Renewable Energy has warned controlled outages could be enforced in some areas throughout the hot months. Qatar, which is already Kuwait’s biggest LNG supplier with an existing contract running to 2035 for as much as 3 million tonnes per year, will start shipments from the new deal in January.

“The two contracts combined will eventually take the quantity of LNG we can import from Qatar to as much as 5 million (tonnes),” Kuwait Petroleum Corp.’s Managing Director for International Marketing Sheikh Khaled Al-Malik Al-Sabah said after the deal was signed on Aug. 26. The latest deal will add to Qatar’s agreements with companies including TotalEnergies, Shell, China Petroleum & Chemical Corp. and Taiwan’s CPC Corp. as it further expands its massive LNG production capacity.

Opponents blockade access road to B.C. gas line construction

(Kelowna Capital News, British Columbia; Aug. 26) - A group of Indigenous young people have blockaded access to a work camp site for a natural gas pipeline to feed a proposed liquefied natural gas project on British Columbia’s north coast. The blockade was set up on Aug. 22 at Cranberry Junction, where the access road for the pipeline project site meets Highway 37, about 105 miles north of Terrace, B.C. It is the shortest route to transport the equipment and supplies for the pipeline's Nass work camp.

The Prince Rupert Gas Transmission line is being built in a partnership between the Nisga'a Nation and Western LNG, and the Ksi Lisims LNG production and export terminal is backed by the Nisga'a Nation. But several hereditary chiefs oppose the pipeline. "They're not welcome (here)," Gamlakyeltxw (Wil Marsen), a chief of the Ganeda Clan, said at the blockade before an agreement with the pipeline developer was burned. About 50 community members are showing up every day at the blockade.

Opponents dispute the pipeline route and its provincial environmental review. Rebecca Scott, a spokesperson for Western LNG, said the partnership believes in the rights of free speech and peaceful assembly, but this demonstration has not deterred them from proceeding. "We also expect opposition and protest as a part of building any big project. In this case, the trucks found other routes to their destination and construction will proceed as planned," she said.