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Nord Stream II complaints advantage for Turkish Stream

AA Energy Terminal, *19.08.2016*

Poland's objections to a joint venture for the Nord Stream II project expressed through its anti-monopoly watchdog (UOKIK), has increased the potential realization of the Turkish Stream, Volkan Ozdemir, head of the EPPEN said.

UOKIK said last Friday that the planned joint venture to build the Nord Stream II gas pipeline between Gazprom and five European companies E.ON, Wintershall, Shell, OMV and Engie to pump Russian gas to Germany, could hurt local competition. Ozdemir said that objections to the Nord Stream II are reminiscent of two years ago when Europe objected to the South Stream pipeline project.

"We returned back to 2014. Two years ago Russia had problems with Europe over the South Stream pipeline project. Regulatory reasons were given as the excuse. And due to these obstacles, Russia had to announce a new project 'The Turkish Stream' at that time. Now, a new objection has come from Europe which could see the realization of the Turkish Stream," Ozdemir told Anadolu Agency. Ozdemir asserted that one line of the Turkish Stream will go ahead, and if construction starts in the first quarter of 2017, the project's first line could be built by 2020.

"There is no serious problem with the first line of the Turkish Stream, and I think the latest issue with the Nord Stream II has increased the reality of a second line for the project." he said. Announced by Putin in December 2014 during a visit to Ankara, the Turkish Stream plans to carry Russian gas via the Black Sea and Turkey to southeastern Europe. The project was shelved following the crisis in November 2015 when a Turkish Air Force warplane shot down a Russian jet over the Turkey-Syria border.

Ozdemir described Poland's decision as a judicial reflection of a broader strategy and said, "There is no agreement in Europe for the Nord Stream II and there are many factors which will make it easier to block the project for those who want to block it. The Nord Stream II may be a priority for Russia, but the latest development will make Russia turn its direction to the Turkish Stream."

In 2015, Ukraine as a transit country delivered 67.08 billion cubic meters (bcm) of Russian gas to European countries. Moscow wants to bypass Kiev for its gas exports to Europe. For this Ozdemir noted that a combination of capacities from the Nord Stream II and the Turkish Stream would be sufficient to supply more than this equivalent gas. The Nord Stream II's capacity is around 55 bcm while one line of the Turkish Stream would be around 15 bcm, and combined would be 70 bcm.

"In case of this situation, Russia would bypass Ukraine as a transit country in the region. But after Poland's decision, the picture has become more complicated. Because of this situation, Russia should show Europe that it is still in the game and has powerful leverage," he said.

“For this reason, the Turkish Stream will move forward. The easy thing about the Turkish Stream for now is that the project is just between Russia and Turkey,” he explained. Initially Gazprom from Russia, E.ON from Germany, Engie from France, OMV from Austria, Shell and Wintershall from Netherlands made up the six parties which would form a joint venture for the Nord Stream II.

In a statement on August 12, the five companies other than Gazprom announced their withdrawal of their applications for a merger after Poland failed to agree to their request to form the joint venture. Poland argued that it could lead to significant restrictions in competition and strengthen Gazprom’s dominant position in the gas transmission market.

Russia’s Gazprom owns 51 percent of the shares in the project that plans to deliver gas with a capacity of 55 bcm beneath the Baltic Sea through a 1,200 kilometer-route to Germany. The project is estimated to total around $10 billion. Katja Yafimava, a senior research fellow at the Oxford Institute for Energy Studies Natural Gas Research Program, said that the Polish competition authority’s objections do not mean the end of the Nord Stream II project but rather that it is merely delayed.

“For the project to remain on schedule i.e. to be built by 2020, Gazprom would need to finance the construction of the offshore line itself, but it is an open question whether or not it will choose to do so. It seems to me more likely that the project will be delayed by a couple of years, with time to be taken considering alternative ways of financing the offshore part without forming a joint venture and in which the European partners would also contribute,” she said.

In her opinion, Gazprom is unlikely to independently finance the project as it does not want a repeat of history as in the situation with its OPAL pipeline. Currently only half of OPAL’S capacity is being utilized due to the EU’s third energy package regulations which stipulate that it cannot use its full capacity. She said that Gazprom will be unwilling for this to happen to the Nord Stream II onshore extensions.

The Opal pipeline is a German-built pipeline, 100 percent owned by Russia’s Gazprom, connecting the Nord Stream I to Germany and Central Europe. It has a transfer capacity of 35 billion cubic meters of gas per year of which only half is utilized.

“The Polish objection may well not be the last hurdle that the Nord Stream II would have to overcome. The Nord Stream II is likely to be built with delays of a couple of years compared to the original schedule.

The Polish objection and the subsequent decision not to form the joint venture will not have a material impact on the first line of the Turkish Stream – it targets a totally different market compared to the Nord Stream II, and stands the highest chance of being built before or by 2020. The Nord Stream II will probably slip by a couple of years compared to the original schedule of 2020,” she noted. The Nord Stream II natural gas project is currently at the center of political discussions in the EU.

In remarks made during a joint news conference with Russian President Vladimir Putin in St. Petersburg following their meeting on August 9, Recep Tayyip Erdogan said that Turkey and Russia’s cooperation will accelerate in the energy sector including with the Turkish Stream project.

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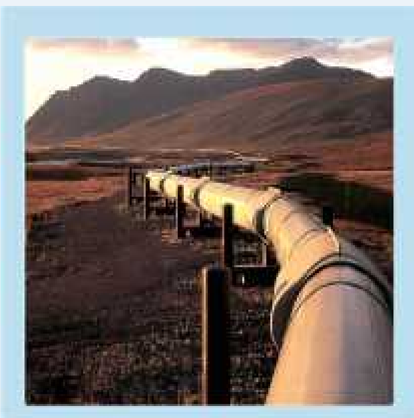
On August 11, Erdogan said that Turkey proposed a 50 percent division in costs between Turkey and Russia for the construction of the pipeline's section crossing the two countries' territories. Additionally, Putin said that Turkey has already taken concrete steps to realize the Turkish Stream project to meet its own needs. He added that the second phase to carry natural gas to Europe should be discussed with European authorities.

Turkish Stream's 1st line could be active by Dec 2019

AA Energy Terminal, *17.08.2016*



Both Russia and Turkey reaffirmed their commitment to finalize the Turkish Stream project, of which the first line could be active by December 2019 if all the project's issues are solved, said Russian Ambassador, Andrey Karlov.

Karlov said that Turkey and Russia lost seven months with the halt in their relations and need now to get back on track. He also called for more efficient cooperation among those involved in bilateral relations. Currently, the sides reached an agreement on the construction of two lines of the Turkish Stream while the most urgent problems ahead of realizing this project have been identified, Karlov explained.

Announced by Putin in December 2014 during a visit to Ankara, the Turkish Stream plans to carry Russian gas via the Black Sea and Turkey to southeastern Europe. The project was shelved following the crisis in November 2015 when a Turkish Air Force warplane shot down a Russian jet over the Turkey-Syria border.

Relations between the two countries remained sour until the issue seemed largely resolved on June 29 through a letter and subsequent telephone calls between the countries' leaders. An intergovernmental agreement is required in order to realize the project and Turkey and Russia need to start conducting the necessary research as soon as possible, according to Karlov.

He confirmed that Russia has never stopped its cooperation with Turkey on the construction of the Akkuyu Nuclear Power Plant (NPP). It is very important to note that during the meeting between President Recep Tayyip Erdogan and Russian President Putin, Erdogan announced that the Akkuyu NPP will be included in the scope of 'strategic investment' status in which it will be able to make use of incentives, according to Karlov.

"This is a very important development. I believe the construction of this plant will be speeded up," he added. In 2010, Turkey signed agreements with Russia on the construction and operation of nuclear power plants in Turkey. Turkey's first nuclear power plant Akkuyu, in the province of Mersin on the southern Mediterranean coast, is due to be carried out by Russia with a budget of $22 billion.

It is under construction and will have a capacity of 4,800 megawatts with four units. Karlov also added that the Russian Foreign Minister Sergey Lavrov will pay a visit to Ankara by the end of the year, probably either in November or December.

Russian export routes, the North sea and North America

Natural Gas Europe, *14.08.2016*

The week ended with the surprising announcement on Friday that the six prospective co-venturers in Nord Stream 2 would not become equity holders in Nord Stream 2 AG.

Their plans to form a joint venture had crumpled in the face of the Polish competition authority's opposition. But as recently as August 10, OMV, one of the six, told journalists that Nord Stream 2 would go ahead, and in a joint statement – in the middle of the Olympic Games fortnight – they said they would have to find other ways to ensure Europe's security of gas supply.

This could mean each of the five western European companies paying Gazprom's invoices for their share of the goods and services. Gazprom remains the sole shareholder of the Swiss-registered entity.

Turkey and Russia got their gas plan back on the agenda last week, making good on their promise to tie their countries closer together with another sub-sea gas line, Turkish Stream. The first Black Sea-bed line between the two, the 16bn m³/yr Blue Stream surprised observers as the cost and effort were thought unnecessary: Ukrainian transit was cheap and available. Blue Stream did however allow Gazprom to reach a major consumer with no transit states in between, removing Turkey's argument for cheaper gas.

In 2016, the same solution to the same problem, Turkish Stream, is far more problematic. Russia's president, Vladimir Putin, pronouncing on Gazprom's project, admitted there will have to be talks with the European Commission (EC) about the terms on which the gas can flow into Europe.

That could explain why Russia's energy minister, Alexander Novak, was reluctant to commit in an interview to more than the first and possibly second line: in all four lines could be built, with two perhaps branching off to Bulgaria.

The last time Russia planned gas deliveries under the Black sea to Bulgaria the entire South Stream was scuppered by the EC, on pipeline tendering and procurement irregularities: a technical solution to the EC's political problem. There were also talks between Iran, Russia and Azerbaijan which augured ill for other plans to bring gas to Europe:

The Southern Gas Corridor is looking a less likely route to market now for Turkmen gas, following the communiques from Baku regarding cooperation on transport of gas between the three states. South Stream, originally a Russian-backed spoiler for the Nabucco project, could allow Gazprom to compete with Azeri gas in southeast Europe, but it might be easier to get gas into the Trans Anatolia pipeline at some point near the Greek border, where Tanap meets the Trans Adriatic Pipeline, and square matters up with Baku later. That is, if wholesale gas prices rise enough to justify developing Azerbaijan's other offshore giant fields – formerly a shoo-in for the doubled Tanap.

Returning to the Ukraine transit question, there has been discontent in Kiev with Gazprom failing to maintain contractual pressure at the eastern border since early June, if not earlier, putting Ukraine through the expense of managing the necessary pressure to ensure Gazprom's customers receive their nominations. Naftogaz has invited the EC to help set up a monitoring group.

One of the consequences of liberalised European gas markets is the greater flexibility in gas supplies: previously the flow would be flattish year-round, the unwanted gas going into storage in the summer.

But in today's market not only is storage less necessary than in the past, but also Gazprom's affiliates and customers in Europe are trading gas more flexibly and shorter-term. This strains a system that, while it has potentially huge amounts of storage and linepack, is now stretched thin and apparently running on a 'just-in-time' basis.

The situation reached a head August 9, when Ukraine transmitted 276mn m^3 of Russian gas to the EU border, up from 230mn m^3 the day before, owing to maintenance works on the Nord Stream pipeline.

Gazprom gave no advance warning to either Naftogaz or Ukraine's transmission system operator UkrTransGaz of the increase, Naftogaz said – even though Gazprom had thought to notify its European partners of the dates of the planned outage in December 2015.

It is too early for Gazprom to comment on sales in the second quarter, but its first quarter saw a colossal increase to its core 'Europe and other' markets: up 49% to 58.1bn m^3, an increase of 19bn m^3 on 39.1bn m^3 in January-March 2015. Sales to former Soviet countries declined by 15.5% (by 2bn m^3) to 10.9bn m^3, while those in Russia declined more modestly to 75.4bn m^3, just 6% or 4.9bn m^3 less than in 1Q 2015. Much lower prices – just $6/mn Btu in non-FSU Europe for the winter 1Q -- meant there was only a small rise in its revenues though while profits were down by a third.

The mergers and acquisitions market ticks over, with the £18mn ($23mn) minnow, San Leon, still chasing the $200mn Nigerian project, and hoping for readmittance to London's AIM shortly now that a shareholder has advanced the cash. As it counts as a reverse takeover, shareholders must now vote on the deal, which the company describes as "transformative."

It has announced the appointment of a former boss of Shell Nigeria, Mutiu Sunmonu, as non-executive chair, which would add some heft to the operation. Shell continues to experience problems in the Delta, and declared force majeure on much of the gas flowing into the Nigeria LNG liquefaction facilities following a major pipeline leak.

As it investigates the cause of that, the Anglo-Dutch major re-declared force majeure on its Bonny Light oil export terminal August 12, just a month after restarting it, which means most of Shell's gas export feed and both its oil export terminals are shut or heavily constrained.

Back at home in the North Sea, industrial action has been suspended by the unions and contractor Wood Group, meaning that maintenance work can continue on Shell's seven platforms in exchange for their usual terms and conditions.

The need for changing the existing terms though has been recognised in the interests of preserving the life of producing assets insofar as it makes economic sense. Austria's OMV sold down its stake in Rosebank in early August and in the process knocked about half a billion dollars off the book value of what was a 50% stake (now 20%). It had paid Statoil $2.65bn in August 2013 for a cluster of Norwegian and UK North Sea assets of which Rosebank was the biggest. The others were minority stakes in Gudrun and Gullfaks and all of Schiehallion. OMV did not disclose the present book value.

The share of the costs to develop the UK oil and gas field would have drained OMV of resources it cannot afford, CEO Rainer Seele said at its quarterly results press conference. It has already knocked a third off its average production cost/barrel since 2014 and, from now on, its future focus is on low-cost oil provinces, such as Russia and the Middle East.

Iran was not mentioned as a target for OMV but it has launched the new Iranian petroleum contract (IPC), opening up the prospect of attracting foreign investors. But when it comes to gas, there is an abundance wasted in flaring that could go into power projects or liquefaction plants without even needing to drill. Iranian officials expect the first IPC with a foreign company to be signed in the next three or four months.

Across the Atlantic, US gas demand remains strong enough to draw large amounts of Canadian gas south of the border, something that so far has only happened in winter with high prices. The Energy Information Administration's weekly report said the high level of net imports from Canada followed a "near-record summertime level" which was reached near the end of July, when they exceeded 8bn ft^3/d. The five-year (2011-15) average over the June through August 10 period is 6.8bn ft^3/d.

Cheniere is confident of starting up its second Sabine Pass LNG train by next month, on schedule, thus maintaining the call on US/Canadian gas for export this autumn. Jamaica meanwhile announced the arrival of its first ever LNG, aboard Golar Arctic on August 5; new Caribbean micro-markets for LNG could soon open in the coming years in El Salvador and Panama.

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The price of Gazprom’s pipelines

Natural Gas Europe, *15.08.2016*

Gazprom is facing a dilemma: how does it prioritise its external pipeline projects now that Poland has jammed a spoke in the wheel of its favoured Nord Stream 2 project? At present the Russian energy giant is simultaneously seeking to develop three major new pipelines to connect Russia to the outside world.

Nord Stream 2 was clearly the most favoured project, since it had managed to secure the participation of five western companies who were due to take a half share between them in the projected 55bn m³/yr project, and thus carry half of its estimated $10bn cost.

What the Poles have done in ruling that there cannot be a single company embracing both Gazprom and the five shareholders without severe repercussions for the western companies’ subsidiaries in Poland is to force Gazprom to contemplate having to finance the project on its own.

Yet Gazprom is confronting financial problems and still has to proceed with its $38bn project to develop a system capable of delivering gas to China and eventually, Japan, via a Pacific coast LNG project. Progress has been slow, but since Russia has yet to conclude actual contracts for the sale of gas to China, this may not matter too much.

At the same time, it is also deeply engaged in reviving the Turkish Stream project, originally conceived as a 63bn m³/yr project, with close to 50bn m³/yr transitted across Turkey to the European Union via Greece.

At this stage, the best bet as to what will actually happen – as opposed to what Gazprom might intend – is that one string of Turkish Stream will be built fairly quickly and that Gazprom will strive and probably succeed in laying at least one string of Nord Stream 2 as well.

The commercial logic behind this is that the line pipe for at least one 15.75bn m³/yr string of Turkish Stream has already been delivered while delivery of line pipe for Nord Stream 2 is due to start next month. Other binding contracts have been placed with third party suppliers for the provision of other goods and services as well. In addition, the systems required to deliver gas to the Russian terminals for the two pipelines are already well under way.

However, Gazprom is still in the middle of completing its massive $12bn “Southern Corridor” project to connect Russia’s Unified Gas System (UGS) to the Russkaya terminal on the Black Sea coast at Anapa – originally intended to feed the aborted South Stream pipeline, and currently intended for its Turkish Stream replacement – and delays so far make it unclear as to whether the system has the ability to deliver much more than the gas for the first string.

One US analyst, Edward Chow, of the Washington-based Centre for Strategic and International Studies, told NGE: “It doesn’t cost Gazprom much to construct one pipe for Turkish Stream given the capital already sunk in South Stream; so the more NS2 is delayed, the more likely they will start on Turkish Stream.”

In political terms, from Moscow’s perspective, the rationale for constructing both Nord Stream 2 and Turkish Stream remains as strong as ever. Nord Stream 2, together with the original 57bn m^3/yr Nordstream line, remains the most important component in Russia’s strategy of eventually being able to deliver almost all its gas to customers in the European Union without relying on transit across Ukraine, a policy which has already seen Russian gas distribution via Ukraine fall from 128.5bn m^3/yr in 2006 to 62bn m^3/yr in 2014.

Likewise, the first string of any Turkish Stream system would serve to ensure that Russian gas deliveries to Turkey, Greece and Bulgaria would not have to transit Ukraine. Gazprom said in 2015 that it would be terminating all transit across Ukraine once current arrangements ended in 2019, but subsequently acknowledged that it will still have to rely on Ukraine to transit some 15-20bn m^3/yr to European customers for a number of years thereafter.

Gazprom has always proved flexible in adapting its policy to changing circumstances. In 2015 all eyes were on Russia’s president, Vladimir Putin, when he visited Beijing on 3 September and he was expected to announce at least significant progress in the ten-year-old saga of Russian gas sales to China, if not an actual contract. But while he made no significant progress on this complex issue, he did trigger a major surprise the following day when, during a visit to Vladivostok, Gazprom announced it had reached agreement with the five western companies to develop Nord Stream 2.

These five companies – Engie, Gazprom, OMV, Shell, Uniper and Wintershall – will now have to decide just what they are going to do with regard to the project. Gazprom has said that they “will continue their close cooperation and their mutual efforts towards the strengthening of the European gas supply” and that the withdrawal of the company’s application for merger clearance in Poland “does not affect implementation of the project, which continues as planned.”

However, there are important financial repercussions. Nord Stream 2 was developed as a project that would rely on equity to cover 30% of its costs and on financing for the rest. This means that Gazprom’s own direct contribution to the project, if it is to be built in full, will have to double to around $3bn while the lack of western partners will make it much harder to raise the $7bn on capital markets, particularly at a time when Russia remains under extensive international sanctions as a result of its seizure of Crimea from Ukraine in February 2014.

It is just possible that the western companies may wind up securing the best of both worlds. They want to be on good terms with Russia, not least because they either have significant investments or investment projects within Russia, or are major importers of Russian gas, or a combination of these.

For them, paying their share of Nord Stream 2 could be regarded as the price they have to pay to guarantee their relationship. But it may turn out that, for no fault of their own, they may not be permitted to pay such a price. This would save them money at a time of considerable financial constraint whilst landing Gazprom with the problem of working out just how to cope with the prospective loss of western investment.

Energean to buy Tanin and Karish gas fields

Globes, *16.08.2016*

Greek Cypriot company Energean Oil & Gas is to buy Israel's Tanin and Karish gas fields from Delek Group Ltd. units Avner Oil and Gas LP and Delek Drilling LP for $148.5 million.

Of this sum, $40 million will be in cash with the remaining $108.5 million in ten payments over the next year, plus interest. Delek notified the Tel Aviv Stock Exchange (TASE) about the deal this evening. Energean is engaged in gas and oil exploration and production in the Adriatic, and Eastern Mediterranean, mainly in Greece and Egypt, and has previously been involved in Israel as the operating partner in the Sara and Myra licenses where only dry holes were found.

Last November, Delek bought the 50% stake of Noble Energy Inc. (NYSE: NBL) in Karish and Tanin for $67 million in order to meet the 14-month timetable for selling the reservoirs to a third party, as stipulated by the Israel Antitrust Authority in order to approve the natural gas outline plan.

The Tanin and Karish reservoirs jointly contain 60-80 BCM of gas, and NIS 700 million has been invested in them to date. The deal must be approved by the Petroleum Supervisor of the Ministry of National Infrastructures, Energy and Water Resources.

Saudi Arabia announces record high oil exports in June

Oilprice, *18.08.2016*

Saudi Arabian crude exports rose in June to near-record-high levels, even as the country used less petroleum to generate electricity than the same month in 2015, according to data.

The Kingdom's crude exports increased to 7.456 million barrels a day, when barrel prices were still experiencing a bull market. Khalid al-Falih, Saudi Arabia's new energy minister, had vowed in June not to increase production, however, the figures show increased outputs at accelerated rates. In June, KSA produced 10.550 million barrels of oil in June, up from 10.270 million barrels in May, according to data from the Joint Organizations Data Initiative.

Saudi Arabia reported to OPEC earlier this month that it had pumped a record 10.67 million barrels in July. Despite calls from other OPEC members, notably Algeria and Venezuela, to halt production and reverse the oil glut, Saudi Arabia has continued to increase output, in part to prevent Iran from regaining market share.

"The market share that Iran used to have globally, and the market share that Iran had within OPEC as a whole, fell dramatically between 2011 and 2013, and Saudi Arabia took much of that share," Michael Cohen, an analyst at Barclays told The Financial Times.

Since international sanctions against Iran were lifted in 2015, Iran has rebuilt its production capacity to 3.85 million barrels per day – just below pre-sanctions levels. The Iranian Oil Minister, Bijan Nambar Zangeneh, has previously rejected the possibility of entering a production freeze agreement with OPEC on the grounds that the country is still recovering from the effects of several years of sanctions.

Iran's long-term production goal is to increase output to 4.6 million barrels a day within the next five years, though the national government awaits foreign interest in upstream investment, oilfield infrastructure and downstream processing facilities to make the effort a reality. In total, Iran has listed 28 oil projects and 21 natural gas hopeful projects that if developed, will aid in meeting its output goal.

In upcoming OPEC meeting, consensus could hinge on Iran's aging oilfields

Financial Post, *17.08.2016*

When Iran's oil production began to plummet in late 2011, just as economic sanctions on the country over its nuclear program were being tightened, Saudi Arabia was there to pick up the slack.

Iranian oil production fell from an average of 3.7 million barrels per day in 2010 to 2.7 million barrels per day by 2013. Meanwhile, Saudi Arabia, bolstered by production shortages in other OPEC member states such as Libya in 2013, filled the void by aggressively ramping up production. In the following years, the gap between Iran and Saudi crude outputs continued to widen.

Saudi Arabia production soared, growing from 7.8 million barrels per day in 2010 to over the 10 million barrel mark in 2016. Today, despite long-depressed oil prices, it continues producing at near-record levels.

"The market share that Iran used to have globally, and the market share that Iran had within OPEC as a whole, fell dramatically between 2011 and 2013, and Saudi Arabia took much of that share," said Michael Cohen, an analyst at Barclays in New York.

The country rapidly boosted its production levels since the lifting of sanctions was announced mid-2015, adding nearly one million barrels in the first half of 2016. According to its most recent statistics, analysts say, it is now producing just below its pre-sanction levels at 3.85 million barrels per day.

That increase has put the country within reach of returning to its pre-sanction production levels, and threatens to muddle any chance of OPEC reaching consensus when it meets in Algeria next month. Iranian oil minister Bijan Namdar Zangeneh has in recent months outright rejected the possibility of an agreement, saying the country must meet its four million barrel per day production threshold before it will consider a freeze.

Hard-hit OPEC members such as Nigeria and Venezuela have been the most earnest supporters of capping production, which could boost oil prices. Another country that could scupper plans for a freeze is Iraq, which recently signed deals with two multinational oil producers to boost production by 300,000 barrels per day in 2017.

Iran sits atop 10 per cent of the world's oil reserves, totalling 157 billion barrels in place, but more than half of its oil production comes from aging oilfields with annual decline rates between nine and 11 per cent, Cohen said. At that rate, a country that produces four million barrels per day, for example, needs to add 400,000 barrels per day of new production just to replace its declining wells.

The country was able to quickly increase production at those older fields by using process by which natural gas is injected down a well to mobilize the oil, but growing production beyond four million barrels will require tapping new reservoirs. “In our view we think it will be difficult for them to meet and then sustain those levels,” Cohen said.

To reach its longer-term goal of 4.6 million barrels per day over the next five years, Cohen said the country will require tens of billions worth of investment into upstream development, oilfield infrastructure and downstream processing facilities.

Large sums of capital would need to be invested in its greenfield oilfields Yadavaran, Azadegan and South Zagros near the Iraq-Iran border. In total, Iran has listed 28 oil developments and 21 natural gas developments it hopes to open up for foreign and domestic investment.

In our view we think it will be difficult for them to meet and then sustain those levels. So far Western banks and oil producers have been hesitant to make commitments. Major European oil producers including Total S.A., Eni S.P.A., Royal Dutch Shell plc, and British Petroleum have expressed interest in re-entering Iran, but are waiting on clarity around contract agreements. BP has a long history operating in the country, and was created in 1954 out of the Anglo Iranian Oil Company.

European banks are meanwhile cautious of some remaining sanctions that limit certain transactions. In 2014 the U.S. Attorney General fined French bank BNP Paribas S.A. US$9 billion for violating sanctions in three countries, including Iran. “I think the concern is that going back in there, when there’s this precedent of a very heavy enforcement on Iran sanctions. The penalties have been extremely high,” says Helima Croft, an analyst with RBC Capital Markets in New York.

The inability to reach consensus on crude production levels between Iran and Saudi Arabia is just one feature of heightened tensions between the two countries. In January 2016 the Saudi royal family ordered the execution of 47 people, including a prominent Shia cleric, drawing a heated response from Iran and other countries.

While no OPEC member is expected to see major growth in the short term, production in more stable countries is expected to remain high. Cohen said some producers are perhaps holding production levels at record levels in order to give them more space should the cartel eventually agree to a production freeze.

“There’s that extra incentive whereby many countries, including Saudi Arabia, have to produce at extremely high levels on the chance that OPEC as an organization agrees to some mechanism to reduce output,” he said.

Benchmark prices for Brent crude have risen 15 per cent since the beginning of the month to just under US$50 on Wednesday morning, partly due to projection for growing global oil demand, and partly due to optimism over the chances OPEC could reach an agreement.

Oil prices continue to rise on hollow Saudi comments

Oilprice, *18.08.2016*

Last week Saudi Arabia's Oil Minister said that the large number of short positions on crude have caused prices to fall, even though the market is already rebalancing itself. This statement immediately led to frantic covering, which pushed prices higher.

This is just the latest confirmation that Saudi Arabia has taken center stage when it comes to oil. Nobody cares anymore about fundamentals, everyone listens to what Riyadh says. If Riyadh is bullish on oil, then oil prices rise, despite any production data that might contradict their words.

If Riyadh decides for some reason to be bearish, the market follows. The extent of this dependency of traders on every word that comes out of Khalid al-Falih's mouth (and other Saudi officials) becomes all the more evident in light of the latest production forecasts for Saudi Arabia.

August production is expected to hit a new high of 10.8-10.9 million bpd, up from 10.67 million bpd in July. Why? Likely so Riyadh has more leverage at the upcoming unofficial OPEC meeting in Algeria. Not that it needs it, now that it is the undisputable tone-setter of the organization.

And here's another example of how far things have gone: virtually nobody expects the meeting to lead to any sort of agreement to freeze production. In the slim chance it does lead to such an agreement, the Saudi's record output would indeed provide it with additional leverage: it will be able to continue pumping at the same level. However, the chance is so slim, it's next to non-existent. Even so, the mere talk about the possibility of a production freeze got traders going long on crude—despite the clear lack of any sign of willingness on the part of Saudi Arabia to cut its output.

Some analysts believe that Saudi officials are simply reflecting the rebalancing of the market. They argue that the market is indeed rebalancing and that next year oil fundamentals will swing into a deficit. Others, such as Goldman Sachs and Morgan Stanley, are not as bullish.

This last oil crisis has made it abundantly clear – supported with scientific research – that you can never be sure where the market will be in a year, let alone longer periods, whatever you do. There are too many variables to be considered. In other words, you can't trust anyone. Yet, if you're a trader, you need to have someone to trust, and this someone has turned out to be Saudi Arabia.

Many believe the Saudi tactic of pressuring prices to maintain market share and drive out higher-cost producers is working. And indeed, it is working. There is, however, a question, and this question is: How long will it work? Unlike Russia and Iran, its greatest foes in the oil arena, Saudi Arabia is not exactly used to economic hardships.

It hasn't experienced serious deficits, if any, in its entire history. Now, it's going for broke by pumping more and more oil and reducing prices as needed. This game of output, however, could turn into a game of endurance, if despite all bullish Saudi talk, fundamentals show a different picture. Then someone else will take Saudi Arabia's place. This won't really make any big change in oil markets. After all, commodity trading is notoriously vulnerable to forecasts, opinions and rumors, likely as much as it is influenced by actual events and trends affecting supply and demand.

Saudi Arabia has oil traders hanging on every word

Financial Times, *17.08.2016*

Following calls from Venezuela for big producers to revisit the idea of freezing output, Mr Falih said the kingdom was willing to "discuss any possible action" needed "to stabilise" prices when Opec ministers gather informally at a conference next month.

For those that had written off Opec and Saudi Arabia's position as "the central bank of oil" the market's reaction was notable. Most long-term Opec watchers expect no official agreement to emerge from the Algeria gathering, even as oil-dependent economies struggle under the weight of a two-year price collapse.

Still, prices shot higher at the mere threat of action. "A lot of traders appear to hold the view that eventually there's going to be so much pain among Opec that they'll have to do something," says Jamie Webster of Columbia University's Center on Global Energy Policy. "I don't see anything to make me think outcome is going to be different this time."

Instead, analysts see an attempt by Opec and Saudi Arabia to verbally intervene in the market during the long process of bringing supply and demand back towards balance, as they stick with the policy of keeping output high to squeeze out higher cost rivals. That Saudi-led effort, in place since late 2014, is starting to show signs of working. Opec production has risen to its highest on record and supplies outside the group are expected to fall this year.

However, the process is taking time, leaving the oil price vulnerable to attacks from short-sellers when seasonal surpluses emerge, as they did recently in refined fuels markets like gasoline. Where once Opec might have cut output, verbally intervening is now the preferred option.

"By raising the possibility of a freeze it can help them get through this period while the rebalancing continues," says Ann-Louise Hittle, chief analyst at Wood Mackenzie. "It's almost as if there's an attempt to talk the market through what was always going to be a long process. The reason last week's Saudi comments pushed Brent up so much largely reflects market positioning, say traders.

Alarmed by the emerging gasoline glut, hedge funds bet aggressively on lower prices in July, leaving the market primed for buying back and closing out bearish bets. Mr Falih blamed “large short positions” for prices undershooting.

The biggest barrier to Saudi Arabia taking more decisive action is its relationship with fellow Opec member Iran. Saudi Arabia has always said that it is willing to consider anything to help balance the market, including production cuts, but only if other big suppliers join in.

Russia, the biggest oil exporter outside Opec, agreed to such a deal in April in Doha but Saudi Arabia scuppered the deal at the last minute, when Deputy Crown Prince Mohammed bin Salman — the favoured son of the king — ruled there could be no agreement without Iran. A senior Gulf Opec source says the kingdom believed Russia’s recent remarks about potential involvement were positive for any collaborative efforts that were being led by Qatar, Venezuela and Algeria. However he acknowledges Iran’s position was still uncertain.

After years of sanctions Iran is attempting to win back lost market share and has repeatedly signalled it has no plans to limit output. Iran’s oil minister Bijan Zangeneh said on Thursday he had not decided if he would attend September’s gathering, according to media reports. “Iran will remain a stumbling block as it simply cannot accept a ceiling on its production,” says Amrita Sen, chief analyst at London-based consultancy Energy Aspects.

Like Iran, Saudi Arabia has also been increasing production, reaching a record 10.7m b/d day in July, up from 10.2m b/d in January when the idea of a freeze was first mooted. The country’s crude output normally rises in the summer months to meet peak electricity consumption but in his comments to the Saudi Press Agency last week Mr Falih also pointed to “strong demand for its crude” as a reason for its record production.

For some, that remark was significant because it indicates a greater willingness to keep the taps wide open as its competition with Iran heats up. “If the talks fail, which is likely, the market should not entirely rule out the possibility that Saudi Arabia will give up and throw in the towel, and keep output high, at or above July’s level,” says Mrs Sen.

Investors may need to wait to see if the kingdom does scale back its summer output as it has done in previous years. But if it keeps producing 10.7m b/d or more, then the oil market may not come into balance next year as most analysts currently expect. It would be a test, analysts say, of the power of verbal intervention to keep the bears at bay. At some point words may need to be backed by action.

Emmanuel Ibe Kachikwu, Nigeria’s oil minister told CNN this week that he was “not optimistic” about any production cuts in September. “We’ve tried that a couple of times and I think we’ve not been able to get the unity we need.” He says it was important nonetheless to maintain dialogue with non-Opec producers

Ms Hittle at Wood Mackenzie adds in many ways Opec and Saudi Arabia’s trajectory was not that different from most central banks in the post-financial crisis world, who have often delayed adjusting interest rates. “It used to be that they were compared to a central bank as they would take action. Now, like many central banks, guidance has become much more common,” she says.

PETFORM

Saudi crude oil exports hit three-month high

Bloomberg, *18.08.2016*

Saudi Arabia raised its combined crude oil and refined-product exports to 8.83 million barrels a day in June, the highest on record for that month and the latest sign of the expansion of the kingdom's share of global markets.

The world's largest crude exporter typically ships less oil overseas from June to September as it burns more crude to power local electricity stations and meet extra demand for air-conditioning during summer. The surge in June exports, as reported by the Joint Organisations Data Initiative, suggests the extra output went beyond what was needed to cover this seasonal increase in domestic consumption.

"The only way for Saudi Arabia to maintain oil exports and avoid loss of market share in the summer is to increase production," said Anas Alhajji, an independent oil analyst based in Houston. "Without record high production, the Saudis would lose market share" so they will keep boosting output for at least the rest of this year, he said.

Saudi Arabia supplied its overseas customers with 7.46 million barrels a day of crude and 1.37 million of refined petroleum products in June. The combined total is the most for that month since JODI started tracking flows in 2002. Output rose to 10.55 million barrels a day from 10.27 million in May, the data show.

Saudi Arabia is engaged in a battle for market share with Iran and Russia and has cut prices to its customers in Asia. Iran is pushing for an increase in production following the loosening of international sanctions in January. Despite the growing competition, OPEC officials have hinted at a potential deal, including a production freeze, during the next meeting of the International Energy Forum in Algiers in late September. Brent crude, the international benchmark, has rallied above $50 a barrel on talk of a potential freeze, despite skepticism from several analysts after a similar proposal failed in April.

"At this stage we view the mentions of a freeze as a diversion from a continued drive from Saudi Arabia to gain as much market share as it can," said Olivier Jakob, an analyst at consultants Petromatrix GmbH in Switzerland. Saudi crude and refined products exports were 450,000 barrels a day higher in June than in the same month of 2015 and up more than 1.1 million barrels a day from June 2014. Over the same period, Iran and Iraq have also boosted exports. Saudi Arabia told the Organization of Petroleum Exporting Countries last week that its production rose further in July, reaching an all-time high of 10.67 million barrels a day. Khalid al-Falih, the kingdom's energy minister, last week said the country was boosting oil production not only to meet the surge in local consumption during the summer, but also "in part to meet higher demand" from overseas customers.

“We still see strong demand for our crude in most parts of the world, especially as supply outside OPEC has been declining fast, supply outages increasing, and global demand still showing signs of strength,” he told the Saudi Press Agency.

Saudi Arabia’s crude oil exports in the first six months of 2016 averaged 7.52 million barrels a day, compared with 7.46 million barrels a day in the same period last year, JODI data show. Production for the period climbed to an average 10.29 million barrels a day from 10.14 million barrels a day.

Russia awards central licence

Natural Gas Europe, *18.08.2016*

The Russian government has issued the license for the Central Oil and Gas Company – a joint venture between Lukoil (25%), Gazprom (25%) and KazMunaiGaz (50%) – to develop the Central field. The field is within the Russian sector of the Caspian sea, but its development must be conducted with the participation of Kazakh partners.

The structure has been passed for prospecting, exploration and production of hydrocarbons without an auction for a period of 25 years. Vice-president of Lukoil said the company expected the further exploration of reserves of the Central structure on the Caspian Sea shelf.

The company estimates the structure’s reserves not less than 90mn mt of oil and 500bn m³ of gas. On October 15, 2015 Russia and Kazakhstan signed a protocol that provides a license for subsoil use of the Central area in the Caspian Sea. Kazakhstan is also eying Russian companies’ participation in its offshore Khvalynsk field by late 2016 under the PSA. That field has 322bn m³ of gas, 18.4mn mt of condensate and 242mn mt of oil.

Kazakhstan exported 6.4bn m3 of natural gas, mostly to Russia and Kyrgyzstan – of which some will have gone on to China – in the first half of the year, and produced 22.7bn m³, according to the government. In 2015, the country’s total gas output stood at 45.3bn m³, of which 12.7bn m³ were exported.

The country’s gas output is expected to decrease slightly because of unexpected repairs at Gazprom Dobycha Orenburg gas processing plant in July-August. The plant processes 8bn m³/yr of gas, including all the output from the giant sour gas and condensate Karachaganak field which now includes Shell among the equity-holders, following its purchase of BG.

The country is also preparing to resume oil production from offshore giant Kashagan field – which also contains 1 trillion m³ of associated gas – in October 2016. With or without Russia, it seems Kazakhstan is continuing to develop upstream projects. Kazakhstan and the Chevron-led consortium Tengiz Chevroil (TCO) approved on July 5 a $36.8bn plan to expand the giant Tengiz field, which has 45% of the country’s total production now.

The minister for investment and development Zhenis Kasymbek said on August 15 that the level of foreign direct investments in the Kazakh economy would stand at $8-$9bn by the end of this year. On the other hand, Chinese companies have huge share in the country's energy projects.

CNPC acquired 8.4% interest in the giant Kashagan project three years ago after paying $5bn to state-owned KazMunaiGas(KMG). China Energy Fund also reached an agreement with Kazakhstan to purchase a 51% stake in KMG International (KMGI) early 2016. This is a part of a $4bn package of agreements between two companies. China Investment Corp also owns an 11% share of KMG E&P.

The Central Asia-China pipeline with its three branches transited 30bn m3 of Turkmen gas via Uzbekistan and Kazakhstan to western China last year, of which 45% was CNPC's own gas under production-sharing agreements with Turkmenistan. CNPC owns half the pipeline; it has 55bn m^3/yr transit capacity.

CNPC has contracts with Turkmenistan to increase gas imports from this country to 65bn m^3/yr in coming years, but it depends on both gas production growth and the construction of a fourth branch of the Central Asia-China pipeline which would pass from Uzbekistan, Kyrgyzstan and Tajikistan. None of participating countries has started building it yet.

The Chinese government is not going to freeze construction of the fourth line and hopes that the construction issues will be solved in the near future, vice-secretary of department for Central Asia of the Ministry of commerce of China Luo Wei Dong announced mid-August.

Despite deepening its activities in Kazakhstan and Uzbekistan, Russia cuts its energy ties with Tajikistan and Turkmenistan. This week Gazprom International decided to abandon its license in Tajikistan owing to the "inappropriateness of further geological exploration" of the Sarikamysh and West Shohambary fields. The company obtained the licenses for geological exploration of these fields in September 2009, so normally they would have expired in September 2018.

In 2014, Gazprom International abandoned the geological exploration projects on Tajikistan's Sargazon and Rengan fields. Turkmenistan's gas-dominated economy has two problems: the oil price is low and Gazprom is not importing gas. The country's GDP growth slowed to 6.1% in the first half of the year, down from 9.1% in the same period in last year.

Russia stopped gas intake from Turkmenistan in early 2016. GDP growth is expected to sink to 5% in 2016, about 1.5% less than last year, despite double-digit GDP growth in 2013 and 2014. In the west of Caspian Sea, Azerbaijan has cut commercial gas production despite a 14% growth in total output in Jan-July. The country increased gas re-injection to oil fields to maintain the oil production.

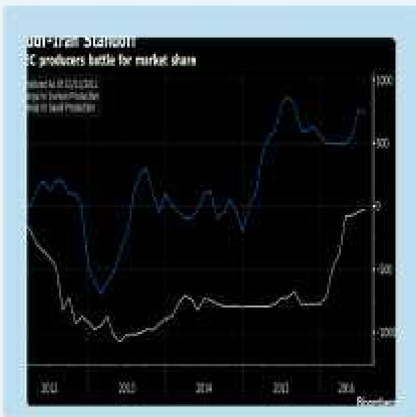
Coming to the south of Caspian Sea, Iran has increased its gas production during Hassan Rouhani's presidency, which started in August 2013. "During this period, we discovered 18 oil and gas fields, and currently the country's total recoverable oil and gas reserves stand at 34 trillion m^3 and 159bn barrels," an oil official who wished to be unnamed told NGE on Aug.16. The figures indicate that the country added 1bn barrels of oil and 600bn m^3 of gas to its recoverable proved reserves. Above 80% of Iran's reserves were discovered before 1960.

He added that during three years of Rouhani's presidency, the gas production from giant South Pars field increased from 250mn m³/d to 430mn m³/d and the figure is expected to reach 530mn m³/ by March 2017 and 830mn m³/d by March 2019.

Earlier, deputy of oil minister told NGW that Iran's output of 750mn m³/d of raw gas could reach 1bn m³/d by early 2018, while domestic demand remains flat, enabling the country to export 200mn m³/d.

Gazprom soldiers on with Nord Stream II

Stratfor, *17.08.2016*



Poland has achieved a significant victory in its battle against German and Russian energy collaboration. Daunted by Polish regulations, five international giants in the natural gas industry announced they had pulled out of an agreement to join Gazprom in the Nord Stream II AG consortium.

The consortium, which Gazprom currently owns in its entirety, will oversee the construction and operation of the controversial Nord Stream II pipeline, set to enter service in 2019. The pullout leaves Gazprom to move forward with the 55 billion-cubic-meter natural gas pipeline project, estimated to cost between $8 billion and $11 billion, by itself.

And it could have serious consequences across Northern and Central Europe. Even so, Gazprom will persevere. Germany has been one of the strongest supporters of the Nord Stream II project. The proposed pipeline would replace the transit agreement between Kiev and Gazprom, which expires in 2019, moving natural gas from Russia to Europe while skirting the aging infrastructure and politically delicate situation in Ukraine. To do this, it would traverse Germany to supply natural gas to the Austrian hub of Baumgarten.

For Poland, this is a problem. As it stands, Germany and Russia are Poland's only options for natural gas. A closer relationship between those two countries would give them greater leverage over Poland.

Moreover, the country does not want Gazprom to be able to send more natural gas to Germany without it first passing through its borders, since otherwise, Gazprom could conceivably cut off natural gas supplies to or negotiate harder terms with Poland.

Gazprom has argued that building new pipelines would be cheaper than rehabilitating and modernizing the Ukrainian route, a claim that many of Nord Stream II's opponents, including Poland, find suspect. Though the consortium was registered outside Poland, it was nevertheless subject to the country's anti-competition rules, since the companies involved all do considerable business there.

For months, Gazprom and its former partners have worked to get the approval for their consortium from Urzedu Ochrony Konkurencji i Konsumentow (UOKiK), the government body in charge of regulating competition in Poland.

Originally scheduled to rule on the partnership agreement in June, UOKiK delayed the decision until Aug. 31 before issuing a statement of objections to the consortium's prospective members in July. According to the statement, UOKiK found that the agreement and resulting consortium would strengthen Gazprom's advantage in the Polish natural gas market and limit competition in the sector.

UOKiK gave the partners four weeks (until Aug. 19) to respond to the objections, but the Western companies — Uniper, Engie, OMV, Royal Dutch/Shell and Wintershall — evidently felt they could not meet the regulators' demands under the current agreement and decided to pull out.

Despite the uncertainty surrounding the project, Gazprom has prioritized Nord Stream II, diverting money toward it even at the expense of other projects, such as the extension of the Power of Siberia pipeline into China.

The company must now decide whether to proceed with the pipeline project on its own or try to build another consortium with a different structure to implement it. In the meantime, it has been moving forward, issuing tenders for pipe and discussing financing options internally and with the Kremlin. (Nord Stream II AG was likely planning to fund about 30 percent of the project by itself, borrowing the rest from financial institutions.)

Even if it does not find other partners quickly, Gazprom can afford to keep going with the project on its own for now. Though pipe deliveries are set to begin in September, construction on the two pipelines that will form Nord Stream II is not scheduled to start until 2018. By then, Gazprom's resolve to build Nord Stream II may have wavered, depending on whether it feels that other projects — for instance, the TurkStream pipeline — are more important.

The recent reconciliation between Turkish President Recep Erdogan and Russian President Vladimir Putin has revived talks over TurkStream, which were derailed in late 2015 when Turkey downed a Russian fighter jet.

As big an obstacle as Poland's UOKiK has been for Gazprom, the company faces even greater obstacles. The European Commission is currently deciding whether offshore pipelines fall under the Third Energy Package regulations, which prohibit companies from owning the pipeline through which they transmit and sell their own natural gas.

The German government, Gazprom and its former Western partners have all argued that the existing legislation does not apply to offshore pipelines, but the European Commission has no official position (it was supposed to make a ruling in July). If the commission decides that that the Third Energy Package regulations apply to Nord Stream II, the project will be even more difficult to advance. (Germany will likely continue to pressure the European Commission to avoid such an outcome.) Securing downstream infrastructure to support Nord Stream II will also pose a challenge. The Nord Stream I pipeline, which follows roughly the same route, is currently limited to roughly 75 percent capacity because of the Third Energy Package and similar regulations.

These complications stand to stymie Russia's efforts in Northern and Central Europe. New supplies from global liquid natural gas markets, including Central Asia, and EU regulators' success in preventing monopolies from developing in any single country have made the European natural gas market more competitive.

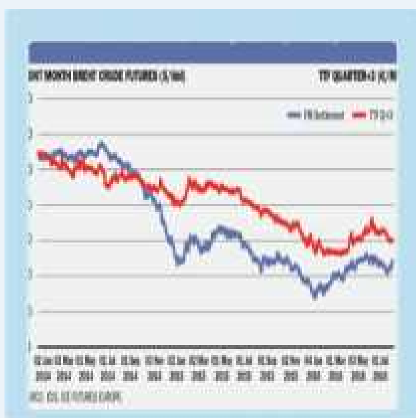
Facing growing competition, Gazprom is working to improve its capacity to deliver natural gas to Europe at a lower cost and with more flexibility than it has now with the Ukrainian pipeline. Much of Nord Stream II's intent was to supply Germany and its neighbors with natural gas using a more direct, and potentially cheaper, route than the one through Ukraine.

Beyond its economic benefits, the proposed pipeline has political implications, too. Now that Ukraine can source nearly all of its natural gas from European countries, Moscow no longer enjoys the power that it once had over Kiev (though, ultimately, the natural gas is still Russian). Russia does not want to do any favors for a Ukrainian government that is not under its influence. Unless Gazprom builds an alternative pipeline to Europe, Ukraine can use the existing route as leverage in negotiating with Russia. This is a political and financial vulnerability that neither Moscow nor Gazprom can afford.

Poland has fought long and hard against Nord Stream II. And though its competition regulations have driven Gazprom's Western partners out of the deal, it appears that progress on the pipeline will continue, for now. For Gazprom, the project's difficulties are just another in a series of challenges that it has faced in the past decade as it tries to shed its reputation as Moscow's political pawn in Europe.

Weak fundamentals curb oil/gas correlation at Dutch TTF hub

ICIS, *16.08.2016*



The correlation between key forward gas contracts at the TTF and front-month Brent crude prices has sunk to a 2016 low, as weak gas fundamentals have gripped European hubs.

Based on ICIS closing price assessments of the third quarter ahead at the TTF and ICE front-month Brent crude futures, the ten-session rolling correlation coefficient between the two commodities sank to a low of -0.7 on 12 August – indicating no discernible correlation. This was fractionally below the previous 2016 low recorded early in January and in stark contrast to the +0.74 correlation coefficient that was observed between April and the end of July.

European gas prices often take their lead from the direction of oil as hub contracts are traded by some companies to hedge and optimise the offtake of gas delivered under oil-indexed supply contracts, which include a lag of around six-to-nine months on average within their formulae.

Despite the rapidly declining incidence of oil-indexation within European supply contracts, the historical prevalence of oil-indexation in Europe means that oil remains a significant sentimental driver in the minds of many traders, particularly when gas fundamentals appear to be balanced.

However, since the start of August front-month Brent crude futures have arrested the gentle downward trend that was in evidence through June and July, rising again towards the $50/bbl mark, while European gas contracts have not followed suit.

The third quarter ahead at the TTF – for delivery around the time that current oil prices are likely to feed into some companies' oil-indexed supply agreements – has shed more than 3% of its value since the start of August, according to ICIS closing price assessments. Oil by contrast, has gained nearly 15% in value across the same period.

An increasingly weak fundamental outlook for the European gas market has helped the TTF curve resist rising oil prices early in August, with global LNG export capacity gradually increasing, sustained pipeline supply to Europe and a bearish short-term gas storage scenario.

The second train at US LNG terminal Sabine Pass is scheduled for completion by late September, although trading sources have indicated that the first commissioning cargo could load as early as August. Only two US LNG cargoes have so far made their way from Sabine Pass to Europe, but the new train will boost LNG supply to the Atlantic basin which may indirectly maintain downward pressure on European hub prices, even if few cargoes reach the continent.

On the storage front, total European gas stocks were 13 percentage points ahead of the previous year according to data collated by ICIS on 16 August, at nearly 58 billion cubic metres. Lower demand to inject gas into storage also typically weighs on gas prices.

In Britain, an outage at the long-range Rough facility has fully restricted injections for the rest of the summer while uncertainty about the site's capability for withdrawals in the winter means there is some risk that the site may be unusually full ahead of the next injection cycle.

On 4 August, Centrica Storage gave an indication as to how far withdrawal capacity at Rough could be restricted through the winter (see ESGM 8 August 2016). A minimum of 6 million cubic metres (mcm)/day of withdrawal capacity is expected to be available, rising to as much as 37mcm/day in the best-case scenario. This would be down from the 42mcm/day rate that Rough typically supplies gas to the British market.

Russian and Norwegian pipeline supply to Europe has also shown little sign of slowing throughout 2016 (see ESGM 3 August 2016), except for maintenance restrictions, feeding bearish short-term sentiment even further. Support for gas prices appears to be in short supply, but the potential for coal-to-gas fuel switching to lift European demand as prices fall is one possible scenario which may help to balance the fundamental outlook.

PETFORM

German gas plant profitability over coal to be short lived

ICIS, *18.08.2016*

Gas-fired plants are set to be more profitable in Germany than some coal plants next month, but this unusual situation will probably be short-lived, according to traders. As gas is a more expensive fuel than coal, German gas-fired plants have long been unable to be profitable by generating baseload because wholesale electricity prices in the country are low.

But early in August, the front-month baseload clean spark spread turned positive, reaching its highest level since ICIS records started in 2013. A clean spark spread is a measure of gas-fired power generation profitability that takes into account the cost of emission certificates.

Later in the month, the September Baseload clean spark spread surpassed the equivalent clean dark spread, which measures coal-fired generation profitability, for coal plants with lower efficiency. Gas price weakness coupled with coal market strength led to the turnaround.

ICIS assessed the September '16 contract traded on the German NCG natural gas hub at €11.95/MWh on 16 August, almost a four-month low. The downward trend kicked-off during the second half of July. "First and foremost, contracts are pressured by an excellent supply picture. Even reduced production in Norway and maintenance at Nord Stream cannot counter that," one trader active on the German hub said.

The Nord Stream pipeline that transports Russian gas into Germany at the Greifswald beaching point was closed between 9-17 August for annual maintenance. Before the start of the works more than 120 million cubic metres (mcm)/day were imported via that point. As of Wednesday, Nord Stream inflows started to ramp up again, putting additional pressure on the prompt, which has had a knock-on effect on the near curve.

On 15 August a net 117mcm/day was imported from Norway, down from 140mcm/day one session earlier. This was due to maintenance at several Norwegian gas infrastructures, including the Kollsnes processing plant that started on 13 August and will end on 27 August, cutting throughput by a rate of up to 39mcm/day.

"On the prompt, we have an enormous oversupply with Rough [volumes coming to continental Europe], full storage sites on the continent and especially cheap deliveries from oil-linked contracts," a second trader active on the market said. European coal prices meanwhile have been on an upward trend recently, supported by high demand in Asia. "I don't see why it should be long-lasting," a power trader at a European energy supplier said about gas-fired plants being more profitable in Germany than coal plants with baseload generation. Other power traders shared this view.

PETFORM

While an outage at UK's Rough gas storage means more gas is available to fill continental European storages currently, it might lead to more constrained supply at continental hubs in the winter, traders said. This is because the Rough outage is likely to mean higher gas demand in the UK in the winter as the country can draw on less gas from storage.

Considering this, some market participants were surprised that data about good continental European storage levels apparently caused gas prices to fall. Expectations of LNG cargo arrivals to Europe might be easing concerns that the Rough outage could cause continental European gas prices to increase in the winter.

"If in Germany if we won't have a carbon price floor like in the UK, then I think coal-fired plants will still be better off in years to come compared to gas-fired plants," Christian Tode, research assistant at German EWI institute said. A carbon price floor would decrease the advantage of coal plants because they are more polluting than gas-fired generation. The fuel switch is likely to be short-lived also due to coal price expectations. Coal prices are likely to shed value in the near term, traders have said.

Is a meaningful rebound on the horizon for U.S. natural gas?

Oilprice, *15.08.2016*

Cheniere Energy has long been my favorite contrarian indicator in the U.S. natural gas market. A contrarian indicator is an event which suggests a broadly held view--in this case, the view that U.S. natural gas supplies will grow and remain cheap for decades--is about to begin a reversal.

As the company shipped its first cargo of U.S. LNG for export, the glut of cheap U.S. natural gas seem to vindicate Cheniere's plans. I imagined that the shipment was not confirmation of Cheniere's assumptions, but a contrarian signal that natural gas production was about to dip and that prices were finally going to turn higher in a sustained way.

I say this based on the timing of Cheniere's last scheme, a U.S. natural gas import terminal that now sits unused next to its newly built LNG export terminal in Louisiana. The import terminal received its first LNG shipment in April 2008, just two months before U.S. natural gas prices peaked around $13 per thousand cubic feet, collapsing to a low of $2.06 by September 2009. For comparison, last week U.S. natural gas futures for September delivery closed at $2.59.

Cheniere's stock price went from above $40 in 2007 to around $3 by September 2009, having gone below $1 at one point. When Cheniere planned and built the import terminal, most everyone believed that U.S. natural gas production would soon go into decline.

But, only months after the terminal was operational, there was no longer any reason to bring LNG into the United States. It was just too expensive to compete with cheap domestic production which continued to grow.

So, Cheniere got the idea that it would reinvent itself as an LNG exporter. After all, because of the so-called shale revolution U.S. natural gas production was supposed to rise for decades, keeping U.S. domestic gas cheap. The rest of the world, Europe and Asia especially, would be hungry for LNG supplies and would pay dearly for them.

That was then. Now, of course, LNG prices have collapsed because of worldwide overexpansion of LNG capacity and flat demand in a world struggling to grow. Prices which had been above $11 in Europe and between $15 and $18 in Japan in 2012--while Cheniere was building its export terminal--have now swooned to $4.51 in Europe and $6 in Japan. Even back in 2012 Cheniere's foray into LNG exports seemed like a risky proposition to me.

What's worse for Cheniere is that the first signs of a U.S. natural gas production decline have appeared. Shale gas, the main driver of U.S. production growth, is expected to decline. That means that at some point supplies will shrink enough that U.S. prices will rise and likely make the margin between the U.S. price and European and Asian prices even smaller. And, as it turns out, the peak in U.S. natural gas production may arrive by 2020 if it hasn't already.

I have not scrutinized Cheniere's financial statements. I do not know the structure of its debt. Nor have I studied the arcana of the company's existing contracts for delivery of LNG cargoes. Cheniere reports that 87 percent of its capacity is under long-term contracts where all the price risk is taken by the buyer. If Cheniere makes money, it will make money based on service fees.

With LNG prices as low as they are and a glut of new LNG facilities still planned, will other buyers from other new facilities take all the price risk which seems only to the upside? Will they insist on a more equitable sharing of that risk? Will the low spot price of LNG lead to more short-term arrangements for the time being? These are all good questions for those contemplating an investment in LNG facilities.

An earnings report from Cheniere released last week missed estimates and may or may not indicate a problem. Famed short seller Jim Chanos--who has no doubt done all the analysis I've failed to do--thinks the company has many problems.

In December of last year I suggested that one possible surprise in the year ahead was that several approved U.S. LNG projects might be delayed or canceled, something that seemed unlikely at the time. In late July Royal Dutch Shell announced that it was delaying a decision on whether to build an LNG export facility in Louisiana. Earlier in the month, the company announced a delay for a similar project in British Columbia. Just last week Sempra Energy announced a delay in further work on an expansion of its Louisiana-based LNG export operation.

Outside North America a cancellation in Australia and a delay in Cameroon show that the problem is worldwide. Possibly making matters worse in the long run are planned natural gas deliveries by pipeline from Russia to China starting in 2019 that might sell for around $10 to $11.

If that becomes the ceiling price in China, LNG from the United States will almost surely be unable to compete for the large Chinese market. Because Cheniere is taking no price risk on almost all of its exports, the company may make out just fine no matter what happens to U.S. natural gas or world LNG prices. (I leave it to the financial analysts to figure out, for instance, whether Cheniere's arrangement with Britain's BG Group to supply gas at 115 percent of the Henry Hub price plus a $2.25 per million BTUs liquefaction fee will provide adequate cash flow.)

But, I'm guessing that Cheniere's first exports of LNG will, in hindsight, likely mark a bottom for U.S. natural gas prices--just as its first imports of LNG nearly coincided with the top of the gas market in 2008. U.S. natural gas production is likely to shrink in the coming years, and Cheniere is proposing to take more and more of that shrinking supply and export it. And, so are several other companies (though I doubt that many of them will complete their projects).

The question for investors is whether U.S. LNG operators will make money or simply destroy capital as Cheniere did in the past with its LNG import operations. The question for policymakers is whether shipping U.S. natural gas abroad is a good idea even as the country continues to import natural gas to meet its needs.

Brent oil price hits $49 per barrel

Natural Gas Europe, *05.08.2016*

International benchmark Brent oil price traded at $49.33 at 21:30 GMT per barrel late on Tuesday, a slight rise compared to Monday but also higher than any of last week's figures. At the beginning of the week, Brent oil price was $47.30 per barrel at 05:31 GMT.

On Friday, it jumped to as high as $46.65 and settled at $46.15, 0.24 percent higher than the previous day. After the API data revealed that crude oil inventories in the U.S. decreased on Tuesday, the global oil price increased. According to the API, crude oil inventory decreased 1 million barrels while the gasoline inventory reached 2.2 million barrels.

In addition, American benchmark West Texas Intermediate took a further upturn at $46.31 per barrel at 08:03 GMT per barrel on Wednesday, having surged to its highest level of the week on Friday at $44.65. Some analysts suggest that Brent oil price is now striving to reach the $50 per barrel mark.

Announcements & Reports

Energy Relations between Russia and China: Playing Chess with the Dragon

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/energy-relations-russia-china-playing-chess-dragon/

Oil and Gas: LNG at the Crossroads

Source : Deloitte
Weblink : https://www2.deloitte.com/content/dam/Deloitte/us/Documents/energy-resources/us-er-oil-and-gas-lng-at-the-crossroads.pdf

Hydrocarbon Developments in the Eastern Mediterranean

Source : Atlantic Council
Weblink : http://www.atlanticcouncil.org/images/publications/Hydrocarbon_Developments_in_the_Eastern_Mediterranean_web_0801.pdf

Natural Gas Weekly Update

Source : EIA
Weblink : http://www.eia.gov/naturalgas/weekly/

This Week in Petroleum

Source : EIA
Weblink : http://www.eia.gov/petroleum/weekly/

Upcoming Events

Asia Pacific Drilling Technology Conference & Exhibition

Date : 22 – 24 August 2016
Place : Singapore
Website : www.spe.org/events/apdt/2016

Ultra - Deepwater & Onshore Technology Conference

Date : 22 – 24 August 2016
Place : Texas, USA
Website : www.rpsea.org/events/503

FSRU Asia Summit

Date : 06 – 07 September 2016
Place : Amara Sanctuary Resort Sentosa, Singapore
Website : http://www.fsrusummit.com/

23rd Annual India Oil & Gas Review Summit & International Exhibition

Date : 09 – 10 September 2016
Place : Mumbai, India
Website : www.oilgas-events.com/india-oil-gas/

Rio Oil & Gas Expo & Conference

Date : 14 – 16 September 2016
Place : Rio de Janeiro, Brazil
Website : https://www.whereinfair.com/rio-oil-gas-expo/rio-de-janeiro/2016-Sep/

Operational Excellence in Oil and Gas Europe

Date : 19 – 21 September 2016
Place : London, UK
Website : http://www.opexinoilandgasemea.com/

Iran International Petroleum Congress (IIPC)

Date : 19 – 21 September 2016
Place : Tehran, Iran
Website : www.iranpetroleumcongress.com/

2016 Deloitte Oil & Gas Conference

Date : 21 September 2016
Place : Houston, USA
Website : www2.deloitte.com/us/en/pages/energy-and-resources/events/oil-and-gas-conference.html

Global Oil & Gas - Black Sea and Mediterranean

Date : 22 – 23 September 2016
Place : Athens, Greece
Website : www.iene.eu

Global Oil & Gas South East Europe & Mediterranean Conference

Date : 28 – 29 September 2016
Place : Athens, Greece
Website : www.oilgas-events.com/Global-Oil-Gas-Black-Sea-Mediterranean-Conference/

Kazakhstan International Oil & Gas Conference (KIOGE) 2016

Date : 05 October 2016
Place : Almaty, Kazakhstan
Website : www.kioge.kz/en/conference/about-conference+

23rd World Energy Congress

Date : 09 - 13 October 2016
Place : Istanbul, Turkey
Website : http://wec2016istanbul.org.tr/

International Conference on Oil Reserves & Production

Date : 17 - 18 October 2016
Place : London, UK
Website : www.waset.org/conference/2016/10/london/ICORP

15th ERRA Energy Investment & Regulation Conference

Date : 17 - 18 October 2016
Place : Budapest, Hungary
Website : http://erranet.org/InvestmentConferences/2016

The 8th Saudi Arabia International Oil & Gas Exhibition (SAOGE)

Date : 17 - 19 October 2016
Place : Dammam, Saudi Arabia
Website : www.saoge.org

21st IENE National Conference "Energy and Development 2016"

Date : 24 - 25 October 2016
Place : Athens, Greece
Website : www.iene.eu

SPE Russian Petroleum Technology Conference & Exhibition

Date : 24 - 26 October 2016
Place : Moscow, Russia
Website : www.spe.org/events/rpc/2016/

Asia Pacific Oil & Gas Conference & Exhibition (APOGCE)

Date : 25 - 27 October 2016
Place : Perth, Australia
Website : www.spe.org/events/apogce/2016/

International Conference & Expo on Oil & Gas

Date : 27 - 28 October 2016
Place : Rome, Italy
Website : www.oil-gas.conferenceseries.com/

4th Iran Europe Oil & Gas Summit

Date : 01 – 03 November 2016
Place : Berlin, Germany
Website : www.iransummit.com/

2nd International Conference & Expo on Oil & Gas

Date : 02 – 03 November 2016
Place : Istanbul, Turkey
Website : www.oil-gas.omicsgroup.com/

European Autumn Gas Conference 2016

Date : 15 – 17 November 2016
Place : Hague, Netherlands
Website : http://www.theeagc.com/

21st Annual Oil & Gas of Turkmenistan (OGT) Conference 2016

Date : 16 – 17 November 2016
Place : Ashgabat, Turkmenistan
Website : http://www.ogt.theenergyexchange.co.uk/

Project Financing in Oil & Gas

Date : 21 – 22 November 2016
Place : London, UK
Website : www.smi-online.co.uk/energy/uk/conference/Project-Financing-in-Oil-and-Gas

5th Greek Cyprus Energy Symposium

Date : 29 - 30 November 2016
Place : Nicosia, Greek Cyprus
Website : www.iene.eu