Oil & Gas Bulletin
28.10.2016
PETFORM

PwC: Security, liberalization to remain on energy agenda

AA Energy Terminal, *28.10.2016*

Turkey has learned a valuable lesson in natural gas supply security and has started to diversify its energy mix after relations soured last November between Turkey and Russia, the country's main supplier of natural gas, partner of PricewaterhouseCoopers (PwC) global services company, said.

Relations between the two countries were severely damaged when two Turkish F-16 fighter jets on an aerial patrol shot down a Russian warplane, which violated Turkey's airspace. After a nine-month hiatus in relations, both countries decided to reconcile and relations improved.

"Supply security gained in importance after this," Murat Colakoglu, also the EMEA Region Power & Utilities Tax Leader for the company, told Anadolu Agency in an interview. "The government started making more efforts towards diversifying production sources and placing more importance on national coal, nuclear and renewable energy. It is important to lessen the role of natural gas in electricity production to decrease dependency," he argued.

Colakoglu also said he expected more fundamental steps to be taken in the short term in Turkey's energy market liberalization process. "Substantial steps have been taken towards liberalization in natural gas and electricity, such as the founding of the Energy Exchange Istanbul," Colakoglu said. "But more than 40 percent of the electricity is still generated by state-owned plants. And the government is still able to intervene in the pricing. This means we can't talk about an entirely liberal energy market at the moment."

The Energy Exchange Istanbul (EP AS) was started in 2015 and became a member of the Association of European Exchanges (EUROPEX) in June 2016. Turkey currently generates 45 percent of its electricity through natural gas plants as Turkey's state-owned BOTAS pipeline corporation imports 98 percent of the gas, according to Colakoglu.

He also suggested that Turkey's energy market and companies would need to "transform" their business models in line with liberalization. "This is especially valid for electricity distribution companies," he said.

He emphasized Turkish electricity companies had already started working like this on a micro-scale. Companies were gearing for custom-made packages for individual consumers, with discounts being offered in areas such as subscription for services of other companies as part of marketing campaigns. Colakoglu also remarked that the infrastructural network for energy within Turkey has to be substantially improved as it still is not possible to distribute natural gas everywhere within Turkey due to its inadequate infrastructure.

The same problem is valid for electricity, Colakoglu added. “We have 77 gigawatts of installed capacity in electricity and this is planned to increase to 140 gigawatts in the near future,” he said. “But at the moment, we can only use 35-40 GW of this at peak time, and we have to concentrate on solving this problem,” he explained.

But despite these issues, energy investments in Turkey are expected to be very profitable in the long-run due to Turkey’s dynamic young population and in line with the global market’s needs, Colakoglu said. “These are issues that can and will be solved,” he said. “We know this because western countries went through the same steps to reach the stage they are at now,” he said.

Turkey to boost gas storage before onset of winter

AA Energy Terminal, *26.10.2016*

Turkey will enhance its daily natural gas supplies through developing new storage facilities and in improving capacity of the current facilities to cope with extra consumption in winter, Turkish Energy Minister Berat Albayrak said.

With the aim of eliminating natural gas storage constraints in Turkey especially in the winter, Albayrak explained that with the introduction of a new Floating Storage Regasification Unit (FSRU), Turkey’s natural gas network will be able to cope with 20 million cubic meters (mcm) of natural gas per day. The FSRU will come online in December 2016 and will provide much-needed storage capacity for Turkey’s gas.

Turkey’s natural gas consumption reached as much as 230 mcm per day last winter - an amount which necessitated additional measures to be taken, including cutting natural gas supplies to heavy industrial facilities, once consumption reached over 200 mcm per day. Albayrak also said that the new FSRU’s installation will be ready within a record time within nine months.

Gaining capacity will also be achieved through increasing storage at existing facilities as in the Aliaga facility in the eastern city of Izmir, which currently has 6 billion cubic meters of capacity. “The storage capacity of Aliaga will double in December, and this facility will increase from 16 mcm per day to 25 mcm. It will further rise to 39 mcm per day by next summer,” Albayrak said.

Additionally, the “Tuz Golu Natural Gas Storage Facility” will be up and running ahead of schedule. “We plan to move the opening of the Tuz Golu facility earlier. We will hold a ceremony for the compression of first cavern gas to the storage facility before this winter,” Albayrak explained. Turkey imported around 30 billion cubic meters (bcm) of natural gas from Russia and 10 bcm of gas from Iran in 2014, and the country consumed around 48 bcm for its domestic market alone. Turkey was the fifth largest natural gas importer in the world in 2015 with 48 billion cubic meters (bcm) while Japan ranked first with 117 bcm and Germany second with 73 bcm.

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Turkish Energy Minister: No delay expected for TurkStream

Anadolu Agency, *26.10.2016*

Turkey does not foresee a delay to the scheduled timetable for the TurkStream natural gas pipeline project announced by the Russian project partner Gazprom's chairman who said the two lines would be ready by the end of 2019, Berat Albayrak, Turkey's energy minister, said Wednesday.

Speaking in Ankara, Albayrak said the TurkStream, whose intergovernmental agreement was signed on Oct.10, would be a win-win project for Turkey. Russia announced two new pipeline projects for Europe in the last few years - the TurkStream and NordStream II, Albayrak explained.

"Turkey sometimes has problems in receiving Russian gas via the Western line through Ukraine, and that is one of the reasons why Russia developed the infrastructure [for the TurkStream] and announced a project in accordance with its regional energy politics."

He also stressed that the TurkStream would not only supply Turkey, but would serve Europe as the second line of the project is planned to transfer gas to the southern European markets. Relations between Turkey and Russia were severely damaged when two Turkish F-16 fighter jets on an aerial patrol shot down a Russian warplane late November. After a nine-month hiatus in relations, both countries decided to reconcile and relations improved.

Russian President Vladimir Putin visited Istanbul to participate in the World Energy Congress which was held between Oct. 9 and 13. "The process for the TurkStream slowed down due to the crisis on Nov. 24 between Russia and Turkey. But now everything is back on track," Albayrak said.

The minister hailed the importance of the project in having a positive effect on relations in the region and in eliminating potential gas supply delays or stoppages from the Western line via Ukraine. "There is a plan to start construction in 2017 and to complete by 2019. We don't foresee any delay for its completion," he noted. The project, announced by Putin during a December 2014 visit to Turkey, will carry gas from Russia under the Black Sea to Turkey's Thrace region and potentially to Europe through a second line.

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Energy Minister Albayrak suggests East Mediterranean gas may serve as a positive alternative

Daily Sabah, *26.10.2016*

Recalling that East Mediterrinean natural gas has been on Turkey's agenda for a long while, Albayrak said they discussed this issue with the Israeli minister at the 23rd World Energy Congress.

Turkey and Israel have agreed to establish a mutual energy dialogue, further strengthening ties between the countries following a six-year pause in relations, Israeli Energy and Water Resources Minister Yuval Steinitz said during the congress. Turkey and Israel have agreed to establish a mutual energy dialogue, further strengthening ties between the countries, Israeli Minister Yuval Steinitz said.

After attending the 23rd World Energy Congress in Istanbul, which marked the first ministerial-level visit since the raiding of a Turkish flotilla in international waters in 2010, Steinitz said that Turkey and Israel plan to enhance cooperation in the energy field. "Turkey and Israel will examine the feasibility of building a gas pipeline," he said.

Minister Steinitz noted that his meeting with Turkey's Energy and Natural Resources Minister Berat Albayrak marked an important moment in the normalization of relations between the two countries. "I am one of the greatest supporters for normalization of relations," the Israeli minister said.

"This is a token of the normalization process that has just started between our two states, Turkey and Israel. I came here on behalf of the Israeli government and people. I am confident that most people are eager to see peace and stability in the region and good relations and economic cooperation between Turkey and Israel."

Steinitz stated that Israel has other options for energy but Turkey remains an important option. "Of course, we are considering also exporting natural gas to other countries like Jordan which we signed a contract with. Egypt, which also has a pipeline going through Cyprus to Greece will be considered, but the Turkish option is very significant," he said.

According to numbers announced by the minister during a press conference, Israel has discovered approximately 900 billion cubic meters of natural gas so far. Steinitz added that his government will open up Israeli economic waters for further explorations next month.

"The scientific estimate is that most of the natural gas is yet to be found, which is around another 2.2 trillion cubic meters," Steinitz said. The energy minister expects to end up with approximately 3 trillion cubic meters of natural gas, which is much more than Israel can consume.

Israel is seeking ways to reach the European market, which is the biggest in terms of natural gas consumption. The idea seems to be in alignment with Europe's interest, since supply security and diversification of sources top their agenda. Israel can also export its natural gas to Europe via Cyprus and Egypt. However, this option requires establishing liquefied natural gas facilities at a high cost. Turkey, therefore, seems the most advantageous and safest route.

"We would like to consider exporting gas both to our neighboring countries, Jordan and Egypt, or to Europe through different pipelines,"Steinitz said, adding, "one of the very important options is connecting Europe through Turkey."

According to energy minister Berat Albayrak, Turkey does not foresee a delay to the schedule for the Turkish Stream natural gas pipeline project announced by Russian project partner Gazprom's chairman, who said the two lines would be ready by the end of 2019.

Speaking at Anadolu Agency's Editors' Desk in Ankara yesterday, Albayrak said that the Turkish Stream, whose intergovernmental agreement was signed on Oct.10 in Istanbul, would be a win-win project for Turkey.

Russia has announced two new pipeline projects for Europe in the last few years, the Turkish Stream and NordStream II, Albayrak explained. "Turkey sometimes has problems in receiving Russian gas via the Western line through Ukraine, and that is one of the reasons why Russia developed the infrastructure (for the Turkish Stream) and announced a project in accordance with its regional energy politics."

Albayrak stressed that the Turkish Stream would not only supply Turkey, but would serve Europe as the second line of the project is planned to transfer gas to the southern European markets. However, Europe needs to give a guarantee to Russia to benefit from the Turkish Stream, according to Russian Foreign Minister Sergey Lavrov.

The Turkish Stream project aims to transfer Russian natural gas to Europe via the Black Sea and Turkey. Under Russian state-owned energy giant Gazprom's plans, the Turkish Stream pipeline will be split into four lines with a total capacity of 63 billion cubic meters a year. In December 2014, Russia scrapped the South Stream pipeline project that would have transported natural gas to Europe via Bulgaria, and brought forward the proposed four-line project that will bypass Ukraine and stretch to the Turkish-Greek border through the Black Sea.

Speaking to European businessmen in Moscow on Tuesday, Lavrov was quoted as saying, "After the failure of South Stream, we will be ready to extend Turkish Stream to the territory of the European Union only after we received an unambiguous formal paper that guarantees the implementation of this project." According to sources, Lavrov stressed that, "In the foreseeable future it will be very difficult for EU countries to live without Russian energy resources."

Relations between Turkey and Russia froze when two Turkish F-16 fighter jets on an aerial patrol shot down a Russian warplane in late November 2015. After nine-months, the countries decided to reconcile and relations improved. Russian President Vladimir Putin visited Istanbul to participate in the World Energy Congress which was held between Oct. 9 and Oct. 13.

"The process for the Turkish Stream slowed down due to the crisis on Nov. 24 between Russia and Turkey. But now everything is back on track," Albayrak said. The minister hailed the importance of the project in having a positive effect on relations in the region and in eliminating potential gas supply delays or stoppages from the Western line via Ukraine. "There is a plan to start construction in 2017 and to complete by 2019. We don't foresee any delay for its completion," he noted.

Russian envoy to Ankara: Turkish Stream is crucial for West

Daily Sabah, *28.10.2016*

Russian Ambassador to Ankara Andrey Karlov has said the project that will deliver Russian gas to Turkey and possibly to Europe is not only important for Russian-Turkish relations but it is also crucial for all countries west of Turkey.

"The signing of the Turkish Stream agreement between Russia and Turkey carries great importance. The economic benefits of the project for the two countries are already clear. However, the entire world is also interested in this project," Karlov said. Karlov also Turkish Stream related questions dominated Russian FM Lavrov's meeting with representatives AEB in Moscow.

"The European businesspersons focused on the concrete economic aspect of the project and asked when the project would be completed and when Europe could receive its first natural gas. Then, they asked how the natural gas would be transferred into Europe. Therefore, this project is crucial for all the countries to the west of Turkey, not only for Russian-Turkish relations," Karlov added.

Regarding the natural gas transfer to Europe via the Turkish Stream, Ambassador Karlov said that this was possible, but first the European Commission had to make an official request for it. "The technical aspects of the project are still being worked. We believe that the first natural gas transfer to Turkey will be accomplished by the end of 2019," he said.

The project, announced by Russian President Vladimir Putin during a December 2014 visit to Turkey, will carry gas from Russia under the Black Sea to Eastern Thrace, located on the European side of Turkey. One line, with a 15.75 billion cubic meter capacity, is expected to supply the Turkish market, with a second carrying gas to Europe.

Following the normalization of Turkish-Russian relations on Oct. 10, Turkey and Russia signed an inter-governmental agreement on realizing the construction of the planned Turkish Stream gas pipeline to pump Russian gas under Turkish waters in the Black Sea towards Europe.

Unwanted: The $10 billion gas deal with Israel that Jordan needs

Bloomberg, *27.10.2016*

For one hour every Sunday, Alaa Wishah and his family sit at home in the dark. The pharmacist in Jordan's capital of Amman isn't trying to save money. Wishah, his wife and their three children are joining the protest against a $10 billion energy import agreement with Israel.

"Even if the alternatives are harder and more expensive, we don't want to get gas from the Zionist entity," said Wishah, 40. "It's not theirs; it belongs to the Palestinians." The weekly demonstrations in homes and on the streets of Amman are relatively low-key and unlikely to lead to a cancelation of a deal that would provide Jordan with gas for 15 years.

What they highlight, though, is the resistance among some Arabs to turn closer economic ties from energy resources in the eastern Mediterranean into warmer relations with Israel. The gas export contract is Israel's first from its new Leviathan field. Shipments to Jordan will start by 2019, traversing Israel through a pipeline that is due for completion this year. It's part of a series of planned energy agreements that are shaping politics in the region, for better or worse.

Turkey and Israel have patched up relations and are discussing a pipeline linking them. Talks on the reunification of Cyprus are advancing. Yet, there's the war in Syria, a deepening dispute between Israel and Lebanon over maritime borders and domestic opposition in Jordan and Egypt.

"There are so many more complications than there are solutions to building the optimal deals in the eastern Mediterranean," Emily Hawthorne, Middle East and North Africa analyst at strategic advisory firm Stratfor, said from Austin, Texas. Israel "really wants to be able to use this strategically, to bring countries like Egypt and Jordan that it already has peace deals with closer," she said.

Many countries put energy and food supplies over politics. The U.S. buys oil from Venezuela and Russia while the Soviet Union bought American wheat during the Cold War in the 1970s. On the face of it, the contract signed on Sept. 26 allows Jordan to replace supplies from Egypt that became unreliable in recent years after a pipeline that connects the countries was sabotaged by Egyptian militants more than 25 times.

Beneath the surface, though, suspicion and hostility remains, according to Oded Eran, a senior research fellow at the Institute for National Security Studies in Tel Aviv and a former Israeli ambassador to Jordan. Israel is still seen by many Jordanians as an enemy despite a peace accord reached in 1994, even as Prime Minister Benjamin Netanyahu calls the growing normalization with Arab countries as a "great and revolutionary process."

“It is in a way cementing the practical relations with two Arab states, but it doesn’t change the map of political relations between Israel and the region,” he said. In Jordan, there are weekly protests organized by the “Jordanian National Campaign Against the Gas Agreement with the Zionist Entity.”

Energy Minister Ibrahim Saif didn’t respond to requests for an interview via his office in Amman, while government spokesman Mohammad Momani told Jordanian television this month that the agreement doesn’t mean the country supports the occupation of Palestine and it will not become “hostage” to Israeli gas.

Wishah, the Amman pharmacist, said between 1,000 and 2,000 people have taken part in each rally. That attendance is much lower than those denouncing the removal of Jordanian government subsidies on cooking gas and other fuels in 2012, and many people in Amman are more concerned with economic hardship and security.

“If it’s in the interest of the country, it’s not wrong to get it from Israel,” said Mohammed Ali, 40, a mechanic in Amman. “What’s wrong are the protests. This is a country of security and safety and demonstrations cause problems.”

The campaign’s coordinator, Hisham Bustani, said the government will struggle with the deal, especially because the pipeline that will carry the gas from Israel to Jordan might be at risk of sabotage. It also puts Jordan’s energy supplies at the mercy of Israel, he said.

“The gas will turn Jordanians into direct financiers of Israel and force them to normalize relations with it against their will,” said Bustani, 41, a dentist. “It will accomplish what the peace treaty hasn’t achieved since 1994.” The Jordanian government is mindful of the difficulties, even with assurances that getting gas from Israel will be cheaper than importing it from other countries.

The kingdom’s state-run National Electric Power Co., or Nepco, was careful not to mention Israel in its official announcement of the deal. The gas will come from the Leviathan field and the agreement was signed between Nepco and U.S. company Noble Energy Inc., according to the Jordanian company. It made no mention of Noble’s other partners, including Israel’s Delek Drilling-LP.

Wishah won’t be deterred. His children, he said, are happy to participate in an action that’s meant to send a message to the government rejecting economic cooperation with Israel. He will continue to participate “so at least I can tell my children I tried to make a difference,” he said.

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Israel sees higher chance of gas export to Europe via Greece

Bloomberg, 26.10.2016

Senior officials from Italy, Greece, Cyprus and Israel agreed to advance talks on a pipeline from Israel to Europe after an EU-sponsored study showed the project would be "very feasible," Israel's Energy Minister Yuval Steinitz said in an interview.

The study showed the pipeline, which would traverse Cyprus and Greece before reaching Italy, would cost about 5 billion euros ($5.5 billion), much less than previously estimated, he said. The officials met Wednesday in Athens, together with a representative from the EU energy commission, to review the study and discuss ways to move the project forward.

"When we were talking about this a year ago, many thought it was unrealistic, but now the EU is saying this could work out, so this is a big breakthrough," Steinitz said. "The four governments decided to continue promoting this project. It was checked thoroughly by EU experts and it seems it will be very feasible."

Israel is ready to sign long-term export contracts after the last of the regulatory, legal and political challenges that held up gas development for years was swept away in May. Two major discoveries in the past decade have put Israel on course to become a gas exporter, but the country still must decide how it will move the gas overseas. Israel's TA-Oil & Gas Index of stocks rose 0.2 percent to 1.071.40 at 10:56 a.m. in Tel Aviv.

A pipeline to Greece would have to go deep underwater and would be the world's longest undersea connection, but the study showed that it's feasible from an engineering perspective, Steinitz said. He stressed that the idea of exporting gas to Turkey, with whom Israel has held talks about a pipeline, was also still on the table. "This would not be instead of Turkey," he said. "I've always said we need at least two pipelines."

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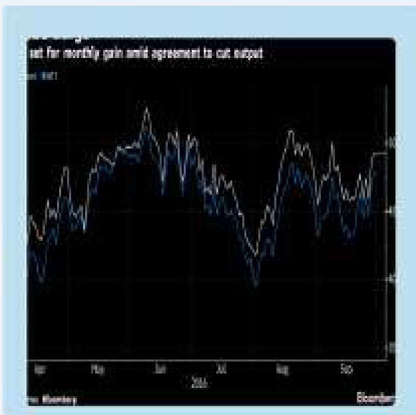
Saudi Arabia faces tough OPEC equation with mounting ‘exemptions’

Bloomberg, *25.10.2016*



Saudi Arabia faces the prospect of much deeper -- and financially painful -- oil production cuts after Iraq joined the queue of group members seeking immunity from the deal hatched in Algiers.

In addition to Iraq, the second-biggest exporter in the group, Iran has already sought to exclude itself. Output is also recovering from fields in Nigeria and Libya, two more countries that were exempted from the Algiers deal because violence has wrought havoc in their oil industries. Taken together, more than a third of OPEC’s production now stands outside the plan.

Iraq’s plea to be left out prompted Olivier Jakob, a consultant at Petromatrix GmbH, to quip on Twitter that the oil-club stood for the “Organization of Producers Exempt from Cuts.” The worsening OPEC equation presents Saudi Arabia with a difficult choice after its Algiers U-turn: carry a greater burden within the group, ceding market share to other producers, or lose credibility by softening the terms of the deal. In a worst-case scenario, Saudi Arabia will have to cut production by more than 1 million barrels a day, sending the kingdom’s output to a two-year low.

While oil has rallied more than 15 percent since Algiers, the growing cost of following through is becoming clear. During the last two weeks, Saudi Arabian Energy Minister Khalid Al-Falih has appeared to give himself room for maneuver. In a speech in London last week, he mentioned the possibility of an OPEC freeze as well as a cut. He’s also stressed the need for non-OPEC nations to take part in a global deal to manage supply.

“Oil markets started moving into balance recently, but we in OPEC, along with producers from outside the group, started intense consultations to take the right action to quicken the re-balancing and market recovery,” Al-Falih said Sunday in a speech.

In Algiers, OPEC agreed to reduce its production to a range of between 32.5 and 33 million barrels a day. That leaves Saudi Arabia and other countries willing to cut facing two very different potential outcomes.

In a best-case scenario -- based on Nigeria meeting its target to restore production, Libya maintaining recent improvements and Iran, Iraq and Venezuela staying at September levels -- reductions of 1.3 million barrels a day would be required to meet the top end of the Algiers target. In a worst case, where Iran, Iraq and Venezuela produce more than they did last month, that rises to over 2 million barrels a day, based on Bloomberg calculations. “Everyone has a lot to lose if they do not fill in the details and implement a final agreement at the end of next month,” said Mike Wittner.

“Of all the developments, the one that worries me the most for posing an issue for the other members of OPEC is Iraq.” OPEC representatives and counterparts from countries outside the group will meet in Vienna later this week to discuss how the burden of output cuts is shared. The most contentious topic is likely to be how the production of individual countries is measured.

Since Algiers, Iraq and Venezuela have criticized OPEC estimates of their production, which are compiled from secondary sources that include independent analysts and news organizations. Those estimates will form the basis for any future OPEC deal limiting production, according to the group’s secretary-general.

Iraq, which said over the weekend it shouldn’t be required to cut production as it’s fighting Islamic militants, says it’s currently pumping more than 4.7 million barrels a day, higher than estimates from OPEC’s secondary sources of 4.46 million barrels a day for September.

Venezuela is also dissatisfied with its OPEC estimates since they don’t include heavy crude production from the Orinoco basin, Oil Minister Eulogio del Pino said earlier this month. OPEC agreed in Algiers that Libya, Nigeria and Iran should receive special treatment as they’re seeking to increase their production after experiencing disruptions due to internal violence, sabotage and sanctions. So far this month, Libya and Nigeria have managed to increase their daily output by 220,000 barrels and 300,000 barrels respectively.

Iran has steadily increased its crude production since the start of the year following the lifting of sanctions. Tehran has repeated it aims to ramp up its production to a level around 4 million barrels day from around 3.7 million a day estimated by OPEC for September.

Russia -- the biggest oil producer outside OPEC -- has agreed to play a part in stabilizing the markets and is discussing different options including a freeze in output, according to the Energy Minister Alexander Novak. Production cuts are not an option for Russia, the nation’s envoy to OPEC said, according to Interfax.

While OPEC members from Angola and Gabon to Algeria and Ecuador could contribute to the required output cuts, Saudi Arabia’s main support will come from its Gulf allies of Kuwait and the United Arab Emirates, according to Wittner.

Torbjorn Kjus of DNB Bank ASA expects OPEC to over-promise in Vienna, but under-deliver on implementation. He expects Saudi Arabia to cut output by about 400,000 barrels a day and the U.A.E. to trim a further 100,000 barrels a day. The other members probably won’t comply, he said.

PETFORM

Russia sends mix signals to oil markets after Saudi meeting

Oilprice, *24.10.2016*

Russia is still not sure whether it will freeze or cut its crude oil output, said Energy Minister Novak. Al-Falih was even less precise, telling media after that, "We have managed today through a common meeting to reach a common notion to what we can reach in November."

The comments coming from both officials raise doubts about how motivated Russia is to cut or eve freeze its output. The doubts become especially evident in light of Novak's earlier comments that Russia could raise its total output by 4.02 billion barrels next year, all the while verbally toeing the company line over Moscow's support for OPEC's freeze.

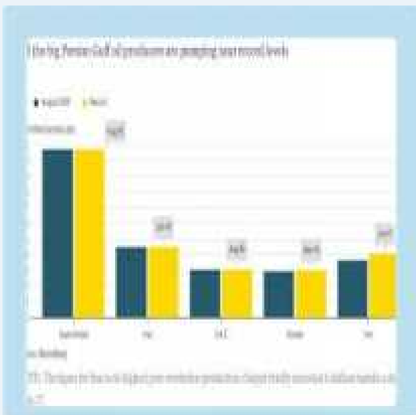
What's more, just days ago, Rosneft's head Igor Sechin said at the 5th Eurasian forum in Italy that Russia could expand its daily production by another 4 million barrels, "if the market needs it." That comes within the context of Sechin's prediction that the global oil market will return to balance by mid-2017—very likely thanks to the very freeze that Russian government officials are supporting, but without saying anything specific.

Saudi Arabia also took its time after it became the country that initiated this latest round of negotiations after the Doha talks, proposed by Russia in the spring, fell through. Lithium prices have tripled over the last few years as the electric car boom starts to take hold. A number of companies are uniquely positioned to generate huge gains for early in investors.

Saudi Arabia was so intent on agreeing to a freeze that it basically exempted Nigeria, Libya, and Iran from the new, lower quotas that are being negotiated on the grounds that all three countries have suffered a serious market share decline, so they are not on an equal footing with the rest of OPEC. Meanwhile, Iraq's Oil Minister said on Sunday the country wishes to join these three OPEC members. Jabber al-Luaibi said, "We are with OPEC policy and OPEC unity," Al-Luaibi said. "But this should not be at our expense." In early afternoon trade in Asia, Brent crude was down 0.5 percent to US$51.54 a barrel, and WTI was down 0.6 percent to US$50.55 on Comex.

Ayatollah Khamenei accuses OPEC members of waving the oil weapon

Oilprice, *24.10.2016*



Ayatollah Ali Khamenei accused unnamed OPEC members of using oil as a weapon to the benefit of the U.S. The accusations were leveled via Twitter, following Khamenei's meeting with Venezuela's President Nicolas Maduro.

Khamenei started by saying the "drop in oil prices is a coercive measure against countries independent of the US," then went on to remind of the 1973 embargo from Middle Eastern states that led to accusations from the West about "the political use of oil", adding that "Today, same countries along with some OPEC members & regional states are using oil as a weapon in total compliance with US policies."

The Khamenei-Maduro meeting was on the occasion of Venezuela taking over the presidency of the Non-Aligned Movement from Iran. Before that, Maduro met with Iran's President, Hassan Rouhani, who declared the country's support for "any measure" that aims to restore the balance on the oil market, adding that it necessitated coordination and cooperation among not just OPEC members, but external producers as well.

One of the OPEC members that Iran's Supreme Ruler mentions in his tweets is almost certainly Saudi Arabia, which in April refused to take any steps to curb its oil output unless Iran took reciprocal steps, Reuters reported at the time, saying the Saudis, who had for decades rejected claims that they were using oil as a weapon, had done just that in Doha.

A number of companies are uniquely positioned to generate huge gains for early in investors. Ironically, the effectiveness of the oil weapon seems to be significantly overrated. According to a 2012 publication by the Oxford Institute for Energy Studies, using oil as a bargaining chip seldom works, as Iran itself proved in that same year, after the U.S. imposed economic sanctions on it because of its nuclear program.

The trouble with oil-related threats, according to the OIES, is that it pretty hard to cut supply to the extent that it makes a difference for the consumers the weapon is pointed at. At the same time, it leads to loss of oil revenues, and most major oil producers and exporters are heavily dependent on these revenues, as Saudi Arabia has found after months of stalling all efforts to bring oil markets back to a balance.

PETFORM

Oil prices rally on Saudi rhetoric

Oilprice, *27.10.2016*

Wax on, wax off; oil prices are rallying after selling off for the last three days, egged on by yesterday's supportive inventory report and the ebb and flow of OPEC hope. Hark, here are five things to consider in oil markets today:

1) I hope you are sitting down for this statistic, for it is more nutty than, well, let's not go there. Our ClipperData show that exports from OPEC's 14 members last week reached a record pace of 29 million barrels per day. Not only is this statistic fascinating, but so is the driving force behind it: Saudi Arabia. Its exports ramped up to 8.4 million barrels per day last week, the highest level on our records.

All the while, Libyan exports in October are more than double last month's pace at >400,000 barrels per day as production returns, while Nigerian exports have rebounded from their monthly low for the year in September, to their quickest pace since April. OPEC surely faces an insurmountable task at its meeting next month.

2) With Iraq joining ranks with the likes of Iran, Libya, Nigeria and Venezuela in expecting exemption from any OPEC production cut at next month's meeting, the weight of responsibility continues to grow on Saudi Arabia's shoulders, and its Gulf state comrades (UAE, Kuwait and Qatar).

OPEC agreed to cut production to 32.5 - 33 million barrels per day in Algiers last month, with production from the cartel at 33.4 million bpd in September. Just as we wrote immediately in the aftermath (via a Top Gun analogy), Saudi are going to have to do the heavy lifting for a cut.

This sentiment is echoed in the below chart, as the worse case scenario appears to be playing out for OPEC's largest producer. Not only are five cartel members pushing for exemption from production cuts, but four of them - Libya, Nigeria, Iran and Iraq - are currently increasing amount of oil they are putting onto the global market.

3) Yesterday's inventory report was a bit of a head-scratcher. While the Gulf coast saw a solid build to crude inventories, draws in the Midwest and on the West coast ultimately resulted in a 550,000 barrel draw on the aggregate.

As implied demand rebounded strongly for both gasoline and distillates on the prior week, we saw draws to both. East coast (PADD1) gasoline inventories, however, saw a 2 million barrel build. After the Colonial pipeline outage in early September caused stocks to be swiftly drawn down (especially in the Southeast), inventories have rebounded strongly in the last month or so, aided in no small part by ongoing sturdy imports. After yesterday's build, East coast inventories are now at a record for the time of year:

4) With spending on global oil exploration at its lowest since 2007, 'Big Oil' is choosing instead to use the mantra of 'lower risk, lower return' when it comes to investing, focusing on less risky, more accessible reserves.

Wood MacKenzie highlighted earlier in the year that conventional oil discoveries are at their lowest in 70 years. The chart below left highlights the ongoing decline in oil discoveries by oil majors, as they fall with lesser spending (chart below right).

Despite the cost-cutting, an increased focus on efficiencies is meaning companies are producing more (oil) for less (investment), by drilling more efficient wells and shrinking the time it is taking to start production from new projects.

5) Finally, the chart below shows how global refining margins dropped 42 percent last quarter. After refiners made out like bandits in recent years amid tumbling oil prices and rising demand, a global glut of crude has slowly been refined into a glut of products.

As stockpiles rise and profitability shrinks, refiners are seeing revenues dwindle. It is estimated by BP that every $1 decline in refinery margins equates to pretax earnings falling by $500 million per year. U.S. refiner Valero reported this week that its quarterly net income has dropped by 50 percent versus year-ago levels.

Surprise U.S. inventory decline pushes oil prices higher

WSJ, *27.10.2016*

Oil prices edged up Thursday, supported by the surprise decline in U.S. inventories and optimism that major producers will be cutting output.

U.S. crude for December settled up 54 cents, or 1.1%, to $49.72 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose 49 cents, or 1%, to $50.47 a barrel. Oil prices found support from evidence that the global supply glut is declining, after the U.S. Energy Information Administration data showed crude inventories fell 553,000 barrels in the week ended Oct. 21, upending expectations for an increase.

"The global market is tightening much faster than is currently priced in," said Paul Horsnell, head of commodity research at Standard Chartered. The bank forecasts Brent averaging $55 a barrel this quarter, with prices rising to $66 on average in 2017. Reports on production cuts among members of the Organization of the Petroleum Exporting Countries highlighted hopes that major producers could reach an agreement next month to scale back the group's production. Reuters reported on Thursday that OPEC Gulf countries are willing to cut 4% from their peak output.

“As long as [OPEC countries] talk, it seems to take some sellers out of the market,” said Ric Navy, senior vice president for energy futures at RJ O’Brien & Associates. Analysts at Macquarie see a 60% chance of a production deal, and recommends buying oil on the price dips. “We believe the resilient oil price action over the past three weeks is consistent with our view that OPEC will achieve a deal, especially given the challenges the market has recently faced,” the bank wrote in a Thursday note.

“Many traders in the market actually laugh at the thought that OPEC would ever reach a deal,” said Michael McCarthy, the chief markets strategist at CMC Markets based in Sydney. “And if even a deal is made, people don’t think the quotas will be observed.”

Last month, the 14-member bloc agreed that some measures should be taken to revive global oil prices. It was suggested the group should cap its total daily production between 32.5 million and 33 million barrels, equivalent to a reduction of 200,000 to 700,000 barrels a day.

The agreement had helped to boost prices, but more members have become more vocal about being exempted from the deal, raising doubts about its viability. Iraq, OPEC’s second-biggest producer after Saudi Arabia, has said it can’t cut production because it needs the revenue from oil to offset the cost of fighting Islamic State.

Apart from Nigeria, Libya and Iran, who are already on the exemption list, some analysts say Venezuela also aims to be excluded from the deal because the oil-dependent economy has been hit hard by falling oil prices. Gasoline futures settled up 0.3% at $1.4871 a gallon. Diesel futures settled up 1.2% at $1.5701 a gallon.

Petronas could soon seal partnership with Saudi Aramco on $21 billion refinery

WSJ, *27.10.2016*

Malaysia's national oil company is set to make a final investment decision in December that is expected to bring in Saudi Arabian Oil Co., or Saudi Aramco, as its partner for a roughly $21 billion refining and petrochemicals project, according to two people familiar with the matter.

Petroliam Nasional Bhd., known as Petronas, will offer the world's largest oil firm a 50% stake in the project, in Malaysia's southern Johor state bordering Singapore, the people said. Petroliam Nasional Bhd's the project will comprise of a refinery, petrochemical plants and other related facilities.

If Petronas proceeds with the plan, the two companies will set up a joint-venture company in the first quarter of next year to run the project, with the refinery due to start operating in early 2019, the people said.

Petronas declined to comment. Aramco wasn't immediately available for comment. The entry of Saudi Aramco into the project would be a coup for Petronas. Based in Dhahran, Saudi Arabia, the kingdom's state-owned oil company is the world's largest crude oil exporter, producing roughly one in every eight barrels of the world's supply, according to its official website.

As part of an economic transformation to contend with the prolonged drop in oil prices, Saudi Arabia is expected to partially list Saudi Aramco, estimated to be worth between $2 trillion and $3 trillion, in what could be the world's largest-ever initial public offering, targeted for 2018.

Petronas, Malaysia's only Fortune 500 company, meanwhile, has also been hit by the oil price slump. The company announced in January that it would slash spending by as much as 50 billion ringgit, or $12 billion, over the next four years, but says it remains committed to investing in long-term projects.

The refinery and petrochemical development, situated in a fishing town in Johor, is estimated to cost some $12.7 billion, Petronas has said. Related facilities ranging from raw-water supply to a liquefied natural gas regasification terminal will cost another $8.6 billion, according to Petronas. The company reported net profit fell 86% to 1.6 billion ringgit ($384 million) in the second quarter ended June from 11.1 billion ringgit a year earlier due to lower oil prices and higher net impairment on assets. Petronas plans to cut several hundred more jobs even after it said it was cutting 1,000 in March.

PETFORM

Russia's rising oil-output forecasts give leverage in OPEC talks

Financial Times, *07.10.2016*

As Russia gets ready for talks on cooperation with OPEC on Monday, it's using the playbooks of Iran, Iraq and Venezuela to gain leverage. Just days before Energy Minister Alexander Novak heads to Vienna for discussions that could include output curbs, Russian officials emphasized the nation's ability to keep increasing record output to even loftier heights.

They were echoing several other OPEC member that claim the group is underestimating their own production -- a strategy that could secure them advantageous terms in any supply deal.

"What most OPEC countries do ahead of any OPEC meetings is to talk up their own production prospects so that when they make any concessions, those concessions are not necessarily as big as they might have been," James Henderson, senior research fellow at the Oxford Institute for Energy Studies, said by phone. "I suspect Russia is playing the same game."

After reaching a surprise agreement on the first production cuts in eight years last month, OPEC is now trying to establish which members will reduce output, and by how much. Russia, which is vying with Saudi Arabia for the title of the world's largest oil producer, has pledged cooperation, but President Vladimir Putin has sent mixed messages over whether he's willing to lower the nation's output, or simply freeze at September's post-Soviet record. These details, due to be finalized by OPEC's Nov. 30 meeting, will determine whether the deal can finally end three years of oversupply.

The latest draft of Russia's energy strategy published recently on the ministry's website included for the first time this year an "optimistic" scenario. This estimate sees annual oil production potentially rising from 534.1 million tons last year to 555 million metric tons, or 11.1 million barrels a day, by 2020 and stabilizing through to 2035. It compares with the existing "conservative" outlook for production of 548 million tons in 2020 declining to 490 million tons by 2030.

Igor Sechin, a close adviser of Putin and chief executive officer of Russia's largest oil producer Rosneft PJSC, went several steps further on Oct. 20, saying Russia has the capacity to add as much as 200 million tons of annual production capacity, or 4 million barrels a day, by 2045 should the global market need it.

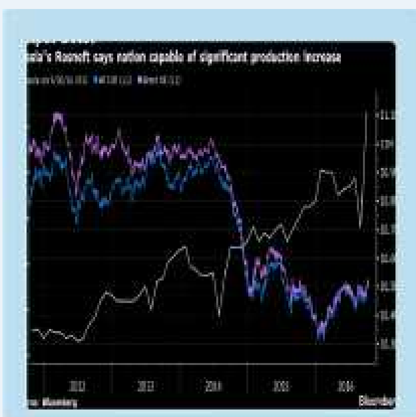
Russia's energy minister said long-term forecasts have little bearing on the negotiations with OPEC. Even if an agreement is reached there's no need for the nation to change its energy strategy, Novak told reporters at an industry forum in Ufa, Russia. "The freeze, it won't last forever, it will be there for a limited time, maybe for six months", he said.

“So it does not affect our strategic plans in any way.” Nevertheless, he implied short-term increases are negotiable. Russia’s annual production could set another post-Soviet record of 548 million tons, or about 11 million barrels a day, next year, although the plan may be adjusted if there’s an OPEC deal, Novak said. Output has averaged 10.9 million barrels a day this year, according to Energy Ministry data.

“Russia is trying to create a very optimistic story of a healthy oil industry” to pursue its own goals in upcoming negotiations, something OPEC nations also do, Chris Weafer, a partner at Macro Advisory consultancy in Moscow, said by phone. “It’s like a game of poker where everybody is very focused on their own hand”.

Russian oil production reached post-Soviet high

UPI, *27.10.2016*



A ratings agency assessing the profitability of Russian energy companies said oil production for September reached a post-Soviet high. A profile of Russian energy companies from Moody’s Investors Service said low production costs are paying off.

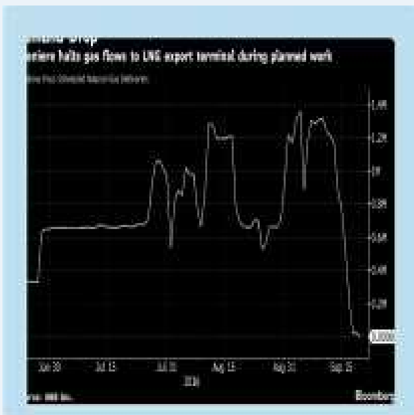
“In September 2016, Russian oil production reached 11.1 million barrels per day, a new post-Soviet record-high,” the report read. Russian Energy Minister Alexander Novak last month met with his counterparts from major oil-producing countries to review strategies to pull the market back into a healthy balance between supply and demand.

About a week before members of the Organization of Petroleum Exporting Countries agreed on a proposal for a production ceiling, Novak said there were no considerations for a cut in output from Russia. Denis Perevezentsev, a senior credit officer at Moody’s, said companies like Russian oil major Rosneft should be in a strong position assuming oil prices hold at an average of $45 per barrel next year.

“We expect the profitability of Russian oil and gas companies to stay robust,” Perevezentsev said. Sanctions and lower crude oil prices put pressure on the Russian economy. Moody’s said that, as far as sanctions are concerned, most Russian energy companies were shielded by a look toward the domestic market and state-controlled banks. Moody’s said Russian oil and gas companies should remain strong at least for the next 12 months because of good cash flow from existing operations and positive cash balances. Russia’s deputy energy minister, meanwhile, said this week that investments in the Russian oil sector are expected to expand in comparison to last year, though nothing is certain for 2017. Meeting with Russian President Vladimir Putin this week, Prime Minister Dmitry Medvedev said the budget was based on oil priced at around $40 per barrel.

Gazprom and Brussels agree to settle long-running dispute

Financial Times, *27.10.2016*



Gazprom and the EU will try to settle their antitrust battle and end a five-year probe with legally binding pledges to change behaviour rather than a big fine or imposed terms. The state-controlled Russian energy group will yield to EU demands on how it sells gas in Europe in order to escape a penalty for past anti-competitive behaviour.

The bargain is likely to anger eastern and Baltic states. The deal potentially marks a turning point in one of the European Commission's most important antitrust battles. Former communist EU member states see it as a test of whether the bloc's powerful antitrust arm will protect their interests.

Poland and Lithuania in particular see Russia as using gas as a political tool and are critical of Brussels for not tackling unfair prices. A final draft of the proposed settlement will be submitted by Gazprom to Brussels imminently, which will formalise gradual shifts in the energy company's pricing practices in recent years. It will pave the way for a second, contentious stage — the so-called "market test", where critics will have the opportunity to raise objections before the commission takes a final decision.

Poland's government-owned oil and gas company PGNiG reacted by saying it was ready to sue the European Commission for breaking EU rules by not imposing fines on Gazprom and by allowing the Russian company to have increased use of European pipelines.

"These decisions pose a real threat to the stability of gas supplies to central and eastern Europe," the company said in a statement. A senior Polish diplomat said the announcement had "positive aspects" but lacked a solution to Gazprom's "take or pay" formula.

"Another missing point of these puzzles is the future of Nord Stream 2 [from Russia to Germany via the Baltic]. It is necessary for a real assessment of the deal [the commission] made with Russia," said the official, who declined to be named because the decision was not final. "Now, it looks like they give the Russians too much."

Both sides signalled that a settlement was their preferred outcome after a meeting between Margrethe Vestager, the EU's competition commissioner, and Alexander Medvedev, deputy chairman of Gazprom. Mr Medvedev said Gazprom was putting "the final touch to our commitment proposal". "It will be sent to the European Commission shortly".

Ms Vestager stressed that the draft settlement may only be the beginning of the end of the process. "Of course, all options remain on the table at this stage," she said. "We have made progress but there is still quite some work ahead.

Our goal is to achieve the best outcome for European households and businesses." The draft truce is a rare example of the west and Russia mending economic ties, even as political relations, strained over Ukraine, sharply deteriorate over Syria.

Brussels is also poised to give long-awaited approval for Gazprom to pump more gas through the Opal pipeline in Germany, a move that would further reduce the Russian company's need to ship gas through Ukraine. Both are decisions from Brussels fraught with technical legality that also come heavy with politics.

The Gazprom investigation is one of the biggest launched by the commission, and the decision to pursue a settlement is an important strategic choice made by Ms Vestager. "We have discussed the possibility of Gazprom making commitments to address, in a forward-looking manner, the commission's competition concerns. To be effective, such measures would have to ensure the free flow of gas in central and eastern Europe at competitive prices," said Mrs Vestager.

While the deal offers three main remedies, according to people involved in the discussions, it includes only a relatively light intervention on Gazprom's alleged abuse of its dominant position through long-term contracts linking gas to oil price — the most sensitive issue.

Ms Vestager stressed prices must "reflect competitive benchmarks". But rather than mandate a framework for setting "fair" prices, the settlement is expected to involve an arbitration process for Gazprom customers to raise objections. Critics say this is little better than the existing situation.

The remedies largely formalise changes in behaviour that Gazprom has made in recent years under pressure from the commission as well as increased competition on the European gas market. The company has dropped contract terms preventing cross-border sales, and, following arbitration cases brought by its European customers, has revised most of its contracts to link prices more closely to so-called "hub prices".

First launched in 2011 with the commission's biggest round of surprise raids, the investigation eventually focused on three main issues: contract terms preventing cross-border gas sales; tying gas supply to pipeline investment; and unfair gas pricing to Bulgaria, Estonia, Latvia, Lithuania and Poland. The first two issues are largely remedied with contractual changes that remove illegal restrictions on reselling gas, and require Gazprom to forgo any advantage gained from making gas supplies conditional on acceptance of gas pipelines.

The beginning of the end for Europe's natural gas war

Oilprice, *22.10.2016*

Gazprom is on the verge of striking a deal with EU regulators to settle a half-decade old dispute over gas pricing, and the resolution could change the way Gazprom does business and lead to lower gas prices for much of Eastern Europe.

The conflict began back in 2011 when EU antitrust regulators began investigating Gazprom for anticompetitive behavior, citing Gazprom's practice of pricing natural gas differently to different countries depending on how compliant they were to Moscow. The EU Commission launched a formal investigation that ultimately led to negotiations, which were temporarily put on ice after Russia's takeover of Crimea.

The details are arcane, but Gazprom is about to offer concessions to the EU in order to avoid potentially having to pay billions of dollars in fines. These include allowing recipients of Russian gas to resell that gas. Gazprom has opposed that practice because it undercuts their ability to demand certain prices from individual customers and countries.

Gazprom and Russia were much happier under the old system, in which they could sign an array of bilateral deals on an individual basis, rather than negotiating with European countries collectively. That allowed the company to tie gas contracts to political aims – should a European country lend its support to a Russian cause, such as a pipeline, they would receive better terms.

That leads to the second concession that Gazprom will have to grant Europe: they will have to charge customers similar rates for natural gas. But the agreement stops short of entirely breaking Gazprom's practice of linking gas prices to oil prices.

"We are now putting the final touch to our commitment proposal. It will be sent to the European Commission shortly," Alexander Medvedev, Gazprom's deputy chairman, said this week after meeting with the EU's top antitrust official, Margrethe Vestager. The deal is not yet secured – it still needs to be reviewed by European countries – but if it is, Gazprom will avoid having to pay billions of dollars in fines.

However, the agreement could then become legally binding, subjecting Gazprom to European law, something it has objected to up until now. Gazprom would have to pay fines if it violates the terms of the agreement.

The settlement would seem to bolster relations between Russia and Europe, which had become strained in recent years after the conflict in Ukraine. Some countries in Eastern Europe are wary of such a thaw and have demanded a much tougher line from European officials.

Others in Europe that are at odds with Russia's actions in Ukraine and Syria are not eager to soften the tone either. To be sure, the settlement over the antitrust charges still needs to survive input from European governments. Poland, in particular, is not happy with the deal. "These decisions pose a real threat to the stability of gas supplies to central and eastern Europe," the Polish state-owned oil and gas company PGNiG said in a statement.

Resolving the conflict could also lead to more Russian gas flowing into Europe, which already depends on Russia for about one-third of its gas needs. Russia is hoping to double the gas flows through the Nord Stream pipeline, hoping to gain some market share in a market that is no longer growing. Again, European officials, especially in Eastern Europe, are not keen to see a greater reliance on Russian gas. But the business interests involved in building the expansion of the Nord Stream pipeline, as well as German officials who feel comfortable with Russia as a reliable source of energy, are pushing the deal forward.

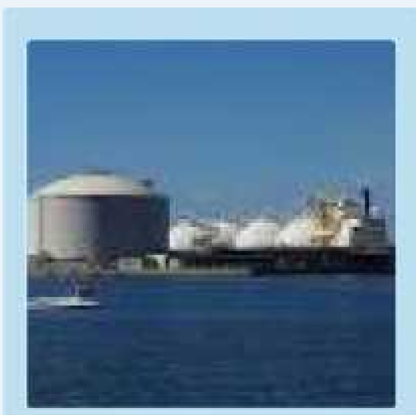
"Another missing point of these puzzles is the future of Nord Stream 2," a Polish official told the FT. "Now, it looks like they give the Russians too much." Overall, though, the deal would solidify some changes already underway. Gazprom has already begun to link its gas prices closer to hub prices.

It needs to do that anyway because it is seeing increased competition from other sources of natural gas, particularly LNG. The U.S. began sending LNG to Europe, and several new LNG ships and import terminals are allowing a few European countries, such as Lithuania, to gain leverage over Gazprom.

No longer at the mercy of one supplier, parts of Europe are becoming emboldened to demand lower gas prices from Russia. Whether EU officials will force Gazprom's hand or not, the Russian gas giant will be forced to keep a lid on its gas prices if it wants to avoid losing market share.

SPIMEX delays Russian gas index launch to 2017

ICIS, *27.10.2016*



The creation of a Russian natural gas index which may bring transparency to the market has been delayed until next year, Alexei Rybnikov, president of the SPIMEX, told ICIS.

Russia has started to actively develop its own pricing for both oil and gas this year, with some observers describing it more a political gesture showing Russia's power and independence in the energy sector rather than a push for more competition. SPIMEX and the country's antitrust authority, the Federal Antimonopoly Service (FAS), say that for a market where most gas is traded in long-term contracts with prices classified, the index would be beneficial.

Especially if developed together with an index on gas traded on the exchange and an export netback price. An index for gas traded on the bourse is still expected to be launched this year, Rybnikov said, adding that there will be a separate reference price for each of the four delivery points currently in use.

Off the exchange, the bourse and the watchdog are also discussing the creation of several reference prices rather than one to better reflect the range of gas values across the country. Regional indices may be tied to local network points that in the future can become virtual hubs. “At the moment, we are waiting for information from different gas distribution plants,” Rybnikov said, explaining the delay with the launch of the index.

In order for the index to be created, SPIMEX started registering deals occurring off the exchange in January. The majority of those deals are those done by Russia’s independent producers, such as Novatek and Rosneft, as gas major Gazprom has to sell gas out of the bourse at a price set by the government.

Next year, FAS intends to liberalise gas prices in three Russian regions, with more contracts included in index formation. The market may be fully liberalised in the next three years, according to the watchdog.

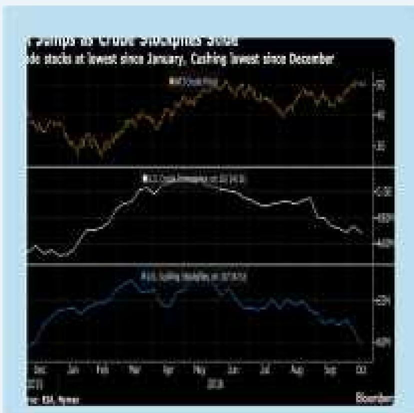
Gas indices are also expected to make the Russian market more accessible for foreign companies. According to Russian media reports, Gazprom said it looked forward to creation of the indices at the SPIMEX, referring to the matter in the context of its export auctions for gas delivery to Europe. Gazprom Export declined to comment on how the indices may be used in those auctions. Last year, Gazprom considered conducting its first gas export auction on the SPIMEX platform but later decided to hold it and two other auctions by email.

Asked if Gazprom may hold its fourth auction – which is planned for spring – via SPIMEX, Gazprom Export said “various options were being considered”, but declined to comment further. Foreign companies had the right to take part in SPIMEX trading earlier this year, and used the opportunity to access oil trading on the Russian bourse.

Rybnikov said SPIMEX constantly receives enquiries from major European traders on gas trading on the bourse, but none of them has taken part in those trades yet. “The major reason is that Gazprom holds the monopoly on gas exports from Russia, while independent producers take part in SPIMEX gas trading too,” he said.

US could follow Australia in singing export blues on gas

Bloomberg, *28.10.2016*



Americans wondering what life with LNG exports will bring can look to eastern Australia for a worst-case scenario. As Australia is set to overtake Qatar, its domestic market is showing growing vulnerability to price spikes.

In July, with cool weather boosting heating demand, Australians in the southern state of Victoria paid more for domestic gas than customers in Japan did for super-chilled Australian gas shipped 4,400 miles on tankers. The reason: Exports are locked into set production systems and long-term contracts that can't be easily adjusted, and companies get a premium for the international deals they arrange.

Now, with U.S. consumers increasingly dependent on natural gas as coal and nuclear plants disappear, lawmakers and energy analysts say the country may also be at risk as U.S. exports reach 13.5 billion cubic feet a day in 2020.

In the U.S. "you've got industrial demand, power demand and export demand that we've never seen before, all of which poses significant upside risk to prices," said Jason Schenker, president of Prestige Economics LLC in Austin, Texas, in a telephone interview. "Power and gas prices are going up. Enjoy it while it's cheap."

Almost three-dozen tankers have left the American Gulf Coast since the first cargo of shale LNG set sail in late February. Cheniere Energy Inc., which owns the only terminal now open in the continental U.S., is in the process of doubling its output and will continue to expand next year. At the same time, the U.S. sent a record 3.6 billion cubic feet a day in July through pipelines into Mexico.

The end result: U.S. gas prices more than doubled from this year's low to more than $3 per million British thermal units in October as America's power generators, burning a record amount of the fuel, nearly wiped out a national surplus. Gas added 0.7 percent to $3.089 at 12:04 p.m. Singapore time.

Last month, a dozen U.S. senators, including Democrats Al Franken of Minnesota and Elizabeth Warren of Massachusetts, asked the Energy Department to slow LNG export approvals until it can investigate impacts on domestic prices.

The request comes as the agency has requests in hand for projects to export more than 53 billion cubic feet of LNG a day, and has approved 15.2 billion. Five terminals are already under construction with the next opening -- by Dominion Resources Inc. in Maryland -- set for the end of 2017. Continuing to ratchet up approvals could "put us on a path towards higher energy prices for families and businesses here at home," Franken said in an e-mail Thursday.

“I want the Energy Department to put the brakes on new LNG exports until we know the full impact of currently approved exports.” In Australia, the first LNG exports were shipped out in 1989. Now, the country has seven operating plants and three more under construction. Australia is set to surpass Qatar as the world’s largest exporter of LNG by 2018, according to BMI Research. Some Australians, already seeing price spikes in their country, are expressing similar concerns to those of the U.S. lawmakers.

Wholesale gas prices in Victoria, the only actively-traded market in the country, rose as high as $17 per million British thermal units in July, and prices averaged $8.38 for the month, according to the Australian Energy Markets Operator. Japanese imports of Australian LNG cost an average of $6.63 that month, according to LNG Japan Corp.

The Australian Industry Group, which represents 60,000 local businesses, said gas prices have risen and made domestic industry less competitive because of exports. Santos Ltd., which operates the Gladstone LNG export project about 530 kilometers (330 miles) north of Brisbane, said last month that it’s having to buy gas from the domestic market to ship abroad after its own drilling didn’t produce enough to meet its contractual needs.

“It’s the worst of all worlds,” said Tennant Reed, a spokesman for the Australian Industry Group. “Exports have disappointed in value, and domestic users are still taking it in the neck through higher prices.” Energy industry advocates in Australia have defended gas exporters, saying the projects have spurred new drilling that has in many cases developed fresh supplies for local markets. They blamed the price spike, at least partly, on a government ban against on-shore drilling.

“The LNG plants have brought on huge investment in onshore gas production in Queensland, which cannot only fuel our export opportunities which over time are going to be very valuable to Australia but also provide necessary gas to domestic markets,” said Martin Ferguson, the country’s former energy minister and a former non-executive director of BG Group, now a part of Royal Dutch Shell.

The U.S. has an added line of defense. Australian LNG exporters contract to send gas directly to foreign customers with specific destinations, while U.S. exporters only sell the right to buy U.S. gas and chill it in their plants for loading. That means if U.S. prices ever rise above those in Asia or Europe, the exports can just stop. Producers are also driving “tremendous productivity gains” that will make it profitable to extract shale fuel at even lower U.S. gas prices, but it will take about a year for that to kick in, according to Francisco Blanch, head of commodities research at Bank of America Corp. Meanwhile, ‘in the next few months the trend is pretty clear,” said Blanch, who is based in New York. “Demand is going to go up pretty quickly and supply is limited. If we get another cold winter we are going to get pretty strong prices in gas.”

In a twist, supply shortages and hefty price spikes for industrial gas users on Australia’s east coast, following the start up of export plants in Queensland state, may result in that nation importing U.S. LNG, Neil Beveridge, a Hong Kong-based analyst at Sanford C. Bernstein & Co., said in a research note. Australian buyers effectively must compete with international oil linked prices for gas supply because exporters have contractual commitments with oil linked pricing, he said. “It would not surprise us in the slightest to see a floating regas and storage unit deployed somewhere offshore Sydney Harbour in the near future,” wrote Beveridge.

Oil down 1 percent on OPEC worry, offsetting U.S. inventory fall

Reuters, *27.10.2016*

Oil settled down more than 1 percent on Wednesday even after a surprise drawdown in U.S. crude inventories, as traders remained cautious that OPEC would be able to cut production come late November.

U.S. crude stockpiles fell 553,000 barrels last week, the U.S. Energy Information Administration (EIA) said, compared with the 1.7 million-barrel build analysts polled by Reuters forecast. Crude inventories in the world's largest oil producer have fallen unexpectedly in seven of the past eight weeks, bucking the usual autumn trend in which stockpiles rise as refineries go into maintenance season.

Oil prices pared losses after the EIA data, with U.S. crude briefly trading in positive territory and Brent returning above $50 a barrel. But the rebound was limited by doubts about whether the Organization of the Petroleum Exporting Countries (OPEC), which meets Nov. 30 in Vienna, will succeed in its planned production cut.

"The focus point from here remains on the OPEC meeting that comes a month from now, with Iran, Libya and Nigeria all looking unlikely to commit to output cuts," said Tariq Zahir, crude trader and fund manager at Tyche Capital Advisors in New York.

Prices will likely continue falling, with WTI hitting $47 and Brent falling to $48 to $48.50 by the month's end as the market grows skeptical about OPEC's jawboning, said Scott Shelton, energy futures broker with ICAP in Durham, North Carolina.

"We've seen bullish information," he said of the optimistic comments from some producers on OPEC's planned production cut. "None of it is really new, so it's one of those things when the buyers are exhausted."

Brent crude LCOc1 was down 81 cents, or 1.6 percent, at $49.98 a barrel. It fell as low as $49.65, its lowest since Sept. 30. U.S. West Texas Intermediate (WTI) crude CLc1 slid 78 cents, or 1.6 percent, to $49.18. Its session low was $48.87, its lowest since Oct. 4. Iran, Libya and Nigeria are expected to be exempted from OPEC's planned production cut, which seeks to cut about 700,000 barrels per day (bpd) from an estimated glut of 1.0 million to 1.5 million bpd. Iraq has said it would not participate, while Indonesia's state oil firm is targeting an output increase. Unless non-member Russia joins, the onus of a potential cut would fall on Saudi Arabia, Kuwait and the United Arab Emirates.

Announcements & Reports

South American Gas Markets and the Role of LNG

Source : OIES
Weblink : https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/10/South-American-Gas-Markets-and-the-Role-of-LNG-NG-114.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

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