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Opec-Plus Signals Path Toward More Supply

Staring at $120 oil and the prospect of demand destruction, Opec-plus has altered course. Thursday's decision to slightly accelerate the pace of its production target increases may only add marginal volumes to oil markets in the near term, but it could pave the way for bigger increases down the road if it leads the group to reassess its overall policy and future output baselines for members as its current pact nears its expiration. What was initially expected to be another mundane meeting to rubber-stamp a "no change" in oil output policy took a new turn with the group agreeing to add 648,000 barrels per day both in July and August, up from the previously agreed monthly increment of 432,000 b/d in June. The decision will allow some extra supply in the near term, mainly from Saudi Arabia and the United Arab Emirates, which hold the bulk of the group's spare capacity. More importantly, it would accelerate the process of unwinding Opec-plus' historic pandemic-induced production cuts — potentially opening the way to new arrangements that could unleash larger volumes. This unwinding will now be accomplished in August instead of September, with the pact officially set to expire in December. The new pro-rata distribution will see Saudi Arabia allowed to produce an additional 57,000 b/d and the UAE 18,000 b/d in July and August. Many other weaker members have not been able to produce at targeted levels. In April, Energy Intelligence put Opec-plus compliance at a record 222% — putting group production some 2.6 million b/d below promised levels in April, which has contributed to market supply fears.

Oil market fundamentals help explain the change in course. The Opec secretariat now predicts that oil markets will see an average 1.4 million barrel per day surplus in 2022 — down 500,000 b/d

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EU's Russian Oil Ban to Rock Market

Nearly a month after it was proposed, EU leaders have agreed to ban 90% of the bloc's imports of Russian crude and oil products by the end of 2022, with carveouts for a few landlocked countries. The historic move against one of the world's top producers — Russia accounted for a quarter of the EU's crude imports alone last year — requires an acceleration of the energy transition and will dramatically reconfigure global oil flows. It also risks fuel shortages and acute price pain over the summer, with Brent swelling above $120 per barrel even before Monday's agreement. But EU leaders ultimately deemed those risks necessary "to stop Russia's war machine." The deal to ban seaborne oil imports is a compromise that was needed essentially to placate Hungary, Moscow's closest ally in the EU, and secure the unanimity of all 27 members. Landlocked Hungary, Slovakia and the Czech Republic import Russian crude via the Druzhba pipeline and are temporarily exempt, while Bulgaria can continue seaborne imports until end-2024. But these exemptions, at around 400,000 barrels per day, are a small fraction of the total 2.2 million b/d of crude that the EU imported from Russia last year, in addition to 1.15 million b/d of products. Germany and Poland, which also receive crude through the Druzhba line, have committed to phasing out all their Russian oil imports by year's end. "Now, we have basically the political agreement, how to phase out [Russian] oil in a clear timeframe," European Commission President Ursula von der Leyen said, adding that the Druzhba loophole would be addressed "as soon as possible."

The embargo doesn't kick in for another seven months, giving EU countries time to source

supplies from elsewhere. Securing additional volumes from top Mideast producers Saudi Arabia, the United Arab Emirates and Iraq will be a priority, with the US also increasingly coming into focus amid forecasts that the Permian Basin's output could rise by nearly 1 million b/d this year. But with Russian production set to decline, global crude balances are likely to tighten, intensifying the competition for supply, and some European refineries could struggle to keep operating. Some critics of the EU plan charge that it gives Russia plenty of time to continue selling its oil while finding other buyers. Others warn that Moscow could inflict surprise disruptions during this period, especially after cutting gas supplies to five European countries. But the EU insists the wind-down process is already well under way and will accelerate, with Russian oil imports now accounting for just 12% of Germany's total, versus 35% before the war. Once formalized, EU sanctions will help crude traders get out of their remaining long-term contracts with Russia without risking litigation. The question then becomes whether, and where, they manage to secure new contracts. Iran could fill much of the gap if US sanctions were lifted, but that prospect has dimmed. Russia is also a key supplier of products to Europe, especially diesel, and the continent could face shortages in the coming months, International Energy Agency head Fatih Birol warned in *Der Spiegel* on Tuesday.

How successfully Russia manages to sell its crude further afield will clearly have huge implications for global oil markets and the country's future production. India and China, the most coveted buyers, have in the past three months increased their intake of Urals crude approximately eightfold versus last year's average of around 100,000 barrels per day. Their appetite for heavily discounted Russian barrels may grow, especially if India finds strong European demand for its oil products — potentially even those refined from Russian crude. But another big increase in exports to Asia faces the logistical challenge of shipping such large volumes from Russia's Baltic and Black Sea ports. The sixth EU sanctions package spared tankers carrying Russian oil. But it did include a ban on EU companies insuring Russian vessels, which threatens to further complicate long-haul shipments. The sharp rise in the volume of Russian oil on the water since Western buyers started self-sanctioning already points to these problems. With Russia's oil infrastructure geared toward the West and the country lacking strategic storage facilities, the EU embargo means decisions to shut in more wells could become increasingly unavoidable, permanently damaging its production capacity. Any major reorientation of its export infrastructure seems unlikely. Russian sources say that pipeline operator Transneft has made preliminary calculations about rerouting the Druzhba line to Murmansk in the north. But that would involve building a 1,500 kilometer pipeline and would probably take more than three years to complete.

Oil Shares Gain Momentum Amid Supercycle Talk

Oil and gas shares have been a bright spot this year amid a sharp correction in equity markets. But they remain cheap on a historical basis considering the record free cash flow and big shareholder returns the sector is delivering. Energy security is rising up the political agenda, and some analysts and industry executives feel oil and gas has entered a new supercycle due to insufficient investment in supply. Still, there is no guarantee the sector "re-rates" to previous bumper multiples. Some investors think they have "missed the rally." Others are likely to continue shunning the sector given its track record of poor returns and amid rising concerns surrounding climate risk and the energy transition's impact on future oil and gas demand. US E&P stocks have outperformed the broader market by more than 60% year to date, with S&P's Oil and Gas E&P Index up around 42% and the S&P 500 down about 23%. E&P executives are trying to convince investors that it is not too late to join the party, noting that valuations remain at historically low levels despite record free cash flow generation and rising dividends and stock buybacks. The energy sector's weighting in the S&P 500 has risen two percentage points this year but remains at just 4.5%, compared to its historical average of 10%. Based on consensus analyst estimates for 2022, Devon Energy recently noted that its enterprise value to earnings before interest, depreciation and amortization (Ebitda) — a key cash flow measure — was just 4x compared to 13x for the S&P 500. Moreover, Devon is expected to deliver a 16% free cash flow yield and 8% dividend yield this year, compared to 5% and 1.5%, respectively, for the S&P 500.

Sentiment is mixed on whether the rising prospects of a global recession present a headwind or

opportunity for oil and gas stocks. On face value, a recession would be bearish given the likely dampening effect on oil and gas demand. But some still see opportunity given that structural supply issues — particularly for oil — could buoy prices even against a weaker economic backdrop, prompting further exodus from technology stocks. Such a massive sectoral rotation is not unprecedented. Energy closed a wide weighting gap with tech in the S&P 500 to almost zero following the Great Recession of 2008, a period that coincided with a an oil market supercycle. No one expects energy to entirely close the gap this time given lofty valuations for tech blue chips like Apple, Amazon, Alphabet (Google), Meta (Facebook), and Microsoft, but some think energy can reach a 10% weighting again. Saudi Aramco recently overtook Apple as the world's most valuable company, for instance. Even with this year's selloff, tech remains about 27% of the S&P 500, putting the spread with energy at around 23 percentage points.

Those that are bullish on the prospects of another supercycle cite the limited enthusiasm for upstream spending outside the Mideast Gulf, the long-term negative outlook for Russian supply, and indications that peak oil demand will be a late 2020s or later event. Others — particularly generalist investors — counter that the last oil supercycle (2003-14) delivered poor returns and capital destruction, while climate risks have changed the stakes. Skeptics may also question whether this oil price bull run will last the many years needed to qualify as a true supercycle — and whether current conditions really fit the bill. True, current prices are partly driven by the sharp rebound of demand post-pandemic. But supercycles are normally associated with extended period of strong growth. Some would argue that current conditions are rather an anomaly driven more by upstream underinvestment amid concerns of a looming and permanent downcycle. Money can still be made in the near-term of course: Warren Buffett's Berkshire Hathaway is bullish on energy and continued aggressively buying oil stocks, notably Chevron, during the first quarter despite spiking oil prices. Publicly traded oil companies, including once-profligate US shale producers, are now committed to capital discipline and shareholder returns, with executive compensation tied to delivering these goals.

Crucially, structural changes have occurred to the oil and gas value proposition regardless of how many investors flock back. Rather than a rekindled belief in oil and gas' long-term growth prospects, many investors are focusing on "milking the sector for cash" and will likely hit the exits once the cycle starts to weaken, says a US fund manager. BlackRock CEO Larry Fink recently cautioned producers to not relive past sins of piling up massive projects that will take a decade or more to pay out. "The question is, are you going to need oil in 10 or 15 years? 20 years? 30 years?" he said, capturing the skepticism held even by stalwart energy investors.

Russia Faces Toughest Test in Product Markets

Russia has done well to find new markets to maintain its crude exports, but redrawing the trade map for its refined product exports will be harder. The world needs these products more than Russia's crude. To wit, diesel prices in Europe hit a new record on Tuesday after the EU announced its Russian oil import ban. Rerouting hundreds of product tankers is a logistical nightmare, especially since traders must navigate a web of financial, shipping and insurance sanctions. Asia has helped keep Russian crude exports flowing in the face of Europe's "self-sanctioning" since the start of the Ukraine war — but at a cost. Discounts for Russian Urals to dated Brent can run near $35 per barrel. Maintaining Russian crude exports has been relatively straightforward, even if much of the trade has gone dark. Vessels carry 1 million or 2 million bbl of Urals — a consistent and well known quality — to Asian refiners who are happy to buy it at a discount. They have established financial channels and don't share the West's concerns about funding Russia's war in Ukraine. To reroute all seaborne Russian crude from European ports involves fewer than 100 tankers per month. The logistics around products are much trickier. Russia was exporting 1.2 million barrels per day of refined products to the EU out of the Baltic and Black Seas before the war. Products come in many specifications, and linking available product to consumers that can take it is more complex. Products sail in smaller volumes but still require the same amount of paperwork as larger crude cargoes. Complicating matters, specialist traders like Vitol, Trafigura, Glencore and Gunvor have already limited their products activity to abide by EU rules.

Trading logic would dictate that most Russian products should now sail to South America and Africa, and perhaps more to Turkey and India. This would free up US product exports directed to South America to be rerouted to Europe, with more Mideast and Indian products also moving to Europe. But this realignment is only possible if steep discounts are applied to Russian products, similar to crude. How the trade map will look remains "the great mystery," one product tanker broker says. Europe is especially short diesel and needs to replace some 600,000 b/d of Russian diesel imports. With the world short refining capacity, especially in the Atlantic Basin, any loss of Russian product exports would further spike product prices. The volume of the switch is daunting. In March, the US sold 886,000 b/d of middle distillates to South America, the latest government data show. The bulk is going to Brazil, Chile, Panama, Ecuador, Colombia, Peru and Argentina. In May, Russia sailed 20,000 b/d of products to South America, all to Brazil, the latest shipping data indicate. Trade with Africa is small. Turkey bought 50,000 b/d of products from Russia in May, while India bought 68,000 b/d.

So far, the war has forced Russian refiners to limit exports rather than find other buyers. They could not find a replacement market for fuel sold to the US after an early March ban. Europe is still buying 1 million barrels per day in products, down 10% from before the war. Much of that is likely to be lost over the coming months. Russian refinery runs were down 800,000 b/d in May to 4.94 million b/d and product exports from European ports in the Baltic and Black Seas have fallen 600,000 b/d to 1.77 million b/d from prewar levels. Lower Russian runs are mostly due to the loss of the US market and reduced domestic demand. Runs are now likely to fall further.

Russian crude production was 9.28 million b/d in May, down just over 800,000 b/d from prelwar levels. Europe has already halved its Russian seaborne crude intake and was loading just 800,000 b/d in May. The 900,000 b/d now bypassing Europe is sailing mostly to India, China and Turkey. As the EU ban takes hold over the coming months, Russia will need to find a market for another 1.1 million b/d of crude — all the remaining seaborne crude and some Druzhba pipeline volumes. India and Turkey may be able to take 200,000 b/d more. China plans to buy oil for its strategic reserve — perhaps up to 500,000 b/d — but this demand would be temporary. Prewar, China was buying 1.6 million b/d from Russia. But it is unlikely to give up term contracts with reliable Mideast producers to buy more. Once China is done filling up its tanks, Russia could face a 900,000 b/d crude gap.

Opec-Plus Signals Path Toward More Supply

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from the previous forecast. Rising prices are also a factor, particularly after the EU's agreement to ban Russian oil imports this week. Some observers think prices could climb past $120 per barrel this month given supply constraints on Russia from sanctions and higher summer demand — particularly as China emerges from Covid-19 lockdowns. Inflation is also prompting concerns about economic growth — a demand-destroying recession does not help Opec's cause. Some experts say they already see signs of demand destruction. Reacting to Thursday's decision, Russia's Deputy Prime Minister Alexander Novak said it was agreed to cover rising summer demand. Moscow will remain an Opec-plus member with a quota despite some reports suggesting otherwise.

The decision came against a backdrop of intense geopolitical pressures, after Russia invaded Ukraine and the US stepped up efforts to temper oil prices ahead of midterm elections. Over the past month, US officials have increased their diplomatic outreach to Riyadh and Abu Dhabi to improve strained relations, particularly between Saudi Arabia and the Biden administration. At the same time, Gulf members are prioritizing keeping Russia a member of Opec-plus in the interests of long-term market management. US officials described recent Gulf meetings as "very positive and productive," and they could be followed by a visit from Biden to Saudi Arabia this month where he could meet with Crown Prince Mohammed bin Salman, ending a freeze in personal relations. The White House issued a statement Thursday that thanked its regional allies, particularly Riyadh. "We recognize the role of Saudi Arabia as the chair of Opec-plus and its largest producer in achieving this consensus amongst the group members," it said. "We also recognize efforts and positive contributions of UAE, Kuwait, and Iraq." Biden is under great pressure to curb rising fuel prices at home and said the US would "use all tools at our disposal" to address them.

Energy Intelligence reckons the deal will have little impact on global oil balances, however. The Opec-plus deficit to targeted production levels continues to expand — it hit around 3 million b/d in May — as producers like Nigeria, Angola and Malaysia fail to pump their allotted volumes. Nearly 1 million b/d of that is from Russia. In a twist, Russia is still exporting as much crude as before the war — even a little more, thanks to steep discounts. But markets sorely miss Russia's refined products exports, which have fallen by 600,000 b/d from pre-war levels. That is where the market hurts most — but this falls outside the power of Opec-plus, which is all about crude.

Biden Low on Options to Tame US Fuel Prices

The Biden administration is grappling with soaring fuel prices at the start of summer driving season that threaten to tank his Democratic Party's chances in US midterm elections later this year. The White House is already tapping the Strategic Petroleum Reserve at an unprecedented rate and has authorized the sale of gasoline with higher ethanol content over the summer. It got some good news on Thursday from Opec-plus, which decided to slightly accelerate the pace of its production increases for July and August. But with oil markets focused on Russian supply losses and a global refining crunch, there has not been much price relief. There are few levers left for Biden to pull, and the president's ambitious climate agenda continues to muddle the message on US energy policy. US fuel prices at the pump ticked up to a national average of $4.67 per gallon for gasoline and $5.52/gallon for diesel Wednesday, according to the American Automobile Association (AAA). Biden this week in a *Wall Street Journal* op-ed acknowledged that "energy markets are in turmoil" but offered no clear plans for taming fuel prices, which are stoking high inflation. White House officials have repeatedly pushed back on the narrative that Biden's climate and energy policies are to blame, instead pointing the finger at Russia for its Feb. 24 invasion and referring to "Putin's price hike." Biden has called on US oil producers to increase output, but his federal oil and gas leasing policy remains a chaotic mystery — even with a Jun. 30 deadline looming for a new five-year plan. Biden is also asking Congress to move on stalled legislation to expand clean energy technology tax incentives and advancing other executive-level climate initiatives, such as heightened emissions disclosure rules, prompting oil industry complaints of mixed signals from Washington.

Options include tapping the Northeast Heating Oil Reserve for ultra-low sulfur diesel barrels, limiting US crude and products exports, waiving Jones Act requirements on tanker movements, and restarting idled refineries. Most are rife with political landmines and likely won't offer lasting price relief. Selling off some of the 1 million barrels of ultra-low-sulfur diesel from the heating oil reserve on the East Coast reportedly has some legs and could yield localized impacts to help blunt regional shortages, analysts say. But such a draw, from a limited reserve meant for short-term supply disruptions, is not viewed as significantly quelling overheated diesel prices. A ClearView Energy analysis suggested drawing the entire 1 million bbl reserve might only correlate to two days of regional demand. A US refining source points out that while the reserve technically could be tapped to backfill diesel supply, its small size and its designation for disruptions like hurricanes limit the utility of such a drawdown. ClearView suggests tapping the reserve may "presage further interventions" like waiving the Jones Act requirements that cargoes between US ports be carried by US-owned, crewed and flagged ships.

US exports of refined products have jumped following the Ukraine war's start. Sanctions on Russia and the subsequent European pivot to lower reliance on Russian flows have raised demand for replacement volumes, increasing the overseas pull on the US downstream. Biden has not ruled out curbing exports, but critics argue this would pull the rug from under US allies. US product exports averaged 5.7 million barrels per day and crude shipments almost 3 million b/d last year, according to US government data. In March of this year — the latest month for which data is available — product exports hit a record of 6.2 million b/d, up some 500,000 b/d from February, with incremental shipments to Europe accounting for over 10% of the increase. Crude exports remain stalled around 3.3 million b/d. Analysis from Energy Intelligence shows supply issues are largely concentrated in products rather than crude.

A rarely used defense law could be used to bring shuttered US refineries back on line, but industry sources say that option would be tricky in practice. Rising demand and fuel prices have shifted more focus to the roughly 1 million b/d loss in US refining capacity since 2020. Energy Intelligence understands the White House has not yet reached out to refiners to discuss plant restarts. But refiners say this would be problematic, as reversing course on shuttered or converted capacity may not be viable and would take significant time. Such a move might also be a bridge too far for Biden's clean energy agenda.

Windfall Taxes Little Threat to Industry Coffers

A snap decision by the UK government to levy a windfall profits tax on oil and gas firms to offset aid to consumers reeling from high energy prices sent chills down the industry's spine. The government's cash grab doesn't seem to be a threat to corporate earnings, but it creates a new layer of uncertainty for executives trying to balance upstream and transition investments. The UK tax comes on the heels of similar measures in Hungary and Italy aimed at redirecting profits from energy companies to consumers. UK Chancellor of the Exchequer Rishi Sunak reversed earlier opposition to endorse an increase of the tax rate on oil and gas profits from 40% to 65%, generating an additional £5 billion ($6.3 billion) in the year ahead. It could remain in place through 2025, longer than the one-off excise most expected. The financial impact on European majors working in the UK sector of the North Sea would range from a high of $900 million for TotalEnergies to almost nothing for Shell, based on their exposure and development plans in the UK, Jefferies analysts reckon. Bankers said the impacts would remain small relative to burgeoning profits. Eni estimated that an additional 10% windfall profits tax instituted by Italy's Mario Draghi administration would cost the company "a few hundred million [euros] under worst-case assumptions," but the levy has since been upped to a one-time 25% tax.

Windfall taxes look unlikely to materially change corporate spending strategies, but they could impact some investments at the margins. Oil majors and independents pledged to invest well over $50 billion in the coming decade in the UK's energy system in an unsuccessful effort to stave off the additional tax. The UK's measure is structured to give tax rebates for investment in oil and gas production but not transition investments. The majority of $38 billion promised by Shell and BP

alone was aimed at transition businesses like carbon capture, offshore wind and hydrogen that cannot be written off. Attracting investment to the North Sea was already a challenge given the maturity of the province. UK majors BP and Shell both said they would review their plans in light of the new tax treatment. "When making plans for the next decade and beyond, we need certainty," a Shell representative said. Analysts at RBC said write-offs for oil and gas investment could spur "an increase in activity into 2022, with many projects previously seen as uneconomical or too complex coming back off the shelf," but noted that many are in the hands of smaller independents, which are not as financially strong. The focus of many of these minnows is solely on the North Sea. The Energy Intelligence Upstream Projects Tracker includes 11 major projects offshore UK by year-end 2024, but total volumes are modest, with an estimated additional 65,000 barrels of oil equivalent per day due on stream next year. Transition spending is less attractive under the new regime, but for large companies, growing transition business in their core UK market is a strategic necessity.

The risk of contagion for windfall taxes so far looks low, especially outside of Europe. But that does not mean the industry can rest easy. Government interventions in energy markets are set to grow as consumers swoon under spiraling prices. National oil companies in particular are exposed to the rising costs of subsidies for gasoline and diesel. Other favorable tax policies put in place during the pandemic-driven oil and gas price downturn could come under fire as governments try to reassure voters that energy firms are not profiting from handouts in addition to high prices. Major producers including Canada, Brazil and Nigeria already have mechanisms in place that adjust government take based on commodity prices. Liberal politicians in the US have proposed a windfall tax, but the proposal has yet to garner support among enough Democrats — much less any Republicans — to pass. Earlier this year, Spain backed off plans for a broad windfall tax and instead put its focus on utilities benefiting from a relatively steep arbitrage between prices there for gas and electricity. The chairman of India's Oil and Natural Gas Corp. said he had received "no communication" about the potential for windfall taxes there.

Labor No Threat to Australia's Oil and Gas Sector

Australia's new Labor government is taking a balanced approach when it comes to energy, which bodes well for the country's significant oil and gas industry. Dramatic energy policy changes are not expected from the new regime, which will take over after nine years of Liberal rule. Before, during and even after the campaign, Labor has tried to reassure the fossil fuel industry that its victory would not disrupt their activities. Prime Minister Anthony Albanese even said in April that "if coal mines stack up environmentally, and then commercially, which is the decision for the companies, then they get approved." Indeed, Labor has a track record of supporting the oil and gas industry. It voted last year with the center-right coalition to oppose a motion to cancel $50 million worth of taxpayer-funded grants for private companies to explore fracking in the Beetaloo Basin.

Labor recognizes the role the oil and gas industry plays in Australia's energy security, as well as its importance to Asia's decarbonization efforts. Strengthening climate policies and boosting renewable energy are also Labor priorities. But Australia has been such a laggard in climate policy that Labor's midterm decarbonization ambitions are unlikely to push most oil and gas operators to set bolder emissions targets than already planned. Albanese campaigned on reducing Australia's emissions by 43% below 2005 levels by 2030 on the way to net-zero by 2050. In comparison, Woodside and Santos are targeting a 30% and 40% decrease, respectively, by 2030. Resources Minister Madeleine King last month told the annual Australian Petroleum Production and Exploration Association (APPEA) conference that gas will be part of Australia's future energy mix, and that it is the country's responsibility "to extract this gas to be able to provide a pathway for other nations as well as our own to get to net-zero emissions by 2050."

That's not to say there won't be any significant changes under Labor. Strong state support for carbon capture and storage (CCS) is slated to cease as Labor wants to limit public funding for the technology. But even this is not expected to derail the development of the many CCS projects already in the pipeline in Australia, as the technology has become a cornerstone in the decarbonization strategies of many oil and gas operators in the country. Labor is not a critic of CCS and acknowledges the need for the technology. But it draws the line at public funding, preferring this support to go to investments in renewable energy, which it says has been too scarce. Last year, Bowen said he thought "the government puts too much store in it [CCS] — it's not the answer to all our problems. It's not an excuse not to reduce emissions." He added that if it "can play some role in some sectors, not just … carbon capture, use and storage, then fine." CSS projects and hubs have mushroomed in Australia in recent months. Operators say it is a 50-year-old proven technology that is critical to reducing emissions from hard-to-abate sectors. They also say CCS will enable a quicker development of hydrogen, from blue to green

What's New Around the World

GENERAL

CORPORATE — UK-based upstream players Tullow Oil and Capricorn Energy have agreed to merge in an all-stock deal that will create an Africa-focused E&P company with a market capitalization of around $1.8 billion. The two companies had combined production of 96,000 boe/d in 2021 and closed that year with combined reserves of around 340 million boe. If shareholders approve the proposed deal, the company will have a presence in half a dozen or so African countries, with additional exploration licenses in several other countries. Capricorn was previously known as Cairn Energy. Sources said the deal would help Tullow make further progress on paying down debt and strengthening its balance sheet, while also noting that cash-rich Capricorn had been struggling to find worthy opportunities to redeploy capital. But some analysts were unenthusiastic about the merger plan. "We see no strategic advantages or benefits of diversification from this deal," Stifel's Chris Wheaton said in a note to clients. Others saw the deal as a defensive move by both companies. Tullow brings producing assets in Ghana, Gabon and Cote d'Ivoire to the table, while Capricorn brings producing fields in Egypt's Western Desert. Tullow also has the South Lokichar oil project in Kenya, where development has been stalled for several years.

COUNTRIES

AUSTRALIA — Shell has sanctioned its large Crux gas project to backfill its 3.6 million tons/yr Prelude floating LNG (FLNG) facility offshore Western Australia. The decision comes amid high energy prices and growing concerns over energy security following Russia's invasion of Ukraine. Australia is one of the world's largest producers of LNG. It is home to 10 LNG plants with a combined production capacity of 87.6 million tons/yr. Crux is the first oil and gas project sanctioned by incoming Prime Minister Anthony Albanese, who took office last week following Labor's victory in federal elections. Labor campaigned on boosting renewable energy development, although it is not fundamentally opposed to fossil fuel projects. The 2 Tcf Crux gas field lies 620 km northeast of Broome, in the northern Browse Basin. The development will consist of a platform operated remotely from Prelude. Construction will start this year and first gas is expected in 2027 just as significant LNG supply enters the market in coming years. The Crux development is expected to cost $2.5 billion, and produce 1.6 Tcf of gas, 60 million bbl of condensate and 40 million bbl of liquefied petroleum gas, according to Wood Mackenzie.

CANADA — Canadian oil producer Cenovus Energy and its partners said Tuesday that they plan to officially restart the West White Rose project offshore Newfoundland and Labrador after a two-year pause. The previously sanctioned project was put on ice in March 2020 due to the opening wave of the Covid-19 pandemic by then-operator Husky Energy, which merged with Cenovus in January 2021. First oil for the project is now slated for the first half of 2026, with expected peak output of 80,000 b/d by the end of 2029. West White Rose will tap a 115 million bbl satellite find of the White Rose development, which sits about 350 km (217 miles) east of St. John's, and should add about 14 years of additional life to the project, according to Cenovus. The revival of the West White Rose adds momentum to the recovery of East Canada's upstream, which in recent months has seen a number of projects being approved and rejuvenated amid the persistent high oil price environment. These include a project by Cenovus and Suncor to extend the life of the mature Terra Nova field in the Jeanne d'Arc Basin, and the Bay du Nord project in the Flemish Pass Basin, where Equinor is advancing a two-well program.

INDIA — India's imports of Russian crude have jumped sharply and those flows have taken on a more permanent character, with some Indian refiners believed to have signed semi-term contracts for Russia's Urals crude. Tankers from sanctioned Russian shipper Sovcomflot have been moving Urals to Indian ports, helping to overcome the obstacles that Indian refiners would otherwise face in securing vessels and insurance for Russian cargoes. Indian imports of Russian crude — most of it likely to be Urals grade — more than doubled from April to May and they look set to rise sharply again in the first half of June. Russian crude arriving at Indian ports spiked to 850,000 b/d in May from 360,000 b/d in April, said Serena Huang, head of Asia-Pacific analysis at data analytics firm Vortexa. For comparison, India imported an annual average of less than 50,000 b/d of Russian crude in 2021. Preliminary shipping data indicate that India's imports of Russian crude could spike to 1.3 million b/d in the first half of June, Huang added. Some Indian refiners are believed to have signed semi-term contracts for Urals for the second half of this year, with volumes thought to total around 500,000-600,000 b/d, s source said.

JAPAN — Imports of Saudi crude spiked by 298,000 b/d from March to 1.28 million b/d in April, with volumes surging by 391,000 b/d from April 2021, according to data from the Ministry of Economy, Trade and Industry (Meti). Saudi official formula prices for March loading crude exports to Asia were announced in early February at levels that many in the market saw as within expectations. Some even saw them as relatively restrained. These levels came on the heels of three months of higher-than-expected formula prices for medium and heavy crude. Like their Chinese counterparts, Japanese refiners were likely prompted by these reasonable formula prices to ask for higher Saudi crude volumes for March-loading cargoes, most of which would have arrived at Japanese ports in April. Japan received 45,000 b/d more Arab Medium and Arab Heavy crudes in April compared to March, a jump of 28%. Total volumes hit 206,000 b/d in April.

THE NETHERLANDS — The Netherlands has approved the development of a new natural gas field in the North Sea as Europe seeks to reduce its dependence on Russian gas. Dutch company One-Dyas said the country's economy ministry has granted it final permits for development of the N05-A gas field, which is expected to start delivering natural gas to homes in the Netherlands and Germany by the end of 2024. The planned N05-A production platform will be located 20 kilometers north of the Dutch islands of Schiermonnikoog and Rottumerplaat and the German island of Borkum. The field straddles the maritime border between the two countries. A pipeline will be built to bring the gas onshore, while Germany's Riffgat wind farm will provide electricity to the platform and reduce the project's carbon footprint. The German state of Lower Saxony had previously blocked development on environmental grounds, but it reversed that decision after Russia's invasion of Ukraine prompted a rethink of energy and security policy in Europe. Media reports have indicated that the N05-A field could produce between 2-4 Bcm/yr.

RUSSIA — Gazprom has told Shell Energy Europe and Denmark's Orsted that it will stop supplying them with Russian gas from Jun. 1 after they refused to comply with Moscow's new two-step payment mechanism. Shell Energy Europe — Shell's European gas and power trading and marketing business — has a 1.2 Bcm/yr contract with Gazprom to supply Germany. Orsted's contract is for roughly 1.8 Bcm/yr. Orsted CEO Mads Nipper said the move showed how important it is for the EU to end its dependence on Russian gas by accelerating its expansion of renewable energy. The Russian gas giant had already cut off gas supplies to Dutch gas trader Gasterra on May 31 for the same reason. Gasterra had a 4 Bcm/yr supply contract with Gazprom that was set to expire in October. Gazprom has now cut off gas supplies to six European companies, including Poland's PGNIG, Bulgaria's Bulgargaz and Finland's Gasum. As a result of these moves, Gazprom has pulled the plug on a combined total of 26 Bcm/yr, accounting for about 13% of its portfolio of supply contracts in Europe (including Turkey).

Marketview

Lloyd's of Moscow

The EU plans a ban on insurance for all tankers carrying Russian oil. Such a measure would make it a lot harder for Moscow to ship oil to willing buyers. It could also encourage a ghost fleet of rogue tankers to grow even bigger.

The insurance ban would come on top of the EU decision to block most crude oil and refined products by the end of 2022 in protest of Russia's war in Ukraine.

The EU is coordinating the ban with the UK. Nearly all tanker insurance is ultimately tied to Lloyd's of London, the insurance market where 90% of the world's fleet shares operational risk.

Details of the ban are being worked out. Already agreed is a plan to ban Russian vessels from insuring with companies connected to the EU or the UK. A further ban would be extended to all vessels carrying Russian oil — casting the net a lot wider.

"I think the ban is important and will effectively act as secondary sanctions," an oil trader said. For charterers wishing to transport Russian crude or products, there are few alternative insurance options.

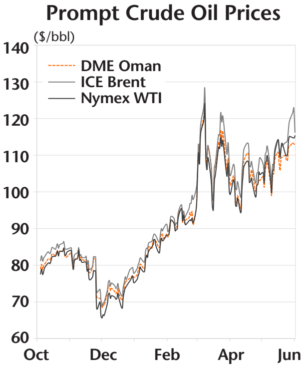
Without insured vessels, the thinking is Russia would have a harder time circumventing all sanctions on its oil exports. For now, the 800,000 barrels per day of crude oil already shunned by Europe is sailing to India, with some going to China and Turkey, on insured vessels.

That volume could double by the end of the year if most EU countries stop buying Russian crude. Moscow plans to keep funding its war chest and is offering steeply discounted crude to any buyer.

Russian and Asian insurance clubs in India or China could join up. Or Russia could take on the full risk as a nation — like Iran did with its Kish insurance company. However, Moscow's reputation as an insurer is not great.

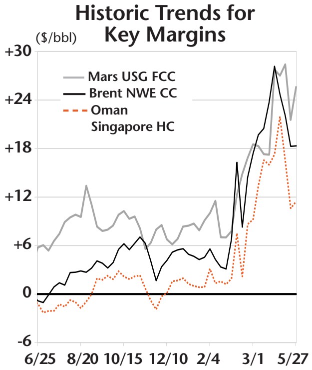
"In my experience of [Russian insurance companies], when it actually came to a claim, they would go through every loophole to not pay," a trader said, adding that at least with Lloyd's, a charterer can get its insurance payouts.

Prompt Crude Oil Prices



Source: Nymex, ICE, DME

Historic Trends for Key Margins



Source: OMI

"You can't risk a cargo of $100 million-plus uninsured," not to mention a very large crude carrier with $250 million worth of oil onboard, one trader noted. In case of a spill, the costs run into the billions.

Yet, sanctions on Iran and Venezuela have increased the fleet of tankers secretly shuttling oil around the world, transferring it at high seas and blending it with other oil to disguise the country of origin. Up to 100 tankers could be in that fleet.

They switch off their satellite signals to prevent detection, falsify their bills of lading, can change their names and flags regularly and use offshore shell companies to disguise trades and payments.

In case of a full insurance ban on all tankers carrying Russian oil, that dark fleet would have to expand dramatically — or become its own reputable insurance club. And that is just for crude oil. Refined product exports from the Baltic and Black Seas can also run close to 2 million b/d. That trade currently involves hundreds of tankers.

Opec-Plus Trims Demand Forecast

Opec-plus' technical committee has trimmed the group's demand forecast by around 200,000 b/d for the year and expects that stock levels will dip below the five-year 2015-19 average for at least two quarters under all its scenarios.

A report prepared for the committee said that world oil demand is forecast to increase by 3.4 million b/d in 2022, while global economic growth was at 3.5% for the year. It also cited uncertainties such as geopolitical tensions and the Covid-19 pandemic as enduring risks. The producer group's latest *Monthly Oil Market Report* showed global demand for oil growing by 3.36 million b/d in 2022 and non-Opec supply rising by 2.4 million b/d.

PIW Market Indicators

($/barrel)	May 30-Jun 1	May 23-May 27	May 2-May 6
Spot Crude			
Opec Basket	$120.01	$116.42	$111.65
UK Brent (Dtd.)	123.42	117.75	110.33
US WTI (Cushing)	114.77	113.37	106.69
Nigeria Bonny Lt.	130.82	123.51	111.81
Dubai Fateh	114.25	109.55	106.35
US Mars	109.70	108.14	105.65
Russia Urals (NWE)	89.22	82.41	75.21
Crude Futures			
Brent 1st (ICE)	120.27	115.57	109.20
Brent 2nd (ICE)	115.59	112.46	107.70
B-wave (ICE)	120.45	115.07	108.86
WTI 1st (Nymex)	114.97	111.91	106.68
WTI 2nd (Nymex)	112.32	109.19	105.12
Oman 1st (DME)	112.70	110.31	105.35
Oman 2nd (DME)	109.19	108.35	103.89
Murban 1st (ICE)	116.61	112.33	107.86
Murban 2nd (ICE)	113.74	111.16	106.02
Forward Spreads			
Brent (1st-Dtd.)	-$3.15	-$2.18	-$1.14
Brent (2nd-1st)	-4.68	-3.10	-1.50
WTI (2nd-1st)	-2.65	-2.72	-1.56
WTI (3rd-2nd)	-2.88	-2.87	-1.85
Oman (2nd-1st)	-3.51	-1.96	-1.46
Oman (3rd-2nd)	-1.43	-2.69	-2.07
Murban (2nd-1st)	-2.87	-1.17	-1.84
Murban (3rd-2nd)	-3.20	-2.98	-2.02
Grade Differentials			
WTI-Brent (1st)	-$5.87	-$3.66	-$4.07
WTI-LLS	-1.80	-0.79	-1.89
WTI-Mars	+5.08	+5.23	+1.04
Brent(Dtd)-Dubai	+9.17	+8.20	+3.98
Brent(Dtd.)-Urals	+34.20	+35.34	+35.12
Brent(Dtd.)-Bonny Lt.	-7.40	-5.76	-1.48
Term Crude Formulas			
Arab Lt.-US (c.i.f.)	$116.83	$115.27	$112.78
Arab Lt.-Europe (Med)	125.35	119.97	113.76
Arab Lt.-Far East (f.o.b.)	117.45	119.52	115.31
Nigeria Bonny Lt.	125.36	119.69	112.27
Arab Light Gross Product Worth			
Rotterdam	$138.78	$128.43	$130.74
US Gulf Coast	143.73	138.56	139.22
Singapore	129.58	122.31	126.61
Gross Product Worth & Margins			
Rotterdam			
UK Brent GPW	$150.97	$137.02	$126.59
UK Brent Margin	+25.84	+18.33	+15.47
US Gulf Coast			
Mars GPW	138.30	133.82	132.77
Mars Margin	+28.50	+25.58	+27.02
Singapore			
Oman GPW	130.16	122.76	128.26
Oman Margin	+17.91	+11.46	+21.95
US Nymex			
WTI 3-2-1 Crack	+$56.80	+$50.64	+$51.92
Refined Products			
Rotterdam ($/ton)			
Eurobob Gasoline	$1450.93	$1296.44	$1153.45
Gasoil (0.1%)	1248.33	1141.65	1207.45
Fuel Oil (0.5%)*	854.00	794.60	771.00
US Gulf Coast (¢/gal)			
RBOB Gasoline	398.29¢	379.66¢	354.55¢
ULS Diesel	403.81	380.73	432.81
Fuel Oil (0.5%, $/ton)	$928.33	$887.80	$830.20
Singapore ($/bbl)			
Naphtha	$95.56	$96.07	$97.99
Gasoil (0.05%)	157.69	142.71	153.45
Fuel Oil (0.5%, $/ton)	1124.00	1004.60	867.20

*ARA fuel oil prices for 1% sulfur fuel oil (LSFO) have been discontinued as the market becomes increasingly illiquid. The new 0.5% sulfur fuel oil (VLSFO) specs reflect the transition to new emissions standards set by the International Maritime Organization effective Jan. 1 2020. Latest week's data are preliminary. For GPW and margin calculations, see Refining Profitability Methodologies on the Energy Intelligence website in Reference Tools Publication Methodologies. Spot prices from Thomson Reuters. Opec basket source, Opecna. 3-2-1 crack spread for 3 parts crude, 2 parts gasoline, and 1 part heating oil. PIW Numerical Datasource subscribers can download all indicators in Excel worksheets.