

INTERNATIONAL OIL DAILY[®]

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G7 Endorses Price Caps, Cracks Door to Fossil Finance

Leaders of the G7 will look for ways to cap the prices for Russian oil and natural gas in a complex proposal aimed at limiting revenues available for Russia's war in Ukraine and boosting their own flagging economies.

In a communiqué from the three-day G7 summit held in Germany, leaders called on governments globally – in consultation with the private sector – to investigate ways to [limit the prices paid](#) for Russian hydrocarbons.

The European Union has already proposed a [ban on insuring vessels](#) carrying Russian crude that would take effect at the start of next year.

The G7 proposal suggests a similar, if more nuanced approach, of prohibiting “all services” that support Russian seaborne exports “unless the oil is purchased at or below a price to be agreed in consultation with international parties.”

“This is a step that G7 leaders can take right now to get aligned around a set of objectives that's going to both limit Putin's revenues and squeeze the resources that he has to wage war,” said a senior US administration official, “and, secondly, to increase stability and the security of supply in global oil markets.”

Any action to cap prices would require a coordinated effort on the part of governments from the US, UK and EU and benefit from the support of major importers like China and India. Leaders said they would “invite all likeminded countries to consider joining” the effort.

Getting buy-in from [China](#) and [India](#) – both of which have resisted calls to join in EU and US sanctions regimes – could prove difficult.

The proposal also leaves open the possibility of a price cap on natural gas, although it gives no detail on the possible mechanisms under consideration.

Kremlin spokesman Dmitry Peskov said any limits on the price of Russian gas sold into Europe were a matter for state export giant Gazprom.

“They will probably insist on changing the terms of the existing contracts and changing the price ... This is a matter of negotiations,” he said.

Fossil Fuel Finance

The G7 leaders also softened their stance on financing fossil fuel projects abroad. It is the latest in a series of moves by countries to relax plans to curb production and consumption of coal and natural gas as prices skyrocket and the threat of outright shortages looms this winter.

In the communiqué, they qualified what had been a blanket ban on financial support for unabated fossil fuel projects by saying that such projects could still be acceptable “in limited circumstances clearly defined by each country.” Specifically, they singled out the need for additional sources of LNG to supplant volumes of Russian gas imported into Europe.

“In these exceptional circumstances, publicly supported investment in the gas sector can be appropriate as a temporary response,” the communiqué says.

The language was widely seen as a concession to Germany, which has begun [talks with Senegal](#) to cooperate on gas development. But any additional support for fossil fuels should still be “consistent with a 1.5° warming limit and the goals of the Paris Agreement.”

Production Problems

The G7 leaders pledged to increase their own domestic energy production and release stored volumes to help alleviate the strain on tight markets.

The US and Canada are the only two countries in the group that could significantly increase supply and both are constrained by private companies in the oil and gas sector that have emphasized capital discipline and returns to shareholders over spending on new production.

The International Energy Agency has helped facilitate coordinated releases of global stocks to some effect but such moves are seen as short-term fixes not long-term solutions.

The dynamic leaves the G7 to turn to Opec, where many members outside the large Mideast producers have struggled themselves to meet their production quotas, to help supply global markets.

The communiqué praised “Opec’s recent responses,” which included marginally accelerating production this month but asked for [“continued action”](#) from the producers group.

Noah Brenner, London

Implementation Challenges Await G7 Price Cap

Leaders of G7 nations agreed on Tuesday to study a [potential price cap](#) on Russian oil to curb Moscow’s ability to fund its war in Ukraine. But the practicalities of implementing such a scheme must still be addressed, and critics are already questioning its likely effectiveness.

The intent of the price cap is to reduce the amount of money going to Moscow without materially cutting Russian crude flows at a time when tight global oil supplies have kept prices running hot.

Russia’s current account over the first five months of 2022 showed a \$110.3 billion surplus, compared to \$32.1 billion over the same period last year. This rise partly reflects the country’s lower imports since international sanctions were levied on Moscow, but also mirrors the higher prices that Russia has enjoyed for its crude and refined products this year.

In essence, G7 countries are hoping to harness the existing market trend — fed by sanctions and so-called “self-sanctioning” — that has already forced Russian crude to trade at \$30-\$40 per barrel discounts to places like China, India and Turkey by making the discounts as deep and as universal as possible.

Joint Coordination

A fully effective price cap would of course require everyone to comply, including India and China, which have both increased their intake of Russian oil in recent months. The difficulty orchestrating such a joint approach is why this price cap has faced strong resistance from Germany so far.

But the G7 countries are hoping that they can incentivize buyers in other countries to only buy within the price cap. Enforcement could come via mechanisms like secondary sanctions on buyers and facilitators, or on service providers such as shipping insurance providers within their jurisdictions, in the event that Russian oil is traded at a higher price than the price cap is set.

Closing Loopholes

The creation of a price cap will likely move even more Russian crude trade to the darker corners of the global oil market, if not all parties seek to join Western efforts to squeeze Moscow.

China, for instance, could decide to trade more with Russia via overland transport by building new pipelines quickly and railroad connections to keep trade out of the easier-to-track international shipping market.

That said, seaborne trade also presents significant enforcement challenges.

Knowing the price at which a specific buyer has purchased a Russian oil cargo would imply a broader and mandatory disclosure of deals – something the industry is always reluctant to do.

And not all trade is within reach of the G7. Seeking to circumvent the recent [EU shipping insurance ban](#), India is now offering safety certification to sanctioned Russian vessels. China is likely to emulate that. And Russia offers re-insurance for ships carrying its oil in place of the EU.

Russia will naturally look for every possible loophole.

Moscow Could Cut Prices

If Moscow does not get the price it wants for its oil, it may be tempted to pre-empt the G7 initiative and find a way to raise prices. At this point, the only way to do so would be to cut crude exports to a bare minimum for a few months.

Regardless of who is still buying Russian oil, this would deliver a huge psychological blow to the market and send prices to new stratospheric highs, and in turn make it harder to tackle inflation, another G7 priority.

Shrinking Global Refinery Capacity

Most importantly, a price cap would not help fix the oil market's main problem: buyers are not scrambling for crude but for refined products, and global refining capacity has shrunk too much to offset the Russian supply shortfall.

A price cap would make crude cheaper, but those savings can't carry through fully to diesel, gasoline or jet fuel if refiners are unable to push runs materially higher – limiting the potential impacts the cap can have on battling inflation.

Julien Mathonniere, London

Russia Ships Espo Blend Crude to India

Russia has started shipping Espo blend crude oil to India from the Kozmino terminal in the country's Far East in a further sign that EU sanctions are pushing more Russian barrels into Asia.

Since the invasion of Ukraine started on Feb. 24, Russia has ramped up crude exports to India by more than 50% from ports on the Black Sea and the Baltics.

But this is the first time India will receive Espo barrels, which predominantly go to nearby China, with occasional cargoes shipped to South Korea.

According to shipping sources, a tanker belonging to Russian state shipping company Sovcomflot is on its way to India having loaded an Espo cargo at Kozmino several days ago. A second cargo is expected to load by the end of the month.

Both ships are chartered by Rosneft, the Russian state-backed giant that has a term contract with Indian Oil Corp., that country's largest refiner. Rosneft also owns a 49% interest in the 400,000 barrel per day Nayara Energy (formerly Essar) refinery in the western Indian province of Gujarat.

The Kozmino terminal, which opened in late 2009 and is owned by Russian state pipeline operator Transneft, handled around 825,000 b/d of crude last month, according to port data.

Besides Rosneft, the main users of the terminal are state-owned Gazprom Neft, West Siberian producer Surgutneftegas and some smaller Russian producers that handle around a third of the overall volume.

Trading sources say Swiss trader Paramount Energy has continued to market the small producers' volumes and is now chartering more Chinese ships, owned by state shipping company Cosco.

Paramount, which was established in 2017, has moved more people from Geneva to Dubai, where it already has an office, according to the sources.

Building Capacity

As it distances itself from Europe, Russia has pledged to build up its export capacity in the far eastern part of the country. That has so far been limited to Kozmino and smaller terminals at Nakhodka, Vostochny, Vladivostock, Vanino and Slavyanka that mainly handle oil products.

President Vladimir Putin said last week that Russia would reroute its trade to “reliable international partners,” including India and China, in response to EU sanctions.

China, meanwhile, is taking more Urals crude shipped from the Black Sea, with some of the volumes coming from Russian state producer Zarubezhneft, sources say.

Crude Flows

In May, Russian crude exports to China rose 55% year on year, according to Chinese state customs data, allowing it to leapfrog Saudi Arabia as China's main supplier.

Despite the EU sanctions, Russian oil continues to flow to Europe, both to the Black Sea and Mediterranean, with Italy, Greece, Bulgaria, Turkey and Romania among the regular buyers.

Crude is also finding its way to Northwest Europe, with regular shipments made to the Dutch hub of Rotterdam. Russian products are also flowing thick and fast to the EU, from Novorossiysk and Tuapse in the south and Ust Luga in the north.

Under a sixth sanctions package passed on Jun. 3, the EU will stop importing Russian crude by a Dec. 5, and products by Feb. 5, 2023.

This would force Russia to redirect as much as 3 million b/d of oil, likely to Asia.

Paul Sampson, London

All Eyes on Opec-Plus Spare Capacity

Spare oil production capacity held by Opec-plus member states has come into focus once again after US hopes of convincing the producer group to ramp up volumes appeared to hit a snag.

During this week's G7 meeting in Germany, Reuters TV cameras caught French President Emmanuel Macron telling his US counterpart Joe Biden that Opec members Saudi Arabia and the United Arab Emirates have very little capacity to spare.

Apparently referencing a conversation he had with UAE President Sheikh Mohammed bin Zayed, Macron told Biden that the UAE is producing at its maximum capacity while group kingpin Saudi Arabia has just 150,000 barrels per day of additional available output.

“They don’t have huge capacities” that can be achieved in less than six months, Macron told Biden. It was a message that left industry observers scratching their heads since it contradicts data from both Mideast Gulf states.

The comments, which came just days before Opec-plus meets on Jun. 30 for market deliberations, caused benchmark Brent crude prices to jump by around 2% on Monday to around \$116 per barrel.

Brent stayed around that mark on Tuesday, implying that news of limited spare capacity spooks markets instead of calming supply fears.

UAE Clarification

UAE Energy Minister Suhail al-Mazrouei was quick to clarify on Twitter that his country was producing the maximum allowed under the current Opec-plus target, which stands at 3.168 million b/d, adding that the UAE remains committed to sticking with the plan until it ends in August.

The UAE’s total oil production capacity is estimated at around 4.3 million b/d while Saudi Arabia's is estimated as 12.25 million b/d, including output from the Neutral Zone shared with Kuwait, according to Energy Intelligence data.

In April 2020, Saudi Arabia's production for the first time hit a record 12 million b/d and Energy Intelligence understands that level can be sustained for 90 days or more, if needed.

That means spare capacity available in Saudi Arabia and the UAE – under the Opec-plus limits set for July – would be around 2.1 million b/d combined.

Since the start of the Russia-Ukraine war, Gulf states have come under [increased pressure](#) from consuming countries to boost output. That means Opec-plus producers' limited spare capacity provides the group with some amount of market management leverage.

Technical Committee Meets

Meanwhile, technocrats from Opec and non-Opec partners held their monthly Joint Technical Committee (JTC) meeting Tuesday and reviewed market parameters.

They noted that among the numerous global economic challenges, the fallout from the conflict between Russia and Ukraine and the ongoing Covid-19 pandemic could materially dampen global economic growth toward the end of the year, leading to lower growth than currently anticipated.

“The upside potential to the current forecast is quite limited,” according to the JTC report.

No changes were made in terms of demand or supply forecasts from previous estimates. But one issue that the alliance does need to address is group overcompliance as a result of most member states being unable to meet their set quotas.

The JTC noted that, in May, the Opec-10 and participating non-Opec countries achieved an overall conformity level of 196% and 360%, respectively. Overall conformity level for participating non-Opec countries and the Opec-10 was 256% in May.

Amena Bakr, Dubai

Report: Methane Emissions Rising at Alarming Rate

Just over six months after the COP26 climate summit in Glasgow, where more than 100 countries joined a global initiative to [curb methane emissions](#), a report by data analytics firm Kayrros shows a rise in the methane intensity of oil and gas production in key producer countries.

“This is an alarm call for the fossil fuel industry,” said Antoine Halff, chief analyst at Kayrros. But he said while the industry is a leading source of methane emissions, it also has “unparalleled abatement opportunities” available.

With oil and natural gas output rising in 2021 and 2022 following a sharp drop in 2020, an increase in methane emissions is not surprising.

More “worrisome,” Kayrros says in the report, is the fact that data for 2021 and the first quarter of 2022 show methane emissions rising faster than supply in several countries. That includes many countries that have committed to reducing methane emissions and that have established 2030 climate targets, suggesting those goals may be in jeopardy.

A Permian Problem

The report focuses in part on the Permian Basin in West Texas and New Mexico, the largest oil and gas-producing region in the US. The Permian achieved substantial reductions in methane intensity in 2020, amid small average production gains. But instead of preserving those reductions, methane emissions in the Permian rose 9% year on year in 2021, while crude output grew by only 5%.

In the first quarter of 2022, Kayrros found that Permian methane emissions continued to rise – apparently reaching their highest level on record – despite Energy Information Administration data pointing to a slight decline in Permian oil production.

So-called [super-emitters](#) – big but intermittent bursts of methane caused, for example, by blowouts during pipeline maintenance – fell sharply in number in the Permian in 2020 and 2021, likely helped by the start-up of new natural gas pipelines. But they also bounced back strongly in the first quarter of 2022.

A factor contributing to this trend appears to be the small, privately owned Permian operators – [significant contributors to the region's activity growth](#) who “may be less disciplined about methane abatement than publicly traded, larger producers,” Kayrros says.

Growing Industry Priority

Governments and companies around the world have placed renewed emphasis on stopping methane leaks, with 119 countries having now joined the global pledge to emit less of the potent greenhouse gas.

The pledge aims to cut methane emissions by 30% by 2030 from 2020 levels, which could reduce global warming by around 0.2°C by 2050. It is seen as one of the most straightforward ways of slowing climate change. State-owned QatarEnergy announced on Monday that it had joined a [separate industry initiative](#) launched in March by the 12-member Oil and Gas Climate Initiative that commits participants to nearly eliminate methane emissions from their operated oil and gas assets by 2030.

'Wrong Direction'

But the backsliding on methane – not just by the US but also Iraq, another member of the global methane pledge – highlights the difficulties in reaching the needed reductions. Kayrros says the methane intensity of Iraq's crude production exceeded pre-pandemic levels last year.

Another notable outlier is Algeria. Although it is not a member of the global methane pledge, the North African country, which is a major gas exporter to Europe, saw methane emissions from the giant Hassi R'Mel field rebound “with a vengeance” last year after falling slightly in 2020. Hassi R'Mel is at the heart of Europe's plans to source alternative gas supplies as it seeks to wean itself off its dependency on Russia. But as Kayrros notes, the current conditions of the field and its aging infrastructure mean higher output could have knock-on effects for the climate.

“Since the launch of the Global Methane Pledge [in November], the overall trend in global methane emissions so far appears to be going in the wrong direction, as evidenced by recent developments in these major producer countries,” the report warns. “Given the high warming power of methane – more than 80 times than of carbon dioxide in the first 20 years – and the short window available to significantly reduce emissions, the lack of progress achieved so far is a concern.”

Simon Martelli, London

Downstream Drives Surge in Opec Revenues

Opec petroleum revenues shot up by some 77% last year, rebounding to \$561 billion after dropping severely in 2020, with products exports making up a larger proportion of sales, according to Opec's latest *Annual Statistical Bulletin*.

The revenue surge eclipsed 2021's 68.5% jump in Opec basket prices, which averaged \$69.89 per barrel as the producer group recovered from its [lowest annual revenue haul since 2003](#) in 2020.

Still, a combination of lower output and significantly lower export levels meant revenues still fell short of 2019 levels.

OPEC: SELECTED ANNUAL STATISTICAL BULLETIN DATA

Wellhead Crude Production ('000 b/d)	2018	2019	2020	2021	2021 vs. 2020 %Chg.
Saudi Arabia	10,317	9,808	9,213	9,125	-1.0
Opec	31,216	29,377	25,659	26,363	2.7
Crude Exports ('000 b/d)					
Saudi Arabia	7,372	7,038	6,659	6,227	-6.5
Opec	24,274	22,478	19,701	19,656	-0.2
Value of Petroleum Exports (\$ billion)					
Saudi Arabia	232	200	119	202	69.7
Opec	687	562	317	561	77.0
Active Rig Count					
Saudi Arabia	125	115	59	65	10.2
Opec	776	721	442	489	10.6
Products Exports ('000 b/d)					
Saudi Arabia	1,971	1,300	1,017	1,344	32.2
Opec	4,673	3,885	3,483	4,034	15.8
Oil Demand ('000 b/d)					
Saudi Arabia	3,105	3,139	2,927	2,966	1.3
Opec	8,642	8,717	7,831	8,249	5.3

Source: Annual Statistical Bulletin 2022

Higher prices stimulated a rebound in upstream activity in 2021, although the global active rig count remains well below pre-pandemic levels.

Saudi Arabia, for example, had 78 rigs running in May, according to Baker Hughes' *International Rig Count*. That's up from the 65 the country averaged in 2021, but below the 115 it averaged in 2019.

Asian markets continued to dominate Opec sales in 2021: "The bulk of crude oil from Opec member countries — 14.24 million barrels per day, or 72.4% — was exported to Asia," the report said.

Products Push

While crude exports were basically steady compared to 2020 — even falling in Saudi Arabia's case — 2021 products exports rose by 550,000 b/d, or almost 16%, compared to the previous year.

The bulletin notes some key new refining capacity that came on line in 2021, such as Saudi Arabia's new 400,000 b/d Jizan refinery and Kuwait's Clean Fuels downstream revamp.

But the rise in products export likely had more to do with increased refinery utilization rates rather than large additions of new capacity.

Kpler data show Jizan today as still running at under one-third of nameplate capacity. Kpler data also suggest [Kuwaiti Clean Fuels](#) didn't start up until late 2021.

This Gulf downstream tilt is set to intensify, with the region looking to add some 1 million b/d of new refinery capacity.

Kuwait is currently commissioning its 615,000 b/d al-Zour refinery, with Jizan ramping up and Oman gearing up for commissioning its new 240,000 b/d Duqm refinery in the first half of next year.

The Mideast capacity additions will be especially welcome given current global downstream tightness.

The bulletin said refinery capacity in OECD countries declined for the third consecutive year in 2021.

Opec Have-Nots

The bulletin does not give data for production capacity, but steep falls in output among African members last year highlight the challenges these states are facing in meeting their quotas.

Production in both Nigeria and Angola was down by more than 11%.

Nigeria's 2021 output of 1.32 million b/d is more than 400,000 b/d, or 24%, below its 2019 volumes. African underproduction has further deteriorated so far in 2022.

Rafiq Latta, Nicosia

China's May Oil Demand Recovers From April Low

China's May apparent oil demand rose 2.4% to 13.05 million barrels per day from a two-year low in April, as the easing of Covid-19 lockdowns last month led to a fledgling economic recovery.

Still, China's May oil demand stood a significant 8% below a year ago, according to Energy Intelligence calculations, as refiners cut their runs by 10.9%, or 1.56 million b/d from May 2021 — the steepest year-on-year fall in at least a decade.

But as Covid-19 cases continue to fall — Shanghai and Beijing reported zero cases on Monday for the first time in four months — Chinese refiners, [taking advantage of discounted Russian and Iranian barrels](#), are ramping up production again and June demand is expected to rebound further.

Energy Intelligence calculates China's apparent oil demand from the country's refinery throughput plus its net imports of 11 different refined products.

The calculation does not include changes in inventory levels because that information is not publicly available in China.

Products Demand Recovers – Apart From Jet

Demand for most Chinese refined products rebounded in May from [April when China's economy was the worst hit](#).

Demand for Naphtha and liquefied petroleum gas (LPG) in particular turned positive, after a rare fall in April from March, suggesting that petrochemicals demand, which helped drive China's rebound from Covid-19 in 2020, is on the rise.

Gasoline demand also rose 3.4% in May to 2.94 million b/d but remains lower than a year ago amid surging prices at the pump, which are making electric vehicles (EVs) more attractive.

China's [EV penetration](#) in May stood at 24% of overall auto sales, up by a whopping 13.8 percentage points from the same month in 2021. If only passenger car models (no larger than nine-seaters) were counted, the EV penetration rate was even higher at over 26% last month.

With air travel disproportionately hit by Covid-19 lockdowns, jet demand fell both on a monthly and yearly basis, [after rebounding above 2019 levels a year ago](#).

China's May jet-kerosene demand fell to 209,000 b/d – down 79.4% from May 2021 when it exceeded 1 million b/d for the first, and only, time.

Economic Stimulus to Benefit Oil Demand

Chinese Premier Li Keqiang announced measures to support the Chinese economy in late May, after warning that China may struggle to record positive growth this quarter.

Jet gasoline and gasoil look set to benefit greatly from the government's efforts to stimulate the economy.

The Chinese government allocated last month 200 billion yuan (\$30 billion) in bonds and 150 billion yuan (\$22 billion) in loans to China's aviation sector, as part of a wider attempt to restart the economy.

Beijing has also started reducing quarantine periods for incoming international travelers, although that may not be enough for a strong air travel rebound at a time when most of the world has lifted quarantine requirements altogether.

Even as it encourages Chinese EVs as a way to reduce its carbon emissions and to support a new national industry, Beijing cannot forget the conventional automobile industry, which is a pillar of the Chinese manufacturing sector. Beijing has announced a rescue package worth 60 billion yuan (\$9 billion) to prop up the auto market by reducing vehicle purchase taxes.

Gasoil stands to benefit from broader infrastructure stimulus measures, which could see provincial governments spend up to 5 trillion yuan to boost their construction and manufacturing sectors.

CHINA'S MAY 2022 APPARENT OIL DEMAND

('000 b/d)	May '22	Apr '22	May '21	M-o-M %Chg.	Y-o-Y %Chg.
Apparent Oil Demand					
Refinery Throughput	12,749	12,659	14,308	0.7%	-10.9%
Product Imports	1,110	1,053	1,227	5.5	-9.5
Product Exports	811	972	1,347	-16.6	-39.8
Net Imports	299	80	-120	272.1	-350.0
Apparent Demand	13,048	12,739	14,189	2.4	-8.0
Products Demand					
Gasoline	2,936	2,838	3,065	3.4	-4.2
Kerosene	209	242	1,013	-13.8	-79.4
Diesel	3,510	3,430	2,679	2.3	31.0
Fuel Oil	785	691	577	13.6	36.0
Naphtha	1,286	1,244	1,252	3.4	2.8
LPG	2,172	2,102	2,124	3.3%	2.2%

Source: Energy Intelligence analysis of data from China's General Administration of Customs and National Bureau of Statistics. Numbers have been rounded.

CHINA'S JANUARY-MAY 2022 APPARENT OIL DEMAND

('000 b/d)	Jan-May '22	Jan-Apr '22	Jan-May '21	Jan-May vs. Jan-Apr %Chg.	Y-o-Y %Chg.
Apparent Oil Demand					
Refinery Throughput	13,454	13,637	14,207	-1.3%	-5.3%
Product Imports	1,147	1,157	1,148	-0.8	-0.1
Product Exports	931	962	1,521	-3.2	-38.8
Net Imports	216	195	-373	11.0	-158.0
Apparent Demand	13,671	13,832	13,834	-1.2	-1.2
Products Demand					
Gasoline	3,231	3,307	2,965	-2.3	9.0
Kerosene	435	494	874	-11.8	-50.2
Diesel	3,596	3,618	2,604	-0.6	38.1
Fuel Oil	722	705	504	2.4	43.2
Naphtha	1,380	1,404	1,269	-1.7	8.7
LPG	2,172	2,171	2,123	0.1%	2.3%

Source: Energy Intelligence analysis of data from China's General Administration of Customs and National Bureau of Statistics. Numbers have been rounded.

Maryelle Demongeot, Singapore

Oil Prices Remain Bullish Amid Tight Distillate Market

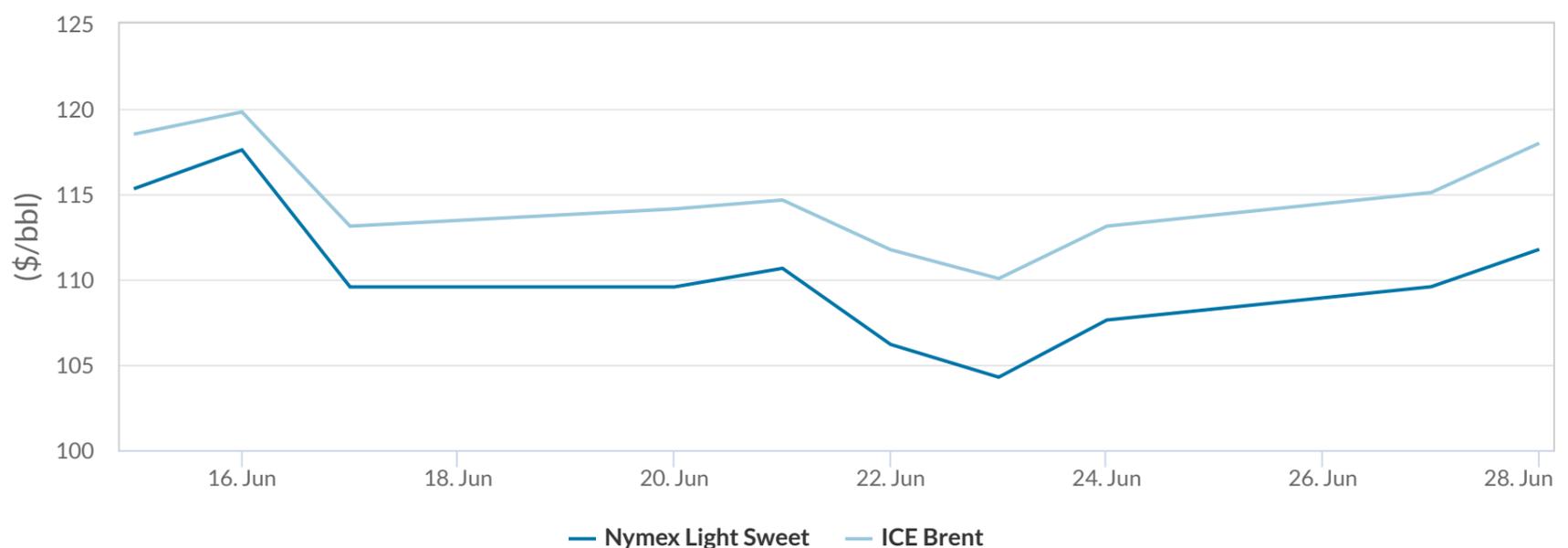
Oil futures maintained their momentum on Tuesday, underpinned by resilient product demand and no new supply capacity in sight.

“Crude oil traded higher for a fourth day as the focus continues to switch from demand destruction fears back to supply constraints,” Saxo Bank said in a note.

In London, the August Brent contract was up \$2.89 and settled at \$117.98 per barrel on Tuesday, while in New York, the front-month Nymex West Texas Intermediate (WTI) August contract gained \$2.19 and closed at \$111.76/bbl.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



High Cracks

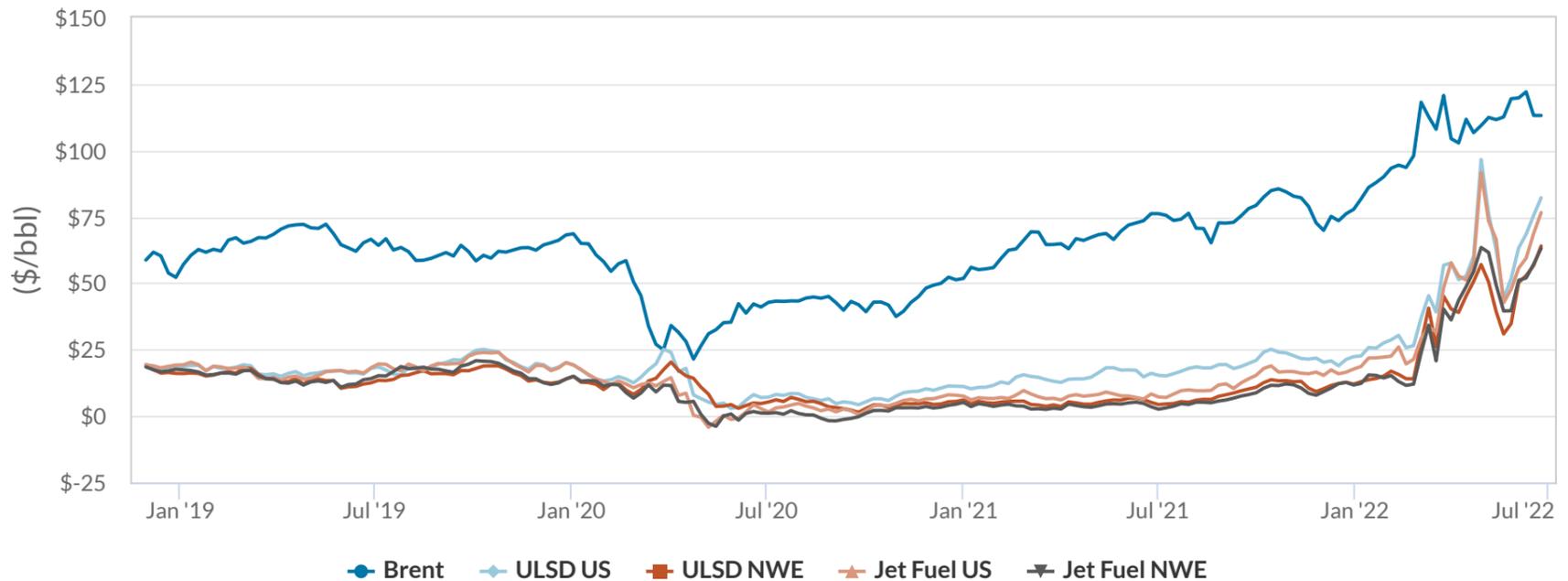
Prompt prices of middle distillates — diesel and jet fuel — pared some gains and deflated from their recent highs after more product cargoes from the Middle East and the US arrived in Europe.

But even with crude prices back on the rise, refiners will still be able to reap massive profits from their output. In the past four weeks, the crack spreads for ultra-low-sulfur diesel (ULSD) in Europe have risen by a whopping 84%, from \$34.80/bbl to \$64/bbl, Energy Intelligence data show, and about 59% in the US, from \$51.70/bbl to \$82.20/bbl.

At those margins, refiners can generate ample cash flow without having to run harder and risk saturating their overhead capacity, which helps keep a cap on their crude demand and prices.

Lower margins would potentially prompt refiners to run harder to earn more cash and, by extension, increase crude demand and inflate prices higher and faster. That is why oil prices remain locked within a \$105-\$120/bbl trading range.

MIDDLE DISTILLATE CRACK SPREADS VS. BRENT



Distillate Shortfall

The uptick in summer driving and flying demand is still supporting refining margins despite the latest Brent and WTI uptrend. Diesel prices remain unseasonably strong as a result of a supply crunch and a global shortage of refining capacity to ramp up product supply.

Sanctions against Russia have created an 800,000 barrel per day deficit in global middle distillate supply, the bulk of it in Europe. Meanwhile, distillate inventories in Europe are below their five-year average at about 110.9 million barrels, adding more incentive to refill stocks.

The G7 meeting of world leaders in Germany agreed in principle on a price cap on Russian oil, but the [details remain vague](#) and markets are wondering how the initiative will help address capacity issues.

Supply Strangleholds

The shortfall throughout the entire Atlantic Basin is visible in the current backwardation of both the low-sulfur gasoil and jet fuel forward curves in Europe and the US. With the US struggling to meet Europe's large diesel demand, the latter must now massively ramp up its long-haul imports of jet fuel and diesel from the Middle East and Asia to offset the Russian shortfall.

The problem is that a Chinese export ban on refined products is preventing the country from sending its surplus of gasoline and diesel, which would go a long way toward freeing up supply elsewhere and relieve the global distillate market.

In addition, higher refining margins are potentially crowding out other necessary products. Middle distillate yields are always a compromise between diesel and jet fuel.

The scramble to find alternative diesel supply may thus hit critical jet fuel flows from the Middle East and Asia over the summer if diesel turns out to be more profitable than jet.

To make matters worse, refineries must source their crude from farther afield, facing logistical delays and causing inefficiencies, which can only contribute to keep margins buoyant over the summer.

Julien Mathonniere, London

IN BRIEF

Turk Stream Gas Flows Resume After Maintenance

Russian natural gas resumed flowing late Monday on the Turk Stream pipeline to Turkey and further into Europe after a planned [one-week maintenance](#) period.

Gas flows to Europe on Tuesday morning hit about 1.3 MMcm/hr at the Strandzha 2 entry point on the Turkish-Bulgarian border.

That is equivalent to around 30 MMcm/d, slightly lower than immediately before the maintenance started on Jun. 21 but higher than the average 23 MMcm/d in the first half of the month.

The 31.5 Bcm/yr Turk Stream has two parallel pipes running under the Black Sea, one of which solely supplies Turkey. The other is designed to bring gas further into Europe via an onshore link dubbed the Balkan Stream.

Turk Stream gas reaches Bulgaria; Greece; North Macedonia; Serbia; Bosnia and Herzegovina; Romania; Hungary and Croatia, although [Gazprom stopped supplying Bulgaria](#) in late April.

Turk Stream flows to Europe remain below the nameplate capacity of some 43 MMcm/d.

Gazprom's other routes to Europe — the Nord Stream pipeline to Germany and the Ukrainian transit route — are also underutilized, leading many in Europe to suspect Gazprom of deliberately restricting its own supply to keep prices high and put extra pressure on Europe amid the war in Ukraine.

The [Kremlin denies](#) that the sharp reduction to Nord Stream flows have anything to do with politics.

Staff Reports

Algeria Announces Large Gas Find

Algeria's state-owned Sonatrach said it has made a potentially important natural gas discovery near its linchpin Hassi R'Mel gas complex in the center of the country.

The find was made in the Lias Carbonate "LD2" reservoir within the perimeter of the Hassi R'Mel gas field. Preliminary evaluation showed a potential volume of 100 Bcm-340 Bcm of gas condensate.

"These volumes constitute one of the largest reserves re-evaluations of the last 20 years," Sonatrach said in a statement.

The timing of the announcement is fortuitous. Algeria, previously Europe's third-largest gas supplier, has re-emerged as a vital component of the continent's aim to reduce its dependence on Russian piped gas by up to two-thirds this year.

Algeria plans to [expand gas exports](#) to the EU, with deals for an additional 3 Bcm/yr this year and up to 9 Bcm/yr more by 2024.

Sonatrach said a work program is already under way to confirm these estimated volumes and fast-track production by as much as 10MMcm/d from November this year.

Tom Pepper, London

Equinor, SSE Buy UK Power Plants in Low-Carbon Push

Equinor and UK utility SSE have struck a £341 million (\$417 million) deal with Energy Capital Partners to buy Triton Power, including its three UK electricity plants.

Equinor and SSE Thermal, which will own Triton Power through a 50-50 joint venture, plan to use the sites to develop low-carbon projects. The deal is expected to close in September.

Triton's key asset is the 1.2 GW Saltend combined cycle gas turbine and combined heat power plant located on the Humber estuary in northeast England.

The companies plan to convert the plant to provide low-carbon flexible energy generation to accompany renewables in the future. It could also be a primary offtaker for their planned nearby H2H Saltend hydrogen production project.

H2H Saltend is expected to kick-start the [wider decarbonization of the Humber](#), the UK's most carbon-intensive industrial region with over 12 million tons of annual CO2 emissions.

Equinor and SSE are working to abate 100% of the Saltend power plant's emissions by 2035, starting with plans to blend up to 30% low-carbon hydrogen for power generation.

"Contributing to flexible power supplies with low CO2 emissions to support weather-dependent renewable energy is essential to ensure energy security through the energy transition," said Irene Rummelhoff, Equinor's head of marketing, midstream and processing.

Deb Kelly, London

Philippines Ends Joint-Exploration Discussions With China

The Philippines has ended talks with China for the joint development of [oil and gas resources in the South China Sea](#).

The decision was taken by outgoing Philippines President Rodrigo Duterte, the *Philippine News Agency* reported.

"The president had spoken. I carried out his instructions to the letter: oil and gas discussions are terminated completely. Nothing is pending; everything is over," Foreign Affairs Secretary Teodoro Locsin Jr. was quoted as saying.

Locsin said both sides tried to negotiate for three years and got as far as constitutionally possible.

"The irreducible template of what is constitutionally possible is there in black and white. Surrender of any portion of Philippine sovereignty is not an option," Locsin said, adding that it would create the risk of a "constitutional crisis."

The Philippines and China agreed to discuss the joint development of oil and gas resources in the South China Sea back in 2018. Both sides met only once, in 2019.

China claims it has "historic rights" to most of the South China Sea, roughly demarcated by its so-called "nine-dash line" — a position unsupported under international law.

Marc Rousot, Singapore

DATA SNAPSHOT

Oil and Gas Prices, Jun. 28, 2022

All data are produced by Energy Intelligence in cooperation with Refinitiv.

CRUDE OIL FUTURES

(\$/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	+2.89	117.98	113.80
Nymex Light Sweet	+2.19	111.76	108.89
DME Oman	+3.84	114.73	109.80
ICE Murban	+0.67	120.62	113.37

INTERNATIONAL SPOT CRUDES

(\$/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+2.53	122.21	119.68
Dubai	+3.11	113.16	110.05
Forties	+1.72	125.54	123.82
Bonny Light	+1.72	128.29	126.57
Urals	+1.72	92.34	90.62
Opec Basket*			114.88

*Opec price assessed.

NORTH AMERICAN SPOT CRUDES

(\$/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	+2.22	113.66	111.44
WTS (Midland)	+2.42	113.86	111.44
LLS	+2.27	115.01	112.74
Mars	+2.32	108.36	106.04
Bakken	+2.22	117.66	115.44

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES

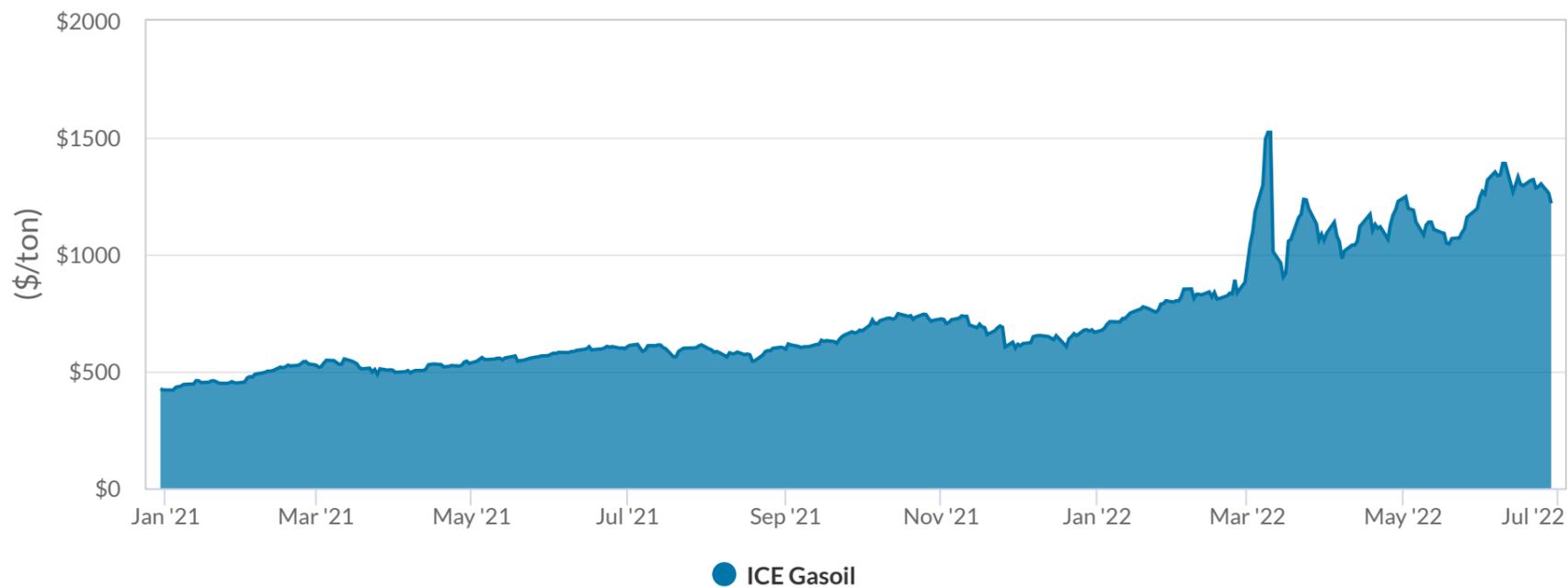


● Nymex Light crude Futures

REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	+9.79	393.51	384.42
ULSD Diesel (¢/gal)	-3.08	419.94	411.47
ICE			
Gasoil (\$/ton)	-43.75	1218.75	1186.75
Gasoil (¢/gal)	-13.96	388.98	378.77

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

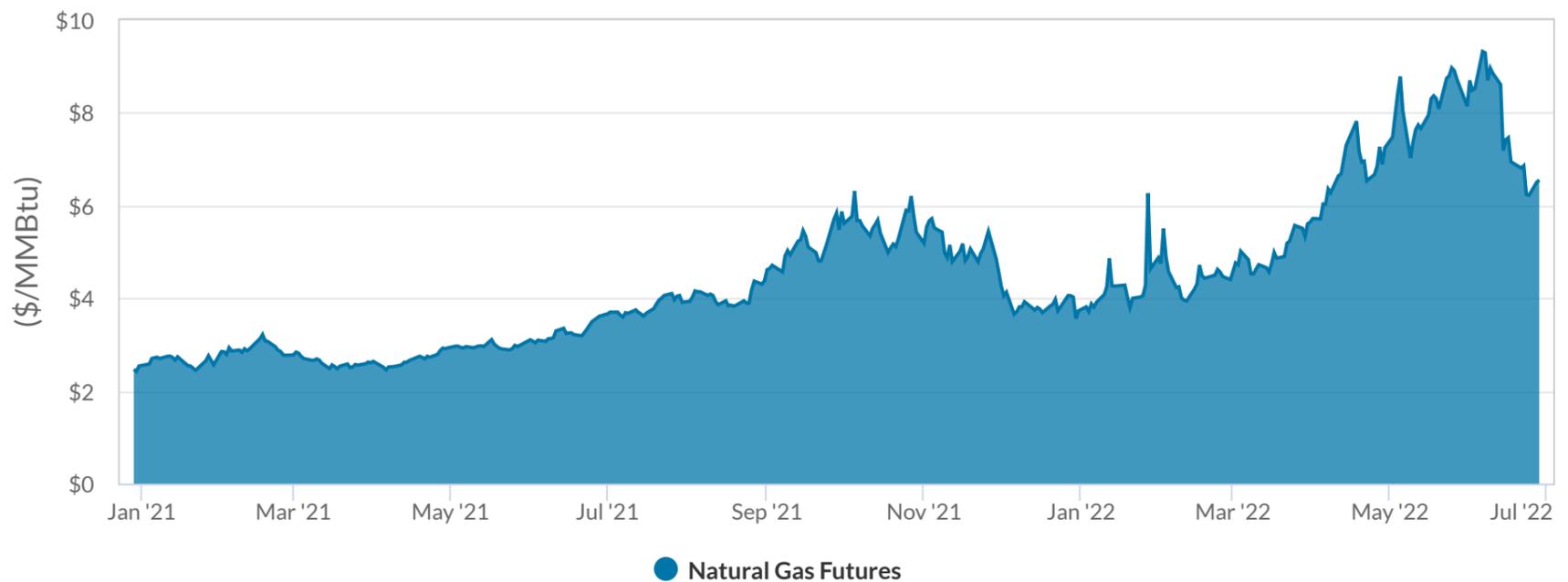
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	+3.31	395.96	392.65
No.2 Heating Oil	-8.35	409.45	417.80
No.2 ULSD Diesel	-7.10	418.95	426.05
No.6 Oil 0.3% *			107.89
No.6 Oil 1% *			106.50
No.6 Oil 3% *			101.41
Gulf Coast (¢/gal)			
Regular Gasoline	+9.06	404.46	395.40
No.2 ULSD Diesel	+1.40	420.20	418.80
No.6 Oil 0.7% *			109.33
No.6 Oil 1% *			109.33
No.6 Oil 3% *			96.89

*Price in \$/bbl. Percentages refer to sulfur content.

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam (\$/ton)	Chg.	Price	Prior Close
Regular Gasoline	-2.80	1349.00	1351.80
ULSD Diesel	-34.00	1280.00	1314.00
Singapore (\$/bbl)			
Gasoil	-3.44	165.61	169.05
Jet/Kerosene	-1.38	162.03	163.41
VLSFO Fuel Oil (\$/ton)	+18.04	995.28	977.24
HSFO Fuel Oil 180 (\$/ton)	+3.52	615.56	612.04

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

(\$/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.05	6.55
Henry Hub, Spot	+0.48	6.57
Transco Zone 6 - NY	+0.48	6.14
Chicago Citygate	+0.45	6.49
Rockies (Opal)	+0.40	6.35
Southern Calif. Citygate	-0.51	7.42
AECO Hub (Canada)	+0.37	4.64
Dutch TTF (euro/MWh)	+0.50	130.00
UK NBP Spot (p/th)	+21.00	159.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Jun. 28, 2022

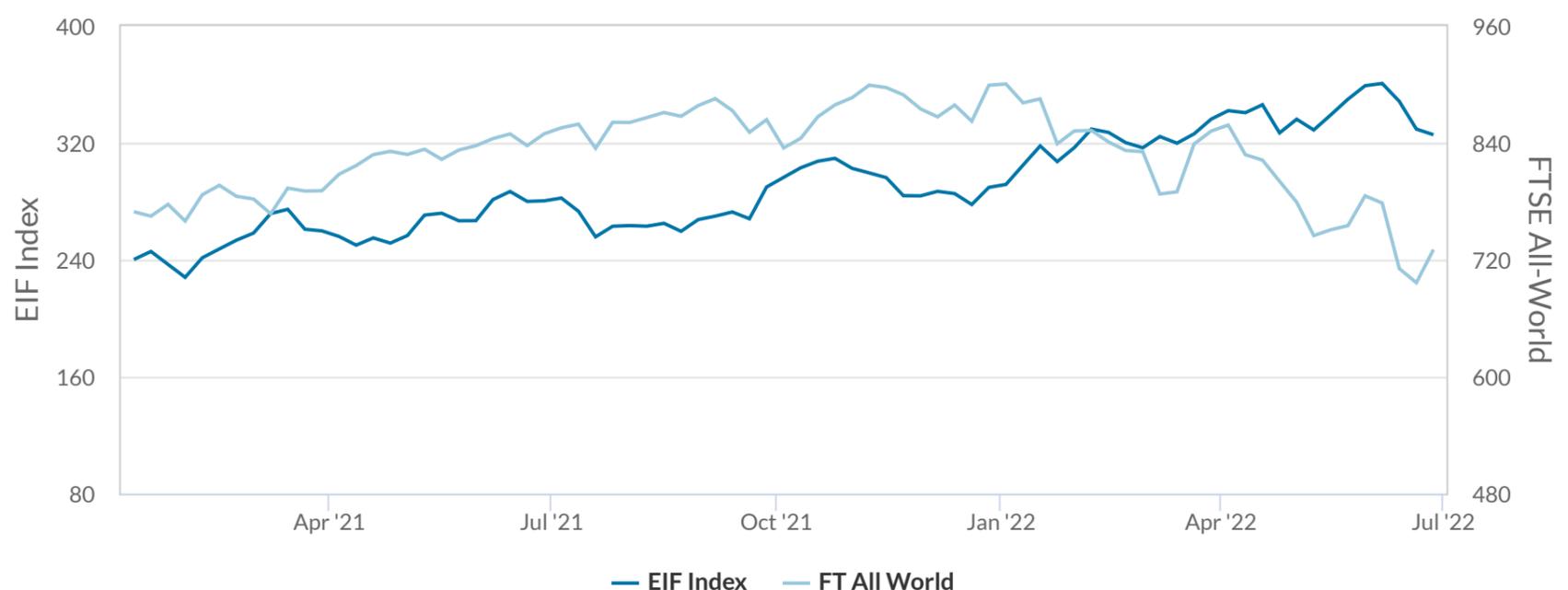
All data are produced by Energy Intelligence in cooperation with Refinitiv.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+2.22	325.56	+12.84
S&P 500	-78.56	3,821.55	-20.27
FTSE All-World*	+1.94	730.49	-18.94

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities

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