Energy Intelligence
OIL DAILY®
June 28, 2022
WWW.ENERGYINTEL.COM

CONTENTS

In Brief

Data Snapshot

US Ties Venezuela Sanctions Relief to Political Process

Washington will only consider further relaxing energy-related sanctions on Venezuela if progress is made in political negotiations over the future of the country, US National Security Adviser Jake Sullivan said Tuesday.

“We will only provide sanctions relief in return for concrete progress at the negotiating table,” Sullivan told reporters in a press briefing.

A US delegation that traveled to Venezuela this week included Roger Carstens, who handles hostage issues for the Biden administration, and James Story, who heads the State Department’s Venezuela unit that operates out of the embassy in Colombia.

Sullivan characterized the US' recent decision to issue a limited sanctions-related license to Chevron as “part of an effort to get the talks in Mexico City back up and running effectively and with the support of the opposition.”

Piece of the Puzzle

The news of the visit came shortly after French President Emmanuel Macron said during the G7 meeting of world leaders in Germany that oil from producing countries targeted by sanctions — namely, Venezuela and Iran — should be examined as potential sources for additional supply.

Venezuelan President Nicolas Maduro reacted by opening the rhetorical door to French firms.

“Venezuela is ready to receive all French companies that want to come to produce oil and gas for the European market, for the world market,” he said on government-run television station VTV on Monday. “We are prepared and ready to do it.”

France’s only significant oil and gas producer, TotalEnergies, withdrew from the Petrocedeno venture in July last year, along with Norway’s Equinor. Total still has a majority stake in the Placer gas field in Venezuela.

Earlier this month, the US eased a restriction that had prevented European firms operating in Venezuela to export Venezuelan oil as payment for operations in the country. That could add some barrels to the market, although the additions will likely be on the order of tens or hundreds of thousands of barrels, not millions. Italy’s Eni has chartered ships to begin exports.

The Biden administration faced intense political backlash in May after a delegation that included Story, Carstens and the National Security Council’s top Western Hemisphere official Juan Gonzales traveled to Caracas. Hostages were released by Maduro days later, but the White House said at the time that "energy security" was also on the agenda.

Emily Meredith and Michael Deibert, Washington

Mexico Crude Exports Increasingly Heading North

Mexico state oil company Pemex sharply increased its exports of crude oil to the US in May while it curtailed exports to Europe and Asia, where it faces increased competition from discounted Russian oil.

Exports of Mexico's heavier crude oil grades Maya and Isthmus could both be substitutes for Russia's staple Urals export grade, which is still sloshing around in Europe despite self-sanctioning and increasingly heading to Asia thanks to $40 per barrel discounts.

Mexico has seen its overall exports fall due to lower domestic production, but the slide in shipments to Europe and Asia picked up speed this year while the short-haul US market delivered better prices.

In May, Pemex shipped 740,000 barrels per day to the US, up from 594,000 b/d in April.

To the European market, on the other hand, exports fell to 32,000 b/d from 100,000 b/d in April. In Asia, the reduction was even sharper, falling to 192,000 b/d in May from 330,000 b/d in the previous month.

Europe is buying more crude from the US, West Africa and its own North Sea to compensate for lost Russian cargoes due to self-sanctioning, which are all sweeter and lighter than Mexican grades. Europe still imports 1.8 million b/d of discounted Russian oil, down some 600,000 b/d before the invasion of Ukraine began.

Traders say producers of heavier oil with a higher sulfur content — like Mexico, but also Venezuela or Iran — have to discount their cargoes to keep competing with Urals in the spot market.

Lean Times

For the first time since its boom years nearly two decades ago, overall Mexican crude exports have fallen below 1 million b/d. Data from Pemex show that Mexican exports are averaging 930,000 b/d so far this year, down from 1.02 million b/d in 2021.

The nation's crude production is also averaging just half of the 3.4 million b/d of its peak in 2004. Mexico has imported on average more than 1 million b/d in refined products from the US since 2017 and has been a net importer of US oil since 2016.

Mexico's crude exports to the US so far this year have picked up to 655,000 b/d from 579,000 b/d last year, even as Mexican President Andres Manuel Lopez Obrador has repeatedly said that the country plans to cease crude exports by 2023 in order to reach what he refers to as "energy sovereignty."

Beset by aging and often ineffective infrastructure and a president suspicious of foreign involvement in the energy sector, Pemex has had a challenging time trying to meet some of Lopez Obrador's more ambitious goals.

His promise that the 340,000 b/d Olmeca refinery in Dos Bocas will be fully operational by the middle of next year, for example, has been met with skepticism by many observers of the Mexican oil industry.

Michael Deibert, Washington, and John van Schaik, New York

LLOG Starts Up Spruance Field in US Gulf of Mexico

Privately held independent LLOG Exploration has started up production in the Spruance field in the deepwater Gulf of Mexico's Ewing Bank region, less than three years since the initial discovery of the prospect.

The project is producing about 16,000 barrels per day of oil and 13 million cubic feet per day of natural gas through the nearby EnVen-operated Lobster platform.

The Spruance field was discovered by LLOG and its partners in 2019. LLOG operates the play with a 22.64% stake, with the remainder held by Ridgewood Energy (23.89%), private equity-backed EnVen (13.5%), Beacon Asset Holdings (11.61%), Houston Energy (11.2%), Red Willow (11.15%) and CL&F (6%).

"We are executing our strategy of developing deepwater [Gulf of Mexico] projects in areas that have been prolific in the past and that we understand very well," said LLOG CEO Philip LeJeune. "By remaining active throughout commodity price cycles and continuing to deliver world-class results, we are seeing significant production growth in a higher pricing environment."

Spruance was one of four tie-back projects that LLOG expected to bring on line over the last 12 months, along with Praline, Taggart and Dome Patrol.

Spruance, via the Lobster tie-back, was among nine Gulf of Mexico fields that the US Energy Information Administration recently said it expects to be brought on line this year. Those fields are seen providing 14% of US Gulf crude production, or roughly 250,000 b/d, by the end of 2023.

The biggest of those developments are BP's Argos, Murphy Oil's King's Quay and Shell's Vito, each of which will boast peak output capacity of an output of at least 100,000 barrels of oil equivalent per day.

The agency said that no new projects in the US Gulf of Mexico are currently slated for start-up in 2023.

Jeffrey Cavanaugh, New Orleans

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 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."

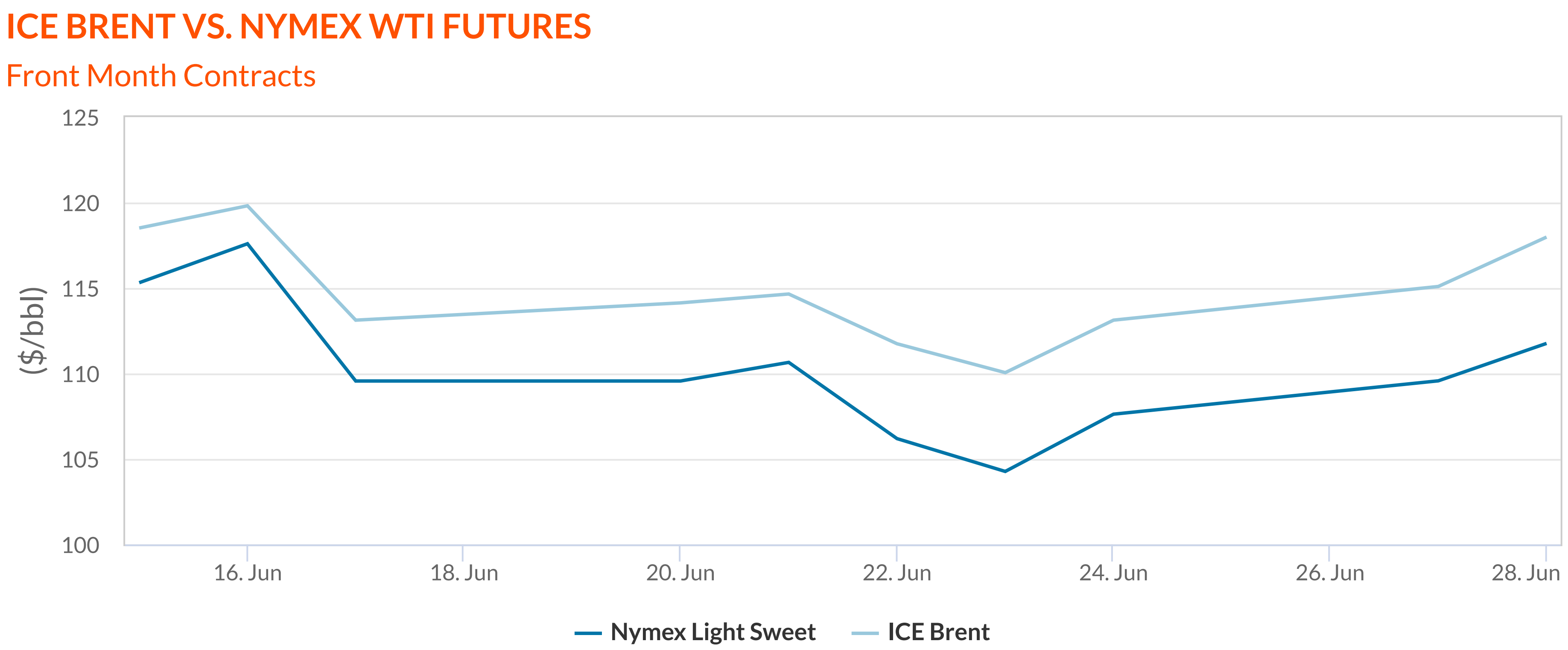
Simon Martelli, London

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.



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.

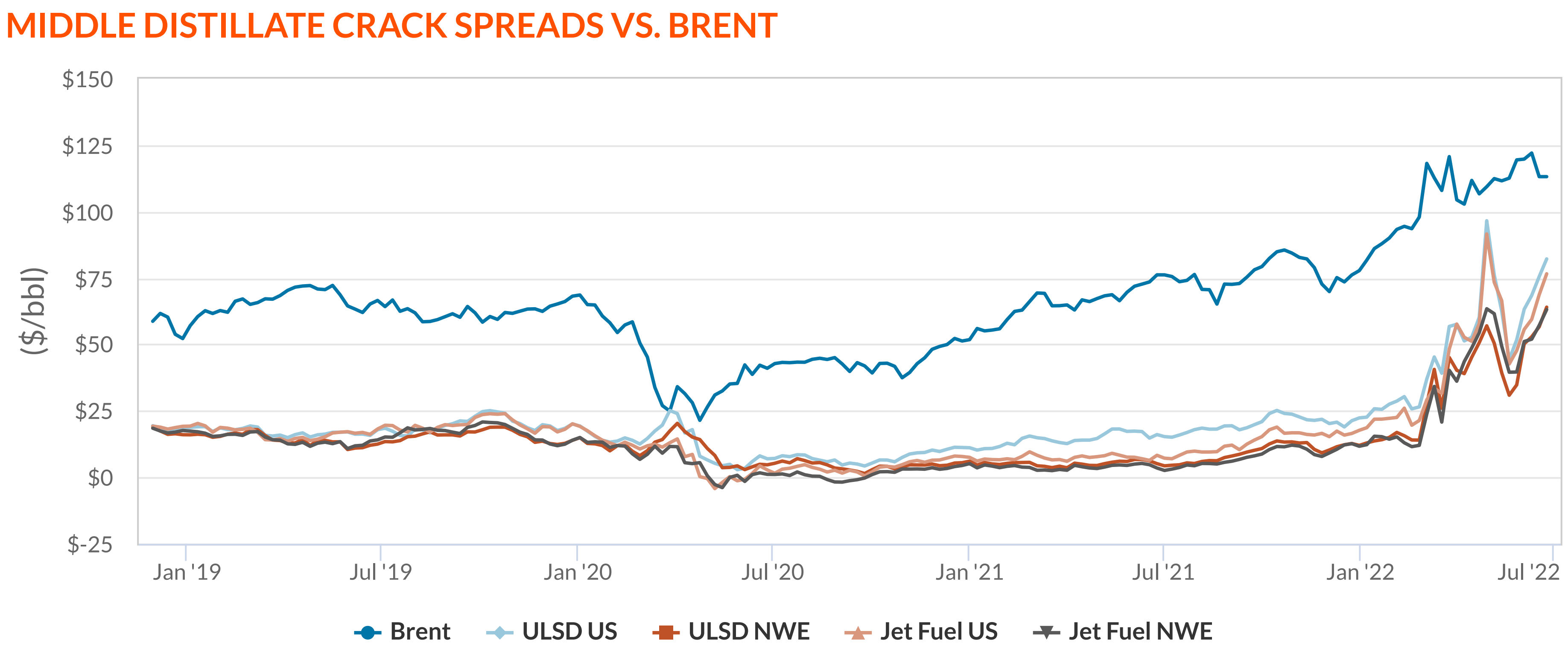
Lower margins would potentially prompt refiners to run harder to earn more cash and, by extension, increase crude demand and inflate prices higher and faster. That is why oil prices remain locked within a $105-$120/bbl trading range.

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.



Source: Energy Intelligence, ICE

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

Exxon, Imperial Sell Canadian Shale Assets

US oil major Exxon Mobil and its Canadian subsidiary Imperial Oil said Tuesday that they will sell their Montney and Duvernay Shale oil and gas assets in Canada to Whitecap Resources for C$1.9 billion (US$1.48 billion).

Exxon and Imperial, which jointly own the assets, began marketing them at the start of this year, hoping to capitalize on a rebound in oil and gas prices. The assets were valued at up to US$1 billion in January by industry insiders.

A strong run-up in commodity prices since then, with Russia's invasion of Ukraine stoking global supply concerns, has pushed up the value of oil and gas properties across North America.

Imperial's share in the sale will be around C$940 million, the companies said on Tuesday.

The assets being sold include 567,000 net acres in the Montney Shale play, 72,000 net acres in the Duvernay Basin and additional acreage in other areas of Alberta.

Net production from the assets is about 140 MMcf/d of natural gas and about 9,000 b/d of crude, condensate and NGLs, according to the companies. (Reuters)

Canada to Delay Emissions Regulation Start

Canada will delay the start date of its regulation to reduce the carbon intensity of gasoline and diesel by seven months, but increase its stringency, according to a draft of the Clean Fuel Standard (CFS) seen by Reuters.

The CFS is one of the key pieces of Prime Minister Justin Trudeau's plan to cut national emissions by 40%-45% by 2030, from 2005 levels. The CFS will be officially in place by next week, the source said.

The Trudeau government first proposed the CFS in 2016, and initially intended it to cover liquid, gaseous and solid fuels. It later focused on gasoline and diesel. Canada is aiming to reach net-zero emissions by 2050.

Under the CFS, fuel suppliers will need to cut the carbon intensity — the quantity of carbon per unit of energy — of gasoline and diesel by about 15% by 2030 from 2016 levels, up from 13% in previous drafts of the regulation.

Fuel providers need to begin complying with the fuel standard on Jul. 1, 2023, seven months later than the government was planning.

The delay is because the government is allowing a full 12 months for early credit creation that will help refineries lower initial compliance costs, a government source said.

Furthermore, exported fossil fuels using technologies that reduce carbon intensity — like carbon capture and storage — will not qualify for CFS compliance credits. In a previous draft, both exported and imported fuels qualified, the source said. (Reuters)

EIA to Resume Data Releases

The US Energy Information Administration (EIA) said Tuesday on its website that it would begin publishing its regularly scheduled data again on Wednesday, Jun. 29, including the data it was not able to release over the last week due to technical problems.

The EIA's last *Weekly Petroleum Status Report* was scheduled to be released on Thursday, Jun. 23, but was delayed “as a result of systems issues,” according to notice on the agency’s website.

At the time the EIA said its experts were "working on a solution to restore the affected systems" and that the delayed data would be published "as soon as possible."

The delay impacted the EIA's weekly US crude oil production estimates as well as its oil inventory data. In its last update, published on Jun. 15, the agency said that domestic crude output returned to 12 million b/d for the first time in over two years.

The EIA is also scheduled to releases its more accurate monthly US oil and gas production data on Jun. 30.

Staff Reports

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

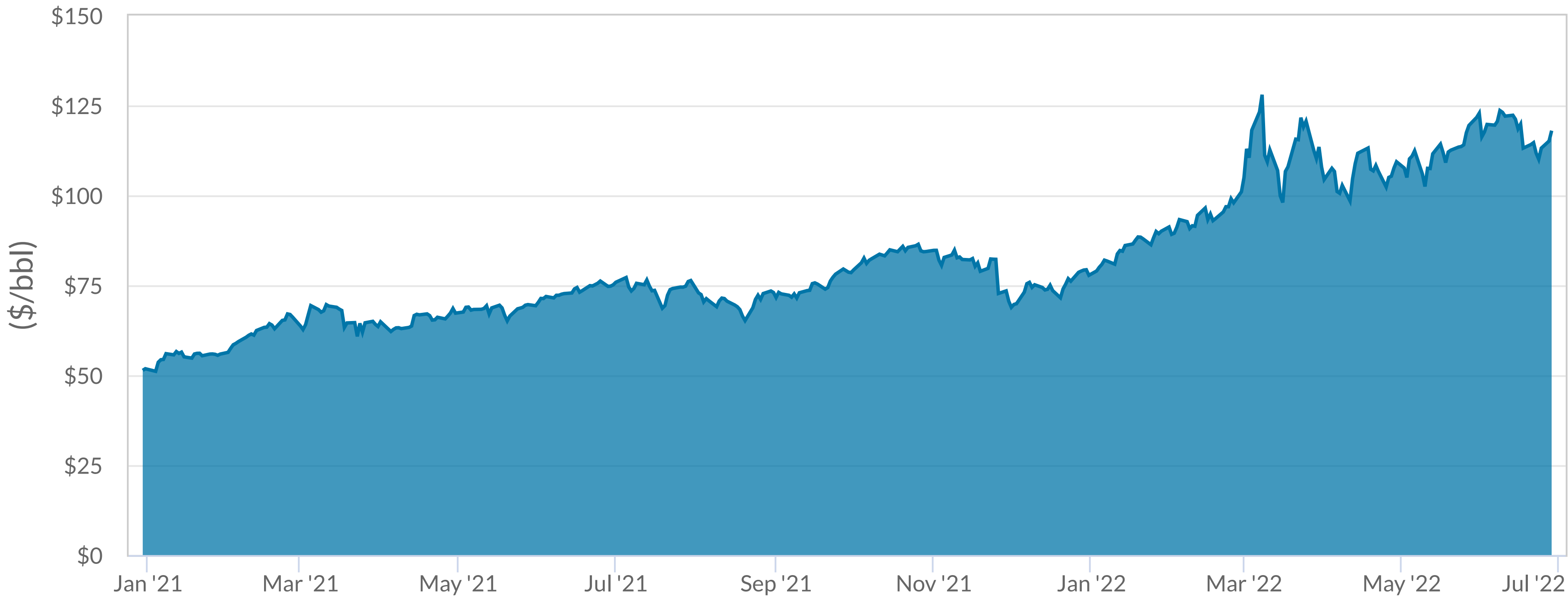
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+2.53	122.21	119.68
Dubai	+3.11	113.16	110.05
Forties	+1.72	125.54	123.82
Bonny Light	+1.72	128.29	126.57
Urals	+1.72	92.34	90.62
Opec Basket*			114.88

*Opec price assessed.

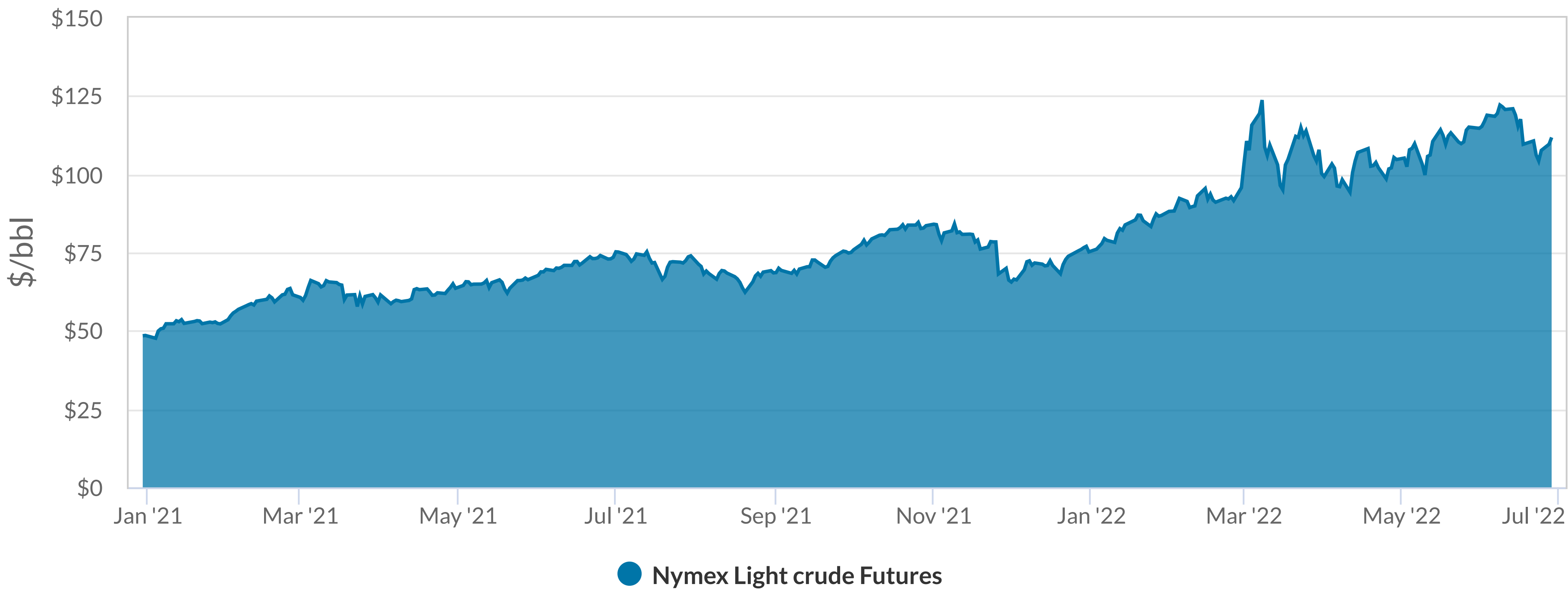
NORTH AMERICAN SPOT CRUDES

($/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

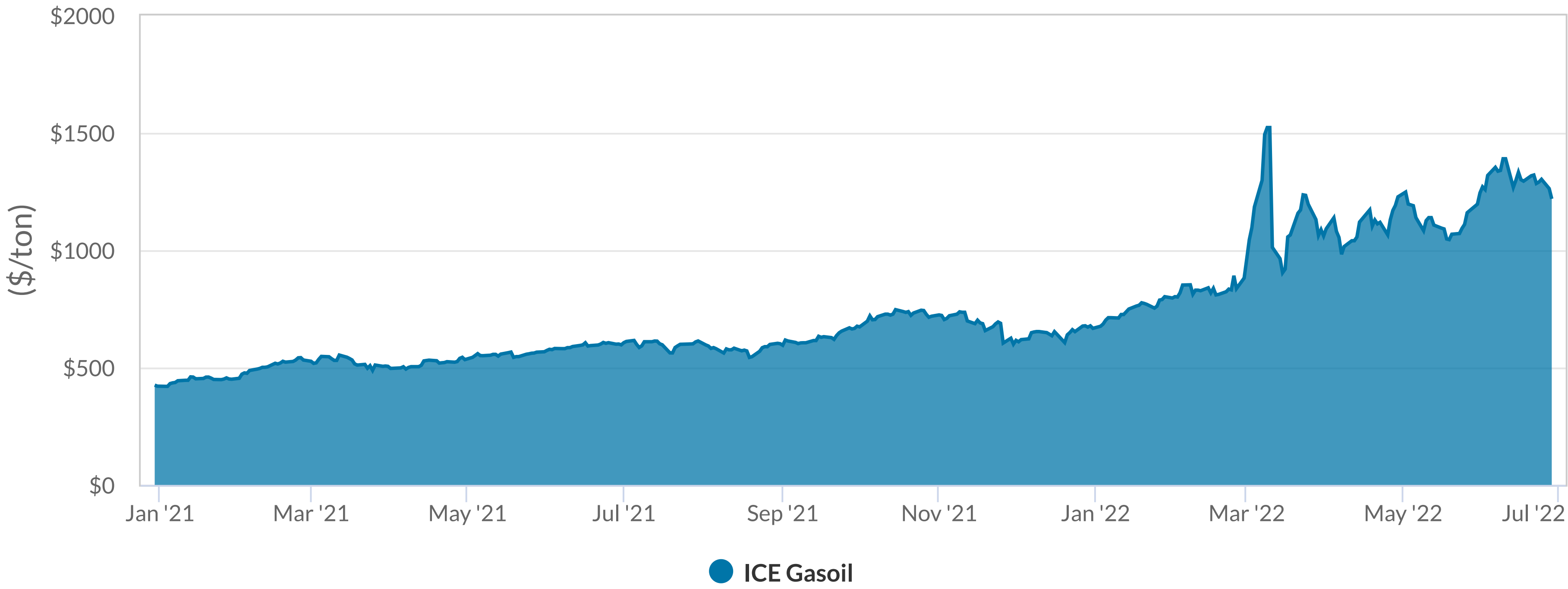


Energy Intelligence

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

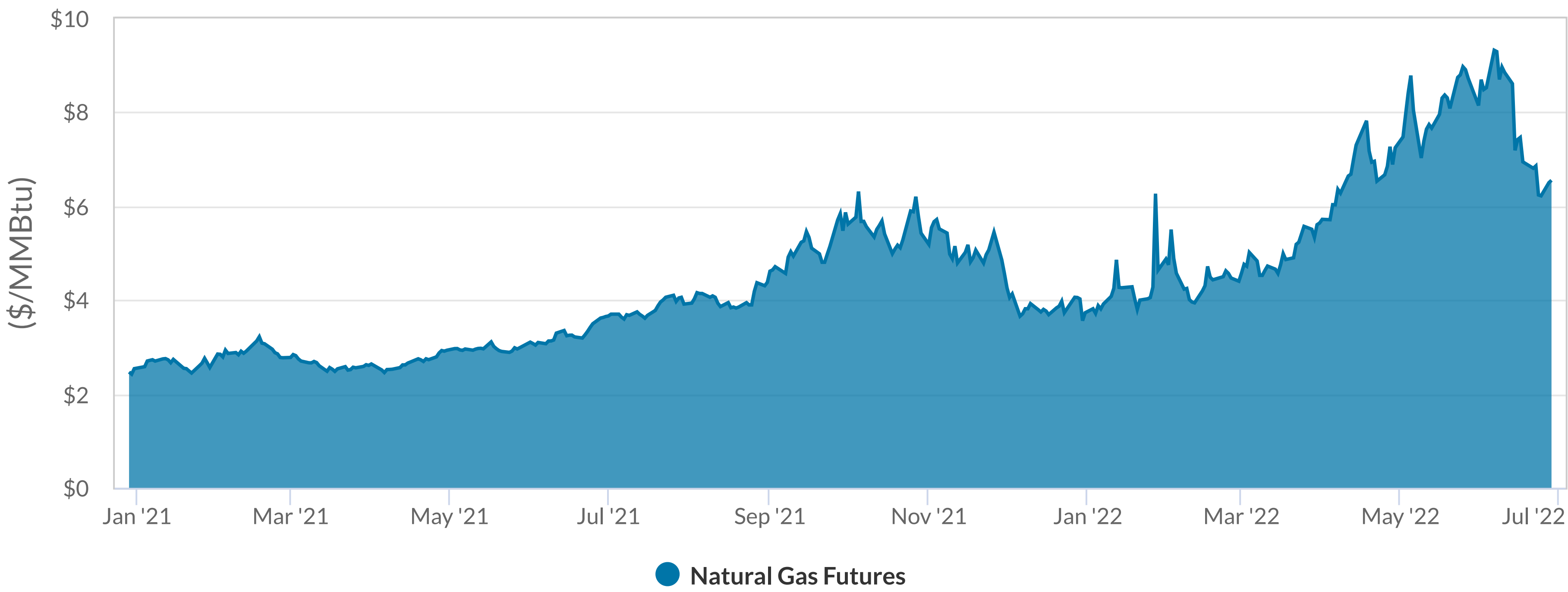
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	+3.31	395.96	392.65
No.2 Heating Oil	-8.35	409.45	417.80
No.2 ULSD Diesel	-7.10	418.95	426.05
No.6 Oil 0.3% *			107.89
No.6 Oil 1% *			106.50
No.6 Oil 3% *			101.41
Gulf Coast (¢/gal)			
Regular Gasoline	+9.06	404.46	395.40
No.2 ULSD Diesel	+1.40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

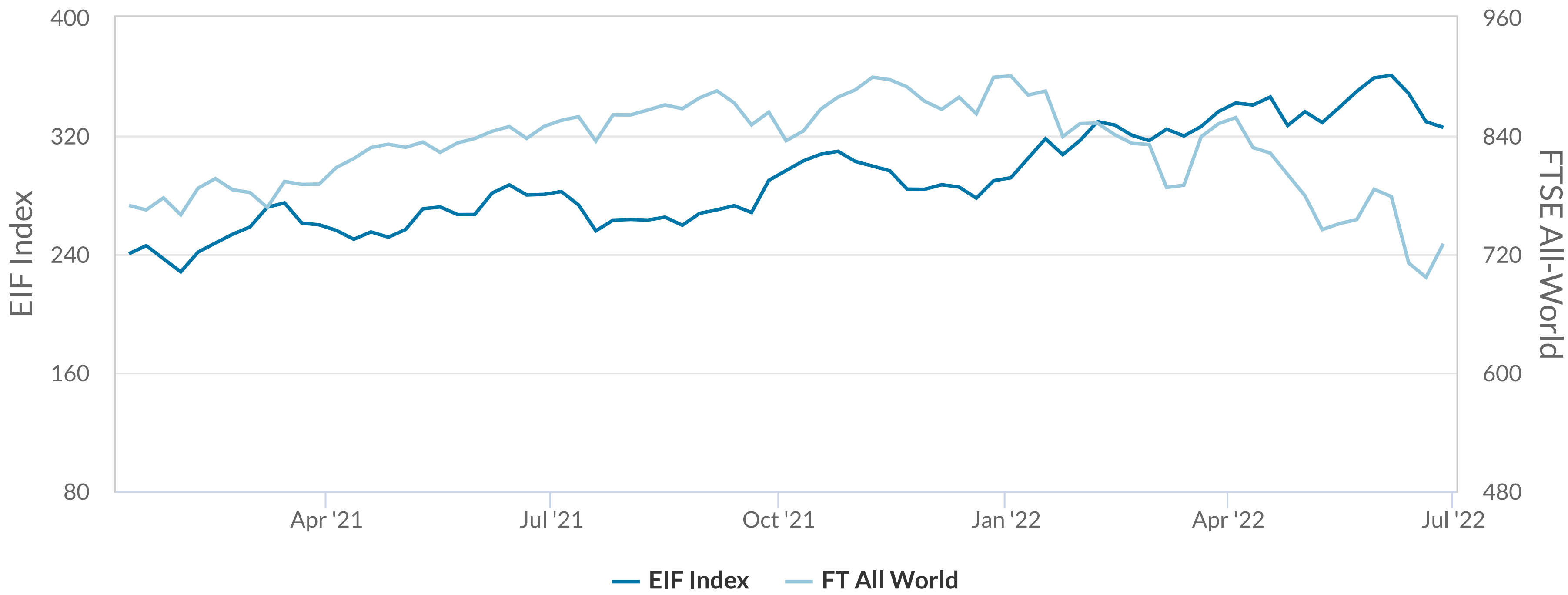
All data are produced by Energy Intelligence in cooperation with Refinitiv.

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