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Majors Face the Music in Russia

Moscow's decision to require the strategic Sakhalin-2 LNG project to be owned by a newly established company registered in Russia has hastened the exit of Western oil companies from the country. Western firms now are making good on promises to abandon their Russian operations, even ones once deemed as core, whether by choice or by force. Through both legislation and decrees, Russia is dashing the already dim hopes companies may have harbored for receiving any significant compensation for their operations by limiting both the field of buyers, as well as the asset prices. And the threat of further moves by the Kremlin to consolidate control of Russian energy assets under domestic companies looks very real. In addition to the Sakhalin-2 decree, Russia implemented policies that require all subsurface licenses for oil and gas extraction to be held by Russian-registered firms. Comments from key Russian oil officials indicated that Western firms should only expect to receive compensation of 50% of the book value or one-third of the annual earnings of any assets they sell to Russian companies. Rosneft CEO Igor Sechin also said Russia would respond with symmetrical measures if European governments decided to expropriate Russian-owned interests abroad.

The exit from Russian assets will leave holes in Western portfolios but are not crippling. Operationally, majors do not rely heavily on their Russian assets in their upstream strategies - except for TotalEnergies, which has retained strategically important stakes in LNG projects held in partnership with private Novatek. Many Western firms had already marked the value of their Russian assets to zero, but those revisions now look less like accounting technicalities and more like financial realities. Western companies will miss out on bumper dividend payments from Russian

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India Gorges on Cheap Russian Barrels

Russia had merely been a blip on India's oil import radar until February. But the deep discounts Moscow has offered for its crude since the start of the Ukraine war have rapidly made Russia the second-biggest supplier to India. Volumes are nearing 1 million barrels per day, accounting for over a fifth of India's total imports. And experts say there is room for more, even if buying additional Russian oil risks further upsetting the West, which has been trying to constrain revenue flows to Moscow. In June, Russia supplied 985,000 b/d to India, edging out Saudi Arabia as its second-largest supplier, according to Kpler data. The kingdom's supplies declined to 686,000 b/d while Iraq remained the top suppler at 1.01 million b/d. Import figures vary due to different assumptions about cargoes, but they all suggest a huge surge in Russian oil into India. Vortexa estimates they averaged 980,000 b/d last month, behind Iraq at 1.05 million b/d but ahead of Saudi Arabia's 760,000 b/d. India's Russian oil imports averaged 655,000 b/d in May, the latest month of official data from the federal commerce ministry. That compares to an average of just 50,000 b/d in 2021. Kpler analyst Viktor Katona estimates July shipments will remain between 950,000-1 million b/d, while Vortexa's Serena Huang pegs imports in the first half of July at a record 1.4 million b/d, excluding CPC blend. Katona expects volumes to remain between 900,000 b/d and 1 million b/d for the second half of 2022.

The double-digit discounts on medium, sour Urals and Far Eastern sweet crude East Siberia-Pacific Ocean crude (Espo) have helped Indian refiners replace staple Mideast grades like Basrah

and Arab Light. The discounts have helped boost refining margins and cut losses on selling products at low, regulated prices in the domestic market. Cheaper Russian barrels have also reduced demand for dollars for India, which meets 85% of its oil needs via imports, easing pressure on the rupee, which is trading at a record low against the greenback. Indian refiners have gained confidence in processing Urals, which they blend with other grades. India has been importing Urals through the Baltic ports of Primorsk and Ust-Luga and the Black Sea port Novorossiysk. Vortexa says it takes 13 days for a Suezmax tanker to travel from Novorossiysk to India's west coast, which means the Black Sea Urals represent relatively prompt supply - faster than delivery of crude from West Africa, for instance. Urals shipped from the Baltic are cheaper but can take up to 40 days for tankers to reach Indian shores. India and Russia have been working on opening a shipping corridor from Vladivostok to Chennai, which will cut down shipping times to 19 days compared to the existing route from St. Petersburg to Chennai, which takes twice as long. Indian refiners have been getting a $15-$17 per barrel effective discount to Brent on Urals. Energy Intelligence believes Moscow could offer even steeper discounts in coming months to maintain sales, although this could irritate Opec-plus allies and prove hard to sustain if global oil prices fall on demand weakness. Refiners are now loading more Espo, which Kpler's Katona says is the most cost-efficient way of boosting diesel yields. Vortexa's Huang says the trade could evolve into structural flow as Russia looks for markets other than China for its crude exports in the face of an impending EU ban.

India will continue to be lifeline for Russia as long as steep discounts remain and sanctions do not upset supply chains. But there are limits to how much Russian oil that India can take. Due to term contracts with other supplies, this limit could be near 1.5 million b/d, Kpler estimates. Urals and Espo have already squeezed out a sizeable chunk of India's spot purchases, with remaining volumes coming from Mexico, Angola, Nigeria or the US - together totaling some 500,000 b/d. The G7's effort to implement a price cap on Russian oil could further stoke India's appetite for Russian barrels in this red-hot oil market. As the EU's ban on Russian oil takes effect in coming months, some think there could be added incentive for Indian or other non-European refiners to increase purchases from Russia's western ports, although this will depend on the availability of European-owned ships.

Opec Navigates Minefield as Deal Nears End

Opec-plus' upcoming meeting on Aug. 3 is shaping up to be a pivotal one for the producer group. The gathering will aim to set a new output policy starting in September, after the full unwinding of the historic production cuts that Opec-plus implemented in 2020 to counter the Covid-19 demand collapse. Today's oil market is highly volatile and uncertain, with benchmark crude prices dropping below $100 per barrel this week for the first time since April due to growing recession fears. But spare production capacity remains tight, and Energy Intelligence understands that both Saudi Arabia and the United Arab Emirates - which hold most of it - are leaning toward policy that does not max out their spare capacity. The decision on future Opec-plus policy won't be an easy one. At the group's last ministerial meeting, officials did not openly discuss options for September and instead only ratified the decision to ease the remaining portion of cuts in August. This left a fragile oil market without guidance beyond next month. However, the group's limited spare capacity and the inability of many member states to meet their production targets have been regular concerns in markets for some time. Energy Intelligence reckons this underproduction could reach about 4 million barrels per day by end-August. This helps inform the positions of Saudi Arabia and the UAE, which are wary of exhausting the market's slim remaining supply cushion. Riyadh is also eager to maintain group unity, including keeping top non-Opec producer Russia on board.

The sudden death of Opec's Secretary General Mohammed Barkindo this week also poses new challenges. Despite not having direct authority to set policy, Barkindo's calm presence set the tone for Opec at times of great uncertainty and volatility. He was a strong communicator and advocated for the interests of all group members while helping keep the peace within the organization during times of conflict. Barkindo was due to step down from his role at the head of Opec at the end of this month after leading the organization for six years. Kuwait's Haitham al-Ghais will try and fill

Barkindo's big shoes when he starts as secretary-general on Aug. 1. Al-Ghais is aware that he must ensure that all members have an equal voice and that keeping the group's unity is critical at this point. In his last public remarks on Tuesday, Barkindo argued that easing sanctions on Venezuelan and Iranian oil exports could ease the current energy crisis. "We could ... unlock resources and strengthen capacity if the oil produced by the Islamic republic of Iran and Venezuela were allowed to return to the market," Barkindo told an energy conference in Abuja.

Opec-plus delegates tell Energy Intelligence that proposals for post-August oil policy have not yet been formulated. But the quota allocation system is clearly broken, with compliance levels reaching above 200% according to recent reports from the secretariat. Fixing this could involve difficult negotiations and create friction in the group. One option that Opec has used in the past is to establish a collective production ceiling without allocating quotas to individual members. Energy Intelligence understands that the most likely scenario would involve small, incremental increases to group production. If cuts were fully unwound from September, this would imply production of 11.5 million b/d for Saudi Arabia and 3.5 million b/d for UAE - an 800,000 b/d increase from August - based on revised baselines. Politics may also be a factor. The Aug. 3 meeting will happen after the visit of US President Joe Biden to Saudi Arabia in mid-July. US officials are already signaling that they realize using up all of Opec-plus' spare capacity may not be the way to reduce prices, but they still expect a modest increase from Gulf producers that would last until the end of 2022.

Jet Fuel Demand Takes Off Despite Obstacles

Airlines are emerging from the pandemic only to face more turbulence. Headwinds from high fuel prices, labor shortages and a precarious economic situation are complicating the recovery, which is now well underway. Pent-up travel demand has sparked a boom in air travel this summer, transforming jet fuel from the laggard to the fastest-growing refined product. Jet fuel demand is expected to post a 15% gain this year to 6.5 million barrels per day, according to latest Energy Intelligence assessments. A similar rise in 2023 should bring it close to peak 2019 levels of 7.9 million b/d. This year's rebound would put jet fuel demand in the Americas just 7% below 2019 levels, with Europe showing a 15% shortfall. Asia is the farthest behind with regional demand expected to reach 75% of 2019 rates this year, our figures show.

US jet fuel markets have restored 90% of their pre-pandemic size as demand approaches 1.6 million b/d this year, even though labor issues are limiting capacity expansion. The large domestic market kept consumption relatively high over the last two years. European jet demand is projected to jump by 70% from 2021 to reach 1.2 million b/d this year after dropping to less than 200,000 b/d at the start of the pandemic. Regional air traffic was back to 86% of pre-pandemic levels in late June, according to network manager Eurocontrol. But traffic has fallen to 84% with the cancellation of flights at London's Heathrow and other UK airports as well as Amsterdam's Schiphol. The number of flights is still creeping up for the summer season, while rerouting to avoid Russian airspace has added to fuel use.

Frayed connectivity is still apparent in Asia, where governments have been slower to remove travel restrictions. The setback in China dominates the regional picture, which is the only area to see demand contract this year. Lockdowns in Shanghai and Beijing imposed in April under Beijing's zero-Covid policy slashed China's fuel usage to 200,000 b/d in May from average levels of 800,000 b/d last year, when domestic air traffic had normalized. Airports in Dubai and Qatar are regaining their role as major gateways for travel from Europe to Asia, which should help lift Mideast fuel usage back to 2019 levels by next year. Australia's Qantas has resumed long-haul flights that should double fuel usage from its 64,000 b/d low.

Labor shortages in the US and Europe have caused widespread flight cancellations and prompted capacity cutbacks. After two years of massive downsizing, airlines and airports are not equipped to handle the travel surge, which peaked in the US during the Jul. 4 holiday period when more than 1,400 flights were canceled and 14,000 were delayed. Delta Air Lines reduced its summer schedule by 10% but still faced disruptions. In Europe, Germany's Lufthansa was the latest to announce further cutbacks. Lufthansa had already scrapped 900 flights in July and cut a further 2,000 from its summer schedule. Eurocontrol's Director General Eamonn Brennan said a lack of financial assistance during the pandemic meant that airports have taken much longer to recover. He admitted that "July and August are going to be difficult."

Airline finances are improving despite ongoing Covid-19 challenges, cost increases and capacity constraints. The International Air Transport Association's latest outlook shows industry losses narrowing to just under $10 billion in 2022, down from $42 billion in 2021 and $138 billion in 2020. The financial toll would have been worse without state aid totaling $234 billion that helped tide the industry through the pandemic. Fuel usage by commercial airlines is expected to rise 40% this year to 84 billion gallons (5.5 million b/d), just 12% shy of the 95 billion gallons consumed by the industry in 2019. Airlines are expected to spend $192 billion on jet fuel this year, some 68% more than last year. Fuel costs would account for 24% of operating expenses, up from 16% in 2020 and on par with 2019 levels.

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ventures, but state-controlled Gazprom's cancellation of its record dividend already put future distributions in doubt for investors. Total confirmed that it would transfer its 20% interest in the Kharyaga oilfield to state-controlled Zarubezhneft but gave no details on the financial terms of the deal. Shell noted that its "derecognition" of sales and liquefaction volumes from the Sakhalin-2 joint venture would lower its LNG volumes and reduce results by $300 million to $500 million. BP's 19.75% interest in Rosneft was valued at more than $20 billion and, while recovery of the full sum always looked doubtful, the outlook for garnering any value from it now looks increasingly unlikely. High oil and gas prices have helped cushion the blow to majors' share prices from lost Russian operations this year.

How the decline of Western participation will impact the future productivity of Russia's oil industry remains the key question. Western oil companies say their access to advanced technology and experience in areas like digital efficiency is required to keep increasingly complex fields pumping at capacity. But sources at Russian operators indicate they see such threats as more rhetoric than reality. Western service firms are exiting in compliance with sanctions but are seen offloading their operations to Russian companies, rather than repatriating equipment. Nevertheless, acknowledged gaps exist, including a focus on Russia's still shaky alternatives to Western LNG liquefaction technologies. Russian crude oil production has remained resilient through the turmoil since late February, rebounding to 9.78 million barrels per day, up more than 640,000 b/d in May. But it will take more than just a few months for the full impact of the West's retreat to set in. Production at the Exxon Mobil-operated Sakhalin-1 has dropped from over 200,000 b/d in March to just 6,000 b/d as the US supermajor prepares to exit. Sources suggest that Rosneft dismisses the idea that Exxon's expertise is needed to effectively run the field and point instead to the possibility that the Western giant was intentionally underperforming. Liquefaction advances are seen as vital for Russia to achieve its goal of having 140 million tons per year of LNG export capacity by 2035, up from 30 million tons today.

Crisis May Stunt, Then Hasten Transition

The Ukraine war, high commodity prices and shifts in energy policy may stunt near-term progress in the energy transition, but the trend could reverse later in the 2020s as policy pressures rise and clean energy costs fall. The short-term challenges to the transition are clear, with acute energy security concerns, high oil and gas prices and increased costs for clean energy technologies and raw materials. The impact of these forces varies by region. While Europe is redoubling its transition efforts to help it wean itself from Russian oil and gas quicker, the signals elsewhere are mixed. Still, underlying climate trends persist, and investors remain closely engaged on long-term emissions goals despite current concerns about fossil fuel supply shortages. A "slower now, faster later" trajectory would see a bold mid-decade inflection point in which the transition moves faster than previously mapped later in the 2020s, according to Energy Intelligence's Energy Transition Service. While current headwinds from rising raw materials costs may impact adoption of some clean energy technologies, such as electric vehicles (EVs), renewables remain competitive in the power sector, thanks partly to soaring oil and gas prices. Meanwhile, the scientific community keeps calling for more urgent climate action, as demonstrated by the UN's latest climate report. Victories by Labor candidates and other climate-friendly parties in Australia's recent general elections show that climate change remains an important issue and that social pressures to address it will continue for policymakers. Meanwhile, investors remain committed to mid-century net zero goals, even if some see scope for greater near-term outlays in fossil fuels.

In the EU, the push for renewables and green hydrogen has gained momentum from the bloc's move to slash imports of Russian oil and gas. While the effort involves diversifying fossil fuel supplies away from Russia in the short term, Brussels' other main levers are accelerating transition targets and energy efficiency measures. The European Commission's REPowerEU plan aims to cut Russian gas use by two-thirds this year and end it by 2027. Renewables are set to be the key beneficiary by 2030, reshaping the power mix, even though obstacles - particularly around permitting - remain. While coal is seeing some resurgence, moves to phase it out are likely to continue. Nuclear continues to be beset by high costs and slow timelines, while the outlook for gas is less clear. LNG is best set to benefit now, but factors like renewables' growth and efficiency gains could erode gas demand over time. With

REPowerEU, the commission has proposed tougher energy efficiency goals, increasing from 9% to 13% the binding 2030 target set out under the Fit for 55 package. A key strand of EU efforts is to accelerate adoption of clean gas options, led by green hydrogen and biogas - with the aim of replacing fossil fuels in hard-to-decarbonize demand segments.

China is pursuing several options to deal with today's energy security concerns, including funding oil and gas projects and allowing more coal use. These moves could see China's emissions peak closer to 2030 - and at a higher level. This could require a faster reversal under its 2060 net-zero target, speeding up the rollout of renewables and nuclear to cut emissions. Elsewhere, the US is a special case given deep political divides, including around the transition - leading to ongoing policy paralysis. But other producer-consumer states show a clearer direction. Norway, for example, aims to speed up its renewables rollout while also meeting immediate EU needs for more oil and gas, while Australia's policy direction may shift after the recent election results. Major oil and gas exporters remain cautious but are maintaining transition plans. In the Mideast Gulf, Saudi Arabia and the United Arab Emirates are expanding oil production capacity significantly this decade. But the UAE is also prioritizing hosting COP28 in 2023, and Saudi Arabia is sticking with green hydrogen and other transition plans. It remains to be seen if sustained high oil and gas prices erode pressure for diversification.

Market forces will continue to play a huge part. EV demand is already taking off faster than expected, particularly in Europe and China, and could get a bigger lift from soaring gasoline and diesel prices. Meanwhile, high gas and power prices may encourage uptake of rooftop solar and heat pumps. Solar and wind costs are expected to resume their downward trend and could emerge with a stronger advantage against high-cost fossil fuels. For oil demand, the danger is that EVs get past any temporary cost bounce, reach an inflection point by mid-decade, and rapidly expand mass production.

Fuel Oil Soars in Tight Global Market

The global refining crunch has sent product prices to stratospheric heights, including the price of fuel oil, which was a mainstay of Russian exports. Shipping fuel prices East of Suez are soaring on supply tightness. Refiners in Asia are making over $141 selling a barrel of very-low-sulfur fuel oil (VLSFO), the most straightforward option to comply with the International Maritime Organization's 0.5% sulfur cap on bunker fuel that came into effect in 2020. At more than $50 per barrel, margins for low-sulfur bunker fuel in Asia are more profitable than gasoline. The so-called hi-five or "scrubber spread" between VLSFO and its higher-sulfur alternative has reached a record $500 per ton in Singapore, the world's largest bunkering hub. This is well above the $100/ton that shipping analysts consider the tipping point for installing a gas exhaust scrubber on vessels to run cheaper high-sulfur fuel oil (HSFO) into the engine. For now, there is ample supply of it and at less than $90/ton, it makes an attractive alternative to propel a ship. But both the ample supply of HSFO and its lower price so far were partly the effect of Russia producing and exporting more of it. With an EU ban poised to completely shut down Russian seaborne oil exports to Europe by year's end, the market could struggle to keep supply aplenty and prices low. Traders say volatility is already plaguing the prompt market. They expect competing demand from power generation to increase pressure on HSFO this summer, especially as cooling demand increases.

The resurgence of fuel oil demand for power generation underscores the global energy crisis and the resulting baseload power shortages in several countries. It coincides with a normal, seasonal uptick in cooling demand during the warmest months. More fuel oil is already heading to Saudi Arabia, a notoriously large consumer in this season. Pakistan is also ramping up high-sulfur fuel oil exports via spot market tenders. Egypt has also increased the amount of fuel oil it burns in place of more expensive natural gas to monetize its LNG exports and offset the higher energy prices. Dubai-based Coral Energy, which has emerged as an offtaker of Russian oil over the past two months, won some of the recent tenders from Pakistan. This implies that some of the fuel oil cargoes shipping to these markets are probably of Russian origin. But Russian refiners already cut their runs by 800,000 barrels per day in May, responding to lower domestic demand and Western sanctions. Russia had been the world's largest exporter of intermediate refinery feedstocks, notably vacuum gasoil (VGO), an unfinished stream which, when not upgraded into gasoline and diesel, is blended into the fuel oil pool to make VLSFO. Now, the world is short of the 800,000 b/d of diesel and jet fuel that Russia formerly supplied. And with a tight global supply of VGO, the blending prospects into the 0.5% bunker pool are now compromised by the more lucrative crack spreads for diesel and jet fuel.

In Asia, the VLSFO shortage is compounded by a Chinese export ban on refined products. The country has switched into restocking mode since about March, creating a glut of products at home instead of providing supply relief to the global market. In Europe, the fuel oil shortage is aggravated

by the change in crude slate after regional refiners shunned Russia's Urals crude. A lighter, sweeter crude diet is failing to produce enough of the heavier products, in particular residual fuel oil. But it helps produce more VLSFO. This partly accounts for the lower bunker fuel prices in Rotterdam, compared with Singapore. Energy Intelligence pegs global fuel oil demand at about 6.5 million b/d in 2022, about even with 2021. Pending a complete offset of the Russian fuel oil shortfall, the market could become tighter toward the end of the year, especially if power generation demand flares up. The main uptick is likely to stem from utilities, with the Middle East alone accounting for more than half of global power demand. If more refining capacity comes on line in late 2022 and 2023, more residual fuel oil could be available for shipping and power. But it may come too late if a full-fledged recession breaks out. With a shrinking economy, industrial consumers will be less active and whatever price gain is achieved will be lost in lower fuel oil utilization rates.

Europe's E&Ps Forced Into Balancing Act

Europe's exploration and production (E&P) firms have joined the rush to secure alternative sources of oil and gas to supplant Russian volumes, with the short-term focus on maintaining supplies. But they are not abandoning long-term energy transition ambitions, rather seeking pragmatic solutions to transform supply in line with evolving demand patterns. Yet regional players could be in for a bumpy ride. Amid the chaos exacerbated by Russia's invasion of Ukraine, soaring inflation has stoked a summer of offshore workers discontent in Norway. Meanwhile, the UK's windfall profit tax has dampened hopes that operators' pent-up savings will feed a UK energy investment boom. Harbour Energy, the North Sea's biggest oil and gas producer, sees a "significant impact on our business, our strategy and our ability to invest in our current and future projects in the UK." Harbour said Whitehall's Energy Profits Levy would "disproportionately" hit independent producers "who are critically the largest investors and producers in the UK," more than majors. Indeed, the uncertainty caused by the sudden tax hike has led Harbour and other producers to question their UK-focused strategy. Serica Energy CEO Mitch Flegg told investors recently that the tax "adds complexity" to the mergers and acquisitions (M&A) market on top of commodity price volatility. While the North Sea stalwart continues to see opportunities to grow its current portfolio, "increasingly" the company is investigating M&A opportunities outside the UK, he said.

In Norway, industry and government have coordinated efforts to maintain record gas exports to Europe as the region races to curb reliance on Russian piped gas. Oslo this week approved revisions to production permits for several fields that will allow operators to export even more gas partly through 2023. Yet inflationary pressures boiled over in Norway this week. Offshore workers demanding better pay and conditions downed tools, briefly disrupting production, and threatened to escalate the strike before the government intervened. The stakes were high: a prolonged shut-in could have undermined Norway's reputation as a reliable supplier. Rising inflation has sparked strike action across Europe, including offshore UK. With European gas prices topping €170 ($173.09) per megawatt hour, the highest level since early March, and oil prices pushing $100 per barrel, markets cannot afford to lose production. Indeed, E&Ps have been exploring all options to maximize output from Norwegian fields. As such, Norway's petroleum and energy ministry this week granted increased output quotas for the Troll, Gina Krog (Equinor-operated), Duva (Neptune Energy), Oseberg, Asgard, Mikkel (Var Energi) and soon-onstream Nova (Wintershall Dea) fields. But the Jul. 5 strike by the Lederne union at the Equinor-led Gudrun, Oseberg East and Oseberg South fields shut in 89,000 barrels of oil equivalent per day, with an estimated revenue loss of 102 million kroner ($10 million) per day. The union threatened to cut 56% of total gas exports on the Norwegian shelf - or 1.117 million boe/d - before the government stepped in. Industry group Norsk Olje og Gass estimated that would have led to a loss of roughly 1.8 billion kroner per day ($178 million).

European E&Ps insist they have not lost sight of transition goals despite the near-term focus on energy security, as they seek to balance environmental, social and governance (ESG) pressures with demands for new supply. To stay investable, companies must show they are taking steps to align with net-zero criteria, including science-based targets, interim 2030 emission reduction goals and a net-zero strategy. The climate-related threshold for financing will likely tighten in the run-up to the COP27 climate summit in Egypt in November. That could provide E&Ps focused solely on Norway's shelf with a unique advantage. ESG-minded firms plan to electrify more of their operations, and the cleaner the electricity, the better. For example, Aker BP, now the largest listed E&P in Norway, will ramp up production in the coming years from 400,000 boe/d now to above 500,000 boe/d by 2028. That sits alongside a target to halve its greenhouse gas emissions by 2030, with investment earmarked at around 150 billion kroner (almost $15 billion) for the remaining decade.

What's New Around the World

COUNTRIES

INDIA — The world's third-largest oil consumer has imposed export duties on shipments of diesel, gasoline and jet fuel overseas and also imposed windfall tax on crude oil producers. Moody's Investors Service said the moves, which are designed to end product shortages in parts of India, will help generate close to $12 billion for the government for the current financial year that began Apr 1. India's privately held refiners Reliance Industries and Rosneft's majority-owned Nayara Energy have been buying discounted Russian crude and selling diesel to Europe, where profit margins are robust, while curtailing supplies in the domestic market. They are doing this because they cannot compete with state-owned Indian refiners that are selling oil products below market rates at deep losses at home to help the government keep inflation in check. Prime Minister Narendra Modi's government hopes that by imposing taxes on exported fuels and mandating that refiners sell half of their imported volumes in the domestic market, it will improve the situation. Demand for diesel and gasoline in India remained strong in June. Sales of diesel rose 11.5% from May to 1.87 million b/d in June, while gasoline sales rose 3.1% over the same period to 829,000 b/d

QATAR — QatarEnergy has concluded its line-up for core partnerships on its North Field East (NFE) LNG mega-expansion, selecting Shell for a 6.25% stake in the 32.6 million ton/yr project. Discussions for minority stakes with key Qatari Asian customers are ongoing. But Tuesday's signing ceremony marks the last NFE deal with a Western major, with a total 25% of the project awarded. In addition to Shell, Exxon Mobil (6.25%), TotalEnergies (6.25%), Eni (3.25%) and ConocoPhillips (3.25%) all won stakes. Chevron was the sole firm out of an original shortlist of six that did not make the cut. QatarEnergy initially envisaged awarding up to 30% for international investors, suggesting around 5% might still be available for Asian firms. Discussions have focused on Chinese and South Korean firms, sources say. The four-train NFE, which is due to start up in early 2026, will boost Qatari LNG capacity to 110 million tons/yr, with a 16 million ton/yr Phase 2, dubbed North Field South, due to come on stream from 2027-28. NFE's environmental advantages, as much as economies of scale or low-cost gas, are a key draw for firms like Shell and Total with robust decarbonization plans.

Russia Leads Surge in Opec-Plus Production

Opec-plus produced 43.7 million b/d of crude oil in June, a 610,000 b/d gain on May thanks to a massive resurgence in Russian output, an assessment by Energy Intelligence shows. But among the 19 producers with a quota, production was still 2.8 million b/d below the monthly target. Russia cranked out nearly 9.8 million b/d, up 540,000 b/d, so that production is now only 2.8% lower than pre-Ukraine war levels. Saudi Arabia and Iraq each added 100,000 b/d, with the latter managing to raise production to 4.4 million b/d, the highest in two years despite infrastructure challenges. Kazakhstan dragged the alliance down due to maintenance at the massive Kashagan field, and alleged environmental violations at a Black Sea port threatens 1.2 million b/d in Kazakh exports.

Compliance With Opec-Plus Production Cuts

Opec	Base	Jun Ceiling	Jun Prod-uction	Target	Comp-liance Rate
Saudi Arabia	11,500	10,663	10,623	-40	105%
Iraq	4,803	4,509	4,408	-101	134
UAE	3,500	3,075	3,080	5	99
Kuwait	2,959	2,724	2,724	0	100
Nigeria	1,829	1,772	1,168	-604	1160
Angola	1,528	1,480	1,171	-309	744
Algeria	1,057	1,023	1,037	14	59
Congo (Br.)	325	315	256	-59	690
Gabon	187	181	195	14	NA
Eq. Guinea	127	123	88	-35	975
Opec 10	**27,815**	**25,864**	**24,750**	**-1,114**	**157**
Iran	3,296	NA	2,600	NA	NA
Venezuela	1,171	NA	720	NA	NA
Libya	1,114	NA	626	NA	NA
Opec 13	**33,396**	**25,864**	**28,696**	**-1,114**	**157**

Non-Opec	Base	Jun Ceiling	Jun Prod-uction	Target	Comp-liance Rate
Russia	11,500	10,663	9,779	-884	206
Mexico*	1,753	1,753	1,708	-45	NA
Kazakhstan	1,709	1,655	1,235	-420	878
Oman	883	855	856	1	96
Azerbaijan	718	696	564	-132	700
Malaysia	595	577	383	-194	1,178
Bahrain	205	199	197	-2	133
South Sudan	130	126	122	-4	200
Brunei	102	99	70	-29	1,067
Sudan	75	73	80	7	NA
Non-Opec 9	**15,917**	**14,943**	**13,286**	**-1,657**	**270**
Combined 19*	**43,732**	**40,807**	**38,036**	**-2,771**	**195**
Opec-Plus 23	**51,066**	**NA**	**43,690**	**NA**	**NA**

In '000 b/d. Opec and non-Opec compliance based on crude oil only. Mexico no longer has a quota but nominally is a member of the non-Opec alliance. Source: Opec, government data, Jodi, Energy Intelligence.

Global Output Nears 100 Million b/d

In June, global production of crude oil and other liquids amounted to 99.64 million b/d, the highest level since March 2020 - the month right before the Covid-19 onslaught on demand. Opec-plus, supercharged by a Russian monthly output gain of 500,000 b/d, accounted for the entirety of the month's gains, while non-Opec-plus output dropped by 100,000 b/d on a decline in US activity. US production slid 140,000 b/d to 19 million b/d for the month. In July, global output is forecast to increase nearly 900,000 b/d to 100.5 million b/d.

World Crude Oil and Other Liquids Supply

('000 b/d)	May'22	Jun'22	Chg.	Crude June	Other June
Non-Opec-Plus	**45,818**	**45,723**	**-94**	**32,068**	**13,655**
US	19,165	19,023	-143	11,750	7,273
Canada	5,711	5,821	111	4,550	1,271
Brazil	3,945	3,951	6	2,924	1,028
Colombia	708	698	-10	680	18
Norway	1,960	1,972	12	1,760	212
UK	848	870	23	797	74
Egypt	652	649	-3	539	110
Qatar	2,131	2,142	11	609	1,533
China	4,242	4,251	9	4,146	105
India	780	735	-44	561	175
Indonesia	788	785	-3	614	171
Other Non-Opec-Plus	4,888	4,826	-63	3,139	1,686
Opec-Plus	**50,983**	**51,552**	**569**	**43,689**	**7,863**
Opec	**33,597**	**34,004**	**407**	**28,696**	**5,308**
Saudi Arabia	12,844	12,960	116	10,623	2,337
Iraq	4,370	4,470	100	4,408	62
Iran	3,391	3,441	50	2,600	841
UAE	4,087	4,135	48	3,080	1,055
Kuwait	2,867	2,893	26	2,724	169
Nigeria	1,415	1,374	-42	1,168	206
Libya	749	695	-54	626	69
Algeria	1,381	1,452	71	1,037	415
Angola	1,137	1,206	69	1,171	35
Other Opec	1,356	1,380	24	1,259	121
Non-Opec	**17,385**	**17,548**	**162**	**14,993**	**2,554**
Russia	10,787	11,287	500	9,779	1,508
Kazakhstan	1,874	1,512	-362	1,235	277
Azerbaijan	705	690	-15	564	126
Mexico†	1,930	1,946	16	1,708	238
Oman	1,063	1,073	10	856	217
Malaysia	569	554	-15	383	171
Other Non-Opec	458	487	29	469	18
World Supply	96,800	97,275	475	75,758	21,518
Refinery gains	2,293	2,365	72	0	0
Total World	**99,093**	**99,640**	**547**	**75,758**	**23,882**

*Other liquids include natural gas liquids, biofuels, gas-to-liquids, coal-to-liquids, refinery additives. †Mexico nominally is a member of the Opec-plus alliance but has no production quota. Source: IEA, EIA, Jodi, government and trade data, Energy Intelligence.

Marketview

Tale of Two Markets

Global oil benchmarks endured a beating this week as evidence emerged that consumers have started to cut back on motor fuels and anxiety about a possible economic recession is intensifying.

During the Jul. 5-6 sessions, the front-month contracts for ICE Brent and West Texas Intermediate cratered $13 and $10, respectively, and Brent fell below $100 per barrel for the first time in eight weeks.

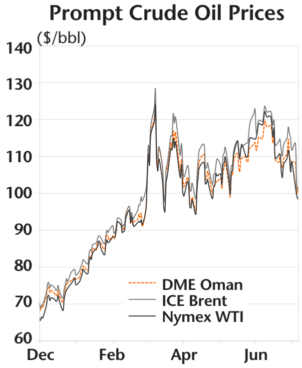
Both contracts recovered around $5 on Jul. 7 as concerns about oil supply resurfaced, particularly the potential loss of hundreds of thousands of barrels daily from Kazakhstan due to alleged environmental breaches, raised by Russian authorities, at a key Black Sea port.

In short, the volatility that has been the dominant trait of markets this year persists, but what is crucial for understanding global oil prices is the continuing "tale of two markets" theme.

On the one side, there is the paper market with its myriad worries over supply security and demand erosion, and on the other is the physical market, where refineries, buoyed by record high product prices, are clamoring for crude. No less apprehensive about an economic downturn, refinery operators are eager to sell the gamut of pricey transportation fuels - diesel, jet fuel and gasoline - while they can.

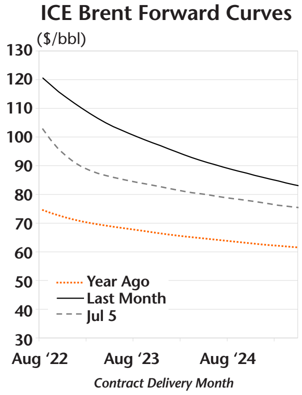
This thirst among refiners is keeping dated Brent, the price for physical delivery of oil, considerably higher than the futures market. At the same time, it has also created a strong backwardated curve over the next half-year.

Prompt Crude Oil Prices



Source: Nymex, ICE, DME

ICE Brent Forward Curves



The spread between the September and February contracts for Brent is $13 - still riding the wave-high posted in the past two months since the leading global benchmark surpassed $100/bbl. Such a steep backwardation clearly indicates that buyers are willing to pay a premium for oil and get it delivered sooner rather than later.

"The super-backwardation implies shortage," as one market analyst said.

The intense buying interest by and large stems from refineries. In the US, they have been running hot - at a three-year high of 95% last week, and down to 94.5% this week, according to the Energy Information Administration (EIA) - as they chase magnificent cracks, or the margins on converting a barrel of crude into a barrel of motor fuel.

The crack for heating oil on Nymex was over $51 on Jul. 7, while the analogous measure for gasoline was $41. While these are off the stratospheric highs seen in the past two months, they are historically very attractive. Refiners would be unwise to pass them up.

The toppy product prices on the future market stretch beyond the summer season since refiners will need to replenish stocks, which have been depleting as US motorists consume at the highest rate in three years and US exports to equally thirsty foreign markets remain robust.

In its Jul. 7 report, the EIA said that gasoline inventories in the US are 8% below the five-year average for this time of year, while stocks of distillate fuel - the bane of European markets as it rejects Russian volumes - are 20% below the same average. Such numbers will buoy product prices, and hence crude, in months ahead, even in the face of growing recession fears.

US Sanctions Iran Oil Sales Network

The US Treasury Department on Wednesday blacklisted an alleged network of companies brokering the sale of Iranian oil and petrochemicals. The fresh sanctions come after diplomatic talks aimed at curbing Iran's nuclear program in return for sanctions relief broke down in Doha last week. The companies being blacklisted are located in Vietnam, Singapore, the United Arab Emirates and Hong Kong. They largely facilitated oil trade into China and worked on behalf of Iranian firms that have already been sanctioned by the US. Last month the US targeted several other companies and people for related petrochemical trade. Iran has continued to trade oil in spite of US sanctions, which were reimposed after the US withdrew from the 2015 nuclear deal in 2018.

PIW Market Indicators

($/barrel)	Jul 4-Jul 6	Jun 27-Jul 1	Jun 6-Jun 10
Spot Crude			
Opec Basket	$114.80	$115.78	$121.59
UK Brent (Dtd.)	113.30	120.39	127.69
US WTI (Cushing)	100.73	110.92	120.43
Nigeria Bonny Lt.	119.71	127.24	134.04
Dubai Fateh	107.04	111.40	117.09
US Mars	97.58	105.99	114.35
Russia Urals (NWE)	81.14	87.46	92.24
Crude Futures			
Brent 1st (ICE)	105.65	115.15	121.75
Brent 2nd (ICE)	101.85	110.81	119.06
B-wave (ICE)	106.87	115.10	121.54
WTI 1st (Nymex)	99.02	109.06	120.44
WTI 2nd (Nymex)	95.75	106.15	118.03
Oman 1st (DME)	98.66	110.63	117.54
Oman 2nd (DME)	95.01	107.26	113.92
Murban 1st (ICE)	102.46	117.78	120.86
Murban 2nd (ICE)	97.56	110.13	117.26
Forward Spreads			
Brent (1st-Dtd.)	-$7.65	-$5.24	-$5.95
Brent (2nd-1st)	-3.81	-4.34	-2.68
WTI (2nd-1st)	-3.27	-2.91	-2.41
WTI (3rd-2nd)	-3.11	-2.95	-2.66
Oman (2nd-1st)	-3.65	-3.37	-3.62
Oman (3rd-2nd)	-2.23	-3.71	-2.98
Murban (2nd-1st)	-4.90	-7.65	-3.61
Murban (3rd-2nd)	0.23	-3.82	-2.85
Grade Differentials			
WTI-Brent (1st)	-$5.98	-$6.70	-$3.72
WTI-LLS	-1.85	-1.44	-1.46
WTI-Mars	+3.15	+4.94	+6.08
Brent(Dtd)-Dubai	+6.26	+8.99	+10.60
Brent(Dtd.)-Urals	+32.16	+32.93	+35.46
Brent(Dtd.)-Bonny Lt.	-6.41	-6.85	-6.34
Term Crude Formulas			
Arab Lt.-US (c.i.f.)	$97.71	$106.12	$121.48
Arab Lt.-Europe (Med)	106.87	115.10	123.44
Arab Lt.-Far East (f.o.b.)	106.10	111.28	121.95
Nigeria Bonny Lt.	113.30	120.39	129.35
Arab Light Gross Product Worth			
Rotterdam	$120.84	$129.50	$145.81
US Gulf Coast	128.70	142.67	152.09
Singapore	119.85	127.53	133.00
Gross Product Worth & Margins			
Rotterdam			
UK Brent GPW	$137.05	$144.55	$144.04
UK Brent Margin	+21.64	+22.89	+15.62
US Gulf Coast			
Mars GPW	124.01	137.16	145.76
Mars Margin	+26.33	+31.08	+31.31
Singapore			
Oman GPW	119.15	126.72	132.35
Oman Margin	+13.51	+15.07	+13.96
US Nymex			
WTI 3-2-1 Crack	+$41.99	+$53.84	+$58.22
Refined Products			
Rotterdam ($/ton)			
Eurobob Gasoline	$1197.03	$1296.86	$1437.56
Gasoil (0.1%)	1192.25	1270.95	1343.10
Fuel Oil (0.5%)*	800.00	863.20	909.30
US Gulf Coast (¢/gal)			
RBOB Gasoline	342.52¢	379.24¢	422.70¢
ULS Diesel	363.88	405.38	435.20
Fuel Oil (0.5%, $/ton)	$853.67	$892.20	$950.20
Singapore ($/bbl)			
Naphtha	$91.54	$90.77	$90.97
Gasoil (0.05%)	151.14	161.23	169.43
Fuel Oil (0.5%, $/ton)	1103.67	1101.60	1122.60

*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.