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Russia Price Cap Plan Bemuses Market Players

Details on a proposed cap on Russian crude and refined product prices have yet to emerge, but the oil market is already expressing deep skepticism as to how such a policy could be implemented or even designed. Many oil traders, analysts and others say they do not believe a cap would be workable, and are divided as to how it could function. The US and EU are promoting the concept of a price cap in an attempt to constrict Russian revenues without starving the global oil market of supplies, through linkage to insurance or other services. Talk so far has focused on a flat price cap, barring buyers from paying Russia above a certain level, although there has been some market conjecture about a mandatory discount to a benchmark crude such as Brent. A flat price cap would represent a novel concept for oil markets, where oil trades off various benchmarks. Either approach would be complicated. Market players raise several immediate questions: Who would set the cap, and given market volatility, over what period? How could traders hedge against pricing risk if Russian oil is decoupled from the global market? In addition, Russian crude — and Urals in particular — is sensitive to time spreads. Backwardation in the forward curve — the extent to which prompt prices are higher than forward ones — tends to inform Urals' destination. A fixed price would remove that flexibility.

Regardless of the shape of a price cap, enforcement would be difficult if not impossible. Again, details are scant. Current thinking is to exempt trades complying with the cap from a proposed EU-UK ban on shipping insurance. Market players suggest the workarounds are endless, even if consuming nations were to adhere to the letter of the law. The US has already imposed

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Europe Steels Itself for Nord Stream Shutoff

Germany and all of Europe are scrambling to prepare for a prolonged shutdown of the giant Nord Stream gas line. Europe believes Russia could find reasons to extend a 10-day routine maintenance in retaliation for Western sanctions over its invasion of Ukraine. Last month, Moscow cut flows to 40% of the pipeline's capacity, citing the delayed return of gas turbines being serviced in Canada by Siemens. Europe's split with Russia is already starting to remake the continent's gas market and rising state intervention could accelerate this process. Current EU gas storage levels are at 62.6% and the bloc is aiming to hike this to 80% by Nov. 1. Nord Stream flows 55 billion cubic meters per year of gas from Russia to Germany under the Baltic Sea. Maintenance is scheduled to last from Jul. 11-21. Canada's decision to issue a "time-limited and revocable permit" to allow a Siemens turbine to be returned to the pipeline was welcomed by Berlin but Gazprom warned it has yet to receive the official clearance.

If Nord Stream does not come back on line, Europe has few quick supply options to ramp up additional volumes and already faces challenges ensuring major suppliers maintain flows. Norway's government stopped an oil and gas strike that threatened to cut off 60% of its gas exports, arguing the industrial action would have had serious consequences for European gas supply. Norwegian grid operator Gassco expects Norwegian piped exports to Europe to be around 117 billion cubic meters, almost 4 Bcm above last year and close to previous record flows.

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Estimates show production from non-EU UK could grow by as much as 5 Bcm this year to around 36 Bcm. The Netherlands has said its Groningen gas field output would remain at 4.5 Bcm in the 12 months to the end of September, down from 7.7 Bcm last year, although The Hague pledged the field could still be tapped in an emergency. Farther afield, European governments and companies are negotiating with existing suppliers for more gas. Caspian imports are expected to run above the Trans Adriatic Pipeline's 10 Bcm/yr nameplate capacity. Algeria has signed deals for an additional 3 Bcm/yr this year and up to 9 Bcm/yr more by 2024. Europe hopes to replace two-thirds of Russian gas imports — about 100 Bcm/yr by January.

Germany and Italy — two of the largest European states dependent on Russian piped gas — are enacting emergency plans. Germany's parliament passed a series of amendments to allow Berlin to bail out energy companies in a gas supply emergency and activate coal and oil plants. Rome is launching a campaign to persuade Italians to consume less energy with a goal to save 2.7 Bcm of gas. Germany's measures would allow companies to pass additional costs from procuring expensive non-Russian gas either to the company's customers or evenly distribute the costs across all gas consumers. German utility Uniper has already applied to Berlin for federal funds as well as a proposal for the state to buy a stake in the company. Italian Ecological Transition Minister Roberto Cingolani argued that "if we could lower the average temperature by 1ºC or reduce heating times by one hour, we would save 1.5 or 2 [Bcm] per year."

Europe's gas sector appears to be sailing into uncharted territory with discussion of gas price caps and increased state intervention. Industry sources tell Energy Intelligence Europe can survive this winter but future winters could prove exceptionally challenging if storage is completely depleted by spring. In May, Spain and Portugal introduced a €40 per megawatt hour price cap for gas used for electricity generation to reduce soaring utility bills. The European Commission signaled a gas price cap is under review ahead of a planned October summit. One senior European official admits that if the Spanish-Portuguese experiment works it could be adopted more broadly. "Governments taking stakes in utilities — suddenly that whole European gas market landscape that took 30 years to create starts to crumble in relation to market forces," Professor Jonathan Stern told an industry forum. Vincent Demoury, secretary-general for the International Group of Liquefied Natural Gas Importers, underlined that Europe must be willing to sign 15-20 year LNG import contracts to facilitate the liquefaction projects needed to ensure future supply.

EV Markets Get Boost From High Pump Prices

The US electric vehicle (EV) market is gaining speed, with sky-high fuel prices and the wider availability of EV models working together to ramp up sales at a swift but steady pace. The US still lags other large auto markets, including the EU and China, but is gradually moving in the same direction. EVs reached 6.7% of US light-duty vehicle sales as of this past May, nearly double the 3.7% market share from May of last year and several percentage points above the early months of this year. "It's hard to attribute the growth just to gas prices," says Kevin Riddell of consultancy LMC Automotive. "Part of it is just a lot more variety" — including EV models in the bestselling pick-up truck and SUV classes. Policy is also critical, especially in the next two to three years as the market finds its feet, Riddell says. In its core scenario, Energy Intelligence sees EVs as the top sellers in the passenger vehicle market by "the early 2030's" and reaching 38% of the auto fleet by 2040, according to the just released EV Outlook: Into the Fast Lane.

Soaring pump prices reinforce the higher lifetime ownership costs for an internal combustion engine (ICE) car compared to that of electric alternatives for car buyers. That difference can be vast for at-home charging, which averages 15¢ per kilowatt hour but declines if drivers use fast-charging stations at an average 40¢/KWh. Still, many consumers aren't swayed by the promise of eventual savings if they can't swallow an EV's higher up-front costs. That premium is thinning as battery costs tumble but still significant. The average new US vehicle costs $46,500 versus an average EV price of around $65,000, according to Kelly Blue Book. But some low-cost EV models, such as the Chevrolet Bolt, now compete with comparable ICE cars with the $7,500 tax credit.

Yet high fuel prices don't cause everyone to rush for an EV. More efficient combustion engine vehicles and conventional hybrids also gain, US Energy Information Administration (EIA) experts tell Energy Intelligence. And some consumers simply drive fewer miles. During the 2008 oil price spike, sales of the Toyota Prius conventional hybrid saw a noticeable uptick. While the same is likely happening given the jumps in EV sales, today's situation isn't identical. The new vehicle sales market is constrained right now "due to causes related to both Covid-19 and geopolitics," the EIA explains. There "could be more consumer demand for EVs, but not enough supply to meet that demand."

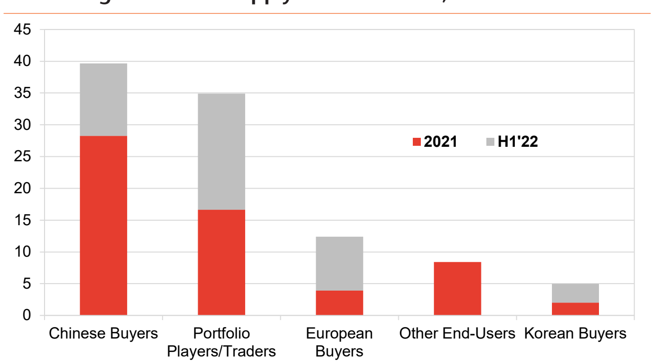
EV uptake elsewhere is far more eye-catching. Market penetration of EVs in China, for example, has already sailed past the government's goal of 20%, three years ahead of its target timeline of 2025. Analysts see the figures fueled both by prices at the pump and the wealth of vehicle choices in China, where multiple manufacturers are offering budget models. European data lags behind China's, but the EV market is moving squarely in the same direction, representing 20.5% of light-duty vehicle registrations in EU in the first quarter of 2022. EV penetration in China, which started at around 17% at the beginning of 2022, breached the 20% mark at the end of April on a year-to-date basis and has risen further to a six-month average of 22% — advancing by 13 percentage points from the first half of 2021. Cumulative half-year EV sales have hit 2.6 million units — representing a 115% year-on-year surge that defied economic headwinds from lingering Covid-19 resurgences, says the China Association of Automobile Manufacturers. The European Parliament last month voted in favor of zero emissions for cars and light commercial vehicles in 2035 — reinforcing ambitions to completely phase out the sale of new ICE vehicles by the middle of next decade.

Asian Buyers Favor Security with Long-Term LNG Deals

Asia's appetite for long-term LNG deals has hit unprecedented levels in past 18 months as an extremely volatile spot market and Europe's sudden explosion in demand have sent buyers looking for security of supply. The increase is being led by Chinese firms trying to lock in prices and ensure adequate volumes to meet growing domestic demand. Energy security concerns triggered by the Ukraine war have overwhelmed worries that LNG might not fit with China's 2060 carbon neutrality goal, said a source with a Chinese city-gas distributor which has signed up with three US projects. "Before the war, it would be hard for Chinese traditional buyers to commit to long-term deals because of carbon neutrality. Now, energy security is back on the table," he told a recent LNG conference in Singapore. China secured nearly 40 million tons/y in supply deals in 2021 and the first half of this year. Huge price swings in 2021 prompted state firms CNOOC and Sinopec to first ink deals with traditional sellers such as QatarEnergy and Petronas in the second half of 2021. Then the Ukraine war led the Chinese state firms and second-tier buyers to commit to a slew of 20-year deals with greenfield projects in the US and Mexico. Local observers say Chinese term LNG buying would continue going forward.

US projects have emerged as favorites due to their unique Henry Hub-based business model which translates into lower risks for buyers compared with conventional supply deals. The US Henry Hub benchmark historically has been a more stable price index, compared with the Brent oil benchmark and Asia's spot index Japan Korea Marker. No new oil-indexed LNG deals have been signed except for tenders which were issued before the war, Energy Intelligence understands. Higher construction costs and stronger demand have pushed US project developers to raise their fixed fees, but steep competition among the projects is expected to prevent prices from spiraling further. Buyers are also enticed by the ability to resell a US cargo or simply pay the fixed fee if they do not want to lift the cargo. The arrangement provides an opportunity for buyers to develop trading capability and mitigates demand risk. But risks do remain. Buyers have to consider the full costs of long-term contracts, beyond the headline price, such as greenfield, duration and price risks associated with new US projects. These projects need 20-year contracts to underpin construction, which means LNG demand could be declining during the contract's

Long-Term LNG Supply Commitments, 2021-22 YTD*



*Includes both publicly announced firm and preliminary agreements. Traders/Portfolio player designation excludes instances where end-user is already known. Some expected end-users may also trade or divert cargoes. Volumes are approximate due to limited detail and data in some announcements, particularly preliminary deals. Excludes deals signed in July 2022; NextDecade-China Gas, NextDecade-Guangdong Energy and Mexico Pacific-Shell.
Source: Energy Intelligence Global LNG Research

duration, Sid Bambawale, Vitol's head of LNG Asia, warns. Meantime, Henry Hub prices have become more volatile, increasing from $3-4/MMBtu to $10/MMBtu.

Other Asian buyers have adopted different procurement strategies. Some still prefer to price LNG against oil rather than Henry Hub gas. Others are looking for lower costs by expanding existing contracts. The dynamic could lead to a new class of medium-term deals to address the concerns of both buyers and sellers. Oil prices need to come down to $70-$80/bbl before India's Petronet would seek new volumes, CEO Akshay Kumar Singh said. Petronet has not signed up for any US volumes and is instead trying to expand and improve the terms of its existing 8.5 million tons/yr oil-linked contract with Qatar. Japanese buyers have been hesitant to commit to 20-year deals but with around 5 million tons/yr of contracts due to expire by 2025 and risks of supply disruptions following Moscow's recent seizure of Sakhalin-2 operatorship, urgency for Tokyo to find new supplies is growing. Japan's largest buyer Jera has invested in US Freeport LNG. Energy Intelligence understands some Japanese buyers are holding talks with Qatar for offtake, unrelated to its North Field East (NFE) expansion, for contract durations shorter than the 27 years committed by NFE investors. Bambawale suggests a role for customized, medium-term contracts for Japan and Korea. Such arrangements would be less expensive than spot prices, less commoditized than spot and long-term deals and able to meet the specific needs of buyers, he said.

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an embargo on Russian oil, and the EU plans to mostly follow suit — so the cap's effects are not chiefly aimed at their own imports. They may find support from allies like Japan, but others would likely work around the cap with creative mechanisms. Heavy buyers of Russian oil already displaced from Europe include India, China and to a lesser extent Turkey. Some countries — including Russia itself — are already stepping in to provide alternative insurance for Russian cargoes. In addition, some sources suggested that buyers could pay the capped price and then pay Russian sellers an additional amount – provided the total remains below market pricing, both sides would benefit. Finally, less scrupulous traders might use falsified bills of lading or other methods, sources say. Further calling the proposal's effectiveness into question, the US Treasury Department has already indicated that it is not planning Iran-style secondary sanctions to enforce compliance. Even with secondary sanctions, countries often find workarounds. The concept carries the potential for blowback as well. Russian officials have warned that a price cap could drive prices higher. Some traders, brokers and analysts agree, saying Moscow could respond by cutting its exports or interfering with pipeline shipments.

A bigger issue for Russia may be the extent to which alternative markets can or will absorb oil displaced by the EU's embargo, due to start in December for crude and February 2023 for products. India and China have so far been quick to grab heavily discounted Russian crude, absorbing some 1.5 million b/d. Energy Intelligence estimates the EU embargo threatens to displace 3 million b/d of crude and products. Importers in Asia likely cannot absorb it all without halting term contracts with other producers such as Saudi Arabia, which offer diversification and security of supply. India and China also produce a surplus of diesel, one of the main Russian refined products at stake.

Macro Risks Drive Oil Despite Tight Supplies

The tension between fear of a recession and the risk of supply shortages is pulling the oil market in totally different directions. Economic uncertainty amplified by a lack of market liquidity is driving massive price swings. A strong US dollar is adding to the market's woes, making oil importers increasingly vulnerable to their greenback-denominated payments. And forecasters have never been so torn on which way oil will move next. Oil bulls took a beating last week, after prices bled more than $10 per barrel in a single day, briefly dipping below $100/bbl. The economic outlook has continued to deteriorate in the US and Europe. The odds of a recession are rising but for now, the effect is muted by the surge in summer road and air travel demand and a reawakening of China's economy. China remains a stalwart of global oil demand, and the potential for fiscal stimulus ahead of the 20th National Congress of the Chinese Communist Party later this year could boost the demand outlook. The US dollar index has surged more than 3% in July, and by 12.4% year-to-date, leaving countries like Sri Lanka unable to meet import bills. Looking ahead, JP Morgan warns of prices as high as $380/bbl later this year, while Citi cautions of a collapse to $65.

The price confusion is exemplified in the schizophrenia of the physical and paper markets. The latest oil price correction was driven by financial liquidation and a pervasive risk-off sentiment. Steep backwardation and high price volatility is driving financial investors to reduce

their exposure. But the physical market keeps pointing to thin margins between supply and demand. Futures time spreads still trade at unprecedented levels, a sign that supply fundamentals remain tight. The Brent prompt premium to deliveries in six months has traded at an average $13.5/bbl so far in July — including the late correction, compared with $13.6/bbl in June. The ICE low-sulfur gasoil contract has already regained 10% after shedding more than 14% in three days last week. The forward product curves for gasoline, diesel and jet across all locations remain in backwardation, showing a persistent product deficit globally. But the large price gyrations are prompting exchanges to require more collateral from traders and making more frequent margin calls pushing more participants out of the market. Investors are scared to leave their positions open overnight in case of an early price move the following day. All this reduces open liquidity and increases volatility. Liquidity is also drying at the back end of the curve where more money now sits in spreads than in outright trades.

Both the bulls and bears in the oil markets are focused more on demand as there seems little that can shift the balance on the supply side other than the efficiency of western sanctions against Russia. Product inventories are draining as refineries struggle to keep up following years of closures and the recent disruption of supply chains. Most Opec members are falling short of output quotas compounding storage draws and the supply shortfall. Demand destruction will be the key factor in balancing the market. The questions is whether it comes through a bearish global recession or a bullish surge in global oil prices. Opec-plus market management has undersupplied the market by about 2.7 million b/d as of June. Nevertheless, markets remained in surplus in April and May due to lower demand in China, combined with resilient Russian output and releases from the US strategic petroleum reserve. US President Joe Biden's visit to Saudi Arabia looks unlikely to assuage prices. However, Opec-plus will revisit its supply policy in August, offering hope for higher volumes. Members with spare capacity including Saudi Arabia and the UAE could see an opportunity to take advantage of high prices. The US and its allies are pushing for a price cap on Russian oil but the structure, much less the impacts remain a wildcard. Beyond the practicalities of implementing and enforcing it, analysts see ample opportunity for free-riding and cheating, undercutting its ability to control prices.

Sun Sets on Western Oil Traders in Russia

Since Russia's invasion of Ukraine, major trading firms have been on the back foot there and now recognize the risks of continuing to do business in the country are too great. The sale by Trafigura of its 10% stake in the $85 billion Vostok Oil upstream venture in Russia's Arctic to a mysterious Hong Kong trader, Nord Axis, is further proof that sanctions are pushing the big western trading firms out of Russia, possibly for good. Trafigura, which is headquartered in Singapore with a trading office in Geneva, had bought its equity in Vostok in late 2020 for €7 billion ($8.5 billion at the time), putting up €1.5 billion of its own capital and funding the rest via a syndicated loan arranged by a private Russian bank, Credit Bank of Moscow. The chief attraction of the deal was the guaranteed long-term crude offtake it provided. State-backed giant Rosneft, expects Vostok to produce up to 2.3 million b/d by 2033. The EU and Swiss sanctions that came into force in mid-May banning transactions with Rosneft and other Russian state-backed companies have forced Trafigura and Swiss giant Vitol to slash their Russian oil offtake, with volumes now a fraction of the 500,000 b/d they were at the beginning of the year. Vitol, which bought a 3.75% stake in Vostok last autumn in a joint venture with Singaporean trader, Mercantile and Maritime Energy (MME) with 1.25%, for a combined sum of €3.5 billion, is preparing to sell its equity in the project. The fate of MME's interest is unclear

Trafigura's deal raises as many questions as it answers. Russia has enacted a series of policies aimed at guiding Russian oil and gas assets into the hands of companies registered in Russia. The Kremlin has also moved to limit the sales price of transactions. How was Nord Axis, which was incorporated in February, able to buy the multi-billion stake? Trafigura did not disclose the sales price, but said Nord Axis has taken on "non-recourse debts" associated with the shareholding that amount to around €5.8 billion. Nord Axis could not be reached for comment, and Rosneft declined to comment. The ultimate owner of Nord Axis remains a mystery, with the Hong Kong registry offering little detail. The company does actual business in Russia, shipping products out of the Black Sea. According to port data, Nord Axis last month sold several cargoes of vacuum gas oil and fuel oil out of the Kavkaz terminal, all of which came from Rosneft and ended up in Greece. It is one of several obscure newcomers that have popped up as regular offtakers of Rosneft barrels in recent months.

The replacement of Trafigura by a Far East-based company underlines Russia's growing Asian pivot, and its determination to cut its ties with the West. At the St Petersburg Economic Forum last month, the CEO of Rosneft, Igor Sechin, invited Asian "friends" to join the Vostok project, with executives from India's ONGC and China National Petroleum Corp. joining him on the panel. But whether the big Asian state operators are willing to step in, and run the risk of being exposed to sanctions, is a different matter.

For the big western traders, Russian oil was once though an indispensable part of their business. But they now seem comfortable stepping into a future without it. Trafigura, Vitol and others have made recorded profits over the past few years by capturing price volatility and making smart bets on the futures markets. They have expanded their presence in LNG, as supply grows and prices have jumped. They are now building up their presence in renewables. "The good times are over for western traders in Russia after 30 good years", a veteran European trader says, "and they may never return." He says there will always be niche players prepared to take the risk of trading Russian barrels, but they are more likely to be Asian or Middle Eastern.

Gulf Producers Look Beyond Upstream for Value

With oil prices at multi-year highs and physical supplies tight, Mideast Gulf states' crude production capacity has become a global focus. The region's producers have boosted upstream spending, believing demand for their lower-cost and lower-carbon fossil fuels will remain resilient. But developments further down the energy value chain may prove to be even more important for regional oil producers seeking to "future proof" their economies. Gulf states are doubling down on developing their local petrochemical, chemical and fertilizer sectors and positioning themselves as global suppliers of cleaner fuels such as green and blue hydrogen. Gulf producers also continue to target investments in downstream projects in Asia, to lock in future demand. Saudi Aramco's final investment decision in March to develop a 300,000 barrel per day refinery and a 1.5 million ton per year ethylene cracker in Liaoning province in China is a recent case in point. Other projects, including in India, are still under consideration by Gulf players. Nuclear power projects are helping some Gulf states free up more gas and oil supplies for downstream feedstocks or export, whether to key markets in Asia or, more recently, to Europe to replace Russian supplies. In the United Arab Emirates, nuclear meets 13% of its electricity needs including of most of Adnoc's onshore operations.

The push along the energy value chain is playing out differently in the various Gulf countries. Some countries are moving to further develop petrochemicals value chains and convert output into consumable products. Others are looking to bring forward gas export plans. All are being conscious of the carbon intensity of their efforts and incorporating things like renewable power or carbon capture. Qatar's giant North Field East LNG plan that will add nearly 33 million tons/yr of liquefaction capacity incorporates carbon capture and solar power. Abu Dhabi has its own LNG plans to monetize growing gas volumes. Two new LNG trains planned by Adnoc at Fujairah LNG are set to be ultra-low carbon intensity and will make it the Mideast Gulf's second-largest exporter. Some industry sources speculate Adnoc could look to add trains to Fujairah as more gas becomes available. In Abu Dhabi, plans for an industrial chemicals zone in Ruwais, established in 2020 as a joint venture between Adnoc and Abu Dhabi's state-owned development company ADQ, is meant to add value to and diversify the local economy with the help of foreign investors such as India's Reliance.

None of this comes without challenges. Energy transition pressures and net-zero commitments mean that all these initiatives have to be as green as possible. This is especially critical for countries such as the UAE — host of COP28 in 2023 — and Saudi Arabia, which have committed to net-zero targets and are keen on signaling their intent to play constructive roles in lowering the carbon emissions of the energy sector at a time of globally rising social and political pressures. In petrochemicals, carbon from fossil fuel feedstocks is trapped within the products, but questions over how to address plastic waste without creating more emissions will become even more pressing as capacity increases. Projects to produce cleaner fuels such as blue and green hydrogen need to be scaled up from study or pilot levels to position countries at the forefront of the nascent global market. Saudi Arabia and others have been advancing plans for a "carbon circular economy" which seeks to reduce emissions through technologies such as CCS to keep fossil fuels in the mix — a concept that other regional producers are also adopting. Countries like the UAE and Oman have announced numerous hydrogen-related schemes, but Saudi Arabia's Neom project — the world's largest integrated green hydrogen plant — is most advanced and is being watched as a global benchmark. It has an advantage in that equity partner Air Products has committed to offtake all its production.

What's New Around the World

GENERAL

CORPORATE — Trading giant Trafigura has sold its 10% stake in Rosneft's Vostok oil project in the Russian Arctic to an obscure Hong Kong oil trading firm. Trafigura said the deal was completed on Jul. 12, but it did not disclose the proceeds. Rosneft declined to comment on the transaction. Market sources said the buyer, Nord Axis, was established only five months ago and does some niche trading in refined oil products in Russia's Black Sea region. State-controlled Rosneft — Russia's biggest oil producer — has previously touted Vostok Oil as a major growth project that was supposed to produce more than 2 million boe/d from a group of onshore fields by the early 2030s. Singapore-based Trafigura acquired its interest in Vostok in late 2020 for €7 billion — worth around $9 billion at the time — putting up €1.5 billion of its own cash, and funding the remainder via a €5.8 billion syndicated loan. Trafigura said Nord Axis will take on all non-recourse bank debt as part of the purchase. Nord Axis could not be reached for comment.

CORPORATE — Suncor CEO Mark Little announced his resignation one day after a worker was fatally injured at a shovel maintenance pad at the company's Base Plant Mine near Fort McMurray, Alberta. The death was the 13th worker fatality at a Suncor facility since 2014. It also occurred just days before the company's management was scheduled to provide an operational update to its investors, including a review of its safety performance. That presentation has since been postponed. Suncor Chairman Michael Wilson acknowledged that the company had failed to improve its safety record and that change was needed. "Suncor is committed to safety and operational excellence across our business, and we must acknowledge where we have fallen short and recognize the critical need for change," said Wilson. In April, hedge fund Elliot Management announced that it had taken a 3.4% stake in Suncor and called for a C-suite overhaul, citing the company's poor safety record among other reasons. At the time, Elliott called for the appointment of five new directors and a review of the company's management and assets. Elliott has yet to comment on the latest worker fatality and Little's resignation.

CORPORATE — Energy Intelligence, publisher of *Petroleum Intelligence Weekly*, announced that Eni has been chosen as the winner of the 2022 Energy Innovation Award. The Energy Innovation Award winners are chosen in a two-part process that includes an evaluation of their performance relative to the proprietary Transition Strategy Index and Low-Carbon Investment Tracker benchmarks developed by the Energy Intelligence Energy Transition Service. Winners are then chosen from a shortlist of candidates through a vote by an independent panel of leading experts drawn from finance, government, academia and consulting. Eni scored highly across a range of quantitative measures and was recognized by voters for its innovative strategic approach to the energy transition. Eni CEO Claudio Descalzi will receive the award during the Energy Intelligence Forum 2022 on Oct. 5. The Forum is being held in-person in London from Oct. 4-6. The Energy Innovation Award has been given out annually by Energy Intelligence for more than a decade. Previously known as the Innovation in New Energy Award, past winners include Equinor, Total, Shell, Vattenfall, Engie and Iberdrola.

CORPORATE — Shell is suspending production at its the 3.6 million ton/yr Prelude floating LNG vessel off Western Australia after failing to win support from workers there for a new contract. Shell has informed customers of disruptions to loading cargoes from the facility until at least Jul. 21. Shell said the proposed enterprise agreement was voted down by 95% of the workforce. As part of the industrial action undertaken by members of the Australian Workers' Union and Electrical Trades Union, they are refusing mooring of vessels which would prevent loading of cargoes. Shell decided to shut down the facility because it anticipates reaching capacity at its storage tanks this week. A spokeswoman said Shell would continue to negotiate for a mutually acceptable enterprise agreement. It is understood that the union demands are focused on increased pay and conditions, which would likely increase Prelude's annual operating cost by $40 million annually. According to vessel-tracking consultant Kpler, Prelude last loaded a cargo on Jul. 7.

OPEC — Opec expects global oil demand to hit 103 million b/d in 2023, with consumption growing at a slightly slower rate than this year. In its latest *Monthly Oil Market Report*, the producer group sees world oil demand growing by 2.7 million b/d next year, versus a 3.4 million b/d rise in 2022. With a nod to growing fears of a recession, Opec lowered its global demand forecast for the third quarter of 2022 by 200,000 b/d. The report predicts "still solid economic performance in major consuming countries" in 2023, with China and India driving an increase of 2.1 million b/d in non-OECD oil demand next year. Russian liquids output should average 10.63 million b/d in 2022, with a dip to 10.43 million b/d in 2023. Both of those averages represent year-on-year declines of 200,000 b/d but are "subject to high [levels of] uncertainty," the report said. The "call on Opec crude" that results from these global demand and non-Opec supply forecasts is seen rising by 1.1 million b/d this year to 29.2 million b/d — unchanged from last month's report — followed by a further increase of 940,000 b/d in 2023.

COUNTRIES

KAZAKHSTAN — A Russian regional court has overturned a 30-day closure of the Caspian Pipeline Consortium (CPC) oil terminal near the Russian port of Novorossiysk for regulatory violations and instead imposed a modest fine. The ruling by the Krasnodar regional court follows an appeal by CPC, which shipped 1.2 million b/d of mostly Kazakh crude oil via the Black Sea terminal last year. The closure had been ordered by the district court in Novorossiysk. It's unclear whether the new ruling by the regional court — and the fine of 200,000 rubles ($3,265) — will be the last word on the matter. Russian transportation watchdog Rostransnadzor had alleged several violations of regulations in the operations of the CPC terminal and had asked the court to close it down for three months. A closure of even one month would be very costly for landlocked Kazakhstan, which exports most of its oil via the CPC terminal. Some observers have said the original order to close the line might reflect political pressure. It followed remarks by Kazakh President Kassym-Zhomart Tokayev, suggesting that oil and gas from Kazakhstan could help alleviate disruptions of global energy markets.

VENEZUELA — The US Department of Justice (DOJ) on Tuesday charged two financial asset managers with money laundering in connection with an alleged $1.2 billion international scheme involving funds obtained from the Venezuelan state energy company Petroleos de Venezuela (PDVSA). The indictment, filed in the Southern District of Florida, named 48 year-old Ralph Steinmann of Switzerland and 51 year-old Luis Fernando Vuteff of Argentina as the alleged conspirators. The indictment alleges that the laundering scheme began in or around December 2014 and continued until at least August 2018. According to the DOJ, Steinmann, Vuteff and others set up complex financial mechanisms to launder more than $200 million and opened accounts for or on behalf of at least two unnamed Venezuelan public officials to receive bribe payments. The DOJ said that Steinmann and Vuteff "conspired with others to launder the proceeds of an illegal bribery scheme using the US financial system as well as various bank accounts located abroad. The conspirators laundered the illicit proceeds in connection with a corrupt foreign currency exchange scheme involving bribery of Venezuelan officials."

Marketview

Opposing Currents

The price action in the last week has been characterized by a tug of war between the higher risk of economic slowdown, if not downright recession, and a physical market still pointing to short-term supply tightness. The late correction has tightened the time spreads in both Brent and West Texas Intermediate (WTI) futures. But the Brent September premium to deliveries in October has held much better than later dated contracts, showing that the tail of summer demand is keeping this market stretched like a rope.

Prompt product prices are rising faster than supply in markets showing large deficits. Refining is struggling to make up for the shortfall of shunned Russian products. The closure or conversion of 3.9 million barrels per day of capacity is leaving the world short. Most global spare refining capacity now sits in China, where it has been idled during the Covid lockdown and ensuing demand dip. To make matters worse, a Chinese export ban on products is preventing that spare capacity from being freed up for international supply.

As a result, margins in Europe have remained at stratospheric heights. Refined product cracks in the US and Europe are still hovering around a whopping $40 per barrel, enticing refiners to run as hard as possible to resupply this market and stem the global decline in product inventories. Refiners also buy closer to the loading date to mitigate the steep backwardation and higher volatility risk. They rely on the spot market to decide whether to maximize their term volumes, which tends to support prompt prices.

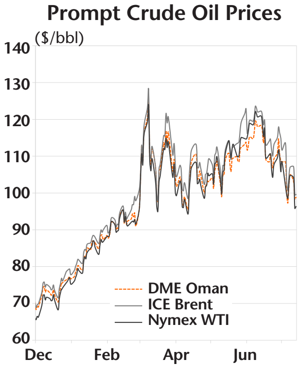
Hedging activity further back on the curve, however, has continued to dwindle. The ICE low-sulfur gasoil contract is one example, with net short positions from producers down to 72 million barrels, versus a high a 300 million barrels one year ago. There is no more gasoil inventory to be hedged, traders said, hence the drought in liquidity. In addition, the required exchange collateral margins have become so expensive that smaller traders do less hedging or give it up completely.

"The battle between 'paper' and physical oil traders will keep volatility elevated but, in our opinion, the market remains too tight to trigger an industrial metal-styled correction", Saxo Bank wrote. "In Brent, the key area of support can be found between $97.5 and $97." Physical traders concur that the recent price retracement may yet to have found its floor but that a rebound is likely given the tight fundamentals. The odds of a recession are higher, but its full-fledged effects will not materialize for at least a quarter or two.

Demand, however, is already showing signs of weakness, mainly in OECD countries. In its latest *Oil Market Report*, the International Energy Agency cites a "lackluster start to the US driving season", reporting a counter-seasonal drop in gasoline consumption to its seasonal lowest since 2000. A gradual curtailment of gasoil demand on the back of a "rapidly deteriorating global economic outlook in major OECD countries" is also creating headwinds to 2022 demand growth.

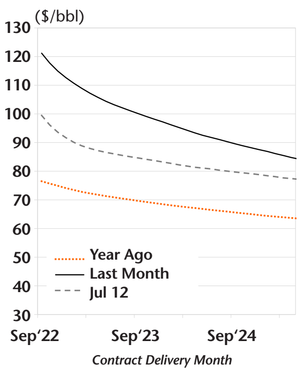
Non-OECD, has been a stronger performer, with China finally emerging from Covid lockdowns, India boosting its product consumption, and the Middle East demanding more oil for power generation to meet cooling demand. For now, this seasonal strength has kept a floor under prices.

Prompt Crude Oil Prices



Source: Nymex, ICE, DME

ICE Brent Forward Curves



EIA Sees US Record US Production in 2023

In the latest Short-Term Energy Outlook, the US Energy Information Administration (EIA) forecasts US crude production to average 12.77 million b/d in 2023, down from the 12.97 million b/d it projected last month. That would nonetheless be an all-time high for a full-year average for US output, and well above the current record of 12.3 million b/d set in 2019. Domestic production is projected to jump over 13 million b/d for the first time in the fourth quarter of 2023. US crude output averaged roughly 12.1 million b/d in late June. Including natural gas liquids and biofuels, US total liquid production would average 20 million b/d in 2023, which would also be the highest on record. Total liquids output for 2022 is seen at 18.82 million b/d, which is 1.25 million b/d higher than the prior year.

PIW Market Indicators

($/barrel)	Jul 11-Jul 13	Jul 4-Jul 8	Jun 13-Jun 17
Spot Crude			
Opec Basket	$104.41	$114.63	$121.27
UK Brent (Dtd.)	109.45	113.78	125.37
US WTI (Cushing)	100.54	103.27	116.46
Nigeria Bonny Lt.	118.44	120.11	133.03
Dubai Fateh	100.28	104.67	116.36
US Mars	97.29	99.50	109.36
Russia Urals (NWE)	77.28	81.30	90.93
Crude Futures			
Brent 1st (ICE)	102.05	105.73	118.98
Brent 2nd (ICE)	98.69	102.00	115.94
B-wave (ICE)	102.31	105.96	119.54
WTI 1st (Nymex)	98.74	101.39	116.46
WTI 2nd (Nymex)	96.12	98.07	114.17
Oman 1st (DME)	100.30	101.14	114.82
Oman 2nd (DME)	96.18	96.99	110.93
Murban 1st (ICE)	103.52	106.55	118.01
Murban 2nd (ICE)	97.99	101.33	114.59
Forward Spreads			
Brent (1st-Dtd.)	-$7.40	-$8.05	-$6.40
Brent (2nd-1st)	-3.37	-3.73	-3.03
WTI (2nd-1st)	-2.63	-3.32	-2.30
WTI (3rd-2nd)	-2.70	-3.15	-2.56
Oman (2nd-1st)	-4.12	-4.14	-3.89
Oman (3rd-2nd)	-2.27	-3.87	-3.48
Murban (2nd-1st)	-5.53	-5.22	-3.42
Murban (3rd-2nd)	-3.16	-3.47	-2.88
Grade Differentials			
WTI-Brent (1st)	-$5.94	-$5.71	-$4.81
WTI-LLS	-2.00	-1.69	-0.86
WTI-Mars	+3.25	+3.76	+7.10
Brent(Dtd)-Dubai	+9.18	+9.11	+9.01
Brent(Dtd.)-Urals	+32.17	+32.48	+34.44
Brent(Dtd.)-Bonny Lt.	-8.99	-6.33	-7.66
Term Crude Formulas			
Arab Lt.-US (c.i.f.)	$97.42	$99.63	$116.49
Arab Lt.-Europe (Med)	102.31	105.96	121.44
Arab Lt.-Far East (f.o.b.)	100.20	104.74	121.03
Nigeria Bonny Lt.	109.45	113.78	127.03
Arab Light Gross Product Worth			
Rotterdam	$115.54	$119.50	$141.11
US Gulf Coast	122.09	127.10	147.29
Singapore	108.10	115.73	134.93
Gross Product Worth & Margins			
Rotterdam			
UK Brent GPW	$130.85	$135.67	$139.36
UK Brent Margin	+19.34	+20.69	+13.17
US Gulf Coast			
Mars GPW	116.47	122.04	140.53
Mars Margin	+19.08	+22.43	+31.08
Singapore			
Oman GPW	107.31	115.13	135.16
Oman Margin	+6.66	+9.83	+17.86
US Nymex			
WTI 3-2-1 Crack	+$46.01	+$42.90	+$55.68
Refined Products			
Rotterdam ($/ton)			
Eurobob Gasoline	$1109.27	$1188.22	$1327.56
Gasoil (0.1%)	1174.25	1195.25	1351.50
Fuel Oil (0.5%)*	736.67	785.00	870.00
US Gulf Coast (¢/gal)			
RBOB Gasoline	326.24¢	341.44¢	394.88¢
ULS Diesel	371.24	365.45	440.18
Fuel Oil (0.5%, $/ton)	$815.67	$848.00	$933.40
Singapore ($/bbl)			
Naphtha	$86.56	$90.55	$87.64
Gasoil (0.05%)	139.11	145.76	172.74
Fuel Oil (0.5%, $/ton)	1012.00	1061.00	1092.00

*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.