Energy Intelligence

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INTERNATIONAL OIL DAILY®

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In Brief

Data Snapshot

European Refiners Strive to Cut Gas Consumption

European oil refiners are trying to cut back on their use of natural gas as they respond to the sharp decline in gas flows from Russia and try to save money.

Companies across Europe are turning to other hydrocarbons that can take the place of gas as a feedstock and as a fuel for power generation at their refineries.

In Spain, Repsol estimates that it has saved 1 billion cubic meters of gas so far this year by substituting naphtha, liquid petroleum gas and other hydrocarbons in refinery operations.

Finland's Neste has swapped out much of the natural gas it was using in favor of propane at its Porvoo refinery, CEO Matti Lehmus recently told investors. "We have two hydrogen units in Porvoo, and the bigger one is operating mostly on propane and then the smaller one is still using natural gas," he said.

Lehmus estimated that the company could replace 100% of its gas intake by early next year.

Shell CEO Ben van Beurden said his company has been able to cut gas use at its integrated refining and petrochemical complexes by 40% to 70% and plans to keep looking for ways to increase those figures.

Executives at Exxon estimate that they have cut gas use across their European refining operations by 65%.

Refineries say they can implement the changes without hurting the yields of their plants — a key consideration when crack spreads are lucrative and the continent is short physical volumes of fuels like diesel and gasoline.

"The way we effectively do it is to run our refineries — which are complex refineries in both Germany and the Netherlands — in such a way that they produce more gases in the cracking processes and everything else," Van Beurden told reporters on a recent earnings call. "In other words, it is self-help but it doesn't impact the output."

It is also helping boost already strong margins in refining businesses that had been among the worst-performing units during the pandemic.

Eni saved €200 million ($205 million) in the first half of this year due to fuel switching, CEO Claudio Dezcalzi estimated.

In many cases, the gas-savings efforts began before Russia's February invasion of Ukraine, as companies tried to offset the impact of European gas prices that had more than doubled from April to October. "This was a pathway started last year, in the second half of last year," Eni COO Guiseppe Ricci told investors. "And so when the Ukraine-Russian war started, we were already very strong to push the reduction of gas consumption in the refinery."

The Bigger Picture

The volumes of gas being saved by refineries are significant as Europe strives to cut its gas consumption by 15% starting this month so that it can store enough gas for the coming winter and withstand future reductions in gas flows from Russia.

Exxon CEO Darren Woods estimated that his company's reductions in gas consumption would be enough to power 2 million European homes.

Over the weekend, Russian gas giant Gazprom added Latvia to the list of countries and companies in Europe that it will no longer supply gas to. Others have seen steep reductions in delivered volumes.

Eni, for example, saw its allocation of gas from Gazprom cut from 34 million cubic meters per day to 27 MMcm/d last week.

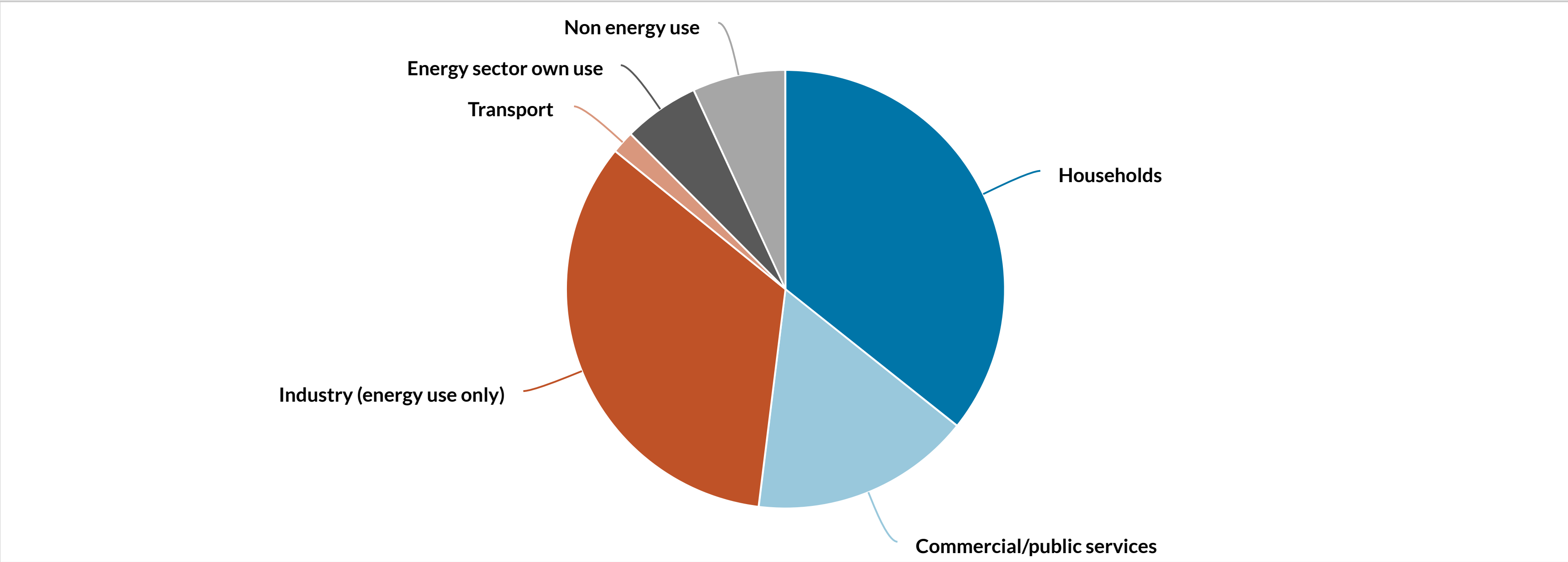
Executives at the company estimate that the savings in its industrial usage will help it meet all of its gas sales commitments in Italy, even if Russia were to completely cut off supplies.

Spain receives minimal volumes of Russian gas and has little connection to Europe's gas grid, but Repsol CEO Josu Jon Imaz said that any savings the country can make will help others.

"We have full solidarity with the needs the European society has at this crucial moment," he told investors. "From my point of view, Europe needs this effort."

EUROPEAN GAS DEMAND BY SECTOR

Refiners Look for Substitutes



Energy Intelligence/Eurostat

Noah Brenner, London

Iran Upbeat About Resuming Talks, US Less So

Iranian officials responded positively on Monday to the latest efforts by the EU's top foreign policy official to restart stalled nuclear talks between Tehran and Washington.

However, Iran's optimistic tone contrasted with a US move to blacklist several companies for allegedly facilitating exports of Iranian petrochemicals to Asia.

The EU has been mediating talks to revive the 2015 Iran nuclear agreement — formally known as the Joint Comprehensive Plan of Action (JCPOA) — but those talks have been paused since June.

On Monday, Iran's Isna news agency quoted Yaqub Rezazadeh, a member of parliament's National Security and Foreign Policy Committee, as saying that the EU's efforts could lead to a new round of talks to revive the nuclear deal within days.

Separately, Iranian foreign ministry spokesman Nasser Kanaani said Tehran "welcomed any initiative that would help reach a deal," adding that a date for a new round of negotiations would be set in the near future.

But far from signaling that a deal to lift sanctions was nearer, the US said on Monday that it was blacklisting companies based in the United Arab Emirates, Hong Kong and Malaysia for allegedly facilitating Iranian petrochemical exports to Asia.

"Until Iran is ready to return to full implementation of the JCPOA, we will continue to use our sanctions authorities to target exports of petroleum, petroleum products, and petrochemical products from Iran," said Secretary of State Antony Blinken.

Under the JCPOA, Iran accepted restrictions on its nuclear program in return for the lifting of sanctions that allowed it to resume its oil exports. But the US reimposed sanctions in 2018 and Iran then stopped complying with the agreement.

As the Vienna talks have faltered, the US Treasury Department has made three announcements in as many months to blacklist firms that it accuses of helping to facilitate sales of Iranian oil or petrochemicals.

Borell: Best Possible Deal

In a commentary published at the weekend, EU foreign policy chief Josep Borrell said he had "put on the table a text that addresses, in precise detail, the sanctions lifting as well as the nuclear steps needed to restore the JCPOA."

"After 15 months of intense, constructive negotiations in Vienna and countless interactions with the JCPOA participants and the US, I have concluded that the space for additional significant compromises has been exhausted," Borrell said.

"This text represents the best possible deal that I, as facilitator of the negotiations, see as feasible. It is not a perfect agreement, but it addresses all essential elements and includes hard-won compromises by all sides," he added.

While the US and Iran have both participated in the Vienna negotiations, officials from the two countries have not been talking to each other directly. The other participants are, China, France, Germany, Russia and the UK.

The last round of talks in Doha, Qatar, followed a three-month hiatus but ended without progress on Jun. 29 and without any indication when they might resume.

Blame Game

Washington and Tehran have blamed each other for the lack of progress, accusing each other of being inflexible and lacking the will to reach an agreement.

It remains to be seen whether the negotiating positions of either side have shifted enough to allow for a breakthrough if a new round of talks were to be held.

One key question is whether Tehran is willing to drop its insistence that Washington removes Iran's Revolutionary Guard from its list of foreign terrorist organizations, which is understood to have been a major sticking point.

Iran appears to have taken a softer position on this issue recently, no longer insisting that the guard as a whole should be removed from the list, but seeking an exemption for its Khatem al-Anbiya engineering and construction arm.

However, US sources say nothing of substance has changed since the Doha talks and that a deal is not in sight.

Furthermore, Borrell's mediation efforts are unlikely to have been helped by comments from the head of Iran's nuclear power agency, who said on Monday that Iran is now capable of building an atomic bomb but has no plans to do so.

Iran's Oil Exports

Meanwhile, Iran appears to have taken steps to defend its market share in China — the only major buyer of Iranian crude — from a rise in Russia's exports to Asia.

Quantifying Iran's oil exports remains extremely difficult, given Tehran's creativity in concealing them, especially as they are now being handled by the Revolutionary Guard rather than National Iranian Oil Co.

Business intelligence firm Kpler estimates that Iran's crude exports hit around 1.2 million barrels per day in June and 860,000 b/d in July after falling close to 700,000 b/d in May.

But Sara Vakhshouri, president of SVB Energy International, told Energy Intelligence that Iran's exports rose by about 100,000 b/d to 810,000 b/d in July.

Oliver Klaus, Dubai

Opec-Plus Seen Treading Carefully on Supply

Opec-plus ministers are likely to take a cautious approach on oil supply policy at their meeting on Aug. 3, given that growth in demand for oil is expected to slow next year.

Energy Intelligence believes the alliance will most likely agree to keep its targeted output unchanged in September or perhaps announce a modest increase.

Opec-plus previously agreed to increase its August target by 648,000 barrels per day. That will officially complete the reversal of the deep cuts the alliance implemented in 2020, even though many members have fallen short of their quotas.

Wednesday's ministerial meeting will be preceded on Tuesday by a gathering of Opec-plus technocrats who make up the Joint Technical Committee (JTC). They will review the alliance's latest internal market analysis before passing it on to the ministers.

Energy Intelligence understands that a preliminary JTC report seen by Opec-plus delegates shows growth in global oil demand slowing to 2.7 million b/d in 2023 from 3.4 million b/d this year.

That should leave scope for an increase in Opec-plus production next year.

Growth in non-Opec liquids production is forecast to slow from 2.1 million b/d in 2022 to 1.7 million b/d in 2023, according to delegates who cited the preliminary JTC report.

Growth in US liquids output is seen decelerating from 1.3 million b/d in 2022 to 1.1 million b/d in 2023, they added.

Recession Fears

Concerns about limited spare production capacity will serve as a constraint on further increases in Opec-plus output in the coming months.

Energy Intelligence estimates global spare capacity at about 2.5 million b/d — mainly held by Saudi Arabia and the United Arab Emirates. That's a fairly narrow buffer in a world that has been consuming around 100 million b/d.

US President Joe Biden visited Saudi Arabia in July but did not secure a pledge of additional supply. However, Energy Intelligence understands that US officials are hopeful of some kind of gesture from Gulf producers in the foreseeable future.

The outlook for the global economy is a source of concern too. Delegates told Energy Intelligence that the alliance's oil market analysis is based on a modest slowdown in GDP growth from 3.5% in 2022 to 3.2% in 2023.

However, the projection for next year might need to be revisited, given fears that rising inflation, increases in interest rates, the war in Ukraine and further Covid-19 lockdowns could lead to a recession.

Under the JTC report's base-case scenario, OECD commercial oil stocks are expected to stand respectively at 151 million barrels and 103 million bbl below the 2015-19 average at the end of the third and fourth quarters of this year.

A further narrowing to 18 million bbl below the 2015-19 average is projected by the end of 2023.

New Secretary-General

The Aug. 3 meeting of Opec-plus ministers will be the first since Kuwait's Haitham al-Ghais took over as Opec secretary-general.

In an interview with the Kuwaiti newspaper *Al-Rai* on Sunday, al-Ghais said the recent rise in oil prices was not a result of the Ukraine crisis alone, but was also attributable to factors such as the lack of spare production capacity, the strong post-pandemic recovery in demand and a wave of refinery closures in recent years.

He said the world will need $12 trillion in oil investment over the next 25 years, adding that "oil and gas will remain a basic pillar of energy, while we need alternative energy to enhance the role of oil, not to replace it."

Asked about Russia's participation in Opec-plus, he said Moscow was a key strategic partner and essential to the success of the alliance.

Amena Bakr, Dubai

Gazprom's January-July Output Falls by 12%

Russian gas giant Gazprom said its production during the first seven months of this year fell by 12% compared with the same period of last year, reflecting a slump in exports to Europe since Moscow sent its troops into Ukraine in February.

Gazprom said it produced 262.4 billion cubic meters of gas in January-July — which was 35.8 Bcm lower than in the same period of last year.

According to Energy Intelligence calculations, the company's gas production in July alone stood at 24 Bcm — down from 37.4 Bcm in July of last year and also less than the 27 Bcm produced in June of this year. Gazprom halted exports via the Nord Stream 1 gas pipeline to Germany for 10 days of maintenance work in July of this year and in the same month of last year.

The company said its combined gas exports to Europe (including Turkey) and China, totaled 75.3 Bcm in the first seven months of 2022, which was down by 34.7% from the same period of last year.

The company's July exports totaled just 6.4 Bcm, down sharply from 15.4 Bcm a year ago and compared with 7.9 Bcm in June. Flat gas sales in Russia and growing exports to China were not enough to offset a big drop in shipments to Europe.

Gazprom's exports to Europe have declined because the company has cut off or reduced supplies to several countries and companies, and because European countries want to reduce their dependence on imports of Russian gas.

Over the weekend Gazprom said it had stopped gas supplies to Latvia, but the Baltic nation said the move would have little impact because it had already decided to halt imports of Russian gas at the end of this year.

Gazprom said its gas exports to China via the Power of Siberia pipeline rose by around 60% in the first seven months of this year, versus the same period of 2021. However, it did not quantify its exports to China via Power of Siberia which started in December of 2019 and have been ramping up as planned since then.

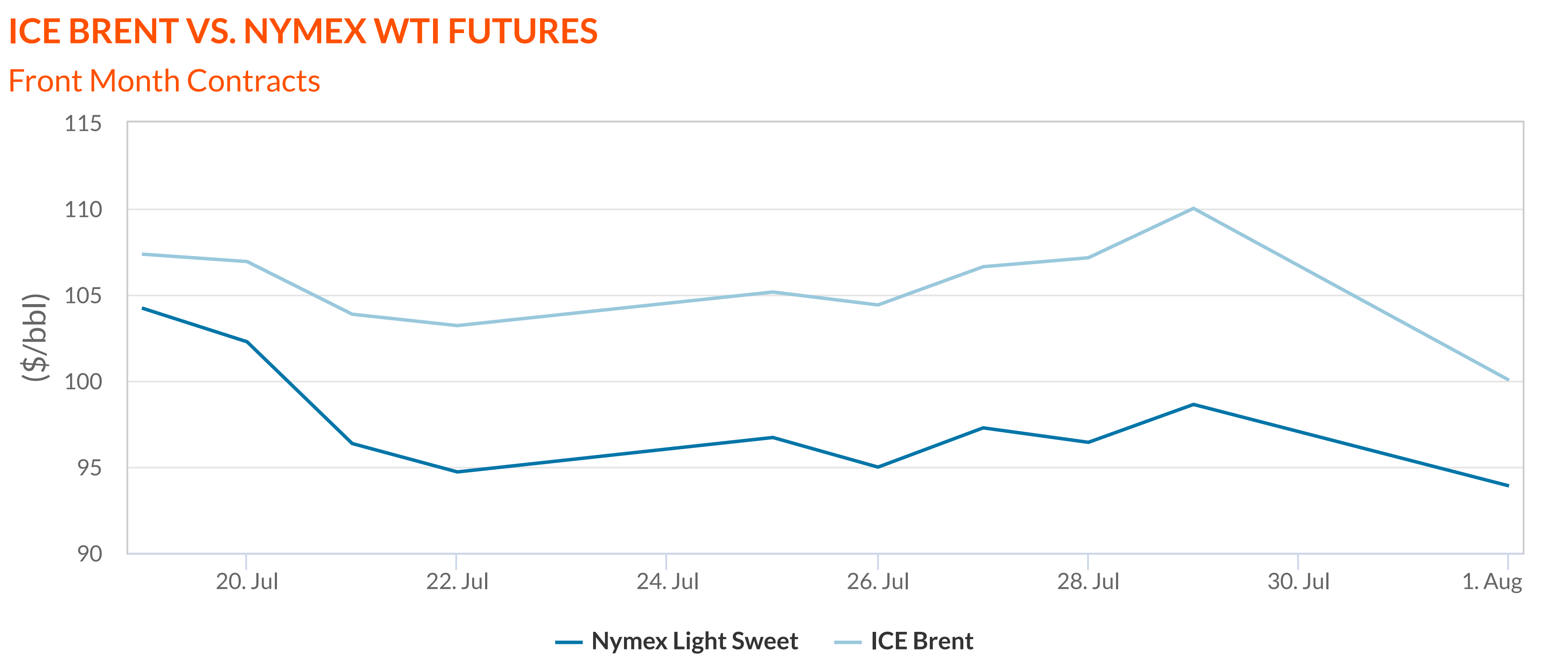
Staff Reports

Oil Sinks, Gasoline Below $3

Oil futures sagged on Monday, with gasoline selling off almost 3.7% and global benchmark Brent dipping below $100 at times amid indications of a slowing economy.

In London, Brent crude for October delivery settled $3.94 lower at $100.03 per barrel.

In New York, September West Texas Intermediate (WTI) on Nymex sank $4.93 to close at $93.89/bbl, while the October contract lost $4.36 to end the session at $92.39/bbl.



Both benchmarks broke below key support levels.

September Nymex gasoline swooned 11.51¢, closing at $2.9981 per gallon, while the diesel contract settled 10.9¢ lower at $3.44/gallon.

The forward curve for both Brent and WTI remains in backwardation, with front-month contracts trading at a premium to later-dated volumes. This structure typically signals a market short on oil and incentivizes immediate sales. However, time spreads have narrowed considerably since the start of the summer.

The US is now technically in a recession, several analysts noted, and this development alongside recent data on consumption has increased concerns about the near-term future of demand.

Gasoline Demand Softening

The US Energy Information Administration's monthly report showed that May gasoline demand "has declined from last year's levels. The weekly statistics showed a 7% year-on-year decline in gasoline demand over the last four weeks," noted Andy Lipow of Lipow Oil Associates, adding that he expects consumption to continue sliding.

"The consumer is faced with rising costs across the board from fuel to food to rent and utilities and nearly everything else." However, refiners have said during recent earnings calls that demand remains stubborn and that a dip early in the summer has dissipated.

Macro Outlook

Actions by central banks to address inflation could also impede demand, according to brokers PVM. The US Federal Reserve recently hiked interest rates by 75 basis points.

"Further hikes, up to 3.5%, are anticipated this year as this is the level where the Fed believes that the economy neither overheats nor suffers. Monetary policy will become more restrictive," said PVM Oil's Tamas Varga.

Raising interest rates makes borrowing more expensive and also tends to strengthen the dollar. Analysts say a strong greenback tends to be bearish for oil demand, as it makes the dollar-denoted commodity more expensive. Some market watchers also noted that Purchasing Managers' Index data in the US was less than encouraging, with a flash reading of the service sector at a 26-month low in July, and the manufacturing reading for July also showing contraction.

Frans Koster, New York

IN BRIEF

Aramco to Buy Lubricants Business

Saudi Aramco has agreed to buy the lubricants and chemicals business of US-listed Valvoline for $2.65 billion in cash as the oil giant seeks to add further value to its growing downstream portfolio.

Aramco will acquire Valvoline Global Products (VGP), an independent producer and distributor of branded automotive, commercial and industrial lubricants, as well as automotive chemicals. Valvoline will retain its retail business.

The deal is expected to be completed by Apr. 30 of next year.

Aramco said it will benefit from VGP's manufacturing and distribution network, research and development capabilities, partnerships with major original equipment manufacturers, and brand recognition dating back over 150 years. "The strategic acquisition will complement Aramco's line of premium branded lubricant products, optimize its global base oils production capabilities, and expand Aramco's own R&D activities and partnerships," the Saudi company said.

VGP sells most of its lubricants and chemicals in North America but also has some overseas sales. Analysts say the acquisition will boost Aramco's base oil business by harnessing the power of the globally recognized Valvoline brand.

Oliver Klaus, Dubai

India's Fuel Sales Dip in July

India's demand for refined petroleum fuels weakened in July as heavy monsoon rains hit road transport and construction activity.

Sales are likely to pick up again from August because rains are likely to be more in line with seasonal averages, with rainfall tapering off in September.

Sales of diesel fuel sales fell by 15.9% from June to 1.6 million b/d in July, while sales of gasoline declined by 8% to 763,000 b/d, according to preliminary sales data from state-owned refiners, which command 90% of India's retail fuel market.

India's economy runs on diesel, which accounts for about 38% of total demand for refined products. In addition to powering trucks and buses, it is also used to run the pumps that irrigate farmers' fields.

The Meteorological Department said India's July rainfall was about 17% higher than the long-term average for that month. But the rains in August and September are expected to be fairly average.

That will likely lead to good crop yields, which should have a beneficial impact on India's agriculture-dependent economy, boosting demand for everything from vehicles to electronic devices and oil.

India Refined Product Sales of State Firms

('000 b/d)	Jul '22	Jun '22	M-o-M %Chg	Jul '21	Y-o-Y %Chg
Gasoline	763	829	-8.0%	680	12.2%
Diesel	1,577	1,876	-15.9	1,339	17.8
Jet Fuel	139	146	-4.8	78	78.0
LPG	923	877	5.2%	886	4.2%

Source: State oil refiners, Energy Intelligence calculations

Rakesh Sharma, New Delhi

Baker Hughes Greenlights Sale of Russia Business

Oil-field services player Baker Hughes has moved to divest its moribund Russian unit by greenlighting the sale of the business to the company's local management team.

Baker Hughes said Monday the company's Russia unit would be run independently and operate under a different brand name. The new outfit would also assume all of Baker Hughes' assets, liabilities and commercial obligations, severing the services giant's ties to Russia when the deal closes in the second half of 2022.

The sale follows Baker Hughes' $365 million write-down on its second quarter activities in Russia, which were suspended due to the conflict in Ukraine and subsequent sanctions levied by the US and Europe.

At the same time, the company also wrote off another $426 million in non-operational losses related to Baker Hughes' Russian business. Baker Hughes was also required to keep the unit running, costing the company about $25 million-$30 million per quarter.

The planned divestiture could make Baker Hughes the first of the big services firms to officially cut ties with Russia completely as rivals Halliburton and Schlumberger have yet to finalize or clarify their positions.

According to researchers at Yale School of Management keeping track of corporate activity in Russia since its invasion of Ukraine, Schlumberger is listed as "buying time" while Halliburton, which has said it was working on winding down operations there, has been categorized as "scaling back" operations. So far over 1,000 companies of all types have curtailed operations in Russia beyond the legal minimum required by international sanctions.

Jeffrey Cavanaugh, New Orleans

Russia Adopts Naval Doctrine

Russia plans to increase its exploitation of oil and gas resources on its continental shelf, in the Arctic region and in the Caspian Sea under a new naval doctrine signed by President Vladimir Putin on Sunday.

The development of the country's Arctic resources and the Northern Sea Route are strategic priorities for Russia. But the plans also call for the creation of a modern oil and gas production complex in the Caspian Sea, expansion of exploration and LNG development in Russia's Far East, and construction of subsea pipelines.

Lukoil has discovered 11 fields in the Russian sector of the Caspian Sea with initial estimated recoverable reserves amounting to 113.2 billion boe. It produced 147,000 b/d from the two fields in the region in 2021 and plans to add a further 22,000 boe/d following the launch of the Grayfer field next year.

Russia currently has only one LNG plant in the Far East — part of the Sakhalin-2 offshore project — and it has no large-scale liquefaction technology of its own.

The document identifies the US naval presence around the world and Nato's expansion to Russia's borders as threats to national security and development. It also states that Russia intends to defend its interests as a global naval power.

Staff Reports

DATA SNAPSHOT

Oil and Gas Prices, Aug 1, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-9.98	100.03	97.95
Nymex Light Sweet	-4.73	93.89	92.39
DME Oman	-5.91	99.05	95.55
ICE Murban	-8.17	100.51	97.36

INTERNATIONAL SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	-5.41	106.09	111.50
Dubai	-5.74	101.50	107.24
Forties	-6.27	109.29	115.56
Bonny Light	-7.02	114.49	121.51
Urals	-6.27	76.54	82.81
Opec Basket*			110.90

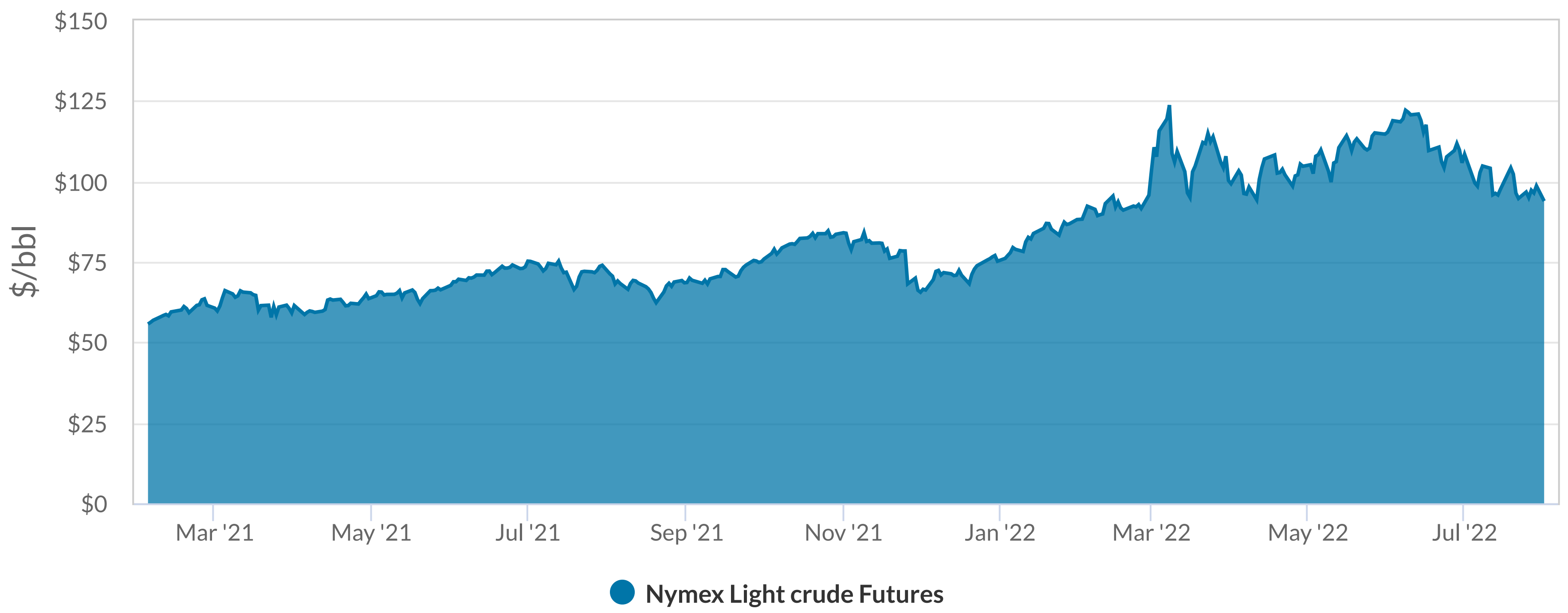
*Opec price assessed.

NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-4.72	96.59	101.31
WTS (Midland)	-1.92	98.14	100.06
LLS	-4.62	99.59	104.21
Mars	-4.07	96.24	100.31
Bakken	-4.72	100.34	105.06

ICE BRENT CRUDE FUTURES

NYMEX LIGHT CRUDE FUTURES

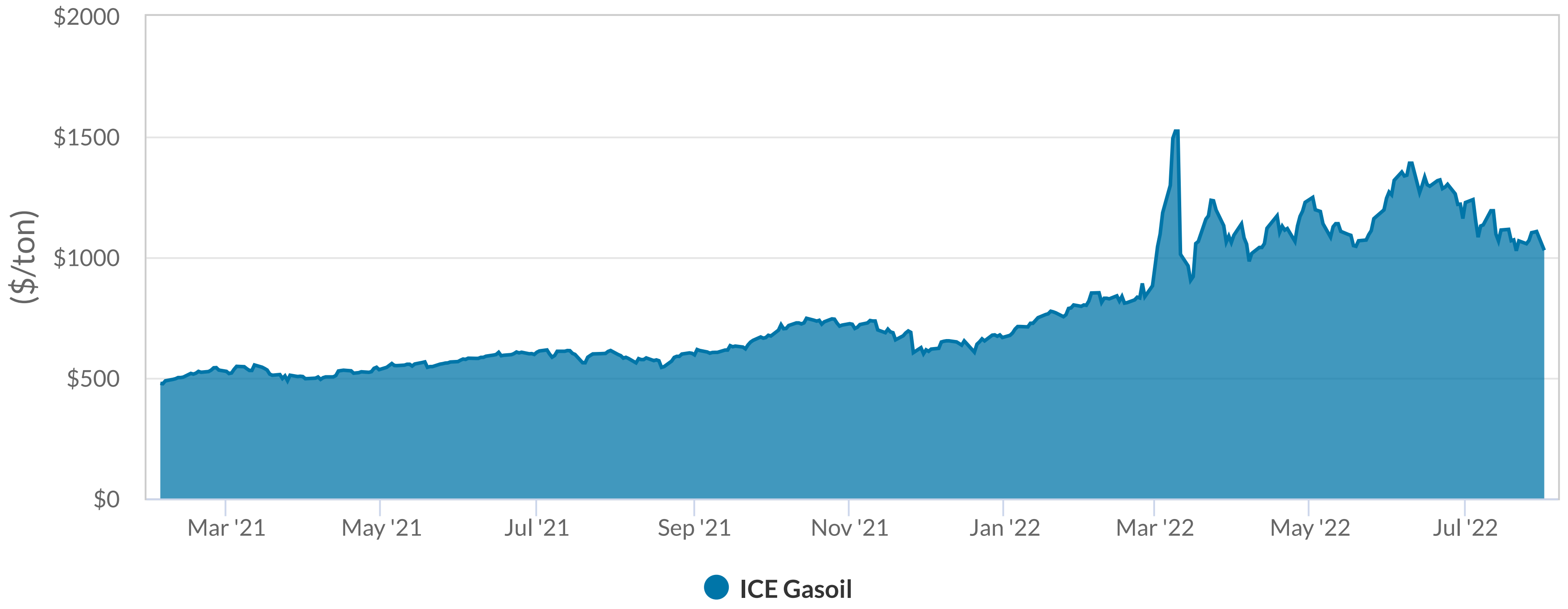


Energy Intelligence

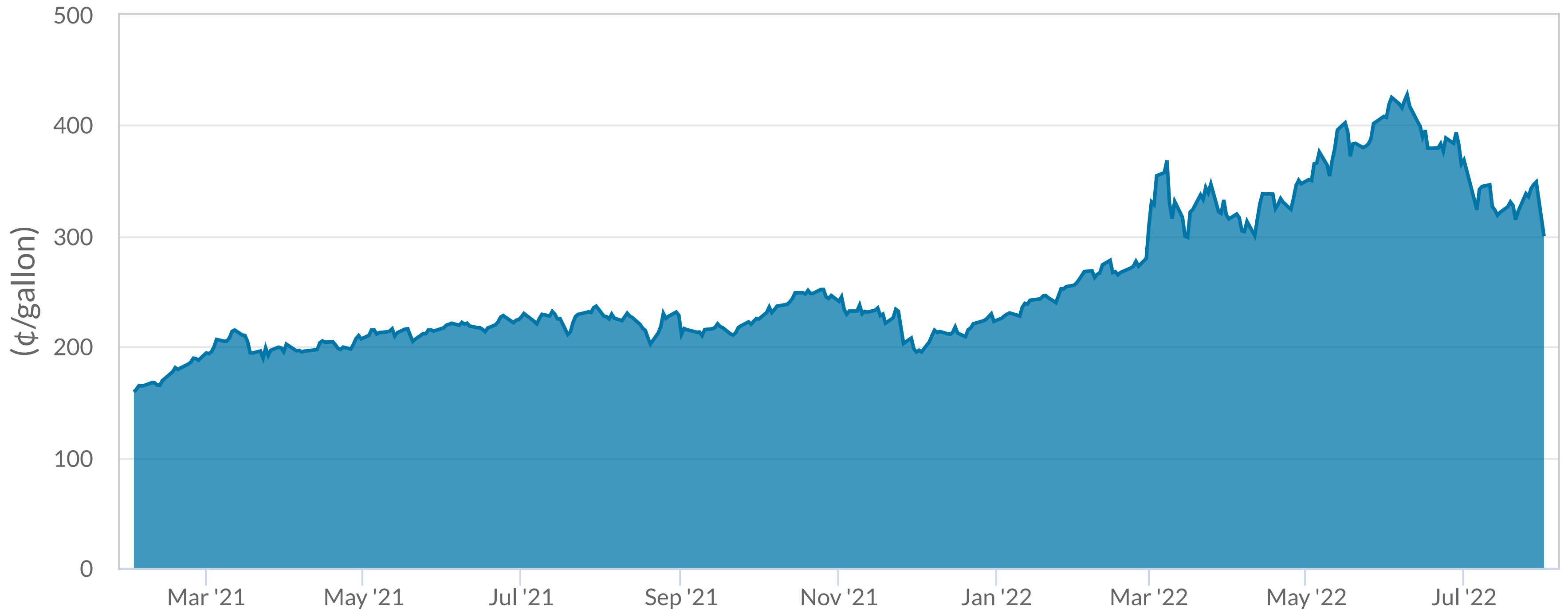
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-49.00	299.81	274.30
ULSD Diesel (¢/gal)	-18.47	344.00	339.09
ICE			
Gasoil ($/ton)	-78.00	1028.50	1013.50
Gasoil (¢/gal)	-24.89	328.26	323.47

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

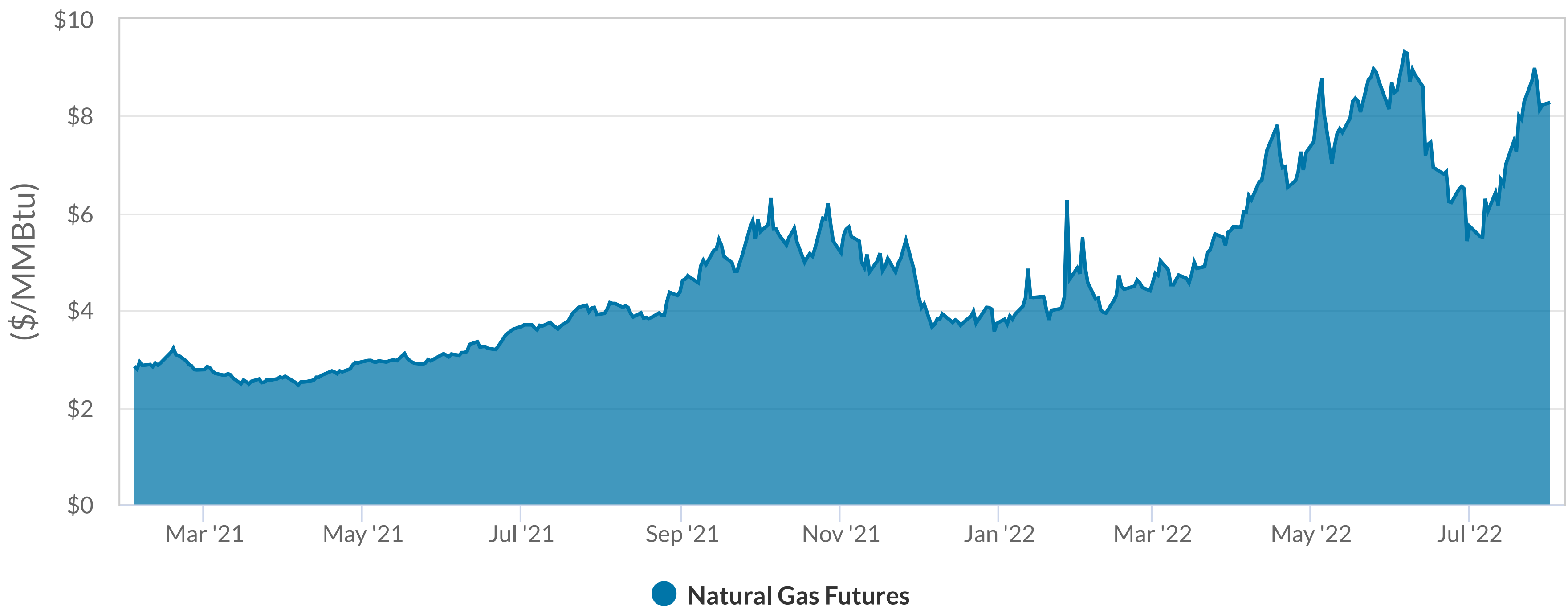
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-1.84	337.29	339.13
No.2 Heating Oil	-8.96	342.72	351.68
No.2 ULSD Diesel	-9.71	350.97	360.68
No.6 Oil 0.3% *			108.87
No.6 Oil 1% *			96.12
No.6 Oil 3% *			94.97
Gulf Coast (¢/gal)			
Regular Gasoline	-41.09	286.04	327.13
No.2 ULSD Diesel	-18.21	339.97	358.18
No.6 Oil 0.7% *			104.52
No.6 Oil 1% *			104.52
No.6 Oil 3% *			89.32

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	-57.00	1008.50	1065.50
ULSD Diesel	-43.00	1040.50	1083.50
Singapore ($/bbl)			
Gasoil	-5.66	130.36	136.02
Jet/Kerosene	-4.67	130.90	135.57
VLSFO Fuel Oil ($/ton)	-8.31	793.93	802.24
HSFO Fuel Oil 180 ($/ton)	+6.56	519.04	512.48

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.05	8.28
Henry Hub, Spot	-0.17	8.16
Transco Zone 6 - NY	-0.30	7.54
Chicago Citygate	-0.30	7.71
Rockies (Opal)	-0.42	7.56
Southern Calif. Citygate	-0.26	8.96
AECO Hub (Canada)	-0.47	4.32
Dutch TTF (euro/MWh)	+5.25	197.00
UK NBP Spot (p/th)	+14.00	278.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Aug. 1, 2022

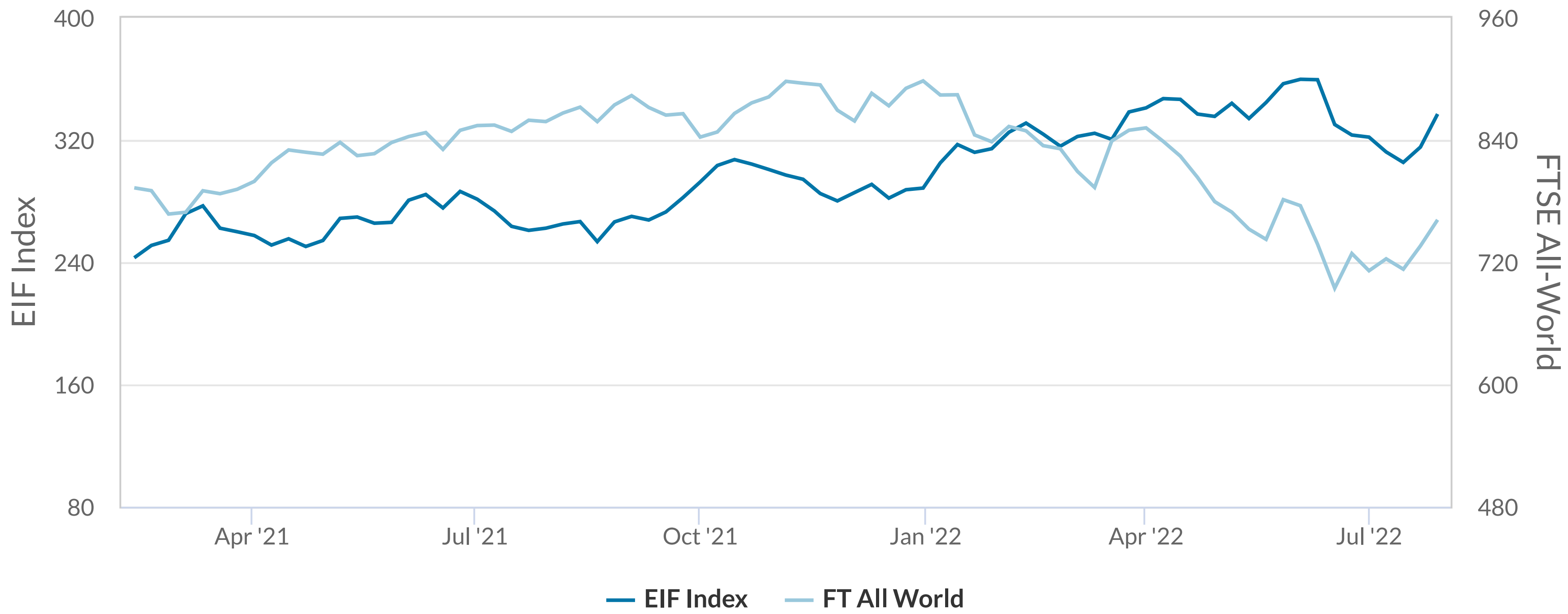
All data are produced by Energy Intelligence in cooperation with Refinitiv.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+11.69	336.98	+16.80
S&P 500	-11.66	4,118.63	-14.07
FTSE All-World*	+9.63	761.63	-15.49

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities