Energy Intelligence

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OIL DAILY®

CONTENTS

In Brief

Data Snapshot

Has the US SPR Become a Market Management Tool?

The US this week confirmed plans to sell a further 15 million barrels of oil from its Strategic Petroleum Reserve (SPR) through the end of December, completing the 180 million bbl sale authorized by US President Joe Biden in March.

Expectations of a further big release of strategic stocks helped knock down oil prices on Tuesday — but they recovered again on Wednesday when the news proved to be a repackaging of already announced sales. More releases could be coming, but a decision on a January release will not come for another month and will depend on market conditions.

But in a significant development, the Biden administration did introduce a price component to its SPR strategy this week, with assurances to fill the reserve when US crude drops to about $70 per barrel. This effectively shows that the US, frustrated with Opec-plus oil policy, is turning the SPR into a market management tool rather than just a reserve to offset supply disruptions.

Here, Energy Intelligence answers key questions about this week's SPR developments:

How long can the US continue to sell oil from the SPR? Aren't volumes getting dangerously low?

The SPR still has about 400 million bbl of crude in its storage caverns in Texas and Louisiana. That is not dangerously low, for now, despite various such claims. But the US Congress has also already separately committed to selling close to 300 million bbl through 2031. If those volumes don't change, the SPR would be down to 100 million bbl in a decade.

That would still be above the level that the US needs under international guidelines. The US SPR is part of a global supply security system under the umbrella of the International Energy Agency (IEA), which tells large consuming countries to hold at least 90 days of net imports in tanks to protect against supply disruptions.

Back in 2005, US net oil imports peaked at 12.5 million b/d — and the US was considering building out the SPR beyond its 700 million bbl capacity. Now, thanks to the surge in domestic shale crude and natural gas liquid (NGL) production, the US is a net exporter of liquids at around 1 million b/d.

Under the IEA rules, the US could draw down to a fraction of its current volume. Some oil analysts argue that holding onto some reserves shields the US from potential supply disruptions, however, since it still imports around 6 million b/d of crude and 2 million b/d of products despite being a net exporter.

But what happens when there is a real supply emergency such as a major outage? The EU embargo of Russian oil is coming up, after all.

Under a supply disruption, the traditional first response would be for Opec-plus producers like Saudi Arabia to activate spare capacity to balance the market. But Opec-plus has been slow to unleash additional oil since the Ukraine crisis began, disputing whether there was a real shortage in the market.

While the reasons for this are complex, it may reflect different perceptions of a balanced market and a fair price for oil. The US seems to be targeting $70/bbl. Opec-plus insists that it is not targeting any specific price, but many analysts believe it would like $90-plus.

The Biden administration's decision in March to release a historically large 180 million bbl was not a reaction to a supply shortage — it was expected that Russian volumes would collapse after its invasion of Ukraine began in February, but they didn't. Rather, the US' SPR release seemed intended to fight higher prices.

A few European and Asian allies joined the US release with significant volumes because they still use their reserves as a tool for disruptions. If there is a major supply disruption from Russia — if Moscow suddenly halts exports, for example, or if Europe's insurance and shipping restrictions have a major impact — IEA countries could band together and mobilize more of their remaining 1.247 billion bbl in strategic stocks, comprised of 954 million bbl in crude and 293 million bbl in refined products.

Opec-plus has also indicated that it could be flexible with its recently announced production cut if a real supply shortage develops.

Is the SPR supposed to be used to lower prices? Isn't it being used as a political tool?

Under Biden, the US has become much bolder about using its huge oil reserves. A decade ago, when Libyan supply dried up, the US instigated a large-for-the-time 60 million bbl release. The IEA was careful to coordinate the release with Opec and to stress it was not meant to manage the market. Ultimately 30 million bbl was released.

The caution shown a decade ago no longer applies. While the SPR is still a resource to deal with supply disruptions, the Biden administration has started actively using it for price management, effectively challenging Opec-plus' role as market manager.

In the current energy market, with tensions inflamed by geopolitics around the Ukraine war and a producer-consumer struggle over the energy transition, this has assumed a strong political dimension. With midterm elections approaching on Nov. 8, the White House wants to keep gasoline prices under control in the US. And with Russia benefiting from high oil and gas revenues this year, Washington also wants to cap prices to exert pressure on Moscow's ability to wage war in Ukraine.

Raising the stakes in this tussle for market control, the White House now says it will buy oil at around $70/bbl to refill the SPR. That helps establish a floor for US producers while potentially making the government an influential player in the oil market. Details of exactly how this buyback will work remain scarce, but this decision is intended to support US oil production over the coming years.

Isn't the SPR like Opec spare capacity — if it gets too low, using it can inflame rather than calm market sentiment?

Opec-plus spare production capacity is an important structural tool for exerting market leverage. SPR releases are not as powerful in this respect — they simply put out fires and temporarily protect consumers.

Having to use spare capacity or SPR oil means something has gone wrong in the world, which will put markets on edge anyway. When the cushions are fat, they help to calm sentiment, and when they are thin, they suggest the world is losing its ability to react to another mishap, which can inflame sentiment.

Right now, the US SPR is not so low that further releases would inflame market sentiment. The bigger issue may be that US intervention is irritating Opec-plus, and further releases could make the producer group less inclined to relax its production cuts if needed.

John van Schaik, New York

Market Disruptions Reinvigorate Jones Act Criticisms

The Jones Act has been a target of criticism by industry for years for adding needless distortions to trade flows. With the oil market facing its most significant disruptions in years, the clamor over the law has increased in volume.

Below, Energy Intelligence explains how the Jones Act is impacting current energy flows and how that may change.

What is the Jones Act?

The Jones Act is a law dating from 1920 governing maritime or riparian shipping between US ports. It mandates that all such shipping take place on vessels that are built in the US, owned by a US company and operated by a crew made up of US citizens and/or permanent residents.

How does the Jones Act affect the US oil market?

In limiting the vessels available to domestic shipping, the Jones Act tends to result in higher costs for moving oil between US ports on the water. That has two direct impacts: regions short of refining capacity such as the US Northeast tend to default to importing refined products from overseas rather than rely on Jones Act vessels, and regions long refining capacity are incentivized to export products rather than ship them via tanker to other domestic areas. The same applies for crude.

To wit, the US East Coast (Padd 1) consumed 5.9 million barrels per day of refined products in 2019, the last full year before the Covid-19 pandemic severely disrupted oil markets. Since Padd 1 only had 900,000 b/d in refining capacity at the time — and lost 330,000 b/d halfway through the year following an explosion at the Philadelphia Energy Solutions facility — and lacks crude pipeline connections to producing areas, it relies on flows from other parts of the country and the world.

In 2019, Padd 1 imported 1.8 million b/d of crude and products, the latter mostly from Europe. In contrast, tanker and barge deliveries from other US regions amounted to just 891,000 b/d.

The US Northeast is where both Nymex gasoline and diesel futures are priced, so local balances have a broader effect on the market.

How does the Jones Act fit into the current domestic situation?

US inventories are low, especially in regions that are import-dependent such as Padd 1, where stocks of gasoline and distillate fuel oils such as diesel are well below 5-year averages. Current US Padd 1 inventories of gasoline, distillates and jet fuel are just 88.7 million bbl, down from 103.9 million bbl this time last year and 108.2 million bbl in the same period of 2019, prior to the pandemic. In addition, the EIA is forecasting a slightly colder winter this year, which alongside thin stocks is likely to bolster prices substantially.

Those in favor of suspending the Jones Act argue that doing so would help refill those inventories and ease volatility.

"When inventories are this low, prices get stupid," one ship broker said. "But when they get into the 5-year range, they calm down." Suspending the Jones Act would "be a way to fix an imbalance we don't have the ability to fix" via other means.

What role does the Jones Act play on a global scale?

Broader circumstances mean importing enough products to fill tanks would be difficult, if not impossible. The global oil market is in extreme flux. From the recent and ongoing spate of downstream capacity rationalization to disruptions to traditional oil trade flows due to the EU's embargo and the G7's price cap on Russian petroleum, new variables have entered old equations.

One major concern facing the market is that there is simply not enough tanker capacity to accommodate the newly emerging trade patterns. Russian oil needs to travel longer distances, which seriously diminishes deliveries of petroleum.

Meanwhile, refineries in Europe — the main source of imports to the key Padd 1 market — are under significant strain. Not only must they account for the relatively abrupt absence of Russian crude and work to offset the loss of Russian products, which were structural flows, they are also facing sky-high natural gas prices, which add to operating costs. The fear is that Europe will be competing with other US regions for products produced in the US, and that the Jones Act's impacts on costs will incentivize exports.

Lifting the Jones Act would allow for less skewed competition between Europe and Padd 1 for products being produced along the US Gulf Coast, many market players argue, by removing an artificial distortion and alleviating costs for consumers.

What are some arguments in favor of maintaining the Jones Act?

Supporters of the Jones Act tend to be motivated by labor concerns rather than how the law impacts oil flows. The Jones Act helps support the domestic shipbuilding and shipping industry by preserving jobs in the sector. Support is particularly strong among unions and in areas with significant exposure to the broader merchant marine industry, such as Philadelphia.

Under what circumstances can the Jones Act be waived or suspended, and what is the likelihood of that happening?

In the past, waivers and suspensions of the Jones Act have typically occurred in the wake of natural disasters such as hurricanes that knock out supply. Waivers can also be sought on an individual basis — one was recently approved for an LNG tanker to deliver fuel to Puerto Rico.

But market players are deeply skeptical Washington will suspend the law now.

"A snowball in hell has a better chance than a suspension," the ship broker said.

Frans Koster, New York

Liberty Sees Supply Chain Slack, But Challenges Remain

Supply chain woes in the US shale sector are easing a bit after a rough summer, but E&Ps shouldn't expect new capacity from oil-field services providers anytime soon, according to Liberty Energy.

"The labor challenges are definitely abating a little bit," Liberty CEO Chris Wright said during the company's third-quarter earnings presentation on Thursday. "The labor market today is still very tight. If you got rid of the last two years, possibly the toughest hiring market since we've started the company, but it was worse six months ago," he said.

During the July-September period, Liberty said it was able to deploy six pressure pumping crews that it obtained from its 2020 acquisition of Schlumberger's OneStim pressure-pumping division ahead of schedule.

Wright and CFO Michael Stock said that conditions had eased in several parts of the supply chain, but sourcing large equipment remained a challenge.

"Over-the-road trucking rates have come down. Some truckers have come back to the oil patch. We are seeing some relief there," said Stock, adding that the sand and logistics markets had improved as well. "The biggest struggle is heavy equipment and electronics parts — items we share with other parts of the economy."

No Relief In Sight

Wright warned that additional services capacity isn't going to come from reserve stockpiles.

"Bringing out additional fleets from legacy equipment, that's done," he said. "Our frack fleet count today is in the low 40s, and probably won't move much from there next year."

Wright said that equipment reserves across the sector were very low and that some services firms might see a degradation in their capabilities as a result.

"Legacy equipment, if not properly invested in, has these finite lifetimes, so we think the market stays tight unless we have a large drop in commodity prices," he concluded.

Third-Quarter Results

The tightness in the oil-field services market helped boost Liberty's revenues by 26% from April-June to hit $1.2 billion in the third quarter.

The company reported net income of $147 million for the period, with adjusted EBITDA of $277 million, a 41% increase from the second quarter.

Liberty repurchased 2.5% of its shares during the third quarter at $14.89 per share and reinstated a quarterly cash dividend of 5¢/share.

Jeffrey Cavanaugh, New Orleans

Oil Futures Flatten as Market Goalposts Solidify

Oil futures ended the session little changed on Thursday, taking a pause from the market's recent volatility.

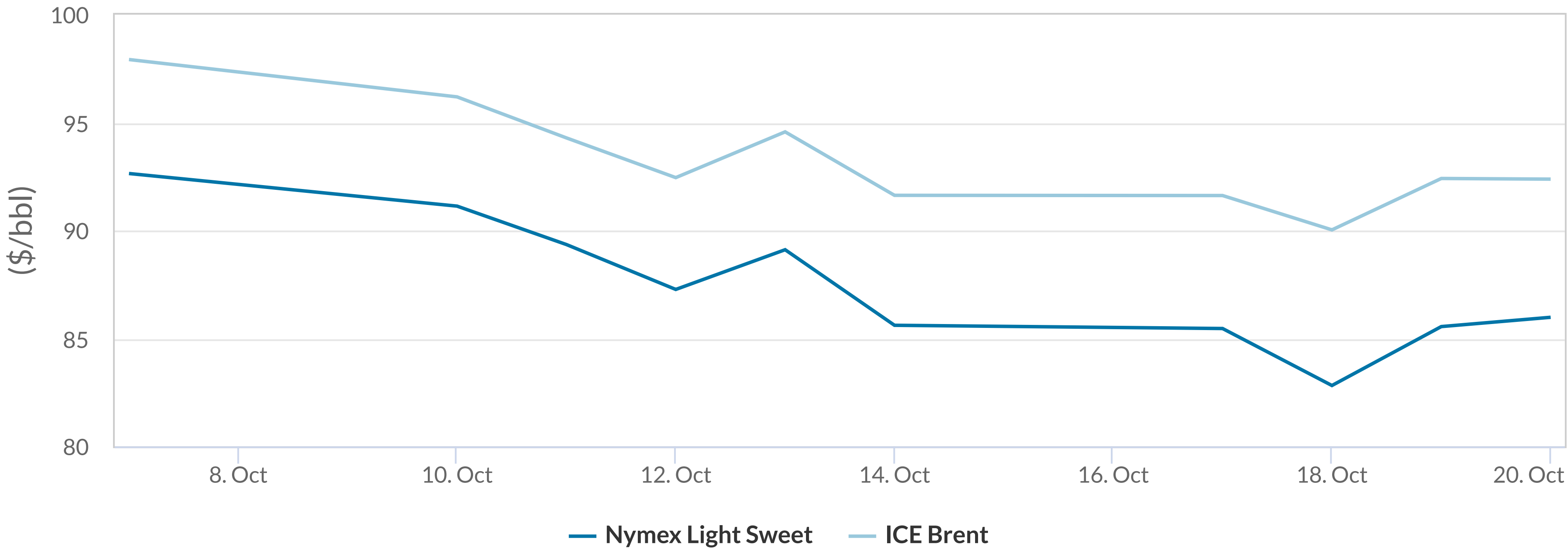
In London, Brent crude for December delivery settled 3¢ lower at $92.38 per barrel.

In New York, November West Texas Intermediate (WTI) expired 43¢ higher at $85.98/bbl, while the more heavily traded December contract lost a penny to end the session at $84.51/bbl.

Oil prices have been running back and forth in a no-man's-land for weeks, stuck in a $20 gap between what consumers and producers have identified as acceptable floors.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



Following months of downward momentum, Opec and its allies stepped into the elevator and slammed the "up" button in early October with a headline production cut of 2 million barrels per day. The bloc seems to be looking at keeping global benchmark Brent crude above the $90/bbl mark.

Initially, oil prices rose in the wake of the cut, but that momentum proved difficult to maintain due to significant macroeconomic headwinds as well as experts' view that Opec and its allies are unlikely to be able to cut that much supply. The bloc is already underproducing by a significant amount, leading some say the actual cuts will likely amount to only 1 million b/d or so.

Earlier this week, the Biden administration clarified where consumers think the price should be. While announcing the release of 15 million bbl of crude from the US Strategic Petroleum Reserve (SPR) — a sale that completes the 180 million bbl release announced in the wake of Russia's invasion of Ukraine — the government also pegged buyback prices at $67-$72/bbl. Oil prices climbed in the aftermath of the announcement, in part because no new releases were announced, but the fact remains that the administration has drawn a line in the sand.

The $70/bbl mark is below US benchmark West Texas Intermediate (WTI)'s forward curve through 2023. However, the proposed price band also fits with the hedging patterns of US shale producers. When WTI breeches that level, upstream players are less likely to sell future production via financial instruments such as futures and prefer to increase exposure to the spot market.

Whatever Opec-plus or the US would like to see, the market is navigating choppy waters. Oil is in extreme flux, facing myriad variables that have sent volatility soaring. Sticking solely to oil itself, these include the EU's embargo on Russian crude and products and the resulting rearrangement of trade flows; the G7's price cap on Russian petroleum; a potential dearth of tanker capacity needed to accommodate both of those developments; the recent rationalization of downstream capacity in North America and Europe; and low inventories, a hangover from the still ongoing Covid-19 pandemic.

More broadly, fears of recession, high inflation and interest rate increases are all weighing on demand. Major forecasters have slashed their consumption projections even as supply concerns come into focus amid the Opec cuts and slowing US production.

Frans Koster, New York

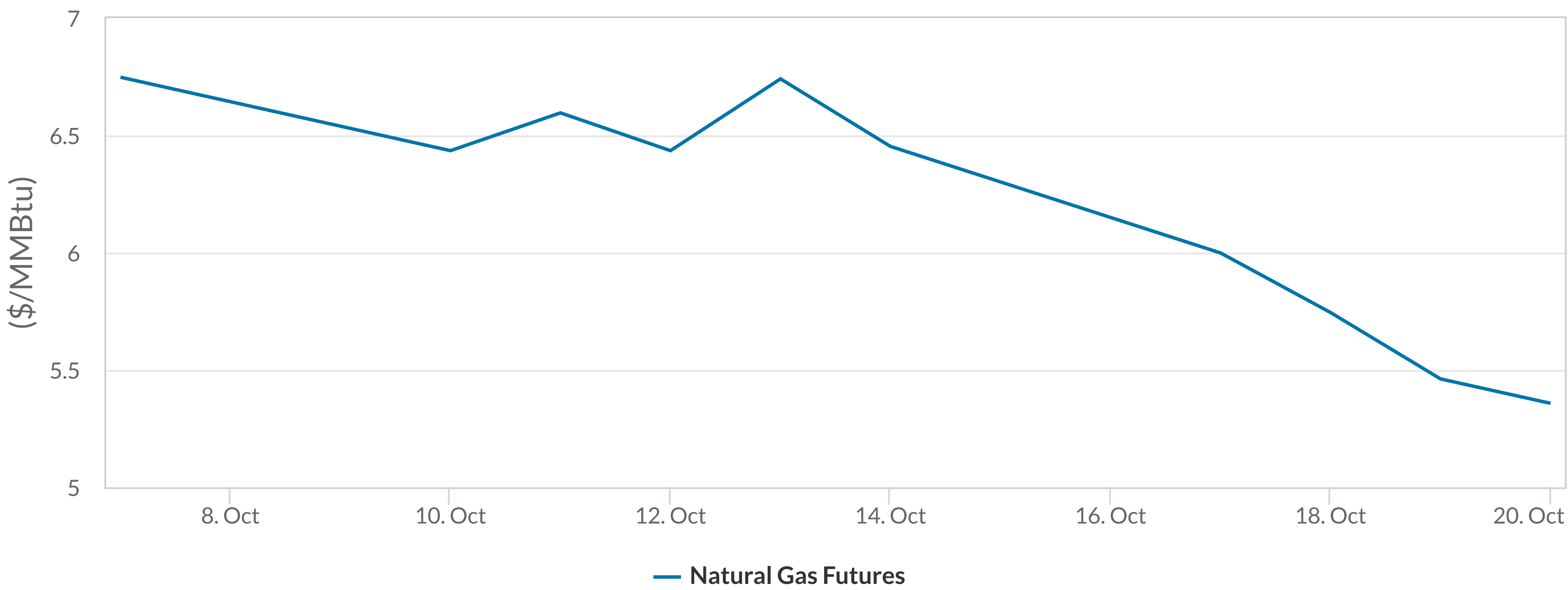
IN BRIEF

US Natgas Storage Builds Pushes Prices Lower

The US Energy Information Administration (EIA) reported a 111 Bcf build for the week ended Oct. 14, bringing the volume of working natural gas in storage to 3,342 Bcf.

The bearish build only reinforced the steep slide for US natural gas futures, which have fallen by $1.383 over five consecutive sessions. November gas futures lost an additional 10.4¢ on Thursday to close at $5.358/MMBtu, a low last seen in late March as concerns over adequate winter inventories began to take hold. That bullish narrative, which drove prices to almost $10/MMBtu before the surge was cut short by the loss of Freeport LNG demand in early June, has been undermined by record domestic gas production of around 100 Bcf/d and warm early-winter forecasts.

NYMEX NATURAL GAS FUTURES



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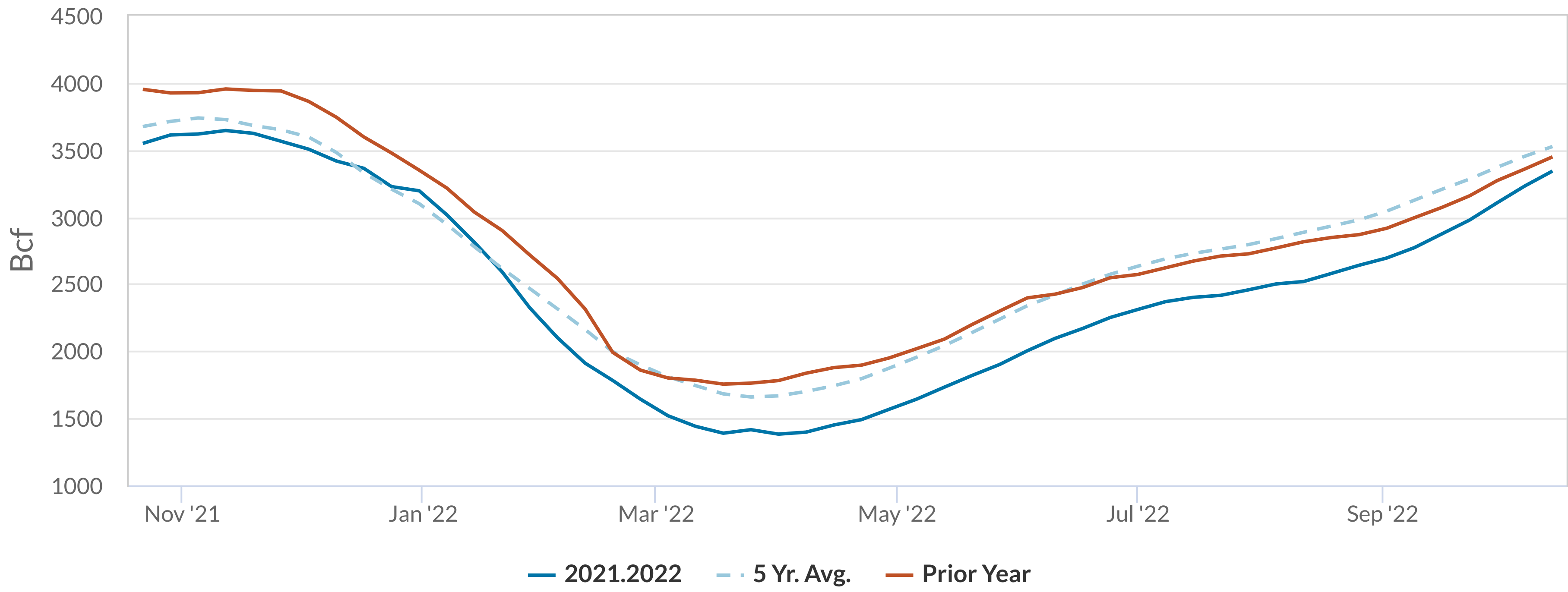
US NATURAL GAS STORAGE



Source: US Energy Information Administration Lower 48 Working Underground Storage

WORKING GAS IN STORAGE

(Bcf)	Oct 14	Oct 7	2021
East	812	782	858
Midwest	987	952	1,023
Mountain	195	190	211
Pacific	249	249	253
South Central	1,099	1,058	1,104
Total	**3,342**	**3,231**	**3,448**

Source: US Energy Information Administration

The EIA storage data was the latest — and could be the last — of a five-week string of triple-digit US inventory builds that have added 571 Bcf to net inventories and halved the deficit to the five-year average, which now stands at 183 Bcf, or 5.2%. Next week's data will not be as robust due to the intense cold snap that enveloped the eastern US this week; however, heating demand will not be sustained enough to blunt a continued rise in inventories toward 3.5 Tcf, if not higher, by the time withdrawals start in mid-November, sources say.

Tom Haywood, Houston

Exxon Sells Montana Refinery to Par Pacific

Exxon Mobil on Thursday agreed to sell its refinery in Billings, Montana and related pipeline properties to Par Pacific Holdings for $310 million.

The sale ends a years-long effort by the US oil giant to further reduce its refining footprint and concentrate production on plants along the US Gulf Coast and in the Midwest. It also has been selling oil producing properties to boost returns.

"Exxon Mobil is focused on investing in facilities where we can manufacture higher-value products such as lubricants and chemicals," said Karen McKee, the head of the oil company's product solutions unit.

The deal for the 63,000 b/d refinery is expected to close in the second quarter of 2023, Exxon said in a statement.

Par Pacific was one of several independent refiners eying the plant and looking to invest some of this year's record refining profits to expand its assets, according to people familiar with the matter.

Profit margins for processing crude into gasoline, diesel and jet fuel hit five-year highs in the US earlier this year, helping boost the facility's appeal.

Included in the sale are the Silvertip Pipeline, Exxon's interest in the Yellowstone Pipeline, and Yellowstone Energy and its interests in products terminals in Montana and Washington.

Under the deal, Par Pacific will continue supplying fuel to Exxon and Mobil-branded stations in the region. (Reuters)

Mexico Muddies Oil Hedge Details

Mexico has been requesting prices for its oil hedging program year-round to make it harder for banks and oil majors, which sit on the other side of the megadeal, to hike prices, said Mexican Deputy Finance Minister Gabriel Yorio.

The world's largest financial oil deal, the program known as the "Hacienda Hedge" is designed to protect the oil revenues of Latin America's second-largest economy against price crashes on the world market.

In previous years, Mexico has spent more than $1 billion on the program.

"It is being reviewed constantly, we are seeking quotes constantly. Our goal is to cover and protect the budget," Yorio told Reuters at the Presidential Palace late Wednesday.

The new strategy muddies the waters so "you can't know if we are seeking quotes or buying ... we are getting quotes on a recurring basis precisely so that counterparties can't read us," he added.

In recent years, Mexico has started to dramatically restrict the amount of information it discloses about the secretive deal.

It classified previously public details, including the overall cost, the strike price for the put options and the amount set aside from the oil revenues stabilization fund that contributes to the overall protection.

Mexico also no longer discloses the names of counterparties, which have long been big Wall Street banks and oil majors.

The finance ministry said in January 2021 that Mexico received a 2020 payout from the oil hedging program of $2.38 billion, compensating for some 80% in lost oil revenues after the coronavirus pandemic sent crude prices tumbling. (Reuters)

TES to Expand Into North America

Belgium-based clean hydrogen company Tree Energy Solutions (TES) is expanding into North America on the heels of the passage of the landmark Inflation Reduction Act (IRA).

TES said the strategic move "aligns with the introduction of the IRA, which provides financial incentives to businesses that improve energy efficiency, cut down on carbon emissions and develop new forms of energy."

The company has hired Cynthia Walker to lead TES's Americas office in Houston. Walker, who most recently served as Occidental Petroleum's senior vice president of midstream and marketing, will also serve as the larger company's chief strategy officer.

CEO Marco Alvera said Walker has expertise in "execution, finance and development" and her experience and skills "will fit in perfectly with TES's game-changing mission to create a net-zero future."

TES's expansion will target markets in the US and Canada and highlights the region's growing competitiveness in the emerging "green" hydrogen sector, which could see a boom as the benefits of the IRA start to take effect.

The company aims to "deliver affordable green energy as a cost-effective alternative to fossil fuels," with a business model that combines hydrogen with recycled CO_2 "to create an efficient, circular, closed net-zero energy loop."

Energy Intelligence's vice chairman, Marcel van Poecke, is an executive co-chair at TES.

Luke Johnson, Houston

Correction: Chevron Adds Early-Stage CCS Scheme to USGC Queue

The original version of this story, published on Oct. 19, mistakenly reported that Occidental Petroleum had already broken ground on its initial commercial-scale plant in the Permian Basin. In fact, the company plans to break ground on the facility in November.

DATA SNAPSHOT

Oil and Gas Prices, Oct. 20, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-0.03	92.38	90.45
Nymex Light Sweet	+0.43	85.98	84.51
DME Oman	-0.02	88.85	87.65
ICE Murban	+1.36	92.34	89.99

INTERNATIONAL SPOT CRUDES

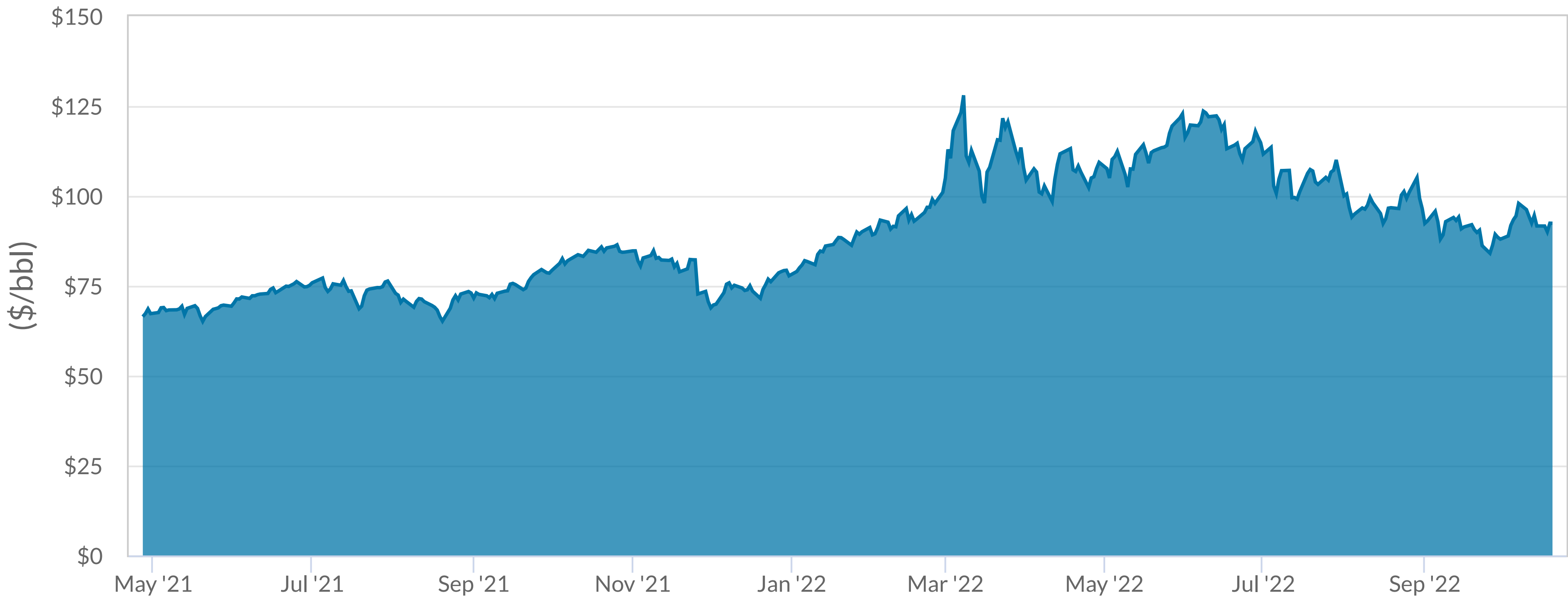
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+0.19	91.52	91.33
Dubai	+4.10	89.85	85.75
Forties	+2.88	92.62	89.74
Bonny Light	+2.83	95.42	92.59
Urals	+3.08	74.17	71.09
Opec Basket*			89.29

*Opec price assessed.

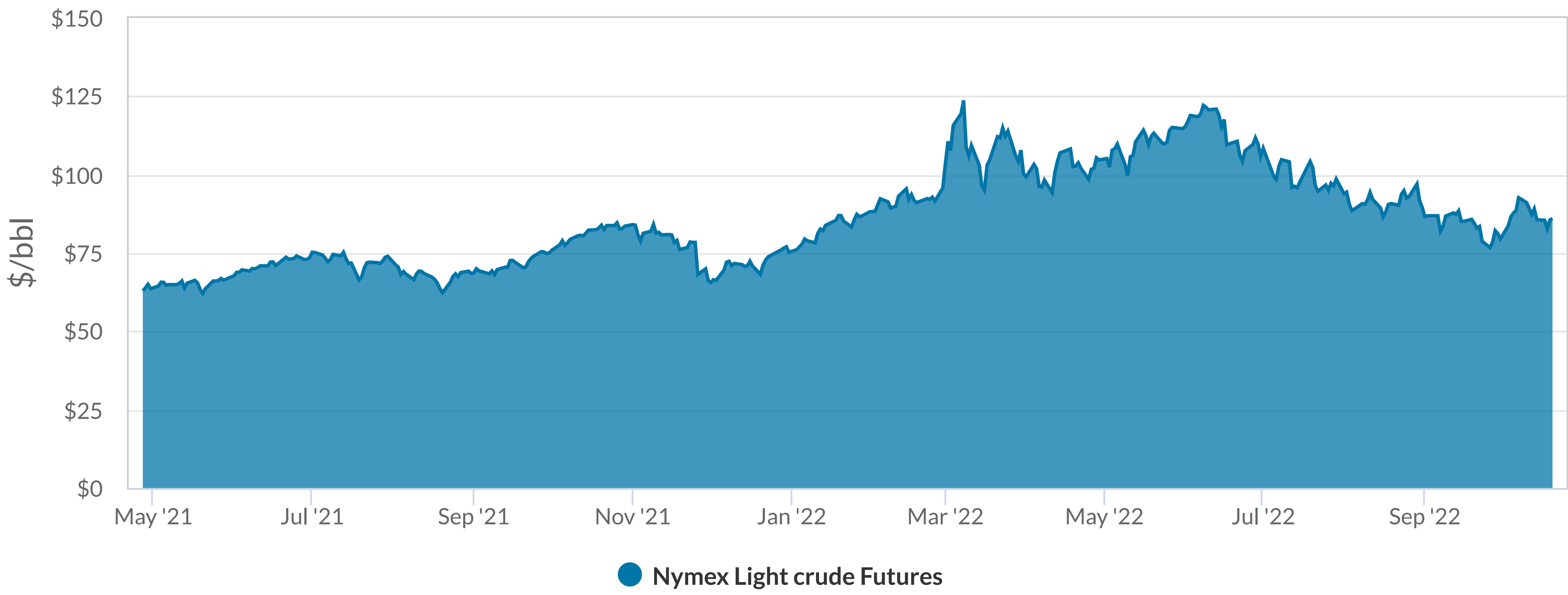
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	+0.02	86.02	86.00
WTS (Midland)	+0.02	84.17	84.15
LLS	-0.23	89.27	89.50
Mars	-1.98	80.52	82.50
Bakken	+0.02	90.82	90.80

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES



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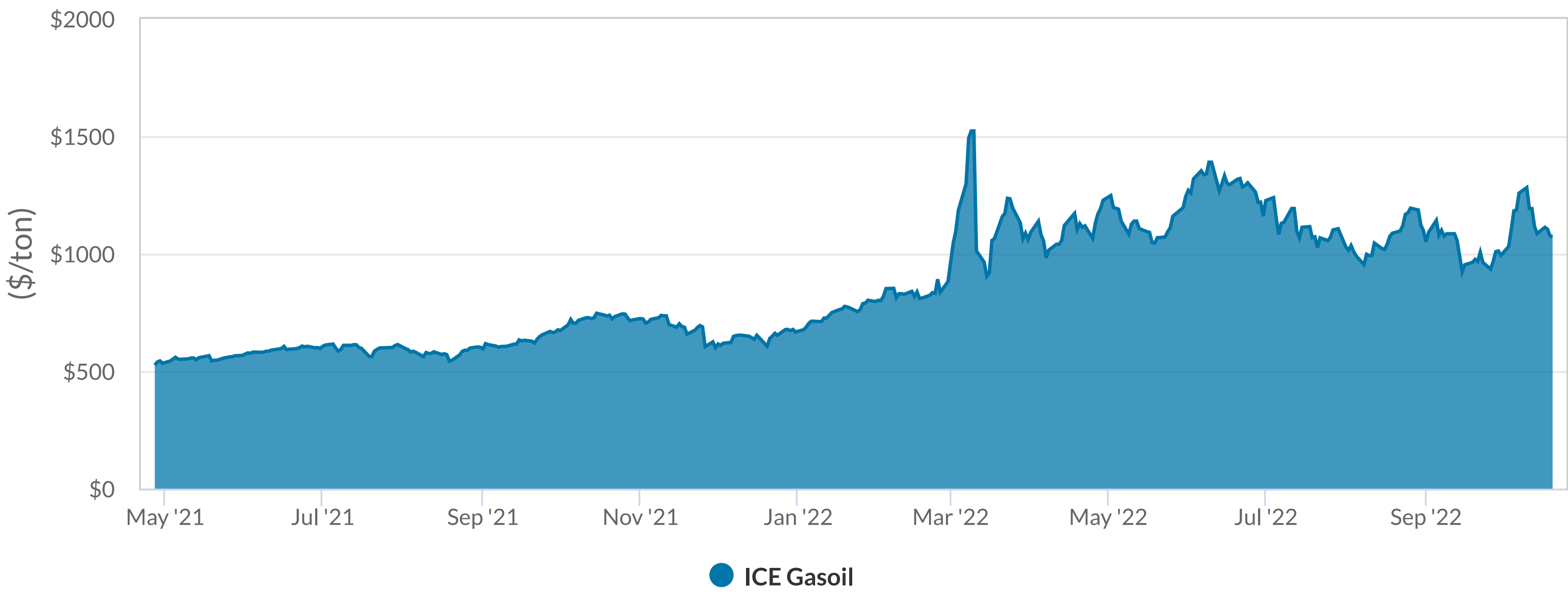
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-0.44	264.78	246.61
ULSD Diesel (¢/gal)	-14.75	375.68	348.38
ICE			
Gasoil ($/ton)	-2.00	1073.25	1002.75
Gasoil (¢/gal)	-0.64	342.54	320.04

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES

US SPOT REFINED PRODUCTS

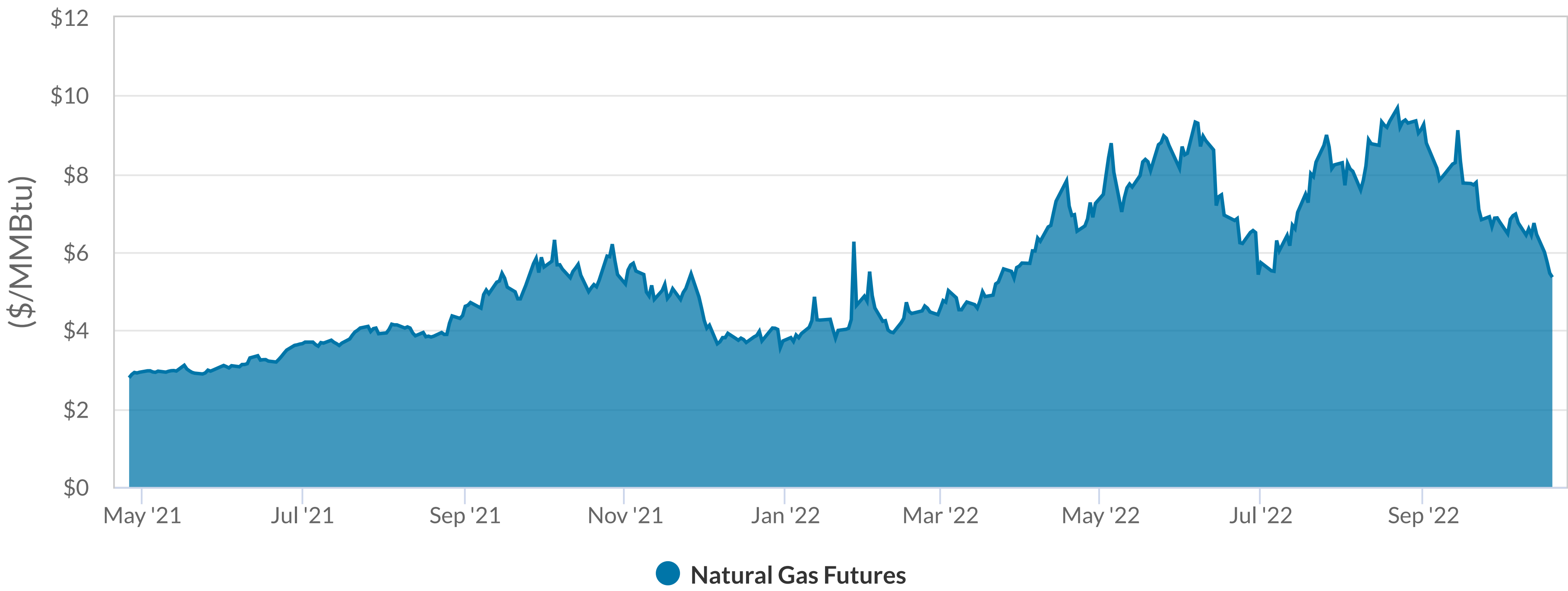
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	+0.11	295.57	295.46
No.2 Heating Oil	-25.00	415.23	440.23
No.2 ULSD Diesel	+25.50	428.23	402.73
No.6 Oil 0.3% *			93.91
No.6 Oil 1% *			82.66
No.6 Oil 3% *			58.41
Gulf Coast (¢/gal)			
Regular Gasoline	-4.89	267.07	271.96
No.2 ULSD Diesel	-18.00	358.73	376.73
No.6 Oil 0.7% *			77.61
No.6 Oil 1% *			77.61
No.6 Oil 3% *			51.36

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+11.00	906.50	895.50
ULSD Diesel	-11.75	1207.25	1219.00
Singapore ($/bbl)			
Gasoil			124.35
Jet/Kerosene			121.50
VLSFO Fuel Oil ($/ton)			664.88
HSFO Fuel Oil 180 ($/ton)			381.28

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	-0.10	5.36
Henry Hub, Spot	-0.38	5.10
Transco Zone 6 - NY	N/A	N/A
Chicago Citygate	-0.56	4.68
Rockies (Opal)	-0.39	4.66
Southern Calif. Citygate	-1.04	6.05
AECO Hub (Canada)	-0.90	1.28
Dutch TTF (euro/MWh)	+0.05	63.05
UK NBP Spot (p/th)	+29.00	84.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Oct. 20, 2022

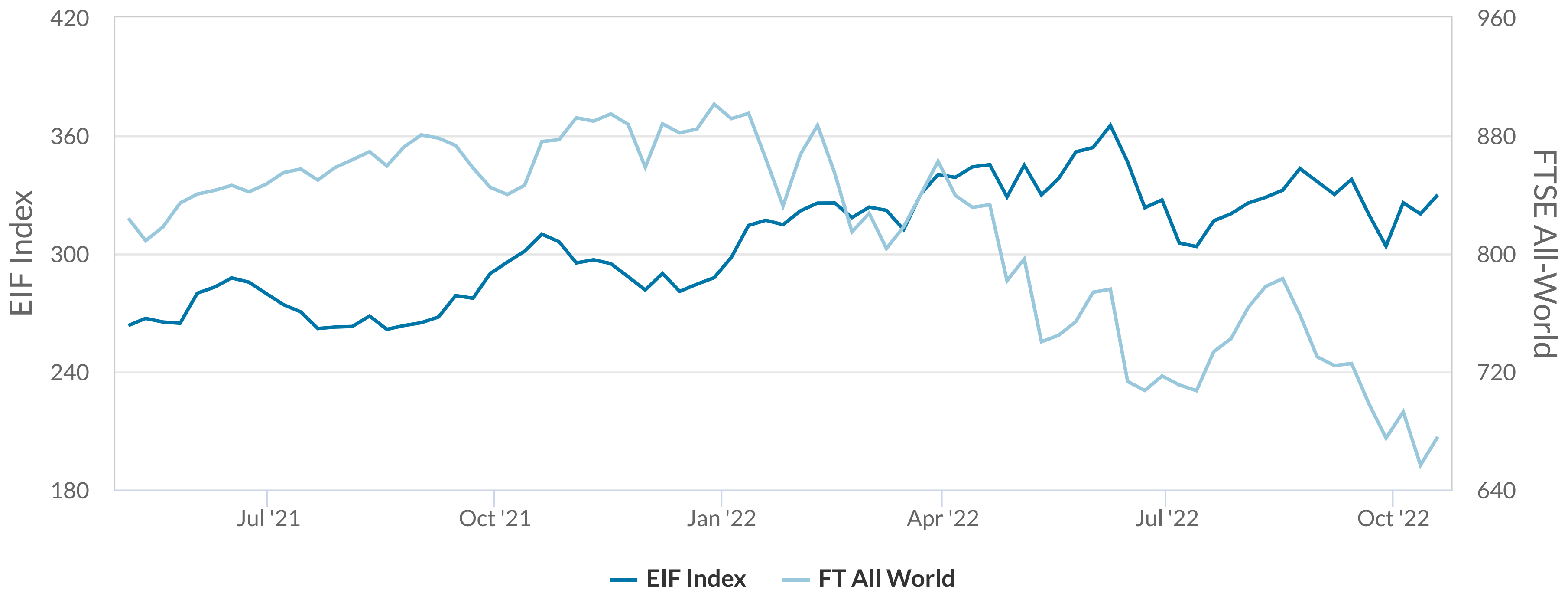
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+1.78	329.85	+15.02
S&P 500	-29.38	3,665.78	-23.52
FTSE All-World*	-5.15	675.80	-25.01

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities