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Halliburton CEO Sees No Signs of Budget Exhaustion

Halliburton CEO Jeff Miller said Tuesday that North American oil-field activity showed few signs of abating in the final months of the year and would remain strong heading into 2023 amid a higher but volatile commodity price environment.

Oil and natural gas producers usually begin reducing drilling and completions activity toward the end of the year as they exhaust their capital budgets. But the surge in activity over the last year or so has translated to a tight services market, a trend Miller expects to continue into 2023. He noted that inbound orders for calendar slots were stronger at this point in the year than he had ever seen before.

“We are certainly not seeing budget exhaustion,” Miller said during the oil-field services giant’s third-quarter earnings presentation. “We remain sold out through the end of the year and into next year.”

Efficient Equipment

Despite the tightness, operators are getting choosier about what equipment they want to use, Miller said. Better efficiency is the name of the game amid increased pressure from investors to maintain capital discipline while also getting squeezed by supply chain issues.

In particular, Halliburton has seen greater interest in its electric completions fleets (E-fleets) as an alternative to using diesel, which has ballooned in price. But Miller said the price is just one aspect that makes E-fleets more attractive right now.

“The conversation around the E-fleet is really that it's a better mousetrap over the long run,” he said. “Is it more efficient to operate? Yes, it is. It creates value from a price standpoint, but it also creates value from an effectiveness standpoint. E-fleets are extremely reliable ... So I think all of that conspires to make it sought after in the marketplace. That's why we see the pull.”

He added that securing E-fleet capacity for 2023 is a “high priority” for Halliburton’s customers, but would not comment on contract pricing.

Miller also touted the company’s “smart fleet” system, which provides real-time data on completion design and the potential for well interference. He said the company expects an almost eightfold increase in stages completed this year with the smart fleet system.

Earnings Snapshot

Halliburton posted robust third-quarter financials, with revenue of $5.36 billion driven by activity and pricing increases in North America and abroad. For comparison, the company reported $5.07 billion in revenue in the previous quarter and $3.86 billion in the third quarter of 2021.

On the earnings front, Halliburton reported net income of $544 million, or 60¢/share. On a per-share basis, that was 4¢ higher than consensus estimates. Halliburton posted $109 million in net income in the second quarter this year and $236 million in the third quarter of 2021.

Caroline Evans, Houston

Chevron Exits 'Significant' Leopard Find in US Gulf

Chevron has opted out of the Shell-operated Leopard project in the US Gulf of Mexico, the second time in a year that the US supermajor has exited a significant discovery poised for development in a prolific corner of the Gulf.

A Chevron spokesperson confirmed the company has handed its 50% interest in the five blocks associated with Leopard to Shell, including Alaminos Canyon 691, the site of the initial discovery well drilled in 2020.

"In exchange, Shell has assigned its 100% and 50% interests to Chevron in Green Canyon Blocks 636 and 505, respectively, in the deepwater US Gulf," the spokesperson told Energy Intelligence.

In January, Chevron said it had traded its full 20% interest in Shell's Blacktip discovery, also in Alaminos Canyon, to Shell in exchange for a stake in another Gulf exploration project, led by Chevron, that ultimately proved unsuccessful.

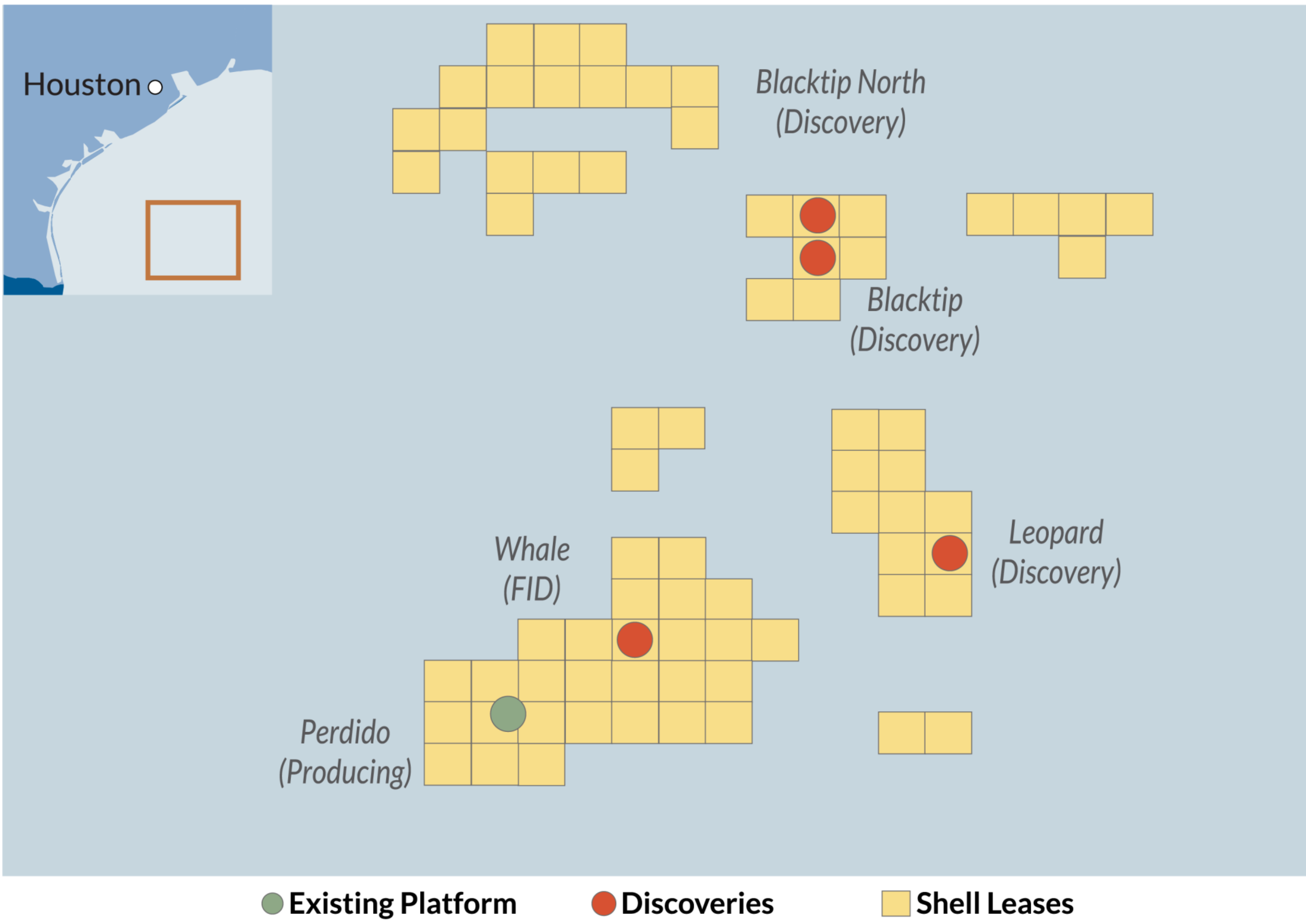
Appraisal and Development

Chevron did not provide its strategic rationale for exiting Leopard. In January it said it left Blacktip because the project "did not compete for our capital compared to other opportunities."

Chevron still holds a 40% interest in the nearby Whale development, which is operated by Shell and is due to start up in 2024.

Shell is continuing to weigh its development options in the so-called Perdido corridor, where it has three discovered oil and natural gas fields with development potential — Leopard, Blacktip and the separate "material" Blacktip North field — in addition to the producing fields around the existing Perdido hub and, by mid-decade, Whale.

US Gulf: Shell Weighs Its Development Options in Perdido Corridor



*Accurate as of November 2021. Source: Shell, Energy Intelligence

The operator has yet to tip its hand on whether it would prefer a series of subsea tiebacks to existing infrastructure, or if one of those newer discoveries is big enough to support an additional hub-scale development.

The Leopard deal comes shortly before Shell is expected to drill an appraisal well there to assess the find's development options. Shell flagged earlier this year that it intended to appraise the find in 2022, but does not appear to have drilled a second test well yet.

The initial Leopard well unearthed more than 600 feet of net oil pay "at multiple levels," Shell reported last year .

Shell declined to comment on the Chevron exit, citing its "closed period" ahead of third-quarter earnings, due this Thursday.

Shell now holds 100% of Leopard and about 56% of Blacktip, alongside Repsol (25%) and Equinor (19%).

Shell operates Blacktip North with a 75% stake. Repsol boosted its interest in Blacktip North to 25% last month, up from 10.5% previously, US leasing records show.

Green Canyon Expansion

It was not immediately clear which prospects or plays Chevron is targeting with its newly acquired Green Canyon (GC) blocks, which are each located in a well developed area close to existing infrastructure.

GC 636 could potentially attract some activity in the near term. It is situated adjacent to another block Chevron already controls, presumably an indication of Chevron's interest in acquiring GC 636 from Shell. Chevron operates GC 635 on 80%, with Malaysia's Petronas holding the remainder.

Both blocks are located just a few miles north of the Occidental Petroleum-operated Constitution spar platform, a potential host for any future discovered resources in the area. The spar currently produces flows from Oxy's Caesar Tonga and Constellation fields. GC 505 is about a dozen miles farther north, with Chevron now holding 100%.

The Chevron-operated Tahiti spar is about 15 miles to the east and could be another potential host if Chevron moves ahead with drilling.

Separately, Chevron appears to have acquired a pair of GC blocks from TotalEnergies another dozen or so miles north of GC 505.

Total, which does not view the US Gulf as a core area of operation, has assigned to Chevron a yet-to-be-disclosed stake in GC 328 and 284, according to US leasing records.

Luke Johnson, Houston

Valero Downplays Odds of US Product Export Ban

Executives at independent refiner Valero Energy expressed skepticism that the US would enact a ban on product exports and argued that easing sulfur specifications would help bring price relief to consumers.

Speaking to investors and analysts during a presentation of Valero's third-quarter earnings on Tuesday, corporate personnel described the ongoing dialogue with the US Department of Energy as "constructive" and downplayed the possibility that the Biden administration would interfere in export flows in an effort to mitigate domestic fuel prices.

"I think they understand the consequences of trying to disrupt market flows," said Richard Lashway, senior vice president for corporate development and strategy. "And I think they realized that that would probably be more harmful than helpful."

The four-week moving average for US product exports is some 6.2 million barrels per day, according to the US Energy Information Administration (EIA), while domestic prices at the pump for gasoline currently average about $3.775 per gallon, per the American Automobile Association.

Sulfur USA

The Biden administration doesn't need to address exports directly in order to free up more supplies for domestic consumers, Valero personnel said. According to Valero President Lane Riggs, easing sulfur specifications would have some of the same effects as limiting exports outright.

“Many of the US refiners didn't necessarily invest [in lower-sulfur yields] … So consequently, they're in a posture of having to export … some gasoline and some diesel to markets around the world that can handle the sulfur,” he said.

Some experts said they were skeptical that such moves would yield enough supply to mitigate prices much, however.

Another option the administration sought was to reopen a closed or idled refinery, a proposal Valero described as effectively dead on arrival.

“There was consideration for the ability to restart refining capacity that had been shut down. And I think the general sentiment was that, that wasn't going to happen," said Valero CEO Joe Gorder. "People had very good reasons for making the decisions that they made, and they weren't in a position to unwind those decisions. So the solution is going to probably have to come from some waiving of regulation or just reduction in demand.”

However, that reduction does not seem to be happening for Valero. The company said system-wide demand for its gasoline and diesel has breeched pre-pandemic levels, while jet fuel consumption is approaching 2019 volumes.

In addition, the global market for products and especially diesel is tight, and overseas pull on US-made refined fuels is expected to be strong as flows from Russia continue to be disrupted.

Russia Reduction

The EU’s embargo on Russian refined fuels takes effect next February, and Valero said it is likely to cause less of a rearrangement of flows than an absence.

“Our view is that you will see a reduction in Russian exports of primarily diesel,” Riggs said. “You do have the potential for some of those barrels to find homes in South America and Africa, as you mentioned. But we kind of believe diplomatic pressures from the US and from Europe will kind of keep a lot of that from happening, and you will see a reduction in exports from Russia."

Diplomacy aside, market players and ship brokers have told Energy Intelligence that there might not be enough tanker capacity to accommodate the new flows dictated by the EU’s embargo and the G7’s price cap on Russian oil.

Earnings Snapshot

Valero reported adjusted net income of $2.8 billion in the third quarter of 2022, up from $545 million in the same period last year.

Refining operations fueled the massive profits; operating income from the refining segment was $3.8 billion for the quarter, compared to $835 million in the same period of 2021.

Frans Koster, New York

Industry Takes Aim at EPA Methane Metrics

The US Environmental Protection Agency (EPA) is again taking heat for its methane emissions estimates for the oil and natural gas industry, as several high-profile policies put a spotlight on the agency's metrics.

The EPA is in the process of revising its greenhouse gas (GHG) reporting program for the oil and gas sector, including updating its emissions calculations methods and modifying the reporting requirements to address data gaps.

The reporting program mandates that oil and gas firms that operate facilities that emit 25,000 metric tons per year of CO2 equivalent or more must submit emissions data to the EPA. However, given the difficulty in measuring emissions, the agency allows operators to submit estimates rather than actual measurements.

The accuracy of emissions reporting data has long been an issue. In 2019, the EPA acknowledged a lack of clarity around what percentage of US emissions are covered under the program.

Most recently, EPA data from the program indicated that “petroleum and natural gas systems were the second largest stationary source of emissions" at 312 million metric tons, and that reported emissions for 2021 were 0.7% lower than in 2020.

The proposed revisions would expand the requirements for gathering and boosting systems, well completions and hydraulic fracturing, and blowdowns of transmission lines.

But the rulemaking, which the EPA proposed in April and took comments on through Oct. 6, converges with several emissions-focused policies that place newfound weight on the importance of GHG reporting data. Those include forthcoming methane standards for the oil and gas industry, Securities & Exchange Commission climate disclosure rules, and a methane tax on operations mandated by the Inflation Reduction Act (IRA).

Buying Time

Given that those policies incorporate GHG reporting data collected by the EPA, industry lobbyists are urging the agency to hold off on making changes to the program and wait until more measurement data is available.

"In our view, methane reporting under the [reporting program] should move toward the use of empirical data for measurement-informed reporting," Karen Knutson, vice president of government affairs at Chevron, said in comments on the proposal.

Under the auspices of the IRA law, the EPA is required to take steps to conduct a series of studies aimed at improving the reporting data by 2024, when the new IRA methane tax would begin to take effect. But the mandate is not very prescriptive as to how the EPA is supposed to improve the program.

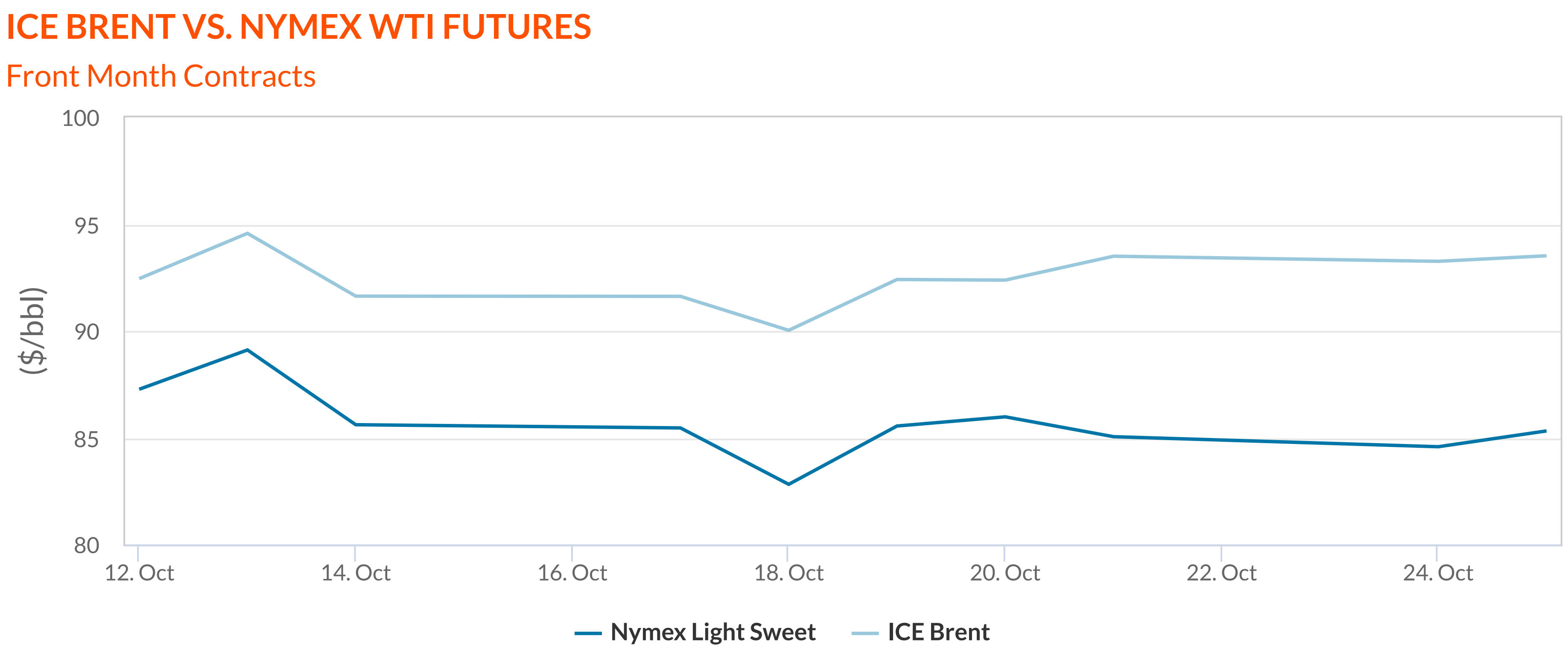
In comments submitted on the proposed rule, the American Exploration & Production Council said that the "occurrence of multiple rules currently in development by this administration at the same time governing the same sources and/or reporting of the same emissions further complicates the analysis of practical impacts and cost implications of the proposed changes."

Bridget DiCosmo, Washington

Mixed Market Signals Keep Oil Futures Rangebound

Oil futures continued to trade sideways on Tuesday, settling in a narrow range of $90-$95 per barrel for the third session in a row.

In London, the December Brent contract gained 26¢ and settled at $93.52/bbl, while in New York, the front-month Nymex West Texas Intermediate (WTI) December contract was up 74¢ and closed at $85.32/bbl.



The market has pitched tight refined product supply against a souring economic outlook, making it difficult to assess the overall effect on demand. Sanctions against Russia have created an 800,000 b/d global deficit in middle distillate supply, which is probably a conservative estimate given the expected surge in seasonal demand.

Most of the product shortages are in Europe, owing to the region's dependence on Russian diesel, with a full EU ban on Russian refined product looming on Feb. 5, 2023.

Global distillate inventories are low and refining capacity is struggling to refill stocks after the closure of more than 1 million b/d of capacity in Europe and 1.4 million b/d in the US since mid-2019. Diesel prices will hence remain strong until those global stockpiles normalize, principally in the OECD.

“Historically low inventories keep the structure of the futures market strong," said PVM oil analyst Tamas Varga. "Commercial oil stocks in the developed part of the world are unlikely to build in the last quarter of the year, at least not significantly from the current depleted levels.”

The caveat is that middle distillates demand is sensitive to the business cycle and would take a hit if a full-fledge recession materializes. Investors are bracing for an economic downturn, and global angst is growing after disappointing readings on European and UK manufacturing performance.

The 2% drop in Chinese crude oil imports has also created a bit of commotion, along with the country’s pursuit of its zero-Covid-19 policy.

Diesel Bulls

Fund managers have become more bullish on gasoil/diesel despite the deteriorating economic outlook. Managed money long positions in ICE Gasoil contracts currently outnumber bearish short ones by a ratio of 7-1. If anything, this shows how tight the diesel market remains even with a recession looming — and it is likely to get worse.

“Overall, the oil market, judging from the bullish curve structure, remains tight and may tighten even further during the coming months,” Saxo Bank analysts said in a note.

After Opec-plus announced its plan to cut 2 million b/d in production, the pool of medium, sour crude needed to yield a larger share of middle distillates will shrink from next month, coinciding with the EU ban on Russian crude coming into full effect.

As European refiners look for heavier barrels to meet winter diesel specifications, supply seems to be running away. The widening discount between Brent and WTI futures, currently at $8.20, partly reflects European refiners’ lower appreciation for light, sweet barrels, because they burden their overhead capacity and produce too much low-value naphtha when what they really want is heavier, sour crude to produce more diesel.

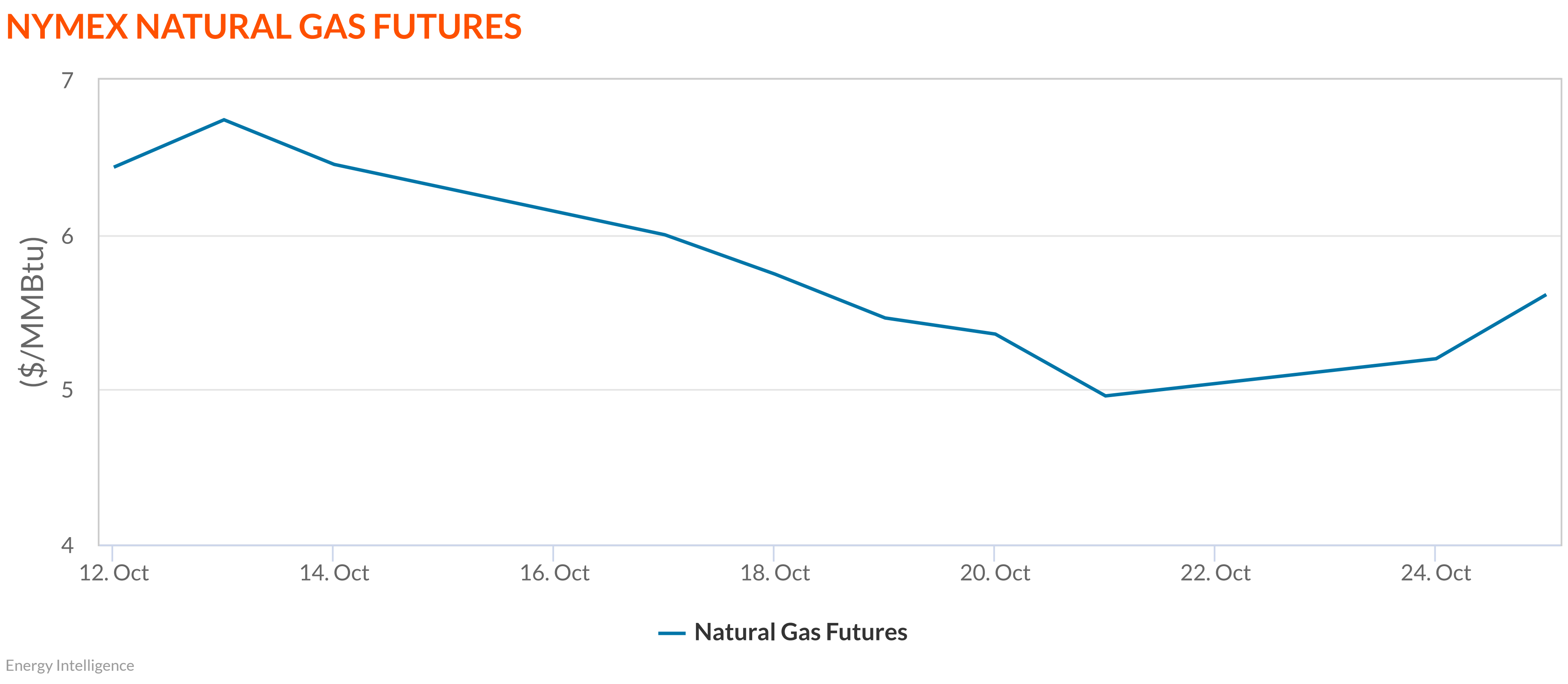
Julien Mathonniere, London

IN BRIEF

US Natgas Futures Continue Rebound

US natural gas futures continued to surge on Tuesday, adding 41.4¢ to finish at $5.613/MMBtu and bringing the two-session gain to 65.4¢.

The technical rebound off Friday’s dip below $5/MMBtu stems not only from oversold conditions in the wake of a six-session, $1.782 collapse, but the upside risk from traders throwing in the towel on winter before it arrives.



Leading weather models have been predicting a warm start to winter; however, that's not yet set in stone. Gelber & Associates (G&A) noted Tuesday that some forecast indicators now see the US “setting up for a colder-than-normal second half of November for the central and eastern regions of the nation, as well as a potentially colder-than-average month of December.”

If those indicators don't back off, prompt month gas could soon test resistance between $6/MMBtu-$6.50/MMBtu.

A colder scenario would also raise the call on coal at a time when stocks are at historic lows and coal prices are at all-time highs.

Tom Haywood, Houston

Petrobras Posts Lower Q3 Output

Petrobras said Monday that its oil and natural gas production was down nearly 7% year to year in the third quarter due to asset sales and natural declines in its maturing fields.

The Brazilian state oil firm reported output of just over 2.6 million boe/d in the July-September period this year, which was little changed from the prior quarter but down significantly from the nearly 2.8 million boe/d it produced in the third quarter of 2021.

Petrobras attributed the year-to-year decline in its production volumes to the reduction of its working interests in the Atapu and Sepia oil fields as a result of reworked production-sharing agreements, as well as the decommissioning of its Capixaba FPSO and natural declines in its maturing assets.

The company reported pre-salt output of 1.6 million b/d for the third quarter, unchanged from the prior quarter and down from 1.67 million b/d a year earlier.

Petrobras' stock price fell by more than 10% on Monday following political developments that appeared to boost former president Luiz Inacio Lula da Silva's bid to defeat incumbent Jair Bolsonaro in the final round of the country's presidential elections on Sunday.

Lula has said the state oil company needs to diversify from its overreliance on pre-salt production and "go back to being an integrated energy company" with more emphasis on biofuels.

Michael Deibert, Washington

Woodside Spuds Hoodoo Well in US Gulf

Woodside is drilling ahead on its Hoodoo wildcat well in the deepwater US Gulf of Mexico, the Australian giant’s first operated exploration well in the region since it acquired BHP’s petroleum business.

The Hoodoo well is permitted to a depth of about 31,800 feet and drilling began on Oct. 16, according to an industry source. It is located in East Breaks Block 699.

Woodside confirmed it is drilling the well with the Aquadrill drillship *Vela*, which is contracted to the operator through the end of this year.

Occidental Petroleum is a 30% partner at Hoodoo following a farm-in deal with Woodside earlier this year. Oxy owns upstream infrastructure in the vicinity that could prove strategic if a commercial discovery is made.

Woodside is looking for some success in the Gulf after a string of disappointments since the company took over from BHP, including the unsuccessful Wasabi wildcat drilled by BHP early this year.

Its most recent well, targeting the Chevron-operated Starman prospect in Mississippi Canyon, finished drilling this month. Sources say it is set to be plugged and abandoned after no commercial hydrocarbons were found.

Woodside has described Hoodoo as an “oil prospect in an underexplored portion of an emerging play in the Western Gulf of Mexico.”

Luke Johnson, Houston

DATA SNAPSHOT

Oil and Gas Prices, Oct. 25, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	+0.26	93.52	91.74
Nymex Light Sweet	+0.74	85.32	84.31
DME Oman	+2.38	90.59	88.64
ICE Murban	+0.71	93.71	91.29

INTERNATIONAL SPOT CRUDES

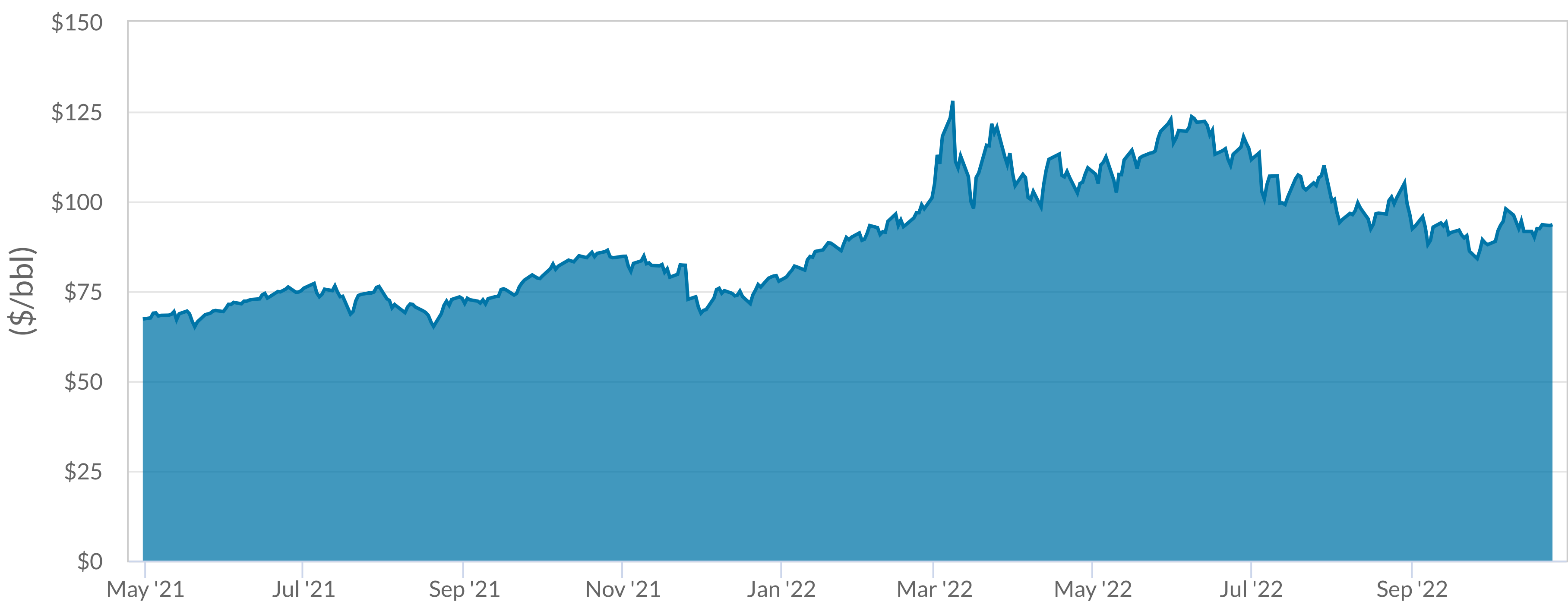
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+0.20	91.76	91.56
Dubai		89.56	
Forties	-0.03	91.17	91.20
Bonny Light	-0.06	94.14	94.20
Urals	+0.19	73.14	72.95
Opec Basket*			92.17

*Opec price assessed.

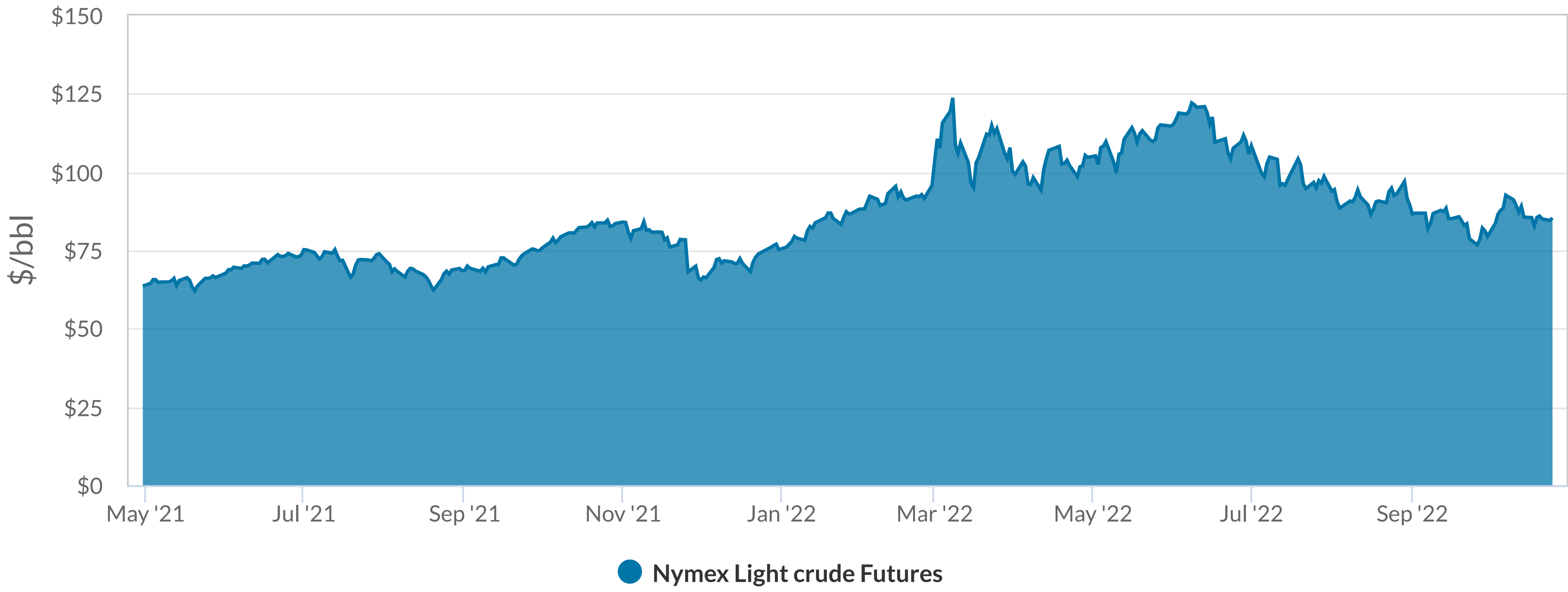
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	+0.81	86.93	86.12
WTS (Midland)	+1.74	86.61	84.87
LLS	+0.06	88.33	88.27
Mars	-0.39	81.43	81.82
Bakken	+0.81	91.73	90.92

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES



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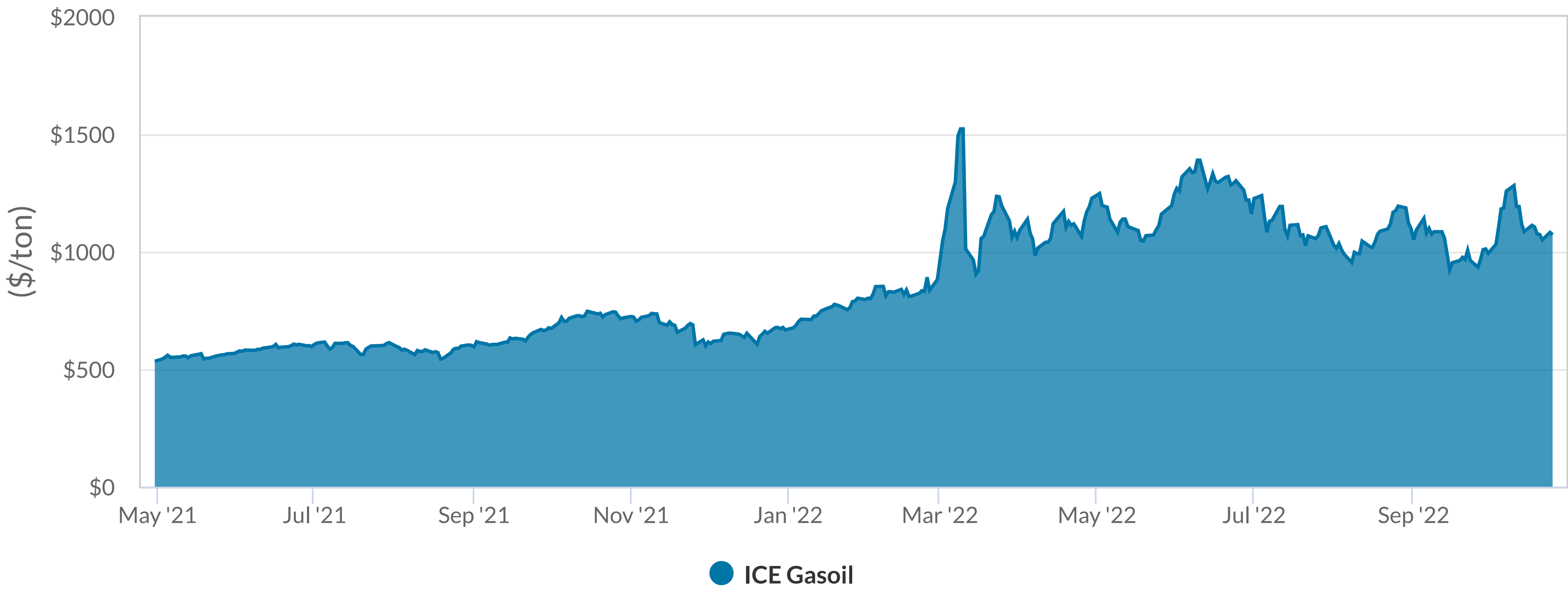
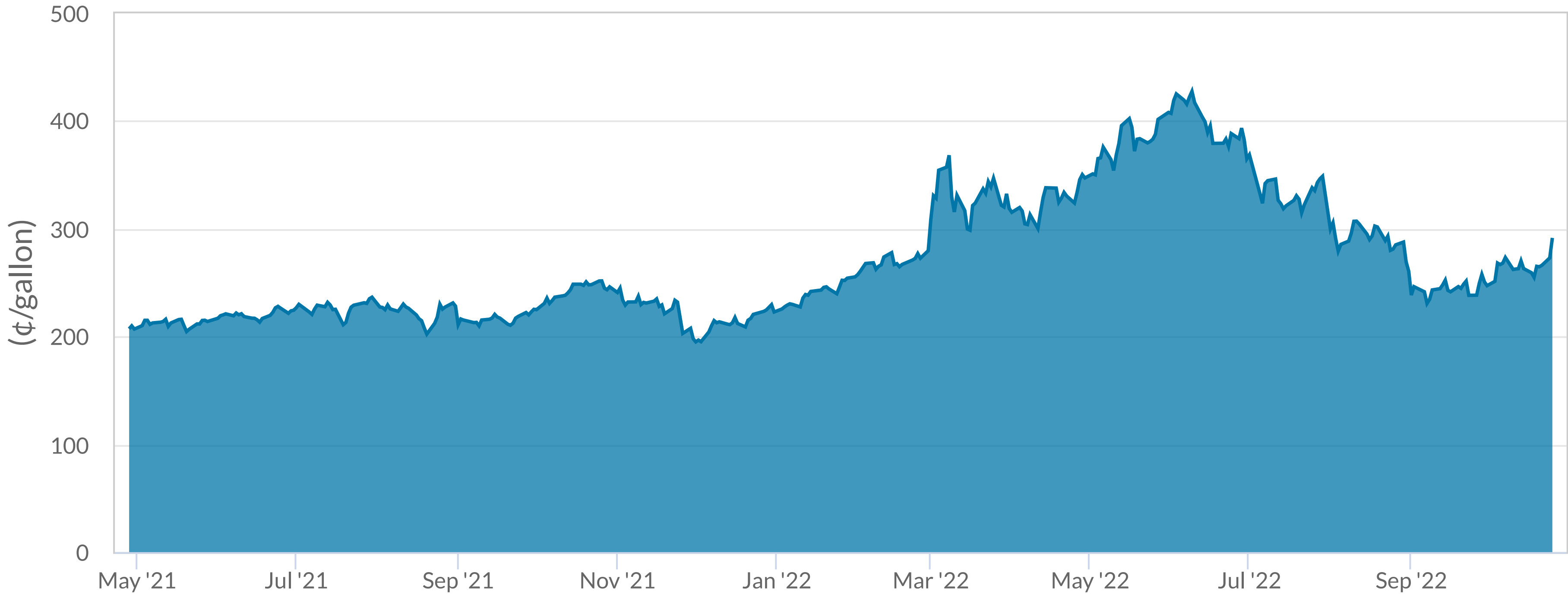
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	+18.58	291.60	255.67
ULSD Diesel (¢/gal)	+4.71	396.72	358.23
ICE			
Gasoil ($/ton)	-10.00	1072.25	1003.75
Gasoil (¢/gal)	-3.19	342.22	320.36

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

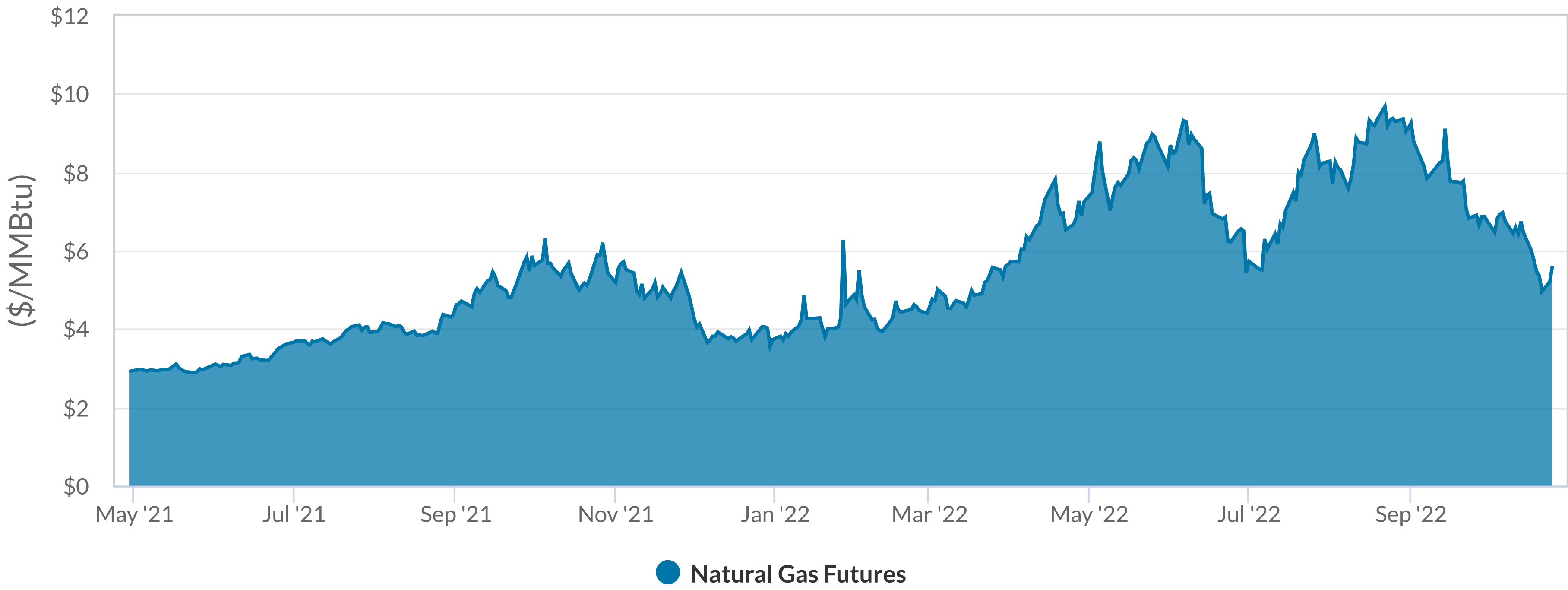
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	+14.88	319.77	304.89
No.2 Heating Oil	-7.82	404.35	412.17
No.2 ULSD Diesel	-11.57	425.60	437.17
No.6 Oil 0.3% *			93.88
No.6 Oil 1% *			85.56
No.6 Oil 3% *			61.31
Gulf Coast (¢/gal)			
Regular Gasoline	+14.88	285.02	270.14
No.2 ULSD Diesel	+1.43	402.35	400.92
No.6 Oil 0.7% *			81.76
No.6 Oil 1% *			81.76
No.6 Oil 3% *			54.56

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+18.50	918.80	900.30
ULSD Diesel	+4.00	1207.00	1203.00
Singapore ($/bbl)			
Gasoil		124.32	
Jet/Kerosene		121.31	
VLSFO Fuel Oil ($/ton)		664.10	
HSFO Fuel Oil 180 ($/ton)		379.40	

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.41	5.61
Henry Hub, Spot	+0.38	5.19
Transco Zone 6 - NY	+0.24	4.25
Chicago Citygate	+0.50	4.84
Rockies (Opal)	+0.72	5.54
Southern Calif. Citygate	+0.99	6.21
AECO Hub (Canada)	+0.68	1.00
Dutch TTF (euro/MWh)	+8.00	40.00
UK NBP Spot (p/th)	-11.00	30.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Oct. 25, 2022

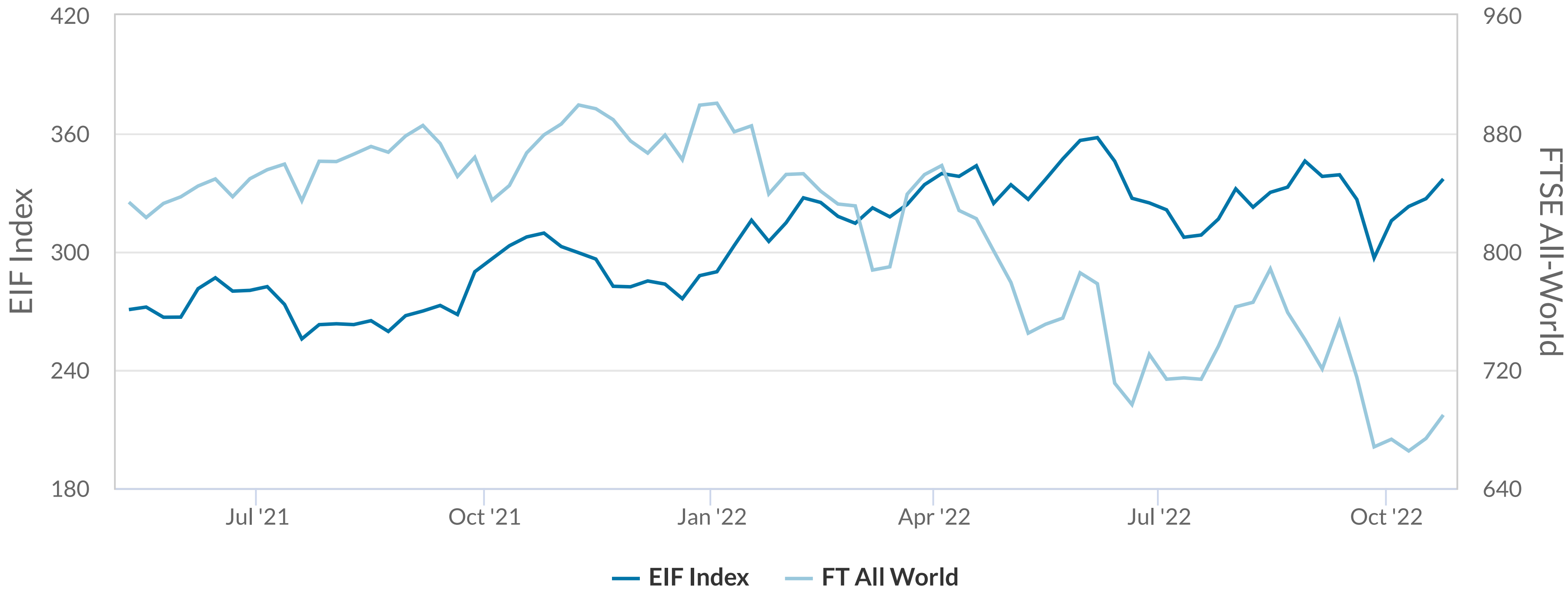
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	-2.53	336.87	+17.47
S&P 500	+61.77	3,859.11	-19.49
FTSE All-World*	+7.84	689.49	-23.49

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities

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