Energy Intelligence

October 26, 2022

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# INTERNATIONAL OIL DAILY®



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In Brief



Data Snapshot



## European Refiners' Appetite Shifts to Heavier Crude

European demand for light sweet crude has started to cool down as refiners' appetite has shifted to heavier fare in line with a seasonal shift in their production to diesel and heating oil.

Traders said some cargoes of light sweet North Sea grades have failed to find buyers in recent open-market auctions, and some Forties cargoes are being loaded onto tankers before they have a buyer or destination.

Before fall refinery maintenance turnarounds started in late September, strong European demand for light sweet crude had pushed up prices for sweet grades around the world — widening their premiums over sour grades.

More recently, however, refiners have shown a growing appetite for medium-heavy sour oil.

That shift has been driven by strong margins of around $45/bbl for diesel; a scramble to buy Urals crude before the Dec. 5 start of the EU ban on Russian imports; and a dip in natural gas prices, which lowers the cost of extracting sulfur from sour crude.

"So, it's not that easy to find a spot cargo of something which is 27 to 28 [degrees API], a source said, referring to the API gravity of medium-heavy grades. "There is a larger trend of appreciation for the heavier barrel."

Grades that are close in quality to Urals and which yield a fair amount of diesel have seen strong support for their price differentials. Norway's Johan Sverdrup crude, for example, is described by refiners as a good replacement for Urals.

Urals has continued to trade at a discount of around $20 to Dated Brent in Northwest Europe, where supply has been relatively tight, but discounts have widened in the Mediterranean market.

**Different Product Yields**

Lighter grades produce too much low-value naphtha and gasoline, at a time when refiners are looking for heavier, sour crudes that will yield more diesel.

This helps to explain the recent dip in exports of US light sweet crude to Europe. US crude exports to Northwest Europe fell from 1.2 million barrels per day in September to 780,000 b/d in October, according to Kpler data.

The widening of the differential between Brent and West Texas Intermediate (WTI) crude futures reflects this situation. WTI is currently trading at a steep discount of $7.80/bbl to Brent.

Medium sour grades like Urals or Middle East crudes with an API gravity of 28-30° are an ideal feedstock to produce high-quality diesel in the volumes required by the European retail market.

The EU is currently importing close to 1.4 million b/d of Russian crude ahead of the ban, while some 350,000 b/d of pipeline imports will be exempted.

The import ban will roughly coincide with an effective reduction of 1 million b/d in Opec-plus production from November, which will create even more scarcity in the supply of medium, sour crude.

### Tight Diesel Market

EU refiners will continue to run plenty of sweet crude because its low sulfur content makes it cheaper to process. It also yields more gasoline, for which there is still solid demand, although demand is lower than during the summer driving season.

But the current tightness in global products markets is mainly concentrated in middle distillates — especially in European diesel supplies. And as demand for heating oil picks up as winter approaches, it is likely to get worse, especially after a recent wave of strikes at French refineries.

Despite a gloomy outlook for the global economy, the forward diesel curve is clearly reflecting concerns about supplies. Long positions in ICE gasoil contracts currently outnumber bearish short positions by a ratio of 7 to 1.

European refiners' recent focus on securing heavier barrels has also hit differentials for some light sweet North Sea grades that refiners have previously viewed as a perfect complement to Urals for production of low-sulfur diesel.

But with Urals out of the picture once the EU import ban kicks in, those grades are now finding it more of a struggle to find buyers.

**Julien Mathonniere, London and John van Schaik, New York**

# Total Invests in Wind and Solar Power in Brazil

TotalEnergies has set up a joint venture with wind farm operator Casa dos Ventos to develop, build and run the Brazilian company's renewable energy portfolio.

The French major said it will pay $550 million in cash for a 34% stake in the venture, with an option to acquire an additional 15% of the equity after five years.

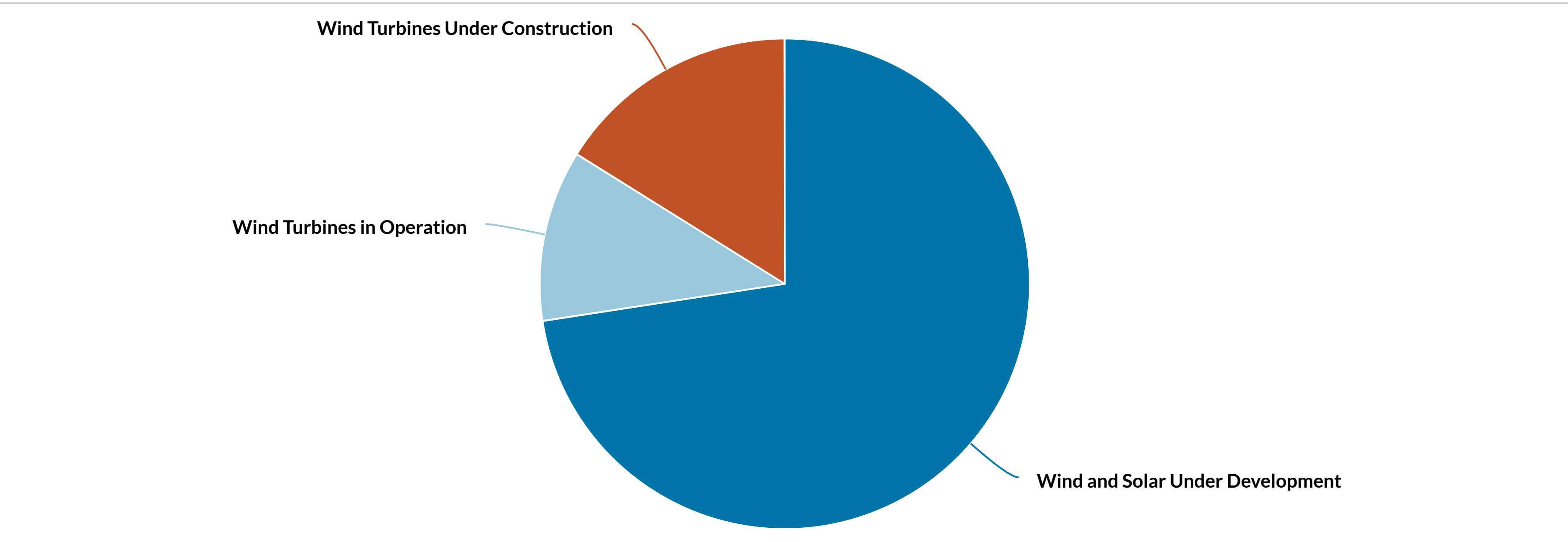
As part of the initial acquisition, Total will pay up to $30 million in an additional "earnout" — a contractual provision that entitles the seller to more compensation if the business achieves certain goals.

With a potential renewable energy portfolio of over 12 gigawatts, the Brazil joint venture will move Total closer to its goal of having 35 GW of gross renewable electricity capacity by 2025 and 100 GW by 2030 — mostly from solar and wind.

It had around 12 GW of installed capacity at the end of the first half of this year.

**2022 PORTFOLIO OF TOTALENERGIES-CASA DOS VENTOS JV**

Capacity (GW)




Source: TotalEnergies

### Third Key Market

Brazil is set to become a major renewable energy market for Total, which has already taken big punts on India and the US.

Last year it paid $2.5 billion for a 20% stake in Indian renewables giant Adani Green Energy and this year it bought 50% of US-based Clearway Energy for $2.3 billion.

Total is already active in Brazil's upstream oil and gas industry, with oil production in the Santos Basin.

It said Casa dos Ventos' current portfolio includes 700 megawatts of operational onshore wind capacity, plus another 1 GW under construction.

The Sao Paolo-based company also has 2.9 GW of onshore wind and 1.6 GW of solar projects within five years of commercial launch.

The joint venture will also have the right to acquire current and new projects being developed by Casa dos Ventos as they reach execution, giving it access to at least another 6 GW, Total said.

"With this transaction, TotalEnergies acquires not less than a leading position in the Brazilian renewable energy market, one of the most dynamic merchant markets in the world," said CEO Patrick Pouyanne.

"This market fits our strategy of taking advantage of the growth of the deregulated power markets, which is crucial to the energy transition."

Mario Araripe, founder and president of Casa dos Ventos, said Total's global footprint would contribute to the expansion of the Brazilian firm's client base.

**Tom Daly, London**

# Aramco CEO Sees Realignment of Oil Markets

Saudi Aramco CEO Amin Nasser says Russia's war in Ukraine and Western sanctions against Moscow have caused a shift in global oil trade flows that is likely to continue for the foreseeable future.

"Oil is a fungible commodity. The Russians, with the right discounts, they are able to place their crudes in different markets," Nasser said during the Future Investment Initiative summit in Riyadh on Wednesday.

An EU ban on most imports of Russian crude oil is set to take effect on Dec. 5, but some European buyers started to shun Russian oil soon after Moscow sent its troops into Ukraine at the end of February.

Russia responded by shipping more crude to Asia, offering deep price discounts to secure sales. Traders say Russia has recently been offering its Urals crude at discounts of around $20 per barrel.

India imported negligible volumes of Russian crude before the war in Ukraine but has recently been importing 800,000 to 900,000 barrels per day.

China was already a big importer of Russian crude, but those volumes rose to around 1.73 million b/d in the first nine months of this year — an increase of around 140,000 b/d versus the same period of 2021.

Saudi Arabia and Mideast Gulf producers do not appear too concerned about Russia's gains in the Asian market, noting that much of the oil they ship to those countries is tied up in long-term contracts. As more Russian oil is shipped to Asia, Europe is expected to import more crude and refined products from the Middle East.

Saudi Oil Minister Prince Abdulaziz bin Salman told the the investment forum in Riyadh this week that the kingdom exported 950,000 b/d to Europe in September, compared with an annual average of 490,000 b/d in 2021.

**"It doesn't work like that."**

In his remarks on Wednesday, Aramco's Nasser reiterated Saudi Arabia's lament that Western energy policy has focused too much on a speedy transition to low-carbon energy, while neglecting investment in development of new oil and gas resources.

In the last few weeks the US and Saudi Arabia have clashed over the Opec-plus decision to cut oil production from November, which is expected to reduce supply by around 1 million b/d.

Nasser said Western nations often look at energy supply issues from their own point of view and take the position that "the rest of the world needs to adapt."

"No. It doesn't work like that," he said.

**Sustainability Fund**

Aramco — Saudi Arabia's national oil company — announced on Wednesday that it is setting up a $1.5 billion sustainability fund to invest in technologies that have the potential to support a "stable and inclusive" energy transition.

The fund will be managed by Aramco's venture capital arm and will invest globally in a wide range of technologies that support its goal of net-zero emissions from its wholly owned assets by 2050.

"This is going to be among the biggest funds in the world for sustainability," Nasser told the summit.

Establishment of the fund is part of Saudi Arabia's efforts to ensure that fossil fuels with a relatively low carbon footprint remain an integral part of the global energy mix.

Separately, Saudi Arabia held an auction of 1.4 million tons of carbon credits this week as part of its voluntary emissions trading scheme. Aramco was one of 15 Saudi and other Mideast Gulf entities that purchased credits in the auction.

**Amena Bakr, Riyadh**

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# Aker BP: Inflation, Tax Change Cloud Outlook

Aker BP — now the second-largest producer offshore Norway — aims to sanction several new upstream projects by the end of this year.

But management has also warned that inflationary pressures and the impact of proposed tax changes in Norway are clouding investment decisions.

The company presented third-quarter earnings on Wednesday — the first quarter since it completed the acquisition of Lundin Energy in June.

Aker BP aims to submit plans for development and operation to Norwegian authorities this year for five oil and gas development projects with combined resources of around 900 million barrels of oil equivalent net to the company.

The projects — Noaka, Skarv Satellites, Valhall PWP/Fenris, Utsira High (Lille Prinsen, Rolvsnes and Solveig), and Wisting (operated by Equinor) — will qualify for temporary tax incentives introduced in 2020.

"All of these project will be launched in the context of geopolitical instability, inflation, supply chain constraints and market volatility," CEO Karl Hersvik said during an earnings call.

Adding to those uncertainties, Hersvik noted that earlier this month, the government's 2023 budget proposed a change in Norway's temporary oil and gas tax rules. This would reduce the uplift for capital expenditure from 17.69% to 12.4%.

**Breakeven Prices**

If enacted, the tax change and supply chain pressures could impact the profitability of Aker BP's projects, Hersvik said. However, he added that "it's too early to conclude that the projects will not go ahead."

The company reduced its project breakeven target to $30 per barrel of oil equivalent from $35/boe when Norway introduced temporary tax incentives to support investment at the height of the Covid-19 pandemic in 2020.

Hersvik said the impact of the tax change on the breakeven price would depend on the capital intensity, production profiles and timing of the capital expenditure.

"That means there will be a different breakeven effect on different projects. It will also obviously … be dependent on the contract strategy." "We will spend some time now assessing the financials both from the tax, but also the other implications and then make a decision."

But Hersvik also emphasized that "we are ready to execute these projects. They're mature from a technical, procurement and execution perspective ... It's now boiling down to basically a discussion around how we allocate capital in the future."

**Adjusting Guidance**

Aker BP narrowed its oil and gas production guidance for 2022 to 410,000 boe/d-420,000 boe/d from 410,000-435,000 boe/d.

Previous guidance assumed Johan Sverdrup Phase 2 (Aker BP 31.6%) would start up in October. The Equinor-operated development is now expected to start up in early December, pushing the field's total capacity to 755,000 boe/d.

Johan Sverdrup will account for about half of Aker BP's total production with production costs of less than $2/boe and emissions of less than 1 kg $CO_2$/boe.

In its first full quarter after the Lundin acquisition, Aker BP delivered a net profit of $783 million, slightly below analysts' expectations because of higher taxes.

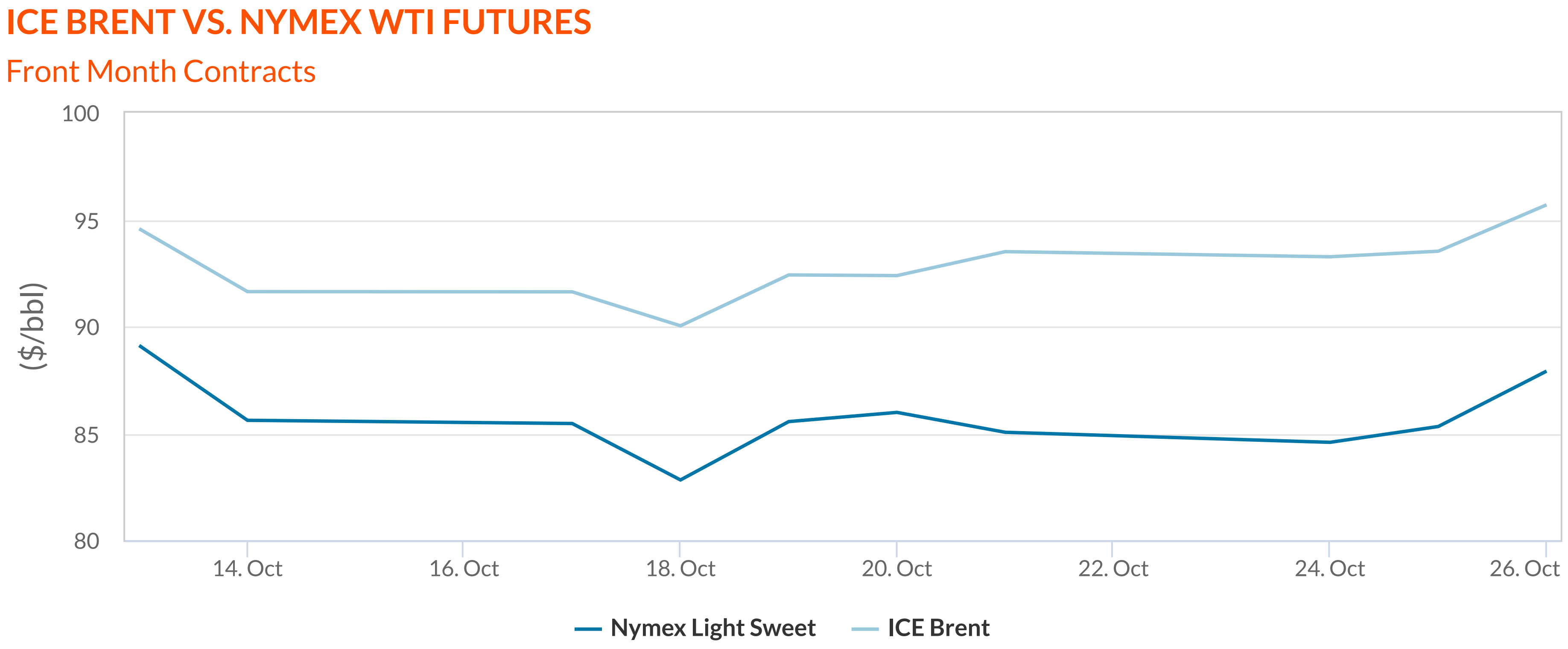
Third-quarter production costs fell to around $7/boe thanks to the lower operating expenses of the Lundin assets. Aker BP said it sees pressure on production costs, mainly due to inflated power prices.

**Deb Kelly, London**

# Oil Futures Rise, US Exports Hit New Record

Oil prices made gains on Wednesday as the US released data showing record petroleum exports from the world's largest economy, while the dollar lost ground.

In London, Brent crude for December delivery settled $2.17 higher at $95.69 per barrel. In New York, December West Texas Intermediate (WTI) on Nymex rose $2.59 to close at $87.91/bbl.

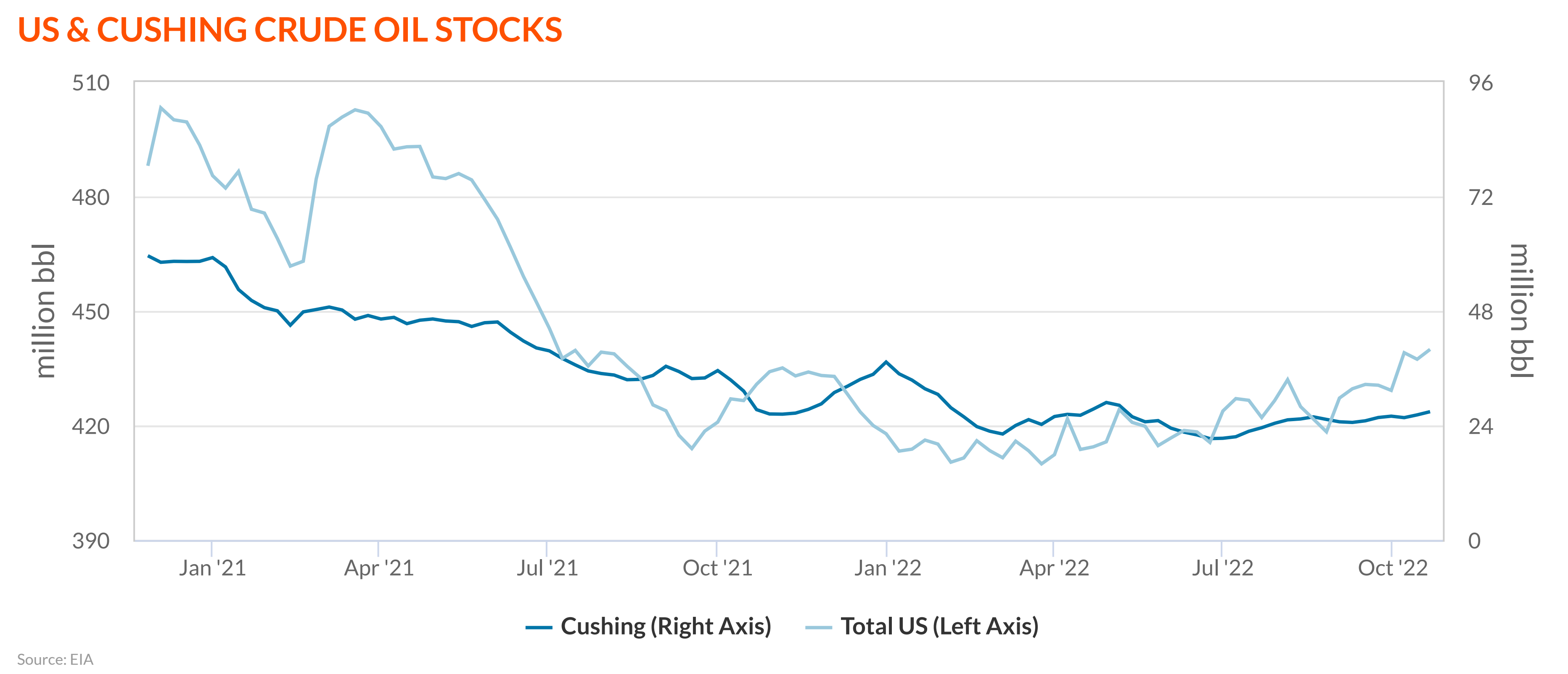



In its weekly report, the US Energy Information Administration (EIA) said domestic commercial crude stocks swelled by 2.6 million bbl in the week ended Oct. 21 to 439.9 million bbl, while inventories at the Nymex pricing point of Cushing, Oklahoma built by 700,000 bbl to 26.9 million bbl.

The build came despite a significant drop in net crude imports to just over 1 million barrels per day and flat domestic production of 12 million b/d.

Fueling the drop in US net imports were record gross crude exports of 5.1 million b/d, with total petroleum exports hitting a record of over 11.4 million b/d for the week.

The US dollar weakened against a basket of other currencies Wednesday. Analysts say a weaker dollar helps bolster oil demand by making the commodity less expensive.




US inventories of gasoline dropped 1.5 million bbl for the week to 207.9 million bbl, with preliminary data putting implied demand up 253,000 b/d at 8.9 million b/d.

US stocks of distillate fuel oils edged 200,000 bbl higher to 106.4 million bbl. However, domestic distillate stocks remain some 18.6 million bbl below the same time last year and the global market for such products is tight.

November Nymex gasoline futures dipped by 1.66¢ to close at $2.8994 per gallon while the diesel contract jumped 15.29¢ and ended the session at $4.1201/gallon.

However, some market players say diesel's outlook is getting softer.

"Distillates are still in danger of becoming the weakest performer of the energy complex over the coming months, having been the strongest so far this year," said Stephen Brennock of brokerage PVM Oil.

He noted a slowing economy in the US, which eats into industrial demand for diesel. "At the same time, the potential for lower demand is also being driven by the dimming outlook for gas-to-oil switching" as natural gas prices in Europe ease, he added.

**Frans Koster, New York**

# IN BRIEF

## Rosneft Announces Sakhalin Crude Tender

Rosneft has announced a tender for exports of Sokol crude oil from the Sakhalin-1 project, indicating that the Russian oil giant is seeking to revive output from the project where output had fallen to minimal levels.

A new Russian operating company was recently registered for the Sakhalin-1 project in the Far East of the country, in line with a presidential order ending US major Exxon Mobil's operatorship of the project.

Trading sources confirmed that Rosneft is offering six cargoes of Sokol crude, each amounting to 95,000 tons (about 700,000 barrels), for loading at the De-Kastri terminal in November and early December. The tender is set to close on Oct. 31.

Reuters reported that Rosneft also announced a tender last week for two, 95,000-ton cargoes of Sokol crude for loading in late October.

The Sakhalin-1 project last exported crude in early May, shortly after Exxon declared force majeure and lowered production to around 5,000-10,000 b/d from more than 200,000 b/d in April.

The move was prompted by Western sanctions imposed on Russia in response to its invasion of Ukraine.

**Staff Reports**

# First Gas From Israel's Karish Field

London-listed Energean has announced the start of production from the Karish gas field offshore Israel, as Lebanon and Israel get ready to sign an historic maritime border agreement this week.

Energean said on Wednesday that gas from Karish will supply the Israeli domestic market at an initial rate of up to 6.5 Bcm/yr. Commercial gas sales are expected to reach that level in four to six months.

The *Energean Power* floating, production, storage and offloading vessel is capable of handling production of up to 8 Bcm/yr, with additional gas from the Karish North project expected to become available next year.

Lebanon and Israel are close to finalizing a deal that would resolve a long-running maritime border dispute, providing greater clarity for companies engaged in or considering exploration off the coasts of Israel and Lebanon.

Large gas discoveries have previously been made in Israeli waters and elsewhere in the Eastern Mediterranean, which is viewed as a potentially important source of gas for Europe that could help offset the loss of supplies from Russia.

Earlier this year the Karish field was targeted by drones controlled by Lebanese Shiite militant group Hezbollah, leading to rising tensions between the group and Israel that posed the threat of igniting another regional war.

**Tom Pepper, London**

# DATA SNAPSHOT

## Oil and Gas Prices, Oct. 26, 2022

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

### CRUDE OIL FUTURES

| ($/bbl) | Chg. | 1st Mth. | 2nd Mth. |
|---|---|---|---|
| ICE Brent | +2.17 | 95.69 | 93.79 |
| Nymex Light Sweet | +2.59 | 87.91 | 86.68 |
| DME Oman | +0.87 | 91.46 | 89.26 |
| ICE Murban | +1.61 | 95.32 | 93.45 |

### INTERNATIONAL SPOT CRUDES

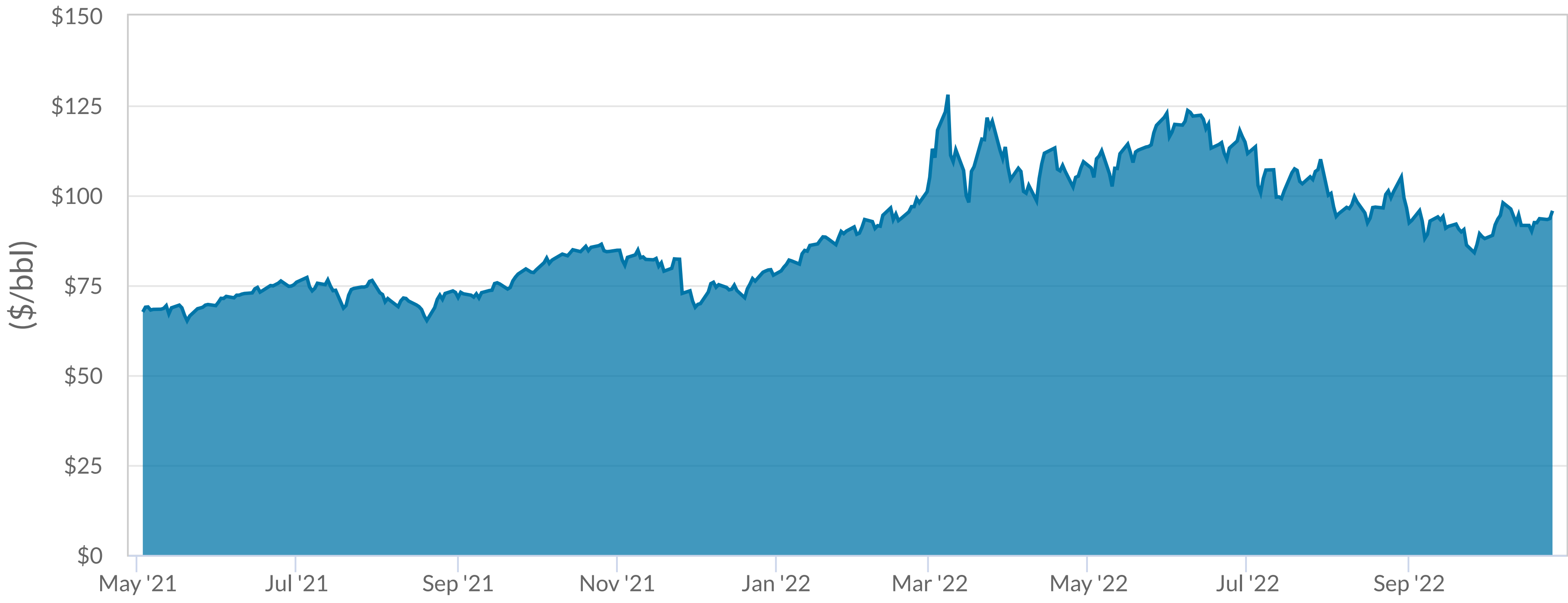
| ($/bbl) | Chg. | Price | Prior Close |
|---|---|---|---|
| Brent (Dated) | +1.18 | 92.93 | 91.75 |
| Dubai | +0.74 | 90.30 | 89.56 |
| Forties | +0.49 | 91.66 | 91.17 |
| Bonny Light | +1.17 | 95.31 | 94.14 |
| Urals | +1.17 | 74.31 | 73.14 |
| Opec Basket* | | | #N/A |

*Opec price assessed.

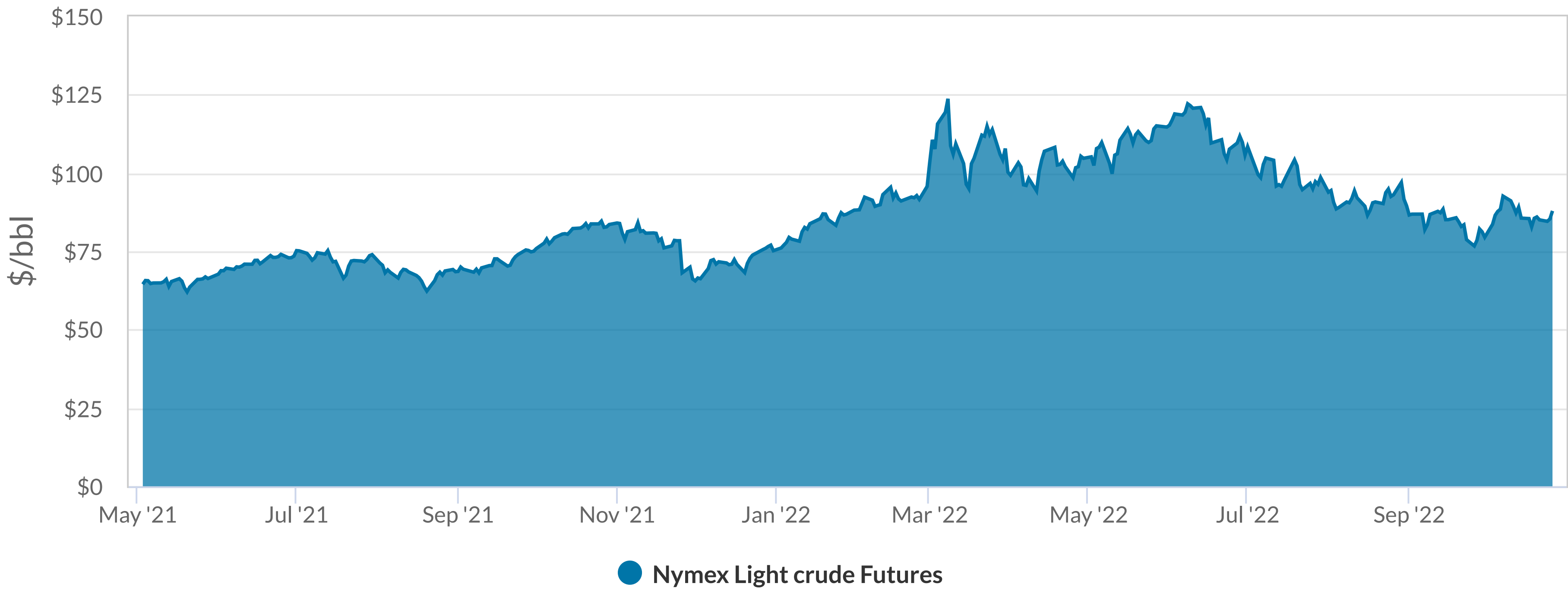
### NORTH AMERICAN SPOT CRUDES

| ($/bbl) | Chg. | Price | Prior Close |
|---|---|---|---|
| WTI (Cushing) | +2.46 | 89.39 | 86.93 |
| WTS (Midland) | +1.79 | 88.39 | 86.61 |
| LLS | +3.76 | 92.09 | 88.33 |
| Mars | +3.81 | 85.24 | 81.43 |
| Bakken | +2.46 | 94.19 | 91.73 |

## ICE BRENT CRUDE FUTURES




## NYMEX LIGHT CRUDE FUTURES

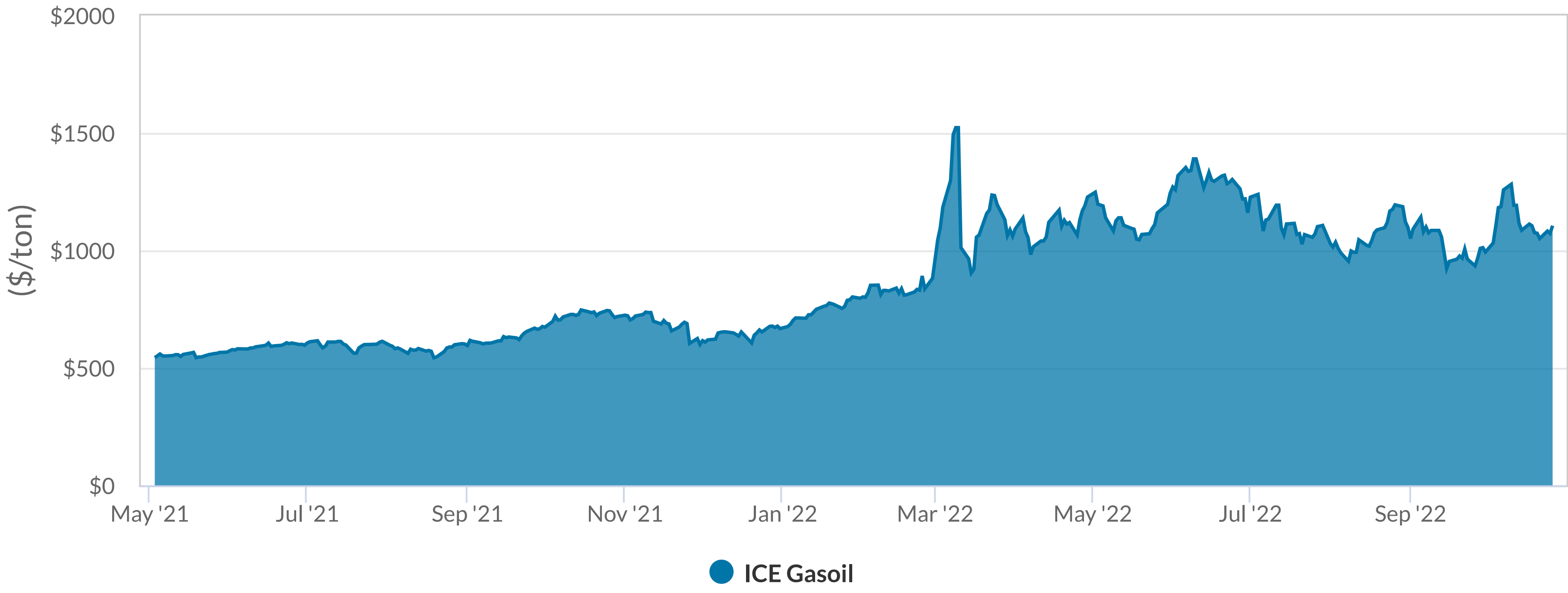



Energy Intelligence

## REFINED PRODUCT FUTURES

| Nymex | Chg. | 1st Mth. | 2nd Mth. |
|---|---|---|---|
| Gasoline (¢/gal) | -1.66 | 289.94 | 257.76 |
| ULSD Diesel (¢/gal) | +15.29 | 412.01 | 367.66 |
| **ICE** | | | |
| Gasoil ($/ton) | +33.00 | 1105.25 | 1027.50 |
| Gasoil (¢/gal) | +10.53 | 352.75 | 327.94 |

## ICE GASOIL FUTURES




## NYMEX GASOLINE FUTURES


## US SPOT REFINED PRODUCTS

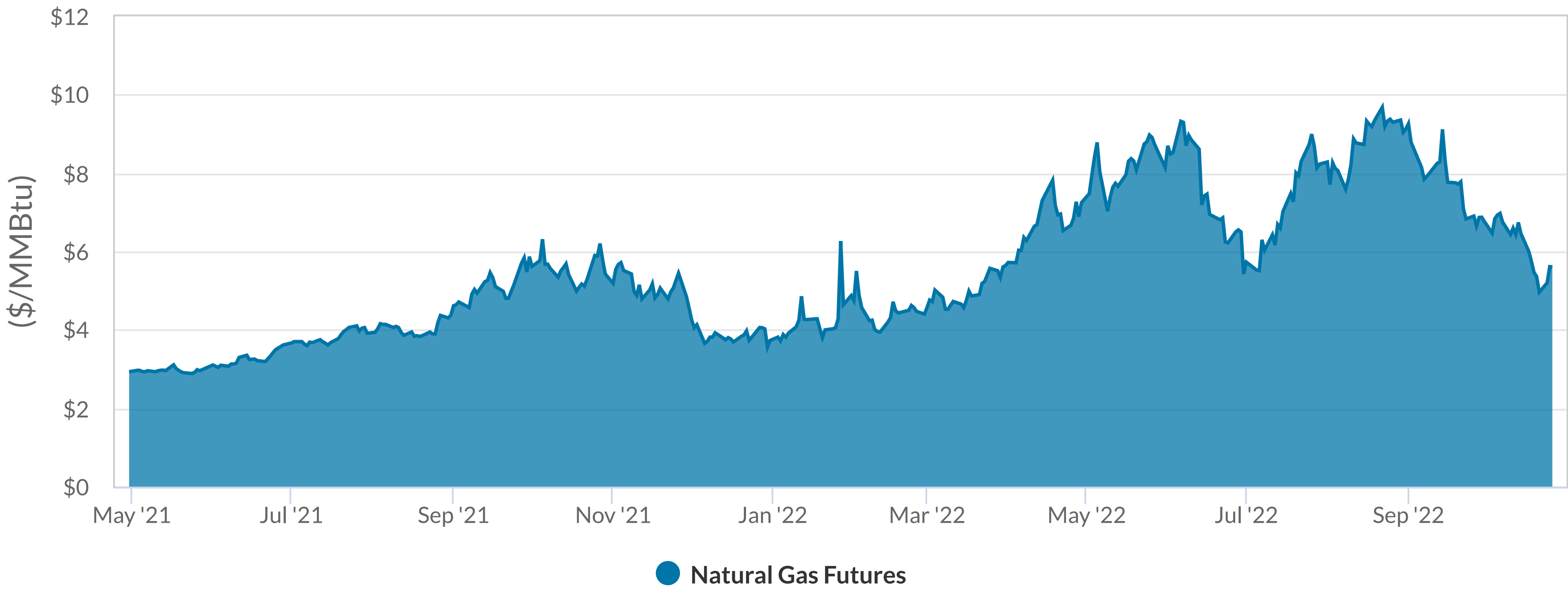
| New York (¢/gal) | Chg. | Price | Prior Close |
|---|---|---|---|
| Regular Gasoline | +2.82 | 322.59 | 319.77 |
| No.2 Heating Oil | +18.67 | 423.02 | 404.35 |
| No.2 ULSD Diesel | +18.67 | 444.27 | 425.60 |
| No.6 Oil 0.3% * | | | 93.88 |
| No.6 Oil 1% * | | | 86.06 |
| No.6 Oil 3% * | | | 60.15 |
| **Gulf Coast (¢/gal)** | | | |
| Regular Gasoline | +29.32 | 314.34 | 285.02 |
| No.2 ULSD Diesel | +16.42 | 418.77 | 402.35 |
| No.6 Oil 0.7% * | | | 82.11 |
| No.6 Oil 1% * | | | 82.11 |
| No.6 Oil 3% * | | | 55.46 |

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

## INTERNATIONAL SPOT REFINED PRODUCTS

| Rotterdam ($/ton) | Chg. | Price | Prior Close |
|---|---|---|---|
| Regular Gasoline | +20.20 | 939.00 | 918.80 |
| ULSD Diesel | +28.00 | 1235.00 | 1207.00 |
| **Singapore ($/bbl)** | | | |
| Gasoil | -0.05 | 124.27 | 124.32 |
| Jet/Kerosene | +0.78 | 122.09 | 121.31 |
| VLSFO Fuel Oil ($/ton) | -8.47 | 655.63 | 664.10 |
| HSFO Fuel Oil 180 ($/ton) | +6.75 | 386.15 | 379.40 |

## NYMEX NATURAL GAS FUTURES




Refinitiv

## NATURAL GAS PRICES

| ($/MMBtu) | Chg. | Price |
|---|---|---|
| Henry Hub, Nymex | -0.01 | 5.61 |
| Henry Hub, Spot | +0.05 | 5.24 |
| Transco Zone 6 - NY | +0.17 | 4.42 |
| Chicago Citygate | +0.17 | 5.01 |
| Rockies (Opal) | +0.02 | 5.56 |
| Southern Calif. Citygate | -0.44 | 5.77 |
| AECO Hub (Canada) | +1.85 | 2.85 |
| Dutch TTF (euro/MWh) | +4.05 | 44.05 |
| UK NBP Spot (p/th) | +24.00 | 54.00 |

US/Canada spot prices from Natural Gas Week

# Equity Markets, Oct. 26, 2022

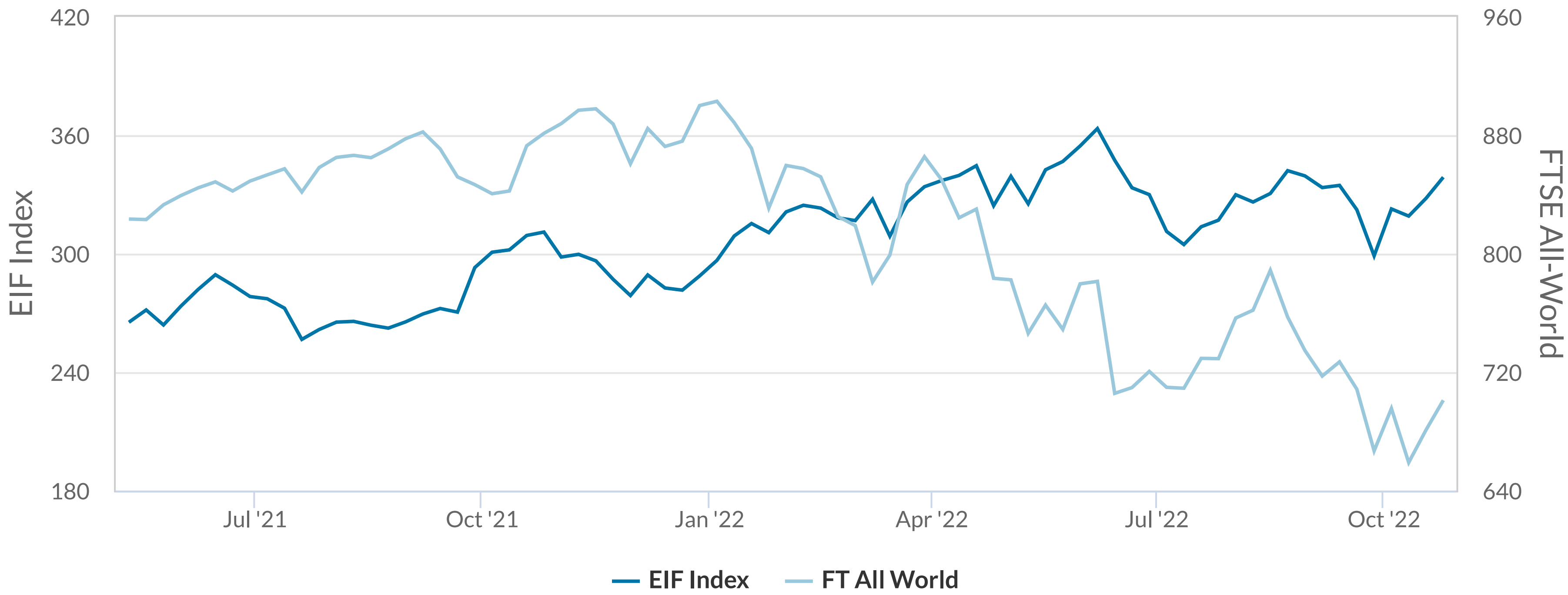
All data are produced by Energy Intelligence in cooperation with Reuters.

## EQUITY MARKET INDEXES

| | Chg. | Index | YTD %Chg. |
|---|---|---|---|
| EIF Global* | +1.33 | 338.73 | +18.12 |
| S&P 500 | -28.51 | 3,830.60 | -20.08 |
| FTSE All-World* | +11.55 | 701.04 | -22.21 |

*Index for previous day

## EIF INDEX




EIF Global Oil and Gas Index of 21 traded equities