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INTERNATIONAL OIL DAILY®

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In Brief

Data Snapshot

EU Proposes Price Cap for Dutch TTF Gas Futures

The European Commission has set out a detailed proposal to cap wholesale natural gas prices in an informal discussion document sent to EU governments ahead of a meeting of the bloc's energy ministers on Nov. 24.

The leaked document — a "non-paper" in EU jargon — proposes a temporary price ceiling for the month-ahead Dutch TTF gas futures contract, which serves as a reference price for gas and LNG in Europe.

It says the price ceiling would serve as "an effective instrument against excessive episodes of extraordinarily high prices."

But it emphasizes that it should only be used when gas prices reach "exceptional levels" compared with other regions of the world, to ensure that it does not make it more difficult for Europe to import the gas and LNG it needs.

EU member states have been butting heads over the introduction of a cap on natural gas prices for several months, with at least 15 of the 27 EU member states expressing support for some kind of cap.

Supporters of a price cap argue that it would make it more difficult for Russia to drive up European gas prices. But opponents fear that a price cap could impair Europe's ability to compete for LNG supplies in the global marketplace.

Experts have criticized this latest proposal and have generally expressed doubts about the effectiveness of intervention to prevent surges in European gas prices, such as the one that occurred earlier this year.

Correction Mechanism

Brussels is considering a "static" price ceiling with "dynamic elements," according to the non-paper.

A temporary "market correction mechanism" would be triggered if prices reach a certain level — set in advance to avoid lengthy discussions — if a surge in European prices appeared to be out of step with other gas markets around the world.

The proposal would not extend to gas traded "over the counter" (OTC) — as opposed to gas traded on exchanges — because those deals "cannot be effectively monitored."

Furthermore, exclusion of OTC trading from the mechanism would allow it to serve as a "safety valve" that could enhance security of supply, the document argues.

The commission has suggested that the peak prices of August 2022 could be used for the purpose of "guidance."

At that time the month-ahead TTF September gas contract traded at €350 per megawatt hour ($105.80 per million Btu) on the ICE exchange, amid tight gas supplies and fears that Gazprom could cut off supplies of Russian gas to Europe.

The current month-ahead contract for December gas recently dipped below €100/MWh in response to mild weather and a surplus of LNG coming into Europe. It was trading above €110/MWh late on Thursday.

The mechanism would include monthly monitoring to determine whether a price cap was still needed. And the commission would lift the cap immediately if it was found to be hurting security of supply or gas flows between EU member states.

Monitoring would be conducted by the commission with the support of the EU's Agency for the Cooperation of Energy Regulators, the European Central Bank and the European Securities and Markets Authority.

"Compliance with EU demand reduction targets should also be taken into account when assessing the effects of the mechanism," the non-paper said.

Efficacy Questioned

Professor Massimo Nicolazzi, an energy economist at the University of Turin, told Energy Intelligence that the new proposal is "ineffective and useless" because it omits a previously proposed price floor and does not cover the unregulated OTC market.

In the first nine months of 2022, OTC trading accounted for around 42% of all gas traded in Continental Europe, according to commodities trading platform Trayport. The OTC share of all European gas trading was 49% in 2021 and 65% in 2020.

Nicolazzi said that taking the August 2022 price peak as a reference point for the proposed price ceiling was "grotesque," because it was not indicative of normal — nor abnormal — trading.

Asking TTF operator Gasunie to introduce a "circuit breaker" for prices at the hub would have been a "simple and effective" solution and could have been done earlier this year, he added.

The commission document also points to some potential drawbacks of the proposal, including an increase in OTC trading, which is "less transparent and implies greater risks of defaulting on obligations for the parties involved."

Mike Fulwood of the Oxford Institute of Energy Studies, speaking at the Energy Intelligence Forum last month, also expressed doubts about efforts to regulate European gas prices.

"The TTF market is totally unregulated, so how you cap an unregulated price is a fundamental issue," Fulwood said. "[The gas] is traded on exchanges, where the financial process is regulated, but you can't cap the price."

"Then there's the huge OTC market, which is between a willing buyer and seller, so I'm not sure how you actually cap the price," he added.

Jaime Concha, Copenhagen

Facing Fiscal Black Hole, UK Extends Windfall Levy

The UK government has increased the windfall profits tax for North Sea oil and gas producers and extended it to low-carbon electricity generation companies as it seeks to close a gaping hole in public finances.

UK Chancellor Jeremy Hunt said forecasts by the Office for Budget Responsibility (OBR) had shown the stark impact of global headwinds on the country's economy, which is "now in recession."

Just under half of the UK's £55 billion ($65 billion) "plan for stability" will come from tax increases and the rest from spending cuts.

Hunt blamed Russian President Vladimir Putin's "weaponization" of international gas prices for driving up the UK's collective energy bill by £150 billion compared with pre-pandemic levels. Household bills have soared too, causing distress for many families.

Energy Profits Levy Expanded

As widely expected, the chancellor raised the North Sea Energy Profits Levy by 10% to 35% from Jan. 1 2023, and extended it until the end of March 2028.

That lifts the marginal tax rate on the sector to 75%. The original legislation included a sunset clause that would have ended the levy by 2025.

The investment allowance for spending on new oil and gas extraction will be cut to 29%, while decarbonization expenditure will continue to qualify for the current allowance rate of 80%.

Also as anticipated, the government imposed a temporary 45% levy from Jan. 1 on "extraordinary" profits reaped from low-carbon electricity generation.

The levy will apply to revenue from power generation at an average price above £75 per megawatt hour (MWh).

It will also be limited to companies that generate over 100 GWh and will only apply to extraordinary profits exceeding £10 million.

Hunt said these measures would raise a combined £14 billion in the next fiscal year.

Electricity prices in the UK and elsewhere in Europe have soared along with natural gas prices, but renewable power producers such as offshore wind farms are not burdened by the high costs that gas-fired power plants face.

Gaping Holes

Analysts at Stifel blasted the North Sea tax measures.

"We see the outcome as being less investment, lower UK oil and gas production, higher carbon intensity, worse energy security, fewer jobs, and higher energy costs; the UK remains run by the short term for the short term," Stifel said in a note.

MHA corporate tax expert Chris Denning highlighted what he described as "gaping holes" in the levy for renewable power generators.

"Given that almost 25% (in 2020/21) of UK household energy bills consist of government subsidies for renewables, one might ask whether the [levy] is poorly targeted," he said.

"This is particularly so as a large proportion of the offshore wind farms that operate on the UK continental shelf are owned and operated by non-UK based multinationals that are benefiting from government subsidies," he added.

Confidence Is Key

Shell said that "the energy sector needs confidence that there will now be a stable investment climate following a period of considerable uncertainty."

The company plans up to £25 billion of investment in the UK over the next 10 years in low-carbon energy and oil and gas. However, it avoided paying the windfall profits tax in the third quarter because of heavy investment in North Sea projects.

Ahead of Thursday's budget announcement, BP's UK country head Louise Kingham said the constant fiscal changes "keep you on your toes."

"Clearly when change comes through, you have to go back and look at the numbers and review investments. And we have been doing that throughout all this change," she told a London conference. "For every $3 we make, we pay $2 in tax."

BP had previously warned that tax changes could upset its plans to invest £18 billion in the UK energy system through 2030.

Other Key Budget Measures

The government also announced on Thursday that it will proceed with the new Sizewell C nuclear plant. Contracts for initial investments will be signed with relevant parties, including EDF, in the coming weeks. The government’s £700 million investment is the first state backing for a nuclear project in over 30 years.

From 2025, electric vehicles will no longer be exempt from vehicle excise duties, but tax rates for cars provided to employees by their employer will continue to be taxed at a lower rate if they are electric vehicles.

The government reaffirmed the commitment it made at the COP26 climate conference in Glasgow to reduce UK carbon emissions 68% by 2030.

It also pledged another £6 billion in funding from 2025 to improve UK energy efficiency, effectively doubling the current budget for the initiative. It aims to reduce energy consumption from buildings and industry 15% by 2030.

Deb Kelly, London

Aramco Invests in Korean Crude-to-Chemicals Project

Saudi Aramco said it will invest $7 billion to build a steam cracker in South Korea that will mark the first commercial of use the company's crude-to-chemicals technology.

The cracker will be integrated with the existing S-Oil refinery in Ulsan, South Korea, which is 63% owned by Aramco and has a capacity of 650,000 barrels per day.

The so-called Shaheen project will make petrochemical feedstock and be capable of producing 3.2 million tons per year of petrochemicals, including high-value polymers.

The cracker will convert crude oil into petrochemical feedstock utilizing the TC2C crude-to-chemicals technology developed by Aramco and Lummus.

The Saudi oil giant said this will nearly double S-Oil's chemical yield to 25% once the cracker comes on line and reduce capital spending and operating costs by 30%-40% compared with conventional processes.

Engineering, procurement and construction (EPC) work on the project is expected to start in 2023, with mechanical completion due in the first half of 2026.

"By further integrating refining and chemical processes through the first commercialization of Aramco's thermal crude-to-chemicals technology, we aim to create a more efficient, competitive and sustainable platform for growth while paving the way for further downstream expansion," said Aramco CEO Amin Nasser.

Aramco previously invested $4 billion in an earlier phase of petrochemical expansion at Ulsan, which was completed in 2018.

Downstream Expansion

State-controlled Aramco has previously said that it plans to expand its global refining and petrochemical operations to better match its upstream production capacity and extract more value from Saudi Arabia's vast oil resources.

It has also been developing its crude-to-chemicals technology for several years as part of that strategy and to secure markets for future oil output amid expectations that the shift to low-carbon energy will reduce demand for oil-based transportation fuels.

Refineries with high petrochemical yields have also been built in India and China in recent years.

Saudi Arabia plans to quadruple the volume of oil it allocates to petrochemicals production to 4 million barrels per day by 2030, according to its energy ministry.

The kingdom currently allocates roughly 1 million b/d of oil to petrochemicals, but the plans call for an additional 1.6 million b/d to be allocated to domestic projects and 1.4 million b/d to overseas projects.

Project Details

Some 46,000 b/d of crude oil will be processed by a TC2C unit in Ulsan, which will supply naphtha and liquefied petroleum gas (LPG) to the steam cracker, which will have the capacity to produce 1.8 million tons/yr of ethylene.

The new facilities will produce ethylene, propylene, benzene and butadiene, some of which will be supplied to the South Korean market and some exported via Aramco's global marketing network, according to an S-Oil presentation.

Shaheen's internal rate of return (IRR) is forecast at 16.4% with payback to be achieved in six years, according to the presentation.

The project will be funded 71% from internal financing and 29% from external sources, including a shareholder loan, a bank loan and a corporate bond.

Aramco in Asia

Elsewhere in Asia, Aramco holds a 25% stake in a 240,000 b/d Sinopec-operated refinery with associated petrochemical facilities in Fujian, where it is looking at moving forward with new investment after putting such plans on hold for several years.

Aramco also plans to partner with state-owned Norinco in a 300,000 b/d refinery and 1.5 million ton/yr ethylene scheme in China's Liaoning province.

The Saudi company also has a 50% stake in Malaysia's Refinery and Petrochemical Integrated Development (Rapid) complex, with Petronas holding the other 50%.

That project has been plagued by fires since it started operations in 2019 and it has still not fully hit its stride.

Amena Bakr, Dubai and Maryelle Demongeot, Singapore

Divisions Persist as COP27 Nears Finish Line

UN Secretary General Antonio Guterres urged the world to stand up to the challenge of climate change on Thursday, as agreements on key issues remained elusive at the COP27 conference in Egypt.

"I am here to appeal to all parties to rise to this moment and to the greatest challenge facing humanity. The world is watching and has a simple message: stand and deliver," he told the gathering.

With the conference scheduled to end on Friday, Guterres told reporters that it was "crunch time" for the negotiations in Egypt and that the participating countries needed to overcome their differences.

"There is clearly a breakdown in trust between North and South, between developed and emerging economies," he said. "The world is burning and drowning before our eyes ... I urge all parties to show that they see it — and get it."

Lengthy Draft Document

Attention on Thursday was focused on an early draft of the COP27 "cover text" by the host nation and conference president Egypt. These documents set out the core goals and political agreements agreed at the conferences.

There were concerns that Egypt's draft had expanded from an initial two-page list of key points to 20 pages — almost double the length of the cover text from last year's COP26 conference in Glasgow — with only limited time left to whittle it down.

"We're really seeing quite a laundry list of various views from parties, rather than a synthesis of those views," said Catherine Abreu of climate change think tank E3G.

Abreu also expressed disappointment about the watering down of language on the need to phase out all fossil fuels — rather than just coal — which India and several other countries had called for.

"Instead of a reference to phasing out all fossil fuels, we have an even weaker version of the language around coal and fossil fuel subsidies than we got last year," she told a media briefing on the sidelines of the conference.

Unresolved Issues

Some progress was made at this year's conference on the matter of "loss and damage" — the idea that wealthier countries should compensate less affluent nations for damage caused by the developed world's current and historic CO_2 emissions.

The EU, for example, indicated a greater willingness to make concessions on this point.

Ministerial pairs were appointed to lead negotiations on some of the key issues, with Germany's Jennifer Morgan and Chile's Maisa Rojas handling loss and damage.

COP conferences often run late, with the Glasgow gathering overshooting its schedule by more than 24 hours.

And there have also been several instances where they have concluded without the publication of a final cover text.

One issue that may not be resolved before this year's event wraps up is the lack of progress made in implementing a prior pledge by rich nations to provide $100 billion per year to help poor nations adapt to climate change and switch to clean energy.

Similarly, negotiations about setting up carbon offset markets that would allow countries to buy credits that would be counted as part of their efforts to rein in CO_2 emissions look set to continue into next year.

Ronan Kavanagh, London and Rafiq Latta, Sharm el-Sheikh, Egypt

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Oil Futures Fall as China Covid Cases Rise

Hawkish fiscal rhetoric on persistent concerns about oil demand in China stifled crude futures on Thursday, sending global benchmark Brent below the $90 per barrel mark.

In London, Brent crude for January delivery sank by $2.88 to settle at $89.78/bbl. In New York, December West Texas Intermediate (WTI) on Nymex dropped $2.95 to close at $81.64/bbl, while the January contract closed down $3.60 at $81.40/bbl.

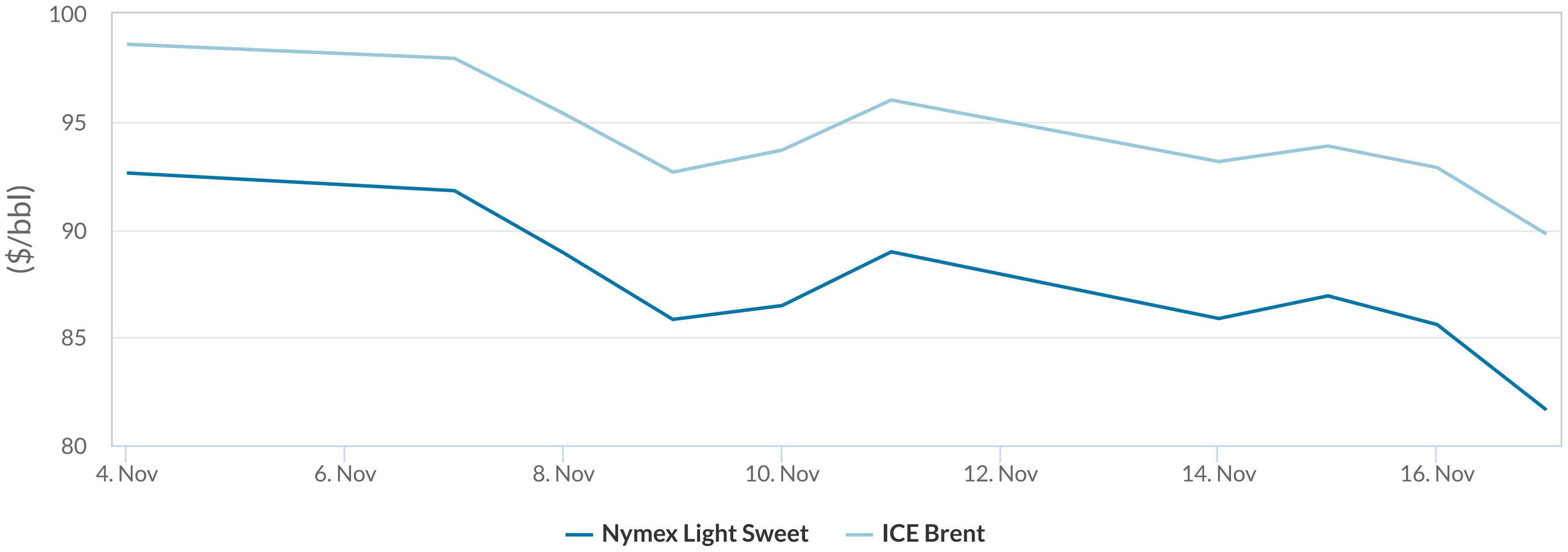
“Oil prices are getting punished as crude demand concerns show no signs of easing. The world’s two largest economies are struggling here as China battles Covid-19 and the US is seeing a significant drop in manufacturing activity,” said Edward Moya of Oanda, noting that China’s caseload is now at its highest since April. “Fears are growing that the spread won’t ease soon as cases have spread across populous regions of Guangzhou and Chongqing.”

Quarantine measures will pressure travel and industrial activity and impact oil consumption.

“Chinese Covid restrictions set a comparatively high bar for any meaningful improvement in oil demand,” said Tamas Varga of oil brokerage PVM Oil.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



Meanwhile, the US Federal Reserve’s members have signaled that while interest rate hikes may slow, they will not cease. Kansas City Federal Reserve governor Esther George recently said a shrinking economy might be necessary to combat inflation.

“I’m looking at a labor market that is so tight, I don’t know how you continue to bring this level of inflation down without having some real slowing, and maybe we even have contraction in the economy to get there,” she said.

Rate hikes and hawkish fiscal policy tend to support the dollar, which rose on Thursday against a basket of other currencies. A strong dollar usually weighs on demand by making crude, priced in the currency, more expensive, analysts say.

Despite Thursday’s heavy losses, oil is signaling that the market is short. The forward curve for both benchmarks remains in backwardation, with prompt barrels trading at a significant premium to later-dated contracts.

In addition, dated Brent is posting a slight premium to its derivative futures contract on London’s Intercontinental Exchange (ICE).

Frans Koster, New York

IN BRIEF

Shell Drops French Wind Project

A consortium of companies including UK supermajor Shell has withdrawn from an offshore wind pilot project in France, citing multiple challenges and spiraling costs.

The global wind energy industry is facing inflationary pressures due to a rise in the cost of raw materials, components and international shipping. Higher taxes on energy firms in Europe are also jeopardizing investment.

Shell, China General Nuclear Power Corp. (CGN) and France's Banque des Territoires had planned to build a 28.5 MW wind farm off Groix et Belle-Ile in Brittany.

But Shell said the project had encountered "technical, commercial and financial challenges" against a backdrop of cost inflation and supply chain constraints.

This meant the project economics changed significantly and put the viability of the pilot scheme in question for all the partners, it added.

Shell, which has more than 2.2 GW of offshore wind capacity in operation and under construction, joined the €300 million ($311 million) Groix et Belle-Ile project in 2019 when it acquired French floating wind developer Eolfi.

Tom Daly, London

India's Crude Oil Imports Rise

India's crude oil imports rose 1.7% in October versus September as refiners cranked up crude runs to satisfy an increase in domestic demand as a result of the Hindu festival season and the end of seasonal monsoon rains, government data showed.

The country's 23 refineries — with a combined nameplate capacity of 5.02 million b/d — imported 4.37 million b/d of crude in October versus 4.3 million b/d in September. October crude imports were also up 8.2% versus October of last year.

Despite the increase in import volumes, India's import bill stayed flat in October at $12.8 billion, reflecting a dip in global crude oil prices and refiners' continuing purchases of deeply discounted crude from Russia.

However, those purchases could come under pressure from Dec. 5 when the EU's import ban and the G7's price cap take effect, potentially leading to a shortage of tankers.

Oil Minister Hardeep Puri said this week that there is no pressure on India to comply with the price cap and that the market will deal with any logistics problems as and when they arise.

INDIA OIL DEMAND

('000 b/d)	Oct '22	Sep '22	%Chg.	Oct '21
Crude Oil Imports	4,374	4,300	1.7%	4,043
Domestic Crude Production	591	586	0.9	591
Refined Oil Product Consumption	4,737	4,575	3.5	4,582
Refined Product Exports	1,236	1,383	-10.6	1,364
Refined Product Imports	952	958	-0.6	1,030
Refinery Throughput	4,824	4,765	1.2%	4,965

Source: Energy Intelligence calculations and Ministry of Petroleum and Natural Gas, Govt. of India

Rakesh Sharma, New Delhi

Singapore Stocks Fall

Singapore onshore oil product inventories fell by 2.4% from a week ago to 41.23 million bbl on Nov. 16, according to government agency IE Singapore.

Singapore is the Asia-Pacific region's trading and pricing hub for oil products and its inventory levels are a closely watched indicator of supply.

SINGAPORE ONSHORE PRODUCT STOCKS

('000 bbl)	Nov 16	Nov 9	Vol. Chg.	%Chg.
Light Distillates	13,166	13,518	-352	-2.6%
Middle Distillates	6,898	7,274	-376	-5.2
Fuel Oil	21,168	21,471	-303	-1.4
Total	**41,232**	**42,263**	**-1,031**	**-2.4%**

Source: IE Singapore

Freddie Yap, Singapore

DATA SNAPSHOT

Oil and Gas Prices, Nov. 17, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-3.08	89.78	88.82
Nymex Light Sweet	-3.95	81.64	81.40
DME Oman	-2.87	84.26	83.46
ICE Murban	-2.95	88.36	86.82

INTERNATIONAL SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	-1.60	91.00	92.60
Dubai	-0.86	87.14	88.00
Forties	+0.06	92.33	92.27
Bonny Light	-0.11	93.41	93.52
Urals	-0.11	73.03	73.14
Opec Basket*			91.72

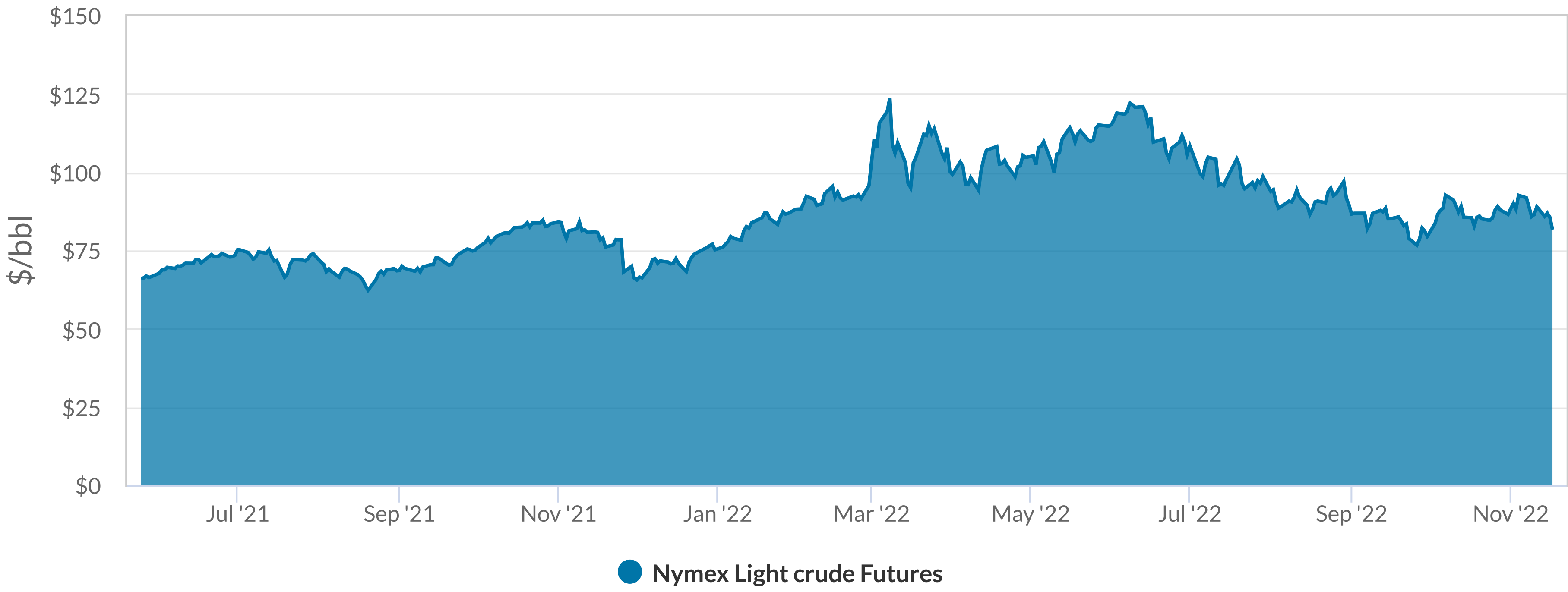
*Opec price assessed.

NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-3.93	81.69	85.62
WTS (Midland)	-3.68	80.44	84.12
LLS	-3.93	87.69	91.62
Mars	-3.18	82.19	85.37
Bakken	-3.93	86.49	90.42

ICE BRENT CRUDE FUTURES

NYMEX LIGHT CRUDE FUTURES



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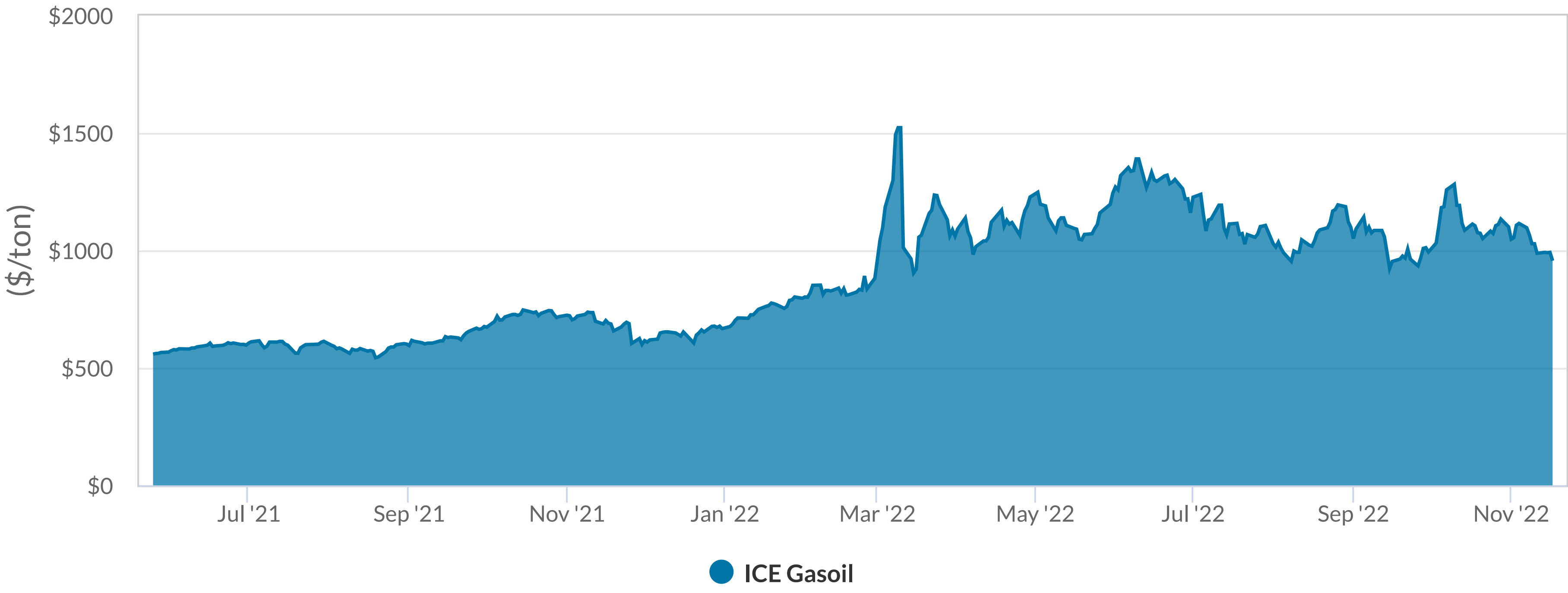
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-5.33	245.47	239.75
ULSD Diesel (¢/gal)	-8.88	352.48	339.70
ICE			
Gasoil ($/ton)	-35.75	956.00	944.25
Gasoil (¢/gal)	-11.41	305.12	301.37

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES

US SPOT REFINED PRODUCTS

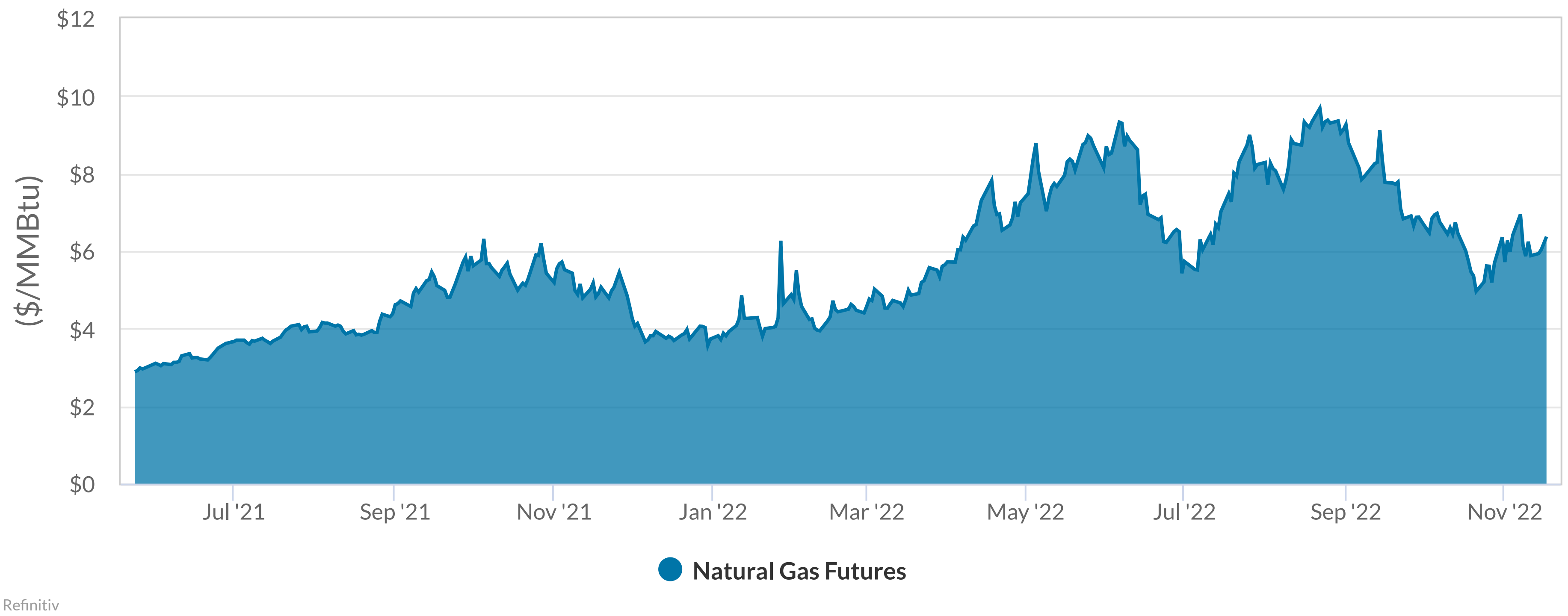
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-4.31	273.24	277.55
No.2 Heating Oil	-21.47	360.94	382.41
No.2 ULSD Diesel	-19.97	382.44	402.41
No.6 Oil 0.3% *			93.07
No.6 Oil 1% *			84.35
No.6 Oil 3% *			65.15
Gulf Coast (¢/gal)			
Regular Gasoline			238.30
No.2 ULSD Diesel	-10.47	322.94	333.41
No.6 Oil 0.7% *			81.80
No.6 Oil 1% *			81.80
No.6 Oil 3% *			65.15

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	-34.50	817.00	851.50
ULSD Diesel	-27.50	991.50	1019.00
Singapore ($/bbl)			
Gasoil	-1.47	120.76	122.23
Jet/Kerosene	-1.35	122.51	123.86
VLSFO Fuel Oil ($/ton)	-24.62	623.08	647.70
HSFO Fuel Oil 180 ($/ton)	-14.46	423.95	438.41

NYMEX NATURAL GAS FUTURES



NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.17	6.37
Henry Hub, Spot	+0.45	6.20
Transco Zone 6 - NY	-0.33	7.30
Chicago Citygate	+0.61	6.31
Rockies (Opal)	+0.41	8.25
Southern Calif. Citygate	+0.35	8.66
AECO Hub (Canada)	+0.41	4.69
Dutch TTF (euro/MWh)	-2.00	100.00
UK NBP Spot (p/th)	+22.00	104.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Nov. 17, 2022

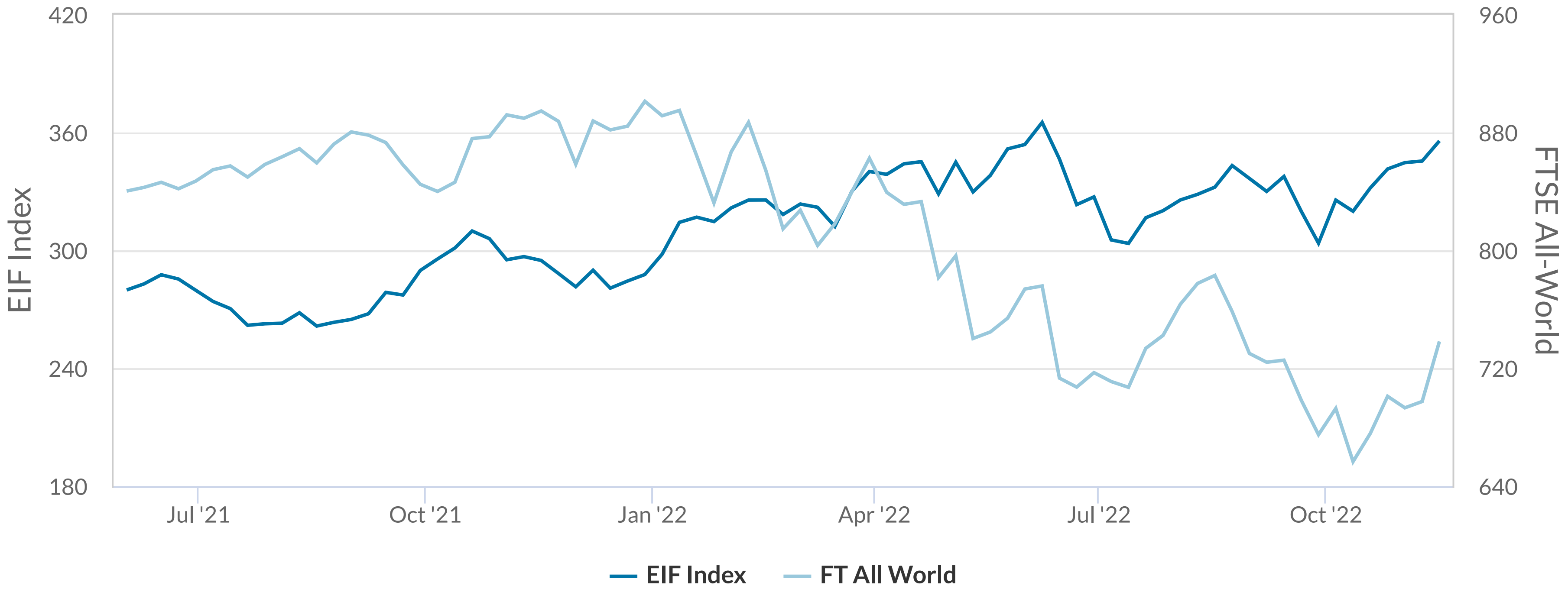
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	-1.82	355.73	+24.05
S&P 500	-12.23	3,946.56	-17.66
FTSE All-World*	-5.53	738.23	-18.08

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities