

# ENERGY INTELLIGENCE FINANCE<sup>®</sup>

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## CONTENTS

- 2** ENERGY SECURITY WON'T TRUMP TRANSITION IN 2023
- 5** SPENDING HIKE CAN'T BUY OUTPUT GROWTH
- 6** TRADING HOUSES WADE DEEPER INTO LNG MARKET
- 8** ENERGY AND EQUITY MARKET DATA

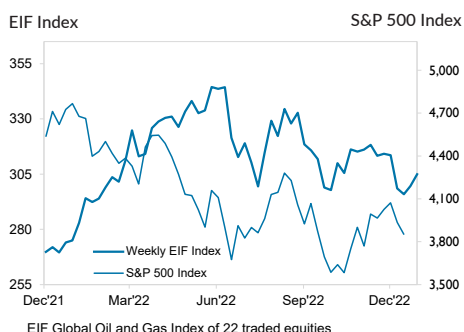
## OUR TAKE

### Decarbonization Not Fading From View

*Heightened alarm that the Russia-Ukraine conflict and energy crisis are leading to a retreat in oil and gas corporate commitments to decarbonization is misplaced, in our view. We acknowledge near-term energy security concerns have eased pressure on companies to adopt more aggressive climate strategies, for now. But existing transition commitments remain firmly in place.*

- Much has been made of dwindling mentions of environmental, social and governance (ESG) issues in oil and gas earnings calls and other management comments, with the likes of Bloomberg suggesting “fading interest” from corporates. But we see a spurious conclusion.
- The need to address sudden concerns around immediate energy supplies and implications for producers is a natural consequence of the unprecedented disruption that gripped energy markets last year, biasing corporate comments — and importantly, analyst inquiries — toward such issues. At the same time, companies spent the better part of the past two years adopting emissions reduction strategies in response to investor demands. With those plans now in place and corporate transparency around implementation following suit, the time devoted to discussing such matters has shrunk.
- Actions speak louder than words — and here we see continued forward momentum. The European majors will add incremental oil and gas capital expenditure next year — but within firm ceilings that sit well below historical norms and remain aligned with wider transition commitments. All majors have biased M&A toward low-carbon acquisitions. Absolute spending on decarbonization is rising across the industry as companies begin material work to meet 2025-30 — and ultimately, 2050 — emissions reduction goals. Case in point: Exxon Mobil is raising low-carbon spending by \$2 billion (15%) through 2027, with 60% of its \$17 billion in planned capex here devoted to decarbonizing its own operations.
- That said, it is plausible that absolute corporate emissions could tick higher this year — and even the next couple years — as producers race to meet potential supply shortfalls, while renewables still need time to scale to viable replacement levels. But, as with the pace of the global energy transition more broadly, we see this as a temporary slowdown, not derailment, of wider climate momentum.
- Companies — and indeed, entire countries — will likely find themselves needing to accelerate emissions reductions later this decade to stay on track with stated targets. But we do not see demands in this space becoming sidelined longer term in the name of energy security. In fact, import-dependent jurisdictions like Europe and China see the successful shift toward low-carbon energy as bolstering their energy security longer term, cementing the strategic case for decarbonization. Executing existing transition commitments will require ever-increasing capital and years of sustained momentum to achieve. Recognizing this, we see companies understanding that the stakes are too high to adopt a stop-start approach to decarbonization, given future risks to capital access and investor buy-in once climate matters rise again to the top of the agenda.

## EIF INDEX



## PEER STRATEGY

# Energy Security Won't Trump Transition Strategies in 2023

*Russia's invasion of Ukraine brought unexpected challenges — and profits — to much of the global energy industry last year, and has cemented energy security as a top priority in 2023. Whether stellar profits will endure is less certain, but regardless, oil and gas corporates will find themselves expected to both attend to immediate global needs for fossil fuel supplies while also staunchly preserving existing low-carbon transition plans. Here is what Energy Intelligence will be specifically watching over the next 12 months for each of our core covered peer groups.*

- **US majors' transition strategies have found wider acceptance post-Ukraine but must keep a laser-like focus on material low-carbon progress.**

Exxon Mobil and Chevron's "and" strategies featuring this-decade oil and gas production growth and accelerating low-carbon investments tick boxes for a wider audience than they did a year ago. The energy crisis has tempered more mainstream demands — particularly in the US — for an immediate supply-led transition away from fossil fuels. Yet longer-term climate objectives remain unchanged. The result is a likely continued easing of calls for more robust low-carbon strategies that emphasize absolute Scope 3 (end-use) emissions reductions.

That said, we expect rigorous investor scrutiny of existing emissions-focused strategies to remain in place, requiring Exxon and Chevron to demonstrate how earlier stage low-carbon solutions are going to materialize into viable decarbonization businesses. This will include moving concrete investments from MOU toward FID. At the same time, both US majors will face traditional scrutiny over their ability to drive higher returns and cash flows from conventional oil and gas growth.

For Chevron, 2023 will need to see robust sequential output growth return to the US Permian Basin if medium-term plans are to remain intact, all while navigating double-digit cost inflation and operational challenges that have to be managed by other parties on its nonoperated positions. Exxon also has big Permian growth plans to execute but is leaning on a more diverse pool of projects to drive medium-term growth. The accelerated start-up of Payara off Guyana this year alongside continued progress at Golden Pass LNG (US) and the Equinor-operated Bacalhau (Brazil) ahead of 2024 start-up top our radar for 2023.

- **Stronger transition pressures on European majors will limit their flexibility on oil and gas capex.**

Despite Europe's immediate needs for new oil and gas supplies to displace Russian volumes, the continent sees strengthened energy security longer term happening through an accelerated shift from (imported) fossil fuels. That means pressures on Europe's leading majors — BP, Shell and TotalEnergies — to toe the line on more aggressive transition strategies remain intact, even if calls for an even more accelerated retreat from oil and gas have tempered, for now.

This Trans-Atlantic divide makes the balancing act trickier for the bunch, given still-relevant short-term investor demands for maximized returns amid robust hydrocarbon pricing. On one hand, we see the European majors continuing to squeeze out incremental capex this year for short-cycle oil and gas and potentially higher medium-term output as a result of Europe's immediate energy needs. At the same time, though, the marginal dollar will come from within existing, transition-minded frameworks that cap overall upstream spending far below historical levels.

Total is arguably positioning itself to have the most wiggle room within this; its oil-directed capex is evaluated on a "net" basis that would back out any proceeds from oil-weighted asset sales, and its overall capex guidance has edged higher. CEO Patrick Pouyanné has acknowledged he does not want to limit his company's growth because of absolute Scope 3 targets that are not in step with the pace of society's energy transition.

Other key areas to watch for include: (1) Shell's direction under new CEO Wael Sawan, who has vowed to keep the company on a "bold" and "innovative" course, and could perhaps look to make his mark early on by pulling off a marquee (likely low-carbon) M&A deal; (2) pushback on BP's goal of cutting oil and gas production by 40% from 2019 levels by 2030, which has already softened to a divestment-led reduction versus a mix of sales and constrained investment, and (3) wider impacts of heightened European government intervention, including windfall taxes, and political pressure to completely abandon remaining assets in Russia.

- **Russian corporates will face unprecedented challenges navigating price caps and import bans in search of new markets.**

Russian officials have criticized Western price cap mechanisms, imposed in the wake of the Ukraine conflict, as non-market measures doomed to fail. However, the strategic nimbleness of Russian oil producers such as Rosneft and Lukoil — whose European refineries remain at risk of nationalization — will be put to the test as the almost one-month old EU oil embargo on Russian crude and \$60 per barrel G7 price cap are embedded into

the trading landscape. The challenge will be to maintain handsome earnings despite these barriers, finding buyers for their crude and — from Feb. 5 — products that can no longer be sold to Europe. Producers will need to smartly manage wells, cutting output if demand from “friendly countries” cannot absorb all their supply, and restoring it when needed.

Although the EU gas price cap will only be triggered under certain conditions, Gazprom knows its already sharply reduced flows to Europe are only another diplomatic escalation away from a full cutoff. The company will spend more money to build out infrastructure enabling it to supply more gas to markets in the east in years to come.

• **Regional integrations will prioritize extracting more value from standalone entities.**

As Europe’s regional integrations continue to plan and roll out standalone entities with separate business models, all eyes will be on where proceeds are channeled from any sell-downs or spinoffs. Investing in the energy transition — as Eni has pledged to do with the proceeds of its suspended Plenitude IPO — will make them appear forward-looking and evolutionary, albeit with a long-dated payoff for investors. Yet directly returning the money to shareholders smacks of all-out liquidation of a dying business. These firms will likely try to strike a balance between the two to keep shareholders happy.

Eni — which has this year already announced the creation of a new company, biofuels-focused Eni Sustainable Mobility — will be keeping tabs on how rival Repsol fares with outside investors on board in its renewables business; the Spanish company has opted — at least for now — for a private sale instead of an IPO. It did something similar with its upstream business, selling 25% to private equity firm EIG in a transaction set to close early this year, also pledging to invest the proceeds in the transition.

The success of that deal — and the \$19 billion upstream valuation — will be of great interest to other integrated companies, including majors, and could lead some to follow suit. OMV, one of the few fossil fuel firms to explicitly state its intent to no longer produce oil and gas by 2050, has also seen its upstream business attract interest from the private-equity sector and beyond, and may decide 2023 represents one of its last opportunities to secure a bumper payday by selling it.

• **National oil companies (NOCs) are broadly targeting higher output, but decarbonization remains a critical addendum to preserve long-term market share.**

Mideast Gulf NOCs are acting fast to cash in on a bullish medium-term outlook for oil and gas that could see the withering of Russia’s standing in the global energy mix. Abu Dhabi National Oil Co. (Adnoc) is fast-tracking its push to 5 million barrels per day of crude production capacity and beyond, while Saudi Aramco is pursuing a 1 million b/d expansion and QatarEnergy is adding

48 million tons per year of liquefaction capacity. But even with these conventional tailwinds behind them, decarbonization plans continue to filter through, largely in the form of accompanying carbon capture and storage (CCS), hydrogen and ammonia investments. Adnoc’s targets are arguably the toughest: its investment last June in Masdar came with a commitment to build some 100 gigawatts of renewables power and 1 million tons/yr of green hydrogen capacity by 2030.

In Latin America, we’re keeping a close eye on Colombia and Brazil, where recently elected left-leaning presidents could dramatically shift the strategic directions of Ecopetrol and Petrobras, respectively. Mexico’s Pemex will have its hands full trying to grow oil output while also shifting its supplies exclusively to its own refineries, but interestingly, the company is also ringing in the new year with a fresh commitment to attend to environmental, social and governance matters.

Asia’s leading NOCs, such as China’s Big Three and Thailand’s PTT, firmly see higher domestic oil and gas output as critical to supporting heightened state energy security concerns. But all should be watched closely for their evolving energy transition strategies, too. Southeast Asian NOCs, for example, continue to see natural gas as crucial to their transition stories, leaving the door open to greater exploration and M&A activity this year.

Similarly, Chinese NOCs will focus their international activity around firming up supplies of LNG and could be tempted to purchase upstream stakes in Russia — although efforts in areas like green hydrogen will take greater strategic prominence as well.

• **Policy perks will likely solidify earlier stage decarbonization investments at US independents.**

After a year of bumper free cash flow tempered by rapid cost inflation, capital discipline and shareholder returns will remain top priorities for US independents. But as they look to mitigate inflation impacts as best they can, these producers are also expected to maximize benefits from the landmark Inflation Reduction Act (IRA) in supporting their own operational decarbonization commitments. Topping our radar will be ConocoPhillips and Occidental Petroleum.

The former was the first major US producer to adopt a net-zero Scope 1 and 2 emissions target, yet details have remained thin on how it plans to get there. We expect more insights in the coming months around the potential role of CCS and hydrogen. Oxy has meanwhile significantly accelerated its anticipated pace of deploying direct air capture (DAC) kit on the back of IRA supports.

Its initial plant, in the Permian Basin, should be watched closely given early indications of cost inflation pressures to see how the economics of future plans may stack up.

*Staff Reports*

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## 2023: WHAT WE'RE WATCHING

Adnoc	(1) Clarity around ultimate size of oil capacity expansion (6 million b/d potential) + early execution of fast-tracked plans for 5 million b/d by 2027; (2) potential partner selection for Fujairah LNG; (3) transition strategy positioning ahead of COP28 in Dubai
APA	(1) Potential materiality of Suriname, based on project size for Sapakara South if FID'd + further drilling; (2) Egypt's returns, cash-flow potential once operating efficiently; (3) ability to execute mid-single-digit production growth following years of declines
BP	(1) Whether its upstream portfolio reduction plans (~flat through 2025, minus 40% by 2030) still comply with investor demands given divestment dependency; (2) fate of 19.75% Rosneft stake
CNOOC	(1) Ability to execute divestments (Gulf of Mexico, Canada, North Sea) to advance shift toward domestic portfolio; (2) success in focusing on high-return, less geopolitical-sensitive developments overseas, such as in Guyana
CNPC	(1) Details on how listed arm PetroChina plans to peak Scope 1+2 emissions by 2025 + on interim plans to cut Scope 3 emissions; (2) whether it shrugs off the threat of secondary sanctions and takes more upstream stakes in Russia; (3) signs of a downstream recovery as China ends "zero-Covid" policy but sees cases rising exponentially
Chevron	(1) Whether it can shift to more aggressive sequential Permian (US) growth to track 2025 plans while preserving capital efficiency; (2) concrete progress on substantial this-decade CCS plans + clarity around clean hydrogen strategy
ConocoPhillips	(1) Firm medium-term actions and targets to achieve net-zero operations by 2050; (2) greater clarity over LNG strategy following Qatar, US plans; (3) future of Alaska investments given heightened environmental pushback
EOG Resources	(1) Progress on CCS pilot + potential for scaled-up deployment to address operational emissions; (2) wider clarity over international portfolio potential (incl. exploration drilling off Australia); (3) materiality of Utica Combo (US) based on delineation
Ecopetrol	Strategic implications of appointments/mandates made under Colombia's new leftist President Gustavo Petro on upstream + low-carbon priorities
Eni	(1) Whether the postponed IPO of Plenitude is revived; (2) potential for the creation of other "satellite" companies and JVs (like Azule) + how they'll seek investment; (3) ability to leverage African gas to meet Europe's heightened needs
Equinor	Capital markets update in February, unveiling shifts in how it runs its renewables business to improve profitability
Exxon Mobil	(1) Areas beyond Permian (US) where net-zero operations could be expedited, following global asset review; (2) ability to advance pipeline of concrete CCS opportunities given significance to low-carbon plans; (3) any movement on Rovuma LNG (Mozambique)
Gazprom	(1) Whether the Russia-EU standoff over Ukraine results in further cuts to gas exports to Europe; (2) how waning export margins affect corporate spending; (3) efforts to diversify sales into China, Central Asia and elsewhere
Hess	(1) Start-up of a pilot EOR in the Bakken (US); (2) continued execution successes off Guyana
Inpex	(1) Ability to successfully diversify LNG supplies beyond Australia; (2) success rebooting Abadi LNG (Indonesia) with new potential partners + CCS plans
Kosmos	(1) Successful launch of Phase 1 of Tortue FLNG (Mauritania/Senegal) + ability to advance delayed FID for Phase 2; (2) opportunities to apply modular LNG approach elsewhere in Africa, including via M&A of new gas resources
Lukoil	(1) Potential sale of the Isab refinery (Italy) and other foreign assets at risk of being nationalized; (2) possible separation of Russian and overseas assets to protect the latter from a Kremlin-led takeover of the company at home; (3) whether it can continue to function as Russia's largest independent oil producer amid rising pressure from all sides
OMV	(1) Whether the sale of a majority stake in the bulk of its upstream business proceeds; (2) FID on Neptun Deep project in Black Sea (Romania); (3) ramp-up of production and sales of sustainable fuels, including sustainable aviation fuel (SAF)
Occidental	(1) Execution of its first DAC project in the Permian (US), including cost control + potential for new equity partners or other monetization strategies; (2) customer interest in "carbon neutral" crude vs. specific support for non-EOR CCS/DAC
PDVSA	(1) Extent production/operations can improve at Chevron-shared JVs given US major's new operational control; (2) further loosening of US sanctions on PDVSA oil sales and partner investment
PTT	(1) How upstream arm PTTEP will reconcile emissions targets with plans for record output in its new five-year plan; (2) successful start-up of Thaioil's Clean Fuel Project to upgrade fuels produced at Sriracha refinery
Pemex	(1) Feasibility of halting crude exports to non-Pemex facilities by end-2023, including build-out of domestic refining infrastructure; (2) progress expediting Zama with an eye toward a 2024 start-up; (3) concrete plans to enact new ESG priorities
Pertamina	(1) Successful IPOs for its geothermal and upstream units, aimed at funding expansion (geothermal delayed from 2022); (2) FID on Tuban refinery despite partnership with Rosneft + G20 pressure to limit involvement with Russia
Petrobras	Strategic implications of appointments/mandates made under the left-leaning Lula administration, including on Petrobras' dividend and fuel pricing policy + ability to focus its portfolio/capex more exclusively around pre-salt
Petronas	(1) Ability to plot 25% absolute emissions reductions this decade, including additional CCS projects like Kasawari; (2) whether cost inflation continues to delay FID on the floating ZLNG project (Malaysia)
QatarEnergy	(1) Geographic mix + pricing power in LNG sales contracts signed for the North Field expansions; (2) whether NFE equity stakes are extended to Chinese NOCs
Repsol	(1) How the company integrates the views of its new investor partners in its renewables business (EIP and Credit Agricole Assurances) + in its upstream business (EIG); (2) where the proceeds from the sales of these stakes are spent
Rosneft	(1) Success attracting new foreign partners into the Vostok Oil Arctic project given Western pressures/sanctions; (2) potential ability to begin exporting gas via pipelines to China (now exclusively Gazprom)
Saudi Aramco	(1) Progress expanding oil capacity to 13 million b/d + putting Phase 1 of Jafurah on pace for 2025 start-up; (2) decision to list additional shares domestically or list in China; (3) concrete advancement of big CCS, blue hydrogen + ammonia plans
Shell	Direction taken by new CEO Wael Sawan, including potential to alter transition + emissions targets, as well as execute marquee M&A deals to make an early imprint on the company



## 2023: WHAT WE'RE WATCHING (continued)

Sinopec	(1) Initial plans to become one of the industry's leading green hydrogen producers; (2) success securing an LNG equity stake in Qatar's NFE; (3) whether an MOU with Saudi Aramco for another refining and petchem project in China goes any further
Sonangol	(1) Progress separating financings from the state + early work to study a future Sonangol EP IPO; (2) success finalizing upstream divestments to raise funds for remaining E&P operations
TotalEnergies	(1) Large-scale renewables M&A; (2) how much capex will go toward short-cycle oil projects after CEO Patrick Pouyanné expressed a wish not to be "limited" by absolute Scope 3 emissions targets; (3) how a shift in its renewables strategy to take on more merchant risk in pursuit of higher returns starts to play out
Wintershall Dea	(1) Whether conditions will improve for a possible IPO, delayed from 2021 (not expected in early 2023); (2) ability to further replace Russian gas, particularly in Norway alongside CCS plans
Woodside	(1) Early successes driving 4% annual production growth following strategic review/portfolio high-grading; (2) FIDs on Trion (Mexico) -- postponed due to cost inflation -- and H2OK (US), Woodside's first hydrogen facility

## INDUSTRY TREND

# Output Growth to Be Muted Despite Upstream Spending Boost

Operators have been tight-lipped about spending plans for 2023 as uncertainty continues to swirl around global energy markets buffeted by fears of recession and the impacts of the war in Ukraine. But analysts and contractors are seeing hints of continued growth as public and private companies start to rebuild their weakened production capacity following the pandemic. The picture emerging is one that looks more like the pre-shale era, with increased focus offshore and in traditional producing regions such as the Mideast, as growth in the US becomes harder and more expensive to execute.

- **Oil and gas upstream spending looks set to rise 13%-17% but will remain below historical levels as companies prioritize capital discipline and shareholder returns.**

Global upstream spending is expected to hit \$412 billion in 2023, up 13%, according to a closely watched survey from Barclays. Other banks, including JPMorgan and Evercore ISI, see slightly higher increases, but even with two years of significant recovery, spending remains anywhere from 40% to more than 60% below 2014 highs as companies prioritize shareholder returns.

By comparison, Energy Intelligence sees global oil and gas spending increasing by almost 12% this year following a 14% leap in 2022, driven in large part by national oil companies (NOCs), as well as more limited increases from international oil companies (IOCs). "With capital discipline keeping US production growth essentially flat, Middle East capacity expansion just starting, and deepwater contributions at least three to four years away, we expect a double-digit increase in global upstream spending for the next several years," Barclays said in its report.

- **Strategic investments by Opec heavyweights will continue to drive Mideast spending trends, but gas is becoming an increasingly important part of overall capex.**

Abu Dhabi National Oil Co. (Adnoc) has increased its capital spending budget through 2027 by 18% to \$150 billion to meet its accelerated goal of having capacity to produce 5 million barrels per

day of oil, if not more. Saudi Aramco is projecting a 16% increase in capex as it continues its own capacity expansion. However, roughly 60% of Saudi Arabia's onshore rigs are now drilling for natural gas. Aramco's flagship Jafura unconventional gas development is a key part of a broader strategy to replace as much as 3 million b/d of domestic oil use, freeing up more crude for export. Barclays sees Saudi Arabia's rig count reaching 300 units by the end of 2023, up from a low of 181 in the first quarter of 2021.

- **Inflation will eat away at much of the increased spending, particularly onshore US, resulting in muted production growth.**

Barclays estimates that as much as two-thirds of all increased upstream spending globally is related to increases in the costs of services and materials, leaving less funding available for growth. Energy Intelligence sees global oil production increasing by 1.5 million b/d to 101 million b/d in 2023. In the US onshore, inflation coupled with dwindling Tier 1 inventory led operators to spend 31% more in 2022 to grow production just 2.6%, according to JPMorgan figures, a trend analysts there say is likely to continue into 2023.

The bank estimates spending in the US will increase 10%-20% this year but sees "upside risk to our capex forecasts given the potential for weaker overall shale well productivity." In some cases, companies are choosing to defer growth, rather than risk eroding returns. Shell recently delayed FID at its proposed 90,000 b/d Gato do Mato development offshore Brazil by up to two years due to rising costs. Equinor made a similar decision to defer its Wisting development offshore Norway.

- **Spending on decarbonization of oil and gas activities will take an increasing share of overall capex as companies accelerate their energy transition strategies.**

Even companies that remain focused on oil and gas production are increasing their low-carbon spending. "Carbon emissions is a significant focus for North American operators, with the majority 56% willing to pay for services or technologies that will lower carbon emissions," Evercore ISI said.

That's despite more than 90% of US companies surveyed saying they had no plans to branch out into renewable energy. Exxon Mobil is ramping up low-carbon spending to as much as \$5 billion

by 2027, with up to 60% of that going to decarbonizing its own oil and gas operations.

- **Upstream spending will tilt toward offshore opportunities as a diverse set of players are drawn to high-margin, low-carbon barrels there.**

Large independents, NOCs and Western majors are all returning to offshore plays following years of favoring short-cycle onshore opportunities. Total spending on offshore developments this year is expected to increase 24%, according to estimates from Barclays. Petrobras is setting the pace with an astonishing 87% increase in capital spending to kickstart its plan to grow production by 600,000 barrels of oil equivalent per day to 3.2 million boe/d by 2026. Aramco is also shifting a growing amount of its activity offshore, with an estimated 80% of its planned 1 million b/d increase in oil production capacity coming from Mideast Gulf fields like Zuluf and Marjan. Africa is also seeing an offshore revival, with spending there predicted to grow by 22%, Barclays said.

- **Cashflow is king, but longer-term spending won't be dictated too much by near-term oil prices.**

Some 88% of North American company executives characterized cashflow as a “key determinant” for their spending decisions, according to the Evercore ISI survey. The figure is the highest since 2000, when the survey was first carried out, and positions cashflow as the most important of 10 factors influencing spending decisions. But this does not mean that spending plans will be hypersensitive to commodity prices. “With first oil a minimum of three to four years away, greenfield projects are likewise unperturbed by near-term oil prices,” Barclays said of offshore spending. It noted, however, that shorter-cycle developments, such as step-outs, field extensions and shallow-water projects, could see some activity moderate if oil prices remain below \$70 per barrel.

Noah Brenner, London

[Click here for full report with graphics](#)

## INDUSTRY TREND

# Trading Houses Wade Deeper Into Lucrative LNG Market

- *Trading houses' flexibility in shipping has allowed them to take advantage of the European spot LNG price bonanza.*
- *While they can't yet match LNG major portfolio players like Shell and TotalEnergies in volumes traded, they are signing offtake agreements in the same regions.*
- *The coming year promises greater competition between trading houses and portfolio players as gas prices are set to remain volatile.*

## The Issue

Top commodity trading houses Trafigura, Vitol, Glencore and Gunvor all enjoyed bumper financial years in 2022, amid surging volatility — and prices — on global energy markets. While crude oil remains the prime profit-driver for most, disruption to gas supplies from Russia to Europe last year made LNG trading a more important contributor to their stellar earnings. With gas scarcity in Europe set to intensify in 2023, the traders are looking to keep riding the bull run and chip away at LNG portfolio players' market share.

## Volume and Volatility

Volume-wise, trading houses are still only selling a fraction of the LNG the portfolio players such as Shell, Total and BP are, but the segment is rapidly becoming a key one for them. Trafigura is the only trading house to disclose how much LNG it has been selling recently: it traded a total 14 million tons of LNG — equivalent to around 200 cargoes — in the year ended Sep. 30, up from 12 million tons a year earlier.

By comparison, top portfolio player Shell, which has around one-sixth of the global LNG market, sold almost 66 million tons of the superchilled fuel over the same period — which is likely more than the four trading houses combined; Total was next with 47 million tons.

But while Shell has a clear advantage in terms of scale, its financial performance in LNG has been lagging. It did not deny that its LNG trading business made a loss in the third quarter as it reported another disappointing performance in its Integrated Gas business, blaming volatility brought by Russia's invasion of Ukraine for turning the usual premium of the Japan Korea Marker over European prices on its head.

For traders, on the other hand, volatility was the very source of their sky-high profits. Trafigura said in its annual report it found particular success on the LNG market, where it “navigated policy, price volatility, market liquidity and increasingly complex logistics to deliver a larger number of cargoes to Europe to help offset the decline in Russian gas flows.” Glencore's marketing arm saw record earnings in the first half of 2022, noting that “extreme dislocations and price movements” in the LNG market were one of the main drivers.

## Competitive Edge

The trading houses have built their LNG businesses around shipping — and their ability to mobilize tankers at short notice to take advantage of any price arbitrages. Majors, while trying to stay nimble, tend to have more long-term commitments in LNG. “We are quite hands-on with ships — we can turn it around just like that,” Gunvor CEO Tornqvist said previously. “You can have a ship that first goes here, turns around and goes there and then goes back again. And each of these movements actually makes money.”

Gunvor has a fleet of LNG carriers managed by its Singapore-based shipping arm Clearlake, which charters the vessels on a short/medium-term basis and moves them all over the world.

Indeed, Gunvor and Trafigura have several vessels on time charter, as opposed to chartering them for single voyages only, giving them greater flexibility on the spot market, a European LNG shipbroker told Energy Intelligence. Data from commodity analytics firm Kpler shows Gunvor currently charters 11 LNG vessels, while Trafigura has seven.

Shell, by comparison, has around 70. But the shipbroker said that the real size of the trading houses' fleets could be larger. Vitol has been "reasonably active" on the LNG chartering market, "in line with the other traders," said a source close to the matter. Glencore is understood to be the least active.

Like the majors, traders have been quick to take up positions in US LNG, which has taken on added importance as Europe looks to end imports of Russian gas. Gunvor's Singapore arm in May last year signed a 20-year deal to take 2 million tons/yr from Energy Transfer's Lake Charles project in Louisiana from as early as 2026.

Trafigura also has US LNG offtake, having been receiving 1 million tons/yr from Cheniere since 2019 and 0.5 million tons/yr from Freeport LNG since 2020. It will ship some of these US volumes to Europe under a \$3 billion loan agreement with the German government. Such collaboration with the European authorities has been missing for Total and Shell, which have yet to be contacted by governments about supplying more LNG to the continent, Total CEO Patrick Pouyanne said in October.

Sticking to what they know best, none of the trading houses is yet to make a significant equity investment in a liquefaction or regasification project. But their existing business models leave them well placed to occasionally steal a march on their rivals. For example, when Shell's exclusive contract to take all 3.4 mil-

lion tons/yr of LNG from the Punta Europa plant in Equatorial Guinea expires at the end of 2023, Gunvor and Glencore will continue to lift cargoes thanks to their participation in the tolling contract for the Chevron-operated offshore Alen project that feeds Punta Europa.

## Promising Position

The coming 12 months are increasingly looking like another blockbuster year for commodity trading houses and major LNG portfolio players alike, as the absence of Russian pipeline gas supplies to most of Europe and the need to refill underground storage sites is set to further increase demand across Europe.

Direct competition between trading houses and portfolio players in a tight supply environment is expected to grow, both for available gas and overall market share. In this regard, the four trading houses are certainly in a promising position and looking to further benefit from Europe's supply vows, as governments on the continent are keen to obtain all the available gas and LNG volumes they can. But the quartet can also expect competition from Middle Eastern national oil companies (NOCs) with ambitions to expand in LNG trading, including QatarEnergy and Abu Dhabi National Oil Co. (Adnoc).

Beside the top commodity trading houses, some of their smaller peers have also jumped on the high spot LNG prices in Europe and boosted LNG trading activity, particularly in Russian spot LNG cargoes. Names to watch include Switzerland-based trading houses DXT Commodities, Enet Energy and MET Group, which have taken advantage of the increased output and spot cargo offerings at Russia's Yamal LNG and delivered a significant number of cargoes into Spain, home to Europe's largest LNG import capacity.

*Daniel Stemler, Madrid, and Paul Sampson, London*

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# ENERGY AND EQUITY MARKET DATA

For the week ended December 30, 2022

## EIF GLOBAL INDEX COMPONENTS\*

	Close Dec 30	1-Wk Chg.	1-Wk	% Chg. 52-Wk	YTD
ONGC (bse)	1.77	+0.09	+5.09	-6.02	-7.16
Saudi Aramco (sse)	8.54	+0.27	+3.22	-1.45	-1.45
Ecopetrol (bvc)	0.50	+0.01	+2.64	-24.54	-24.54
Reliance Industries (bse)	30.81	+0.59	+1.94	-2.74	-3.13
CNOOC-H (sehk)	1.28	+0.02	+1.66	+37.22	+37.16
Sinopec-S (sehk)	0.45	+0.01	+1.64	-30.63	-31.31
Exxon Mobil (nyse)	110.30	+1.62	+1.49	+81.44	+80.26
PetroChina-H (sehk)	0.46	+0.01	+1.35	+2.75	+2.70
Sinopec-H (sehk)	0.48	+0.01	+1.27	+4.01	+3.67
Chevron (nyse)	179.49	+2.09	+1.18	+52.85	+52.95
Rosneft (mos)	5.02	+0.06	+1.13	-37.66	-37.60
Suncor (tse)	31.70	+0.22	+0.69	+28.25	+26.54
TotalEnergies (par)	62.77	-0.08	-0.12	+23.46	+23.71
BP (lse)	5.74	-0.03	-0.51	+27.85	+28.48
Eni (mise)	14.22	-0.08	-0.59	+2.76	+2.35
Shell (lse)	28.14	-0.40	-1.39	+28.80	+28.24
Equinor (osl)	35.91	-0.92	-2.50	+34.00	+34.06
Lukoil (mos)	56.17	-1.69	-2.92	-36.32	-36.25
Petrobras-3 (spse)	5.30	-0.22	-4.06	+39.21	+39.19
Petrobras-4 (spse)	4.63	-0.23	-4.70	+35.41	+35.40
<b>EIF Global Index</b>	<b>320.26</b>	<b>+5.26</b>	<b>+1.67</b>	<b>+16.47</b>	<b>+10.45</b>

\*Converted US\$/share.

## SHARE PRICES IN LOCAL CURRENCY†

	Close Dec 30	1-Wk Chg.	1-Wk	% Chg. 52-Wk	YTD
<b>NOCs</b>					
Rosneft (mos)	364.00	+20.20	+5.88	-39.32	-39.32
Ecopetrol (bvc)	2,420.00	+120.00	+5.22	-10.04	-10.04
Saudi Aramco (sse)	32.10	+1.00	+3.22	-1.37	-1.37
PTTEP (set)	176.50	+5.00	+2.92	+49.58	+49.58
CNOOC-H (sehk)	9.98	+0.17	+1.73	+37.40	+37.40
PetroChina-H (sehk)	3.57	+0.05	+1.42	+2.88	+2.88
Sinopec-H (sehk)	3.77	+0.05	+1.34	+4.14	+3.86
CNOOC-S (sehk)	15.20	+0.14	+0.93	NA	NA
Gazprom (micex)	162.72	+0.72	+0.44	-52.60	-52.60
Sinopec-S (sehk)	3.11	+0.01	+0.32	-24.88	-25.42
PetroChina-S (sehk)	4.97	-0.01	-0.20	+1.43	+1.22
Petrobras-3 (spse)	28.04	-0.52	-1.82	+32.09	+32.09
Petrobras-4 (spse)	24.50	-0.62	-2.47	+28.49	+28.49
Equinor (osl)	351.80	-12.20	-3.35	+49.13	+49.13
<b>Majors</b>					
Exxon Mobil (nyse)	110.30	+1.62	+1.49	+81.44	+80.26
Chevron (nyse)	179.49	+2.09	+1.18	+52.85	+52.95
BP (lse)	474.90	-4.00	-0.84	+42.61	+43.69
TotalEnergies (par)	58.65	-0.56	-0.95	+30.62	+31.41
Shell (lse)	2,326.00	-40.50	-1.71	+43.67	+43.42

### Regional Integrated

Lukoil (mos)	4,072.50	+65.50	+1.63	-38.01	-38.01
Repsol (bme)	14.85	+0.03	+0.20	+42.30	+42.30
Eni (mise)	13.29	-0.19	-1.41	+8.72	+8.72
OMV (vse)	48.10	-1.13	-2.30	-3.70	-3.70

### Global Independents

Kosmos Energy (nyse)	6.36	+0.18	+2.91	+83.29	+83.82
ConocoPhillips (nyse)	118.00	+0.95	+0.81	+63.25	+63.48
Hess (nyse)	141.82	+0.14	+0.10	+91.75	+91.57
EOG Resources (nyse)	129.52	-1.09	-0.83	+50.34	+50.93
Woodside Petroleum (asx)	35.44	-0.42	-1.17	+60.22	+61.61
APA (nyse)	46.68	-0.57	-1.21	+72.51	+73.60
Occidental (nyse)	62.99	-0.96	-1.50	+117.43	+117.28

### Refiners

Valero (nyse)	126.86	+2.49	+2.00	+70.79	+68.90
HollyFrontier (nyse)	51.89	+1.01	+1.99	+58.88	+58.30
Reliance Industries (tse)	2,548.20	+46.65	+1.86	+8.14	+7.60
Marathon Petroleum (nyse)	116.39	+1.27	+1.10	+83.49	+81.89
Eneco (tyo)	448.00	+4.40	+0.99	+4.11	+4.11
Phillips66 (nyse)	104.08	+0.14	+0.13	+43.66	+43.64
PBF Energy (nyse)	40.78	-0.32	-0.78	+213.93	+214.42

### Oil-Field Services, EPC

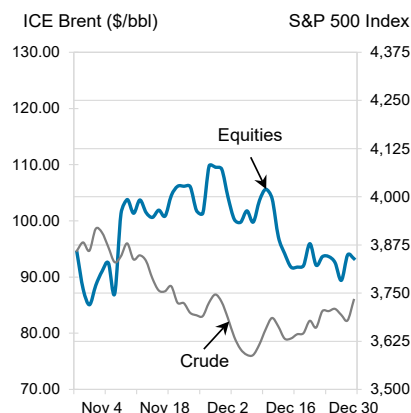
Saipem (mise)	1.13	+0.02	+1.62	-75.65	-75.65
Baker Hughes (nyse)	29.51	+0.41	+1.41	+23.25	+22.68
Schlumberger (nyse)	53.46	+0.47	+0.89	+79.28	+78.50
Halliburton (nyse)	39.35	+0.26	+0.67	+72.89	+72.06
TechnipFMC (nyse)	12.19	+0.07	+0.58	+108.73	+105.91
Wood Group (lse)	135.15	+0.15	+0.11	-28.40	-29.28
Worley (asx)	15.00	0.00	0.00	+38.25	+41.11
Fluor (nyse)	34.66	-0.52	-1.48	+41.07	+39.93
Transocean (nyse)	4.56	-0.11	-2.36	+60.56	+65.22
Petrofac (lse)	70.25	-1.75	-2.43	-37.83	-39.07

### Midstream

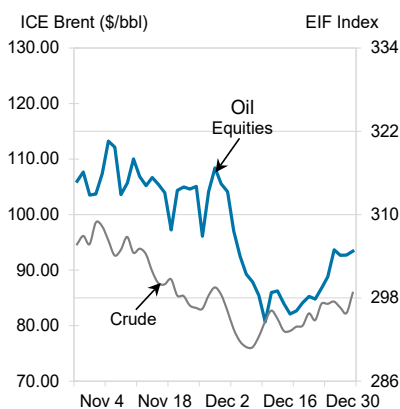
Enterprise Products (nyse)	24.12	+0.17	+0.71	+11.15	+9.84
Plains All-American (nyse)	11.76	+0.05	+0.43	+26.86	+25.91
Kinder Morgan (nyse)	18.08	-0.06	-0.33	+14.43	+14.00
Williams (nyse)	32.90	-0.42	-1.26	+26.93	+26.34
Enbridge (tsx)	52.92	-0.77	-1.43	+7.41	+7.10
TC Energy (tsx)	53.98	-1.37	-2.48	-8.31	-8.24

\*set=Bangkok; bme=Madrid; sehk=Hong Kong; osl=Oslo; bvc=Bogota; micex=Moscow; bse=Mumbai; par=Paris; nyse=New York; lse=London; mise=Milan; tyo=Tokyo; tsx=Toronto; asx=Sydney; spse=Sao Paulo; sse=Riyadh

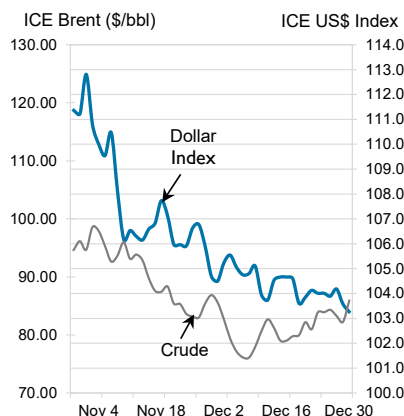
## CRUDE VS. EQUITIES



## CRUDE VS. OIL EQUITIES



## CRUDE VS. CURRENCY



EIF Index based on share prices of the 22 equities listed under EIF components, adjusted for US\$ market capitalization. All equities listed are ordered by percentage change over the previous week. Local share prices are shown in local currency. Crude prices in \$/bbl; Nymex oil products prices in \$/gallon; ICE gas oil in \$/ton; Henry Hub natural gas prices in \$/MMBtu; UK NBP natural gas prices in pence/therm.