Energy Intelligence

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In Brief

Data Snapshot

Sources: US Weighs Cancellation of Next SPR Sale

The US is reviewing and considering canceling a planned sale of crude oil from its Strategic Petroleum Reserve (SPR) this year as the Biden administration switches its focus to refilling the reserve after a year of record releases aimed at taming oil prices.

At stake are 26 million barrels of congressionally-mandated sales originally designed to raise revenue under bills passed at a time when lawmakers were less concerned about energy security because of a rapid rise in US shale oil production.

The planned releases, scheduled to take place by September of this year, are under review, according to three US-based sources.

Congress already canceled 140 million barrels of required sales last year for the four fiscal years starting in October 2023 at the administration's request.

But the 26 million barrels slated to be sold through September 2023 remain on the books (see table).

The sales required by Congress are separate from the 180 million barrel emergency drawdown approved last March, which were intended to counter the surge in global oil prices following Russia's invasion of Ukraine.

US Energy Secretary Jennifer Granholm outlined a strategy for the SPR on Monday that includes significant repurchases over the next two years.

"These repurchases will continue to be informed by consistent evaluation of the energy market and geopolitical unrest that has disrupted energy flows globally," said a Department of Energy (DOE) spokesperson.

Congressional Complication

Canceling this year's 26 million bbl of scheduled sales, might not be an easy task, however.

Congressional action was needed to cancel the sales for the fiscal years 2024-27, and legislative opportunities to repeal sales scheduled between now and the end of September are scarce in a divided Washington.

West Texas Intermediate (WTI) crude settled little changed at $81.62/bbl on Monday, while global benchmark Brent crude posted a modest gain to close at $88.19/bbl.

The Biden administration has taken a more active approach to releasing oil from the SPR, and late last year said it would purchase barrels to refill it when prices fell to around $70/bbl WTI.

The administration's market management efforts have been viewed skeptically by some Opec-plus sources, who see it as usurping their role in the oil market.

The SPR sales were viewed as a contributing to a deterioration of US-Saudi relations last October, but those tensions have since eased.

Refill Plans in Focus

Since late last year, US officials have said they plan to refill the SPR, a move supported by other oil exporting countries and industry experts who point out that the US needs to rebuild a buffer that can be used in the event of a genuine supply shortage.

In the context of those refill plans, the deputy head of the DOE's Office of Petroleum Reserve told lawmakers in December that selling SPR oil while simultaneously trying to replenish the reserve did not make sense.

So far, the agency has not repurchased any barrels. The DOE announced earlier this month that it would not finalize a proposed buyback of 3 million bbl, because it did not receive offers that met its terms for price or quality.

The DOE has scheduled an exchange return of 3.1 million bbl in 2023, and is considering up to 22 million barrels in exchange returns in 2024, the DOE spokesperson noted.

In exchanges, the DOE releases barrels to companies with the expectation that they will be returned with interest, rather than selling barrels outright.

The SPR currently contains 371.6 million bbl of oil, according to the DOE — the lowest level since the 1980s. At its peak, it held about 726 million bbl.

Market Management Tool

After the Biden administration's big drawdown of SPR crude in 2022, US lawmakers are seeking to influence how presidents can use the reserve in the future.

Granholm hit out on Monday at a bill from the House's Republican majority that would block the administration from releasing barrels from the SPR until it draws up plans to increase oil production on federal lands.

That bill "would impose unnecessary, unhelpful restrictions on when the SPR can be used to help provide supply," Granholm told a White House press briefing.

If Congress were to advance the bill, she added, US President Joe Biden would veto it.

Lawmakers are also proposing other SPR-related measures. Earlier this month, the House passed a bill that would block sales of SPR barrels to China.

And last week, Democratic lawmakers introduced a bill aimed at using government-owned strategic oil stocks to keep crude prices in a range of $60-$90/bbl and block oil exports to China, Russia, Iran, North Korea or other countries under US sanctions.

Amena Bakr, Dubai and Emily Meredith, Washington

Iran Issues Threat as Tensions With West Escalate

Iran has threatened to escalate its stand-off with the West over the country's nuclear program if the EU follows the European Parliament's recommendation to designate the country's Islamic Revolutionary Guard Corps (IRGC) as a terrorist organization.

The European Parliament overwhelmingly approved a non-binding recommendation last week to add the IRGC to the EU's terrorist blacklist in response to "violent, indiscriminate, disproportionate and unrestrained" suppression of peaceful protests.

Iran's Foreign Minister Hossein Amir Abdollahian said on Sunday that Tehran might withdraw from the non-proliferation treaty on nuclear weapons (NPT) if the EU follows the recommendation, according to state media.

The IRGC is the elite branch of Iran's military that also wields extensive political and economic power and has huge symbolic importance for Tehran.

The EU Council stepped up sanctions against 37 Iranian individuals and entities on Monday, including several branches and senior officials of the IRGC for "their role in the widespread and disproportionate use of force against non-violent protestors."

The UK government took similar steps, announcing sanctions against five officials and the Basij religious militia, an affiliate of the IRGC.

But the EU and UK both stopped short of listing the IRGC as a terrorist organization, as former US President Donald Trump did in 2019.

Trump's move ultimately thwarted the Biden administration's efforts last year to revive the 2015 nuclear deal — the Joint Comprehensive Plan of Action (JCPOA) — from which Trump withdrew the US.

In a move aligned with the EU and UK on Monday, the US sanctioned the IRGC Cooperative Foundation and five of its board members, saying the foundation is an "economic pillar of the IRGC, which funds much of the regime's brutal suppression."

Nuclear Talks 'Not Dead'

Before the latest EU sanctions were announced, the bloc's foreign policy chief Josep Borrell played down the prospect of the EU designating the IRGC as a terrorist organization any time soon, saying that a court decision would be needed first.

But he also acknowledged that it was "obviously difficult" to make any progress in talks to revive the nuclear accord, given Tehran's suppression of protests, execution of prisoners and weapon supplies to Russia.

"I can say that for the moment it's on standby. It's not dead, but it's not moving," he told a press conference after Monday's meeting of EU foreign ministers.

As a signatory to the NPT, Iran has a legal obligation to honor its safeguards agreement with the International Atomic Energy Agency that allows UN inspectors to verify its compliance with the treaty.

Iran's withdrawal could end that cooperation and dramatically escalate tensions around its nuclear program, which UK Foreign Secretary James Cleverly said last week "has never been more advanced."

Oil Sector Uncertainties

The implications for the oil sector of any such escalation remain uncertain.

Current sanctions on Iran have prevented it from selling its oil to virtually all of its former top customers except China. Nevertheless, it has succeeded in hiking its crude exports in recent months to their highest level since 2019.

Meanwhile, the draft budget that Iran's President Ebrahim Raisi submitted to parliament two weeks ago for the upcoming Iranian new year envisages oil exports of 1.4 million barrels per day and an average price of $85/bbl.

Some describe this is an overly optimistic forecast, however.

And besides reducing the likelihood of US sanctions relief, Iran's defiance over its nuclear program could result in fresh US efforts to squeeze its crude sales or pre-emptive action by Israel's new right-wing government that could jeopardize the security of the wider Mideast Gulf's oil exports.

Simon Martelli, London

Russia's Response to G7 Price Cap Takes Shape

Details are starting to emerge about how Russia will implement President Vladimir Putin's ban on sales of Russian crude oil and refined petroleum products that comply with or are linked to the G7 price cap mechanism.

Business newspaper *Kommersant* reported that the government is preparing a regulation that would prohibit references to the G7 price cap in sales contracts and make Russian producers responsible for ensuring broad compliance with the ban.

Putin signed a decree on Dec. 27 prohibiting exports of Russian crude oil and petroleum products that comply directly or indirectly with the G7 price cap. The government is expected to implement the decree by Feb. 1.

The G7 price cap for sales of Russian crude oil took effect on Dec. 5 and was initially set at $60 per barrel. A separate price cap for refined products is scheduled to take effect on Feb. 5, but its level has not yet been set.

The EU and G7 countries have banned imports of oil from Russia in response to its invasion of Ukraine last year.

The price cap seeks to limit Moscow's oil revenues by allowing western tankers and insurance to be used to ship Russian oil to other countries, but only if it is purchased at or below the price cap.

Review of Contracts

According to *Kommersant*, the new regulation will require Russian oil companies to ensure that their contracts do not include any provisions related to the price cap.

They will also be required to ensure that foreign buyers — including traders — fulfill this condition if the oil is subsequently resold.

Companies will also have to send their contracts and other documents related to prices to the Federal Customs Service (FTS).

The FTS would be authorized to block shipments — including oil moved by pipeline or train — if companies are found to violate the regulation.

Industry sources say that the customs service already has access to export contracts, including price information, so it should be an easy matter to track any violations.

However, they add that it would be difficult for companies to enforce the new price regulation for the resale of Russian oil.

Willing Buyers

Long before the import ban and price cap for Russian crude oil took effect, European buyers started to turn their back on Russian oil, forcing producers there to offer big price discounts to willing buyers such as India, China and Turkey.

Meanwhile, most of the countries that continue to import Russian oil since Moscow's invasion of Ukraine do so without using western tankers and insurance.

The Russian price regulation could perhaps provide some support to Russian producers in negotiations with buyers. But recent discounts for Russia's Urals crude have remained at a hefty $30-$40/bbl versus the North Sea Brent benchmark.

There had previously been talk about a much tougher Russian response to the price cap, including the possibility of a price floor.

But Moscow appears to have backed away from such a move, opting instead to stick to market principles and allow its oil to flow freely to those that still want it.

Separately, by April of this year the country's energy ministry will start keeping track of crude export prices on the basis of actual sales data provided by companies.

Staff Reports

Regulators Warn EU Gas Cap Could Cause Instability

The EU's gas price cap could result in trading shifting to non-EU venues or over-the-counter (OTC) markets, which would lower liquidity and increase financial instability, the bloc's regulators said on Monday.

The Agency for the Cooperation of Energy Regulators (ACER) and the European Securities and Markets Authority (ESMA) published separate reports on Monday assessing the potential impacts that the gas price cap — formally known as the Market Correction Mechanism (MCM) — could have on the European gas market.

While the regulators said that they had not yet observed market changes following the MCM announcement, both warned that they could not rule out future impacts on financial and energy markets.

Notably, ESMA said it is likely that the cap could lead to market participants adapting their trading activity to contracts and venues not covered by the MCM.

"Such adaptations could be achieved by various means, notably by shifting trading to OTC or to non-EU venues … Some of these adaptations are likely to reinforce trends that can already be observed today, such as the trend to move trading OTC, which is likely to further lower open interest and ultimately reduce available liquidity on regulated markets for TTF contracts," ESMA said.

An uptick in OTC trading could increase margin calls and drive volatility.

ICE Instrument

Intercontinental Exchange (ICE), host of TTF trading, is reportedly looking at launching a new instrument in London that is similar in design to the current TTF ICE Endex contract, a well-placed trade source told Energy Intelligence.

ICE would clear block trades executed OTC at a higher price than the cap as the MCM only applies to screen orders, the source said, adding that the settlement price will not be affected by the cap. The instrument would use OTC information in cases where there was not enough liquidity in the screen when it comes to set the settlement price.

ICE would not comment when contacted by Energy Intelligence.

Following the adoption of the cap in December, the exchange operator said it would review whether it can continue to operate a market in TTF gas futures and has previously suggested it could move the trading hub outside of the EU.

Cap Launch

The MCM will go live on Feb. 15 and will be triggered if the front-month TTF contract exceeds €180 per megawatt hour for three days — and if the contract also exceeds an international LNG reference price by €35 for the same three days. The cap will also apply to other EU gas hubs but these could be exempted at a later stage, officials said in December.

While the cap will go live next month, it is unlikely that it will be triggered in the near term as TTF is currently priced at around €62/MWh.

Both ACER and ESMA suggest that the potential impacts of the cap on energy and financial markets will only become clear when the MCM is close to being triggered.

The regulators will submit more comprehensive reports examining the cap on Mar. 1.

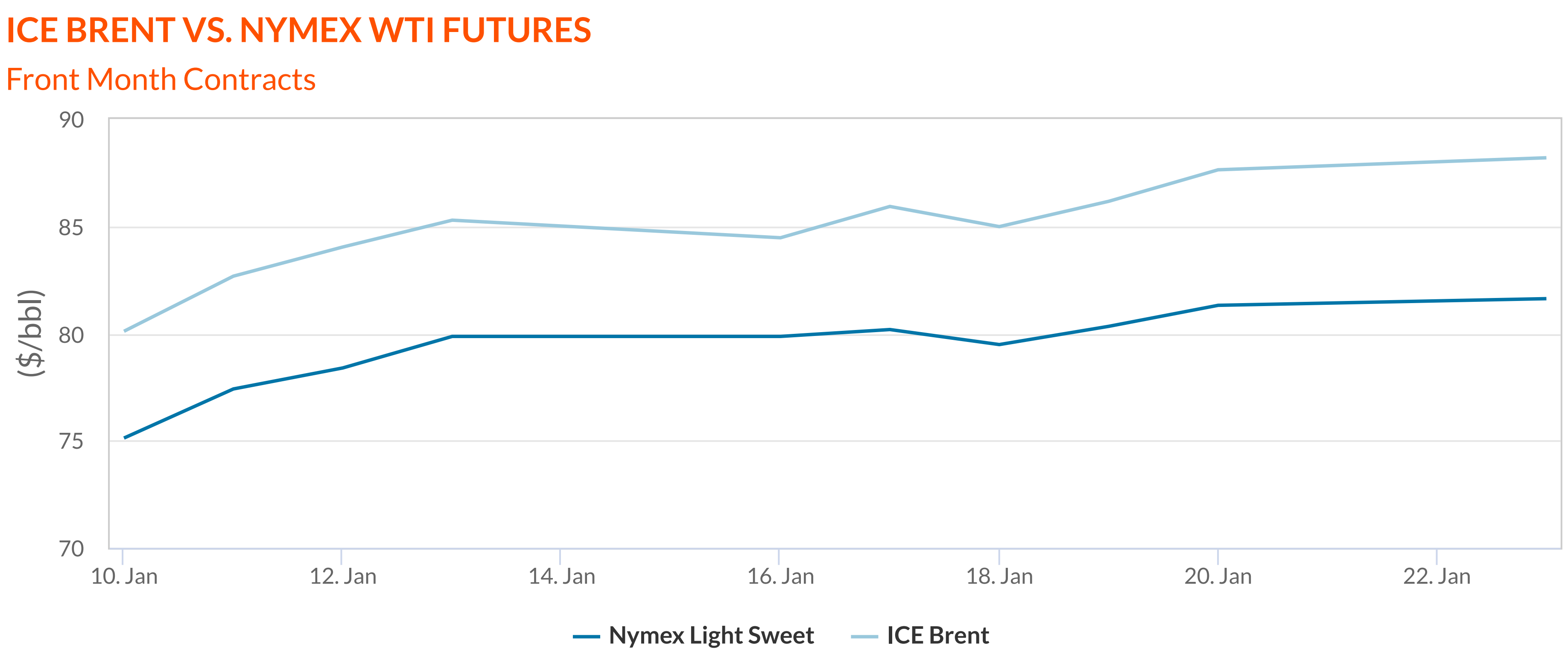
Eric Thorp, London

Bullish Chinese Demand Signals Push Brent Higher

Oil prices settled mixed on Monday as investors cashed in on a jump to a seven-week high on optimism about a possible recovery in Chinese demand.

Brent crude closed 56¢ higher at $88.19 per barrel after reaching a session high was $89.09/bbl, the highest since Dec. 1.

US West Texas Intermediate (WTI) crude settled 2¢ lower at $81.62/bbl, down from a session high $82.64/bbl, the highest since Dec. 5.



Prices pulled back at the end of the session as investors took profits, said Phil Flynn, analyst at Price Futures Group. Still, the market wants to preserve long positions in case Chinese growth resumes, said Sukrit Vijayakar, director of Mumbai-based energy consultancy Trifecta.

Data shows a solid pick-up in travel in China after Covid-19 curbs were eased, ANZ commodity analysts said in a note, pointing out that road traffic congestion in the country's 15 key cities so far this month is up 22% from a year ago.

Crude oil prices in much of the world's physical markets have started the year with a rally as China has shown signs of more buying, and traders have worried that sanctions on Russia could tighten supply.

"While the (China) reopening itself will no doubt prove to be complicated, particularly over the holiday season, early indications suggest there has been a rise in activity, meaning the economy could perform better," said Oanda analyst Craig Erlam.

Brent is expected to move back into a range of $90-$100/bbl as the oil market tightens, Erlam added.

Demand for products has lifted the oil market and refining margins, Flynn said. The 3-2-1 crack spread, a proxy for refining margins, rose to $42.18/bbl on Monday, the highest since October.

The EU and the G7 coalition will cap prices of Russian refined products from Feb. 5 in addition to the price cap on Russian crude in place since December and an EU embargo on imports of Russian crude by sea.

The G7 has agreed to delay a review of the level of the price cap on Russian oil to March, a month later than originally planned, to provide time to assess the impact of the oil products price cap.

In India, crude oil imports rose to a five-month high in December, government data showed on Monday, as refiners stocked up discounted Russian fuel amid a steady increase in consumption in the country. (Reuters)

IN BRIEF

Eni, Sonatrach Reaffirm Energy Ties

Eni and Sonatrach have signed agreements on energy supply, decarbonization and the energy transition during a visit to Algeria by Italian Prime Minister Giorgia Meloni.

Under the deals announced Monday, both companies will seek to reduce emissions of methane and other greenhouse gases, and develop projects in the areas of renewable energy, green hydrogen, and carbon capture and storage.

They also agreed to take steps to support security of energy supplies and identify "measures to improve Algeria's energy export capacity to Europe," Eni said.

"The partnership between Italy and Algeria gets stronger today, and Algeria's key role as one of Europe's main energy suppliers is confirmed," said CEO Claudio Descalzi.

Energy ties between Italy and Algeria have developed rapidly since Russia's invasion of Ukraine last year. The North African country is a major supplier of pipeline gas to Italy.

Algeria has recently become Europe's second-largest gas supplier behind Norway, which took over the top slot from Russia after that country's invasion of Ukraine led to a sharp fall in Europe's gas imports from Russia.

It's unclear how much additional gas Algeria could supply to the EU in the short term, given the maturity of its fields and its past reputation for tough fiscal terms for upstream investors, which prompted many to seek opportunities elsewhere.

Eni has operated in Algeria since 1981 and has current equity production of around 100,000 barrels of oil equivalent per day.

Tom Pepper, London

Oman's OQ Plans IPO of Drilling Unit

Oman's Abraj Energy Services said it plans an initial public offering (IPO) and listing of its shares on the Muscat stock exchange in March.

Abraj Energy is a drilling services subsidiary of Oman's state energy group OQ, which plans to offer up to 49% of Abraj's shares in the IPO and retain at least 51%.

The IPO will be open to investors in Oman and international investors outside the US (Phase I investors) and to retail investors in Oman (Phase II investors). The subscription period for both sets of investors is expected to start in February.

"Through this offering, we believe investors have an opportunity to gain exposure to a profitable, growing company with one of the Mena region's youngest drilling fleets," said Abraj CEO Saif al-Hamhami.

The company operates a fleet of 25 drilling rigs and five workover rigs. It is already prequalified in four countries to conduct a range of services, setting the stage for international expansion, al-Hamhami said.

In recent years Mideast Gulf national oil companies such as Saudi Aramco and Abu Dhabi National Oil Co. (Adnoc) have raised funds, including via IPOs, lease deals and other methods to monetize assets and infrastructure.

Such transactions have been prompted in part by a sharp fall in revenues during the coronavirus pandemic and the desire to hedge against uncertainty about oil demand.

Saudi Aramco is listed in Riyadh, while Adnoc has launched IPOs of some of its units, including Adnoc Drilling, but is not listed itself.

Amena Bakr, Dubai

DATA SNAPSHOT

Oil and Gas Prices, Jan. 23, 2023

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	+0.56	88.19	88.16
Nymex Light Sweet	+0.31	81.62	81.93
DME Oman	+0.76	85.69	85.54
ICE Murban	+0.40	87.09	86.94

INTERNATIONAL SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+0.59	87.54	86.95
Dubai			83.84
Forties	+2.03	88.58	86.55
Bonny Light	+2.13	90.38	88.25
Urals	+2.03	61.28	59.25
Opec Basket*			84.90

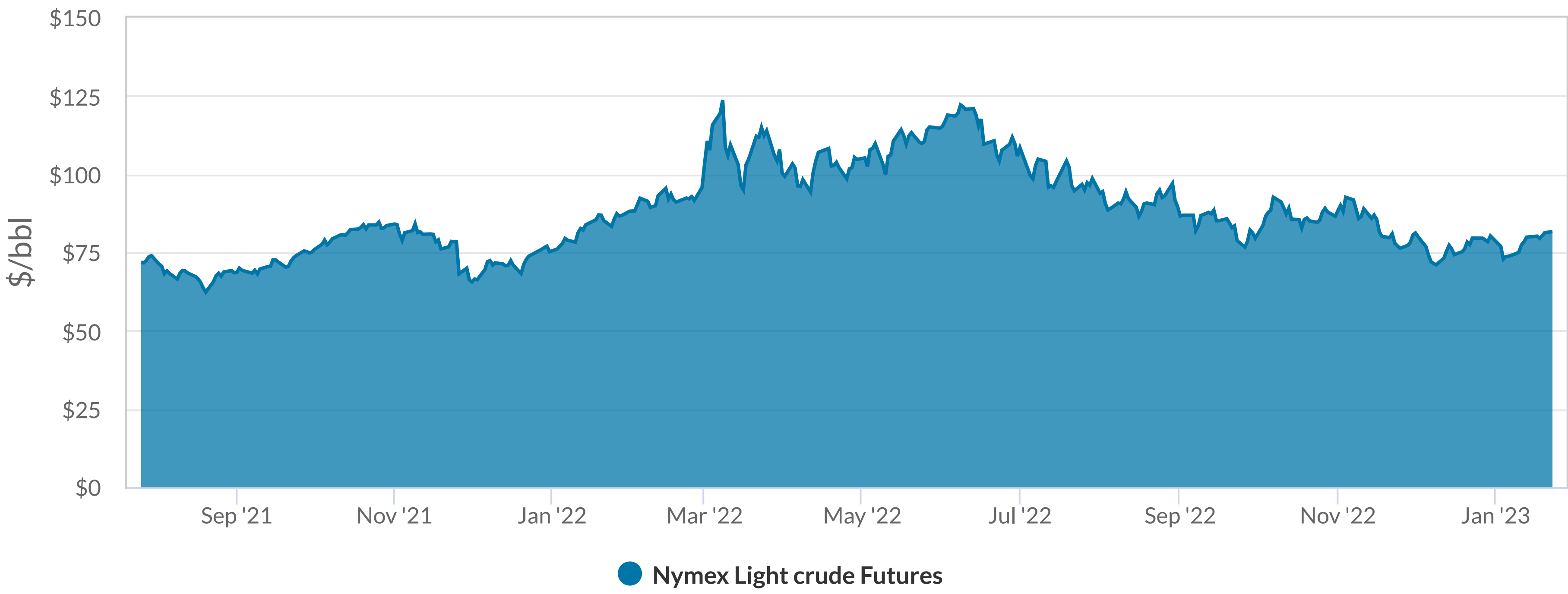
*Opec price assessed.

NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	+0.35	81.62	81.27
WTS (Midland)	+0.70	81.47	80.77
LLS	+0.10	84.62	84.52
Mars	+0.35	79.12	78.77
Bakken	+0.35	86.42	86.07

ICE BRENT CRUDE FUTURES

NYMEX LIGHT CRUDE FUTURES



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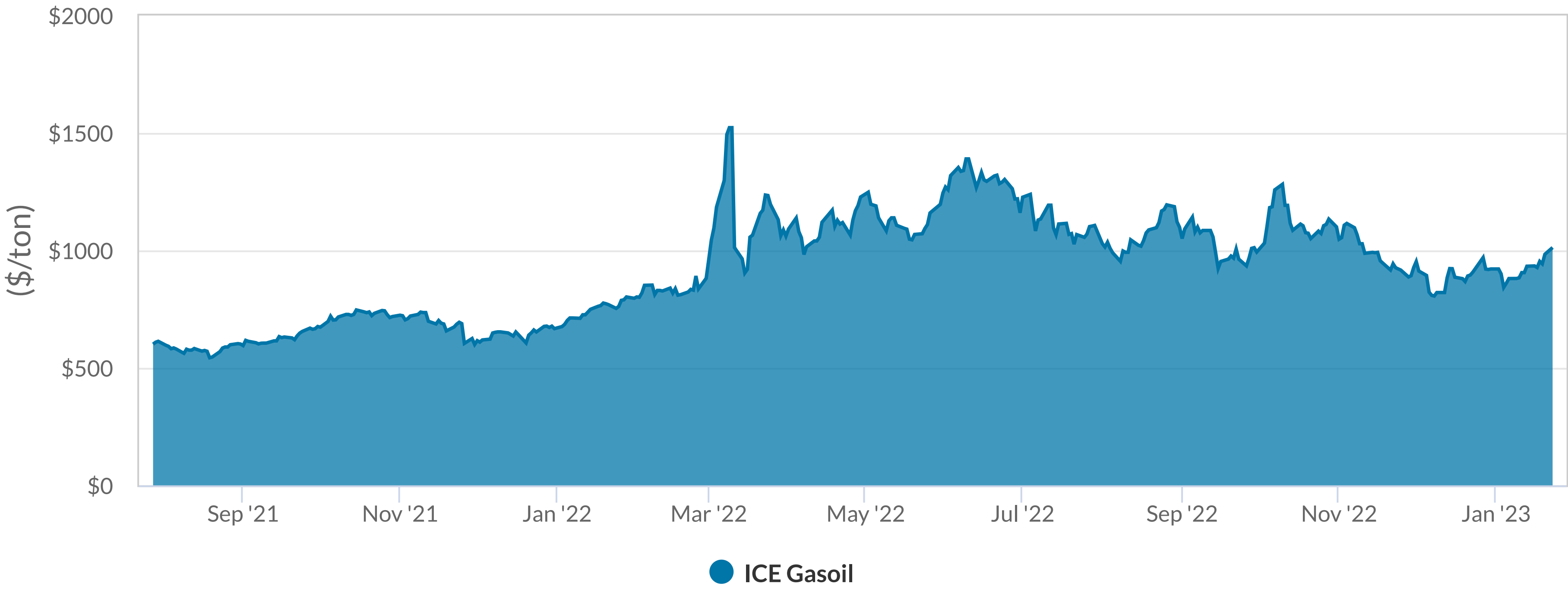
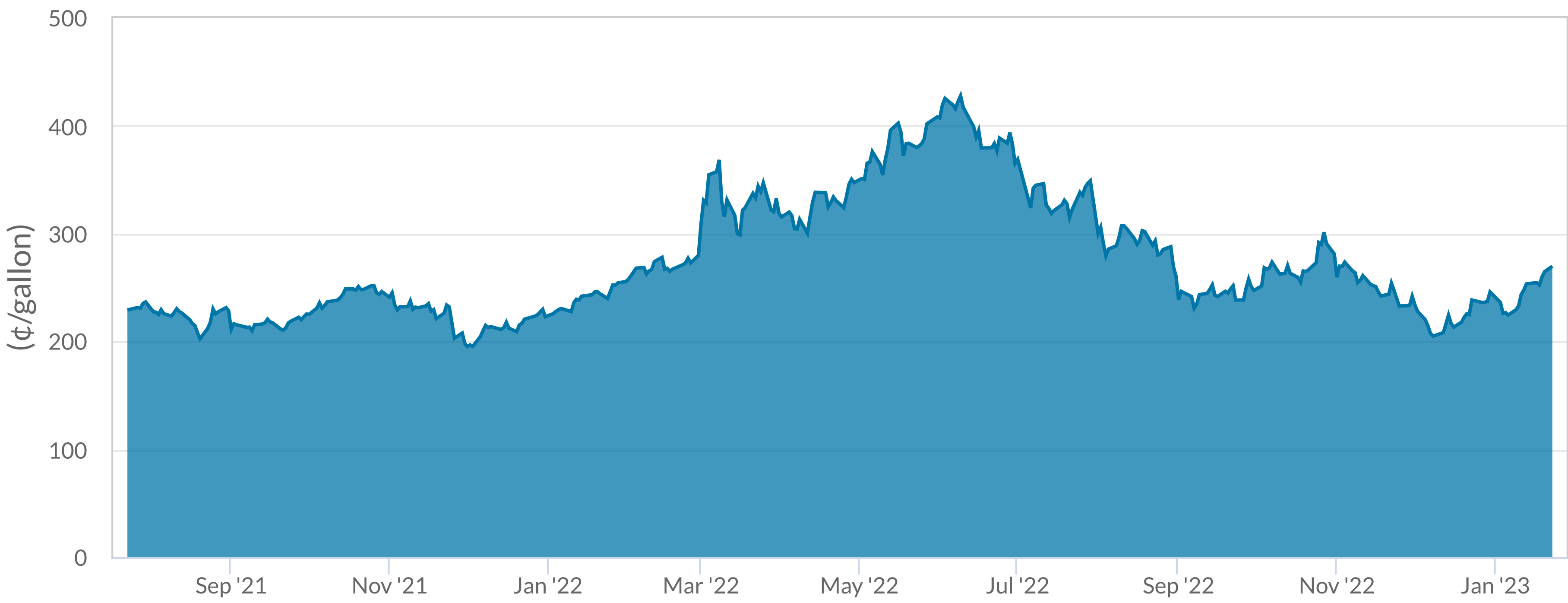
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	+5.11	269.65	270.01
ULSD Diesel (¢/gal)	+8.41	355.09	343.74
ICE			
Gasoil ($/ton)	+28.75	1012.25	985.00
Gasoil (¢/gal)	+9.18	323.07	314.38

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

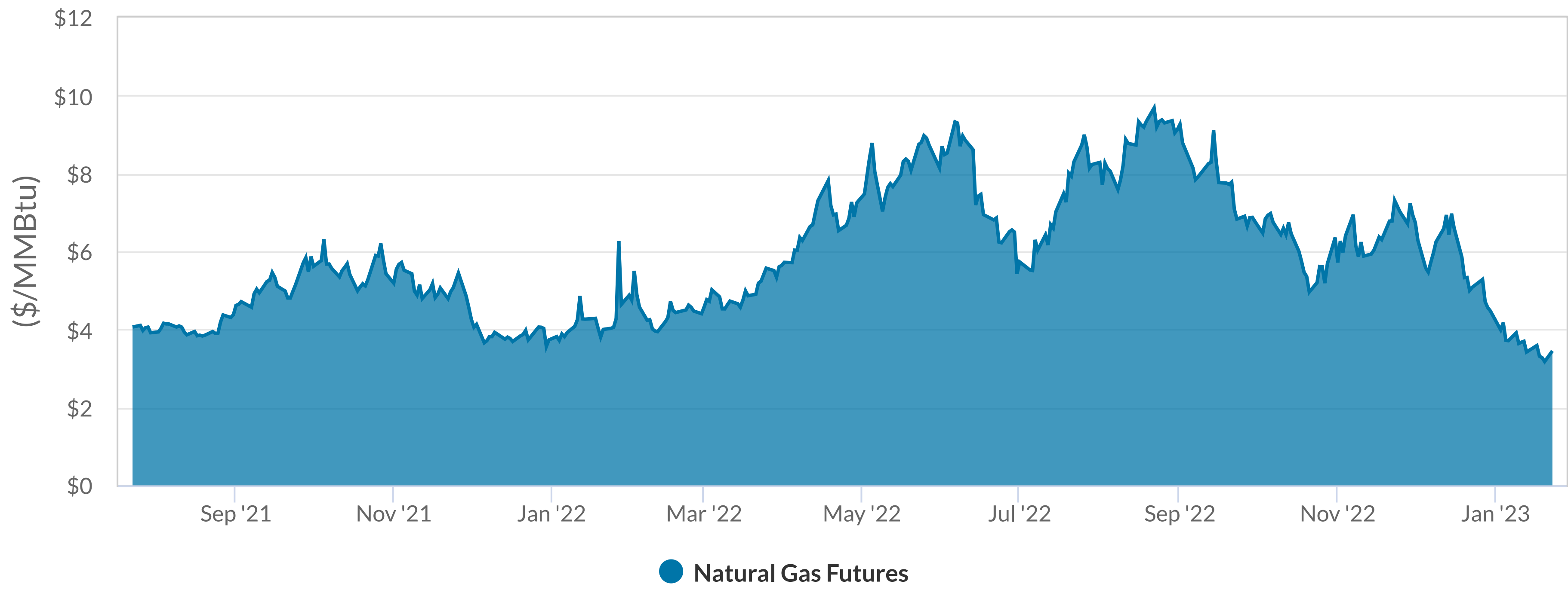
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	+4.64	277.86	273.22
No.2 Heating Oil	+10.58	341.19	330.61
No.2 ULSD Diesel	+8.33	358.69	350.36
No.6 Oil 0.3% *			93.15
No.6 Oil 1% *			81.97
No.6 Oil 3% *			66.22
Gulf Coast (¢/gal)			
Regular Gasoline			273.72
No.2 ULSD Diesel	+7.58	346.69	339.11
No.6 Oil 0.7% *			78.52
No.6 Oil 1% *			78.52
No.6 Oil 3% *			60.47

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+28.00	887.30	859.30
ULSD Diesel	+24.25	1012.75	988.50
Singapore ($/bbl)			
Gasoil			113.50
Jet/Kerosene			120.90
VLSFO Fuel Oil ($/ton)			642.49
HSFO Fuel Oil 180 ($/ton)			405.40

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.27	3.45
Henry Hub, Spot	+0.29	3.42
Transco Zone 6 - NY	N/A	3.38
Chicago Citygate	+0.13	3.20
Rockies (Opal)	+2.07	16.21
Southern Calif. Citygate	+1.94	16.70
AECO Hub (Canada)	+0.02	2.66
Dutch TTF (euro/MWh)		
UK NBP Spot (p/th)		

US/Canada spot prices from Natural Gas Week

Equity Markets, Jan. 23, 2023

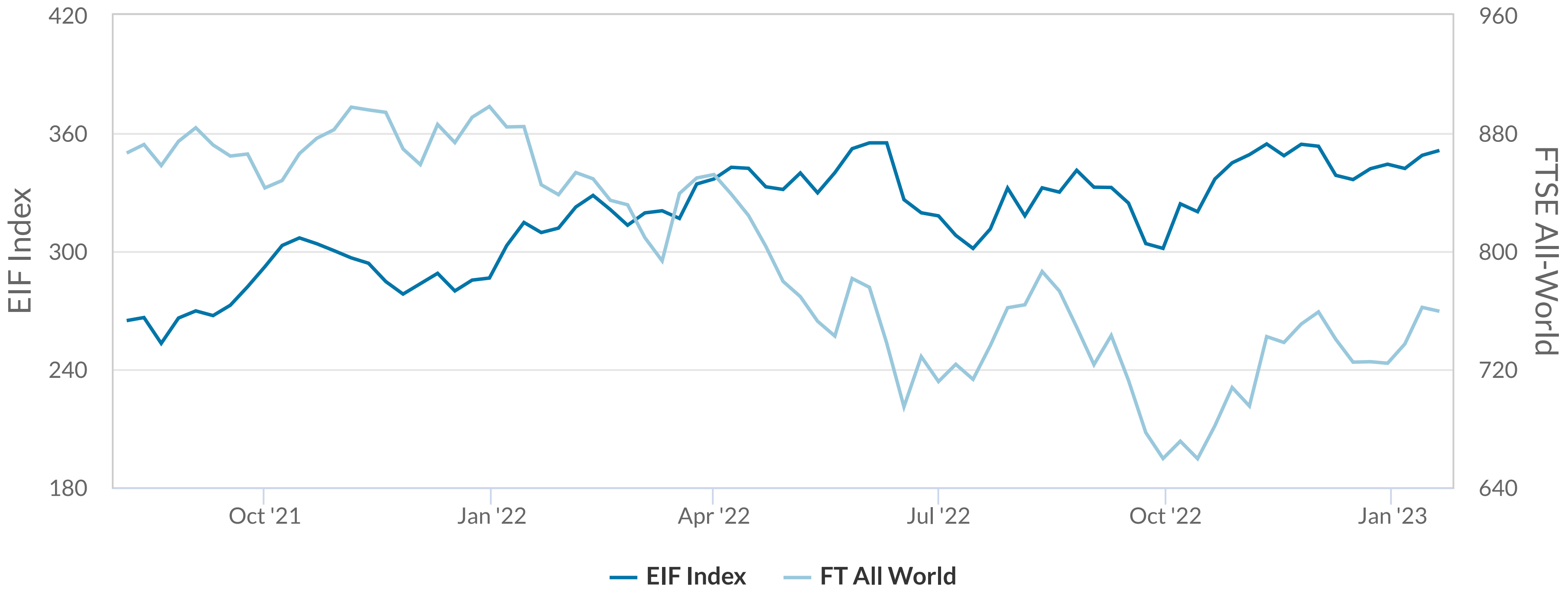
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+3.65	351.15	+2.04
S&P 500	+47.20	4,019.81	+4.43
FTSE All-World*	+10.45	759.25	+4.51

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities

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