Oil Trader Andurand Sees Bull Run Starting

BY SAIJEL KISHAN AND GRANT SMITH, BLOOMBERG NEWS

Pierre Andurand, a hedge fund manager who predicted the oil collapse, said crude is starting a “multi-year bull run” because low prices have curbed supply.

Crude futures, currently trading near $40 a barrel, will rebound to $60 to $70 this year and $80 in 2017, the chief investment officer of London-based hedge fund Andurand Capital Management said in a newsletter to investors. A spokesman for the money manager declined to comment.

“Large spending cuts are taking a toll on operational maintenance,” according to the newsletter, which was dated February. “After having been in an oversupplied market we expect inventory draws to start in a few months and accelerate quickly.”

“It is possible that the Saudis are now less worried about short-term downside risk than medium-term large upside risk,” Andurand wrote. The kingdom, which “does not want crude oil prices to spike,” has realized that the slump in later-dated futures prices “has created a significant supply gap in the years to come.”

OPEC leader Saudi Arabia has already achieved its objective of curbing supply growth from rivals, and its diplomatic efforts with fellow producers may be aimed at averting a price surge in coming years as production falls short of demand, according to the newsletter. Most OPEC members will meet with Russia on April 17 in Doha to complete an accord on capping oil production, an initiative that has helped revive prices.

WTI Posts Lowest Quarterly Average Since 2003

Note: 1Q WTI price to March 30.

With one more day of trading left in the first quarter, WTI has averaged $33.56 a barrel. This is the lowest quarterly average since the fourth quarter 2003, and reflects a drop of $14.40 a barrel year on year. A report by Standard Chartered this week said poor oil company results and a further fall in average prices means that first quarter results are likely to show “more financial stress and greater minimization of capex in a drive to conserve cash.” WTI has now averaged below $40 for four straight months and below $50 for eight, the report said.

QUOTE OF THE DAY

"By attending the freeze meeting, and yet still being able to say they managed to escape the freeze, Iran earns some brownie points with its domestic audience."

— Olivier Jakob, managing director at consultant Petromatrix GmbH in Zug, Switzerland

TODAY’S EVENTS

10:30 a.m.: EIA weekly oil inventory report
All-day: Vedomosti Russian Energy conference, Moscow
All-day: East Africa Oil & Gas summit, Dar Es Salaam

NUMBER OF THE DAY

8.5 million b/d — Possible U.S. output by the end of 2016, according to a report by Citi.
CHINA

Cnooc Tops Sinopec as China's Second Biggest Oil Producer

BY AIBING GUO, BLOOMBERG NEWS

Oil’s plunge has reordered the pecking order among China’s biggest explorers.

China Petroleum & Chemical Corp.’s move to close some high-cost fields has caused it to slip to number three in oil and gas production as rival Cnooc got a boost from new domestic offshore projects.

Sinopec, as China Petroleum is known, produced almost 472 million barrels of oil equivalent in 2015, down 1.7 percent. Cnooc overtook it by pumping about 496 million, jumping nearly 15 percent. PetroChina remained the largest, at 1.49 billion barrels.

“Sinopec has the most mature exploration and production portfolio of the all three Chinese oil majors,” said Neil Beveridge, a Hong Kong-based analyst at Sanford C. Bernstein & Co. “For Cnooc, however, offshore China still has legs to grow. Strong reserves replacement by Cnooc suggests that they can stabilize production even in a low oil price environment.”

Sinopec added 3.6 percent to HK$4.89 a share in Hong Kong by 9:36 a.m. local time. Cnooc increased 0.3 percent to HK$9.02. The city’s benchmark Hang Seng index rose 1.4 percent.

Cnooc sees output slipping this year to 470 million to 485 million barrels of oil equivalent, putting in neck-and-neck with about 476 million from Sinopec.

PetroChina sees output falling 2.7 percent this year to 1.45 billion barrels, according to its earnings statement last week.

China Oil Giants Take Spending Cuts Deeper as Profits Shrink

BY BLOOMBERG NEWS

After chopping spending by almost one-third to cope with a crash in oil prices and billions in writedowns that sent profits to the weakest since last decade, China’s energy giants are cutting even deeper.

PetroChina, Cnooc and China Petroleum & Chemical Corp., which together produce more crude than any country in OPEC besides Saudi Arabia, will reduce combined capital expenditure by about 8 percent this year, or roughly 29.5 billion yuan ($4.6 billion). That’s after they cut almost 174 billion yuan from spending last year.

“The Chinese oil giants will continue to cut,” Qiu Xiaofeng, chief oil analyst with China Galaxy Securities, said by phone from Shanghai. “If the oil price can rebound to near $50 a barrel at the end of this year, I think they won’t need to further reduce their expenditure in 2017.”
COMMENT

China (Remember That Place?) Looms Large for Oil Bulls

BY LIAM DENNING, BLOOMBERG GADFLY

Remember China? You know: big place, fair-sized population, rising geopolitical behemoth and all that. In oil circles, it used to be all anyone talked about. Just recently, though, it has gotten a little sidelined by other topics such as rumored supply freeze or a jump in U.S. gasoline demand.

But we need to talk about China. It is still indispensable to a real recovery in oil prices. Even with a slowdown in economic growth now established, China is forecast to account for a third of the projected increase in global oil consumption by 2021. Its demand for other commodities is also vital to sustaining many of the other developing economies expected to suck up more oil.

All of which makes the latest results from China Petroleum & Chemical Corp. — better known as Sinopec — troubling.

Sinopec's earnings, released on March 29, beat forecasts, mainly because lower oil prices benefited the company's refining operations even as they hammered its exploration and production business.

What they also confirmed was that China's two domestic oil giants, Sinopec and PetroChina, hit a wall in 2015 when it comes to selling fuel to the country's masses.

Back in October, I highlighted the slowdown in sales of gasoline, diesel and jet-fuel by Sinopec and PetroChina in their home market, raising the possibility that 2015 might see an outright decline. Well, that happened, albeit only slightly: Sales were down just 0.1 percent. The trend hardly looks healthy, though: In absolute terms, the picture of plateauing sales is unmistakable:

These are necessarily lagging indicators. Given the difficulty of gauging actual demand in the world's single-biggest growth market for oil, though, they matter. The two companies report fuel sales in tonnes, but using a rough conversion factor of 7.5 barrels per tonne — it differs for each fuel — their sales last year amounted to about 6.8 million barrels a day, or 60 percent of China's estimated oil consumption.

While sales of gasoline increased as more Chinese bought first, or bigger, cars, it hasn't been enough to offset the decline in diesel. This captures perfectly the challenge Beijing faces in shifting away from a reliance on industry and fixed investment toward a consumer economy, while maintaining relatively fast expansion overall. This drags on oil and most other industrial commodities, such as liquefied natural gas, iron ore and copper, where producers invested billions in new capacity in the expectation that China would simply consume whatever was supplied.

It wasn't just foreign miners and oil majors losing their heads, either; China's own national champions did the same. This is where the slowdown in Sinopec's and PetroChina's domestic fuel sales add further pressure on oil prices.

The two companies figure large in a growing, if somewhat less obvious, excess of global oil refining capacity, something I wrote about here. One way of looking at a refinery is as a huge, complex system of distillation units, pipes and tanks. Another way is as a huge sunk cost that you ought to keep switched on as much as possible, whatever the economic weather.

Similar to what has happened in the global steel market, when China's capacity to produce fuel outpaces its willingness to consume it, more of the stuff ends up on the global market — as Miranda Wang at Bloomberg Intelligence laid out in a recent report.

China may yet end up pulling off its economic pivot (indeed, Bloomberg economists Tom Orlik and Fielding Chen just published a paper on how Beijing might go about it). The challenge is enormous, though, and oil bulls shouldn't take Chinese demand growth projections for granted. Maybe it really is best to just keep chatting about that supply-freeze thing instead.

This column does not necessarily reflect the opinion of Bloomberg LP and its owners.

SHALE

BY ANDREW COSGROVE AND WILL FOILES, BLOOMBERG INTELLIGENCE ANALYSTS

China Remains a Major Source of Demand for Oil
SHALE

BY ANDREW COSGROVE AND WILL FOILES, BLOOMBERG INTELLIGENCE ANALYSTS

Break-Even Model Shows Value Amid the Bakken Rubble

Written off by many analysts as the least economic of the “Big 3” U.S. shale oil plays, the Bakken in North Dakota may have been painted with too broad a brush. Some pockets are capable of turning a profit with oil prices below $35 a barrel, according to a Bloomberg Intelligence break-even model.

Break-even oil prices in the Bakken range from $30-63 a barrel. Wide variation exists even within counties, with Dunn County seeing a $30 difference in break-evens between its best and worst zones.

The play’s economics are similar to the Eagle Ford’s in Texas, with average break-evens within 4 percent of one another and the majority of both plays falling into the $45-$60 break-even range.

While county-play combinations in Texas hold the top six spots, two Bakken sub-county zones, Mandaree and Hawkeye, made the top 10 with break-even oil prices below $32 a barrel.

Terminal subscribers can view the full BI research here.

Wolfcamp Holds the Cheapest Breakeven

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Source: Bloomberg Intelligence
Note: Top 10 in BI’s shale play break-even model
TODAY’S OIL NEWS

Supply

- Oil rose as the dollar weakened and before U.S. government data forecast to show crude stockpiles expanded for a seventh week. Futures climbed as much as 1.5 percent in New York, rising for the first time in five sessions. The Bloomberg Dollar Spot Index held the biggest loss in more than a week after Federal Reserve Chair Janet Yellen reassessed the central bank’s gradual approach to raising interest rates. U.S. crude inventories probably increased by 3.1 million barrels last week, according to a Bloomberg survey, keeping supplies at the most in eight decades.

- Kuwait agreed with Saudi Arabia to resume production at an offshore oil field shared by the two OPEC members, the official Kuwaiti news agency reported, without giving a specific time for the restart. The two countries are preparing to start maintenance at Khafji, Kuwait News Agency reported, citing the nation’s acting oil minister, Anas al-Saleh, speaking in parliament. Production will start initially in “small quantities, which would be increased taking into consideration environmental concerns” before returning to normal levels, according to KUNA. Production at Khafji halted in October 2014 because of environmental concerns.

- Iran will attend talks with fellow OPEC members and Russia in Qatar next month without joining their proposal to freeze crude oil production, according to a person familiar with the nation’s policy. Oil Minister Bijan Namdar Zanganeh will attend the discussions in Doha on April 17, the person said, who asked not to be identified as the talks are private. Iran will maintain its policy of regaining market share lost during years of sanctions so won’t accept limits on its output, the person said. Most OPEC members, including Saudi Arabia, have said they will go to the meeting.

- Oman will attend the Doha oil freeze talks with OPEC next month, according to a person familiar with the policy. Russia and all OPEC members except Libya are scheduled to attend the meeting on April 17.

Companies

- China Petroleum & Chemical Corp. earnings beat analyst estimates as profit from turning crude oil into fuels offset the plunge in energy prices and more than $1 billion in writedowns by Asia’s biggest refiner. Net income last year fell 30 percent to 32.4 billion yuan ($5 billion) from 46.5 billion yuan, according to a statement to the Shanghai stock exchange. That compares with a 29.97 billion yuan mean of 19 analyst estimates compiled by Bloomberg. The company reported impairments of 8.8 billion yuan. Sales dropped 29 percent to 2.02 trillion yuan.

- Abu Dhabi National Oil Co. is willing to accept additional partners at its main onshore fields, a senior company official said, almost a year after awarding less than half the production rights it offered for the deposits in a bidding round. The Persian Gulf emirate, which holds about 6 percent of proven global oil reserves, is investing to boost output capacity to 3.5 million barrels a day by 2017 from about 3 million currently. Total SA of France won a 10 percent stake in Abu Dhabi’s onshore joint venture, but other former partners in the project including Exxon Mobil, BP and Royal Dutch Shell either declined to bid or wouldn’t meet Adnoc’s terms.
MARKET CALLS

- U.S. crude output is to fall to between 8.5 and 8.7 million barrels a day by the end of 2016, Citi analysts including Ed Morse and Seth Kleinman said in a research note. Its output forecast for the end of 2017 is 8.5 to 9.2 million barrels a day. "Forecasts of oil price stability may prove increasingly idealistic," the analysts said.

- The planned restart of the shared Saudi-Kuwaiti Khafji oil field so close to next month's producer talks is a "disastrous sign" for the proposal to cap output, Commerzbank said in a report. "It gives the impression that the lip service paid to freezing oil production is nothing but hot air," it said.

- The oil price is heading towards $80 a barrel by 2020 after re-balancing, Fatih Birol, executive director of the IEA, said in an interview today. At $60 a "significant amount" of activity "slowly but surely" will start to come back in the U.S. There will be consecutive declines in the global investment in 2015-2016, which is unprecedented in the history of oil, he said.

- Bloomberg News

TWEETS OF THE DAY

- John Kemp @JKempEnergy
  OIL PRICES will rise significantly in remaining 9 mths of 2016, according to respected consultancy Energy Aspects twitter.com/chris1reuters/…
  Details

- The Economist @EconBizFin
  As oil prices languish, governments rethink how much they make from the industry econ.st/1PF6JWe https://t.co/MNPwwYmlrw Details

U.S. STORAGE

U.S. Crude Inventories May Build as Refinery Maintenance Persists

U.S. crude oil inventories may build further as slowing domestic production is offset by robust crude imports and muted oil demand from spring refinery maintenance.

With the large unwinding of Nymex WTI short positions — and subsequent price gains — abating, along with growing market skepticism of an effective OPEC production freeze, bearish sentiment may be regaining momentum.

Consensus estimates a 2.8 million-barrel gain in U.S. crude oil inventories in the week ended March 25.

— Vincent G Piazza, Bloomberg Intelligence Analyst

Source: Bloomberg intelligence BloombergBriefs.com
SPOT PRICES

**Spreads**

Brent Crude, Gulf Coast 321 Crack Spread

**Benchmarks**

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**ASIA PACIFIC**

| Crude Tapis (Bloomberg)       | 40.67   | -1.33     |                   |
| Crude Dubai Fateh             | 34.66   | -1.31     | 4.77 BRENT        |
| C&F Japan Naphtha             | 389.25  | -7.00     |                   |

**EUROPE**

| Dated BFOE                    | 38.62   | -0.67     |                   |
| Daily BWAVE                   | 39.30   | -1.01     |                   |
| 95 RON - ARA - FOB barge      | 402.75  | 0.00      |                   |
| MTBE ARA FOB barge            | 506.00  | 0.00      |                   |
| Jet Fuel NW Europe CIF cargo  | 391.00  | 0.00      |                   |
| Jet Fuel W Med FOB            | 371.00  | 0.00      |                   |
| Gasoil ARA FOB barge          | 336.25  | 0.00      |                   |
| Gasoil NW Europe CIF cargo    | 345.25  | 0.00      |                   |
| Gasoil W Med CIF cargo        | 349.25  | 0.00      |                   |
| Diesel ULS ARA FOB barge      | 350.25  | 0.00      |                   |
| Diesel W Med CIF cargo        | 355.25  | 0.00      |                   |
| Fuel Oil W Med FOB cargo 3.5% | 152.25  | 0.00      |                   |
| Fuel Oil W Med FOB cargo 1%   | 158.00  | 0.00      |                   |
| Fuel Oil NWE FOB cargo 1%     | 169.50  | 0.00      |                   |
| Fuel Oil W Med CIF cargo 1%   | 188.50  | 0.00      |                   |

Prices as of end of day March 29
FUTURES

Futures Based Swaps

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Updated 7:30 a.m. New York Time

Swap Curves

Bloomberg Brief: Oil Buyer's Guide

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