An unsteady start to the year

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Topic: Supply/Production
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At the bottom of a story that reports that the Ukrainian Parliament has denounced the agreement they have with Russia on natural gas supplies, Platts notes that in the Russian agreement, was a provision that will increase Russian supplies to Europe by 10% this year. This should stabilize the situation and perhaps provide some additional breathing room, providing the winter does not get any colder.

So far temperatures have been milder than anticipated, reducing demand both in Europe and the United States. Given that Norwegian gas exports were up 8% last year, the combination of increased supply and reduced demand will, no doubt, have an impact on gas prices in Europe. In the US this balance will, more likely, depend on the continued warmer weather to keep demand down, although (as pointed out a bit earlier) the switch away from gas by industry has already more than offset the decline in production from the shut-ins of the GOMEX.

Since the US does not have pipelines to Russia, we are going to have to rely more on LNG transportation. So far this has not had a significant impact on US supply, and yet, internationally, its value is growing.

Again from Platts:

> The new Mizushima LNG terminal in western Japan equally owned by Nippon Oil Corp and Chugoku Electric Power received its first import cargo Monday from Australia, a Nippon Oil spokesman told Platts.
> The 57,000mt test cargo would be consumed by Chugoku Electric at its power plant in the vicinity, the spokesman said. The Mizushima LNG terminal, located at the site of Nippon Oil's Mizushima refinery, would start commercial operations in April, he added.
> The second LNG cargo for the Mizushima terminal is scheduled for arrival in the second half of May, the spokesman said.

On the other hand it does not appear that the Ukrainians are the only folk that can play politics with pipelines. The UK saw this last November

> In late November UK gas prices spiked as high as 170p/th, five times the October average, as low imports of gas through the Belgium to UK Interconnector pipeline forced UK gas companies to meet demand with expensive gas supplies from storage instead. The pipeline never got more than two thirds full, and remained below even the 42-mil cu m/day forecast made by National Grid before the winter began, let alone the pipe's

> full 48-mil cu m/day capacity.
> Ofgem is concerned that continental companies were holding back gas they could easily have supplied to the UK. Ofgem boss John Mogg wrote to the EC in November asking them to investigate whether continental companies were holding back their gas, or whether they genuinely had no spare gas.

The European response, apparently, was that there was no gas to spare, and thus the relief that the Russian additional supply will bring.

In regard to oil, the fragility of the supply:demand balance is suggested by the sensitivity of prices to events in Nigeria and Iran. Currently the output from Nigeria is down over 100,000 bd due to delays in repairing a pipeline. However the threat to "totally destroy the capacity of the Nigerian government to export oil" has led Shell to withdraw personnel. This, apparently, does not affect the Deepwater operations and only 10% of the oil output that Shell gets from Nigeria.

Iran, on the other hand, is causing concern on two fronts. Firstly there is the debate over the start-up of nuclear operations, with the possibility of sanctions from the West. This may be an unpalatable choice, given the tightness of supply. However, given that Iranian oil mainly goes to Asia and Europe, may make it easier for the US to take a stronger stand.

However Iran is also talking about having OPEC reduce production of oil based on a projected supply surplus in the 2nd Quarter of this year. Whether that is meant just to emphasize the threat they are making to protect their current position, or whether they really believe that the world will see that much difference is unclear. The IEA are predicting a growth in non-OPEC supply of 1.4 mbd and that OPEC will increase their other liquid supply by 0.4 mbd, and this is seen as a threat to the current oil prices. Given, however, that there was more than enough oil, at the price that prevailed last year, so that production only increased 900,000 bd against the projected 1.4 mbd projected, we may be seeing that demand destruction will curtail the need for this production which, if sustained, will cause, on its own, a drop in price.

However as we keep discussing here, the reliability of the IEA in predicting production, given the potential supply disruptions already visible, is sufficiently weak that optimism is hard to sustain. But I have been wrong before.