The Commodities Feed: The big chill

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ice rig

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Energy

Freezing conditions across the US continue to affect US energy production, with NYMEX WTI edging closer towards US$62/bbl. It has become clearer that the impact from this cold weather has been much more severe than the market was initially expecting. Bloomberg reports that US oil output has fallen by 4MMbbls/d, a significant amount, representing almost 40% of total US oil output. However while US oil production has been hit, there is also a clear demand hit for crude oil, with a number of refiners having shut or reduced operating rates as a result of the conditions and power outages. It is estimated that around 3.6MMbbls/d of refining capacity has been idled, and for now at least, crude oil production losses appear to exceed the fall in refinery operating rates. While the colder weather should be behind us by the end of this week, there is the risk that it takes several days for operations to return to normal after the big freeze.

On the natural gas side, the Texas governor has ordered a halt in gas exports until 21 February, and instead the gas is to be diverted to domestic power generators. This includes the Freeport LNG export facility, where gas inflows to the plant have fallen to zero, according to Platts. Inflows to all LNG export facilities have fallen as a result of the winter storm, with gas inflows to LNG export plants falling to 2.2 Bcf/d on 16 February, compared to around 10Bcf/d seen earlier in February. Platts also reports that there has not been a single cargo of LNG loaded for export since 14 February.

Moving away from the US, and we appear to be seeing OPEC+ oil ministers positioning themselves ahead of the OPEC+ meeting on 4 March, with the Saudi energy minister saying that it is important that the group not be complacent when they meet early next month. The stronger price environment we are currently in will likely see some producers pushing for a more aggressive easing in cuts. However, it seems as though the Saudis are keen to take a more conservative approach, and would support a more gradual increase in production.

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