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Oil Futures Turn Higher as Dollar Stays Weak

Bloomberg

Oil reversed an earlier drop as a sharp decline in the dollar made commodities priced in the currency more attractive.

West Texas Intermediate traded above \$86 after earlier shedding 1.4%. A gauge of the dollar declined for a second day to its lowest level in three weeks. Strength in the greenback had been weighing on oil markets ever since crude retreated below \$100 a barrel during the summer.



Signs of macro-economic weakness continue to emerge, darkening the outlook for energy demand

The US oil benchmark has lacked direction lately, torn between the prospects of a slowdown in global growth as central banks hike interest rates to combat inflation and OPEC+ output cuts. Trading volumes have suffered on WTI as a result, coming in at about half of normal levels so far this week.

“Crude oil remains rangebound,” said Ole Hansen, head of commodities strategy at Saxo Bank A/S. “Short-term direction is being provided by the movements in the dollar and focus on today’s weekly US stock report.”

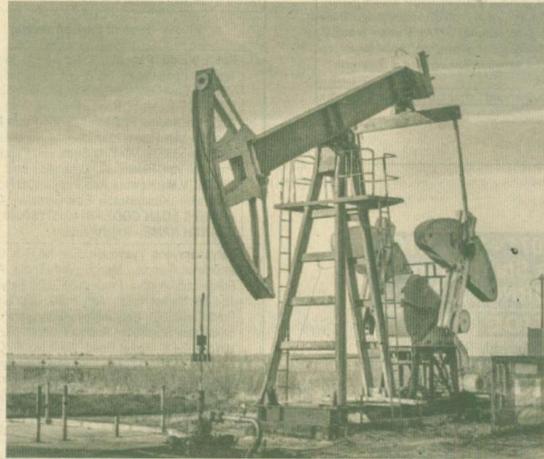
The American Petroleum Institute reported on Tuesday that US inventories expanded by about 4.5 million barrels last week, according to people familiar with the figures.

Government data will follow later Wednesday, with the breakdown coming amid heightened concern about product supplies including diesel.

Signs of macro-economic weakness continue to emerge, darkening the outlook for energy demand.

Perils of oil price predictions

It may be better for Indian policymakers to understand what makes oil prices move rather than predict movements in rates



S DINAKAR
26 October

By how much will oil prices move this winter, and in 2023? If one had the key to the chaotic world of oil prices, then she or he would be the most influential and richest astrologer in the world. Even seasoned oil wizards working for some of the world's most storied banks like Goldman Sachs have stumbled. When Brent crude soared to a record \$147.50 a barrel in the summer of 2008, Goldman Sachs predicted the world's biggest addiction to touch \$200 a barrel — crude oil plunged to \$45 a barrel in the winter of 2008.

The perils of predictions were no less evident last month when the bank cut its price forecasts for Brent averaging \$100 per barrel in October-December, down from its previous forecast of \$130 per barrel. Goldman saw Brent averaging \$108 per barrel in 2023, down from a previous \$125 per barrel prediction. The downgrade was attributed to a strong dollar and weakening demand. The bank, in September, saw the Organization of Petroleum Exporting Countries (OPEC) maintaining production near current levels for 2022. But OPEC+ did the opposite — it decided to cut output by 2 million barrels a day on October 5.

So it may be better for Indian policymakers to understand what makes oil prices move rather than predict movements in rates — which is what seems to be happening if one goes by the frequent pronouncements made by state oil refiners in the media. But why should India bother about oil prices? India imports more than 85 per cent of its crude, half of its gas, and 60 per cent of the cooking fuel that goes into your vehicles and kitchens, and any uptick in rates reduces the purchasing power of Indian households, something that is called inflation.

Alternatively, the government must borrow more to pay state refiners to keep pump prices constant.

India paid \$90 billion for crude oil in the April-September period of fiscal 2022-23, 76 per cent higher from a year earlier. The jump in oil expenditure would have been even higher if Russia had not offered oil at a discount while inveigling its way to become one of India's top three oil suppliers. At constant fuel prices, India will spend around \$223 billion this fiscal on imported fuels, or over 6 per cent of India's GDP, according to calculations based on oil ministry data.

Goldman still maintains a bullish view on oil because of a structurally bullish supply scenario, which it said has only grown stronger, inevitably requiring much higher prices. What that means is the pandemic, a push towards renewables and the Russian invasion of Ukraine — all occurring at the same time — have led to lack of investment in global upstream, low spare capacity to extract more oil in case of any geopolitical crisis — like terrorist attacks on oil facilities — and, low stocks.

Stocks are by far the most important from a near-term horizon because oil prices respond to the volume of oil stored by developed nations. Commercial inventories held in the countries of the Organisation for Economic Co-operation and Development remained a steep 243 million barrels below the five-year average of 2.736 billion barrels, International Energy Agency (IEA) said in its monthly October oil report. They would have been significantly lower had it not been for the release of 185 million

barrels of IEA member country government stocks from March through August, IEA said.

Low stocks have also coincided with a massive cut in OPEC+ oil supply, the biggest since the group cut output by 10 million barrels a day in 2020 during the pandemic, heightening the price risk for nations like India because even after taking into account lower demand expectations because of a looming recession, it will sharply reduce a much needed build in oil stocks through the rest of this year and into the first half of 2023, the IEA said.

While global recession and China's quixotic zero Covid policies portend a potential steep fall in prices, this is still seen as unlikely, given not only very low stock levels, an exhausted US strategic reserve, and especially the constrained supply side of the equation, said Tilak Doshi, a Singapore-based international oil expert. Surplus oil production capacity is extremely low (as the CEO of Aramco said recently), and any bullish development of the demand side (such as China coming out of lockdowns for example) would lead to an oil price shock on the upside, Doshi, who has worked for Aramco, added.

History has often served as a poor precedent for how oil prices move. For example, in 2017, Goldman Sachs was forced to issue a note explaining why it got it wrong when it came to predicting oil price movements. OPEC had then cut output to boost prices. That prompted the bank and traders to take long positions on the commodity. But what Goldman failed to realise was that unlike in the past US drillers pumped more from shale reserves as oil prices rose, negating OPEC's supply cut, and sending oil lower. Shale turned the US into the world's biggest oil producer and weakened OPEC's clout in influencing oil prices.

While previous large spikes in oil prices have spurred a strong investment response from non-OPEC producers, this time may be different, the IEA said. US shale producers, traditionally the most responsive to changing market conditions, are struggling with supply chain constraints and cost inflation — and, so far, they are maintaining capital discipline. This casts doubt on suggestions that higher prices will necessarily balance the market through additional supply.

OPEC's current cut also coincided with the US releasing its last installment of stocks from its strategic reserves, and amid threats of a price cap on Russian oil. Saudi Arabia and Russia ensured that bulldozing price caps on China, India and Turkey, the biggest buyers of Russian oil, will be tougher if supplies are already low, and the US, in an election year, may not risk rolling oil markets further.

"The political predilections of NATO and its US-led policy makers that see 'bleeding Russia' as the ultimate objective is driving energy policies of the West to the detriment of the world economy and the livelihood of billions of people faced with surging fuel, food and fertiliser prices," Doshi said.

AFTER SANCTIONS IN EUROPEAN MARKETS...

Russian Petrochem Co Sibur Eyes India to Boost Exports

Also focusing on China, Turkey, Vietnam and Indonesia, says CEO

DipanjanRoy.Chaudhury
@timesgroup.com

New Delhi: Russian petrochemicals company Sibur is betting big on India following sanctions on its products for European markets in the backdrop of the Ukraine war. It has started export of items necessary for production of fibreglass, artificial stone and pharmaceuticals here.

Sibur started production and exports of maleic anhydride – a chemical compound which is used for production of fibreglass, artificial stone, and pharmaceuticals – this year and shipped first batches to India, Andrey Frolov, chief executive of Sibur International, told ET in an exclusive interaction.

Sibur has also established a

 We already had plans to expand sales to SE outeast Asia, but recent events have accelerated their implementation

ANDREY FROLOV
CEO, Sibur International

\$450-million joint venture with Reliance Industries to produce butyl rubber and halogenated butyl rubber in Jamnagar.

“These rubbers can be used in automotive inner tubes, cable insulation, roofing membranes and many other applications,” Frolov said. “Reliance’s oil refinery supplies feedstock for these facilities.” The joint venture,

where Sibur holds 25% stake, started production of butyl rubber in 2019 and halogenated butyl rubber in 2021, he added.

Sibur is increasing its exports to Asian markets as its exports to Europe have declined due to geopolitical tensions, Frolov said. “We already had plans to expand sales to Southeast Asia, but recent events have accelerated their implementation.”

Sibur’s newest petrochemicals facility, ZapSibNeftekhim ranks in top five largest petrochemicals projects in the world. The group is currently working on a new project – Amur Gas Chemical Complex, which is set to become the largest base polymer facility globally by capacity.

Besides India, Sibur International is focusing on China, Turkey, Vietnam, Indonesia and other markets in Asia.

Countries' Pledges Not Enough to Achieve Paris Goals: UN

RED FLAG Greenhouse emissions need to be cut 43% from 2019 levels by 2030 to restrict temperature rise to 1.5 deg Celsius by century-end

Urmi Goswami
@timesgroup.com

New Delhi: Commitments and targets set by countries to act on climate change are not sufficient to achieve the Paris Agreement goal of restricting global temperature rise to well below 2 degrees Celsius of pre-industrial levels; instead, they put the world on track to temperature rise of 2.5 degrees, latest UN assessment shows.

The United Nations climate change secretariat has released a new assessment after analysing the combined climate pledges of 193 parties submitted under the Paris Agreement till September 23, 2022. It includes 24 updated or new NDCs (nationally determined contributions) that were submitted after COP26 in Glasgow.

COP27 host Egypt, India and Australia are among the countries that submitted NDCs with updated 2030 targets this year.

The pledges, though still not sufficient to limit warming to "well be-

low 2 degrees C and as close as possible to 1.5C", mark an improvement over last year.

NDCs or pledges submitted ahead of COP26 were projected that by 2030, emissions would increase by 13.7% compared to 2010 levels. The current pledges have succeeded in bending the emissions curve—emissions are projected to rise by 10.6% over the 2010 levels.

"What this report shows is some progress has been made," said Simon Stiell, executive secretary of the United Nations Framework Convention on Climate Change (UNFCCC). "But that progress is highly insufficient. So, we are moving forward, but we are moving forward far too slowly."

Stiell, who served as Grenada's environment minister prior to his appointment as the UN's climate boss, said analysis showed that depending on the level of implementation of the climate pledges, the temperature increase would vary between 2.1 degrees C and 2.9 degrees. "If developed countries do not fulfil their climate finance commitments, it will



Smoke billows from the cooling towers of a coal-fired power plant

be near impossible to reach the bottom end of the range," he said.

The UN's climate science body, Intergovernmental Panel on Climate Change (IPCC), reported that greenhouse gas emissions need to be cut 43% from 2019 levels by 2030 to restrict temperature rise to 1.5 degrees Celsius by the end of this century, thereby avoiding the worst impacts of climate change, including more frequent and severe droughts, heat-

waves and rainfall.

"The science is clear and so are our climate goals under the Paris Agreement," Stiell said. "We are still nowhere near the scale and pace of emission reductions required to put us on track towards a 1.5 degrees Celsius world. To keep this goal alive, national governments need to strengthen their climate action plans now and implement them in the next eight years."

Greenhouse Emissions Hit Record in '21



BERLIN The three main greenhouse gases hit record high levels in the atmosphere last year, the UN weather agency said on Wednesday, calling it an "ominous" sign as war in Ukraine, rising costs of food and fuel, and other worries have ebbed in on longtime concerns about global warming in recent months. "More bad news for the planet," the World Meteorological Organisation said in a statement along with its latest annual Greenhouse Gas Bulletin. It's one of several reports released in recent days looking at several aspects of humanity's struggle with climate change. AP

Stiell urged governments to come to COP27 to show how they will put the Paris Agreement to work in their home countries through legislation, policies and programmes, as well as how they will cooperate and provide support for implementation. He called on countries to make progress at the climate talks in four priority areas: mitigation, adaptation, loss and damage, and finance.

Egypt foreign affairs minister Sameh Shoukry said, "COP27 will be the world's watershed moment on climate action." Raising ambition and urgent implementation is indispensable for addressing the climate crisis, he said. This includes cutting and removing emissions faster and at wider scope of economic sectors "to protect us from more severe adverse climate impacts and devastating loss and damage", Sameh said.

Aramco Unveils \$1.5b Sustainability Fund

AHEAD OF CLIMATE MEET Saudi oil giant has committed to reaching net zero operational emissions by 2050

Saudi oil and gas company Aramco unveiled a \$1.5 billion fund on Wednesday for sustainable investments, part of efforts to burnish the state-owned company's green credentials in an announcement ahead of the UN climate conference next month in Egypt.

Aramco CEO Amin Nasser said at an investment conference in Saudi Arabia that the fund will focus on "breakthrough technologies that are important and startups that will help us to address climate change".

Nasser billed the fund as one of the world's biggest sustainability-focused venture capital funds and said it would invest globally and launch immediately. He spoke at Saudi Arabia's Future Investment Initiative meeting, sometimes known as "Davos in the Desert," a comparison to the World Economic Forum's annual meeting of corporate bigwigs and world leaders in the Swiss Alps.

Aramco is one of the largest corpora-

te greenhouse gas emitters. Environmentalists have long accused oil and gas companies of using climate-friendly pledges to "greenwash" their polluting activities.

The fund will also target greenhouse gas emissions, energy efficiency, nature-based climate solutions, digital sustainability, hydrogen, ammonia and synthetic fuels

One area Aramco's fund will focus on is carbon capture and storage, which involves sucking heat-trapping carbon dioxide from factory smokestacks and storing it underground.

Climate experts, however, warn the technology is risky, unproven and expensive and could be used to delay the phaseout of fossil fuels. Others say all untested solutions should be pursued given how little time there is left to meet UN emissions-cutting goals.

Other investment themes the fund



will target include greenhouse gas emissions, energy efficiency, nature-based climate solutions, digital sustainability, hydrogen, ammonia and synthetic fuels.

Aramco has committed to reaching net zero operational emissions by 2050, but that only accounts for a fraction of the company's total emissions. It does not include the carbon dioxide released by the burning of fossil fuels that the company produces.

Oil companies have been using "green-sounding 'net-zero by 2050' pledges" to justify technological fixes that will allow them to "keep on digging up and selling oil and gas," said Pascoe Sabido, a researcher specializing in the energy and climate sector at Corporate Europe Observatory, which investigates European Union business lobbying.

"Aramco's sustainability fund has nothing to do with fighting climate change and everything to do with extending the life of its fossil fuel business," he said.

Saudi Crown Prince Mohammed bin Salman has been trying to diversify the economy away from oil revenue, though the government continues to rely heavily on crude exports.

The UN climate conference, known as COP27, will hold negotiations aimed at limiting global temperature increases next month in the Red Sea resort town of Sharm el-Sheikh, Egypt. AP

SHARE PRICES DOWN 20% SINCE BEGINNING OF 2022

IGL's Underperformance may not Reverse for now on Pricing Woes

Ashutosh.Shyam
@timesgroup.com

ETIG: The underperformance of Indraprastha Gas Ltd's shares is unlikely to reverse in the near term, as dwindling pricing power weighs on the company's operating margin. The share is down by about 20% since the beginning of 2022. The emerging headwinds for earnings are quite visible from IGL's performance

80%

RISE IN CNG PRICES SINCE JUNE 2021

in the second quarter of FY22. The supplier of compressed and piped natural gas in the Delhi region had volume growth of 12% year-on-year to 8.1 mmscmd in the September quarter. Of this, 6 mmscmd was from CNG sales and the balance from PNG, which included domestic as well as industrial. However, to maintain volume growth, the com-



pany had to sacrifice its margin. The operating profit per standard cubic metric (scm) of IGL dropped to Rs 7.1 in the second quarter of the current fiscal compared with Rs 8.6 in the previous quarter, as it could not pass rising gas cost proportionately to consumers.

In the September quarter, the average cost of gas for IGL rose to Rs 35.1 per scm, up Rs 5.1 per scm over the previous quarter, while average

realisation increased by Rs 3.3 per scm. This resulted in a sharp compression in margin. The pressure on operating margin of IGL is likely to remain elevated unless the government puts a cap on domestic gas prices in the wake of surging global gas prices due to geopolitical tensions.

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Gas crunch eases in Europe, but the respite might not last

ASSOCIATED PRESS

FRANKFURT, 26 OCTOBER

Natural gas and electricity prices in Europe have plunged from summer peaks thanks to mild weather and a months-long scramble to fill gas storage ahead of winter and replace Russian supplies during the war in Ukraine. It's a welcome respite after Russia slashed natural gas flows, triggering an energy crisis that has fueled record inflation and a looming recession.

Yet experts warn it's too soon to exhale, even as European governments roll out relief packages for people struggling with high utility bills and work on longer-term ways to contain volatile gas and electricity prices that have shrunk household budgets and forced some businesses to shut down.

Uncertainties include not only the weather but how responsive people will be to



appeals to turn down their heating and how much demand there will be from Asian economies for scarce energy supplies. And the war a few hours east is a cauldron of possible unpleasant surprises that could cut energy supplies needed for electricity, heating and factory work and send prices sharply higher. Persistent unknowns are leaving energy-intensive businesses jittery. They are appealing to governments to help them and their customers weather the energy storm so

that disruptions in supplies of everything from glass to plastics to clean hospital sheets do not cascade through the economy.

"We must remember that we are still in a tense situation — an economic war between the European Union and Russia in which Russia has weaponized energy supplies," said Agata Loskot-Strachota, an energy policy expert at the Center for Eastern Studies in Warsaw, Poland.

The good news is natural gas prices on Europe's TTF

benchmark fell on Monday below 100 euros (dollars) per megawatt-hour for the first time since June, a 70% drop from late August highs of nearly 350 euros per megawatt-hour. Electricity prices also fell.

While analysts say lower gas prices are allowing European fertilizer producers to restart operations, there's no sense of relief for business owners like Sven Paar. His commercial laundry in the German town of Wallduern will use around 30,000 euros worth of natural gas this year to run 12 heavy-duty machines that can wash eight tons of hospital and hotel bedsheets and restaurant tablecloths each day.

His local utility says the bill is rising to 165,000 euros next year. On top of that, Paar says he's unsettled by a lack of clarity from the German government on whether laundries like his would be considered essential to the economy and spared cutbacks in case of state-imposed rationing.