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OPEC output surges on Saudi crude boost

Saudi oil production hits 10.63 million b/d, near all-time high

London—Saudi Arabia pumped close to its all-time high in July and several of its OPEC brethren posted their largest output figures in more than a year and a half, as the bloc appears to be following through on its agreement to unleash more barrels on the market.

- **Kuwait, UAE, Iraq, Algeria hit highs**
- **Venezuela falls to 1.24 million b/d**

OPEC produced 32.66 million b/d in July, a 340,000 b/d rise from June, including newest member the Republic of Congo, according to the latest S&P Global Platts survey of industry officials, analysts and shipping data.

Saudi Arabia, OPEC's largest member, produced 10.63 million b/d, the kingdom's highest since August 2016, when it produced its record 10.66 million b/d, according to Platts survey archives.

After the survey was published, however, a Saudi source said the kingdom produced less crude in July and supplied 10.38 million b/d to the market.

The country produced 10.29 million b/d in July, the source said, down from a self-reported figure of 10.49 million b/d for June. The new figure indicates that Saudi Arabia may have pulled barrels out of storage to supply the market with more crude than it produced.

OPEC is set to reveal its July production figures in its closely watched monthly oil market report August 13.

According to Platts' survey, Saudi Arabia's Gulf allies Kuwait and the UAE pushed their output to their most since December 2016 — the last month before OPEC and 10 non-OPEC allies agreed to implement supply cuts that are now being eased —as did Iraq and Algeria, the survey found.

Those gains were more than enough to offset output declines in sanctions-hit Iran, crisis-wracked Venezuela and conflict-torn Libya.

OPEC on June 23 agreed with its partners to end overcompliance with their

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South Korea finds US crude cheaper than Russian grades

Singapore—South Korean refiners paid close to $5/b less for delivered US crude compared to Russia blends in June, a stern reminder that short-haul supplies do not always come cheap and long-haul cargoes are not necessarily expensive.

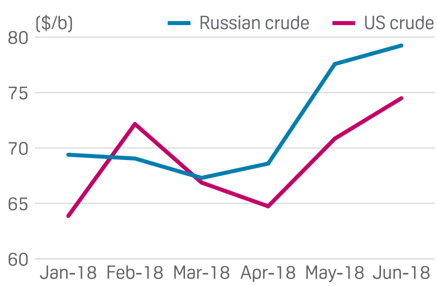
- **US crude a $4.75/b discount to Russia in June**
- **Russian crude sensitive to Asian cracks**
- **Tax exception supporting US volumes**

South Korea has imported a total of 2.17 million barrels of crude and condensate from Russia in June and paid on average $79.24/b, latest data from state-run Korea National Oil Corp. showed. KNOC's import cost figures include freight, insurance, tax and other administrative and port charges.

On the contrary, Asia's fourth-biggest energy consumer imported 3.01 million barrels from the US in June at an average cost of $74.49/b, which was $4.75/b cheaper.

The latest data raised many eyebrows in the regional market as the delivery distance from

SOUTH KOREA'S CRUDE IMPORT COSTS



Note: Costs include freight, tax, insurance, port fees and others. Costs show average value paid per month
Source: Korea Nationa Oil Corp.

Far East Russia to Northeast Asia is significantly shorter than the US-South Korea route.

Industry sources noted that the voyage time from Far East Russia's Kozmino port, the DeKastri terminal and Prigorodnoye export terminal to Northeast Asia is less than a week versus up to 50-60 days from the US Gulf Coast.

However, most of the light sweet Far East Russian grades are highly sensitive to Asian refined oil product cracking margins, with price

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Trade tensions shift CAO plans

Company to focus on core business, eyes jet fuel arbitrage into Europe

Singapore—China Aviation Oil warned Friday that business conditions are likely to remain tough because of geopolitical tensions and trade protection measures, but said it would aim for growth by pushing its core businesses.

- **China jet fuel cargoes to US unlikely**
- **Acquisitions to lift European opportunities**
- **Jet fuel trading volumes to climb in Q3**

The company is also eyeing opportunities to send arbitrage jet fuel cargoes to Europe amid concerns that the escalating US-China trade war will prevent Chinese jet fuel cargoes moving to the US.

CAO's jet fuel trading volumes in H1 fell nearly 14% on the year, the company said. Its gasoil and crude oil volumes picked up sharply in the period, helping the company's overall trading volumes to post robust growth of more than 12%.

CAO, which is the largest physical jet fuel trader in the Asia Pacific region, added that its latest acquisition, Navires Aviation Limited, would help to grow its business in Europe and expand its presence in international markets. Navires Aviation has been renamed China Aviation Fuel (Europe) Limited.

"CAFEU provides CAO with a springboard to further grow our jet fuel supply and trading portfolio as well as aviation marketing business in Europe and strengthen our global presence," CEO Meng Fanqiu said in a statement.

The acquisition, which was completed at the end of June, is expected to enable CAO to secure jet fuel outlets and cater to local and international airlines at Schiphol, Frankfurt, Brussels and Stuttgart airports in Northwest Europe.

Arbitrage to Europe

"We are looking for opportunity to send cargoes to Europe during the rest of 2018, with volumes expected to be around 100,000-200,000 mt," said Meng. He added that those volumes would be much lower than total 2017 arbitrage volumes to Europe of 600,000 mt.

CAO did not send any jet fuel cargoes from Asia to Europe in the first seven months of this year as the arbitrage window was closed.

In the first half of 2018, the company's jet fuel trade volumes were 6.74 million mt, down 14.4% on the year and 18.3% below H2 2017, the company said.

Despite the reduction in volumes, gross profit grew 13.7% year on year as the company optimized its jet fuel supply and trading activities.

Trading profit was strong in Q1 due to market tightness as buyers in Europe, Africa and Asia were often competing for the same cargoes.

Meng expects trading volumes to rise in Q3 as the July-September period is the peak season for jet fuel trading globally.

Trade tensions

"If the China-US trade war further escalates, it is unlikely that jet fuel cargoes from China will move to the US. But some other trading opportunities would arise," vice president Zhang Xinbo said.

CAO supplied less than 2 million mt of jet fuel to airports in the US last year, 60% of which were cargoes shipped from North Asian countries —China, South Korea and Japan. The rest were cargoes supplied by US refiners.

"We have talked to South Korean refineries and they are very happy to send more cargoes to the US amid intensive competition within Asia," Zhang said.

Independents' issues

Company officials said that financial issues faced by China's independent refiners would limit business opportunities for crude trading over the course of the rest of the year.

"China's independent refineries may encounter many difficulties this year, and we expect their crude demand to fall in H2. But the country's crude demand will rise," Meng said, adding that CAO had expanded its customer profile to include state-owned refineries.

Crude oil pushed up the company's non-middle distillates volumes 42.6% on the year to 8.74 million mt in H1, the company said.

CAO launched its crude oil trading business in the second half of 2016 with trading volumes amounting to 6 million mt in the year, rising to 6 million-7 million mt in 2017. It set up the crude business after crude oil import quotas were awarded to independent Chinese refineries in 2015.

The company mainly sources crude cargoes from the Middle East and supplies to Asian countries.

China Aviation Oil (Singapore) Corporation is listed on the Singapore Stock Exchange and is a subsidiary of China National Aviation Fuel Group Corporation.

—*Oceana Zhou, Sambit Mohanty*

South Korea finds US crude cheaper than Russian grades

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differentials for ESPO Blend, Sakhalin Blend and Sokol often rallying in tandem with strong light and middle distillate cracks in the region.

In addition, the free trade agreement between South Korea and the US, which took effect from March 2012, has completely removed import duties on energy products coming from the North American supplier.

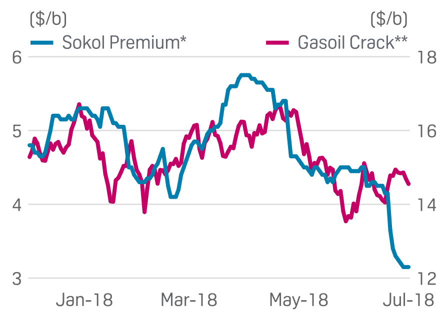
South Korea has imported 14.1 million barrels from the US in the first half of this year at an average cost of $69.08/b, while 21.57 million barrels arrived from Russia over the same period at an average cost of $70.77/b.

Average cost comparison between Russian and US crude purchased in 2017 could not be made due mainly to the big difference in import volumes from the two producers. South Korea has only actively started to buy US crude since second half of the third quarter last year.

Russian spot premiums

Far East Russian crude grades are highly sensitive to Asian refining margins as majority of ESPO Blend, Sakhalin Blend and Sokol spot supplies feed into the big three Northeast Asian demand centers namely China, South Korea and Japan. Spot differentials for the distillate-rich Russian grades typically outperform rival Southeast Asian and Oceania light sweet crude when cracking margins trend up in the region.

SOKOL'S CORRELATION WITH ASIAN CRACKS



* Sokol's premium reflects differential to Platts Oman/Dubai average
** Gasoil crack represents spread between Singapore physical gasoil assessment and M2 Dubai Swap
Source: S&P Global Platts

The second-month Singapore gasoil to Dubai swap crack rallied in Q2, averaging $16.23/b during the month of May, the highest level since May 2014 when it averaged $16.66/b, S&P Global Platts data showed.

Demonstrating Far East Russian grades' strong correlation to regional product margins, middle distillate-rich Sokol crude commanded an average premium of $5/b to the average of first-line Dubai and Oman assessments on a CFR North Asia basis during Q2. It was the highest quarterly premium since Q3 2014, when the differential averaged $5.20/b, Platts data showed. —*Gawoon Philip Vahn, Charles Lee*

Shippers see margins soar for Iranian crude

Handful of tanker owners profiting from dwindling Iran-Europe trade

London— Some shipowners are making huge margins transporting Iranian crude into Europe as the threat of falling foul of US sanctions scares off rivals with less nerve.

- **Freight premium more than doubles**
- **Shipowners in Europe still carrying Iran's oil**
- **Flows to Europe expected to drop sharply**

In an era of paltry earnings for shippers, some owners are benefitting from a large freight premium over normal Middle East to Europe voyages even as crude flows from Iran to Europe are starting to drop.

Freight rates for Suezmaxes —which carry up to 140,000 mt or 1-million barrels of crude — on a Middle East to Mediterranean voyage have recently been around Worldscale 30 or $6.94/mt, according to Platts data.

But shipowners willing to take crude from Kharg Island, Iran's export terminal in the Persian Gulf, to the Mediterranean are getting rates as high as Worldscale 65 or $15/mt.

Iranian cargoes to the Mediterranean were seeing a Worldscale 10 premium over the normal the Persian Gulf-Med route before the US withdrew from the Iran nuclear deal on May 8.

Regardless of the premiums on offer, these so-called back-haul stems are a good way for shipowners to relocate their vessels from the East into the Mediterranean, which is a strong loading area, and avoid paying for the ballast.

The bulk of Iranian crude exports travel on tankers owned by Iran's state-run shipping company, the National Iranian Tanker Company, with the remaining loadings transported by a number of Greek and Turkish shipowners.

Sources said there are at least four such shipowners in Europe who are still busy carrying Iranian crude.

Some of these shipowners told S&P Global Platts that as long as they do not breach covenants in their pre-agreed insurance contracts then there should be no problem with their vessels' insurance cover.

Insurance caution

Insurance companies already have a Sanction Limitation and Exclusion Clause, or SLEC, which exempts them from providing any payments or cover in contravention of international sanctions.

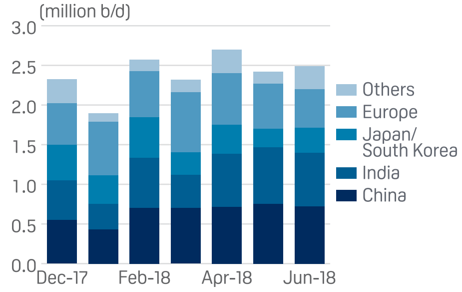
Underwriters must not be seen to be insuring something they are not supposed to do and charterers are taking a very cautious line, assuming that only crude cargoes agreed before May 8 are risk-free from the new sanctions, sources said.

"Shipowners do need a warrant from the charterer to say that the cargo you are transporting is for a contract agreed pre-May 8 and will be delivered to a specific refiner," said one shipowner still operating on the Kharg Island to Mediterranean route. "So you can't take a stem from any old charterer and send it wherever they want." Key buyers of Iranian crude in Europe are starting to cease imports of Iranian crude for September-loading cargoes as the first round of new US sanctions on Iran begin in a few days.

The US sanctions specifically targeting Iran's oil sector come into effect on November 4. But the first set of sanctions aimed at Iran's financial sector starts on August 6.

"I see some Europeans trying to find vessels. But I think September is the last month. Even in August, people have reduced further," said one crude trader.

IRAN'S EVOLVING REGIONAL OIL EXPORTS



Note: Show's Iran's crude and condensate export flows based on shipping tracking data
Source: S&P Global Platts

Exports falling

Iranian crude exports to Europe are beginning to fall sharply ahead of US sanctions but those refiners that have term deals with Iran are still honoring their contracts, sources said.

As a result of these term deals, shipowners have said it is easier to obtain shipping insurance to transport Iranian crude, and they are not worried about flouting US sanctions.

Eni was reported to have taken a vessel on subjects at w65 to cover a stem loading ex-Kharg with August 14-16 loading dates for delivery to the Mediterranean.

There have been many more cargoes covered since May 8 under existing contracts of affreightment, supply contract to provide a number of vessels in a defined period, with other charterers, sources said.

Eni representatives were unavailable for comment.

Trading sources have said that while shipping and insurance has imposed a higher burden on lifters still willing to take Iranian crude, the strong refinery margins on sour barrels have still made it worthwhile. This is likely to change as the November deadline approaches, which is when the full weight of US sanctions kicks in.

Europe is an important outlet for the OPEC member, taking around 600,000-700,000 b/d, or one-third, of Iranian crude exports. Key buyers include Turkey, France, Italy, Spain and Greece.

Flows to Turkey and Italy remain quite high, but demand from France, Greece and Spain has begun to fall steadily.

Iranian crude exports to Europe in June and July have fallen to 400,000-500,000 b/d, according to Platts estimates. Iran, the third-largest oil producer in OPEC after Saudi Arabia and Iraq, is producing around 3.70-3.74 million b/d of crude oil, according to Platts estimates. —*Eklavya Gupte, with Peter Farrell and Gillian Carr*

Heatwave forces European refiners to cut runs

London—Some refineries in Europe have been opting to reduce crude runs as cooling facilities struggle dealing with the current heatwave, sources told S&P Global Platts Friday.

Northwest Europe especially has been hit by unusually high temperatures, up to 40C, and the heatwave set to last for a while longer.

"The high temperatures are causing refineries to be down slightly [on runs]," one trading source said.

Refineries need to cool the crude distillation columns and some have been reducing rates to cope with the heat, although the measures appear to be temporary and have not been widespread, sources said.

Some refineries might have to reduce capacity by "one or two percent," said a source with the German mineral oil association, but that would have "very little impact on refinery output." While in the past high temperatures could have affected refineries' cooling abilities, currently their "efficiency is so so high," they can cope well, the source said.

A number of refineries in the past weeks have had problems with electricity glitches although those were not attributed to the heatwave and have since been fixed.

The reduced run rates were seen as partly lending support to Northwest Europe's gasoline market which has been very tight on seasonally higher demand and shipments to North America and West Africa, according to sources. —*Solomon Lanitis, with Elza Turner*

Serica seeks sanctions waiver for North Sea deal

UK independent looks to buy BP stake in Iran-owned gas field

- **Total deal depends on US waiver for Rhum**
- **'Advance talks' underway with US**
- **Rhum provides 4% of UK gas demand**

London—BP and UK independent Serica Energy are in "advanced stage" talks with US authorities to obtain an exemption from sanctions for the Rhum gas field in the North Sea, which is 50% Iranian-owned, it said Friday.

Serica announced plans to bulk up its planned purchase of BP's stakes in the field by also buying Total's stakes (42.25% and 25% respectively) in the nearby Bruce and Keith fields, with the purchases from Total conditional on the purchase from BP.

The deals continue a trend of the oil majors exiting traditional North Sea fields, while remaining active in the less-explored West of Shetland area.

BP and Serica are "actively engaged in advance stage discussions with both UK and US governments to provide the basis on which the necessary licence consents can be obtained and thereby enable continuing operations on the Rhum field after expiry of the existing OFAC Licence," Serica said, referring to the US Office of Foreign Assets Control, which enforces US sanctions.

The Rhum field supplies about 4% of UK demand and was shut down in 2010 for four years due to sanctions against National Iranian Oil Company, before agreement was reached to hold Tehran's share of revenues for release in future. Last September BP obtained a license from OFAC to ensure continued operation of the field, since when the US has decided to reinstate sanctions against Iran, and the license expires on September 30.

Rhum has been producing around 134 MMcf/d of gas in recent months, with about 1,000 b/d of liquids. Oil and gas from the field is transported via Bruce and Keith, in which Iran has no ownership, for onward shipment through the Frigg gas pipeline and Forties oil pipeline. Bruce and Keith are much depleted, but together have been producing about 2,500 b/d of oil and 60 MMcf/d of gas.

The UK authorities have said little publicly about the effort to ensure a waiver of sanctions for Rhum. The UK's Oil & Gas Authority told Platts last month it was working with the UK government on the matter.

The planned purchase of Total's stakes in Bruce and Keith, amounting to reserves totaling 11 million barrels of oil equivalent, together with the BP stakes means Serica would hold 50% of Rhum, 78.25% of Bruce and 59.83% of Keith. Total plans to retain 1% of Bruce for possible later sale.

The Bruce and Keith purchases "will further strengthen Serica's position as one of the leading mid-tier independent oil and gas producers on the UK continental shelf and will provide incremental benefits to the company," Serica said.

Serica has only negligible production from an 18% stake in the Erskine field, which has had numerous technical disruptions.
—*Nick Coleman*

Cepsa addresses production slide with upstream investment

Barcelona—Spanish energy group Cepsa said Friday output at its upstream unit fell 10% in the first half of the year, but added that it had made "significant investment" in the division, which saw profit jump 51%.

The company, owned by the United Arab Emirates' Mubadala Investment Company, said it spent at least $1.5 billion in the period on adding upstream assets, while profit from the upstream division increased to Eur125 million ($145 million) in the period, even as its other businesses saw profits decline, amid a 36% increase in benchmark Brent crude.

Over the six-month period Cepsa's upstream crude production averaged 86,108 b/d, 10% lower than the first half of 2017, with a total of 6 million barrels sold in the period, it said.

The company called its Exploration and Production business the "key driver of positive results as it increased investments, (reached) new material agreements, and a number of contracts (were) awarded in different countries."

The company, which has a $40 billion spending plan through to 2030, said it invested a total Eur1.6 billion in the period, the bulk of it on the acquisition of a 20% stake in two offshore fields in Abu Dhabi (SARB and Umm Lulu) for a period of 40 years, following the signing of a concession contract with Abu Dhabi National Oil Company.

The company also increased its stake in the Algerian BMS onshore field by 30%, made investments to improve efficiency and conversion rates at its refineries, and began a revamp project to boost output from its Linear Alkyl Benzene chemical plant at Puente Mayorga, Cadiz, among other projects.

However, the rise in crude prices in the first half did not translate into an equivalent rise in the price of finished products, Cepsa said, with its refining margin averaging $5.50/barrel in the period, down from $7.20/b in the same period last year.

Over the first half of the year 80.3 million barrels of crude were distilled, with a capacity utilization ratio of 92%, compared with 73.6 million barrels and an operating rate of 87% in the first half of 2017.

A total 10.8 million mt of oil derivatives were produced during H1 2018, up 5% on the year.
—*Gianluca Baratti*

Hungary's MOL posts stable Q2 output, boosted by North Sea

Budapest—Hungarian oil and gas company MOL Friday posted hydrocarbons output of 109,300 b/d of oil equivalent for the second quarter, the same as a year earlier as newly producing North Sea fields offset natural declines elsewhere.

Crude oil output increased due to a near-doubling of output at UK offshore fields, including the newly-producing Catcher field, while natural gas production fell as higher volumes in Pakistan could not make up for output falls at mature fields in Hungary and Croatia, the company said in its Q2 report.

In the first half of 2018, MOL's hydrocarbon production totaled 109,600 boe/d, down a marginal 0.8% on year. MOL said it was upholding its annual production target of 110,000 boe/d, backed by six-month results as well as estimated output of 111,000 boe/d in July.

MOL's capital expenditure totaled $243 million in Q2, down marginally from a year earlier. Spending both upstream and downstream fell, but capex in consumer services, a strategic area for MOL involving fuel and especially non-fuel retail, doubled. H1 capex was $403 million, prompting MOL to confirm its target of $1.1 billion-$1.3 billion organic capex for the full year.

Average hydrocarbon prices realized by MOL rose 38% on the year to $51.27/boe in Q2, the highest in three and a half years. Average realized natural gas prices were up 25% on year at $35.03/boe while realized oil and condensate prices were up 41% at $66.83/boe.

Downstream, MOL's refinery throughput was 4.91 million mt in Q2, up 5.6% year on year, as output of all products except petrochemical feedstock increased. —*Balazs Szladek*

Noble Energy to shift capital from Permian

Takeaway constraints spark a focus on Colorado's DJ Basin

Houston—Noble Energy will shift some spending outside the US' Permian Basin, owing to takeaway constraints in West Texas and southeast New Mexico, its top executives said Friday.

- **Service cost inflation a factor**
- **Could return to Permian next year**

The company is also raising its capital budget by about 7% to $3 billion, largely due to inflation and to scope changes on some onshore facility projects that enhance reliability.

"Given industry pressures in the Permian due to widening basis differentials and service cost inflation, we plan to moderate our activity in the Delaware Basin," Noble CEO Dave Stover said during a second-quarter earnings conference call. "We'll reduce planned completions later this quarter and into 2019 to better align our activity with expected timing of pipeline additions [that start up in late 2019]."

Stover added that Noble will "reallocate" some Permian activity into other areas, primarily the DJ Basin of Colorado.

Of the roughly $200 million additional dollars added to Noble's 2018 capex, about half or more will go toward mitigating cost inflation, particularly in the Permian, which has crept up as a result of tightening demand for oilfield services.

The unspecified sum taken out of the Permian to be reallocated to the DJ Basin will result in additional volumes in that area, said Gary Willingham, Noble's executive vice president for operations. DJ volumes averaged 121,000 b/d of oil equivalent production in Q2, with more than 50% of output oil.

Higher inflation

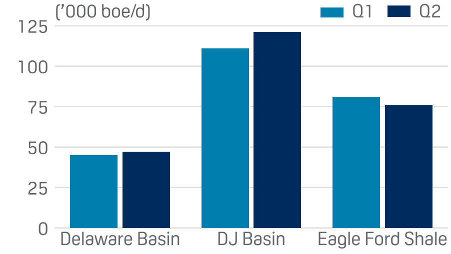
"We've said all along we expected 10% to 15% inflation this year," Willingham said. "We have built some of that into the budget, but we also assumed, given our track record and where we were with our developments, particularly in the Permian, we could offset a large part of that with efficiencies."

While there have been efficiencies in both the DJ and the Permian, inflation has trended toward the high end of the range, he said, adding "a bit more is coming in."

Monies shifted out of the Permian would be tied to export capacity, to "give the system time to grow the capacity to deliver wells we'd be drilling and completing," Willingham said. "Assuming they're on track, we could start adding back frac crews into the Permian relatively early next year."

Asked about where monies taken out of the Permian would be deployed in the DJ, Willingham was not precise, although he suggested some cash could be deployed to the Mustang area where early well results are "very encouraging." The majority of Noble's DJ production comes from two other areas in that play.

NOBLE ENERGY SEES PRODUCTION GROWTH IN DJ BASIN



Source: Noble Energy

Willingham said additional natural gas processing capacity has been added in the DJ which removes previous constraints in that arena.

Noble's total company sales volumes for Q2 averaged 346,000 boe/d, up 11% year on year, driven by higher production from each of its US onshore unconventional plays, which also include the Permian and Eagle Ford Shale in South Texas.

The company's US onshore oil production in Q2 totaled 105,000 b/d, up 22% compared to the same period in 2017.

Permian volumes totaled 47,000 boe/d, just over double year-ago output, while the Eagle Ford volumes were 76,000 boe/d, up 10%.
—*Starr Spencer*

Buckeye seeks Corpus Christi crude loading facility

Houston—US midstream player Buckeye Partners has started the initial permitting process for its South Texas Gateway terminal at Corpus Christi to load large crude carriers, a senior company executive said Friday.

Start up of the terminal is planned in late 2019 and the project will be part of a large marine facility that it is planning to build along with Phillips 66 and Andeavor, Buckeye's president of the global marine terminal, Khaled Muslih, said on an earnings webcast.

"There are large-scale opportunities in Corpus [Christi] for crude exports, with the terminal being a part of the 800,000 b/d Gray Oak pipeline that will allow for barrels to flow from the Permian Basin," Muslih said.

The South Texas Gateway terminal is being built as a joint venture between Buckeye (50%), Phillips 66 (25%) and Andeavor (25%).

The project entails the construction of two docks capable of loading Suezmax (capacity 1 million barrels) and VLCC (up to 2 million barrels) tankers, along with 3.4 million barrels of crude and condensate storage.

The terminal will be connected to the Gray Oak pipeline, for which operator Phillips 66 last week said it was increasing the initial throughput by 100,000 b/d to 800,000 b/d following strong shipper demand.

The pipeline is expandable to roughly 1 million b/d subject to additional shipper commitments, Phillips 66 said at the time.

To accommodate a likely increase in pipeline capacity, Buckeye is also keeping options to increase its crude and condensate storage for the South Texas Gateway terminal to 10 million barrels.

"We are in talks with [potential] additional customers for use of our dock and storage facilities," Muslih said.

The South Texas Gateway terminal will be built on a 212-acre waterfront parcel at Ingleside on the Corpus Christi Ship Channel and will be Buckeye's second crude export facility at that Texas port.

The company is already the operator of its Buckeye Texas Hub terminal at Corpus from which it made a first crude shipment in April on board a Suezmax tanker.

"We are now connecting that terminal to the Cactus II pipeline," Muslih said.

The Plains All American-backed Cactus II pipeline will have a capacity of 650,000 b/d and will run from the Permian to Corpus with project completion in late 2019. —*Ashok Dutta*

US RIG COUNT FALLS BY 4

Houston-The US rig count was 1,044 for the week ended August 3, down by 4 from the prior week, according to Baker Hughes.

The latest count includes 1,027 land and 17 offshore, with 183 assigned to gas, 859 to oil and 2 to miscellaneous drilling. The rigs were drilling 68 vertical, 64 directional and 912 horizontal wells.

Here are Baker Hughes' latest figures for the total number of active rigs in the US (with selected states) and Canada, plus comparable figures for a week ago and a year ago:

	03-Aug-18	27-Jul-18	28-Jul-17
US	1,044	1,048	958
Alaska	5	6	5
California	15	15	13
Colorado	30	32	37
Kansas	1	1	0
Louisiana	53	52	72
New Mexico	102	104	61
North Dakota	56	57	54
Oklahoma	137	137	134
Texas	524	524	462
Wyoming	30	28	26
Canada	223	223	220

Energy security is a two-way street

Being dependent on other countries for oil, gas not as bad as it may seem

US Energy Secretary Rick Perry's recent claim that energy independence is within reach overlooks a fundamental principle of interconnected global trade: Producing countries need security of demand as much as consuming countries need security of supply.

While the US Energy Information Administration projects the US will become a net energy exporter within the next few years, as it already is for natural gas, the country will still need to buy heavier and sourer crude to blend with its lighter sweet grades and will be reliant on the political and economic relations it fosters with other energy suppliers.

Dependence can be as much a strength as a weakness, helping to guarantee security of supply and security of demand for both parties.

"History tells us that energy independence does not necessarily equate with energy security; Winston Churchill's wise advice on achieving energy security through 'variety and variety alone' is as valid today as it was a Century ago," said Carole Nakhle, CEO of consultancy Crystol Energy.

Nakhle points to the Persian Gulf countries' growing relationship with Asia, not only through bilateral oil trade but through direct energy investment as an example of the interdependency of long-term supplies.

"However, competitive market structures give consumers stronger bargaining power simply because they have more choice," she added.

Gas supply concerns

With gas supply, the debate has centered around Russia and its hegemonic supply of gas through pipelines across Europe. With oil, it has focused around the US and Iran and key oil and shipping routes in the Middle East.

On the gas side, Gazprom tried to assuage the EU's fears earlier this year by suggesting the rising Russian share of the European gas market should not be a concern as customers are merely choosing the cheapest option for their gas needs.

That hasn't stopped the jitters. Especially with plans afoot to build Nord Stream 2 across the Baltic Sea along a similar route to its 55 Bcm/year Nord Stream pipeline that will allow Russia to send up to 110 Bcm/year to Europe through the Baltic Sea route.

Neither the threat of US sanctions nor legal efforts by the European Commission have succeeded so far in derailing the project.

While it is true that Gazprom's share of the European gas market has risen from about 25% earlier in the decade to around 34% in 2017, it is also true that Europe has a diversified supply.

EU security rules have promoted more two-way gas links in Central and Eastern Europe, allowing more gas to flow from other directions if there is a problem with supplies.

Lots of options

LNG import terminals provide access to new gas sources, including the US, with more potential infrastructure being planned, though at present, three-quarters of Europe's existing LNG import capacity lies idle with economics being the arbiter of the EU's gas imports, not politics.

Then there is the Southern Gas Corridor, with a network of ventures designed to bring gas from the Caspian region to Europe.

Three gas pipeline projects will provide a continuous route through Azerbaijan, Georgia, Turkey, Greece, Albania and Italy and is expected to provide 10 Bcm a year of gas to Europe starting in 2020.

Russia has never directly cut off gas to Europe.

In 2009, a dispute between Ukraine and Russia led to gas supplies to Europe being disrupted for 13 days and it is this fragile relation which is the biggest risk for the EU. Even then, the standoff between Russian and its neighbor came down to money.

ATTACK RISK TO KEY OIL CHOKE POINTS

Note:Choke points show volume of crude and oil products transported in 2016.
Source: S&P Global Platts, EIA

Oil parallels

Despite the relative tightening of global oil supplies after OPEC and its allies slashed output to rebalance the market, fears of a supply shock at this stage are overhyped.

While Venezuela, Libya and Iran remain output risks, there appears plenty of oil in the strategic stocks in the big consuming nations US and China, while the IEA – a body set up to promote energy security and respond to disruptions – has released oil stocks three times in its 40-year history to handle emergencies.

Indeed, the concerns appear over two critical sea routes. The Strait of Hormuz sees 18.5 million b/d of crude pass through its Persian Gulf choke point and Bab al-Mandeb sees 5 million b/d of crude travel through its "gate of tears" on the Red Sea.

Iran has threatened the supply of oil from fellow OPEC members should it lose market share as US sanctions from November 4 take their toll.

Analysts believe 1 million b/d could come off the market by the end of the year which could be replaced by Saudi Arabian, Russian and Gulf barrels. The US Navy stands by to protect key waterways and analysts doubt that any blockade could last for long.

Houthi rebels, meanwhile, have upped their attacks on key Saudi infrastructure, which saw the temporary closure of the Bab al-Mandeb even if that only raised eyebrows rather than hackles. —*Paul Hickin in London*

OPEC output surges on Saudi crude boost

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production cuts and boost output by a collective 1 million b/d to replace barrels expected to be shut in by the reimplementation of US sanctions on Iran and Venezuela's economic quagmire.

OPEC's July compliance among the 12 members with specified quotas stands at 105%, down from 131% in June, according to Platts calculations.

Gainers and strugglers

Iran, which has warned other members against encroaching on its market share, saw its production fall to 3.72 million b/d in July —lowest since January 2017 —as European buyers began winding down their purchases in advance of US sanctions snapping back in November.

Venezuela, suffering from crushing debt, crumbling infrastructure, worker unrest, hyperinflation and US sanctions, continued its output slide to 1.24 million b/d, a 670,000 b/d drop in a year and the lowest in the 30-year history of the Platts OPEC survey, except a debilitating worker strike in late 2002 and early 2003.

Libya's output dropped 30,000 b/d month-on-month to 670,000 b/d, its lowest since April 2017, the survey found, as it dealt with a militia blockade of its eastern ports that was resolved July 11 and a kidnapping at the Sharara field in the country's southwest.

Angola's production remained steady at 1.45 million b/d in July, a 190,000 b/d year-on-year decline, according to the survey, as its mature fields continued to deplete. But the African country should see its production rebound in the coming months with the offshore Kaombo field beginning first production in late July.

Major gainers besides Saudi Arabia include Nigeria, which boosted its output to 1.80 million b/d as the force majeure on key export grade Bonny Light was lifted mid-month, and the UAE and Kuwait, both of whom had signaled their intent to loosen their taps.

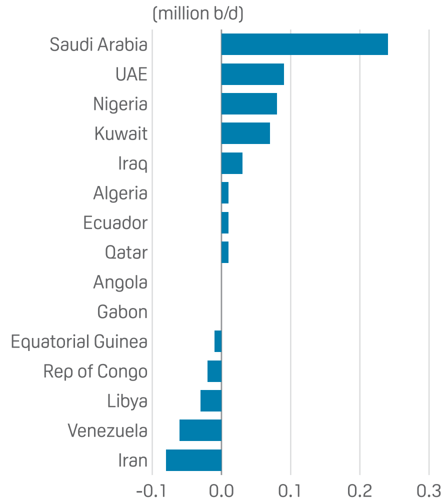
UAE output rose to 2.97 million b/d, while Kuwait produced 2.78 million b/d in July, the survey found.

Iraq also raised crude exports from its southern terminals to a record high in July, with its production coming in at 4.57 million b/d, according to the survey.

Newest member Congo produced 310,000 b/d in July, a drop from 330,000 b/d in June.

The Platts OPEC figures were compiled by surveying OPEC and oil industry officials, traders and analysts, as well as reviewing proprietary shipping data. —*Herman Wang, Eklavya Gupte*

OPEC JULY OUTPUT CHANGE



Source: S&P Global Platts

RECENT OPEC PRODUCTION (MILLION B/D)

Country	July	Change	June	May	April	March
Algeria	1.07	0.01	1.06	1.05	1.01	1.05
Angola	1.45	0.00	1.45	1.52	1.53	1.61
Congo-Brazzaville	0.31	-0.02	0.33	N/A	N/A	N/A
Ecuador	0.53	0.01	0.52	0.52	0.52	0.52
Equatorial Guinea	0.12	-0.01	0.13	0.13	0.13	0.13
Gabon	0.18	0.00	0.18	0.16	0.18	0.19
Iran	3.72	-0.08	3.80	3.83	3.83	3.83
Iraq	4.57	0.03	4.54	4.47	4.42	4.43
Kuwait	2.78	0.07	2.71	2.70	2.71	2.7
Libya	0.67	-0.03	0.70	0.95	0.97	1.03
Nigeria	1.80	0.08	1.72	1.73	1.88	1.95
Qatar	0.62	0.01	0.61	0.60	0.59	0.6
Saudi Arabia	10.63	0.24	10.39	10.01	9.95	9.98
UAE	2.97	0.09	2.88	2.87	2.87	2.8
Venezuela	1.24	-0.06	1.30	1.36	1.41	1.57
Total	**32.66**	**0.34**	**32.32**	**31.90**	**32.00**	**32.39**

Notes: The estimate for Iraq includes volumes from semi-autonomous region of Iraqi Kurdistan

Source: S&P Global Platts

Brazil's Petrobras boosts refining on diesel subsidy

Rio de Janeiro—Brazil's implementation of a government subsidy on diesel prices has opened the door for state-led Petrobras to recover lost market share and increase refinery output in the second quarter, company officials said Friday.

The subsidy, which was implemented to settle a truckers strike and is expected to cost the government Real 9.5 billion ($2.57 billion) through end-2018, caused importers to reduce diesel deliveries amid confusion about how fuel distributors, importers and refiners would be compensated for lower diesel prices.

But the move happened just as Petrobras was adjusting its sales contracts and raising refinery runs, said Jorge Celestino, Petrobras' director for refining and natural gas, during a press conference to discuss second-quarter earnings.

"We lost market share in 2017, so at the end of last year we made some changes to our sales policies," Celestino said. "We're now seeing consistent recovery."

Petrobras sold 1.876 million b/d of oil products in the second quarter, a decline of 2.9% from 1.933 million b/d a year ago, the company said. More important, second-quarter sales advanced 6.1% from 1.768 million b/d in the first quarter.

Diesel sales led the gains, rising to 766,000 b/d in the second quarter from 721,000 b/d in the year-ago period and 668,000 b/d in the first quarter, the company said.

Gasoline sales were undercut by increased competition from biofuel alternative hydrous ethanol, Chief Executive Ivan Monteiro said. Sugar mills are producing more hydrous ethanol in 2018 because of lower sugar prices, bringing hydrous ethanol prices below the 70% equilibrium point with gasoline. Petrobras sold 475,000 b/d of gasoline in the second quarter, down 10.9% from the year-ago quarter but up 1.5% in Q1, it said.

The upswing in sales sparked a jump in the company's market share, Celestino said. The company's share of wholesale diesel sales jumped to an average of 83% in the second quarter versus 74% in the first quarter, Celestino said. Gasoline market share climbed to 84% in the second quarter from 79% in Q1. Petrobras owned a 74% share of the diesel market and 83% of the gasoline market in 2017, it said.

Petrobras responded to the marketshare growth by cranking up output at its refineries, Celestino said. Its refinery utilization factor climbed to 81% in the second quarter, up from 72% in Q1 and 77% for all of 2017. —*Jeff Fick*

Crude falls on higher OPEC supply, US-China spat

New York—Crude futures fell Friday on rising OPEC and Russian output and concerns that a trade dispute between the US and China will affect demand.

October ICE Brent settled 24 cents lower at $73.21/b, while September NYMEX crude settled 47 cents lower at $68.49/b.

OPEC produced 32.66 million b/d in July, up 340,000 b/d from June, according to an S&P Global Platts survey Friday, as increases from Saudi Arabia, Kuwait, Iraq, Algeria and the UAE offset declines from Libya and Venezuela.

Russia's crude output climbed nearly 150,000 b/d in July, the energy minister said Thursday, largely in line with Moscow's late-June agreement with OPEC. Russian output is now just 15,000 b/d below the record high of 11.23 million b/d set in October 2016.

"Rising Saudi Arabian and Russian oil supply, coupled with concerns about demand due to the further escalating trade conflict between the US and China, the two largest oil consumer countries, is weighing on the [Brent] price," Commerzbank analysts said in a note Friday.

Weekly rig data reported by Baker Hughes Friday did little to move the market. US rigs fell by four to 1,044 this week, while the Permian oil rig count was unchanged at 479. The Permian count has lingered between 473 and 479 since the end of May, reflecting a slowdown in activity on tight pipeline takeaway capacity, and suggesting production growth will slow.

US crude exports have slowed in recent weeks, likely because the US-China trade war has reduced flows to China, the single largest buyer of US crude in May. US Energy Information Administration data shows that on a four-week average basis US crude exports have slowed to 1.87 million b/d during the week that ended July 27 from 2.43 million b/d July 27.

With refinery maintenance season around the corner, US crude inventories could start to rise, especially if exports do not pick up again.

West African crude market sources Friday warned that reduced refinery runs would lead to higher US crude exports into Europe, competing with Nigerian light sweet crudes.

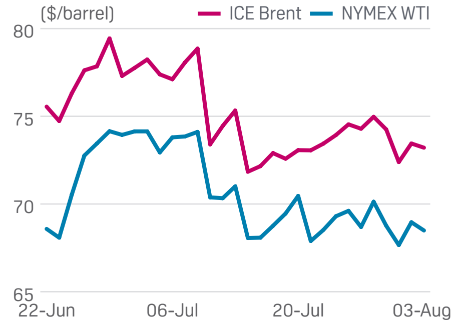
The crude bears should keep in mind looming US sanctions on Iran, which are expected to remove up to 1 million b/d of crude from the market when they go into effect November 4.

Also, refined products remain relatively tight, as demand has been strong for gasoline and diesel.

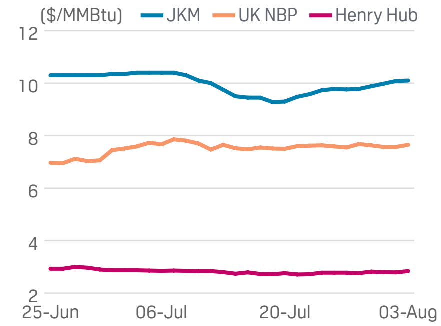
Some refineries in Europe have reduced runs because of the current heat wave, lending support to gasoline prices, sources said Friday.

In NYMEX products, September RBOB settled 26 points lower at $2.0655/gal Friday, while September ULSD settled 49 points lower at $2.1269/gal. —*Jeff Mower*

NYMEX WTI, ICE BRENT CRUDE OIL FRONT MONTH DAILY SETTLES



GLOBAL GAS PRICE COMPARISON



Source: Platts, prices are rounded

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