2016 Latin America Crude News Round-Up

Viewpoint: LLS poised to be future standard for exports

Houston, 19 December (Argus) — Light Louisiana Sweet (LLS) may become the pricing standard for what will be an increasingly busy US light crude exports market in the future, thanks to the way quality specifications are enforced on the crude. In US pipeline markets crude quality is traditionally determined at the final delivery point. This is particularly true for US offshore produced oil, where any one of several types of crude can be sent to market via offshore pipelines. This means a grade's stream quality can vary constantly. Quality can also suffer because of the increase in blending along the Gulf because of the surge in onshore shale crude production and higher Canadian heavy crude imports. LLS is different, however, in that it is the only US pipeline grade that has strict quality specifications measured at the point of injection into the 1.2mn b/d Capline pipeline in St James, Louisiana. Capline specifications include a limit on metals, microcarbon residue, light ends and total acid number (TAN), which is much stricter than the traditional API degrees and sulfur content specifications used as guidelines for stream quality. This means LLS is the only widelytraded US domestic grade to have an actual set of specifications to which sellers have to consistently blend. US crude exports have so far varied widely in both quality and destination. But foreign buyers have started to show a preference for consistent quality, moving away from Domestic Sweet (DSW) purchases in favor of West Texas Intermediate (WTI). WTI arrives at the US Gulf coast directly from the production fields in west Texas, segregated from other crudes so as to keep its quality neat. This makes WTI a better quality barrel with more consistent specifications. DSW is light crude blended at Cushing, Oklahoma, and [one of several grades that can] price the Nymex light sweet crude futures contract. The DSW blend is usually made up of very light crude from shale producing regions and heavy Canadian grades. DSW quality has deteriorated such that many buyers decided to forgo the DSW discount to WTI at the US Gulf coast and instead pay up to purchase better quality WTI.

This preference for stable quality could open the door for LLS, with its stricter quality specifications, to become the light crude export of choice as the US export market becomes more sophisticated. While LLS is also a blended grade, it benefits not only from agreed upon specifications but also from the years of experience that sellers have blending to that spec. In the past, LLS was a blend of imported grades such as Algerian Saharan Blend or Nigerian light crudes. But for years now, sellers of LLS have been successfully blending US shale oil into LLS. They are able to do so not only in Louisiana, where the grade is priced, but also at export hubs such as the Houston, Texas, area, making LLS a desirable export blend for both foreign buyers and domestic crude sellers.

Viewpoint: Colombian crude heads to US West coast, Asia

Houston, 29 December (Argus) — A rise in competing crude supplies at the US Gulf coast pushed Colombian heavy crude exporters to ship more Vasconia and Castilla Blend crude to the US west coast and Asia. But west coast deliveries are becoming less profitable and the arbitrage to Asia more difficult to work. Vasconia prices weakened versus its main US west coast competitor Alaskan Northern Slope (ANS), while a widening Brent-Dubai spread supported the Castilla Blend arbitrage to Asia. Vasconia's average discount to ANS for delivery to Los Angeles through the Petroterminal de Panama (PTP) pipeline was \$2.60-\$4.06/bl in the first half of this year. Vasconia's delivered discount to ANS has since narrowed to \$1.30-\$2.30/bl in the second half of the year so far. Colombian crude has served as incremental supply for California refineries, but Vasconia exports through the PTP to the US west coast rose from January through June. Colombian exports can move from Covenas through the Panama Canal, or through the PTP and then load on vessels to the US west coast and other destinations in Asia and South America.

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The majority of Colombian crude volumes are put in Panama storage for re-export. A total of 26.3mn bl of Vasconia was exported from Covenas to Panama between January and October, with 71pc of that volume re-exported to the US west coast. Over the same period, 11.8mn bl of Castilla Blend were exported from Covenas to Panama, with 10pc re-exported to the US west coast. In the second half of the year, volumes of Vasconia re-exported to the US west coast showed signs of decline, in line with a narrowing Vasconia discount to ANS.
Between July and October, an average 1.5mn bl of Vasconia was exported to the US west coast from an average 2.1mn bl between January and June. Colombian crude was regularly re-exported to Asia and South America from Panama storage. Of the 26.3mn bl of Vasconia placed in storage through October, 29pc was re-exported to Asia and South America, compared with 90pc of the 11.8mn bl of Castilla Blend. Average volumes of Castilla Blend re-exported to the US west coast in the first half of the year were the same as between July and October. But the widening front-month Brent-Dubai swaps may have encouraged more re-exports of Castilla Blend to Asia, specifically, in the first half of the year compared to the second. The Brent-Dubai front-month swaps spread ranged between $3.60/bl and $4.40/bl from January through June, a higher spread than the $3.10/bl to $3.90/bl from July through December to date. A widening spread in the past has meant crude differentials on the Pacific coast for Latin American grades have fallen with competing Asian grades based on Dubai. Though west coast deliveries are becoming less profitable and the arbitrage to Asia more difficult to work, Potential Opec production cuts next year could push refiners in Asia to look for medium and heavy sour crude alternatives from Latin America like Vasconia and Castilla Blend.

New fuel oil spec adds uncertainty to Maya price

Houston, 16 December (Argus) — A pending change to the price formula for Mexican heavy sour Maya crude shipments to the US Gulf coast will likely add cost and uncertainty to the grade. Beginning 1 January, the official formula price for Maya uses a new quality specifications for fuel oil at the US Gulf coast, which comprises 40pc of the Maya price formula to the Americas. Rather than using No. 6 3pc fuel oil, the new formula will use RMG fuel oil, which has a 3.5pc sulphur content and is trading in the spot market at around a $1/bl premium to No. 6 fuel oil. PMI — the trading arm of Mexican state-controlled Pemex — weakened the formula price adjustment, or K-factor, used in the Maya price calculation by 85¢/bl in January from a discount of $3.45/bl in December to a discount of $4.30/bl. This was likely PMI's attempt at countering the impact on the final January price of Maya resulting from the switch to RMG fuel oil. While formula prices are often inadequate as proxies for physical prices, the Maya price has appeared disconnected from actual US Gulf coast markets for many years. A key reason is the sour crude used for 40pc of the price formula is based on the price of West Texas Sour (WTS) crude at Midland, Texas. WTS trade volumes in the spot market have been limited — averaging about 59,000 b/d since the start of 2016. The price of the grade, which does not trade at the Gulf coast, tends to be more reflective of economics at the US Midcontinent. With 80pc of the Maya formula price based on a crude grade that does not reflect coastal value and a new, higher-priced fuel oil, Maya could be entering into a period of volatility. Ultimately the Maya price could move further away from the reality of spot markets for heavy sour crudes at the US Gulf coast.

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Pemex favoring crude exports over refining

Mexico City, 21 December (Argus) — Mexican state-run Pemex is processing less of its declining crude oil production and prioritizing crude exports, reflecting a combination of operational and commercial dynamics. Last month Pemex distributed a total of 2.090mn b/d, sending only 37pc or 783,000 b/d to its refineries and exporting the balance of 1.308mn b/d, according to preliminary data from Pemex's exploration and production division covering the 1-27 November period. In 1-29 November 2015, Pemex had distributed 44.8pc or 1.06mn b/d of a total of 2.365mn b/d to its national refining system, earmarking the remaining 55.2pc or 1.305mn b/d for export. Mexico's refinery runs are at record lows this year, a trend that Pemex executives vow to reverse in 2017. In October, Pemex's six domestic refineries processed 802,100 b/d, 4.6pc more than in September but still 24.4pc below the October 2015 level. Among the factors driving this trend is the increasingly heavy quality of Pemex's crude production. The company says the heavier crude it is extracting does not suit its ageing refineries, which were built to process lighter grades. Plans to upgrade the refineries and install cokers that would enable them to process heavy crude have fallen victim to sharp budget cuts since oil prices collapsed in 2014. From a commercial perspective, Pemex may be better off exporting crude and importing gasoline and other oil products from more efficient refiners on the US Gulf coast.

Between January and October 2016, Pemex imported an average of 472,500 b/d of gasoline, 12.5pc more than it did in the same period last year. Yet recent scattered fuel shortages point to underlying logistical risks. This week the company said inclement weather delayed fuel imports at the Gulf port of Tuxpan, sparking a deficit in some parts of the country, including Mexico City. The enduring backstory is Pemex's declining crude production. According to the same preliminary company data for 1-27 November, Pemex produced 2.075mn b/d of crude, 1.3pc less than in October and 8.9pc below the same month last year. Barring crude imports, the smaller production pie translates lower overall refinery utilization. The government is hoping its 2014 energy reform that revoked Pemex's monopoly will begin to jolt these trends in 2017, beginning with fuel supply. Starting this year, companies other than Pemex can open retail stations and import fuel, ahead of a gradual price liberalization. Energy regulator CRE unveiled a regional timetable for the price adjustments in a presentation today, in anticipation of open seasons for Pemex storage and pipelines in early 2017 that should help to ease bottlenecks in the underserved market. "We are significantly underinvested in oil transport and storage," CRE president Guillermo Garcia Alcocer said at the presentation this morning. Mexico's fiscal framework remains an obstacle. As of 12 December, the energy ministry had awarded 386 import permits for up to 329bn liters of gasoline and diesel. With the exception of small volumes bound for the mining sector, permit holders say a Special Tax on Production and Services (IEPS) has prevented them from launching imports, effectively retaining Pemex's import monopoly on motor fuels.

Viewpoint: WTI Midland gets boost from export demand

Houston, 30 December (Argus) — Export demand for US light crude helped West Texas Intermediate (WTI) at Midland reach its strongest premium to the US benchmark light crude price in Cushing, Oklahoma, in more than 14 months. Foreign buying interest is expected to continue, but increased west Texas production may weaken WTI Midland against volumes of the grade at Houston. January WTI Midland reached an $1.37/bl premium to WTI Cushing on 19 December, which besides its highest level since September 2015. For most of 2016, front-month WTI Midland has been at a discount to the benchmark, averaging 9¢/bl below for the year. WTI Houston is averaging about $1.40/bl over the benchmark for 2016 thanks to its ability to compete more directly with foreign crude since the US lifted export restrictions in December 2015.

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WTI is piped from west Texas to Magellan's East Houston terminal and can be loaded onto vessels from other Houston locations. But this quarter, WTI began to be shipped from west Texas on Plains All American Pipeline's 250,000 b/d Cactus pipeline to Occidental's new 300,000 b/d crude export facilities in Ingleside, Texas, near Corpus Christi. This new outlet is boosting WTI demand in west Texas, supporting WTI prices in Midland. The Oxy terminal provides direct water access and avoids Houston Ship Channel congestion. The additional demand also has helped to narrow the WTI Midland discount to WTI Houston.

Viewpoint: Texas-to-Louisiana oil eliminates price gap

Houston, 28 December (Argus) — Pipeline expansion projects that increased the volume of Texas crude available in Louisiana during the second half of 2016 will further eliminate the price gap between key regional grades at the US Gulf coast.

Light Louisiana Sweet (LLS) crude averaged a $1.57/bl premium to the US light sweet crude futures contract from June through November while West Texas Intermediate (WTI) at Houston, Texas, averaged a $1.23/bl premium. That 34¢/bl spread narrowed to near parity by December as the two grades began competing with each other more directly.

Operations commenced in early September on Zydeco pipeline's new 125,000-150,000 b/d connection to Sunoco Logistics' terminal at Nederland, Texas, allowing more WTI Houston to travel east. Shell Midstream had already completed a Zydeco expansion project in August that added 100,000 b/d of crude capacity from Houma, Louisiana, to Clovelly, Louisiana.

Shortly after, Sunoco began transporting crude on the 100,000 b/d Delaware Basin Extension project from Energy Transfer Partners (ETP) gathering assets to Midland, Texas, with expectation it would be in full service by the end of the year. Sunoco's new Permian, Longview and Louisiana Extension (PELA) pipeline, which started up around the same time frame, can then carry that crude from Midland to the east Texas crude hub at Longview, where it can access ExxonMobil infrastructure to make the trip to Anchorage, Louisiana, near Baton Rouge.

At Longview, the crude can also access ExxonMobil's North Line, which was reversed a year ago to serve the Shreveport, Louisiana, area. From there, Sunoco Logistics has said about 80,000 b/d of service would be available to Shreveport and Anchorage, home of a tank farm that supplies Exxon's 500,000 b/d Baton Rouge refinery.

As Texas crude supply available in Louisiana continues to increase while commercial crude flow ramps up on these lines, both LLS and WTI Houston may be pressured amid an overall increase in available regional supply. The rise in volume would also open the door for more exports of LLS, which is poised to gain more international popularity in 2017 since it is the only US light sweet crude to have strict, stable quality specifications.

LLS averaged a $1.59/bl premium to WTI in the first 13 days of December while WTI Houston averaged a premium of $1.57/bl. The two grades are expected to hover around parity to each other for the near term as Louisiana refiners now have their choice of light sweet alternatives.

Sunoco's new 235,000 b/d Bayou Bridge pipeline from Nederland to Lake Charles, Louisiana, came on line in April and will be expanded to the pricing hub of St James, Louisiana, by mid- to late-2017, competing with LLS and crude from the Zydeco line.

Zydeco's enhancements, Bayou Bridge, PELA and the North Line total about 415,000 b/d of new capacity from Texas to Louisiana that was not in place in 2015.

PetroEcuador signs oil-backed loans with PTT, Oman

Quito, 19 December (Argus) — Ecuador expanded its portfolio of oil-backed debt this month with a total of $900mn in separate loans from Thailand's state-controlled PTT and Oman's state-owned Oman Trading International (OTI).

On 1 December, state-owned PetroEcuador signed a five-year $600mn oil-backed loan agreement with PTT Trading International, according to official documents seen by *Argus*.

On 6 December, PetroEcuador signed a separate $300mn 30-month maturity fuel oil-backed loan contract with OTI, apparently the first time Oman has signed such an arrangement in Latin America.

The Ecuadorean government "has agreed to refund to the purchasers any amounts of the prepayments and related surcharges for advance payment which are not otherwise satisfied through the delivery of crude oil or fuel oil, respectively, or refunded by PetroEcuador in accordance with the contracts," according to the documents.

The new credit instruments will help Quito adjust to sharply lower revenue since oil prices collapsed in 2014. The Opec country's oil export revenue fell by 51.2pc year on year to $6.3bn in 2015 and shrank by a further 25pc to $4.4bn in January-October 2016 from a year earlier, according to central bank figures. Ecuador is likely to experience another dent in its coffers in 2017 as a result of its participation in a recent Opec accord to cut production.

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Up to now, most of Ecuador's oil-backed loans have come from China, which has similar arrangements with Venezuela and Brazil. In 2010-14, Ecuador signed three separate oil-backed agreements for a combined $5bn with China Development Bank (CDB). The contracts involve crude and fuel oil delivery to PetroChina and Unipec, a state-owned Sinopec subsidiary.

Ecuador was required to invest the $5bn in specific infrastructure projects inside the country. The first loan agreement, signed in 2010, totaling $1bn has already been repaid. The second $2bn agreement, signed in 2011, and the third $1bn loan, signed in 2012, each have an eight-year maturity.

"Deliveries under these contracts are based upon international spot prices, such as WTI plus or minus a spread, plus a premium paid due to the term of the contracts. The spread is calculated using *Argus* and the quality of crude oil as measured by the American Petroleum Institute", the documents associated with these CDB loans say.

Quito's debt to Beijing grew further this year. On April 29 2016, after a devastating earthquake, Ecuador signed a $2bn credit agreement with CDB, backed by a parallel crude sales agreement between PetroEcuador and PetroChina, a subsidiary of China's state-owned CNPC.

The loan was divided into two tranches, the first $1.5bn has an eight-year maturity with a two-year grace period and a 7.25pc interest rate. A second $500mn yuan-denominated tranche tied to specific capital projects has an eight-year maturity with a two-year grace period and a 6.8pc interest rate.

On 22 January 2016, Quito landed a multi-party $970mn credit agreement involving crude delivery to PetroChina. The loan was granted by a consortium of Chinese banks led by Industrial and Commercial Bank of China, EximBank, and Minsheng Banking.

The first $820mn tranche was disbursed in February 2016. The five-year credit has an interest rate of three-month Libor plus 6.2pc.

Ecuador started diversifying the oil-backed debt portfolio in September 2014, when PetroEcuador secured a $1bn credit from trading company Noble Americas. Under the contract the trader agreed to supply up to 50pc of PetroEcuador´s imports of gasoline and diesel for five years. The loan has a 5.63pc plus three-month Libor interest rate.

In July 2015, PetroEcuador signed its first $2.5bn oil-backed loan agreement with PTT to help finance its investment program. Under the contract, PetroEcuador committed to deliver 116.6mn bl of Oriente and Napo crude grades over an undisclosed period of time.

Each barrel was to be sold to PTT with a $0.45/bl premium under a free placement contract. PetroEcuador did not disclose the price formula.

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