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Record Oil Premium to Shrink on North Sea Flows: Energy Markets
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By Grant Smith

June 16 (Bloomberg) -- The unprecedented gap between the prices of the world's two leading oil grades is set to narrow as North Sea wells resume production after summer maintenance.

The premium on Brent crude relative to West Texas Intermediate, or WTI, may drop to $17 a barrel by the end of this year from a record $23.32 yesterday, according to the median forecast of eight Europe-based traders surveyed by Bloomberg. It averaged $2 a barrel in the past three years, and was at $18.61 at 11:14 a.m. London time.

Repairs in the North Sea's Buzzard field, the largest oil stream that contributes to Brent, may be complete by the end of July, according to Nexen Inc., its operator. Brent, used to price more than half of the world's oil, gained 54 percent in the past year as supplies to Europe were cut by disruption in Nigeria and armed conflict in Libya. WTI, the main U.S. crude and a global benchmark, rose 23 percent.

"Brent's strength is perhaps a bit too much," said Amrita Sen, an analyst at Barclays Plc in London. "If North Sea production picks up, you will start to see Brent stabilize a bit. It doesn't mean WTI's discount to Brent will necessarily reduce, but you'll get a situation where it's not ridiculously wide like it is at the moment."

Daily exports of the four North Sea crudes that determine Dated Brent jumped to 1.28 million barrels in October last year once maintenance work was complete, from about 965,000 barrels a day the previous June. Shipments this June are scheduled to be 1.02 million barrels, rising 0.5 percent to 1.03 million in July, according to loading programs obtained by Bloomberg.

Reduced Rate

The 220,000 barrel-a-day Buzzard field is running at a reduced rate of about 50 percent because of difficulties with the cooling system, Pierre Alvarez, a Calgary-based spokesman for Nexen, said May 9. The Forties Pipeline System will be shut for maintenance from Aug. 1 to Aug. 5, BP Plc, the operator of the link, said May 31.

Statoil ASA, Norway's largest oil company, will shut part of its Statfjord fields for maintenance in August and September, according to a loading program obtained by Bloomberg News.

Exports of the grade are forecast to drop to three cargoes of 855,000 barrels each in August and four in September, the plan showed. That compares with seven shipments in July.

Brent for August delivery rose 72 cents, or 0.6 percent, to $113.73 a barrel on the London-based ICE Futures Europe exchange after dropping 5.3 percent yesterday on concern that Europe's debt crisis will deepen. WTI for July delivery declined 8 cent to $94.73 a barrel on the New York Mercantile Exchange. The contract fell 4.6 percent yesterday.

Cushing Swells

The difference between the two grades exceeded $10 a barrel for the first time in January partly as inventories swelled at Cushing, Oklahoma, the delivery point for WTI, because of a lack of pipelines from the storage hub to the Gulf Coast. TransCanada Corp.'s Keystone XL pipeline is scheduled to connect Cushing with the coast starting in 2013.

"Structurally, you'll see Brent and WTI converge," said Harry Tchilinguirian, London-based head of commodity-markets strategy at BNP Paribas SA. "A meaningful trade in this position would come when you have the pipelines to relieve the bottleneck at Cushing in 2013."

Seven of the eight crude traders surveyed by Bloomberg News said the spread will narrow by the end of the year. One forecast an increase to $25 a barrel. The smallest estimated difference was $10 a barrel.

'Very Risky'

Longer-term contracts also indicate the spread may keep declining next year. The difference between the WTI and Brent December 2012 contracts was $11.80 a barrel today, compared with an average $2.99 in the past 12 months, according to data compiled by Bloomberg.

"It's very risky," said David Wech, an analyst at JBC Energy GmbH, a research company in Vienna. "I wouldn't expect the spread to grow much further. In fact, it will probably narrow in coming weeks."

Brent's premium over WTI has almost doubled in the past six weeks as seasonal maintenance at North Sea oilfields and attacks on Nigerian oil facilities reduced availability of light crude oil already curbed by the unrest in Libya.

"Brent is overdone, overbought and quickly becoming more susceptible to a downside correction," said Dominick Chirichella, senior partner at the Energy Management Institute in New York. "I am becoming more convinced that WTI is more representative of what is going on in the global oil world."

Royal Dutch Shell Plc declared force majeure on Bonny Light oil loadings from Nigeria for this month and July because of multiple fires on the Trans Niger pipeline, the company said in an e-mailed statement on June 13. Supplies from Libya, which pumped almost 1.6 million barrels a day in January, have all but stopped amid the armed rebellion against Muammar Qaddafi.

Brent may face a "crisis of confidence" as its gains highlight a dependence on a limited amount of production, according to Olivier Jakob, managing director of Petromatrix GmbH, a Zug, Switzerland-based researcher.

"Global markets will continue to search for a crude oil benchmark that does not fall hostage to the economics of a micro market," Jakob said in a June 14 report.

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