US oil industry coming back cautiously

NEW YORK: The US oil industry is feeling guarded optimism going into 2017 as it pivots from a brutal two-year slump prompted by crashing crude prices. As the new year kicks off, industry insiders describe a tentative recovery, with some low-cost drilling basins starting to pick up even while others remain depressed.

The downturn, among the worst since the 1973 Arab oil embargo, led to bankruptcies, layoffs of hundreds of thousands of workers and a significant pause on the American shale boom.

Energy producers have been cheered by the election of Republican Donald Trump, whose cabinet picks include oil industry allies like climate-change skeptic Scott Pruitt to head the Environmental Protection Agency and ExxonMobil chief executive Rex Tillerson as secretary of state.

"Operators are still being guarded with their money," said Jason McFarland, president of the International Association of Drilling Contractors in Houston. "But certainly we're seeing a loosening of the grip on investments as the price of oil rises."

OPEC cuts in question

Even more important, sentiment got a boost from the November 30 agreement by the Organization of the Petroleum Exporting Countries to cut production to address a supply glut that had threatened to push oil prices back to multi-year lows. After the OPEC deal, "it is meaningfully different in sentiment," said David Pursell, a managing director at the Houston energy investment bank Tudor, Pickering, Holt & Co. "Before November 30, this was like the Bataan Death March," he said, referring to the grim outlook in the industry.

Now, "People are cautiously optimistic, which is light years from where we were eight weeks ago."

US oil prices, which tumbled to close to $25 a barrel a year ago, closed at $53.99 a barrel on Friday. Part of the industry's hesitancy is due to skepticism about whether OPEC members and countries outside the cartel, such as Russia, will actually comply with the agreed production cuts. And if the cuts are implemented, there remains the question of what will happen if the agreement is not renewed after its six-month duration.

OPEC appears to be signaling that "high-cost producers should not take for granted that they will receive a free ride to higher production," the International Energy Agency said in a report last month. "These high-cost producers, who assume that the cuts at the very least guarantee a floor under prices, might think twice before taking the risk of sanctioning new investments."

US shale comeback?

Other unknowns that will affect the market include the path of US consumption in the expected fast-growth Trump era; whether Indian demand will stay high; and how the ever-evolving Chinese economy will affect its thirst for petroleum. Shale is another question mark. The US is expected to see capital investment recover more quickly than other countries that have long-term oil investment cycles.

The rise of American shale production, made possible by technological leaps in drilling and resource recovery, lifted US production to multi-decade highs in 2015 of about 9.6 million barrels per day (bpd), a remarkable 80 percent higher than in 2010. But that momentum came to a screeching halt amid the industry downturn, and US production fell back to 8.6 million bpd in September 2016.

Recent higher prices have seen that figure creep back up to 8.8 million bpd, according to data from the US Energy Information Administration. How fast the industry can recover is uncertain.

"We don't have much experience in terms of looking at projects like this in terms of their rapid recovery because we have never really been there before," said Neil Atkinson, head of the oil market division at the IEA. "The question is how quickly can it respond if people believe higher prices are here to stay," he said about the prospects for increased production. "We don't yet know."

Early indications show a big jump in the rig count in the Permian Basin in West Texas compared with a year ago: the count currently stands at 267 rigs, up from 209 a year ago, according to figures from Baker Hughes.

Each new rig directly employs about 20 people and supports dozens of other workers in related services, IADC's McFarland said. But activity remains well below year-ago levels in the Eagle Ford Shale region, which crosses much of Texas, and in North Dakota, home to the Bakken Shale. Both were hot growth areas prior to the downturn.

The Permian is appealing because it is low-cost and close to pipelines and other key infrastructure, said Jesse Thompson, a business economist with the Federal Reserve Bank of Dallas based in Houston.

"You're hearing about some hiring," Thompson said. "We know the trend of the employment in the industry is turning, there are still some people getting laid off. There are still companies in financial distress. "This is a transition period." —AFP

For 2017, many see higher US mortgage rates, home prices

LOS ANGELES: Nate Lowenstein has been shopping for a home in Los Angeles, on and off, for more than a year. His search has been stymied by a stubbornly low roster of homes on the market and the hurdles that come with it: multiple competing bids and higher prices. "It's not a great market, from a buyer's perspective," said Lowenstein, a lawyer. "The one good thing is that interest rates were quite low."

As recently as last summer, homebuyers had ultra-low mortgage rates on their side. It was good news for any borrower, but especially for those in expensive housing markets like Los Angeles, Boston and Seattle.

That was then. While mortgage rates remain very low by historical standards, they've risen sharply over the past couple of months, with the average rate on a 30-year fixed-rate mortgage reaching 4.2 percent this past week. The rate got as high as 4.32 percent a week before that, its highest level since 2014 and well above the past year's average of 3.65 percent. Economists predict that mortgage rates will continue to climb this year, just one of the trends that suggest that 2017 will be a more challenging year for homebuyers.

"With higher mortgage rates, you're increasing the cost, challenging the budgets, challenging the ability to qualify and, as a result, likely reducing somewhat the pool of potential buyers," said Jonathan Smoke, chief economist for Realtor.com.

So far, the rate increases haven't begun to worry Lowenstein, who is in the market for a house with at least three bedrooms in LA's affluent west side. His budget: Between $1.6 million and $1.8 million.

"We're not priced out yet," Lowenstein said. "But if it goes up to 5 percent or 6 percent, at some point we would be."

Long-term mortgage rates tend to track the yield on the 10-year US Treasury note. The yield goes down when investors bid up bond prices, as they did following last summer's vote in Britain to exit the European Union. The move sent long-term mortgage rates tumbling as low as 3.41 percent.

The reverse happened after Election Day. Investors bet that a Republican-controlled White House and Congress will have a clear path to implement policies that will drive inflation and interest rates higher. A sell-off in US bonds drove the yield on the 10-year Treasury note in mid-December to the highest level in more than two years, and mortgage rates have floated higher with the tide.

But will they continue to do so?

Smoke predicts mortgage rates will reach 4.5 percent in 2017. Other economists expect rates to remain above 4 percent but not to go beyond 5 percent this year. That range would mean mortgage rates that would be low compared with the past decade.

Average long-term mortgage rates were above 6 percent during the height of the last housing boom, and they hadn't hit 5 percent before 2008.

So someone looking to buy a home in the next few months doesn't need to panic, said Svenja Gudell, chief economist at Zillow, a real estate information company.

"My advice to buyers would be to not freak out and feel a sense of urgency," she said. "If you aren't able to buy a house at 4.5 percent, you probably weren't able to buy a house at 4 percent."

The stakes are a bit higher for buyers in expensive markets, where housing can eat up a much larger share of household income. If mortgage rates continue to climb, there are moves that would-be homebuyers can make to better offset some of the higher borrowing costs.

Consider lowering the interest rate by paying a fee to the lender up front, something known as buying down the interest rate. Or go with an adjustable-rate mortgage, which has a low fixed rate for a few years, typically five or 10, then adjusts to a higher rate.

Another move: Ask the seller to pay the buyer's closing costs. That can free up more cash for buyers to manage the higher borrowing costs. Higher mortgage rates could have one silver lining: As some buyers are priced out, sellers may have to be more flexible on prices. Over time, that could help stem home prices. Low inventory and strong demand helped increase prices in 2016 at the fastest pace in 10 years, according to an analysis by Zillow. The company predicts that U.S. prices will increase about 3 percent on average in 2017, down from a gain of about 6.5 percent last year. —AP

CORAL GABLES: A house is for sale in Coral Gables, Fla. Economists predict mortgage rates will continue to climb next year, just one of the trends that suggest 2017 could be a more challenging year for homebuyers. —AP

FAISALABAD: A Pakistani worker operates a machine at a textile factory in Faisalabad. — AFP

Pakistan's textile industry struggles to bounce back

Country slowly emerges from power crisis

FAISALABAD, Pakistan: As Pakistan slowly emerges from a long-term power crisis, its once booming textile sector is scrambling to find its feet-but high energy costs and a decade lost to competitors mean recovery is far from assured.

Energy production was severely depressed for more than 10 years due to chronic under-investment, inefficiencies in the power network and an inability to collect sufficient revenue to cover costs. The result was crippling for manufacturers and in particular the textile sector, which employs 30 percent of the working population.

Pakistan is the world's fourth largest cotton producing country but interminable power and gas cuts have stopped exporters from producing their orders on time. Many have watched helplessly as their clients have instead turned to Vietnam or Bangladesh. A third of the production capacity of the sector has disappeared, thousands of factories have closed, and most of the others are running below full capacity, says Rehan Bharara, a former loom owner who now runs a public infrastructure project for the textile industry.

Half the time, "we had to run our factories on diesel generators, which was very expensive. We decided to close down rather than losing money every day," he said. Only those manufacturers which invested heavily in their own energy production survived. These include plants run by the Sadaqat company, which provides house linen to major Western retailers such as Debenhams, Tesco and Target. Energy supply to huge printing, cutting and sewing departments is rotated according to need.

"We have three sources of electricity: the main and cheapest one is generation through gas, if we don't have gas, we go to Wapda (the public utility), if Wapda closes, we go to diesel generators," says chairman Mukhtar Ahmed.

"I have no choice. If I stop producing, we lose our customers." Smaller plants, notably the hundreds of thousands of cotton loom workshops, lack backup generators and are dependent on the public network.

No power, no wages

Each time the power cuts, work is interrupted. "We loom workers only get paid if there is power and looms are running. If there is no power, there are no wages," said Mohammad Rizwan, a 21-year-old weaver. The government has promised to end power cuts by 2018, and said industry would be prioritized. In the past few weeks, the biggest manufacturers in Faislabad have been supplied without interruption.

"The key is that they give us 24 hours of electricity a day," said Wahid Raamay, chairman of the Council of Loom Owners in Faisalabad. Despite these important advancements, textiles are not yet out of danger. As the country's electricity supply has improved, natural gas imports bills have gone up with the increased cost passed down to consumers.

Bharara estimates the cost of electricity has doubled over eight years, from six rupees per kilowatt/hour to 11. That's still much lower than 26 rupees per kilowatt hour for electricity produced by a diesel generator, but more than costs in competing countries.

"At this time we are struggling to give competitive power," admits Muhammad Salim Bhatti, general manager of the city's power distribution company. "Over time, we will become cheaper as new power plants will be more efficient", he hopes. "We'll be in a position to compete."

But the Asian Development Bank is less optimistic, citing the opaqueness of large-scale Chinese investment in the country's energy infrastructure. "The power due to be produced by Chinese-built power plants is expected to be expensive" it said, though it anticipates it will still be cheaper than the thermal plants they are set to replace.

In late December, Pakistan's fourth nuclear power plant went online, built with Chinese assistance as part of Islamabad's plans to produce 8,800 MW from atomic energy by 2030.

Total exports, meanwhile, 60 percent of which are made up by textiles, declined by 13 percent in the first nine months of this year compared to last, a sign that the industry's recovery is yet to begin. —AFP

Mexicans protest gasoline price hikes

MEXICO CITY: Mexicans angry over a spike in gasoline prices took to the streets of Mexico City on Saturday after days of protests spurred looting in hundreds of stores, resulting in over a thousand arrests in Latin America's second-largest economy. Mexico's government hiked gasoline costs by 14 to 20 percent earlier this month, fueling outrage among Mexicans already facing rising inflation and adding to a long list of headaches besetting President Enrique Pena Nieto. The hike is part of a gradual, year-long price liberalization the Pena Nieto administration has promised to implement this year. But the government's many efforts to justify the hike have fallen on deaf ears.

"No to the gasoline price hike, Pena out," protesters yelled as they marched from Mexico City's center to the Presidential residence. While there were no reports of violence in Mexico City on Saturday, the backlash has been far from peaceful.

Mexican authorities on Friday reported over 1,500 arrests since the protests began when price hikes kicked in on Jan 1. Mexican retail association ANTAD said on Friday that 423 stores were sacked, nearly half in the central state of Mexico, near the capital. Local media reported marches on Saturday in the Mexican states of Sonora, Chiapas, Guerrero, Jalisco, Tabasco and Puebla as well. — Reuters

DAMAC Properties expects to maintain 25% dividend: CFO

DUBAI: Dubai's DAMAC Properties expects to maintain its 25 percent cash dividend policy for 2016 despite profit declines in the first three quarters, its group chief financial officer said yesterday.

The developer's board set a minimum 25 percent cash dividend target in 2014 for the following two years. The board followed the recommendation in 2015, however, is yet to announce a dividend for 2016. "There is no reason to speculate we will not adhere to this," Adil Taqi told Reuters at DAMAC's headquarters in Dubai, adding that it would be unlikely to be more than the target and would require regulatory approval.

Profit at DAMAC, which is building a $6 billion golf complex with Donald Trump, fell 23 percent to 2.84 billion dirhams ($773.23 million) in the nine months to September, according to Reuters calculations. Dubai's property market, where DAMAC's business is concentrated, has softened over the past two years as buyers became more cautious amid weaker oil prices and cuts to regional government spending. The market is likely to move "sideways" in 2017 compared with 2016, when the company expects to reach around 7 billion dirhams in sales, Taqi said.

"I don't envisage huge growth." The majority of buyers in 2017 will continue to be from the Gulf Arab region, wider Middle East and India, sales to Chinese investors look set to grow though Western Europe "might not be so important" due to a weak pound, he added.

DAMAC expects Dubai's market to rebound in the "second or third quarter of 2019" in the lead up to the Expo 2020 world's fair the emirate is set to host. "I think this will be phenomenal for Dubai," Taqi said. He also said DAMAC was considering its options for refinancing debt maturing over the next two years, including a $100 million sukuk in March, of which it has already paid off $25 million, and $650 million sukuk in 2019. — Reuters