

April 28, 2016

## Dow Jones Resources Coverage

EXCLUSIVE ANALYSIS AND NEWS BEATS

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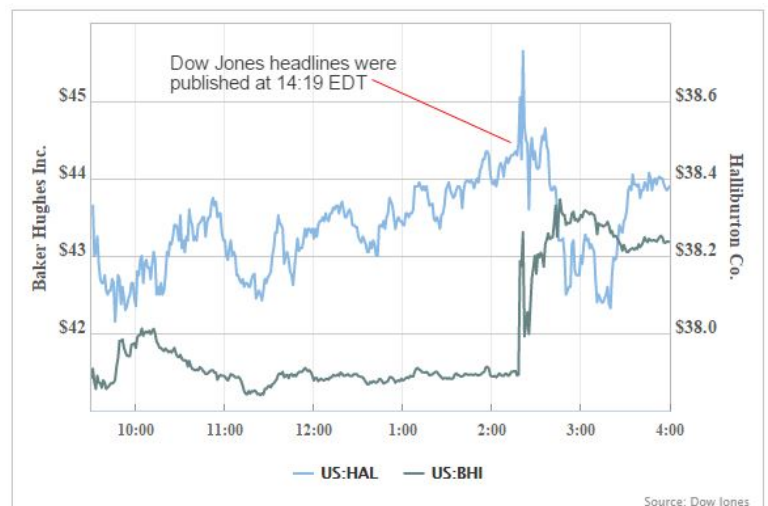
- Market-moving news: **Halliburton** and **Baker Hughes** discuss selling asset package to **Carlyle**
- Exclusive news: The **Obama administration** buys heavy water from **Iran**, and more
- Unique analysis on the impact (or lack thereof) of fundamentals on **commodity prices** and the fundamentals of the **Islamic State's** resource management
- Comprehensive coverage of an oil ministers meeting in **Doha, Qatar** and an energy-and-commodity conference in **Lausanne, Switzerland**

## Market-Moving News

### Halliburton, Baker Hughes in Talks to Sell Assets to Carlyle

Antitrust concerns have proven to be a persistent hindrance to a planned \$35 billion merger between Halliburton and Baker Hughes. A week after the U.S. Justice Department filed a suit challenging the merger on this basis and in the backdrop of so-far-unsuccessful talks with GE to buy the some oilfield-services units from the companies, we reported exclusively on April 14 that private-equity firm Carlyle was negotiating with the two companies.

- Talks for the purchase of assets valued around \$7 billion are far along but not exclusive, sources told us. GE is still in the mix, they said.
- The two sides agreed to the tie-up back in November 2104, as the companies started feeling the pressure of steadily declining oil prices—still around \$75 when Halliburton confirmed it was planning to buy Baker Hughes.
- Baker Hughes's share price rose by as much as 5.8% after our headlines were published, while Halliburton's shares moved more erratically.



## Exclusive News

### U.S. Buys Heavy Water From Iran

We reported exclusively on April 22 that the Obama administration was buying 32 tons of heavy water from Iran in an effort to safeguard its landmark nuclear agreement with the country.

- Iran had agreed to keep its supply of heavy water to below 130 tons during the initial years of the deal, but U.S. officials said the Islamic Republic had been struggling to find buyers and that its stockpile was at risk of rising above that level. The U.S. will pay around \$8.6 billion for the material, a key component in atomic-weapons development.
- U.S. Energy Secretary Ernest Moniz told us that the government purchase will open doors to other deals: "That will be a statement to the world: 'You want to buy heavy water from Iran, you can buy heavy water from Iran. It's been done. Even the United States did it.'"
- Critics are less sanguine. The chairman of the House Foreign Relations Committee, Rep. Ed Royce (R., Calif.), wrote Mr. Moniz on April 18, in part: "What assurances can you provide that U.S. taxpayer funds that Iran receives through this purchase will not be used to fund Iran's nuclear program...or Tehran's destabilizing activities in Iraq, Syria Lebanon and elsewhere?"
- U.S. House of Representatives Speaker Paul Ryan referred to our report in condemning the purchase as "another unprecedented concession to the world's leading state-sponsor of terrorism."

### More Exclusive News

Find the scoops discussed above and listed below by searching on **N/NRG** for Energy or **N/DJCS** for commodities in combination with **P/PMDM** for exclusive news.

- April 26—The **United Nations Security Council** was considering a measure to impose sanctions on the first oil tanker to load crude oil from **eastern Libya**.
- April 22—The government of **eastern Libya** was preparing to ship its first cargo of **crude oil**, setting up a potential clash with authorities in western Libya, where all previous oil sales were handled.
- April 19—**BP** was agreeing to pay an underwater welding, repair and construction business \$3.5 million in damages tied to the **Deepwater Horizon** oil spill. The recipient of the settlement, **Cal Dive**, went bankrupt after the oil spill.
- April 14—A Canadian unit of China-based **PetroChina** was planning to start operations at a new 35,000-barrel-a-day oil-sands plant despite crude prices being below the break-even level.
- April 5—**Glencore** was in advanced talks to sell a stake in its agricultural business to Canada's largest pension fund. It confirmed the following day that it had agreed to sell a 40% stake in its agricultural business to the **Canada Pension Plan Investment Board** for \$2.5 billion in cash.

## Unique Analysis

### Investors Watch Each Other Instead of Fundamentals

It's been a roller-coaster year for commodities. Streetwise columnist James MacKintosh said on April 26 that against a backdrop of only mild economic fluctuations and corporate profits that have taken a beating, the surge in commodity prices illustrates "one of the great truths of investing: Those in the market spend a lot more time watching each other than they do watching the fundamentals."

- Mr. MacKintosh wrote that a simple explanation is that investors became far too pessimistic in January and early February. Once they realized that economic indicators were mediocre rather than terrible, they quickly shifted direction.
- The rise in commodity prices could have a distance to run, he said, pointing to generally moderate speculation to the upside—except in China where speculative fever seems to have taken hold, particularly in Shanghai, where rebar and hot-rolled coil steel futures have more than doubled in price this month.
- Mr. MacKintosh cited a Keynes analogy to shed light on where the smart money goes: In a beauty parade, "judges have to pick not the prettiest girl, but the girl most popular with all those voting. The way to make money in the short run is to anticipate whether the crowd will be pushing the market up or down, not what will happen to profits or the economy."

### A Peek at Islamic State's Oil-Related Accounting

Tunisian Abu Sayyaf faced challenges familiar to any oil executive, but he also was responsible for nearly three-quarters of the Islamic State's natural-resource revenues in the half-year period before he was killed in a U.S. special-operations raid last May. On April 24, we reviewed materials taken during that raid and spoke to people familiar with the operations to piece together how he maintained and advanced ISIS's oil interests. Some details:

- Islamic State paid its employees well in order to retain their services, with experienced drilling technicians earning around \$400 a month vs. Syria's national average wage of \$50 a month.
- But Mr. Sayyaf was also greatly feared due in part to occasional horrific scenes at the fields. A former employee said, "You go to work and you find someone beheaded."
- ISIS put pressure on Abu Sayyaf to increase profits but was also apparently investigating his methods, which included a two-tier pricing system that gave buyers willing to pay more access to a priority loading lane. He was cleared of corruption a couple months before the fatal night of the raid.

## Comprehensive Coverage

### Oil Ministers Meet in Doha

Some of the world's biggest oil producers met in Doha, Qatar, on April 17, with many hoping that an agreement would be reached that would cap production levels and support prices. Dow Jones kept up a steady stream of news and commentary before and after the meeting.

- Ahead of the meeting, our coverage focused a lot of attention on Iran, which had said it would have representation at the meeting, but not its oil minister. An "At A Glance" feature on April 15 gave readers a good idea of what to watch for. For one thing, it flagged uncertainty over whether Russia and Saudi Arabia would require Iran to join in any production freeze.
- We started April 16 with an independently sourced article on Iran's decision not to participate in the Doha meeting at all. "The absence of any representation from Iran could undermine the credibility of the gathering," we said.

- On the day of the meeting, things were looking relatively hopeful. We reported that a draft agreement had been circulated that called for a freeze on crude output at January levels through October, though we noted that refusal to sign by any of the more than a dozen participants could scuttle the agreement.
- Later in the day, we independently verified that no deal would be signed, as ministers began to leave Doha.
- Throughout the meeting, we kept up a stream of Market Talks that chronicled the finer points of the agreement's failure while also detailing the impact it had on stock, bond and currency markets around the world.

## Talking Energy and Commodities in Lausanne

Business leaders in commodity and energy industries converged on Lausanne, Switzerland, for the FT Commodities Global Summit April 11-13. Dow Jones reporters filed dozens of Market Talks and a number of other stories from the conference, which was broadly themed on the outlook for resources in post-supercycle times.

- Among the speakers whose prognostications we reported on was Rosneft chief Igor Sechin, who said the current downturn in oil prices won't last long. "It is inevitable the market will become stable," he told the conference.
- Mr. Sechin wasn't alone. We collated the consensus from several heads of commodity trading houses that the price of oil was set for a rebound, including the heads of Gunvor, Trafigura and Mercuria. Glencore's oil chief Alex Beard sounded a more cautious note, saying stocks would likely stop building in the third quarter and it would take some time after that for prices to rebound.
- Iran was also a topic of interest among top trading-house execs, who were looking for more clarity from the U.S. administration. While they are optimistic about prospects for Iran in the long run, uncertainty about dollar-clearing, for example, is tempering their exuberance. They are also looking for Iran to help itself, as it will need to adopt more Western technologies as part of increased participation in overseas trade.
- Our numerous Market Talks from the conference ranged from exploring the impact of renewables and car sales in China on energy markets, to reductions in shale-oil output in the U.S., to outlooks for copper, aluminum and other commodities.

## About This Newsletter

This weekly newsletter covers Central Banks, Deals, Resources and Technology topics on a rotating basis. Next week: Technology.

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If you have questions about the content of this newsletter, email Jacques van Wersch at [jacques.vanwersch@dowjones.com](mailto:jacques.vanwersch@dowjones.com).