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ASPO USA PEAK OIL REVIEW

Association for the Study of Peak Oil & Gas USA

August 15, 2013

Mid-Week Update

Oil prices have climbed slowly this week as ever-increasing problems in the Middle East were weighed against weak US demand and the possibility that the Federal Reserve may start to cut back on quantitative easing next month. After volatile trading on Wednesday, New York closed at $106.85 and London at $110.20. The EIA reported that US crude stockpiles continued to fall last week -- this time by 2.8 million barrels. US commercial stockpiles are now at 360 million barrels, the lowest since January 11. The stocks at Cushing fell 1.4 million barrels to 38.5 million. Cushing stocks have fallen 22.4 percent in the last six weeks.

US petroleum demand fell 3 percent last week to 19.1 million b/d, the lowest since late June. Gasoline consumption also fell for the first time in four weeks to 9.1 million b/d.

Drops in exports from Libya and Iraq are pushing London oil prices higher. Libya's Waha Oil Company has halted its 340,000 b/d of production as tanks at the export terminal are full and strikers are keeping the terminal closed. Libya is now producing about 650,000 b/d which is about half the peak reached in the post-Gadhafi era. Analysts are talking about Brent climbing to $120 a barrel if the strikes continue much longer.

Exports from Iraq are facing two problems at the minute. The northern export pipeline to Ceyhan, Turkey was blown up again on Tuesday followed by an attack on an Oil Police patrol. The bombings are coming so frequently that little oil is getting through to Ceyhan. Iraqi exports from Ceyhan averaged 218,000 b/d in the first seven months of the year as compared with planned exports of 307,000 b/d. At some point the Iraqis are likely to give up and let the pipeline remain closed while awaiting better times.

Iraq's second problem is a round of maintenance work on southern export facilities that the IEA says is likely to curtail Iraqi exports by 500,000 b/d for four to six months starting in September. On Tuesday Iraq's South Oil Company retorted with the claim that the maintenance will not affect shipments and that the country will continue to meet its exports targets.

The combination of the problems in Libya, bombings of Iraq's northern export pipeline and maintenance on Iraq's southern network could reduce Middle Eastern exports by more than a million b/d.

The Middle Eastern turmoil continues this week with death toll in Egypt now in the vicinity of 500 as government forces drive Morsi supporters from the streets. Traffic through the Suez Canal remains normal. Dozens were killed in Baghdad in yet another wave of bomb attacks on Thursday.

Nigeria is currently losing revenue from some 400,000 b/d to oil thieves who steal the oil and sell it at cut-rate prices in Europe. The European Parliament is working on a plan to require that certificates of origin be provided for any oil imported into Europe. A recent study found that Nigeria lost 136 million barrels of crude worth $10.9 billion between 2009 and 2011 to thieves.

An analysis of China's oil imports shows that "apparent" oil demand in July rose 6.6 percent year on year. China does not release official oil demand numbers or inventory data. Platts calculates apparent oil demand based on refiners' crude input and net oil product imports. Oil product imports in July rose by 5.2 percent year on year to 3.25 million tons.

US natural gas futures continue to trade around $3.30 per million despite forecasts of warmer weather in late August. Traders, however, are looking forward to September when the demand for air conditioning drops rapidly. Prices are now flirting with the level where natural gas again becomes attractive to many more electric utilities.