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1. Oil and the Global Economy

Futures trading last week resulted in a \$2 a barrel increase in the price of New York crude and little change in London which closed at \$108.07. At the close London crude was only two cents a barrel higher than NY, the narrowest close in nearly three years. In the past five months US crude has climbed by more than \$20 a barrel against London crude so that West Texas Intermediate is now reconnected to world market prices after three years of an oil glut in the Midwest.

US crude inventories continued to shrink the week before last as more mid-western crude made its way to refineries. The 27 million barrel drop in crude inventories seen in the last three weeks put US stocks at their lowest level since January. Stockpiles at Cushing Okla. declined by 880,000 barrels the week before last to 46.1 million barrels, the lowest level since last November.

US demand for oil products is still weak, with the API reporting that demand in June fell 1 percent year-over-year to 18.7 million b/d. Demand for gasoline in the second quarter was down 2 percent from 2012, but second quarter distillate demand was up 4.1 percent due largely to increased exports of diesel.

With weak demand, except possibly from China, oil prices stabilized last week as there was little news out of the Middle East to drive prices one way or another. US crude production grew by 89,000 b/d the week before last to 7.5 million b/d, the highest level since 1990. As non-OPEC production continues to increase and demand from the OECD remains stagnant or in a slow decline, the perception continues that the world is well supplied with oil and that OPEC will have to cut production by year's end.

Spot gasoline prices in California fell to the lowest in four years as production in the state rose to an eight-year high. NY gasoline futures, however, jumped to a four-month high on speculation that refinery problems in Canada and Philadelphia may slow shipments to New York Harbor.

US natural gas futures remain volatile in the \$3.60-\$3.80 range as weather forecasts for much of the US keep shifting from warmer to cooler-than-normal and back.

2. The Middle East & North Africa

Iraq: The death toll from bombing and shootings on Sunday stood at 13 after 70 were killed in bombings on Saturday. The Saturday bombings mostly took place in the evening after the Ramadan fast was over for the day and streets were filled with people shopping and eating in cafes. Twenty-two car bombs went off in Baghdad. At least 450 have been killed in Iraq so far this month. Some are proposing that the current wave of

killings we are witnessing is not the beginning of a civil war between Sunnis and Shiites, but a revived al Qaeda offensive against both religious communities.

If this thesis proves correct, so that Sunni and Shiite leaders are not anxious to launch a full scale civil war against each other, then there may be some hope for Iraq. Others are increasingly concerned that the resurgence of al Qaeda and its new policies of attacking civilians in mosques, cafes and at play rather than security forces will eventually lead to such a wide scale Shiite retaliation that it will resemble a civil war.

Meanwhile, Iraq's oil industry continues to press ahead. Rumaila, the country's largest oil field, is on track to average 1.45 million b/d this year, up from 1 million b/d in 2009 when the contracts with BP and PetroChina to increase production were signed. Some realism is starting to set in on the Iraqi oil production program. The goal to increase Rumaila's production to 2.85 million b/d has been reduced to 2 million and Eni has just signed a new agreement with Baghdad which calls for a new production target of 850,000 b/d from the Zubair field vs. the 1.2 million in the original agreement.

Shipments through Iraq's northern export pipeline to Ceyhan, Turkey resumed on Tuesday though one of the twin pipes is out of service. The pipeline itself is in bad condition due to the hastily repaired damage that numerous terrorist attacks have inflicted on it. The Turkish section is reported to be in need of cleaning, but the line has numerous wooden plugs placed there by thieves who have drilled holes in the line to steal oil.

Syria : There is general agreement that the Assad government with the assistance of Russia, Iran, and Hezbollah is making progress in pushing back rebel forces from Damascus. The rebels currently are having trouble gaining new recruits for their cause. The new government in Cairo may not embrace Morsi's policy of full support for the rebels. Growing radicalization of rebel forces is causing second thoughts in the EU and US about supplying arms directly to the insurgents. Senior US officials are now talking about the war dragging on for months or years despite the ever rising death toll and the 6,000 refugees per day who are fleeing to neighboring countries. Little is left of Syria's economy and its agriculture will not be able to feed its people by next year.

Suspected Syrian rebel gunmen assassinated a well-known supporter of Syrian President Bashar al-Assad in Lebanon on Wednesday, the latest sign that Syria's civil war is spreading.

Egypt: The political stalemate continues to drag on with tens of thousands of Morsi supporters demonstrating daily against the coup. More than 100 have been killed in the various clashes between demonstrators and security forces. Work has begun on revising Morsi's Islamist tinged constitution and the Army says it is aiming for new elections in about six months. There is no sign of any political agreement between the Islamists and their opponents, without which the crisis will continue indefinitely. The Muslim Brotherhood is refusing to talk to anyone until President Morsi is restored to office.

Violence continues in the Sinai where Islamist militants are taking advantage of the confusion to attack government forces. The Army is preparing to launch a major offensive against them. Egypt's Central Bank reports that it has received \$2 billion in a five year interest free loan from the Saudi's as part of the \$12 billion the Gulf Arabs have promised to stabilize the situation. The UAE sent \$3 billion last week and Kuwait has promised \$4 billion.

The Minister of Supply says the country is moving quickly to import more wheat to avoid bread shortages. The new government says that halting wheat imports was the biggest mistake the Morsi government made. Stocks on hand and those already contracted for should last until the end of the year, but some are worried. Even the 9.5 million tons of wheat production currently forecast by the new government is not enough to feed the country's 84 million people. The USDA is officially predicting the crop will be 8.7 million tons, but warns that it could be as low as 6 or 7 million.

There are no threats to the Canal or Egypt's oil industry in sight for now, but the situation has a long ways to work itself out.

Israel: Tel Aviv is wrestling with the issue of what to do with the surplus gas it expects to be producing from offshore wells in coming years. The major options are to build an underwater pipeline to Turkey to reach the European market or build a liquefaction plant on the Red Sea and ship the LNG to Asia. The Turkish option would antagonize Russia which has a virtual monopoly on the European market while the Asian market could antagonize the US which is talking about exports to Asia.

In either case, the production of large amounts of natural gas in excess of Israel's domestic needs would bring about a major transformation in Israel's economy which has been dependent on imported energy.

Algeria: The ongoing slump in the country's oil and gas industry is raising concerns. Although untouched by the Arab Spring uprising elsewhere in the regions, the country's leaders have grown complacent that they can use their oil revenues to buy off dissent as the Saudis have been doing. The Jihadist attack on the Amenas gas complex in January has increased the reluctance of foreign oil companies to invest in Algeria. BP and Statoil who operate the Amenas plant are still refusing to send their people to the region amidst arguments with the government over security arrangements.

President Bouteflika, 76, recently returned to the country after recovering from a stroke abroad. His absence contributed to turmoil in the state oil company, Sonatrach, which is considered a bastion of the President's political supporters. By every measure, Algeria's oil industry is slipping. Oil production is down from 2 million b/d in 2005 to 1.7 million last year. Natural gas production has slipped by 7.6 percent over the same period. LNG exports are down from 25 to 15 million tons annually while domestic oil consumption increased from 250,000 to 367,000 b/d during the same period.

Unless the security issues can be resolved, the troubles are likely to continue.

3. China

The IMF is saying that China's economic growth has slowed significantly in recent months and unless Beijing starts making significant changes the trend will continue. The Fund which supports more regulation of China's financial system cautions about the growing real estate bubble, and wants a more decisive shift towards consumption-based growth rather than government-financed infrastructure projects. China's Premier Li cautioned last week about rushing to change. Beijing currently is not expected to take any radical steps to boost the economy.

In the meantime, China is producing crude at 4.26 million b/d, the most in two and a half years, and increased its apparent oil demand by 11 percent in June to 9.9 million b/d. Some of this increase may be due to the opening of new refineries that will permit increased export oil products.

A program to restrict new car registrations which is already in effect in four major cities is expected to be extended to an additional eight cities. Under the plan, a limited number of new license plates are issued by lottery or auction each month in order to cope with increasing traffic congestion and air pollution. If implemented the plan could in theory cut new car sales by 400,000 vehicles. Environmentalists warn that restricting registration in a handful of cities will not help much as the country currently is selling in excess of 16 million new vehicles a year – with few cars being scrapped.

4. Quote of the Week

- “Only three countries report reliable field data: UK, Norway and the Federal US. With the poor data available today, it seems that world oil (all liquids) production will peak before 2020, Non-OPEC quite soon and OPEC around 2020...The dream of the US becoming independent seems to be based on resources, but not on reserves.”

-- *Jean Laherrere, retired French petroleum executive/geologist/consultant*

5. The Briefs

- The discovery of a **new oil field in western Kuwait** should help push production to 4 million barrels per day by the end of the decade, Kuwait Oil Co. said. Kuwait in 2012 produced 2.8 million barrels of oil per day. (7/18 #9)
- In **Libya** a fresh round of protests at the Zueitina oil terminal has ushered in a wave of uncertainty surrounding crude oil exports from the country, a mere two days after the terminal opened again following more than five weeks of shut-ins. A wave of civil unrest across the country in June and July severely curtailed both crude production and exports. (7/18 #11)
- When **OPEC meets in December**, it is rumored that they may slash oil production for the first time in five years. The organization could reduce production by half a million barrels a day due to the surge in the North American shale boom. (7/17 #2)
- **Nigeria** should revoke oil rights for which Royal Dutch Shell and Eni paid \$1.1 billion, a parliamentary committee said, alleging that the acquisition process was "highly flawed." (7/20 #12)
- The giant Kashagan oil field in **Kazakhstan** has moved one step closer toward first production with the introduction of gas into its offshore facility. The company said that in the coming months production would progressively rise from 180,000 barrels a day in the first stage to 370,000 barrels a day in the second stage. (7/18 #13)
- **Goldman Sachs** said price risks for Brent crude in the second half of the year have changed "to the upside" amid production losses in some OPEC nations and political threats to supply. Reductions in output from Libya, Iraq and Nigeria have the potential to limit availability. (7/16 #3)
- Chevron agreed to fund most of a \$1.5 billion joint venture with **Argentina's** state-run energy company, YPF SA, to develop the South American country's **vast shale oil and gas deposits**. The deal is the first significant investment by a major international oil company in Argentina since President Cristina Kirchner expropriated a 51% stake in YPF from Spain's Repsol SA just over a year ago. Chevron has begun to explore shale deposits from South Africa to China, and holds leases to thousands of acres in Canada and several million overlying shale across Eastern Europe. (7/17 #14)
- Canada's Suncor Energy said its operations returned to full production, less than a month after **Alberta** flooding forced a precautionary shutdown. (7/18 #25)
- The deadly train accident in **Quebec** earlier this month highlighted a lingering problem for freight railroads: brakes that aren't set properly or that fail. In the US, rail shipments of crude oil soared to 233,811 carloads last year from 9,500 carloads in 2008. (7/18 #23)
- If the **Keystone XL pipeline** is approved, Calgary-based TransCanada needs 24 months to build the pipeline which would connect oil production from Alberta to refineries on the U.S. Gulf Coast. (7/20 #17)

- Oil and gas rigs in the **US** rose by 11 to 1,770 this week, according to Baker Hughes. Oil rigs rose four to 1,395 while gas rigs increased by seven to 369. (7/20 #20)
- **Concerns about oil supplies running dry are receding**, according to the IEA. Massive new discoveries in the US have led to a "dramatic" change in global prospects. Antoine Halff, IEA's head of oil markets, told BBC News that concerns about an approaching "peak" in oil production have been "moved to the back burner". (7/16 #23)
- **Baker Hughes** has started a new service: reporting quarterly well counts. For the second quarter of the year, BHI counted 8,800 new wells in service in the US. More than 3,000 of those new wells came from the Permian and Eagle Ford basins spread across southern states. Overall, the number of new wells in the first quarter of 2013 was 8.1 percent less than a year ago but a modest increase from the previous quarter. (7/20 #21)
- The **deep-water Gulf of Mexico**, shut down after BP's record oil spill in 2010, has rebounded to become the fastest growing offshore market in the world. Today there are 36 rigs working in waters deeper than 1,000 feet; one analyst reports that number will grow to 60 rigs in several years, at a cost of \$16 billion to build the additional rigs. Demand in the Gulf is driven in part by successes in the lower tertiary, a geologic layer about 20,000 feet below the sea floor containing giant crude deposits that producers are only now figuring out how to tap. Gulf production is expected to climb 23 percent to 1.55 million b/d by December 2014 from 1.26 million in March. (7/18 #20)
- **North Dakota oil** and natural gas production reached new all-time highs in May. Preliminary estimates indicate that oil production reached 810,129 b/d, up from the 793,852 in April. (7/16 #15)
- **In Australia**, more than \$160 billion of bets placed on natural gas by international oil companies, including Chevron and Exxon Mobil, are getting riskier as the country becomes the latest major energy producer to grapple with North America's surging output of shale gas. Australia's appeal has waned as labor shortages and a high Australian dollar have triggered cost blowouts at flagship projects. (7/16 #14)
- **In France**, no shale natural gas hydraulic fracturing will take place under the current administration, French President Francois Hollande said. (7/16 #21)
- The volume of freight carried on **China's railways** declined 2.8 percent year on year during the January-June period as economic activities slowed. (7/18 #16)
- **Coal is still on a roll in Asia**, with governments across the region ordering new coal-fired power stations. Economic realities are outweighing worries about pollution, and coal's lower cost means its share of the energy mix in most Asian countries will rise for years, or even decades ahead. (7/20 #5)
- **China's central bank** liberalized tightly controlled interest rates last Friday in a clear sign of Beijing's intention to tackle the difficult financial reforms that economists say are needed to keep the Chinese economy on track. (7/20 #19)
- The operator of the tsunami-ravaged **Fukushima** nuclear power plant stood ready Thursday to inject boric acid into one of its most heavily damaged reactors after it found steam emanating from the reactor building. The preventive measure would stave off criticality, or an uncontrolled nuclear chain reaction, in the reactor's damaged core. (7/18 #17)

- In a nearly annual tradition, **US lawmakers** grilled representatives of oil producers and refiners seeking an explanation for a rise in gasoline prices at the pump amid a boom in U.S. oil production. (7/18 #19)
- While federal support for **ethanol** appears to be as unstoppable as it is misguided, some individual states are pushing back. In June, Florida repealed its Renewable Fuel Standard, and in May, Maine lawmakers approved a bill banning ethanol in gas. (7/18 #21)
- **In India**, the annual cost of environmental degradation is about \$80 billion, or 5.7 percent of the country's gross domestic product. But a new World Bank report says that India cannot continue on a path of "grow now and clean up later" and warns that failure to address environmental challenges could constrain the country's long-term productivity. (7/20 #14)
- The **US** electric power sector is putting a strain on the nation's water resources, the Union of Concerned Scientists report warns. The report says more than 40 percent of US freshwater withdrawals are used for power plant cooling. (7/20 #19)
- **Iran's president-elect Rouhani** painted a bleak picture of the country's economy on Monday, blaming the departing administration of Mahmoud Ahmadinejad for high inflation and unemployment, and saying it "has left much work to be done." (7/16 #5)
- Kidnappings of sailors on merchant ships in waters off **Nigeria** and nearby countries surged in the first half of the year as pirates attacked a broader range of vessels and sought targets farther out at sea. Pirates operating in the Gulf of Guinea kidnapped 30 crews in the period, compared with three seized worldwide in 2012's first six months. (7/16 #9)
- The oil industry and **ethanol** companies are arguing about whether the U.S. should maintain consumption targets as lawmakers prepare to hold hearings on its impact on gasoline prices. (7/16 #17)
- Two new **clean-coal** plants meant to showcase the mix of technologies championed by lawmakers, unions and others seeking to preserve jobs in the nation's coal belt, are each \$1 billion dollars over budget. Clean coal remains far too costly to make new coal plants competitive with natural gas. (7/18 #4)
- New **car sales** in the European Union last month fell 5.6 percent year-on-year as sluggish growth and high unemployment continued to sap demand. (7/16 #20)