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1. Oil and the Global Economy

The price drop which began in early September continued through last Tuesday, but reversed on Wednesday following the news that the southern leg of the Keystone pipeline would be opening before the end of the year. New York oil traded around \$103 on Thursday, then on Friday closing at \$103.84, about \$6 a barrel below the highs seen during the attack-on-Syria scare in early September. London followed a similar pattern closing out the week a \$109.46 about where it had been trading in mid-August before the poison gas scare.

Oil prices are likely to remain volatile for as long as the government shutdown continues with concerns about lower demand for oil products balanced by a weaker dollar which tends to push prices up. With no sign of a compromise in sight, the shutdown seems likely to continue for some time. The only good news of the week was the announcement by House Speaker Boehner that he would not let the US go into default when the debt ceiling expires on October 17th.

The weekly stocks report showed an unexpected 5.5 million barrel jump in US crude stocks on lower refining during the October refinery maintenance season and a jump in imports. Bakken crude fell to a \$12.50 barrel discount to WTI last week, a 15 month low, as refinery maintenance and increased Canadian light oil production cut demand.

US gasoline prices continue to fall with regular now retailing for \$3.35 a gallon, down six cents in the last week. The federal government shutdown is likely reducing the demand for motor fuels.

Natural gas futures fell to \$3.50 per million BTUs last week on a larger than expected increase in inventories. The decline took place despite the tropical storm in the Gulf which has forced the closure of some 40 percent of US Gulf gas and oil production. The storm which never reached hurricane strength is expected to cause more problems on land than damage to Gulf platforms.

2. The Middle East & North Africa

Iran: Optimism is growing that a settlement between the Iran and the West over the nuclear issue may be possible. There are still some dissenting voices among the clergy and Revolutionary Guards in Tehran who maintain that implacable opposition to America is the glue that holds their society together, but reason and a faltering economy seem to be winning out. Iran has been badly hurt by the various sanctions which are costing it billions and impoverishing the nation. Time is on the side of the West and President Rouhani says he wants a settlement in 3-6 months that will end or reduce the sanctions. Both sides are saying they do not trust the other so there will be a lot of hard bargaining ahead with many in the West demanding complete Iranian capitulation to Western demands.

The economic situation in Iran has gotten so bad that the government is preparing to raise fuel prices to reduce the multi-billion dollar burden on government finances. Prices were raised in 2010, but a planned increase last year was delayed to forestall inflationary pressures. Iran has a serious smuggling problem, with considerable quantities of subsidized motor fuel ending up in neighboring countries.

The country is also facing a natural gas shortage which is forcing it to burn oil in many of its power plants. This makes for expensive electricity and a serious pollution problem. Western sanctions have played a major part in preventing Iran from more rapid development of its natural gas resources. Tehran recently terminated its contract with the China National Petroleum Corp to develop another phase of the giant South Pars gas field. The Chinese got the contract after Total and Petronas pulled out in 2009. The field which is thought to be the second largest in the world is shared with Qatar. Some believe that Tehran's problems in getting production going are permitting Qatar to extract gas that should be going to Iran.

Iraq: As the IEA has been predicting since last summer, Iraqi exports fell from 2.6 million b/d in August to 2.1 million in September, the lowest in 19 months. The main reason for the decline is construction at the Basra oil export terminal designed to increase the port's ability to handle larger quantities of oil. The persistent bombing of the northern export pipeline to Turkey which seems to never remain operational for more than a few days at a time contributed to the drop. Although the construction outages are scheduled to last for only a few months, projects in Iraq have a tendency to slip – sometimes badly.

Terrorist bombs continued to go off last week killing another 200 or so – mostly Shiites. Last week's targets included an elementary school and a crew from state television which is a departure from the usual round of mosques, cafes, and police stations. As the bombings increase, so do the number of executions for terrorism. Suspects now routinely have their confessions extracted under torture played on state television before their trials and executions. The UN reports that nearly 1,000 people were killed in terrorist attacks last month and some 5,000 since April when bombings began in earnest in response to a government attack on a Sunni protest encampment in northern Iraq.

Just where all this carnage is going has become a matter of debate. While most outsider observers are wringing their hands and talking about the slippery slope into civil war, the *Financial Times* published a piece last week that takes a different tack. The writer points out that the Baghdad Stock Market where mostly wealthy and knowledgeable Iraqi businessmen trade is doing well. This suggests that Baghdad's elite are not worried about the mounting body count and see 1,000 or so terrorist deaths a month as just another part of life in modern-day Iraq. So far there has been surprisingly little response from the Shiites and their formidable militias that are bearing the brunt of the terrorist attacks.

Iraq is one of the last countries in the world with substantial amounts of cheap and easy to exploit conventional oil and increases in Iraqi conventional oil production are seen as the main hope to offset declines of aging oil fields elsewhere.

Libya: There is little reporting on how much oil is making its way out of Libya these days, but it is thought to be about 600,000 b/d, down from 1.4 million before the recent strikes, but up from 150,000 b/d in September. There is no effective central government so that various tribes, militias, and self-appointed regional authorities are all trying to get a piece of the oil revenue pie.

The latest plan is to stop paying the striking oil facility guards in Eastern Libya as a way to get the oil flowing again. The government is reluctant to use force to open the terminals as it would only provoke more troubles and it is likely that whatever forces the government in Tripoli could muster would lose to the well armed militias.

Gunmen shot up and tried to storm the Russian embassy in Tripoli last week, forcing Moscow to withdraw the bulk of its diplomatic presence. The Russians have not been particularly popular in Libya ever since they sided with Gadhafi, one of their best arms customers, during the uprising.

With Libya's three regions unwilling to submit to Tripoli's authority, the outlook for the country and its oil exports is not good. Libya seems to be squarely in the group of countries such as Syria, Yemen, Sudan, and even Iraq and Iran where politics is severely limiting oil exports.

Syria: Although it never was a major factor in the global oil markets, located at the crossroads of the Middle East, the fate of Syria will be important to the stability of the region in the decades ahead. Last week reporting mostly concerned progress on the deactivation of Syria's poison gas stocks which seems to be moving along nicely towards a mid 2014 goal eliminating the stockpiles. Although the weapons were never of much use in combating Syria's insurgency, their potential for decades of trouble in the hands of the various movements which seem likely to succeed the Assad government was incalculable.

Damascus raised the price of gasoline last week from 45 cents a liter (black market exchange rate) to 57 cents a liter which is still well below world prices. The move will increase the price of food and other goods. Food shortages are being seen across the country. In some areas it appears that the government is deliberately holding back on food supplies to force the inhabitants to surrender to drive out the insurgents.

The refugee problem in Jordan is of growing concern as the war drags on and the refugees settle into life in Jordan. As a country of 6 million before the refugee flood, the addition of 600,000 Syrians and the possibility of many more to come is creating fears over the future of Jordan's democratic balance among the original Bedouins, the Palestinian refugees from Israel and the Syrian newcomers.

As societies break down across the region, this is likely to become a common problem as people migrate from places in turmoil to places of stability in increasing numbers.

Egypt: Although it was relatively quiet in Cairo last week, it is still worth following events there because of the importance of the Suez Canal and pipeline to Middle Eastern oil exports and turmoil which would result if 83 million Egyptians start fighting each other. Even a substantial migration of Egyptians out of a failed state would be enough to imperil other countries in the region.

Last week the Muslim Brotherhood which is on the decline as the new government arrests its leaders, silences its press and seizes its assets, mounted the most vigorous protest against military rule since mid-August. The protests were quickly broken up by security forces with the deaths of five or six protestors.

Sunday was the 40th Anniversary of the Yom Kippur war in which Egyptian armed forces made a successful crossing of the Suez Canal and drove into the Sinai. Although the fighting did not turn out well, it is still celebrated as the greatest feat of arms in modern Egyptian history due to the initial successes against the Israelis. It also set in motion the political processes that led to the Camp David accords and many changes in political relationships in the region. On Sunday pro-Brotherhood demonstrators clashed again with pro-government demonstrators and security forces. Some 30 were killed, 100 wounded and 300 arrested during the melee.

Overshadowing Egypt's politics is the precarious state of its economy which is now largely dependent on tolls from the Suez Canal to feed about a quarter of its population. Recent multi-billion dollar gifts and loans from the rich Gulf Arabs have alleviated the crisis for the time being, but little progress is being made on the underlying problems so another economic crisis is likely soon.

3. Quote of the Week

- Re: the recent tight oil hype - "... my feeling in general is that we want to lie a bit low for a while and let the inevitable depletion spin out."
-- Charlie Hall.

4. The Briefs

- Noble Energy announced it discovered a deposit of natural gas while drilling in the Levant basin off the coast of **Cyprus**. Evaluation of the drilling data suggests there may be as much as 6 trillion cubic feet of gas in the basin. (10/4 #8)
- **Beijing** will build four large power centers by the end of 2014 to replace coal fired heat and power generation facilities. (10/5 #12)
- **India** will finalize multibillion-dollar deals on liquefied gas and nuclear-power technology with Russia before Prime Minister Singh's visit to Moscow later this month. (10/4 #13)
- Delivery of crude and oil products helped make September one of the busiest months on record for the **US rail systems**. The Association of American Railroads said petroleum and petroleum product delivery for September was up 10.4 percent when compared with the same time last year with 13,426 carloads, or approximately 8.7 million barrels of oil during the week ending Sept. 28. (10/4 #17)
- The EIA announced that the US will surpass Russia and Saudi Arabia as the world's top producer of "petroleum and natural gas hydrocarbons" this year. US production, in energy content terms, is expected to be nearly 50 quadrillion BTUs in 2013, while Russia's output should be closer to just over 40 quadrillion BTUs. (10/4 #18)
- Rigs targeting oil and natural gas in the US increased by 12 last week to 1,756 according to Baker Hughes. Oil rigs rose by 10 to 1,372 and the gas count gained two to 378. The US rig count has declined by seven this year as the boom in shale oil and gas plays slows and technological improvements shorten drilling times. (10/5 #19)
- The provincial government in **British Columbia** said it's concerned about potential oil spills from Enbridge Energy's planned 525,000 b/d Northern Gateway pipeline. Enbridge plans have drawn opposition from provincial and environmental leaders concerned about the safety of transporting oil recovered from oil sands from Alberta province. (10/4 #20)
- Western Canada's first crude-by-rail **unit train** terminal is set to start transporting 50,000 b/d of oil sands crude to the U.S. market next month. The terminal in Bruderheim, Alberta, which will be expanded to 100,000 b/d by the second half of next year as a second supply pipeline is connected, initially will load only "dilbit" oil, or diluted heavy bitumen crude. (10/3 #21)
- A regional council in **Ukraine** said Friday they approved a draft production agreement for shale natural gas with US energy company Chevron.(10/4 #22)
- **Gazprom** announced that it will begin oil production this year at the Prirazlomnoye Arctic oil project that has ignited protests from environmental groups over the dangers of possible oil spills. (10/05 #23)
- The world's Airlines face limits on their greenhouse-gas emissions as nations from the US to Russia and the European Union decide on a road map for 2020. The **International Civil Aviation Organization** voted last week on a deal approved by the agency's leaders. It would bind them to set final details by 2016 for regulating emissions. The deal for airlines, responsible for 2 percent of pollution worldwide, is unprecedented for a single global industry. (10/4 #13)
- British energy company Spectrum said it aims to survey parts of onshore **Lebanon** to examine its oil and natural gas potential. (10/3 #10)
- **Mexico** may be ignoring shale gas deposits thought to exist by a lack of investments. Barclays Capital says natural gas production in Mexico is in decline in part because state-owned oil company Pemex, is focusing more of its budget on oil exploration. (10/3 #12)

- **Japan's** greenhouse-gas emissions climbed to their second-highest level on record in the last fiscal year, mainly because the country used more fossil fuels to make up for the loss of power produced by nuclear plants. (10/4 #14)
- **Bangladesh** began construction on the country's first nuclear power plant. It would provide 10 percent of the country's total power as part of the government's plan to increase power production to 20,000 megawatts by 2021. (10/3 #15)
- According to polling summer protests against British energy company Cuadrilla Resources left the public wary of hydraulic fracturing. "Despite industry claims that shale gas is a clean energy resource, the **British** public has not been so convinced," the survey, published Wednesday, found. Cuadrilla said last month it closed off the well in Balcombe while it waits for planning permission to return to test flow rates. (10/3 #19)
- The pace of the supposed rapprochement between **Israel and Turkey** is almost glacial, casting doubts on prospects the Jewish state will build a \$2 billion gas pipeline under the eastern Mediterranean to feed the European market. (10/2 #6)
- **India's** LNG imports slid 24% from the year's high seen in August to just over 898,000 mt in September. Compared with September 2012, the imports were 26% lower. (10/3 #13)
- A boom in **US shale production** won't last, and the world will need more oil from OPEC by the latter half of the decade, the group's head said in an interview. OPEC data show North American production will start falling off from 2018, he said, due to estimated decline rates at shale oil wells. (10/3 #18)
- Oil production gains from the **United States** won't displace Middle East producers from the market, chief energy leaders said in London. Fatih Birol, the IEA's chief economist, told London delegates to an energy conference that US oil wasn't taking over from legacy suppliers in the Middle East. (10/2 #19)
- A federal appeals court ordered a lower-court judge to halt payments to some Gulf Coast businesses that say they suffered damage after the 2010 oil spill in the Gulf of Mexico. A spokesman for **BP** said the company was pleased with the ruling in that it would bring to an end payments on claims it considered fictitious. (10/3 #21)
- Koch Industries said operations at its first liquefied natural gas production facility in the **Eagle Ford** shale play in Texas will start in 2015. The joint venture aims to produce LNG for oilfield fuel applications in Eagle Ford, in southern Texas. (10/2 #22)
- **Algeria's** oil and natural gas output should double in seven to 10 years as it brings on stream fields in under-explored regions according to Energy Minister Yousfi. The North African nation continues to find oil and gas in the eastern region where most of its producing fields are located. (10/2 #11)
- Eight years after oil was discovered in **Uganda** the country is poised to award production licenses for a big swath of its reserves. Government officials said that in the next few weeks they will sign off on license applications for at least six of the country's 20 oil fields. (10/2 #14)
- Two and a half years after the **Fukushima** plant released radioactive materials over northeast Japan, the almost 83,000 nuclear refugees evacuated from the area are still unable to go home. Some have moved on, but tens of thousands remain in a legal and emotional limbo while the government holds out hope that they can one day return. (10/2 #18)
- Prices for natural gas over the border in Texas are at historic lows, but huge tankers arrived last month in **Mexico** from distant Yemen and Nigeria to offload liquefied natural gas at a price four times the market rate for natural gas in the United States. Mexico pipelines are already handling all they can, so Mexico is forced into the global market (9/30 #13)

- **China's** leaders will lay out plans to transform their economy at a key party meeting in November, leaving the question of how to do it largely unanswered as much of the reform agenda is still a matter of heated internal debate. (9/1 #15)
- **Shell** plans to sell its stake in the Eagle Ford Shale in South Texas, following a \$2 billion write-down of North American assets the company announced in August. Shell's sale of leases on 106,000 acres in the region illustrates the struggles major oil companies have had in places where smaller energy firms have thrived. (9/30 #21)