ODAC Newsletter, Monday 05 November

Posted by Doug Low on November 6, 2007 - 6:28am in The Oil Drum: Europe
Topic: Miscellaneous

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1 / Production from oil majors struggles to keep up as oil shoots for $100 - Energy Futures Weekly Review (Platts, Mon 05 Nov)

http://www.platts.com/Oil/Resources/Futures/index.xml?src=energybulletin

Comment: Interesting review from Platts including notes regarding the "Peak oil enthusiasts". Points out that while Shell (i.e. CEO Jeroen van der Veer but he is not mentioned here) recently said that speculators were to blame for the current high oil prices, Shell's own oil production output had fallen 9%.

> The wheels may be wobbling and a few clouds may be gathering on the horizon for market bulls, but the bandwagon that seems to be taking headline crude oil futures relentlessly towards a watershed $100 per barrel level carried on purposefully last week.

Critically, the peak oil debate that has started to frame the current rally in crude futures attracted new data to consider on November 2.

A Platts survey showed third-quarter global production of oil liquids at seven key publicly traded international majors declined 6% from last year, with output down 664,000 b/d at a time when some officials are calling for increased production from OPEC.

Amid that and other bullish news for oil, a record-breaking week for crude oil ushered in fresh all-time highs for heating oil and gasoil futures, as well as opening the door to a quiet but significant 16% appreciation in the price of US natural gas futures...

Majors still struggling to maintain production

Peak oil enthusiasts took note of the disappointing production results from the majors, with Charles Maxwell, the senior oil analyst for Weeden & Company, warning that the downturn simply underscores fundamental changes afoot that the major producers want to ignore.

"They can't tell you why this is happening," said Maxwell, a noted peak oil lecturer and observer. "It's like a tennis player who can't explain why he is losing to someone he has beaten all the time. They haven't figured it out." He said he was surprised to see the decline emerging in production data earlier than he had expected, and predicted the implications include continued rising oil prices.

... Besides ExxonMobil, the Platts review focused only on liquids production comparisons for integrated majors BP, Shell, Chevron, ConocoPhillips, Eni and Marathon Oil. It determined those companies reported collective liquids output of 10,338,000 b/d for the quarter ended September 30, down from 11,002,000 b/d in the same period a year ago.

Liquids production fell at six of the seven companies and stood flat at Chevron, leaving Barclay's Capital analyst Paul Horsnell to question the ability of the international oil companies to respond to increasing demand and pricing.

... In a short report October 31, Horsnell had noted a 9% decline at Shell and wrote: "To announce a 9% fall in crude oil output and then put higher prices down not to any fundamentals but to speculation does seem a little strange to us."

Horsnell wrote: "After years of rising prices, the announcement by a major oil company that field decline rates were enough to counteract all of the accumulated supply response to higher prices and were at the heart of a large crude oil output reduction, might be seen as a further signal that prices have not yet been bid up enough."

The review comes just four months after a study by analysts at Bear Sterns revealed that 2006 marked the third consecutive year in which the major oil companies failed to fully replace production.

2/ Road-building turns a corner (Financial Times, Fri 02 Nov)

http://www.ft.com/cms/s/0/3696a4e8-8961-11dc-b52e-0000779fd2ac,s01=1,str...

Comment: Interesting review from the FT on the reality of France's no-more-roads plans. The details do not look as rosy. No more major road or airport developments would be much easier for the public to accept if they were Peak Oil aware. No mention of Peak Oil / oil depletion in the

article.

> "For 30 years, we've built a lot of roads and a lot of highways," Jean-Louis Borloo, the French environment minister, said at the end of a two-day summit last week. "That's over. Our road capacity is not going to increase further." A draft document released by Mr Borloo before the summit expressed the hope that cars and planes would become "solutions of last resort" in coming decades It has been a long time since politicians spoke this way. In general, as western publics move closer to universal car ownership, their appetites for highway construction tend to become insatiable. American congressional elections are often won by the candidate who can credibly promise to pave more farmland and countryside.
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> … Plans include new high-speed rail lines, a halt to airport construction and the laying out of 1,500km of tramways in 30 cities.
>
> At first blush, the environmental paper issued by Britain's Department for Transport this week looks worlds apart from French plans. Where France dreams, Britain reckons. The paper envisages a role for road charges and 200mph train lines. But it is not hostile to other infrastructure, including new roads and airports. Ruth Kelly, the transport secretary, calls this plan "pro-green" and "pro-growth". Carbon counts are the focus. Britain can "decarbonise" while expanding transport links. Provided Britain hits its carbon targets, the "old" environmentalist questions of what the country looks and feels like are of secondary importance.
>
> Yet, under close examination, the two countries' transport policies differ less than it appears. While Britain has done plenty of road-widening, it has neither built nor planned many major roads since 1997, when the photogenic Daniel Hooper, the dreadlocked protester who called himself "Swampy", was digging tunnels to protest against a bypass in Berkshire. When one re-examines the French highway moratorium, one finds wiggle room for all kinds of supplementary highway capacity. The only exceptions to the no-highway rule will be "security and congestion problems and local concerns" (such as bypasses). But those are large exceptions and there will be large incentives to interpret them liberally…

3a/ Business comment: Le crunch is not over by any stretch of the imagination (The Telegraph, Sat 03 Nov)

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/11/02/ccom10...

Comment: From Damian Reece, City Editor.

> We can now say with certainty that the economy is slowing. Yes, the official figures may have shown that output grew by more than expected in the third quarter; yes, Nationwide said house prices rose unexpectedly last month; yes, it is still unclear whether the credit crunch is having any effect on actual consumer behaviour. But don't let any of these fool you. We are looking at a slowdown, with households cutting back on their spending following a period of sustained interest rate rises.
>
> This is not to say that the slowdown might not become sharper, more painful and more complicated in the coming months. There are two compelling reasons to suggest it might. Firstly, the relative resilience of the consumer over the past year or so is illusory.

> The CBI's survey on retail sales may still remain in positive territory, but it has slumped dramatically in recent months and, more importantly, it measures the number of goods sold by shops – not the value.
>
> The high street has remained afloat only because of some drastic price-cutting. This has been fine so long as the cost of goods imported from China has been falling – which it was for almost a decade.
>
> But in recent months, import prices have shot up, since the cost of doing business in China is no longer cheap. Inflation is back, and when retailers find they can no longer cut costs, the consequences for consumers will be plain – and pain – for all to see.
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> Secondly, the market has still not rediscovered gravity following the credit crisis. Le crunch is not over by any stretch of the imagination, but you would hardly guess it from the way the stock market has behaved since September.
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> Yesterday's fall in equity prices, fuelled by worries about Citigroup's balance sheet, is only the start of the story.

3b/ Business Show (Telegraph TV, Mon 05 Nov)

http://link.brightcove.com/services/link/bcpid1155270086/bclid1171884836...

Comment: 5m 12s long. Interesting interview with Damian Reece, the Telegraph's City Editor, discussing the credit crunch in the USA. Apparently up to $100B worth of bad debts in the USA big banks, only $20B accounted for so far. Outlook for UK economy not very good either. Good, short overview of where the banking crunch is at, at the moment.

3c/ The Citi Tsunami (BBC News [Robert Peston], Mon 05 Nov)

http://www.bbc.co.uk/blogs/thereporters/robertpeston/2007/11/the_citi_ts...

Comment: Robert Peston, BBC's business editor, comments on the announced huge losses from Citigroup, apparently the world's largest bank.

> Citigroup's frighteningly large new losses were triggered by two events: a further downturn in the US housing market this autumn; and downgrades of sub-prime US mortgage-related assets by rating agencies.
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> ... I'll translate that for you. It means Citi is suffering humungous losses on the reprocessed and repackaged bits of sub-prime – or exposure to US homebuyers with a poor credit history – that were supposed to be top quality, not far off the quality of top corporate bonds or government debt.
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> ... Citi estimates that since September 30 (the end of its previous accounting quarter) the decline in the value of its sub-prime exposure will reduce reported revenues by between $8bn and $11bn.
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> That would be enough to bankrupt many a good size bank. But then many a good size bank isn't big enough to accumulate exposure to sub-prime on the scale of what Citi did, or some $55bn as of September 30.
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> And don't forget that these losses relate to just one portion of Citi's business. This is a bank which grew its assets – primarily its lending – by an astonishing $769bn or 48 per

> cent over the past 21 months.
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> ... That said, Citi's hit from sub-prime is spectacular. And it will cause widespread concern that other banks will be forced to disclose increased losses from their respective holdings of sub-prime, CDOs and the rest of the gilded rubbish, probably exacerbating a downturn in bank shares that acquired momentum last week.

3d/ Foreclosure wave sweeps America (BBC News, Mon 05 Nov)

http://news.bbc.co.uk/1/hi/business/7070935.stm

Comment: Lengthy article (for the BBC) on the subprime crisis in the USA, and in particular foreclosures by the banks.

> A wave of foreclosures and evictions is about to sweep the United States in the wake of the sub-prime mortgage lending crisis.
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> This could destabilise the US housing market and may also lead to further turmoil in financial institutions, who collectively own $1 trillion (£480.6bn) worth of sub-prime debt.
>
> Cleveland, Ohio, is an industrial city on the banks of Lake Erie in the US "rust belt".
>
> It is the sub-prime capital of the United States. One in ten homes in the city is now vacant, and whole neighbourhoods have been blighted by foreclosed, vandalized and boarded-up homes...

4 / Oil Output Debate Reaches A Watershed (Energy Intelligence [Petroleum Intelligence Weekly], Mon 05 Nov)

No link, from newsletter.

Comment: Energy Intelligence reports that Peak Oil took centre stage this year's Oil and Money conference, which it sponsors.

> Limits on growth have rarely been the dominant theme in the 28-year history of Energy Intelligence's Oil & Money conference, but this year talk of peak -- or perhaps more accurately "plateau" -- oil shifted from the fringes to center stage. A global oil production watershed of 100 million b/d "in my view is now the optimistic case," Total CEO Christophe de Margerie told last week's London gathering. In this context, oil companies "should consider that reducing demand is our goal," he said.

5/ Relations between Moscow and London (Energy Intelligence, Fri 02 Nov)

No link, from newsletter.

Comment: From the commentary section, 'World Watch -- Comment & Interpretation on Today's News', of the daily newsletter. Energy Intelligence commenting on the difficulties UK oil and gas companies may have doing business in Russia.

Relations between Moscow and London will be further strained by reports this week that oil tycoon Mikhail Gutseriev has fled from charges of tax evasion and illegal entrepreneurship in Russia and is seeking political asylum in the UK. Ties are already cool over UK protection for Kremlin critic Boris Berezovsky and Russia's refusal to hand over a suspect in the killing in London of dissident Alexander Litvinenko. Gutseriev is $3 billion richer after selling his Russneft oil company, but UK interests in Russia may find there is a higher price to pay. BP can expect no favors over attempts by its Russian joint venture TNK-BP to get back into the Kovykta gas field. Such major projects need support at the highest political level, as Total found to its advantage in winning a stake in the Shtokman gas field after French President Nicolas Sarkozy spoke with President Vladimir Putin. Michael Ritchie, London

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