

## BI-WEEKLY OIL REPORT

Herodotus Antonopoulos &  
Filimon Antonopoulos  
**Oil Market Analysts**

For the beauty of Pilin Leon! This name is becoming the symbol of resistance against Venezuelan President Hugo Chavez, at a time when the nation is falling into chaos. Carmen Josefina “Pilin” Leon was elected Miss World in 1981 and filled Venezuelans with pride. They were so proud that PDVSA, the country’s oil monopoly decided to name an oil tanker after her. Venezuelans are known for appreciating beauty, but this time they are fighting over the oil tanker and not the woman.

**Figure 1. Pilin Leon (center)**



Last Wednesday, two days after start of the general strike, when signs of weakness started appearing among the demonstrators, Daniel Alfaro captain of “Pilin Leon” decided to ignore orders to deliver crude oil to a refinery at lake Maracaibo and dropped anchor outside Venezuela’s second largest city. President Chavez ordered the navy to intervene and lead the tanker to the refinery. It was then that “Pilin Leon” became the center of attention of the whole nation. Demonstrators with small boats surrounded the tanker in order to protect it, while the navy was negotiating an agreement with the captain. Since then the ship has not moved and 5 more tankers have joined it.

The effects of the strike on oil production and exports were even more pronounced with more than 50% of oil production shut-in, most major refineries having either shut-down or reduced operations sharply and exports virtually halted. This development is putting enormous pressure on President Chavez, as oil represents 73% of the country’s exports, 30% of GDP and half the government revenues. It also poses a threat to the

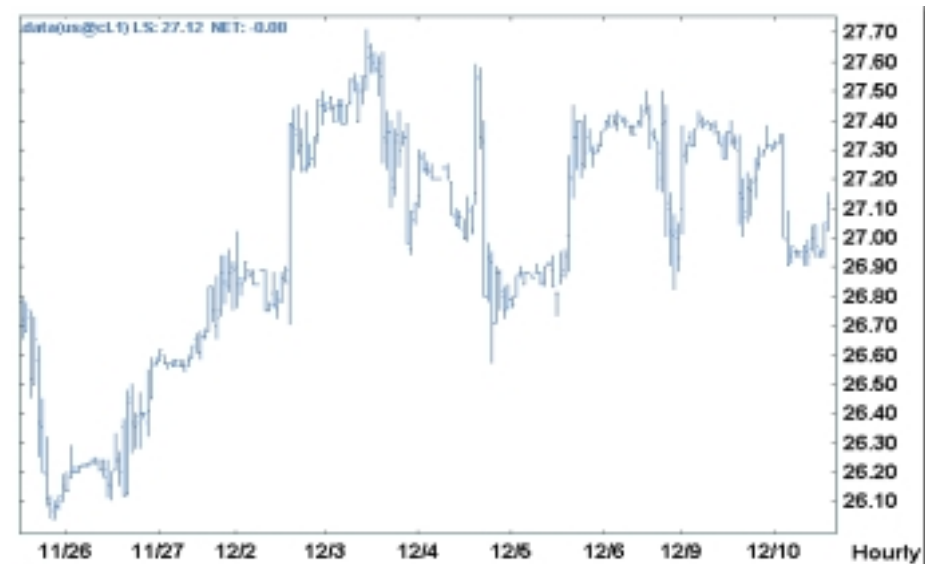
international supply-demand balance, as Venezuela is a major oil exporter and US supplier.

Today President Chavez, in an effort to defuse the situation, hinted he will lead the country to an early election. The reaction by the opposition remains to be seen.

Venezuela was the most dominant issue during the past two weeks. The other major issue –Iraq- offered no excitement to the oil markets. Inspections that started again after 1998, have not led to any incriminating evidence, while Iraq has fully complied with the UN resolution so far. It even submitted its weapons list one day before the Dec. 8th deadline. The dossier contained more than 11,000 pages written in Arabic. It was a tactical move, as it will take UN several weeks before they can translate and cross-reference the information submitted.

The reaction by the oil markets was muted. Prices remained supported, but failed to make any significant rally, oscillating within a \$1.50 range. The impression that the market is at the moment well supplied and fears of a possible oil glut during the coming months has made traders reluctant to pay higher prices. Saudi oil minister Al Naimi admitted the problem, when he stated today that OPEC output needs to be reduced by 1.5 to 2 million barrels per day.

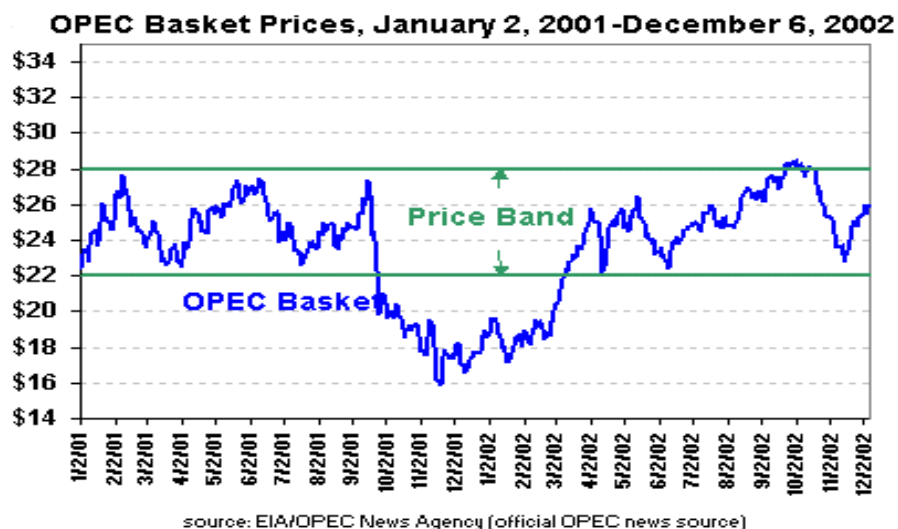
**Figure 2. NYMEX Crude Oil Price in \$/barrel (Hourly)**



Source: NYMEX

This clearly defines the Saudi stance going into OPEC's Dec. 12th meeting. While their reference OPEC basket price has managed to remain within their preferred \$22-\$28 price band for the past 8 months, current overproduction makes the outlook gloomy. Unless the situation in Iraq leads to higher prices, the expectations for rising inventories during the months to come could take their toll on the group's earnings. The Saudis

will have to undertake the delicate task of convincing the other members to restrict overproduction, and at the same time raise official quotas. While such a decision will be viewed with skepticism, deferring any decision to March is not expected as it could lead to significant price pressures.



A recent forecast by the US Energy Information Administration calls for 1.6 and 1.1 million barrels per day rise in 2nd and 3rd quarter worldwide inventories for 2003. This is equivalent to more than 80 million barrels. The report also suggested that fundamentally oil prices may have already reached their peak, excluding major developments in Iraq or Venezuela. This is certainly not a shock for the market, as both the International Energy Agency and OPEC itself have previously issued more bearish forecasts.

It is clear that oil prices remain tied in a tug-of-war between weak demand-supply balances and potential supply crises. While the outcome is unclear, history shows us that long-term fundamentals usually prevail and that price spikes due to temporary crises are only seen as selling opportunities.

In other words, while the fight for ...the beauty of Pili Leon could provide excitement, beauty is only skin deep and lasts for a limited time.

---

**Disclaimer**

---

Information contained herein is based on data obtained from recognized statistical services, issue reports or communications, or other sources, believed to be reliable. However, such information has not been verified by **www.iraj.gr**, and **www.iraj.gr** does not make any representation as to its accuracy and completeness. Opinions, estimates and statements nonfactual in nature expressed in this research report represent the author's judgment as of the date of the report, are subject to change without notice and are provided in good faith and without legal responsibility. In addition, there may be instances when fundamental, technical and quantitative opinions, estimates and statements may not be in concert. Neither the information nor any opinion expressed shall constitute an offer to sell or a solicitation of an offer to buy any securities, shares, warrants, convertible securities, futures or options by no means.

---