July 23rd, 2003

BI-WEEKLY OIL REPORT

Herodotus Antonopoulos &
Filimon Antonopoulos
Oil Market Analysts

lnx@otenet.gr ; info@iraj.gr

From Ana to Wanda. The story of a hurricane.

The list also includes Bill, Claudette, Danny, Erika etc. If the names do not ring a bell one should look at the National Weather Service's list for Atlantic's hurricane and Tropical Storm names for 2003. US Gulf Coast refiners have already felt the effects of Bill and Claudette and are preparing themselves for an "exciting" season.

The Atlantic Hurricane season starts on June 1st and finishes on November 1st. Tropical Storms and Hurricanes are maybe the most unpredictable parameters affecting oil prices. It is difficult to define both when they will appear, as well as their course and their intensity. A significant number of them have the bad habit of entering the warm waters of the Mexican Gulf, wrecking havoc in probably the most important oil producing and refining region of the US. Offshore Gulf oilfields produce almost 1.5 million bpd, while the coasts of Texas and Louisiana house the most important petroleum import terminals and the bulk of the US refining activity. It is therefore obvious why no one in the oil industry feels at ease when a Tropical Storm or a Hurricane makes its appearance in the wider region. On average 5.9 Hurricanes and 9.6 named Storms appear in the Atlantic. Last year only 4 Hurricanes were observed and 12 named Storms during a relatively mild season. Everyone in the oil industry, however, clearly recalls Tropical Storm Isidore and Hurricane Lili which hit Louisiana within 10 days, at the end of September and the beginning of October 2002, shutting-in for several days all the off-shore oil production and creating major disturbances both in imports and refining activity in the region. Prices reached a year high, at the time, of $31.39

Figure 1. Tropical Storm Claudette hits Texas (July 15th 2003)

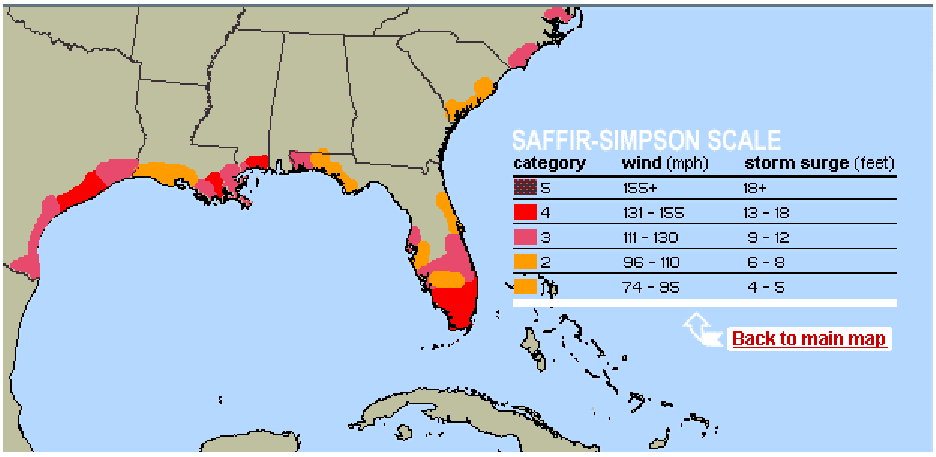
Source: CNN

This season is expected to be an even busier one. Experts are expecting 14 named storms and 8 hurricanes in the Atlantic region. This is twice the number of hurricanes observed last year. Of these 8, 3 are expected to reach a category 3, 4 or 5 level, implying winds above 111 mph. They also note that there is a higher than average possibility that one of these 3 major hurricanes will hit the US coasts.

The picture above shows some of the "minimal" damage suffered by Tropical Storm Claudette, which caused very few disturbances to oil operations, but led to some precautionary evacuations as it was drifting in the Gulf of Mexico. The fact that the busiest part of the season is September and October makes it difficult for traders to ignore the possible effects of the above mentioned forecasts.

Following is a map of the most commonly hit places in the Gulf and the maximum category of hurricanes that made landfall there.

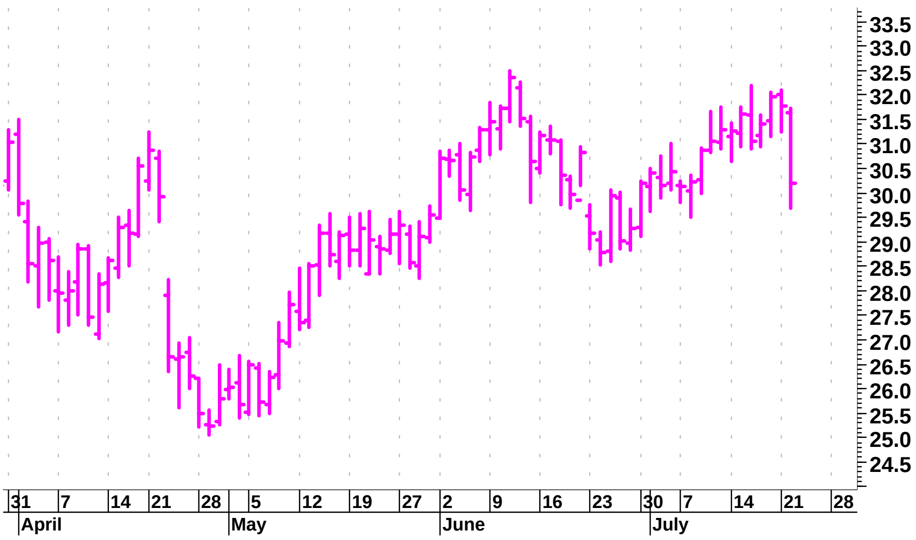
Figure 2. Most commonly hit places in US



Source: CNN

Storms and Hurricanes were not the only events that took place since our last bi-weekly report. A combination of US inventories' inability to rise, a near strike in Nigeria and a number of refinery snags in the US kept prices in an uptrend for almost a month. The small trend ended abruptly yesterday, following a bearish inventory report last Tuesday and a clear realization that funds had overextended themselves in the long side, especially as far as products were concerned. Regarding gasoline, CFTC reported that on July 15th non-commercial and non-reportable traders (mostly funds and speculators) were net long 36,570 futures contract, which is the highest net long position they held during the last 10 years. Similar was their position in heating oil, while crude oil was more balanced. As it is clear from figure 4, funds seldom hold such positions for a long period of time and their reversal of positions usually comes in during awkward times.

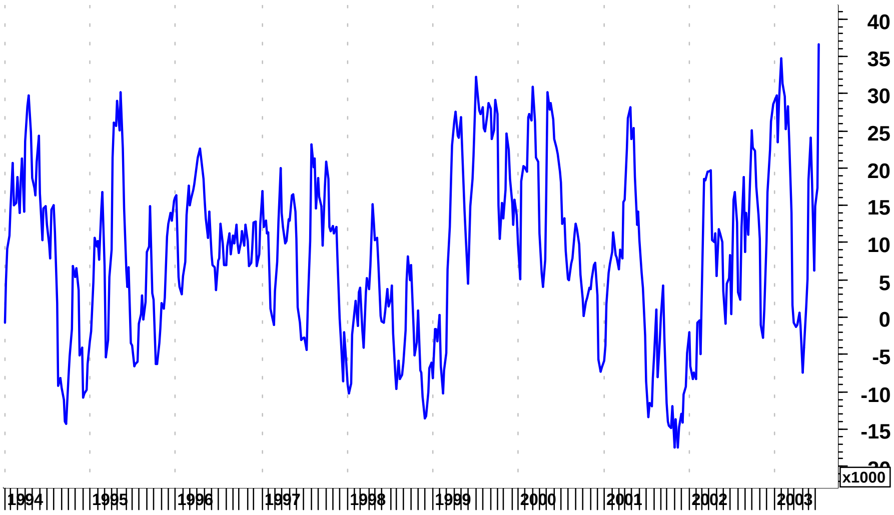
Figure 3. NYMEX crude oil futures daily price chart



Source: NYMEX

In this case the major sell-off took place one day before the release of the US inventory reports despite a series of refinery snags. This pattern of behavior, however, should not surprise traders. One should only remember Dec. 1st 2000, when prices collapsed from $34.15 to $25.50 in an exaggerated "buy the rumor sell the fact" reaction when Iraq announced a halt of crude exports.

Figure 4. Combined non-commercial and non-reportable positions in NYMEX gasoline futures as of July 15th.



Source: CFTC commitment of traders' report

The price drop was exaggerated by news that US army had killed both Saddam Hussein's sons in Iraq. Although this development has no direct impact, neither to Iraqi oil output, nor to stability within the country, it was seen by many as a symbolic end to Saddam's dynasty and as a major blow to his supporters. We tend to think that traders used the news as an excuse to sell the market more aggressively and will focus again on the speed of the resumption of output from this Middle East country, as well as the stability of the new status quo that will evolve in the months to come.

Focus will also remain on the replenishment of US inventories, which remain stubbornly low, despite last week's builds. The coming weeks will be crucial, as traders will start trying to imagine what this coming winter will be like, and they will most likely feel uneasy if heating oil stocks continue to remain 26% below last year. On the other hand if a trend of inventory build-ups starts appearing prices could retreat further. We should not be quick to jump to conclusions, however, until …Wanda has spoken.