

June 25th, 2003

BI-WEEKLY OIL REPORT

Herodotus Antonopoulos &
Filimon Antonopoulos
Oil Market Analysts

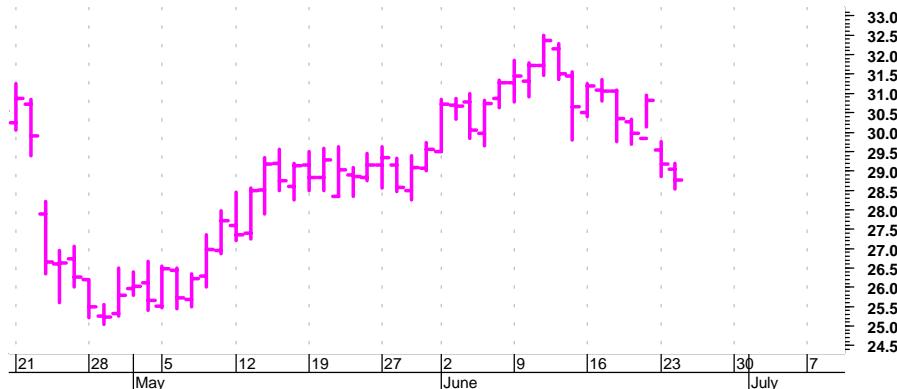
lnx@otenet.gr ; info@iraj.gr

The future of oil prices (or how far is Kirkuk from Cano Limon).

It has already been 3 months since US troops entered Iraq and market participants are still struggling to determine the future of oil prices. OPEC members met on June 11th only to decide that they should meet again on July 31st and most analysts are having a hard time determining whether the market is over or under-supplied. IEA went as far as to revise its world inventory estimates for March by a whooping 79 million barrels and predictions regarding the return of Iraqi oil vary every day. In such a background an effort to determine price direction could easily prove to be a painful exercise, but it is the try as it could shed some light on this gloomy situation.

After spending the last two weeks of May confined in a tight range, crude oil prices finally broke out on May 29th, boosted by what was considered a bullish US weekly inventory report. With stocks already well below their averages, the fact that the low Q2 demand was not enough for their swift replenishment led traders to cover short positions. The strength remained even though the next EIA report showed significant builds in US inventories. It was, however, a series of refinery snags, uncertainty about the OPEC meeting and reported delays in the return of Iraqi crude that supported the complex, which reached its peak after an unlikely statement by Fed Chairman Alan Greenspan regarding natural gas prices. His comment, that it is likely that prices will remain high in the months to come, led crude oil to a high of \$32.50 on June 11th.

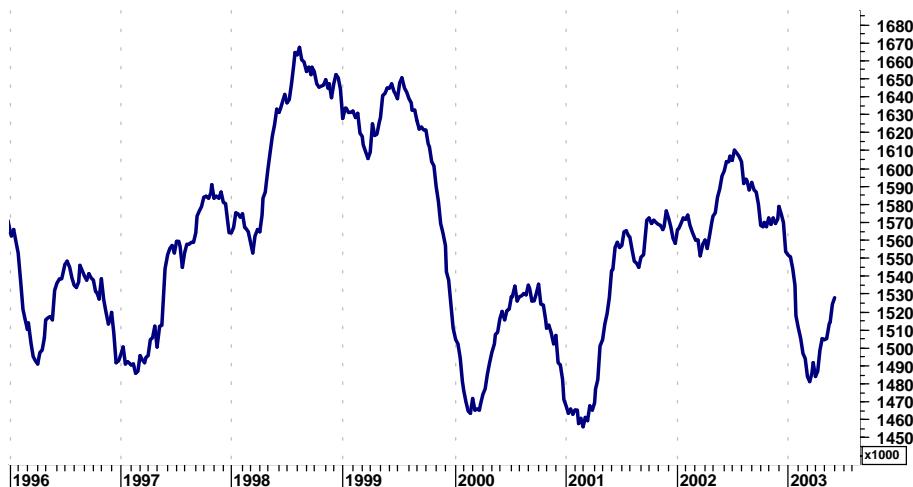
Figure 1. WTI front month futures daily price in \$/barrel (Source: NYMEX)



Since then prices have been retreating albeit not very fast. An unprecedented 79 million barrel upward revision of worldwide inventories by the International Energy Agency and the realization that overall US stocks have been rising for six weeks in a row led WTI prices back to the May range of \$28.25-\$29.65.

The following chart clearly depicts the steady rise of US inventories and the fact that if SPR is added in the equation they never reached levels below those of 2000 and 2001.

Figure 2: US petroleum inventories including SPR (million barrels)



Source: Department of Energy

Recent surveys by OPEC suggest that under the current conditions worldwide stocks could be building at a 2 million barrels per day pace, which if proven correct could lead to much more comfortable levels soon.

Against this background come continuous reports that administrative and technical problems in Iraq are larger than initially anticipated and recent actions of sabotage bring back memories of the Colombian **Cano Limon** pipeline. The incidents should not be taken lightly, as it is extremely hard to guard pipelines that stretch for hundreds of kilometers. The Cano Limon pipeline is a major Colombian pipeline that has been the target of sabotage actions so often that it had to shut for almost seven months in 2001. Since 1986 it has been hit 940 times, with more than 11 million barrels of crude spilled and \$2 billion in revenue lost. If such practices start becoming a habit in Iraq, US will have a hard time stabilizing production and exports, and trader anxiety will increase.

One should also take into consideration developments taking place in Nigeria, Iran and Venezuela. Although no major incidents affecting supplies have taken place yet the situation in all three countries could escalate swiftly.

Nigeria is on the verge of a general strike, as tensions have not eased after the reelection of President Obasanjo. The force majeure declared by all majors during April could easily be repeated if unions and government fail to reach an agreement soon.

Iran seems to be facing a deeper crisis, as the pro-reformist government and its supporters are caught between the religious fundamentalists who have effective control of the country and the pressures by the US, which considers them both as part of the axis of evil. While we may not see spectacular developments in this country soon, the background for dramatic events is in place already.

Venezuela has attracted world attention many times during the last year and has played a major role in the price spike we have recently observed. None of the issues that led to last year's crisis have been resolved, apart from an initial agreement that a referendum will be held. The agreement however has many holes into it and it is clear that any government effort to delay it will be countered by strong opposition reactions.

All three countries are major oil producers and could cause turmoil in the oil markets in case crises evolve.

It is, however, a fact that for the time being none of the three are causing serious disruptions to oil supplies and that given the recent stance by OPEC it seems that for at least one more month the world will be well supplied with oil. Recent statements by OPEC President Al-Attiyah implied that OPEC would not cut output before Iraqi crude returns to the market. They, of course, stated that the organization will defend the target price of \$25 for their reference OPEC basket, but it seems that they are neither willing to add more pressure to the fragile economic environment, nor lose more market share to non-OPEC producers who continue producing at full-force. We would therefore expect that even OPEC would feel more comfortable if world inventories rose during the coming weeks.

Trying therefore to predict price direction for the coming weeks we would note that it seems that the path of least resistance is downwards and a break below the \$28.25 level could lead WTI prices close to \$27. If such levels are reached, however, one should pay close attention to reactions within OPEC and reassess supply-demand fundamentals before making a decision on prices. One should also remember that even though the Kirkuk-Ceyhan pipeline is almost **13500 km** away from Cano Limon, it can be sabotaged just as easily.

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.
