



Peak Oil Notes

A Mid-week Update on Peak Oil

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Prices and stockpiles

The week started with oil surging to a new all-time high of \$139.89 before falling \$7 to a low of \$131.39. A mix of a volatile dollar, sagging demand in the US, prospects of a Saudi production increase, and a fire on a North Sea platform was responsible for the volatility. By Thursday prices were back up to \$137 a barrel due to more trouble in Nigeria.

The weekly stocks report showed a drop of 1.2 million barrels in both US crude and gasoline stockpiles. Crude stocks along the Gulf Coast took the biggest hit with inventories falling by 800,000 barrels. Some believe that refiners are deliberately reducing crude stockpiles to avoid having to finance \$130 oil. Others hold that the inability to compensate for declining Mexican and Venezuelan exports is causing the lower imports. Inadequate stockpiles could become a major problem if hurricanes disrupt production or shipping in the Gulf later this year. Refiners, of course, are counting on access to the Strategic Petroleum Reserve for their crude should shortages develop either with or without interruptions by hurricanes.

The meeting at Jiddah

It will be an interesting day on Sunday the 22nd when CEOs from 26 oil companies and 30 national energy and economic ministers sit down in Jiddah to discuss high oil prices. It now is widely believed that the Saudis will offer to increase their production by 200,000 barrels per day during the meeting.

Offshore drilling

In coordination with the McCain campaign, President Bush once again called on Congress to lift the ban on offshore drilling although McCain would still restrict drilling in Alaska. In a recent poll 60 percent of Americans favor offshore drilling if it will lower oil prices. Most supporting the drilling are reticent about discussing just how many years or decades it would take to bring significant quantities of any newly discovered offshore oil to market.

Chinese growth

With Industrial output up 16 percent in May and GDP growth for the year still projected to be well over 10 percent, China's oil consumption and imports continue to grow. In May the Chinese managed to push domestic crude production to 3.8 million barrels, 1.8 percent higher than in May 2007. Product imports are surging with diesel imports reaching 5.1 million barrels in May, a 34 fold gain over 2007, and are expected to exceed 7.7 million in June.

Floods and ethanol

As the Mid-West floods continue to grow worse, concern is growing about the effect on ethanol and gasoline prices later this year. Corn is now approaching \$8 a bushel which is believed to be above the price at which ethanol refiners can make a profit. The opening of at least two ethanol plants has been delayed and it is believed that many small to medium ethanol producers will have to shut down until corn prices recede. As ethanol for blending currently sells for considerably less than wholesale gasoline and enjoys a 50 cent per gallon federal subsidy at the time of blending into gasoline, wide scale shortages are likely to result in higher gasoline prices and possibly relaxation of environmental rules.