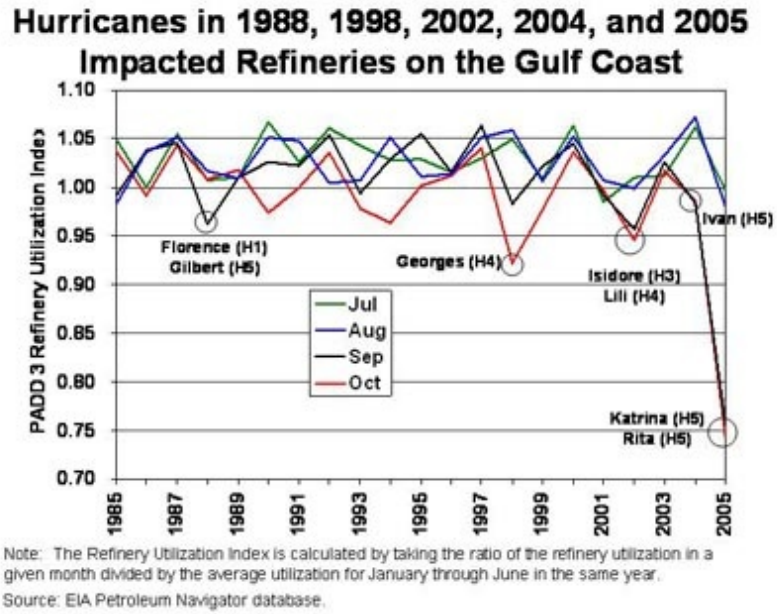
The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Hurricanes and Sand Storms, some thoughts on the coming months

Posted by Heading Out on June 8, 2006 - 10:30am
Topic: Supply/Production
Tags: gulf of mexico, hurricanes, oil production, opec, saudi arabia [list all tags]

The EIA has come out with quite a thoughtful piece on likely hurricane damage which includes an attempted prediction of the impact that this coming storm season might have on refinery output in the Gulf. They have plotted previous years effects, to show how unusual last year was. Note that PADD 3 is the area that includes the Gulf Coast.



At present they are accepting the NOAA forecast that this year will be above normal, but not as bad as last year, however, as they note:

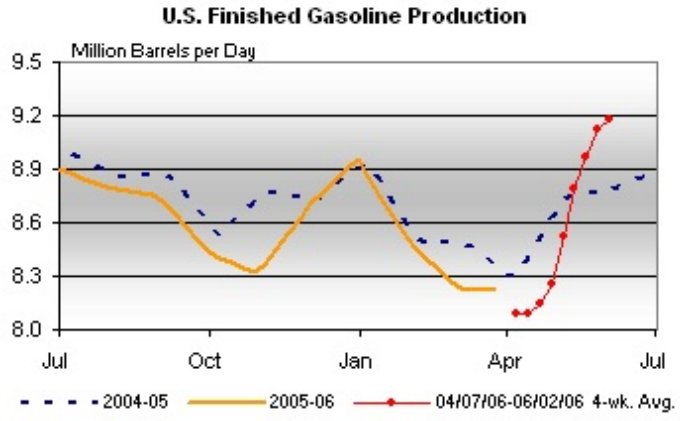
> Based on NOAA's May 2006 projections for the 2006 hurricane season and the historical relationship between tropical storm activity and production disruptions between 1960 and 2005, total reductions in crude oil and natural gas production from the Gulf of Mexico OCS due to tropical storm activity in 2006 are expected to range from 0 to 35 million barrels and 0 to 206 billion cubic feet, respectively. NOAA emphasizes that its May hurricane outlook is based on climatological conditions that are still evolving. An updated hurricane outlook will be issued in August, when conditions favorable for hurricanes are more predictable. There is a possibility that NOAA could substantially revise its projections for seasonal hurricane activity, as in 2005, when the May outlook, projecting hurricane activity for 2005 somewhat lower than what is currently projected for 2006, was revised upward substantially in August, prior to

> Hurricane Katrina. Actual storm activity in 2005 then ended up close to the upper bound of the revised range. If a similar situation occurs in 2006, EIA estimates of shut-in crude oil and natural gas production due to tropical storm activity would be significantly higher.

I actually went to look at the current EIA data after reading the comment at Econbrowser that Stuart noted in his latest piece. That, in turn, while noting the drop in Saudi current production, contained the comment from an un-named Saudi official about a lot of refinery capacity being off-line.

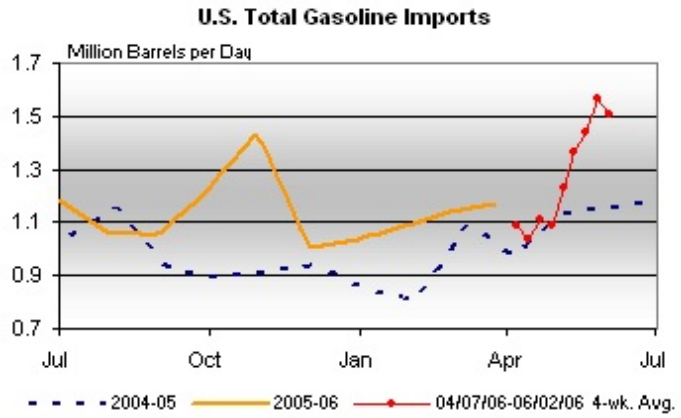
> In an interview after a meeting here of the Organization of Petroleum Exporting Countries, Ali Naimi said other cartel members are having trouble finding buyers for all the crude they are producing, at a time when global stores are near full and many refiners have closed facilities for routine maintenance. One Saudi official said an estimated three million barrels a day of refining capacity is out of action and unable to process crude, at a time when the world is using some 84 million barrels a day of oil products like gasoline and jet fuel.

So I went and looked at the EIA reports on how our refineries were doing and it sure doesn't look to me as though there is any spare capacity there.

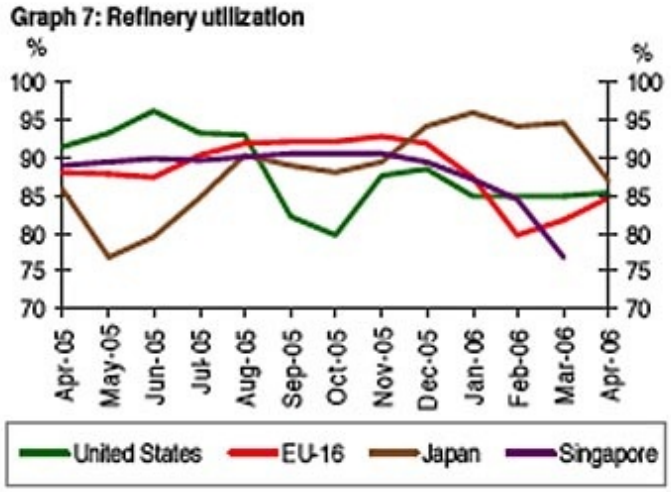


with the refineries now back on line that have been out since Katrina we are now running ahead of last year on production.

So how about the amount we are importing - perhaps that has dropped, and the rest of the world is taking a rest?



No! That is still running surprisingly high. And if I check with the May OPEC report, they note that while the graph still shows April's data:



they are anticipating that the refineries will by now have returned to production after maintenance, given the driving demands for the summer.

But there are a couple of paragraphs from the report that may explain why Saudi and the rest of OPEC are holding production steady.

> World oil demand growth in 2006 is forecast at 1.4 mb/d or 1.7% to total 84.6 mb/d. This represents a marginal downward revision of 60,000 b/d to the growth forecast in the last MOMR, mainly attributed to the first quarter as complete data has now become available. High oil prices have contributed to a slowing of incremental demand mainly in the Developed Countries, especially for those countries where product subsidies have been reduced. On a regional basis, oil demand growth in North America is expected to ease by 0.2 mb/d. The major share of world oil demand growth is expected to come mainly from China, increasing by 0.5 mb/d. Middle East is also expected contribute 0.3 mb/d for the year as high oil prices continue to support economic growth in the region.
>
> Non-OPEC oil supply is expected to average 51.5 mb/d in 2006, representing an increase of 1.3 mb/d over last year, but a downward revision of 92,000 b/d versus the last assessment. The adjustment reflects actual data for several countries for first quarter, but primarily lower than expected production growth from Canada, Angola, and

> Sudan in the second half. The supply impact of known risks, such as post-hurricane recovery in the US Gulf of Mexico as well as potential delays of major projects in key countries such as the USA, Brazil and Sudan, are now fully reflected in this forecast. Non-OPEC growth is expected to accelerate rapidly from June onwards, consistent with previous estimates. OPEC crude oil production averaged 29.8 mb/d in ,April, according to secondary sources, representing an increase of 164,000 b/d from last month, mainly coming from Iraq.

The growth in demand of 1.4 mbd with an increase in non-OPEC production of 1.3 mbd means that, to sustain prices, OPEC should not increase production this year. Could that be what we are seeing?