The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

# Not if, but when, on $80 oil!

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It would be a lot easier if the discussion on whether or not we will see $80 a barrrel oil this year, and $3.50 a gallon gas, depended only on the availability of the refined product. Unfortunately it does not. As Alaron points out this is the earliest that we have had a "D" letter storm coming into the Gulf, and that does not presage an easy time for the platforms out there this summer.

> "An article in the Orlando Sentinel points out that since records were kept in 1851, there have only been 12 years when two or more tropical storms formed in June, the official first month of the hurricane season. Weather experts have already been warning of a more active hurricane season and it looks like they are on target this year. For traders, this fact, along with yesterday's market action, is a stark reminder just how storms in the Gulf of Mexico can determine their fortunes. They are even more sensitive to the weather this year because they realize that the oil complex has never quite recovered from last years relentless storms. One of the reasons the supplies of heating oil, jet fuel and diesel are in short supply is due in part to the loss of production from storms like Charlie and don't we all remember Ivan the Terrible?"

UPDATED to note that Bloomberg is also reporting on the impact.

There are also some continued concerns about the increasing attitudes of domestic governments in producing countries toward the steady flow of resources out of the country without there being adequate payment. In other words they are not getting enough of the additional profit. And there is also the usual risk of having the odd refinery have some level of problem that will reduce output. These are the sorts of events that may well drive oil up above $80 this year. And these considerations are short-term, rather than having the long term impact of the decline in UK production, Mexican production, Venezuelan production (I see they dropped 100,000 bd again, depending on the numbers you want to believe) etc.

In the slightly longer term Econbrowser is still looking at the odds on $80 oil being the price this time next year (not this year please note). And that is a slightly different kettle of fish, in that between now and the end of the year demand will continue to rise, taking prices with it. At the end of the year demand will then fall, at least in normal circumstance, until the start of next years driving season. And at this time of the year now, as in previous years, we have still got most of the reserves that have been put aside to help with the demand later in the season.

However, the level at which demand stabilizes after the end of this year will dictate how much can be diverted into reserve stocks next year. And at the higher levels of demand against stable production, this may not be very much. At the same time, however, there are some additional projects that will come on line next year, that could bump world production, although this anticipated increase must be set against more significant declines than had been anticipated.

The decline in North Sea production, noted elsewhere, still remains uncomfortably high and the drop of over 14% has been at this level most of this year, so that when added to other national declines they combine to make the balance even more tenuous.

Speaking of reserves I am struck by a thought. The United States plans on completing the filling of the Strategic Petroleum Reserve by this August. It is at that time that the Chinese have announced that they will start filling theirs. I wonder whether this is coordinated to ensure that there is no untoward overlapping demand on the world supply. It would seem logical.

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