The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The crystal ball is murky today

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There is a story in Bloomberg today about the rise in business for the very largest crude oil carriers (VLCC's) that shows how things can change rapidly. It was only last month that they were carrying stories about shipping from the Middle East and Gulf (MEG) being as cheap as it had been since 2003 because of the drop in demand relative to last year.

I saw, last week, that there were some 110 fixtures (as they call the contract for a trip) from the MEG, and today the number is reported to have risen to 119, with the likelihood that the additional volume will be of a sourer and heavier crude. I was going to say that this is only 7 tankers over the112 that were loaded this time last year, and then I did the arithmetic. 7 tankers at 2 million barrels each is 14 mb and divided by 30 gives us close to an additional 500,000 bd of oil over this month. So production is now clearly going up in the MEG. But it should be remembered that just recently it has been lower than expected, and so, overall, we may not yet have reached peak production levels that came from that region towards the end of last year.

One could be curious and speculate on where this additional volume is coming from. OPEC overall is credited with 30.08 mbd of production by Bloomberg, which is almost 200,000 bd less than the EIA reported . Part of the problem may be coming from Iraq, since the EIA report give a production of 1.9 mbd but they are getting some water cut in the product, according to a table footnote. In addition there was the story last month that they could only sustain an export level of 1.5 mbd for the rest of the year. To quote from back then:

> Libyan Oil Minister Fathi bin Shatwan said Wednesday that news that Iraq's oil exports would flat-line at a low 1.5 million barrels a day for the rest of the year were a shock and made the supply-demand balance far more critical.
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> Iraqi Oil Minister Ibrahim Bahr al-Uloum said early Wednesday that the country's oil exports in the fourth quarter of this year would be virtually unchanged over its current 1.5 million barrels a day.
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> Shatwan told Dow Jones Newswires: "That's an extra 300,000 barrels a day less than we were expecting. It makes the situation even more critical."

So as the world moves into the peak demand section of the year, refineries are working at full capacity, oil is being shipped almost as fast as it can be, and for some countries reserves are high. In those cases, such as the US, one can expect that there will be enough to go around this year. Particularly if the continued high prices continue to restrict demand in places such as Indonesia and Thailand.

The big questions that remain continue to be Chinese and Indian demand. There has been a suggestion that the former might be holding back demand to reduce their visibility during the bid for Unocal, though I think that is perhaps a little bit of a stretch. The largest domestic producer just announced an increase of 2.1% in production â€“ though that is not likely to match the increasing level of demand, even with Chinese prices up 45.9%.

As has been the case all year there are still too many unanswered questions as to whether we will hit the wall this year, next year or perhaps not until late 2007. But part of the doubt is because of the possibility of some demand destruction already happening.

The impact of increasing production costs (the rig costs for Sakhalin Island have now doubled due to increased steel and other costs) may also impact deliveries from some of the larger projects since, after all, there may be only so many billions to go around (sorry!).

> Shell yesterday admitted that the cost of its huge oil and liquefied gas project on Sakhalin Island, off Russia's east coast, would double to $20bn (Â£11bn) and that the first deliveries would be delayed by six months to mid-2008.

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