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This Week in Petroleum 11-28-07

Posted by Robert Rapier on November 28, 2007 - 10:55am
Topic: Supply/Production
Tags: eia, gas inventories, gas prices, oil inventories, twip [list all tags]

2nd Update

Crude was down sharply following today's release. The AP explains:

> NEW YORK (AP) — Oil's rise to $100 a barrel, which seemed a done deal as recently as two days ago, was dealt a severe blow Wednesday when the government reported an increase in supplies at the Nymex delivery terminal in Cushing, Okla., which is closely watched by traders as a benchmark of oil inventory tightness.
>
> Overall crude supplies fell during the week ended Nov. 23 by 400,000 barrels, in line with the 500,000 barrel decrease analysts had expected. But that decline was overshadowed by a 600,000 barrel increase in inventories in Cushing, Okla. Cushing inventories are up 13.4 percent in two weeks.
>
> Activity at the Cushing terminal is studied closely by oil traders because it is the physical delivery point for Nymex crude. Falling supplies there are seen as a symptom of a tight market, and those concerns ease when Cushing inventories rise.

At this point, I think the only chance oil has of reaching $100 this year is if OPEC comes out of the meeting next week and really spooks the market. Of course every time I say that, oil runs up $8. But I do expect it to drop into the $80's pretty soon.

Updated following the release

Crude inventories fell less than expected, but mostly in line with expectations. Refinery utilization is picking back up. The one thing to note is that crude imports are now up over the same period last year, and with the reports of more OPEC shipments headed this way, this trend is likely to continue. This is the first time in a long while that I recall imports being up year over year.

Summary of Weekly Petroleum Data for the Week Ending November 23, 2007

Some excerpts:

> U.S. crude oil refinery inputs averaged nearly 15.5 million barrels per day during the week ending November 23, up 573,000 barrels per day from the previous week's

> average. Refineries operated at 89.4 percent of their operable capacity last week.
>
> U.S. crude oil imports averaged nearly 10.4 million barrels per day last week, up 534,000 barrels per day from the previous week. Over the last four weeks, crude oil imports have averaged 10.1 million barrels per day, or 144,000 barrels per day more than averaged over the same four-week period last year.
>
> U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) dropped by 0.4 million barrels compared to the previous week. At 313.2 million barrels, U.S. crude oil inventories are in the upper half of the average range for this time of year. Total motor gasoline inventories increased by 1.4 million barrels last week, and are below the lower end of the average range.

Nothing earth-shattering in this report. I think now it's a waiting game until OPEC's meeting next week.

Here is the expectation for this week's report:

> NEW YORK (Reuters) - U.S. crude oil stocks probably fell last week on lower imports, a preliminary Reuters poll of nine industry analysts showed on Monday.
>
> Analysts called for an average draw of 800,000 barrels for crude oil stocks, a 1.4 million barrel drop in distillates, which include heating oil and diesel fuel, and a 1.0 million barrel increase in gasoline stocks.

However, the estimates were all over the place:

> Phil Flynn of Alaron Trading in Chicago, however, predicted that crude stocks rose on higher imports. Crude imports had fallen 667,000 barrels per day to 9.8 million bpd in the week to Nov. 16.
>
> Imports last week could have fallen about 300,000 bpd to 9.5 million bpd, according to an estimate by Tim Evans, analyst at Citigroup Global Markets in New York.
>
> But Peter Beutel, president of Cameron Hanover in New Canaan, Connecticut, estimated crude imports could have risen between 250,000 to 750,000 bpd last week.

Generally, you would expect that a draw this week should push prices back toward $100. However, there are other factors pulling crude in the other direction. Given that one of the major factors that pushed oil up has been a widely held belief that OPEC had nothing more to give (or couldn't back up their promised 500,000 bpd increase), news like this should give traders pause in the short term:

> OPEC oil exports, excluding Angola, will rise by 720,000 barrels per day (bpd) in the four weeks to December 8, according to Roy Mason of tanker tracker Oil Movements.
>
> The increase will be the biggest this year, with most of the extra supply heading to Western refiners. Mason estimated that seaborne exports from the 11 OPEC countries would rise to 24.54 million bpd from 23.82 million bpd to November 10.

Based on these observations, I think it is very likely that a new all-liquids peak will be set in November. In fact the IEA's new production numbers for October (the full report is now available for free) show a (preliminary) new record. The total liquids production rate in October was reported to be 86.43 million bpd (see Table 3). That is up almost 2 million bpd over August, and 300,000 bpd above the previous July 2006 record of 86.13 million bpd (thanks to Stuart Staniford for providing that number). The IEA doesn't break out just crude + condensate, but with all-liquids in that neighborhood, C+C should be near record territory as well.

The other big question is the upcoming OPEC meeting. All year I have been in the (lonely) camp that OPEC is setting on some spare capacity. I think that question has been answered, although they were certainly slow to open the taps. The questions now are 1). How much more capacity do they have?; and 2). Can Saudi get the production increase that they reportedly desire? I think there is a lot of risk out there for short-term bulls. Supply appears to be increasing, there are projections that demand will soften at these prices, and OPEC is about to discuss another production increase.

Yesterday's OPIS Report also had a blurb on this:

> The list of market watchers predicting $100/bbl oil is growing, putting more pressure on OPEC to boost production at its Dec. 5 meeting. "The market is still not pricing in production increases. I would have thought today would have been a little more give-back," said one trader who expects OPEC will boost supply.

Oil has certainly run up higher than I thought it would this year. However, the factors that helped with the price run-up are starting to shift. The long-term bullish factors remain. Short-term, I would heed the signs pointing to a more favorable supply/demand situation.