



## DrumBeat: October 10, 2008

Posted by [Leanan](#) on October 10, 2008 - 10:02am

Topic: [Miscellaneous](#)

### [The Official Demise of the Oil Bubble](#)

On Sept. 11, 2007, the price of crude oil closed at \$78.23 a barrel — the last time oil closed below \$79 a barrel, until Friday. What seemed like a bewildering ascent in the price of crude at the time is now a relief to traders, who watched oil fall \$8.98 a barrel to close at \$77.61 on the New York Mercantile Exchange, the lowest closing price in more than a year.

Like a number of other commodities, oil's move went from a steady ascent to a vertical bounce in the spring of 2008, topping out near \$150 a barrel before speculative excess started to drain from the market. And those who believed that the oil price was justified by fundamentals — being, as it is, an actual product, rather than an Internet company's vague promise of revenue — are smarting.

“This is a market that is basically returning to the price level of a year ago **which it arguably should never have left,**” says Tim Evans, energy analyst at Citigroup. “We pumped up a big bubble, expanded it to an impressive dimension, and now it is popped and we have bubble gum in our hair.”

### [OPEC May 'Tear Apart' If Saudis Shun Supply Cut, Bernstein Says](#)

(Bloomberg) -- OPEC divisions could “tear the organization apart” as its biggest producer, Saudi Arabia, pursues a more moderate course than other members calling for supply cuts to revive oil prices, a London analyst said.

“Saudi Arabia has not joined the OPEC hawks, led by Venezuela and Iran, in calling for another supply cut, and we think we could be witnessing the beginning of the end for the organization,” Neil McMahon, a London-based analyst at Sanford C. Bernstein & Co., wrote in a report today.

“As the only country likely to have any real influence on supply within OPEC in the near and longer term, the Saudis are the key to the future existence of OPEC,” the report said.

“However, we do not necessarily think that Saudi wants to cut, as a falling oil price should contain the amount of demand destruction, and secondly if Saudi cuts its share, will the hawks actually cut theirs?,” Bernstein said.

### [Oil sheds more than \\$9 to hit 13-month low](#)

NEW YORK (CNMoney.com) -- Oil prices plunged to a 13-month low Friday, following steep stock market declines, as investors worried that the weakening global economy was driving down demand for fuel worldwide.

U.S. crude for November delivery sank \$9.50 to a low of \$77.09 a barrel during Friday trading, its lowest level since Sept. 11, 2007, when crude hit an intraday low of \$77.00.

Prices later recovered slightly to settle down \$8.89 to \$77.70 a barrel in New York, oil's lowest close since Sept. 10, 2007, when oil ended the day at \$77.49.

Investors remain concerned that a crumbling economy is causing businesses and consumers to cut back on fuel consumption.

### [Nigerian Oil Workers to Strike](#)

Oil workers in Nigeria say they will embark on an indefinite strike if the government fails to reverse the sale of two state-owned oil and gas companies within two weeks. The government says privatizing the two companies will make them more efficient and profit-driven. Gilbert da Costa reports from Abuja.

### [Russia taps oil money for use in stock market](#)

MOSCOW: Prime Minister Vladimir Putin said Friday that his government would go ahead with a plan to spend budget money to buy shares on the Russian stock exchanges, starting Monday, in the hope of lifting the deeply depressed market.

Putin said \$6.7 billion would be set aside for the purpose and that the state development bank would place the orders, continuing a strategy that has essentially relied on making the government's oil windfall profits available to banks, hoping they would in turn lend to companies or buy equity to maintain growth.

Also Friday, the Parliament passed a law unlocking central bank lending to private banks in a \$36 billion bailout that had been announced earlier this week.

Meanwhile, the authorities closed both principal stock markets Friday after Asian shares plunged and European markers followed, in falls that did not augur well for the market here.

[The meltdown's silver lining - cheap oil](#): *With experts predicting a global economic slowdown, oil prices could fall to \$60 a barrel, or lower - with gas prices soon to follow.*

NEW YORK (CNNMoney.com) -- As the world loses confidence in the foundations of its economic system, the silver lining may be that oil prices are about to get a whole lot cheaper.

In a new report Friday, Deutsche Bank uses a number of interesting yard sticks to suggest crude is currently way too expensive and may fall to the \$60 a barrel range as the economy worsens.

And the bank does expect the economy to worsen, painting a bleak picture - caused by the current financial turmoil - but stopping just short of predicting a multi-year recession.

### [U.S. says Russia would not cut off gas to Europe](#)

ROME (Reuters) - European dependence on Russian gas is dangerous partly because of future supply shortfalls, not because Russia may cut off supplies over tensions with the West, the U.S. envoy for Eurasian energy diplomacy said on Friday.

"I don't think it would do that (cut off supplies). It hasn't done that to Western Europe in the past and I don't think it's going to do it intentionally," C. Boyden Grey said.

### [Alternative energy outlook clouds up](#)

As hot as the alternative energy sector is, the international credit crunch coupled with falling oil prices could squeeze investment, particularly for startup companies, an analyst said Thursday.

"The concept of alternative energy has a lot of momentum," said Dan Pickering, head of research for Tudor, Pickering, Holt & Co. Securities in Houston. "But lower oil prices make it harder to justify investment. At \$50 a barrel, a lot of that investment will die."

But even if oil doesn't fall that far amid global economic woes, access to capital for new ventures is tough to get despite the sector's political popularity, Pickering said after giving a presentation at an alternative energy forum sponsored by Ernst & Young.

"This is an environment where existing companies have an advantage," he said. "Wall Street risk tolerance is going down."

### [Exxon Mobil shares drop as crude continues slide](#)

Shares of energy giant Exxon Mobil Corp. hit their lowest point in more than two years Friday as crude prices dropped and concern continued to escalate on the state of the global economy.

### [Shell Leads Oil Stocks to 5-Year Low on Economy Fears](#)

(Bloomberg) -- The Dow Jones Europe Stoxx Oil & Gas Index dropped to its lowest in almost five years, led by Europe's three biggest oil companies, as crude prices slumped on concern the global economy will fall into a recession.

### [Next president could make huge oil sands deal with Canada](#)

With no silver bullets available to wean the U.S. off oil in the foreseeable future, the next President will likely take a good look at Canada's oil sands. And this might lead to either Barack Obama or John McCain championing a massive North American oil sands deal, even if it means huge investments to reduce the negative environmental impacts, according to Pierre Fournier, director of research and geopolitical analyst at National Bank Financial. That's what energy guru T. Boone Pickens has been telling President Bush to do.

### [British Energy U.K. Power Plants Are Behind Schedule](#)

(Bloomberg) -- British Energy Group Plc, the nuclear utility being bought by Electricite de France SA for 12.5 billion pounds (\$21.1 billion), said repair work on two reactors is behind schedule and costs will be higher than expected.

The U.K.'s biggest power producer said two of the four reactors at its Hartlepool and Heysham 1 plants, already closed for about a year because of corroded wires, probably won't start until 2009 instead of this quarter. The delays were announced after work on Heysham 1 Unit 1 took longer than planned.

### [EU ministers solve energy liberalisation stand-off](#)

LUXEMBOURG (Reuters) - European energy ministers cleared up final disagreements about liberalising energy markets on Friday, agreeing measures to prevent giant utilities from unfairly dominating the market.

They also approved a "Gazprom Clause", which would prevent energy companies from outside the bloc -- such as Russia's state-owned Gazprom (GAZP.MM: Quote, Profile, Research, Stock Buzz) -- from buying up distribution networks without agreement at a political level.

### [CTA plans 2009 fare increase](#)

The CTA's announcement Thursday that the agency must hike fares next year was

greeted with frustration by riders who are already stressed over the high cost of commuting and the ailing economy.

CTA President Ron Huberman said the agency needs to raise prices for bus and rail passes for the first time in about a decade and for cash fares for the second time since 2004 because the cost of fuel and other materials have soared. They also cited spiraling costs to maintain rickety CTA buses and trains that would have been retired years ago if, in their view, the transit agency had received the necessary capital funds.

### [BP's Texas City, Tex refinery back at normal operations](#)

NEW YORK (Reuters) - BP's 467,000 barrel-per-day refinery in Texas City, Texas was back at normal operations after shutting ahead of Hurricane Ike, a source familiar with refinery operations said Friday.

### [Richard Heinberg: The End of Growth](#)

Several of us who have been watching the world oil production and depletion picture closely for the last few years are now concluding that the world has now seen the highest rate of production ever. Matt Simmons agrees: It's all downhill from here.

The worldwide financial crisis, and the decline in available energy, mean that we may also have seen the final year of aggregate world economic growth.

This is a breathtaking statement. I found myself uttering it yesterday at a strategy meeting of some environmental and economic justice organizations organized by the International Forum on Globalization; I surprised even myself, and immediately began wondering whether what I had said could possibly be true.

There are obvious objections. Perhaps the wealthy nations could still wring out a few years of growth by increasing global economic inequality. But this is essentially what they did over the past two decades with the strategy of corporate globalization—and that strategy is losing steam because of high transport costs due to Peak Oil.

### [As China slows, commodities may feel outside pain](#)

HONG KONG (Reuters) - An unscripted slowdown in China's economy may take an exaggerated toll on commodity markets as demand from its construction sector and export-oriented manufacturers, which drove prices sky high, falls back to earth.

As the financial crisis threatens to sink the global economy into recession, the question of China's future demand for oil, coal, copper and iron ore has taken on new importance for traders more accustomed to pricing in unstoppable growth.

### [Roger Wiegand: Oil to Reach New Highs by Year-End](#)

Despite severe economic turmoil, demand for oil is rising significantly—in fact, it will land somewhere in the range of \$150 to \$157, according to Roger Wiegand, editor of Trader Tracks.

### [Iran Uses Price Power in \\$2 Billion Gas Deal](#)

TEHRAN, Iran -- Oil prices may be softening, but the price of natural gas is climbing sharply in the Persian Gulf, thanks to the booming economies of the Arab petro-states.

Iran looks set to squeeze the region's highest wholesale gas prices from the United Arab Emirates as part of a 25-year, \$2 billion natural-gas export deal between the two countries. Crescent Petroleum, based in the emirate of Sharjah, has offered to pay about \$5 per million British thermal units for Iranian gas, according to a person familiar with the matter.

### [Mexico back to full oil production after Ike](#)

MEXICO CITY: Mexico's state-run oil company is back at full oil-production levels after repairing the damage Hurricane Ike caused to key refineries in Texas and Louisiana.

Petroleos Mexicanos, or Pemex, cut back production by 250,000 barrels a day on Sept. 23, after Ike hit the refineries.

### [Third China refinery set to delay start-up to 2009](#)

BEIJING (Reuters) - PetroChina (0857.HK: Quote, Profile, Research, Stock Buzz) is likely to delay the commissioning of a new unit that would double capacity at a Western refinery, the third Chinese project to get pushed into next year, when extra fuel could run into weakening demand.

The 100,000 barrel per day crude distillation unit at the Chinese oil giant's Dushanzi refinery in the western province of Xinjiang was originally meant to be operational early this year. Dushanzi's 1 million tonne-per-year ethylene project, also due for completion this year, had already been pushed back to 2009.

### [Brazil Reiterates No Change to Oil Contracts](#)

Brazil will not alter existing contracts with foreign and local oil producers that have discovered huge reserves in the subsalt cluster deep under the ocean floor, Energy

Minister Edison Lobao reiterated on Friday.

### [Ban lift paves way for oil shale](#)

WASHINGTON, D.C. — There is a tiny glimmer of sunshine breaking through the darkness spreading across the nation over the current economic crisis — a possible solution to gas prices. A moratorium preventing oil shale development on federal lands has been allowed to expire, paving the way for tapping into a possible 800 billion barrels of oil in Utah, Wyoming and Colorado.

### [Economic Meltdown in America Saves the World from Peak Oil](#)

Why would the price of oil be dropping when supply is in an overall trend of decline if demand is robustly rising?

Well, the world is rapidly changing, and it may be that the economic decline of the US, with the accompanying decline in consumption, and therefore lowering of the demand for oil and its products, is impacting on the world oil markets. Declining demand may be lowering the level of oil scarcity and so allowing the crude prices to fall (Reuters, 2008).

The subprime mortgage industry meltdown, and its knock-on effects, may yet prove to be titanic in their full implications. The full debt problem in the US is so vast and huge, it is almost beyond comprehension.

### [Doubts grow over Belgian plan to cap energy prices](#)

BRUSSELS (Reuters) - Doubts emerged on Friday over a proposal by Belgium's energy minister to cap wholesale electricity prices at GDF Suez subsidiary Electrabel, with rival politicians clearly opposed to the plan.

### [Crude Oil Drops Below \\$80 as Equities Slump on Credit Freeze](#)

(Bloomberg) -- Crude oil fell below \$80 for the first time in a year and copper headed for its biggest weekly drop in more than 20 years on concern that the deepening financial crisis will push the global economy into a recession.

Oil in New York is heading for its biggest weekly decline since 2003 as plunging share prices in Asia and Europe caused the MSCI World equity index to drop to the lowest since 1970. All commodities with the exception of gold are down on signs that demand for raw material will drop as the global economy falters.

``This is a market that is moving on emotion, not the supply and demand picture," said Sarah Emerson, managing director of Energy Security Analysis Inc., a consulting firm in Wakefield, Massachusetts. ``We are looking for a landing place and I have no idea

where it is."

### [Trade Deficit Down as Oil Imports Dip](#)

WASHINGTON (AP) — The United States trade deficit edged down slightly in August, reflecting a drop in foreign oil from record levels.

But the politically sensitive deficit with China increased as imports from that country hit a record.

### [OPEC Should Cut Supply at Nov. 18 Meeting, Libya Says](#)

(Bloomberg) -- The Organization of Petroleum Exporting Countries should cut oil production when it meets next month in Vienna to halt the decline in oil prices, Libya's top energy official said, echoing earlier comments from the group's president.

### [Doubts cloud outlook for Libyan oil bonanza](#)

RABAT (Reuters) - Majors oil companies are pouring money into Libya, home to Africa's biggest petroleum reserves, but it is unclear whether the desert country can achieve its goal of almost doubling output within four years.

Tripoli wants to increase output to 3 million barrels of crude oil per day by about 2012 from 1.7 million now, raising extra revenues to help rebuild infrastructure that is crumbling after years of sanctions.

Libya's peak oil output was around 3.3 million bopd in the late 1960s but analysts said that, with output at mature fields declining, it might be hard to push production above 2 million.

### [GM says no to bankruptcy](#)

NEW YORK (CNNMoney.com) -- General Motors is not considering bankruptcy, the company said in a prepared statement Friday morning. The statement was in response to the company's precipitous stock price decline the previous day, a spokesman said.

### [E.ON Foe Sees 'End of World' in Coal as Germany Shuns Reactors](#)

(Bloomberg) -- Winfried Schwab-Posselt feels he's driving toward Armageddon when commuting to work.



Every day, the 56-year-old night-school teacher drives down the main street in the southwest German town of Hainburg under the shadow of five gray-and-white towers spewing clouds of vapor from E.ON AG's Staudinger coal-fired power plant. Now, Germany's biggest utility is planning to build a larger facility.

``It's like moving toward a big wall and facing the end of the world," Schwab-Posselt says. ``Now there's the fear that an even bigger wall is coming."

### [IEA cuts world oil demand forecast on weak economy](#)

LONDON (Reuters) - The International Energy Agency (IEA) on Friday cut its oil demand growth forecast for 2008 to the lowest rate in 15 years, citing economic weakness and "a spiralling liquidity crisis."

In a monthly report, the agency, adviser to 28 industrialised countries, reduced its 2008 demand growth forecast by 250,000 barrels per day (bpd) to 440,000 bpd. This represents a 0.5 percent growth rate -- the lowest in percentage terms since 1993.

The report adds to evidence slowing economies and the worsening financial crisis are reducing oil consumption. Oil prices fell further after it was released to a one-year low near \$81 a barrel.

### [Oil near \\$83 after fall to 12-month low](#)

LONDON (Reuters) - Oil was near \$83 a barrel after a fall to its lowest in 12 months on Friday, depressed by expectations global demand growth will shrink if the credit crisis pushes the world economy into recession.

Economic weakness spurred the International Energy Agency (IEA) to cut its forecasts for world oil demand growth for 2008 to its lowest rate since 1993.

U.S. light crude for November delivery was \$3.59 down at \$83.00 a barrel by 1133 GMT. It touched a session low of \$81.13, its lowest since October 2007.

Prices have dropped nearly 45 percent from a peak of \$147.27 in July.

London Brent crude was down \$3.47 a barrel at \$79.19, below \$80 for the first time in a year.

### [Brown says OPEC output cut would be wrong](#)

LONDON (Reuters) - Prime Minister Gordon Brown said on Friday it would be "wrong" for the Organisation of the Petroleum Exporting Countries (OPEC) to cut production just as oil prices are falling.

"I'm concerned when I hear that the OPEC countries are meeting, or are about to meet, to discuss cutting production -- in other words, making the price potentially higher than it should be," Brown told reporters.

### [Lacking Credit, Trust, Banks Exiting Physical Energy Markets](#)

NEW YORK (Dow Jones)--Banks are beating a hasty retreat from the physical oil and fuel markets, as the credit crisis cuts financial institutions out of a once-promising line of business.

Much like the credit market itself, the trading of physical barrels of oil or refined products for prompt delivery relies on trust. Deals are arranged between two parties or through a broker, and most agreements aren't cleared, meaning that if one side doesn't hold their end, the other takes the loss.

Physical deals are priced off of benchmark futures contracts, which are traded on exchanges in financial transactions that rarely involve exchanging actual commodities.

Companies often use borrowed cash to finance inventories and the transportation of oil and fuel by pipelines or tankers, making it difficult for companies seen as default risks to operate in the market. Over the last month, confidence in the banking sector has been badly shaken, with several failures, a rash of forced mergers and expectations of even more government support. In some energy markets, banks are being kept at arm's length by oil companies and refineries that are wary of not being paid should a counterparty join the list of failed banks.

### [Oil bulls sharpen horns](#)

Jeff Rubin, chief economist and strategist at CIBC World Markets, has seen his forecast for oil to hit \$200 (U.S.) by 2012 take a beating as the price of crude oil goes down, down, down. It was last seen at about \$87 a barrel, down more than 40 per cent from its record high in July.

In his updated strategy, Mr. Rubin maintains a bullish outlook, arguing that the fundamentals that drove up oil during its remarkable run are still in place. Speculators may be gone, he said, but the marginal cost of a new barrel of oil is between \$90 and \$100. As well, the demand for oil has been driven mostly by developing economies, especially China, and not the G7, where economies are contracting and oil demand was stagnant even during good times.

### [Big Issue: Energy crisis hitting home](#)

MURPHY, N.C. (AP) — When oil topped \$100 a barrel earlier this year, and gasoline prices soared above \$4 a gallon, Americans cried out for relief.

Some called for more offshore oil drilling. Others pushed for the development of alternative fuels. And many made energy policy a top priority as they consider the presidential campaign.

In an Associated Press-Yahoo News survey of voters taken early in September, 77 percent said gas prices were an important or extremely important issue. Only the economy ranked significantly higher.

### [Libya to Withdraw \\$7 Billion From Swiss Bank Accounts](#)

(Bloomberg) -- Libya said it will withdraw \$7 billion from Swiss bank accounts and halt oil shipments to Switzerland in an escalation of a diplomatic dispute over the July arrest of Libyan leader Muammar Qaddafi's youngest son.

"All forms of economic cooperation with Switzerland will stop until the motives of this bad treatment are made clear," the state news agency JANA reported, citing an unidentified foreign ministry spokesman.

### [BP brings Azeri back on line](#)

A BP-led group resumed oil production at one of its two Azeri offshore platforms shut after a gas leak in September, BP Azerbaijan said today.

"Oil production at Western Azeri was resumed late Thursday," a company spokeswoman Tamam Bayatly told Reuters.

A source in the consortium told Reuters earlier this month that resumption of oil production at Western Azeri would double production at the Azeri-Chirag-Gyuneshli (ACG) offshore group of fields to around 600,000 barrels per day, down from the usual 900,000 bpd.

### [BTC Oil Pipe Outage Cuts Supplies Nearly as Much as Hurricanes](#)

(Bloomberg) -- Disruptions to BP Plc's Baku- Tbilisi-Ceyhan crude pipeline may cut oil supplies by nearly as much as Gulf of Mexico production stoppages after Hurricanes Gustav and Ike, according to the International Energy Agency.

Supplies through the link, which transports the Azeri crude blend from the Caspian Sea to Turkey's Mediterranean coast, have been curbed by a series of disruptions since August. Production from the fields which pump oil via the pipeline is currently about a third of normal output after a gas leak on Sept. 17, the IEA said in its monthly oil market report today.

## [Hungary bourse suspends MOL trade](#)

BUDAPEST (Reuters) - Shares of Hungarian oil and gas group MOL MOLB.BU were suspended on the Budapest Stock Exchange on Friday, the bourse said.

## [Dimming the Lights](#)

For the past few years, OI has been selecting investment ideas in companies that appear to have bright futures in a looming era of rising energy and resource demand. And many - most, really - of the investment ideas did well. Some did very well. A lot of readers made a lot of money. Whether it was oil, gold, refineries, cement or energy infrastructure, it seemed like we were investing in places where the world was going. Right?

But now it seems like the investment locomotive - energy, resources and related infrastructure - has derailed. Energy prices are declining. Energy-related stock plays are down. Commodities are down. Mining and infrastructure stocks are in the dumps. The falling tide is leaving us high and dry.

## [Alternative Fossil Fuels Have Economic Potential, Study Shows](#)

ScienceDaily — Alternative sources of fossil fuels such as oil sands and coal-to-liquids have significant economic promise, but the environmental consequences must also be considered, according to a RAND Corporation study issued October 8.

## [N.J. vows to 'race to the sea' for wind power](#)

ATLANTIC CITY, N.J. - New Jersey is powering up an ambitious plan to become a world leader in the use of wind-generated energy.

Gov. Jon Corzine wants the Garden State to triple the amount of wind power it plans to use by 2020 to 3,000 megawatts. That would be 13 percent of New Jersey's total energy, enough to power between 800,000 to just under 1 million homes.

"We want to create this generation's race to the moon, but this time, a race to the sea, to harness this potential wind source off of our coasts, and bring economic development, environmental benefits, and new, green jobs to the Garden State," Corzine said Monday.

## [Liveblogging Litquake II](#)

Mander says that our current economical model relies on constantly growing, which

means constantly destroying more natural resources. He says given twin economic and ecological crises (and peak oil), that the era of growth may simply be over and we're going to have to change the way we do things. He predicts doom: We're not going to see much of a recovery in our lifetimes; there just aren't enough resources to do it. The idea of never-ending growth is preposterous on a finite planet. The goal of our (environmental) work is to devise a Plan B.

### [McCain and Obama's energy proposals](#)

A look at some of the positions of the presidential candidates on energy and global warming.

### [Report Warns of Great Lakes Perfect Storm](#)

A researcher in Wisconsin warns that climate change may put Great Lakes' water quality at risk.

Johnathan Patz of the University of Wisconsin School of Medicine and Public Health says an increase in extreme monsoon-like rains, as occurred in some regions last spring, is likely to aggravate the risk of outbreaks of waterborne disease in the Great Lakes region.

### [Global warming sending tropical species uphill: study](#)

WASHINGTON (AFP) - Global warming is driving tropical plant and animal species to higher altitudes, potentially leaving lowland rainforest with nothing to take their place, ecologists argue in this week's issue of Science.

### [Coastal rebuilding awash in debate](#)

Locals and officials throughout the Gulf Coast continue to press for more stringent building requirements and stronger levees and floodwalls to prevent floods. But some coastal analysts argue that coastal erosion is growing too fast and some Gulf Coast towns need to depopulate and move to higher ground.

The debate could be repeated in coastal communities in Florida, Louisiana, Alabama, Mississippi and elsewhere throughout the USA, said Robert Young, professor of coastal geology at Western Carolina University.

"It's hard to see how the federal government can continue pumping billions of dollars in protecting coastal communities," Young said. "At some point within the next two decades, some of these vulnerable communities may need to relocate."

Added Robert Thomas, director of the Center for Environmental Communication at

Loyola University in New Orleans: "Once the nation begins this discussion, it opens a Pandora's box. It applies to everybody."



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