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## AS FOREIGN FIGHTERS FLOOD SYRIA, FEARS OF A NEW EXTREMIST HAVEN



Free Syrian Army fighters near the Menagh air base in Aleppo Province, which rebels captured this week after months of trying.

## Global Developments

### 1. CRUDE-OIL PRICES GAIN ON CHINESE DATA, IEA DEMAND OUTLOOK

Oil futures higher after five consecutive sessions of falling prices.

(Dow Jones, Friday, August 09, 2013) -- Crude-oil futures traded higher in London Friday after five consecutive sessions of falling prices, boosted by signs that China's economy is stabilizing and as a key report signaled increasing demand growth. Brent crude for September delivery gained 71 cents, or 0.7%, to \$107.39 a barrel on ICE Futures Europe. U.S. crude-oil futures were up \$1, or 1.0%, at \$104.40 a barrel on the New York Mercantile Exchange. Chinese trade and inflation data painted a positive picture for the world's second-largest oil importing economy. Industrial production growth accelerated in July to a five-month high of 9.7% on year, beating analyst expectations. China's Consumer Price Index showed a 2.7% on-year rise in July, flat from June and almost the same as the median 2.8% gain tipped in a Dow Jones poll. The International Energy Agency said global oil demand is expected to accelerate in 2014, to 1.1 million barrels a day, compared with 0.9 million barrels a day in 2013. The IEA, in its monthly oil-market report, also warned of declining supply levels from OPEC members Libya and Iraq even as it revised higher its expectation of demand for oil from the Organization of the Petroleum Exporting Countries. [\[more\]](#)

## **2. WTI CRUDE SNAPS FIVE-DAY DROP AS CHINA INDUSTRIAL OUTPUT GAINS**

(Bloomberg, Friday, August 09, 2013) -- West Texas Intermediate crude rose for the first time in six days, trimming a weekly decline as industrial production advanced more than forecast in China, the second-biggest oil consumer. Futures gained as much as 0.9 percent in New York, snapping the longest streak of declines since December. China's factory output climbed 9.7 percent in July from a year earlier, 0.8 percentage points higher than forecast in a Bloomberg survey, figures from the National Bureau of Statistics show. Prices showed little reaction to the International Energy Agency's monthly report in which the agency cut its estimate for global oil demand growth next year. WTI fell yesterday amid speculation that the Federal Reserve will trim stimulus measures in the U.S. "Better than expected Chinese industrial data was always going to give a boost to risky assets such as oil," said Michael Hewson, a market analyst at CMC Markets Plc in London, who forecasts Brent to drop to \$103 a barrel by the end of the year and WTI to fall as low as \$95 a barrel. "Oil did drop yesterday so we were always going to get a bit of a pullback from that too." [\[more\]](#)

## **3. CRUDE CAPS LONGEST LOSING STREAK THIS YEAR**

(Bloomberg, Friday, August 09, 2013) -- West Texas Intermediate crude fell for a fifth day, capping the longest stretch of declines since December, as better-than-expected U.S. jobless claims raised concern that the Federal Reserve will trim stimulus measures. Prices dropped 0.9 percent. About 333,000 American workers applied for unemployment benefits last week, below the 335,000 estimate by economists in a Bloomberg survey. The Fed may begin curbing bond purchases in September, Fed Bank of Chicago President Charles Evans said Aug. 6. U.S. crude output jumped to the most since 1989 and gasoline supplies are at the highest seasonal level since 1990, government data showed yesterday. "People are worried about tapering with the good economic data," said Phil Flynn, senior market analyst at the Price Futures Group in Chicago. "The market is looking heavy because the U.S. is producing more and more oil. You have to respect the fact that fundamentally we are very well supplied." WTI for September delivery slid 97 cents to \$103.40 a barrel on the New York Mercantile Exchange, the lowest settlement since July 30. The volume of all futures traded was 12 percent above the 100-day average at 3:45 p.m. Prices have tumbled 4.2 percent since Aug. 1. They last decreased for five consecutive days in the period ended Dec. 10. [\[more\]](#)

## **4. NATURAL-GAS FUTURES SETTLE UP AFTER 5 DAYS OF LOSSES**

- --Five-day drop of nearly 20 cents brings bargain hunters back
- --Inventory rise causes price gyrations, but prices end higher
- --Analyst says low price may boost utility demand for gas

NEW YORK (Dow Jones, Friday, August 09, 2013) -- Natural-gas futures prices rose Thursday on hopes that a near 20-cent drop over the prior five days will lead utilities to burn more gas than coal. The gains came after a volatile session marked by early steep declines after government data showed a much larger than expected rise in inventory levels last week. The figures from the Energy Information Administration contained a change from the way gas storage was counted a week earlier, making the increase appear much larger than expected. Prices gyrated in a broad intraday range of nearly 16 cents per million British thermal units and emerged with gains despite the EIA data showing that gas storage levels have climbed above the five-year average level for the first time since March. Gas futures had fallen in 10 of the past 11 sessions heading into Thursday, amid rising inventories and lingering below normal temperatures in the key Midwest and Eastern U.S. markets. Gene McGillian, broker and analyst at Tradition Energy, said that as prices fell to five-and-a-half-month lows in recent days, some investors saw bargain prices and snapped up gas on the notion that utilities may switch back to burning the fuel instead of coal. When gas prices climbed to \$4/mmBtu two months ago, there was a pronounced shift by utilities to burn cheaper coal instead of gas. [\[more\]](#)

## **5. US NATURAL GAS STORAGE VOLUME RISES 96 BCF TO 2.941 TCF: EIA**

(Platts, Friday, August 09, 2013) -- US natural gas in storage climbed 96 Bcf to 2.941 Tcf for the week ended Friday, the Energy Information Administration said Thursday in its weekly report. The net injection was well above consensus expectations of a build between 74 Bcf and 78 Bcf. A year earlier, EIA reported a 25-Bcf injection, while the five-year average is a 42-Bcf build. As a result, the 368-Bcf deficit to the year-ago level fell to 297 Bcf, while the 34-Bcf deficit to the five-year average of 2.921 Tcf flipped to a 20-Bcf surplus. EIA reported a 58-Bcf injection in the East to 1.408 Tcf, compared with 1.631 Tcf a year ago, a 23-Bcf injection in the West to 484 Bcf, compared with 498 Bcf a year ago and a 15-Bcf injection in the producing region to 1.049 Tcf, compared with 1.109 Tcf a year ago. Inventories now are 105 Bcf below the five-year average of 1.513 Tcf in the East, 49 Bcf above the five-year average of 435 Bcf in the West and 76 Bcf above the five-year average of 973 Bcf in the producing region. [\[more\]](#)

## **6. U.S. OIL BOOM EASES OPEC SUPPLY PROBLEMS - IEA**

LONDON, Aug 9 (Reuters) - North America's shale boom is insulating the world from steep oil price spikes as several OPEC members struggle to maintain production due to unrest and infrastructure problems, the International Energy Agency (IEA) said on Friday. The agency, consulting developed nations on energy policies, said key among those disruptions were Libya and Iraq where violence has already steeply curtailed output. Upcoming work on key Iraqi terminals could further upset oil buyers in Europe, Asia and the United States. "Officially, volumes will be curtailed only in September but the fear is the shut-in could drag on for months given the scope of the work as well as the country's poor record of delivering projects on time," the IEA said in a monthly report. "Northern (Iraqi) exports are expected to remain constrained indefinitely given the lack of progress between Baghdad and the Kurdistan Regional Government (KRG) over payment and contract terms," it added. Pipeline attacks in Iraq's north helped push output below 3 million bpd for the first time in six months, and planned work at southern shipping terminals in September may slash exports by 300,000-500,000 barrels per day (bpd) for months, the IEA said. [\[more\]](#)

## **7. HIGHLIGHTS OF THE LATEST OMR**

dated: 9 August 2013

- WTI futures hit 16-month highs in July, narrowing the gap with Brent, amid surging US refining runs and crude draws. The benchmark gained \$8.90/bbl m-o-m, to \$104.70/bbl. Brent rose \$4.09/bbl to \$107.43/bbl, a four-month high, on supply outages in Libya and Iraq. WTI was last trading around \$103.50/bbl and Brent at \$106.70/bbl.
- Global oil demand growth is expected to accelerate in 2014 to 1.1 mb/d, compared with 0.9 mb/d in 2013. The forecast of demand growth for 2014 has been trimmed by 0.1 mb/d on reduced GDP expectations from the IMF, while that for 2013 is largely unchanged.
- Global supply is estimated to have increased by 575 kb/d m-o-m in July, to 91.85 mb/d, led by higher non-OPEC production. Strong growth in North America is expected to lift 2H13 total non-OPEC supply by an average 1.4 mb/d y-o-y, to reach 55.4 mb/d in 4Q13.
- OPEC crude oil supplies edged down by 165 kb/d m-o-m in July, to 30.41 mb/d, on supply disruptions in Libya and Iraq and despite higher Saudi output. The 'call on OPEC crude and stock change' for 3Q13 was revised upwards by 200 kb/d, to 30 mb/d, on higher demand projections for the quarter. [\[more\]](#)

## **8. IEA TRIMS ESTIMATE FOR 2014 GLOBAL OIL DEMAND GROWTH ON ECONOMY**

(Bloomberg, Friday, August 09, 2013) -- The International Energy Agency trimmed forecasts for global oil demand growth in 2014 amid slowing expansion in China and a struggle to secure a recovery in the U.S. and Europe. Global consumption will increase by 1.1 million barrels a day, or 1.2 percent, to 92 million next year, the Paris-based adviser to energy-consuming nations said today in its monthly market report. The expansion is 100,000 barrels a day less than last month, when the estimate for 2014 was first introduced. Refinery operating rates will ease after a record surge in July, the IEA said. "Everyone knows that supply is growing faster than demand into next year and the overall perception is that prices will soften," Bjarne Schieldrop, chief commodity analyst at SEB AB in Oslo, said by phone before the report. "We're not really finding a big bullish driver for oil." Brent crude lost about 4 percent this year, trading near \$107 a barrel today on the ICE Futures Europe exchange in London, amid deceleration in China and elevated unemployment rates in the U.S. and Europe. The IEA's outlook incorporates lower projections from the Washington-based International Monetary Fund, which on July 9 cut global economic growth forecasts next year to 3.1 percent from 3.3 percent. [\[more\]](#)

## **9. OPEC JULY OIL PRODUCTION LOWEST SINCE MARCH ON IRAQ, LIBYA DISRUPTIONS**

LONDON (Dow Jones, Friday, August 09, 2013) -- Oil production by the Organization of the Petroleum Exporting Countries fell to its lowest level since March in July as supply disruptions in Libya and Iraq dented the group's output, OPEC said Friday, warning of risks of further supply disruptions. According to secondary sources cited by OPEC in its monthly oil market report, the producer group's output fell by 100,000 barrels a day in July to 30.3 million barrels a day. Significant declines in Libya and Iraq offset an increase in Saudi Arabia's production of nearly 100,000 barrels a day. The fall in the group's production during a period of peak demand for many OPEC members underlines the impact that unrest in the Middle East and North Africa is having on the oil market. The price of benchmark Brent oil futures rose by 5% in July, while OPEC's own benchmark basket of crude oil recorded its steepest month-on-month gain since February. According to OPEC, protests in Libya that closed almost all of the country's export terminals have cut at least 500,000 barrels a day of supply from the Mediterranean market. Disruptions to a major pipeline in Iraq also dented production last month and planned work on export infrastructure in the country is expected to cut the country's production a further 500,000 barrels a day from September. [\[more\]](#)

## **10. OPEC OIL SHIPMENTS TO FALL 740,000 B/D IN 4 WEEKS TO AUG 24**

LONDON (Dow Jones, Friday, August 09, 2013) -- Seaborne oil shipments from the Organization of the Petroleum Exporting Countries will fall by 740,000 barrels a day in the four weeks to Aug. 24, compared with the previous four-week period, U.K.-based tanker tracker Oil Movements said Thursday. Shipments from OPEC will average 23.69 million barrels a day in the four weeks to Aug. 24, the tracker said in its weekly report, with most of the decline coming from the Middle-East. The figure excludes exports from Angola and Ecuador. [\[more\]](#)

## Middle East & North Africa

### 11. IRAN'S PRESIDENT HAS LEAD ON OIL SANCTIONS

TEHRAN, Aug. 8 (UPI) -- It's up to the Iranian president to make the necessary foreign policy decisions to get relief from economic sanctions, his oil minister nominee said. Hassan Rouhani, a former chief nuclear negotiator, took the oath of office as Iran's next president Sunday. He vowed to lead as a moderate and reach out to members of the international community. Before Rouhani took office, the U.S. House of Representatives passed legislation designed to cut Iranian oil exports by as much as 1 million barrels per day. Western sanctions on Iran are meant to rob the country of revenue it could use for a controversial nuclear program, which Iran says is for peaceful purposes. Rouhani nominated Bijan Zanganeh to return to the head of the Oil Ministry, a position he held from 1997 to 2005. The nominee said it was up to the president to make decisions affecting the Iranian economy. "Sanctions are not limited to the petroleum industry," he was quoted by the Oil Ministry's official news agency Shana as saying Wednesday. "The necessary measures need to be undertaken by the president in the foreign policy arena [to get relief]." [\[more\]](#)

### 12. IRAQ'S FALTERING OIL RESURGENCE RAISES PRICE FEARS

(Financial Times, Friday, August 09, 2013) -- When [Iraq](#) surpassed Iran last year as the second-largest Opec producer for the first time since the late 1980s, it was heralded as a sign of the recovery of Baghdad's energy industry a decade after the US-led invasion. But less than 12 months later, Iraq has gone from being [a leading source of growth in global oil supplies to an uncertain one](#) -- a development that is putting pressure on prices and posing challenges for policy makers in Baghdad, Washington and Riyadh. Iraq, which joined an elite group of countries last year producing more than 3m barrels per day (b/d) of oil, saw the figure slip back to 2.96m in June, according to Reuters data. This compares with an initial government target for this year of 3.7m b/d. Along with [surging North American supplies from US shale and Canada's oil sands](#), rising Iraqi output was expected to cushion the oil market from the impact of tighter sanctions on Iran. However, Richard Mallinson, chief policy analyst at Energy Aspects consultancy, said: "Iraqi supply is going backwards this year, when a lot of the market expected it to be delivering the biggest growth outside the US. That's a big shock." Growing violence, political paralysis and lingering infrastructure problems have thwarted Baghdad's plan to raise oil production. Last month was [the bloodiest in Iraq for five years](#), according to the UN, and mounting violence has taken its toll on the oil industry. [\[more\]](#)

### 13. LIBYA'S MAIN CRUDE GRADE OUTPUT COLLAPSES AFTER PROTESTS SHUT PORT

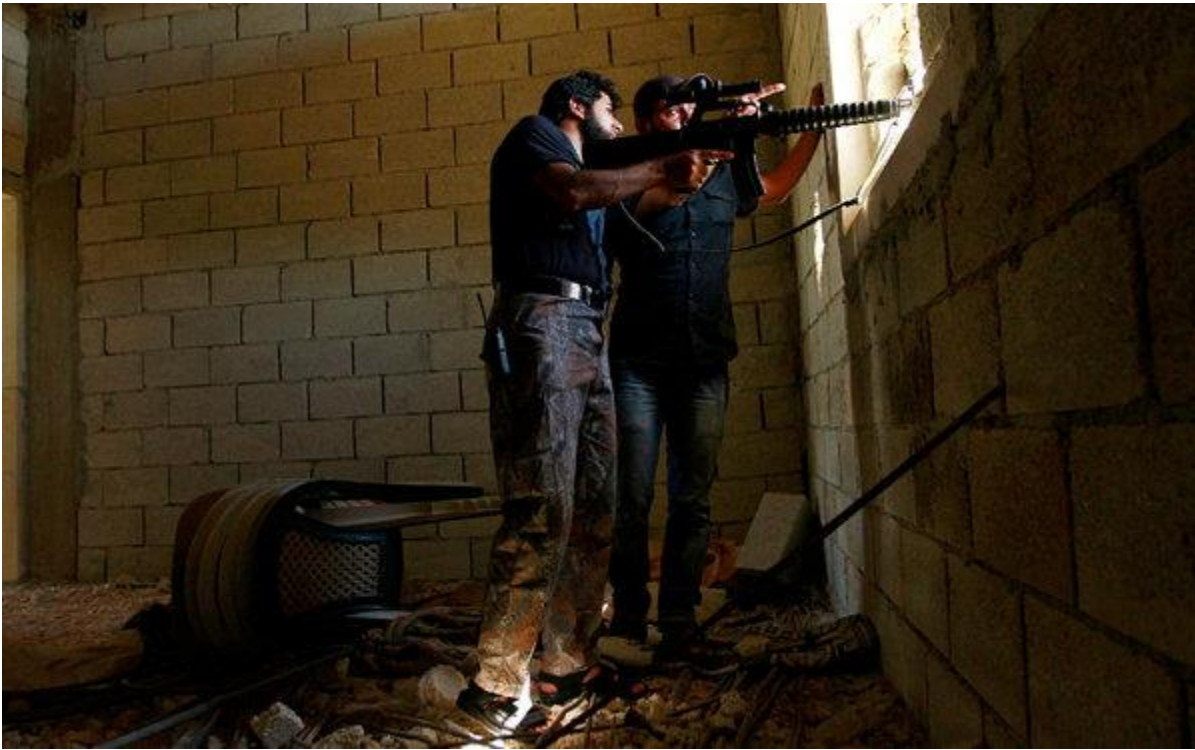
Protesters shut terminal that exports Es Sider to global markets.

(Dow Jones, Friday, August 09, 2013) -- The production of Libya's main grade of crude oil, called Es Sider, has collapsed after the terminal that exports the oil to global markets was shut by protesters, Libyan oil officials said late Wednesday. The collapse of Es Sider production suggests the country's overall output has started to decline again after a brief rebound. It comes after the International Energy Agency warned that unrest in key oil producing countries could offset the impact of surging U.S. shale output. The Libyan officials said production from fields feeding the Es-Sider grade--which forms the largest part of Libya's oil exports--has fallen to about 10% of its normal level. That's because most storage facilities are now full after the terminal was closed about ten days ago by protesters demanding more jobs or unpaid wages, the officials said. Output from the 360,000 barrels-a-day Waha concessions, the foreign partners for which are U.S. oil companies, has dropped to 30,000 barrels a day, as only two of the smaller fields are still producing, one official said. A spokesman for Marathon Oil Corp., one of the shareholders of the fields, referred a request for comment to



Libya's National Oil Co., which couldn't be reached. Spokespeople for ConocoPhillips (COP) and Hess Corp. (HES), the two other foreign partners in Waha's concessions, couldn't be reached for comment. [\[more\]](#)

## **14. AS FOREIGN FIGHTERS FLOOD SYRIA, FEARS OF A NEW EXTREMIST HAVEN**



Free Syrian Army fighters near the Menagh air base in Aleppo Province, which rebels captured this week after months of trying.

BEIRUT, Lebanon (New York Times, Friday, August 09, 2013) -- As foreign fighters pour into Syria at an increasing clip, extremist groups are carving out pockets of territory that are becoming havens for Islamist militants, posing what United States and Western intelligence officials say may be developing into one of the biggest terrorist threats in the world today. Known as fierce fighters willing to employ suicide car bombs, the jihadist groups now include more than 6,000 foreigners, counterterrorism officials say, adding that such fighters are streaming into Syria in greater numbers than went into Iraq at the height of the insurgency there against the American occupation. Many of the militants are part of the Nusra Front, an extremist group whose fighters have gained a reputation over the past several months as some of the most effective in the opposition. But others are assembling under a new, even more extreme umbrella group, the Islamic State in Iraq and Syria, that is merging some Syrians with fighters from around the world - Chechnya, Pakistan, Egypt and the West, as well as Al Qaeda in Iraq, the Sunni insurgent group that rose to prominence in the fight against the American occupation in the years after the 2003 invasion. The concern is that a new affiliate of Al Qaeda could be emerging from those groups. [\[more\]](#)

### **Latin America**

## **15. BRAZIL OGX JULY OUTPUT DROPPED 40.4% TO 13,700 BARRELS A DAY**

SAO PAULO (Dow Jones, Friday, August 09, 2013) -- Brazilian independent oil producer OGX Petroleo & Gas Participacoes (OGXP3.BR), controlled by businessman Eike Batista, said production of oil and gas in July

dropped drastically, due to tepid performance by its Tubarao Azul offshore field. The company's production of oil and gas in July totaled 13,700 barrels a day, down from 23,000 barrels a day in June. OGX said production at the Tubarao Azul offshore field last month reached a daily average of just 900 barrels of oil equivalent, down from 9,700 BOE per day in May. Earlier this year, the company said it might halt production at its Tubarao Azul field in 2014. Then, OGX said it would focus on its Tubarao Martelo field, with the first oil expected in the fourth quarter of 2013. Tubarao Martelo is considered to be the group's best asset. OGX's share and bond prices have been hit hard in recent months as the company has fallen short of production targets. [\[more\]](#)

## East Asia

### **16. CHINA DATA AGAIN FAILS TO BOOST OIL FUTURES; FED NEXT IN FOCUS**

(Dow Jones, Friday, August 09, 2013) -- Crude oil futures moderately rose Friday in Asia on bargain-hunting and short-covering after a drop in New York overnight, though data from China, the second-largest oil importer, showing moderate economic growth failed to boost crude prices. On the New York Mercantile Exchange, light, sweet crude futures for delivery in September traded at \$103.89 a barrel at 0616 GMT, up \$0.49 in the Globex electronic session. September Brent crude on London's ICE Futures exchange rose \$0.06 to \$106.74 a barrel. China's industrial production growth accelerated in July to a five-month high of 9.7% on year, the highest since 9.9% for January and February, and higher than June's 8.9%, beating analyst expectations. Earlier on the day, its Consumer Price Index showed a 2.7% on-year rise in July, flat from June and almost the same as the median 2.8% gain tipped in a Dow Jones poll. Retail sales rose 13.2% on year in July, slowing only slightly from a 13.3% increase in June. Crude prices, however, ignored these relatively good data. "Traders already knew that China will keep moderate growth. Their concerns are about how China will revamp the whole financial industry," said Yusuke Seta, trader of Newedge Japan. "Unless the country shows a concrete plan, there will be no reason to buy crude oil further." On Thursday, crude oil traders looked past record-high Chinese oil imports. [\[more\]](#)

## North America

### **17. ETHANOL DISCOUNT TO GASOLINE NARROWS ON POSSIBLE PLANT CLOSINGS**

(Bloomberg, Friday, August 09, 2013) -- Ethanol's discount to gasoline narrowed for a second day on concern that tight corn supply before September's harvest will force producers to cut output. The spread, or price difference, contracted 0.85 cent to 67.76 cents a gallon after the Agriculture Department estimated corn stockpiles will be 26 percent lower than a year earlier. Ethanol production is below average for this time of year, according to data compiled by Bloomberg. "It could just be an issue of making it through the end of the crop cycle," said Will Babler, a broker at Atten Babler Risk Management LLC in Galena, Illinois. "A lot of plants are going to have to shut down. We'll have to see how that plays out." Denatured ethanol for September delivery slipped 0.5 cent to \$2.18 a gallon on the Chicago Board of Trade. Futures have fallen 0.5 percent this year. Gasoline for September delivery fell 1.35 cents, or 0.5 percent, to \$2.8576 a gallon on the New York Mercantile Exchange. The contract covers reformulated gasoline, made to be blended with ethanol before delivery to filling stations. [\[more\]](#)

## **18. BIOFUEL CREDIT SHORTAGE TO BOOST U.S. GASOLINE EXPORTS, IEA SAYS**

(Bloomberg, Friday, August 09, 2013) -- A shortage of biofuel credits needed for gasoline sales in the U.S. may lead to an increase in exports of the fuel from America in 2014, according to the International Energy Agency. The U.S. Environmental Protection Agency, or EPA, earlier this month maintained its target requiring 16.55 billion gallons, or 1.1 million barrels a day, of biofuels be blended into the country's gasoline and diesel supplies this year. This led to concerns as to whether the domestic gasoline market can absorb this volume of biofuel and may have hit the so-called "blend wall," the IEA said today. Refiners can offset this requirement by buying credits, known as Renewable Identification Numbers, or RINs. The price has increased more than 10 times to a record \$1.43 per RIN last month as traders bought the credits amid uncertainty over how much biofuel blending will be required this year and next, according to the agency. "Some industry participants warn that a shortage of RINs will force firms to reduce the gasoline volumes offered in the U.S. market in 2014 and after," the Paris-based IEA said in its monthly Oil Market Report. "Instead, gasoline production could be exported as only fuel supplied to the U.S. market require a RIN certificate." [\[more\]](#)

## **19. NEW YORK-GULF COAST RBOB PREMIUM WIDENS TO SIX-MONTH HIGH**

(Bloomberg, Friday, August 09, 2013) -- Gasoline in the New York Harbor traded at the biggest premium to the U.S. Gulf Coast in six months as imports to the U.S. East Coast dropped and area refineries processed the least crude oil since March. The New York Harbor-Gulf Coast spread for reformulated gasoline, or RBOB, widened 2.17 cents to 13.05 cents a gallon at 3:33 p.m., New York's biggest premium since Feb. 6, according to data compiled by Bloomberg. The regional gap stretched after a government report showed yesterday that gasoline imports to the U.S. East Coast slipped to 584,000 barrels in the week ended Aug. 2. At the same time, area refineries processed 1.1 million barrels a day of crude and other feedstock, the least since March 22. Shipments to the East Coast along Colonial Pipeline Co.'s main gasoline line, which transports fuel from Houston to the East, were allocated for cycles 37 to 45, signaling strong pipeline flows. When a company issue an allocation, it means demanded has exceeded a line's capacity. [\[more\]](#)

## **20. COLORADO FRACKING STRESSES REGULATORS AS PERMIT BIDS SOAR**

(Bloomberg, Friday, August 09, 2013) -- New rules governing oil and gas extraction in Colorado may increase the review period for permits and add to a backlog of well applications as energy exploration proceeds at a pace to eclipse last year's record. The new regulations by the Colorado Oil and Gas Conservation Commission, which went into effect Aug. 1, would require wells to be at least 500 feet (152 meters) from the nearest occupied building and mandate pre-drilling notice for nearby landowners and measures to reduce noise, odors, dust and light. Technological advancements in hydraulic fracturing or fracking, in which a mixture of water, sand and chemicals is injected underground to break shale formations so oil and gas can flow to the surface, pushed permits for horizontal wells in Colorado to a record level in 2012. Permits for such wells have already exceeded that pace this year. "Many thousands of Colorado families have been devastated by fracking in their neighborhoods and by fracking on their property," said U.S. Representative Jared Polis, a Boulder Democrat. "The state doesn't really have the right process around fracking." [\[more\]](#)

## **21. LEAK AT OIL SANDS PROJECT IN ALBERTA HEIGHTENS CONSERVATIONISTS' CONCERNS**

(New York Times, Friday, August 09, 2013) -- The oil company calls it "seepage." Environmentalists describe it as a "blow out." Either way, the leak at the oil sands project in Northern Alberta - which has spilled 280,022



gallons of oil across 51 acres since June - is stoking the controversy over the energy source. "This mess is a symptom of the problems with the reckless expansion of the tar sands," said Anthony Smith, a lawyer in the international programs division of the Natural Resources Defense Council in Washington. "Environmental regulations have just not caught up." The oil sands industry is booming in Canada, pumping billions of dollars into the economy and providing thousands of jobs. But critics contend that the processes for recovering the low-grade petroleum called bitumen are particularly harmful to the environment. President Obama is weighing climate concerns in his decision to approve - or not approve - the Keystone XL pipeline, which would link Canada's oil sands with the American Gulf Coast. The cause of the oil spill at the Royal Canadian Air Force base in Cold Lake, Alberta, remains unclear. The company that owns the project, Canadian Natural Resources, blames abandoned wells in the area. Environmentalists point to fundamental flaws with the company's process. Until they find the source of the problem, oil continues to leak at four locations. The spill, modest by historical standards, is manageable for the company, which says it expects to spend \$60 million on cleanup and investigation. But already the leak is spoiling the landscape and hurting wildlife. It has killed 71 frogs, 27 birds and 23 mammals, including two beavers, according to the company. [\[more\]](#)

## **22. CONOCO UNLOADS CANADIAN OIL SANDS ACREAGE**

HOUSTON, Aug. 9 (UPI) -- U.S. energy company ConocoPhillips announced it was selling a quarter of a million acres near the Athabasca oil sands region in Alberta, Canada. Conoco said it sold its entire stake in the Clyden oil sands reserve area to its Canadian counterparts, Imperial Oil and ExxonMobil Canada, for approximately \$720 million. The company said it maintains more than 1million acres of land in the oil-rich Athabasca area of northeastern Alberta. The company sold 226,000 acres near the Athabasca oil sands region south of Fort McMurray, Alberta. Conoco said its assets in northeastern Alberta contain approximately 16 billion barrels of oil and related products. Imperial takes on a 27.5 percent stake in the assets. Exxon takes the remaining 72.5 percent. Imperial said it would develop the site using steam-assisted gravity drainage. The process used to warm heavier crude oil types is controversial, though safety incidents are rare. [\[more\]](#)

## **Europe**

## **23. U.K. SHALE EXPLORERS NEED TO STEP UP EFFORTS TO WOO COMMUNITIES**

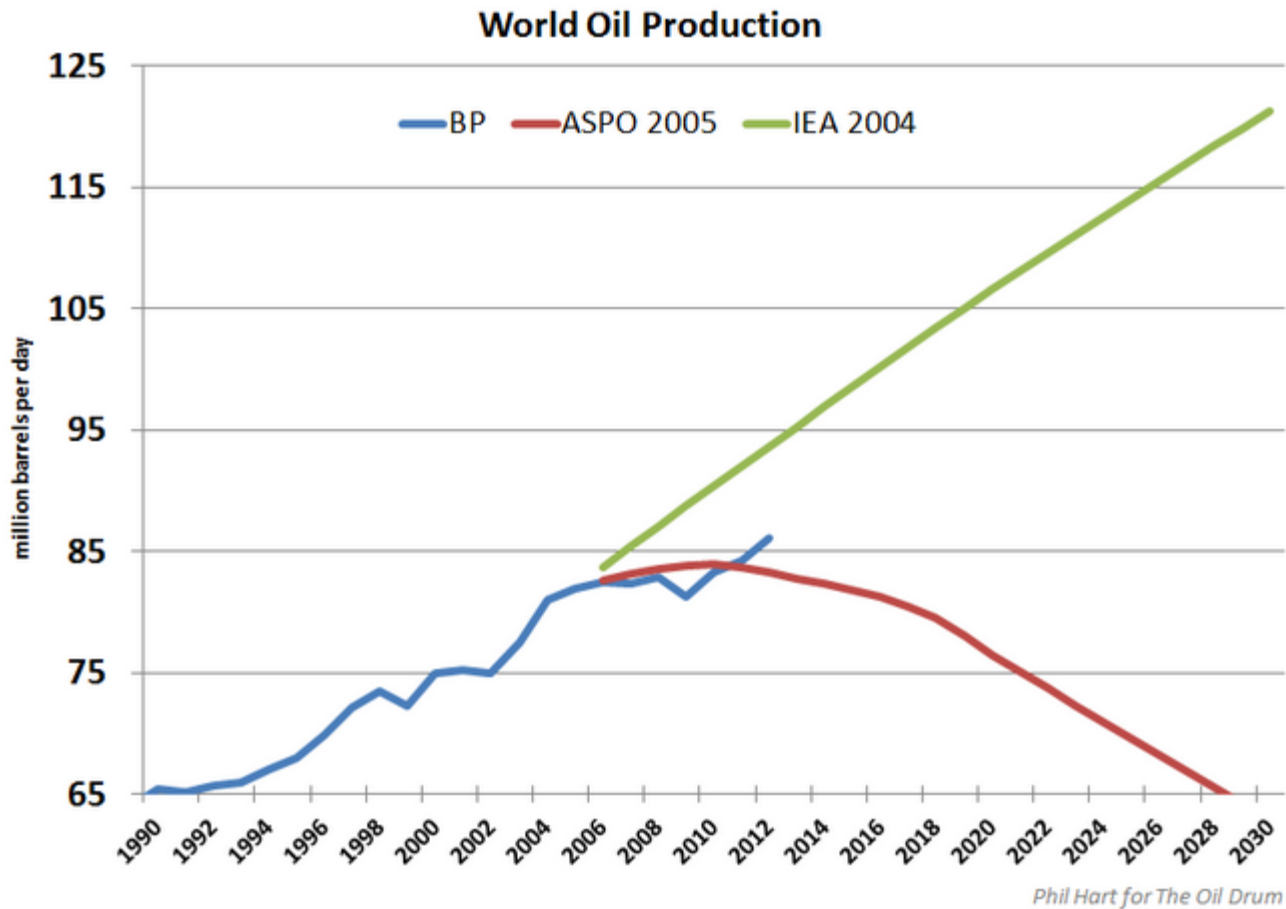
Companies urged to improve communications if industry is to succeed

(Wall Street Journal, Friday, August 09, 2013) -- Companies looking to explore and develop shale gas in the U.K. need to engage with local communities much earlier in the process if the country's fledgling industry is ever going to develop and have the transformative effect it has had in the U.S., U.K. Energy Minister Michael Fallon said Thursday. The minister's comments come amid the second week of protests against exploratory drilling for oil by shale pioneer Cuadrilla Resources near the village of Balcombe, some 30 miles south of London. In an unusual twist, the demonstrations have united middle class commuters with hardened environmental activists and appears to be morphing into a nationwide movement against shale gas.

[\[more\]](#)

## Discussion & Analysis

### 24. WE DON'T THINK IN STRAIGHT LINES ANYMORE



#### When Straight Lines Were Everything

(Posted by Phil Hart The Oil Drum, Friday, August 09, 2013) --

In the early years of this site and my forays into peak oil analysis, it amazed me that the primary OECD energy forecasting agencies worked out their oil supply forecasts by simply extrapolating demand forward, working out what the Non-OPEC world could produce (with an optimistic set of assumptions) and then blatantly and explicitly assuming that OPEC would make up the difference. Working out this 'call on OPEC' was the crux of oil market forecasting in 2004. That's how they came up with the green line in the chart above, \$20 a barrel all the way. In 2004, everybody believed it and we were building roads, cars and airports to match. Now you can make a weather forecast that is reasonably accurate on average by simply stating that tomorrow's weather will be much the same as today's. But of course the value in weather forecasts is providing advance notice of when conditions are going to change. Peak oil analysts, myself included, may not have got everything right, for which we can in part blame a lack of pretty basic data, which is still a concern. But we did anticipate an historic transition in oil production and the oil market. And while the energy agencies and other conventional economists forecast growth in oil supply to resume and prices to settle, we correctly saw that the problem was chronic.

[\[more\]](#)

## Full Stories

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The IEA, in its monthly oil-market report, also warned of declining supply levels from OPEC members Libya and Iraq even as it revised higher its expectation of demand for oil from the Organization of the Petroleum Exporting Countries.

OPEC's own monthly report will be released at 1030 GMT.

The Brent complex is facing its biggest weekly fall since mid-June despite a raft of price-positive fundamental news, including delays to North Sea crude loadings, Libyan output disruptions and a weaker U.S. dollar.

Prices have been pressured by a considerable overhang of speculative length -- or bets that oil prices will rise -- according to Commerzbank. The most recent net long position of 318,819 in Nymex crude is the second-highest on CFTC records beginning in June 2006, while the most recent net length figure in ICE Brent has been surpassed on only six occasions.

The market has also been in thrall to central bank comments on monetary policy. Quantitative easing, the process of injecting money into the economy, has supported prices for oil and other commodities in the past few years--the policy keeps a lid on the value of the U.S. dollar, the global currency for trade in oil, and the resulting low interest rates means investors chase returns elsewhere.

Brokerage PVM said the oil price is as dependent on central bank movements as on supply and demand fundamentals.

Recently, the ICE's gasoil contract for August delivery was up \$7.50 at \$903.50 a metric ton, while Nymex gasoline for September delivery was up 260 points, or 0.9%, at \$2.8836 a gallon.

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## **2. WTI CRUDE SNAPS FIVE-DAY DROP AS CHINA INDUSTRIAL OUTPUT GAINS**

(Bloomberg, Friday, August 09, 2013) -- West Texas Intermediate crude rose for the first time in six days, trimming a weekly decline as industrial production advanced more than forecast in China, the second-biggest oil consumer.

Futures gained as much as 0.9 percent in New York, snapping the longest streak of declines since December. China's factory output climbed 9.7 percent in July from a year earlier, 0.8 percentage points higher than forecast in a Bloomberg survey, figures from the National Bureau of Statistics show. Prices showed little reaction to the International Energy Agency's monthly report in which the agency cut its estimate for global oil demand growth next year. WTI fell yesterday amid speculation that the Federal Reserve will trim stimulus measures in the U.S.

"Better than expected Chinese industrial data was always going to give a boost to risky assets such as oil," said Michael Hewson, a market analyst at CMC Markets Plc in London, who forecasts Brent to drop to \$103 a barrel by the end of the year and WTI to fall as low as \$95 a barrel. "Oil did drop yesterday so we were always going to get a bit of a pullback from that too."

WTI for September delivery advanced as much as 96 cents to \$104.36 a barrel in electronic trading on the New York Mercantile Exchange and was at \$104.16 at 10:45 a.m. London time. The volume of all futures traded was 10 percent below the 100-day average. The contract fell 97 cents to \$103.40 yesterday. Prices are down 2.6 percent this week.

### Brent Crude

Brent for September settlement rose 0.5 percent to \$107.20 a barrel on the London-based ICE Futures Europe exchange. The European benchmark was at a premium of \$3.04 to WTI futures, down from \$3.28 yesterday.

Trading in two North Sea crudes, Ekofisk and Oseberg, has jumped almost eightfold on the Platts platform after quality premiums were introduced May 1 to boost liquidity and enhance Dated Brent's stature as a global oil benchmark, data provided by the price publisher show.

China's retail sales climbed 13.2 percent in July, the National Bureau of Statistics in Beijing said today. They were projected to advance 13.5 percent, according to a Bloomberg survey.

Total exports of goods from China rose 5.1 percent last month, figures from the General Administration of Customs showed yesterday. They were projected to gain by 2 percent, according to a Bloomberg survey. Imports climbed 10.9 percent, compared with a forecast 1 percent increase in the survey.

### Global Demand

China was the second-biggest oil consumer last year, accounting for about 11 percent of global demand, compared with 21 percent for the U.S., IEA data show.

The IEA trimmed forecasts for global oil demand growth in 2014 amid slowing expansion in China and a struggle to secure a recovery in the U.S. and Europe. Global consumption will increase by 1.1 million barrels a



day, or 1.2 percent, to 92 million next year, the Paris-based agency said today. The expansion is 100,000 barrels a day less than its forecast last month.

OPEC will publish its own monthly market report later today.

WTI will probably decline next week on speculation that the Federal Reserve will start as soon as this month to pare bond purchases that have bolstered the economy and energy demand, according to a Bloomberg News survey of analysts and traders.

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### **3. CRUDE CAPS LONGEST LOSING STREAK THIS YEAR**

(Bloomberg, Friday, August 09, 2013) -- West Texas Intermediate crude fell for a fifth day, capping the longest stretch of declines since December, as better-than-expected U.S. jobless claims raised concern that the Federal Reserve will trim stimulus measures.

Prices dropped 0.9 percent. About 333,000 American workers applied for unemployment benefits last week, below the 335,000 estimate by economists in a Bloomberg survey. The Fed may begin curbing bond purchases in September, Fed Bank of Chicago President Charles Evans said Aug. 6. U.S. crude output jumped to the most since 1989 and gasoline supplies are at the highest seasonal level since 1990, government data showed yesterday.

"People are worried about tapering with the good economic data," said Phil Flynn, senior market analyst at the Price Futures Group in Chicago. "The market is looking heavy because the U.S. is producing more and more oil. You have to respect the fact that fundamentally we are very well supplied."

WTI for September delivery slid 97 cents to \$103.40 a barrel on the New York Mercantile Exchange, the lowest settlement since July 30. The volume of all futures traded was 12 percent above the 100-day average at 3:45 p.m. Prices have tumbled 4.2 percent since Aug. 1. They last decreased for five consecutive days in the period ended Dec. 10.

Brent for September settlement retreated 76 cents, or 0.7 percent, to \$106.68 a barrel on the London-based ICE Futures Europe exchange. Volume was 3.8 percent above the 100-day average. The European benchmark's premium to WTI strengthened by 21 cents to \$3.28, the widest level since July 30.

#### Jobless Claims

"Crude is on its way to test \$100," said Jeff Grossman, president of New York-based BRG Brokerage and a Nymex floor trader. "The market went up too high. There is nothing to support it."

The number of jobless claims in the four weeks ended Aug. 3 declined to 335,500 on average, the lowest level since November 2007, the Labor Department reported. Fed policy makers are watching the job market to determine when to begin scaling back the central bank's \$85 billion in monthly bond purchases.

Evans, who has been among the most vocal proponents of record monetary accommodation, said the central bank is likely to end the bond-buying program in mid-2014. He is a voting member of the Federal Open Market Committee this year and has consistently supported increased stimulus.

U.S. crude output gained 18,000 barrels a day last week to 7.56 million, the Energy Information Administration, the Energy Department's statistical arm, said yesterday. Production has advanced 8.2 percent this year after a 19 percent gain in 2012.

### July Surge

Crude surged 8.8 percent in July, the biggest monthly gain since August 2012, as U.S. stockpiles slumped and on concern that political turmoil in Egypt may disrupt oil supplies from the Middle East. Inventories tumbled 29.9 million barrels in the four weeks ended July 19, the most for such a period since 1982, EIA data showed. Stockpiles fell 1.32 million last week.

"We finally passed the point of people worrying about big draws," said Tariq Zahir, a New York-based commodity fund manager at Tyche Capital Advisors. "Crude oil prices should not be up here. The longs are bailing out and the speculation trade is coming off."

Hedge funds and other money managers reduced bullish bets on WTI by 4.6 percent in the week ended July 30, the first decline in more than a month, according to the Commodity Futures Trading Commission's July 26 Commitments of Traders report. Net-long positions, or wagers that prices will increase, fell to 318,819 futures and options combined from 334,094 the prior week, the highest level in CFTC data going back to 2006.

### Longs 'Squeezed'

WTI's decline "is now getting nasty as large speculative long positions are getting squeezed out," said Carsten Fritsch, an analyst at Commerzbank AG in Frankfurt, in an e-mail.

Crude also followed drops in gasoline as the cost of meeting renewable fuel rules sank, easing concern that higher costs to blend ethanol would curb fuel supply. The 2013 Renewable Identification Numbers, or RINs, dropped to 67 cents at 3:21 p.m. in New York, the lowest level since April 25, data compiled by Bloomberg showed.

Gasoline supplies jumped 135,000 barrels to 223.6 million last week, the highest level for this time of year in EIA data going back to 1990.

"The larger problem is the product weakness from a fundamental point of view," said Tim Evans, an energy analyst at Citi Futures Perspective in New York. "There is some excess length in WTI and there may be long liquidations."

### Gasoline Drops

Gasoline for September delivery fell 1.35 cents, or 0.5 percent, to \$2.8576 a gallon, the sixth straight drop.

"The market is off because RINs are getting crushed," said Tom Finlon, Jupiter, Florida-based director of Energy Analytics Group LLC. "RINs are demolishing the price of gasoline and taking everything else down."

Implied volatility for at-the-money WTI options expiring in October was 21.2 percent, up from 20.7 percent yesterday, data compiled by Bloomberg showed.

Electronic trading volume on the Nymex was 627,074 contracts as of 3:45 p.m. It totaled 647,912 contracts yesterday, 0.7 percent below the three-month average. Open interest was a record 1.89 million contracts.

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#### **4. NATURAL-GAS FUTURES SETTLE UP AFTER 5 DAYS OF LOSSES**

- --Five-day drop of nearly 20 cents brings bargain hunters back
- --Inventory rise causes price gyrations, but prices end higher
- --Analyst says low price may boost utility demand for gas

NEW YORK (Dow Jones, Friday, August 09, 2013) -- Natural-gas futures prices rose Thursday on hopes that a near 20-cent drop over the prior five days will lead utilities to burn more gas than coal.

The gains came after a volatile session marked by early steep declines after government data showed a much larger than expected rise in inventory levels last week. The figures from the Energy Information Administration contained a change from the way gas storage was counted a week earlier, making the increase appear much larger than expected.

Prices gyrated in a broad intraday range of nearly 16 cents per million British thermal units and emerged with gains despite the EIA data showing that gas storage levels have climbed above the five-year average level for the first time since March.

Gas futures had fallen in 10 of the past 11 sessions heading into Thursday, amid rising inventories and lingering below normal temperatures in the key Midwest and Eastern U.S. markets.

Gene McGillian, broker and analyst at Tradition Energy, said that as prices fell to five-and-a-half-month lows in recent days, some investors saw bargain prices and snapped up gas on the notion that utilities may switch back to burning the fuel instead of coal. When gas prices climbed to \$4/mmBtu two months ago, there was a pronounced shift by utilities to burn cheaper coal instead of gas.

"There's a feeling that at current levels we'll see the switch from coal to gas pick up," he said. Mr. McGillian said some investors apparently believe that gas prices don't have further to fall and there is greater risk to the upside from a change in the weather, or from storm activity as the busiest part of an expected active hurricane season lies ahead.

September gas futures on the New York Mercantile Exchange settled five cents, or 1.5%, higher, at \$3.297/mmBtu.

The EIA said gas inventories rose by 96 billion cubic feet in the week ended Aug. 2. That was well ahead of the 78 bcf projected by analysts and traders in a Dow Jones Newswires survey and well above the rise of 25 bcf in the same week last year and the five-year average rise of 42 bcf.

The EIA said the headline figure included 14 bcf of reclassification of storage levels, effectively lowering the real week-to-week change to 82 bcf, or only slightly more than the projected levels.

"We got a real curveball," said Kyle Cooper, analyst at IAF Advisors, referring to the reclassification. The EIA said the reclassification came as storage operators in the West changed the status of 14 bcf of gas inventories to "working" from a "base" classification. Working gas is gas that can be moved in and out of the storage

facilities without affecting operations, while base gas refers to the level of gas needed to be kept in storage facilities to allow them to operate normally.

Rising inventories over the past several weeks have "wiped out all the fears that supply will be tight" at the start of the winter season, Mr. McGillian said. Strong winter demand pulled gas storage levels down, but cool temperatures during spring and summer have allowed inventories to rise and slashed prices that had reached 21-month highs above \$4.40/mmBtu in mid-April. Prices hit that peak on concerns that stocks would struggle to reach 3.5 trillion cubic feet by the start of the winter season. But with inventory now above 2.9 tcf, analysts expect supplies will reach 3.8 tcf by the end of October, in line with the five-year average.

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## **5. US NATURAL GAS STORAGE VOLUME RISES 96 BCF TO 2.941 TCF: EIA**

(Platts, Friday, August 09, 2013) -- US natural gas in storage climbed 96 Bcf to 2.941 Tcf for the week ended Friday, the Energy Information Administration said Thursday in its weekly report.

The net injection was well above consensus expectations of a build between 74 Bcf and 78 Bcf. A year earlier, EIA reported a 25-Bcf injection, while the five-year average is a 42-Bcf build.

As a result, the 368-Bcf deficit to the year-ago level fell to 297 Bcf, while the 34-Bcf deficit to the five-year average of 2.921 Tcf flipped to a 20-Bcf surplus.

EIA reported a 58-Bcf injection in the East to 1.408 Tcf, compared with 1.631 Tcf a year ago, a 23-Bcf injection in the West to 484 Bcf, compared with 498 Bcf a year ago and a 15-Bcf injection in the producing region to 1.049 Tcf, compared with 1.109 Tcf a year ago.

Inventories now are 105 Bcf below the five-year average of 1.513 Tcf in the East, 49 Bcf above the five-year average of 435 Bcf in the West and 76 Bcf above the five-year average of 973 Bcf in the producing region.

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## **6. U.S. OIL BOOM EASES OPEC SUPPLY PROBLEMS - IEA**

LONDON, Aug 9 (Reuters) - North America's shale boom is insulating the world from steep oil price spikes as several OPEC members struggle to maintain production due to unrest and infrastructure problems, the International Energy Agency (IEA) said on Friday.

The agency, consulting developed nations on energy policies, said key among those disruptions were Libya and Iraq where violence has already steeply curtailed output. Upcoming work on key Iraqi terminals could further upset oil buyers in Europe, Asia and the United States.

"Officially, volumes will be curtailed only in September but the fear is the shut-in could drag on for months given the scope of the work as well as the country's poor record of delivering projects on time," the IEA said in a monthly report.

"Northern (Iraqi) exports are expected to remain constrained indefinitely given the lack of progress between Baghdad and the Kurdistan Regional Government (KRG) over payment and contract terms," it added.



Pipeline attacks in Iraq's north helped push output below 3 million bpd for the first time in six months, and planned work at southern shipping terminals in September may slash exports by 300,000-500,000 barrels per day (bpd) for months, the IEA said.

That will further cloud plans by Iraq, which signed billions of dollars worth of exploration deals with oil majors, to ramp up output in the next years and ultimately double or even triple production volumes.

Elsewhere among OPEC members, in Libya, civil unrest has cut exports to their lowest since the 2011 civil war with shipments standing at only one third of capacity.

Security issues also cloud supply prospects in OPEC members Algeria and Nigeria, the IEA added.

"Right now, OPEC's main challenge seems to be less future demand softness than practical difficulties in bringing production to market," the IEA said.

OPEC leader Saudi Arabia raised oil production in July to a 12-month high of 9.8 million bpd, up 150,000 bpd on June, but still not enough to offset the decline in other members.

"OPEC July output was down 1.1 million barrels per day on the year for reasons that had very little to do with lack of demand or competition from North American supply, and everything to do with domestic developments in some member countries," the IEA said.

OPEC is currently producing 30.41 million bpd, very close to its self-imposed target of 30 million bpd after producing heavily above the target for several years.

#### CANADIAN OIL RALLY

Benchmark Brent oil futures rose \$4 a barrel to a four-month high of \$107.43 in July on OPEC supply outages.

By contrast, non-OPEC supplies rose by 570,000 bpd in July to 54.9 million bpd, with North America providing around 40 percent of the growth.

"Canada, rather than the U.S., was responsible for most of this increase," the IEA said adding that strong growth in North America is expected to lift total non-OPEC supply to as much as 55.4 million in the fourth quarter.

That will help meet global oil demand, with demand growth expected to accelerate in 2014 to 1.1 million bpd, compared with 0.9 million bpd in 2013.

The IEA said it slightly trimmed by 100,000 bpd demand growth estimates for 2014 on reduced global GDP projections by the IMF.

Next year, demand will continue declining in Europe, rising in Africa, Asia and the Middle East and edging up in Americas and the former Soviet Union.

Non-OECD oil demand is now forecast to overtake that of the developed OECD nations in the third quarter of 2013, the IEA said.

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## **7. HIGHLIGHTS OF THE LATEST OMR**

dated: 9 August 2013

- WTI futures hit 16-month highs in July, narrowing the gap with Brent, amid surging US refining runs and crude draws. The benchmark gained \$8.90/bbl m-o-m, to \$104.70/bbl. Brent rose \$4.09/bbl to \$107.43/bbl, a four-month high, on supply outages in Libya and Iraq. WTI was last trading around \$103.50/bbl and Brent at \$106.70/bbl.
- Global oil demand growth is expected to accelerate in 2014 to 1.1 mb/d, compared with 0.9 mb/d in 2013. The forecast of demand growth for 2014 has been trimmed by 0.1 mb/d on reduced GDP expectations from the IMF, while that for 2013 is largely unchanged.
- Global supply is estimated to have increased by 575 kb/d m-o-m in July, to 91.85 mb/d, led by higher non-OPEC production. Strong growth in North America is expected to lift 2H13 total non-OPEC supply by an average 1.4 mb/d y-o-y, to reach 55.4 mb/d in 4Q13.
- OPEC crude oil supplies edged down by 165 kb/d m-o-m in July, to 30.41 mb/d, on supply disruptions in Libya and Iraq and despite higher Saudi output. The 'call on OPEC crude and stock change' for 3Q13 was revised upwards by 200 kb/d, to 30 mb/d, on higher demand projections for the quarter.
- Global refinery crude demand surged by 3.1 mb/d in June, its highest monthly increase on record, and likely rose further in July, ahead of autumn maintenance. At 77.2 mb/d, June runs were almost 2.0 mb/d above year-earlier levels. Global runs were pegged at 74.8 mb/d for 2Q13, rising to 77.3 mb/d in 3Q13.
- OECD industry inventories built seasonally by 11.9 mb in June, to 2 663 mb. Steep gains of 33.6 mb in product inventories led the increase, offsetting large crude draws. Refined product stocks covered 30.5 days of forward demand at end-June, up 0.8 day on the month.

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### IEA WARNS OF RISKS TO LIBYA, IRAQ SUPPLY

IEA revises higher expectations of demand for oil from OPEC.

(Dow Jones, Friday, August 09, 2013) -- The International Energy Agency Friday warned of declining supply from OPEC members Libya and Iraq even as it revised higher its expectation of demand for oil from the Organization of Petroleum Exporting Countries.

In its latest monthly report, the IEA, which represents some of the world's largest oil consumers, pegged demand for OPEC's oil at 29.8 million barrels a day this year, an increase of 200,000 barrels a day from its previous forecast.

The latest demand estimate is still comfortably below the group's average production level for the first half of the year of 30.6 million barrels a day, but the IEA warned that "continued supply outages in Iraq and Libya...may reduce the group's output in coming months."

Disruptions to production in Libya and Iraq already saw OPEC's output fall by 170,000 barrels a day in July, despite an increase in Saudi Arabia's production to the Kingdom's highest in a year.

Protests in Libya saw the country's production dwindle to just 400,000 barrels a day in the beginning of August compared with an already reduced output of 1 million barrels a day in July, according to the IEA's figures.

Meanwhile, supply from Iraq fell below 3 million barrels a day for the first time in five months in July as a result of attacks on a major pipeline and is expected to plummet by around 500,000 barrels a day from September as a result of planned infrastructure work at its southern terminals.

However, the IEA added that strong supply growth from non-OPEC producers and easing demand from refineries in the coming months could mitigate supply issues elsewhere.

Refinery demand for crude oil has soared since the spring, rising 5.1 million barrels a day between April and July, more than twice the five-year average, the IEA said. However, it added that refinery runs are likely to ease from next month since output has risen faster than demand.

At the same time, non-OPEC production is expected to continue to grow strongly in the next six months. The IEA forecasts that substantial production growth in North America will help lift non-OPEC output by 1.4 million barrels a day in the second half of the year compared with a year earlier to reach 55.4 million barrels a day in the fourth quarter.

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## **8. IEA TRIMS ESTIMATE FOR 2014 GLOBAL OIL DEMAND GROWTH ON ECONOMY**

(Bloomberg, Friday, August 09, 2013) -- The International Energy Agency trimmed forecasts for global oil demand growth in 2014 amid slowing expansion in China and a struggle to secure a recovery in the U.S. and Europe.

Global consumption will increase by 1.1 million barrels a day, or 1.2 percent, to 92 million next year, the Paris-based adviser to energy-consuming nations said today in its monthly market report. The expansion is 100,000 barrels a day less than last month, when the estimate for 2014 was first introduced. Refinery operating rates will ease after a record surge in July, the IEA said.

"Everyone knows that supply is growing faster than demand into next year and the overall perception is that prices will soften," Bjarne Schieldrop, chief commodity analyst at SEB AB in Oslo, said by phone before the report. "We're not really finding a big bullish driver for oil."

Brent crude lost about 4 percent this year, trading near \$107 a barrel today on the ICE Futures Europe exchange in London, amid deceleration in China and elevated unemployment rates in the U.S. and Europe. The IEA's outlook incorporates lower projections from the Washington-based International Monetary Fund, which on July 9 cut global economic growth forecasts next year to 3.1 percent from 3.3 percent.

Strength Signs

There have been recent "signs of strength" in oil markets with a 3.1 million barrels a day surge in world refinery operating rates in June and demand recovery in the U.S., the IEA said.

Demand for crude produced by the Organization of Petroleum Exporting Countries will shrink by 400,000 barrels a day next year to 29.4 million a day as higher output from other nations, such as the U.S. and Canada, exceeds the expansion in global oil consumption, the agency said.

Production from OPEC's 12 members fell by 165,000 barrels a day last month to 30.41 million a day, the lowest in six months, amid supply disruptions in Libya and Iraq, according to the IEA. The North African nation's output slipped to 1 million barrels a day, while the Persian Gulf state's fell to 2.99 million. Supplies from Saudi Arabia, the group's biggest member and de facto leader, increased by 150,000 barrels a day in July to a one-year high of 9.8 million.

The decline still leaves OPEC output about 400,000 barrels a day higher than the amount the IEA estimates will be needed from the group in the third quarter, and the organization's own formal target, at 30 million a day. OPEC, which accounts for about 40 percent of global supplies, will meet next to review production targets on Dec. 4.

#### Non-OPEC Supply

The agency kept estimates for supplies from outside the group in 2014 unchanged. Non-OPEC producers, led by the U.S., Canada and Brazil, will bolster production by 1.4 million barrels a day, or 2.6 percent, next year to 55.9 million a day.

The IEA also kept its projection for world oil demand in 2013 mostly unchanged. Consumption will rise by 895,000 barrels a day this year to 90.8 million, amounting to a reduction of 70,000 barrels a day from last month's report.

Total inventories of crude and refined products in industrialized nations were above their five-year average after increasing in June, the agency said. Stockpiles in members of the Organization for Cooperation and Development rose by 11.9 million barrels to 2.7 billion in June, leaving them 39 million barrels above the mean.

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## **9. OPEC JULY OIL PRODUCTION LOWEST SINCE MARCH ON IRAQ, LIBYA DISRUPTIONS**

LONDON (Dow Jones, Friday, August 09, 2013) -- Oil production by the Organization of the Petroleum Exporting Countries fell to its lowest level since March in July as supply disruptions in Libya and Iraq dented the group's output, OPEC said Friday, warning of risks of further supply disruptions.

According to secondary sources cited by OPEC in its monthly oil market report, the producer group's output fell by 100,000 barrels a day in July to 30.3 million barrels a day. Significant declines in Libya and Iraq offset an increase in Saudi Arabia's production of nearly 100,000 barrels a day.



The fall in the group's production during a period of peak demand for many OPEC members underlines the impact that unrest in the Middle East and North Africa is having on the oil market. The price of benchmark Brent oil futures rose by 5% in July, while OPEC's own benchmark basket of crude oil recorded its steepest month-on-month gain since February.

According to OPEC, protests in Libya that closed almost all of the country's export terminals have cut at least 500,000 barrels a day of supply from the Mediterranean market. Disruptions to a major pipeline in Iraq also dented production last month and planned work on export infrastructure in the country is expected to cut the country's production a further 500,000 barrels a day from September.

"Supply losses are at over 700,000 [barrels a day] according to industry sources and could reach 1 [million barrels a day]?-1.1% of world output?-if South Sudan goes ahead with a threatened production shutdown," OPEC said in its monthly report.

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## **10. OPEC OIL SHIPMENTS TO FALL 740,000 B/D IN 4 WEEKS TO AUG 24**

LONDON (Dow Jones, Friday, August 09, 2013) -- Seaborne oil shipments from the Organization of the Petroleum Exporting Countries will fall by 740,000 barrels a day in the four weeks to Aug. 24, compared with the previous four-week period, U.K.-based tanker tracker Oil Movements said Thursday.

Shipments from OPEC will average 23.69 million barrels a day in the four weeks to Aug. 24, the tracker said in its weekly report, with most of the decline coming from the Middle-East.

The figure excludes exports from Angola and Ecuador.

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## **11. IRAN'S PRESIDENT HAS LEAD ON OIL SANCTIONS**

TEHRAN, Aug. 8 (UPI) -- It's up to the Iranian president to make the necessary foreign policy decisions to get relief from economic sanctions, his oil minister nominee said.

Hassan Rouhani, a former chief nuclear negotiator, took the oath of office as Iran's next president Sunday. He vowed to lead as a moderate and reach out to members of the international community.

Before Rouhani took office, the U.S. House of Representatives passed legislation designed to cut Iranian oil exports by as much as 1 million barrels per day. Western sanctions on Iran are meant to rob the country of revenue it could use for a controversial nuclear program, which Iran says is for peaceful purposes.

Rouhani nominated Bijan Zanganeh to return to the head of the Oil Ministry, a position he held from 1997 to 2005. The nominee said it was up to the president to make decisions affecting the Iranian economy.

"Sanctions are not limited to the petroleum industry," he was quoted by the Oil Ministry's official news agency Shana as saying Wednesday. "The necessary measures need to be undertaken by the president in the foreign policy arena [to get relief]."

The Organization of Petroleum Exporting Countries said Iran produced 2.6 million barrels per day in June, down from the 3.6 million bpd average for 2011.

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## **12. IRAQ'S FALTERING OIL RESURGENCE RAISES PRICE FEARS**

(Financial Times, Friday, August 09, 2013) -- When [Iraq](#) surpassed Iran last year as the second-largest Opec producer for the first time since the late 1980s, it was heralded as a sign of the recovery of Baghdad's energy industry a decade after the US-led invasion.

But less than 12 months later, Iraq has gone from being [a leading source of growth in global oil supplies to an uncertain one](#) – a development that is putting pressure on prices and posing challenges for policy makers in Baghdad, Washington and Riyadh.

Iraq, which joined an elite group of countries last year producing more than 3m barrels per day (b/d) of oil, saw the figure slip back to 2.96m in June, according to Reuters data. This compares with an initial government target for this year of 3.7m b/d.

Along with [surging North American supplies from US shale and Canada's oil sands](#), rising Iraqi output was expected to cushion the oil market from the impact of tighter sanctions on Iran. However, Richard Mallinson, chief policy analyst at Energy Aspects consultancy, said: "Iraqi supply is going backwards this year, when a lot of the market expected it to be delivering the biggest growth outside the US. That's a big shock."

Growing violence, political paralysis and lingering infrastructure problems have thwarted Baghdad's plan to raise oil production. Last month was [the bloodiest in Iraq for five years](#), according to the UN, and mounting violence has taken its toll on the oil industry.

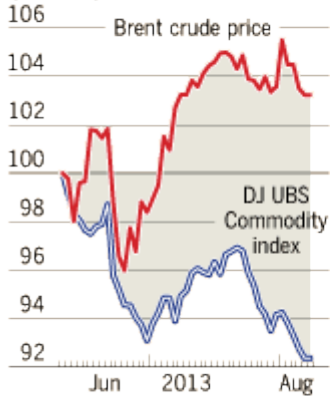
A series of bomb attacks reduced flows to a trickle last month on the 300,000 b/d Kirkuk-to-Ceyhan export pipeline in the north. A further 150,000 b/d of output has been lost from Iraqi Kurdistan since the start of the year because of a revenue-sharing dispute between Baghdad and the regional government.

The biggest headaches are technical. International oil companies complain that Iraq's creaking pipeline infrastructure is unable to absorb increased production. When weather disrupts shipments from ports in the south, production has to be shut down because of limited storage capacity.

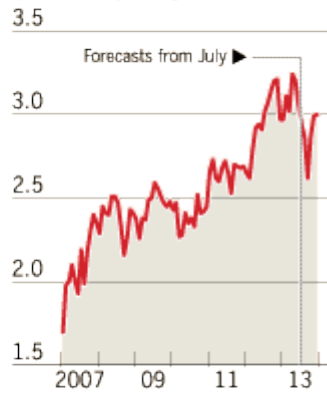
The government plans to upgrade its southern export terminal, but the work is set to reduce exports by up 500,000 b/d for at least a month from September, to the frustration of international oil companies.

## Arrested development

Oil price and commodity index  
(rebased)



Iraq oil production  
(m barrels per day)



Sources: Thomson Reuters Datastream; IEA; Energy Aspects

“The focus should be on building more storage, not on increasing export capacity,” said one company, adding: “Even if we produce more oil, once it gets in to the government infrastructure things break down and you often find you can’t get it out of the country.”

Investment has also slowed because of protracted negotiations between Baghdad and international oil groups that manage the big oilfields about future production targets.

The government remains optimistic. In an interview with Reuters news agency this week, Asim Jihad, an oil ministry spokesman, said production would grow by 400,000 b/d by the end of the year thanks to the start-up of the Shell-operated Majnoon field – one of three large fields whose openings have been delayed this year.

Many analysts are less hopeful. Energy Aspects forecasts a year-on-year decline in production, JBC Energy consulting forecasts average daily output to be flat at 2.96m b/d, while Wood Mackenzie expects a fractional increase this year.

The consequences for Iraq are potentially huge. At \$94bn last year, according to data from the Opec producers' cartel, petroleum export revenues were almost equal to the central government's \$100bn budget, while a growing population is putting upward pressure on state spending.

“Iraq is a rentier state,” says Luay al-Khateeb, head of the Iraq Energy Institute. “Any decline in exports during 2013 will lead to a major deficit in the federal budget of 2014.”

It will also have repercussions for global supply. Faltering Iraqi production comes on top of unexpected outages in Libya, Nigeria and South Sudan. When Iraq's southern exports are interrupted in September for the work on the terminal, 3.4m b/d of production will be involuntarily offline globally, almost 4 per cent of world demand. That is the largest amount since the invasion of Iraq in 2003 and more than at the height of the Arab Spring uprisings, according to Energy Aspects.

These outages and Iraq's problems have shattered hopes that prices could fall this year as more US shale oil came online. Brent crude oil has risen from less than \$100 a barrel in mid-April to touch \$110 last week, despite economic concerns in China that have weighed on other commodity prices.

Saudi Arabia has already increased output to close to 10m b/d to meet demand. It has also been steadily increasing the price of exports to Europe and Asia.

“People are starting to wake up and smell the coffee and see that the US shale oil boom is not putting the Saudis out of business,” said Robert McNally, a former White House official who now heads the Rapidan Group energy research.

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### **13. LIBYA'S MAIN CRUDE GRADE OUTPUT COLLAPSES AFTER PROTESTS SHUT PORT**

Protesters shut terminal that exports Es Sider to global markets.

(Dow Jones, Friday, August 09, 2013) -- The production of Libya's main grade of crude oil, called Es Sider, has collapsed after the terminal that exports the oil to global markets was shut by protesters, Libyan oil officials said late Wednesday.

The collapse of Es Sider production suggests the country's overall output has started to decline again after a brief rebound. It comes after the International Energy Agency warned that unrest in key oil producing countries could offset the impact of surging U.S. shale output.

The Libyan officials said production from fields feeding the Es-Sider grade--which forms the largest part of Libya's oil exports--has fallen to about 10% of its normal level. That's because most storage facilities are now full after the terminal was closed about ten days ago by protesters demanding more jobs or unpaid wages, the officials said.

Output from the 360,000 barrels-a-day Waha concessions, the foreign partners for which are U.S. oil companies, has dropped to 30,000 barrels a day, as only two of the smaller fields are still producing, one official said.

A spokesman for Marathon Oil Corp., one of the shareholders of the fields, referred a request for comment to Libya's National Oil Co., which couldn't be reached. Spokespeople for ConocoPhillips (COP) and Hess Corp. (HES), the two other foreign partners in Waha's concessions, couldn't be reached for comment.

The 34,000-barrels-a-day Mabruk oil field, which is operated by a Total SA (TOT) joint-venture with Libya, averaged 3,500 barrels a day this week, a person familiar with the matter said. A Total spokesman confirmed production at the field had been reduced because of the closure of the Es Sider oil port.

Libya's deputy oil minister Omar Shakmak said Monday that oil production had rebounded to 700,000 barrels a day, close to half the country's normal level and double the amount to which it had dropped last week. But Libyan oil officials said production had now fallen again because of the sustained closure of terminals.

Libya's oil production and exports haven't dropped to such levels since 2011, when a civil war that toppled long-time leader Moammar Gadhafi shut down the country's oil exports.

The return of geopolitical concerns to oil markets has dimmed hopes that a U.S. shale boom could put a lid on the prices motorists pay at the pump.

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## 14. AS FOREIGN FIGHTERS FLOOD SYRIA, FEARS OF A NEW EXTREMIST HAVEN



Free Syrian Army fighters near the Menagh air base in Aleppo Province, which rebels captured this week after months of trying.

BEIRUT, Lebanon (New York Times, Friday, August 09, 2013) -- As foreign fighters pour into Syria at an increasing clip, extremist groups are carving out pockets of territory that are becoming havens for Islamist militants, posing what United States and Western intelligence officials say may be developing into one of the biggest terrorist threats in the world today.

Known as fierce fighters willing to employ suicide car bombs, the jihadist groups now include more than 6,000 foreigners, counterterrorism officials say, adding that such fighters are streaming into Syria in greater numbers than went into Iraq at the height of the insurgency there against the American occupation.

Many of the militants are part of the Nusra Front, an extremist group whose fighters have gained a reputation over the past several months as some of the most effective in the opposition.

But others are assembling under a new, even more extreme umbrella group, the Islamic State in Iraq and Syria, that is merging some Syrians with fighters from around the world - Chechnya, Pakistan, Egypt and the West, as well as Al Qaeda in Iraq, the Sunni insurgent group that rose to prominence in the fight against the American occupation in the years after the 2003 invasion. The concern is that a new affiliate of Al Qaeda could be emerging from those groups.

It was the fear of militants coming to dominate the opposition that caused the United States and its Western allies to hold off providing lethal aid to the Syrian opposition, at least until now. But as a result, counterterrorism analysts say, they lost a chance to influence the battle in Syria. Even Congressional

supporters of the C.I.A.'s covert program to arm moderate elements of the Syrian opposition fear the delivery of weapons, set to begin this month, will be too little, too late.

The stakes are high. American intelligence officials said this week that Ayman al-Zawahri, the overall leader of Al Qaeda in Pakistan, has had regular communications with the Nusra Front in Syria, reflecting how favorably the Qaeda leadership views the long-term potential for Syria as a safe haven. Juan Zarate, a former senior counterterrorism official in the George W. Bush administration, said that Syria lay in the center of an arc of instability, stretching from Iran through North Africa, and "in that zone, you may have the regeneration and resurrection of a new brand of Al Qaeda."

In Syria, the battle lines have hardened in recent months. The Syrian government, backed by Iran and Hezbollah, has seized new momentum and retaken territory in the south and east from the rebels. At the same time, power within the badly fractured opposition, numbering about 1,200 groups, has steadily slipped into the hands of the jihadists based in the northeast, where this week they seized a strategic airport in the area. They also hold sway in the provincial capital of Raqqa.

The idea that Syria could supplant Pakistan as the primary haven for Al Qaeda someday, should the government fall, is a heavy blow to the Western-backed Syrian opposition and its military arm, the Free Syrian Army. It plays directly into the hands of Syria's president, Bashar al-Assad, whose government has sought to portray itself as the only alternative to Islamic extremism and chaos and has made the prospect of full-on American support even more remote than it already was.

Mr. Assad's argument "began as a fiction during the period of peaceful, unarmed protests but is now a reality" because of Mr. Assad's own efforts to divide the country as well as the success of the extremists, Hussein Ibish, a senior fellow at the American Task Force on Palestine, wrote in a recent essay that appeared in The National.

In Raqqa recently, a commander of the Islamic State in Iraq and Syria sipped coffee after breaking the Ramadan fast, wearing a Pakistani-style outfit. The commander, Abu Omar, was Syrian, a member of a tribe in the area, but he described his movement's goals as reaching far beyond the country's borders.

He did not speak of attacking the United States. But he threatened Russia, and he spoke of a broad-based battle against Shiite-led Iran and its quest to dominate the region, and said Sunnis from across the world were justified in flocking to Syria to fight because of the government's reliance on Shiite fighters from Lebanon and Iraq.

He rejected calls from some in the Syrian opposition to keep the fighting focused inside Syria and aimed at toppling Mr. Assad. "We have one enemy," Iran, he said, "and we should fight this enemy as one front and on different fronts."

He also seemed to suggest that Russia would be a legitimate target for its role in supporting Mr. Assad and for its brutal suppression of Muslim militants in the Caucasus.

"Russia is killing Muslims in southern Muslim republics and sends arms and money to kill Muslims in Syria as well," he said. "I swear by God that Russia will pay a big price for its dirty role in the Syrian war."

The leader of the Free Syrian Army, Gen. Salim Idris, recently accused the jihadists of working for or receiving aid from the Assad government, not a completely far-fetched proposition, given that Western officials widely believe the Assad government played a major role in funneling Syrians and other foreigners into Iraq during

the insurgency there. Some rank-and-file rebels say that government artillery and warplanes attack them fiercely while largely leaving jihadist positions alone.

Free Syrian Army fighters have clashed with jihadist groups in recent weeks over weapons and supplies, and civilian anti-Assad activists have struggled with them over their efforts to impose religious rules on society. The groups have kidnapped and imprisoned dozens of activists.

Yet the lines dividing the Free Syrian Army from jihadist groups are fluid, and the conflicts have not stopped F.S.A. leaders from working with their fighters, whose fierceness on the battlefield is undisputed. That has helped create a divergence between statements by exile opposition leaders rejecting extremists and their ideology and actions by ground commanders eager for any help they can get.

"We are getting big accusations that we are implementing foreign agendas to divide the Syrian rebel groups or we are agents for the Assad regime," Abu Omar said. "But we are the ones who made the big military operations against the Assad regime. When we fight any military position we get it or die for God's sake."

This week, the jihadist group Jaish al-Muhajireen wal Ansar, or the Army of Emigrants and Supporters, led by a fighter from the Caucasus known as Abu Omar al-Shesheni - the Chechen - worked with Free Syrian Army battalions to take the Menagh air base in Aleppo Province after 10 months of trying.

What appeared to turn the battle around, said Charles Lister, an analyst with IHS Jane's Terrorism and Insurgency Center, were the relentless suicide vehicle bombings on the walls of the base - five or six times in the past two weeks, he said.

After the battle, Col. Abdul Jabbar al-Okaidi, the head of the United States-backed opposition's Aleppo military council, appeared in a video alongside Abu Jandal, a leader of the Islamic State in Iraq and Syria.

In camouflage, Colonel Okaidi offered thanks to "our brothers al-Muhajireen wal Ansar and others," adding: "We're here to kiss every hand pressed on the trigger." He then ceded the floor to Abu Jandal and a mix of jihadist and Free Syrian Army leaders, who stood together, each praising his men, like members of a victorious basketball team.

Such cooperation has complicated efforts to isolate the jihadists within the insurgency, where commanders of all political stripes realize they have little choice but to collaborate with any ally available.

"There's an awful lot of pragmatism on the ground," Mr. Lister said. "There's a realization that without extensive coordination on the ground this could go on for years and years or the opposition could be defeated, so no matter what the long-term objective, it might be still worth it in the medium term to coordinate across groups."

But that same pragmatism, Mr. Lister said, suggests there is hope that many of the Syrians fighting alongside extremists are not ideologically committed to those groups' goal of an Islamic state, and could peel away from it if offered an alternative.

The extremist ideology, he said, "runs counter to most traditional culture and lived realities of modern Syria, which is a heterogeneous and typically tolerant society."

Abu Omar, in Raqqa, laid out his vision for the future: women must cover their hair, but are not required to cover their faces; bars and nightclubs and eating during the Ramadan fast are forbidden.

"Everyone is free in his house but not free to break God's law in public," he said "The Shariah law is the best justice, not the Western democracy which gives us bad regimes like Assad's."

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## **15. BRAZIL OGX JULY OUTPUT DROPPED 40.4% TO 13,700 BARRELS A DAY**

SAO PAULO (Dow Jones, Friday, August 09, 2013) -- Brazilian independent oil producer OGX Petroleo & Gas Participacoes (OGXP3.BR), controlled by businessman Eike Batista, said production of oil and gas in July dropped drastically, due to tepid performance by its Tubarao Azul offshore field.

The company's production of oil and gas in July totaled 13,700 barrels a day, down from 23,000 barrels a day in June.

OGX said production at the Tubarao Azul offshore field last month reached a daily average of just 900 barrels of oil equivalent, down from 9,700 BOE per day in May.

Earlier this year, the company said it might halt production at its Tubarao Azul field in 2014. Then, OGX said it would focus on its Tubarao Martelo field, with the first oil expected in the fourth quarter of 2013. Tubarao Martelo is considered to be the group's best asset.

OGX's share and bond prices have been hit hard in recent months as the company has fallen short of production targets.

On Thursday, the company's share closed at 0.59 Brazilian reais (26 cents), down 86.5% so far this year.

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## **16. CHINA DATA AGAIN FAILS TO BOOST OIL FUTURES; FED NEXT IN FOCUS**

(Dow Jones, Friday, August 09, 2013) -- Crude oil futures moderately rose Friday in Asia on bargain-hunting and short-covering after a drop in New York overnight, though data from China, the second-largest oil importer, showing moderate economic growth failed to boost crude prices.

On the New York Mercantile Exchange, light, sweet crude futures for delivery in September traded at \$103.89 a barrel at 0616 GMT, up \$0.49 in the Globex electronic session. September Brent crude on London's ICE Futures exchange rose \$0.06 to \$106.74 a barrel.

China's industrial production growth accelerated in July to a five-month high of 9.7% on year, the highest since 9.9% for January and February, and higher than June's 8.9%, beating analyst expectations. Earlier on the day, its Consumer Price Index showed a 2.7% on-year rise in July, flat from June and almost the same as the median 2.8% gain tipped in a Dow Jones poll. Retail sales rose 13.2% on year in July, slowing only slightly from a 13.3% increase in June.

Crude prices, however, ignored these relatively good data. "Traders already knew that China will keep moderate growth. Their concerns are about how China will revamp the whole financial industry," said Yusuke

Seta, trader of Newedge Japan. "Unless the country shows a concrete plan, there will be no reason to buy crude oil further."

On Thursday, crude oil traders looked past record-high Chinese oil imports.

Whether and when the U.S. Federal Reserve scales back its stimulus measures will be a major factor later today and next week, Daiichi Shohin analyst Koichi Murakami said.

Nymex reformulated gasoline blendstock for September--the benchmark gasoline contract--rose 111 points to \$2.8687 a gallon, while September heating oil traded at \$2.9579, 5 points higher.

ICE gasoil for August changed hands at \$900.50 a metric ton, up \$4.50 from Thursday's settlement.

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## **17. ETHANOL DISCOUNT TO GASOLINE NARROWS ON POSSIBLE PLANT CLOSINGS**

(Bloomberg, Friday, August 09, 2013) -- Ethanol's discount to gasoline narrowed for a second day on concern that tight corn supply before September's harvest will force producers to cut output.

The spread, or price difference, contracted 0.85 cent to 67.76 cents a gallon after the Agriculture Department estimated corn stockpiles will be 26 percent lower than a year earlier. Ethanol production is below average for this time of year, according to data compiled by Bloomberg.

"It could just be an issue of making it through the end of the crop cycle," said Will Babler, a broker at Atten Babler Risk Management LLC in Galena, Illinois. "A lot of plants are going to have to shut down. We'll have to see how that plays out."

Denatured ethanol for September delivery slipped 0.5 cent to \$2.18 a gallon on the Chicago Board of Trade. Futures have fallen 0.5 percent this year.

Gasoline for September delivery fell 1.35 cents, or 0.5 percent, to \$2.8576 a gallon on the New York Mercantile Exchange. The contract covers reformulated gasoline, made to be blended with ethanol before delivery to filling stations.

Last year's corn crop was devastated by the worst drought since the 1930s, which forced ethanol plants to shutter operations temporarily. Farmers responded by planting the most acres of the grain since 1936.

### **Corn Gains**

Corn for September delivery rose 5.25 cents, or 1.1 percent, to \$4.735 a bushel in Chicago. The more-actively traded December contract gained 1.5 cent to \$4.5975. One bushel of the grain makes at least 2.75 gallons of renewable fuel.

The corn crush spread, or the cost difference between a gallon of ethanol and the corn needed to make it, based on September contracts for the grain and biofuel, was 46 cents, down from 48 cents yesterday, data compiled by Bloomberg show.

Babler said most traders are watching the volatility in the market for Renewable Identification Numbers, or RINs, the certificates that the U.S. and refiners rely on to track compliance with government mandates for use of the biofuel.

The Environmental Protection Agency said Aug. 6 that it would extend the compliance period for this year by four months and signaled that it may adjust the 2014 targets.

Corn-based ethanol RINs fell 7 cents to 67 cents, the lowest level since April 25, while advanced RINs, which cover biodiesel and Brazilian sugarcane-based ethanol, slipped 9 cents to 74 cents, the cheapest since March 28.

### Spot Trading

In cash market trading, ethanol rose 10 cents to \$2.48 a gallon on the West Coast, 4.5 cents to \$2.395 on the Gulf Coast and 2.5 cents to \$2.295 in Chicago, data compiled by Bloomberg show. In New York, the biofuel lost 1.5 cents to \$2.45 a gallon.

West Coast ethanol's premium to the U.S. Gulf expanded 5.5 cents to 8.5 cents, while Chicago's discount to New York Harbor narrowed 4 cents to 15.5 cents.

Ethanol production last week gained 2.5 percent to 853,000 barrels a day, an Energy Information Administration report showed yesterday. That's down 11 percent from the record 963,000 barrels a day in December 2011.

Stockpiles increased 1.6 percent to 16.7 million barrels, down 10 percent from a year earlier, the EIA, the Energy Department's statistical arm, said.

Ethanol imports have averaged 22,000 barrels a day through Aug. 2, up from 12,000 during the same period in 2012.

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## **18. BIOFUEL CREDIT SHORTAGE TO BOOST U.S. GASOLINE EXPORTS, IEA SAYS**

(Bloomberg, Friday, August 09, 2013) -- A shortage of biofuel credits needed for gasoline sales in the U.S. may lead to an increase in exports of the fuel from America in 2014, according to the International Energy Agency.

The U.S. Environmental Protection Agency, or EPA, earlier this month maintained its target requiring 16.55 billion gallons, or 1.1 million barrels a day, of biofuels be blended into the country's gasoline and diesel supplies this year. This led to concerns as to whether the domestic gasoline market can absorb this volume of biofuel and may have hit the so-called "blend wall," the IEA said today.

Refiners can offset this requirement by buying credits, known as Renewable Identification Numbers, or RINs. The price has increased more than 10 times to a record \$1.43 per RIN last month as traders bought the credits amid uncertainty over how much biofuel blending will be required this year and next, according to the agency.



"Some industry participants warn that a shortage of RINs will force firms to reduce the gasoline volumes offered in the U.S. market in 2014 and after," the Paris-based IEA said in its monthly Oil Market Report. "Instead, gasoline production could be exported as only fuel supplied to the U.S. market require a RIN certificate."

The blending requirement has had an "uneven impact for U.S. refiners," the agency said. Valero Energy Corp. (VLO) has been the hardest hit by the rise in RINs prices and is having to spend as much as \$800 million this year on the credits while Exxon Mobil Corp. (XOM) said it has sufficient blending capacity to keep RINs cost at a minimum, according to the IEA.

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## **19. NEW YORK-GULF COAST RBOB PREMIUM WIDENS TO SIX-MONTH HIGH**

(Bloomberg, Friday, August 09, 2013) -- Gasoline in the New York Harbor traded at the biggest premium to the U.S. Gulf Coast in six months as imports to the U.S. East Coast dropped and area refineries processed the least crude oil since March.

The New York Harbor-Gulf Coast spread for reformulated gasoline, or RBOB, widened 2.17 cents to 13.05 cents a gallon at 3:33 p.m., New York's biggest premium since Feb. 6, according to data compiled by Bloomberg.

The regional gap stretched after a government report showed yesterday that gasoline imports to the U.S. East Coast slipped to 584,000 barrels in the week ended Aug. 2. At the same time, area refineries processed 1.1 million barrels a day of crude and other feedstock, the least since March 22.

Shipments to the East Coast along Colonial Pipeline Co.'s main gasoline line, which transports fuel from Houston to the East, were allocated for cycles 37 to 45, signaling strong pipeline flows. When a company issue an allocation, it means demanded has exceeded a line's capacity.

The 3-2-1 crack spread in New York, a rough measure of refining margins based on Brent oil in Europe, gained 11 cents to \$16 a barrel. Thesame spread on the Gulf Coast, based on West Texas Intermediate in Cushing, Oklahoma, increased 55 cents to \$11.40 a barrel.

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## **20. COLORADO FRACKING STRESSES REGULATORS AS PERMIT BIDS SOAR**

(Bloomberg, Friday, August 09, 2013) -- New rules governing oil and gas extraction in Colorado may increase the review period for permits and add to a backlog of well applications as energy exploration proceeds at a pace to eclipse last year's record.

The new regulations by the Colorado Oil and Gas Conservation Commission, which went into effect Aug. 1, would require wells to be at least 500 feet (152 meters) from the nearest occupied building and mandate pre-drilling notice for nearby landowners and measures to reduce noise, odors, dust and light.

Technological advancements in hydraulic fracturing or fracking, in which a mixture of water, sand and chemicals is injected underground to break shale formations so oil and gas can flow to the surface, pushed

permits for horizontal wells in Colorado to a record level in 2012. Permits for such wells have already exceeded that pace this year.

"Many thousands of Colorado families have been devastated by fracking in their neighborhoods and by fracking on their property," said U.S. Representative Jared Polis, a Boulder Democrat. "The state doesn't really have the right process around fracking."

Polis came in direct contact with the oil boom when a towering drilling rig appeared July 18 about 50 feet from the driveway of his 50-acre (20-hectare) weekend retreat. The rural enclave is about 46 miles (74 kilometers) north of Denver in Weld County, home to the state's largest number of oil wells.

"It can pop up as it did for me at the foot of our property without any warning," Polis said.

### Drilling Rush

The rush to drill in the Niobrara formation, located thousands of feet under the state's eastern plains, is leading to a backlog of permit applications at the oil commission.

Fracking pushed oil production in Colorado to its highest level in 55 years in 2012. The state is the nation's fifth-largest producer of natural gas and ninth-biggest oil producer.

The oil commission "is adequately staffed to handle the permitting workload," Matt Lepore, director of the agency, said by e-mail. "Over the past 18 months, our processing time for both oil and gas location assessments and drilling permits averages 36 days, which is well within reason given the detailed review that we give these permits."

Lepore said he expected permit processing times to increase in the short term as the commission makes numerous changes to the rules, including greater documentation requirements for how wells are situated in regard to surrounding structures.

### Increased 'Issues'

"Horizontal wells and associated spacing issues can increase the number of issues that the operators and staff must resolve," Lepore said. "Any increase in the time necessary to process permits is likely due to resolving questions."

The commission had a backlog of 404 drilling applications in June, according to a July 29 staff report. Energy statistics compiled by the commission show it is on pace to approve the highest number of permits for horizontal wells in the state's history.

The agency has approved drilling 1,201 horizontal wells this year through yesterday, compared with 1,190 permits in all of 2012. The number of permits is about 13 times higher than in 2008, records show.

Horizontal wells comprise 53 percent of all those permitted in Colorado so far this year, Lepore said. Companies are turning to this technique, in which a well is sunk and then angled horizontally through a formation, to make them more efficient and increase production.

### Output Doubles

Production of Noble Energy Inc. (NBL)'s horizontal wells in the Denver-Julesburg Basin more than doubled in the second quarter from a year earlier, to about 50,000 barrels equivalent per day, company records show.

Noble plans to drill 300 wells in the basin in 2013, with a capital budget for the area of \$1.7 billion, according to a presentation to investors in May. The company told analysts in December it would spend about \$10 billion in the area between 2013 and 2017.

Anadarko Petroleum Corp. (APC), which holds about 350,000 net acres in the Wattenberg field, located in the Denver-Julesburg basin, invested about \$3.3 billion in capital in the region from 2007 to 2012, according to the company's website. The company drilled 83 horizontal wells in the second quarter and tripled production in the basin to about 52,000 barrels equivalent per day from a year earlier, according to a July 29 report.

Drilling on federal lands in Colorado also hit record highs in fiscal 2012, with 6,622 producing wells, up 18 percent from 2008, according to data from the Bureau of Land Management.

Environmental groups and activists are concerned that the oil commission hasn't rejected a single application in the past year.

'Rubber-Stamping'

"Hickenlooper and his administration have chosen to serve the interests of the oil and gas industry by rubber-stamping a record number of fracking permits instead of protecting the health, safety and property of ordinary Coloradans," Sam Schabacker, mountain west region director for Food & Water Watch and a member of the Protect Our Colorado coalition, said by e-mail.

Oil commission chief Lepore said the agency works with the permit applicant to resolve challenges.

"If an applicant has a legal right to develop minerals," he said by e-mail, the commission's "focus is ensuring the well and location meet all of its regulatory and statutory requirements."

Well development is healthy for the state and produces jobs and much-needed tax revenue, said Stan Dempsey, president of the Colorado Petroleum Association in Denver.

Opportune Investment

"When crude-oil prices are at these levels, companies are investing capital at an opportune time," Dempsey said. "This is good job growth for Colorado and it creates a strong economy."

Hickenlooper, a first-term Democrat with a master's degree in geology, joined the industry in opposing most drilling restrictions pushed by his party in the legislative session that ended May 8. The only one that passed sets new requirements for companies in the event of a spill.

Democratic lawmakers proposed raising fines for violations, revising the charter of the agency that regulates energy companies to emphasize public health, and bolstering groundwater testing for wells in the Wattenberg Field.

Polis, the Democratic congressman from Boulder, called on the state legislature to reconsider stringent controls on fracking when it reconvenes in January.

"The challenge is we have to win over a number of representatives where it might not affect their area," he said. "The number of inspectors is completely insufficient, there needs to be consultation with communities and a more diverse composition of people on the commission."

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## 21. LEAK AT OIL SANDS PROJECT IN ALBERTA HEIGHTENS CONSERVATIONISTS' CONCERNS

(New York Times, Friday, August 09, 2013) -- The oil company calls it "seepage." Environmentalists describe it as a "blow out."

Either way, the leak at the oil sands project in Northern Alberta - which has spilled 280,022 gallons of oil across 51 acres since June - is stoking the controversy over the energy source.

"This mess is a symptom of the problems with the reckless expansion of the tar sands," said Anthony Smith, a lawyer in the international programs division of the Natural Resources Defense Council in Washington. "Environmental regulations have just not caught up."

The oil sands industry is booming in Canada, pumping billions of dollars into the economy and providing thousands of jobs. But critics contend that the processes for recovering the low-grade petroleum called bitumen are particularly harmful to the environment. President Obama is weighing climate concerns in his decision to approve - or not approve - the Keystone XL pipeline, which would link Canada's oil sands with the American Gulf Coast.

The cause of the oil spill at the Royal Canadian Air Force base in Cold Lake, Alberta, remains unclear. The company that owns the project, Canadian Natural Resources, blames abandoned wells in the area. Environmentalists point to fundamental flaws with the company's process.

Until they find the source of the problem, oil continues to leak at four locations. The spill, modest by historical standards, is manageable for the company, which says it expects to spend \$60 million on cleanup and investigation. But already the leak is spoiling the landscape and hurting wildlife. It has killed 71 frogs, 27 birds and 23 mammals, including two beavers, according to the company.

At the site, Canadian Natural Resources uses an approach that is increasingly common for oil sands ventures.

In a process similar to hydraulic fracturing, or fracking, Canadian Natural injects hot steam at high pressures into underground oil sands deposits. The heat liquefies the bitumen and the pressure separates it from the surrounding sand. The process allows the bitumen to flow to the surface through wells.

Canadian Natural has been reluctant to acknowledge the spill, going public only after The Toronto Star published an article based on photographs and documents from a government scientist who was not identified by name. But in a conference call with analysts last week, Steve W. Laut, the company's president, repeatedly defended its process, saying it had not caused the spill.

Mr. Laut said that the amount of pressure needed to force bitumen through the protective rock layer "is significantly higher" than that used by the company. Instead, he argued that the oil was seeping up through inadequately sealed, abandoned oil wells in the area.

"You cannot have these failures without a well bore failure," he told the analysts.

Canadian Natural did not respond to requests for comment on Thursday. But the Alberta Energy Regulator has swiftly disputed Mr. Laut's statement.

"We do not currently have the evidence or data to support any conclusions as to the cause of the incident and look forward to reviewing C.N.R.L.'s information supporting their conclusions on the root cause of the releases," Jim Ellis, the chief executive of the newly formed regulatory body, said in a statement.

The regulator has ordered some of Canadian National's operations near Cold Lake suspended and others reduced until the cleanup is complete and a cause for the spill is determined.

A study released in January by Alberta's previous regulator about a 2009 spill at the same site also appears to undermine the company's contention that old wells are the source of the problem.

While that study did not determine a cause for the 2009 spill, its authors said that they believed that the protective layer of rock "was likely breached by high-pressure steam injection not related to a well bore issue."

The study added that the high pressure of the steam that Canadian Natural used probably contributed to the 2009 spill and that the steam and pressure may have created weaknesses in the protective rock layer and provided an escape route for bitumen.

"There's a pretty strong incentive for the company to portray this as a technical issue because technical issues can be fixed, unlike fundamental issues," said Chris Severson-Baker, the managing director of the Pembina Institute, an environmental group based in Calgary, Alberta.

But, Mr. Severson-Baker said, this leak, "calls into question how much knowledge the industry and the government have about the integrity of the cap rock before they allow these projects to proceed."

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## **22. CONOCO UNLOADS CANADIAN OIL SANDS ACREAGE**

HOUSTON, Aug. 9 (UPI) -- U.S. energy company ConocoPhillips announced it was selling a quarter of a million acres near the Athabasca oil sands region in Alberta, Canada.

Conoco said it sold its entire stake in the Clyden oil sands reserve area to its Canadian counterparts, Imperial Oil and ExxonMobil Canada, for approximately \$720 million.

The company said it maintains more than 1million acres of land in the oil-rich Athabasca area of northeastern Alberta. The company sold 226,000 acres near the Athabasca oil sands region south of Fort McMurray, Alberta.

Conoco said its assets in northeastern Alberta contain approximately 16 billion barrels of oil and related products.

Imperial takes on a 27.5 percent stake in the assets. Exxon takes the remaining 72.5 percent. Imperial said it would develop the site using steam-assisted gravity drainage. The process used to warm heavier crude oil types is controversial, though safety incidents are rare.

Don Walette, executive vice president for corporate planning at Conocco, said the transaction is "a significant step toward rebalancing our world-class oil sands portfolio." The company said it expects to post a gain of \$450 million from the project after taxes.

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## **23. U.K. SHALE EXPLORERS NEED TO STEP UP EFFORTS TO WOO COMMUNITIES**

Companies urged to improve communications if industry is to succeed

(Wall Street Journal, Friday, August 09, 2013) -- Companies looking to explore and develop shale gas in the U.K. need to engage with local communities much earlier in the process if the country's fledgling industry is ever going to develop and have the transformative effect it has had in the U.S., U.K. Energy Minister Michael Fallon said Thursday.

The minister's comments come amid the second week of protests against exploratory drilling for oil by shale pioneer Cuadrilla Resources near the village of Balcombe, some 30 miles south of London. In an unusual twist, the demonstrations have united middle class commuters with hardened environmental activists and appears to be morphing into a nationwide movement against shale gas.

A shale drilling rig near Blackpool, England.

The battle at Balcombe illustrates the hurdles for companies and governments seeking to replicate the North American shale boom that has lowered energy prices in the U.S. and helped reinvigorate the economy.

Unlike in the U.S., development of potential shale resources in the U.K. has proceeded at a snail's pace. Supportive government policies and attractive tax incentives have bumped up against strong local opposition to hydraulic fracturing, or fracking, keeping the U.K. in the very early stages of exploration.

And while most major energy companies are involved in the development of shale oil and gas in the U.S., they have so far shown little interest in the U.K. In June, Royal Dutch Shell PLC (RDSA, RDSB.LN) Chief Executive Peter Voser said shale development in the U.K. and Europe was unlikely to take off until the next decade and even then it would be on a smaller scale than in the U.S.

Mr. Fallon said that for shale development to proceed faster in the U.K., shale explorers need to gain the trust of communities near drill sites by explaining early on what they plan to do and the technologies they will use, before even putting in applications for permits and approvals.

"We want them [the companies] to get on and explore, but hydraulic fracturing is new here. There's some legitimate concerns, but also a lot of myths," Mr Fallon said in an interview. He was referring to fracking--the technique of injecting water and chemicals at pressure into rocks to release the gas, that environmental groups and some local residents fear could pollute ground water.



Mr Fallon said a recent agreement between the government and companies that local communities would get 1% of the revenues during the production stage could also help spur shale development. Unlike in the U.S., landowners in the U.K. don't own the mineral rights beneath the land and wouldn't otherwise directly benefit from shale gas production.

The U.K. government is hoping a shale-gas boom could help shake off economic stagnation by lowering the cost of energy for businesses and consumers, and creating many jobs.

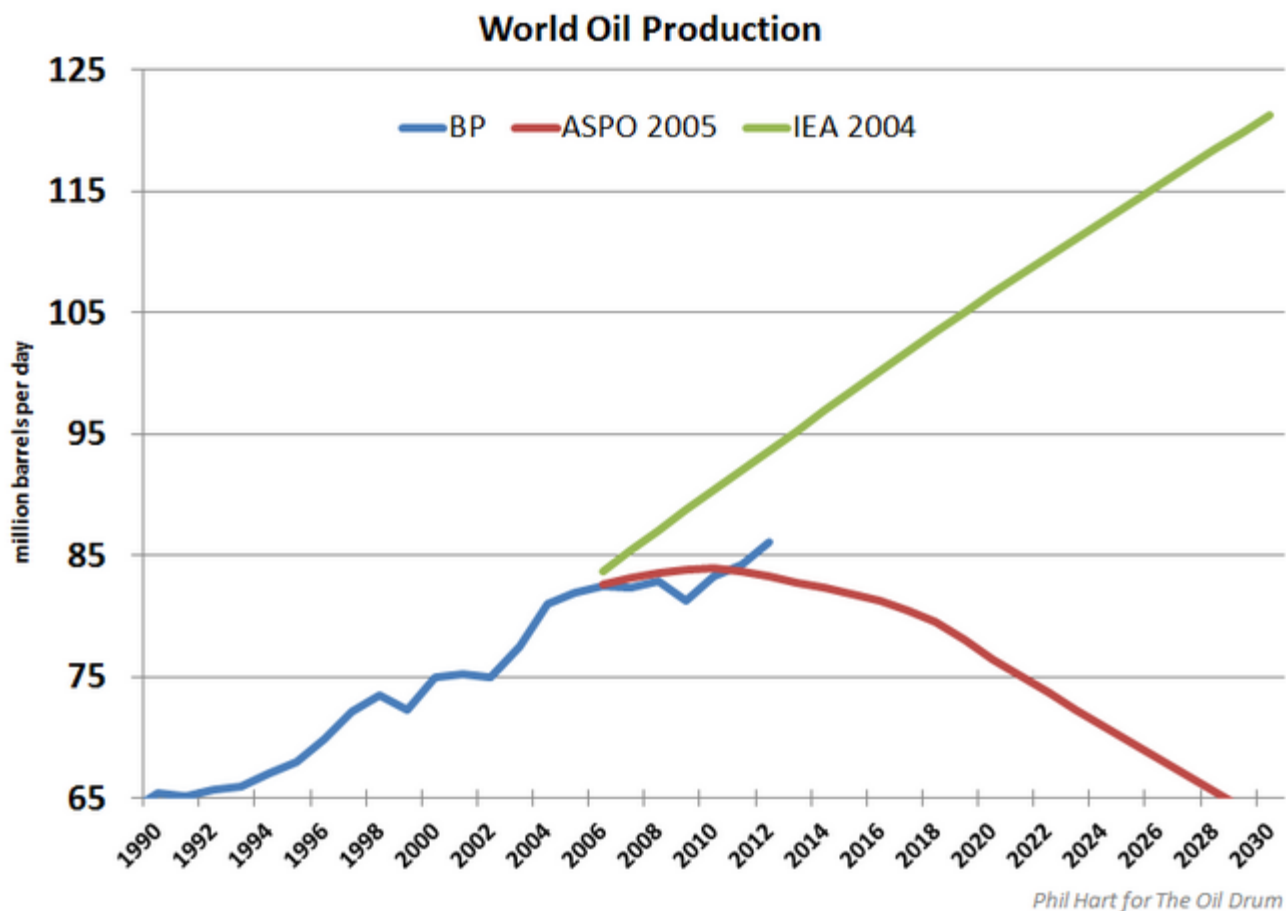
But the industry is still at a very early stage in the U.K. There has been no commercial shale gas production and only a handful of exploration wells have been drilled, making a reliable estimate of the country's reserves difficult.

Mr. Fallon said that it was vital to press on and confirm the potential resource in the south of England and evaluate if it can be extracted as cheaply as it is in the U.S. As part of that assessment process, the industry expects to drill 20 to 40 exploration wells over the next couple of years, he said.

"I would have thought it's in everybody's interest to find out the answers to these two questions," he added.

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## 24. WE DON'T THINK IN STRAIGHT LINES ANYMORE



When Straight Lines Were Everything

(Posted by Phil Hart The Oil Drum, Friday, August 09, 2013) --

In the early years of this site and my forays into peak oil analysis, it amazed me that the primary OECD energy forecasting agencies worked out their oil supply forecasts by simply extrapolating demand forward, working out what the Non-OPEC world could produce (with an optimistic set of assumptions) and then blatantly and explicitly assuming that OPEC would make up the difference. Working out this 'call on OPEC' was the crux of oil market forecasting in 2004.

That's how they came up with the green line in the chart above, \$20 a barrel all the way. In 2004, everybody believed it and we were building roads, cars and airports to match.

Now you can make a weather forecast that is reasonably accurate on average by simply stating that tomorrow's weather will be much the same as today's. But of course the value in weather forecasts is providing advance notice of when conditions are going to change. Peak oil analysts, myself included, may not have got everything right, for which we can in part blame a lack of pretty basic data, which is still a concern. But we did anticipate an historic transition in oil production and the oil market. And while the energy agencies and other conventional economists forecast growth in oil supply to resume and prices to settle, we correctly saw that the problem was chronic.

Even greater economic heresy was committed by those who predicted the eventual failure of the credit driven economy, which eventually buckled as it had to under the weight of \$140 oil. Yet despite our dire economic situation and the ongoing joy of credit deleveraging, we have become largely desensitized to triple digit oil prices, a phenomena that was unthinkable to most just ten years ago.

While it pains me to see others making mileage out of the decision to pull down the shutters on The Oil Drum, not even the most delighted and irrational of our detractors still believe that oil supplies are headed on up the ever increasing green line to the sky. There are mutterings about this being a 'demand driven peak' due to price, but of course that's how a resource peak has to play out. The debate has moved on a long way from where we were in 2004 and I'm proud of the little I contributed to The Oil Drum's role in that.

In terms of summarizing the situation as I see it now, I don't have a lot to add to my post [Looking in the Rear View Mirror](#) from 2011. Compared to our fears of how peak oil might unfold back in 2005, there are two fairly key explanations of why production is still holding up:

Decline rates for existing fields are not as high as we feared.

We under-estimated the extent to which unconventional oil would be extracted, and the price that we were willing to pay in local and global environmental impacts to get it.

I think the ASPO 2005 forecast in the top chart now represents a low case for future oil production (assuming hypothetically strong demand all the way). While the bumpy plateau may continue for awhile, even the International Energy Agency has come to accept that production is not likely to grow significantly beyond current levels. That leaves a pretty narrow range of dispute compared to our respective positions ten years ago. Without a sudden switch to greater data transparency across OPEC and other National Oil Companies, there's not really much more that can be said. Which is why I am both sad to see The Oil Drum come to a close but also symptomatic of not having any new analysis to bring to an audience that in the main now has other concerns.

A Motley Bunch with an Exit Strategy

While I may miss the heady days of the peak oil debate, I applaud the current stalwarts of The Oil Drum and the Institute for the Study of Energy and Our Future (ISEOF) for adapting to changing circumstances and continuing to adjust how The Oil Drum has been managed and delivered. A graceful exit is not an easy choice to make.



*A few of*

*The Oil Drum at ASPO 2012 in Vienna*

*Nate Hagens, Luís de Sousa, Phil Hart, Euan Mearns, Rembrandt Koppelaar*

I've learned a lot from my colleagues at The Oil Drum, many of whom I've never met. In any setting, I value diversity, and that has certainly been true here and to my benefit. But it concerns me that as a group of ostensibly objective analysts without any significant financial or corporate influence (that I know of!), we couldn't even come close to agreement on some pretty fundamental topics; climate change and the role for renewable energy being just two that are close to my heart. Of course this is characteristic of many peak oil groups, not just at The Oil Drum. While an amicable agreement not to promote discussion and solutions where we held strongly diverging views (primarily climate change) was a reasonable compromise, without the strong unity of purpose which The Oil Drum once had, the days of keeping the venture afloat were always limited.

Personally I strongly support the solutions focussed work now done by groups such as [Beyond Zero Emissions](#) in Australia, for example on their '[Stationary Energy Plan](#)'. But since we at The Oil Drum, a tribe with much in common, couldn't come to agreement on these issues, I fear for the ability of the vastly more complex world to find the right answers, whatever they are. Until then, the momentum of the system and its embedded power structures will carry us forward on the path of least resistance, however adverse that choice may be.

Farewell and thanks for reading!

Phil Hart

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