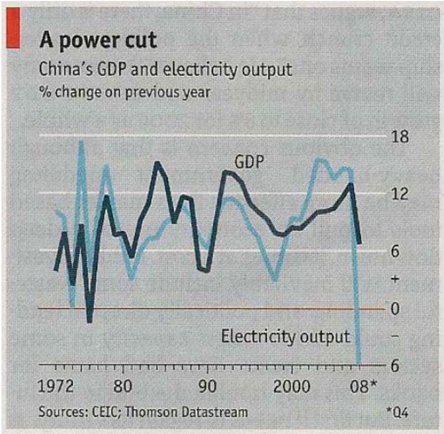
Energy Sector: Economic Weakness Kills Energy Demand

By: Joseph Dancy, LSGI Venture Fund L.P.
Feb-5-2009

Energy use correlates very closely with economic growth. Over the last decade China's electrical use increased roughly 10% year over year, and their economy grew at roughly 10% per year. Looking at 2009 many forecasts see China's economy growing at 5% to 8% - a slowdown from last year but nothing as serious as we are seeing elsewhere in the global economy. Assuming these projections of growth are correct electrical use in China should also grow, at a rate slightly slower than 10%.

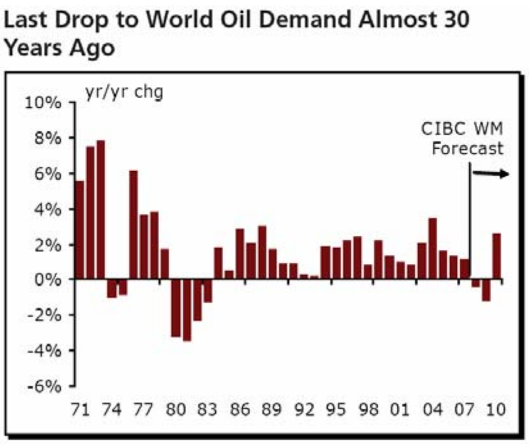


The problem with these 2009 projections—which as far as we can tell is the consensus of the analysts—is the electrical use has fallen off the cliff in China starting in October (see chart from the Economist).

Last October electrical consumption in China declined 3.8% year over year. In November we saw a stunning 9.6% decline, and in December electrical generation fell 7.9%. Meanwhile Chinese authorities continue to claim their economy is growing, but at a slower pace. The decline in electrical generation is highly unusual and has not been seen before during this seasonal period in the last decade.

If the electrical generation figures are anywhere near correct, based on historical correlations it is our opinion that China's economy is shrinking. Exports from China have fallen substantially according to official data, and declines in exports also were seen in other Asian economies.

China is a huge importer of crude oil and basic materials. If China's economy is shrinking we expect (1) crude oil demand to decline as well as imports, (2) demand for basic materials will decline, (3) exports to the Western countries will decline putting pressure on the global economy, (4) geopolitical friction will increase among exporting countries and importers, and (5) domestic unrest in exporting countries will increase due to these economic pressures.



The China story is not a good one for the global economy, or for the energy sector, short term. It is a story we have not heard from analysts—almost all the experts we follow still have China's economy growing in 2009. Some expect the Chinese economy to grow quite robustly compared to global norms. The reality of the declining economic trends in China might come as a surprise.

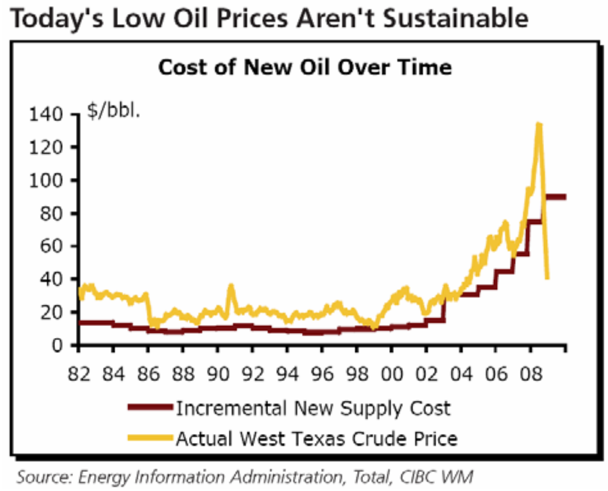
In addition to declining demand from China and other Asian countries dozens of chemical and manufacturing plants have been temporarily shut down in the Western world. Demand for crude oil and natural gas as a fuel source or feedstock has been heavily impacted by the global economic slowdown. The last drop in global oil demand was almost 30 years ago (chart courtesy of CIBC World Markets).

Due to the crash in energy prices, and ongoing credit crunch, many energy projects have been delayed or cancelled. The number of rigs drilling in the U.S. has declined by more than 25% from last summer. Rig counts continue to decline weekly. Workovers have also declined as lower prices reduce the viability of projects designed to maintain or increase production from existing fields. A recent IEA study found that production in older crude oil fields depletes at around 6.7% per year if fields are maintained.[4] Natural gas wells, and specifically wells completed in shale formations, deplete much quicker.

[4] 2008 World Energy Outlook, International Energy Agency. Fields lacking maintenance can decline on average over 9% per year.

Global production of crude oil has been roughly 85 million barrels per day. With 'normal' decline rates noted in the IEA study the world will need to replace around 4 or 5 million barrels of production per day just to keep production stable. Current energy prices, and the reduction in capital expenditure levels, will be reflected in the supply stream more quickly than many realize.

Keep in mind that most energy projects require significant lead times. While short term drops in demand outweigh cuts in production, once supply begins to drop the volatility to the upside will return to the energy market.

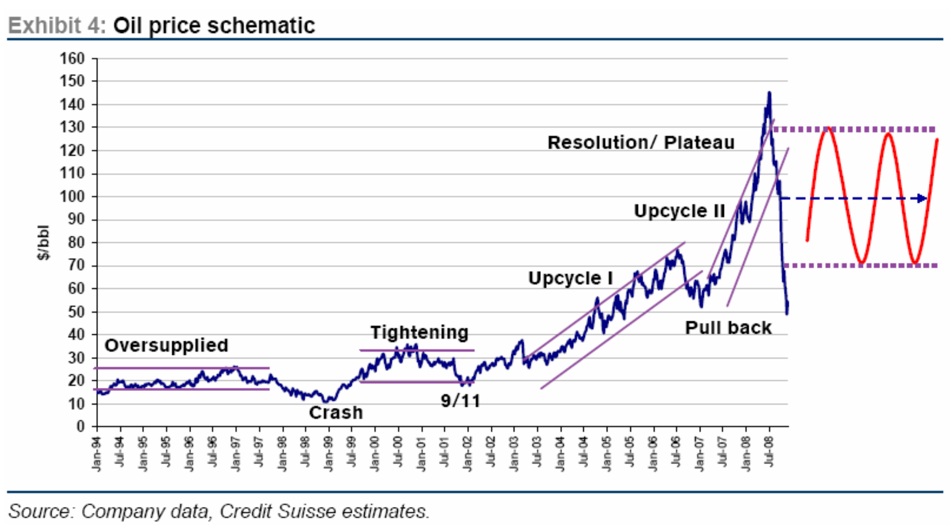


CIBC World Markets made this point in a report last month entitled "Oil Prices: Another Spike Upward".[5] The average cost of new oil production is now roughly $90 a barrel according to the report, so energy prices under this level will quickly decrease investment activity in the sector.

Credit Suisse issued their outlook for the energy sector last month. They conclude as follows:

> . . . We expect 2009 will be the year when most of the energy cycle reboots itself, propelled by severe depletion in oil and natural gas production, setting the scene for another upswing once demand curves stabilize.
>
> Much more of **the world's oil production today is coming from mature and hypermature oil basins** than has ever been the case. There is little or no momentum in either OPEC or non-OPEC supply and by the end of 2009 the world will have lost a significant amount of oil capacity, we believe. Depletion is a bigger problem than the market suspects. . .
>
> In **U.S. natural gas, we see an industry in financial crisis** now cutting capital expenditure aggressively in the face of a surprisingly weak demand curve. As drilling falls sharply, the underlying rates of production decline will be revealed, and the market should start to tighten meaningfully toward the end of 2009. . .

The Credit Suisse pricing schematic calls for very volatile prices moving forward. Like the CIBC World Markets study it predicts energy prices will move higher from current market levels.



We understand the fact that short term energy prices are weak due to the drop in demand, but we think that supply will drop faster than many expect.

Once global energy demand stabilizes and begins increasing prices will again resume their upward trend. We are investing on this thesis in small companies with reserves in politically secure areas of the world.

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[5] Authored by Jeff Rubin and Peter Buchanan

Oil Prices: Another Spike Ahead

Jeff Rubin and Peter Buchanan

The current recession is taking the heaviest toll on world oil demand in almost three decades. Global demand is on course to fall by approximately 1% this year, following a marginal drop in 2008. This will mark the first time since the double-dip recession of the early 1980s, on the heels of the second OPEC oil shock, that world oil demand has fallen for two years in a row (Chart 1). In the process, formerly runaway fuel demand, in countries like China and India, has stopped dead in its tracks, while demand in the largest oil-consuming economy in the world, the US, is down 4% from a year ago. Clearly the world has changed.

But the potentially bigger and more lasting story is not demand destruction but how much potential new supply will be destroyed in the wake of the plunge in oil prices during the recession. While demand has, at least temporarily, changed, what hasn't changed is the incremental cost of finding, developing and producing a new barrel of oil. That is running at about $90 per barrel for production from a new Canadian integrated oil sands mining and upgrading facility these days, four times what it cost to find, develop and produce a new barrel a decade ago (Chart 2). Alternatives, such as the ultra-deepwater areas of the Gulf of Mexico or sub-salt formations such as Brazil's Tupi field require prices well above $60 per barrel to be economically viable.

Nor has depletion changed. While the recession may temporarily cut a million or two barrels per day from world oil demand, it will do nothing to stop the loss of nearly four million barrels per day this year from depletion—particularly from the deepwater wells that make up more and more of world supply these days. The IEA has recently estimated that the industry will have to spend well over half a trillion dollars annually to meet future demand and counter depletion. No one is going to finance those money-losing mega-investments at oil prices anywhere near $40 per barrel.

Yet the need to find new supply has never been greater. World oil production has not grown materially since 2005. The bulk of the growth in world supply, reported by the IEA over the recent years, has been natural gas liquids like butane and propane (Chart 3). While valuable hydrocarbons in their own right, they are not a viable feedstock for making either gasoline or diesel fuel, which are the oil products that have driven world demand growth this decade. While natural gas liquids are generally counted in oil supply, today it looks like that's all that is growing.

If yesterday's record high prices haven't spurred supply growth, what chances do oil prices a third or a quarter of those record levels have? Given typical five-year lead times, world supply over the next half-decade is

Chart 1

Last Drop to World Oil Demand Almost 30 Years Ago

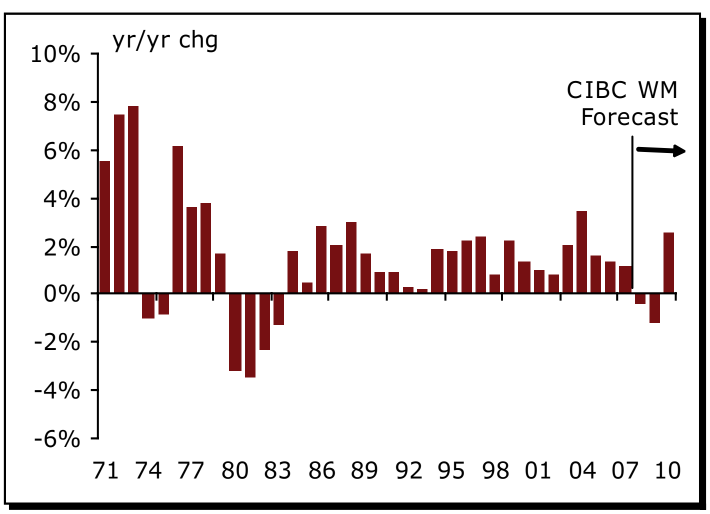
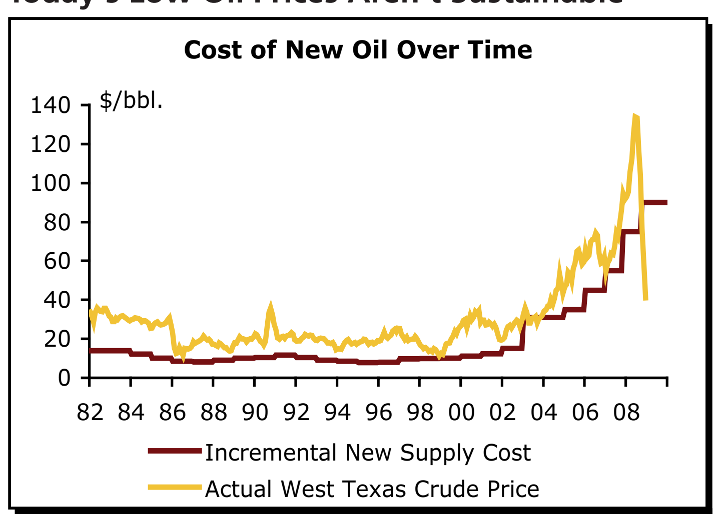


Chart 2

Today's Low Oil Prices Aren't Sustainable



Source: Energy Information Administration, Total, CIBC WM

Chart 3

Natural Gas Liquids and Oil Supply Growth

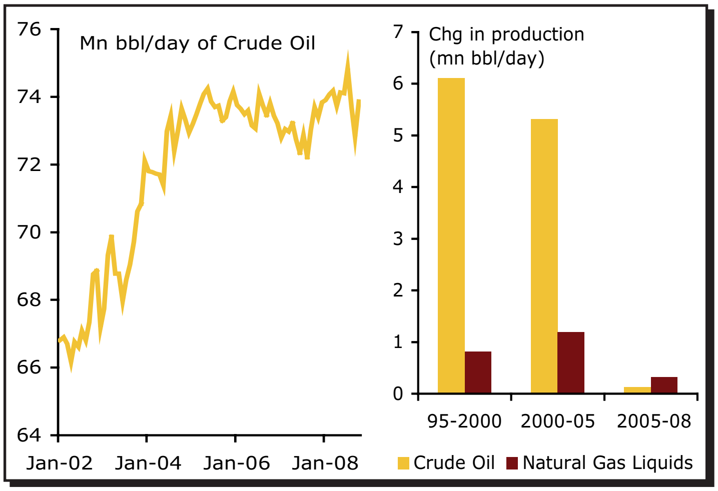
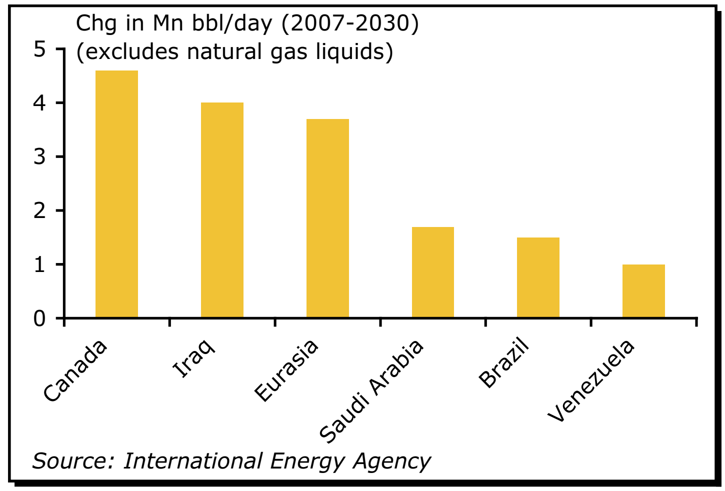


Chart 4

IEA Forecast of Growth in World Crude Supply Depend on Huge Canadian Oil Sands Gains



pretty well defined by partially completed or newly announced projects. A year ago, we estimated based on data for 200 pending new projects that world liquids production—crude oil plus natural gas liquids such as propane, following the normal convention—would grow from about 86 million barrels per day in 2008 to around 88 million by decade's end. Natural gas liquids would account for about half of that increase.

These projections for a modest gain in world oil supply no longer seem tenable in view of the recent announcements of project cancellations and postponements. Cancellations or delays have already affected about 1 million barrels per day of planned oil sands capacity in recent months, nearly two-thirds of expected capacity growth over the next 5-10 years. Rather than growing by close to 400,000 barrels per day, due to rapidly expanding oil sands production, total Canadian production is likely to rise by only a third of that by 2010. Hardly an auspicious picture for the Canadian oil sands, a region that the IEA expects will be the single largest source of new crude supply, almost three times as important as Saudi Arabia over the next two decades (Chart 4).

Unfortunately for world supply, the Canadian oil sands projects aren't the only ones being axed by today's oil prices. The outlook isn't any more promising in Venezuela's Orinoco tar belt, where strongman Hugo Chavez, just a year after expropriating Exxon and ConocoPhillips' assets, is now trying to entice Western oil companies back. Although projects near completion will in many cases go ahead, we estimate that globally at least 40–50 scheduled new projects are vulnerable to today's prices.

The axe will also likely fall on a major proportion of planned Brazilian and Angolan deepwater production. Brazil's conventional oil reserves actually fell last year, pointing to a need to develop costly, ultra-deepwater fields like Tupi and Carioca, for the country to retain its recently acquired status as an oil exporter. Mexican output will plunge as Cantarell's decline continues and replacement projects like Chicontepec are shelved or delayed (Chart 5).

Chart 5

Projected Production Capacity Change

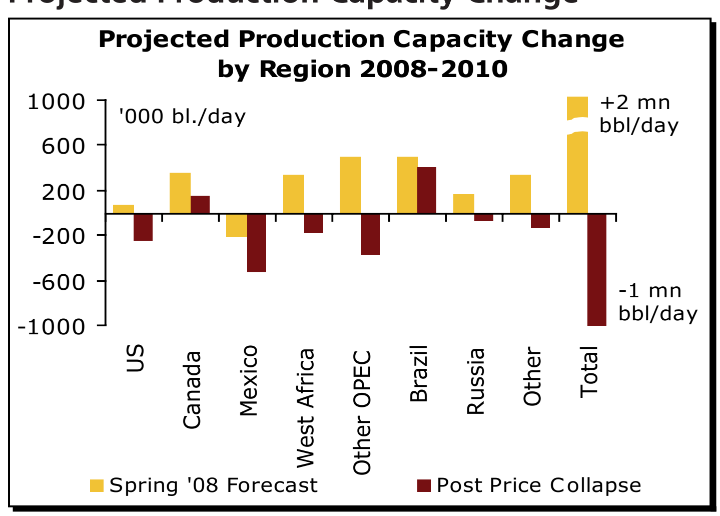


Table 1

World Oil Supply, Demand and Balance

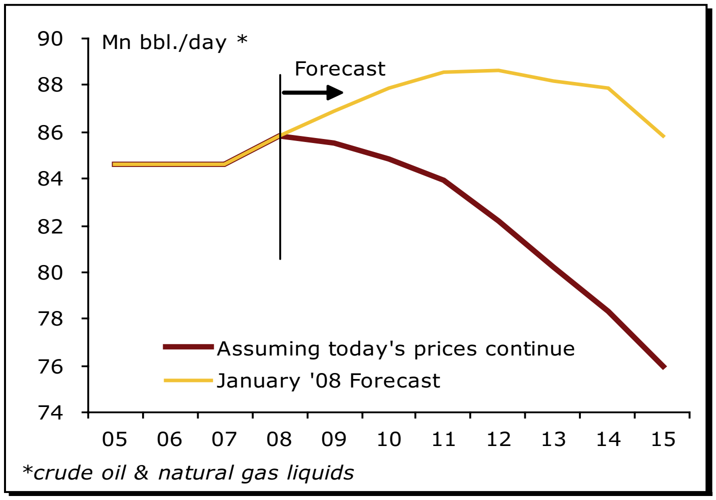
(Mn bbl/day)

	2006	2007	2008	2009	2010
World Oil Demand:					
OECD	**49.6**	**49.1**	**47.6**	**45.4**	**45.9**
-% chg	*-0.5*	*-0.9*	*-3.2*	*-4.5*	*1.0*
non-OECD	**35.4**	**36.7**	**38.0**	**39.1**	**40.8**
-% chg	*3.6*	*3.5*	*3.6*	*2.9*	*4.3*
Total World Demand	**85.0**	**85.9**	**85.6**	**84.6**	**86.7**
-% chg	*1.2*	*1.1*	*-0.4*	*-1.2*	*2.5*
World Oil Supply	**84.5**	**84.4**	**85.8**	**85.5**	**84.8**
-% chg	*-0.2*	*-0.1*	*1.6*	*-0.4*	*-0.8*
Excess Supply (+ve)/Demand (-ve)	***-0.5***	***-1.5***	***0.2***	***0.9***	***-1.9***
West Texas Crude, Year-end ($/bbl)	**61**	**96**	**45**	**65**	**100**

Source: US Dept of Energy (history), CIBC WM (forecast)

Chart 6

Production Declines through to 2015



Add it all up, and the cancellations already or soon-to-be-announced are huge, even in the short term. Not only do they cancel out the two million barrel per day increase in global production that we had expected by 2010, but they are likely to actually drive production down a million barrels per day below last year's levels (Table 1).

And that's only the tip of the iceberg since the vast majority of cancellations have been on projects whose first flow dates are well after 2010. If oil prices were to stay at current levels, production, instead of plateauing around 88 million barrels per day by 2012 as we had previously forecast, would decline at an accelerating pace between now and 2015. By 2015 production would decline to around 76 million barrels per day, a level roughly 10% lower than last year's level (Chart 6).

Unlike past oil shocks, there is no longer any newly discovered $10 per barrel North Sea oil to meet a rebound in demand. The marginal cost of a new oil sand project, the principal source of new supply according to the IEA, is over twice the current price of oil.

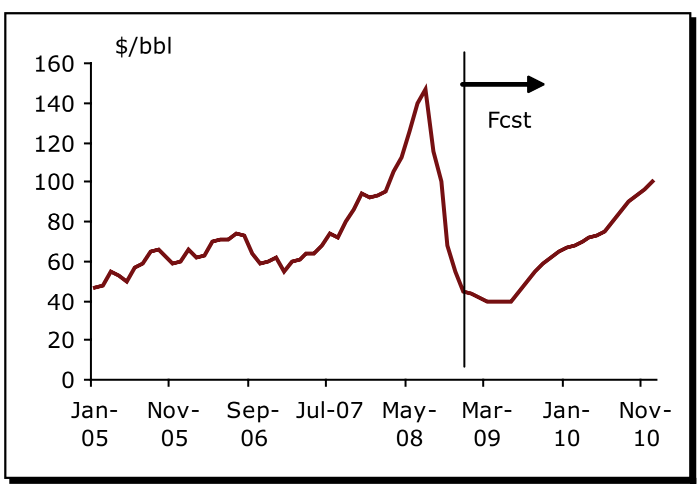
Soaring prices will ultimately change that supply outlook by reversing some of the cancellations that have recently been announced in the wake of oil's price plunge.

Chances are we won't have to wait that long to see those prices. Global demand snapped back at around a 3% pace after the two declines in oil consumption seen in the early 1980s. Even a 2-2½% bounceback would leave the world facing even tighter supply conditions than it did in 2007 when oil prices moved from $60 to $100 per barrel. Back then, demand was about 1.5 million barrels per day more than supply. This imbalance, not only led to a very rapid inventory drawdown, but also attracted speculative activity in oil markets. By our estimates, we expect to see an even larger imbalance, almost two million barrels per day, between recovering demand and shrinking supply as early as 2010.

When that happens global oil inventories will plunge, and global oil prices will once again spike (Chart 7). That may well reverse some of the supply destruction that is currently taking place, but not before world oil prices print triple-digit levels again.

Chart 7

Supply Cuts Will Lead to Higher Future Oil Prices



Pemex Oil Output Declines at Fastest Rate Since World War II

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By Andres R. Martinez

Jan. 20 (Bloomberg) -- Petroleos Mexicanos, Mexico's state oil company, will probably report its fastest drop in production since 1942, eroding revenue as plunging crude prices limit the amount of cash available to drill for new reserves.

Pemex last year likely extracted 2.8 million barrels a day, down about 9 percent from the 3.08 million a day pumped in 2007, representing a total of $20 billion in lost sales, according to data compiled by the government and Bloomberg. The Mexico City- based company, which had revenue of $104 billion in 2007, plans to report annual production figures tomorrow.

Falling output is leading Pemex into deepwater exploration as state-run peers **Petroleo Brasileiro SA** in Rio de Janeiro and **Ecopetrol SA** in Bogota invest billions to boost production. Costs are rising at Cantarell, Pemex's largest field, after declining pressure reduced output in the past five years. Oil tumbled 77 percent from its July record to $34.08 a barrel in New York.

Pemex's "biggest problems have yet to come," said Alejandro Schtulmann, head of research at Empra, a political- risk consulting firm in Mexico City, in an interview. "The fall in oil prices and lower production is going to make expensive exploration projects less attractive now."

Mexico relies on Pemex for 40 percent of its budget. Falling sales may cut into funding for a 570 billion-peso ($41 billion)-a-year infrastructure plan President **Felipe Calderon** is counting on to keep the country out of recession this year, Schtulmann said.

Sliding Output

Sliding Pemex output risks cutting supply to the U.S., which gets more oil from Mexico than all countries except Canada and **Saudi Arabia**. Lower production also comes as Venezuelan President Hugo Chavez, who has threatened to end oil shipments to the U.S. and opposes U.S. influence in Latin America, holds a referendum that would end term limits on his presidency.

Crude touched a record $147.27 a barrel on July 11.

To offset declines at aging fields, Pemex is focusing on tapping oil under seas deeper than 500 meters (1,640 feet), where the government estimates it has 30 billion barrels of crude oil equivalent. That would be enough to supply the U.S. for four years, according to **BP Plc.**

Deepwater discoveries or finds at the onshore Chicontepec field may help counter a decline at the Cantarell field, the world's third largest. Pemex is betting it can produce about 500,000 barrels a day from Chicontepec, a series of small, connected deposits spread across Veracruz and Puebla states, by 2021. The first deepwater well is due to come on line by 2015.

Cantarell Declines

By then, Cantarell may be producing less than 500,000 barrels a day of oil, Chief Executive Officer **Jesus Reyes Heroles** said last year. Output at the field, falling more than twice as fast as government estimates, dropped to 862,060 barrels a day in November from a year earlier, according to Mexican energy ministry data.

Cantarell, struck in 1976, was the biggest oil find in the Americas until last year, when Petroleo Brasileiro, known as Petrobras, discovered the Tupi field. Pemex estimates that Cantarell had 17 billion barrels of crude oil equivalent in reserves when it was found, compared with Tupi's 8 billion barrels. Cantarell represents about one-third of Pemex's output today, down from 65 percent at its peak in December 2003.

Petrobras may spend $112 billion through 2013 to explore the so-called pre-salt fields that lie offshore Brazil and which include Tupi. Colombia's **Ecopetrol** is planning to increase spending by 35 percent to $6.22 billion this year to meet a goal of almost doubling output to 1 million barrels a day.

"Lazy´´

Pemex became "lazy" after Cantarell´s discovery, relying on the field instead of focusing on further exploration during the next 30 years, **Carlos Morales**, the company's exploration and production director, said in a November interview.

Mexico's finance ministry hedged against Pemex's drop in production and the slump in prices by purchasing an option to sell all its oil for export at $70 a barrel this year, securing short-term financing for the government's budget.

The country hasn't allowed foreign companies to explore or produce oil in the country since Pemex was formed from the expropriated assets of Chevron Corp. and Exxon Mobil Corp. in 1938. That may now change after Congress approved legislative changes to the industry in October to help boost output.

To contact the reporter on this story: **Andres R. Martinez** in Mexico City at **amartinez28@bloomberg.net**.

Last Updated: January 20, 2009 01:00 EST

Mexico's Star Oil Field Cantarell to Continue Fading in 2009

by Peter Millard
Dow Jones Newswires 1/13/2009
URL: http://www.rigzone.com/news/article.asp?a_id=71635

MEXICO CITY (Dow Jones Newswires), Jan. 13, 2009

Output at Mexico's main oil field Cantarell will continue sliding this year despite new investments in drilling and well maintenance, putting Petroleos Mexicanos' 2009 production target at risk.

A combination of old age and poor long-term planning have frustrated state-run Pemex's efforts to stem the collapse at Cantarell. Production is down by more than half since peaking in 2004.

The woes at Cantarell and delays in getting new projects off the ground elsewhere threaten Mexico's overall target of 2.75 million barrels a day for this year. In November, Mexican output was the lowest since 1995 at 2.71 million barrels a day, partly due to port closures that forced Pemex to shut in some production.

Pemex officials expect rising production at other fields to compensate for Cantarell this year, but outside observers are skeptical. The International Energy Agency expects Mexican production to fall by 245,000 barrels a day in 2009.

Pemex expects Cantarell's average production to fall roughly 18% to 800,000 barrels a day this year. Industry executives blame the faster-than-expected decline on a lack of infrastructure, such as water-separation facilities and gas-injection units.

Mexico, traditionally one of the U.S.'s top three crude suppliers, will be unable to provide relief to the world's biggest oil consumer during the next global demand boom unless it reverses the trend. Mexican production has dropped by 18%, or 600,000 barrels a day, since 2004, which contributed to the crude-price rally that peaked near $150 a barrel in July.

Mexican exports will dry up in less than seven years if current decline rates continue.

Paying for Past Inaction

As oil fields mature, water and natural gas normally migrate into areas of reservoirs that once held oil. This means oil companies have to separate the water and gas from the crude after it is extracted, a process that dates back to the early 20th century.

For decades the wells at Cantarell produced no water, allowing Pemex to postpone investing in needed surface infrastructure. Pemex is now paying the price, shutting down water-producing wells due to a lack of separation plants. Pemex has installed some over the past year, but not enough.

"They're shutting in wells at the moment because of excess water," said a Mexico-based oil services executive, who requested anonymity due to his relationship with the state oil company. "Water separation plants are not all over the place; there's a lack of space on the platforms," he said.

Pemex is drilling new wells and fixing old ones to compensate for the water-related shutdowns. The company recently spent $150 million on four well-recovery rigs for Cantarell.

Despite these efforts, observers say the trend at Cantarell is probably irreversible.

"What they can do is explore deeper down," said another oil service executive who has worked at Cantarell.

Pemex is currently developing the Sihil field underneath Cantarell, and Ayatsil, a large field in the same area of Mexico's Campeche Sound.

Pemex expects Sihil to reach maximum production at 120,000 barrels a day in 2011, and Ayatsil to hit 150,000 barrels a day by 2012, only a fraction of what it has lost at Cantarell.

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Oil Curve Steeper Than '99 Shows Possible Gain in '09 (Update1)

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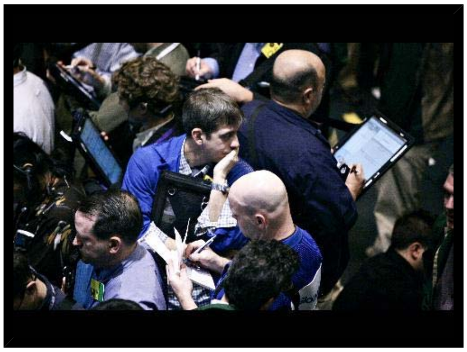
By Stuart Wallace and Tim Coulter



Jan. 5 (Bloomberg) -- The steepest plunge in crude prices on record may be setting up oil investors for a rally this year, if history is any guide.

The so-called forward curve of futures contracts traded on the New York Mercantile Exchange suggests oil will rise 28 percent to $60.10 a barrel by December. The curve looks almost the same as 10 years ago, after Russia's **default** and the collapse of the Long-Term Capital Management LP hedge fund raised concerns that a global economic slowdown would reduce energy demand. Crude prices fell 25 percent in the final quarter of 1998, the steepest drop in seven years.

Bets on a recovery paid off then as the Organization of Petroleum Exporting Countries cut production 6.9 percent, causing prices to more than double in 1999. Now, OPEC is pledging to reduce supply 9 percent, companies from Royal Dutch Shell Plc to Valero Corp. are postponing new energy projects and central banks are cutting interest rates to end the worst financial crisis since World War II.

"The world economy will get into a more stable environment most probably in the second half of next year," **Christoph Eibl**, who helps manage more than $1 billion at Tiberius Asset Management AG in Zug, Switzerland, said Dec. 31. "Commodities are thus due for a rebound. Crude oil has the best potential."

Eibl's Absolute Return Commodity Fund gained 7.5 percent last year in part by betting on agricultural commodities and industrial metals. He beat the **Standard & Poor's GSCI Index** of 24 commodities, which dropped 43 percent, and oil, which fell 54 percent. A 30 percent gain this year would be the most since the 57 percent jump in 2007.

Forward Market

Traders are already taking advantage of prices in the forward market exceeding those for immediate delivery, a so- called contango. About 26 million barrels of oil may be stored in tankers until later in the year. The crude, valued at $1.2 billion at today's prices, will be worth $1.57 billion based on December contracts, potentially locking in a profit for investors after expenses for financing, storing and insuring the oil.

Crude for February delivery traded at $46.89 a barrel at 9:50 a.m. in London today, compared with $60.10 for the December 2009 contract. At the end of December 1998, oil for February 1999 was at $12.05, compared with $13.78 for December of that year, a difference of 14 percent.

Twenty-eight of 30 analysts tracked by Bloomberg forecast higher prices by the end of 2009, with a median fourth-quarter estimate of $70.

Most Bearish

Adam Sieminski, the chief energy economist at Deutsche Bank AG in Washington, is the most bearish. He said in December that oil will trade at $40 in the fourth quarter, almost 14 percent lower than the Jan. 2 close, data compiled by Bloomberg show. Slowing economies may cut demand by about 700,000 barrels a day this year, he said.

"While commodity prices have fallen sharply from their July 2008 peaks, I see a further 15 to 20 percent downside risk for commodities into 2009 and maybe a recovery of those prices only toward the end of the year if there are signals of a global economic recovery," said New York University Professor **Nouriel Roubini**, who predicted the global financial crisis.

The duration of the slowdown remains the biggest risk to a rebound in raw materials. Japan, the world's second-biggest economy, may not return to growth until the fourth quarter, while the euro-area will shrink through this year, according to Bloomberg surveys of economists.

Oil rallied in 1999 as OPEC reduced output by 1.71 million barrels a day, equal to what is pumped today by Libya, the largest producer in North Africa.

Reduced Supplies

The group reduced supplies after Russia's default in August 1998 sparked concerns about a meltdown in financial markets and Long-Term Capital Management's $4 billion loss in leveraged trading strategies forced the New York Fed to organize a rescue of the fund by 14 banks and securities firms.

Last year was even worse. **Commodities** prices fell the most in five decades as crude dropped more than $100 from the peak of $147.27 in July. Losses and writedowns at financial firms rose to hundreds of billions of dollars and simultaneous recessions hit the U.S., Europe and Japan for the first time since World War II. The Standard & Poor's 500 Index tumbled 38 percent and about $29 trillion of global equity market value evaporated.

The combination of central banks pumping trillions of dollars into the global financial system and OPEC's resolve to stop the plunge in crude is making investors more bullish.

'Bring Stability'

OPEC is "determined to bring stability to the oil market," Saudi Oil Minister **Ali al-Naimi** said Dec. 21 in London, and Saudi Arabia's **King Abdullah** said in November that $75 was a fair price. That month his nation cut output by 3.2 percent, the most since April 2006, data compiled by Bloomberg show.

OPEC will reduce daily crude shipments by 1 percent in the four weeks to Jan. 17 as the group enacts the supply cuts it agreed in Algeria last month, according to industry consultant Oil Movements.

The Federal Reserve cut its benchmark interest rate to as low as zero for the first time and the incoming administration of President-elect **Barack Obama** will seek as much as $850 billion in new spending and programs, congressional officials have said. China unveiled a 4 trillion-yuan ($585 billion) economic stimulus plan in November and European Union leaders are drawing up packages worth about a combined 200 billion euros ($278 billion).

U.S Shrinks

The U.S. economy will shrink 2.4 percent this quarter, following a contraction of 4.35 percent in the three months that just ended, according to economists surveyed by Bloomberg. The world's biggest oil consumer will contract 0.5 percent in the second quarter before expanding 1.3 percent and 1.8 percent in the next two quarters, the forecasts show.

"Once these economies kick in again with the money supply pouring into these economies, everybody is going to be caught short with no inventory of these commodities and then commodity prices will move up again," said **Mark Mobius**, executive chairman of Templeton Asset Management Ltd. in Singapore, who oversees about $26 billion in emerging-market stocks.

Oil tumbled almost $115 a barrel from its July record. Pump prices for **gasoline** in the U.S. that peaked at an average $4.165 a gallon are down to $1.67 nationwide, according to the Energy Department.

"Low prices in themselves do not normally create demand for commodities but for oil they do," said **Tim Mercer**, chief investment manager at Hong Kong-based hedge fund Musahi Capital Ltd. Should the economy recover this year, "$80 to $100 oil is quite possible," he said.

World Consumption

World oil consumption will increase by 400,000 barrels a day, or 0.5 percent, to 86.3 million a day this year, according to the Paris-based International Energy Agency. Oil demand in 2008 fell for the first time since 1983, the IEA estimated.

A rebound would reward everyone from Irving, Texas-based Exxon Mobil Corp., the world's largest publicly traded company, to Saudi Arabia, the biggest producing nation. The Persian Gulf state's budget drops into a deficit at prices below $50 a barrel, according to Fitch Ratings.

Until prices improve, oil companies are delaying investments and shutting plants, threatening to reduce supply further.

Shell, based in The Hague, postponed a decision to expand its Athabasca oil-sands project in Canada. Valero Energy, the largest U.S. refiner, said in October it will defer projects to cut spending by about $500 million, or 17 percent.

Refinery Halt

ConocoPhillips agreed to halt bidding for a planned 400,000 barrel-a-day export refinery in Saudi Arabia because of falling prices.

The recovery in oil will pace at least a 20 percent return from commodities in 2009, Tiberius's Eibl said. Futures contracts signal at least a 10 percent appreciation in corn and wheat on the Chicago Board of Trade and a 12 percent gain in cotton. Copper on the London Metal Exchange will lag behind, while gold is likely to end 2009 little changed, futures show.

"The dollar is going down," said **Jim O'Neill**, chief economist at Goldman Sachs Group Inc. in London. "If that's right, gold is definitely going to continue its recent recovery and I think that might give some support to oil prices as well, despite the weak fundamentals."

The **U.S. Dollar Index** traded on ICE futures in New York, which tracks the currency against six others, advanced 6 percent last year, the best performance since 2005.

To contact the reporter on this story: **Timothy Coulter** at **tcoulter@bloomberg.net**; **Stuart Wallace** at **swallace6@bloomberg.net**.

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Oil drying up as world remains unaware

BY WILLIAM MARSDEN, CANWEST NEWS SERVICE JANUARY 10, 2009

Bags cover gas pumps, marking them out of order because of a lack of fuel.
Photograph by: Aaron Lynett for National Post, Aaron Lynett for National Post

MONTREAL — For more than a century it has been cheaper than coffee and as constant as ocean waves.

Getting it is simple. You select the grade, insert the nozzle, squeeze the handle and gasoline comes out. There seems no end to it.

Until now.

On top of the other problems plaguing the world, such as global warming and the current financial meltdown, there's a third pressing issue that threatens to bring the good life to an end: The world is fast running out of oil.

Given that crude oil makes up 36.4 per cent of the world's energy consumption, the seriousness of shortages cannot be underplayed. Our reliance on oil is almost total. It fuels 100 per cent of air and sea transport and most of our land transport. Without oil there is no petrochemical industry.

Agriculture, manufacturing, building materials, the clothes we wear, the food we eat and the medicines we take depend on oil.

Running out of oil is a question of when — not if.

Normand Mousseau, a physics professor at Universite de Montreal who has written a book on the end of oil, says the beginning of the end struck last summer. "This is why the prices jumped to $147 a barrel," he said. "As soon as the economy comes back, they will be right back up."

However, others say the crunch will come in three to 10 years depending on our rate of consumption.

“I hate being an alarmist about it, but our entire lifestyle is dependent on cheap oil and there just isn’t very much left in the ground,” Andrew Miall, professor of geology at the University of Toronto, said in an interview.

Most petroleum geology experts contend that we have already discovered the world’s giant fields and what’s left over will not keep the age of oil alive much longer.

“It’s safe to say we have pinpricked the Earth thoroughly enough that it is very unlikely we have missed any Middle Easts,” Miall said. “There may be another North Sea or two, but nothing that is going to really change the energy scene.”

Matt Simmons, chairman and CEO of Simmons and Company International, which is a private energy investment banker based in Texas, said he believes the world’s oil reserves have already peaked and we are on the downward slide.

“I think basically we are now in the early days of a very serious pending scarcity of oil and natural gas,” he said. “Because we don’t know we are, we are not putting any clamps on demand.”

Simmons has been studying world oil production and reserves for decades. His company helps finance exploration and production.

He predicted — accurately as it turned out — that the North Sea fields would peak between 1998 and 2000.

Now he has turned his attention to Mexico, Kuwait and Saudi Arabia, warning that their fields also have hit the downward slide.

“All the major oilfields of the world have peaked and we are going to see soon some precipitous collapses,” he said.

Because production flows can still keep pace with demand, the price has remained deceptively low, giving the impression there’s still lots of oil out there. Even at its record high of $147 a barrel, crude oil was still only 22 cents a cup, which is a fraction of the cost of a regular coffee.

Simmons called the price of oil absurdly low: “Let’s say you and five fat friends run out of gas and you see a guy coming down the street riding a donkey and pulling an old messy cart and you say, ‘Hey pull over here. Can you take me and my five fat friends a couple of miles for 22 cents,’ which is what that much gas will get you. And the guy’s going to flip you the bird: ‘Are you stupid?’”

Our recent consumption rates are the most voracious in history. By the end of 2007, the world had consumed about 1.1 trillion barrels of oil. Half of this was consumed over the last 25 years alone. So far, we have consumed about 50 per cent of the total recoverable oil, according to the World Energy Council.

Chris Skrebowski, a London-based member of the Energy Institute in Britain and consultant editor of the Petroleum Review, which is considered the oil industry bible, said he believes world oil reserves will peak “no later than 2012.”

He paints a doomsday scenario of a world blithely unaware that in a few years its oil-based lifestyle will begin to end.

“Peak oil is when delivery flows can’t meet the demand,” Skrebowski said. Demand will outstrip production primarily because of a lack of sufficient reserves. Once that happens, we are on an unbroken downward slide.

For Skrebowski, signs of the approaching peak are clear. High oil prices as well as the enormous price fluctuations we’re seeing are ultimately the result of emerging bidding wars over oil by oil-deficit countries.

Despite dwindling reserves, demand for oil is expected to continue to rise in China, India and other Asian countries. This will only hasten the moment of peak oil.

And new important discoveries are doubtful.

Canada’s conventional oil production peaked in about 1995. U.S. production peaked in the 1970s. North Sea wells peaked in 2000. Mexico peaked in 1997 and Venezuelan production is peaking.

In all, Skrebowski said, about 28 significant producers are in decline. This represents about 35 per cent of global production. Once that figure reaches 51 per cent, “we reach global peak oil,” he said.

The only place where production continues to hold up is in the Persian Gulf.

But the elephant wells of Saudi Arabia are showing signs of exhaustion and the Saudis are indicating that they want to begin preserving their oil for their children.

Yet politicians have not addressed the issue.

“They are terrified of it,” Skrebowski said. “They don’t know what to do. There are no pat solutions.”

Montreal Gazette

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Norway Sees Oil Production Falling 9.7% This Year (Update2)

Email | Print | A A A

By Marianne Stigset

Jan. 8 (Bloomberg) -- Oil production on the Norwegian continental shelf may fall 9.7 percent this year, declining for a ninth year, the country's Petroleum Directorate said.

Crude output will fall to about 110.8 million standard cubic meters, or 1.9 million barrels a day, in 2009, from about 122.7 million standard cubic meters, or 2.11 million barrels a day, last year, the directorate said in a report. Production will drop to 94.4 million standard cubic meters in 2013.

"Between 2009 and 2013 we expect significantly reduced oil production," **Bente Nyland**, head of the directorate, said at a press conference in Stavanger. "We expect cost growth to level off or decline next year."

Norway, the world's fifth-largest oil exporter and third- biggest natural-gas supplier, pumped its first barrel of oil more than three decades ago in the North Sea. The country is boosting production of natural gas and opening more of its unexplored northern waters to drilling to counter a decline in oil output at maturing fields.

Exploration Record

Total petroleum production is expected to fall to 236 million cubic meters of marketable oil equivalents this year and to about 228 million in 2013, the directorate estimates. Petroleum production was 242.2 million cubic meters last year, down 8 percent from a record in 2004.

A record 56 exploration wells were spudded on the Norwegian continental shelf in 2008, up from 32 in 2007, the directorate said. With almost every other well yielding a discovery, this resulted in a record 25 discoveries, of which four were in the Barents Sea, nine in the Norwegian Sea and 12 in the North Sea, the agency said.

Natural gas output is forecast to rise to 102.9 billion cubic meters this year and peak at 112 billion cubic meters in 2011, the directorate said. Production was 99.3 billion cubic meters last year, the agency estimates.

Ten new development plans have been submitted to the authorities for approval in 2009, including the Gudrun field, operated by StatoilHydro ASA, and Eni SpA's Goliat field.

Challenge

Norway had an estimated 13 billion standard cubic meters of oil equivalents in petroleum resources at the end of 2008, following an annual gross increase of 39 million cubic meters, the directorate said.

Norway's oil and gas industry invested more than 130 billion kroner in 2008 amid record oil prices and rising costs on the Norwegian continental shelf, the directorate said. There's "uncertainty" about what effect the drop in oil prices and the global slowdown will have on investments after 2009, the agency said.

Norwegian fields "have a robust economy at $50 to $70 a barrel of oil," Nyland said in an interview. "Should prices fall below $50, without production costs going down, projects may be postponed."

Crude has plunged more than 70 percent from a record $147.27 a barrel in July as the global recession erodes demand.

Nyland said she expected to see consolidation in the Norwegian oil industry in 2009 because of tightening credit and the time-lag in the decline of oil-services costs. This could impact Norway's 20th licensing round, the production licenses for which will be awarded in the spring.

"We do believe there will be consequences from the change in profitability-level on the continental shelf," Nyland said. "We'll see a consolidation in the number of actors. Some companies may withdraw their application."

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2/2/2009 7:52:00 AM

WSJ: Lukoil Warns High Taxes Hurt Russia's Oil Output

MOSCOW -- Russian oil production, which declined last year for the first time in a decade, will keep falling unless the Kremlin cuts punitively high taxes on oil companies, a senior Russian oil-industry executive said.

Vagit Alekperov, head of OAO Lukoil, Russia's second-largest oil producer, said that more tax relief would release billions of dollars for investment in new oil fields to compensate for fast-depleting areas such as Western Siberia.

"The natural decline is happening much more intensively than the new capacity" that's being brought on, Mr. Alekperov said. "If decisions are not taken on additional large-scale investments, then production volumes will continue to gradually decline."

Oil companies in Russia, the world's second-largest oil exporter after Saudi Arabia, have been hit hard by the financial crisis and plummeting oil prices. Short of cash, many have announced big cuts in capital spending. Lukoil said it has reduced investments for this year by 20% compared to 2008.

Yet the cutbacks are coming at a critical time for the industry. Russian oil's traditional heartland, Western Siberia, is producing fewer and fewer barrels, while new fields further east and in the Arctic are remote and costly to develop.

The slowdown in investment could have a major impact on the world's energy balance. Russia was a vital source of new crude for world markets early this century after privatized oil companies began to apply Western production techniques to aging Soviet-era fields and output soared.

Now there are fears Russia won't be able to supply the extra barrels the world needs when the global economy recovers and demand for oil picks up again. That could contribute to a future supply crunch and even higher prices than last year, when oil reached $147 a barrel.

Companies say they don't have the resources to expand into the virgin territories of Eastern Siberia, and blame a tax regime they claim discourages investment. Robert Dudley, the former head of BP PLC's Russian venture TNK-BP, described it last year as "the toughest in the world for oil producers," with companies paying as much as 65% of revenue in taxes and royalties.

The stagnation has coincided with the rise of state-run companies such as OAO Gazprom and OAO Rosneft, Russia's No. 1 oil producer, which tend to be less efficient than smaller, privately owned firms. Lukoil and its peers must partner up with the state companies to bid for oil fields considered "strategic." Last year, Lukoil formed a consortium with Gazprom's oil arm to develop two fields in the Arctic, but the government has so far failed to approve the venture.

Russian authorities confirmed last month that in 2008, average daily output of crude in Russia dropped for the first time in 10 years to 9.78 million barrels a day from 9.87 million barrels a day in 2007. The Economics Ministry forecasts production will fall a further 2% this year and overall investment in the oil industry will plunge more than 20%.

Production could fall further if Russia answers a call by the Organization of Petroleum Exporting Countries to non-OPEC producers to cut output. Many analysts say Russia's recent public backing of OPEC was an attempt to dress up an unplanned decline.

Lukoil expects its production to be flat this year, after years of steady growth. The company failed to replace its oil reserves in 2008 -- a troubling sign, because investors view an oil firm's reserve replacement rate as a key indicator of growth prospects.

Worried by the bleak outlook for the industry, the Russian government has already provided $5 billion in tax breaks. The Kremlin knows high taxes are stunting the industry, but it's also heavily reliant on oil taxes to balance the budget.

REUTERS

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FACTBOX-Global energy investment hit by financial crisis

Mon Jan 19, 2009 4:59am EST

Jan 19 (Reuters) - The deepening of the global financial crisis and the sharp drop in energy prices have forced companies to scale back spending and delay projects, with expensive ventures in the Canadian oil sands hardest hit.

Below is a list of projects that have been delayed or scaled back in recent months, as well as other related news.

Jan 19 - The $2.2 billion Al Dur power and water project in Bahrain has been delayed. The Al Dur project is 50 percent owned by the Gulf Investment Corporation (GIC), with France's GDF Suez (GSZ.PA: Quote, Profile, Research, Stock Buzz) owning the other 50 percent.

Jan 9 - Suncor Energy Inc (SU.TO: Quote, Profile, Research, Stock Buzz) delays a C$120 million ($99 million) expansion of its St. Clair ethanol plant at Sarnia, Ontario, scheduling completion for 2011 instead of late 2009.

Jan 5 - North Sea gas pipeline operator Gassco says the 10 billion crown ($1.81 billion) Skanled gas pipeline project to Scandinavia could be delayed from its planned 2012 launch, partly due to worries over investment plans by British chemicals group Ineos [INEOSP.UL], a key client.

Dec 22 - TXCO Resources Inc (TXCO.O: Quote, Profile, Research, Stock Buzz), a U.S.-based oil and gas exploration and production company, reduces operating levels in certain south Texas project areas, and temporarily shuts two steam generators and five steam-injection wells.

Dec 19 - Italian energy group Eni (EN.MI: Quote, Profile, Research, Stock Buzz) delays its decision on picking a floating production storage and offloading (FPSO) unit for the Goliat oil discovery in the Barents Sea from its end-2008 deadline.

Dec 17 - Indonesian state oil firm Pertamina, state power firm PT Perusahaan Listrik Negara (PLN) and PT Perusahaan Gas Negara (PGN) delay the construction of Indonesia's first LNG receiving terminal.

Dec 15 - Canadian oil producer Connacher Oil and Gas Ltd (CLL.TO: Quote, Profile, Research, Stock Buzz) slows bitumen production at its Great Divide thermal oil sands project to 5,000 barrels per day from 9,000 bpd and suspends construction of its second thermal oil sand development, the C$345 million Alger project.

Dec 8 - Santos Ltd (STO.AX: Quote, Profile, Research, Stock Buzz), one of the partners in the A$850 million ($605.4 million) Reindeer gas project off Australia's west coast, says it has been deferred indefinitely after a proposed customer failed to commit to a sales contract.

Dec 4 - Norway's StatoilHydro (STL.OL: Quote, Profile, Research, Stock Buzz) scraps plans for a C$16 billion upgrader for its Canadian oil sands holdings.

The company will go ahead with plans to produce up to 200,000 barrels a day of bitumen, but will sell it on the open market instead of turning it into more valuable synthetic oil.

Nov 27 - Irving Oil Ltd slows construction on its planned C$7 billion refinery at Saint John, New Brunswick, breaking work into two C$4 billion phases of 150,000 bpd each and stretching construction over up to eight years from 2011 instead of four.

Nov 27 - Royal Dutch Shell (RDSa.L: Quote, Profile, Research, Stock Buzz) withdraws a request for regulatory approval for its 100,000 bpd Carmon Creek thermal oil sands projects in Canada.

Nov 18 - British energy group BP Plc (BP.L: Quote, Profile, Research, Stock Buzz) says it will close its Australian solar-cell factory by the end of March 2009 to focus on bigger, lower-cost operations offshore. The factory is BP's smallest solar plant.

Nov 17 - Petro-Canada (PCA.TO: Quote, Profile, Research, Stock Buzz) defers construction of an upgrader for its C$21 billion Fort Hills oil sands project.

Nov 13 - Harvest Energy Trust (HTE_u.TO: Quote, Profile, Research, Stock Buzz) defers its C$2 billion expansion of Come By Chance refinery in Newfoundland.

Nov 6 - Canadian Natural Resources Ltd (CNQ.TO: Quote, Profile, Research, Stock Buzz) slows spending on the second phase of its Horizon oil sands project for 2009 after first phase costs rise to C$9.7 billion, up 42 percent from 2004 estimate.

Nov 9 - Saudi Aramco and Total SA (TOTF.PA: Quote, Profile, Research, Stock Buzz) delay a bid round for a 400,000 bpd refinery at Jubail to February from November.

Nov 6 - ConocoPhillips (COP.N: Quote, Profile, Research, Stock Buzz) and Saudi Aramco halt bidding on the 400,000 bpd joint-venture Yanbu refinery in Saudi Arabia.

Nov 5 - Sunoco Inc (SUN.N: Quote, Profile, Research, Stock Buzz) to save $375 million by scrapping the upgrade of Tulsa, Oklahoma, refinery.

Nov 4 - British gas and oil producer BG Group (BG.L: Quote, Profile, Research, Stock Buzz) postpones a decision on Phase III development of the Karachaganak field in western Kazakhstan, which aims to lift oil output to 16 million tonnes a year from 11 million.

Oct 30 - Royal Dutch Shell delays its investment decision on a second expansion of Athabasca oil sands project.

Oct 29 - Thai refiner and petrochemical company IRPC IRPC.BK reviews a $1.5 billion investment plan. Has delayed a refinery expansion and cut run rate by 10,000 bpd.

Oct 27 - FPL Group (FPL.N: Quote, Profile, Research, Stock Buzz), the largest wind-power operator in the United States, says it will cut 2009 spending nearly 25 percent to $5.3 billion and new wind-power generation to 1,100 megawatts from 1,500 megawatts.

Oct 23 - Suncor Energy delays oil sands upgrader for C$20.6 billion Voyageur expansion by one year to 2013. Expansion will boost production from Suncor's oil sands operations near Fort McMurray, Alberta, to 550,000 bpd from 350,000.

Oct 23 - Nexen Inc (NXY.TO: Quote, Profile, Research, Stock Buzz) and Opti Canada Inc (OPC.TO: Quote, Profile, Research, Stock Buzz) delay a second phase of Long Lake oil sands project to 2009.
(Compiled by Farah Master, Scott Haggett and Michael Szabo; editing by Anthony Barker)

Telegraph.co.uk

IEA cuts oil demand forecasts

The International Energy Agency on Friday cut its oil demand forecasts due to a much sharper-than-expected economic slowdown, with the market facing its first two-year contraction since 1982 and 1983.

AFP
Last Updated: 10:30AM GMT 16 Jan 2009

The IEA said it wanted to anticipate sharp downward revisions to global economic growth forecasts and so had halved its own estimate to just 1.2pc" given the worsening outlook."

Accordingly, it cut its projection for 2009 oil demand by one million barrels per day (bpd) to 85.3m bpd, representing a fall of 0.6pc from revised 2008 figures.

For 2008, the IEA put global oil demand at 85.8m bpd, down 0.3pc, adding that "the expected two-year contraction in oil demand would be the first since 1982 and 1983."

In a regular monthly report, the IEA noted that OPEC output in December was down one million bpd from September and down nearly two million bpd from mid-2008 highs when oil hit record highs above $147 per barrel.

The New York oil contract for February delivery on Friday was trading around $35, holding at multi-year lows on fears that the global slump, especially in the United States, the world's biggest energy consumer, will undercut demand.

OPEC, which has cut output 4.2m bpd over recent months in a bid to support prices, on Thursday warned that global oil demand would contract by a more-than-expected 0.2pc this year in light of the economic crisis.

"The depressed world economy is expected to have a large impact on oil demand this year," especially in industrialised countries, the Organization of the Petroleum Exporting Countries said in a monthly report.

"The year 2009 started with a very depressed world economy which caused the year's oil demand forecast to show negative growth" of 0.18m barrels per day (bpd) or 0.2pc, OPEC said.

In 2008, global oil demand was estimated to have contracted by 0.1m bpd, "the first decline in over two decades," it added.

OPEC pumps about 40pc of the world's oil.

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China crude oil imports grow 9.6% in 2008

Growth rate in oil imports eases from 2007 levels

By MarketWatch
Last update: 4:47 a.m. EST Jan. 13, 2009

HONG KONG (MarketWatch) -- China's crude oil imports grew 9.6% in 2008, easing from a 12.4% rise in the preceding year.

Analysts said the slowing growth rate may be related in part to shutdowns linked to the hosting of the Olympic Games in Beijing in August last year.

Still, its expected growth in imports this year will ease further from 2008 levels as the economy cools. The government is forecasting the economy will grow 8% this year. In the first three quarters of 2008, the economy grew 9.9%.

Crude oil imports totaled 178.9 million metric tons (1.34 billion barrels) in 2008, according to preliminary data from the General Administration of Customs released Tuesday.

Imports in December were up 7.6% from November, or about 14.37 million tons. The sudden rise in consumption was attributed to lower oil prices that resulted in stockpiling for the nation's strategic reserve as well as commercial reserves.

Analysts said the downturn in the global economy is likely to continue to weigh on crude-oil prices for some time.

"With global economic activity on a free fall and unemployment rising, the outlook for energy commodities remains rather grim."

wrote Merrill Lynch analysts, headed by Francisco Blanch.

Merrill noted that data showing a sharp drop off in electric power demand in China suggested the economy may be headed for trouble. Electricity production plunged 9% in November, a rate Merrill described as "alarming".

Wire reports citing figures by the China Electricity Council Monday said electricity consumption fell 8.9% in December. For the year electricity consumption grew 5.2%, easing from a 14.4% rise in 2007. ■

Thomson Financial News
UPDATE 1-China power output falls for a third month in Dec
01.22.09, 12:03 AM EST

BEIJING, Jan 22 (Reuters) - China's power output continued its year-on-year decline for a third month in December, as demand remained weak due to ongoing anemic economic growth.

Last month's power generation fell 7.9 percent from a year earlier to 273.961 billion kilowatt hours, data from the National Statistics Bureau showed on Thursday.

In November, power generation fell a record 9.6 percent from a year earlier.

Print This Article

Sunday, Jan 4, 2009
Posted on Sat, Jan. 03, 2009

Barnett Shale drilling and natural gas prices down

By JIM FUQUAY
jfuquay@star-telegram.com

The number of drilling rigs active in the Barnett Shale finished the year down 26 percent from its peak in early October, mirroring a decline in drilling nationwide as natural gas prices have plunged amid worries about weak demand.

There were 159 rigs operating in 14 North Texas counties as of Dec. 26, according to the most recent report from RigData. That was down 12 from the previous week and down 55 from the 2008 peak of 214 active rigs in the Barnett.

It's the biggest sustained decline in the Barnett since late 2001, when there were fewer than 100 rigs, according to RigData. Drilling in 2008 generally remained above 200 rigs until recently.

Nationally, the rig count fell by 98, or 5.7 percent, said Baker Hughes, a Houston-based oil-field services and equipment firm that has tracked North American drilling for decades. That was the biggest one-week drop since 1993 and left the U.S. rig count down 20 percent from its yearly high.

Rigs exploring for natural gas accounted for 80 of the idled rigs in the past week, Baker Hughes said. There were 1,267 rigs looking for gas, down 21 percent from the 2008 high of 1,606, on Aug. 29.

Overall, 1,623 rigs were active both onshore and offshore in the United States, Baker Hughes said. That peaked in 2008 at 2,031, in September.

What's happening

Natural gas futures have plunged since peaking at $13.58 per 1 million Btu in July. On Friday, gas settled at $5.97.

Drilling has declined faster than was predicted just two months ago.

As recently as Oct. 24 there were 205 active rigs in 16 Barnett counties, according to RigData. At the time, Richard Mason, publisher of *Land Rig Newsletter* in Lubbock, said he expected to see the rig count fall as much as 20 percent in the first quarter of 2009.

Last month, Mason updated his forecast, saying the rig count could drop as much as 30 percent and predicted "the most difficult drilling environment in 10 years."

On the ground

As gas prices continued to weaken, XTO Energy President Keith Hutton said in early December that the number of rigs looking for natural gas in the United States might have to drop to 1,200 before production would fall enough for prices to rise again.

As of Dec. 26, XTO was running 16 rigs in the Barnett, just under the approximately 19 rigs it generally operated last year. Chesapeake Energy showed the biggest cut in its Barnett rig fleet, from 43 in late September to 32 as of Dec. 26, according to RigData.

Devon Energy, based in Oklahoma City, remains the busiest driller locally, with 38 rigs. That's about what Devon, the Barnett's largest producer, has operated in the past year.

Bloomberg.com

Pequot Capital's Wien Sees Rallies in Stocks, Oil, Gold in 2009

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By Elizabeth Stanton

Jan. 5 (Bloomberg) -- **Byron Wien**, the investment strategist who predicted a recession would drive U.S. stocks lower last year, says the **Standard & Poor's 500 Index** will rebound 33 percent in 2009 as the economy recovers.

Wien, the 75-year-old chief market strategist at Pequot Capital Management Inc., forecast the S&P 500 will rise to 1,200 in his 24th annual "10 Surprises" list. He also predicted gold will rise to $1,200 an ounce and oil will rebound to $80 a barrel.

"In anticipation of a second-half recovery in the U.S. economy, the market improves from a base of investor despondency and hedge fund and mutual fund withdrawals," Wien wrote. "The mantra changes from 'fortunes have been lost' to 'fortunes can still be made.'"

A year ago, Wien's predictions included a 10 percent decline for the S&P 500 and onset of the first U.S. recession since 2001. The main **benchmark** for American equities sank 38 percent, the most since 1937, as financial shares collapsed and energy and metal producers tumbled. The National Bureau of Economic Research Dec. 1 said the economy entered recession in December 2007.

Wien, a former senior market strategist at Morgan Stanley who joined Pequot in December 2005, says his predictions have at least a 50 percent chance of coming true, while the consensus view is one-third odds. In previous years more than half of the items have come to pass, he says.

Westport, Connecticut-based Pequot, the hedge-fund firm run by **Arthur Samberg**, managed about $4.3 billion as of Nov. 30, according to its Web site.

At its lowest closing level of 2008 on Nov. 20, the S&P 500 was down 49 percent for the year and 52 percent from its Oct. 9, 2007, record of 1,565.15. It rebounded as much as 24 percent on speculation government spending will curtail the recession, aided by a drop in **interest rates** as the Federal Reserve lowered the benchmark rate to a range of zero percent to 0.25 percent.

The **S&P 500** fell 0.5 percent to 927.45 as of 12:07 p.m. in New York as concern that a slump in corporate profits will stretch into 2009 overshadowed speculation the government will revive the economy with tax cuts.

To contact the reporter on this story: **Elizabeth Stanton** in New York at **estanton@bloomberg.net**

Last Updated: January 5, 2009 12:08 EST

S&P at 1,200 at The Top of Wien's List of Surprises

S&P, STANDARD AND POOR'S, STOCK MARKET, STOCKS, ECONOMY,
CNBC.com | 06 Jan 2009 | 09:20 AM ET

Each year, **Pequot Capital** Chief Investment Strategist Byron Wien attempts the impossible: Predicting the year's top surprises.

His predictions for 2008 turned out to be good, as the economy went bad: Among other things, he called for a 10 percent drop in the S&P 500, a plunge in oil prices, victory for Barack Obama, and a cutting of rates by the ECB.

"It was a better-than-average year," he told CNBC. "A typical year might be, I'd get five or six right; I got pretty close to seven, if you grade them on individual components."

So here's his list of surprises for 2009, with a comment on each one:

1. S&P Rises to 1,200 in anticipation of a second-half recovery.

"We've made the lows for the cycle; we won't go up in a straight line, we'll have a saw-tooth pattern, but I think we'll get to 1,200 before the year is out."

2. Gold Rises to $1,200 per ounce.

"People are disenchanted with paper currencies, and eventually they'll get disenchanted with the dollar."

3. Crude oil returns to $80 per barrel.

"China and India will maintain growth...and I think , as a result of that, the continued increase in demand for petroleum products will be there."

4. Dollar Goes Into Serious Downward Slide.

"I just don't see how the dollar can hold up, with these deficits, and with the money supply expanding so rapidly."

5. 10-Year Treasury Yield Rises to 4 percent.

"I think it's aberrationally low, because of the fund flows into the United States."

6. Chinese growth exceeds 7 percent.

"It's been a terrible 2008 for all emerging markets, but I think that creates the opportunity...for growth to continue in India and China."

7. State governments will threaten bankruptcy.

"New York State is very dependent on the financial-services industry, and (it) is in tough shape...California is a big risk also."

8. Housing market will bottom early.

"It may take several years to work off the inventory, but you will see a revival of the housing industry."

9. U.S. Savings Rate will fail to improve.

"You'll see much better spending patterns for next Christmas."

10. President Obama will slow troop withdrawals.

"An American military presence in the Middle East is a necessary condition of our foreign policy."

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Improving Economy May Keep Stock Rally Alive, Say Biggs, Doll

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By Matt Miller and Jeff Kearns

Jan. 9 (Bloomberg) -- U.S. investors are looking ahead, and they like what they see, say **Barton Biggs** and **Robert Doll**.

The 21 percent rally in the **Standard & Poor's 500 Index** since Nov. 20 reflects speculation the worst of the recession is over, according to Biggs, managing partner at hedge fund Traxis Partners LLC, and Doll, chief investment officer for BlackRock Inc. Equities will probably keep rising, they said yesterday on Bloomberg Television.

Airline shares may gain after crude oil fell 71 percent from its July record, said the New York-based Biggs. Stocks with the biggest price swings will climb as the recession ends, according to Doll. BlackRock is based in Plainsboro, New Jersey.

"Sometime around the middle of the year there's going to be pretty conclusive evidence that the economy has stabilized," Biggs said. "That's what the stock market is now looking forward and seeing, and that's why I think that this rally carries further."

The **Standard & Poor's 500 Index** rallied after dropping to an 11-year low on Nov. 20. The benchmark plunged 38 percent in 2008, its worst yearly loss since 1937. Biggs was wrong in February 2008 he said the U.S. stock market is "at or very close to an important bottom."

Biggs said airlines "make some sense" because they are cutting costs and getting a boost from lower fuel costs. The S&P 500 Airlines Index tumbled 29 percent in 2008, its fifth straight annual decline.

He also favors companies in less-developed countries. "The growth opportunities will be in emerging markets," he said. "They are considerably cheaper then developed markets."

Recession Nadir

Doll said the worst of the recession is probably over after more than $1 trillion of bank losses froze credit markets in 2008. U.S. gross domestic product may have contracted 4.35 percent in the last three months of 2008, according to the average estimate of economists surveyed by Bloomberg.

"The fourth quarter that just ended is likely to be the worst of the recession," said Doll. He said Nov. 20 probably was the bottom for the stock market.

Companies reliant on consumer spending to increase earnings led the advance in the S&P 500 since Nov. 20, rising 36 percent. Banks and commodity producers rallied 29 percent.

"Risky assets will outperform safe assets this year," he said. "There are going to be horrible earnings but markets have a way of discounting that."

Biggs said that it's too early to tell how the alleged fraud by **Bernard Madoff** will affect hedge funds and the fund-of- funds industry. Prosecutors say Madoff's investment company may have cost clients as much as $50 billion through a "Ponzi scheme." The impact will be seen in the first and second quarters of this year, Biggs said.