

## Oil Outlook

By Imen-Nidhal Boudinar

During the first two weeks in December, crude oil prices registered wild fluctuations with a marked downward trend due to:

- American Federal Reserve reducing interest rates (by three quarters of a percentage point to 4.25 %).
- Resuming of shipping and storage operations at Cushing after strong rainstorms.
- Houston petrochemicals port resuming activities after closing because of fog which stuck 60 vessels.
- OPEC downward review of world oil demand for 2008 inducing possible US economy slowdown and instability of stock markets.
- Increase by 0.8% of US consumer prices in November, the highest ever since September 2005, due to rising energy costs.
- The \$ firming up against the Euro, hitting the highest record over seven week-average (1.44).

Crude oil prices rallied again in late December bolstered by escalating geopolitical tensions and a marked decline of US oil inventories. Indeed, the main factors behind the increase in prices are:

- A sustained consumption level translated into an increase of nearly 11 % of consumer expenditures in November, namely, the highest in two years.
- Turkey incursion in Iraq with no impact on oil exports flows through the Kirkouk-Ceyhan oil pipe.
- Rising of geopolitical tensions in Pakistan.

## Highlights

### USA

**Confirmed reduction of fuels consumption by 2020.**

For the first time in three decades, the American Congress has passed an energy bill approving motor fuels economy.

(Continued page 2)

## Shipping

### Official delivery of MESDAR, first VLCC of the Sonatrach Group

Mr. Chakib Khelil, Minister of Energy and Mines, accompanied by Mr Mohamed Meziane, Sonatrach CEO, the representatives of the Energy sector and local authorities, on January 9, 2008 at Bethioua, has officially taken delivery of the Mesdar, first VLCC carrier acquired by the Sonatrach Group.



Mesdar, a Joint acquisition of New Ocean Shipping Venture Ltd (NOSVL) created on June 13, 2006 between Sonatrach Petroleum Corporation (SPC BVI) and the Japanese partner Kawasaki Shipbuilding Corporation (KSC), Mesdar has been constructed in China at the Chinese-Nippon shipyards, NACKS.

Dry-leased by SPC, Mesdar is also time-chartered for 20 years by Sonatrach/Marketing Activity under the terms of the Charter Party signed on February 28, 2007, in Algiers.

Delivered on November 2, at Dalian where it obtained the Shell vetting, the VLCC called at Singapore on 11-12 November to get STATOIL vetting and fuel supplies. To avoid sailing deadhead to Arzew, Shell chartered the vessel to transport cargoes from Dubai and Oman, to Rotterdam via the Suez channel. Statoil chartered also the vessel to lift a cargo from Arzew to the USA (US Gulf).

With the acquisition of Mesdar, Sonatrach achieves the first step

of its strategy aiming to expand a VLCC fleet to transport, on its own, 50 % of its crude oil exports by 2015.

Mesdar will contribute to the Sonatrach Group plan to diversify its outlets, reach distant markets for its Sahara Blend, especially in Asia, and assert its position on the market to supply the storage capacity leased in South Korea.

Considering its size, the Mesdar is specifically designed to load on Arzew, and also, in the near future, Skikda and Bejaia SPM.

### Specifications

- \* Deadweight : 315 000 MT
- \* Length: 330 M
- \* Loading capacity: more than 2 million barrels of crude oil
- \* Starting date of construction: February 2007
- \* Projected date of delivery: 31st December 2007
- \* Effective date of delivery: 2nd November 2007, namely, two months ahead of schedule.

**Oil Outlook**

*(Continued from page 1)*

The draft law which has been adopted by the majority in a context marked by high fuel prices promotes use of maize-based ethanol. The motor industry is set to reduce by nearly 40 % fuel consumption for 4X4 vehicles, SUVs, by 2020. For light vehicles, CAFE consumption standard (Corporate Average Fuel Economy standard) will shift from 27 miles per gallon (3.78L) in 100 km, in force since 1975, to 35 miles per gallon. The bill projects also that ethanol utilization will reach 136 GL/year by 2022, i.e, six folds over the present consumption. Globally, the measures aim to reduce the US oil demand by 4MBD in 2030.

**Saudi Arabia**

**In spite of delays in Khursaniyah project, Saudi Aramco set to reach a capacity of 12.5 MBD in 2009.**

According to the Saudi company Saudi Aramco, the AFK project (Abou Hadriyah, Fadhili, Khursaniyah) should come on stream in the first quarter. The project, to produce 500 000B/ a day of Arabian crude Light and 300 Mp.c./d of gas, is part of the company's expansion plan to raise production capacity to 12.5 MBD in 2009. Two other projects will come on stream by the end of 2008, with the capacity extension of

Shaybah field and Nuayyim, by 250 000 b/d and a further 100 000 b/d, respectively. Khurais development will add a further 1.2 MBD by mid 2009, whereas Manifa (+900 000 B/D of heavy crude) will be delayed by three months, to September 2009.

**More than \$ 100 billion investments over the last forty years**

According to a recent report published by Saudi Arabian Monetary Agency (Sama, Central Bank), Saudi Arabia has invested more than \$ 100 billion in the oil sector over the last forty years, an amount widely offset by crude oil sales which totalled over 79 billion b since 1967, which could have depleted the kingdom reserves estimated at 68 billion b by this date, however they have trebled and reached 264 billion b early 2007.

**Mexico**

**Crude oil output fell by 5.3 % in 2007.**

In its latest statistics, Pemex said that Mexico crude oil production fell by 5.3 % between 2006-2007, to 3.08 MBD. According to the state-owned company, oil production fell by about 174 000B/D over a year, mainly due to decline at Cantarell field. Storms and Hurricane Dean in the Gulf of Mexico also affected oil

output, accounting for losses of nearly 40000 b/d in 2007. This cut in production has been offset by the increase of very light crude and extraction rhythm in the Ku-Maloob-Zaap project. However, the strong rise in prices resulted in an increase of 9.3 % of crude oil exports revenues in Mexico.

**Libya**

**Two UAE firms to revamp Ras Lanuf refinery.**

Libya NOC and a UAE consortium, Star, signed a deal to set up a 50-50 % joint venture for the revamping and expansion of the 220 000 b/d Ras Lanuf refinery, for a total cost of nearly \$ 2 billion. The state-owned company declared that the Ras Lanuf project works would take 5 years to complete and take place in two stages. The first stage consists of revamping and upgrading the refinery to increase production capacity. In the second stage, the two partners will expand capacity favouring fuel oil conversion into high-valued quality-oriented products to meet the international requirements. On the whole, the government project to invest \$ 8 billion for the refinery upgrading. In addition, Libya has entered into negotiation with a Japanese consortium for the construction of a new refinery plant with a capacity of 200 000 b/d.

**Gas outlook**

*By Kamel Tichouchai*

**North Europe:**

UK natural gas spot prices were slightly on the upward trend in December 2007, reaching in average 50.4 pence/th (\$ 10.15/MMBtu).

Thus, opening the month at around 45.6 pence/th (\$ 9.4/MMBtu), Day Ahead NBP prices steadily climbed and reached 58.8 pence/th (\$ 11.9/MMBtu) on December 17, then dropped and closed at 50.6 pence/th (\$ 10.03/MMBtu) by the end of the month.

The increase in prices is mainly driven by a significantly colder weather starting from the second week in December. Low temperatures reaching negative levels on 20 and 21 December, resulted in a strong increase of gas demand especially in the domestic (heating) and electric sectors.

According to National Grid, UK gas transport network operator, daily demand increased by 35.3 Mm3 in December then stood at nearly 374

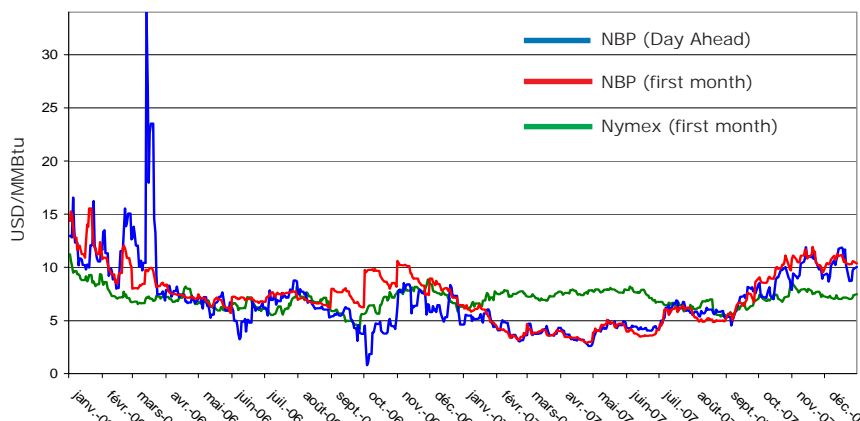
Mm3/d against 312 Mm3/d in the previous month.

In addition, average demand level in December 2007 compared to demand registered during the same period in 2006, climbed by nearly 23.7 Mm3/d. Day Ahead prices are in average higher by more than 19 pence/th (\$ 4MMBtu) compared to those registered during the same period last year (December 2006).

On Zeebrugge, Day Ahead prices and NBP prices registered a similar trend. Opening the month at nearly 45.7 pence/th, Zeebrugge Day Ahead prices closed at nearly 51.6 pence/th with a positive differential of the average of prices compared to NBP, estimated at more than 1 pence/th. The increase in prices is mainly due to falling temperatures in the north-western region of Europe, particularly, Belgium.

*(Continued page 4)*

**UK and US price evolution**



EVENTS

**African Cooperation**

**A** lgeria and the African Union organised on 15-17 February 2007 at Hotel Aurassi (Algiers), a Conference of Energy Ministers of the AU country members.

Under the patronage of HE, Dr. Chakib Khelil, Minister of Energy and Mines, the Conference will regroup more than 250 participants including the Ministers of Energy of the African Union and the representatives of Financial Institutions and Regional and International Energy Organisations (UE, OPEC, IEA, OPAEC, APPA, UPDEA, BAD.etc...)  
The main objective of the conference is the official setting up of the AFREC (African Commission of Energy), with Headquarters in Algiers.

Further details about the event will be provided in next Market News issue.

**WTI averaged \$ 100/Bbl in January**

**A** fter hitting \$ 100/Bbl on January 2, 2008, Nymex WTI closed at its highest record level, i.e, \$ 99.62/bbl, on the first workable day. However, the US crude marker breached the \$ 100/bbl peak on 3rd January 2008.

Indeed, WTI short term trend was on the upward move, spurred by winter demand forecasts based on anticipated cold weather in the North Hemisphere and decline in US oil inventories below 300 million barrels, namely the lowest level since October 2004, the structure has been characterized by stables prices of \$90/bbl through the last two months in the previous year.

Non programmed oil production cut in some countries supplying the US market added to the US \$ depreciation against the other currencies and also the speculative move towards more promising markets as

a result of the real estate mortgage crisis, weighted on the spectacular surge in New York market prices.

As a result, with resumption of trading transactions, prices reached record levels after New Year holidays.

WTI or West Texas Intermediate is the main crude benchmark on the US market. It has a high sulphur content of 0.3% and 38-40°API. The price derives from trading exchanges via Cushing-Oklahoma Hub between Gulf Coast suppliers and North American consumers.

Thereafter, WTI prices have registered a progressive correction following speculators reaction on the market founded on fears of US heading towards an economic recession. Thus, WTI prices reached again nearly \$ 90/bbl inducing significant volatility.

**OPEC**

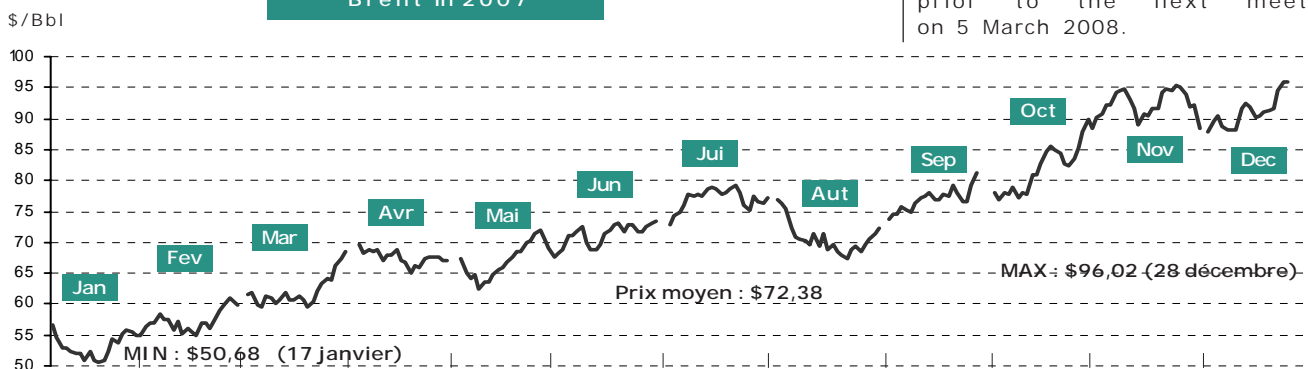
**No boost in oil output**

**F** urther to the meeting held on 1st February 2008 in Vienna, OPEC has decided to maintain the current output and renewed its determination to take all the necessary steps to ensure a stable oil market.

After reviewing the oil market developments since December meeting in Abu Dhabi and short term prospects, the Conference estimated that the measures taken by OPEC have enabled to secure supply of oil market in 2007. In addition, the Conference noted that Q1- 2008 will register an increase of crude oil inventories whereas commercial stocks should stand at the last five-year average level in Q2-2008, traditionally marked by a seasonal decrease in demand.

In view of the current oil market outlook and the projected softening global economy, the Conference stated that OPEC current output level is sufficient to meet demand for Q3-2008. However, uncertainties linked to the global economic situation require increased attention as to their impact on the oil market key fundamentals prior to the next meeting on 5 March 2008.

**Brent in 2007**



**Gas outlook**

(Continued from page 2)

In December 2007, the Interconnector operated mainly in Reverse flow in the first three weeks of the month (a negative differential of Zeebrugge spot prices compared to NBP, estimated at nearly 0.3 pence/th) and in the forward direction as from 25 December ( a positive differential for Zeebrugge spot prices compared to NBP, estimated at nearly 3.2 pence/th). The Interconnector registered six changes of direction over the month. In addition, the average flow was 81 GWh/d against 63 GWh/d in the previous, namely an increase of 29 %.

NBP first month Forward prices ( January 2007 contract), slightly increased in comparison to last month and reached in average nearly 52.8 pence/th (\$ 10.6/MMBtu). Opening the month at nearly 50.3 pence/th, first month prices progressed significantly to reach 55.2 pence/th (\$ 11.3 /MMBtu), then decreased and closed at 52.3 pence/th.

Similarly, Zeebrugge first month prices reached in average 52.7 pence/th (\$ 10.6/MMBtu) against 52.1 pence/th (\$ 10.8/MMBtu) in the previous month, namely up by nearly 5.5 pence/th( \$1.3/MMBtu) over the previous month.

Forward prices were on the upward trend for Q1-2008 and Q2-2008 contracts closing at 52 pence/th (\$10.3/MMBtu) and 46.7 pence/th (\$ 9.3 /MMBtu) respectively, against 49.5 pence/th and 43.8 pence/th a month earlier.

**USA :**

In December 2007, US natural gas prices decreased by nearly \$ 0.70/ MMBtu compared to the previous

month, registering an average of nearly \$ 7.17/MMBtu. Thus, opening the month at \$ 7.45/MMBtu, First Month prices (January 2008 contract) fell to \$7.03/MMBtu by mid month then firmed up and closed at \$ 7.17/ MMBtu. The decrease in prices is due to a declining demand during New Year holidays.

Spot markets experienced trends different from those registered on stock markets. Indeed, spot prices in North-east markets registered an upsurge with the sharpest increase in New York (\$12/MMBtu in average). Spot prices in the Gulf of Mexico were relatively stable and stood in average at \$ 7.10/MMBtu. The upsurge in prices in the North East is due to the cold weather spell in the region during the first weeks in December.

**Stock markets :**

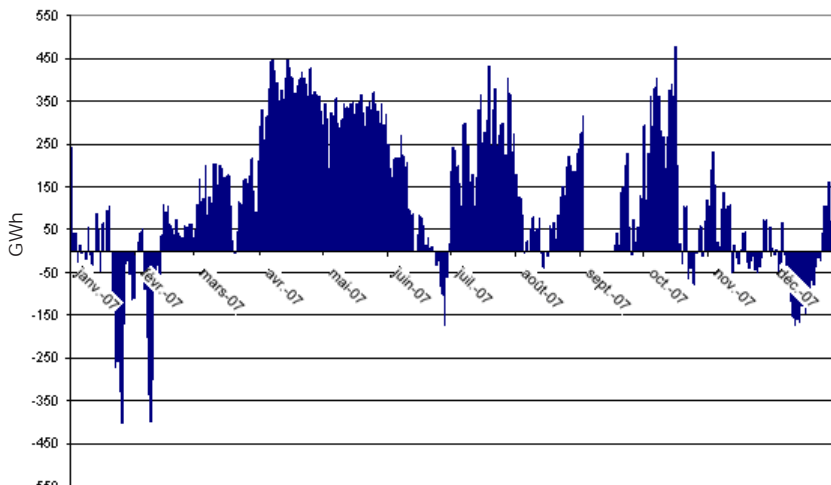
For the first month since last September, the £/\$ parity dropped below 2.00 in December. The sterling pound has again declined against the US dollar since the historical record registered in November 7 (1 £ against \$ 2.108). Thus, £/\$ parity closed at 1.991 against 2.056 at the opening.

**Co2 market :**

Climbing slightly early December, Co2 quota prices for the first phase (December 2007 contract) maintained their downward trend and closed at \$ 0.01/Ton, on 17 December.

Contrarily to December 2007 contracts, quota prices for the second phase ( 2008 and 2009 contracts) increased by 0.06 euros/ton and stood at 22.41 and 22.94 euros/ton , respectively, against 22.35 and 22.88 euros/ton, in the previous month.

**Evolution of natural gas flow on the Interconnector**



**In Brief**

**Spain - Repsol YPF to invest 3.2 billion Euros for Cartagena refinery.**

The Spanish Group Repsol YPF have announced plans to invest 3.2 billion Euros to modernize and increase the capacity of Cartagena refinery in the south east of Spain. The investment will double the capacity of the plant to 220 000 b/d. With 50 % of its capacity allocated to medium distillates production, especially gas oil, the refinery will offset the current deficit in the Spanish market, and come on stream in 2011.

**VENEZUELA - Terms of payments for oil cargoes reduced from 30 to 8 days.**

Venezuela state-owned company PDVSA has announced cutting from 30 to 8 days the term of payment for oil cargoes and related products. The company new measure is grounded on the constant appreciation of the US \$ and the most stringent quality requirements for crude oil and derived products

**China - First Strategic Oil Reserve to Begin Operation.**

China has announced stockpiling its first strategic oil reserves with a volume of up to 5.2 Mm3. The oil reserve base is one of the four bases which China started to build in 2004 for the storage of 10 Mt of oil.

**CHINA - Construction of Oil pipeline linking China to Kazakhstan launched.** Kazakhstan and China have announced starting in mid December the construction works of the Kenkiyak- Kumkol 750 km long oil pipeline at a cost of \$ 1 billion. With the new pipeline coming on stream in 2009, China will gain a new access to Kazakh oil.

**Worldwide - Proved oil reserves up by 1.1 %.** According to IEA estimates, world oil proven reserves amounted to 1331.698 billion bls on January 1, 2008. Compared to 1st January 2007, they increased by 1.1 % against + 1.8 % the previous year. In relation to world output estimated at 85.5 million barrels per day, the proven reserves provide a 42 year production with year 2007 level. Aggregate figures provided from IEA sources, world proven reserves have increased by 29 % over ten years and 47 % in 20 years.