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The end of king coal??

If climate change requires fossil fuels to be cut back, the IPCC will certainly get its wish with coal. China is the world's largest user of coal (about 49%) and they realise they are killing their people. The CCP has actually mandated the closure of coal-fired power plants and the move into nuclear is speeding up. *(Editor's note: the following blog is somewhat biased, pushing the 'green' extremist thrust 'All clean coal technologies are dependent on carbon capture and storage'. One key problem in China is that many of its coal-powered stations have not installed modern technology that removes nasty gases and particles - carbon capture is a dying red herring.)*

http://blogs.platts.com/2015/03/25/king-coal-end/

Oil Reserves

Oil reserves as published by oil companies are split between proven, probable (the term 2P refers to the proven plus possible reserves) and possible (or 3P). But it is the proven reserves that can be extracted at the current oil price which are the subject of investment analysis.

I have always said, we should not invest too readily in oil companies because they raise capital in order to explore and drill and then borrow more to develop the facilities to get their oil/gas processed and to market. But then if they actually do succeed they use your funds to drill some more. The chances of getting your money back as an investor were slim in the good old days but they are getting worse as companies must often drill deeper in more and more hostile places and despite the advent of 3D sonar much riskier, to extract oil grades that are often found to be inferior to the types that are usable by refineries.

As the price of oil climbed to USD120/bbl for Brent, it is therefore not surprising that the reserves being declared increased quite rapidly. Cut that price to USD50/bbl and all of a sudden the oil companies no longer wish to talk about their reserves. Instead they speak of us "swimming in oil" and the spectre of petrol price hikes disappears. In fact the geology is pretty much the same. Oil is still a finite resource and we are still trying to use more and more of it each year. It is like we are in petrol-head heaven.

Extensive oil storage facilities

Demand is taking off on the back of lower prices. Meanwhile the states like Nigeria, Russia, Iran and Venezuela are in trouble financially, because they can no longer get oil revenues to meet their social costs. All the talk in the media is about exhausting the storage capacity. But guess what? There is still plenty of capacity available and also the Chinese who have been building extensive oil storage facilities are filling those that have been completed and setting out to build more. The Chinese understand the reality of finite oil. This article by Ron Patterson provides us with his perspective on the trends in proven oil reserves in key states, Iraq and Saudi Arabia, upon whom the IEA are pinning their hopes.

http://peakoilbarrel.com/jodi-iraqi-reserves-and-ghawar/

Those states that have passed their peak production in North Africa, Syria and Yemen are already in serious trouble.

In the case of Kuwait, the country is reliant on the super-giant field Burghan to the same extent that Saudi Arabia is reliant still on Ghawar. These fields are getting towards the later stages of water-flood to stimulate production. Kuwaitis are worried about this because, while the members of parliament are kept in the dark about reserves (they are a state secret) they had been led to believe there would be production increases...

http://peakoil.com/production/kuwait-seen-missing-2020-oil-production-target

The various Middle Eastern crises are a worry

The two major regional powers (KSA and Iran) are using the economic crises in Syria and Yemen to their own advantage. The Sunni/Shia disputes are now leading to attempts at ethnic cleansing in many former oil exporters...

https://ca.news.yahoo.com/arab-leaders-confronted-multiple-crises-summit-142956696.html

And now the Iranian backed Houthis in Yemen are coming under direct attack from the Saudis...who are not placing reliance on more words from either the UN or the GCC...

http://www.washingtonpost.com/politics/fall-of-yemen-government-leaves-us-with-few-options/2015/03/25/3c08152e-d31e-11e4-8b1e-274d670aa9c9_story.html

The maps of Yemen in this article below show how fraught the civil war will become... with numerous power blocs...

https://www.stratfor.com/analysis/saudi-arabia-and-iran-compete-yemen?utm_source=freelist-f&utm_medium=email&utm_term=article&utm_campaign=20150326&mc_cid=7593a77e53&mc_eid=f6520e17b6

Netanyahu's apology

Why did Netanyahu climb down and apologise to local Palestinians? Perhaps the answer is somewhere in here...

http://www.timesofisrael.com/saudis-said-to-mull-air-passage-for-israeli-jets-to-attack-iran/#!

If Iran does not appease the 5+1 countries involved in nuclear negotiations, then things will get very messy.

The Middle East powder keg

The Middle East really is a powder keg.

http://www.bloomberg.com/news/articles/2015-03-26/why-bombing-the-39th-biggest-oil-producer-is-roiling-the-market

But where do loyalties lie...Israel, Saudi Arabia, USA, Iran, Houthis, Al Qaeda, ISIS, Sunni, Shia... what could rudely be referred to as a "buggers' muddle".... some will only fight if others don't...

http://in.reuters.com/article/2015/03/26/mideast-crisis-iraq-idINKBN0MM17I20150326

The so-called glut that led to such a rapid and sharp fall in oil prices, only resulted from increased production in USA and Canada and the surplus was only one million barrels or so per day. So the industry is easily prone to rises and falls in price with only 1-2% of daily production unsold.

Yesterday oil prices rallied by more than USD2 per bbl based on the worries in the Middle East.

Cheap oil prices temporary

Meantime the causal equation that got the world into cheap oil prices (almost free money courtesy of the US Fed's QE and ZIRP) that no longer make shale oil profitable. The number of drilling rigs in use in the USA has halved within the last six months and there are already signs that production in the three key shale plays is going to fall.

Talking about old fossils, the purveyor of "Texas Tea", T. Boone Pickens reckons the price by year end will be somewhere between USD70-90/bbl and sometime late 2016 back in the USD100/bbl range. I have no idea whether that is reasonable or not. I certainly expect volatility...but in what direction first?

http://www.msn.com/en-us/money/markets/oil-could-hit-dollar100-a-barrel-by-end-of-2016-pickens/ar-AA9Yaxg?srcref=rss

Meantime there will be the fallout of shale and tar sands companies going broke and the cheap money providers losing their shirts (possibly including some $400 million from the NZ Superannuation Fund). Eventually, when the price goes back to "nose-bleed" territory, the oil companies will struggle to find financing.