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Collapse in oil prices could trigger next GFC / Even biofuels get hit / USD70/bbl needed to avoid oil supplies crash / Middle East oil - even murkier / European winter of discontent / Chinese hard landing? / Russian public approve of Putin

Collapse in oil prices could trigger next GFC

At a time when many in the Green movement believe oil, gas and coal should be left in the ground, the risk and cost of finding and developing new oil resources gets greater. To the point where oil industry analysts Hills Group believe it will cost USD39 trillion to maintain current levels of production for 20 years.

Meanwhile the collapse in oil prices has the potential to trigger the next GFC – with the period between now and the end of next year. Pick a date.

Some suggest now that the US banks will hold off chasing non-performing shale loans...perhaps they dare not recognise losses?

http://oilprice.com/Energy/Oil-Prices/Day-Of-Reckoning-For-US-Shale-Will-Have-To-Wait.html

Either oil prices will rise or there will be a shale bust in the USA. Shale oil has been dependent on two factors. The first was the fracking technology that is 20-30 years old and viable at $US100/bbl. The second is the availability of cheap debt and capital. Unfortunately the WTI price for oil is around USD45.50/bbl and the net price paid for Houston Light Oil is a little under USD40/bbl. This means that while the direct costs of lifting tight light oil in Bakken, Eagle Ford and Permian plays is around USD20-25 per barrel most oil companies are losing money hand over fist on a full absorption cost basis.

So the fall off in drilling rigs from 1,600 to 600 in the shale plays means that many of the companies at best cannot reinvest in new wells to increase production, and at worst they cannot repay loans and must use the bulk of cash flow to service debts until they are called in. This month the US banks are reviewing their loan portfolios and hedge funds and bond vigilantes are doing the same. The early indications are that the financiers will not cut funding to the industry. Meantime the production volume is worrying....

Even biofuels get hit

Shale supplies about 5-6 million bbls per day of US oil production. So if the production volume decreases per well at 60-70% per year in the shale regions then the credibility of those loans will also become not just unserviceable but a PONZI style loan default. Too worrying for the industry (banking and oil) to talk about, but sooner or later it will be a crash coming to a town near you.

The low price also affects other unconventional producers in the same way...whether producing from Canadian oil sands or heavy oil...even biofuels get hit.

The conventional crude with lower average costs per barrel also is being impacted by low prices as this article points out...

"There is about 72 million bpd of conventional non-shale crude oil and condensate production globally, with about 42 million bpd of this outside of OPEC. Without constant reinvestment this production would decline by about 5% per annum on account of reservoir depletion. For example the wells that were producing 60 million bpd of oil back in 1995 produce barely 20 million bpd today assuming an average annual decline rate of 5 percent. That is a loss of 40 million bpd to decline and depletion from the wells that were producing at the beginning of 1995. Similarly, over the next 10 years, 30 million bpd of production will be lost to decline and depletion from the wells that are producing today. In order to offset this loss, about three and a half million bpd of new production annually needs to be brought on stream.

But with $70 Brent much of the conventional non-shale production is uneconomic and the investment needed to achieve this level of new production additions will not be made. The international oil companies, who account for much of this conventional non-shale production outside of OPEC, were failing to grow production even when oil prices averaged over $100 during the past four or five years – despite a dramatic rise in their capital expenditure."

Source... http://www.gurufocus.com/news/351873/oil-guru-andrew-halls-astenbeck-capital-july-letter-to-investors

USD70/bbl needed to avoid oil supplies crash

Despite falling demand due to recession, the two things to draw from this are –

1. There will be a huge bust due to the inability of industry payers to repay loans.
2. Unless the price of oil rises to above USD70/bbl rapidly, oil supplies will crash.

The equation is different for OPEC countries. Why, after all should Saudi Arabia drop oil production when it is lowest cost producer? The OPEC countries are likely to wait out the US shale oil bust.

But this will be at a cost as the OPEC nations sell off investments to meet the cost of social programmes and arms programmes they can no longer afford. IMF believes they cannot hold out for too long....

http://www.bloomberg.com/news/articles/2015-10-21/saudis-risk-draining-financial-assets-in-five-years-imf-says

But what is happening to shale production already in the USA? We hear platitudes, whispers of a 500,000 bbl per day drop, but so far no concrete data...

http://www.reuters.com/article/2015/10/21/us-usa-oil-productivity-idUSKCN0SF0B220151021

and

http://thecrux.com/opec-could-be-about-to-crush-the-u-s-oil-boom/

Unfortunately, the industry is obstructing release of news and so it may be Christmas before we know the extent of the true drop in US oil production.

Meantime, the share price of fracking companies have dropped so far, that many must already be in default of loan covenants...

http://www.caseyresearch.com/articles/the-oil-crisis-is-just-getting-started

Middle East oil - even murkier

Just as Syria, Yemen and of course ISIS get going in their military action, the general security situation for oil and gas supplies gets murkier...

http://www.rigzone.com/news/oil_gas/a/141187/Security_in_Oil_Gas_The_Threat_from_Within/

The Iranian nuclear deal may or may not go ahead and still may or may not have an impact on oil prices.

So we need to keep watch because the impact that oil has on the global economy is so great.

Meantime, the USA's involvement in the Middle East becomes less relevant...

https://www.youtube.com/watch?v=Fg_si9Lo2ss

European winter of discontent

This will be the winter of the refugees/migrants discontent...as winter sets in...

http://www.bbc.com/news/world-europe-34600107

Meanwhile, Portugal may be revolting...

http://www.telegraph.co.uk/finance/economics/11946412/Defiant-Portugal-shatters-the-eurozones-political-complacency.html

More stimulus is in the offing...

http://www.telegraph.co.uk/finance/economics/11947602/European-Central-Bank-could-pull-trigger-on-more-stimulus-in-December-says-Mario-Draghi.html

Both the ECB and Brussels seem to be getting too big for their britches and that must worry Britain...

http://www.telegraph.co.uk/finance/economics/11947986/EU-takes-member-states-to-court-over-bail-in-laws-to-protect-taxpayers.html

Tax deals within the EU are seen by the central bureaucrats as subsidies...further eroding the right of sovereign states within the EU to govern in their own way...

http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11945013/European-Union-orders-Starbucks-and-Fiat-Juncker-Luxembourg-pay-30m-in-unpaid-taxes.html

Perhaps they will start taxing the Bitcoin exchange?

http://www.bloomberg.com/news/articles/2015-10-22/bitcoin-virtual-currency-exchange-is-tax-free-eu-court-says-ig21wzcd

Chinese hard landing?

How accurate are Chinese stats? Also, given the way debt has grown, how relevant is GDP as a measure of growth? I can't see any answer to that...

http://seekingalpha.com/article/3588356-is-china-fudging-its-gdp-figures-the-sf-fed-weighs-in?source=email_macro_view_eco_2_20&ifp=0

Country by country the impacts of the Chinese downturn vary. But without doubt Mongolia is being hardest hit even now with civil service retrenchment...

http://www.interest.co.nz/opinion/78267/oyvinn-rimer-looks-likely-impact-nz-bumps-bruises-china-transitions-investment-led

As China haemorrhages foreign reserves, controls may need to be applied to foreign transfers...from Sinocism...

"**China's Record Capital Outflows Put Tobin Tax Back on the Agenda - Bloomberg Business** "We are currently studying measures including Tobin Tax, unremunerated reserve requirement and handling fees for foreign-exchange trading to suppress any abnormal and significant flows of short-term funds that seek arbitrage," Wang Xiaoyi, deputy administrator of the State Administration of Foreign Exchange, said Thursday at a press conference in Beijing. Central bank Deputy Governor Yi Gang called for such punitive measures to be introduced to deter currency speculators in China Finance magazine, a People's Bank of China publication"

Russian public approve of Putin

You need to ask yourself why, when Russia's economy is tanking, they keep buying gold by the tens of tons each month...? Similar for China but no stats...

http://seekingalpha.com/article/3588246-russian-central-bank-accumulates-another-34_2-tonnes-of-gold?source=email_macro_view_gol_pre_met_3_12&ifp=0

The Russia public approve of what Mr Putin is doing in Syria...

http://www.bloomberg.com/news/articles/2015-10-22/putin-gains-record-support-among-russians-over-syria-poll-shows

In his UN speech, Mr Putin made Benghazi a US election issue for Hillary Clinton...now relevant as she is Democratic Party front-running candidate...particularly now Joe Biden has withdrawn...

http://www.csmonitor.com/USA/Politics/2015/1021/Amid-spin-and-conspiracy-surrounding-Clinton-what-are-facts-about-Benghazi