NYMEX OIL: US$81.37
-$1.32
November delivery
NYMEX N. Gas: US$3.56
+$0.9 per MMBTU
November delivery

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OIL DEMAND TO RISE

The International Energy Agency raised its forecast Wednesday for global oil demand this year and next following new data showing stronger-than-expected economic growth, especially in rich developed economies. The Paris-based energy watchdog says global demand for crude will reach 86.9 million barrels a day this year, up from its forecast last month of 86.6 million barrels a day. The IEA said in its monthly report that oil demand next year will reach 88.2 million barrels a day, up from its forecast last month of 87.9 million barrels a day, based on the latest economic forecast from the International Monetary Fund earlier this month. The IEA — the energy arm of the Organization for Economic Co-operation and Development, a grouping of the world's richest nations — said rich world oil demand will rise 0.7 per cent this year to 45.8 million barrels a day, while growth in non-OECD countries will rise 4.7 per cent to 41.2 million barrels a day. Next year, rich world oil demand will resume its long-term decline, the IEA said, falling 0.6 per cent, while non-OECD demand will continue to rise, growing 3.7 per cent.

SOME OPEC MEMBERS SEEK $100 A BARREL

to Counter Dollar Weakness The 13 percent decline in the Dollar Index since June has led some OPEC members to call for oil to rise to $100 a barrel. The U.S. currency's weakness means the "real price" of oil is about $20 less than current levels, Venezuelan Energy and Oil Minister Rafael Ramirez said after yesterday's meeting of the Organization of Petroleum Exporting Countries in Vienna. The group, which accounts for 40 percent of global crude output, left targets unchanged and called for greater adherence to quotas, which are being exceeded by a supertanker load a day. "OPEC is not interested in compliance right now," Nordine Ait-Laoussine, the former Algerian oil minister who now runs Geneva-based consultant Nalcosa SA, said in an interview in Vienna. "They're concerned about the dollar because as the dollar weakens, prices go up. They're not paying any attention to production discipline." The Dollar Index, which tracks the currency against those of six U.S. trading partners, was at 76.54 at 2:27 p.m. in London today, near its lowest level since December, from a 2010 high of 88.405 on June 7. It has dropped 6.1 percent in the past month. The nominal value of OPEC's net oil export revenue will be $818 billion in 2011, 10 percent more than this year, according to U.S. Energy Department forecasts. OPEC is exceeding its own quotas as prices rise above the $70-to-$80-a-barrel band that Saudi Oil Minister Ali al-Naimi said is "ideal." The International Energy Agency estimated that the group achieved 54 percent of its promised supply cuts in September. Shokri Ghanem, chairman of Libya's National Oil Corp., said a higher crude price would help OPEC offset the loss of revenue from the weaker dollar. "We would love to see $100 a barrel," Ghanem said in Vienna. "We're losing real income. Libya in particular would like to see a higher oil price." Kuwaiti Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said in an interview this week that $70 to $85 is the "most comfortable" range, while his Algerian counterpart, Youcef Yousfi, said between $90 and $100 is "reasonable." Crude for November delivery rose 3 cents to $82.72 a barrel in electronic trading on the New York Mercantile Exchange today, paring yesterday's 0.4 percent decline. Oil gained 9 percent in the past month. The market is well supplied," Al-Naimi said yesterday. "It is an ideal situation we are in now. Nobody is complaining. Consumers are happy, producers are happy. Companies are investing." Oil consumption worldwide will average 86.9 million barrels a day in 2010 and 88.2 million barrels a day in 2011, the Paris-based IEA said Oct. 12 in its monthly report. That's 300,000 barrels a day more than last month's forecast for both years. The IEA raised its estimate of the amount of oil OPEC producers will need to provide to balance world supply and demand. Its new estimate is an average of 29.3 million barrels a day for next year, or 100,000 barrels a day more than the agency's estimate for 2010.

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GAS TRADING NARROWS

Natural gas is trading in the tightest range in eight years as rising U.S. production pushes inventory levels close to last year's record, undermining profit for traders who thrive on price swings. The fuel has stayed between $3.545 and $6.108 per million British thermal units this year, the smallest difference since 2002, amid government forecasts for U.S. production to reach the highest levels in 37 years. Gas may average $4.35 in the fourth quarter, according to the median estimate of 15 analysts surveyed by Bloomberg News, up 2.7 percent from the previous three-month period. U.S. gas inventories will peak by the end of this month at 3.726 trillion cubic feet, 2.9 percent lower than last year's record of 3.837 trillion, the Energy Department estimated on Oct. 13 in the monthly Short-Term Energy Outlook. Stockpiles have risen even as a 35 percent decline in prices this year and stricter pollution rules encouraged utilities to switch away from coal. Gas-fired power production will climb 31 percent in 2010 from five years ago, according to the department. "Low volatility is the new norm in the gas market," said Hamza Khan, an analyst at the Schork Group Inc., a consulting company in Villanova, Pennsylvania. "The upside is capped by supply and the downside by fuel-switching." Lower volatility reduced the need for gas producers to hedge their future production, according to Chris Kostas, a senior analyst at Energy Security Analysis Inc. in Wakefield, Massachusetts. Gas selling positions held by producers totaled 546,548 contracts in futures markets in the week ended Sept. 3, the lowest level in six months, according to data from the Commodity Futures Trading Commission. Positions reached 552,782 in the week ended Oct. 5. Implied volatility for so-called at-the-money options expiring in 30 days, a measure of expected price swings in futures and a gauge of options prices, dropped to less than 34 percent March 12, the lowest level in at least five years, according to data compiled by Bloomberg. It has averaged more than 47 percent this year, compared with almost 72 percent in the same period last year. Lower volatility can reduce profits for option traders. "We've seen producers reducing their forward hedging as they are less concerned that prices will be volatile or fall further," said Kostas. "On the speculative side, people are making less money selling options." Natural gas for November delivery fell 5 cents, or 1.4 percent, to $3.607 per million British thermal units at 10:13 a.m. on the New York Mercantile Exchange. Gas averaged $4.235 in the third quarter, down 2.6 percent from the previous quarter. The first-quarter average was $4.989, up 1.3 percent. Companies have increased drilling of so-called unconventional gas, according to Baker Hughes Inc. The number of horizontal rigs, which are mostly used in shale-gas drilling, rose to a record 929 in the week ended Oct. 8, the Houston-based oil and gas field services provider said last week. "The increase in the natural gas-directed drilling rig count since mid-2009, comprised of a growing share of natural gas-directed horizontal drilling rigs in the lower 48 states, contributed to the production growth in 2010," the Energy Department said in the monthly report on Oct. 13. Gas output will average 61.29 billion cubic feet a day this year, according to the Energy Department, the most since 1973. Production will be 2.2 percent higher than last year. "The market is very well supplied and that has eliminated a lot of upside risks," said Kostas. Electricity generated using natural gas will rise to 2.461 billion kilowatt-hours a day this year from 2005's 1.874 billion, according to the Energy Department. Coal-powered electricity will average 5.131 billion kilowatt-hours a day, down from 2005's 5.458 billion. The percentage of gas-fired electricity will increase to a record 23 percent in 2010 from 18 percent in 2005, according to the department. “You would expect utilities to use more natural gas, and it’s not likely that gas prices will fall below $3,” said James Williams, an economist at WTRG Economics, an analysis and research firm for energy companies based in London, Arkansas. Gas demand may rise 2.4 percent this winter, led by power plants and industrial consumers such as factories, the Natural Gas Supply Association, a Washington-based industry group, said in a report on Oct. 5. The absence of major storms in the Gulf of Mexico during September, typically the most active month of the hurricane season, has also curbed price swings. About 10 percent of U.S. gas output will come from federal waters in the Gulf this year, down from 17 percent five years ago, according to Energy Department estimates. Gulf production dropped 52 percent in the past 10 years. “Obviously we’ve got plenty of supply right now and we have no immediate storm threats on the horizon,” said Peter Beutel, president of Cameron Hannover, a trading advisory company in New Canaan, Connecticut.

PIPELINE PANEL BLASTS GOVERNMENTS

The independent panel that reviewed the proposed Mackenzie Valley natural gas pipeline has blasted the federal and N.W.T. governments or rejecting many of its recommendations on how to make the project successful. The Joint Review Panel says all of its 176 recommendations must be followed to ensure the proposed 1,200-kilometre pipeline, which would run natural gas through the Northwest Territories to northern Alberta, benefits northerners while having a minimal impact on the environment. Of those 176 recommendations, 115 were aimed at the federal and N.W.T. governments. But in an interim response released earlier this year, the two governments fully accepted only 10 of those recommendations. The federally-appointed Joint Review Panel spent five years examining the $16.2-billion pipeline project's potential environmental and socio-economic impacts, as well as consulting concerned northerners and groups, before releasing its findings and recommendations in December 2009. While the two governments fully accepted only 10 of the panel's recommendations, they conditionally accepted another 77 recommendations. However, the panel said that kind of conditional acceptance was often vague and non-committal.

STUDY CONFIRMS SUPERIOR CANADIAN FUEL QUALITY

The Canadian Petroleum Products Institute welcomed the long awaited Environment Canada report on fuel quality that confirmed once again that attacks on the quality of Canadian gasoline and diesel fuel are unfounded. "This is an important consumer confidence issue. The report shows that Canadians can be certain that they have high quality transportation fuel choices that deliver superior environmental performance", said Peter Boag, President of CPPI. The genesis for the study, conducted at the request of Environment Canada Minister Jim Prentice, was a questionable research

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report from the Pembina Institute commissioned by the Association of International Automobile Manufacturers of Canada (AIAMC). "We very much regret that the Pembina report created confusion among consumers and are satisfied that the federal government's due diligence has cleared the air", added Mr. Boag.

FLINT AWARDED SUNCOR CONTRACT EXTENSION

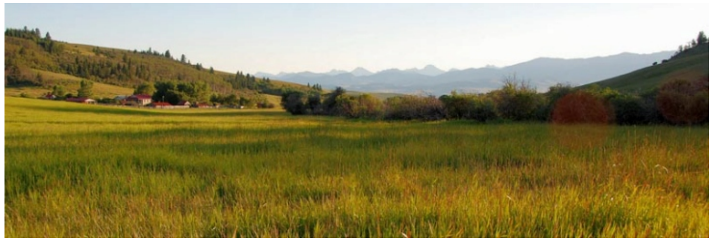
Flint Energy Services Ltd. has announced that it was awarded a contract extension for work on Suncor Energy's Firebag SAGD projects near Fort McMurray, Alberta for site-wide construction and commissioning services. The contract extension of approximately $78 million will increase the Company's total contract scope to just over $110 million. Work on the contract will be completed by Flint's Facility Infrastructure Division and will employ over 700 workers through early 2011.

HALLIBURTON WINS EXXON CONTRACT IN IRAQ

Oilfield services company Halliburton Co. said Thursday it received a contract to refurbish wells in southern Iraq by Exxon Mobil Corp. Under the contract, Halliburton will provide on-site logistics and technical support for both rigless and rig-assisted workovers, a procedure used to increase production from existing wells in Iraq's West Qurna Phase One field. A spokeswoman for Halliburton declined to provide additional details. Exxon and its partner Royal Dutch Shell Plc plan to more than double the number of new wells in West Qurna Phase One to reach its projected production target, an Exxon executive said last month. Exxon aims to drill two to three times the current 370 wells in the field as part of its development plan for West Qurna to reach plateau output of 2.325 million barrels per day, James Adams, Exxon's Iraq vice president, said.

JAPAN'S INPEX QUITS IRAN OILFIELD PROJECT

Japan's top oil explorer, has pulled out from Iran's Azadegan oil field project as expected, after U.S. sanctions against Iran over its nuclear programme posed a potential threat to the company's business. Inpex, which has invested 12.5 billion yen ($153 million) in the giant project, said on Friday that the agreement with state-run National Iranian Oil Company (NIOC) would have only a limited impact on its earnings. It said it had no plans to change its group earnings projections for this business year. Inpex had been weighing a withdrawal from Azadegan to avoid



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possible harm to its business, as it would have faced problems raising funds from U.S. financial institutions and its global development projects could have been hindered if it were subject to U.S. sanctions. Japan's trade minister said earlier this month that Inpex, which had a 10 percent stake in the Iranian oil field, was not on a list of firms targeted by U.S. sanctions against Iran, implying that the pullout was already in the works. NIOC had 90 percent stake in the project before the Inpex pullout. "After proper consultations with the Japanese government, we chose to withdraw," an Inpex spokesman said. "We no longer own the 10 percent stake." The spokesman added that the company did not expect to pay compensation to Iran, but he did not specify whether the company would recover its investment in the project. Azadegan was the OPEC member's biggest oil find in 30 years when announced in 1999, with oil-in-place of 26 billion barrels and recoverable resources then estimated at about 6 billion barrels, and it is expected that it will cost at least $2 billion to develop.

TNK-BP TO BUY BP'S VENEZUELA ASSETS

Russia's, half-owned by BP, is to buy Venezuela oil fields from the British major, one of TNK-BP's owners said, in another step towards its goal of growing outside Russia. "TNK-BP wants to surpass LUKOIL as Russia's largest independent producer, and buying these foreign assets is part of this strategy," Troika Dialog's oil analyst Valery Nesterov said. German Khan, one of the firm's billionaire shareholders, told journalists on Friday TNK-BP would buy three assets in Venezuela by year-end. TNK-BP is also close to buying BP's Vietnamese assets, worth around $1 billion, and a joint sale of the two operations could be announced aoon, a source familiar with the matter soon. BP declined to comment. The company has said it plans to sell up to $30 billion of assets in the coming 18 months to pay for its Gulf of Mexico oil spill. "We will buy 16.7 percent of Petromanagas, 40 percent of Petroperija and 26.6 percent of Bouqeron," Khan said. He gave no details of the cost of the deals. He spoke during Venezuelan President Hugo Chavez's visit to Moscow, where he met Russian counterpart Dmitry Medvedev. Russia's largest oil producer, state-controlled Rosneft, also announced on Friday that it will pay $1.6 billion for the state-owned Venezuelan firm PDVSA's 50-percent stake in four Ruhr Oel refineries in Germany. PDVSA jointly owns the facilities with BP. They have a combined capacity of 1.04 million barrels per day (bpd) and are the South American OPEC member's biggest downstream assets in Europe. Deputy PM Igor Sechin said the cost of Ruhr Oel deal is $1.6 billion. "It will increase the company's refining capacity compared to crude extraction from 46 percent, to 62 percent. It is good to achieve that," said Sechin.