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Oil Traders Fret as Russia Looks East

By The Moscow Times

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GENEVA — Stable oil prices have crunched the profits of physical energy traders, who warned on Thursday that U.S. and European refineries would face supply constraints unless Saudi Arabia and Iraq send them more crude.

Physical traders are tuned into global energy trends because they make their money by buying oil from areas in surplus and shipping it to places with shortages. Many top trading firms such as Vitol, Gunvor and Trafigura are privately held and few discuss their market views openly.

Totsa Total Oil Trading managing director Pierre Barbe said North Sea and Latin American crude production would decrease in the next five years, making Western refiners more reliant on supplies from the Middle East and West Africa.

Saudi Arabia and Iraq in particular could be important potential suppliers for refineries in Europe and the U.S. Gulf coast, Barbe said, also forecasting that Russian crude production would increasingly be sent to emerging Asia.

"Demand for refined products will only increase slowly at best. ... I don't see how in this context refining margins will remain supported," he told a trading conference, stressing that gains in some corners, including Canada and Venezuela, would not fully offset declines in North Sea and Mexico oil production.

"We hope that the Middle East will consider sending more product to the West, especially to Europe, because we need it," the Totsa executive said. "Eventually refiners will have to pay a premium for that crude."

Oil this year has averaged about $76 and two-thirds of front-month closing prices have been between $70 and $80. The market has also been closely correlated with equities and the dollar, rather than pure supply and demand.

Daniel Jaeggi, vice chairman of Mercuria, said the swathe of investors who have moved into energy markets had complicated the marketplace, adding to concerns about long-term supply.

"They perceive oil as an asset class, as opposed to simply a strategic commodity," Jaeggi said, also suggesting that such moves were not yielding much at the moment. "Oil as an asset class has not been a winning strategy."

Executives at the Geneva conference also described a tough 2010 for trading compared with 2009, when volatile markets offered plentiful options to broker oil and pocket gains from swings.

Jaeggi said fresh oil price spikes were likely when the global economy becomes stronger.

"The next time we have synchronized economic growth all the way around the world, as we saw in 2007, oil will have another price spike. That is my prediction," he said. "Eighty dollar oil will run out probably faster than people think."

Jonathan Kollek, senior vice president at TNK-BP, said Russia had plentiful energy but would need more government support to get oil to new customers, especially in Asia.

"The oil is there — the question is will we be able to take this oil, and will this oil come to market," he said. "The drive of consumption is from the East and the market is solid in the East. We expect the destination to stay attractive."