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Egypt News: Middle East Unrest Will Send Oil Prices to \$140 – How to Egypt-Proof Your Portfolio

BY DR. KENT MOORS, EDITOR, *OIL & ENERGY INVESTOR*

Dear Reader,

The Egypt protests could drive global oil prices to \$140 per barrel overnight.

Each day, nearly 3 million barrels of oil pass through Egypt. That's a significant percentage of the world's oil production, enough to drive up oil prices far beyond \$100 per barrel when the political unrest causes a supply cut.

But that's just the beginning. While oil prices go through the ceiling, the Egypt protests could actually be bad for American oil companies. They could bankrupt European electricity producers. And they could start a domino effect, tipping even more oil-rich states into political upheaval.

Which American oil giants should you avoid during the Egyptian protests? And why should you move your wealth as far away from Europe's energy sector as possible?

I'll show you how to Egypt-proof your portfolio.

Impact No. 1: Instability Can Cause Panic

First, while Egypt itself does not directly provide a great deal of oil to the international market, any instability in this region causes the traders to panic. (The hefty rises in oil prices immediately after the first protests appeared in news reports attest to this fact.)

While prices stabilized a few days later – after a quick round of profit-taking – they will begin experiencing upward pressure again (primarily for the reasons I will summarize below).

Keep your eyes on the Brent price in London, where the importance of what is happening on the streets of Cairo is more immediate. The price for crude is approaching the magic benchmark of \$100 a barrel.

There are no indications that the unrest is likely to translate into a government takeover by radical groups.

We are, of course, still quite early in the process, but Egypt remains a secular Islamic state, at least for the moment.

True, this is the birthplace of the Muslim Brotherhood some 60 years ago, the forerunner of radical Islam. However, these days, it is poorly organized, without effective leadership, and significantly weakened by government pressure over the years.

In any event, this is currently a popular uprising and bears little relationship to wider political issues – unless, of course, we assess its result to the broader region. The events unfolding, first in Tunisia and then in Egypt, have brought attention to the unstable hold governments throughout the region have on their nations.

Here is where the true problems may result.

Egypt, Turkey and Jordan are the leading secular Islamic states in the Middle East. But they have only moderate amounts of oil and gas. More disconcerting is the possibility of reactionary elements gaining control in places that have a more immediate impact on the flow of energy.

Impact No. 2: Western Producers and Drillers Could Suffer

Second, Egypt has been increasing its development offshore, especially of natural gas in the Nile Delta, the Gulf of Suez, and the deeper waters of the Mediterranean Sea.

Here, there are assets of major Western companies at stake – **BP** (NYSE:BP), **Exxon Mobil Corp.** (NYSE:XOM), **Chevron Corp.** (NYSE:CVX), **Royal Dutch Shell** (NYSE:RDS), **Eni** (NYSE:E), **British Gas Group** (OTC:BRGYY), **Edison** (OTC:EDIHF), and dozens of mid-sized companies.

In addition, there are substantial assets of leading drillers, including **Transocean Ltd.** (NYSE:RIG), **Diamond Offshore Drilling Inc.** (NYSE:DO), and **Baker Hughes Inc.** (NYSE:BHI).

What to watch here is the response to political pressures on the two dominant Egyptian state companies – the Egyptian General Petroleum Corp. (EGPC) and the Egyptian General Gas Holding (EGAS). These two control the dominant state position in all hydrocarbon projects in the country.

Impact No. 3: Eurozone Electricity Prices May Fluctuate

Third, developments in Egypt – should they lead to any interruption in deliveries – will have a more pronounced effect on the European gas market.

The discovery of large gas deposits over the past several years has catapulted Egypt into the fast track lane for liquefied natural gas (LNG) exports to the European Union.

Any problem on this front would change dynamics in LNG imports and provide instability in electricity prices on the continent.

Impact No. 4: Delivery Interruptions Bring in Serious Volatility

Finally – and, in my judgment, most significantly – while Egypt does not provide a great amount of the global oil and gas, it does control about 5% of its *delivery*.

Some 1.8 million barrels of oil move through the Suez Canal each day; another 1.1 million or so barrels pass along the Sumed pipeline from the Gulf of Suez to Alexandria and further export.

Any interruptions here would move the oil market into considerable volatility, requiring a rebalancing of contracts and a noticeable escalation in prices.

A rule of thumb to remember – *each 1% decline in global supply availability without an equivalent decline in demand pushes average crude oil prices up \$10 a barrel.*

At minimum, therefore, that would translate into an almost overnight NYMEX price level of \$140 a barrel and a Brent price pushing \$150.

Currently, the only problems in the Suez Canal are a result of communications being subject to government cuts countrywide. There is no indication the oil flow is impeded at this point.

But this is a fluid situation, and the likelihood of supply cuts elsewhere in the region as the popular uprisings increase, are a genuine concern.

Action to Take:

Going forward, keep an eye on three things:

- **Oil prices on the NYMEX and Brent markets.** Both of these markets will reflect sentiments about Egypt's ability to safely control its oil supply lines. Make a note of any news about the Suez Canal or Sumed pipeline. Both will affect oil prices.
- **News on Egyptian General Petroleum Corp. (EGPC) and Egyptian General Gas Holding (EGAS).** Any problems these state-controlled companies encounter could cause a chain reaction that hits foreign oil companies drilling offshore in Egypt.
- And remember, those foreign companies are some of the largest in the world, including **BP** (NYSE:BP), **Exxon Mobil Corp.** (NYSE:XOM), **Chevron Corp.** (NYSE:CVX), **Royal Dutch Shell** (NYSE:RDS), **Eni** (NYSE:E), **British Gas Group** (OTC:BRGY) and **Edison** (OTC:EDIHF), among others.
- **Europe's electricity prices.** Some countries in Europe are already facing steep increases in their electricity costs. And any interruption in service from Egypt's liquified natural gas production will drive those prices higher, still.

Sincerely,



Dr. Kent Moors

Dr. Kent Moors has been advising the world's largest and most active energy producers and buyers for 31 years, including six of the world's top 10 oil companies and high-level government officials from the U.S., Russia, Kazakhstan, the Bahamas, Iraq, and Kurdistan. Business clients include the Bank of England, Citicorp, AT&T, Deutsche Bank, the European Bank for Reconstruction and Development, the Russian Central Bank, and Westinghouse.



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