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Peak Oil Prices: Libya and Bahrain Drive Oil Prices Above \$150

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

Dear Reader,

The relatively peaceful ousting of the Mubarak government in Egypt was enough to scare oil prices higher. So what will the latest round of Middle East unrest do to the oil markets? Get ready for \$150 oil.

You may think this is a temporary situation. But the three weeks of protests in Egypt that led to President Mubarak's resignation are not going to repeat themselves in Libya and Bahrain. Both of these countries are going to witness more unrest and, I fear, much more bloodshed before any political changes come.

In other words, we aren't talking about another few weeks of protest. We're talking about out-and-out civil war erupting across the Middle East.

This is going to be a difficult time for the global economy and for energy investors. But just because the big boys of oil are suffering - and they will be suffering - doesn't mean investors can't find companies and stocks that will profit from the unstable situation in the oil markets.

Higher oil prices don't mean an end to oil and energy profits.

Don't believe me? Read on below.

The "Risk" Factor Is Taking Center Stage

We are now looking at the prospect of significant and sustained instability in the region of the world that's home to two-thirds of the known crude oil reserves.

It has already sent shivers through the international energy sector, and the problems are likely to be getting worse.

Both Brent crude prices in the UK and futures contracts prices for West Texas Intermediate are breaking highs only seen in the 2008 oil frenzy that led the global recession.

The futures contract curve reveals that traders do not regard this as a short-term problem.

We have an escalating and contango market – one in which each month further out has a higher price than earlier months. In addition to the uncertainty spiking prices, traders are currently unwinding shorts. They were betting on the crude oil price declining, and they were absolutely wrong.

If ever there were doubts that exogenous (outside of the market) forces could dictate trade, the current events will push them aside. The volatility will now kick in big-time... and that will further unnerve the trading environment.

A Protracted – and Violent – Struggle Is Underway

Tunisia and Egypt were disconcerting. But [the events in Cairo](#) may end up being the exception to the rule.

The unrest in Bahrain and Libya is far more dangerous. The unraveling of autocratic rule in the Middle East and North Africa (MENA) will not be a peaceful event.

With Libya, we have a major source – and one of the last sources – of light, sweet (low-sulfur) crude. This is most prized by refiners because it requires the least processing expense. There is one other source. Unfortunately, that happens to be Nigeria – a place not particularly known for its stability either.

Libya is descending into civil war; the foreign oil companies have stopped activities and have begun pulling out most of their personnel. As I write this, 6% of production in the country is offline... and that number is growing.

Europe is directly in the path of this interruption, since it is the end user for about 80% of all Libyan exports.

The bodies in the streets of Tripoli and Benghazi are a harbinger of what is to come. Unlike the army in Egypt, which served as a restraining influence, the army in both Tripoli and Bahrain is a weapon against the crowds and a virtual guarantee of further bloodshed. Neither Gaddafi nor the ruling family in Bahrain will be leaving voluntarily.

And that means a protracted struggle is underway.

In Bahrain, however, something perhaps far worse is on the horizon...

The Perfect Storm That Everybody Wanted to Avoid

In Bahrain, there is oil, but there is also an incendiary religious division – a Sunni minority ruling class against a majority of Shiites. Combine that with the acute economic problems experienced by average people throughout the region, and frustration is leading to rage.

Bahrain is located, strategically speaking, in the worst place for such an uprising.

Yes, the U.S. bases its Fifth Fleet there, and that has been a primary ingredient in American Persian Gulf policy. If the fleet needs to leave, that will provide another ingredient in rising regional instability.

However, the real problem is this:

Bahrain is a 665-square-kilometer archipelago directly across the water from Iran and connected to Saudi Arabia by a causeway. Tehran has almost certainly started to provide support to a Shiite uprising; but the Saudis will do everything they can to prevent one.

This is because Bahrain connects directly to the eastern province in Saudi Arabia that contains its principal

oil production. That province also has a Shiite majority. When Ayatollah Khomeini led the Shiite revolution in Iran back in 1979, the Saudis had to use the military to put down a revolution in its own province. This time around, Riyadh will not wait for that to happen.

The concern over contagion – the spread of unrest throughout the region – is certainly genuine.

That means the volatility prompted in futures oil prices will be figured into the unfolding dynamic for some time.

How to Play Triple-Digit Oil

There are three overarching considerations here, and we are seeing these moves in the markets already.

First, the primary hit will be taken by those oil majors with exposure to the region and the impact the region's events are having on the broader oil market.

The big boys will survive, but they will have to counterbalance losses in places like Libya with production from other areas. That will take some time.

Watch the well-focused medium and smaller-sized companies, especially North American operations. They will be the primary beneficiaries.

Second, this will generate at least a short-term impetus for the transition from crude oil to natural gas. Expect [primary natural gas producers](#) to experience a pop. The longer the crisis remains, the more the transition between these fuels will gather steam.

This should also be the case with high-grade coal holdings and alternative energy. However, there are other factors at work in both sectors. In the first instance, there's the unwinding of the global coal picture, with Australian volume slowly coming back online after severe flooding; and in the second, there's the length of time needed to move significant renewable and alternative energy capacity into those sectors where rising crude oil prices would dictate a switch.

Yes, this is another reminder that ultimately means a move away from crude as the energy source of choice. But crises demand more immediate solutions; they rarely allow for a period of R&D.

Finally, at these prices, *all* sources of unconventional and synthetic oil become attractive, especially if they are not in the region coming unglued.

For North America, that means [Canadian oil sands](#) and American or Canadian oil shale are back on the front burner. As the MENA sourcing for conventional crude becomes a rising issue, these alternatives already producing closer to home are a ready substitute.

It used to be a problem of price. But at triple-digit levels for crude on both sides of the Atlantic, that is no longer an issue.

Action to Take

Escalated unrest in oil-rich MENA nations will lead to potential profits in both the natural gas industries and unconventional oil producers, like oil sands and shale oil.

For a great guide to the best natural gas investments, take a look at [The Top Five Natural Gas Companies to Watch](#).

Interested in unconventional oil producers? [\\$150 Oil Is Coming, So Here's How to Make the Most Money](#) will give readers a great alternative to the big boys of oil, like **ExxonMobile** (NYSE: XOM), **Chevron** (NYSE: CVX) and **BP** (NYSE: BP), who will all be hurting in coming months.

Both of these articles are free from *Oil & Energy Investor*.

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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