

Petrobras's Offshore Gamble:

Special Report

How to Profit from the Tupi Oil Field

Judging from the amount of responses I receive on a daily basis, it's fair to say my readers can be very opinionated.

As you may remember, the federal court of appeals yanked the DOI's five-year oil and natural gas leasing plan right from underneath its feet. And truth be told, the last time I saw that kind of animosity from our readers was when I sat next next to a group of Yankee fans at Fenway Park.

But just two days after the replies came flooding in, I came across another news release. Right on the heels of the court decision, Florida lawmakers gave the green light to lift the state's ban on drilling off their coast. Furthermore, the house gave the governor and his cabinet power to approve drilling proposals between 3 and 10 miles offshore.

The sudden interest in developing Florida's offshore oil and gas comes with the hope of millions in revenue for the state budget. Naturally, the bill is being lobbied and funded by an unidentified group.

I'm curious as to how many of you are supporting this kind of move. The image of oil platforms dotting the horizon comes to mind. . .

Oil Afloat at \$50

If you've been following oil prices closely, you've probably noticed the \$50/bbl mark has been teasing us. After dropping as low as \$48.01 per barrel during trading earlier, prices finally found their footing.

According to the media, the latest swine-flu outbreak is the reason for falling crude prices. Their train of thought is that the swine-flu is causing a panic and limiting air travel, thus curbing jet fuel demand and the world economy.

One gentleman in particular told me this single event will flush oil prices back down into the \$30 price range.

Personally, I'm not buying it.

For starters, crude oil has nearly erased the losses from this morning's trading. The next test is whether prices can break \$60 per barrel this time around. Over the last three weeks, oil bounced as high as \$56.10 per barrel.

So if it's not the pig-flu frenzy in the media, what's keeping crude down?

Let's take a look at U.S. demand. After all, we are the undisputed leader in global oil consumption. And for the last seven consecutive weeks, the EIA has reported a build in inventory levels. Recently, U.S. crude oil stocks reached 370.6 million barrels. That comes out to an increase of 3.9 million barrels over the week previous to that. Furthermore, that's 54.5 million barrels higher than a year ago.

Needless to say, we're well above the five-year average. In fact, the last time our crude inventory was this high was on September 14, 1990 — *nineteen years ago* .

Meanwhile, OPEC has been unusually quiet lately. Members insist that \$70 per barrel is where they'd like to see prices, but \$50 per barrel is "reasonable." Does anyone else recognize this oil dance from before? When oil was at \$35 per barrel, OPEC felt \$50 was the correct price. I have a feeling that if oil prices were \$70 a barrel right now, they would be pushing for \$90 per barrel.

Remember, OPEC *still* hasn't reached the production cuts announced in 2008. And depending on whom you talk to, OPEC members have cut between 80-90% of the proposed cuts so far.

But not all the news I come across is bad. . .

Brazil's Tupi Success

The Tupi offshore field isn't new to us. I'm certain you've heard about this huge offshore discovery at least once over the last year. In fact, it's one of few areas with a bright production outlook.

It's also opening up a door for investors.

Before I go any further, I think it's imperative you don't get roped-in from the wild numbers. I've seen some ridiculous production numbers associated with the Tupi field. The one that comes to mind immediately was in an email boasting that the Tupi field will satisfy the entire U.S. demand for the next decade.

First of all, I think my readers are intelligent enough to know the Tupi field won't be producing upwards of 20 million barrels per day this year. Or ever, for that matter. It simply won't happen.

However, we can expect some big action in Brazil. Recently, Petrobras announced the company will be looking for approximately 240 offshore vessels to help develop their offshore resources. We're talking about everything: drill ships, supply ships, storage vessels, etc.

Increasing their oil production will come at a cost. In this case, Petrobras is investing nearly \$200 billion with the target of increasing production by 700,000 barrels per day over the next four years.

There's still a chance for investors to get a piece of the action. Petrobras expects to almost double their number of offshore rigs in the next two years. In the e-Letter, I'll tell you which one of those offshore drillers I'm picking up before those contracts come out.

Until next time,



Keith Kohl

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