



# Flawed IEA Projections Point to Russia as the New Oil Powerhouse

**Thanks to major flaws in the International Energy Agency's projections, oil prices are about to jump through the roof. And it is Russia that stands to benefit the most.**

**Here's why Russia will turn into an oil investor's paradise...**

By Kent Moors, Contributing Editor, *Money Morning*

Oil prices have slipped over 46% from their record high of \$147 per barrel in July 2008. And the pundits are becoming more and more bearish on oil.

But thanks to major flaws in the International Energy Agency's (IEA) projections, the oil bears are about to be shocked by a major run up in oil prices.

And the country poised to benefit the most? Russia.

That's right. By this time next year, Russia will be the single-most important place in the world to find oil.

This report shows you what's really happening in the oil market... why the IEA's projections are so wrong... and why Russia will be the focal point of the oil market's rebound...

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## Russia's Oil-Rich Economic History

From 1999 to 2006, Russia's economy grew a breakneck pace – averaging double-digit growth.

During that rebound, Russia saw a wide range of overall economic and social improvements. Vladimir Putin was sworn in as president on the last day of 1999, and started the new millennium

by placing the country's chips on its biggest industries, oil and natural gas, whose global demand rose continually in that span. Jobs returned. Poverty fell. Stocks rose. Many believed Russia was finally on its way to being a viable economic force.

Even when the global economy sputtered in 2007 and 2008, Russia's gross domestic product gained 8.1% and 5.6%, respectively.

But when commodities prices across the board plunged in late 2008, Russia's economic boom effectively started slipping away.

The country that was wealthy when oil was \$147 per barrel became deeply impoverished when oil prices dropped all the way to the \$33 range.

And in the first half of 2009, Russia's GDP fell just as fast – plunging 10.1% and further igniting concerns from citizens, politicians and investors. For the year, the World Bank predicts Russia's economy will contract 7.5%.

But unlike most the world's major economies (Russia is the sixth largest in the world in terms of purchasing power parity), Russia is heavily reliant on one industry – energy.

And this is where it gets interesting...

## Why the IEA Was Wrong on Their Oil Projections

Just recently, the International Energy Agency (IEA) said global oil consumption would average 84.4 million barrels per day in 2009, 0.5 million barrels per day higher than it previously forecasted. The IEA also revised 2010 consumption estimates to 1.3 million barrels per day, factoring in a global recovery taking hold.

The revision may not seem like a big deal, but it is incredibly rare for the IEA to revise its estimates so dramatically.

So, why the change? What are the forces moving the global oil market?

- First – and most obvious – demand from China and India is still alive and well... and growing. And when the rest of the world's major economies rebound, demand from them will return and raise the floor of oil prices.
- Second, OPEC countries are *hoarding their own oil exports* in order to prop up their own economies, clamping global oil supplies.
- Third, the single biggest explosion in oil product demand in the world is in Western Africa. And, yet, *nobody* has factored that in yet – not even this recent IEA revision.
- And fourth, the global financial crisis forced major oil companies to clamp spending on exploring and developing new oil fields. Once the economy rebounds, this drilling and exploration will continue, but there will be an 18-to-24-month delay in the bringing these sources online. However, demand will return long before that. And supply will have no chance of meeting it for up to two years.

The prices are going up, that's a no brainer. But that doesn't mean you go out and buy Exxon Mobil. Some sectors are going to be a bit more profit-intensive than others.

Enter Russia...

## And Why Russia Will be the New Oil-Services Hotbed

Russia's reliance on energy got it into its economic mess, and it will be its biggest ally in coming out of it.

As we all know, Russia is sitting on a huge stockpile of oil, both in its soil and off its coasts. Specifically, there are considerable oil reserves north of the Arctic Circle, in Eastern Siberia, and off onto the continental shelf.

These areas are rich in oil, but have little infrastructure. Before any oil can be extracted, nearly every oil-services product across the board is needed – rigs, drills, exploration, and the manpower to do it.

Already, Halliburton Co. (NYSE: HAL) and Schlumberger Ltd. (NYSE: SLB) made major moves into Russia in anticipation of blowing this wide open.

Worldwide, Russia is the single most important place to look.

Not only that, but these projects will be extremely expensive to finance. That's why the Russian government will soon relax standards for foreign investment into Russia-based oil fields.

That's right. The country that once turned foreign investment attempts into bureaucratic nightmares is changing its tune. And, once foreign investors are allowed in, you can bet that investors will be lining up to get their share of Russia's oil jackpot.

This will open up an entire area for leaner, hungrier, smaller, more focused companies because larger companies can't pull a profit from these projects.

The percentage of the crude oil coming online from medium and smaller companies will be going up. In other words, even though the big boys are going to be producing more, it's going to be the medium and smaller sized companies that are actually going to generate a greater percentage of the flow that's coming both into the market as crude and into refineries.

## Where to Invest Now

It will probably be another year before this market comes alive to the point where investors can start making moves.

Until then – and after – Peter Krauth, a recognized expert in metals, mining and energy stocks and *Money Morning* Contributing Editor, suggests prospective Russia investors take a look at **Gazprom OAO (OTC ADR: OGZPY)**, Russia's state-owned oil and gas titan. With a helping hand from the government, Gazprom is involved in the exploration, production, transportation and sale of oil and natural gas. With a \$160 billion-plus market cap, Gazprom is nearly three times the size of its nearest

domestic competitor, **Lukoil (OTC ADR: LUKOY)**.

Krauth also suggested the **Market Vector Russia ETF Trust (NYSE: RSX)**, an exchange traded fund that seeks to replicate as closely as possible the price and yield performance of the DAXglobal Russia Index. The Index comprises a wide array of Russia-based companies spanning the energy production, telecommunication, steel production, mining, and electricity generation sectors. Inclusion into the ETF requires companies have a minimum \$150 million market capitalization and have a daily average traded volume of at least \$1 million over the past six months.



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