



Oil Report 01.13.09

As expected and stated in last week's article the price per barrel of oil has fallen back to the high \$30 dollar mark. With tension between Israel and the Gaza Strip contained between the two areas and not engulfing into the broader region its effect on oil should remain minimal. The bigger picture is refocused on the economy and the negative fourth quarter earnings reports that continue to come out. Over the weekend Citigroup announced it will have to restructure itself and will announce large write offs in the high billion dollar range again. Yesterday Alcoa, a large aluminum company, announced a \$1.19 billion dollar fourth quarter loss, in comparison to roughly \$632 million in profit last fourth quarter in 2007.

On the currency outlook the ECB will have their scheduled meeting this week and are expected to cut interest rates from 2.5% to 2.0%. After the Bank of England last week cut their base rate from 2.0% to 1.5% and the Federal Reserve has cut rates to near 0% the ECB is expected to follow suit. The assumption is when the Euro Zone lowers rates the dollar will go up in value. The dollar started out the week on the right foot making large gains against the Pound, Aussie Dollar, and Canadian Dollar.

The Labor Department announced on Friday that non-farm payroll went down by 524,000 in December. This number put a negative spin on the market for much of last week with the market falling from roughly 9,000 to 8,600 on the Dow.

In a report by the Energy Information Administration (EIA) released today they expect world oil consumption to decrease for 2009 as it did in 2008. The declines in consumption are coming primarily from the USA and other advanced countries. Non-OPEC supply is expected to grow by 180,000 barrels a day from the USA, Brazil and Azerbaijan and will cover any decreases in production from Mexico, Russia or other countries. It is never very clear exactly what OPEC is doing, but the EIA is expecting a decrease of 2 million barrels a day in production, which is half of the 4.2 million barrels a day in announcements over the past months. The EIA believes with a reduction in OPEC oil demand and an increase in capacity expansion there will be a surplus of 4 million barrels a day compared to a buffer of 1 to 2 million barrels over the past years. These are all positives for low prices in the oil markets.

The market and crude oil consumption remains to be negative and down putting pressure on the price of crude oil to go lower. The futures markets and numerous analysts believe the price per barrel will rally by the end of the year, yet nothing positive has helped to

conclude this assumption. With jobs disappearing, banks increasing write-offs, and consumption remaining bleak I don't see a jump in crude for now.

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