



## Oil Review 01.05.09

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Last week on New Years Eve crude oil traded down to \$37 a barrel and unleaded gas was trading as low as 90 cents a gallon. Come Friday oil was at \$46 and unleaded gas reached \$1.10 a gallon. Percentage wise that is a jump of nearly 25% and 22% respectively, in only two days! It just goes to show that conflict in the Middle East can cause huge swings in the price of energy. Today oil and gas traded even higher closing out at \$48.52 and \$1.177.

With conflict between Israel and the Gaza Strip continuing through the weekend and today, rumors started to circle about some OPEC countries cutting down oil production in an effort to slow or stop Israel's continued bombing of the Gaza Strip. At this point that does look very remote considering many OPEC countries budgets are set for much higher oil prices and need such production to bring in more revenue. Even though oil production seems to be the same as a week ago, oil is up 25%.

Last week Russia cut off natural gas to the Ukraine due to an unsigned contract for delivery in 2009. It looks like a clear dispute on the price Ukraine is going to pay for the gas that it resells to Western Europe. The numbers are a little unclear on what was being asked and what is now being expected, but this did have an effect on the uneasiness of the market moving. Since most natural gas going to Western Europe from Russia travels through the Ukraine, a cut off from them would cause quite a supply dilemma.

To coincide with crude oil jumping in price the dollar index tends to go down, but it actually came back up. It just goes to show that nothing is ever predictable. The dollar index ended last week in the 81 point range and today jumped this morning from roughly 82.40 all the way to 84 before settling at 83.58. With the dollar rise the Euro has fallen back below \$1.40 down to the \$1.357 range.

Just looking at the futures prices out until the end of the year the market is expecting crude oil to end up back in the low \$60 dollar range with the December 2009 contract trading at \$61.65. It seems the market after such a volatile few years wants to have these wide swings.

There is tension in the Middle East between Israel and the Gaza Strip, but it has not spread to the broader region as suggested by the escalation of higher oil prices. Since the turmoil has not spread, oil prices should come down in price. Then again one never

knows what could happen. Outlooks on the global market are still very dire which should help to push down the price per barrel of oil.

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