



Oil Review 01.20.09

With the inauguration of Barack Obama taking place in our nation's capital today many are excited and optimistic about the future. President Obama today in his speech did not try to paint a rosy picture though he talked about our many problems and issues we have as a country and many of the issues facing the economy today. "Our economy is badly weakened, a consequence of greed and irresponsibility on the part of some, but also our collective failure to make hard choices and prepare the nation for a new age. Homes have been lost; jobs shed; businesses shuttered..." Barack Obama could not save the market today with the Dow closing below 8,000 down over 300 points. The banking sector continues to report negative earnings and the need for government bail outs. Bank of America is suggested to need up to an additional 80 billion to become solvent. English banks are having a very tough time as well with the Bank of Scotland Group Plc now being owned 70% by the government. In addition Gordon Brown is pledging an additional 100 billion pounds to the United Kingdom's troublesome banking sector. The whole economy is tanking and with it so are oil prices.

With the Dow Jones closing below 8,000 today for the third time in the last two months the oil markets followed sinking lower. The February contract expired today and was expected to lead the charge, but actually closed up over two dollars to \$38.74. This was a huge turn around considering the contract hit a low of \$32 in the early morning hours of trading. The rest of the contracts including the now front month March contract went lower, closing down \$1.86 to \$40.71.

With banks continuing on their scorching path downward they are taking everything with them. Unemployment is increasing with increasing layoffs and the consumption for natural resources is in the same boat. The price of crude oil is doing its best to stay up with the oil futures contracts staying higher than the present, but continued negative economic data will put pressure on the commodity to stay down.

On the currency watch the dollar is strengthening once again to the Pound reaching \$1.40 for the first time since 2001 and the Euro is back down below \$1.29. The dollar index is trading in a nice upward channeling with the dollar going above 87.00 multiple times in trading today. This is only a positive for lower oil prices traded in US dollars.

The conflict in the Middle East between Israel and the Gaza Strip has died down with Israel declaring a unilateral truce on the 18th between themselves and militant groups in

the Gaza Strip. Who knows when or if another regional conflict will occur, but for now the violence has stopped, taking pressure off of oil from possible supply disruptions.

The monthly OPEC report came out on January 15th, but stated much of what we already know. Basically the bad economy is bringing the price of oil lower. The one key point they did mention was inventory data for the US and Europe. European oil stocks rose 1.7 mb to 1,120 mb, which is around the five year average. Here in the USA, the Cushing, Oklahoma storage facility used by the NYMEX as a delivery point was holding near record storage levels at 33 million barrels.

The big picture for oil is still the same with decreased consumption worldwide. With rising unemployment and increasing bank failures squeezing credit even tighter, the picture does not look good. Additional factors are increasing inventories, the dollar strengthening, and violence in the Middle East easing. Looking at the many factors that come into play for the price of crude oil, too many of them are pointing down rather than up.

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