



## Oil Review 02.09.09

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With the economic stimulus package soon to pass, uncertainty is in the air on whether it will jump-start the economy or not. The Cato institute today ran a full page add in the Wall Street Journal expressing extreme disbelief that huge deficit spending will help and cited the failures of spending during the Great Depression and Japan during the 1990s. It is uncertain what will happen, a recovery or a prolonged stagnation.

Today the oil market shot up over 5% to \$42.33 before falling back below \$40. The market rallied initially due to a statement made by the Iraqi oil minister, suggesting OPEC output will fall in coming months in order to stabilize the oil market. Iraq's budget is set for much higher oil prices than 40 dollars per barrel. I do not believe they will cut production since they need as much money as they can get to balance the budget.

The dollar index is still holding above 85 points, which is good for oil bears. With a huge stimulus plan in the works I would not be surprised if the dollar takes a large fall initially due to extreme deficit spending and higher inflationary fears. This would in turn put pressure on oil to go up in price.

There are many negative points to ponder for the outlook for global economic growth and the price of crude oil. There are clearly doubts if the economic stimulus plan, set to pass soon in the US, will do any good or not. Will OPEC really slow production so much that the price of crude stabilizes? Will the dollar remain strong or fall back helping boost the price of oil? I would remain on the bearish side of the fence for now. There are just too many negatives in the market at present.

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