



Oil Review 12.22.08

With the roll over from the January contract to the February contract for crude oil, the price did go back above \$40, but this lasted briefly with the market settling at \$39.85 on the close today. Much of the same is in the air this week as last week. With the Federal Reserve lowering interest rates to near zero for the first time ever there was a down turn on the dollar. In tandem to the decrease of the dollar a rally in the Dow developed, which gave way to a drop over the following days. Many oil exporting countries who said last week they are going to cut supplies of crude oil are in dire needs of capital to balance their budgets so a slow down of a significant amount is doubtful.

“Zeljko Bogetic, the World Bank’s lead economist for Russia, said that an average price of \$30 a barrel of oil over the next two years would be ruinous for an economy that relies hugely on revenue from crude exports.” This quote was taken from a Lidia Kelly article in the WSJ on December 22, called “World Bank Urges Russia to End Its Ruble Policy”. The article suggests that a declining value of a barrel of oil would be extremely negative for Russia’s economy. With this I am putting the argument out there that with things so bad in Russia, decreasing production of oil just seems very doubtful.

The Federal Reserve lowered the federal funds rate down to zero or near zero for the first time ever. This took the market by surprise and a 300 point Dow rally then ensued. Over the next three days of the week the market took back those gains. The US dollar was similar with a huge drop below 79.00 before ending the week back above 82.00.

With continued unemployment numbers from the US department of Labor, trade slowing and the global economy slowing down I don’t see what could help boost the price of oil. A large slowing of crude oil production will boost the price, but with many producers running large balance deficits, I don’t see how this could take place.

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