Oil and gas price evolution assignment

What Moves the Oil and Gas Price? Why are oil prices and gas prices so dramatically increased in the last view years? Oil and gas price will maintain the current level or rise in the next years because of the world economy, an increased demand on oil and its production costs, the gas demand, and the investment in developing alternative energy sources. How long will the oil reserves last?

It is currently estimated that the oil reserves in the United States will last for 20 to 30 years, but this may or may not be accurate For example, since the first oil price shocks in the seventies, a many actions have been taken in order to reduce the consumption of oil and to reduce energy The reality is, that the world oil demand is forecasted to grow in 2009. " World oil demand is forecast to grow by 0. 9 Millions of Barrels per Day (mb/d) in 2009, averaging 87. 71 mb/d which is 0. 1 mb/d lower than in the current year. " (OPEC, Monthly oil market report, July 2008 p.). This report indicates that we expect a slow down in the years after 2009. Assumptions for this oil demand forecasts are; the Worlds Gross Domestic Product (GDP) grow will slow down compared to 2008, we expect normal weather and the energy-price as well as the demand of elasticity will strengthen worldwide. The higher oils and gas prices will reduce this demand by utilization of nuclear power plants, adding biofuel and moving towards use of smaller and economical vehicles. The industrial oils usage is balanced with the economic growth. The oil market report stated:

Slowing demand for gasoline particularly in the US, combined with an easing in the distillate markets and costly crude have exerted pressure on refining economics across the world. The continuation of these trends may encourage refiners to cut throughputs or begin seasonal maintenance earlier than usual, which would trim crude demand. This could lead to further crude stock-builds in the coming months, putting pressure on crude prices in the latter part of the year. These perceptions may change if supply disruptions occur either in OPEC (Organization of the Petroleum Exploring Countries) or non-OPEC producers over the next months.

The main wild card for the product market in the near future would be possible refinery outages due to a potential active hurricane season in the US Gulf Coast. (OPEC, Monthly oil market report, July 2008 p. 3) In Europe, for example, the oil consumption per unit of gross domestic product since around 30 to 40 percent and this is true both for households as well as for the industry. In the world's largest economy, the U. S. , the savings were far less clear. The remaining oils reserves have to be produced on higher costs and we see also an increase in transportation as well.

Therefore the oils and gas prices will maintain or rise in the next years. In addition political turbulences and crisis will have dramatic impacts in the next 3 years (short ??? term). If we look at the value chain of oils and gas, than we are able to identify additional price rises like tax, transport costs and the focus on fuel deviates combined with research and development costs. But what makes the price of oil and why have the prices rose so dramatically? In the seventies and eighties were often the OPEC and its pricing policy for increases blamed.

Meanwhile stress economists and participants in the commodity markets, the finite nature of the geological resources and unequal distribution of deposits:

To store in the U. S. , Canada and Mexico together only five percent of total world supply of oil. What is the role of futures markets? Many economists also stress that with increased oil prices also an additional supply in the markets because so far to costly production is at once profitable. So now substitutes such as the oil sand in Canada dismantled what the expiration date for the global resources to move back.

For the oil companies to fall with the costly reduction of such occurrences, however, is still very high profit margins. As well as If we factor out the effects of inflation, the current oil prices are still slightly below the peak from the seventies. The scarcity of oil offering but, together with the increased global demand, certainly play their part to the recent price increases on world markets. Only recently climbed the price of a barrel of crude oil to over 100 U. S. dollars, an increase to 120 dollars per barrel no longer seems excluded.

The price of oil to the U. S. gas stations since 2004 is even more than double. Semmler W. (2006) Professor of Economics and Research Fellow at the Bernard Schwartz Center for Economic Policy Analysis (SCEPA) of the New School in New York and Professor at the Center for Empirical Macroeconomics (CEM) at the University of Bielefeld stated, that at present, but the effect is another mechanism, with the functioning of modern financial markets has to do, the rise in oil prices: trade with oil derivates in the futures markets has increased in recent years gained importance.

In these markets is already the demand of tomorrow traded. For example, traders anticipate what China is the future for oil to pay could be. The prices for derivatives in turn impact on the real prices. Of course you can also offer temporary disruption of the price rise and a lot more than most other products. Cyclones, geopolitical crises, political unrest and strikes, influence the barrel price in the short term often dramatically. Economists say that the elasticity of demand of energy consumption is relatively low and therefore minor changes in the offer price rise.

Thus, not only the real shortage of oil, risings demand from growth regions such as China and India for consideration, the price boosted. The financial market bubble in the paper barrels has contributed its part. The total assets in the futures markets to invest are in the years 2000 to 2006 from 40 billion to 140 billion respectively. The trend was exacerbated by the fact that loans due to low interest rates have been cheap. Tilts the economy now? So far, the rising oil prices do not yet have big slump in the economic growth effect.

But this might be happen in the next future. The energy consumption is relatively low, therefore only a small increase in terms of offering, but a high increase of price. Equally important is, that the American economic growth is already weakening, in the last quarter annualized; it amounted to only 2. 5 percent. The U. S. central bank chief is out warnings that the interest rate could be increased further. The purchasing power of middle-income people in the United States in recent years barely risen. At the same time increased the debt of the households.

Real estate prices are already so shrinks the creditworthiness of many households. Additionally you should have a look at the latest news in order to build your own picture about the upcoming issues with the oil and gas price. The Economic Times reported: SINGAPORE: World oil prices rebounded in Asian trade Wednesday, after the OPEC oil group announced it had agreed to cut real output by 520, 000 barrels a day, dealers said. In morning trade, New York's main contract, light sweet crude for October delivery was up 84 cents to 104. 10 dollars a barrel while Brent North Sea crude rose 63 cents to 100. 7 (The Economic Times, Oil prices rebound after OPEC output cut. Sep 10, 2008) The Financial Times reported: In Europe, angry farmers and truck drivers blocked roads and struggling budget airlines grounded their aircraft. In Asia, citizens protested as governments from India to Taiwan cut the generous fuel subsidies they could no longer afford and China's growth engine began to show signs of needing less oil as the Olympic Games came to a close. In the past two months oil markets have begun to reflect such changes and prices fell to as low as $105 a barrel last week. Hoyos C. , Opec ponders when to cut oil output in effort to boost price. Sep 10, 2008) In summary, if a sharp rise in oil and gas prices and further interest rate increases together it could, given the unstable economic situation in the U. S. in fact an economic crisis initiate. References Hoyos C. (September 8, 2008). Opec ponders when to cut oil output in effort to boost price. Retrieved September 12, 2008, Financial Times, from Web site http://www. ft. com/cms/s/0/c7d09570-7d3c-11dd-8d59-000077b07658. html OPEC. (2008).

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