



Portland market report

June update

Predicting the oil price part 1...

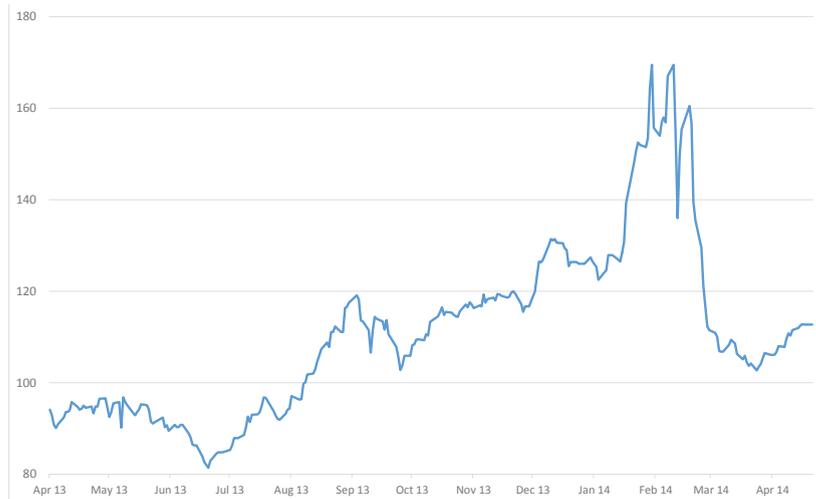
A fairly frequent question asked of Portland is “which way is the oil price going?” to which the fairly frequent answer is “if I knew, why would I still be writing this bl**dy report?. So just to be absolutely clear, despite 20 years in the industry, Portland doesn’t really have much of a clue which way oil prices are going. And nor does anyone else. In fact, let’s not forget that in January 2008, the self-appointed “Masters of the Universe” (Goldman, JP Morgan, Lehman) were predicting that oil prices were heading for a super-spike of \$200 per barrel. No prizes for guessing what happened next – by December of the same year, Brent was at \$35 per barrel. Brilliant!

There is an old and very simple adage in the oil industry, which is that everyone knows the kind of things that push oil prices up and down, it’s just they don’t know when these things will happen. The factors that have the most profound impact on prices are also the most difficult to predict, whilst those drivers that affect prices the least are correspondingly the easiest to forecast. So whilst a market commentator might predict that over the next 10 years over-population will likely push prices up, he or she will give no detailed time-scale to this and will simply point to an increasing gap between supply and demand which at some point becomes critical. Equally the same market commentator may suggest that the glut of shale oil from the USA may at some point push prices down (as a result of surplus supply), but will have no idea when US crude exports will enable this to happen. So whilst wide-ranging up/down price forecasts may be dramatic, they also offer little comfort or insight to the consumer of fuel trying to plan their purchasing strategies.

Financial gimmickry and supposed market wizardry

It is in this context that oil analysts like to focus on easy wins, that make them look clever but don’t actually tell you a great deal. Such an approach is called “technical analysis” and

North American (Mont Belvieu, TX) Propane Price in US Cents / Gallon



in the oil industry, this means producing a plethora of data and graphs that show (via a combination of financial gimmickry and supposed market wizardry) which way and when the oil price will move. Now of course for those who make money on split-second, small movements in oil price (ie, traders), technical analysis does have its place. But it still serves no purpose to the consumer, as the majority of intra-day price movements don’t even filter through to the refinery gate, let alone the petrol forecourt 3-5 days later.

Over the last few months, we have had ample evidence that technical analysis serves no purpose when it comes to predicting the “big ticket items” of oil price. For example, the price of crude has been both volatile and increasing since January (see page 4) not because of supply and demand fundamentals, but because a corrupt Ukrainian president made the wrong call in backing Russia (rather than the EU) and then the public reacted in an unexpectedly extreme way. Could anyone really predict such a chain of events? Or alternatively, look at the graph above and see what happened to propane prices in North America this winter. Not one analyst predicted the kind of price spike that was experienced, because not one of them could predict the weather and all it takes is one freak winter to skew every piece of technical analysis available.

Unfortunately there are two main factors that push oil prices around and these can be (glibly) referred to as warmongering and weather. As 99.9% of the population can have no control over either of these factors, it seems a rather pointless exercise to try and predict either. Sure if you hang out with a select bunch of rogue country presidents, you might know in advance when your boss is going to be placed on the international naughty step. Or alternatively, you might choose to believe the tabloid media when they periodically predict record weather patterns (cold, heat, drought, rainfall, snow, winds etc, etc). But in the main, we suggest leaving oil price prediction to the so-called experts who by rights, should all be out of a job since their success in 2008. But as we know, they are still around and quite remarkably are still happily advising corporations, governments and NGOs around the world....



For more pricing information, see page 26

Portland Fuel Price Protection
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