The Secular Shift in Oil

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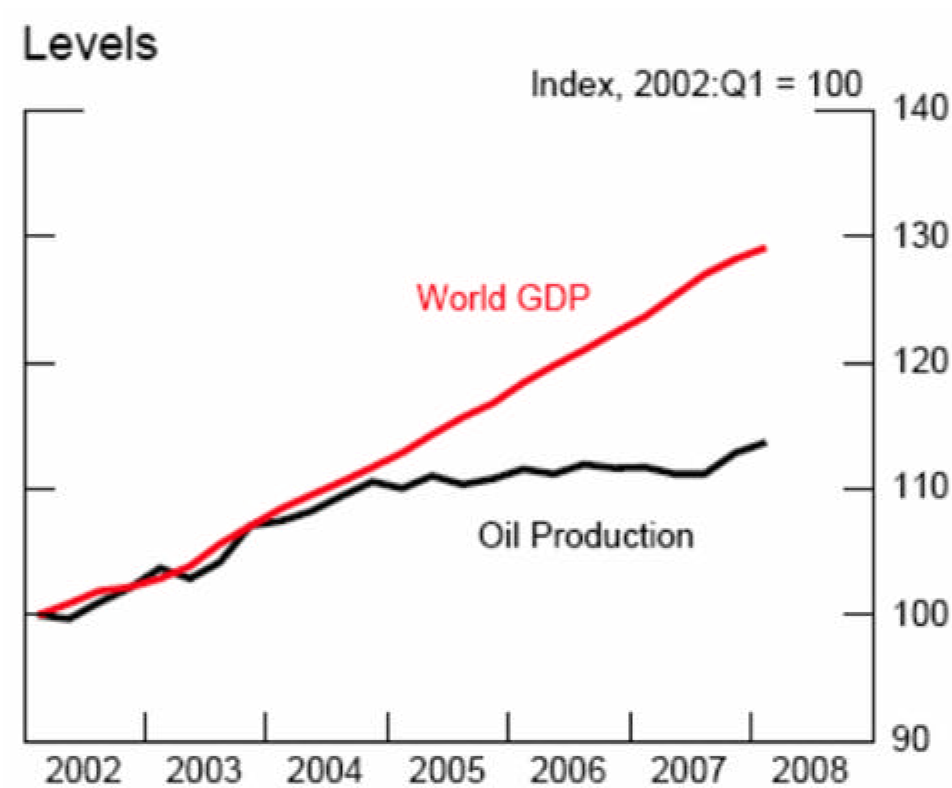
Back in July, I noted that we had exited many energy positions, and that I would like to see Oil pull back to $105-110 to re-enter them.

This was a tactical, not secular, repositioning.

Why not secular? Well, for a few reasons. Commodities rallies tend to run decades, not years. And the rise of China and India means huge new demands on global energy reserves are going to keep prices elevated far above the old days of $30 oil.

But the biggest reason is this simple chart, via ITF Interim Report on Crude Oil:



Sources: Federal Reserve, IAE, ITF

BusinessWeek forecasts (2004)

"It's absurd to argue that ending the moratorium on drilling off parts of the U.S. coasts would quickly bring down the high price of gasoline.

This chimera is being touted by President George W. Bush and other Republican politicians, including the party's presumptive presidential nominee, Senator John McCain of Arizona, to deflect blame for what it's costing for a fill-up.

To get around the fact that it would be a decade or more before any oil would be likely to flow, a few partisan analysts have said that the cost of gasoline would fall right away. They argue that the prospect of additional oil supply in the future would lead oil companies to produce more oil immediately because they would expect prices for crude to be lower later on.

Well, wouldn't that depend on whether a producer had the capacity to pump more oil today, and whether it thought lifting the moratorium would add a significant amount of oil to future supply relative to future demand?

There are good reasons to question whether another 1 million or 2 million barrels of crude a day would make much difference in prices when world consumption is running at 85 million barrels a day.

About a fourth of all U.S. oil production is already coming from offshore wells, primarily in the central and western portions of the Gulf of Mexico that aren't covered by the moratorium."