

World Oil: Market or Mayhem?*

James L. Smith¹

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Key Points

History Shows That:

- Over long run, demand has outrun supply.
- During 1980s, shrinking demand and growing non-OPEC supply squeezed OPEC out.
- Until recently, resource depletion has had no significant impact on supply.
- The 2004-2008 price spike coincided with first decrease in non-OPEC supply since 1973, plus an unprecedented surge in demand.

Q: Market or Mayhem? A: Market

- No evidence that financial speculation caused a shift in either Demand or Supply.
- No evidence that futures market traders increased price volatility.
- Ample evidence that market fundamentals caused prices to escalate... and then to retreat.

No Impact from Futures Trading and Speculators

- Every contract that a speculator buys, he sells.
- Every futures position gets unwound before the contract expires.
- Buying pressure = selling pressure = no pressure.

World Oil: Market or Mayhem?

Dr. James L. Smith

Cary M. Maguire Chair in Oil & Gas Management



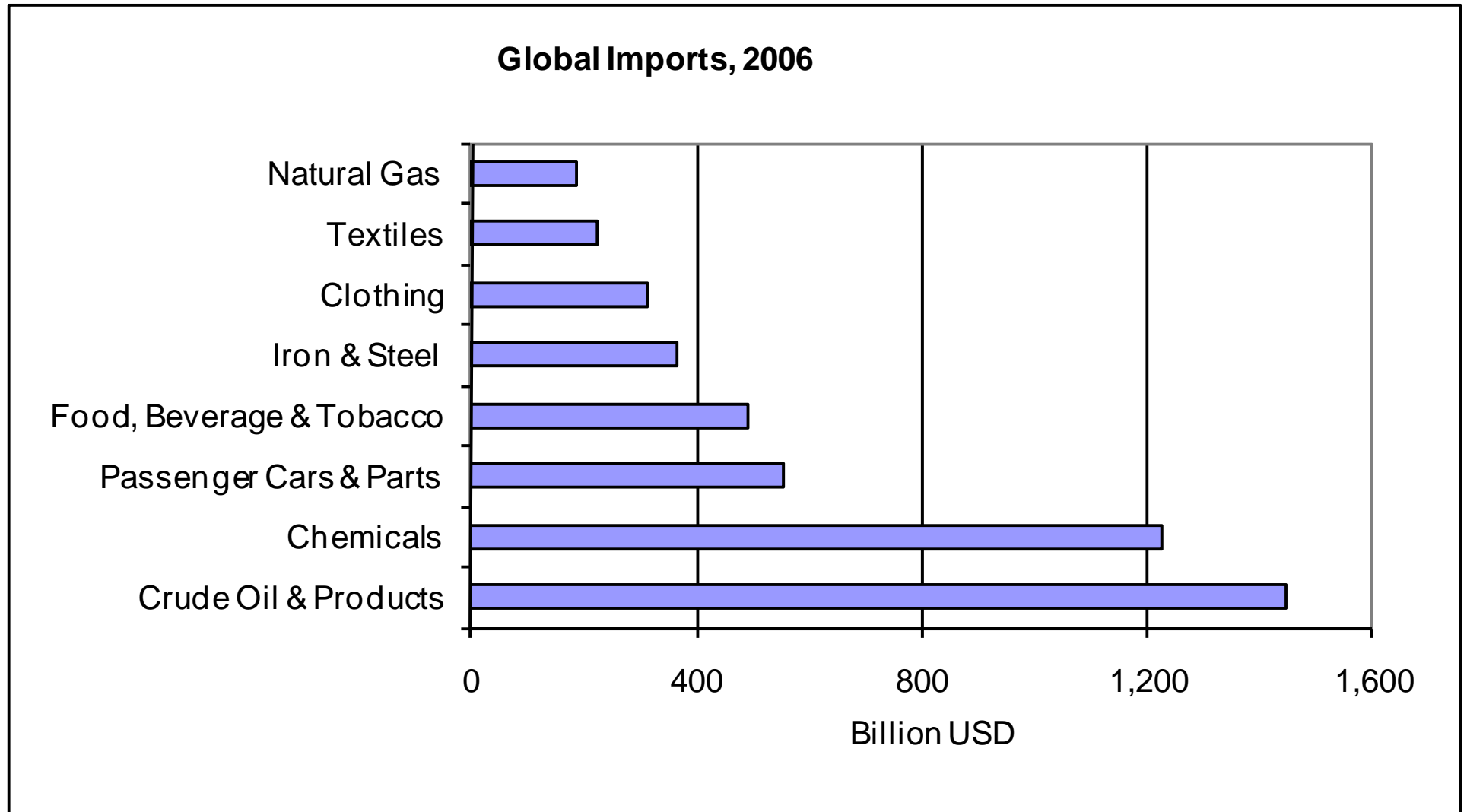
AAPG Forum, Tulsa OK

October 13, 2009

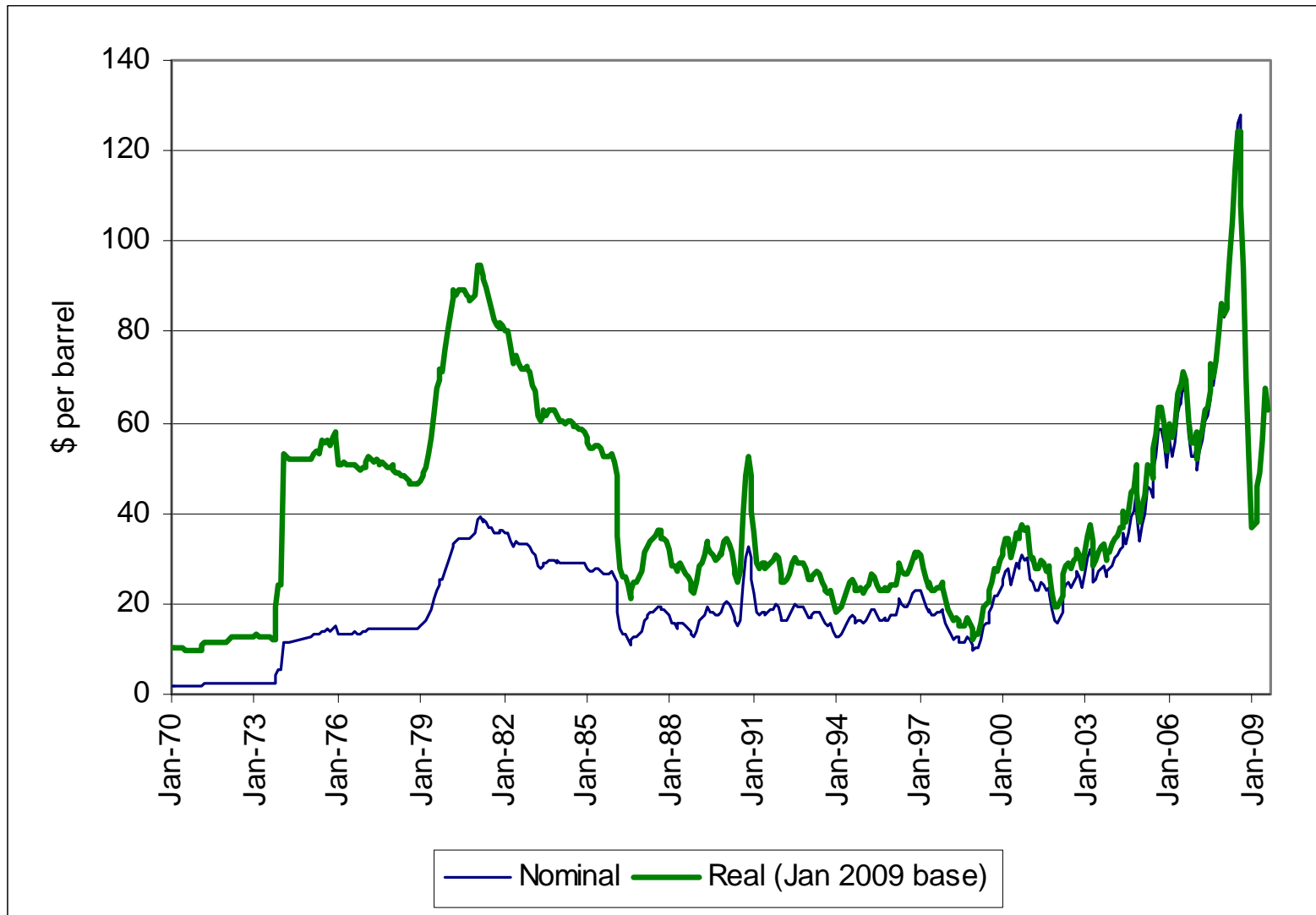
America's Energy Heartland



Oil Ranks #1 in International Trade

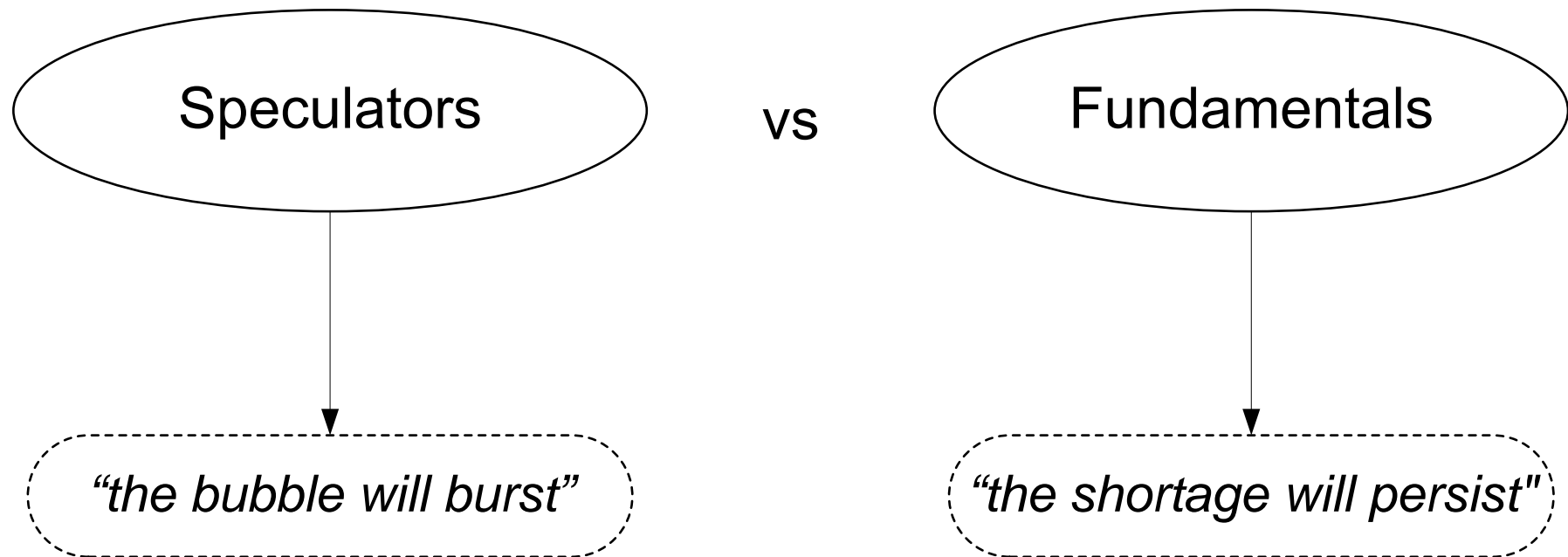


The Price of Oil



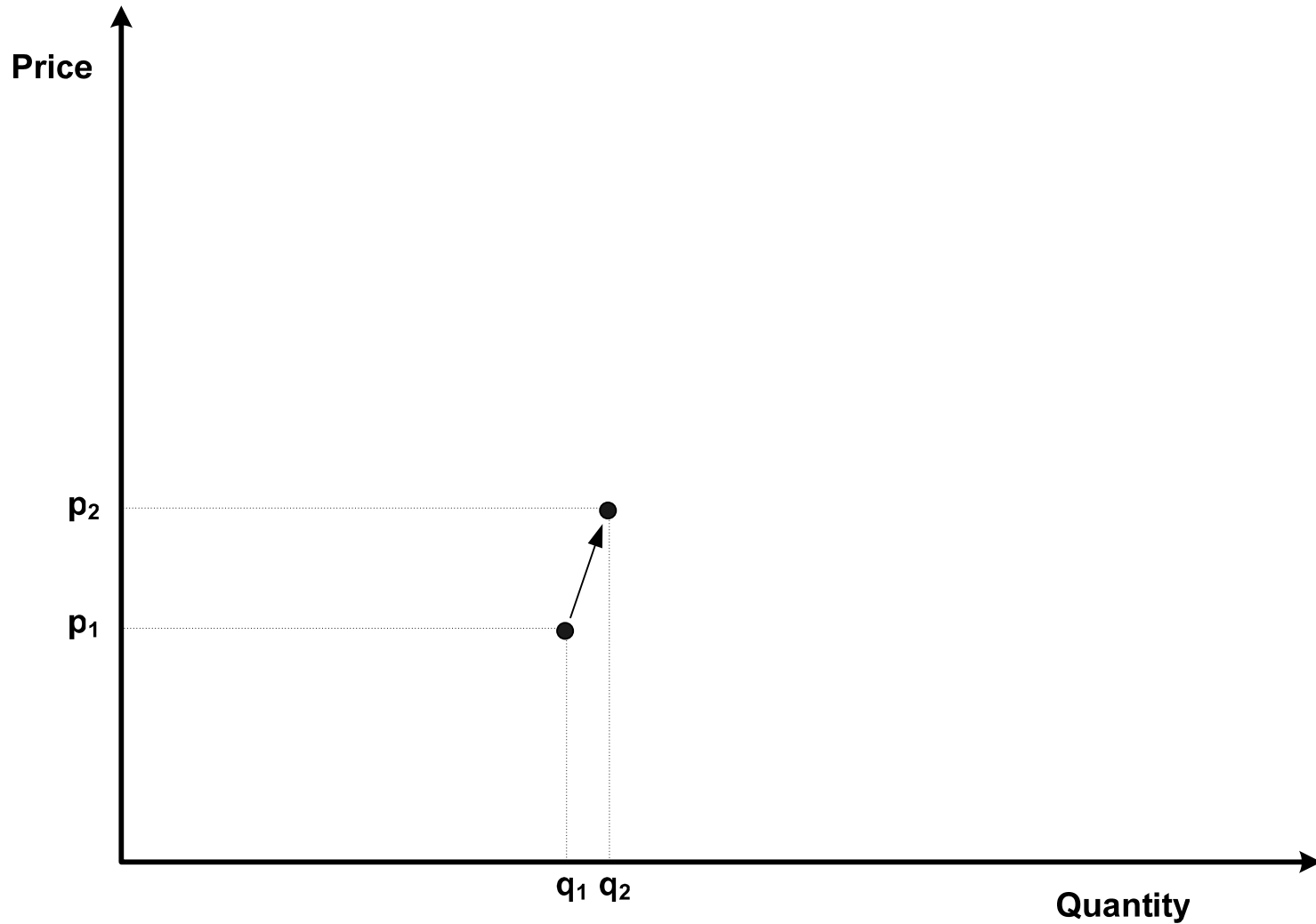
The 2008 Crude Oil Price Spike

Why Were Oil Prices So High?



What is the Cause—Supply or Demand?

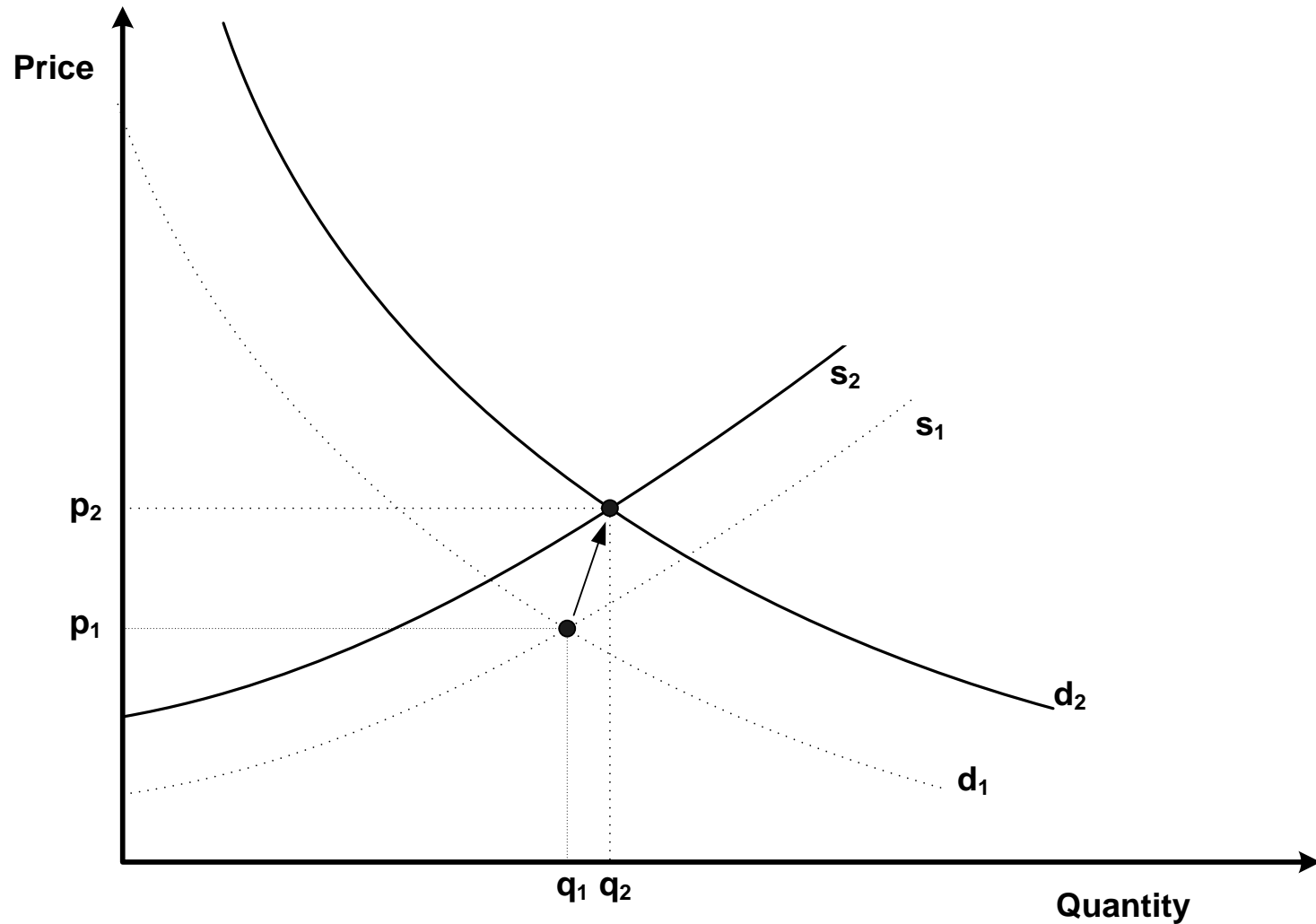
What is the Cause... Supply or Demand?



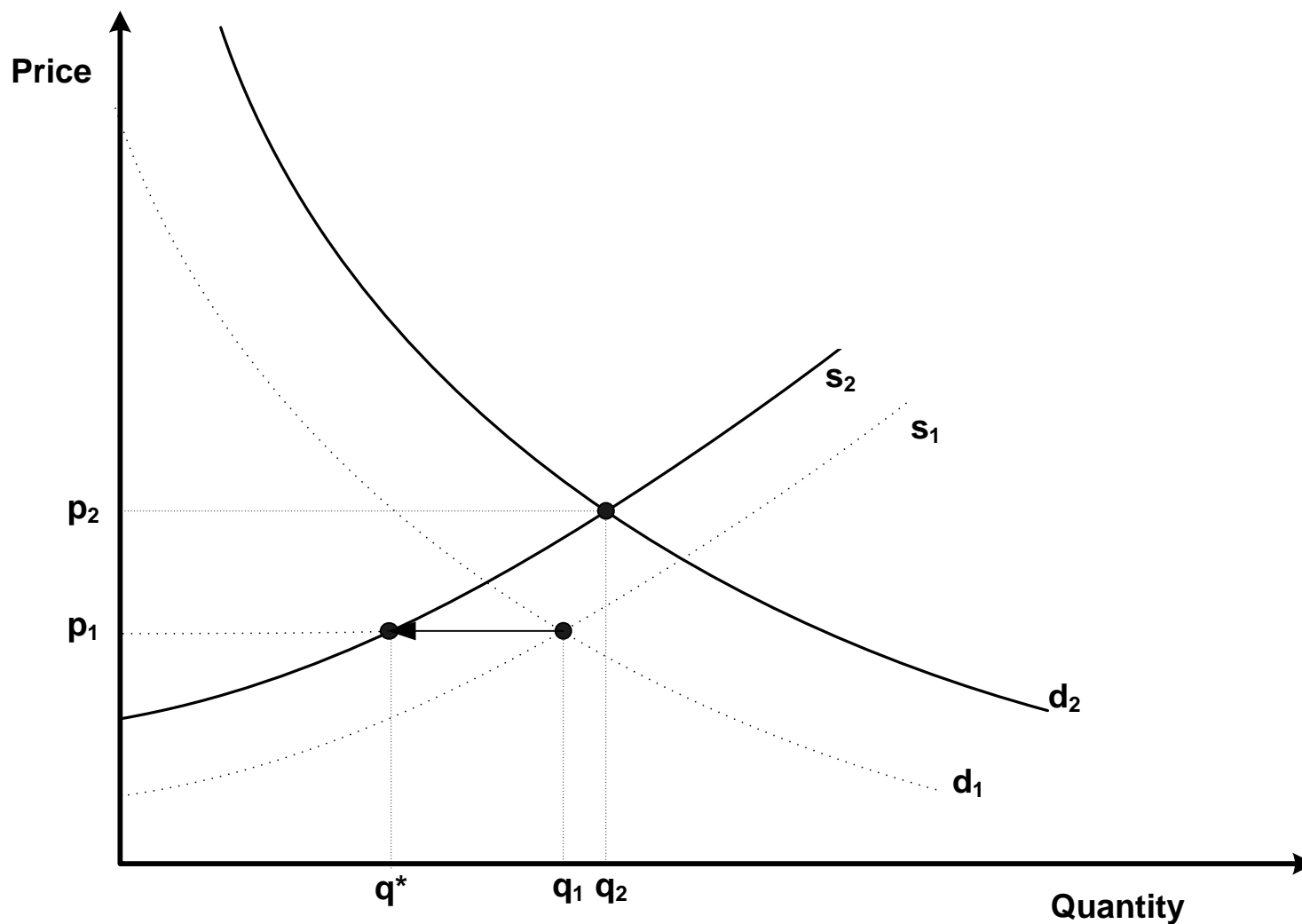
How to Disentangle the Effects?

Shifts in Supply & Demand

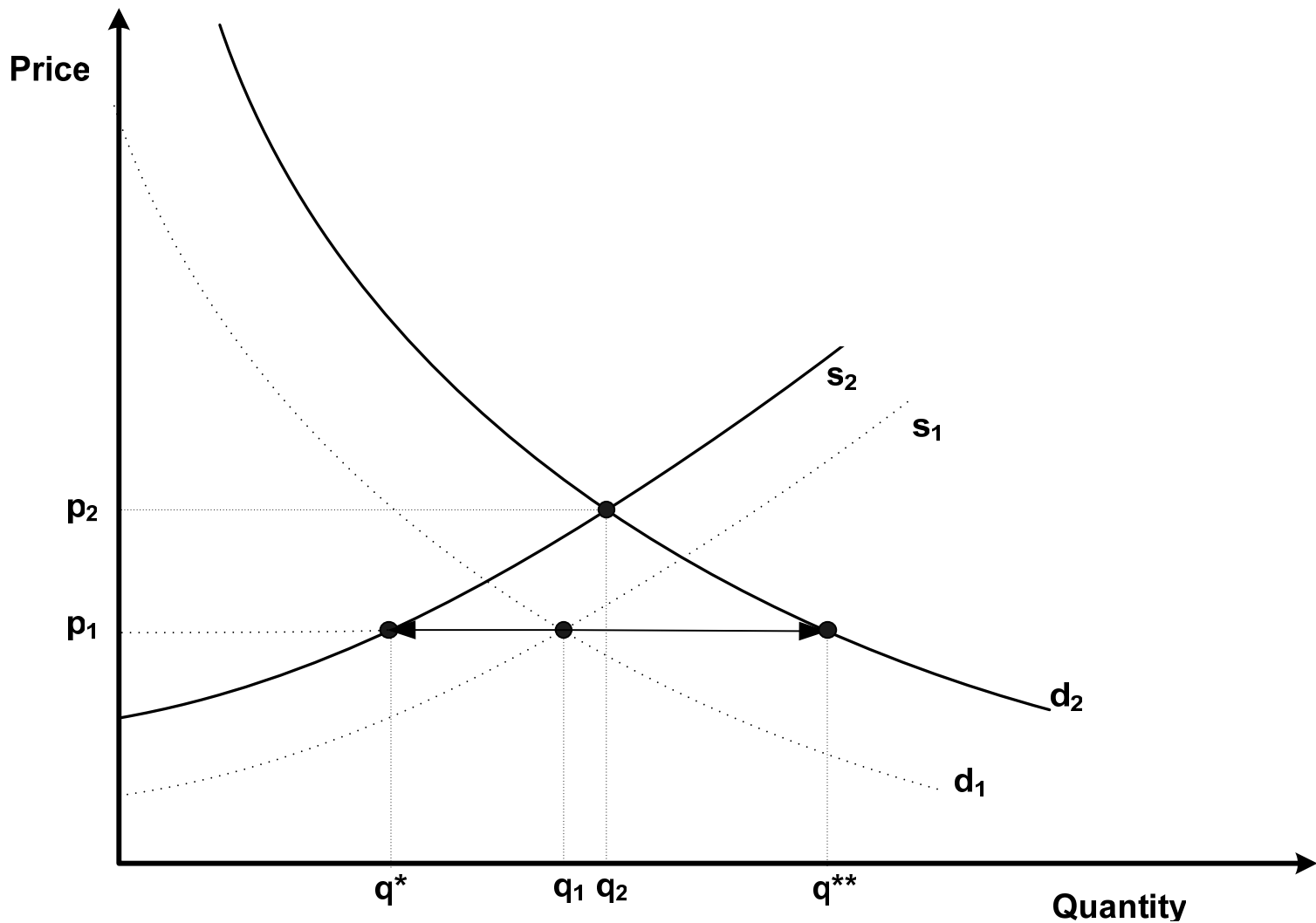
Impact the Price



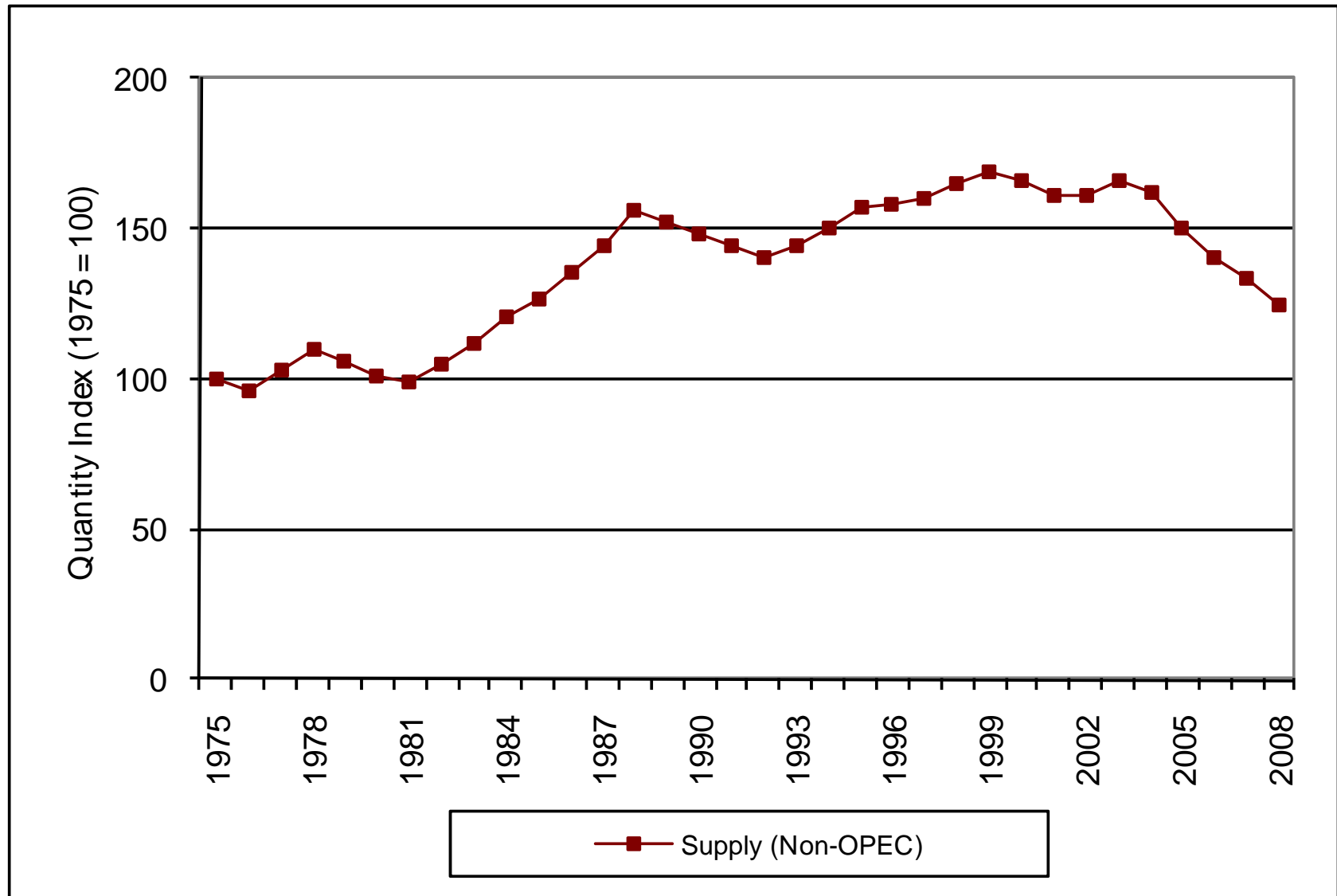
Although Output Grew, Supply Decreased!



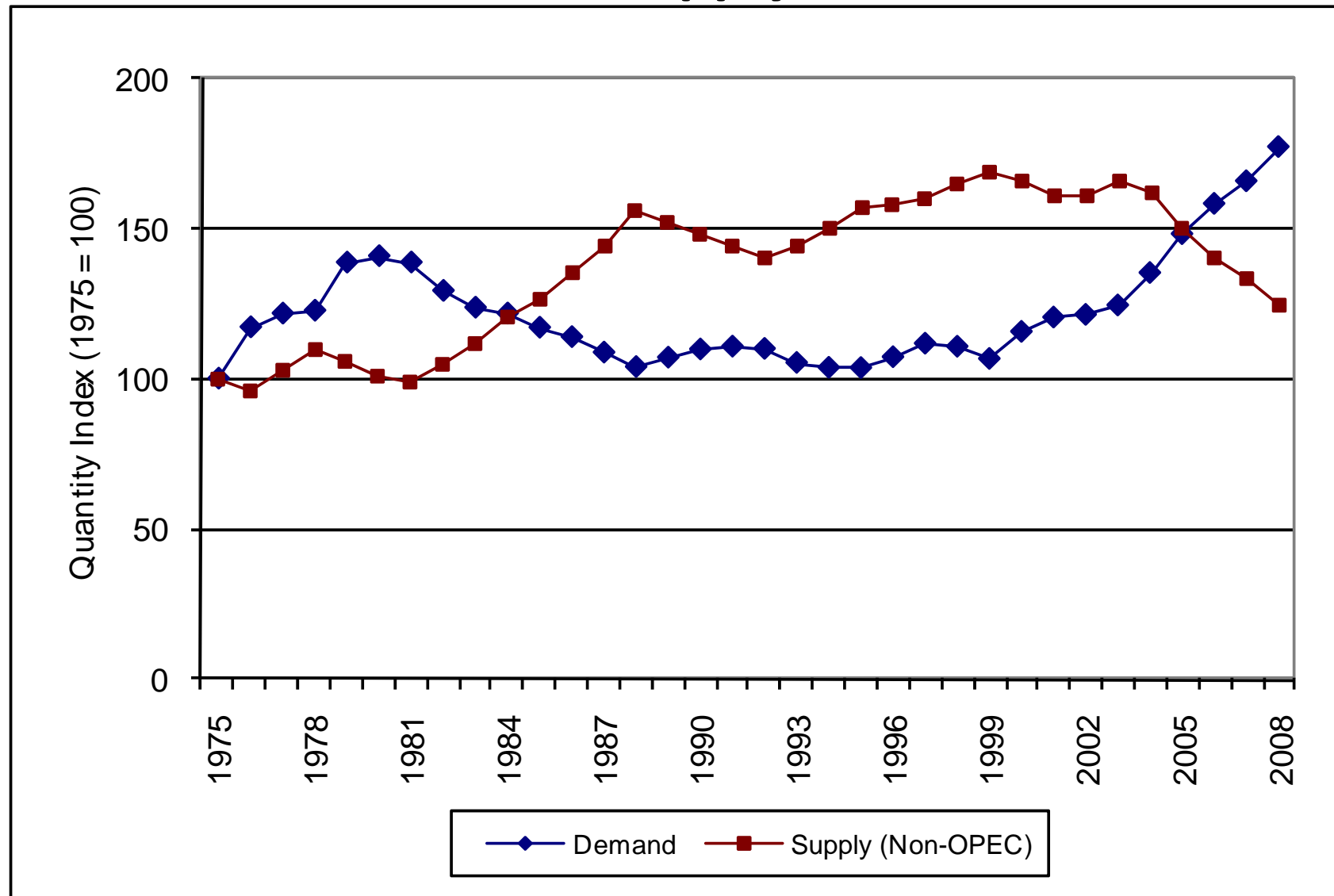
And Demand Increased Even More!



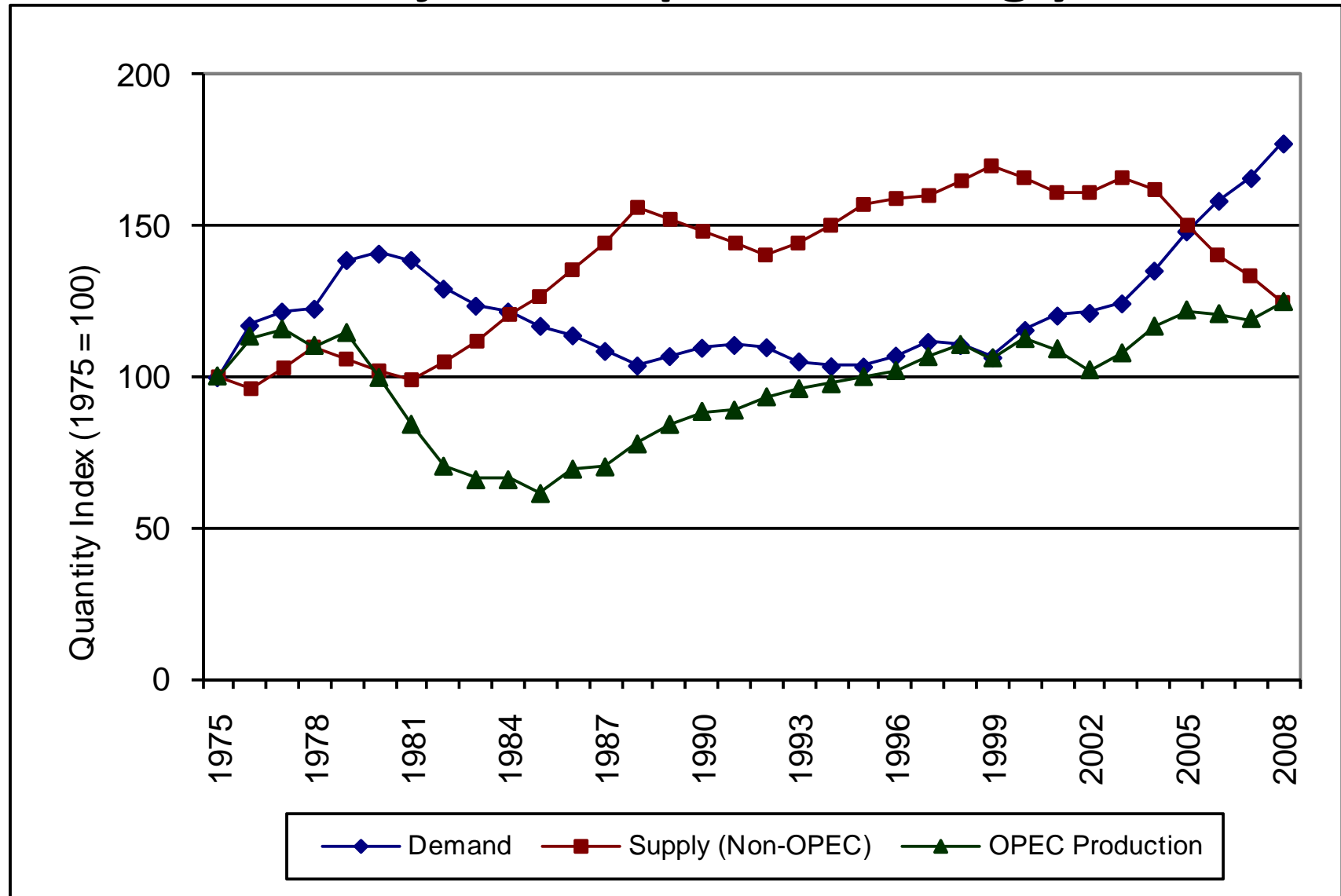
Shift in Global Supply, Holding Price Constant



Shifts in Non-OPEC Supply versus Demand



OPEC Adjusts Output Accordingly...



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Thank You!



America's Energy Heartland

