Despite Excess Spare Capacity, Reduced Demand and Increased OPEC Production volumes, High Prices Persist….

Source: IEA OMR September 2009, EIA
If the Fundamentals are so Bad, What’s Driving Oil Prices to Increase?

- Questionable Data? What is really happening in non-OECD/China? Stocks and Line Fill? Cold Weather?
- (Misplaced) Confidence in OPEC Quota Compliance
- Bullish Forecasts for the Economic Recovery - A bit Premature or Real Demand Growth?
- Fears of Longer Term Capacity Constraints – e.g., Nigeria, Iran, Iraq, Mexico, Venezuela, regulation induced (climate)
- Investor moves back to Commodities; since December 1, money managers have boosted energy positions by 70%
- Declining Dollar
- “Real” Replacement Price for Oil, including recalibration of F&D relationship
Are there “New Fundamentals” at Work?

Days of Forward Cover and Oil Prices

Brent crude oil price ($/bbl)

Source: IEA, DB Global Markets Research
Keys to the Short-Term Market

**Upward Price Pressure:**
- Pace of Economic Growth – optimistic
- Seasonal Demand – e.g., cold weather – stock draws
- Dollar Weakness
- Investor Moves to Commodities
- Non-OPEC supply weakness
- Continued OPEC Cohesion
- Supply Interruptions/threats

**Downward Pressure:**
- Pace/Level of Economic Growth – pessimistic
- Continued High Crude Inventories & Spare Capacity
- Strong Dollar
- Non-OPEC supply strength
- Increase in OPEC output
- Supply Stability
- Efficiency & Alternative Fuels