

Crude Oil vs Fuel Prices – Of Wars and Rumors of Wars

On April 3, 2009 the West Texas Intermediate (WTI) crude oil price dropped to \$52.51 a barrel, down 13 cents from the day before but almost the same price as the week before. Investors were driven to the commodities market this week by weakening of the US dollar.

Crude oil prices will spike up on any threat to peace in the world. This week sabers were being rattled once again with the announcement by President Obama of increasing US troop levels to take the fight in the war against al-Qaeda and the Taliban back to Afghanistan.

On the same side of the globe we now have North Korea announcing the launch of an inter-continental ballistic rocket under the guise of putting a satellite into orbit on the tip of the rocket.

Japan is nervously awaiting the launch of the rocket this weekend as debris from the booster may fall on their territory. Governmental officials from both countries have traded threats back and forth with North Korea declaring any interference of their launch to be interpreted as an act of war.

In times of uncertainties commodities have typically been used as a hedge against inflation with crude oil being the investment of choice by players in that market. To monitor any kind of trend in the petroleum business, we also need to keep a sharp eye on supply and demand levels. The futures prices have become today's fuel prices.

US oil refiners, who were producing diesel in record numbers last year, have now reversed course and have been refining more gasoline bringing supply more in line along with the shrinking demand for road diesel.

In fact, diesel fuel volume at national truck stops has dropped by a national average of nearly 20 percent. Some of that loss was offset by increased use of heating oil as a result of colder than average winter weather conditions throughout North America. If the meteorologists are correct in their prediction that we are entering a 20 year cycle of colder winters, we can expect to see a pattern of higher consumption of heating oil during the winter season until a reasonable alternative fuel replaced it.

Oil futures always have an effect on fuel prices and will continue to be a factor this quarter. In fact, oil futures should be watched very closely by fuel users in the coming months as changes to crude oil supply levels in the Middle East come to bear. The anticipation of tightening supply has kept prices moving up and this trend will continue if it is confirmed that assigned production quotas are being adhered to by OPEC members.

In addition, decisions on government intervention and regulation in the world economy stemming from the G20 summit will play out amid other geo-political events. Much of the world is waiting to see how decisions being made in Washington D.C. will shape the present economic uncertainty and Americans will be watching to see how quickly the engine of the world economy can be re-started.

In the short term, the trend for fuel prices will remain stable and head slightly upward. But lessons learned from our past experience have taught us that wars and rumors of wars can change all that in an instant.