

THE VAN DER VALK GAS PRICE ADVISORY FOR 12-5-08

What we predict: The daily dose of bad economic news still continues to weigh down heavily on gasoline prices. They will stay well below the \$2 per gallon and head towards the \$1.75 mark by Christmas.

The next shock will be if crude goes into the 30's, which I am not predicting. We are getting closer to the Christmas traveling season and demand has already started to pick up.

What happened? Crude oil prices hit a 4-year low this week with tall that prices may slip below \$40. The WTI crude oil price was \$54.95 on November 17 and closed yesterday at \$ \$43.67, the lowest per barrel price since January 2005. The average price for gasoline was around \$2 per gallon a week ago.

What we predicted two weeks ago: Gasoline prices will continue to drop some more and head towards \$2.25 per gallon for regular unleaded by Thanksgiving Day. The gasbuddy.com website showed the following price snapshot for regular unleaded gasoline:

Los Angeles Area Gasoline Price Snapshot	
Today	1.870
Yesterday	1.879
One Week Ago	1.980
One Month Ago	2.710
One Year Ago	3.033

So what happened to analysts' predictions that crude oil would be \$200 per barrel by the end of this year? Goldman-Sachs and Morgan Stanley have already taken that number down it down a notch or two. They are now forecasting crude oil to go back to a \$75 per barrel average for 2009 with the average for 2008 coming in at around \$100 per barrel.

The "true cost" of crude oil is determined by how much effort has to be put into getting it out of the ground. Each of the oil production companies have come up with methods to value their proven reserves. Sir John Browne, BP's former CEO, said that their figure was about \$30 per barrel for deep well crude oil production in the Gulf of Mexico in an interview for "60 Minutes" just before resigning his chairmanship about two years ago.

The price of crude oil will eventually be determined by market conditions. The world in general, and the US in particular, is now learning to consume less oil on a daily basis, even though the global economy can be expected to continue consuming fossil fuels for many decades to come.

There are only three ways to reduce oil consumption:

- Ø Improved fuel efficiency and conservation
- Ø Introduction of substitute energy technology
- Ø Economic contraction

It now looks like we are now heading that way on all three fronts.

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