



Could the Price of Oil Hit \$250 This Summer?

If it does, think higher inflation, lower economic growth and global recession

The stock market has been awful through the summer of 2022 – declining in January, February, April, May and June, with just the month of March recording positive numbers. Naturally, these declines and the accompanying volatility makes investors nervous.

At the center of this volatility has been the price of oil. Oil prices have risen steadily since the end of 2020 when WTI Crude was commanding about \$40/barrel. But since the early part of 2022, a barrel has consistently remained north of \$100/barrel.

But what if oil suddenly went to over \$200/barrel? After all, US oil prices have already surged 170% since the end of 2020 and a rise to \$200 would mean a further increase of about 50%.

One well known hedge fund manager spoke at the Financial Times Commodities Global Summit earlier this year and suggested that we might see \$250/barrel this summer. Another analyst from RBC Capital Markets had this to say:

"It is not unfathomable for prices to rocket to \$200 a barrel by summer, spur a recession and end the year closer to \$50 a barrel (\$200 call options have been

bid). To be clear, this is not our base case, but such a scenario does not sound implausible today."

The Price of Oil – Supply and Demand

Why does the price of oil change so much? The price of oil is affected by so many factors and so many uncertainties. The weather, transportation costs (via ship, truck, pipeline, etc.), and taxes also play a big role in oil prices.

The oil market has been uncertain for several reasons. Just a few years ago when the U.S. was ramping up its oil production, the price soon dropped and that was followed by a drop in production. Oil producers – when they make less money – cut back dramatically on drilling and sharply reduce spending on exploration and production. Remember in 2014 and 2015 when many U.S. petroleum companies went bankrupt and thousands of their employees lost their jobs?

In its simplest terms, it really is about supply and demand. But the supply side is not as easy to influence. Take the shale oil industry in North America, for example. Even if the entire industry decided they wanted to crank up production to

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increase the supply in an effort to bring prices down, it is still a 12 -18 month process. And besides the current price of oil, there are very few incentives (and arguably a number of risks given the current political climate) for any producers to take on the expense of trying to speed that process up.

International factors also influence the price. Oil producers have been concerned about the Russia/Ukraine conflict, the health of the massive Chinese economy – with its high oil demand – and tensions in the Middle East, among other things. These geopolitical tensions just add to the uncertainty.

Russia Does Matter

From a research paper published by the Conference Board earlier this year:

While Russia's economy only accounts for 3 percent of global GDP, its crude oil production constitutes 12 percent of the world total. Russia's economy is only about the size of the state of New York, but it punches well above its weight in energy production. Russia accounts for 12 percent of global crude oil production. Much of that production is sent overseas, making Russia the second largest oil exporter after Saudi Arabia.

Of the 12 million barrels per day of crude oil that Russia produced in 2019, just 29 percent was consumed domestically. The remaining 8 million barrels per day were exported—primarily to European and Asian markets. In 2021, prior to Russia's invasion of Ukraine, OECD Europe consumed nearly half of Russian crude oil exports and China consumed one-third. The remaining sixth was consumed in other parts of the world—with the US accounting for just 4 percent.

Oil Prices and Gasoline Prices

In a more practical sense, how does the price of oil affect the cost of gasoline? Pretty directly. Any change in the price of a barrel of oil directly affects the price of a gallon of gas.

Barrel of oil. A barrel of crude oil holds 42 gallons. From this barrel will come about 12 gallons of diesel fuel, 4 gallons of jet fuel, and smaller amounts of propane, asphalt, motor oil, and various lubricants, along with about 19 gallons of gasoline. So it takes a barrel of oil, on average, to come up with about 1.5 tankfuls of gas in your average, non-diesel car.

Considering all the oil products, each person in the U.S. consumes an average of about 2.5 gallons of crude oil per day, according to the Department of Energy. As a result, the price of a barrel of oil affects each of us beyond the pump, too.

Back in March, analysts cited by National Public Radio projected that if oil hit \$200/barrel, then the retail price of gas would average \$5.84. That seems like a very low estimate, given that the average price of gas is around \$5/gallon with oil hovering just over \$100/barrel.

If Oil Hits \$200 or \$250

If the price of oil skyrockets to \$200 or \$250/barrel, the impact to virtually every aspect of the global economy, global markets and your investments would be significant.

Of course oil at \$200/barrel would add to inflation, but it would have a severe impact on economic growth, likely pushing the global economy into stagflation (high inflation, low growth).

Here in the United States, according to Bank of America estimates, oil prices at \$100/barrel reduces US GDP growth in the year ahead by 1% and at

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\$200/barrel, the negative impact on economic growth in the US is estimated at about 2%.

Working With Your Advisor

The price of oil has been a major economic factor for years. The cost of energy affects virtually every aspect of the economy and the market, including your investments.

The price of oil will eventually stabilize, producers and oil-producing countries will change their plans, and alternative energy sources will continue to develop.

Your financial advisor will monitor all of these developments and is best source for information about their effect on your investments.

Source: [conference-board.org](https://www.conference-board.org)

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