

Title:

Gas Prices, Hurricanes and a Madman

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Summary:

Did you think the non-inflation adjusted record high in oil and gas prices form hurricane Katrina last September was just a blip on the radar? If you did, you may be in for a very rude awakening

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Article Body:

Did you think the non-inflation adjusted record high in oil and gas prices form hurricane Katrina last September was just a blip on the radar? If you did, you may be in for a very rude awakening. Directly below are some very compelling reasons why this may be the case.

In the late seventies and early eighties automobile ownership in China was virtually non-existent. China's roadways, once synonymous with packs of bicycles, are experiencing an explosion of car traffic driven by the nation's ever growing consumer class. Last year, automobile sales in China exceeded 5 million units. China is now the world's fastest growing auto market. However, even with this recent surge of automobile ownership in China the market remains virtually untapped. At present, its estimated that significantly less than two percent of China's population, 1.3 billion people, owns an automobile but with cheaper models and a growing used car market, auto ownership in China is steadily increasing.

The oil production decline rate, sometimes referred to as Hubbert's production curve or peak oil, at several major global oil fields has been considerably steeper than expected. For example, the U.K. has now become a net importer of crude oil and its production is dropping fast. Presently, crude oil production in the U.K. is below 2 million barrels per day and has appeared to reach its absolute peak of 2.9 million barrels in 2000.

Shortages of unleaded gas could potentially occur this summer because the U.S. ethanol industry can't keep up with the demand for fuel-grade alcohol to mix with gasoline.

Imports of ethanol could possibly meet demand but are currently subject to a 54-cents-per-gallon tariff.

The current standoff between the United States and Iran, OPEC's no.2 oil producer, over Tehran's nuclear energy ambitions also applies upward pressure on the crude oil market. Although Iran has claimed in the past they will not use oil as an economic weapon that could change at any moment. Iran recently has officially gone nuclear with the first successful enrichment of Uranium. So the whole Iran situation is tense at best.

AccuWeather has forecasted the 2006 hurricane season, which starts June 1 and runs through December 1, to be more active than normal. Considering the current fragile status of refining capabilities within the U.S. any potential damage to those facilities from hurricanes this summer could have a dramatic effect on prices.

Due to political instability and rising violence in Nigeria, oil companies have suspended the production of over 600,000 barrels per day of crude oil. Don't expect any quick resolutions to these long-term problems in Nigeria. At present, over 20 percent of Nigerian production remains at a stand still following attacks by militants.

Crude oil demand is rising at a very fast pace. At present, it's increasing around 1.75 million barrels per day. Even with Saudi Arabia's vast crude oil resources the market will be unable to cope without some drastic measures. Furthermore, the water content is rising in the old supergiant oil fields of Saudi Arabia. Referred to as the water cut, there are rumors now circulating that water content is over 50 percent. When it reaches 80 it's for the most part game over. Of course the water cut is considered a State secret in Saudi Arabia for obvious reasons.

Many of the world's major oil fields are very old and potentially are nearing or have already surpassed their peak in production. There are about 120 oilfields in the world that produce half of the world's crude oil supplies. The top 14 fields, which make up 20 percent of global supply, are over 50 years old. In Saudi Arabia, which contains a quarter of the entire global oil supply, there are only five major fields producing 90 percent of their supply.

It was estimated after the Iraq invasion that this area would produce close to 5 million barrels of oil in future. However, plans to develop Iraq's infrastructure have been scrapped because of relentless insurgent attacks as well as the threat of potential civil war. Although, even with a peaceful Iraq, the two oil fields that comprised about 80% of their crude oil production in the

past are in very poor condition.

Crude oil prices recently broke out of a long-term bullish symmetrical triangle trend continuation pattern. For those without a working knowledge of technical analysis this is a very common type of trend continuation pattern.

All of these points really lead to the potential "perfect storm" in regards to oil pricing. Petroleum is utilized in many of the products we purchase on a daily basis. There are some people that agree with our predictions and believe that we should just turn to alternate sources of fuel. This is a good idea but it is truly logistically impossible to just stop using oil. So how does this affect the ordinary person? The only way one could potentially deal with such potential calamities, as any of these many scenarios will pose, is proper preparation. I am afraid just driving a hybrid will not cut it.