

THE COMING OIL PRICE COLLAPSE

HOUSTON IAEE

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*AS SEEN IN PLAYBOY

THE LAST BEAR



HOW I SEE MYSELF

(an alternate perspective)



BULLS AND BEARS

- ◆ \$160 CRUDE, \$10 GASOLINE
 - NOT VERY CREDIBLE
- ◆ \$50-60 FOREVER
 - A NEW PARADIGM, SOARING DEMAND
- ◆ A \$40 PLATEAU? OPEC'S DREAM(?)
- ◆ SUB-\$20
 - POSSIBLE, BUT SO IS DEMOCRATIC IRAQ
- ◆ BACK TO \$30: 1986 REVISITED

RAMBO™

FIRST BLOOD PART II



IBM® PC, 128K
or PCjr.™ with
256K minimum

00794

ANGELSOFT™ INTERACTIVE FICTION FROM



LAST YEAR



A NEW PARADIGM?

- ◆ WHAT DO YOU CALL IT WHEN:
 - THE CHINESE DEMAND IS GROWING STRONGLY
 - OPEC SURPLUS CAPACITY IS MINIMAL
 - AND PRICES GO DOWN?
- 1994 AND 1998!!!**

2006:

WHICH OF THESE DOESN'T BELONG?

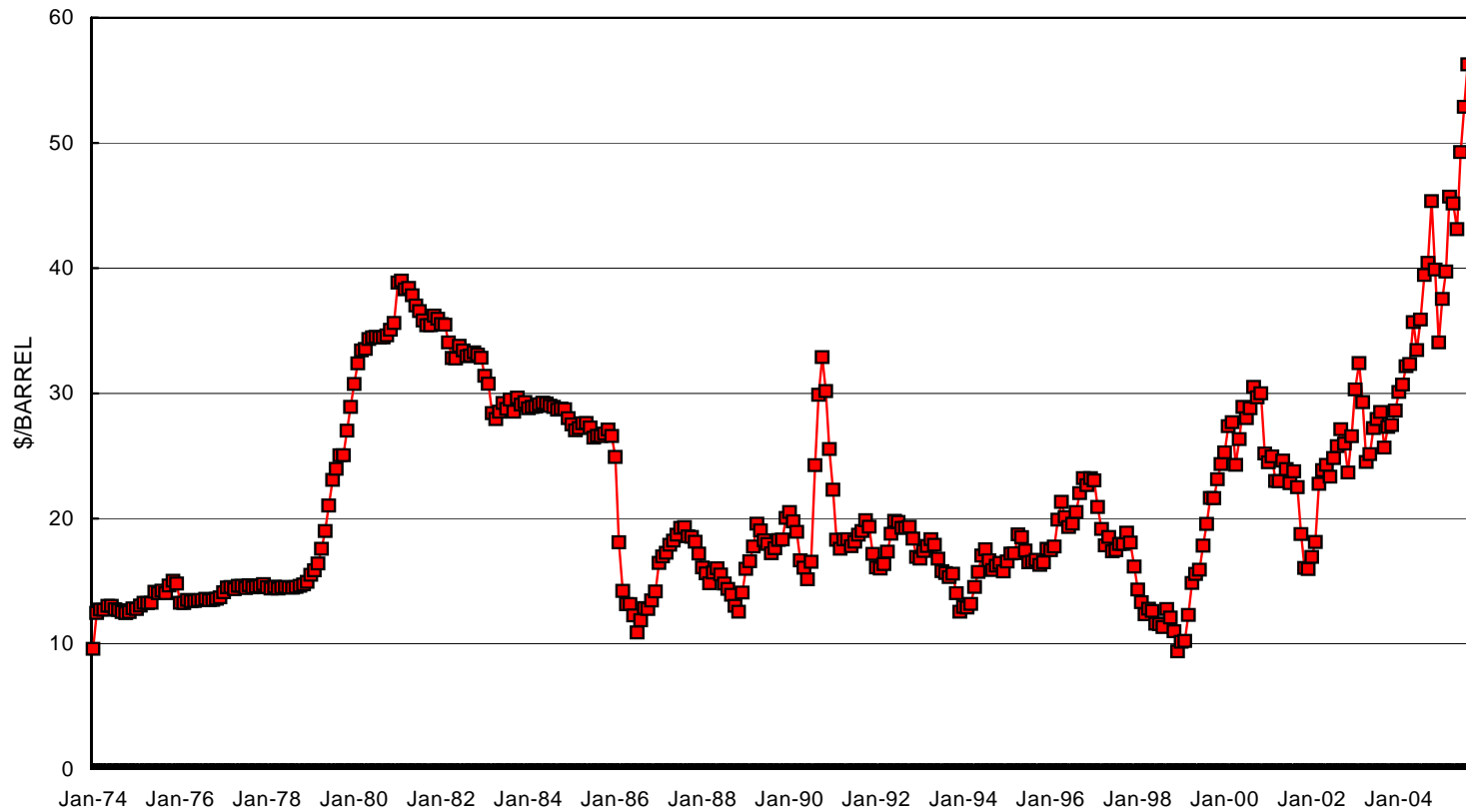
- ◆ HIGH OIL PRICES
- ◆ SLOWING ECONOMIC GROWTH
- ◆ SOARING OIL DEMAND

- ◆ BIG BOOMS LEAD TO BIG BUSTS!

WHAT ABOUT PEAK OIL?

◆ (YOU MUST BE JOKING)

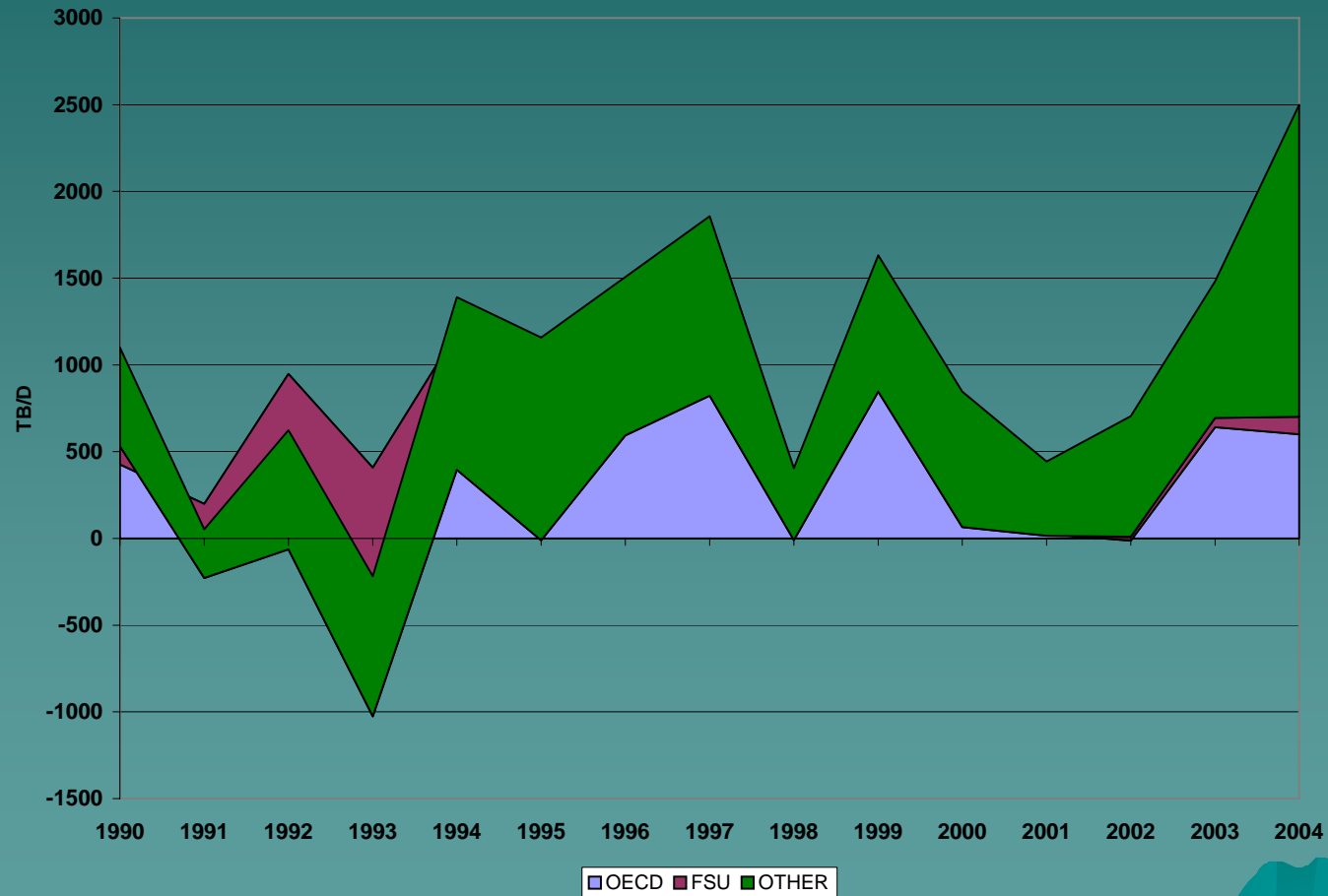
THE CURRENT MARKET



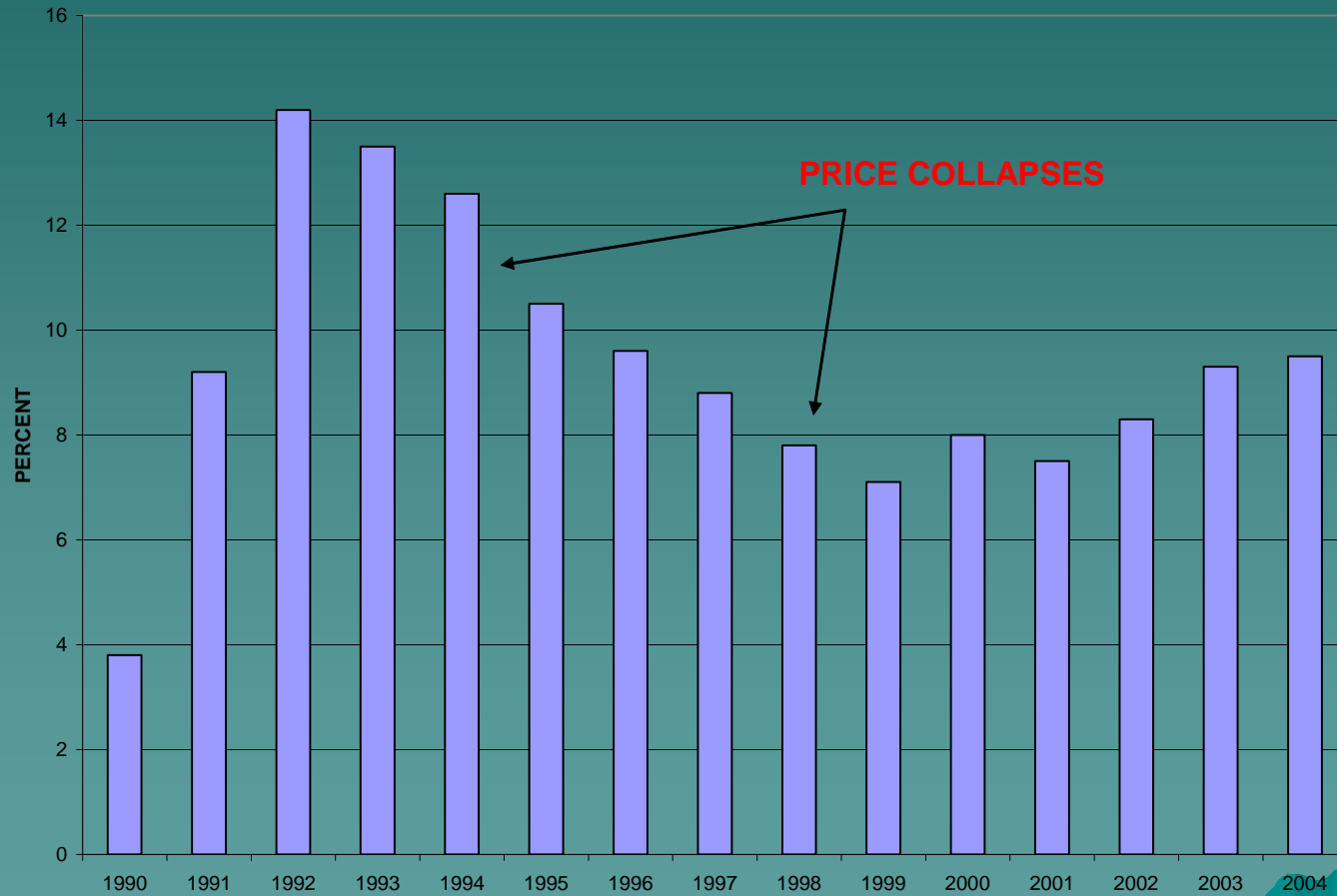
A NEW OIL MARKET?

- ◆ RESOURCE FEARS:
 - OIL PRODUCTION HAS/WILL SOON PEAK
 - SAUDI ARABIA LACKING RESOURCES
 - EASY OIL GONE
- ◆ CAPACITY
 - REFINING SECTOR STRESSED OUT
 - OPEC HAS NO SURPLUS
 - TEN YEAR LEAD TIME FOR NEW CAPACITY
- ◆ DEMAND A 'RUNAWAY TRAIN'
 - CHINESE, INDIANS BUYING CARS

ANNUAL DEMAND CHANGE: NEW TREND OR OUTLIER?

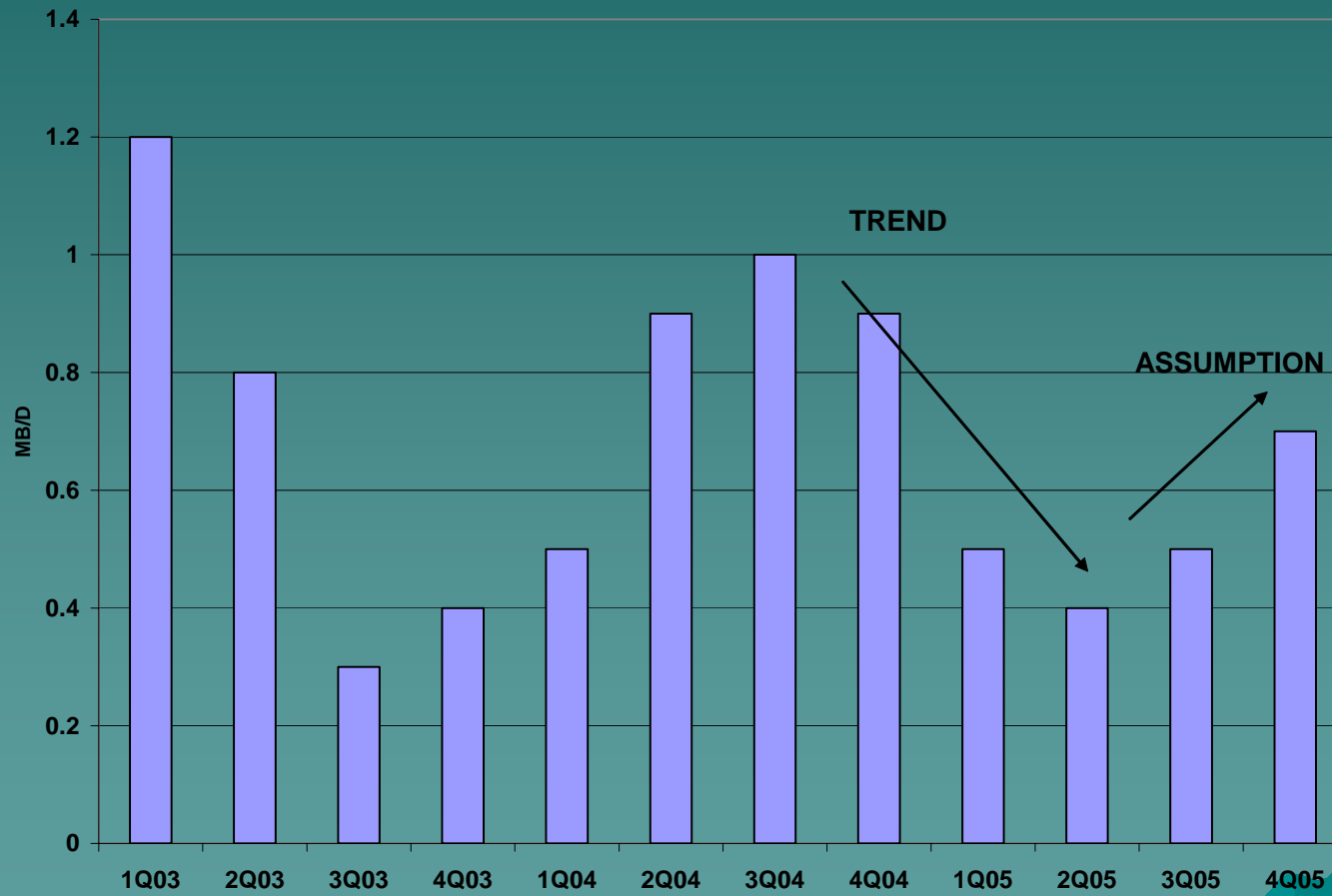


CHINESE GDP GROWTH



HIGH ECONOMIC GROWTH IN CHINA ALONE DOESN'T MEAN HIGH PRICES

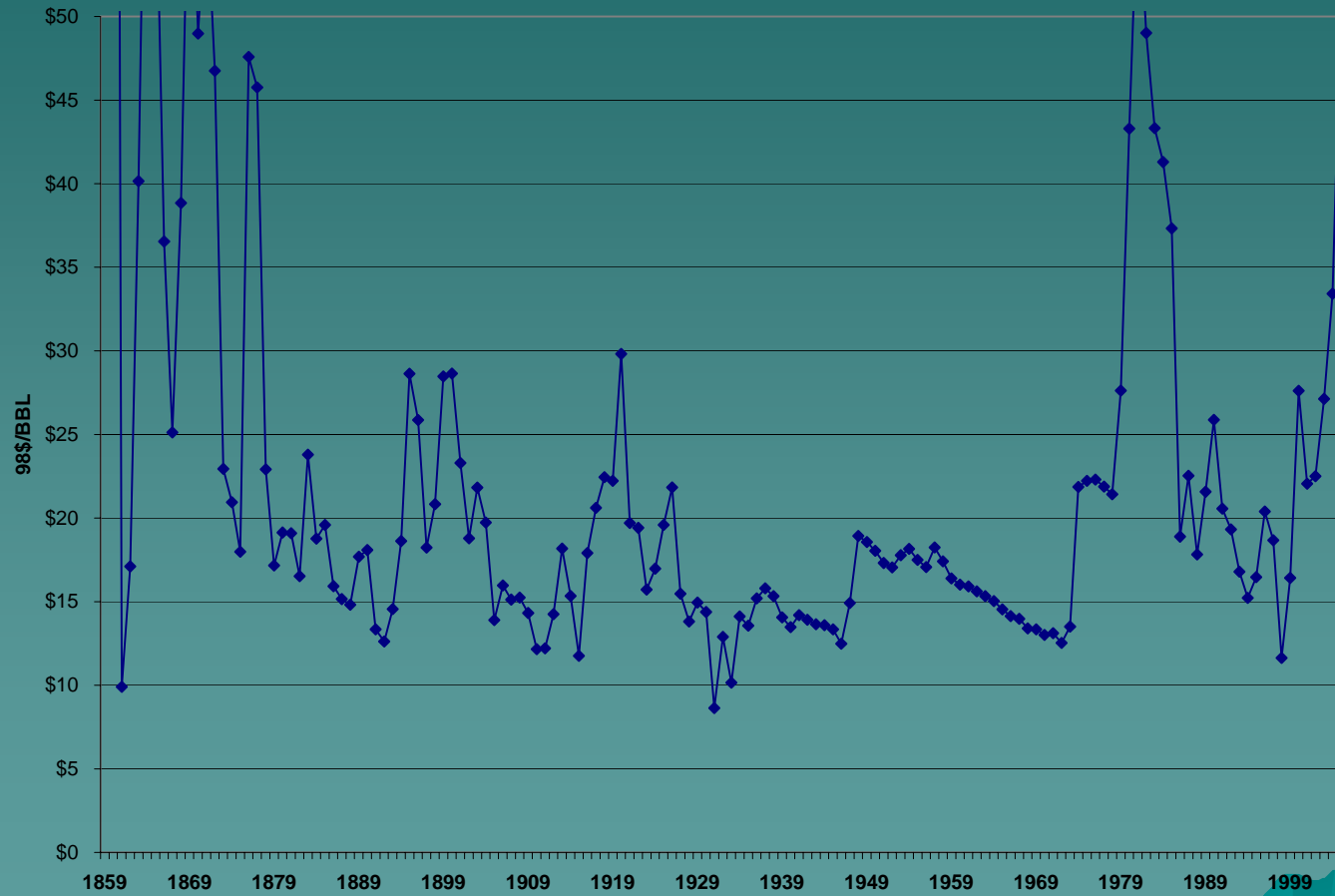
DOES PRICE MATTER? OECD DEMAND TRENDS



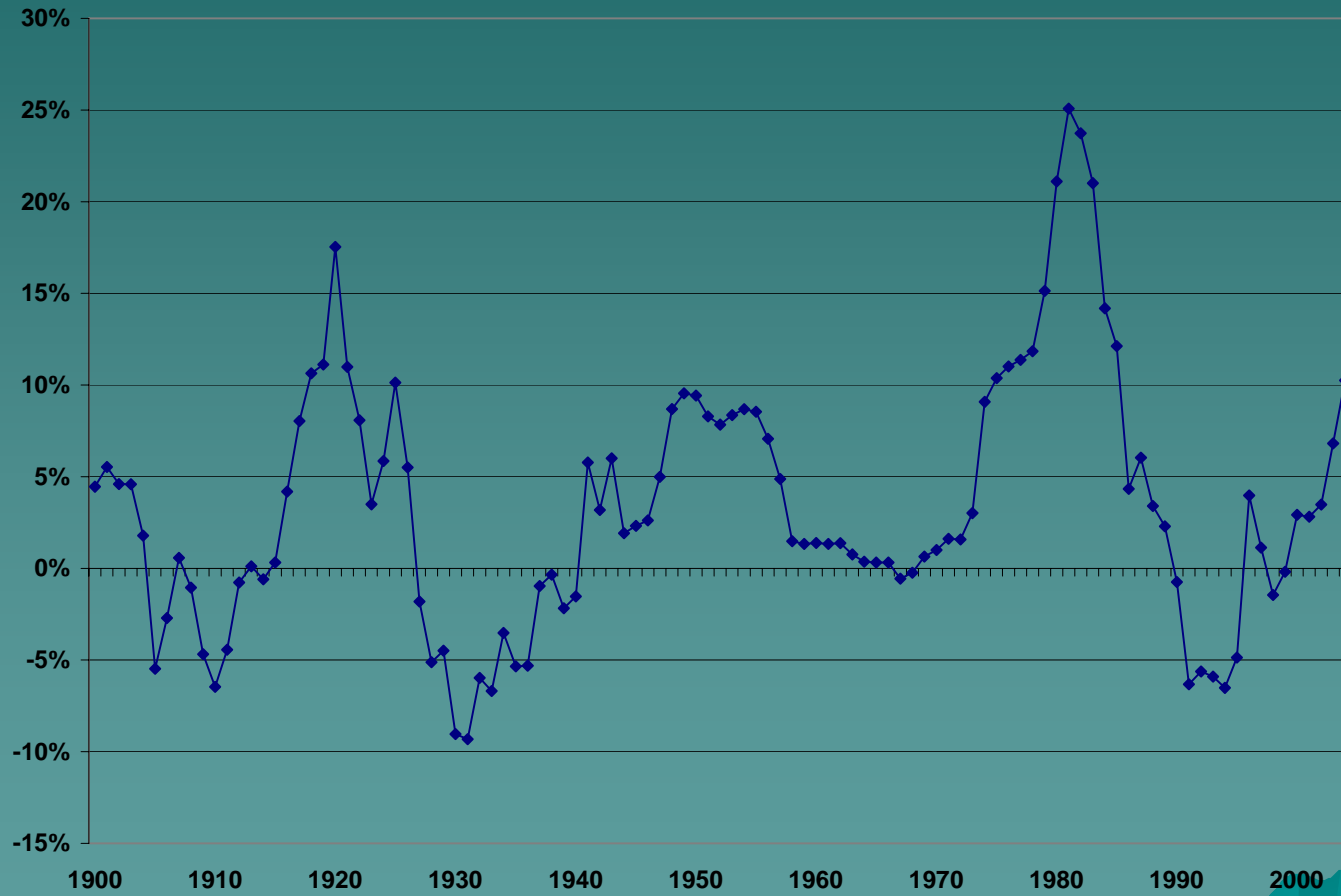
SOME BASIC FACTS

- ◆ NO COMMODITY HAS EVER SHOWN A BOOM WITHOUT A BUST
- ◆ NO MAJOR CHANGE IN UNDERLYING SUPPLY/DEMAND IS EVIDENT
 - 1994-2004: 1.25 MB/D GROWTH
 - NOW 1.75???
- ◆ MARKET IS TIGHTER—AND WILL REMAIN SO (MOSTLY)
- ◆ PRIMARY QUESTION IS NON-OPEC SUPPLY TREND

LONG-TERM OIL PRICES

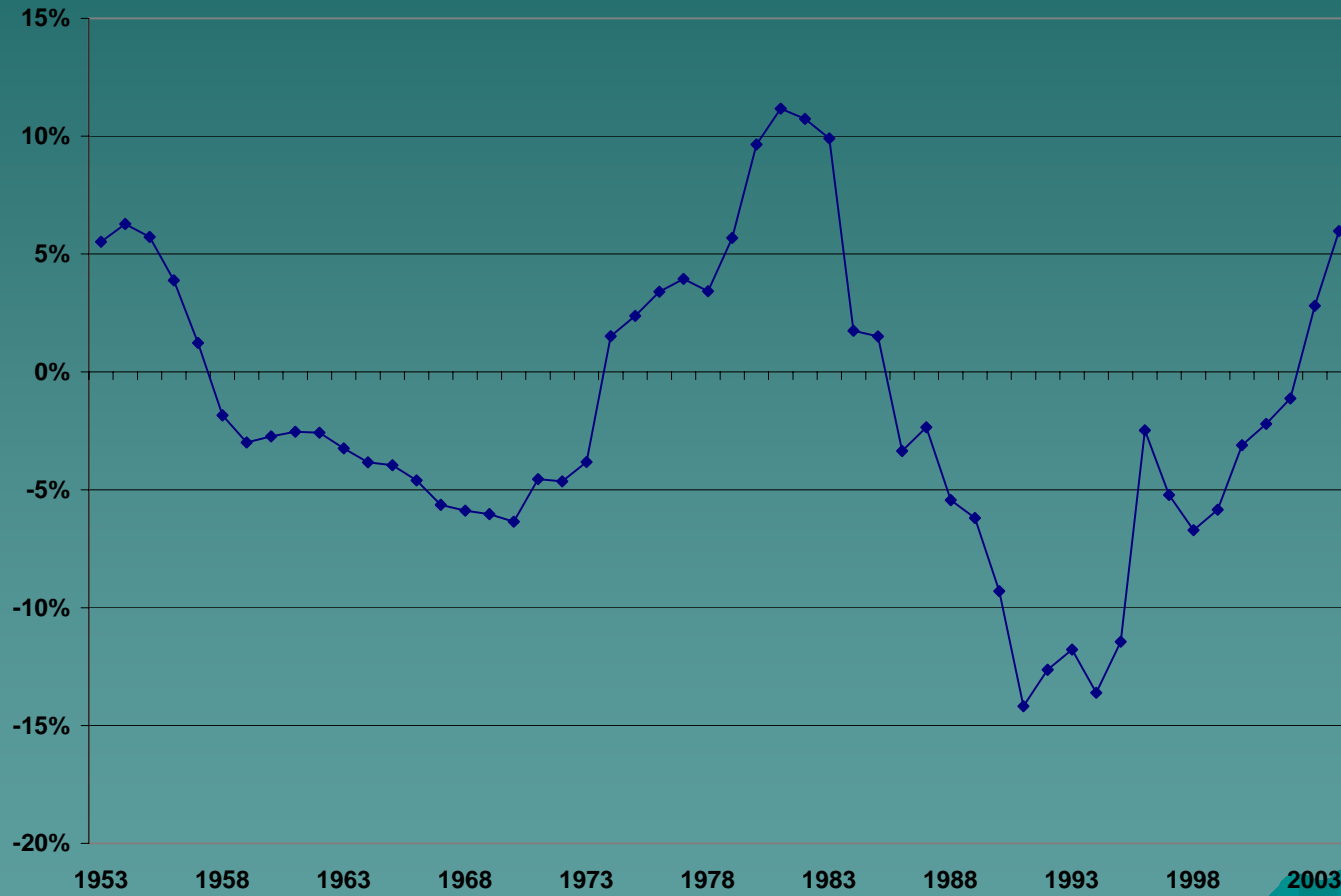


OIL PRICE RETURN



CALCULATED AS 10-YEAR AVG ANNUAL CHANGE

OIL COMPARED TO US T-BILL

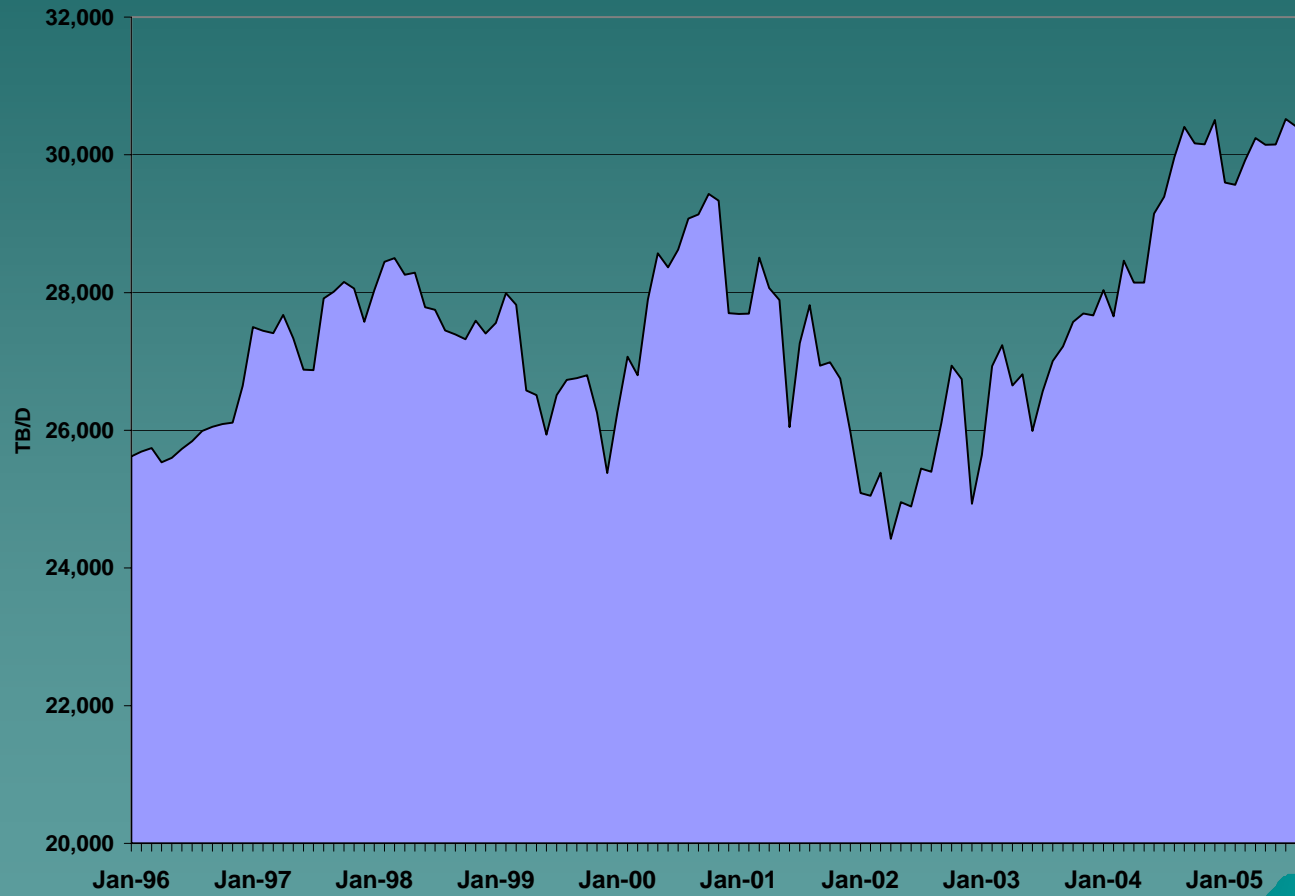


POSITIVE NUMBER REPRESENTS BETTER RETURN FOR OIL.

THE CAPACITY ISSUE

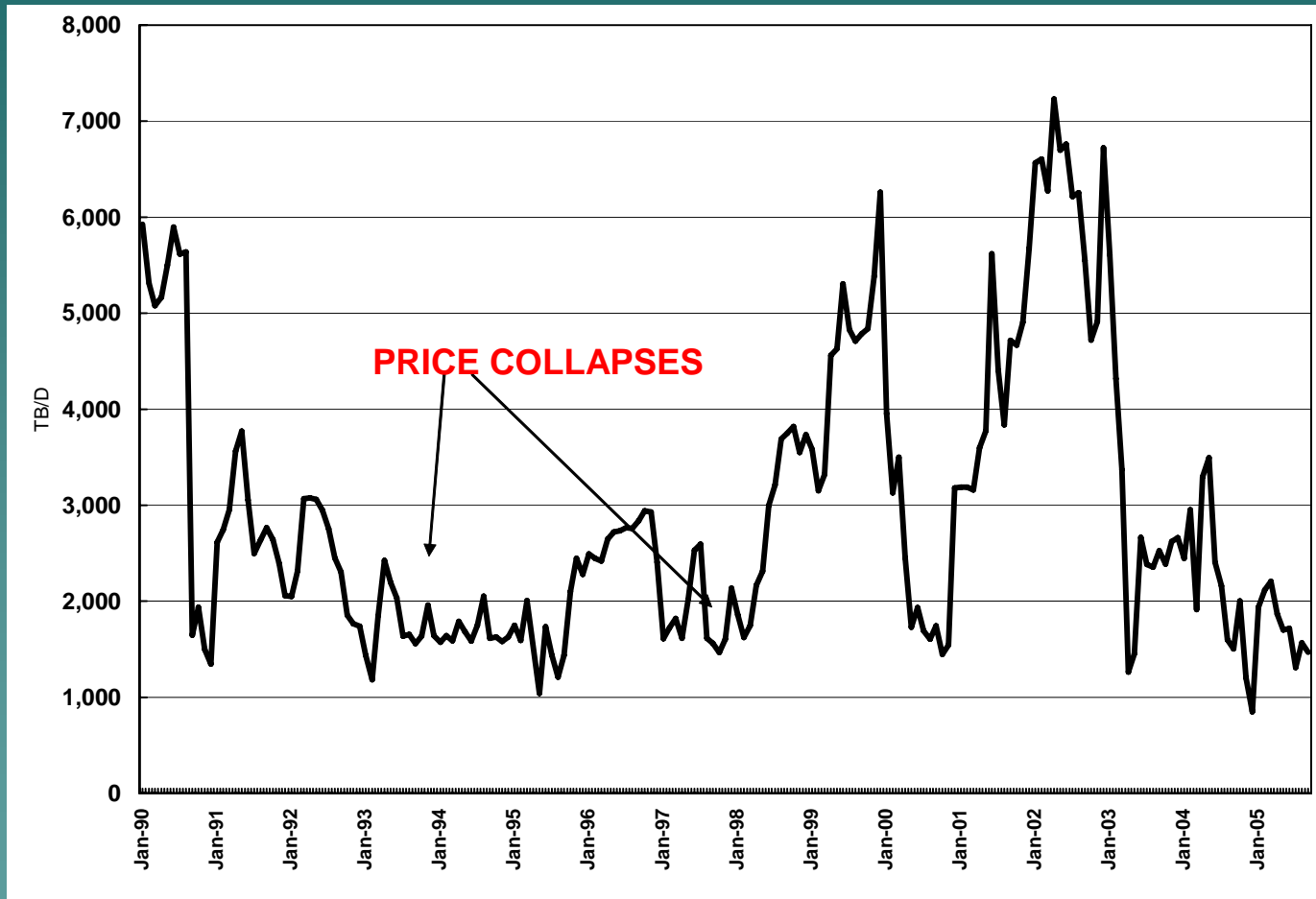
- ◆ HUGE SURPLUS CAPACITY IS NOT THE NORM
 - REFINING SECTOR AN INTERESTING EXCEPTION
- ◆ CURRENT MARKET IS CLOSE TO DESIRED CAPACITY UTILIZATION
 - HIGHER VOLATILITY FROM 1995
- ◆ BUT CAPACITY IS RISING:
 - OPEC UP 1 MB/D IN 2006
 - SAUDIS ALONE ADDING 2.5 MB/D MID-TERM
- ◆ IF DEMAND GROWTH IS WEAK, OPEC SURPLUS CAPACITY COULD GROW BY 1.5 MB/D IN 2006

OPEC PRODUCTION



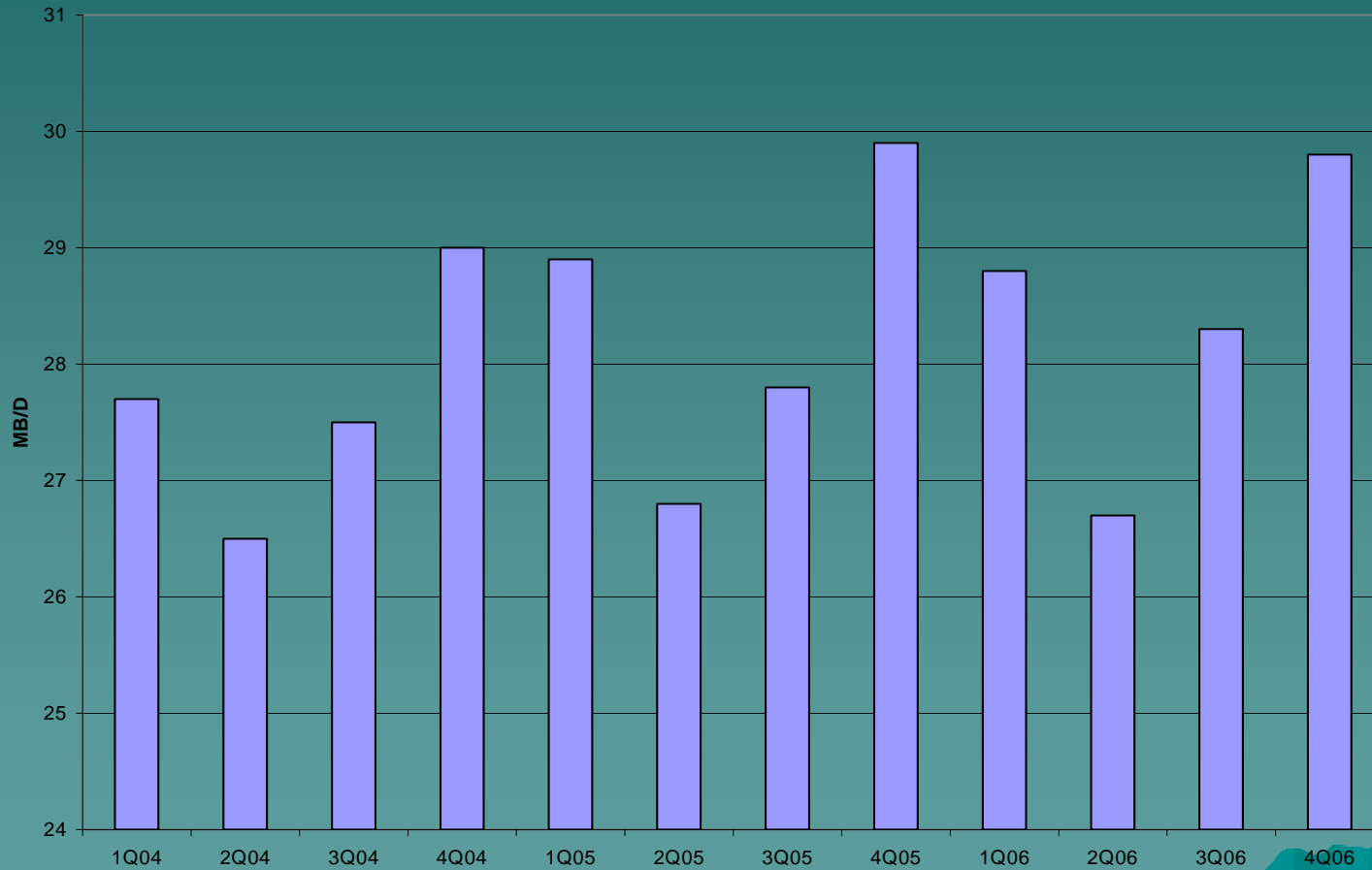
CAPACITY IS TIGHT, BUT PRODUCTION INCREASING

OPEC SURPLUS CAPACITY



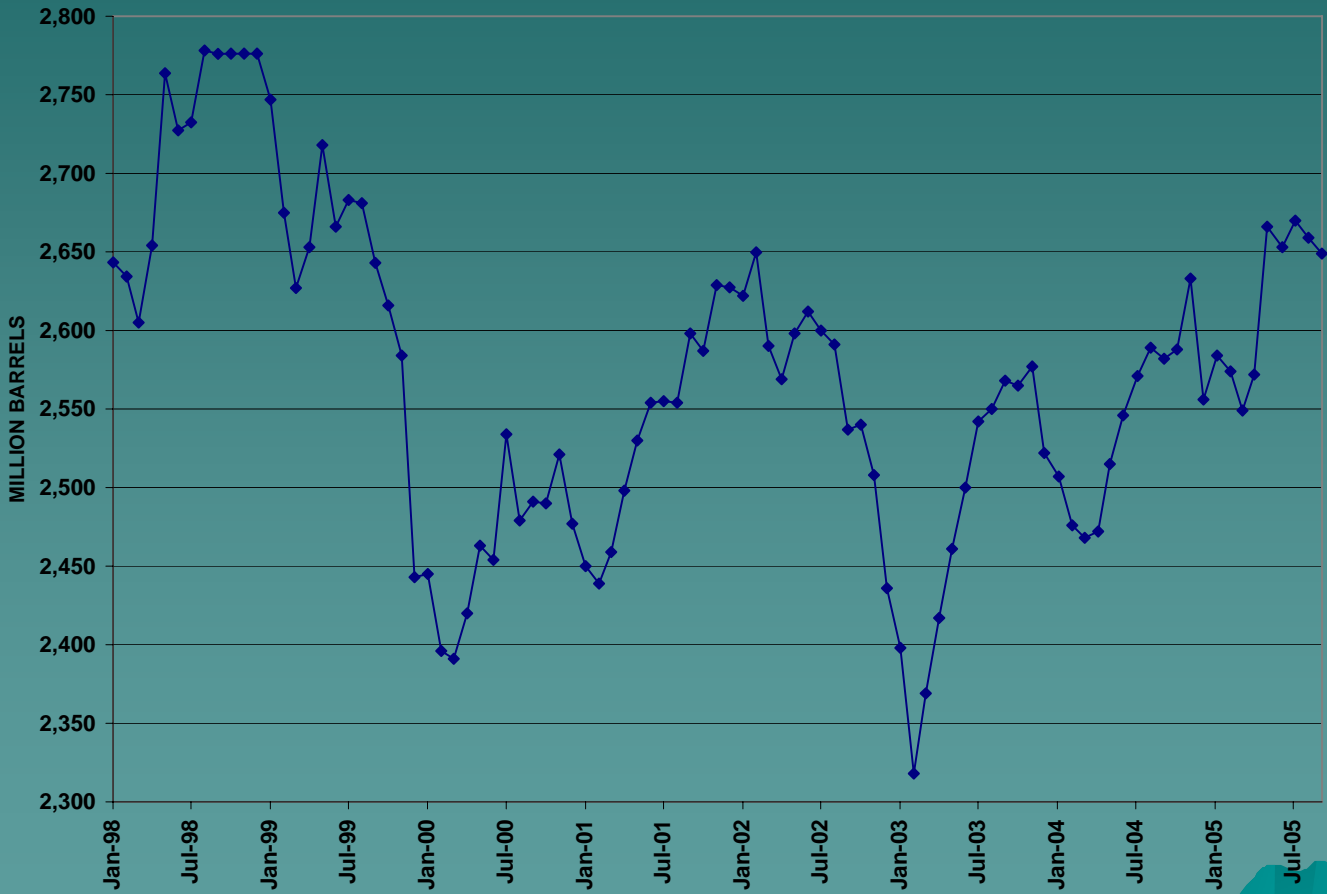
TIGHT CAPACITY ALONE DOESN'T MEAN HIGH PRICES

CALL ON OPEC: IEA



ASSUMES STRONG DEMAND GROWTH IN 2006

OECD INVENTORIES

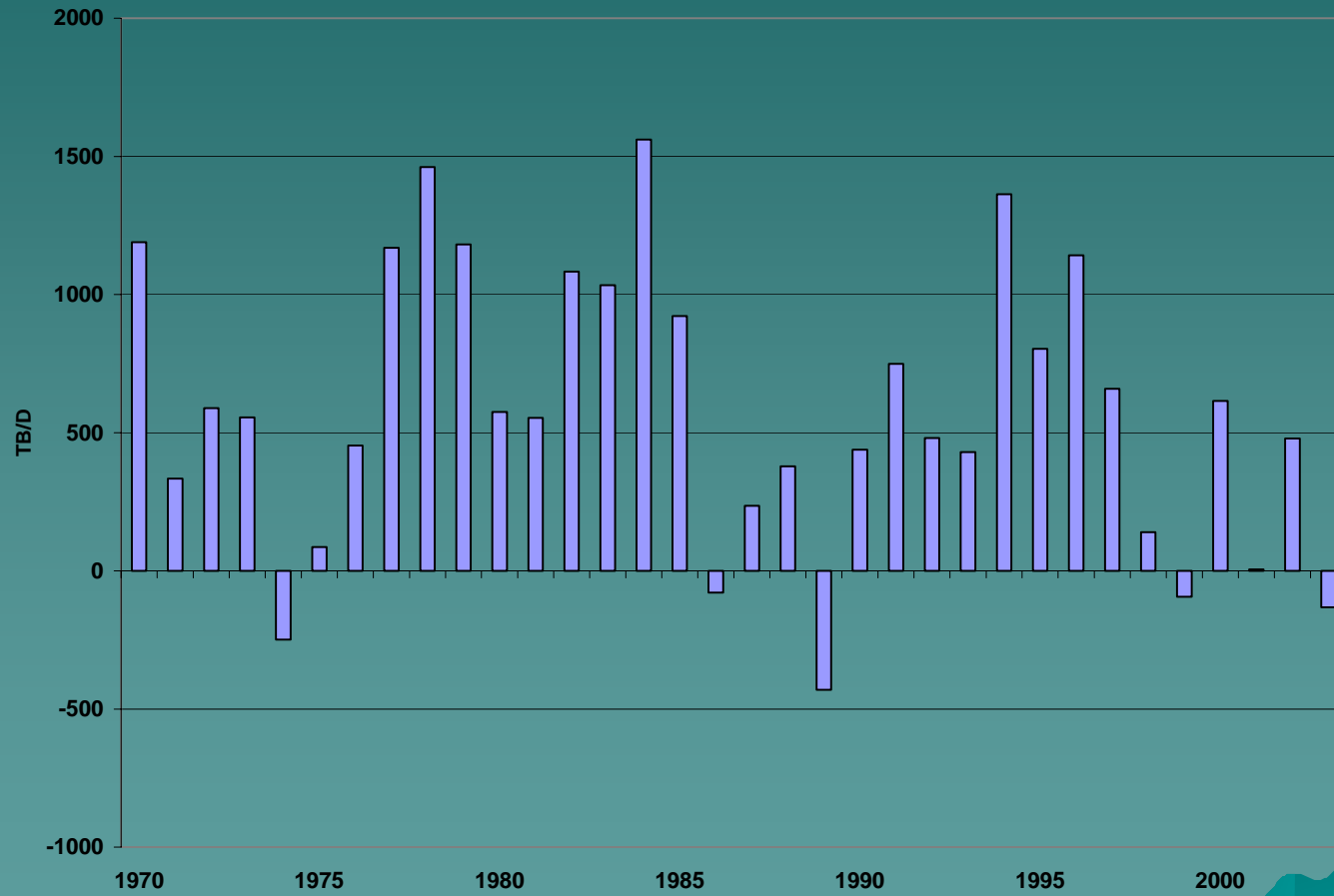


LOWER NON-OPEC SUPPLY GROWTH: THEORIES

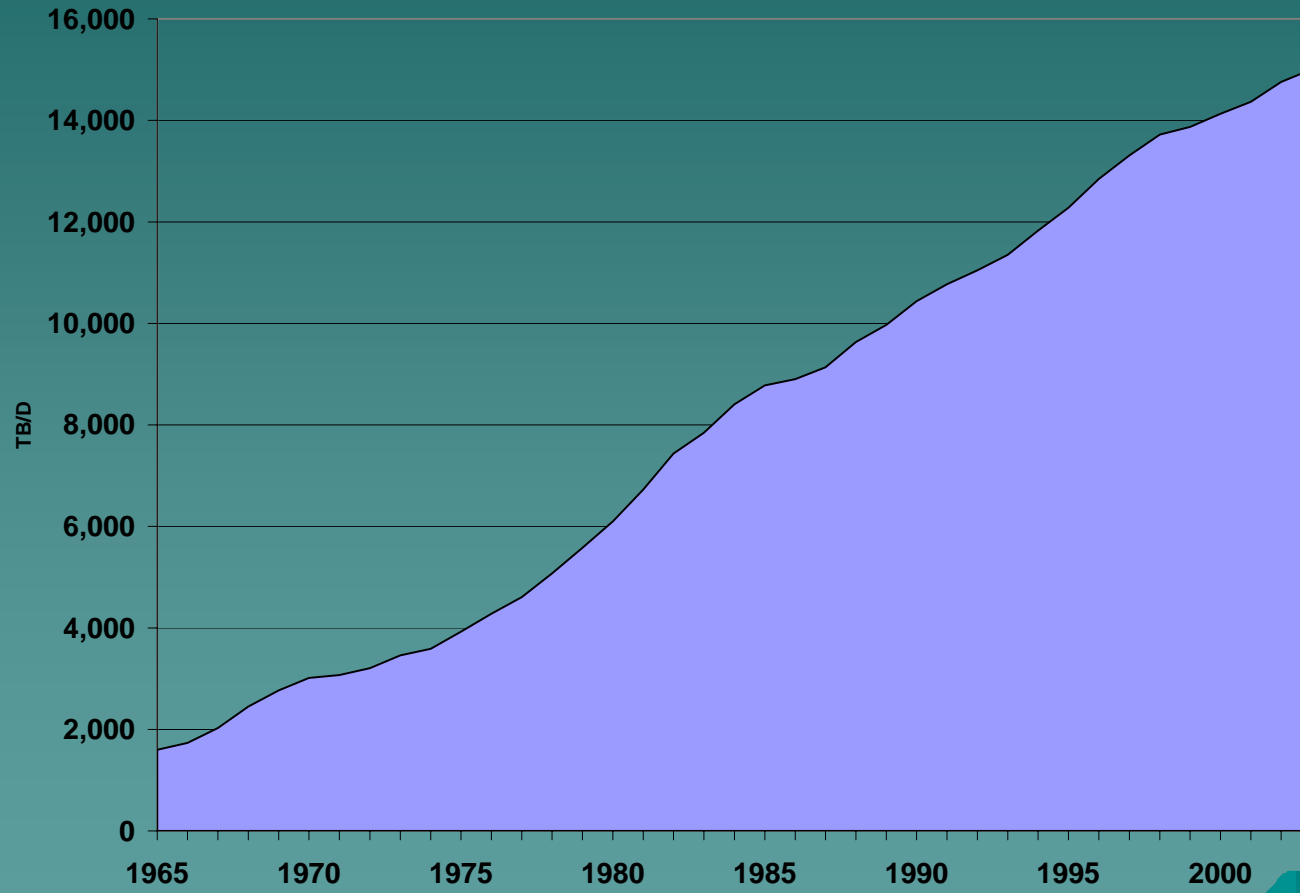
- ◆ GEOLOGY
 - HUBBERT AND PFC
- ◆ DIMINISHED ACCESS
- ◆ 1998 PRICE COLLAPSE
- ◆ M&A DISTRACTION
 - OR LNG, GTO, TAR SANDS, ETC.
- ◆ 3 COUNTRIES ACCOUNT FOR 2/3S OF CHANGE IN TREND!
 - ARGENTINA, COLOMBIA, UK
 - ALL ARE TRYING TO RECOVER

DIMINISHED GROWTH

NON-OPEC NON FSU ANNUAL CHANGE



THE "OTHER"



NON-OPEC CHANGE (TB/D)

	1993-1998	1999-2004	NET
N. America	132	161	29
L. America	1,084	36	-1,048
Africa	345	298	-48
Middle East	410	9	-401
Europe	1,692	-333	-2,024
Asia-Pacific	796	586	-210
Australia /N.Z.	46	-20	-66

BIG SHIFT IS 1998: WHAT A COINCIDENCE!

THE NEXT QUESTION

- ◆ WHERE'S THE FLOOR?
- ◆ WHEN DOES OPEC START TO CUT?
 - BELOW \$50, \$40?
 - RATE OF DROP
- ◆ WILL TRADERS KEEP GOING?
 - FUNDS PULLING OUT
 - PEOPLE GAMBLE ON FUNDS PULLING OUT

WHAT TO DO...

- ◆ EXPECT A WILD RIDE
 - BEHAVIOR SHOULD REFLECT APPROPRIATE RISK TOLERANCE
 - GO LONG IN BUMPER STICKERS
- ◆ PRICES OVER \$35 MORE LIKELY THAN BELOW, BUT \$25 NOT IMPOSSIBLE
- ◆ SPECULATIVE SENTIMENT REMAINS A THREAT, DOWN AND UP
- ◆ OH, YEAH, HIRE MORE CONSULTANTS