$100 a barrel oil: Bad for Wall Street, good for green cars

March 8 2011, By Jim Motavalli

Is there a huge difference between $100-a-barrel oil and $98 oil? Obviously not much, but it's a psychological barrier. So when West Texas crude oil prices dipped below the magic $100 mark on a recent morning, Wall Street responded by sending stocks up a bit. Oil certainly isn't cheap, they said, but it's not as low as it can be.

You too can predict the stock market. Just go to this site, www.oil-price.net/, which lists the price of two "benchmark" barrels of oil, the aforementioned West Texas product and Brent crude, which is from the North Sea and helps set Middle Eastern oil prices. (Note that the Brent price is generally higher, above $110 last time I checked. Having more than 80 percent of Libya's oil capacity in "rebel" hands will do that to ya' - as oil analyst Sarah Palin might put it.) It's the Texas price that really matters to the market. When that goes over $100, it's panic time. (Break out the old footage of gas lines and $4.25 at the pumps.)

The market's reaction showed that we're in an extremely jittery time right now. James Bullard, president of the St. Louis Fed, said some things about a healthy economy in 2011 and opined, "oil prices are not currently a drag on the recovery." That was enough for a little stock blip. Memories of 2008 and what $4 a gallon gasoline did to the economy and car sales in particular, are still fresh.

Our relatively stable 16 million annual auto sales fell to 10 million as the per-barrel price reached $147. Right now, the auto industry is in recovery mode with a projected 13 million sales for 2011, but it could easily all fall apart again.

What does this mean for the green cars now rolling off assembly lines? Good things, actually. Take a look at Smartmoney columnist Jack Hough in this Wall Street Journal video: online.wsj.com/video/will-high … 50-0219B9A89CA2.html

What he's saying is that electric vehicle costs, particularly batteries, are likely to drop dramatically. That shortens the earn-back period to justify a green car purchase. And high oil prices do exactly the same thing - they make you feel better about buying a battery car or plug-in hybrid, and your lender (because more of us are buying cars on time these days) will be happier, too.

Are oil prices likely to go back down once the Middle East sorts itself out and the black gold starts flowing again? Frankly, no. All the long-term forecasts are for high-priced oil, even though it might well bounce around below and above the $100-a-barrel mark in the short term. Big oil strikes are getting harder to find as world demand goes up, particularly from China. You don't have to be a peak oil theorist to predict the consequences of too much demand chasing too little supply.

Daniel Yergin of Cambridge Energy Research Associates, probably the world's most respected oil analyst and author of the definitive book, "The Prize," says what we're seeing isn't a temporary blip - it's a "sea change." Uh-oh. Yergin is generally very bullish on oil prices staying low, and he's always been a voice against peak oil alarmists. But he's concerned now for geopolitical reasons.

So what do I think? We need to tax the stuff, and establish a price floor so green carmakers and renewable energy developers don't get blindsided by low-cost energy. But don't get me started ...

(c) 2011, Mother Nature Network.
Distributed by McClatchy-Tribune Information Services.

Citation: $100 a barrel oil: Bad for Wall Street, good for green cars (2011, March 8) retrieved 18 April 2024 from https://phys.org/news/2011-03-barrel-oil-bad-wall-street.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.