

The Short Run Outlook for World Oil Prices

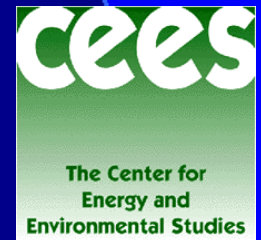
Robert K. Kaufmann

Project LINK

April 23, 2003



<http://www.bu.edu/cees/readmoreRK.html>



Recent Movements in Prices



WTI near Month Contract--NYMEX

Brief Outline of the Talk

Why were prices so high?

Why was the war forecast too high?

Post war oil price forecast

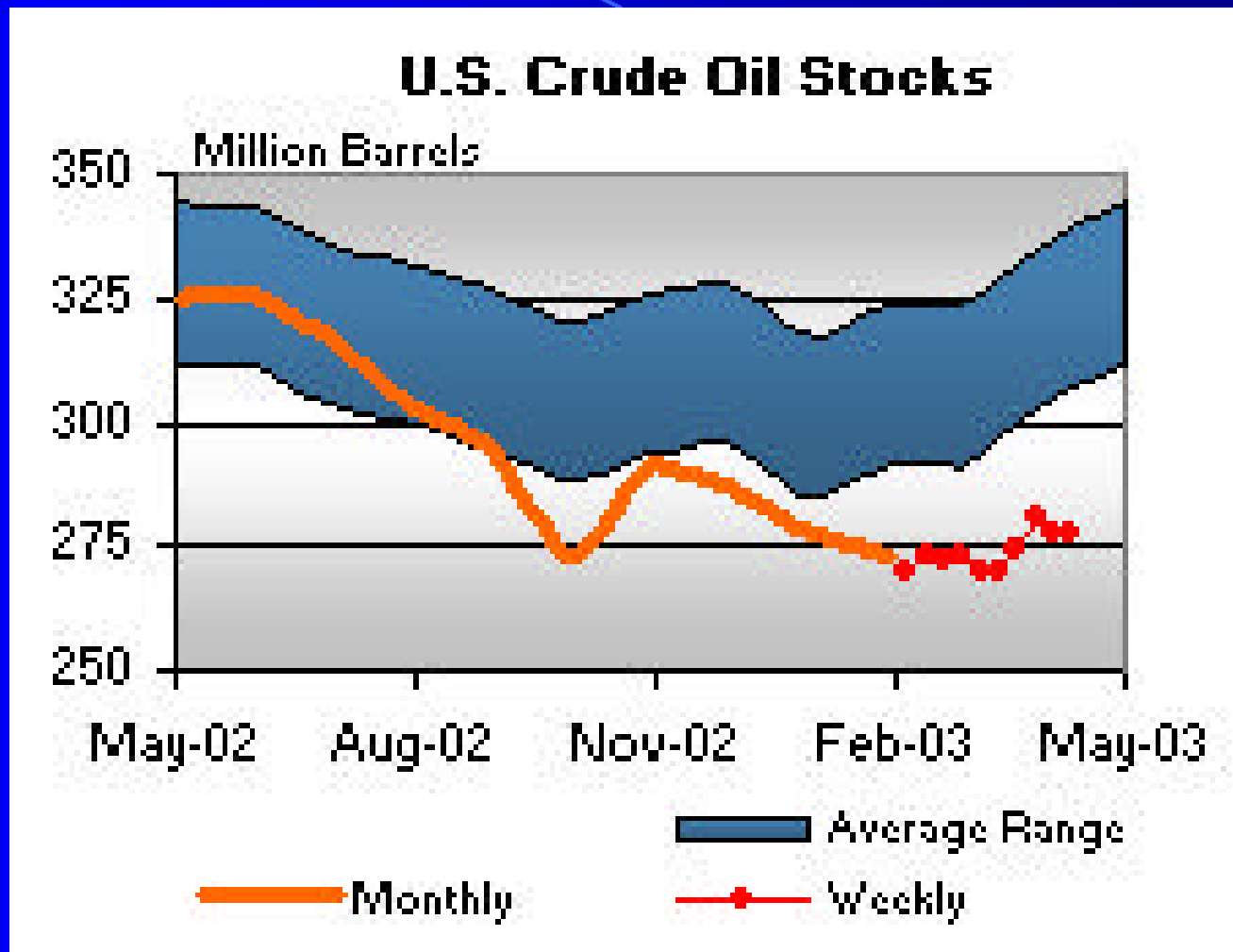
Why Were Prices So High?

Low Stocks

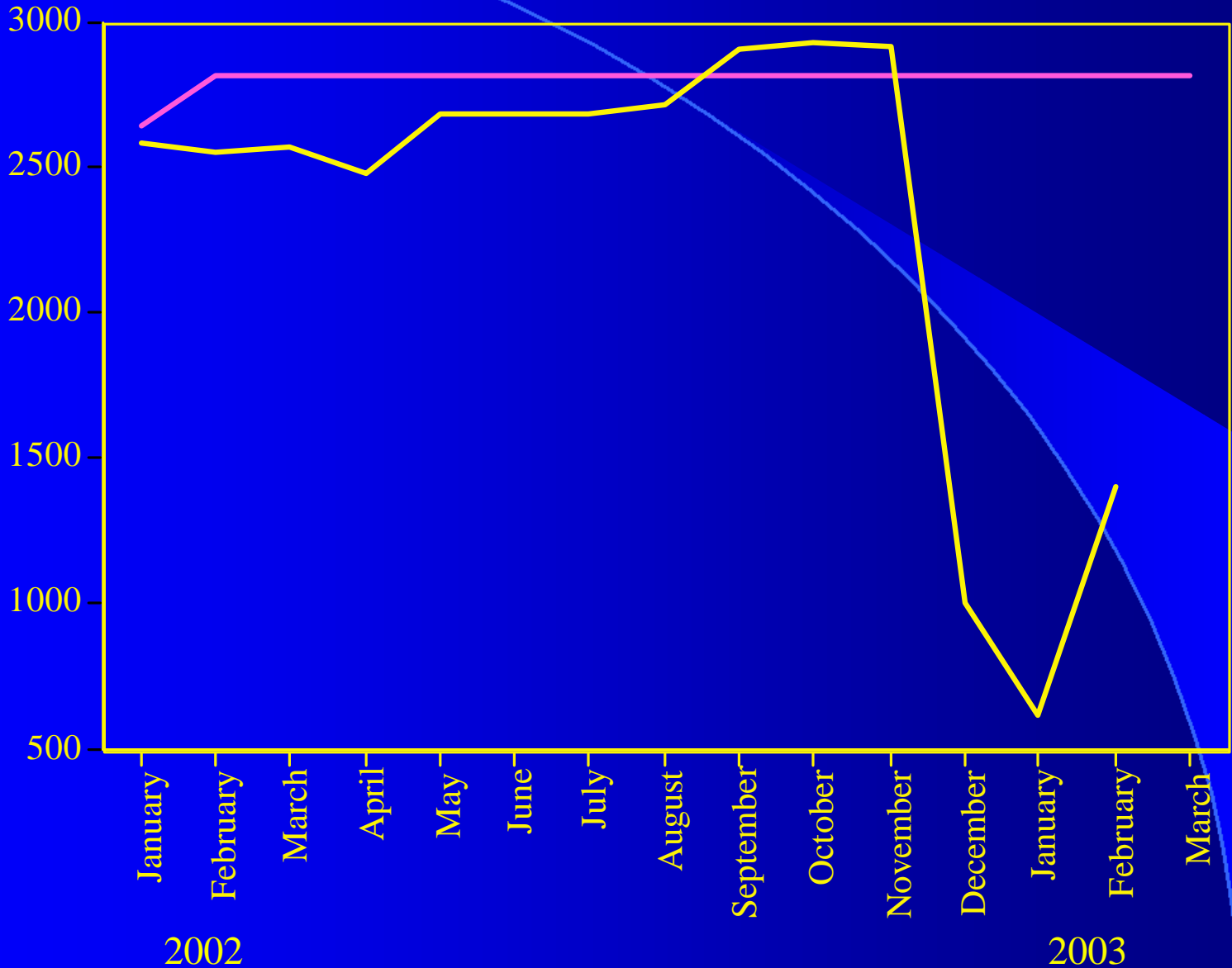
Venezuelan Crisis

War Premium

Decline in Stocks



Strikes in Venezuela



The Persian Gulf Experience



NYMEX near month contract

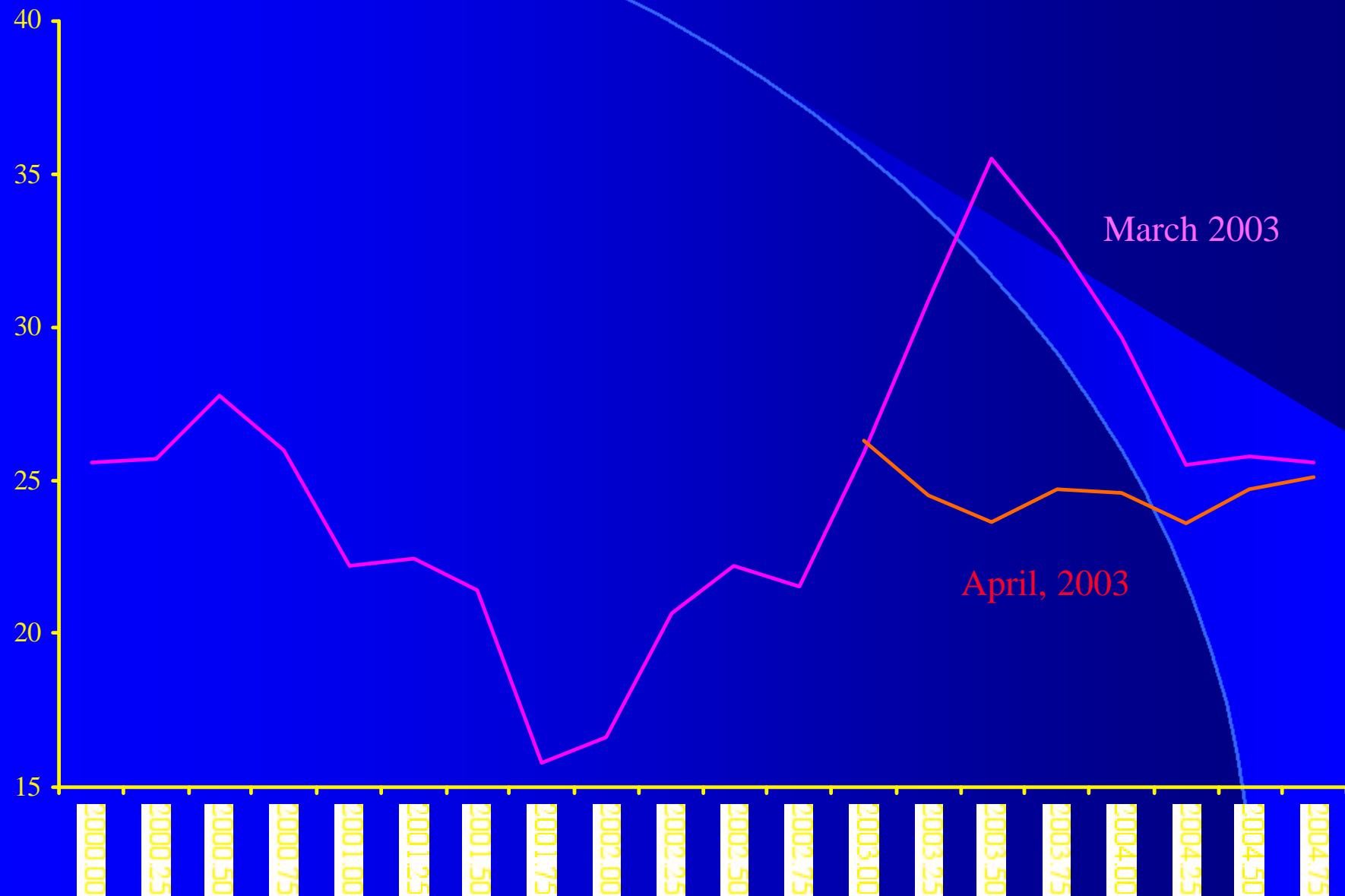
Decomposing Price Changes

2003 Q1

Observed	\$5.50
Stocks	\$1.75
Venezuela	\$1.25
War threat	\$2.50

Stocks & Venezuela are hard to separate--reduction in Venezuelan production added to stock draw

The Forecast for Oil Price



Why Was the War Forecast So Poor?

Iraqi Production

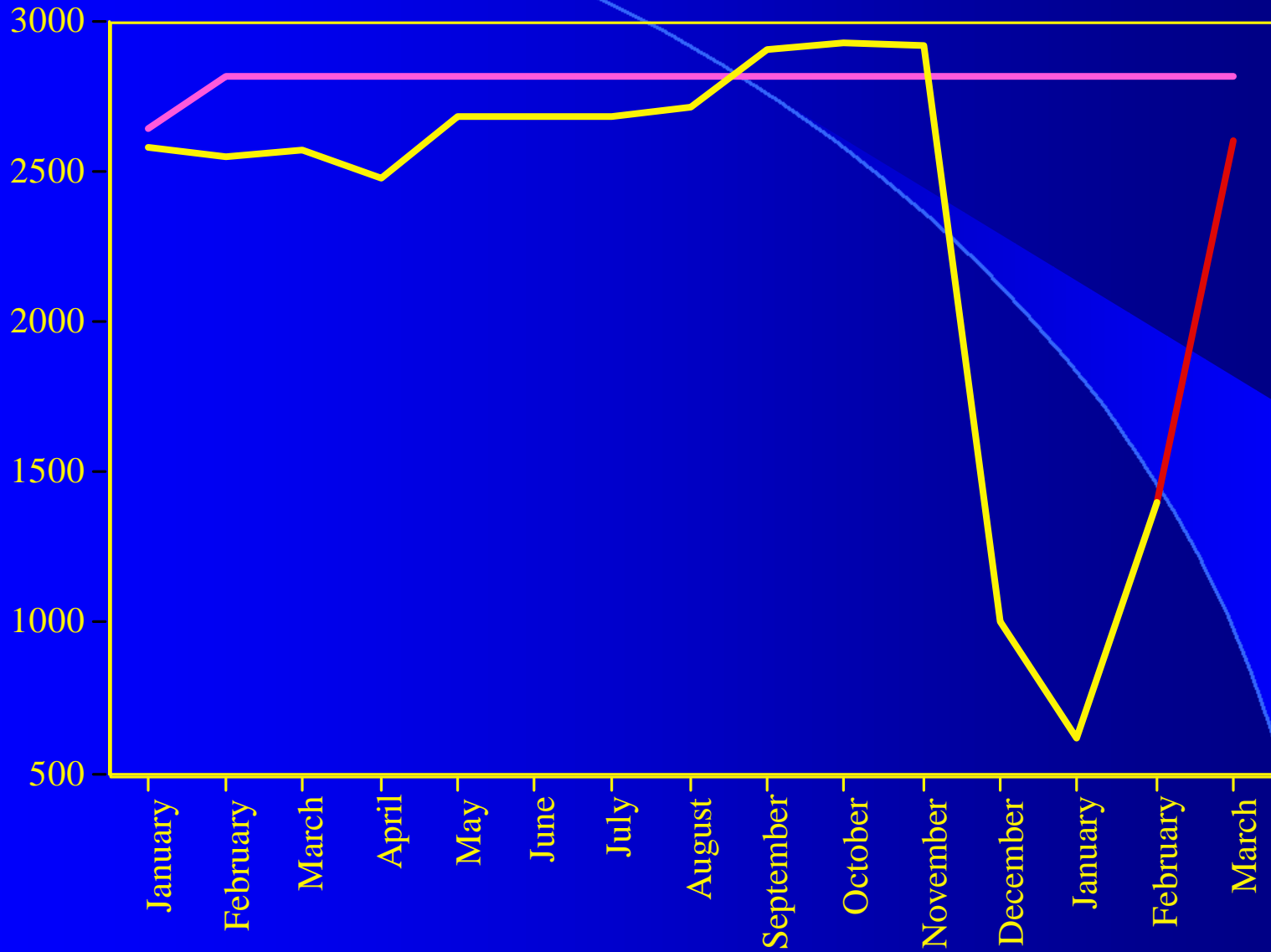
Assumed 0.7 MBD loss of Kuwaiti Crude
Assumed six month loss of Iraqi oil exports
Current timetable

Southern Iraq 0.8 Mbd 6-9 weeks

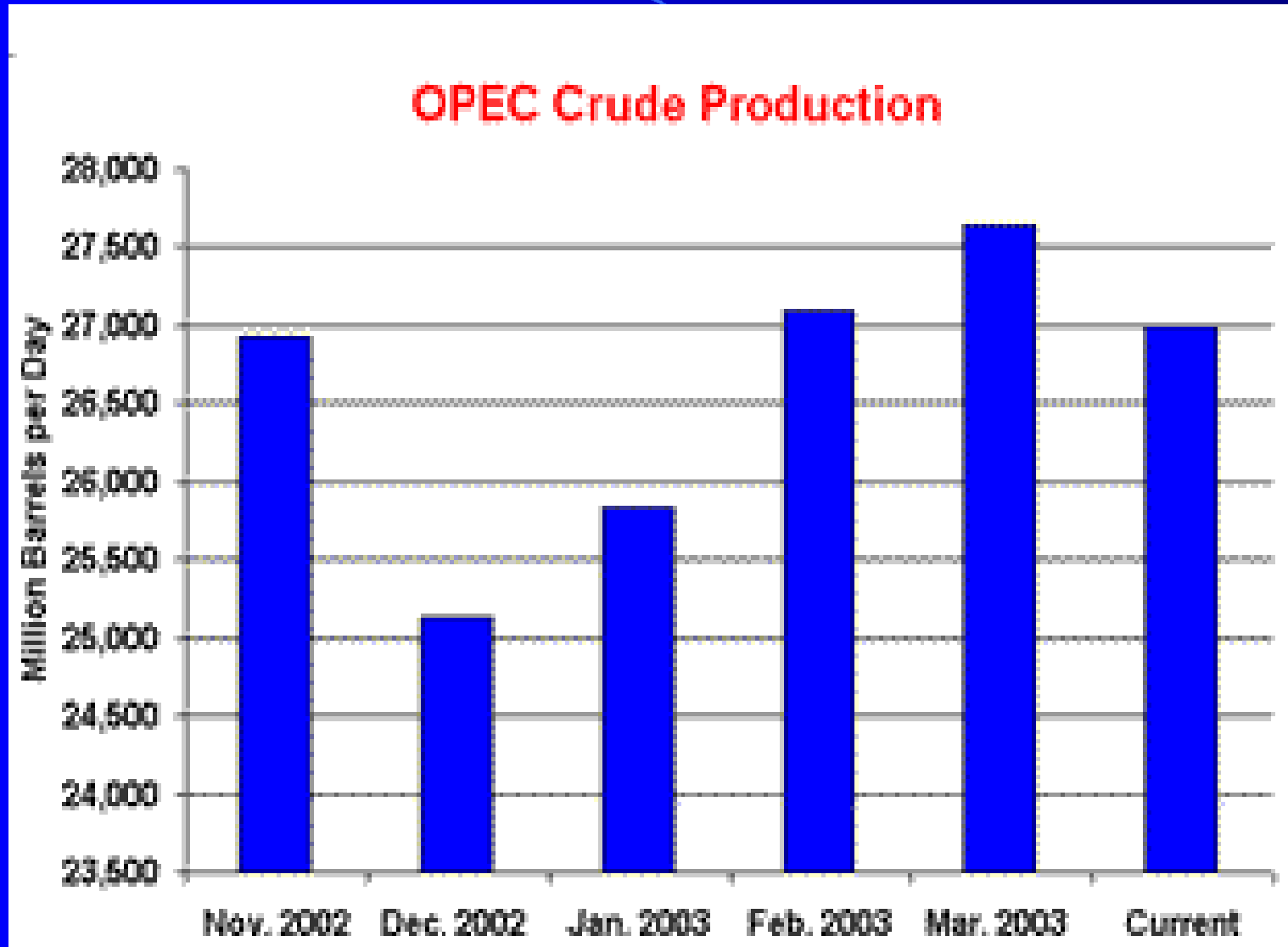
Northern Iraq 0.8 Mbd 2-6 weeks

Lifting UN sanctions

Venezuela Production



Opec Supply



Post War Forecast

- Iraq production returns in full third quarter 2003
- Nigeria production remains available
- Venezuelan production remains available
- Stocks recover back to normal
- No recession--slow growth in oil demand