Geo-Political Strategist: 2017
Economic Barometers: Oil and Gold Prices

As your team’s newly hired Geo-Political Strategist, you are responsible for monitoring worldwide economic and financial market developments. You’re forecasting duties? You are to predict oil prices and the price of gold. You inherited your firm’s old forecast, and they shared the consensus expectation. Thus as of January 30, 2017 you are predicting that at year’s end, the price of oil will be $60/bbl. And gold will trade at $1100 per ounce. As a strategist, you must always be ready to participate in class discussions, and be ready to answer questions about current developments relating to oil and gold.

Barometer #1: The Dollar Price of Oil

Each of the last four global economic downturns began following a sharp spike in the price of crude oil. Twice in the past twenty years, the U.S. has gone to war with Iraq, a major oil producer. The current battle with global terror is inextricably intertwined with oil — 25% of global oil production comes from the Middle East. Oil, therefore, is both the lifeblood of the global economy and a key geo-political barometer.

Asia boom, over 2002-2005 caught the world by surprise and dramatically increased demand for crude oil. Oil prices surged, rising from $20/bbl to $50/bbl, through mid-2005. Thereafter, the nuclear ambitions of Iran, radical election results from Palestinians, and bellicose commentary from Venezuela justified, in the mind’s eye of euphoric oil speculators, sharp price gains. At its peak, mid-2008 oil fetched $145 per barrel. But global recession trumps Mid-East angst every time. As the world’s economy plunged, second half 2008, oil prices swooned — falling below $40 in January of 2009.
As global recovery came into view, oil prices revived, climbing back to around $100/bbl. Then came the power of technological innovation. The global supply picture for oil radically changed due to is the production resurgence in the USA. Fracking, drilling into shale beds and driving water under pressure into the rocks, has created a boom for USA oil production. USA production peaked in the 1960s at around 10 million barrels per day. It fell through 2005, bottoming out at 5 million barrels per day. Amazingly, it has risen sharply since then and production peaked in 2015 at over 10 mb/day.

Technology also has been weighing on demand expectations. Battery and solar technology are threatening the long term outlook for oil. In reaction to more oil and falling oil use, prices fell again, touching the mid-30s. they stand today at $54 per barrel.

Barometer # 2 The Price of Gold:

GOOD LUCK!