# EEPS 517
# Energy Crises
(and the World of Energy)

## Lecture 8 – Financialization in Energy Markets and the Oil Price Spike of 2008

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# Week 8

Week 1 – Overview and Course outline

Week 2 – Coal transition in UK & Timber crises in US

Week 3 – Oil Crisis of 1973-74

Week 4 – Oil Crisis of 1979-1980

Week 5 – California electricity crisis & Enron

Week 6 – German Energiewende

Week 7 - Chernobyl to Fukushima: Nuclear accidents and their aftermath

**Week 8 – Financialization in Energy Markets and the Oil Price Spike of 2008** (two parts)

Week 9 - Natural gas disruptions and European experience

Week 10- Australian Energy Crisis: Blackouts, Renewables and Storage systems* (may shift)

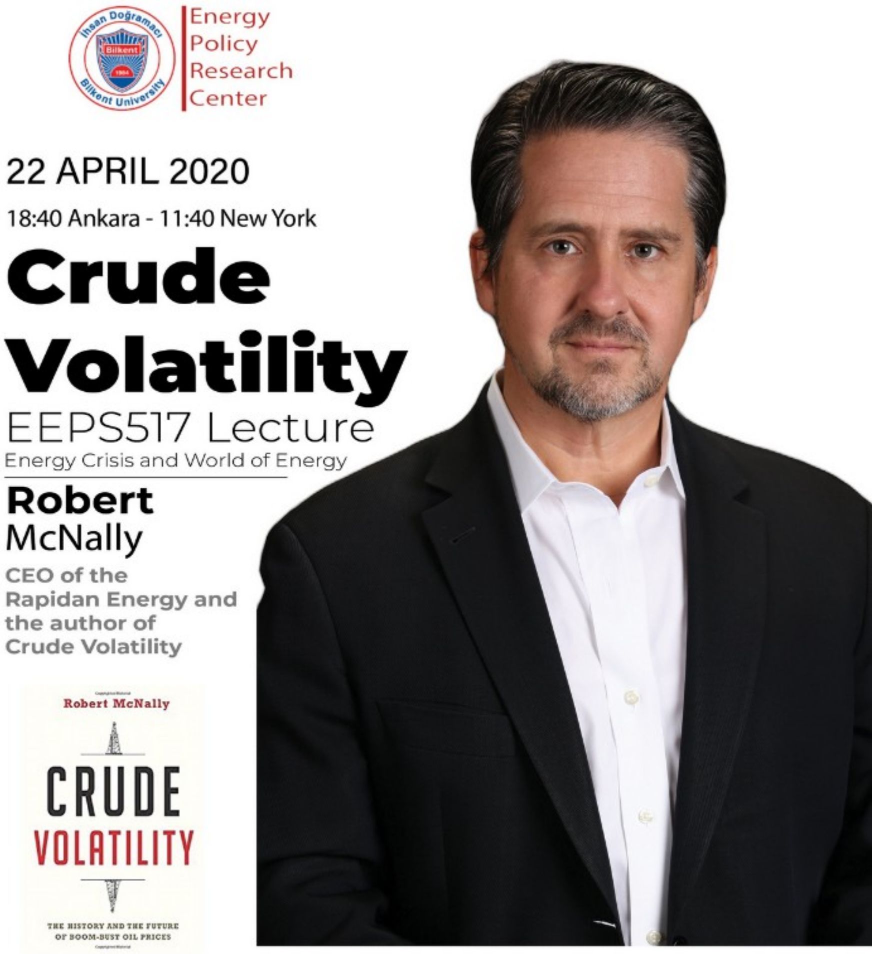
Week 11- Climate Change

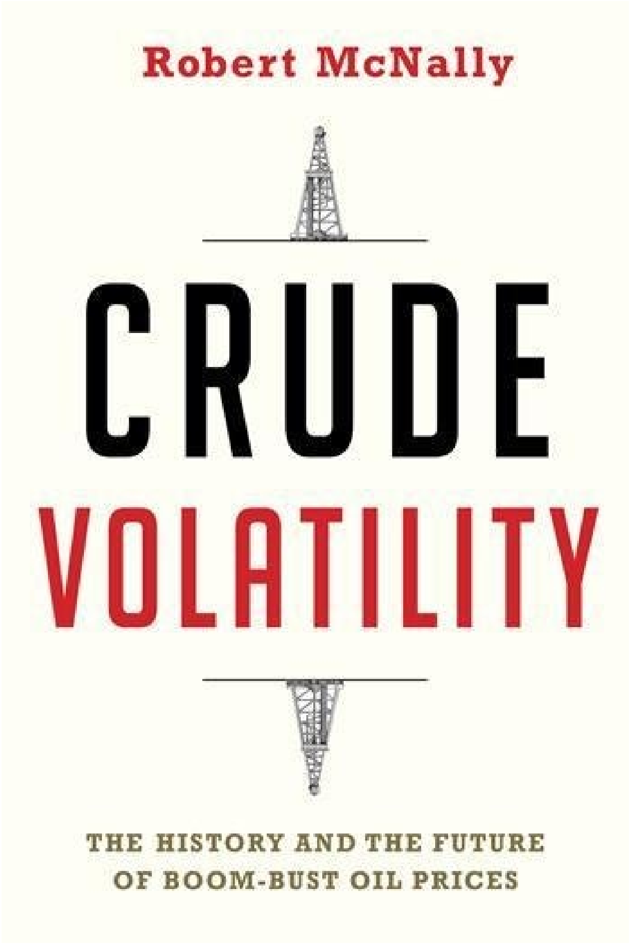
Week 12 - Turkey's energy crises and shaping of present energy system

Week 13 - Forces of Nature: Hurricanes, Pandemics, Volcano Eruptions, Sun

Week 14 - Analytical methods : Building up scenarios, structured analysis and crisis management

# Today


İhsan Doğramacı Bilkent University
Bilkent
1984
Energy Policy Research Center
22 APRIL 2020
18:40 Ankara - 11:40 New York
Crude Volatility
EEPS517 Lecture
Energy Crisis and World of Energy
Robert McNally
CEO of the Rapidan Energy and the author of Crude Volatility
Robert McNally
CRUDE VOLATILITY
THE HISTORY AND THE FUTURE OF BOOM-BUST OIL PRICES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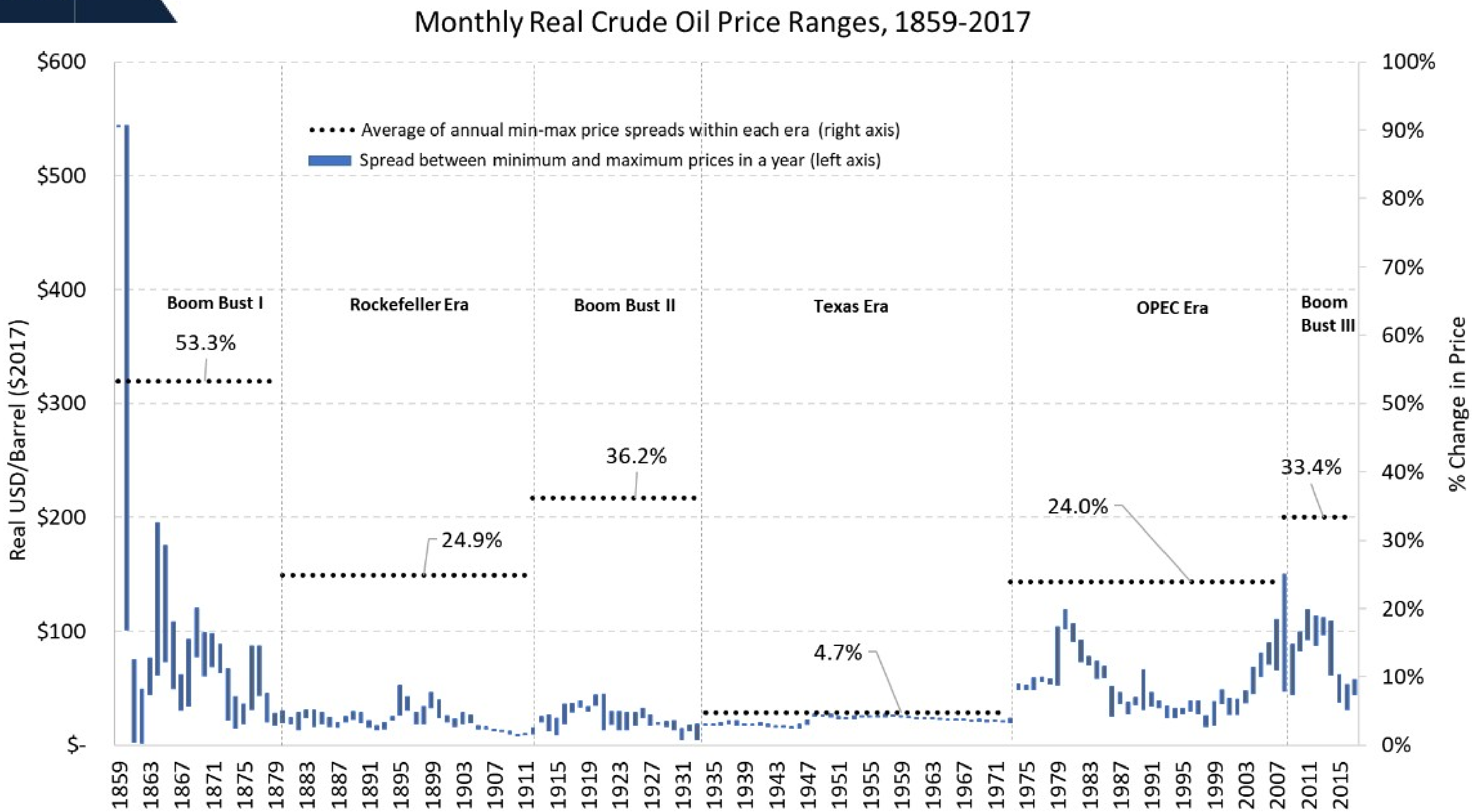


Data Sources: The Rapidan Group, based on The Derrick, API, St. Louis Fed, and EIA

# Epilogue from the Book

When oil supply and demand are unbalanced and no supply regulator is present, oil prices should range between a floor defined by the cost of production and a ceiling defined by economic pain. In current circumstances, this suggests a likely oscillation in a range well below $30 and above $100. When supply and demand are balanced or imbalances are small, price range may be smaller. But when imbalances are more pronounced, the range will grow. And price swings reinforce themselves. Price busts like the one since 2014 cancels or delays multi-year investment programs and slowly but surely stokes demand that in a few years contributes to the next price boom, which in turn attracts new investment and can slow economic growth, contributing to the next bust. “The problem of oil … is there is always too much or too little,” Myron Watkins wrote in 1937, and that remains true today and will be tomorrow.[1]

## BUCKLE UP

For the first time in over eighty years we appear to have what many have craved and clamored for: a genuinely free, unmanaged market for crude oil, the world’s most strategic commodity. No longer do we have a Standard Oil Trust, quota-setting state regulators, a Seven Sisters cartel, or a Saudi-dominated OPEC to interfere with the free interplay of supply and demand. The history of oil markets and oil’s enduring features suggest a free market price is likely to be a volatile one. It is possible the unmanaged interplay global supply and demand will automatically yield stable prices, but it is more likely future oil trends will resemble those in the past and feature vast shifts, sustained imbalances, upheaval, and surprises. In the short term, oil is likely to range between shut-in costs—well below $30—and prices that induce demand slowdowns if not recessions—well above $100. Price gyrations through this range would destabilize not only our oil industry, but broader economic and financial sectors as well as geopolitics. Investors, officials, and thinkers will need to innovate and implement coping strategies to deal with the mixed blessing of an unmanaged oil market. Welcome back to boom-bust.

Crude Volatility: The History and the Future of Boom-Bust Oil Prices, Robert McNally, Columbia University Press

Thank you