# High Oil Prices Are Not Necessarily Bad

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# High Oil Prices Are Not Necessarily Bad

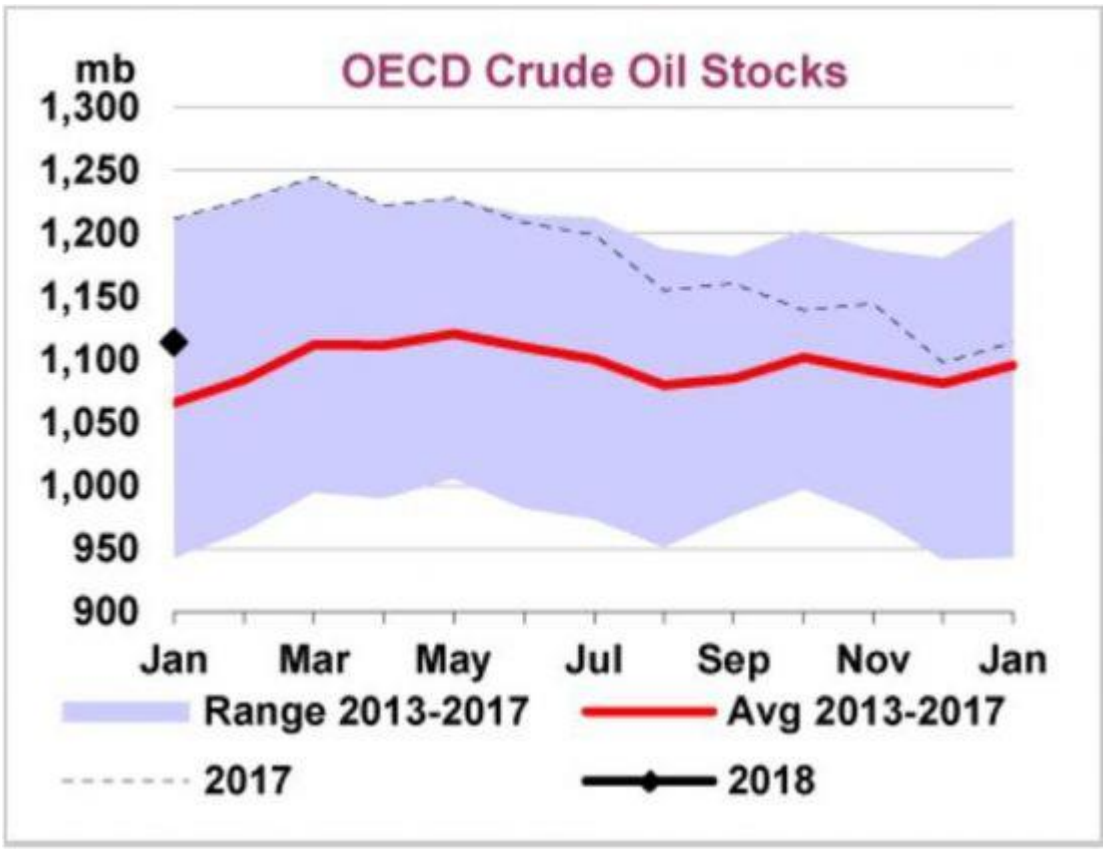
By Robert Rapier
April 24, 2018

Last Friday, President Trump "Looks like OPEC is at it again. With record amounts of Oil all over the place, including the fully loaded ships at sea, Oil prices are artificially Very High! No good and will not be accepted!"

## Record Inventories No More

First off, it is no longer true that there are still record amounts of oil "all over the place." A couple of years ago, global inventories were, indeed, at record highs. There was also a tremendous amount of oil in floating storage -- the "fully loaded ships at sea."

That is no longer the case. The production cuts from OPEC have reduced crude oil inventories back into a normal range. This can be seen in the most recent Oil Market Report from the International Energy Agency:

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Further, as Bloomberg reported following President Trump's tweet, oil in floating storage has declined sharply over the past year:

> The amount of crude oil in floating storage globally has declined to 40.7 million barrels as of April 13, from 97.2 million barrels at the end of 2016 -- a 58 percent drop -- according to data from Vortexa Ltd.
>
> "Our data does not suggest any recent builds in global floating storage volumes," including in the Middle East, cargo-tracking company Kpler SAS said in a research note. Combined floating storage and oil in transit fell by more than 80 million barrels in the first three months of the year, Kpler said.

However, it is true that OPEC's cuts have helped boost oil prices. One could then argue that oil prices are "artificially very high", assuming that OPEC would have otherwise continued to overproduce and keep prices in the $30-$40/bbl range.

## High Oil Prices: Then and Now

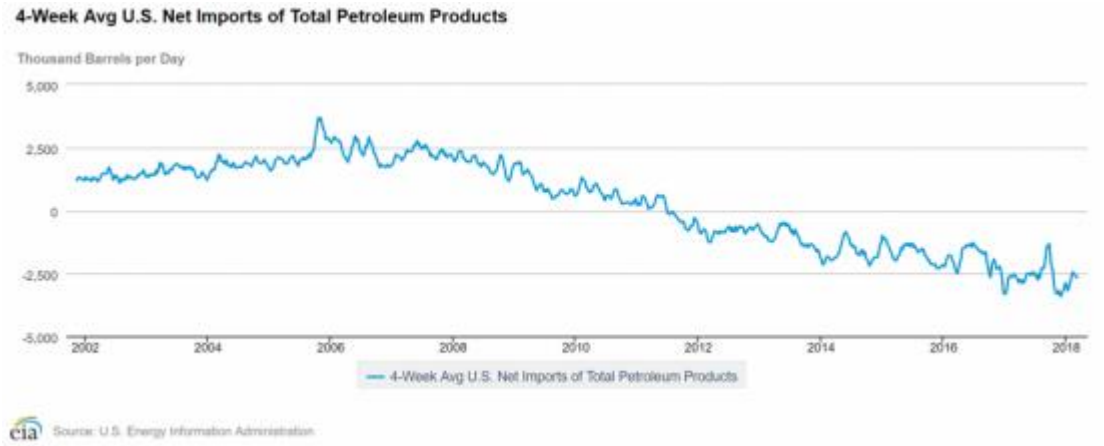
But would that have necessarily been a good thing? Let us address that.

If a country is a high net importer of crude oil and finished products, then high oil prices will indeed result in a large outflow of dollars. In this case, oil exporters benefit at the expense of oil importers.

The Energy Information Administration (EIA) has explained how oil impacts the U.S. trade deficit:

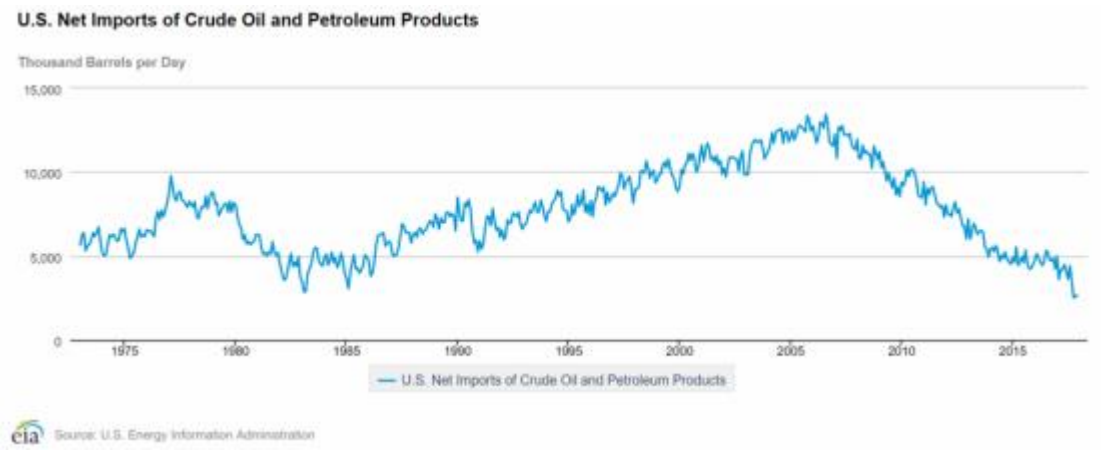
> Crude oil and petroleum products play a significant role in the balance of U.S. trade accounts, and the value of petroleum trade is sensitive to both changes in price and volume. The United States has historically imported more petroleum and petroleum products than it has exported. The deficit reached a maximum of $452 billion in the third quarter of 2008, as a result of a sharp run-up in prices.

What has happened since 2008? U.S. net exports of petroleum and petroleum products have steadily declined. In 2011, the U.S.A. became a net exporter of finished products (e.g., diesel, gasoline, etc.) for the first time since 1949. Finished product exports have continued to grow since:




That means that higher oil prices actually *decrease* our trade deficit of finished petroleum products.

That is not yet the case when we include petroleum imports and exports, but the situation is headed in that direction.




Long gone are the days when the USA had to import 12 million BPD of crude oil and finished products. At that time, high oil prices were indeed a serious drag on the U.S. economy. But with U.S. net exports plummeting toward zero, this situation is rapidly changing.

The EIA noted as much: "Since 2009, exports of petroleum and petroleum products have played a growing role in reducing the overall merchandise trade deficit."

If the USA ultimately becomes a net exporter of crude oil and petroleum products, then higher crude oil prices will bring more revenue into the U.S.A. In that case, the U.S.A. will be in the position of many OPEC members, with a net benefit to the economy from higher oil prices at the expense of oil importers like China.

## Remember the Base

The President might also need reminding that the top three oil-producing states in the country -- Texas, North Dakota, and Alaska -- all voted for him. Of the Top 25 oil-producing states, only California, New Mexico, Colorado, and Illinois (at No. 16) voted for Hillary Clinton.

Oil country is Trump country and most of the top oil-producing states like high oil prices. Rising oil prices have enabled U.S. shale oil production to rebound from the decline it suffered in 2016.

Low oil prices have historically devastated economies in states like Texas, which delivered more electoral votes to Donald Trump than any other state.

## Not All Sectors Benefit

It is important to keep in mind that there are certain sectors that will be harmed by higher oil prices. Companies that rely on transportation, like airlines and shipping companies, could take a hit. Even refiners are susceptible to lower margins from rising oil prices. Higher oil prices can also reduce discretionary income as consumers pay higher fuel bills.

So it is important to understand the impact of higher oil prices on your portfolio. Rising oil prices can be a catalyst for profits, but you have to understand which sectors are likely to benefit.

In any case, the net impact of higher oil prices on the economy is quite different than it was a decade ago. And sometime in the not too distant future, high oil prices could become a net positive for the United States just as they are for Saudi Arabia.

Therefore, the notion that high oil prices are necessarily bad for the U.S.A. should be re-evaluated.

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**See ABOUT THE AUTHOR on the following page**

# ABOUT THE AUTHOR

It's hard to imagine anyone better suited to covering the energy-investment waterfront than Robert Rapier. Robert is no armchair analyst—he has two decades of in-the-trenches experience in a wide range of fossil fuel and biofuel technologies, including refining, natural gas production, gas-to-liquids, ethanol production and butanol production. During a six-year stretch at ConocoPhillips, Robert ran a team of engineers in Scotland working on oil and gas projects in the North Sea.

For two years, Robert was an efficiency expert in a Texas petrochemical plant. The process changes he implemented saved the facility $9 million a year. He later worked as the Engineering Director for a Dutch environmental-technology company and provided engineering support for a Chinese facility the company was constructing.

Robert was also a butanol engineer in Germany for the Celanese Corporation, where he designed a novel butanol unit that cut production costs by $5 million per year.

In all, Robert has spent more than a dozen years working on liquid fuels technologies. Along the way he's picked up five patents, including one for a breakthrough way to convert ethane into ethylene (U.S. Patent 7,074,977).

Now, in addition to guiding readers to timely energy plays in his twice-monthly *Energy Strategist*, Robert travels the world evaluating startup energy companies for deep-pocketed investors. After grilling management and assessing the technology on-site, he makes a go/no-go investment decision. His wealthy private investors and hedge fund backers trust him to make the right choice for the same reason we do: his vast real-world experience in just about every facet of the energy industry. If Robert votes thumbs-up, millions of dollars flow into these cutting-edge outfits.

Robert earned his master of science in chemical engineering and a bachelor of science in chemistry and mathematics (double major) at Texas A&M University. He tells us he was "this close" to finishing his Ph.D. before he decided he was having a lot more fun making money in energy stocks.

A prolific writer, Robert's articles have appeared in *Forbes*, *The Wall Street Journal*, *The Washington Post* and the *Christian Science Monitor* — and he has been a featured expert on *60 Minutes* and *The History Channel*. His new book, *Power Plays: Energy Options in the Age of Peak Oil* (Apress, 2012), helps investors sort through doom and gloom, hype and misinformation to understand the true costs, benefits and trade-offs for each of our major energy options.

In what little spare time he has left, Robert consults for a number of energy projects, including biodiesel, ethanol, butanol and biomass gasification facilities.