Oil Now in a Bull Market?

Energy traders looking for any sort of news that would push crude oil prices higher have found two slender reeds: a falling dollar (making American oil more expensive overseas), and a surprise report from the U.S. Energy Information Administration (EIA) showing shrinkage in the vast oversupply of crude and gasoline that has weighed on the market.

Accordingly, the price of Brent crude (priced in London) and West Texas Intermediate (priced in Oklahoma) jumped by more than 20 percent over the last week, putting it into "bull market" territory. It has led observers to conclude that the rise is real and will soon allow major oil producers such as British Petroleum (BP), Exxon Mobil, and Chevron to turn cash flow positive. It even led BP's CEO Bob Dudley, long bearish on oil's price prospects, to declare earlier this week that he is "less pessimistic" than he has been.

Prices were goosed further as traders contemplated the possibility that OPEC might join with Russia (a non-OPEC member) and come to terms over an agreement to freeze production at an informal "side" meeting to take place in Algeria in late September. Merrill Lynch opined on Thursday that oil could move through the $50 a barrel price level and on up to $70 a barrel next year.

Merrill Lynch noted a series of technical and historical reasons why crude prices could move substantially higher: 1) historically, when the energy sector outperforms the overall market by more than 25 percent, it will continue to outperform it into the future; 2) the energy sector, until recently, has been shunned by investors; and 3) the market value of all energy stocks traded on the exchanges is less than seven percent of the market's total capitalization and, according to Savita Subramanian of ML, "Every time this has happened in the past, the [energy] sector beat the market over the next three years."

At the same time a technical/chart trader, Ari Wald, told CNBC why he is now bullish on the price of crude: "The dynamics of the trend really changed in April when WTI (West Texas Intermediate) moved above its 200-day moving average and broke its two-year decline."

That was followed by a reversal, finding a bottom just below $30 per barrel, but the recent rebound gives Wald every hope that the trend upward is likely to continue.

All of which proves the old adage: Ask five forecasters for their outlook, and they will give you eight opinions.

The fundamentals making the case for lower oil and gas prices — perhaps much lower — remain in place. For instance, even while talk was ramping up about the possibility of a production freeze coming out of the "side" meeting in September, Saudi Arabia announced once again a new record high in its daily production of crude. Skeptics came out of the woodwork reminding observers that the last time OPEC met in April, Iran torpedoed any such limiting agreements.

In addition the number of active oil rigs continues to increase, including those of Apache Corporation, which just added a new rig in Texas and kept online the drilling at two wells in the North Sea that it was planning to shut down.

And that surprise announcement from the EIA that crude oil supplies have suddenly shrunk? They did shrink, a little, from 522.5 million barrels (a two-year supply) to 520 million — less than one half of one percent. Hardly a harbinger for higher oil prices. As noted by *The New American* last week, "With rigs coming back online in the United States, increasingly efficient cars and trucks coming to showrooms, and impressive technological advances helping America's oil industry bring its breakeven points ever lower, OPEC's plan to force producers in the West to leave the field continues to fail."

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