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Oil Price Could Doom Obama

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Like death and taxes, the price of oil is always with us. And like taxes, it may be President Barack Obama's worst nightmare at election time next year.

Among forecasters, there is a sharp division between those who see an inexorable rise in the price of oil and those who believe it will stabilize about where it is now.

The hawks see gasoline streaking ahead to $4-a-gallon this year and $5-a-gallon in 2012.

Others say demand will collapse and it won't go that high. The Energy Information Administration is very conservative in its forecasts and it gives very high prices only a 10-percent chance of coming about.

Adding to the confusion is a nasty little spat between the International Energy Agency in Paris and the Organization of Petroleum Exporting Countries over price, inventory and what OPEC calls "technical factors," such as pipelines down for repair or the loss of the Deep Water Horizon rig in the Gulf of Mexico last year. IEA is saying that OPEC is keeping its production quotas low to jack up the price-currently just over $90 a barrel and the highest grade Brent crude from the North Sea as high as $99 a barrel-and it is endangering the global recovery with its actions.

But OPEC Secretary General Abdalla Salem el-Badri has taken issue with the IEA for roiling the markets with weak data and speculation. "Supplying the world's media with unrealistic assumptions and forecasts will serve only to confuse matters and create unnecessary fear in the markets," he said.

OPEC, which drastically cut back its targets for production in 2008 with the collapse of the global economy, has, in fact, increased its production by 2.3 million barrels a day while formally not changing its declared targets. OPEC controls about 42 percent of the world's oil production.

What is certain is that world is slurping up more oil than ever. The latest IEA prediction is that daily consumption is increasing and will reach 89.1 million barrels a day as the recovery proceeds. Emerging markets and China in particular are held responsible for the surge.

With the exception of two of the savants of the oil industry, the legendary T. Boone Pickens and former Shell Oil Company chief John Hofmeister, comment in the United States has been muted. When asked why the price of oil was so high despite the recession, White House Press Secretary Robert Gibbs brushed aside the question, recommending the reporter ask the secretary of Energy, a physicist who has not spoken on oil pricing.

Jack Gerard, president of the American Petroleum Institute, did not offer an explanation when he was asked the same question at a meeting in Washington.

The fact is that the price of oil is not determined only by simple supply and demand but by complex premiums and market sensitivities. It is a market that is roiled by wars and rumors of wars and, because oil was the first truly globalized commodity, the premiums can have their genesis far from the futures markets of New York and London.

Uncertainty in Russia, turmoil in Central Asia, the ongoing suspense of Iran's nuclear plans and even corrosion in the Trans Alaska Pipeline System are cranked into the price. No wonder so many hedge funds are involved in oil. Instability is mothers' milk to hedge funds.

There are left-wing blogs that maintain that the price of oil and its occasional spikes are created by elaborate speculative plays on the futures markets in New York and London. The left is traditionally paranoid about oil and oil companies, but who is to say they are not right this time? The memory of Enron is still fresh.

One way or another, two things stand out: The chances are that the summer driving season will put pressure on gasoline prices this year, after an extremely cold winter all over the Northern Hemisphere. The conservative (10-percent chance of happening) scenario by the Energy Information Administration says $4-a-gallon gas would come at the end of the summer.

The second reality is that the world thirst for oil has not been slaked; as the world prospers, the greater that thirst.

In 1974, the heads of 23 democracies lost their jobs because of surging energy prices. Obama, beware.

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