



5 Fundamental Reasons Why We are Bullish on Crude in 2009

Supply versus Demand. All companies want to be at the highest possible point of equilibrium when selling their goods and services to the general public to maximize production efficiency and profit margins. When a product is no longer selling as well as it once has the company may slow production to cause scarcity of the product. In doing so, the company (in this case, OPEC) hopes to drive the price back up even though they will not be selling as much as they had in the past. It is important to maximize profits no matter how much you are selling, and cutting production is a sure-fire way to achieve that goal. This is a strong indicator that we will see crude prices rise in 2009

The resurgence of the automobile industry. If sales improve, the automobile industry will level out and start seeing the same kinds of profits that brought them to the upper-echelon of business. With these increasing sales numbers I believe we will see more pickup trucks, SUVs, and big-body sedans purchased – and with crude production possibly being cut back, this may help drive prices higher.

There's only so low crude can go. As one of the most (if not the most) depended-upon fossil fuels in the world, crude oil has become very entrenched in our day-to-day lives. It is used in almost every industrial sector and is about 40% of the United States' energy consumption as per the EIA's 2007 report. If all businesses turn back around and start expanding again, crude demand should go up. There's no telling exactly how high it will go, but with Natural Gas and Coal production either not ready to take over some of crude's energy production or not able to replace some of the products crude helps to create, the crude oil market should have plenty of time to bounce back in 2009.

Why expand your business's operations if there's no money to be made? As crude oil reaches lows we haven't seen in years, there is very little (if any) incentive for current crude oil producers to expand their businesses in search of oil fields. There's no point in increasing your operations if in the end all you'll be doing is decreasing your profit margin. This slowing of expansion within the crude oil industry will also limit production and potentially drive prices back above \$100 in 2009. Remember, however that the cost of production may need to be factored in before reaching any conclusions as to where prices may go.

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Inelasticity. Right now, there is no real substitute for crude. Even before crude oil began its dip in late 2008, the inelasticity of this fossil fuel will keep prices at respectable levels until production is cut or demand rises – and as the price goes up it will most likely continue to go up due to the world's dependence on Black Gold. Any product that is inelastic will most likely bring in whatever price it asks for (within reason). Until Compressed Natural Gas vehicles take over the roadways or Coal becomes our new main source of energy we will continue to pay whatever prices crude presents us – and this, in theory, will create a very bullish crude oil market for 2009.

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