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# Inherent Risks in Predicting Blizzards and Oil Prices



The 2015 Snowmageddon did not materialize despite a consensus prediction. We now learn that there were multiple likely pathways and the one thought most likely by most experts was not the one that the storm followed. Many variables and many uncertainties mean multiple possible outcomes.

The recent news that the Obama administration plans to move to ban some arctic drilling while opening up some Atlantic regions is further proof that no algorithm will perfectly predict oil price movements. While protecting National wildlife sanctuaries in Alaska was no surprise, opening up Atlantic waters to exploration and production was less predictable and will impact US domestic production, putting some additional downward pressure on the market.

In a vacuum, it makes no sense to open up more deep water E&P at the time of an oil glut and increasing acknowledgement that the existence of the human race may depend upon reduced carbon fuel use. In a vacuum, the Saudi Oil Minister's remark "let the most efficient producers produce" is superb logic. But the hydrocarbon industry does not exist in a vacuum. Quite the opposite.

The quest for both economic growth and energy independence are powerful forces that drive decision making by the US government to support both conventional and unconventional energy production. These domestic economic and geopolitical decisions by governments around the world are the main reason that pegging a precise oil price forecast is more a game of guesswork than math based upon normal market forces.

Supply and demand work to a point, and then you have policy and politics. Human decision making is a bit less predictable. It's like reading tea leaves. Does this decision foretell another possible major step? Eliminating the US oil export ban is long overdue, and it makes great sense. Columbia University Center for Global Energy Policy Center just released a much awaited report that details why the legislative fossil no longer makes sense. Read the report here: http://energypolicy.columbia.edu/sites/default/files/energy/Navigating%20the%20US%20Oil%20Export%20Debate_January%202015.pdf.

As the Center's Founding Director and the report's co-author Jason Bordoff notes, “People worry that allowing oil exports may lead to higher pump prices.” But, counterintuitively, “…evidence and economic theory suggest that ending the export ban would put downward pressure on gasoline prices. The reason is that U.S. consumers haven’t been getting the full benefit of low U.S. crude prices.”

Like weather and global oil markets, many factors impact energy prices for US consumers. The pathways are just not easily predicted. Perhaps allowing additional offshore drilling opens up a pathway to lifting the oil export ban. I’m just glad that I don’t have to make a living predicting weather or commodities prices.

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