



## Countdown to \$200 oil (12) - betting on Yergin

Posted by [Jerome a Paris](#) on November 11, 2008 - 5:46pm in [The Oil Drum: Europe](#)

Topic: [Demand/Consumption](#)

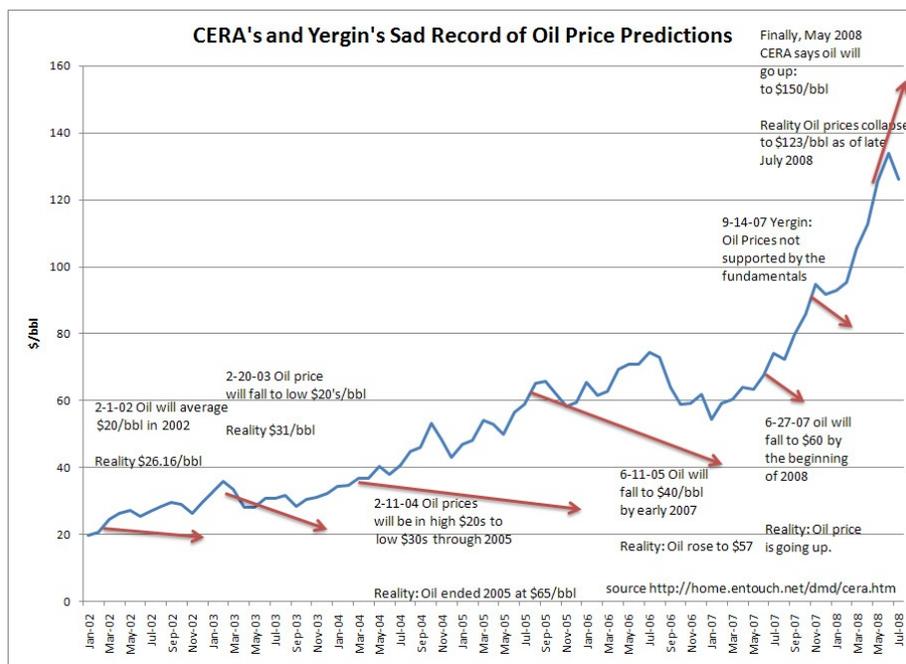
Tags: [\\$100 oil](#), [\\$200 oil](#), [cera](#), [daniel yergin](#), [original](#) [[list all tags](#)]

It's been a while since I did a Countdown diary - no wonder, given that oil is now below \$60, ie at the same level as when I started the initial "Countdown to \$100 oil" series back in 2005...

While the \$200 target looks to be some ways off right now, given the expectations of a massive global downturn, the mechanism that has been pushing prices down is the same one that had been pushing prices up in the first part of the year. As I explained in [this recent opus of the series](#): it's the marginal cost of demand destruction that matters, rather than the marginal cost of production. Demand was driving prices up when it was strong, and it is now driving prices down just as brutally by crumbling just as spectacularly (whether directly, finally, because of high prices, or indirectly via the economic crunch).

But we now, unexpectedly, have a strong "buy" signal again: an article by CERA's Daniel Yergin telling us that current prices are justified.

Yergin has an [unbeaten track record of being wrong on oil prices this decade](#), as [this graph](#) suggests:



Back in May, as oil prices touched \$130, he famously [wrote](#):

Two years ago, CERA created its Break Point scenario, to explore how supply disruptions and delayed development would lead to \$120-\$150 oil. What was not fully

anticipated was the impact of rapidly rising costs. Not anticipated at all was a falling dollar, and how it has stimulated a rush by investors into oil. The real question in the scenario was what would be the response to such high prices.

After years of claiming that prices would go down, Daniel Yergin was suddenly claiming that he had predicted \$150 oil all along, and announced an era of more expensive and less dominant oil.

Today, he writes [this](#):

The world oil market is caught in what Cambridge Energy Research Associates two years ago described as a “Global Fissure” recession scenario. Total US oil demand over 2008 is down 1m barrels a day compared with last year. The last time demand dropped this much was in 1981, on the eve of the recession that was – until now – known as the “worst recession since the Great Depression”.

So he's shamelessly telling us that he predicted the crash in oil prices, and announcing that this will threaten investment in alternative energies, thus ensuring that oil remains dominant.

Beyond the lack of intellectual honesty, this should be seen as a sign to buy oil again--just like his earlier article was seen by various people, including some editors of the Oil Drum, as a sign of a good time to sell oil..

The big question of the day, as the collapsing world economy brings about demand reduction, is whether that demand reduction will be faster or not than production reduction, as investment in new capacity is delayed, and existing capacity declines. It is these relative speeds that will drive oil prices in the short term, until production decline clashes with any pickup in economic activity and causes more price jumps.

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- [Countdown to \\$200 oil \(12\) - betting on Yergin](#) on November 11, 2008
- [Countdown to \\$200 oil \(11\) - almost \\$100 now: time to bet!](#) (on eurotrib) on September 3, 2008
- [Countdown to \\$200 oil \(11\) - almost \\$100 now: time to bet!](#) (on dailykos)
- [Countdown to \\$200 oil \(10\) - oil at \\$120!!](#) on August 7, 2008
- [Countdown to \\$200 oil \(9\): International Energy Agency says current prices justified](#) on July 2, 2008
- [Countdown to \\$200 oil \(8\): \\$140 oil and speculation](#) on June 26, 2008
- [Countdown to \\$200 oil \(7\) - Saudis announce oil production increases - again](#) on June 22, 2008
- [Countdown to \\$200 oil meets Anglo Disease](#) on June 7, 2008
- [Countdown to \\$200 oil \(6\) - Oil jumps \\$10 in a day and Congress ... wants to sue OPEC?](#) on *dKos* (ET version: [The markets and the business press are waking up to peak oil](#)) on May 21, 2008
- [Countdown to \\$200 oil \(5\) - supply side follies](#) on May 19, 2008
- [Countdown to \\$200 oil \(4\) - it's scheduled for January 2009](#) on May 9, 2008
- [Countdown to \\$200 oil \(3\) - no gas tax needed](#) on May 5, 2008
- [Countdown to \\$200 oil \(2\) - Not quite peaking yet](#) on April 11th, 2008
- [Countdown to \\$??? oil \(1\) - setting the stage](#) on April 1st, 2008
- [Countdown to €100 oil \(0\): €70 oil by DoDo](#) on 12 March, 2008

See also the [Countdown to \\$100 oil](#) series.



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