

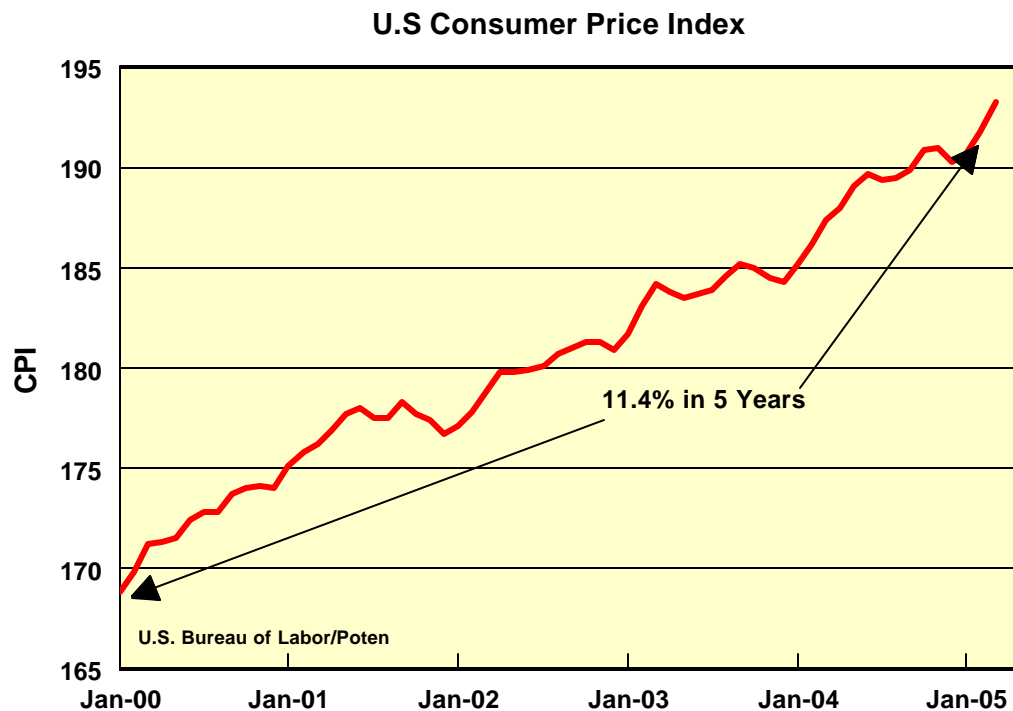


POTEN & PARTNERS

What Is The Price of Your Crude?

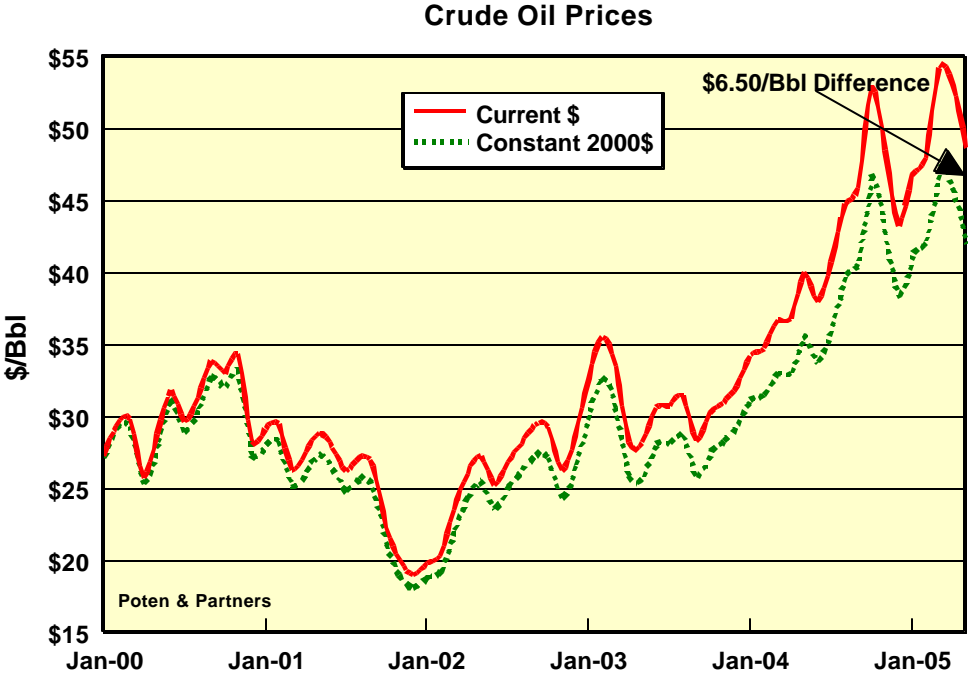
May 13, 2005

We all know what the price of crude is, today it is trading at around \$48-\$49 on the Nymex exchange. This of course is in current dollars, but what would it be in constant 2000 dollars? The following chart shows the rise in the Consumer Price Index, a measure of the inexorable loss of purchasing power from inflation.

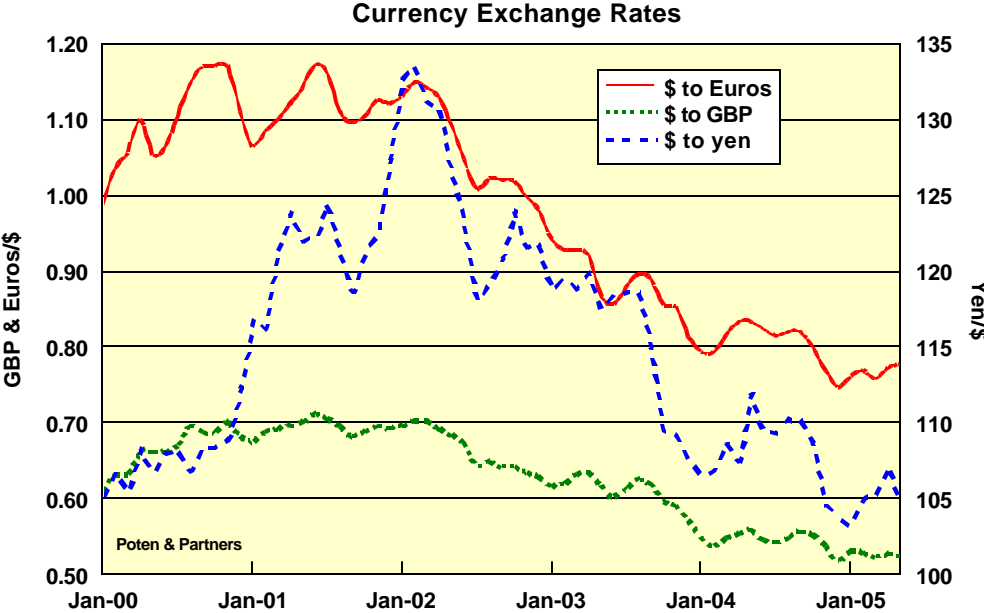


The loss of purchasing power means that, on average, goods cost 11.4% more in January 2005 than in January 2000. The CPI has increased 12.7% from January 2000 to May 2005. Inflation has been particularly strong since the start of the year.

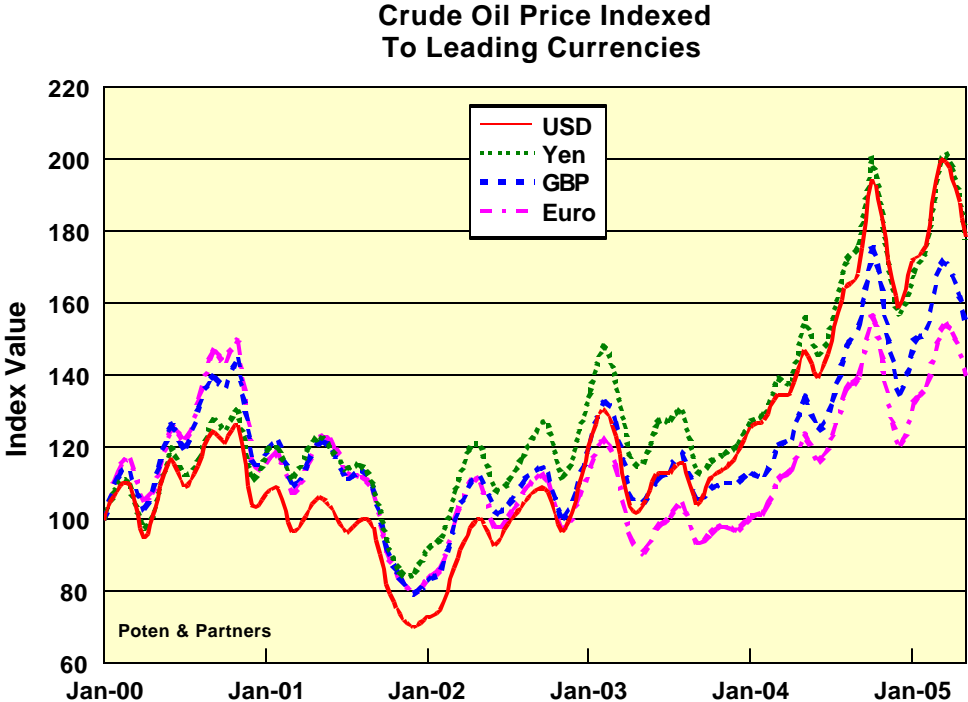
What then does a current crude price of \$48-49 per barrel mean in terms of dollars of constant purchasing power? This can be assessed by indexing the price of crude oil with the CPI of January, 2000 shown below.



The current price of crude of \$48-\$49 is equivalent to \$42-\$43 in 2000 dollars. How has the crude price changed in other currencies? The following chart shows the exchange rates of British pounds, Euros and the Japanese yen to the U.S. dollar.



The upward trend of exchange rates indicates that the dollar was strengthening between 2000 to the start of 2002. After that the downward trend marks a weakening of the U.S. dollar with respect to the other currencies. The following chart indexes the price of crude in four currencies to a value of 100 in January 2000. The indexing shows how much of a currency had to be spent in terms of an index value of 100 to buy one barrel of crude oil.



Up until January 2002, the dollar appreciated with respect to the other currencies meaning that it was relatively more expensive to purchase a barrel of crude in yen, euros, and British pounds than in dollars. Since 2002, the dollar began depreciating against the other currencies requiring less euros and British pounds to buy a barrel of crude. If we take the entire time span into consideration, the price of crude has gone up 78% in yen and dollars, 54% in British pounds, and 40% in euros. Thus it is currently an advantage for Europeans and the British to be buying crude over Americans.

Lesson

Sometimes it is beneficial to buy crude in dollars, other times the benefit shifts to other currencies. Right now, Europeans are paying less for crude than Americans because of dollar depreciation with respect to the euro and to the lesser extent the British pound. There have been rumors of oil exporters contemplating shifting to euros for oil payments. The chart shows that there is one thing that sellers in general should bear in mind: the strength of any currency is subject to change!