

Potential Impacts of Peak Oil on Financial Markets

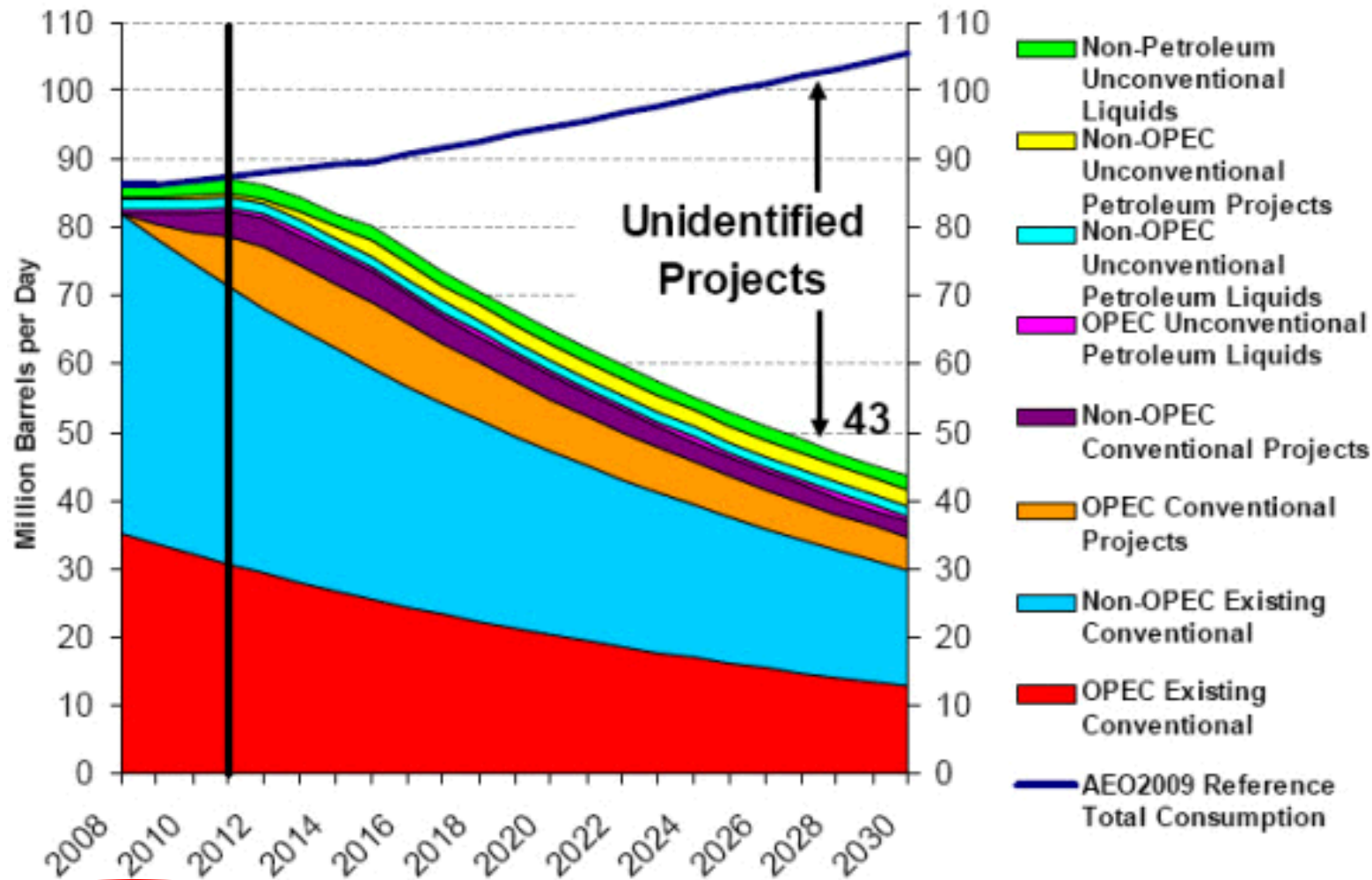
Erik Townsend

Presented to Walloon Parliament 26th April 2011

The World Runs on Oil!

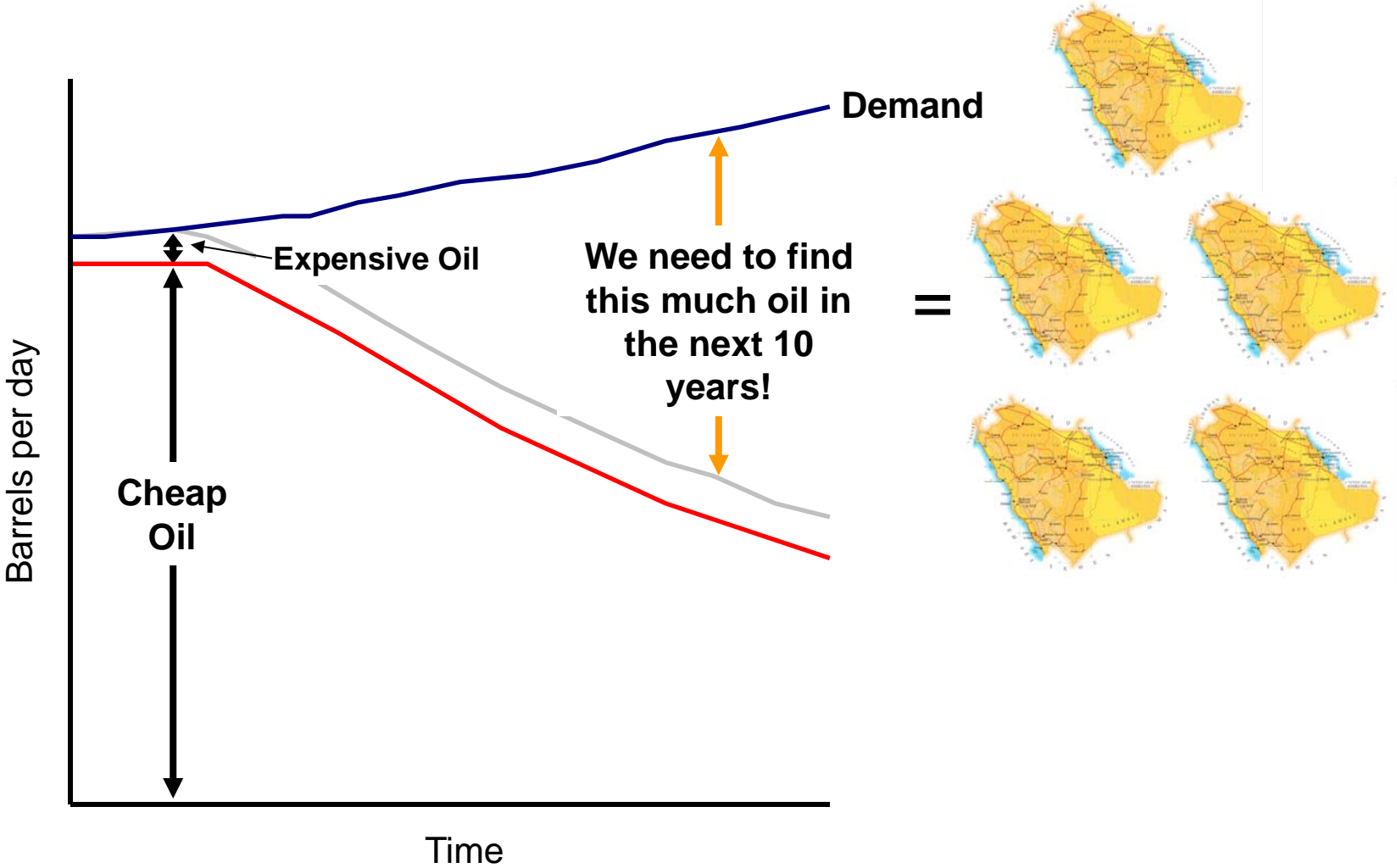


Our future: “Unidentified Projects”

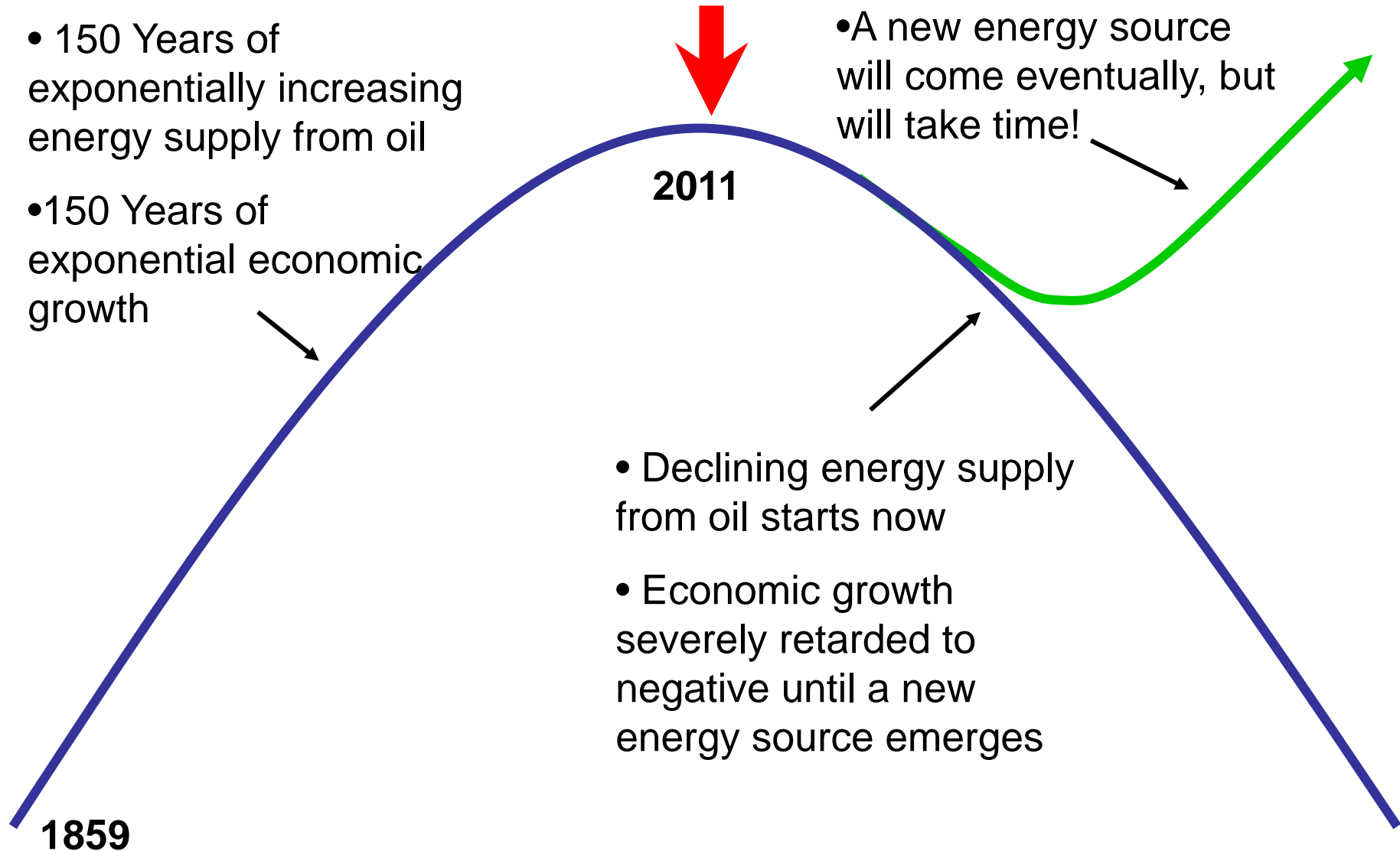


Source: EIA, AEO2009

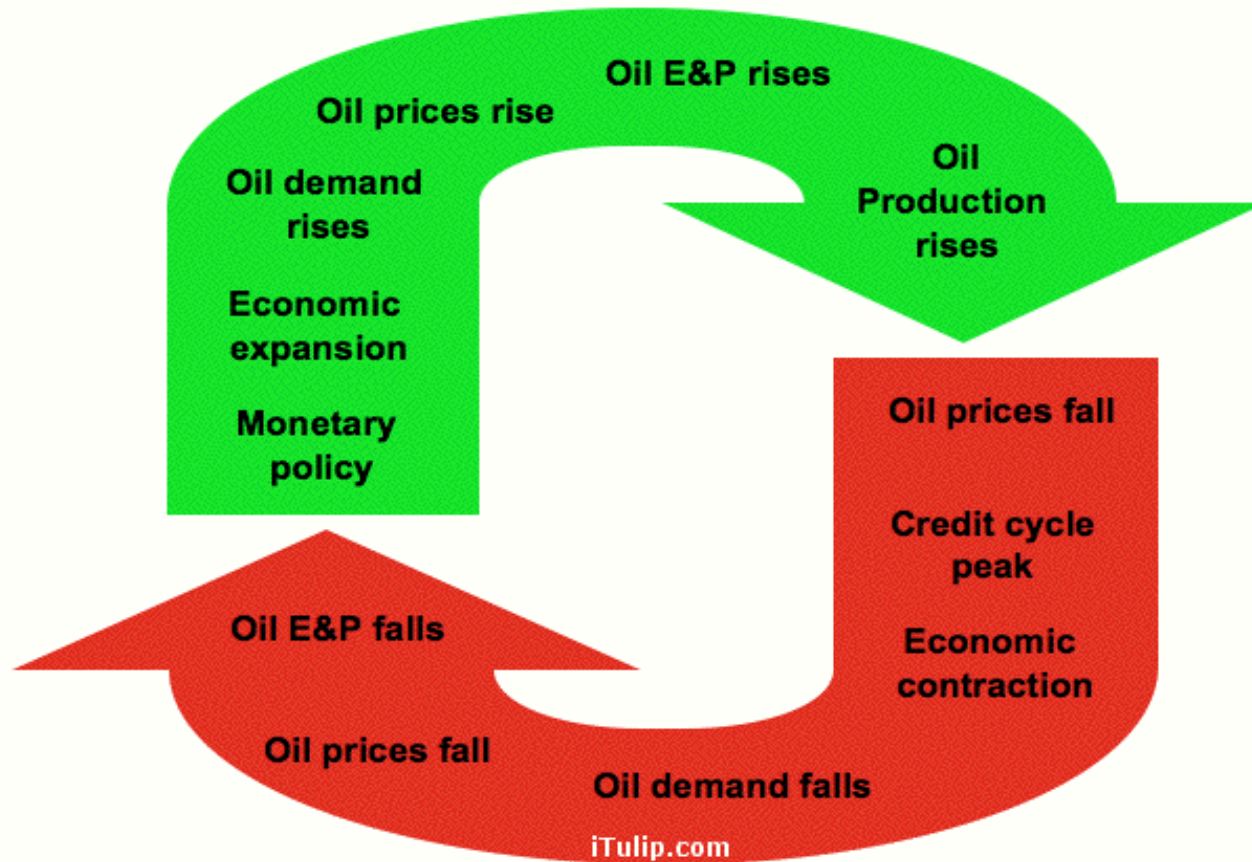
Let's Simplify It



We are Here

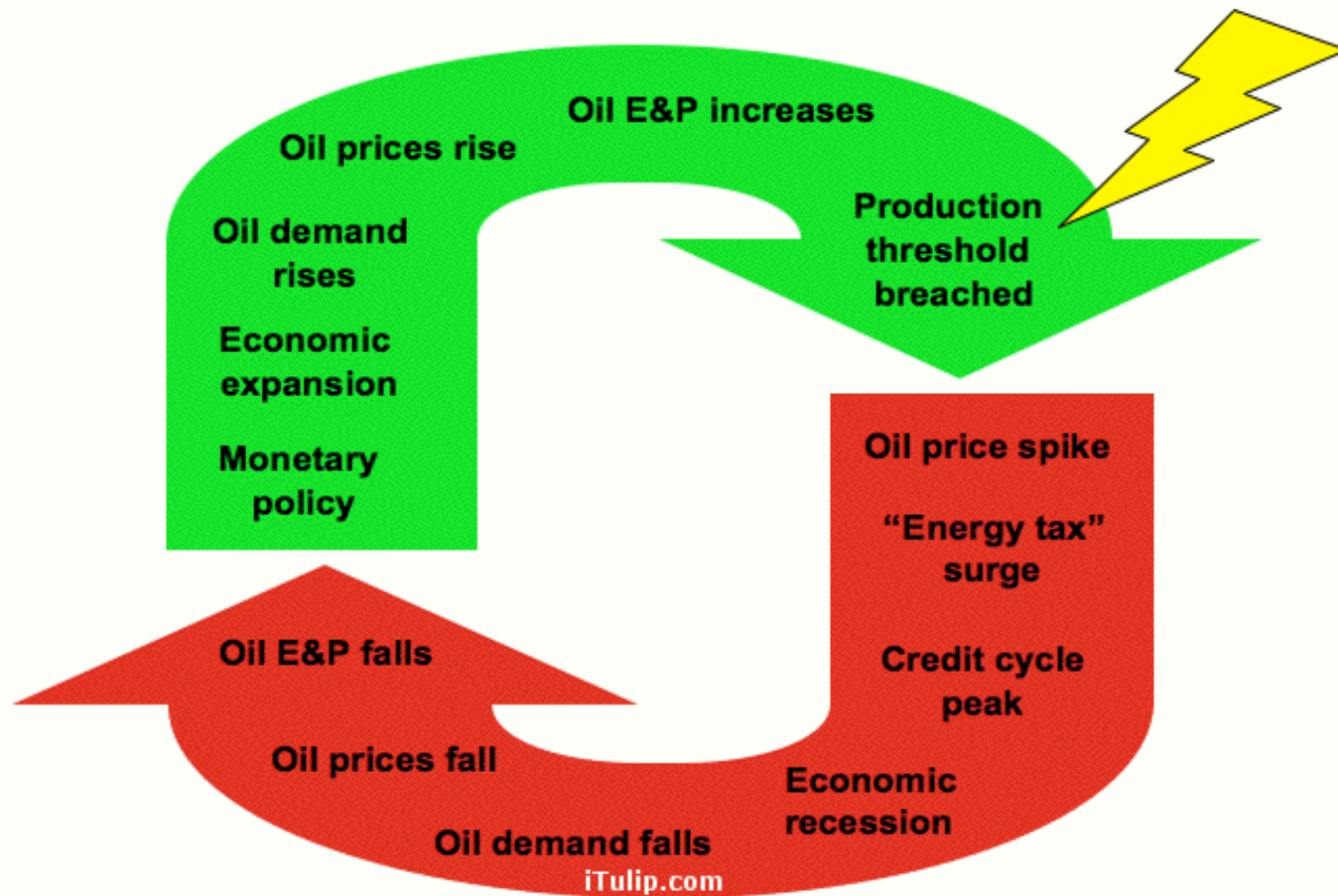


Crude Oil Price Cycle



Source: www.iTulip.com

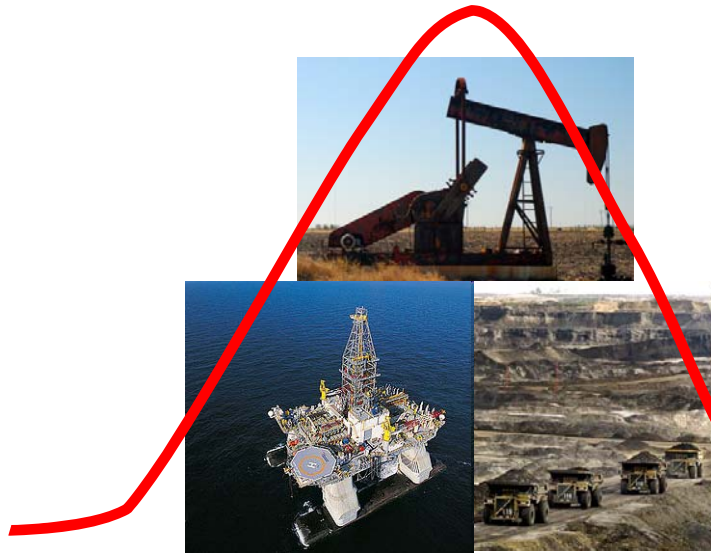
Crude Oil Price Cycle



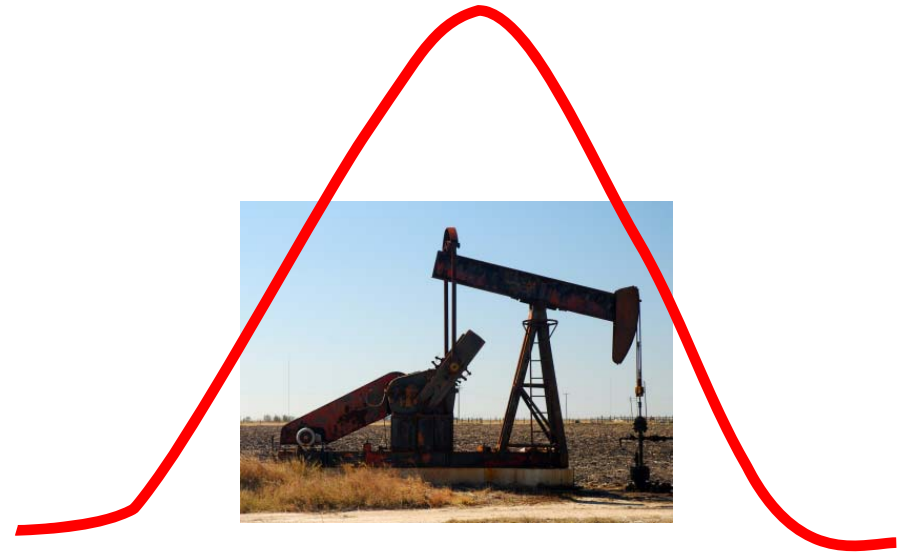
Source: www.iTulip.com

Peak Oil vs. Peak Cheap Oil

Peak Oil



Peak Cheap Oil



Crude Oil “Price Floors”

Conventional Oil



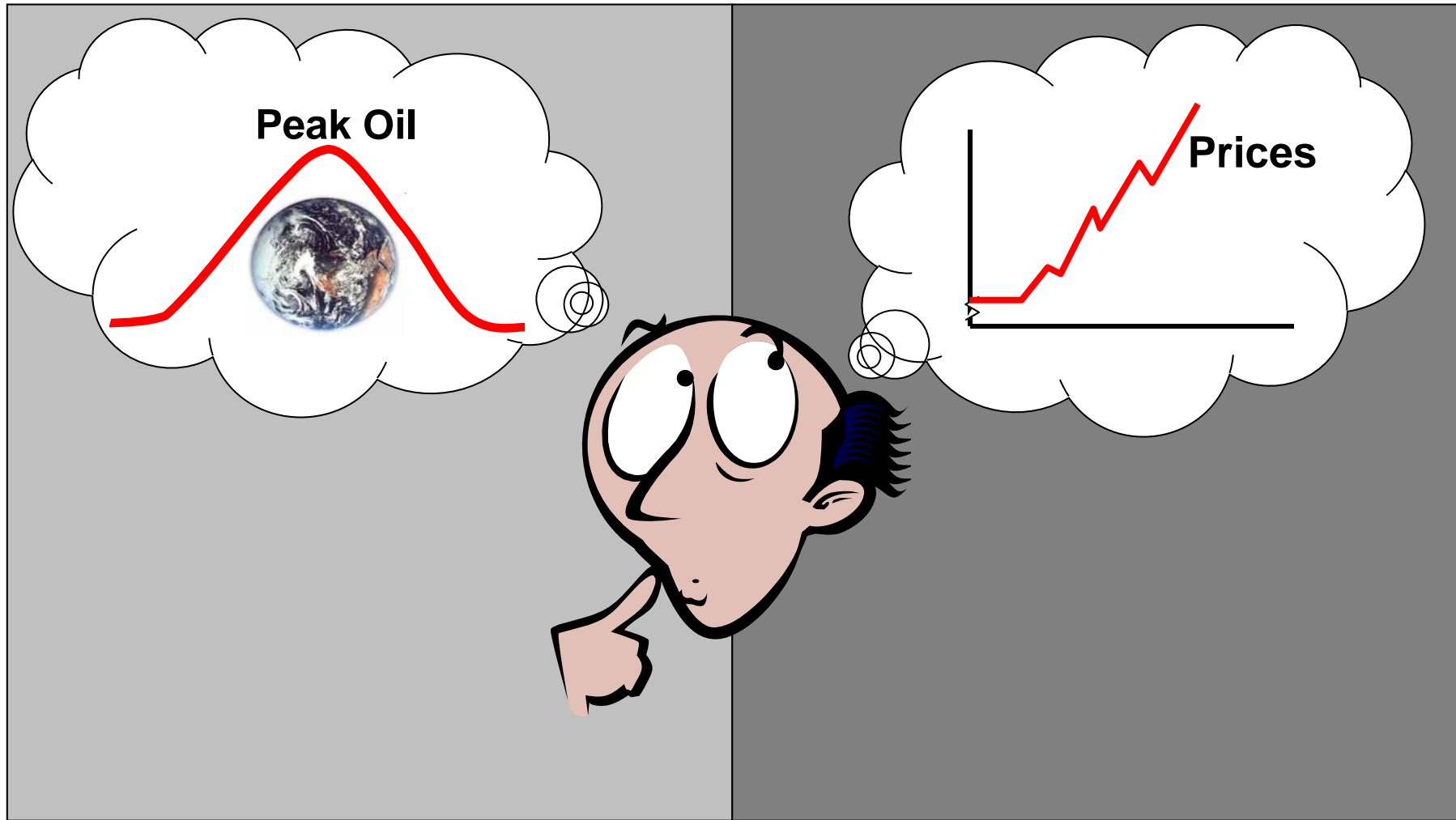
~\$20/bbl

Non-Conventional Oil

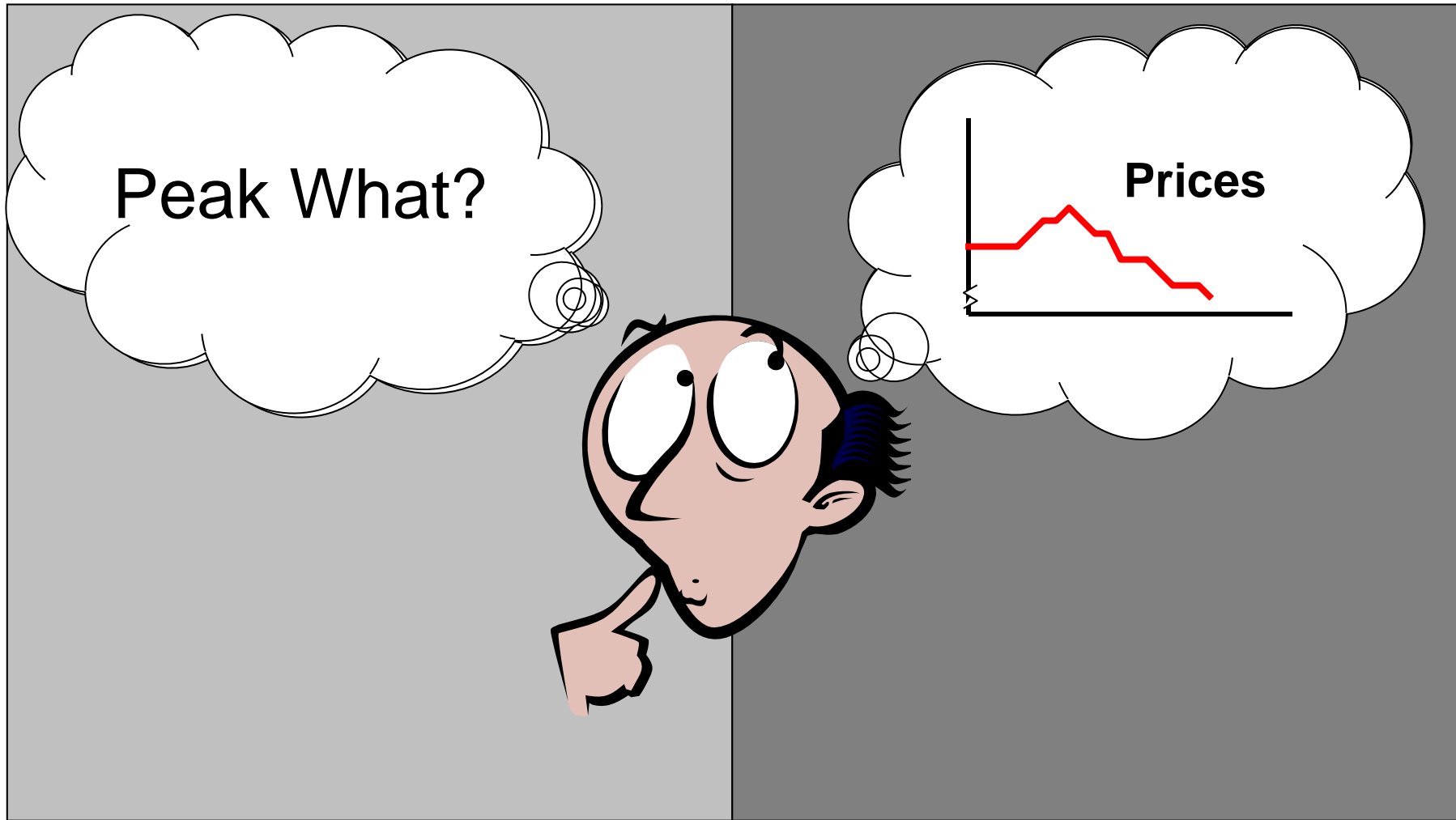


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Markets: What's Peak Oil?



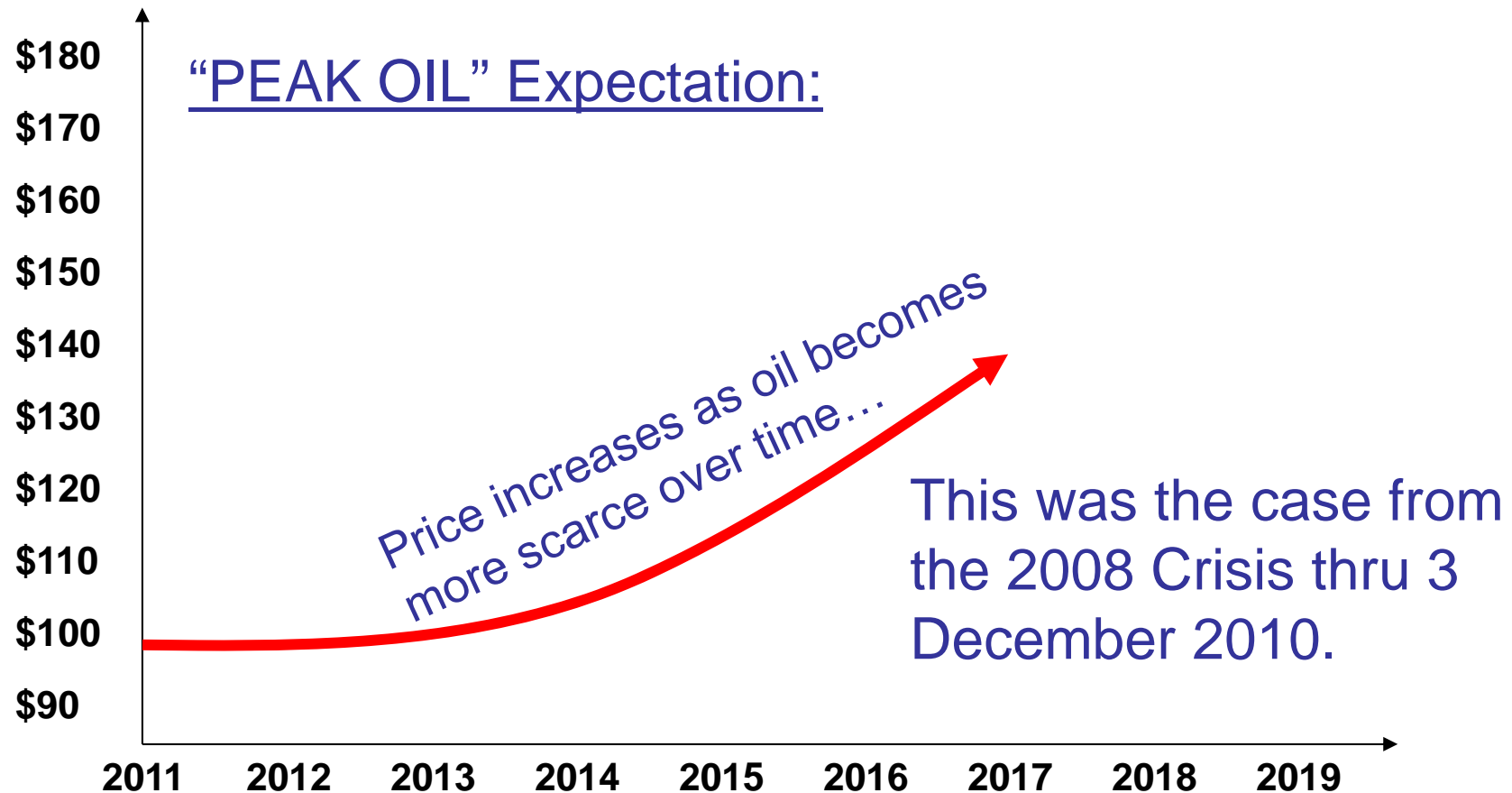
Markets: What's Peak Oil?



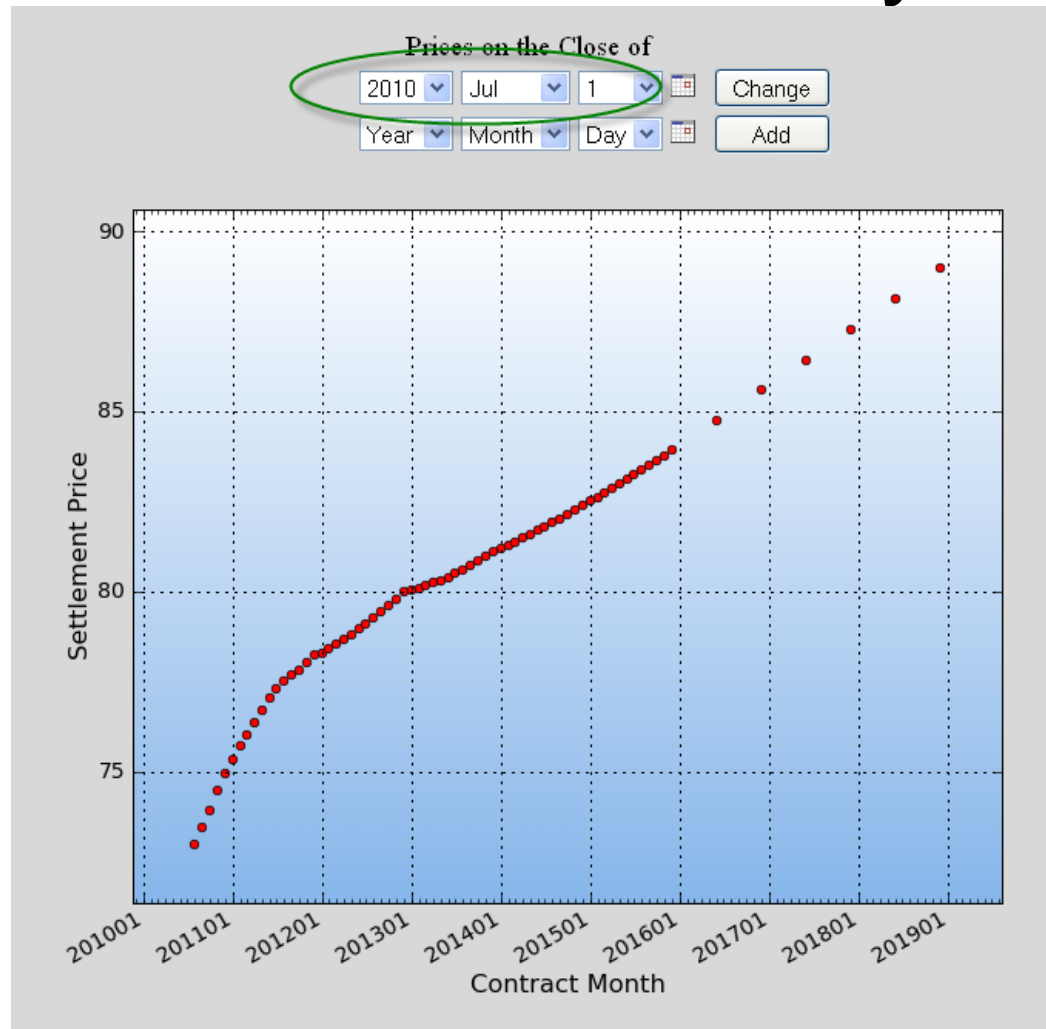
“Term Structure”



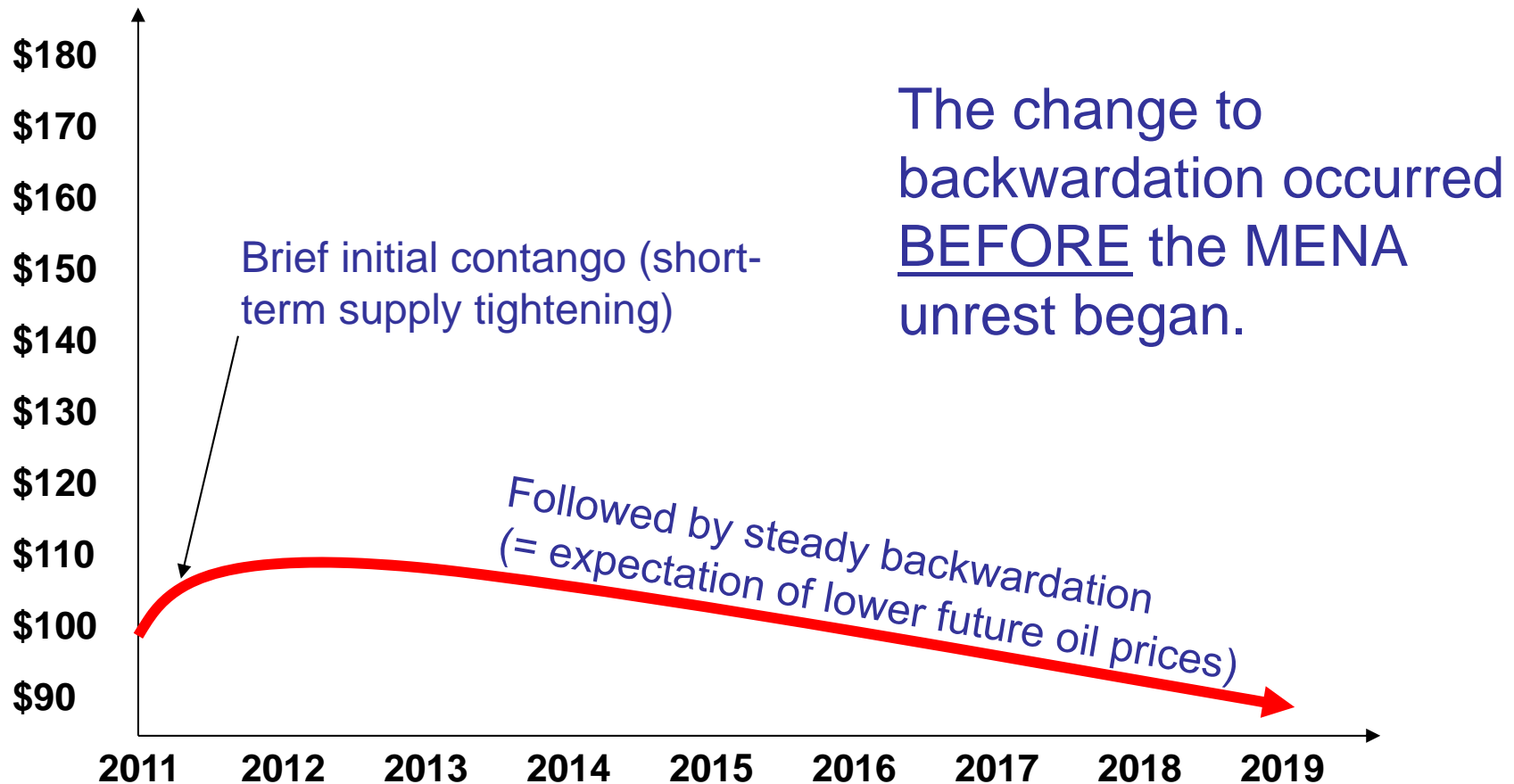
Term Structure and Peak Oil



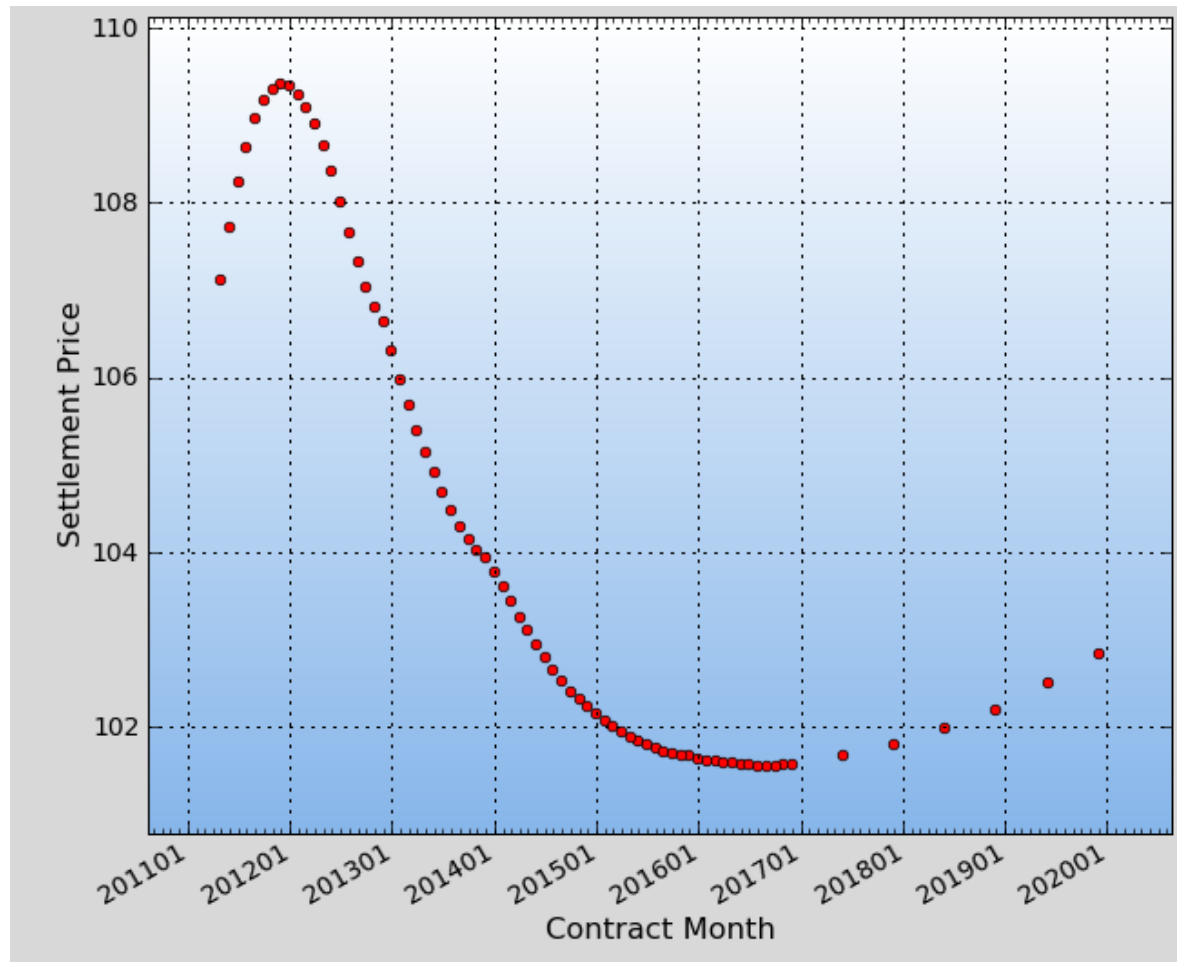
WTI Crude Oil Term Structure 1 July 2010



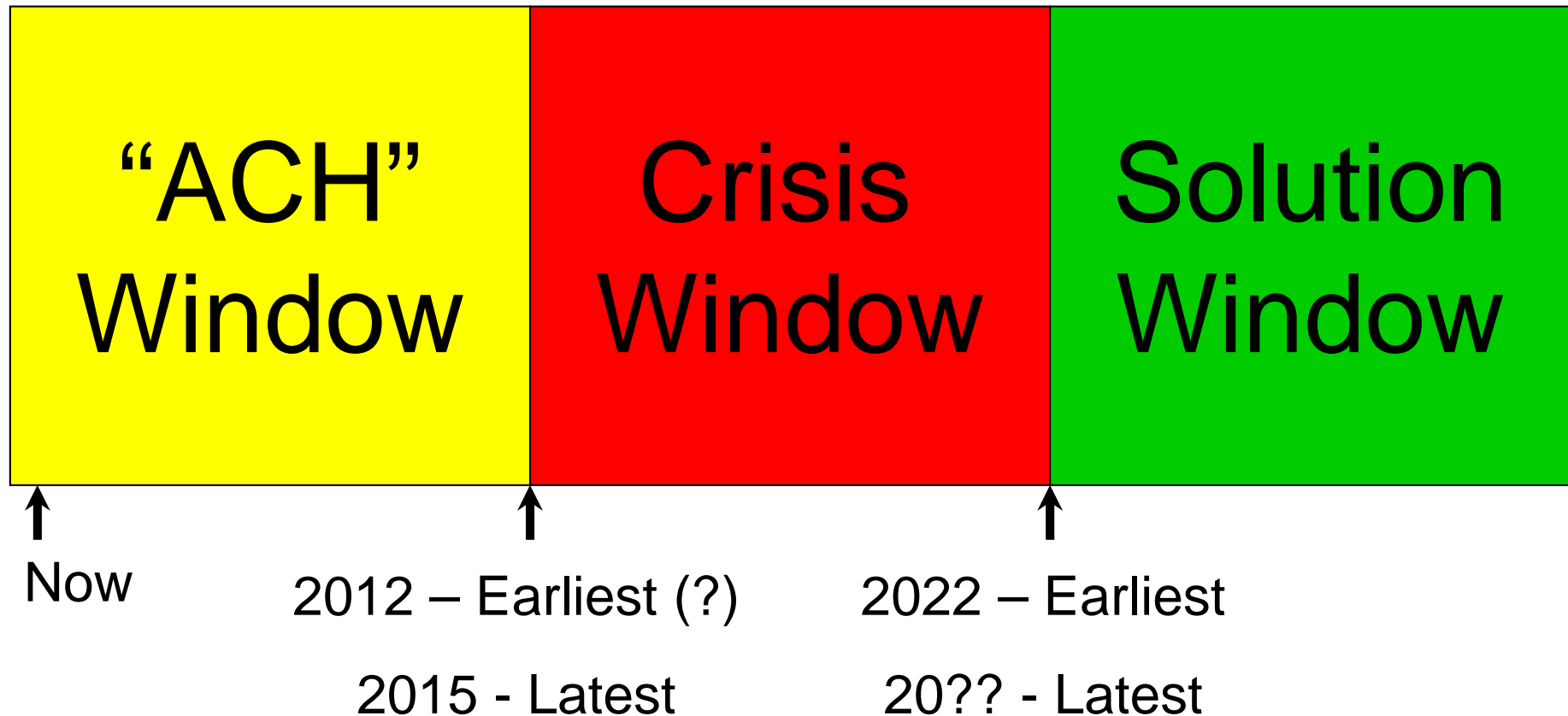
But the market is now in “Backwardation”



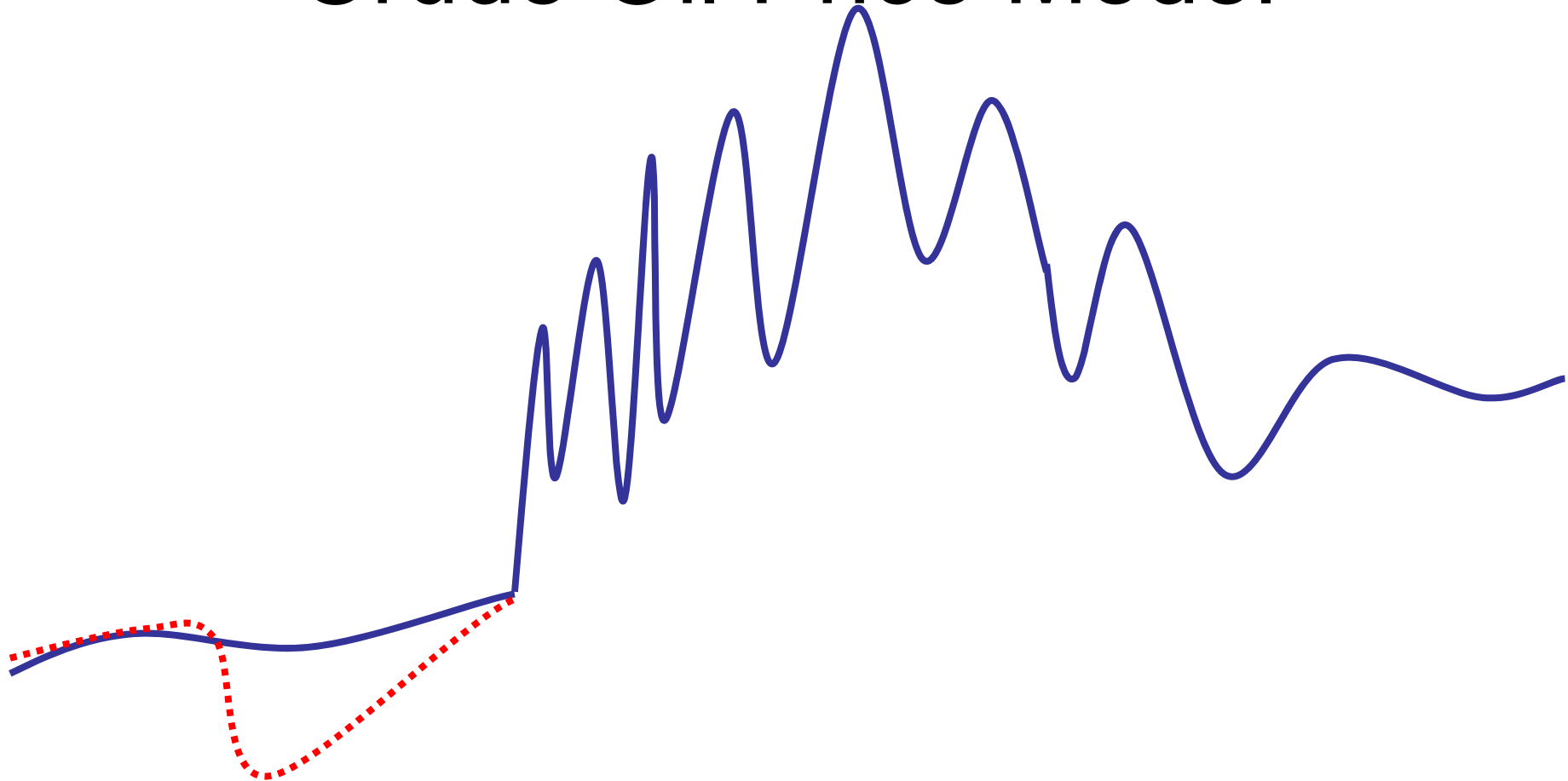
Term Structure: April 15, 2011



Crude Oil Price Timeline



Crude Oil Price Model



"ACH" Window

Crisis Window

Solution Window

GAME CHANGER

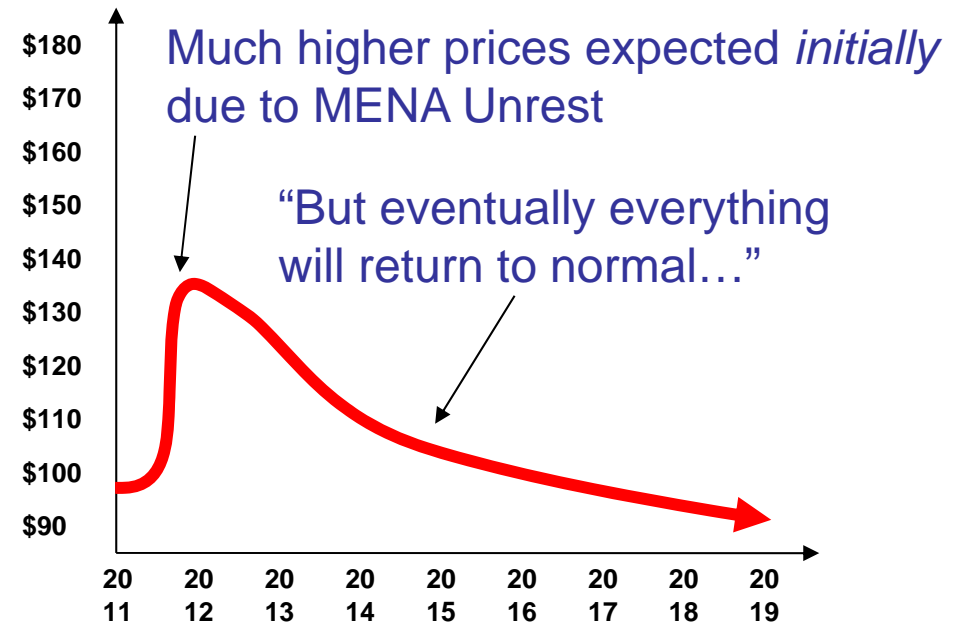
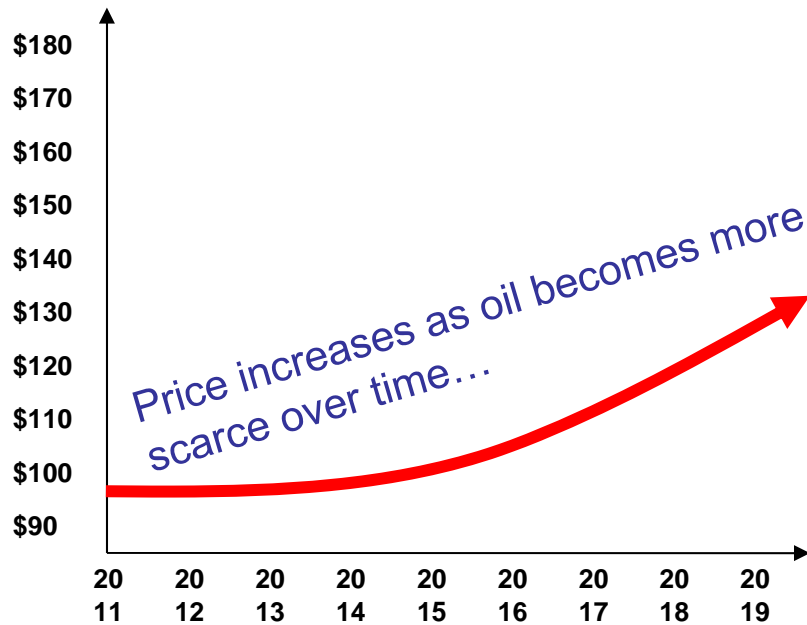


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Geological vs. Geopolitical Crises

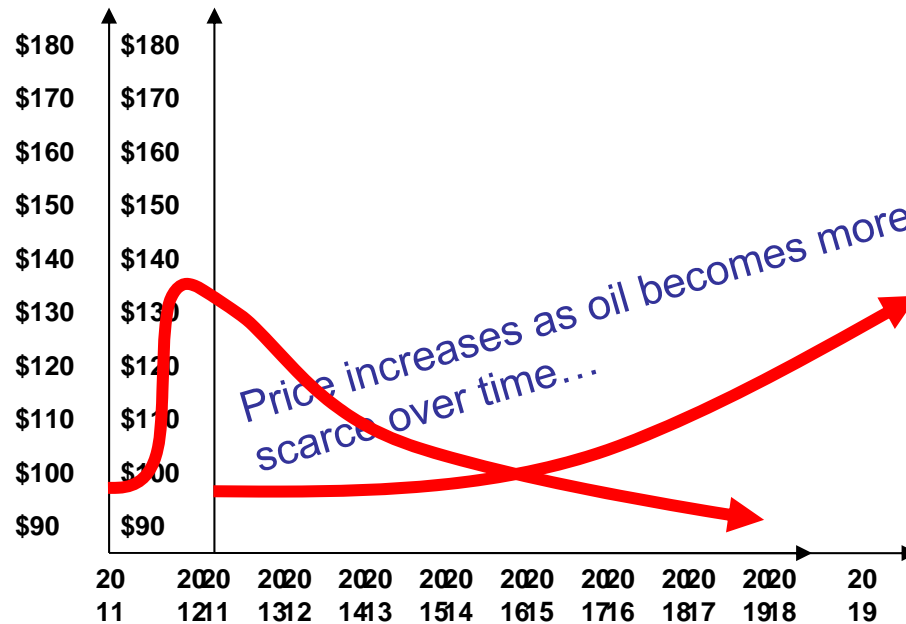
“PEAK OIL” Expectation:

“MENA Unrest” Expectation:

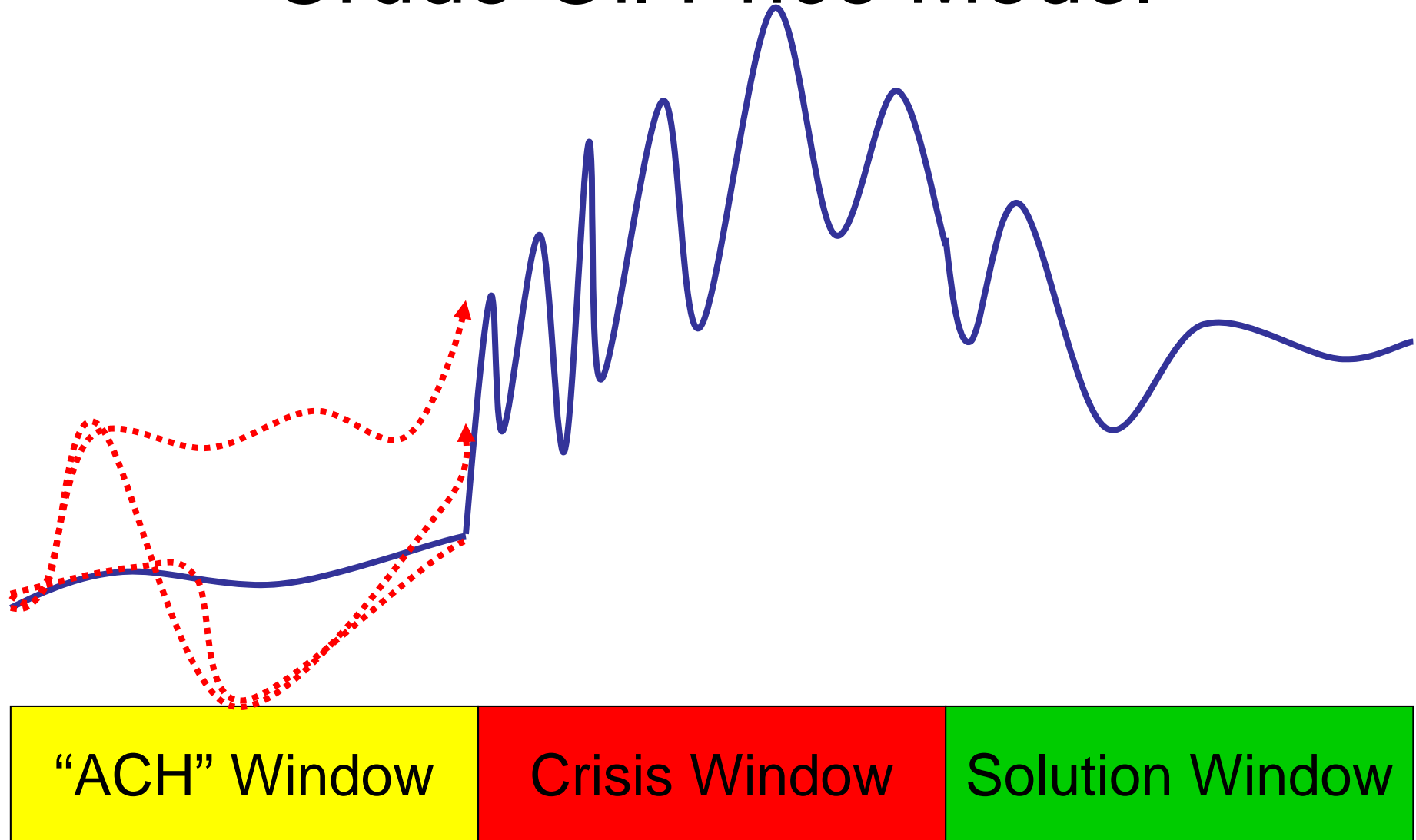


Geological vs. Geopolitical Crises

Two phenomena merge with complications!



Crude Oil Price Model



Energy “Ceiling” on the Economy?

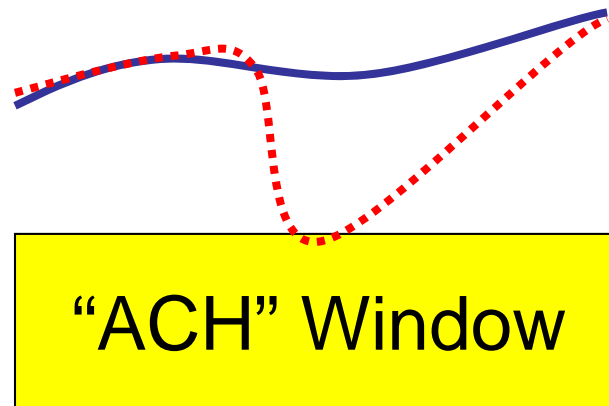


?

If energy costs contributed to crippling the economy in 2008, could it happen again?

Big Down-Move in ACH Window

- Major economic event crashes crude oil market
 - U.S. Double-Dip Recession
 - European Sovereign Debt Crisis escalates
 - China tightening leads to crash; contagion spreads globally

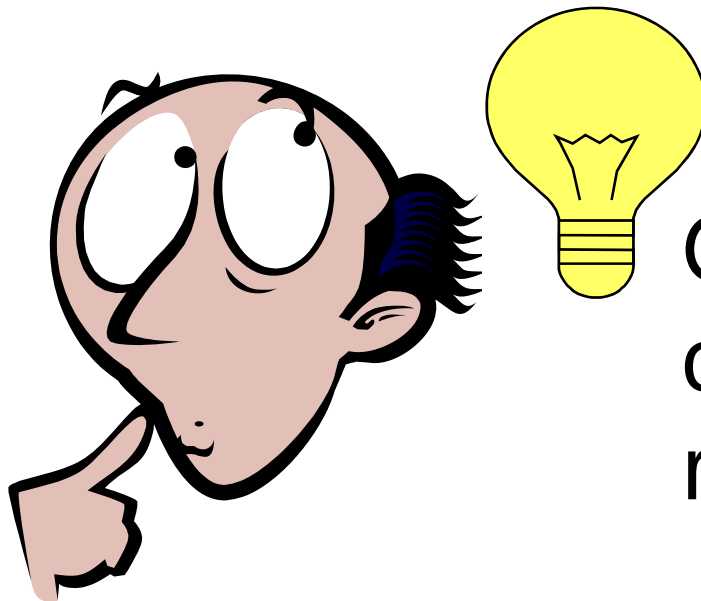
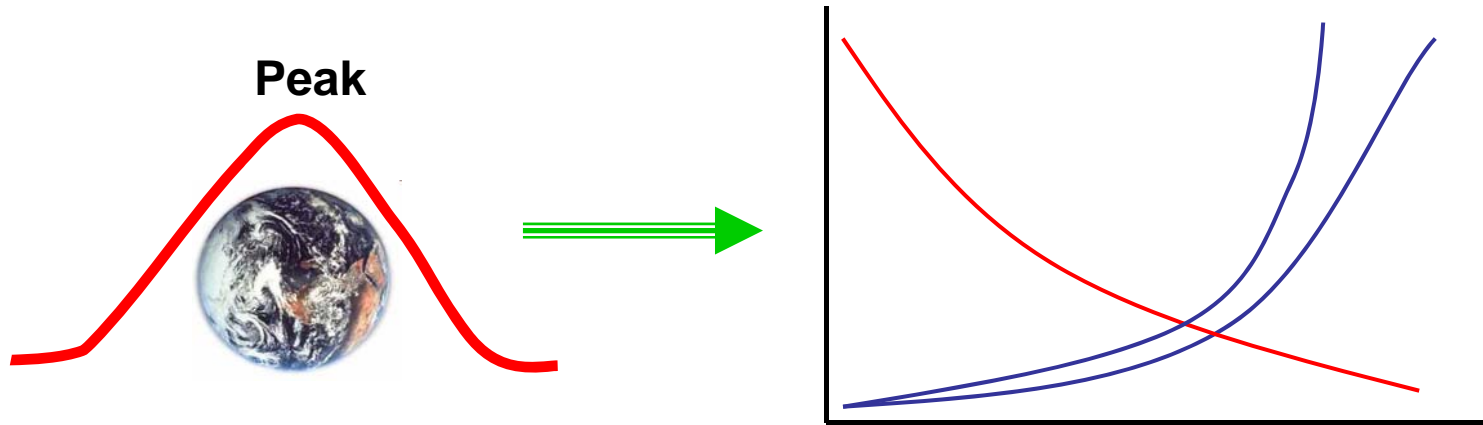


Big Down-Move in ACH Window

- Major economic event crashes crude oil market
 - U.S. Double-Dip Recession
 - European Sovereign Debt Crisis escalates
 - China tightening leads to crash; contagion spreads globally
- Don't think of this as a *potential* risk. Expect it to happen and hedge accordingly!
 - Better yet, engineer your trading strategy to profit when it happens.
- I view this as *likely*.

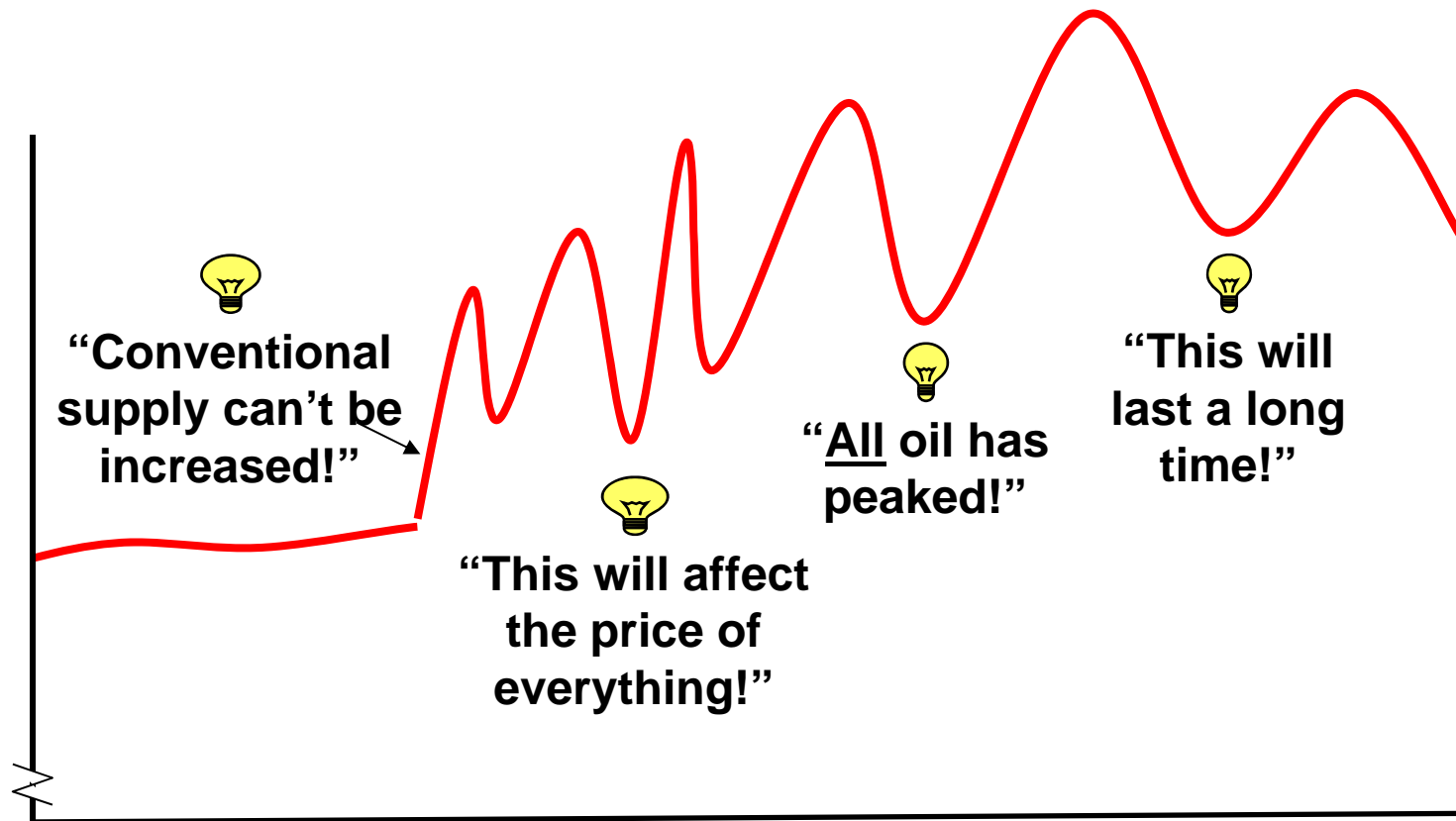
How will markets
react when Peak Oil is
widely accepted?

Perceptions vs. Decline Rates

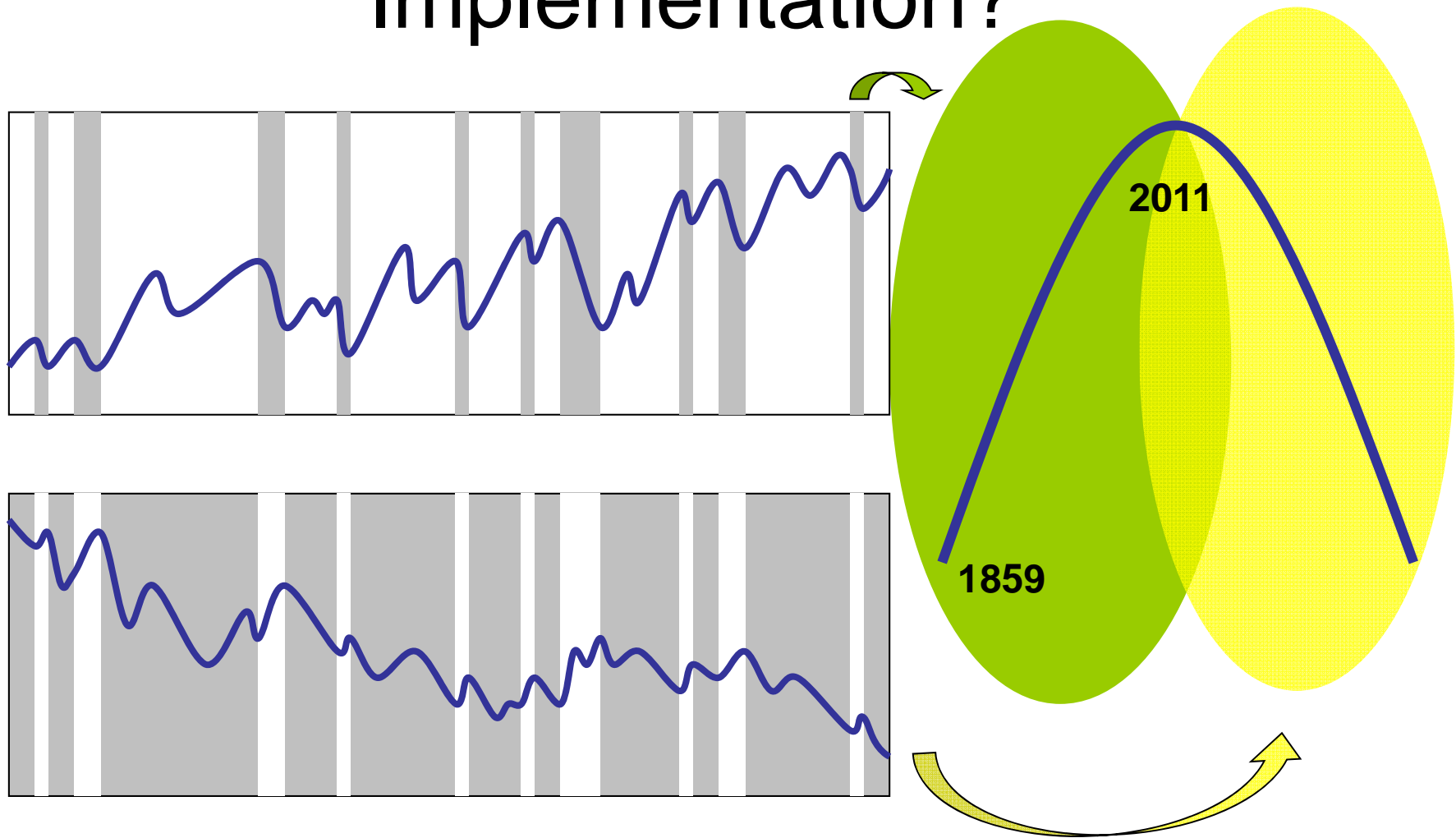


Game-changing events
cause non-linear panic
reactions!

Game Changing Perceptions



Global Depression until Solution Implementation?



Where to Learn More

Two free videos present a considerably expanded version of this presentation.

Free download links at
www.ErikTownsend.com