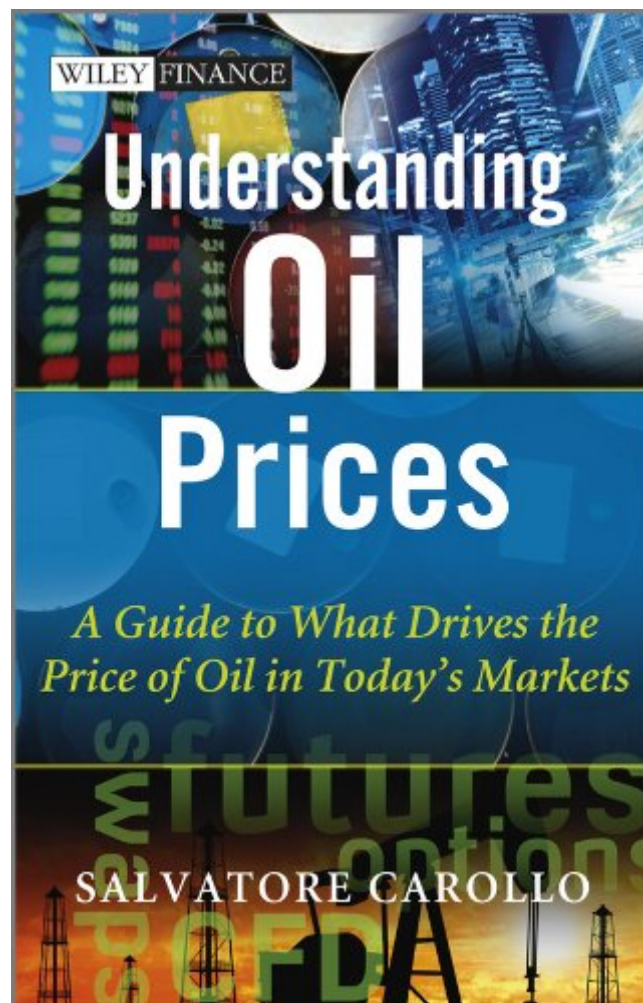


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Understanding Oil Prices: A Guide To What Drives The Price Of Oil In Today's Markets (The Wiley Finance Series)



Synopsis

It's a fair bet that most of what you think you know about oil prices is wrong. Despite the massive price fluctuations of the past decade, the received wisdom on the subject has remained fundamentally unchanged since the 1970s. When asked, most people – including politicians, financial analysts and pundits – will respond with a tired litany of reasons ranging from increased Chinese and Indian competition for diminishing resources and tensions in the Middle East, to manipulation by OPEC and exorbitant petrol taxes in the EU. Yet the facts belie these explanations. For instance, what really happened in late 2008 when, in just a few weeks, oil prices plummeted from \$144 dollars to \$37 dollars a barrel? Did Chinese and Indian demand suddenly dry up? Did Middle East conflicts magically resolve themselves? Did OPEC flood the market with crude? In each case the answer is a definitive no – quite the opposite in fact. Industry expert Salvatore Carollo explains that the truth behind today's increasingly volatile oil market is that over the past two decades oil prices have come untethered from all classical notions of supply and demand and have transcended any country's, consortium's, cartel's, or corporate entity's powers to control them. At play is a subtler, more complex game than most analysts realise (or are unwilling to admit to), a very dangerous game involving runaway financial speculation, self-defeating government policymaking and a concerted disinvestment in refinery capacity among the oil majors. In *Understanding Oil Prices* Carollo identifies the key players in this dangerous game, exploring their competing interests and motivations, their moves and countermoves. Beginning with the 1976 oil embargo and moving through the 1986 Chernobyl incident, the implementation of the US Clean Air Act Amendments of 1990, and the precipitous expansion of the oil futures market since the turn of the century, he traces the vast structural changes which have occurred within the oil industry over the past four decades, identifying their economic, social and geopolitical drivers, and analysing their fallout in the global economy. He explores the oil industry's decision to scale down refining capacity in the face of increasing demand and the effects of global shortages of petrol, diesel, jet fuel, fuel oil, chemical feedstocks, lubricants and other essential finished products, and describes how, beginning in the year 2000, the oil futures market detached itself almost completely from the crude market, leading to the assetization of oil, and the crippling impact reckless speculation in oil futures has had on the global economy. Finally he proposes new, more sophisticated models that economists and financial analysts can use to make sense of today's oil market, while offering industry leaders and government policymakers prescriptions for stabilising the market to ensure a relatively steady flow of affordable oil. A concise, authoritative guide to understanding the complex, oft misunderstood oil markets, *Understanding Oil Prices* is an important resource for energy market

participants, commodity traders and investors, as well as business journalists and government policymakers alike.

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Customer Reviews

There are some interesting nuggets in this book, and the author clearly has a great deal of experience in the industry. That said, there are two main weaknesses. The first is the logical incoherence: the first section of the book aims to convince you that prices are driven by speculation, and the second tries to argue that fundamental changes in the refining industry are changing prices. It's hard to figure out which effect is supposed to dominate. The second weakness in the book was the sometimes stilted writing. It seemed like this could be the result of translation from Italian. All in all, worth a skim, but not the best I've read on the subject.

The content of the book is excellent. Gives thorough and quite complete coverage of all the factors affecting oil prices, and heavily drives home the point that OPEC and supply/demand have nothing to do with oil prices anymore. It also provides basic understanding of crack spreads, and dives deep enough into refining and gasoline quality to provide an overall understanding of the process. My only

complaint is on the author's writing style. Although this viewpoint is correct, the author fails to be very concise in his attempts to make these points. All the content is there, just the wording is poor. I'd still recommend the book, but I would also recommend the author re-write the exact same content with more concisely structured arguments.

The book is a comprehensive view about oil industry, with specific focus on refining and price formation of oil and oil products. However the author neglected the recent trends in the industry that the today's prices do not always reflect the today's physical balance but much more the perceived trend of the market in the next quarters or even years. On the other hand, the data used are not always correct, some of them about oil trading diminish the role of the trading and highlight only the role of speculators. If you are really interested in understanding the oil prices, this book can offer you just a small piece of the cake.

The author really knows its subject and brings very interesting explanations about the mechanisms of the international oil markets. Telling the story that leads to the actual oil market and explaining price correlation discrepancies between supply and demand of oil prices. Also explaining the prices of the refined products.

This book needs better editing, the lack of which has rendered the author's ideas very difficult to understand. Plus, I agree with another reviewer here saying that the structure of this book is rather poor, which again makes the content difficult to comprehend.

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