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Oil Prices Show No Clear Direction, Consultant Says



Investors continue to expect steep oil price volatility in the months ahead as political strife continues in the Arab world pushes prices higher and the recession bound economies of Europe are pushing prices lower.

Oil prices fell again on Thursday after declining by more than 5% in some oil futures contracts Wednesday due to markets eroding confidence in a European bailout deal.

ICE WTI crude prices fell Thursday by \$1.08 to end the day at \$93.87 per barrel in New York. ICE Brent crude, which is used to price foreign oil like Russia's oil, fell by as much as 65 cents to finish at \$103.60 a barrel in London.

Investors don't know whether to short or go long oil. In the derivatives markets, investors are buying options contracts for oil above \$120 and below \$60 per barrel in a long straddle strategy that suspects wide swings either way.

"Simply put, investors appear eager to purchase protection against fat tail risks like plummeting oil prices as a result of a global recession triggered by further deterioration in Europe and China, or skyrocketing oil prices caused by a conflict in the Middle East which materially disrupts supply to the markets," said Richard Soultanian, an energy consultant at NUS Consulting in New Jersey.

"The current environment is highly unstable and investors seem to know it. As each day passes, the likelihood of one of these scenarios occurring seems to increase. The most recent meeting of EU leaders has once again failed to deliver a durable solution to the European debt crisis," Soultanian said in a note to clients published on Dec. 13. He said that sanctions against Iran (the world's fourth largest producer and third largest exporter of oil) as well as Iran's recent capture of a U.S. intelligence drone

has increased tensions in the region. Finally, the threat of Iran blocking the Strait of Hormuz – the narrow sea passage from the Persian Gulf into international waters which transits approximately 15.6 million barrels per day, provides Iran an even larger impact on the markets than simply its own productive capacity. These factors (along with worrying political developments in Russia – the world's 2nd largest oil producer and exporter) explain why the market is suffering from a form of bipolar personality disorder with no clear direction either way.

The iPath Crude Oil Total Return (OIL) exchange traded fund was down 1.65% with just under 40 minutes to go in Thursday's trading session. The ProShares Ultra Oil & Gas (DIG), a two times leveraged ETF, was down just under 1%.

Oil and gas major Russia was outperforming both after falling all week due to political unrest there. Alleged election fraud has sent the Market Vectors Russia (RSX) ETF down more than 11% in the last five days. RSX was up by more than 3% late in the day on Thursday, however.