

ASK THE ADVISERS

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Oil Prices Rising and Reserves at All Time Low

In the Spring of 2021, while crude oil was trading at \$63 per barrel, Russia started massing troops near the Ukrainian border. By the time Russia invaded in late February of 2022, oil had risen to \$100 per barrel. Shortly thereafter the US and many other countries banned the importing of Russian oil.

With inflation already surging to offset rapidly increasing oil prices, the US government tapped into its Strategist Petroleum Reserve (SPR) releasing a record quantity of 180 million barrels to increase supply and lower oil prices. The SPR is the country's biggest protection against global energy price volatility. By March of this year, oil prices had fallen back to \$66 a barrel. However, since July oil prices have risen by over 30% to \$89 per barrel.

Gasoline prices as of this week are up to \$3.81 per gallon which is their second-highest level for this time of year since 1994, according to AAA. Meanwhile, the Ukraine

war continues with no end in sight. To make matters worse, top global producers like Saudi Arabia and Russia have been cutting production to keep prices high. Saudi Arabia recently announced that it is extending a production cut of 1 million barrels per day until December.

With U.S. oil reserves at their lowest level since 1983, the United States would like to replenish the reserves, however, at current prices, that would be very expensive and buying more oil to replenish reserves would likely push oil prices as well as inflation even higher. Therefore, the Biden administration has delayed its plans to start replenishing reserves.

The last time oil prices topped \$100 per barrel; the US was able to ease the pressure by releasing oil from its reserves. Unfortunately, the US is not in the position to do that this time with reserves at such low levels. As long as oil prices continue to remain high, that will thwart the Fed's ability to get inflation down to its target level of 2% which means interest rates could remain higher for longer.

Source: Business insider