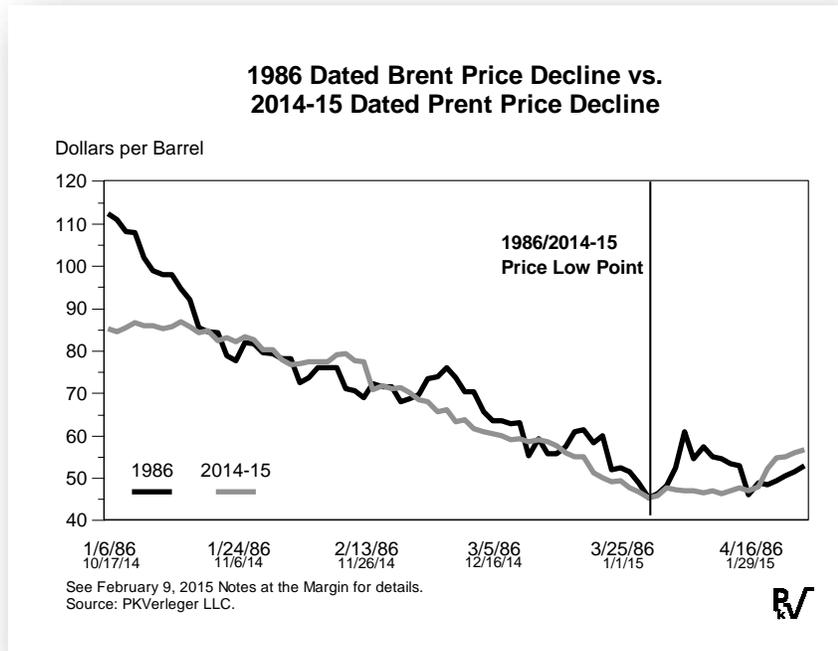


The 2014-2015 Oil Price Decline: Déjà Vu Redux



Voltaire once said “history never repeats itself, man always does.” The graph above, created by PKVerleger LLC, seems to prove him wrong. It compares Dated Brent crude oil prices from January to April 1986 with prices from October 2014 to February 2015. The price paths were generated by matching the low price of Dated Brent in 1986 with the low price of Brent in the 2014-2015 timespan. The 1986 low price of \$10.70 per barrel occurred on April 1. This compares to the recent low of \$45.21 reported on January 13, 2015. For presentation purposes, all 1986 prices were multiplied by 4.23, the ratio of the two prices.

The graph reflects how the oil market experienced a structural change in 1985 and 1986 much like the one that has occurred since November 2014. Then, as now, a key player decided to change its strategy. In late 1985, Saudi Arabia began to aggressively market crude, just as it did in the summer of 2014. Initially, market participants did not believe the country would maintain this course. They eventually discovered, though, that the Kingdom was serious in its intent. Prices collapsed then, just as they have now. Indeed, the 1985-1986 price decrease was *almost identical* to the recent decline, *almost identical*. The only difference is that no swap dealers or banks were involved in 1986.

Now as then, many in the oil industry think crude oil prices will return to the highs of just seven months ago. As Yogi Berra, another famous “philosopher,” would describe it, “it’s déjà vu all over again.”