

Daily Thought

Inflation Adjusted Oil? – August 30th, 2023

Yesterday, a Forbes article titled [Oil Is Going to \\$300 a Barrel](#), circulated around the internet, and while it's one of the more ridiculous energy-related articles out there, we think there's merit in addressing the "oil and inflation" linkage. Many times, people take the 2008 crude higher, adjust for y/y CPI, and arrive at the egregious target of \$250/bbl. We dismiss this as immediately wrong. Not only does it ignore the bps attributable to each inflation category, it ignores the relative inflation of other, more core goods. The price of energy seeps into most everything that we buy, mostly through second, and third order exposure, but it's there – so we see adjusting the price of oil for inflation, more as adjusting the price of oil.. for the price of oil. What we would see are more appropriate, is representing personal disposable income, as a "number of barrels". Shown in fig. 1 is just that. While you might posit that adjusting oil for inflation would result in an appropriate target price that the market could easily bear, the number of barrels the average consumer could afford during 2Q22, was similar to when oil was \$110 in 2Q13. The same exercise but using the national average price of gasoline (as really, consumption is products, not direct crude) yields similar results, there is ~35% upside to a "what the market can bear" price. Of course, we don't believe it to be rational to want crude to test the limit of the consumer, but the discussion of adjusting the price of oil for inflation wasn't rational in the first place anyways. On a US domestic consumer affordability basis, we think the price of oil really is in a sweet spot right now, even given where cracks are currently. While we are confident oil isn't going to \$300 – using the consumer as motivation seems trite at best.

(Fig. 1) Personal Disposable Income in Barrels of Crude



Source: Bloomberg, HTM Analysis

Daily Pricing & Week on Week Benchmark Chg.

CAD Priced Liquids

Condy | \$107.46 (+1.8%)

Synthetic | \$113.64 (+0.7%)

WCS | \$85.57 (+2.5%)

USD Priced Liquids

Bonny Lt. | \$90.05 (+2.7%)

LLS | \$83.41 (+0.7%)

MEH | \$82.71 (+1.1%)

NYMEX | \$81.16 (+1.0%)

WTI FOB | \$80.65 (+0.5%)

CAD Priced Gas

AECO | \$2.72 (-0.5%)

Alliance | \$2.83 (+7.7%)

Empress | \$2.70 (-1.3%)

Station 2 | \$2.74 (+2.6%)

USD Priced Gas

Dawn | \$2.26 (-2.6%)

Houston | \$2.50 (+1.8%)

Malin | \$3.40 (+16.2%)

PG&E | \$5.26 (+6.2%)

SoCal | \$10.02 (+166.4%)

Waha | \$2.11 (+3.9%)