

Oil Retreats After Setting Fresh Record

Associated Press

May 23, 2008

Americans getting an early start on the Memorial Day weekend found that gasoline prices again sprinted to a new record high overnight, reaching a national average above \$3.83 a gallon. Some analysts predict gas will break past \$4 as early as next week.



Oil prices fell Thursday after setting a new trading record of \$135.09 overnight. A stronger dollar gave some investors reason to sell oil futures to lock in profits from crude's record run. But concerns about falling supplies and rising demand are expected to keep propelling prices higher in the days and weeks to come.

Oil's surge is contributing directly to the pain consumers feel every time they fill up. At the pump, the average national price of a gallon of regular gas rose 2.4 cents overnight to \$3.831, according to a survey of stations by AAA and the Oil Price Information Service. Prices are 61 cents higher than a year ago.

Prices may rise as high as \$3.90 on a national basis by this weekend, he said. Prices are already above \$4 a gallon at many stations around the country, and are averaging more than \$4 in California, New York and Illinois, among other states. Oil prices rose to \$135.09 a barrel in overnight electronic trading on the New York Mercantile Exchange before retreating to settle down \$2.36 at \$130.81 a barrel by afternoon in New York.

Analysts said oil futures are caught between the supply and demand concerns that boosted crude to its latest record, and a desire by some investors to cash in some profits. The dollar, one of the factors that has fed oil's rally from about \$65 a year ago, strengthened against the euro Thursday. When the greenback gains ground, commodities such as oil lose their value as hedges against inflation. Also, a stronger dollar makes oil more expensive to investors overseas.

Still, many analysts argue that oil prices have risen far beyond levels that can be justified by supply and demand. This school of thought believes the dollar's decline has attracted speculators to oil and other commodities, artificially inflating prices. Some analysts see signs in the prices differences between the current July crude contract and contracts for delivery in future months that could mean oil prices are set to decline in coming months. In other Nymex trading Thursday, June heating oil futures rose 4.59 cents to settle at a record \$3.9543 a gallon after earlier rising to a trading record of \$4.0153. Heating oil, which is closely related to diesel, is often traded as a proxy for diesel.

June gasoline futures fell 6.68 cents to settle at \$3.3297 a gallon after rising earlier to their own trading record of \$3.438. June natural gas futures rose 5.7 cents to settle at \$11.697 per 1,000 cubic feet. The Energy Department said natural gas inventories rose last week by 85 billion cubic feet, in line with analyst estimates.

1. In paragraph form, identify the justification provided for the rapid increase in fuel costs.
2. The 1979 oil crisis in the United States occurred in the wake of the Iranian Revolution. While the new regime resumed oil exports, it was inconsistent and at a lower volume, forcing prices to go up. The median U.S. income was \$16,461 and within months a gallon of gasoline soared nearly 28% to \$1.19. Assuming the 2008 median income is \$53,500, what would a gallon of gasoline equate to today at the 1979 rate? Explain.
3. Just a \$1 increase in jet fuel can cost an airline an extra \$60 million a year. A Boeing 747 burns approximately one gallon a second and has a seating capacity of 568 passengers whereas a typical car gets about 25 miles per gallon and carries one person. Assume for a moment that both modes of transportation traveled 3,000 miles cross-country, the plane an average of 550 mph and the car 65 mph. Fuel for the vehicle is \$3.83 gallon and plane 20% higher. At a per passenger rate, what method of transportation is more affordable? By how much?
4. In order for a gallon of gasoline to rise to \$7.50 a gallon, what would a barrel of oil need to reach?
5. How much have gas prices risen monthly over the past twelve months? At a constant rate of growth, design an equation in slope intercept form ($y=mx + b$), graph, and table outlining gas costs through May 2009.
6. Upon completion of this assignment, how far have we progressed through the 2007-08 series of *The Daughtry Times*®? Express your answer as a fraction, decimal, percentage, and pie chart.
7. Complete *The Daughtry Times*® "Writing Guidelines" checklist on all questions requiring a written response. To ensure compliance, neatly label each component adjacent to your paragraph.
8. Complete *The Daughtry Times*® "Preliminary Reading Guidelines" checklist prior to reading the passage and clearly identify each essential component of the article (title, keywords in italics, etc.).
9. Using contextual clues only, explain the meaning of the italicized words: *commodities*, *propelling*, and *inflation*. Additionally, use each word in a sentence to demonstrate further comprehension.
10. In paragraph form, explain at least five legitimate and educational purposes behind *The Daughtry Times*®.