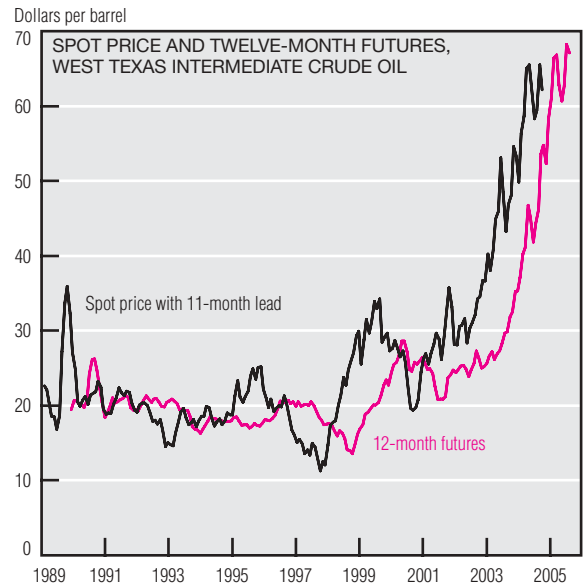
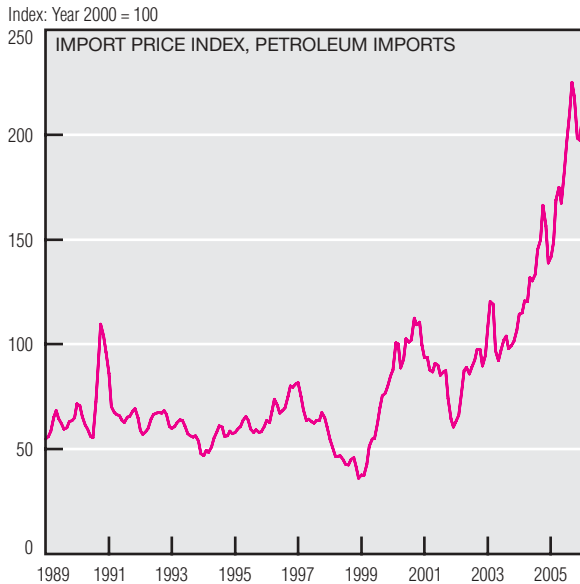
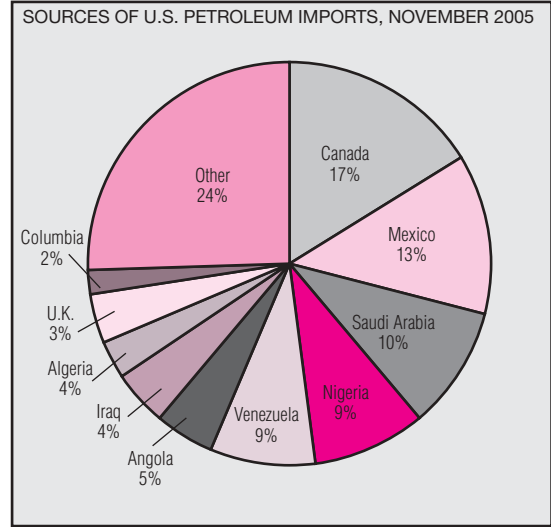
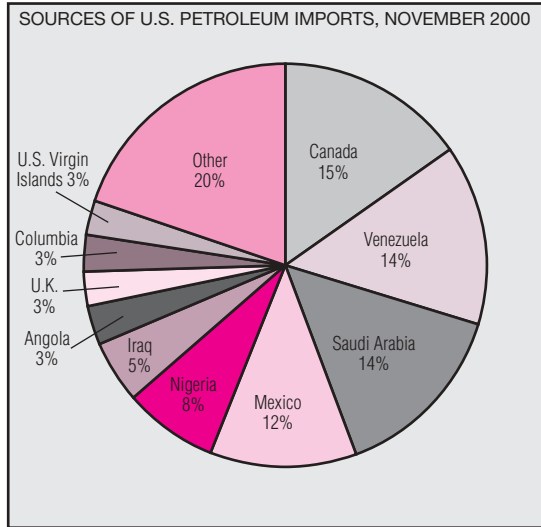


# Oil Prices



SOURCES: U.S. Department of Energy, Energy Information Administration; and Bloomberg Financial Information Services.

In November 2005, the two largest exporters of oil to the U.S. were its neighbors. Canada and Mexico combined accounted for about 30% of total U.S. oil imports, up from about 27% five years earlier. During the same period, oil imports from Saudi Arabia and Venezuela decreased from 14% to 10% and from 14% to 9%, respectively. The share of U.S. oil imports from the other top 10 countries has remained relatively constant.

Import prices for petroleum products have more than doubled in the last two years. In September 2005, the Petroleum Import Price Index reached its highest point, nearly 225, before settling down to 209 in January 2006. During this time, the spot price of a barrel of oil soared from just under \$29 to slightly over \$62.

In the mid-1990s, the 12-month oil futures contract seemed a fairly good indicator of future oil prices. More recently, however, oil futures contracts

have been poor predictors of oil prices one year out, substantially underpredicting the spot price of oil. This probably results from the increased volatility in spot oil prices over the last five years. In more volatile circumstances, like the current oil market, the value associated with futures markets comes from the hedging opportunities that futures contracts provide rather than their ability to predict spot prices.