

# TRANSITIONS

## PAIN AT THE PUMP

Few things generate more attention and anxiety among American consumers than the price of gasoline. The most recent upsurge in prices is no exception. The Russian-Ukraine War has pushed up the prices of oil to a ten-year high and prices could continue to go higher. Russia is the world's third largest oil producer and provider of nearly 60% of Europe's energy supplies and roughly 8% of U.S. imports of oil and petroleum products. This has prompted many of us to question, why are gas prices so high and how long will we feel the pain at the pump?

One of the biggest shocks to the increase in the price of oil occurred when the Communist dictator of Russia, Vladimir Putin, invaded Ukraine on February 24, 2022. He launched an unprovoked and unjustifiable attack on the democratic state of Ukraine, because he regards the threat of Ukraine's possible membership of NATO as undermining Russia's vital national security interests. Putin's imperialistic ideology is that the West has deceived Russia by the expansion of the organization to its very borders, with its forces within 400 km of Moscow. The issue of Ukraine is central to Russians' identity of themselves.

To explain the cause and effect of Russia's invasion and the increase in prices of oil, prior to Putin's egregious invasion, oil prices were roughly flat the first few weeks before the invasion, then uncertainty grappled the equity and commodity markets. Prices went higher as more troops massed at Ukraine's border, then fell again as diplomatic solutions seemed more probable. Since the full-scale invasion, the prices of oil have steadily climbed. At the beginning of the year, the price of West Texas Intermediate crude oil, a U.S. benchmark, was \$76.08 a barrel. Recently, the price of oil was as high as \$130 per barrel. A worst-case scenario would be that oil prices reach as high as \$200 a barrel. Gasoline prices at the pump usually follow oil prices by at least one to two weeks. Last March, the price of a gallon of gas was \$2.90. The average national price of



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a gallon of gasoline for 2022 is \$4.325, which is \$1.43 higher than a year ago.

Gasoline prices are a function of many complex factors all interconnected in the production and price of oil. Like with any good or commodity, oil price is determined by the law of demand and supply in the global markets. Any interruption in supply during war times pushes prices higher. Gasoline prices also vary because of changes in how much gasoline we demand relative to the supply available. If the demand for gasoline increases faster than the ability to supply it, the price of gasoline will likely increase.

The United States is the largest consumer of gasoline in the world. On February 25th, the Biden administration announced sanctions against Russia prohibiting the importation of oil and liquified natural gas into the United States and prohibiting the United States from making any new investments in Russia's energy sector. As a result, the disruption of natural gas and oil shipments have been followed by sharp declines in the supply of their oil and gas prices domestically.

Without a crystal ball it is hard to predict exactly how high oil prices are poised to go. Time will tell how long we will feel the pain at the pump, as diplomatic negotiations unfold between Russia and Ukraine and depending on how open Putin is to ending the war. The price of oil will also be impacted by any potential oil negotiations with other oil-producing countries.

As a country, we will get through this. Our thoughts are with the Ukrainian citizens and the individuals and families impacted by the war.

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