


Oil – Burning Up or Burning Out?



Microscope


According to Energy Information Administration (EIA), fossil fuels continue to supply much of the increase in marketed energy use worldwide. Liquids (primarily, oil and other petroleum products) are expected to continue to provide the largest share of world energy consumption over the projection period, but their share falls from 38% in 2004 to 34% in 2030, largely because rising world oil prices dampen the demand for liquids after 2015. Worldwide liquids consumption is projected to increase from 83 million barrels per day in 2004 to 97 million barrels per day in 2015 and 118 million barrels per day in 2030. Liquids remain the most important fuels for transportation, because there are few alternatives that can be expected to compete widely with petroleum-based liquids; however, the role of oil outside the transportation sector continues to be eroded because of high world oil prices in most regions of the world. On a global basis, the transportation sector accounts for 68% of the total projected increase in liquids use between 2004 and 2030, followed by the industrial sector, which accounts for another 27% of the increment in world liquids demand. 

AMID continuous drop in US crude oil stocks and a further cut in US interest rates, US oil hit a record high \$96.24 a barrel last week. Strong demand for crude and a weak dollar have fuelled the rally from a dip below \$50 at the start of the year. Adjusted for inflation, oil is still below the \$101.70 peak hit in April 1980, according to the International Energy Agency (IEA), a year after the Iranian revolution. The fall in the value of the dollar against other major currencies has helped drive buying across commodities as investors view dollar assets as relatively cheap.

Since the Federal Reserve cut US interest rates in mid-August and central banks pumped billions of dollars into financial markets to ease a credit crunch, oil prices have surged 37% and gold has risen 20%. Investment flows from pension and hedge funds into commodities including oil have boomed, as having speculative trading. At

the same time, the credit crunch has brought some other markets, notably the US asset-backed commercial paper, to a virtual standstill. In the US, the size of the asset-backed commercial paper market has fallen for 11 consecutive weeks, to \$883.7 billion last week from a peak of \$1.17 trillion at the end of July, according to data from the Federal Reserve. Some of that money has found its way into energy and commodities. While previous price spikes have been triggered by supply disruptions, demand from top consumers of the US and China is a driver of the current rally. Global demand growth has slowed after a surge in 2004 but is still rising and higher prices have so far had a very limited effect on economic growth. On the other hand, the Organization of the Petroleum Exporting Countries (OPEC), source of more than a third of the world's oil, started to reduce

oil output in late 2006 to stem a fall in prices. Fewer OPEC barrels entering the market helped propel this year's rally and consumer nations led by the IEA for months urged OPEC to pump more oil. At a recent meeting, OPEC agreed to increase oil output by 500,000 barrels per day from November 1. Oil consumers are concerned about supply disruption from Iran, the world's fourth-biggest exporter, which is locked in a dispute with the West over its nuclear program.

In addition, Iraq is struggling to get its oil industry back on its feet after decades of wars, sanctions and under-investment. In fact, many factors point to a sustainable bull run for oil prices over the next 12 months. 

MARKET BRIEFING


YTD % (local curr)

US DJ	13,595 (+9.1%)
Nasdaq	2,810 (+16.4%)
Euro Stoxx 50	4,410 (+7.0%)
HSI	30,468 (+52.6%)
Japan NK225	16,517 (-4.1%)
China Shanghai Composite	5,777 (+116%)
Singapore	3,715 (+24.4%)
India BSE30	19,976 (+44.9%)
Brazil BOVESPA	64,050 (+44%)
Aus All Ord	6,696 (+18.1%)
US-10yr Bond	Yield 4.33%


As at 2/11/07

Insight: "Steps in Financial Planning"

Financial planning is a multi-step process that provides you with two important things: (1) An in-depth review of your current financial situation, and (2) a blueprint that shows you how to achieve your goals and objectives for the future. It is important to remember that financial planning is a process, not an event. To create this blueprint, you focus on your goals, objectives, priorities and values first. For instance: the reduction of current and future income taxes may be an immediate goal, funding a quality education for your children and/or grandchildren may be an intermediate goal, and enjoying a secure financial

future in your retirement years is likely to be one of your most important long-term goals. Another great goal in life for some people is creating wealth and leaving an estate for your chosen beneficiaries. You may already be on the road to meeting these objectives and simply need a new strategy, professional insight, or to fine-tune your plan. You may just be starting out, or you may be somewhere in between. Whatever your unique situation may be, everyone needs a periodic assessment of where they are on the road to meeting their financial goals. That's why we do an in-depth review of your current financial situation. Next, you need to know how you can set about achieving (or continue working toward) your financial goals. Finally, to achieve the intended results, you must eventually implement and monitor your plan. 

A-Z Financial Tools

ELN, the short form of equity-linked note, can be thought as a combination of a zero coupon bond and an equity option. Usually the final payout is the amount invested, times the gain in the underlying stock or index. If the underlying equity gains 50% during the investment period and the participation rate is 80%, the investor receives 1.40 dollars for each dollar invested. 



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