


## Oil Price: Before Sunset?



## Microscope

For recent hike of oil prices, we must understand the mechanism of pricing. Normally, Brent oil is primarily used in spot and long-term contracts to value as much of crude oil produced in global market each day. The Brent price is published by a private oil industry publication. Major oil producers including Russia and Nigeria use Brent as a benchmark for pricing the crude they produce. But how today's oil prices are really determined is done by a handful of major oil trading banks have any idea who is buying and who selling oil futures or derivative contracts that set physical oil prices in "paper oil." It, in no doubt, opened for the present speculative bubble in oil prices. A glance at the price for Brent and WTI futures prices since January 2006 indicates the remarkable correlation between skyrocketing oil prices and the unregulated trade in Intercontinental Exchange oil futures in US markets. As a result, over the past two years crude oil inventories have been steadily growing, resulting in US crude oil inventories that are now higher than at any time in the previous eight years. As such, oil prices have reached an unreasonable level. 

Most of the commodities prices are heading for their best first half in 35 years. The 19 commodities in the Reuters/Jefferies CRB Index jumped 29% this year, the most since 1973 and more than any second-half gain in at least five decades, data compiled by Bloomberg show. Recently, crude oil prices were on a rollercoaster ride upwards over the last month, increasing from \$113 to \$133 per barrel over the first 3 weeks on May, then falling back to \$122 on June 4 before surging to over \$140 by the end of June. Nevertheless, high costs are slowing the pace of demand for oil in the U.S., and gold purchases in India, the biggest buyer, plunged 50% from a year earlier. Producers are expanding supplies of wheat in the US and steel in China. In the US, the world's largest energy user, the number of travelers over the Fourth of July holiday will drop for the first time this decade, after gasoline rose above \$4 a gallon,

motoring group AAA said June 26. Surging jet-fuel costs led to the failure of at least a dozen airlines in the past six months, grounding planes. To be sure, supply uncertainties in major oil exporting regions, coupled with healthy demand growth in the emerging market countries, continued to offer support to oil markets. According to Energy Information Administration (EIA), the overall picture of strong demand and tight supply is expected to continue. Crude oil prices, which averaged \$72 per barrel in 2007, are projected to average \$122 per barrel in 2008 and \$126 per barrel in 2009. The data from EIA indicated global oil consumption rose by about 630,000 bbl/d during the first quarter of 2008 compared with year-earlier levels, much lower than the expected 1.0-million-bbl/d growth. Most of this downward revision occurred in the

OECD countries. Consumption in the other OECD regions was flat during the first quarter, with European consumption increasing relative to year-earlier levels only because warmer than normal weather led to unseasonably low consumption in first quarter of 2007. In contrast, consumption in the non-OECD countries is projected to grow by 1.2 million bbl/d in 2008, led by China, India, and the Middle East. Continued economic growth, fuel subsidies, and increased oil-fired power generation are supporting increases in non-OECD consumption. China represents the single largest source of world oil consumption growth in our forecast, and that country has not yet begun to remove price subsidies.



### MARKET BRIEFING

#### YTD % (local curr)

<b>US DJ</b>
11,346 (-14.5%)
<b>Nasdaq</b>
2,315 (-12.7%)
<b>Euro Stoxx 50</b>
3,340 (-24.1%)
<b>HSI</b>
22,042 (-20.7%)
<b>Japan NK225</b>
13,544 (-11.5%)
<b>China Shanghai Composite</b>
2,748 (-47.8%)
<b>Singapore</b>
2,955 (-14.7%)
<b>India BSE30</b>
13,802 (-32%)
<b>Brazil BOVESPA</b>
64,321 (+0.7%)
<b>Aus All Ord</b>
5,349 (-16.7%)
<b>US-10yr Bond</b>
Yield 3.95%

As at 27/06/08

## Insight: "Estate Planning Pitfall"


Many people do up a will and forget about updating it. So many things can change in terms of your circumstances, assets, beneficiaries and wishes that you need to review your will on an annual basis at a set time, eg. your birthday, the first of the new year or some other memorable time. If you are operating a small business and die, there are many negative implications that could result, unless proper planning is done. For example, if your business goes under, your estate could be depleted due to claims by business creditors, or because you signed personal guarantees to lenders, suppliers or landlord. Estate planning is especially

important for business owners. Failure to plan properly can cause problems for surviving business partners as well as for family members. For example, Peter and John, two partners in a business who never got

around to mapping out what would happen if one of them should die. If one of them, Peter, did die, John was left in dire need of a qualified partner to replace Peter and enough money to keep the business operating. At the same time, Peter's widow, Jane, felt entitled to some of the money from her late husband's business. You should consider a buy/sell agreement secured by insurance, so that the company has sufficient resources to pay your estate out. There are many other strategic options to separate your personal assets from business exposure. In addition, you should consider estate freezes.



## A-Z Financial Tools

**Value Investors** are buy-and-hold investors who are with a company for the long term. If the fundamentals are sound, but the stock's price is below its obvious value, the value investor knows this is a likely investment candidate. The market has incorrectly valued the stock. When the market corrects that mistake, the stock's price should experience a nice rise. 



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