

Oil: The Return of Black Gold!



Microscope

In fact, demand for crude oil is still huge, even though we have some alternative sources for energy. From 1994 to 2006, world crude oil demand grew an average of 1.76% per year, with a high of 3.4% in 2003-2004. World demand for oil is projected to increase 37% over 2006 levels by 2030 from 86 million barrels, due in large part to increases in demand from the transportation sector. In fact, energy demand is distributed amongst four broad sectors: transportation, residential, commercial, and industrial. In terms of oil use, transportation is the largest sector and the one that has seen the largest growth in demand in recent decades, accounting for approximately 68.9% of the oil used in the US in 2006. Although demand growth is highest in the developing world, the US is the world's largest consumer of petroleum. Between 1995 and 2005, US consumption grew from 17.7 million barrels a day to 20.7 million barrels a day, a 3 million barrel a day increase. China, by comparison, increased consumption from 3.4 million barrels a day to 7 million barrels a day, an increase of 3.6 million barrels a day, in the same time frame. China will become a boost to oil demand. **E**

Following four years of declines, together with that the global economy is recovering from the worst recession in 21st century, the US government increased its crude-oil price forecast for 2010 on the outlook for higher demand. Bloomberg quoted the Energy Department of the US as saying that West Texas Intermediate oil, the US benchmark, will average \$80.06 a barrel this year, up from last month's forecast of \$79.78. That's 30% higher than the 2009 average price of \$61.66 a barrel. In addition, oil prices are forecast to climb 4.3% in 2011 to an average \$83.50. Figure-wise, the Energy Department bolstered its outlook for global oil consumption this year to 85.51 million barrels a day from 85.3 million last month. That's up 1.7% from last year's 84.04 million barrels a day. Demand will climb to 87.06 million in 2011, up 0.2% from last month's projection. OECD consumption will rise 260,000

barrels to 45.74 million barrels a day in 2011. In the US, it is expected that the oil use will average 18.89 million barrels a day this year, up 200,000 barrels a day from 2009. This year's forecast was increased 40,000 barrels from the February estimate. Although there's still a great deal of uncertainty about the pace of the recovery in the US and Europe, the recovery in oil demand will be led by increases in India, China and the Middle East. It is expected that consumption by non-OECD countries will rise 1.37 million barrels to 40.03 million barrels a day this year. The forecast is up 290,000 barrels from last month. Demand in emerging economies is likely to climb 1.29 million barrels to 41.32 million in 2011, according to Bloomberg. On the supply side, under-investment in oil fields means a slow recovery for non-OPEC oil output, since drillers need oil prices

at or above \$75 a barrel to push them to expand production capacity any quicker. In addition, in many major producing countries, since most of the easy-to-extract oil has been found, the majority of reserves claims have not been subject to outside audit or examination. Recent price increases have led to oil exploration in areas where extraction is much more expensive, such as in extremely deep wells, extreme downhole temperatures, and environmentally sensitive areas or where high technology will be required to extract the oil. A lower rate of discoveries per explorations has led to a shortage of drilling rigs, increases in steel prices, and overall increases in costs due to complexity. To conclude, both supply and demand situations are in favour of rising oil price. **E**

MARKET BRIEFING

YTD % (local curr)

US DJ	10,624 (1.9%)
Nasdaq	2,367 (4.3%)
Euro Stoxx 50	2,898 (-2.3%)
HSI	21,209 (-3.0%)
Japan NK225	10,751 (1.9%)
China Shanghai Composite	3,013 (-8.0%)
Singapore	2,881 (-0.6%)
India BSE30	17,166 (-1.7%)
Brazil BOVESPA	69,341 (1.1%)
Aus All Ord	4,831 (-1.0%)
US-10yr Bond	Yield 3.70%

As at 12/03/10

Insight: "Viatical Settlements"

Viatical settlements/investments are also sometimes called life settlements or senior settlements. Its value reflects the life insurance benefits of the terminally ill. So, how do viatical investments work? For example, a patient with cancer or other terminal illness sells his or her life insurance policy for less than face value to a small group for half of the policy's cash benefit. Investors get a share of the death benefit when the insured later dies, and a fee is paid to the viatical investment broker. The longer the life expectancy, the cheaper you can buy the policy. Those selling viatical investments typically claim investors will get a return

of around 20%. However, this alternative investment involves many risks. For example, the rate of return on the investment cannot be calculated before the insured dies. The longer the insured lives, the lower the rate

of return. In addition, no one can predict the actual life expectancy of the insured. A person may die sooner or later than the estimate. Being the beneficiary of a policy and not the owner carries special risks. If the insured sells the policy to a viatical broker, who in turn sells the benefits to an investor, the broker is technically the owner of the policy. Only the owner, not the beneficiary, has the right to make premium payments directly to the insurance company. If funds set aside for paying premiums are depleted, the investor would be dependent on the broker to collect additional premium to keep the policy in force. **E**

Financial "In & Out"

IN: Euro may rebound as the concern over the default risk of Greece's sovereign bond is waning and the optimism over the improvement of economy in Euroland.

OUT: Japanese yen would face selling pressure through carry-trade amid concerns over the continued deflationary pressure in Japan and worsening budget deficit. **E**



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Next Insight
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