


Oil: Price Explosion?




Last month, an explosion occurred aboard the Deepwater Horizon mobile offshore drilling unit (MODU). While press reports about the DODU oil spill have arrived continuously since the incident, markets are focusing more on inventories and economic activity than on any potential for spill-related transportation disruptions, according to the WSJ. The MODU was drilling an exploratory well and was not producing oil at the time of the incident. However, the oil spill still has the potential to affect energy supplies, infrastructure, and prices in the region. In fact, about 30% of the total crude oil and 12% of the total natural gas produced in the US comes from Gulf Coast waters. The Gulf Coast is also a major refining center, representing about half of the refining capacity in the United States. Nearly two-thirds of the crude oil processed by Gulf Coast refineries is imported by tanker. Nevertheless, it is not

assumed to have significant disruptions to energy supply due to the spill, according to EIA. The current relatively high level of on-shore crude oil and product stocks and the availability of the US strategic reserve can buffer the impact of any short-term crude oil supply disruptions. Meanwhile, EIA projects WTI crude oil prices will average about \$84 per barrel over the second half of this year and rise to \$87 by the end of next year, an increase of about \$2 per barrel from the previous projection. WTI crude oil spot prices averaged \$84 per barrel in April 2010, about \$3 per barrel above the prior month's average. At the same time, prices for near-term futures options contracts suggest that the market attaches significant likelihood to the movement of prices over a wide range within a relatively short period. With regard to the recent derivative pricing

about oil, following a 1.5% point increase in July 2010 implied volatility a few days after the sinking of the drilling rig on April 22, the futures market resumed its downward trajectory in volatility. For the 5 days ending May 7, July 2010 WTI futures contracts were trading at an average of \$83.32 per barrel. With implied volatility for the July 2010 contract averaging 33.2 percent for those same 5 days, the lower and upper limits of the 95-percent confidence interval were \$67 and \$103 per barrel, respectively. Last year at this time, according to EIA, WTI for July 2009 delivery averaged \$56.35 per barrel and volatility averaged 51.5 percent, translating into a lower and upper limit of \$40.26 and \$78.88 per barrel for the 95-percent confidence interval. 

Microscope

Although the recent spill did not have significant impact on supply concern, the world is running out of easy to find oil. Approximately, we demand about 85m barrels a day. And the world currently supplies about the same amount a day. The cheap, easy to find oil we used to have in the US 50 years ago no longer exists anywhere in the world except that we can find hidden reserve! Offshore drilling, while it may take a temporary break in order for the government and the companies involved to research the cause of this spill, it's only a temporary. Even the US President was starting to relax a little on offshore drilling before this oil spill put the environmental risk into the headlines. Why was he interested in doing that? Not because it's suddenly a pro-environment thing to do but because he really does see the need to find oil in as many places as possible to reduce our reliance on Middle Eastern oil, according to the WSJ. On the demand side, many reports show the economic rebound in the US is broadening beyond manufacturing. GE Co. said the European debt crisis is unlikely to derail the recovery from the worst global recession in the post-World War II era. 

MARKET BRIEFING


YTD % (local curr)

US DJ	10,136 (-2.8%)
Nasdaq	2,257 (-0.5%)
Euro Stoxx 50	2,614 (-11.9%)
HSI	19,766 (-9.6%)
Japan NK225	9,762 (-7.4%)
China Shanghai Composite	2,655 (-19.0%)
Singapore	2,739 (-5.4%)
India BSE30	16,863 (-3.4%)
Brazil BOVESPA	61,946 (-9.7%)
Aus All Ord	4,479 (-8.3%)
US-10yr Bond	Yield 3.29%

As at 28/05/10


Insight: "Trust Arrangement"

Trusts developed in England at the time of the Crusades, during the 12th and 13th Centuries. When a landowner left England to fight in the Crusades, he needed someone to run his estate in his absence. To achieve this, he would convey ownership of his lands to a friend, on the understanding that the ownership would be conveyed back on his return. In common law legal systems, a trust is an arrangement whereby money or property is owned and managed by one person (or persons, or organizations) for the benefit of another. A trust is created by a settlor, who entrusts some or all of his property to the trustees. The

trustees are the legal owners of the trust property, but they are obliged to hold the property for the benefit of one or more individuals or organizations, usually specified by the settlor. The trustees owe a fiduciary duty to the beneficiaries, who are the "beneficial" owners of the trust property. The trust is governed by the terms of the trust document, which is usually written and in deed form. Such trusts are set up in an attempt to avoid or mitigate the effects of taxation, divorce and bankruptcy on the beneficiary. Such trusts are therefore frequently proscribed or limited in their effects by governments and the courts. Whether such a trust is a protective trust or discretionary trust, it is advised to seek help from your financial advisor before concluding your asset protection arrangement to avoid any sham. 

Financial "In & Out"

IN: Prices of equities may rise as the long-term valuation becomes attractive after they have been falling for the past six months and the global economies are recovering.

OUT: Gold prices may consolidate as risk appetite of investors for equities and corporate bonds are increasing amid the optimism that global economies are recovering. 



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Call 2268 6308
Email: insider@ibccapital.com

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