

Outlook for natural resources: will the boom times end?

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The next shock?

Mar 4th 1999

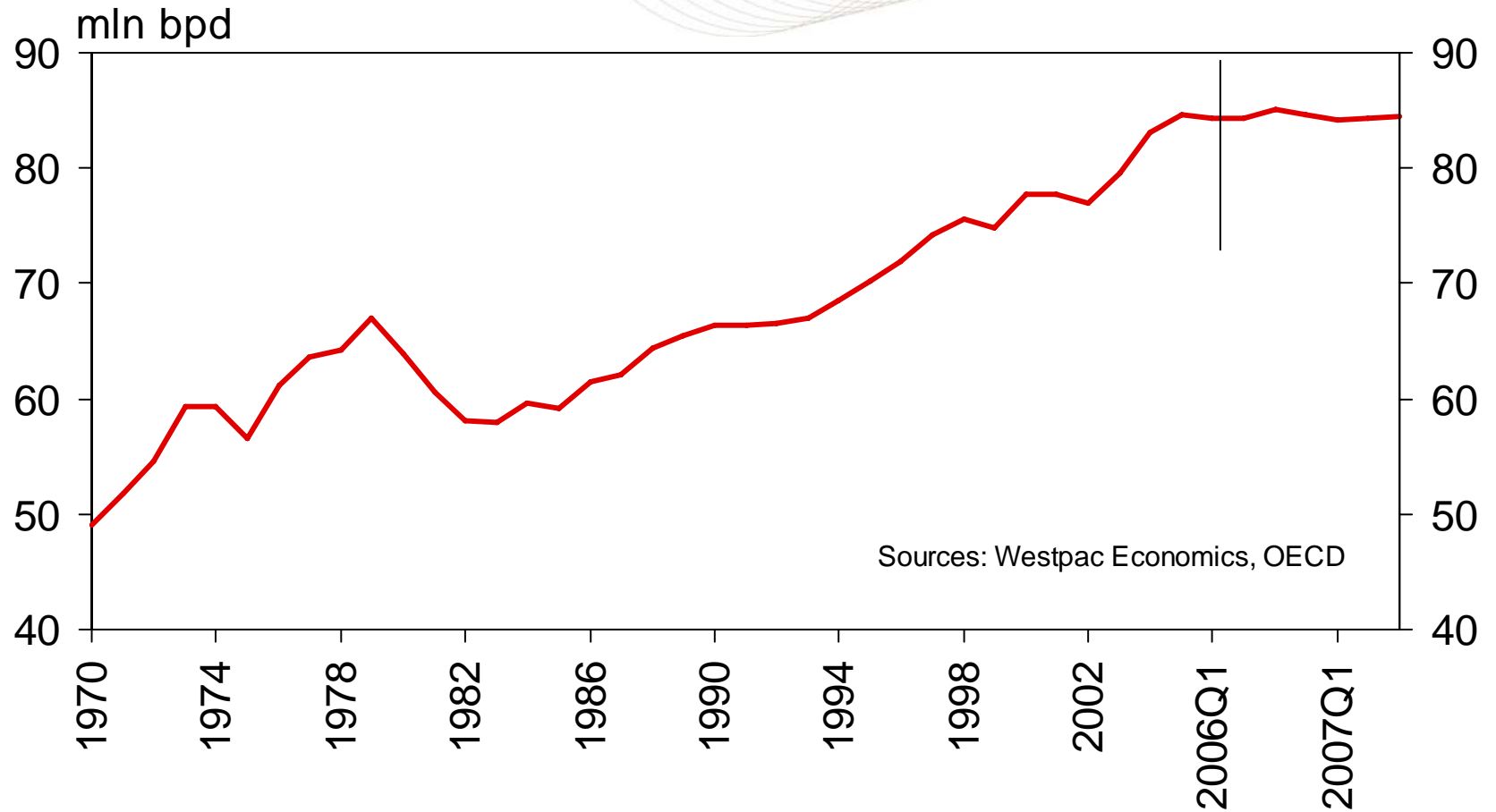
From *The Economist* print edition

The price of oil has fallen by half in the past two years, to just over \$10 a barrel. It may fall further—and the effects will not be as good as you might hope

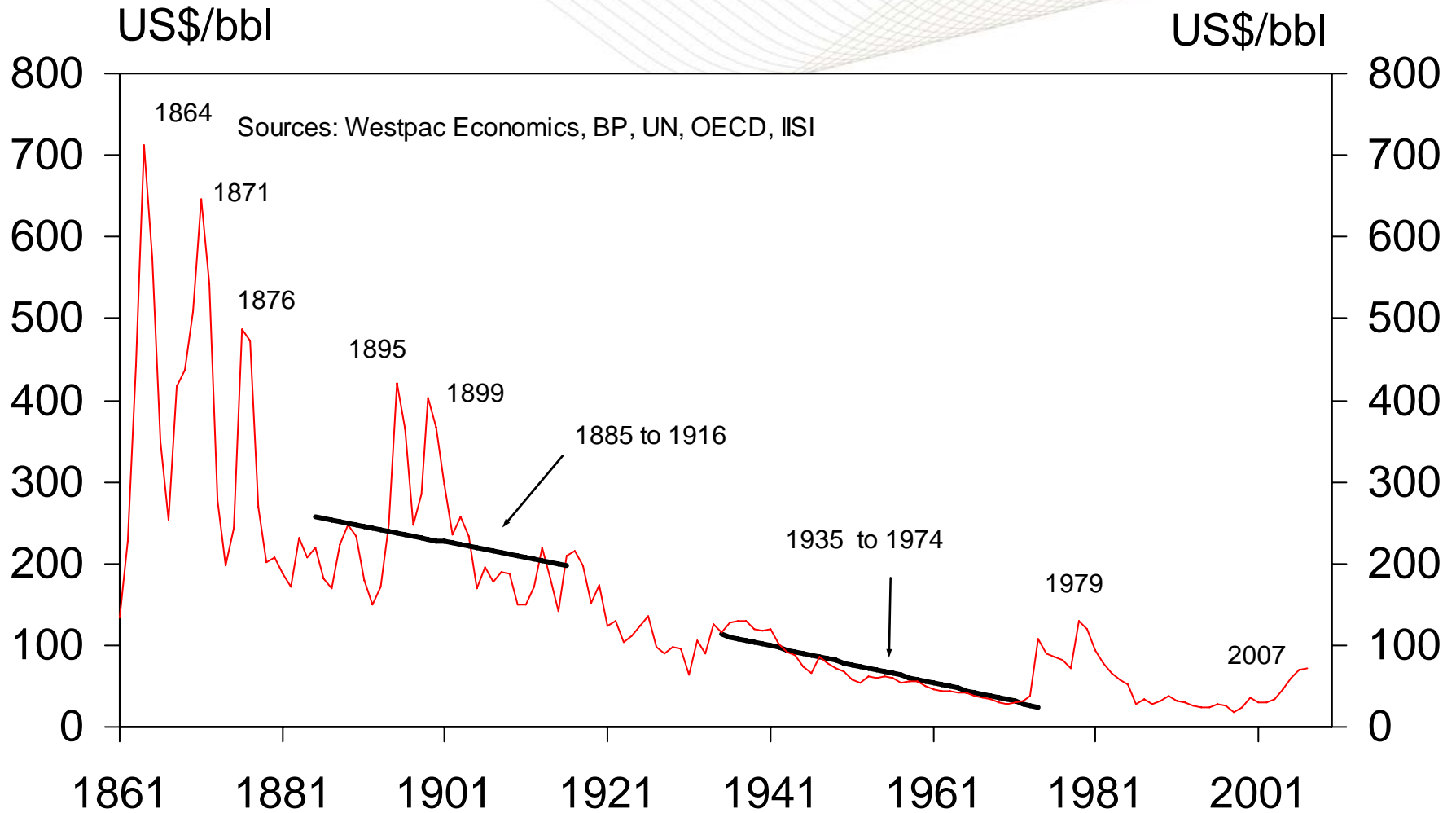
OIL is cheaper today, in real terms, than it was in 1973. After two OPEC-induced decades of expensive oil, oil producers and the oil industry as a whole have more or less given up hope that prices might rebound soon. The chairman of Royal Dutch/Shell, Mark Moody-Stuart, three months ago unveiled a five-year plan that assumed a price of \$14 a barrel. He has since publicly mused about oil at \$11. Sir John Browne, chief executive of BP-Amoco, is now working on a similar assumption

Yet here is a thought: \$10 might actually be too optimistic. We may be heading for \$5

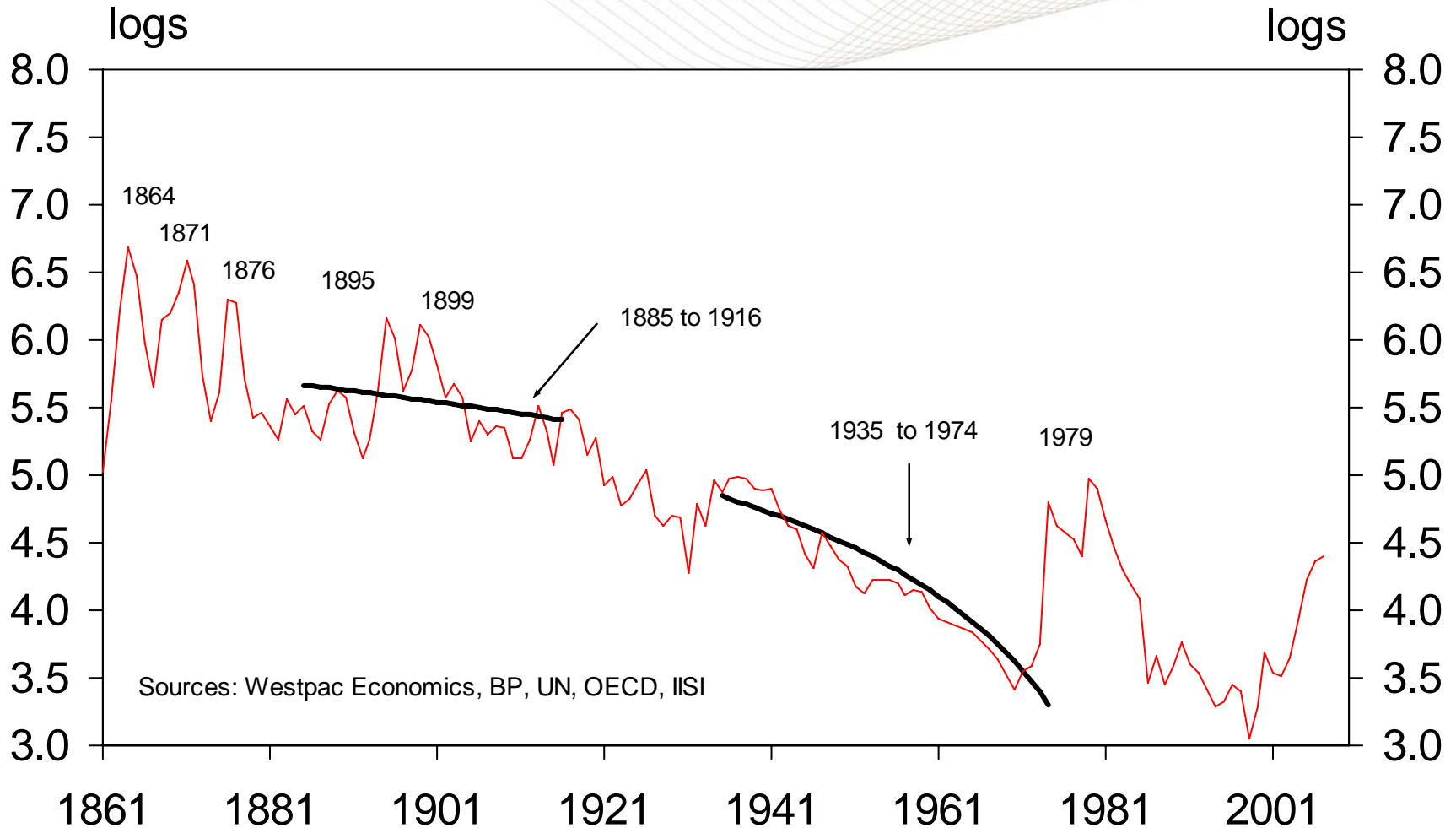
Global Oil Supply



Real oil price

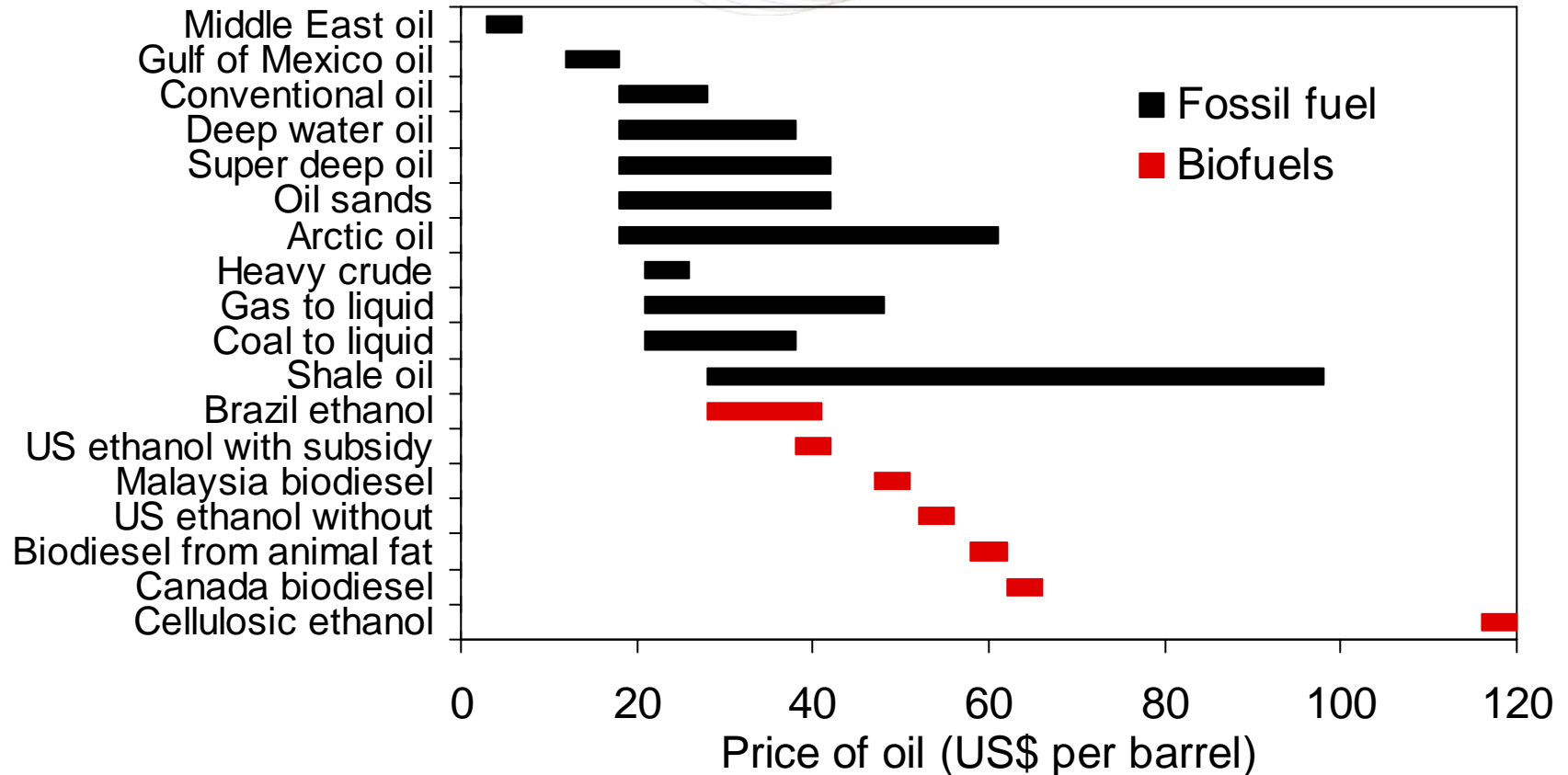


Real oil price: logs reveal increase in vol.



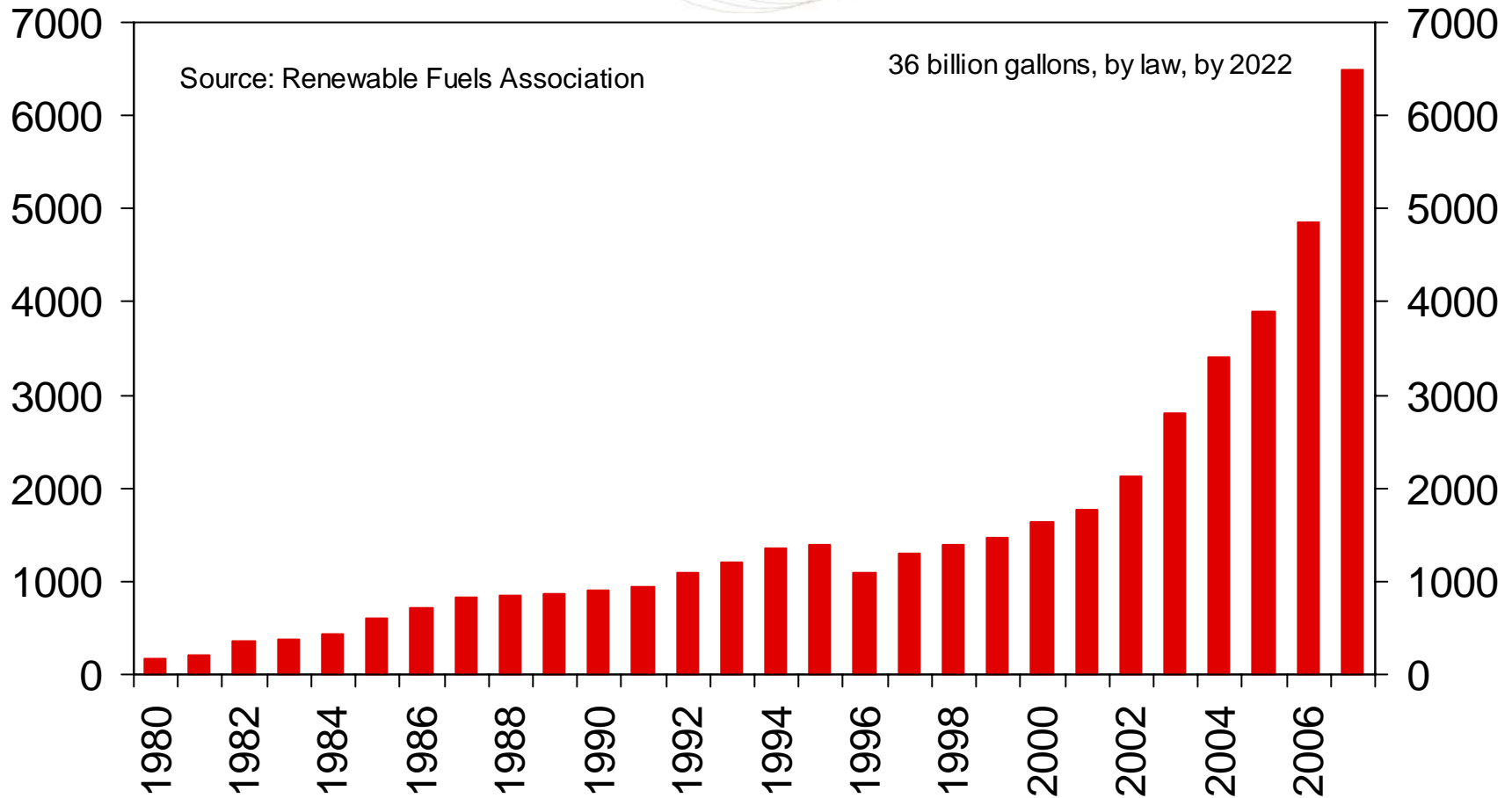
Fuel economics

– pre biofuel feedstock price increases

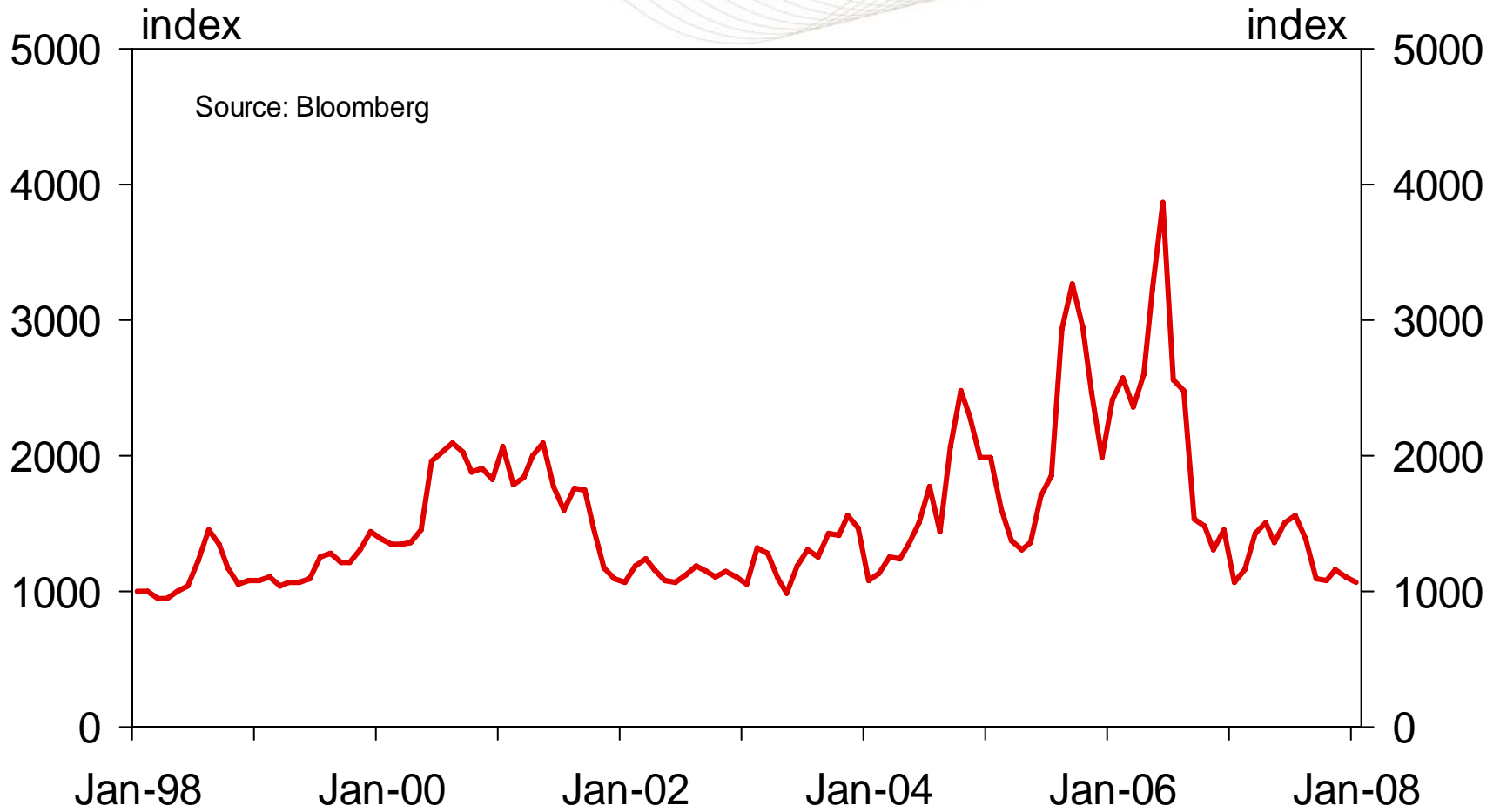


Source: Penn and Kinsella, Doornbosch and Upton, Aspen Institute, The Economist, Charlebois, and Financial Times

US ethanol production, million gallons



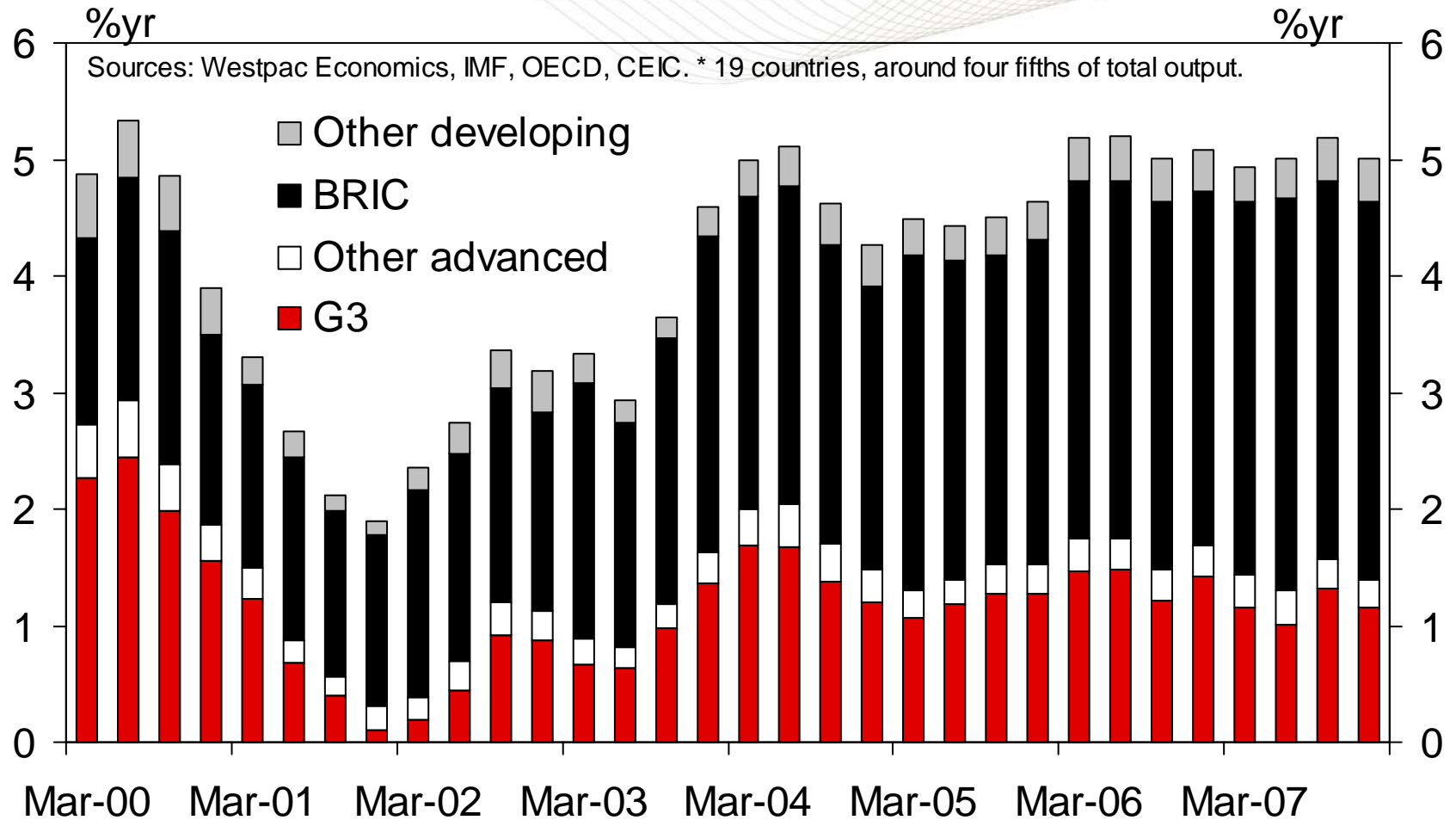
Ethanol/corn price ratio



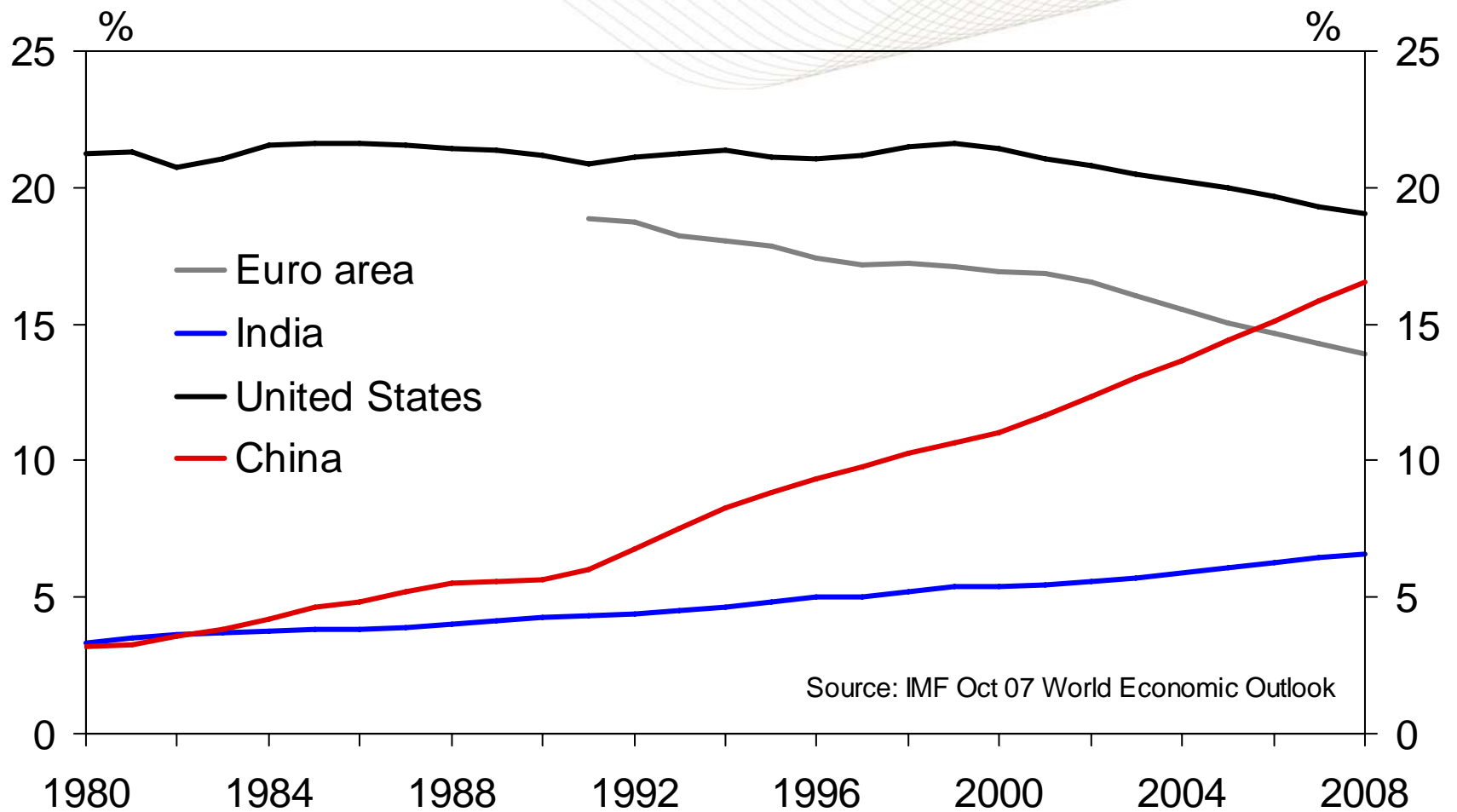


A Changed World

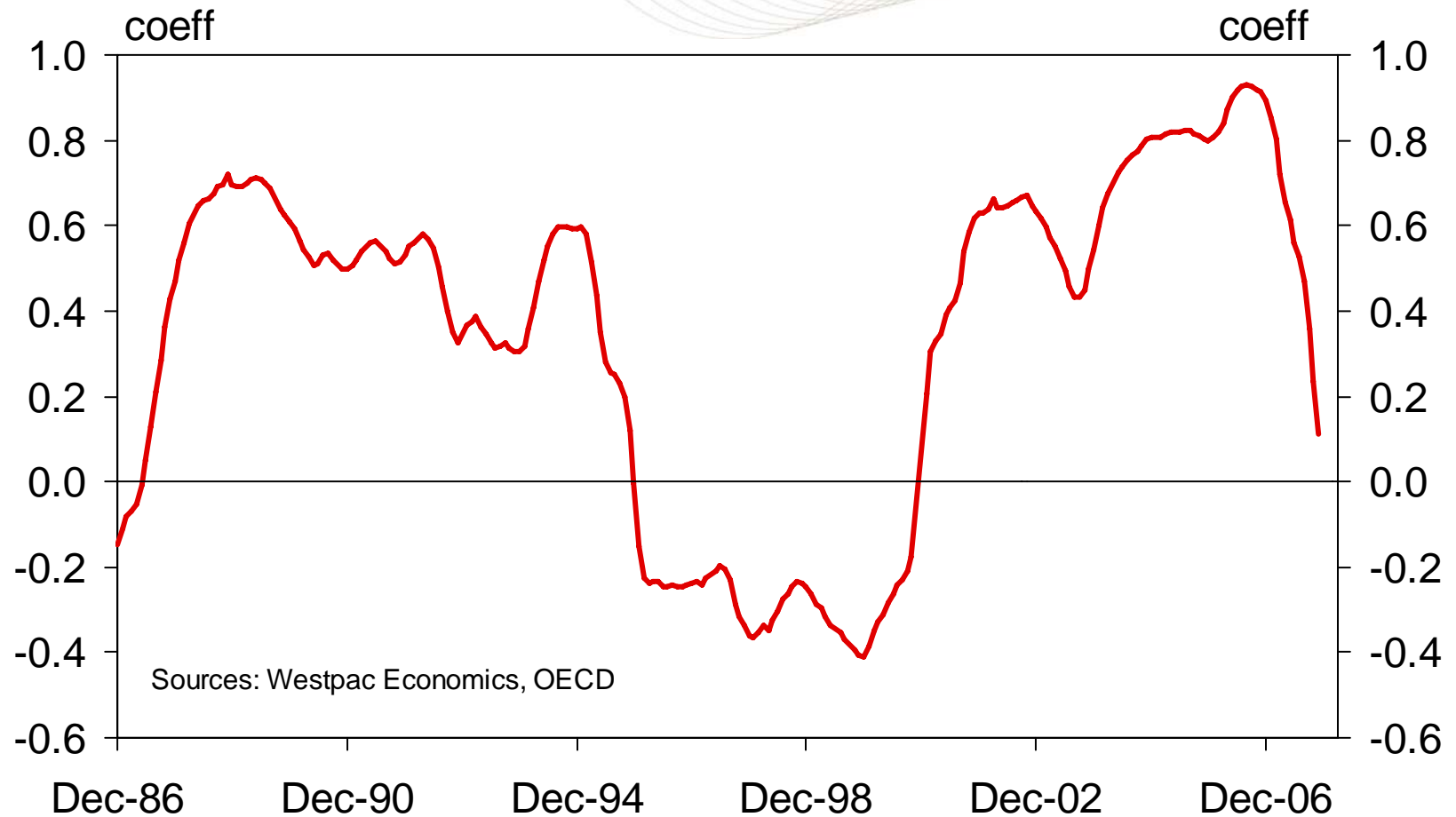
World growth pulse: quarterly*



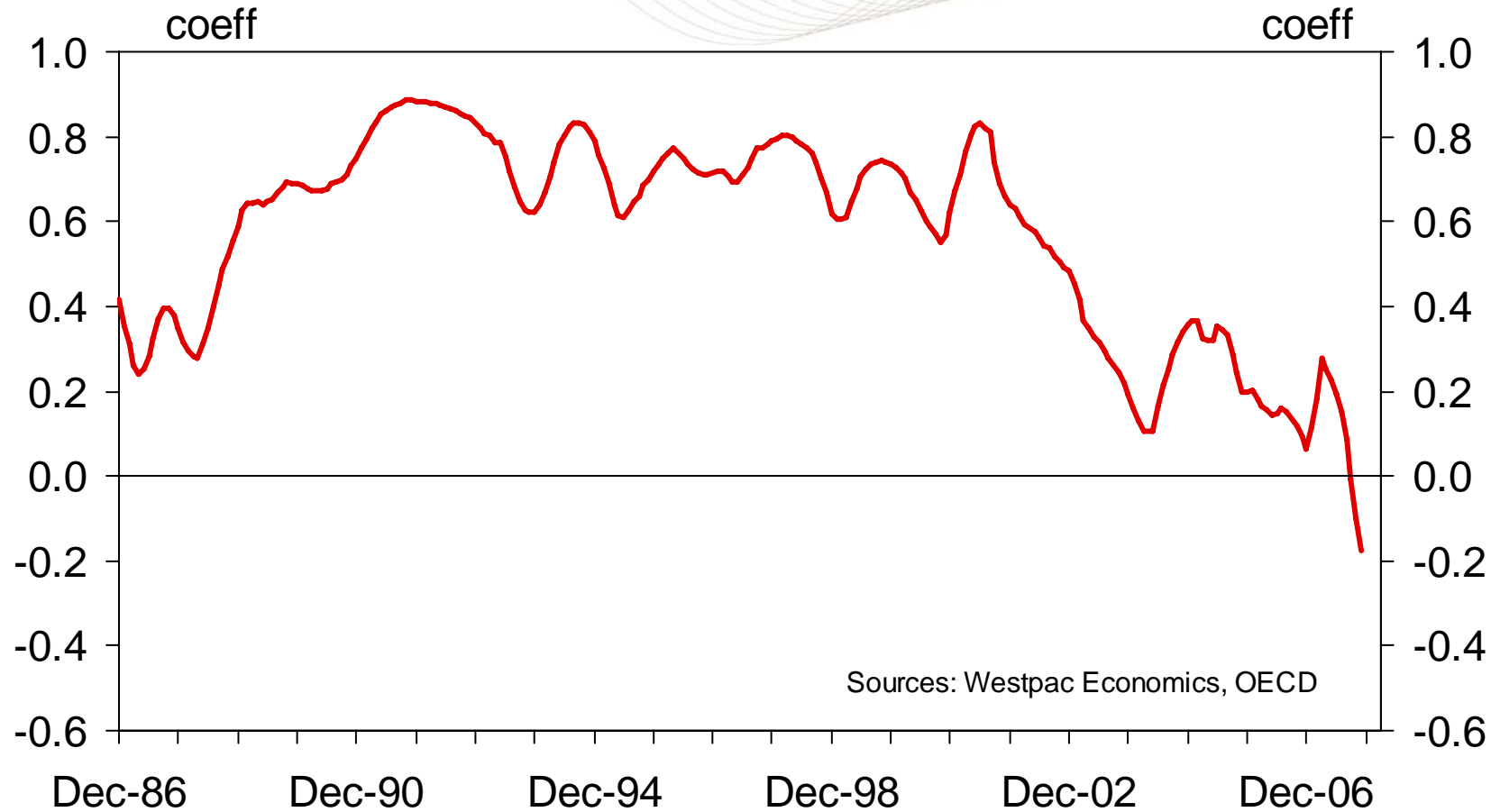
Shares of world GDP



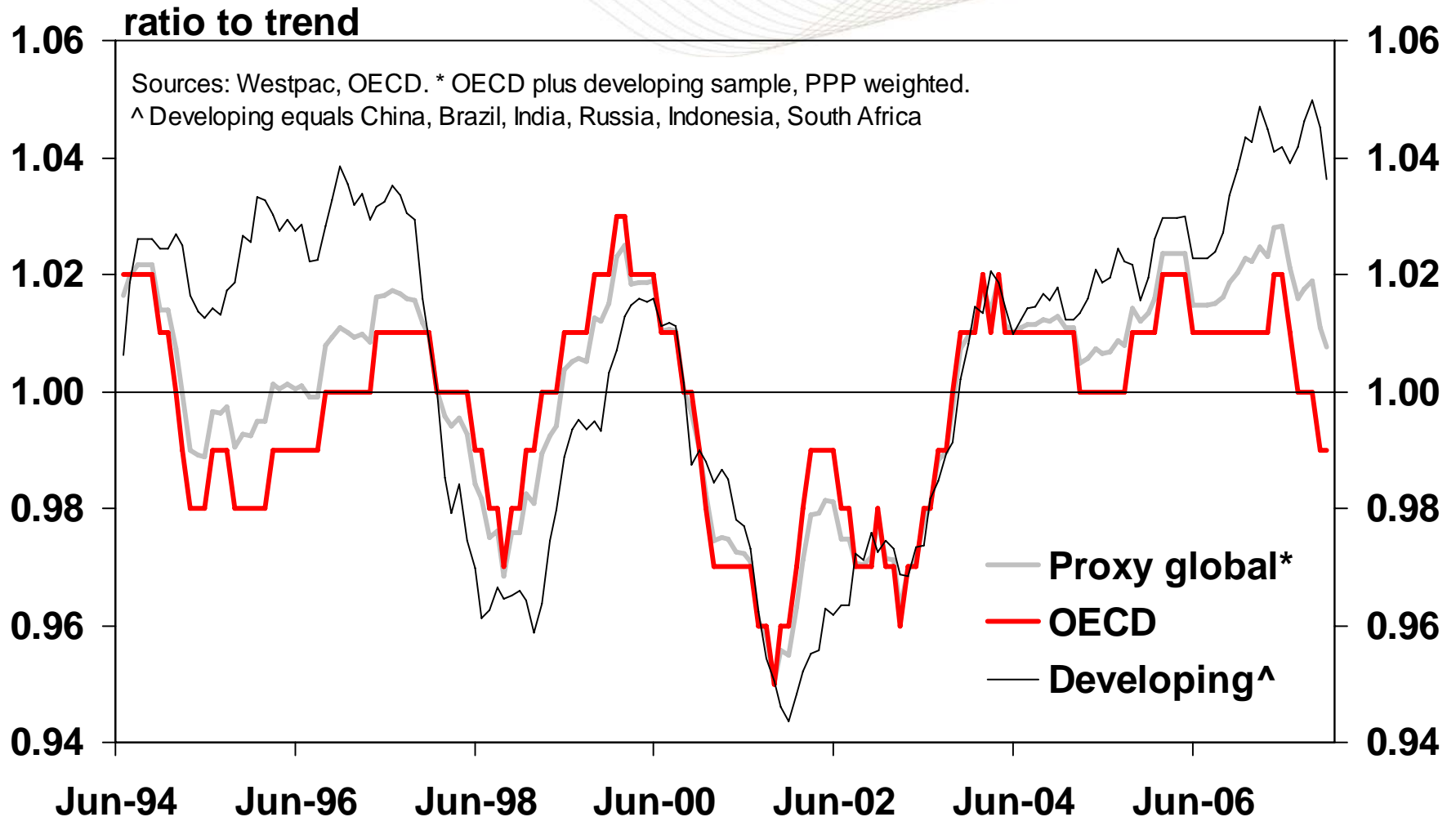
Rolling correlation of US & Chinese activity



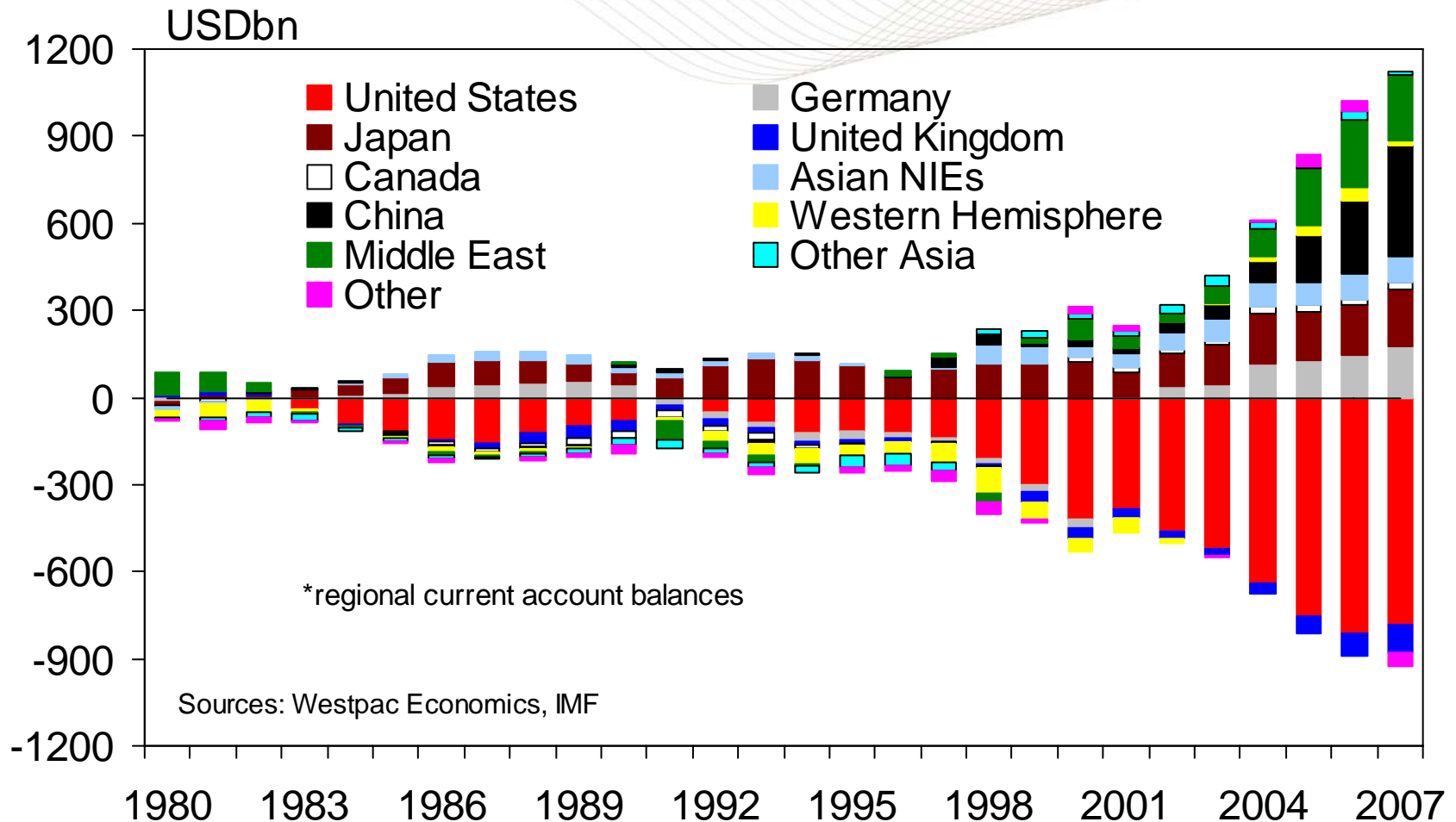
Rolling correlation of US & Australian activity



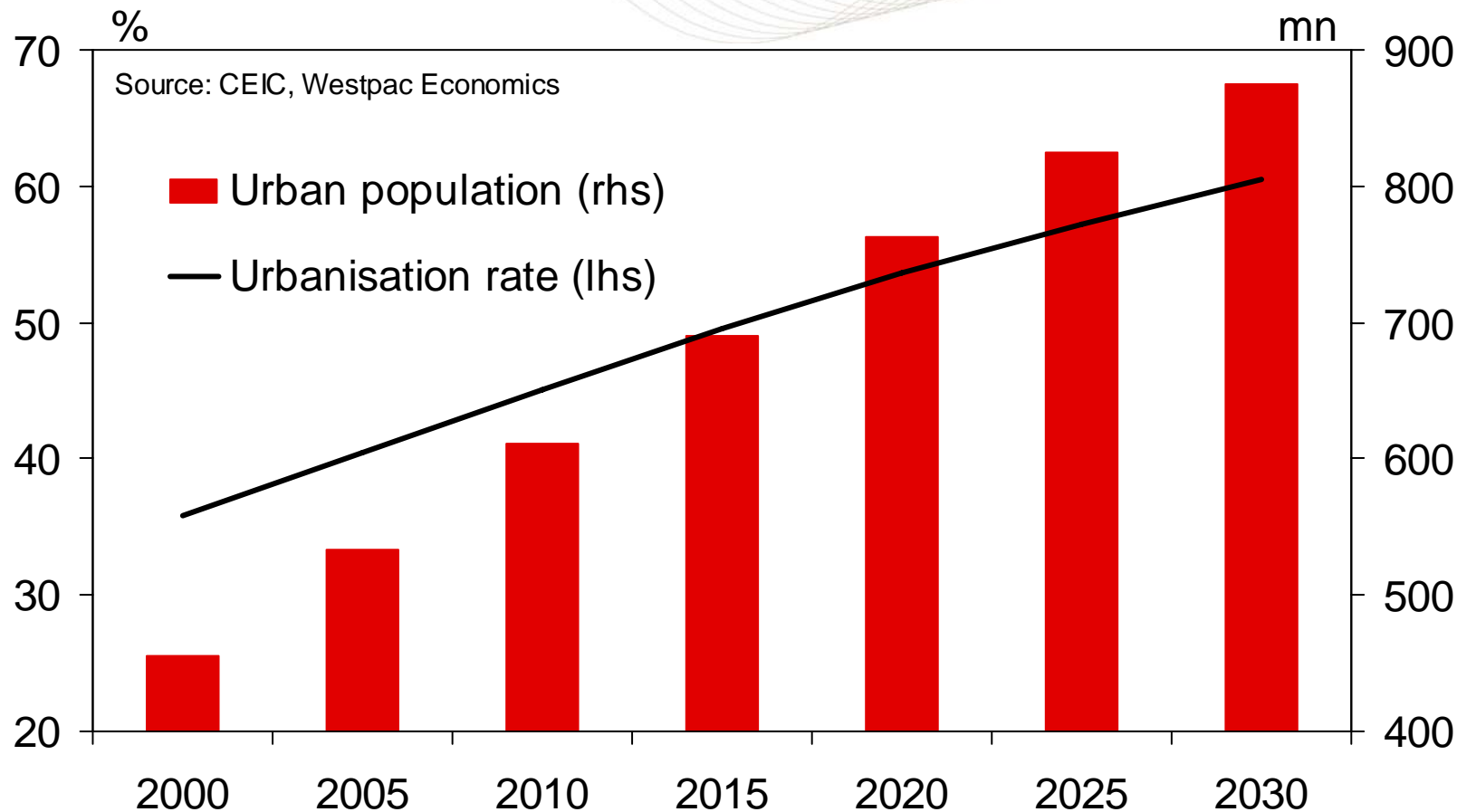
Leading indicators of global growth



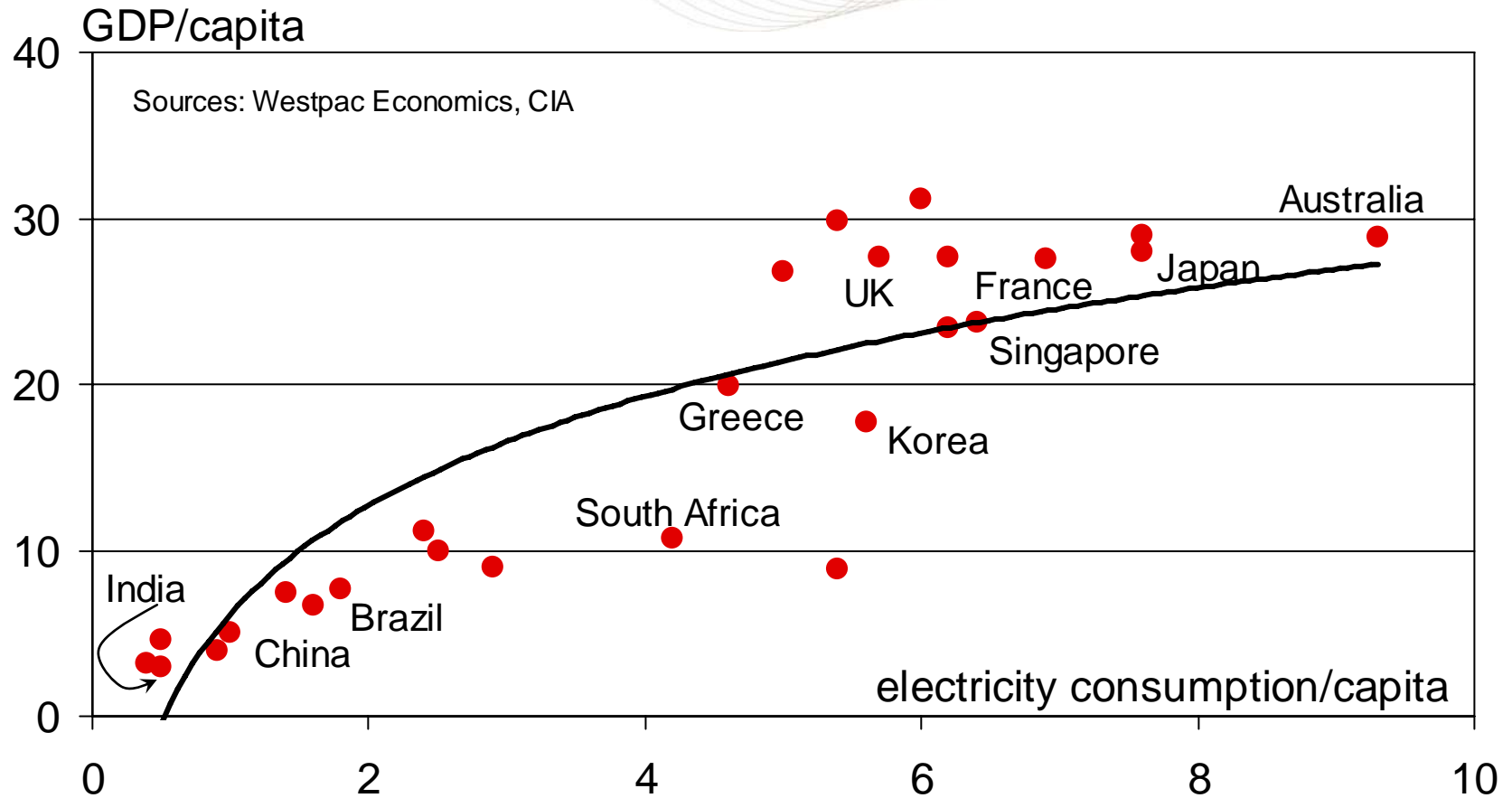
Supply & use of world savings*



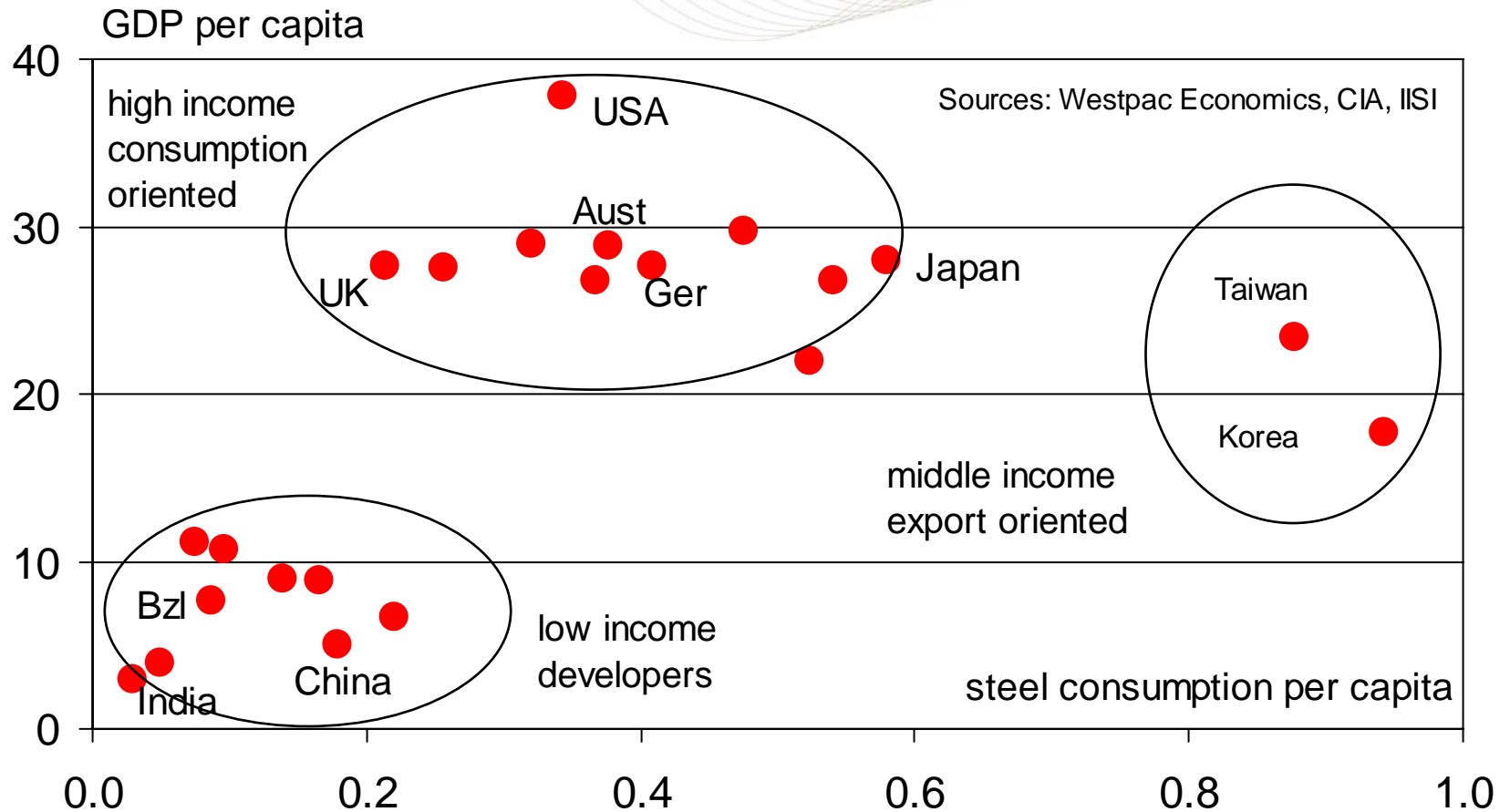
Urbanisation will dominate coming decades: e.g., China



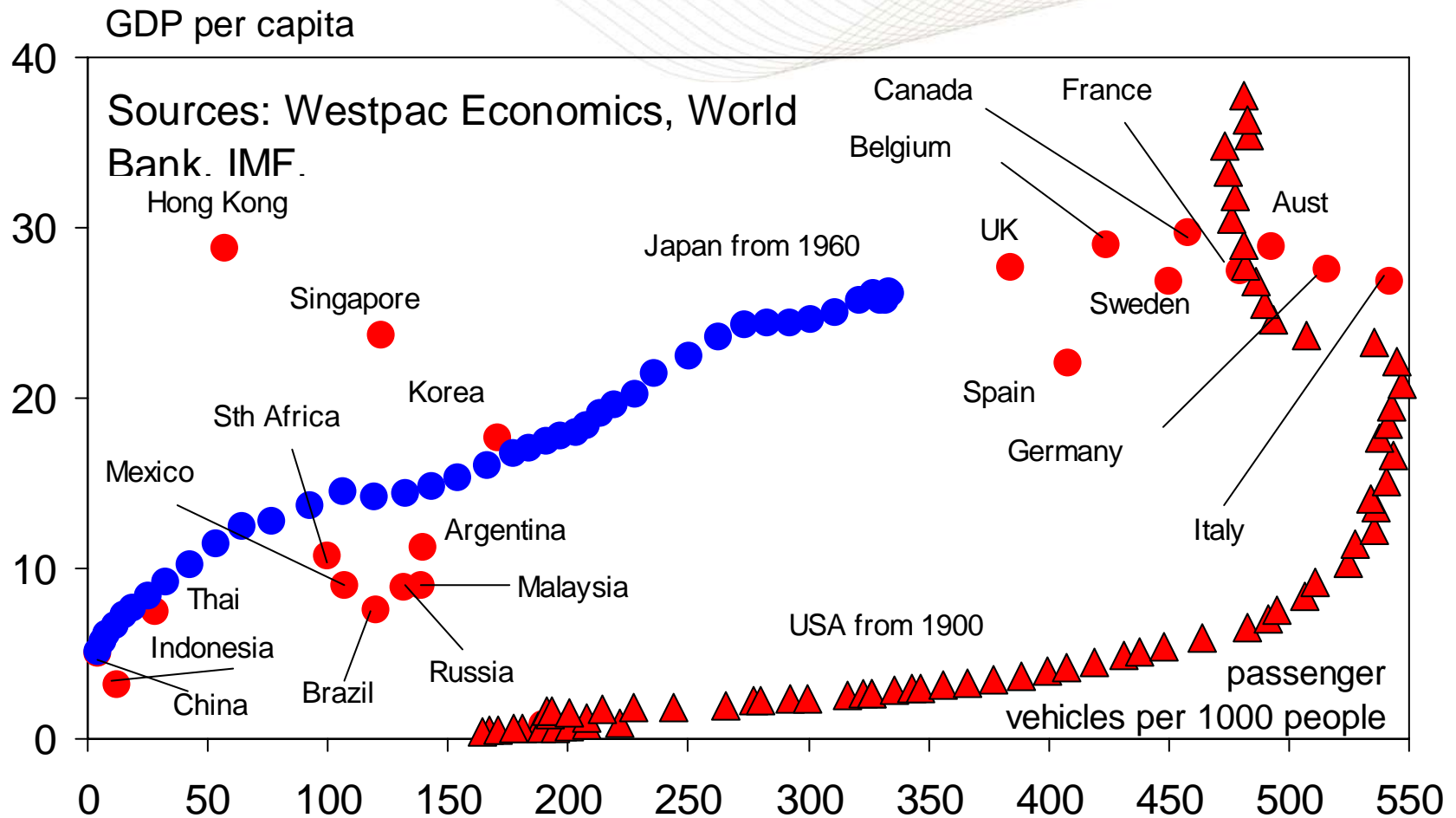
Electricity consumption & level of development



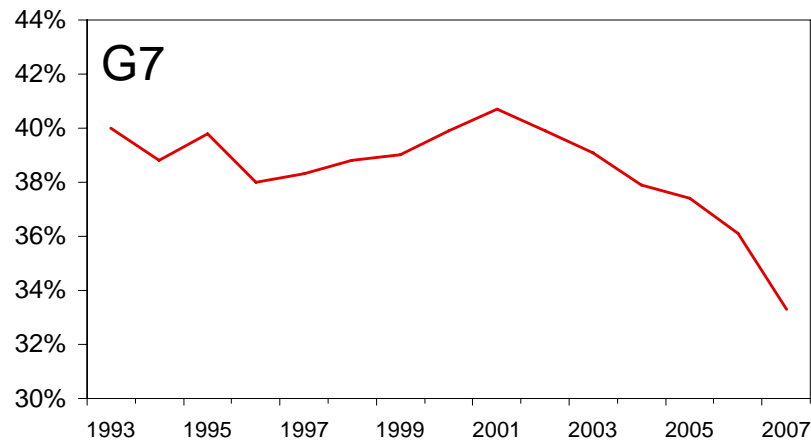
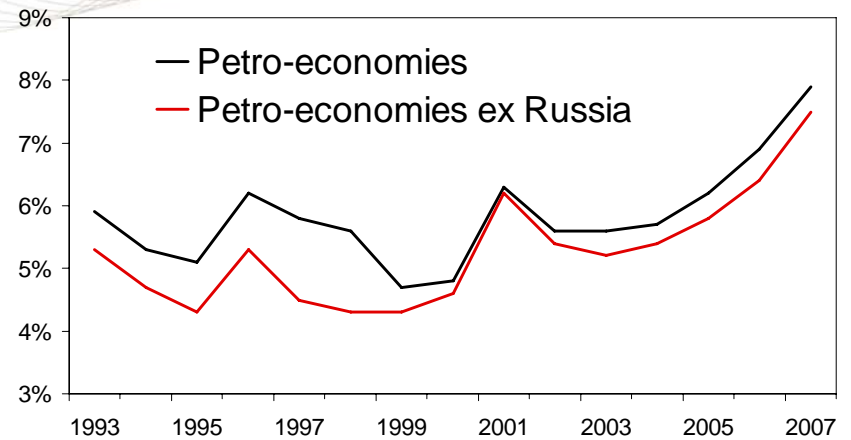
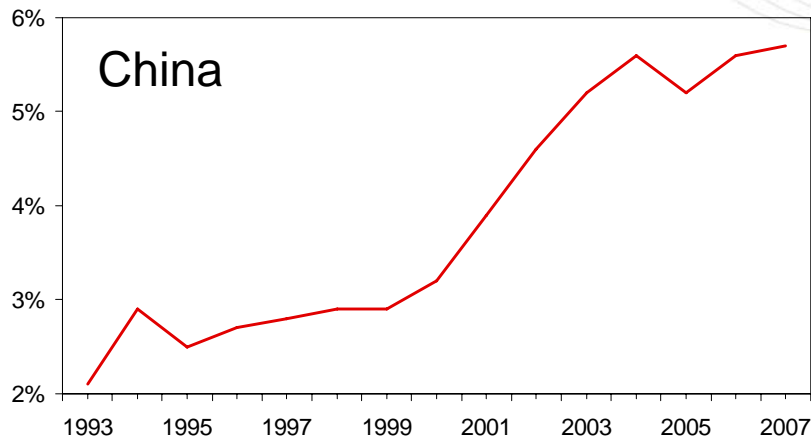
Steel consumption & level of development



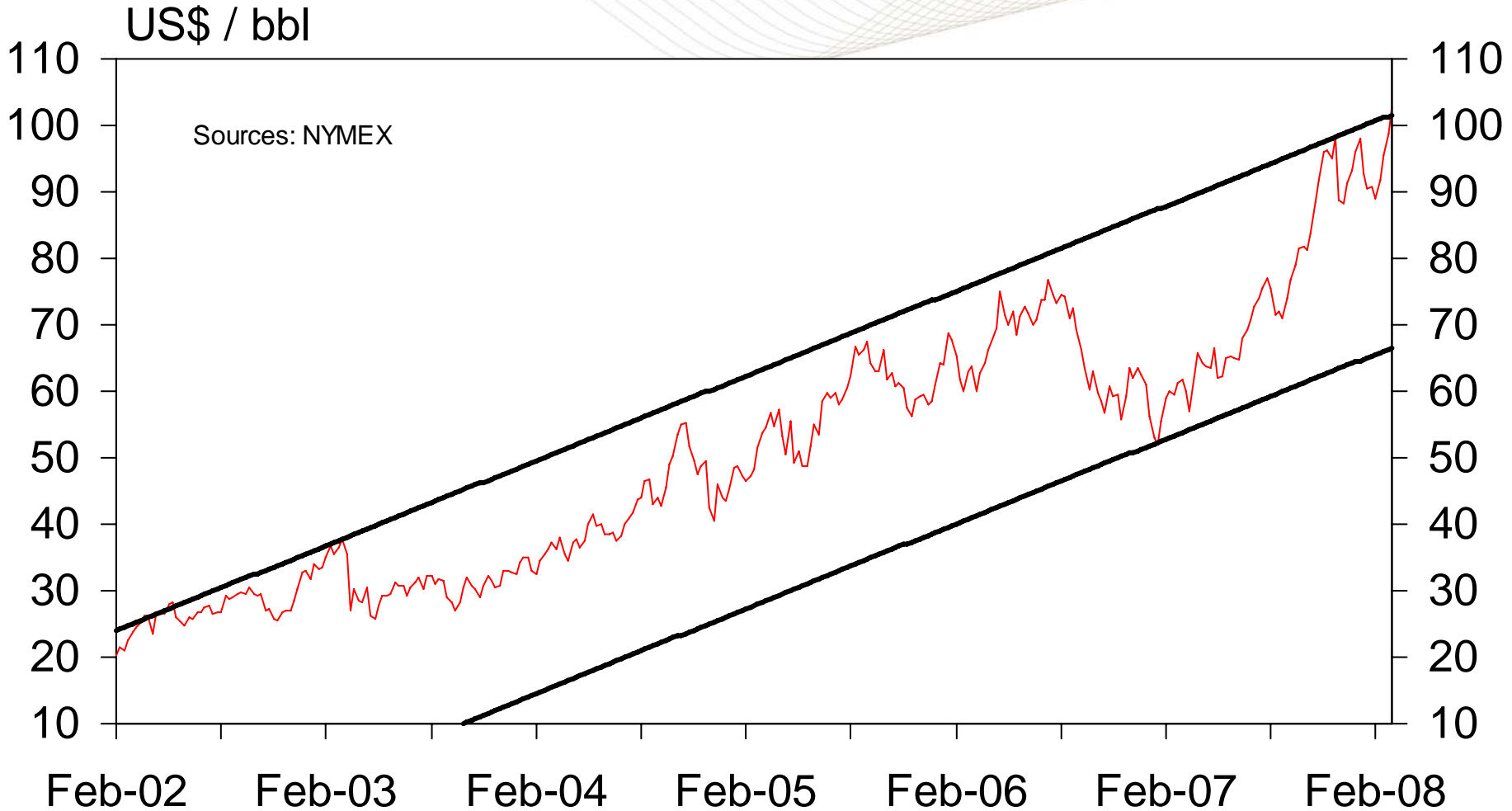
Passenger cars per capita & income level



Share of NZ exports



Crude Oil : Corrections within a trend can be large



Conclusion

- The world is again entering a period where regions are undergoing intense industrialisation
- Such activity will continue to place stress on commodity supply / demand balances and prices will bear the difference
- History tells us that a change to such activity after a long period of calm will be very volatile
- Recognising that this is unlikely to be a short lived phenomena, the tools are there for companies to address their commodity price risk management needs – be it for risk mitigation or competitive advantage.