



Oil price no longer hostage to war

If ever there was proof that nothing stays the same, it is the current state of the global oil market. While armed conflicts rage in oil-producing regions of the Middle East and Ukraine, it seems someone forgot to tell the people who set oil prices.

Wars in the Gulf States have traditionally led to oil price spikes due to fears about possible fuel shortages and, inevitably, higher petrol pump costs have followed. The decade-long Gulf War between Iraq and Iran and later the invasion of Kuwait were two key episodes that sparked oil price shocks from the 70s through to the 90s.

But zoom ahead to 2014, a year in which the two former Cold War superpowers – Russia and the United States – have been sabre-rattling in regional conflicts in oil-rich nations and energy pricing is in retreat.

Crude prices fall

Crude has been at record lows during the fighting in Libya, the Ukraine and Iraq, which combined make significant contributions to world energy supplies.

Even the Organisation of Petroleum Exporting Countries (OPEC) which sets benchmark prices is sanguine, declaring after its latest meeting that: “Everything is in good order. Supply is good. Demand is good. The price is good”.^[1]

There are a number of reasons why some traditional factors do not influence oil pricing as strongly today. OPEC nations are no longer the only ones capable of exporting

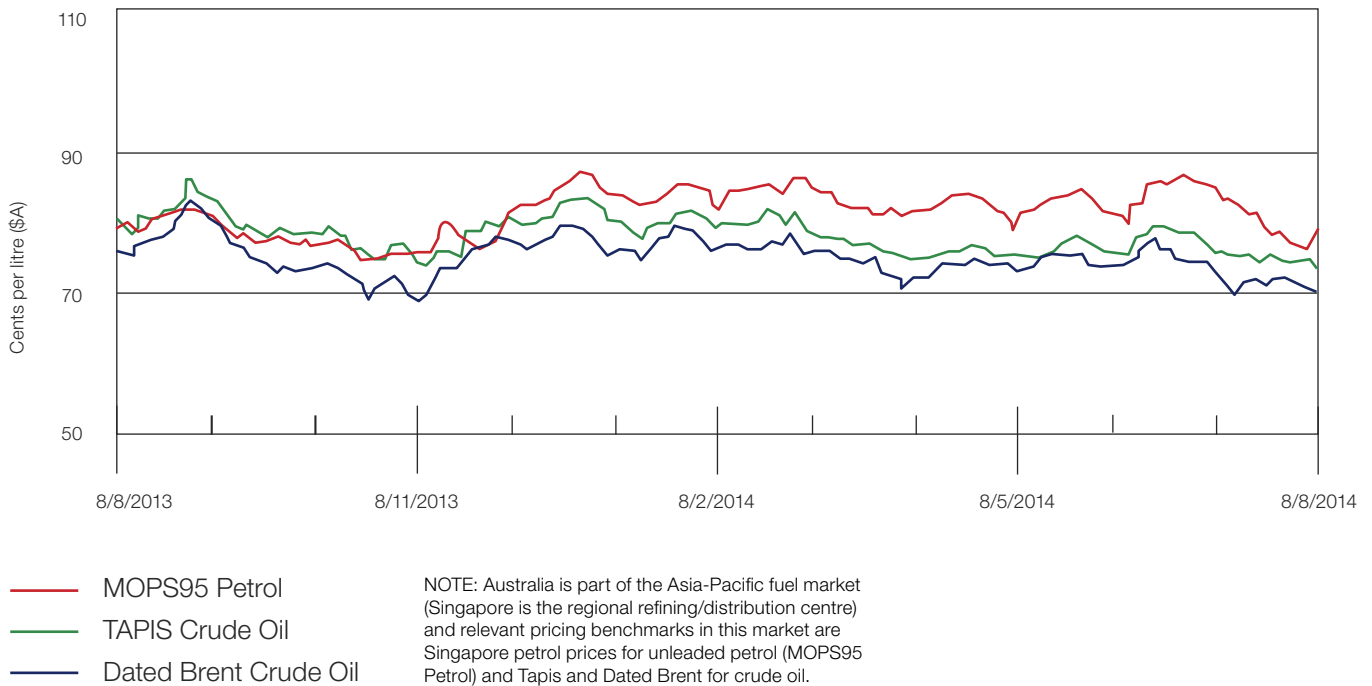
massive amounts of oil. Today, economies can buy oil from a number of new entrants in Africa, the Americas and Asia.

In the past decade, for instance, Australia has reduced its reliance on Middle East crude to 37 per cent, with the remaining imports shipping in from The Congo, Gabon, Nigeria, Russia, New Zealand and half a dozen South-East Asian countries.^[2] Market competition is a great price and risk leveller.

US pumping gas

Just a few years ago, the US was dependent on imported crude. But the rapid development of its shale oil industry is pumping fuel

Petrol and crude oil prices



furiously, displacing imports and forcing down prices in the US market.

A lift in Saudi output and the International Energy Agency's recent downward revision of global oil demand forecasts for 2014-2015 has also taken the heat off crude's wholesale price.

It spells good news for motorists, too, because discounting upstream does affect petrol pump prices. Australian petrol prices follow the TAPIS crude price out of Singapore. As the graph shows, this has been falling along with global oil prices.

Less reliant on oil

Increasingly, alternative energy sources to oil are also being tapped. The aggressive development of liquid natural gas fields and methane production from seams in subterranean coal deposits have chipped away at the over-reliance on oil for energy.

Australia has one of the world's densest concentrations of such deposits. Spurred on by investment dollars from the world's largest energy companies, this decade's massive rollout of new LNG facilities on and off the nation's coasts has positioned our nation as a major supplier of fuel.

As global energy supply and demand diversifies, possibilities are created for investors. Whether it is a direct investment in oil and gas stocks or buying into other financial products that track the energy sector's ebbs and flows, opportunities to benefit are available.

If you would like to discuss your investment portfolio in the light of issues raised in this article, please do not hesitate to call.

[i] OPEC Bulletin Commentary, "Reasons to be cheerful", June 2014. http://www.opec.org/opec_web/en/press_room/2878.htm

[ii] Crude Oil Peak. June 24, 2013. <http://crudeoilpeak.info/australian-oil-and-fuel-dependency-on-the-middleeast-is-37>



Innovative Financial Solutions

57/1 Arbour Ave, Robina QLD 4226
2/35 Woodstock Rd, Toowong QLD 4066

P 07 5562 2200

F 07 5593 0555

E enquiries@infinancial.com.au

W www.infinancial.com.au

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