

platts

What's next in oil and gold?



IMAS NINTH ANNUAL CONFERENCE
Raffles City Convention Center
Singapore
February 19, 2008

Introduction to Platts

Platts – wholly owned subsidiary of McGraw-Hill

Specializes in energy and commodity markets

In oil since 1909, and energy for more than 100 years

Platts widely used in physical and derivative market benchmarks

Where we are: global Platts

Platts Offices



Agenda

Core trends in the markets

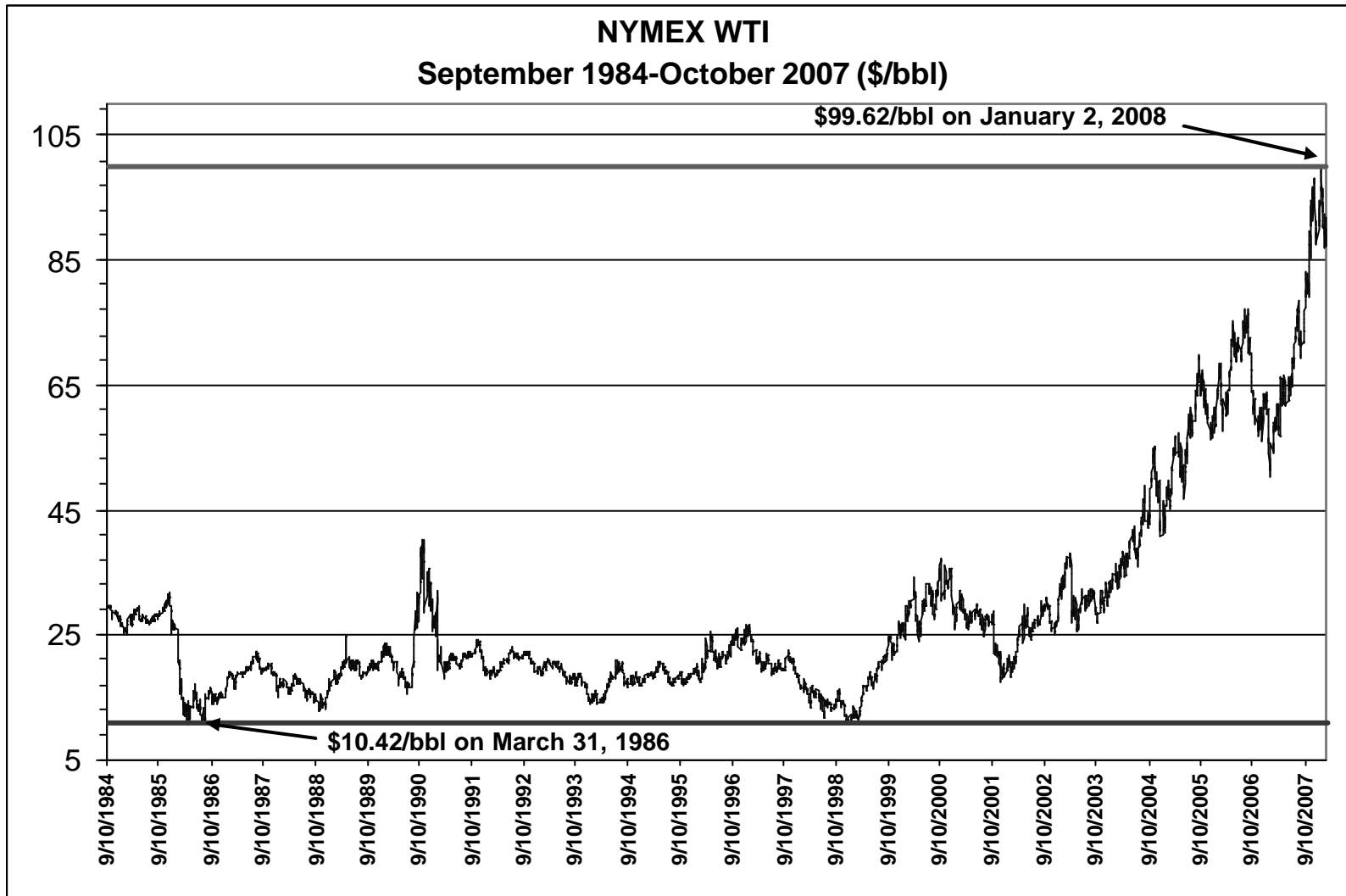
What's in store this year?

Agenda

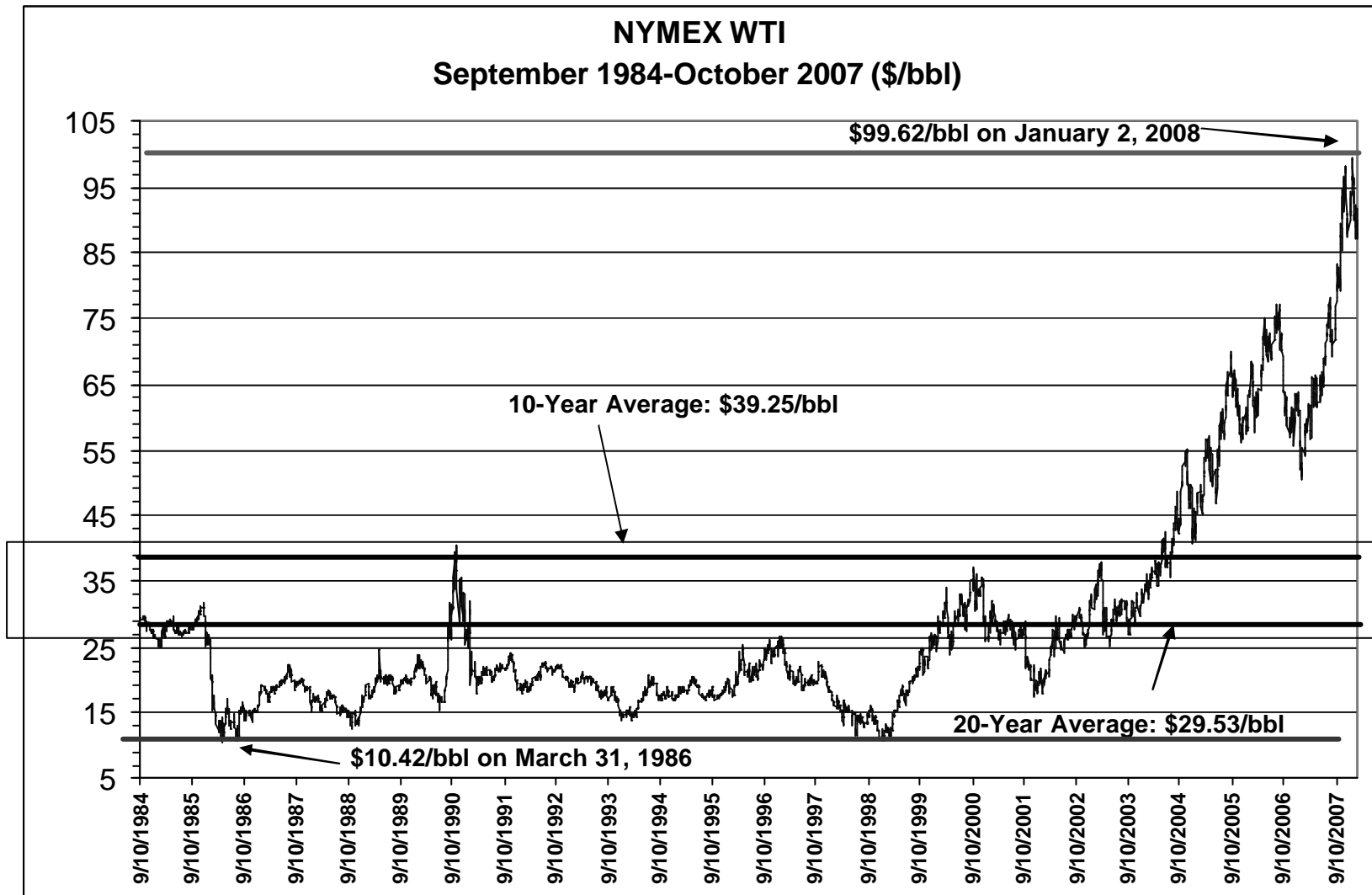
Core trends in the markets

What's in store this year?

The big picture



For the mean reversion theorists...



Conventional wisdom: what lies at the core

A consumer-driven surge in commodity prices:

- Six years of powerful global economic growth
- Emerging economies add two thirds of new oil demand
- Concentration of new demand on transportation fuels

Core drivers brought oil market change

Between 2000 and 2007:

- 9.5 million barrels/day of new oil demand
 - 2.75 million b/d from China
 - 1.89 million b/d from the Middle East
 - 1 million b/d from the US
 - 560,000 b/d from India
 - 230,000 b/d from Europe

Subtle shifts in the world energy order

Selected country oil demand as a percentage of world consumption

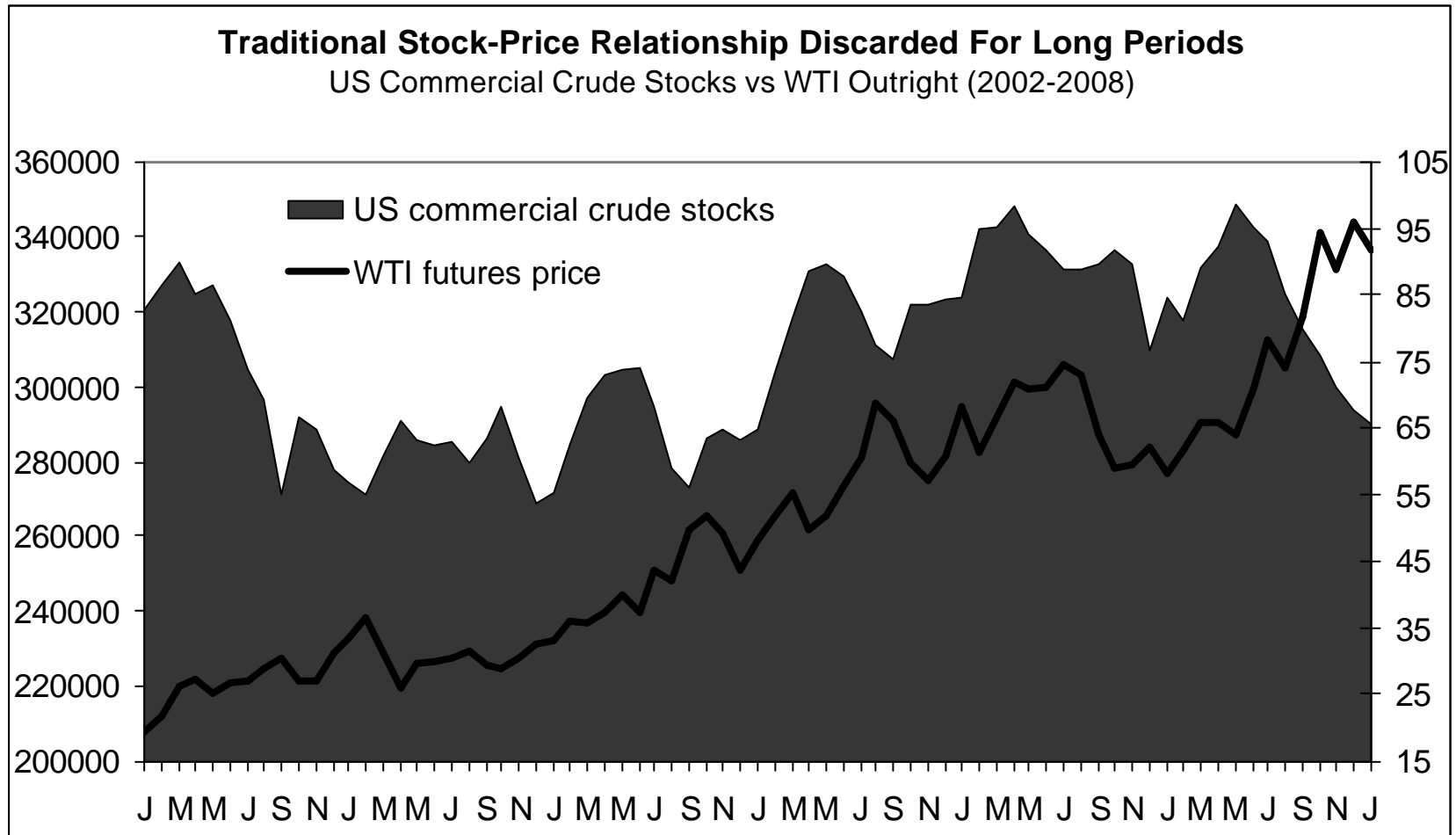
	USA	China	India	Middle East	Europe	Rest of world
2000	26%	6%	3%	6%	20%	39%
2001	26%	6%	3%	6%	20%	39%
2002	26%	7%	3%	7%	20%	38%
2003	26%	7%	3%	7%	20%	37%
2004	25%	8%	3%	7%	19%	38%
2005	25%	8%	3%	7%	19%	38%
2006	24%	8%	3%	7%	18%	38%
2007	24%	9%	3%	8%	18%	38%
2008	24%	9%	3%	8%	18%	38%

At the periphery: occasional market forces

Fear and greed playing a part in equal measure:

- “Geopolitical uncertainty”
- Stockpiles rarely enough to cover disaster
- Reserve crude production capacity too low
- Reserve refinery capacity too low
- “The flow of investment money” – ie, speculation

Peripheral forces led to massive stocking



How the world looks to a NOC

“Prices are high, demand is growing, capacity across the supply chain remains tight and there appears to be no serious challenge to oil and gas as the dominant sources of energy”

Tan Sri Dato Sri Mohd Hassan Marican

President & CEO, Petronas

AOGC, Kuala Lumpur, Malaysia

June 11 2007



How the world looks to an IOC

"I do not see how we will meet this projection."

John B Hess

Hess Oil chairman and CEO

London

February 12, 2008

While discussing International Energy Agency projections that worldwide demand will rise to 98.5 million b/d of liquids in 2015. Hess said "an oil crisis is coming," oil demand is "unrelenting" and that the world needs "a sense of urgency, or the consequences will be severe."



How the world looks to Hugo Chavez

"Look at the oil prices now; oil is headed towards \$100."

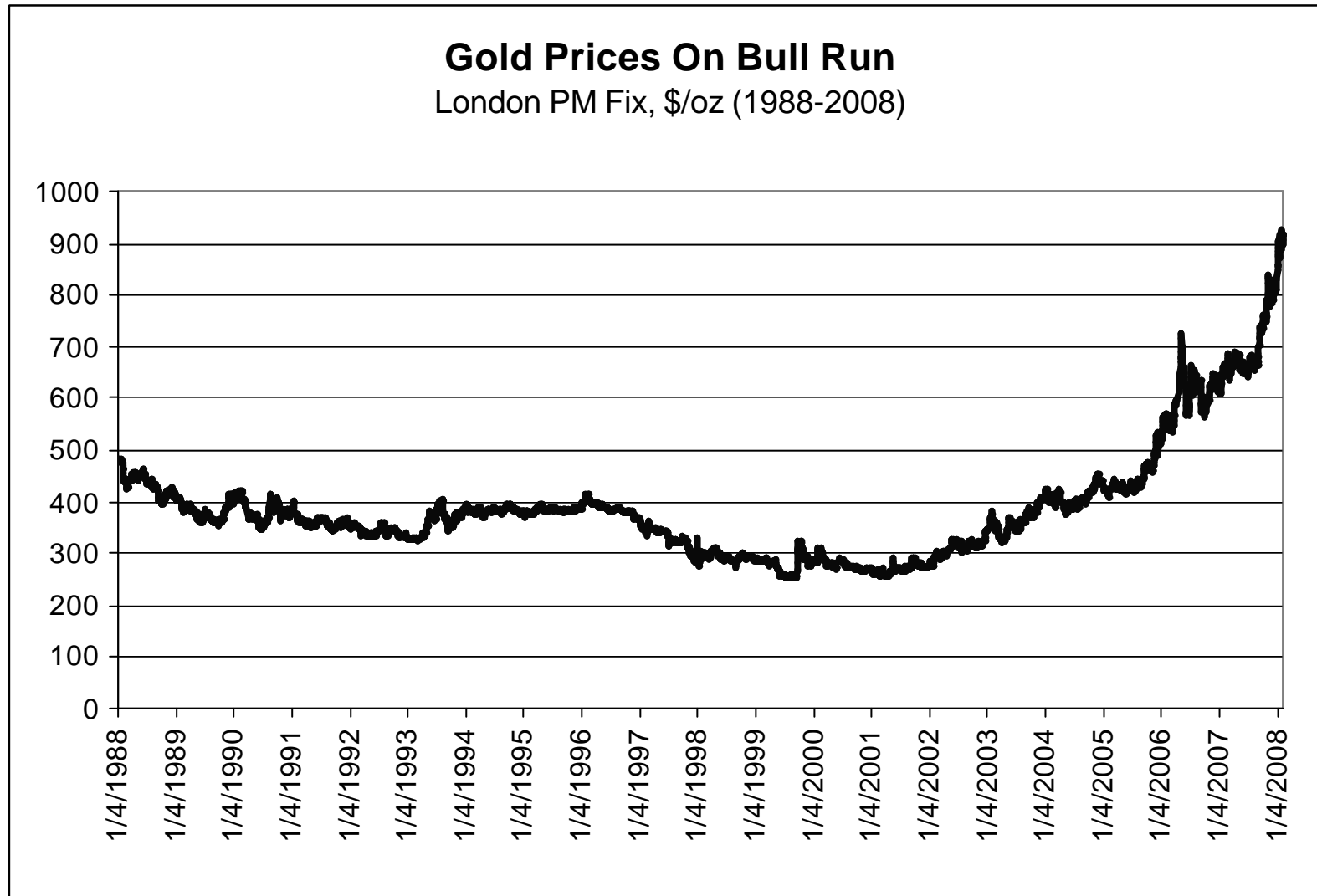
Hugo Chavez to Chakib Khelil

October 25, 2007

Caracas



Gold markets: Feeling similar surge

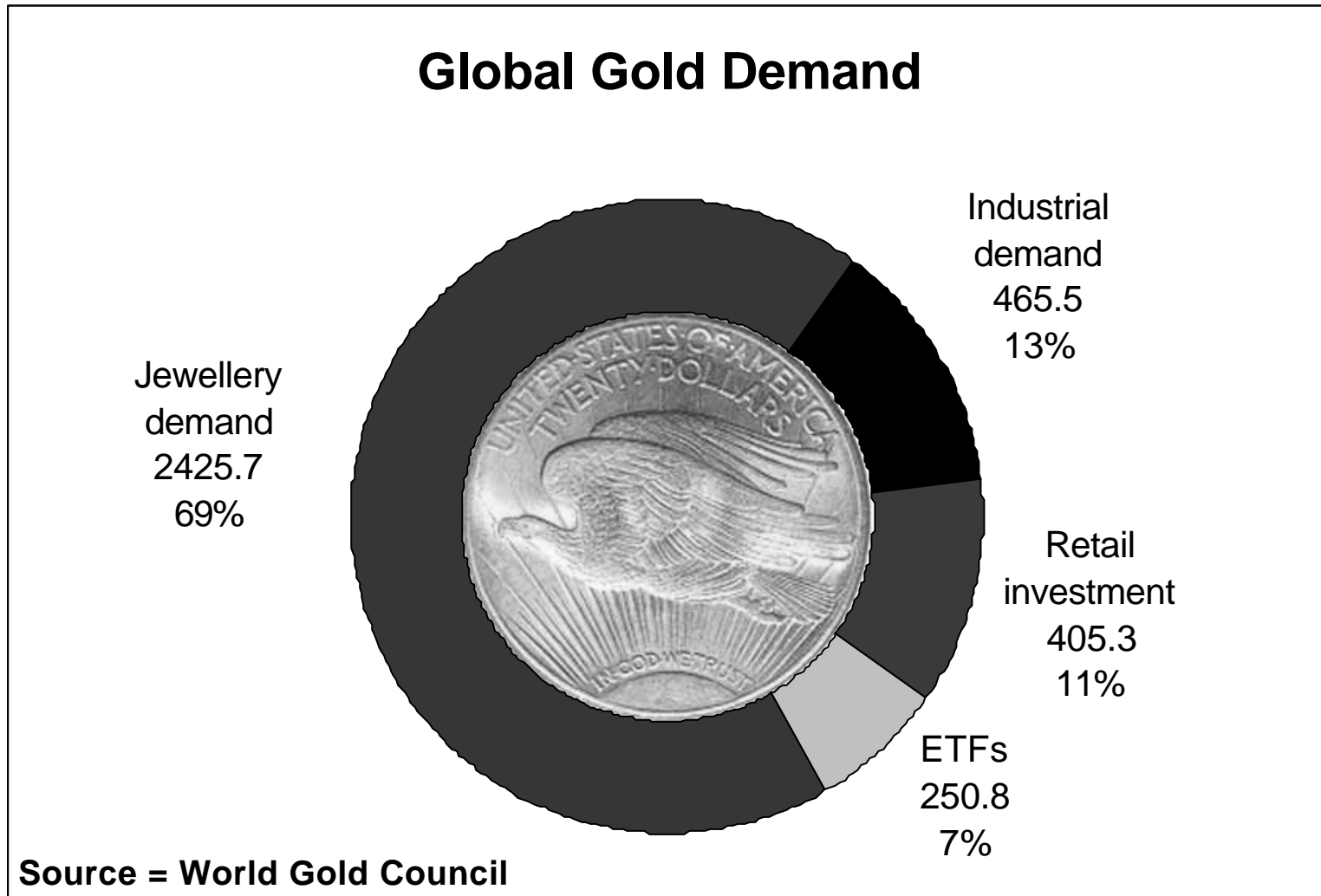


What's been driving gold

The key features of the market

- Gold has become a small market with very keen buyers
 - India
 - China
 - Russia
 - Oil money into state coffers
- Supplies are not responding
 - Dipped in 2007
 - Scrap supplies drying up

Different drivers, emerging-market driven

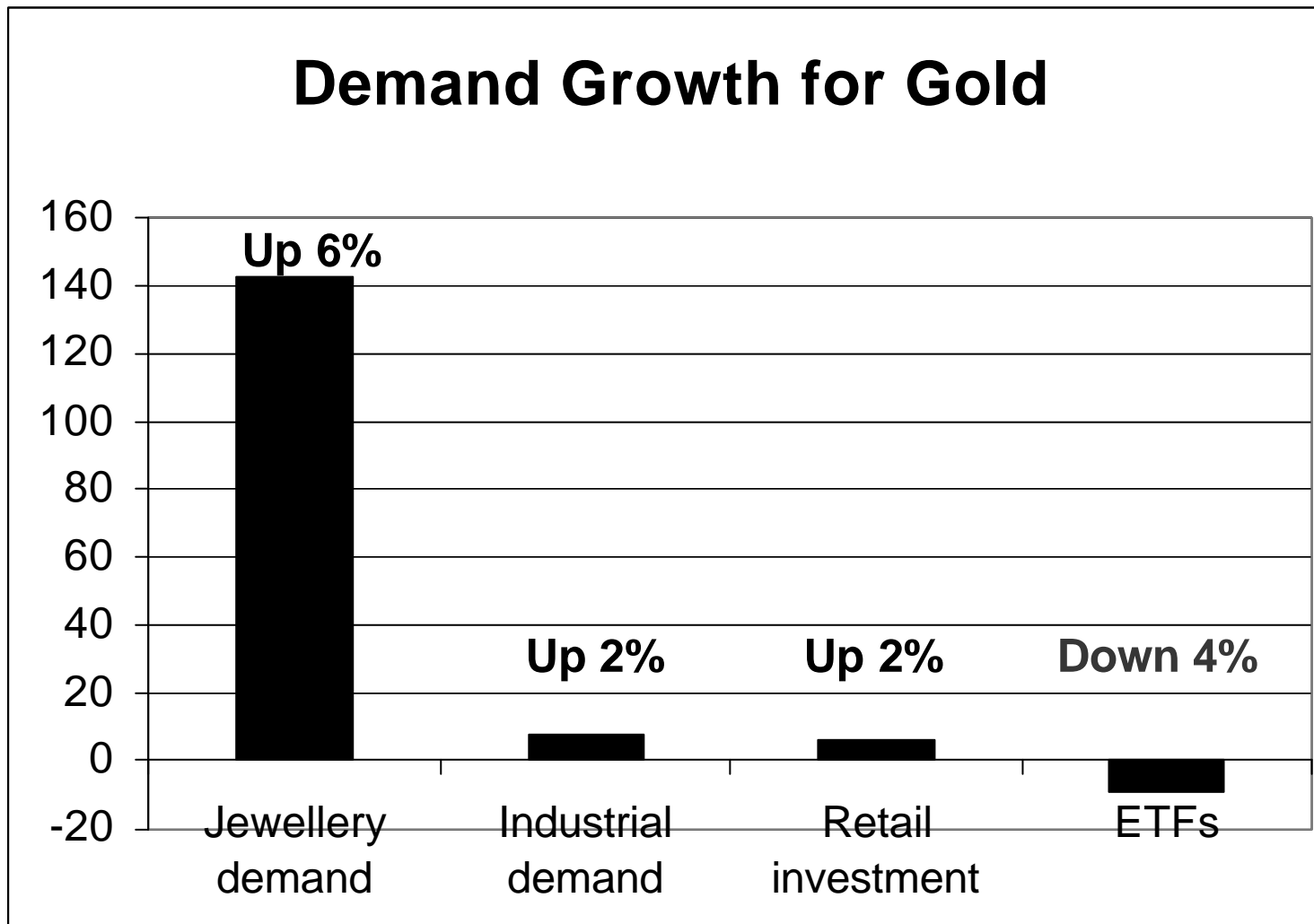


A demand-driven rally in gold

Emerging markets have grown used to prices

- China emerged as second-largest retail market
 - Demand more than 300 mt for first time since 1997
- Russia taking up slack from western markets
 - Russia jewellery demand up 25% in fourth quarter
- US a less significant factor
 - US jewellery demand down 14% in 2007 overall

Demand from jewelry sector very strong



Supply falling despite rising prices

Overall supply has been drifting

- Total supplies dropped by 3% in 2007
 - Supply from banks was up
 - Annual scrap supplies down from usual 1,000mt
 - Gold mining companies making less available

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The Arens Effect: distracts from key issues

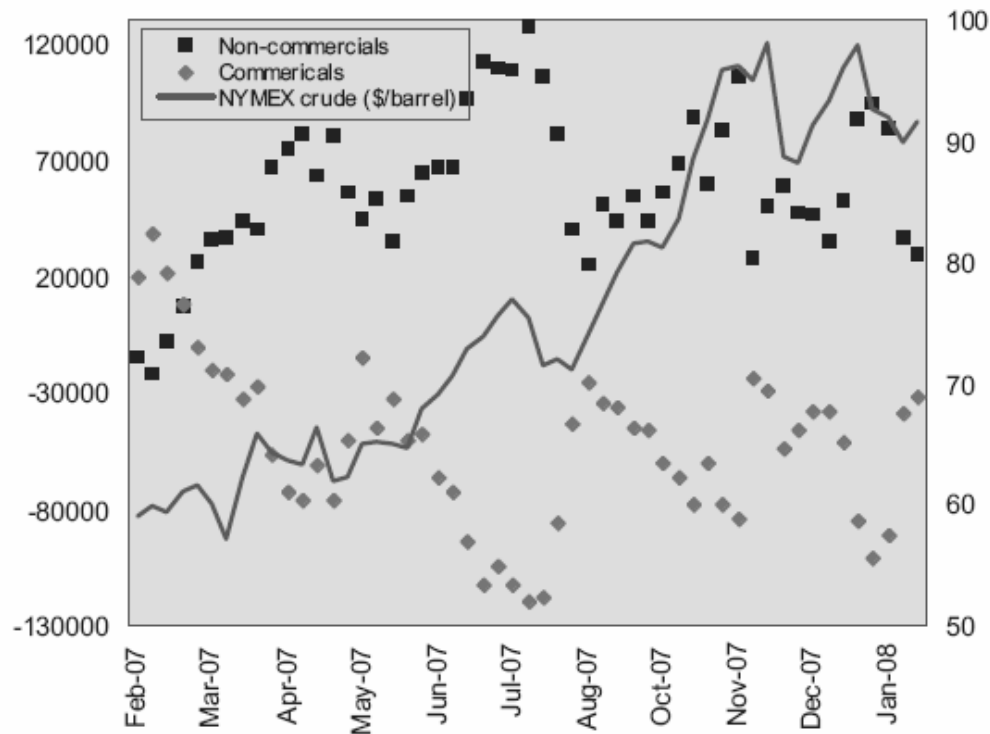


Speculation is the politician's favorite "cause"

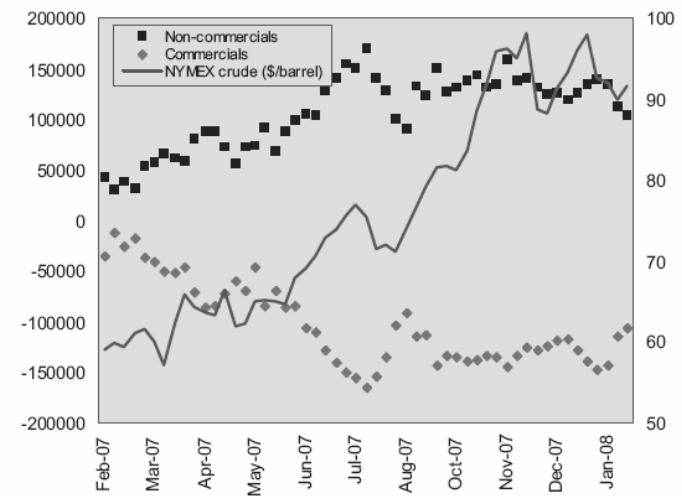
- It's easy and it resonates with the man in the street
- Funds provide liquidity in the futures markets
- On a daily basis they can lead directional change
- The long-term impact is debatable
- Ultimately a convenient distraction from real issues

Hedge fund activity has no lasting impact

NYMEX crude futures net long (+) short (-) positions



NYMEX crude futures & options net long (+) short (-)



Economic slow-down would have impact

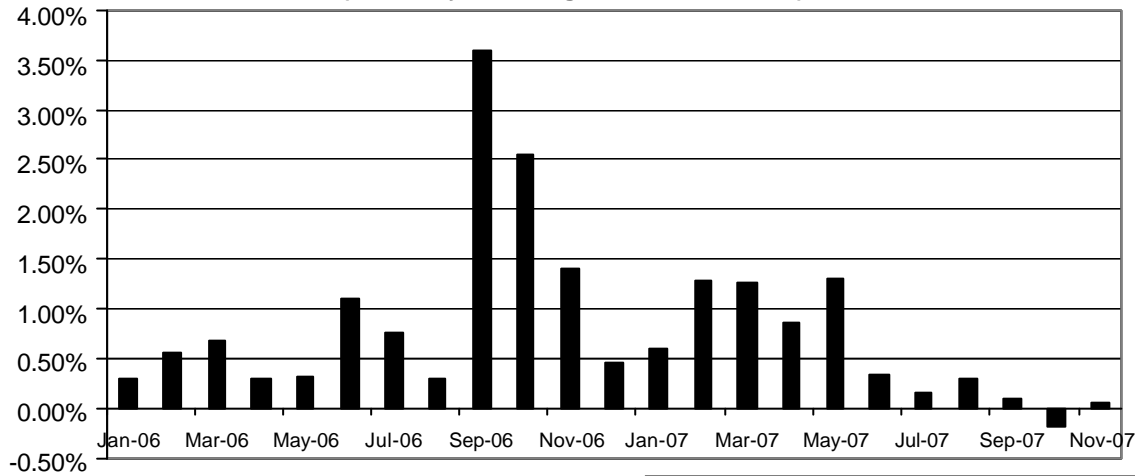
Where is the economy going this year?

World Bank offers one point of view

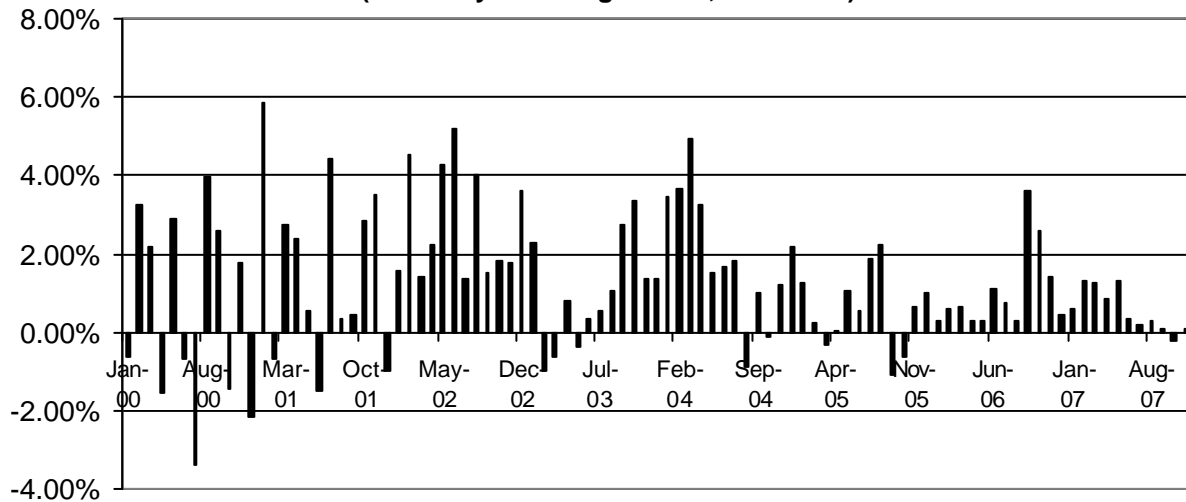
	2005	2006	2007	2008	2009
USA	3.1	2.9	2.2	1.9	2.3
China	10.4	11.1	11.3	10.8	10.5
Middle East	4.3	5.0	4.9	5.4	5.3
India	9.2	9.4	9.0	8.4	8.5
Europe	1.5	2.8	2.7	2.1	2.4
World Bank, <i>Global Economic Prospects 2008</i> (January 9, 2008)					
Oil price	53.4	64.3	71.2	84.1	78.4

Will a US slow down pull the rug from oil?

US Gasoline Demand
(Year-on-year changes as %, 2006-2007)



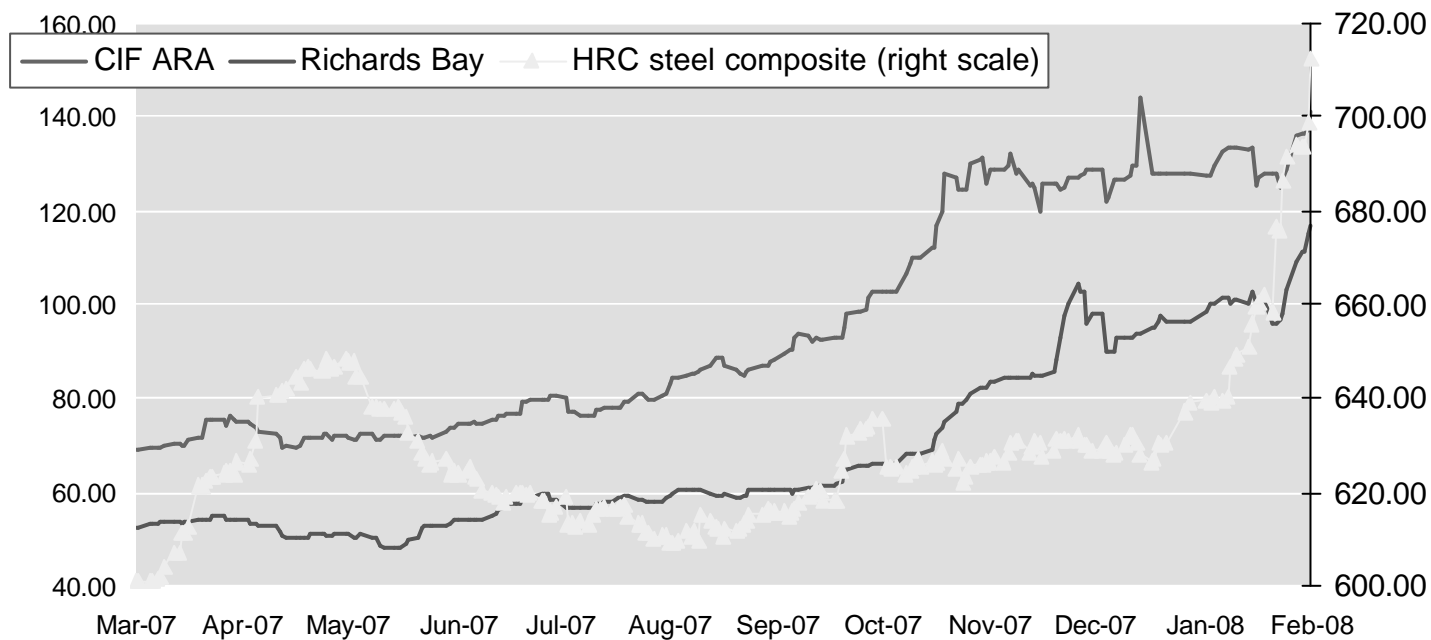
US Gasoline Demand
(Year-on-year changes as %, 2000-2007)



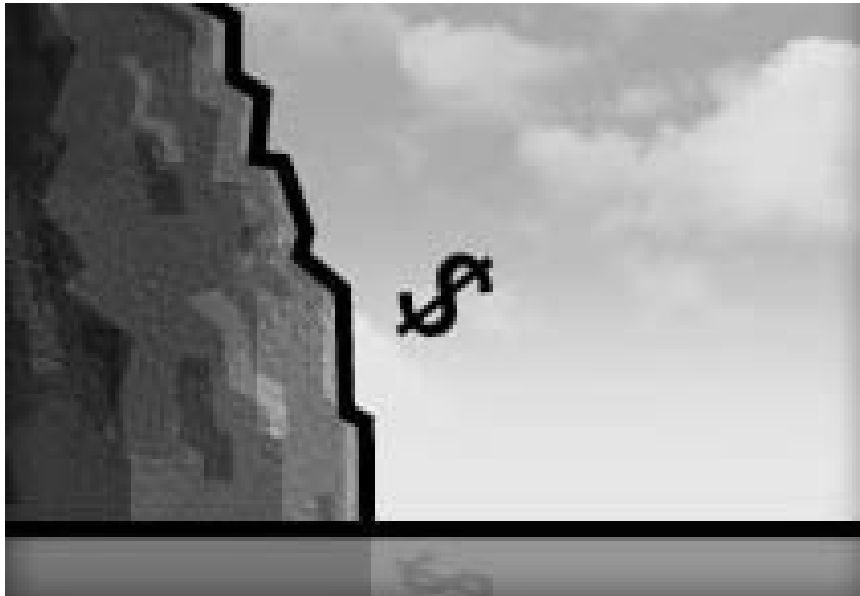
Source = US Energy Information Administration

Coal, steel ignoring US economic woes

CIF ARA & Richards Bay daily assessment (\$/mt)
vs. Steel composite price



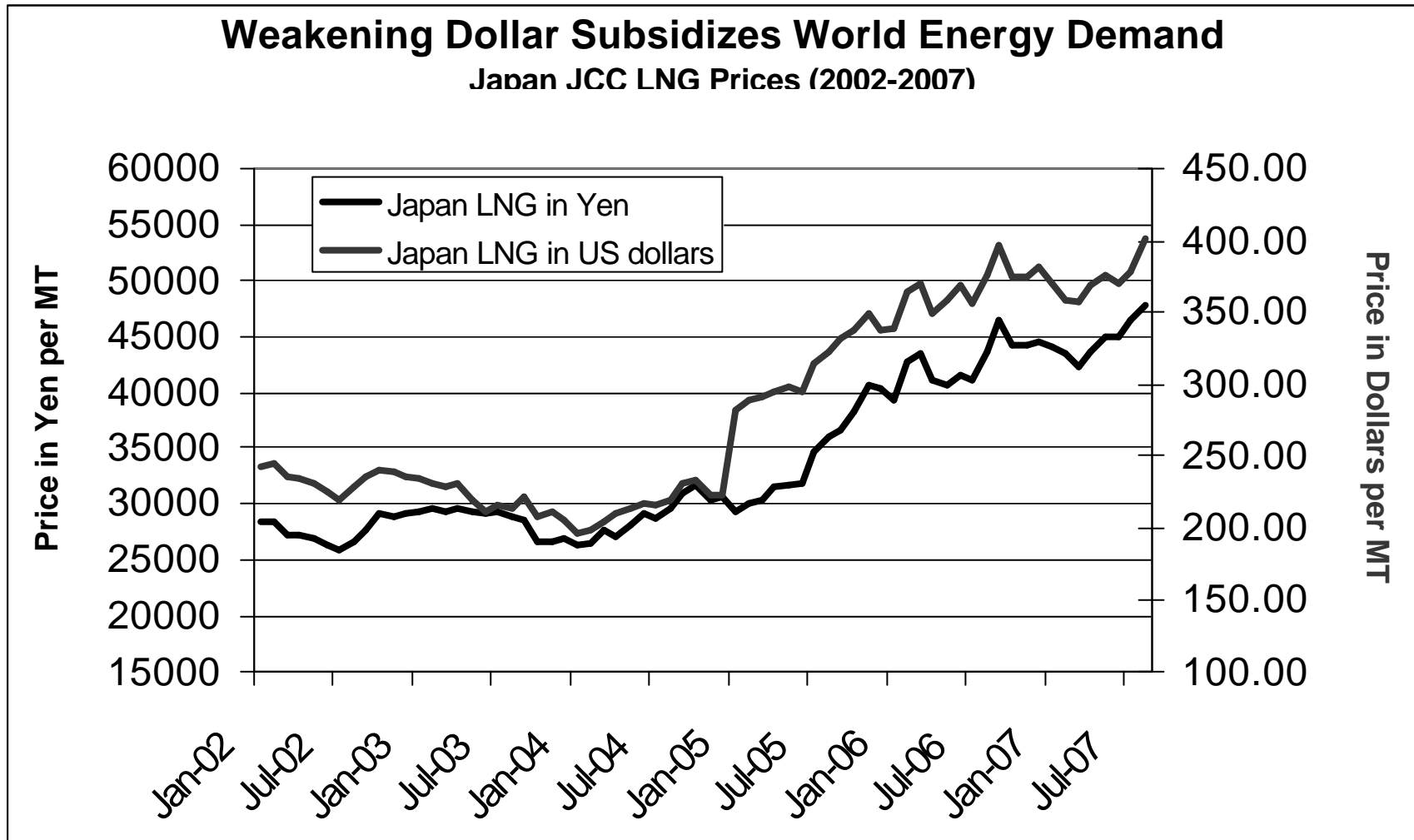
Weak dollar still financing high prices



No sign of dollar recovery

- Since 2003, the US dollar has lost 25% of its value against the euro
- US government aggressively pushing for similar depreciation against the yuan

Dollar depreciation funding higher prices

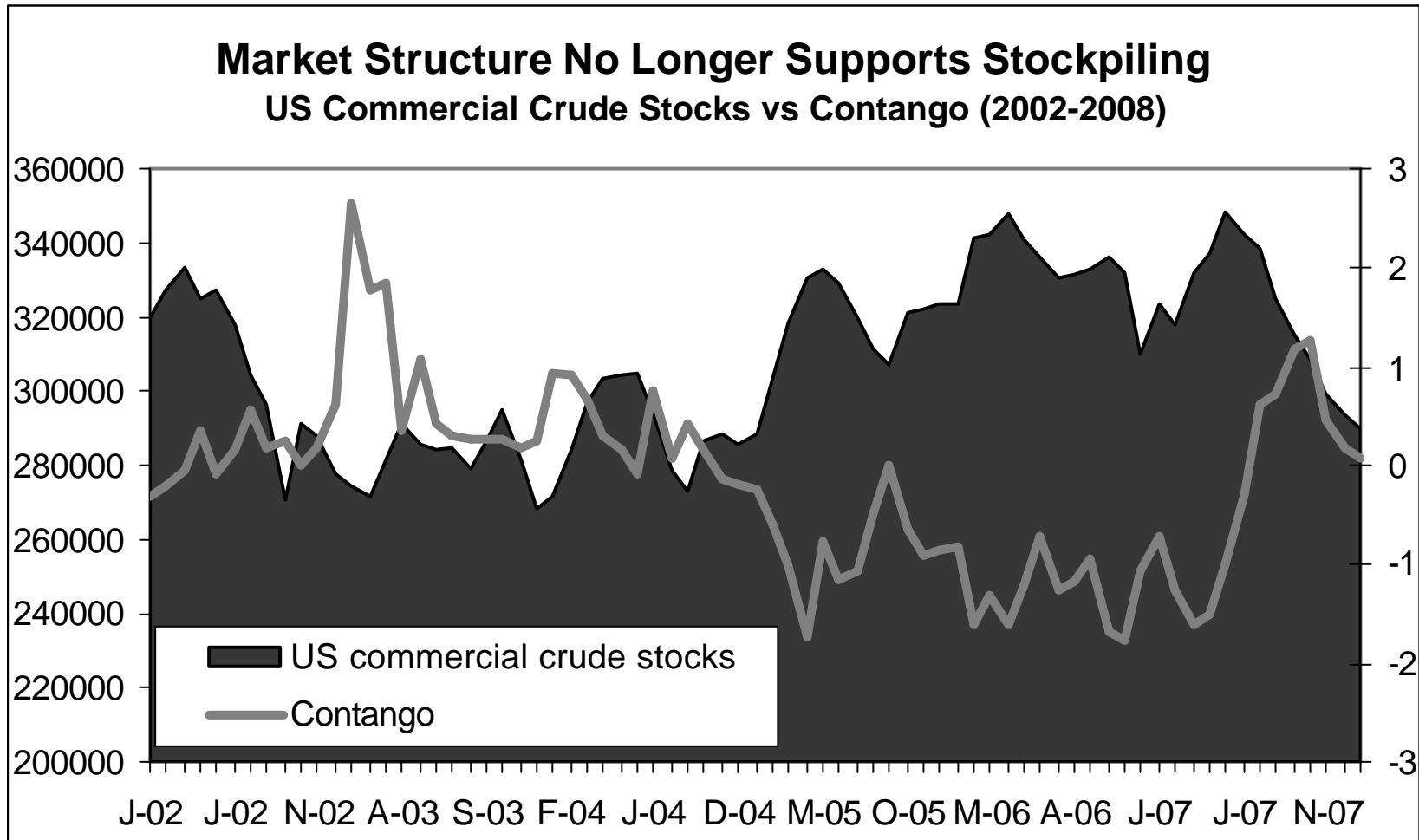


Inventories will be the critical issue

Stockpiles are moving back into focus

- Market structure driving de-stocking cycle
- Production constraints still hurting Africa
- *What happens if geopolitical uncertainty rises again?*

Market structure driving de-stocking



Stocks would be higher, but for OPEC

OPEC cuts have put the cartel back in the driving seat

- Cut 1.2 million barrels per day from November 2006
- Slashed another 500,000 barrels from February 2007
- Angola has signed up – boost to the group’s apparent power
- Now has an estimated 3 million barrels per day “cushion”



“The marginal price of oil is the price at which OPEC is prepared to keep that oil off the market”

--Lawrence Eagles, head of oil at International Energy Agency

**AOGC, Kuala Lumpur, Malaysia
June 11 2007**

OPEC policy remains hawkish on stocks

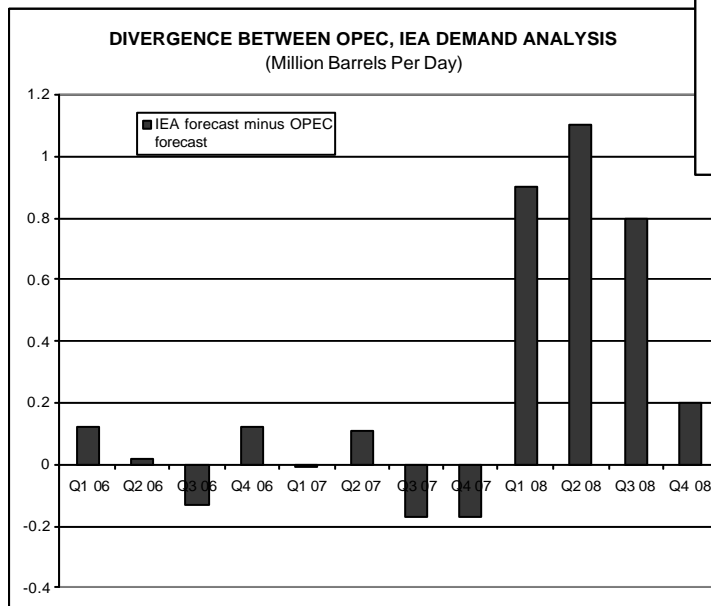
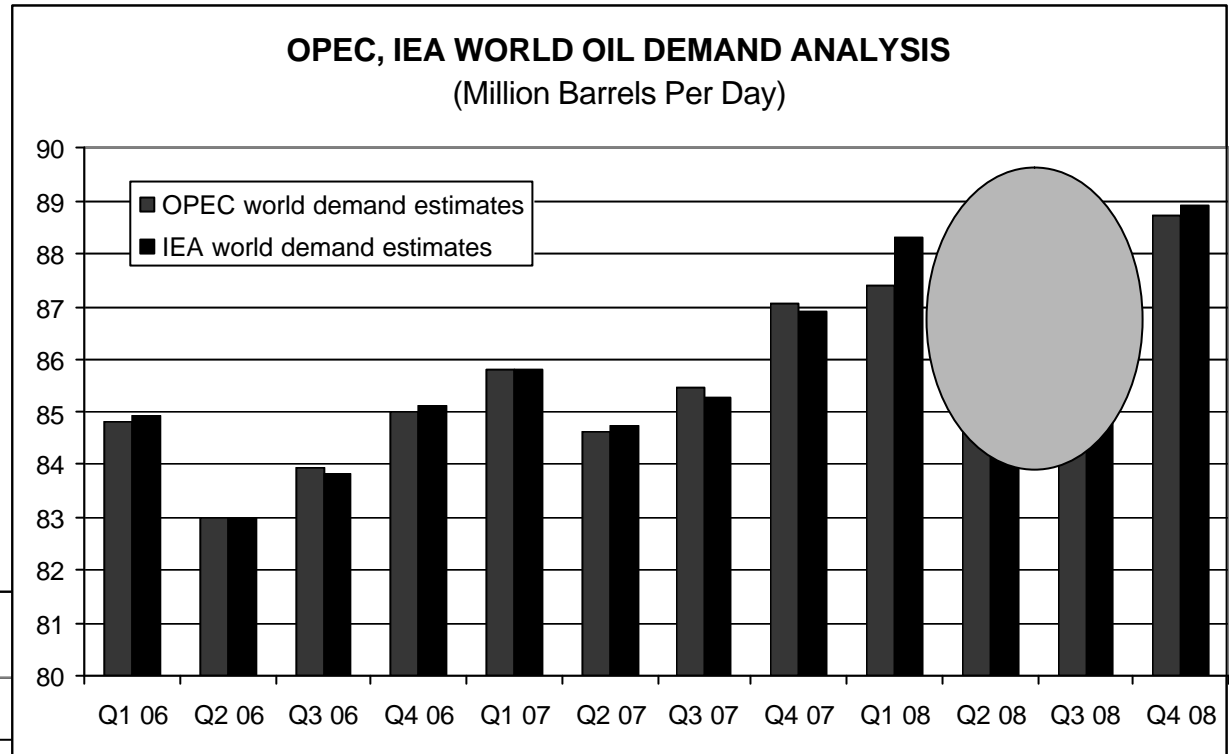
Cartel is a hawk on stocks:

- Wants to see commercial stocks stay in five-year ranges
- 51-52 days of stocks are “acceptable”
- Refuses to put prices on its agenda

- Iran and Venezuela want more cuts in production
- Indonesia calling for increase in production
- Saudi Arabia is in the driving seat

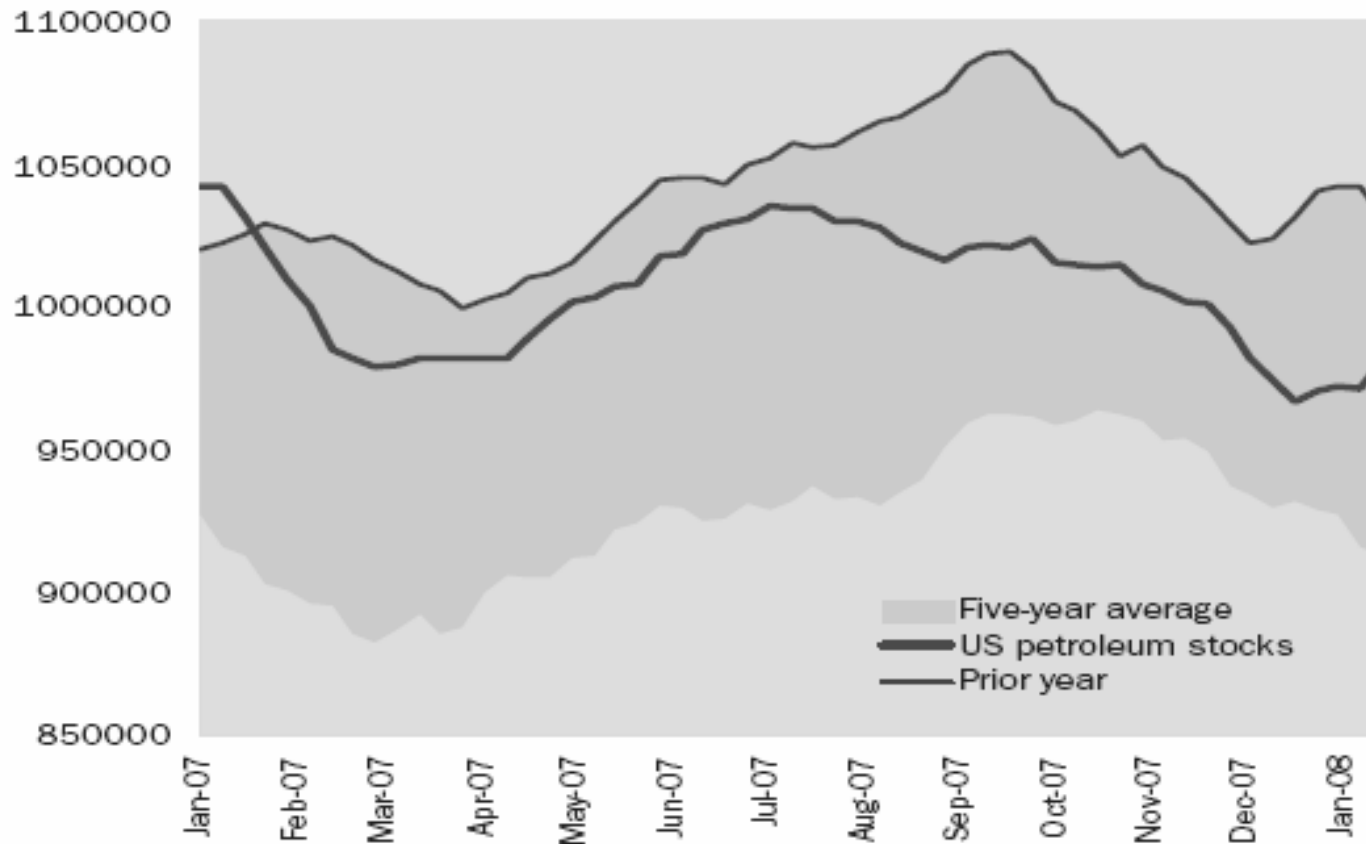
- Next meeting: March 5 (Vienna)

Big bets being placed on spring/summer



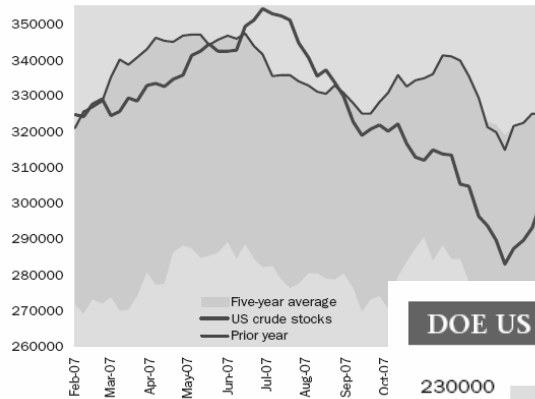
Total US stocks now within OPEC target

DOE US Petroleum Stocks (x1,000 bbl)

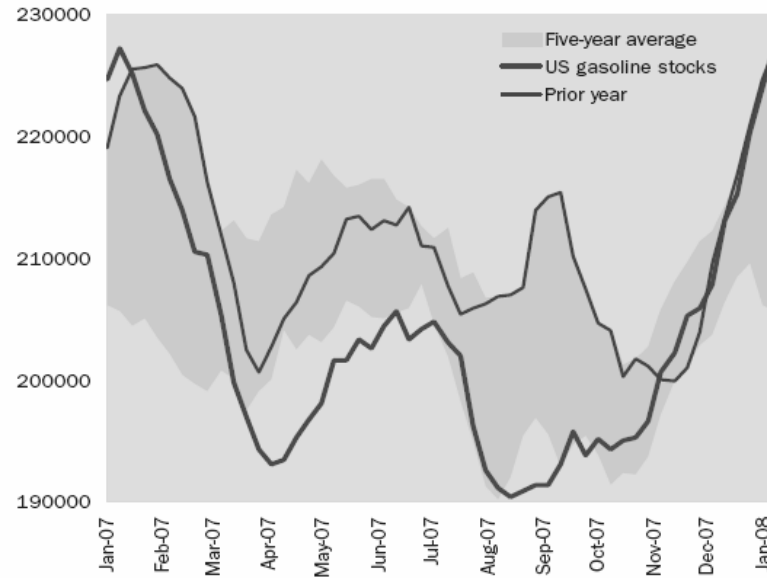


Gasoline will be the crucial indicator

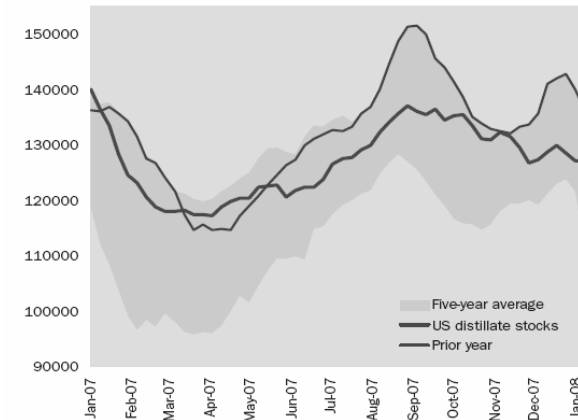
DOE US Crude Stocks (x1,000 bbl)



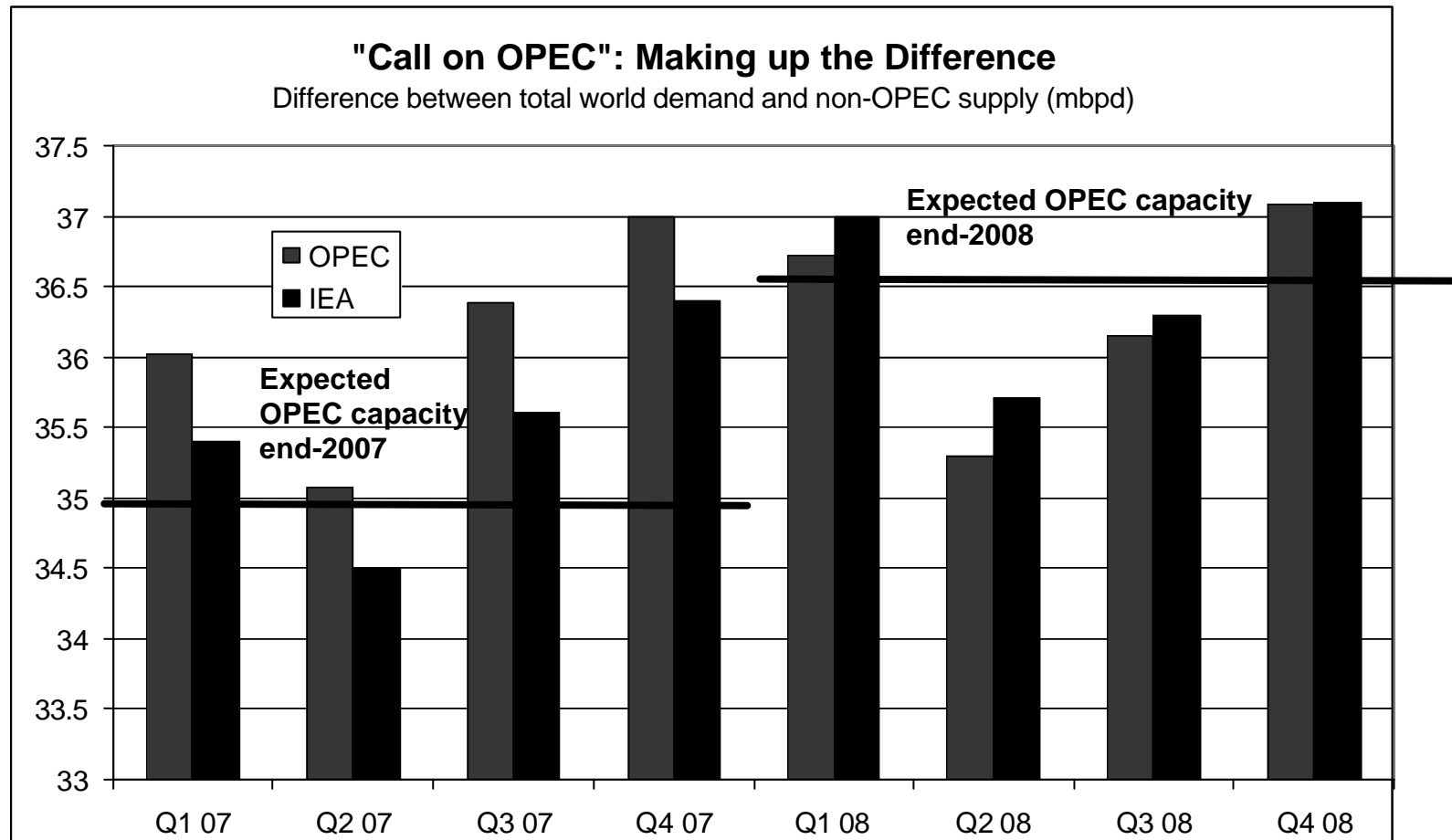
DOE US Gasoline Inventories (x1,000 bbls)



DOE US Distillate Inventories (x1,000 bbl)



The danger of the stockpiling tightrope



Africa shut-ins still trouble the oil market

Nigerian shut-ins now above 1 million barrels per day:

Chevron Escravos:	70,000 b/d	(since March 2003)
Shell Forcados:	260,000 b/d	(since February 2006)
Shell Ea:	115,000 b/d	(since February 2006)
Chevron Pennington:	20,000 b/d	(since June 2007)
Shell Bonny:	130,000 b/d	(since February 2008)

TOTAL DUE TO COMMUNITY UNREST: 595,000 b/d

ADDITIONAL OPERATIONAL SHUT-INS: Around 400,000 b/d due to technical disruptions and funding issues.

A few more issues to watch carefully

- Refinery expansions starting to drift off schedule
- National subsidy programs just won't go away
- State stockpiling about to move to a whole new level

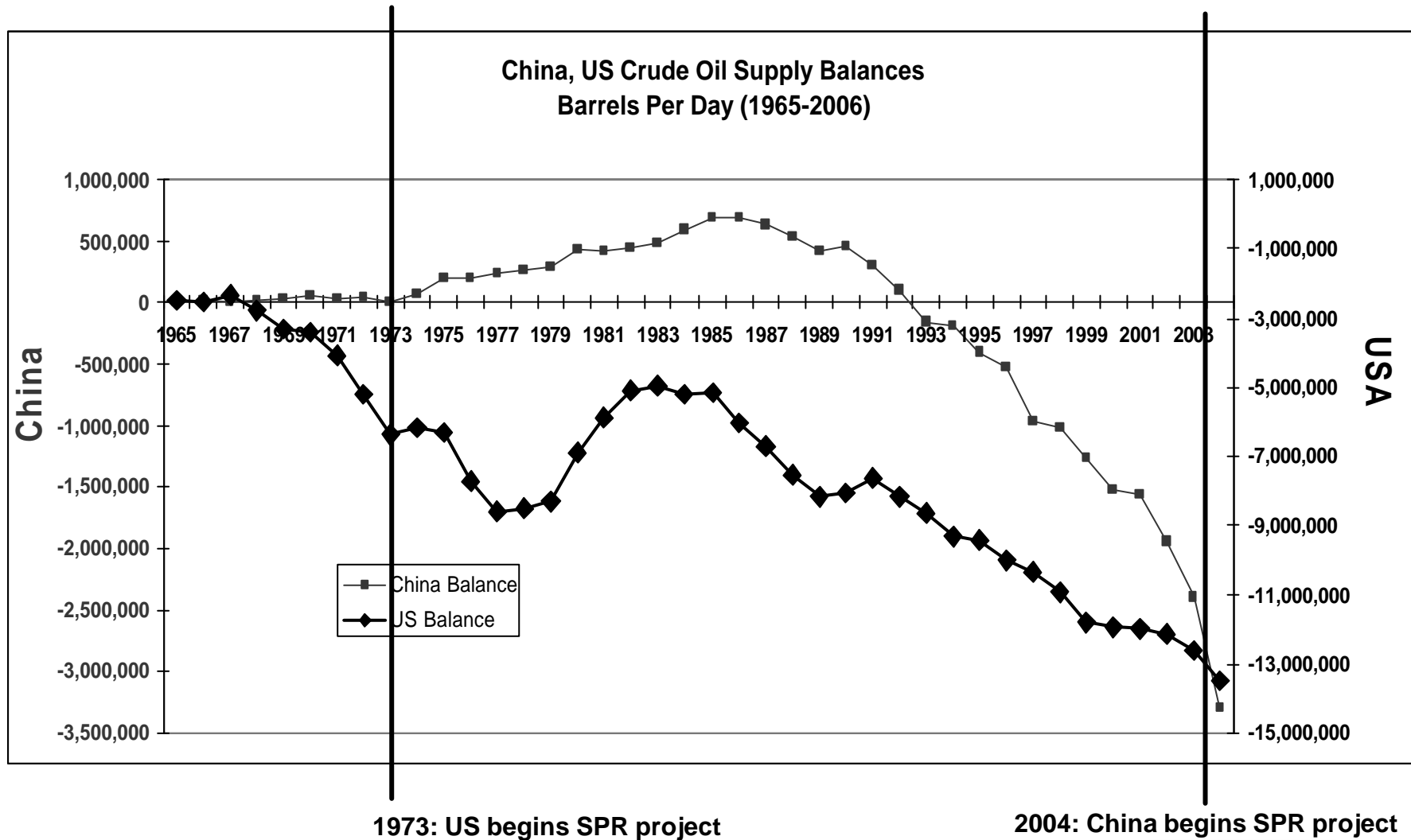
No end to the price subsidies trap

“People are now feeling the pinch from LPG's subsidy phase-out and I would like to seek a solution to hurt people as little as possible, but not distort price structure in long run”

--Thailand's new energy minister, Poonpirom Liptapanlop, on her first day in office, February 8 2008

“Oil price hike is the big problem of Thailand but it is beyond our control. We would then have to consider how the oil fund, the energy conservation fund and excise tax can relieve the problem.”

National stockpiling: perceived insecurity



The issue with national stockpiling

Tends to distort the value of the marginal barrel

- These are government-administered programs
- Price is hardly a thought
- How do you put a price on national security?
- Filling can come in bursts

China, US beginning round two of SPRs



USA: **Current capacity 727 million barrels**
Mandated capacity 1 billion barrels
Proposed capacity 1.5 billion barrels

China: **Current capacity 102 million barrels**
Mandated capacity 102 million barrels
Proposed capacity 336 million barrels

Oil in summary

Recession-driven relief to prices is not certain

- The likely depth of a US recession is not obvious
- The 2001 recession did not slow China, India oil demand
- OPEC is walking an inventory tightrope
- Self-medication is slowing down
 - New refinery builds already in danger
 - The will to end to subsidies is weak
- National security concerns are growing, not fading
- What happens if geopolitical uncertainty appears again?

Global fear is a boon to gold investors

Gold seen as antidote to economic uncertainties

- Concern over credit crisis driving interest in hard assets
- Inflation a major issue in most economies
- No sign of near-term end to dollar weakness

- Oil producing nations running out of places for money

Systemic problems with gold supplies

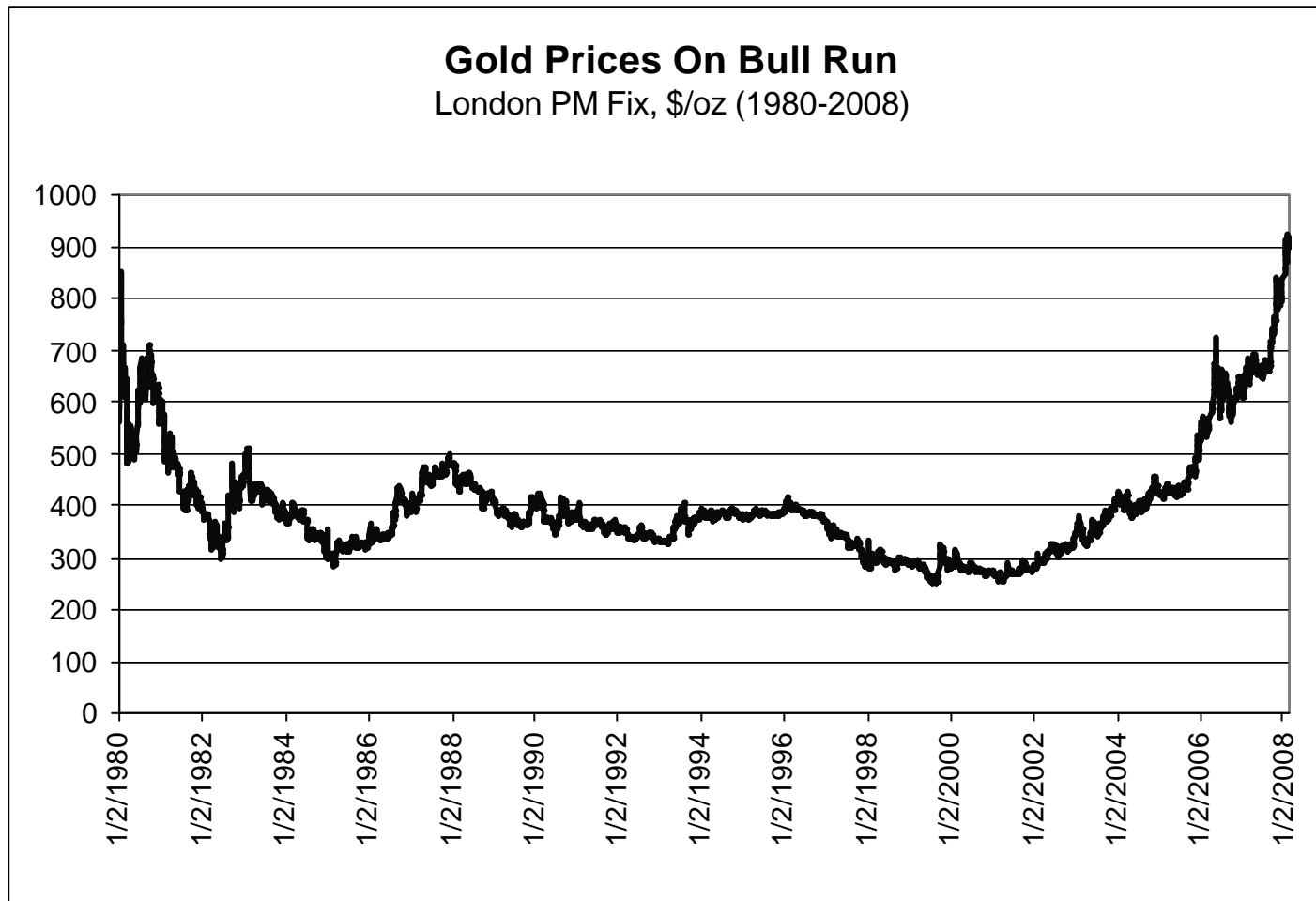
Chronic problems across South Africa

- Gold producers hit by power shortages
- Ageing power grid won't be fixed soon
- Mine production set to fall 20%

Central Banks to slow sales

- Banks less likely to dispose of gold with economy in flux
- Sales may slow from 2007's 552mt
- Switzerland, France set to keep selling
- Germany, Spain sales set to slow down

Gold does well in times of US recession



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Thank you

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