

# Investment Analysis, Oil prices and the strength of the Dollar

## Agenda

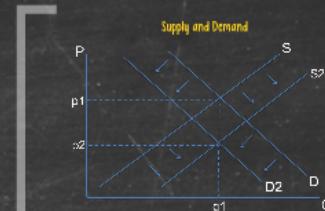
- Why oil prices have fallen?
- Trends on decreasing oil prices
- Effect on Saudi Arabia, Russia, Venezuela and USA (Exporters)
- Effect on Europe, USA and China (Importers)
- Positive & Negative Effect on the UK economy
- Analysis
- Conclusion

## Why oil prices has fallen?

Low demand - weak economic activity, decrease consumption (The Economist, 2014, online)  
 OPEC quotas - maintained 30 million barrels p/d, when demand is low (Maddalena, 2014, online)  
 High supply - US largest producer, technology is a shifter of supply (Smith, 2014, online)  
 Saudi's market position - strategy to maintain market share, push out competition (Solomon, 2014, online)



## Supply and Demand



## The Decline of Oil Prices



## Effect on Exporters

	Short term	Long term
Saudi	Dependence 200k bbl of oil per day Venezuela 100k bbl per day	Oil is becoming less valuable less demand for oil less revenue for oil
USA	Low oil imports - less than 200k per day	Less dependence on oil less imports less oil imports
Russia	More than 200k per day dependence on oil more oil imports	Dependence on oil more imports more oil imports

## Effect on Importers

	Short term	Long term
UK	Oil import bill down less than 200k per day	Oil import bill down less than 200k per day
China	Imports more oil more oil imports	Imports more oil more oil imports

## Importers and Exporters GDP change



## Positive Effect on the UK Economy

"Lower oil prices help to reduce the cost of living. Oil related transport costs will directly fall, leading to lower costs of living and a lower inflation rate. Falling oil prices is one reason behind the recent fall in UK inflation to 0.5% (Pettifer, 2014, online)

"In theory, the fall in oil prices could lead to higher spending on other goods and services and add to real GDP" (Pettifer, 2014, online)

"If oil falls to \$40 per barrel in the near term, it could add 0.4pc to the UK's GDP growth" (Critchlow, 2015, online)

Low oil price = low inflation, more disposable income, interest rates stay, better for the average Briton (BBC, 2014, online)



## Example

"Mr Osborne has already launched an investigation into whether companies are passing on the benefits of lower prices quickly enough to consumers. The Treasury wants to see \$50 oil and lower natural gas wholesale prices translating into cheaper energy bills, train fares and airline tickets" (Critchlow, 2015, online)



## Negative Effect on the UK economy

Low inflation is not always good - possibly no income tax policy, can inflate away the value of debt, value of the debt increases possible concerns (BBC, 2014, online)

Business concerns: BP cut 300 jobs from the North Sea (BBC, 2015, online)

Low oil price would mean falling investment in North Sea oil and "significant workforce reductions" in the energy sector worldwide (The Week, 2015, online)

## Analysis

It is a case between Saudi Arabia vs. US - Who will blink first? US is likely to stop production of shale oil as it would be uneconomical however, how long can Saudi Arabia last?

In the short term, importers are benefiting however exporters will struggle to survive

Oil prices will not dramatically increase so consumers should feel positive long term effects

## Conclusion

Oil is a key determinant on an economy  
 Good for world economy but there will be winners and losers within some economies

Oil has short and long term effects on economies  
 UK should benefit as inflation decreases

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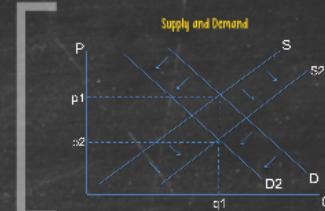
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