

Oil Market in 2007

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During 2007, the economic picture of the world has been changing due to oil price increase and food price increase, which both reflected on the overall world economy, primarily in the change of accomplished values and then in the value depreciation of certain currencies.

Due to such situations the news on oil prices and especially later on oil derivatives prices were often unrealistic, thus in the following review which is actually the sequel of last year's review, the situation on oil market shall be elaborated.

Key words: oil, price, world market

1. INTRODUCTION

The most common news on oil price movement during last year was based on maximal price increase of any kind of oil, at any moment, which however did not reflect the realistic price movements of all types of oils in that particular time period.

Certain loads of crude oil can be sold at higher or lower price but average prices supported by primary publications like Platts are used in information on realistic oil market.

All the fuss about oil price increase (which author thinks is exaggerated) occurred due to the fact that total world industry strongly depends on oil and products acquired by oil processing.

This world "demand" for black gold dictates current price on the world market without any chance of its return to the level of previous years.

However, the oil price increase from previous weeks, months or even years should be considered through several points of view:

- is the oil price increase the result of disturbed relation of supply and demand;
- is it the result of speculative market;
- did the stock exchange situation or various information originated from certain institutions or individuals cause the oil price increase;
- did the production quotas, politics, weather conditions, unbalanced reserves affect oil price increase.

Certain articles on oil price increase name OPEC as one of the leading causes for oil price increase, but however it is well known that in the past OPEC was interested in stable oil market, the result of which should be the stable oil price.

Using the policy of production quotas, OPEC has tried to stabilize the world market. This has not worked out due to market speculations and the fact that the price of oil is not based on supply and demand ratio but it is being calculated on the world stock exchange where the contracts for future deliveries of oil are being sold several times thus creating the artificial shortage that causes price increase on the world market, something we shall consider further in this paper.

News on rapid price increase in 2007, that were close to or even exceeding 100 USD/bbl on several occasions, related only to certain types of crude oil, thus the information on high prices was not consistent.

The whole issue should be addressed from different perspective. Primarily it is important to know the type of oil that we are discussing and where has the price been registered; at which stock exchange.

News of high price increase mostly originate from New York Mercantile Exchange (NYMEX) and are related to „Futures“ Contracts¹ for West Texas Intermediate (WTI) oil, which is the benchmark crude oil of US oil industry while for Europe, Brent crude oil is more significant for the price movements of other crude oils.

We shall present the review of crude oil price movements for four types of crude oil in 2007; for West Texas

Table 1. Crude oil prices in 2007 (USD/bbl)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
WTI	50.13	59.21	60.63	63.85	63.46	67.44	73.98	72.37	79.69	85.87	94.91	91.69
BRENT	53.78	57.43	62.15	67.51	67.38	71.55	77.01	70.74	76.87	82.50	92.62	91.25
URAL	47.83	53.82	58.81	63.92	64.29	67.83	73.90	69.25	73.78	79.52	90.24	89.02
OPEC RB	50.79	54.56	58.59	63.55	64.48	66.89	71.89	68.71	74.18	79.36	88.99	87.19

¹ „Futures Contracts“ – contracts for future oil deliveries

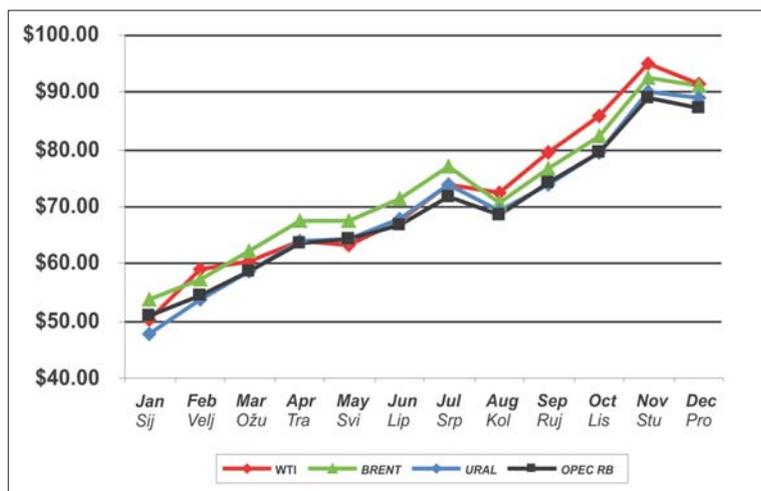


Fig. 1. Graf of crude oil price movement in 2007
Sl. 1. Grafički prikaz kretanja cijena sirove nafte u 2007. (USD/bbl)

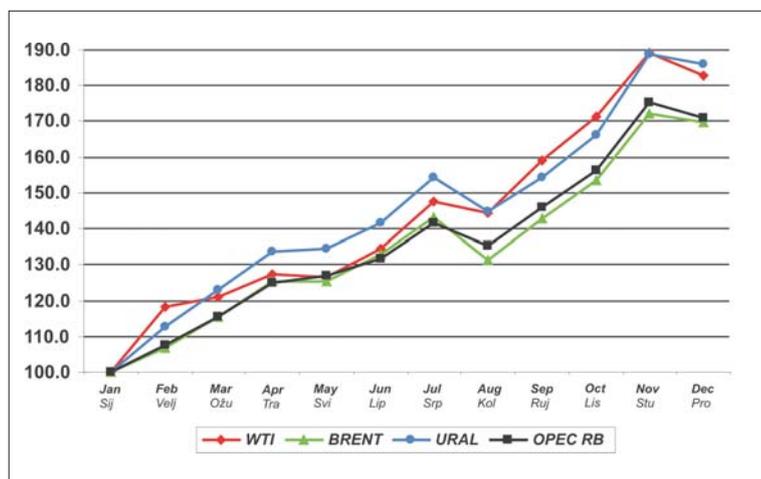


Fig. 2. Indexes of price increase
Sl. 2. Grafički prikaz indeksa porasta cijena

Intermediate (WTI) as crude oil standard for North American market and Brent as crude oil standard for European market, Ural as crude oil gravitating mostly toward our region and OPEC Referent Basket² (Ref. 1.), which is OPEC crude oil basket containing only selected crude oils produced in OPEC member states.

2. CRUDE OIL PRICE MOVEMENTS IN 2007

As we have already announced in the introduction of this paper, we shall continue with the review of price movement of stated crude oil types (Table 1.) for January – December 2007 according to the information published in *OPEC Bulletin*.

The presented prices for certain months were derived from average price movements for that month.

Reviewing the price movement through the whole 2007 we can see the continuous price increase of all the mentioned types of crude oil; from January until December 2007 WTI price increased by 82.9%, Brent 69.7%, OPEC RB 71.7% and the most interesting growth was recorded with Ural crude oil by 86.1%.

Price movements diagram is presented in Figure 1.

The graph from Figure 1 does not reflect the status of absolute values from Table 1. as it is visible that the prices moved steadily considering the beginning of monitoring January- February 2007, then Brent crude oil continuously had the highest growth until July and after that all types of oil recorded slow decrease. After August the highest growth was recorded with WTI crude oil. It lasted until November and after that just like in August the slow decrease occurred.

Table 2. Differences in values in USD/bbl according to Brent type

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
WTI	-3.65	1.78	-1.52	-3.66	-3.92	-4.11	-3.03	1.63	2.82	3.37	2.29	0.44
URAL	-5.95	-3.61	-3.34	-3.59	-3.09	-3.72	-3.11	-1.49	-3.09	-2.98	-2.38	-2.23
OPEC RB	-2.99	-2.87	-3.56	-3.96	-2.90	-4.66	-5.12	-2.03	-2.69	-3.14	-3.63	-4.06

Table 3. Indexes of price increase

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
WTI	100.0	118.1	120.9	127.4	126.6	134.5	147.6	144.4	159.0	171.3	189.3	183.0
BRENT	100.0	106.8	115.6	125.5	125.3	133.0	143.2	131.5	143.0	153.4	172.2	169.7
URAL	100.0	112.5	123.0	133.6	134.4	141.8	154.5	144.8	154.3	166.3	188.7	186.1
OPEC RB	100.0	107.4	115.4	125.1	127.0	131.7	141.5	135.3	146.1	156.3	175.2	171.0

² OPEC Referent Basket contains the following types of oil: Saharan Blend (44° API), Girassol (31° API), Oriente (29° API), Minas (35° API), Iran Heavy (31° API), Basra Light (32° API), Kuwait Export (31° API), Es Sider (37° API), Bonny Light (34° API), Qatar Marine (36° API), Arab Light (34° API), Murban (40° API), BCF-17 (16° API).

Table 4. Crude oil price in 2007 (EUR/bbl)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
WTI	38.69	44.84	45.52	46.89	47.23	50.08	54.11	53.12	56.22	59.67	64.40	62.40
BRENT	41.51	43.49	46.66	46.58	50.15	53.13	56.33	51.92	54.23	57.32	62.84	62.10
URAL	36.92	40.76	44.15	46.94	47.85	50.37	54.06	50.83	52.05	55.25	61.23	60.59
OPEC RB	39.20	41.32	43.99	46.67	47.99	49.66	52.58	50.43	52.33	55.14	60.39	59.34

Table 5. Indexes of price increase

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
WTI	100.0	115.8	117.7	121.2	122.1	129.4	139.9	137.3	145.3	154.2	166.5	161.3
BRENT	100.0	104.8	112.4	119.4	120.8	128.0	135.7	125.1	130.6	138.1	151.4	149.6
URAL	100.0	110.4	119.6	127.1	129.6	136.4	146.4	137.7	141.0	149.6	165.8	164.1
OPEC RB	100.0	105.4	112.2	119.1	122.4	126.7	134.1	128.6	135.5	140.7	154.1	151.4

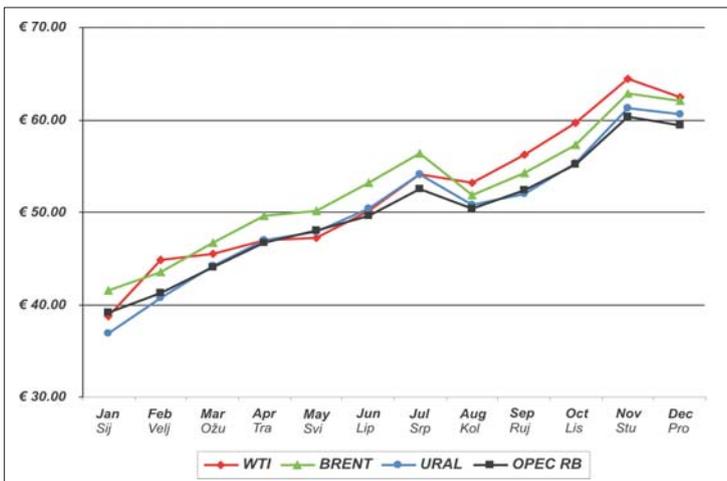


Fig. 3. Graf of crude oil price movement in 2007
 Sl. 3. Grafički prikaz kretanja cijena sirove nafte u 2007.

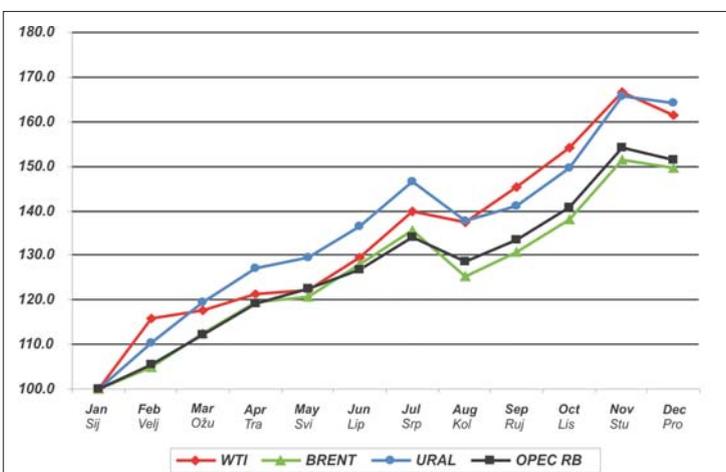


Fig. 4. Comparison of oil indexes growth
 Sl. 4. Grafički prikaz usporedbe indeksa porasta cijena nafte

Considering the fact that the two representing crude oils in the world are WTI and Brent, each representing standard in its own region and market, and as such they are constantly present on the stock market; the reports on their prices are being delivered daily and other types of oil are being compared with the prices of these two.

Along with the already traditional quality mark of oil, represented in API° and sulfur content, the real market value of oil shall depend also on the content of certain fractions within crude oil which can not be expressed only through API° gravity.

During certain periods gasoline prices or prices of middle fractions can be higher or lower considering other fractions, thus also those relations play a significant role in formation of prices.

That is the main reason why the differences in oil prices should not be taken as permanent value indicators as they are volatile values, and they mostly relate to the daily price of oil, which can be seen from the sales mechanism.

However we shall present (Table 2.) the differences in prices for mentioned crude oils according to Brent type.

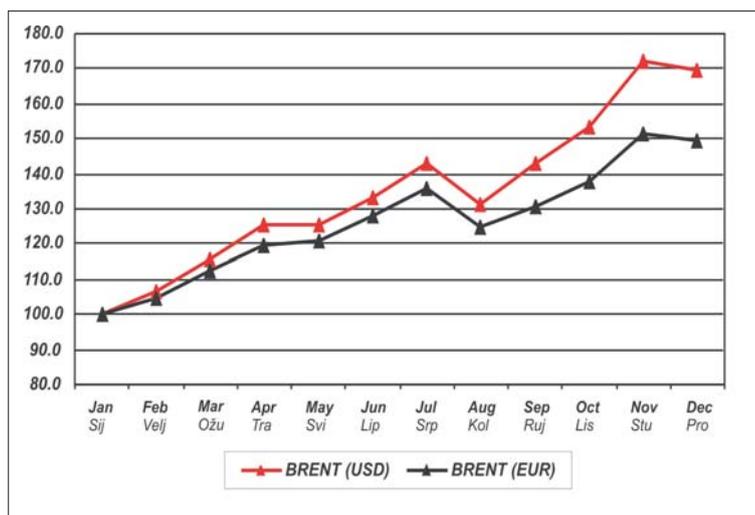
Differences in oil prices also affect the prices of oil derivatives as oil derivatives prices follow but at the same time also dictate the price of oil.

The review of price movements of oil from Table 1. gives the clear picture of oil price increase of the stated crude oils on the world market. Thus we are going to present oil price growth indexes (Table 3.) while the chart 2. shall present the data acquired from Table 3.

The movements of prices shown in Table 1., which is necessary to be discussed once more, present the average monthly prices acquired on the basis of average weekly prices on the oil market!

Table 6. Comparison of Brent indexes growth (USD/EUR)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
BRENT (USD)	100.0	106.8	115.6	125.5	125.3	133.0	143.2	131.5	143.0	153.4	172.2	169.7
BRENT (EUR)	100.0	104.8	112.4	119.4	120.8	128.0	135.7	125.1	130.6	138.1	151.4	149.6

**Fig. 5. Comparison of Brent oil indexes growth (USD/EUR)**

Sl. 5. Grafički prikaz usporedbe indeksa porasta cijena nafte Brent USD/EUR

The reason why we are presenting this is to show that prices in 2007 did not exceed, except occasionally, so many times mentioned "magic" limit of 100 USD/bbl.

The movements of prices presented to the public several times during 2007 were the result of certain taxation or current oil prices of that day, but they were in no way the constant price.

The reason for such sharp price increase could be primarily attributed to stock exchange speculations. One proof of that is that oil trading on so called futures or rights for oil purchase has been recorded to be 11 times higher than real oil trade.

Further in Table 4. we shall explain the average oil price movement in 2007 in EUR/bbl, while in Table 5. we are presenting growth indexes so we could compare them to the data related to price movement expressed in USD/bbl and growth indexes.

Graph showing price movement from Table 4. is presented in Figure 3.

As is the case with price movements presented in USD/bbl also here the chart does not express the clearest picture and we shall present the price increase through growth indexes to give the oil price movements in 2007 presented in EUR/bbl.

Comparing the tables in which we showed oil price movements presented in USD/bbl and EUR/bbl gives us

useful information that explains such sudden increase in oil prices.

The Table 6. and Figure 5. shall show us and we shall compare, through growth indexes, the price movements of Brent oil being the most wanted oil in the world trade, according to the current exchange rate³ USD/EURO.

Price movements of other mentioned crude oils were left out on purpose as it is visible from previously mentioned tables.

The presented data give basis for considering the real oil price increase as from the presented table the price increase is not the same while presented through USD/bbl / EURO/bbl movement, thus WTI recorded the increase by 83% / 63%, Brent 69.7% / 49.6%, Ural 86.1% / 64.1% and OPEC Reference Basket 71% / 51.4%.

3. CONCLUSION

The continuous oil price increase in 2007, almost constantly regular, except minor oscillations between July and September, is the basic characteristic of oil market in 2007.

This paper does not analyze the deeper reasons for oil price increase, except the price increase based on the exchange rate, and the conclusion is that the oil price expressed in euro has increased considerably less than the price expressed in US dollars.

4. REFERENCES

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³ According to CNB mean exchange rate, at the latest published change in the current month, www.hnb.hr