Weekly Oil Report

9 January 2012

2012 is slowly starting to come alive and looks likely to be yet another very interesting year for global markets. The European debt crisis drags on while recent economic data out of the USA have surprised to the upside. Regardless, we are certain that there will not be a lack of opportunities on the markets this year.

We would like to take the opportunity to wish all our clients and readers a prosperous new year and look forward to work with everyone in managing their energy risk profitably in 2012.

The Past Week

Since our last weekly report on 19 December 2011, WTI increased by 8.6%, lifted by a year-end rally and concerns about tensions between the USA and Iran over Iran's nuclear program.

Technically, we are slightly bullish while the price of WTI is above $100 support. The problem with our bullish outlook is that it is based to a large extent on strength derived from the Iran tensions. We expect a bounce from current levels to $105. Support is at $100 and then $98. A close below $98 would negate our bullish view and open the way to $95 and potentially $90. However, if $105 is breached convincingly, $110 is on the cards.

We expect a range of $100-105 for the rest of the week.

The Rand gained 2.5% since 19 December 2011. We expect that in the next 3 months the currency will continue to be driven mainly by what is happening in Europe.

Technically the Rand looks set to continue its range-bound trading. The range has shifted somewhat to R8-8.5/US$.

We expect a range of R8.1-8.5/US$ for the rest of the week.

Indicator	19-Dec-11	9-Jan-12
WTI	93	101
ZAR	8.39	8.18

Iran

Tensions have been escalating between Iran and the West over Iran's nuclear program. Iran claims that the program is for peaceful purposes. The USA contests this and claims that Iran is trying to develop nuclear weapons. Now we all know what happened to Iraq after similar claims from the USA.

Iran sits next to the strategically important Strait of Hormuz. Approximately 20% of world oil consumption moves through this important sea-lane. Recently Iran threatened to close the strait if the West continued with sanctions and punitive measures against it.

While it is highly unlikely that Iran will act on its threats, a risk premium is already built into the oil price. If the Strait is indeed closed for even only a short period of time, $200 oil is not far-fetched. With this in mind we keep a close eye on what is happening over there.

Economic indicators & Outlook for the week

The Dow clocked up a handsome 4.1% during the end of 2011 and early 2012. Economic data was mostly better than expected and it will be very interesting to see what the 1st quarter earnings look like. **We expect a range of 12000 – 12600.**

With no end in sight to the European debt crisis the Euro is under pressure, trading at a multi-month low against the US$. **We expect a range of Eur1.25-1.29/US$.** (The weak Euro is not good for oil prices).

Gold is little changed and has been trading listlessly in recent weeks. **$1600-1650/oz.**

The Top40 gained 2.3% but looks unlikely to break the 30 000 level in the near-term without significant good news out of Europe. **We expect a range of 29000-29600.**

Indicator	19-Dec-11	9-Jan-12

Contact Us

Gerhard Labuschagne:
gerhard@bfia.co.za
012 484 4038

Andre Greeff:
andre@bfia.co.za
012 484 4039

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Local Diesel Price

As of Friday the over recovery on 0.05% (500ppm) diesel was 13.625 c/L.

Dow Jones	11866	12359
Euro/$	1.3	1.272
Gold	1588	1613
Top40	28556	29209

Conclusion

The New Year is certainly going to be very interesting with bullish and bearish scenarios aplenty. Time will tell, but we are more bullish than bearish on oil.

Bushveld Financial Investments
Castle Walk Corporate Park, Block E
http://www.bosveldgraan.co.za
Cnr. Nossob & Swakop Street
Erasmuskloof 0048

Tel: 012 484 4000