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THURSDAY, JUNE 5, 2008

MARKETS

	CLOSE	CHANGE
SET	808.92	+2.06
SET50	578.16	+1.34
SET100	1,249.67	+3.51
MAI	272.48	+0.93
New York DJIA (Tue)	12,402.85	-100.97
Nasdaq (Tue)	2,480.48	-11.05
London FTSE (Tue)	6,057.70	+50.10
Tokyo Nikkei	14,435.57	+226.40
HK Hang Seng	24,123.25	-252.51
Sydney	5,698.20	-4.80
Singapore	3,134.80	-19.14
Kuala Lumpur	1,253.12	-4.45
Seoul	1,833.81	+14.42
Taipei	8,627.80	+48.37
Wellington	3,557.69	+17.64
Jakarta	2,362.59	-41.22
Manila	2,773.12	-9.68
Bombay	15,514.79	-447.77

CURRENCIES

(BID/ASK)	Jun 04, 6 pm	PREVIOUS
US\$/Baht	32.68/71	32.59/62
100 Yen/Baht	30.8237/295	31.1275/6075
Euro/Baht	50.125/645	50.58/51.1025

	CLOSE	CHANGE
\$/Yen (Jun 04, 5 pm)	105.12	+0.02
Euro/US\$ (London pm)	1.5456	-0.0014
UK£/US\$ (London pm)	1.9540	-0.0118
US\$/KRW	1,017.10	-7.25
US\$/S\$	1.3630	+0.0002

COMMODITIES

CLOSE CHANGE

ENERGY AND THE ECONOMY

Expensive oil is here to stay

Experts offer mixed views on future trends

PARISTA YUTHAMANOP

The world has entered an era of permanently high oil prices, according to international experts.

Robert Weiner, a professor in international economics at George Washington University, said futures prices suggested that oil prices would only increase further and become more volatile in the long term.

He said at a conference hosted by Chulalongkorn University yesterday that options markets, which provide signals about the distribution of future prices had widened, indicating uncertainty.

"The term structure suggested that the price shocks are to be permanent. This is a difference from the 1980s and the 1990s, when the market expected the price surge to be short-lived," he said.

Oil prices yesterday fell below \$124 per barrel for July light, sweet crude contracts on the New York Mercantile Exchange, off more than \$11 from a peak of \$135 per barrel on May 22.

The prices fell after the US Federal Reserve indicated that further interest rate cuts were unlikely.

This helped spur a rally in the US dollar and concerns that oil prices were set to correct downward due to lower demand. But oil prices remain relatively high, at nearly double the levels seen one year ago.

Prof Weiner said the surge in oil prices stemmed from imbalances in demand and supply, rather than speculation.

He said one sign supporting the argument that speculation had had a relatively small impact was that the value of buying and selling by speculators had remained stable.

But consolidation in the oil industry had increased the power of producers to mark up prices.

"There is the possibility of herding in the oil market," Prof Weiner said.

"One thing to consider is that oil prices have continued to rise, even when excess liquidity has virtually dried up around the world."

The significant increase in demand due to global economic growth, together with the loss of excess production capacity, has increased vulnerabilities for the world oil market.

Supply constraints can be seen by the fact that Indonesia is no longer a net oil exporter and that Russia and Canada have both reported declining output. Opec members have also been reluctant to increase supply.

"I don't expect a demand shock — we would need a major recession in China and India, which is most unlikely. But this is a difficult shock that will last indefinitely," Prof Weiner said.

He said developing countries would suffer from high oil prices in the form of social development, trade and investment.

Private companies, meanwhile, were encouraged to take their own steps to minimise their exposure to price swings

by purchasing hedging contracts.

But Guy Caruso, an administrator from the US Energy Information Administration, estimated that oil prices could fall to around \$95 per barrel or even lower in 2009 and 2010.

High oil prices would stimulate investment in alternative fuels over the next several decades, potentially pushing crude oil prices downwards to \$70 per barrel.

Under a worst-case scenario, Mr Caruso said, oil prices could reach \$180 per barrel in 2030, assuming China continued to grow by an average of 6.5% per year and economic and population growth slowed in the OECD countries.

Ken Koyama, director of the Institute of Energy Economics in Japan, said there should be better analysis about the oil and financial market to give policymakers worldwide a better understanding on its trends.

Rising oil prices had certainly resulted in higher inflation for the global economy, he said.

"The rise in oil prices may affect the

world economy. In the past, some effects may be absorbed. But we may come to the limit now, with the food crisis and oil price rises around the world," he said.

Jim Burkhard, managing director for the consultancy Cambridge Energy Research Associates, said the world economy was likely to slip into recession due to the price shock, even though the efficiency of oil consumption was higher than in the past.

"We believe that if oil prices were to average \$110 to \$115 for six months or more, it could bring us to a global economic slowdown like what we saw in the 1980s," he said.

"The closer we got to that number — \$100, \$110 or \$115 oil — the closer that brings us to a zone of greater uncertainty that could lead to a downturn in economic growth."

Mr Burkhard said the fact that refined products were priced differently and subsidised in some countries caused the economies around the world to react differently.