



Energy Price Peak and Valley

By CK Wong 2006.10.07

<http://www.ck-wong.ca/Energy/energy%20price%20peak%20and%20valley%2020061007.pdf>

Introduction

In last year, the investment advisor community has identified a one way street for the energy price. Only a few have the bold courage to say even in a strong bull market the up and down still exists and it is much more volatile than the bear market. What are the peak and valley in the most recent years?

“Bull wants to shake you off” – Richard Russell

The Dow Theory Letter editor Richard Russell has been baby-sitting the market since the 1950's. He has experience a few bull and bear cycles. He always says that there are only a few person could ride the whole journey from end to end. They either exit at the first rally or escape as soon as the first downfall. According to Rman, the fall in the bull market is vigorous that the bull wants to scare you away. Therefore no body could ride the whole journey. I have to inject a remark that when the market falls it could really be the end so don't to pretend the wise guy and stay in front of the bear. Let the profession to help you to decipher and plan the exit strategy.

This brings up a very interesting question that when is a bull and when is a bear. According to many great analyst like John Mauldin, they are not just looking at one stock or one region. You have to consider all the factors across the board and around the globe. The world has just become more complicated. In the 1970, the world economy is dominated by American. If the American has a recession, the world would go to a recession. There was no one to pick up the slack. The tide has changed. BRIC (Brazil, Russia, India and China) has become the new shooting star of the economy. China was rated as the fourth largest economy after Germany last year by the World Economic Forum. I suspect that the rating could be wrong because it may miss some of the \$800+B T-bond held by the Chinese which is gained by selling deflation to Europe and American. This year China may rise to the third or even the second.

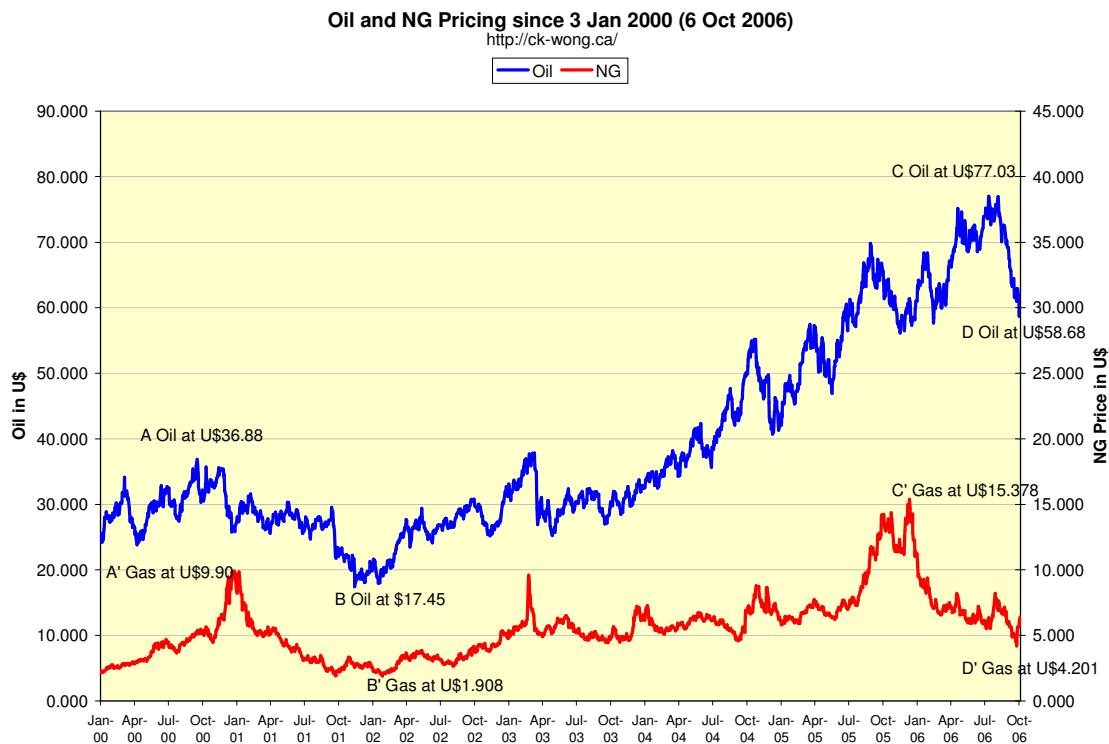
More important is the fact that BRIC has about 20 times the population of American but using 5% of the resources. When the consumer appetite increase with the improvement of economy, the demand of resource especially energy will increase. People always point out the first target would be higher demand on cars. I would rather consider something more moderate.

The improvement of living standard will mean the increase on purchase of home appliance. Automobile is always a symbol of status. However, take India as an example, people who works at the outsourced offices of HP, Sun or IBM still quite far away from buying any moderate car at the price tag of US\$7,000 to US\$10,000. If they could afford

that American will not outsource the service to cut down their cost by 50% - 75%. The high-tech worker still rely on the highly optimized local public transport system which is energy and capital efficiency. The first luxury they would add could be the refrigerator, the washing pair, the MP 3 or the big screen TV. All these points to the increase on the demand of electricity which why Dr. Copper is the authentic indicator on the demand and growth.

Volatility

During a strong bull market, many evangelist financial advisors have identified the boom started from 2000. The following is a chart that shows the prices of oil and natural gas. If you believe the correction of oil from upper \$78 to \$60 and gas from U\$15+ are unique please look again.



During 2001, the oil price had a 50% correction and natural gas had an 80% correction. Are we repeating the history? Only time can tell.

Conspiracy Theories

The current weakness on oil and gas are blamed on the global warming. Some associates this to the conspiracy of US election which drives the commodity down to help current government. Global warming may be some concern but the demand has continuously increases as per EIA while supply declines also per EIA. The only market factor that drives the price down is the US reserve continuously has surplus. People have ignoring Energy Price Peak and Valley

the supply tightness in Europe and Asia. Some attribute the fall to the margin call of the hedge funds which have to sell the energy contracts at great discount price. I would see the whole episode is driven by the election that causes the collapse of many hedge funds. If so all could be finished by mid November.