

Julius Bär

BOOM & BUST: WAS BESTIMMT DIE ROHSTOFFPREISE?

Präsentation von: Norbert Rücker, Head of Commodity Research

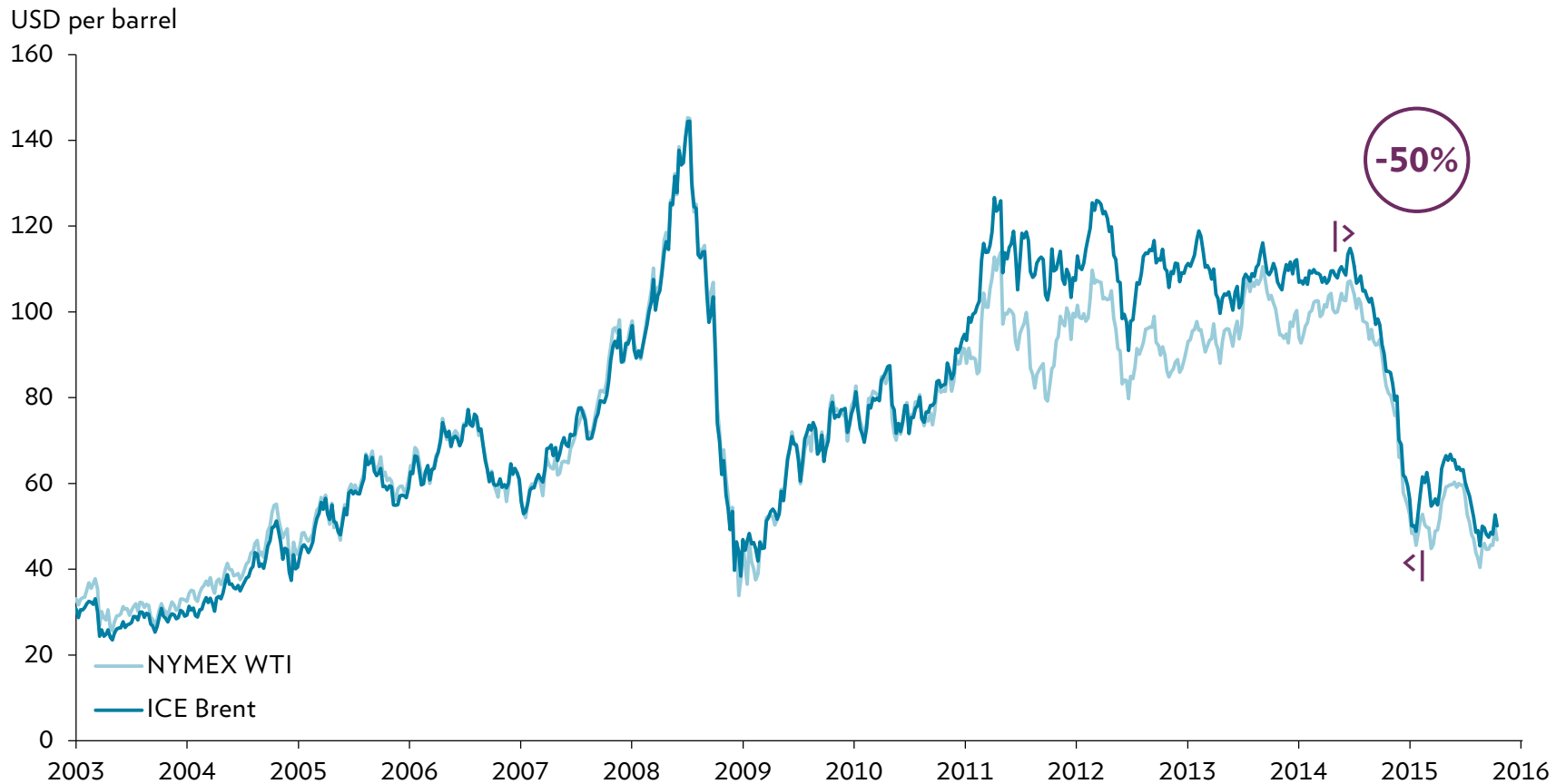
Hochschule Luzern, 20. Oktober 2015

Please find important legal information at the end of this document



CRUDE OIL

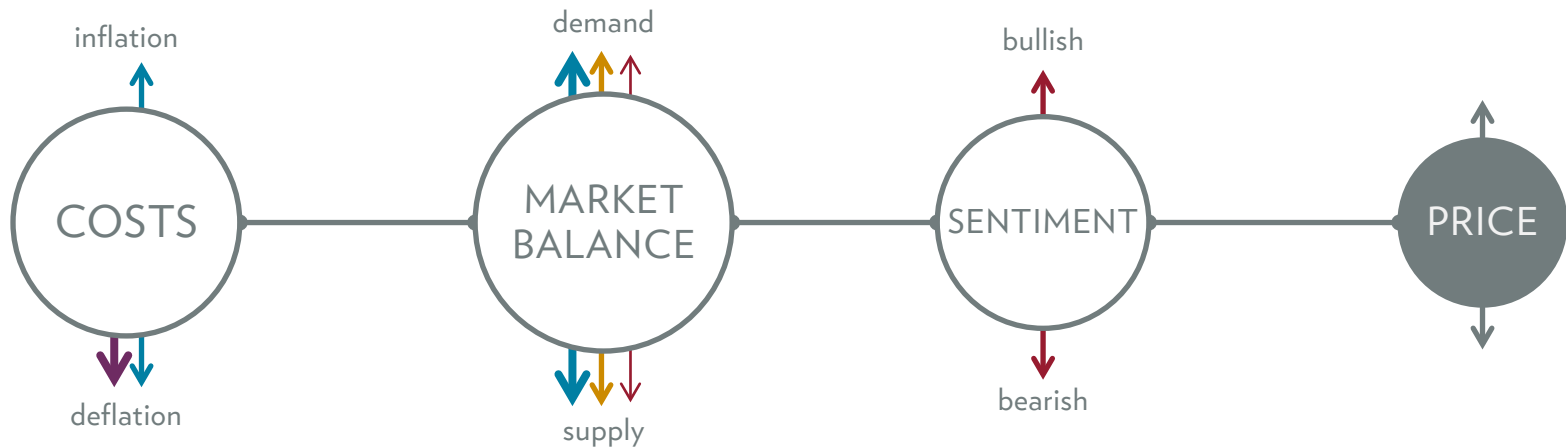
Price collapse causes turmoil for the energy industry and petro-nations.



Source: Bloomberg Finance L.P., Julius Baer (NYMEX: New York Mercantile Exchange, ICE: Intercontinental Exchange, WTI: West Texas Intermediate)

COMMODITY PRICES

Markets are in constant transition, with a mesh of factors driving prices.



Technology

- > Resource availability
- > Production costs
- > Demand intensity

Economic conditions

- (i.e. growth, interest rates, currency, inflation, regulation)
- > Consumption levels
 - > Supply investments
 - > Production costs

Known unknowns

- (i.e. weather, politics)
- > Temporary shocks

Sentiment

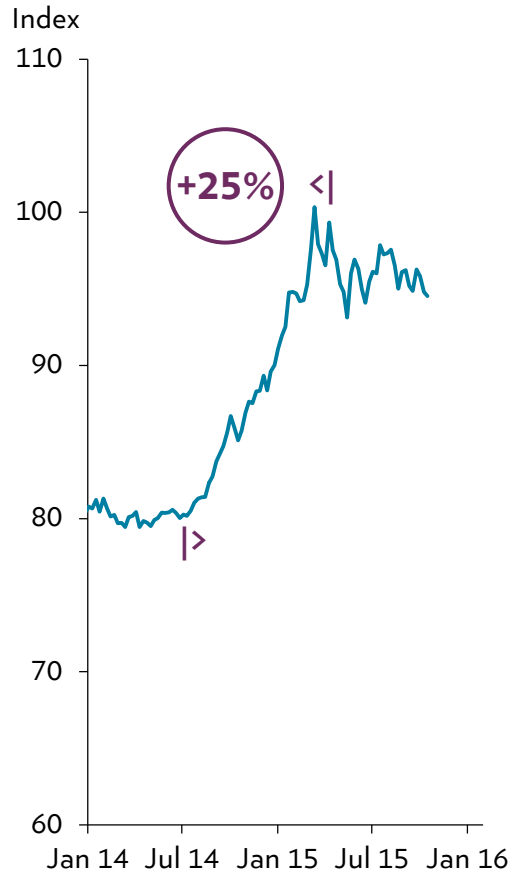
- > Anticipation of fundamentals
- > Herding and hoarding

CRUDE OIL

A multitude of factors pointed southwards.

US dollar

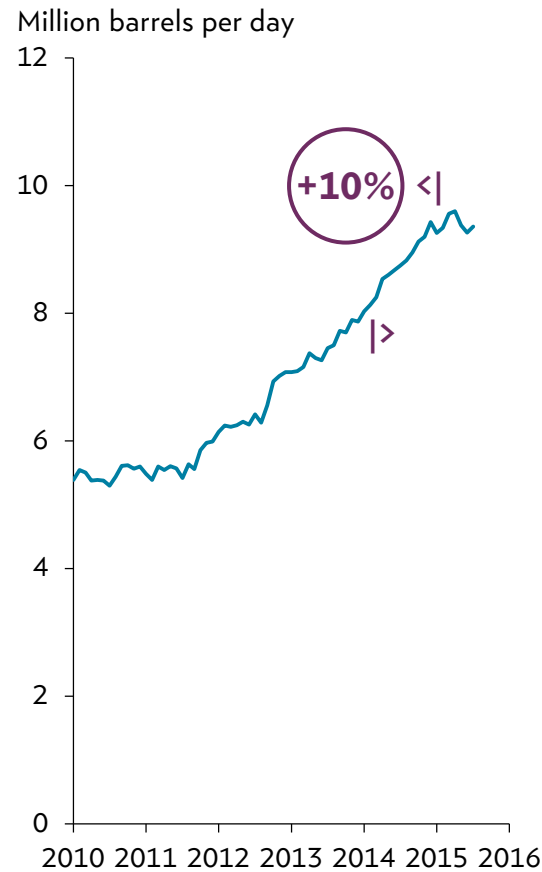
(US Dollar Index)



Source: Bloomberg Finance L.P., Julius Baer

US oil production

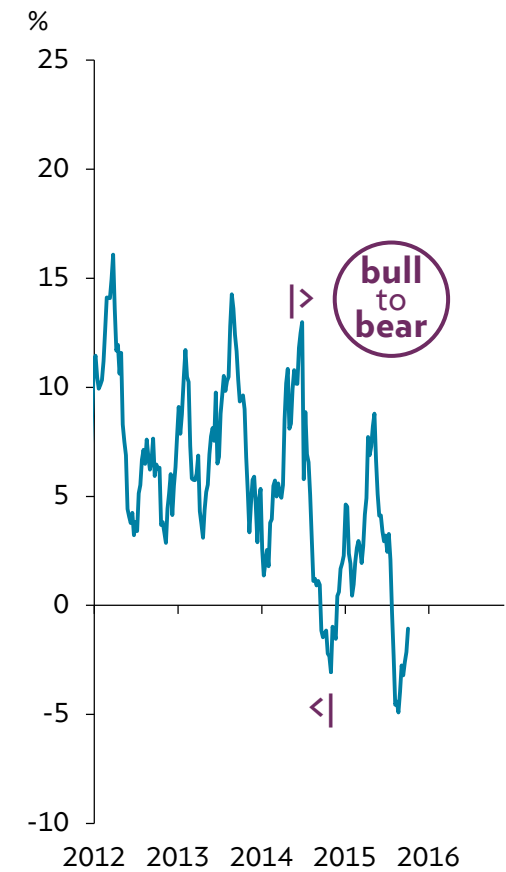
(Crude oil, excluding natural gas liquids)



Source: US Department of Energy, Julius Baer

Futures market positioning

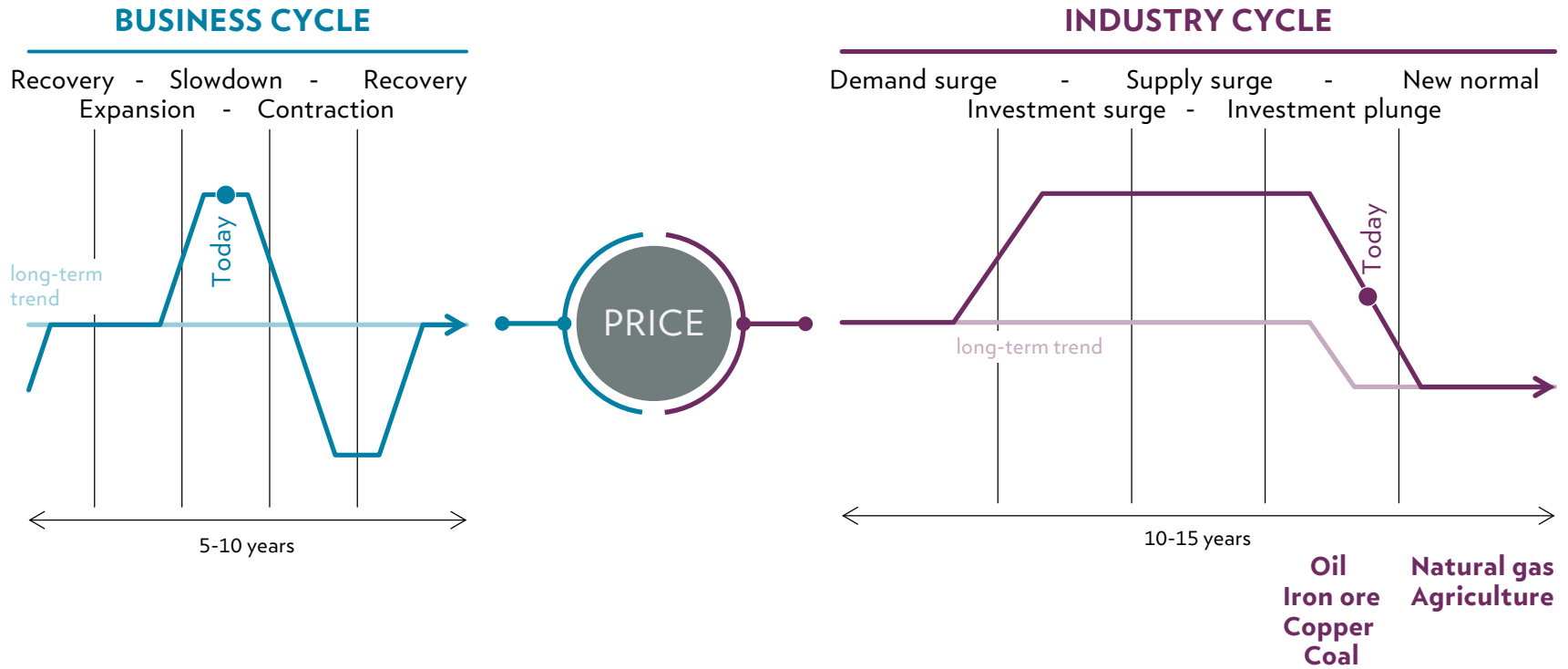
(ICE Brent, non-commercial net-length to open interest)



Source: Commodity Futures Trading Commission, Julius Baer

COMMODITY PRICES

Markets are prone to boom and bust periods, at times cumulating in super cycles.



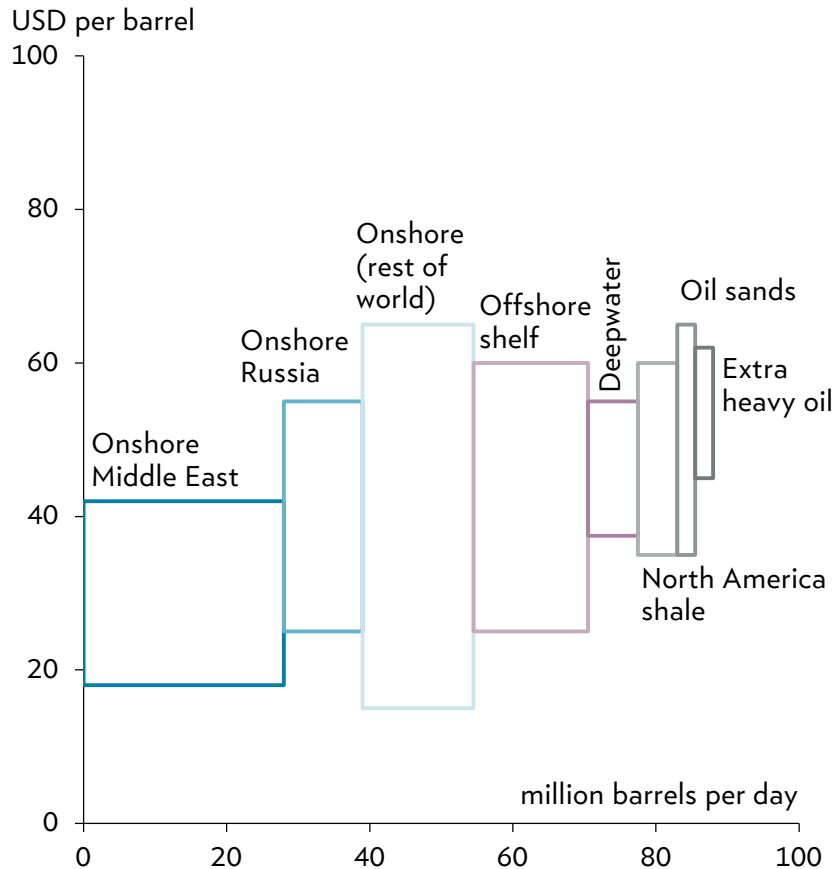
Source: Julius Baer

CRUDE OIL

Technology innovation, productivity gains and weak currencies deflate costs.

Global oil supply cost curve

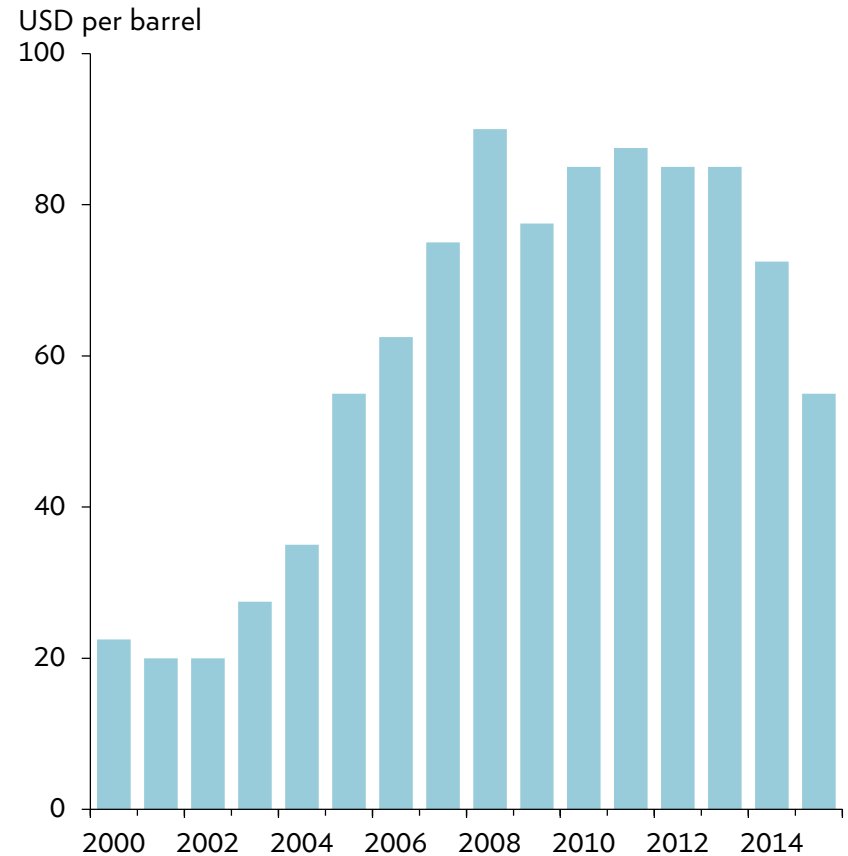
(Total project costs)



Source: Rystad Energy, BP Statistical Review, Energy Information Administration, Julius Baer

Global marginal oil production costs

(Highest cost percentile)

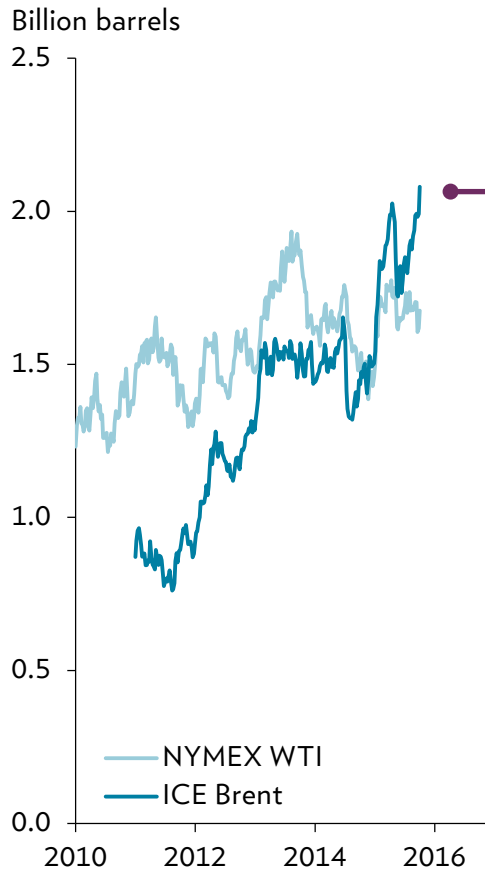


Source: Goldman Sachs, Morgan Stanley, Julius Baer

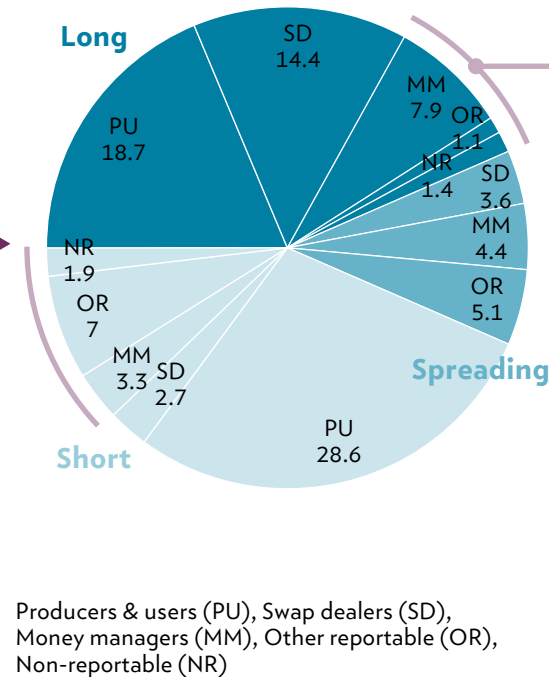
FUTURES MARKET

For every long there is a short.

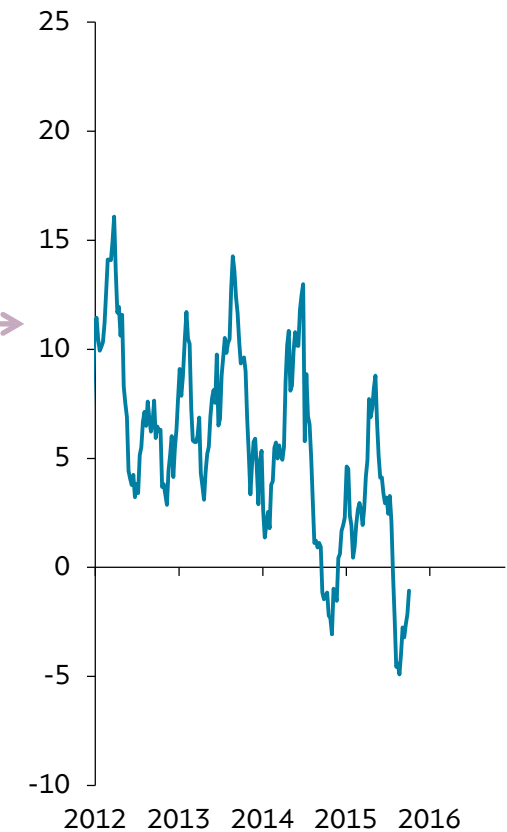
Market size (Open interest)



Market participants (ICE Brent, % of open interest, past 2 months)



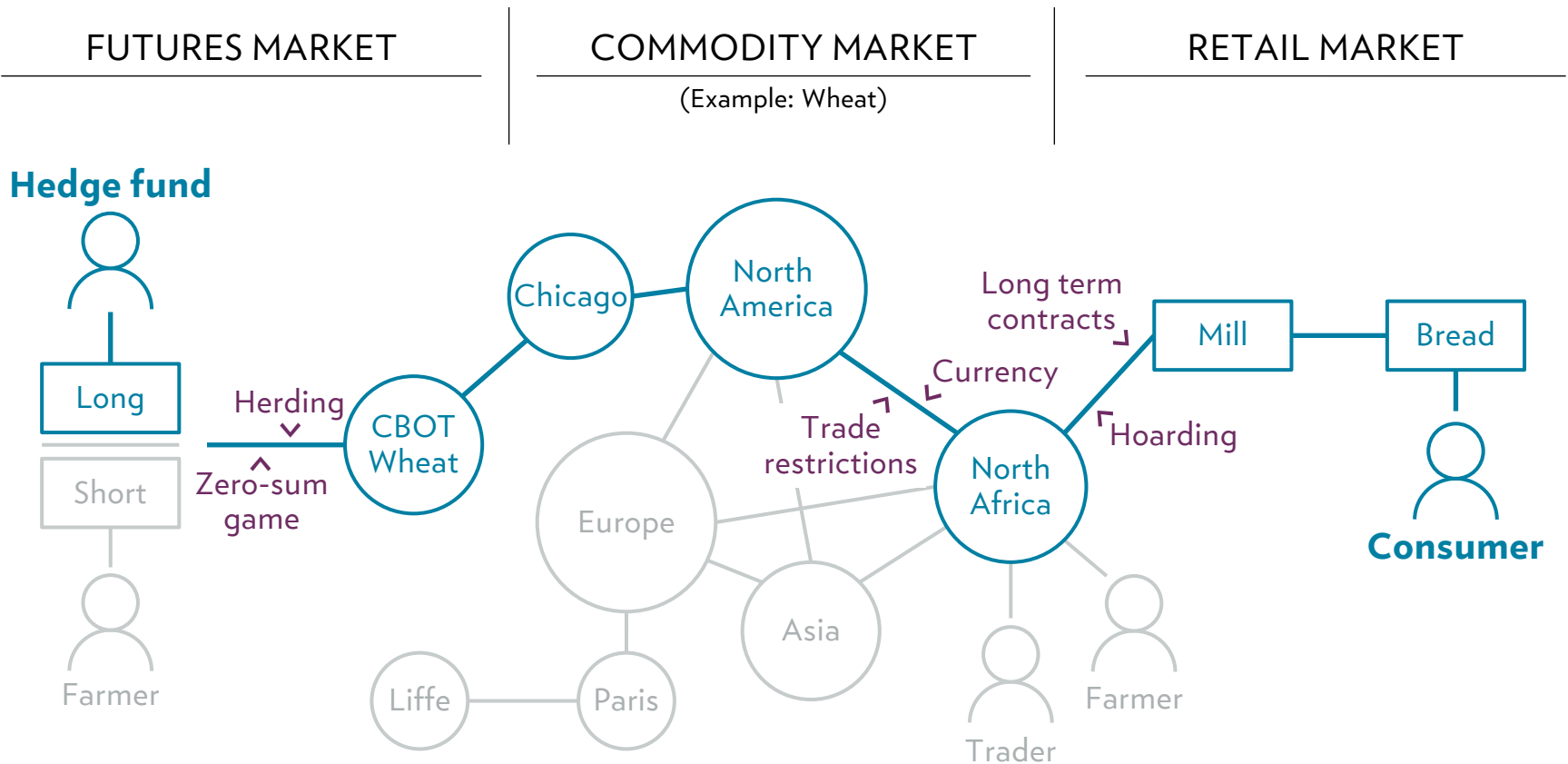
Speculative positioning (ICE Brent, non-commercial net-length to open interest)



Source: Commodity Futures Trading Commission, Julius Baer

SPECULATION

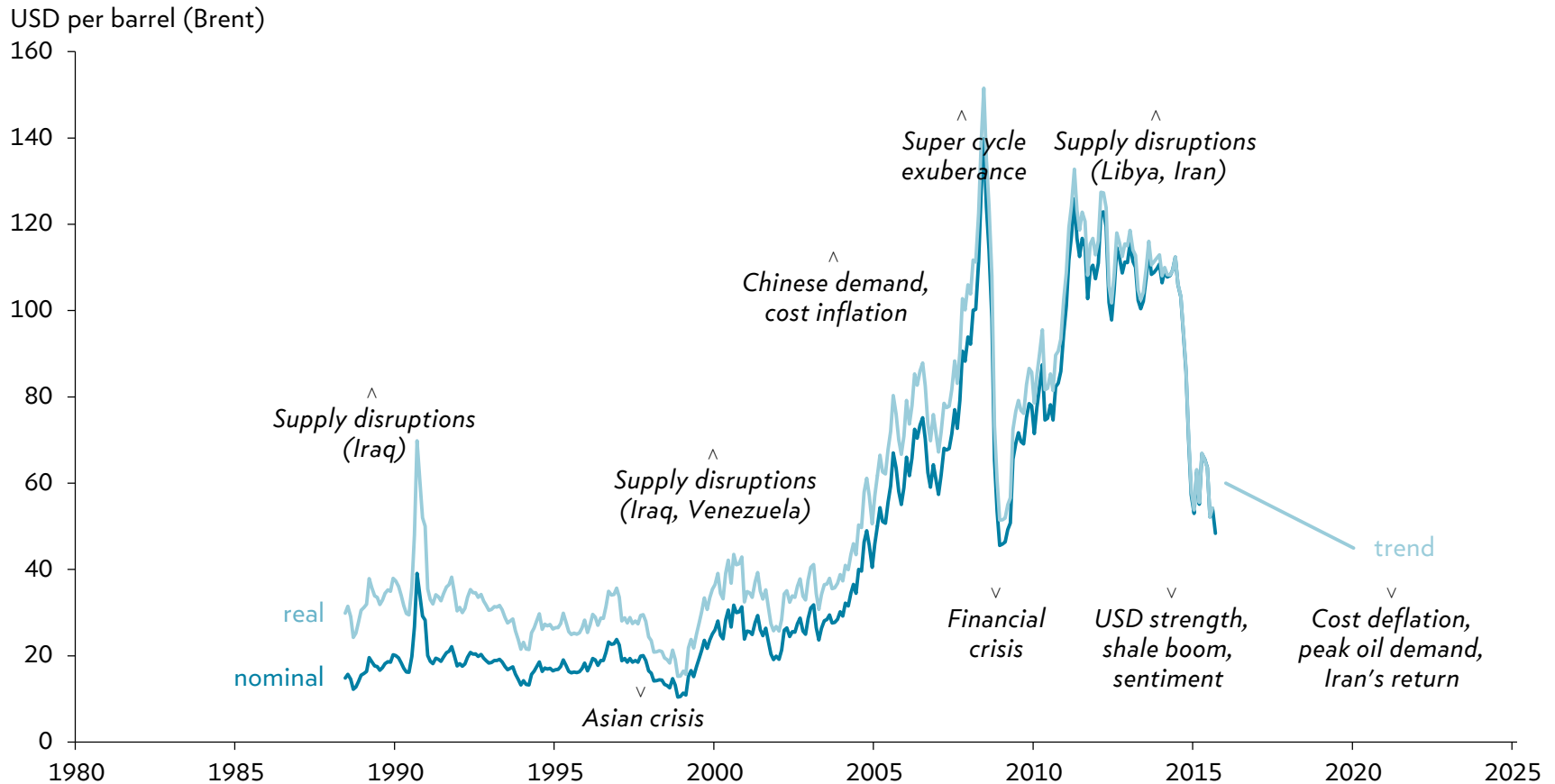
Speculative influences tend to quickly dissipate within markets.



Source: Julius Baer (CBOT: Chicago Board of Trade)

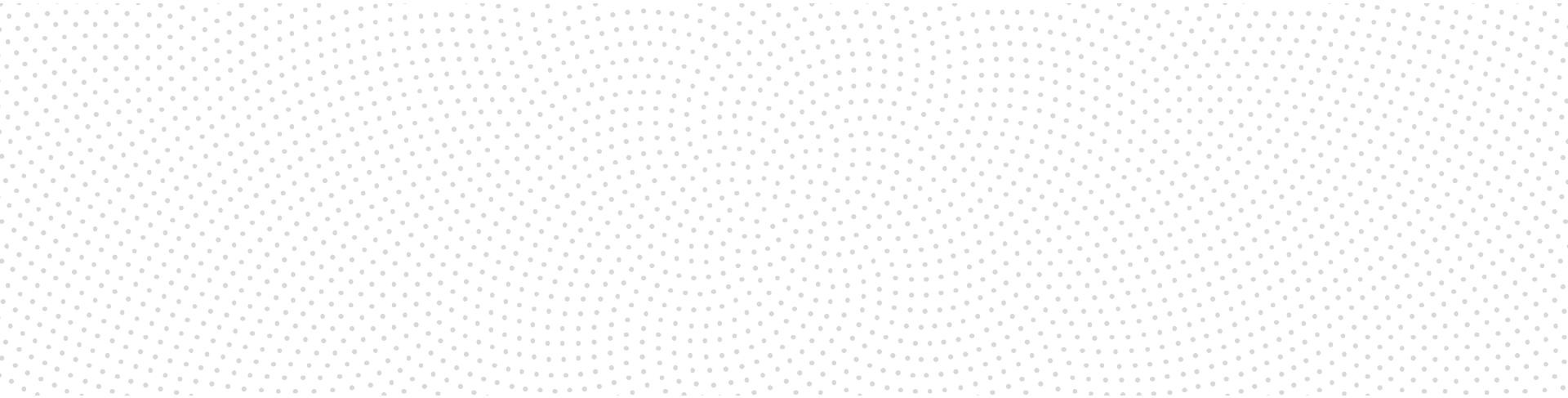
CRUDE OIL

Peak oil demand and the shale boom are characteristic of a fading super cycle.



Source: Bloomberg Finance L.P., Julius Baer (inflation-adjustment: US consumer price index)

APPENDIX



THE ENERGY TRANSITION

Look at Hawaii to catch a glimpse of the future.

“ 15.10.2015: The **Hawaii Public Utility Commission** announced it has developed a plan to further support rooftop PV and »other distributed energy resources.« ...

The scheme will offer **three options** for the installation of a **rooftop PV system**: the »**Self-Supply**« systems option that was designed for customers that intend to consume all the energy produced by their PV systems; the »**Grid-Supply**« systems option for customers that export excess energy to the grid and will receive energy credits on their monthly bills; and the »**Time-of-Use**« tariff option for customers to save money by shifting energy demand to the middle of the day to take advantage of lower-cost solar energy. ”

IMPORTANT LEGAL INFORMATION (1/2)

General: The information and opinions expressed in this publication were produced as of the date of writing and are subject to change without notice. This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, Julius Baer to buy or sell any securities or related financial instruments or to participate in any particular trading strategy in any jurisdiction. Opinions and comments of the authors reflect their current views, but not necessarily of other Julius Baer entities or any other third party. Other Julius Baer entities may have issued, and may in the future issue, other publications that are inconsistent with, and reach different conclusions from, the information presented in this publication. Julius Baer assumes no obligation to ensure that such other publications are brought to the attention of any recipient of this publication.

Suitability: Investments in the asset classes mentioned in this publication may not be suitable for all recipients. This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the client after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. This publication should not be read in isolation without reference to the full research report (if available) which may be provided upon request. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to individual circumstances, or otherwise constitutes a personal recommendation to any specific investor. Any references to a particular tax treatment depend on the individual circumstances of each investor and may be subject to change in the future. Julius Baer recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences.

Information / forecasts referred to: Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. In particular, the information provided in this publication may not cover all material information on the financial instruments or issuers of such instruments. Bank Julius Baer & Co. Ltd., its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication. Important sources for the production of this publication are e.g. national and international media, information services (e.g. Thomson Reuters, Bloomberg Finance L.P.), publicly available databases, economic journals and newspapers (e.g. Financial Times, Wall Street Journal), publicly available company information, publications of rating agencies. Ratings and appraisals contained in this publication are clearly marked as such. All information and data used for this publication relate to past or present circumstances and may change at any time without prior notice. Statements contained in this publication regarding financial instruments or issuers of financial instruments relate to the time of the production of this publication. Such statements are based on a multitude of factors which are subject to continuous change. A statement contained in this publication may, thus, become inaccurate without this being published. Potential risk regarding statements and expectations expressed in this publication may result from issuer specific and general (e.g. political, economic, market, etc.) developments.

Risk: The price and value of, and income from investments in any asset class mentioned in this publication may fall as well as rise and investors may not get back the amount invested. Risks involved in any asset class mentioned in this publication may include but are not necessarily limited to market risks, credit risks, currency risks, political risks and economic risks. Investments in emerging markets are speculative and may be considerably more volatile than investments in established markets. **Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The Julius Baer fixed-income ratings apply exclusively to bonds of the specific issuer ranked senior unsecured or higher. They are therefore not valid for debentures junior to the mentioned ranking unless mentioned explicitly.** Particular risks in connection with specific investments featured in this publication are disclosed prominently hereinabove in the text of this publication. Any investment should only be made after a thorough reading of the current prospectuses and/or other documentation/information available.

IMPORTANT LEGAL INFORMATION (2/2)

Miscellaneous: We are required to disclose important information about our interests and potential conflicts. In order to prevent conflicts of interest from adversely affecting the interests of its clients, Julius Baer has implemented the necessary organisational and administrative arrangements to manage conflicts of interests. Julius Baer's arrangements include putting in place information barriers that ensure the separation of its research departments from other areas of the business so that no other area of the business will know the contents of any planned research until the research has been distributed to clients. Adherence to these procedures is monitored by the Julius Baer Compliance Department. Unless explicitly stated in this publication, its information and analysis has not been disclosed to the issuer of the securities referred to herein or a Julius Baer entity before the publication has been published or disseminated. A Julius Baer entity may, to the extent permitted by law, participate or invest in other financing transactions with the issuer of the securities referred to herein, perform services or solicit business from such issuers, have a position or effect transactions in the securities or options thereof, have any other significant financial interest regarding the issuers of the securities referred to herein and/or may have done so in the past. For further information about our interest in the investments featured in this publication, see the company-specific disclosures above.

Important distribution information

External Asset Managers/External Financial Advisors: In case this research publication is provided to an External Asset Manager or an External Financial Advisor, Julius Baer expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Advisor and is made available to their clients and/or third parties. By receiving any research publication the External Asset Managers or the External Financial Advisors confirm that they will make their own independent analysis and investment decisions.

This publication must **not be distributed outside Switzerland.**

United States: NEITHER THIS PUBLICATION NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON.

This publication may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes and should not be relied on as investment advice.

© Julius Baer Group, 2015