



## Autumn 2016

After a sizzling end to summer we can now look forward to some cooler weather. Autumn is a perfect time of year to get back into the garden or to simply make the most of the great outdoors before winter arrives.

On the economic front, the outlook for Australia is still a case of two steps forwards, one step back. The latest profit reporting season was a case in point. Qantas posted a record half year profit of \$921 million before tax in the six months to December, making 2015 the national carrier's best year in its 95-year history. While cheap oil put the wind under Qantas' wings, it helped drag BHP Billiton to a US\$7billion operating loss in the December half. This prompted a cut in interim dividend from US62c to US16c a share.

There were also mixed signals from the broader economy in February. Consumer sentiment bounced back with a 4.2 per cent rise according to the Westpac/Melbourne Institute Consumer Confidence survey, despite sluggish wage growth. Annual wage growth fell 2.3 per cent to an 18-year low in 2015. New business spending on buildings and equipment also fell last year, by 16.4 per cent. Even more troubling was an 18 per cent drop in business expectations of future investment. This is despite historically low interest rates and the lower Australian dollar which is hovering around US72c.



## Profiting from cheap oil

**Low oil prices have weighed heavily on global markets in 2016, with investors and pundits alike unsettled by the speed and size of the fall. But where there are losers there are also winners, depending on whether you are a producer or a consumer of what was once hailed as black gold.**

From a high of US\$145 a barrel in 2008, the price of West Texas Intermediate, America's benchmark oil price, has dipped below US\$30, its lowest level in 13 years. Crude oil prices have fallen by over 70 per cent since mid-2014.

To understand why this is happening, you need to start with global supply and demand.

### Supply and demand

The collapse in oil prices is due mostly, but not exclusively, to oversupply. When oil was fetching more than US\$80 a barrel there was a great incentive for the United States to boost production of shale oil, gas and coal to reduce its energy dependence on OPEC.

By 2015, US daily oil production overtook that of Saudi Arabia, putting downward... [Read more](#)