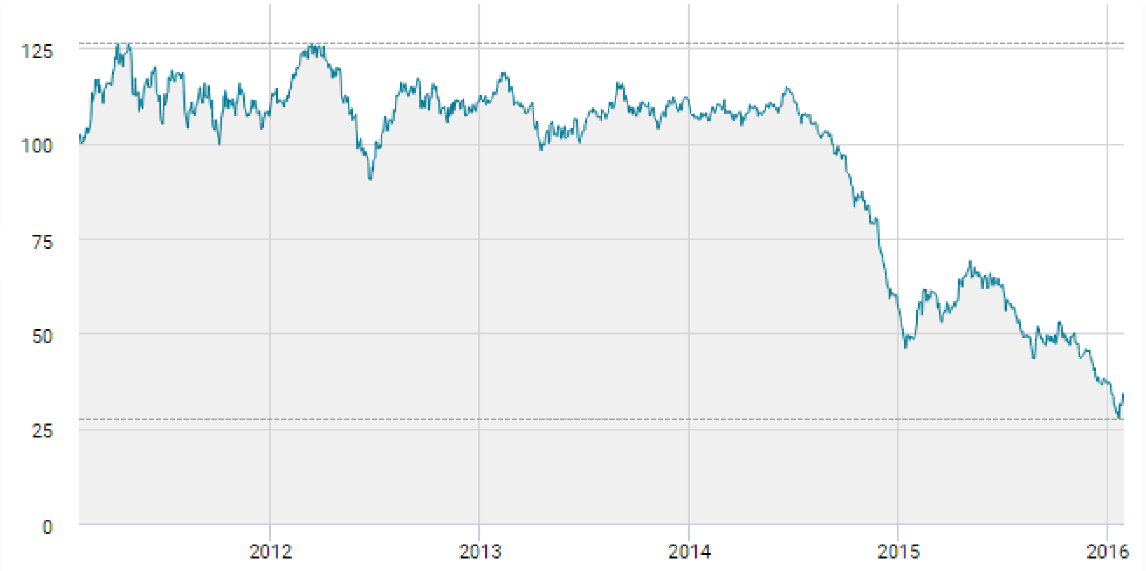
The slippery slide of oil prices

The fall in the price of oil is having some curious side effects.

A (Brent) Crude Fall



Source: DigitalLook.com

Petrol and diesel fell to under a £1 a litre in January as the supermarkets battled for customers. The drop was due to the precipitous decline in the price of oil, which started in mid-2014, when oil was over $100 a barrel, and took another step down in late 2015, to $30 territory. It might feel like good news, but the slip-sliding price has not been entirely beneficial:

- Some of the major oil-producing countries, such as Saudi Arabia, have had to raid their sovereign wealth funds to make up for the loss of revenue. Sales of shares by these funds have been at least partially blamed for global stock market turbulence seen recently.

- UK government revenue from North Sea Oil taxation is fast disappearing as $30 is an uneconomic price for drilling in such hostile conditions. Mothballed rigs are reported to be accumulating in the Cromarty Firth.

- The wisdom of some renewable energy projects is being thrown into question. The share price of America's most famous electric car manufacturer, Tesla, has been hit.

- Also in the US, the prices of high yield fixed-interest bonds have been under pressure because of the doubtful financial viability of borrowers in the shale oil extraction business. The resulting jitters have rippled across the bond market.

The deferral of new exploration and production prompted by the current depressed price could lead to a shortfall in supply – and corresponding price recovery – in a relatively short time. On the other hand, cheap oil is giving a boost to consumers now, in much the same way as a tax cut.

Both views offer opportunities for active investment managers to exploit. Do contact us to learn more about the managers we favour in a cheap oil world.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.