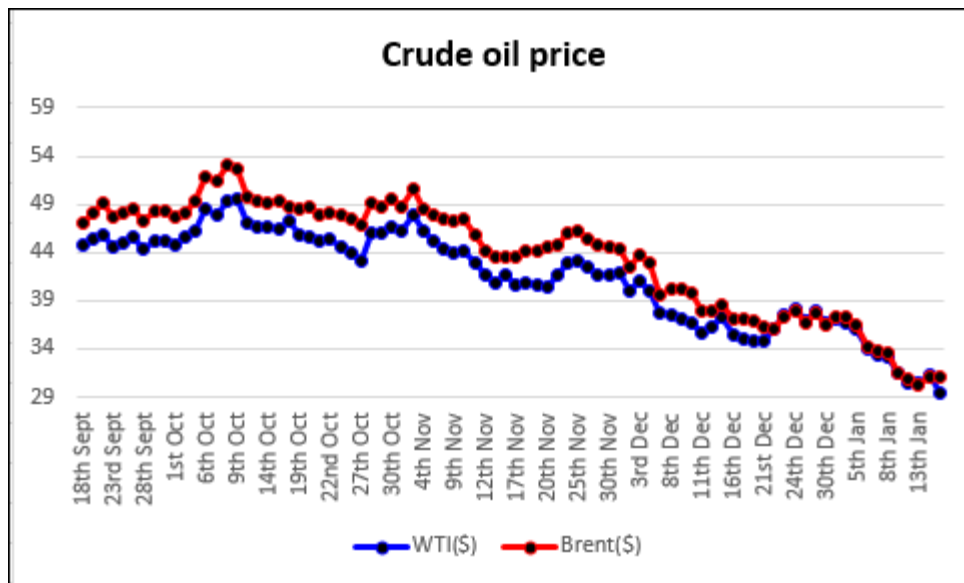


Post 16th January, 2016

Some of the news items for this week are as follows:



1. Crude oil price dropped to \$29.42 yesterday. On Tuesday this week, when the price dropped to \$30.44, some news headlines said it was the lowest since Dec 2003. Now that it has dropped further, are there any signs of recovery? Doesn't look like. The market remains over-flooded with oil, the US dollar has firmed up, and the Chinese economy has been on a slide lately which is expected to cut the demand for oil further. More so, Iran is looking to begin exporting oil as soon as sanctions are lifted, which will further add more oil to the global glut.
2. Earlier Goldman Sachs had predicted the crude oil price dropping to \$20. Now Morgan Stanley has also joined in. Both Goldman Sachs and Morgan Stanley are reputed American multinational investment banking firms that are engaged in global investment management and other financial services.
3. Of course the low oil prices are helping the oil-importing countries, and thence the drivers and businesses. On the flip side, BP announced that it would reduce its workforce by 5% or about 4000 employees over the next two years. Both Chevron and Shell had made similar announcements late last year. Likewise, at the rate at which oil price is dropping, many independent drilling companies in the US would go bankrupt before oil prices stabilize. As I have mentioned before, in the present uncertain market conditions, many oil companies are cutting down on their spending this year.
4. The low oil price is also affecting the oil-producing countries. Russia has based its budget for this year on oil price getting back to \$50. In the present scenario, it will deplete some funds it had put aside for a rainy day. Similarly, Saudi Arabia, Bahrain and Oman are reducing subsidies on gasoline.

5. As the oil prices are leveraged to the price of the US dollar, any appreciation in the US dollar will send the Brent crude to a lower price. We saw this happen briefly last week (see the figure above). But going forward as the US economy growth gathers momentum, WTI crude price will start looking down on Brent.
6. The question that everyone seems to ask these days is, '*How much lower can the oil price drop*'. Even if it drops to \$20 as predicted, as per Stein's law it is not sustainable and so will eventually have to rise. But when that will happen may be a good or bad guestimate. A possible one would be the end of the third quarter of 2016. But before that a lot of damage would have been done.

For the lighter side this week:

Some weeks ago, my wife asked me if baking soda and baking powder are the same. She had baking soda at home and wanted to know if there is no difference, so that she could use it for baking. Our daughter was sitting there and she quickly googled it and said, 'no, the two are not the same'.

Here is the difference:

Baking soda is sodium bicarbonate, and is commonly used in some food recipes where the objective is to leaven the baked or prepared food. Baking soda is a base and when it comes into contact with any acidic component in the food, such as lemon juice or vinegar, it releases carbon dioxide, which helps the food item fluff up as it makes its way through it. Just the right quantity of soda is required to do the trick or else it imparts a taste to the food item.

Baking powder contains sodium bicarbonate as well as an acidic ingredient such as cream of tartar. When mixed with some baking ingredients such as cookies, cakes and bread, in the presence of moisture, baking powder releases carbon dioxide that makes the baked items rise and become fluffy or it leavens them.

Hopefully, going forward we won't have any confusion between them.

Did you know?

The Earth's rotation is gradually slowing at approximately 17 milliseconds per 100 years. This will have the effect of lengthening our days, but it will happen very slowly. In 140 million years, the length of the day will increase to 25 hours.

I hope you find these interesting.

So much for this week!

Till the next post, stay safe and happy!