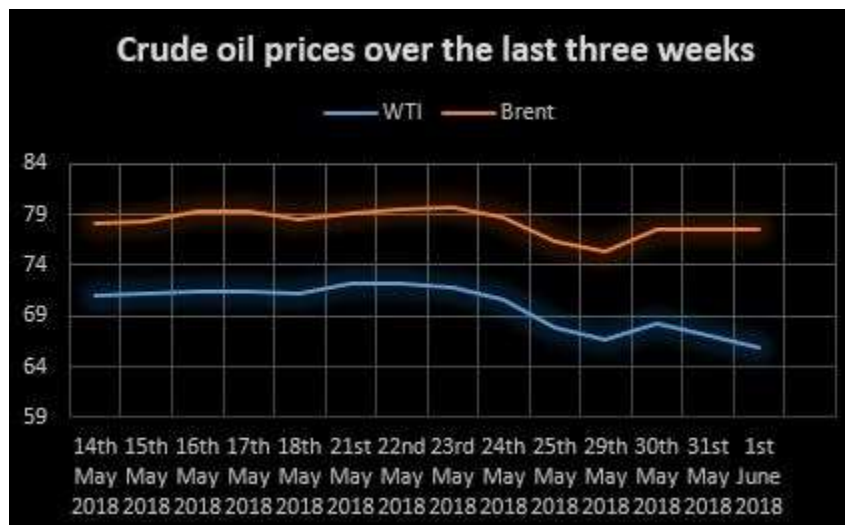
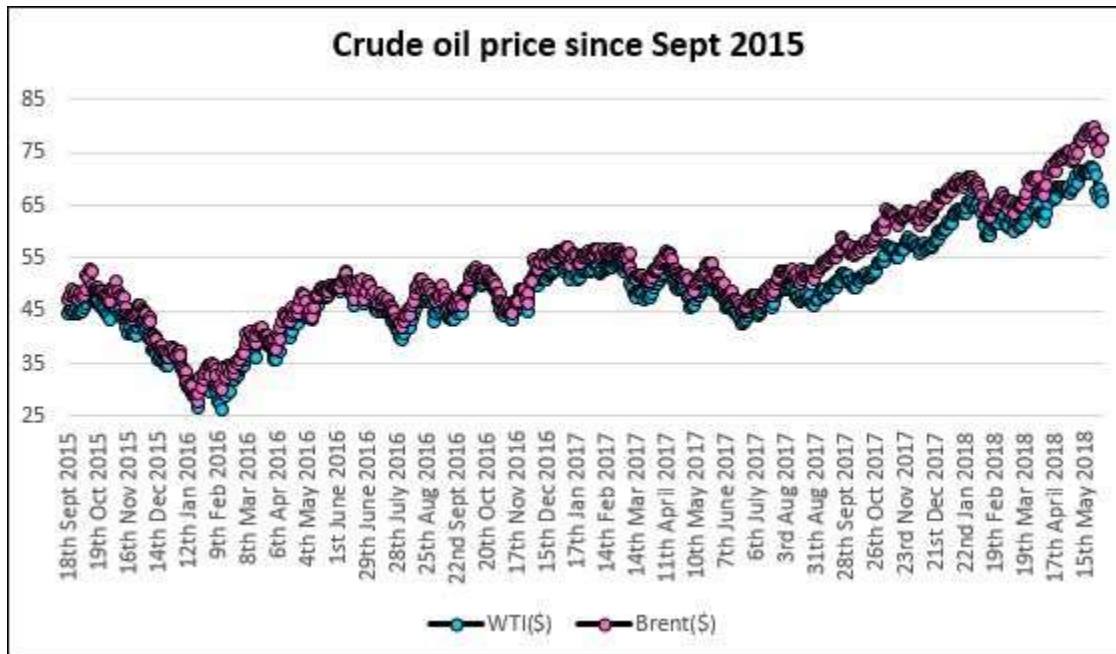


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- Crude oil lost some ground last week as Russia and Saudi Arabia announced they could make up any fall in production by Venezuela, and Iran after sanctions kick in, as well as apprehensions over US-China trade frictions and European political turmoil. This week the news about the rise in US oil inventories (by 5.78 mb to 438 mb for week ended May 18) made the crude slip further.
- As mentioned above, recently, Saudi Arabia and Russia had announced that both countries could restore some of the crude production output that had been curtailed as per the accord reached by OPEC and some other countries. This announcement was made in view of the dropping crude production from Venezuela and a likely drop in Iranian production after the US sanctions go into effect, but had the effect of lowering the price of crude. Besides Russia and Saudi Arabia, other countries in the group do not have the capacity to increase production significantly, but stand to lose if the prices fall as a result. This contentious issue will likely come up for discussion at the

forthcoming OPEC meeting later this month, and it would be interesting to watch for the discussion that it entails.

- ExxonMobil CEO, Darren Woods, announced this week that his company is having to do a balancing act between those who seek economic growth based on the rising energy demand and those who want a cleaner environment. The company plans to invest more than \$200 billion in major oil and gas projects around the world spread over seven years. Investment to the tune of trillions of dollars in the oil and gas industry is required to meet the demand for energy out to 2040, even if the global warming is set to two degrees above historical norms. Many of the company's rivals in Europe are investing in renewable energy such as wind, solar and battery storage, but ExxonMobil is convinced that technology is going to play a big role in helping to bridge the gap between the growth in energy usage and curtailing emissions. Thus, while rivals such as BP and Chevron have or hopefully will buy back shares, and Royal Dutch Shell plans to spend \$25 billion on stock in open market through 2020, ExxonMobil has no plans to do so, but rather invest money as mentioned above.
- US crude has now been reaching South Korea (SK Innovation Co. and GS Caltex Corp.), Japan (JXTG Holdings Inc.), Taiwan (CPC Corp.), Thailand (PPT Pcl and Thai Oil Pcl.), and about to reach India (Indian Oil Corp.). But with the rising shale oil production (> 10 mb/d) the delivery system has been facing bottlenecks. The West Texas' Permian basin has supplies trapped in the region, as there isn't enough pipeline capacity to transport the crude. Besides the pipeline, the US has only one export terminal (Louisiana Offshore Oil Port) that can accommodate supertankers with 2 mb capacity, which are economically viable for the Asian and European customers. There are other ports such as Corpus Christi, Houston, Beaumont in Texas and St. James in Louisiana that can use smaller tankers.
- Norway's Petroleum and Energy Minister said in an interview in Oslo this week that, 'it is far from unlikely that we will see \$100 again'. The minister said that the demand was likely to be higher than production because of the low investments for a period of time, but when it happens should be kept in mind.

So much for the oil industry.

Sometimes, when we look at the currency conversion charts, we notice that there are some currencies that are stronger than the US dollar. The one that stands tall is the Omani *rial*. So, that begs the question, why is it so strong against the US dollar? I was curious to seek the answer to this question, and hereunder is what I found:

Currency exchange rates can be 'floating' or they can be 'fixed', or 'pegged' to another currency. In the former case, the value of the currency will change continuously due to different factors, and in the latter case, the value of the currency varies with the currency to which it is pegged.

The floating rate of a currency is dependent on its market supply and demand. For example, if there is demand for the US dollar in the Indian market, its price rises in relation to the Indian *rupee*. There are various geopolitical and economic reasons that affect the exchange rate, and these include the country's inflation, unemployment rate, GDP, manufacturing data, interest rate changes by leading banks in the country, etc. As Canada is a net exporter of oil, as the price of oil goes up, the value of the Canadian

dollar goes up against some major currencies. Canada also generates more revenue when the price of the barrel is higher, and it also boosts its value in the exchange market.

In order to create stability in the value of their currency, the government of a certain country can peg the exchange rate of their currency against another major currency, such as the US dollar. Usually, this happens for those countries that hold large reserves of that foreign currency and that helps the government to control the changes in supply and demand.

In 1986, Oman decided to peg the *rial* to the US dollar, and has continued to maintain it. The recent downturn in the oil and gas industry has put pressure on Oman's state budget, and depleting its foreign reserves, in spite of the very low inflation rate of 1%, but any devaluation of the *rial* could raise the cost of many imports and investor confidence could be shaken. Thus, Omani *rial* continues to hold strong.

I hope you find this information interesting. So much for this post!

Till the next post, stay safe and happy!

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