

Analyst Express

China Petroleum & Petrochemicals Industry – Global oil price hovering within a narrow band amid spiking tensions over the Iranian nuclear issue

- ❖ Event: During the Chinese New Year holiday period, the prices of global oil futures continued to hover within a narrow band. On 27 Jan 2012, the NYMEX light crude oil futures and ICE Brent futures (both for delivery in March) closed at US\$99.56/bbl (+1.3% WoW) and US\$111.46/bbl (+1.5% WoW).
- ❖ Iran's strong response to sanctions spiked geopolitical tension. On 23 Jan, the EU foreign ministers' meeting decided to ban imports of Iranian crude oil and petroleum products; stop all financing and insurance services for Iran's oil trade, and ban imports of Iranian gold and other petrochemical products. Additionally, EU froze the assets of the Iranian central bank. Existing contracts can be fulfilled until 1 July. Responding to the sanctions, Iran's parliament is drafting legislation calling for the government to immediately halt oil exports to EU countries. The bill would also require Iran to embargo imports from countries participating in the EU ban.
- ❖ Iran's retaliation would lead to a lose-lose situation. With abundant oil and gas resources, Iran is the world's fourth largest oil producer and OPEC's second largest oil exporter. Its current daily export of ~2.6mn barrels account for 62% of its total crude output. Petroleum is the lifeline of Iran's economy and generates the bulk (85%-plus) of its total foreign exchange income. EU's crude oil imports from Iran totals ~500,000 barrels per day (Italy, Spain and France lead other EU members in this respect). According to latest media reports, voting on the proposed bill submitted to the Iranian parliament to cut oil exports to EU, scheduled on 29 Jan, has been delayed. The geopolitical tension is extremely high at the moment. Once Iran implements the harsh retaliatory measures, both EU and Iran would suffer grave losses. From a supply-demand viewpoint, we do not see any base for an immediate and substantial hike in global crude price. Nevertheless, we advise closely monitoring the impact of the Iranian nuclear issue on international oil prices.
- ❖ Historically, global oil prices typically remain sensitive to geopolitical events for 1-2 years. Global oil prices are constantly subjected to geopolitical risks, especially major events in oil producing countries or countries where oil passes through. Such events have become the key factor affecting short/medium-term oil prices. The three major geopolitical events in history that greatly affected oil prices are: (i) the Arab oil embargo of 1973; (ii) the Islamic revolution of 1978-79; and (iii) the first Gulf War in 1990. Global crude surged for 1-2 years after the outbreak of each event, and the magnitudes of the price hikes were impressive. As these events came to an end, oil price would begin to pull back slowly, typically over a period of more than two years.

Principal Market Indices

Index	Close	Change %		
		1-d	5-d	YTD
CSI 300	2460.72	-1.73	4.9	5
S&P/CITIC300	2066.42	-1.66	4.8	5
S&P/CITIC 50	1817.23	-2.03	3.9	6
Shanghai Composite	2285.04	-1.47	3.6	4
Hang Seng Index	20160.41	-1.66	2.7	10
H-share index	11145.60	-2.63	1.7	12
Red Chip	3864.34	-2.36	0.2	5
Nikkei 225	8793.05	-0.54	3.9	5
Dow Jones	12653.72	-0.05	1.4	3
S&P 500	1313.01	-0.25	1.5	4
Nasdaq	2811.94	-0.16	3.1	8
DAX	6444.45	-1.04	1.8	10
CAC	3265.64	-1.60	-0.1	4
FTSE 100	5671.09	-1.09	-0.4	2
BDI	702.00	-3.31	-27.9	-60

Major mercantile futures

Futures	Close (USD)	Change %		
		1-d	5-d	YTD
NYME Oil	98.78	-0.78	-1.9	-1
NYME Gold	1734.40	-0.06	4.8	13
LME Copper	8420.75	-1.16	2.8	14
LME Aluminum	2252.00	0.51	2.1	14
LME Zinc	2125.00	-1.16	6.2	16
Spot silver	33.51	-1.22	9.7	21
Corn futures	631.75	-1.56	4.6	-1
Soybean futures	1185.25	-2.77	0.2	-1
Wheat futures	644.75	-0.39	6.6	0
Cotton futures	94.15	-1.53	-4.1	3
Rough rice futures	14.46	-1.23	-2.4	0
Sugar	23.85	-1.49	0.0	1

Major foreign exchanges

FX	Close	Change %		
		1-D	5-D	YTD
USD index	79.12	0.28	-2.5	-2
USD-RMB	6.31	-0.10	0.0	0
USD-JPY	76.32	-0.52	-0.6	-2
EUR-USD	1.31	-0.34	2.2	1
GBP-USD	1.57	-0.16	1.7	2

Major stock index futures in China

Futures	Chg%	Basis	Position	Chn in position
IF1202	-1.99	8.48	37830	-927
IF1203	-1.93	23.48	9260	899
IF1206	-1.80	46.48	3067	165
IF1209	-0.62	76.68	166	166

Disclaimer

This research report is for information purposes only and should not be construed as an offer to sell or the solicitation of an offer to buy or sell any securities in any jurisdiction. The securities referred to in this research report may not be eligible for sale in some jurisdictions. The information contained in this research report has been compiled by CITIC Securities Brokerage (HK) Limited ("CSBHK") from sources that it believes to be reliable and (subject to the next paragraph) the opinions, analysis, forecasts, projections and expectations contained in this research report are based on such information and are expressions of belief only and no representation, warranty or guarantee is made or given by CSBHK or any other person as to its accuracy or completeness. All opinions and estimates expressed in this research report are (unless otherwise indicated) entirely those of CSBHK as of the date of this research report only and are subject to change without notice. Such opinions and estimates may be different from or contrary to the opinions presented by the other business departments, units or affiliates of CSBHK, as different assumptions and standards, different views and analytical methods may be adopted in the preparation of such other materials, and CSBHK is under no obligation to bring such other materials to the attention of any recipient of this research report. Neither CSBHK nor its holding companies and affiliates accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this research report or otherwise arising in connection therewith.

Any investment referred to herein may involve significant risk, may be illiquid and may not be suitable for all investors. The value of or income from any investment referred to herein may fluctuate and be affected by changes in exchange rates. Past performance is not indicative of future results. This research report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors are expected to make their own investment decision without relying on this publication. Before entering into any transactions in any securities referred to in this research report, investors should consider their own individual investment objectives and financial situation and seek professional financial, tax and legal advice, as necessary.

If this research report is being distributed by a financial institution other than CSBHK or its affiliates, that financial institution is solely responsible for its distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this research report or if they require further information. This research report does not constitute investment advice by CSBHK to the clients of the distributing financial institution, and neither CSBHK, its holding companies, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this research report or its content.

This research report is strictly confidential to the recipient and is not intended for persons in places where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such places.

This research report may not be reproduced, distributed or published by any person for any purpose without the prior written consent of CSBHK. All rights are reserved.

Regulatory disclosures

- The research analysts primarily responsible for the preparation of all or part of this research report hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.
- This research report has been produced in its entirety by CSBHK (CE Number: AAE879, regulated by the Securities and Futures Commission in Hong Kong). This research report is being distributed in the United States by CSBHK pursuant to Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934 exclusively to "major U.S. institutional investors" as defined in Rule 15a-6 and the SEC no-action letters thereunder.
- CSBHK and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities have no disclosable financial interests in the stocks reviewed in this research report.
- CSBHK and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities have not received compensation from or mandates for investment banking services in the past 12 months from listed corporations whose stocks are being reviewed by CSBHK in this research report
- CSBHK and each its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities do not have an individual employed by or associated with them serving as an officer of a listed corporation whose stocks are being reviewed by CSBHK in this research report
- CSBHK and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities are not market makers in the stocks reviewed by CSBHK in this research report.
- Further information on the securities discussed in this research report is available upon request.

Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

地址:	香港中環 添美道 1 号 中信大厦 26 楼	Address:	26/F CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
电话:	(852) 2237 9250	Tel:	(852) 2237 9250
传真:	(852) 2104 6580	Fax:	(852) 2104 6580
电邮:	hkresearch@citics.com.hk	Email:	hkresearch@citics.com.hk
网址:	http://www.citics.com.hk	Website:	http://www.citics.com.hk