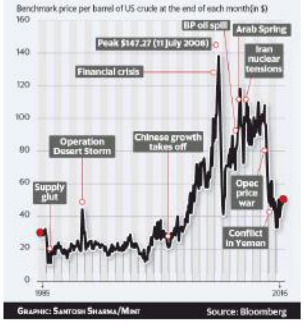
What does oil price future look like amid cut in Opec output?

Oil's ups and downs

While oil prices have risen this year, few analysts expect them to return to the prices seen a few years ago any time soon.



Graphic: Santosh Sharma/Mint | Source: Bloomberg

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LONDON

THE EXPLAINER

Oil is so much more than a fuel. It's a force even bigger than its trillion-dollar market. It's a weapon, a strategic asset, a curse. It's a maker and spoiler of fortunes, a leading indicator and an echo chamber. Each has a part in determining oil prices.

THE SITUATION

After four years when the highest average oil prices in history seemed to defy economic gravity, petroleum began to plummet in mid-2014. Prices dropped as much as 75% over the next 18 months, throwing oil producers into turmoil and roiling global markets. Supply had expanded as the sustained higher prices made techniques such as deep-water drilling and fracking pay off. Then China's economy slowed and its imports sagged. Instead of staunching the glut by pumping less oil, Middle East exporters engaged in a price war to defend their market share.

Adding to the oversupply, Iran began ramping up exports after an agreement to curtail its nuclear programme lifted economic sanctions.

The price collapse forced high-cost drillers to idle rigs while global giants like Chevron Corp., Shell and Halliburton cut thousands of workers and billions of dollars in spending. In November, Opec (Organization of the Petroleum Exporting Countries) nations finalized a deal to cut supply for the first time in eight years, after Saudi Arabia and Iran were able to set aside differences that had sunk earlier efforts to rein in production.

During the mid-20th century, a group of multinational oil giants known as the Seven Sisters (including companies that became Exxon Mobil Corp., Chevron and BP Plc) dominated the market. Controlling the barrels from the wellhead to the gasoline tank, they traded mainly with each other on confidential terms. Countries with oil fields wrested more control with the formation of the Opec in 1960. The cartel's Arab members used their power for political and economic ends, shocking the global economy with an embargo in 1973. Prices spiked again in 1979 because of the Iranian revolution. In the 1980s, Opec infighting, emergence of new suppliers and the development of futures exchanges gave rise to new market-based prices.

Today the international benchmark is Brent crude from the North Sea. The US benchmark, West Texas Intermediate crude, has been close to parity in 2016. The US repealed its 40-year-old ban on exporting crude in December 2015.

THE ARGUMENT

While oil prices have risen this year, few analysts expect them to return to the prices seen a few years ago any time soon, giving rise to the idea that this could be a new era of energy abundance. The price slump is a blessing for gasoline-guzzling consumers and a curse for countries such as Venezuela and Nigeria, whose fortunes are tied to energy sales. US producers say the shale revolution—which made the country one of the biggest producers of oil and gas—has freed it from fears that Middle East conflicts will cut off its supply.

Some industry-watchers worry that bargain prices will begin a period of under-investment in oil production that could set the stage for another surge in prices. Environmentalists worry that cheap oil will increase energy consumption and slow the shift to cleaner fuels. Longer-term, though, remedies for global warming could have a dramatic effect on oil, if governments favour policies to keep crude in the ground. But oil firms say the future includes rising energy demand and population growth, making oil an important fuel for decades to come.

BLOOMBERG

Almost all households in India have a bank account

Despite widespread access, many don't use banking instruments to save or invest, shows ICE 360° survey

PLAIN FACTS

BY PRAMIT BHATTACHARYA
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Ever since the government announced the scrapping of high value currency notes on 8 November, bank accounts opened over the past couple of years under the Jan Dhan Yojana (JDY) have become the subject of a raging controversy. While the government spokespersons and their supporters have cited the JDY numbers to stress the universalization of banking in the country, critics have questioned the credibility of those numbers, pointing out that many of the accounts may be fictitious, and may not belong to the true and deserving beneficiaries of the scheme.

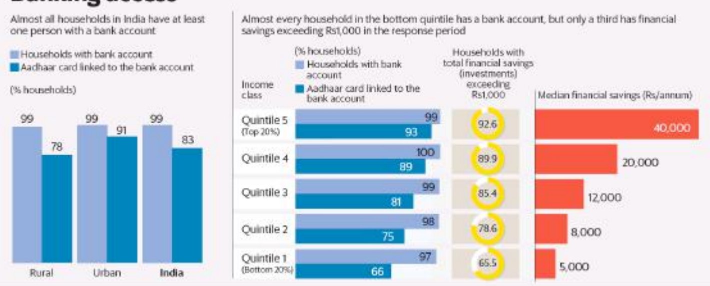
Fresh data from an independent and large-scale, nationally representative survey may help put that controversy to rest. The 'Household Survey on India's Citizen Environment & Consumer Economy' (ICE 360° survey) conducted this year shows that the JDY scheme has been a roaring success in getting people to open bank accounts. The survey also shows that a significant chunk of households which have access to banking still don't use banking instruments to save or invest, which is also consistent with what the official data shows.

Ninety-nine per cent of households in both rural and urban India have at least one member with a bank account, the ICE 360° survey shows. 91% of urban households have their Aadhaar card linked to their bank accounts. The comparative figure is lower for rural India at 78%. The survey, covering 61,000 households, is among the largest consumer economy surveys in the country and captures data till July 2016.

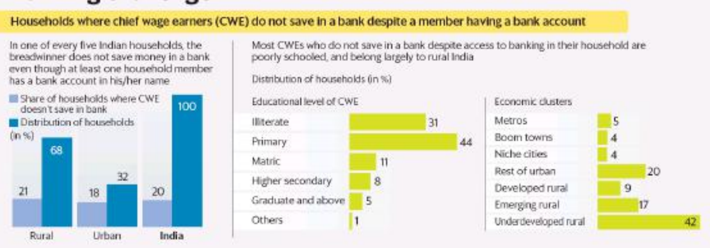
The survey shows a big jump in banking access compared to 2011, when the last census was conducted. The census showed that only 58.7% households had access to banking. It needs to be kept in mind that while the 2011 figures were based on a complete census, the 2016 figures are estimates based on a survey and hence need to be interpreted with greater caution. Nonetheless, estimates such as these based on a nationally representative survey usually provide a fair sense of the direction of change even if they under-state or over-state the pace of change because of sampling errors.

The survey also shows that in 20% of households with access to banking, the breadwinner (or chief wage earner) does not use banking instruments to save. Some of them may not be using the bank account as it belongs to another member of their household and they may not want to deposit their hard-earned money in someone else's account. Others may be thwarted by the lack of education. A large proportion (75%) of such breadwinners are either illiterate or have just attended primary school, the data shows. This suggests that the lack of education may be a serious impediment to India's ambitious financial inclusion agenda.

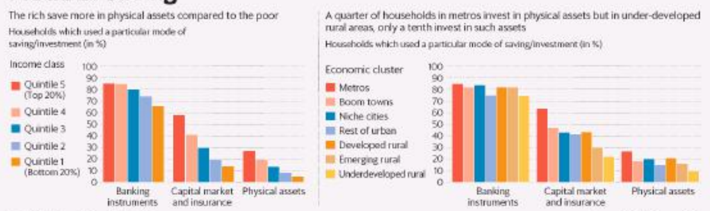
Banking access



Banking challenge



Mode of saving



Graphic: Ahmed Raza Khan/Mint | Source: ICE 360° Survey, 2016

mint ICE 360°
Part 11

A notable feature of the ICE 360° survey is that it is representative at the level of economic clusters. Urban India has been divided into four clusters: metros (population more than 5 million), boom towns (2.5 to 5 million), niche cities (1 to 2.5 million) and other urban towns (less than 1 million). Based on a district development index, rural India has been subdivided into three different clusters: 'developed rural', 'emerging rural', and 'under-developed rural'. The first category includes districts such as Bathinda (Punjab) and Kangra (Himachal Pradesh). The second category includes districts such as Latur (Maharashtra) and Kamrup (Assam) while the last category includes districts such as Kalahandi (Odisha) and Bastar (Chhattisgarh).

The survey shows that 42% of breadwinners who don't use banks to save despite access to banking in their household belong to under-developed rural areas while only 5% of them belong to metros. Location seems as big a driver of banking usage as education.

The survey also shows that while a greater number of people in under-developed rural areas may save cash at home, a far smaller proportion invest in physical assets (such as gold, jewellery, property etc.,) compared to other regions. Over a quarter of households in metros invest in physical assets but in under-developed rural areas, only a tenth invest in such assets. The richer income classes save much more than the poorer classes in banks but they also invest more heavily in capital markets (and/or insurance) as well as in physical assets. The survey shows that 65.5% of the bottom quintile had total financial savings (and/or investments) exceeding Rs1,000 during the response period (April 2015-March 2016). Among the top quintile, the proportion was 92.6%.

The median financial savings of the top quintile is 8 times that of the bottom quintile, as per the survey. About 27% of the top quintile reported investing in physical assets but only 5% of the bottom quintile did so, the survey shows. 58% of the top quintile have purchased either capital market products or insurance. The comparative figure for the bottom quintile is just 14%, as per the survey.

The ICE 360° survey was conducted by the independent not-for-profit organization, People Research on India's Consumer Economy (PRICE), headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla. The urban sample of the survey is comparable to that of the National Sample Survey Office (NSSO) consumer expenditure survey conducted in 2011-12. While the NSSO surveyed 101,651 households, of which 41,968 (41.3%) were urban households, the ICE 360° survey covered 61,000 households, of which 36,000 (59%) are urban households. The rural sample of the ICE 360° survey is less than half of the NSSO sample. Nonetheless, all the estimates of each region have been derived by adjusting for the respective population of those regions.

Tadit Kundu in Mumbai contributed to this story. This is the eleventh of a 16-part data journalism series on how India lives, thinks, earns and spends, based on the latest results from the ICE 360° survey (www.ice360.in/) conducted by the People Research on India's Consumer Economy (PRICE) in 2016. The next part will look at indebtedness levels of households.

Forget Bitcoin and mobile payments, cash is still king of the world

BY BEN STEVERMAN
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NEW YORK

Everywhere you look, someone is trying to kill off cash.

India eliminated 23 billion notes from circulation in an effort to fight tax evasion and corruption. Bitcoin and mobile payments are still hyped as the wave of the future while credit cards offer increasingly aggressive rewards. An influential US economist wants to stop printing denominations of $20 and above. His goal: help central banks impose negative interest rates as monetary policy.

But try as everyone may, cash registers are still bursting with paper bills and metal coins. Cash is alive and well, according to a new study of the spending habits of more than 18,000 people in seven countries.

"Many have predicted and espoused the view that cash is increasingly disappearing as a payment instrument," the authors write. "However, to paraphrase Mark Twain, we would say that the reports of the death of cash have been greatly exaggerated."

The value of dollars and euros in circulation has doubled since 2005, to $1.48 trillion and €1.1 trillion, respectively.

Some of that growth can be explained by demand for these currencies in foreign countries, but there's also plenty of evidence that Europeans and Americans are still carrying around wads of cash.

The value of dollars and euros in circulation has doubled since 2005 to $1.48 trillion and €1.1 trillion

The new research crunches and compares data on payment choices in Australia, Austria, Canada, France, Germany, the Netherlands and the US. The study shows notable differences among these countries: Germans and Austrians carry around and use the most cash; the Dutch love debit cards; paper cheques are still relatively common in France and the US.

The bottom line, however, is that consumers in all seven countries use cash more often than they use any other payment method.

Cash is least popular in the US, where it's used for 46% of all transactions versus 26% for debit cards and 19% for credit cards.

Cash's niche is for small transactions. The typical person makes one or two purchases a day. For the cheapest half of those, consumers in all seven countries prefer cash the vast majority of the time.

For more expensive purchases, top payment choices vary significantly from country to country.

Austrians and Germans still use cash for big purchases, but most other countries prefer debit, credit or cheques.

Because cash is used so often for small purchases, it ends up taking a smaller share of the total value of transactions, at least outside Austria and Germany.

In five of the seven countries, typical consumers have the equivalent of about $30 on them at any given time. The cash-reliant Austrians and Germans carry a lot more.

There's no single explanation for why consumers won't ditch cash. One factor is merchants who don't accept cards, or who encourage cash for small purchases.

Cash may also be a habit that people haven't gotten around to breaking. Older people are a bit more likely to use cash than the young in every country except the US.

Maybe consumers just prefer cash, especially for small, quick transactions. That's the conclusion of survey data available for five of the countries studied.

Only the Dutch rated debit higher than cash in terms of its acceptance, cost and ease of use. Americans rated debit and cash the same, while Austrians, Canadians, and Germans rated cash higher than debit.

Also, it bears noting that cash is anonymous and largely invisible to both tax collectors and debt collectors. It won't trigger finance charges or overdraft fees.

And perhaps its biggest practical advantage is that it offers a tangible way of keeping track of your spending in real time, working even when your phone's battery is dead.

That may be why, in all seven countries, the study found low-income people were far more likely to use cash than high-income consumers.

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