

# Faysal Asset Management

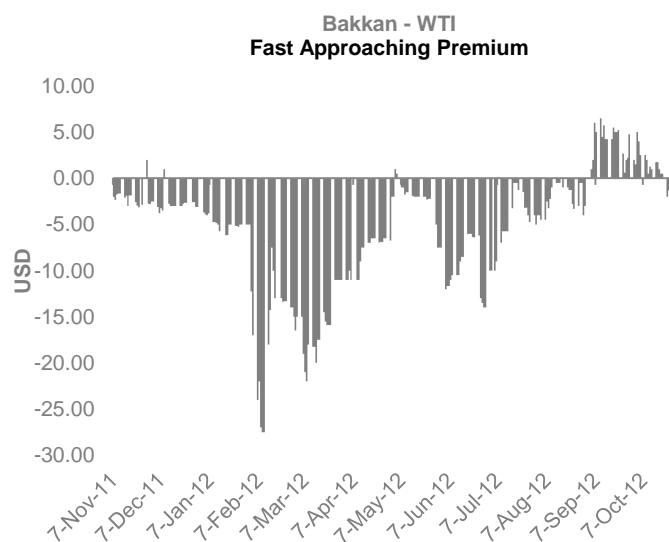
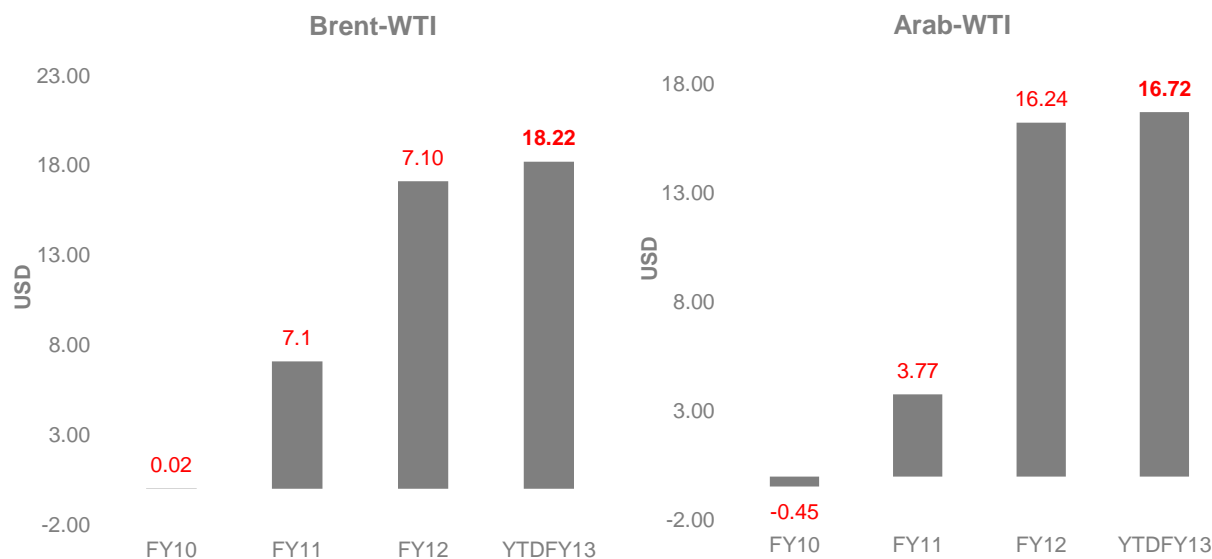
---

## Oil Differential – Common Misconceptions

November 13, 2012

## Falling WTI ≠ Falling Arab light

West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. Low density and less sulfur content relative to Brent (sweet crude from London) and Dubai Oil makes WTI highly sought after. As the mantra goes **“the less sulfur, the easier it is to refine the crude into gasoline”**. Typically, WTI crude from Cushing, Oklahoma, holds a higher price than Brent crude. For a long time Brent tended to trade at around a US\$2/bbl discount to the lighter, sweeter WTI. However, terminating the pipelines carrying WTI due to leakage problems has urged the oil gurus to question the usage of WTI as benchmark for global oil demand. Thus, putting Brent and other alternatives high sulfur oil in the lime light. To add to the misery, WTI is being beaten by ceaseless oil supply from Bakken oil fields (Canada) – offering better quality oil. The shift has led to price of Brent superseding the price of WTI by as high as USD 26-27. The premium at which Brent (or Arab Light) trades currently, vehemently states that the difference has widened to phenomenal levels due to constraints - like delivery points, storage capacities and transport costs.



Since FY10			
	Max	Min	Average
Arab-WTI	23.48	-5.12	7.51
Brent-WTI	27.88	-3.58	9.07

# Faysal Asset Management

One school of thought warrants that as WTI loses its worth with time, the differential will continue rising. The other school of thought, however, suggests that with wiser tactical adjustments, WTI ought to be raised back to its glory.



But keeping in view IEA (International Energy Agency) and EIA (the U.S. Energy Information Administration) claims of world consumption reaching 89-90 million barrels of oil per day over the next year, coupled with the fact that current world oil production hovers around 73-74 million barrels per day; one is compelled to believe that demand for oil (irrespective of its quality) is unlikely to wither off. Additionally, the incessant demand from China and India and unbroken supply has kept price of Brent and Arab light firm and steady. Furthermore, the consistency with which Arab Light has been following Brent suggests that till the time WTI retains its global status, demand for Brent and Arab light will remain high with oil differential staying intact in the near term.

**Disclaimer:** The information provided in this section are views of Faysal Asset Management Limited only and do not constitute a recommendation, solicitation or offer by Faysal Asset Management Limited or its affiliates to buy or sell any investment schemes, securities or other financial instruments or provide any investment advice or service. The information contained in this website has been prepared for investor education purposes only and may not pertain to any particular user's investment requirements or financial situation. Prior to the execution of any transaction involving information received from this website, investment advisor, attorney and tax and accounting advisors should be consulted with respect to the price, suitability, value, risk or other aspects of any stock, mutual fund, security or other investment.