

TRANSMITTAL SLIP	DATE 7 June 83
TO: NIO/E	

TRANSMITTAL SLIP	DATE 7 June 83	
TO: NIO/AL (Low)		
ROOM NO. 5G00	BUILDING hqs.	
REMARKS:		
FYI		
FROM:		
ROOM NO.		
FROM NO.		
FROM: C/NIC		
ROOM NO.	BUILDING	EXTENSION

FORM NO. 241
1 FEB 55REPLACES FORM 36-8
WHICH MAY BE USED.

(47)

Drexel Burnham Lambert

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OIL MARKET ASSESSMENT

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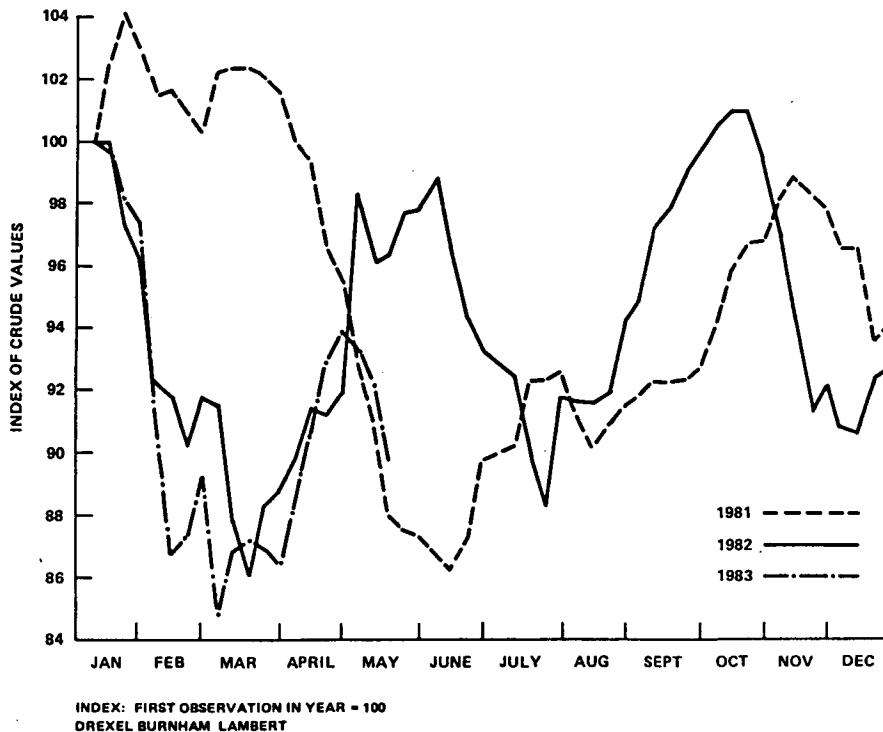
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SUMMARY

Many observers of the oil market have expressed the view that oil markets are following a pattern similar to those observed in 1982 or prior years. To examine this hypothesis, changes in prices in 1981, 1982, and 1983 have been computed on a standardized index basis. The results show a striking similarity between events in 1983 and prior years.

Figure 1

WEEKLY FLUCTUATIONS IN NETBACKS FROM ROTTERDAM FOR ARAB LIGHT (INDEX)



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ANALYSIS

"Deja vu: A french word which describes a feeling that one has had a given experience"

The day to day change in spot market quotes for any commodity result from the interplay between supply and demand. Thus, attempts to draw comparisons between the behavior of markets at one point in the current year and the same point in earlier years will be frustrated by the differences in market conditions prevailing at the time. However, conditions behind oil markets in 1983 seem to be very similar to those which prevailed in 1982 and, to an extent, those in 1981.

The similarity in price movements can be most easily noted by the use of index numbers. With this approach, the transaction price for a given day is expressed as a percentage of the price which prevailed at a specific point of time. Here indexes of prices have been computed for netbacks on Arab Light at Rotterdam (Figure 1) and Platt's New York Harbor Low's (Figure 2). In each Figure, the graphs describe the movement of prices during the year relative to the price level which prevailed during the first week in January. Thus, the index for Arab Light for the week ending May 20 (90.29 percent) equals the ratio of the netbacks for the week (\$ 27.15/bbl.) divided by the netbacks for the week ending January 1, 1983 (\$ 30.07/bbl.) multiplied by 100. The formula is written:

$$\text{Index for May 20} = \frac{\$27.15}{\$30.07} \times 100 = 90.29$$

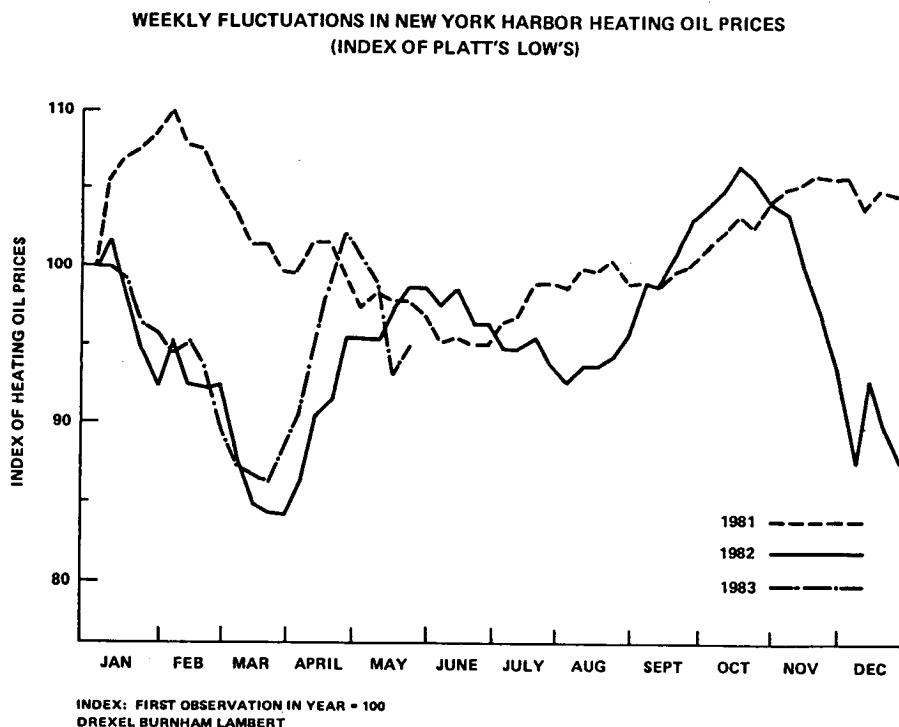
Computation of price indexes for each year facilitates comparison of movements between years. When comparing year to year changes in netbacks, it may be observed that the pattern of price movements in 1983 closely followed the pattern established in 1982 through the end of April.

- . In 1982 and again in 1983, netbacks dropped by 14 to 16 percent over a short nine to twelve week period. In 1981, a decline of a similar magnitude was observed over a comparable twelve week period which began in the second quarter.
- . Netbacks rebounded quickly from lows in 1982, and again in 1983. In 1982, the rebound lasted twelve weeks and amounted to twelve percent. In 1983, the rebound was shorter, lasting only nine weeks, and amounting to only ten percent. In 1981, the rebound was slower and more steady, lasting from mid June to the end of November.

Indexes for changes in New York Harbor heating oil prices also indicate a close pattern of parallel movements between 1982 and 1983. (See Figure 2).

- In 1982 and again in 1983, prices dropped by roughly fifteen percent during the first twelve weeks of the year and then quickly returned back to initial higher levels during the next six weeks. This pattern differs from the behavior of prices in 1981 (when winter occurred as scheduled).
- Relative price stability was observed between April and August in both 1981 and 1982. In 1983, a more cyclical pattern seems to be developing.

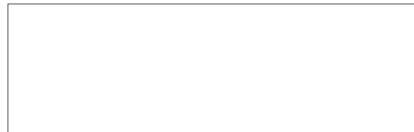
Figure 2



While comparisons of price indexes for 1981, 1982, and 1983 provide a basis for identifying similarities in price movements during past years, unfortunately, the comparison is less useful in predicting future price movements. These changes will depend upon factors such as:

- . The rate of economic recovery,
- . The recovery in consumption relative to economic growth,
- . Weather, and
- . The volume of petroleum produced.

Given the current circumstances, prices should remain soft through July, probably following the pattern established in 1981. A slow economic recovery, continued depression in petroleum markets, and a surplus supply situation will contribute to this softness. Barring a major economic problem, netbacks should begin to increase in the fall, following the 1981/1982 pattern.



STAT