

# Commodity Report

# Oil

## Crude higher on geopolitical tensions

Tensions between Iran and the West have once again added a premium to the crude oil price, which recently reached a six-month high. Declining US energy inventories reinforce our observation that energy markets are indeed fundamentally tight. In addition, refinery outages are adding to a chain of circumstances that point to potentially higher energy prices.

**Market Outlook:** Crude reached a six-month high as Iran seized 15 British naval personnel in the Persian Gulf, heightening concern that a prolonged standoff could threaten oil shipments. Apart from the geopolitical situation, the US Department of Energy's statistics continue to show declining patterns in US energy inventories. Outages in both Europe and the US are adding to the problematic energy situation, while some weather forecasters are calling for an active hurricane season in the US. We recall that an active hurricane season was forecast last year, but in the end it was far more mild than expected. Nevertheless, all these circumstances - realized and expected - suggest to us that the oil price could well rise further.

**Price Outlook:** Recent price movements indicate that crude oil broke out of its downtrend channel. Given the fact that crude is currently in an uptrend channel, we see the 57-60 USD/bbl level as the price supporting the current uptrend. To the upside, 68 USD/bbl is a target level.

THIS REPORT WAS PREPARED BY UBS AG

Ioannis Drikos

Performance & Volatility					Oil
	-1 m*	-3 m*	-6 m*	-12 m*	
Return	7	13	10	-6	
Volatility	18	24	31	39	

\* in %; Source: Datastream, UBS WMR

Price Outlook (USD/BBL)					Oil
Spot	3 m Future	2006 Average	2007 Average	2007 WMR Forecast*	
65.78	68.25	66.12	58.24	65.5	

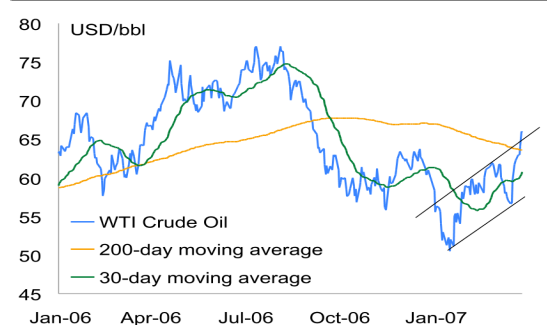
\* UBS WMR annual average price Forecast; Source: Bloomberg, UBS WMR

Energy				Oil
	Spot	-3 m*	-12 m*	YTD
WTI Crude Oil	65.78	13	-6	7.4
Brent Crude Oil	68.5	18	-2	14
Natural Gas	7.48	31	12	31
Heating Oil	1.8794	17	-5	16.2
Unleaded Gasoline	209.63	30	-12	29
DJ AIG ER Energy Index	252.92	9	-33	9
DJ AIG ER Index	171.96	3	3	6
RICI ER Index	2716.42	1	-2	4

\* in %; Source: Datastream, UBS WMR

### Crude's oil technical picture

Oil is trading above its 30-day moving average



Source: Bloomberg, UBS WMR

### Oil Facts

Crude oil varies in physical appearance from a light, colorless liquid to a heavy, dark black or brown, viscous sludge, depending on where it is found. Crude oil density is classified by the American Petroleum Institute in a unit known as the API Gravity. Light (sweet) oils have an API grade of 38 degrees, whereas heavy (sour) oils have a lower API grade of 22 degrees or less. The two key global oil benchmarks are West Texas Intermediate (WTI) for the US and Brent Crude for Europe.

## Appendix

Terms and Abbreviations			
Abbreviation	Description	Abbreviation	Description
COMEX	Commodities Exchange (New York)	NYMEX	New York Mercantile Exchange
CR Coil	Cold Rolled Coil	WTI Crude Oil	West Texas Intermediate Crude Oil
CRB Index	Commodities Research Bureau	Y/MT	Yen (in 000s) per Metric Tone
DJPM Index	Dow Jones Previous Metal Index	USD/BBL	USD per Barrel
ECIM Index	Economist Commodity Industrial/Metals Index	USD/MMBtu	USD per 1 million British Thermal Unit
E/MT	Euro per Metric Tone	USD/MT	USD per Metric Tone
GSC Index	Goldman Sachs Commodity Index	USD/oz	USD per oz, (1 oz = 31.10 grams)
HR Coil	Hot Rolled Coil	nsa	non-seasonally adjusted
LME	London Metal Exchange	mom	month-on-month
MGMI Index	Metallgesellschaft Metals Index	wow	week-on-week
Natural Gas HB	Natural Gas Henry Hub		

## Global Disclaimer

This report has been prepared by Wealth Management Research, the Financial Analysis Group of Global Wealth Management & Business Banking, a Business Group of UBSAG (UBS). In certain countries UBS AG is referred to as UBS SA. This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions as well as any prices indicated are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. At any time UBS AG and other companies in the UBS group (or employees thereof) may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realisable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. Futures and options trading is considered risky and past performance of an investment is not a guide to its future performance. Some investments may be subject to sudden and large falls in value and on realisation you may receive back less than you invested or may be required to pay more. Changes in FX rates may have an adverse effect on the price, value or income of an investment. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

For structured financial instruments and funds the sales prospectus is legally binding. If you are interested you may attain a copy via UBS or a subsidiary of UBS.

This document may not be reproduced or copies circulated without prior authority of UBS or a subsidiary of UBS. UBS expressly prohibits the distribution and transfer of this document to third parties for any reason. UBS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

**UK:** Approved by UBS AG, authorised and regulated in the UK by the Financial Services Authority. A member of the London Stock Exchange. This publication is distributed to private clients of UBS London in the UK. Where products or services are provided from outside the UK they will not be covered by the UK regulatory regime or the Financial Services Compensation Scheme. **USA:** Distributed to US persons by UBS Financial Services Inc., a subsidiary of UBS AG. UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** In Canada, this publication is distributed to clients of UBS Wealth Management Canada by UBS Investment Management Canada Inc.. **Germany:** Issuer under German Law is UBS Deutschland AG, Stephanstrasse 14 - 16, 60313 Frankfurt am Main. **Bahamas:** This Publication is distributed to private client of UBS (Bahamas) Ltd and is not intended for distribution to persons designated as a Bahamian citizen or resident under the Bahamas Exchange Control Regulations. **Hong Kong:** This publication is distributed to clients of UBS AG Hong Kong Branch by UBS AG Hong Kong Branch, a licensed bank under the Hong Kong Banking Ordinance and a deemed registered institution under the Securities and Futures Ordinance. **Singapore:** Distributed by UBS AG Singapore Branch, an exempt Financial Adviser under the Singapore Financial Advisers Act. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Private Clients Australia Ltd (Holder of Australian Financial Services Licence No. 231127), Level 27, Governor Philip Tower, 1 Farrer Place, Sydney NSW 2000.

© UBS 1998-2007. The key symbol and UBS are registered and unregistered trademarks of UBS. All rights reserved.