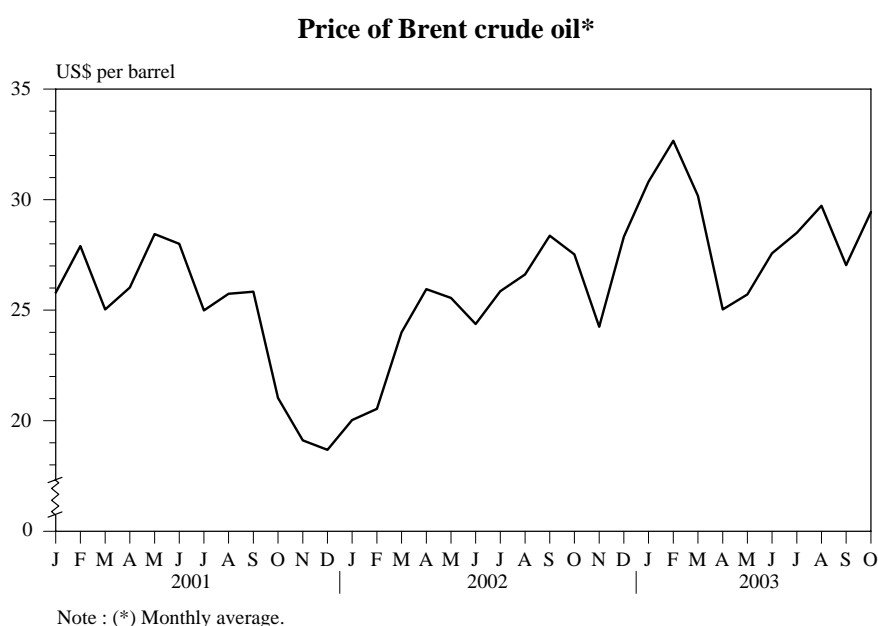


Box 6.2

Recent trend in international crude oil prices

Over the past two years, international crude oil prices have been generally on a rising trend. The price of Brent crude oil picked up from a low of around US\$18 per barrel in late 2001 to over US\$30 per barrel in early 2003, and stayed at around US\$28-30 per barrel in the more recent months.

While market fundamentals, such as the demand and supply balance, the level of oil inventories, and OPEC's production situation, played an important role in influencing crude oil prices, major geo-political events and developments, including in particular the 911 incident in the United States in September 2001 and the US-led war on Iraq in March 2003, had led to added volatilities in crude oil prices.



More specifically, the 911 incident in September 2001 had triggered off a sharp plunge in crude oil prices. Market sentiment was pummeled by heightened alert to global terrorism, with consequential down-drag on the global economy and hence on oil demand. The price of Brent plummeted to a low of US\$17.2 per barrel on 15 November 2001, before rebounding somewhat to around US\$20 per barrel in early 2002 following the output cut by both OPEC and major non-OPEC producers.

Crude oil prices bounced back noticeably during the course of 2002 amidst heightened political tensions in the Middle East, as conflict between Israel and Palestine intensified, and as the possibility of war on Iraq grew. Tightened oil supply due to OPEC's output cut and increased demand due to replenishment of US oil inventories also rendered support to firmer oil prices. At end-2002, the price of Brent rose to around US\$30 per barrel.

In early 2003, crude oil prices surged further, in face of the imminent outbreak of war on Iraq and the supply disruption caused by the strike in Venezuela. The price of Brent soared to a 2-year high of US\$34.5 per barrel on 6 March 2003. Upon the quick ending of the war on Iraq, the market refocused on the demand-supply fundamentals. The slow recovery of oil production in Iraq and the low level of global oil inventories, against strengthening oil demand amidst the global economic recovery, held up oil prices. In late 2003, the price of Brent stayed firm at around \$28-30 per barrel.