Box 6.2

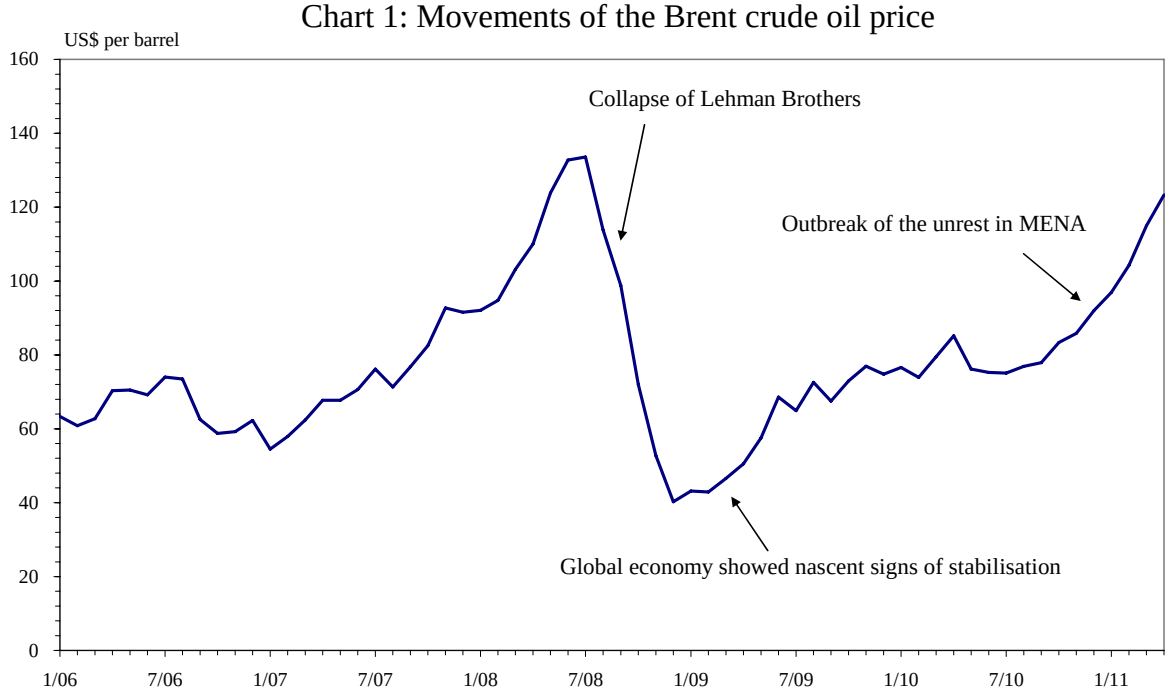
Movements of global oil prices amid the unrest in the Middle East and North Africa

Recent trend of global oil prices

International oil prices surged to a historic peak in mid-2008, before experiencing a drastic correction after the intensification of the global financial crisis and the ensuing global recession. Yet they have risen back sharply again since early 2009 amid the global economic recovery, abundant liquidity, and renewed strong demand from emerging markets. Since the beginning of the year, oil prices have been further bolstered by the political unrest in the Middle East and North Africa (MENA) region.

Using the monthly average of the spot price of North Sea Brent Oil as an indicator, it rebounded markedly from a low of US$40.3 per barrel in December 2008 to US$74.8 per barrel in December 2009 and further to US$92.0 per barrel in December 2010. The outbreak of the political unrest in MENA in January 2011 added fuel to the price surge. The Brent crude oil price rose notably further to US$114.9 per barrel in March 2011. In the first quarter of 2011, it was on average 37.6% higher than a year earlier. The uptrend has yet to show signs of abating. The Brent crude oil price climbed higher to an average of US$123.3 per barrel in April 2011, only 7.7% lower than the record monthly peak of US$133.6 per barrel in July 2008 (***Chart 1***).

Chart 1: Movements of the Brent crude oil price



According to the International Energy Agency (IEA), oil consumption across the world increased by 3.4% in 2010, due in large part to a spectacular growth of 7.3% in demand from the Asian economies (***Table 1***). In light of the rather tight supply situation, global oil stocks declined in the second half of 2010, thereby adding further upward pressure on global oil prices.

Box 6.2 (Cont'd)

Table 1: World Oil Supply and Demand
(million barrels per day)

				2010			
	2008	2009	2010	Q1	Q2	Q3	Q4
Total Demand	**86.1**	**85.0**	**87.9**	**86.5**	**87.0**	**88.7**	**89.4**
	(-0.6)	(-1.3)	(3.4)	(2.3)	(3.4)	(3.9)	(4.1)
North America	24.2	23.3	23.9	23.6	23.8	24.2	24.0
	(-5.2)	(-3.6)	(2.6)	(0.6)	(3.6)	(4.1)	(1.9)
Europe	16.1	15.2	15.2	14.9	14.8	15.5	15.4
	(-0.7)	(-5.3)	(-0.6)	(-5.1)	(-1.4)	(2.0)	(2.3)
Asia*	17.4	18.4	19.8	19.3	19.9	19.4	20.5
	(1.8)	(6.0)	(7.3)	(10.3)	(6.9)	(4.1)	(8.2)
Mainland China	7.7	8.4	9.4	8.9	9.4	9.2	10.0
	(2.3)	(8.0)	(12.1)	(18.9)	(10.6)	(6.1)	(13.7)
Total Supply	**86.4**	**85.2**	**87.3**	**86.5**	**87.0**	**87.4**	**88.3**
	(1.1)	(-1.4)	(2.5)	(2.5)	(2.8)	(2.2)	(2.4)
Total Stock Change	0.3	0.2	-0.6	0.0	0.0	-1.3	-1.2

Source: Oil Market Report (April 2011), IEA.

Notes: ( ) Percentage change over a year earlier.

(*) Exclude OECD members.

The recent unrest in MENA has increased the uncertainty in the global economic environment. According to IMF's country groupings, the region accounts for about 3.6% of the world GDP. Though not large in terms of economic size, the region is of strategic importance to the global economy because of its oil resources. The region currently accounts for nearly 30% of the world's crude oil production. It is too early to gauge the full implications of the still-evolving situation in MENA. Apart from the dampening effect on global economic growth, the unrest in MENA, if worsens, thereby accelerating and exacerbating the oil price surge, coupled with the interaction between oil and food prices, would amplify the inflationary pressures around the globe.

Implications for inflation in Hong Kong

The run-up of international oil prices will translate into higher import prices and hence higher retail prices of oil products in Hong Kong. Nevertheless, the direct impact on inflation should not be very significant, as the Hong Kong economy is highly service-oriented and not oil dependent. For the economy as a whole, fuel cost accounts for an average of about 4% of total business cost. However, several industries which have a higher cost share in fuel, including the land and air transport, restaurants, fishery and construction are bound to be affected by a greater extent.

Box 6.2 (Cont'd)

As far as the direct impact on consumer price inflation is concerned, the oil-related products, including motor fuels and LPG, have a combined weighting of 0.77% in the Composite CPI. These items contributed only 0.08 percentage point to the underlying inflation rate of 3.7% in the first quarter of 2011.

Against the backdrop of an unfolding political unrest in the MENA region and strong oil demand from the fast-developing economies, big gyrations of international oil prices are likely to persist in the near term. Although the direct impact on inflation should be rather limited, the spill-over effects of higher oil prices on business costs in some local sectors and on higher inflation in our import sources are of greater concern. Thus rising oil prices are an area for close watch-over for their risks to the global economy and their impacts on Hong Kong's inflation.