UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

BRIDGING THE GAP

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HELPING STUDENTS TRANSITION FROM

LEARNING TO EARNING

WITH SHAILAN PATEL

PLUS: THE COST OF CARING IN A GLOBAL ECONOMY · DAIRY VS ALT-DAIRY · HOUSING IN AUCKLAND & THE RECENT DEVELOPMENTS IN OIL MARKETS

The University of Auckland Investment Club
Investment Bulletin Team 2022

Andrew Meng
Bulletin Editor-in-Chief

Timothy Cross
Senior Writer

Rohan Bhatt
Senior Writer

Joshua Paul
Senior Writer

Luka Borich
Senior Writer

Zac Ballantyne
Senior Writer

Aniston Inger-Holland
Senior Writer

Issie Dekker
Writer

Phoebe Horton Andrews
Writer

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Writer

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Skip Gee
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Salvy Fung
Writer

Keegan Macdonald
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Faheem Ibrahim
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Shyam Prasad-Jones
Freelance Writer

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Contents

A message from the Bulletin team

WELCOME

Welcome to the first edition of the UAIC Bulletin for 2022! We're thrilled to be back for another year and can't wait for you to see everything new we have in store.

We've welcomed six new writers to the team this year, each coming from a range of degree backgrounds and year levels, and each bringing with them a unique set of perspectives, passions, and interests. Together with our returning writers, we've built an incredibly diverse team and we're excited for you to see the wide breadth of content we'll be releasing in 2022. Expect to see articles ranging from the latest in the NFT and crypto space to analyses of complex geopolitical issues and everything in between.

OUR PLANS FOR 2022

Our mission has always been to provide a platform for students to have their voices and opinions heard. But we're also looking to innovate constantly, and as such, we're always thinking about how we can deliver more value to our audience. We've enjoyed building a community of readers within the university, but this year, we also have an ambition to increasingly build the Bulletin as a bridge between UAIC and industry.

As you might've seen, we've kicked off this new initiative in this very edition with an interview with Shailan Patel, MYOB's Education Manager and a long-time friend of the Bulletin. We hope to do more pieces like this throughout the year, as well as a very special edition featuring some interviews with UAIC alumni working in industries like investment banking, consulting, and private equity.

We hope you enjoy the pieces included in this first edition and stay tuned for new content coming out each Monday!

STUDENT WRITERS · STUDENT OPINIONS

2022 Co-Presidents' address

BY NEHAAL RAM, ON BEHALF OF THE UAIC CO-PRESIDENTS

Hi, welcome to UAIC for 2022!

This year, Katy Qiu and I are your Co-Presidents. As fifth-year BCom/BSc and fourth-year BCom/LLB students, we've both been involved with UAIC for a number of years and look forward to carrying on the torch from our previous Co-Presidents and the wider Executive team.

Our goal for 2022 is to maximise the value proposition for our members. We've structured our core principles to focus on recognising efforts, continuous opportunities to learn and develop and to continue building a community of like-minded peers that support and connect through a collective interest in investing, finance and business.

To make this happen, we've worked tirelessly with our Executive team to plan and deliver as many events, workshops and initiatives in a Covid-19 environment, providing pathways to engage both online and offline. Of note, be sure to keep an eye out for events from previous years such as Investing101, Careers Roundtable, GD1 Venture Capital competition and our Women Mentoring Program.

This year, we also look forward to introducing a high school Stock Pitch competition, Cocktail Party and more events in person as we look to return to normalcy. Stay tuned for the exciting year ahead; we can't wait to see our members and the broader community throughout the year.

INVESTING IS FOR EVERYONE

An update from the fund

BY MICHAEL SMITH, INVESTMENT COMMITTEE CHAIRPERSON

INTRODUCTION

Hi, I'm Michael, and I am in my fifth year of a BCom/BE conjoint degree with majors in Finance, Economics and Civil. This year, I'm the Chairperson of the Investment Committee, a team of 16 analysts who actively manage the Club's Investment Fund. Our team meets twice a week to hear pitches across the NZX and ASX markets and complete valuations to see if any opportunities match our value investing mandate. On the Investment Committee, we learn about the financial markets, company research, business analysis and valuation modelling. We have recently launched our new website, and I would encourage you to look at it to learn more about us, our fund and its performance.

2022 SO FAR

To begin the year off, the Investment Committee ran an information workshop and interviews to select new analysts to join our team. Recruitment this year was incredibly competitive and made the decision process very challenging. We were delighted to welcome nine new Junior Analysts, each coming from a unique background and bringing fresh ideas and perspectives to the Committee.

Our newly formed team is currently being onboarded, where we teach and refresh analysts the fundamental skills they need to manage our fund. Our structured onboarding includes an induction and three technical workshops. I facilitated our induction, bringing analysts onto the same page with how we will work together this year. Anna Marsden and Daniel Mar then delivered a workshop discussing the qualitative components of a pitch and provided a market update. Joe Strawson then ran a comparable valuation tutorial, and next week he will be running a further one, discussing the ins and outs of a discounted cash flow. By the end of our induction process, our whole team will be equipped with the foundational skills they need to research, pitch and value stocks for the Fund.

"My vision for the Investment Committee is to have excellent educational opportunities for our analysts so they can deliver high-quality pitches and valuations, enabling us to maximise our Fund's returns."

CONVERSATIONS WITH INDUSTRY

BRIDGING THE GAP

Helping students transition from learning to earning with Shailan Patel - Education Manager, MYOB

INTERVIEW & ARTICLE BY KEEGAN MACDONALD, JOSHUA PAUL, AND ANDREW MENG

It's a new year here at the Bulletin, and we've got a very special piece to kick things off. Recently, we sat down with Shailan Patel, MYOB's Education Manager and long-time friend of the Bulletin, to chat on the many facets of his day-to-day life and hear his advice for students looking to transition from university to meaningful employment.

It’s a fitting way to start the year. Shailan and the team at MYOB have been an incredible sponsor of the Bulletin for the last two years, and it feels the right thing to do to introduce our readers to someone who, without, the Bulletin would not be what it is today. Given Shailan’s expertise lies right at the intersection of education and employment, there are probably very few people better to go to for advice when it comes to the graduate job market.

ABOUT SHAILAN

Many of you will be familiar with Shailan. He’s been heavily involved with a wide range of initiatives at the University of Auckland. You might know him from some of his guest lectures, from his involvement with many of the clubs at the Business School, or you might have just seen his name pop-up on LinkedIn. For Shailan, it’s that opportunity to connect with ambitious students full of aspiration and drive that motivates him.

“I love speaking to students. There’s a lot of opportunity, hope, and ambition in this space. It’s incredibly exciting.”

Originally from the UK, Shailan graduated from the University of Bristol with a degree in Economics and Economic History. He spent five years working in recruitment and sales before making the move down under in 2010. Once he reached New Zealand, Shailan spent four years managing sales for some of the country’s largest media groups before joining MYOB in 2015. Today, Shailan’s role sees him continuously collaborating with educators and students to help new graduates transition into meaningful employment.

“I manage MYOB’s relationships with our education partners, whether they’re universities, high schools, or clubs like UAIC. The... “...goal has always been to help students make a successful transition from education to meaningful employment.

"Bridging the gap between learning and earning has been getting more and more difficult for young people. A few years ago, a report from The Foundation for Young Australians found that graduates are now taking at least two and a half years to transition to full-time work after completing their studies. MYOB won’t solve this issue alone, but we can do a lot to help educators and students tackle this problem.”

BRIDGING THE GAP

For many of us students entering the later years of our degree programs, it can be a stressful and anxious time as we begin to shift into the ‘working phase’ of our lives. Many of our writers have themselves just gone through an internship or graduate recruitment period. We have all heard an array of different tips, tricks, and CV 'hacks' to best prepare you for your dream job. So we asked Shailan, what really are the most valuable pieces of recruitment advice? Firstly, the importance of networking can't be overstated.

"The most underutilised resource is the university itself. Many students will be taking advantage of a lot of it, but there is so much more you can squeeze out of the University of Auckland. There is so much opportunity there, so many opportunities to get involved with clubs, attend networking events, and meet new people. You never know who will be the one to present an opportunity to you in a few months, few years, or a few decades.

"I've met tens of thousands of students, and I've never met a student that has nothing to offer. But I continue to meet students who are very good at underselling themselves."

"Don't close your doors to anyone. I've met tens of thousands of students, and I've never met a student that has nothing to offer. But I continue to meet students who are very good at underselling themselves.

"For example, I connected with a recruiter on LinkedIn just because we had a lot of mutual connections. I thought that the...

"... relationship might prove useful sometime in the future, so I sent them an invitation to connect. Fast forward six months, and they ended up being the one who helped me land my role here at MYOB. You never know what any connection could do for you in the short-term or the long-term."

...and when the time comes to prepare for your interviews, write a list and be specific.

"One of the best things you can do is just write down everything you have ever done. Whether it's sports, volunteering, or part-time work, think about the skills each activity develops – chances are you'll see a pattern start to form. For me, I realise now that every role I've ever held has revolved around communication and relationship building. Seeing that pattern helps you realise what you're good at and helps you develop some confidence in yourself. It also gives you a list of examples to use in interviews – if a question comes up about collaboration, I can talk about this. If it's a question on leadership, I can talk about that.

"Whether it's on your CV or in your interview, be specific – quantify. Attaching numbers to your achievements gives them credibility, and it helps you create and structure your story. Compare 'I wrote some articles and did some interviews' with 'I wrote four articles for the UAIC Bulletin on .subjects A, B, C, and D and conducted four interviews with industry professionals.' But to create that story, you need to do...

"... the homework and know everything you've done and understand what everything has taught you."

Although many of us are focused on getting that first job out of university, Shailan encourages us to think beyond that. It's more important to think about what you want from a career rather than what your next job is.

"It's good to try new things and take advantage of different opportunities to figure out what motivates you. It's good to think about what you want to do and where you want to be in the future, and it's good to put these things into a long-term plan – just make sure the plan's flexible. Chances are something will come along and bulldoze it at some point (e.g. COVID).

"Also, keep in mind that career progressions hardly ever happen when you think they will.

"And, if you haven't figured out yet what motivates you or you don't know what you want to do career-wise, one thing you can do is think about the skills you want to use on a daily basis."

Perhaps the piece of advice that stood out to us the most in our conversation with Shailan was his emphasis on graduate recruitment being a "two-way street." It's a perspective on recruitment that many students often don't consider.

"...think about why you want to work at a particular company just as much as they would think about why they want to hire you."

"One question you should always make sure to get right is why you want to work at a company...

"...(and don't say it's because you need a job). It's important to know because it's a two-way street. You need to think about why you want to work at a particular company just as much as they would think about why they want to hire you. The company has to sell itself to you just as much as you need to sell yourselves to them. Are they good enough for you? Be confident in what you can offer."

NOTE: Some of Shailan's quotes have been edited for clarity. This interview was conducted via Zoom on the 25th of March 2022 by Keegan Macdonald, Joshua Paul, and Andrew Meng.

GLOBAL

The cost of caring in a global economy

BY LUKA BORICH

How does one plunge their economy into severe recession, undo decades of efforts to build an economy, commit untold war crimes and attempt to redraw the Iron Curtain from which they have barely emerged from? Putin is how. History – if not the Hague – will judge Putin as the driving force behind one of the most public invasions in recent times. The immediate impact on the world has been significant, and only projects to get worse. New Zealand is no exemption to this. But what has this taught us about a global economy?

A word on Ukraine: It goes without saying that the Ukrainian resistance and counter-offensive has been nothing short of remarkable. Russia outnumbers Ukraine's military five to one, yet the Ukrainians are digging in. Russia has taken territory, but Ukrainian combat soldiers and civilians have made them work for every inch. They are far braver than I. President Zelenskyy is a leader of leaders. Slava Ukraini.

The invasion began on the 24th of February. Five weeks in, and the totality of sanctions from other nations are becoming entrenched. SWIFT, Russian oil and steel are among the headliners. Companies including Apple, Nike, McDonalds, Samsung have all closed stores. KPMG, American Express, PwC have all withdrawn to some extent.

This leads us to the first big lesson from the Putinvasion: *global demand doesn't come without global supply*. The reality of international dealing - the art of importing and exporting - means Russian demand follows Russian supply. If we stop accepting their oil and steel, they will stop accepting our dairy and seafood. *Sanction us, we sanction you back*.

For the year ending June 2021, our exports to Russia approximated $293 million. On one level, that is overwhelming. But numbers deceive us without context. Russia is (I guess 'was' is more appropriate now) our 27th largest trading partner and accounts for 0.5% of our global exports. Relatively speaking, this is neither negligible nor overly significant. The dairy industry makes up the majority of our exports to Russia, specifically butter. But outside of 'Big Butter', the Ministry of Foreign Affairs and Trade do not project a groundswell of impact in this regard.

In all likelihood, the palpable impact of sanctions on Russia will be indirect. Ukraine and Russia are among the largest exporters of wheat globally. Neither are in a position to export at this juncture, and thus the cost of key raw materials may put pressure on inflation. Russia is hardly inclined to export other key minerals such as aluminium and palladium, the latter of which Russia supplies 43% of the global supply. This has already led to a rise in shipping costs and smelters have closed due to the cost of power.

Uncertainty of foreign exchange markets has led to a collective loss of confidence in the stability of some currencies (cough ruble cough). The subsequent retreat to safer currencies such as the US Dollar and commodities such as gold will likely cause depreciation in the NZD, which will improve export competitiveness at the cost of inflated imported goods.

Some may argue that the spike in energy prices is karma to a global economy that over relies on (Russian) oil. And I agree that the world should be greener. Hiding in the shadows however is maybe the most important takeaway from Russia invading Ukraine: *our 'global' economy is not as global as we pretend it to be.*

One example is the reliance on Russian oil when alternatives exist, such as in African nations. Geography works against us here; countries cannot provide what they do not have, and thus to an extent where we get our resources is not always up to us. Moreover, importing many commodities from one country may bring economic efficiency.

I wonder what that efficiency means to those in Kharkiv or Mariupol or Kyiv right now. Countries have been reasonably active in sanctioning Russia, but the power Russia possesses is somewhat a product of the environment in which the world operates. Not all governments are democratic and not all share a similar adherence to principles of human decency, yet we deal with them anyway. In this context, it is hard to be surprised at what Putin has been willing to do.

Don't get me wrong: sanctions work. They can compel governments to do – or not do – things that they otherwise would but for the threat of sanctions. Economic pressure is a 'soft' power insofar as it doesn't involve violence, but it absolutely has an impact.

Ultimately, sanctions will always be found between demand and supply in the dictionary. Maybe that's poetic. Sanctions run afoul to free trade after all. What has been and is to come are the consequences of operating in a global economy. To us in New Zealand, that is the charge of doing business with an oligarchy. To those in Ukraine, it's the cost of caring. And it's totally worth it.

NEW ZEALAND

Dairy vs. alt dairy: Which way forward?

BY ZAC BALLANTYNE

Amongst a flurry of venture investment into dairy alternatives, our country's devotion to dairy appears to be slowly changing. With more and more scrutiny on the negative environmental effects of the traditional dairy industry, we potentially could be on the verge of a major sector transformation. In saying that, unlike what some commentators and documentaries would like you to believe, one side of the story does not tell the full picture. New Zealand’s reliance on dairy is significant, and any fundamental shift away from it will take some heavy pushing.

A recently released documentary, MILKED, follows a vendetta against big corporate Fonterra. Between emotionally jolting shots of abattoirs and diseased bovines, there is a clear and obvious message. Dairy farming is not good for our environment, or New Zealand's emissions targets.

Despite the filmmaker's desire, it is not as easy as completely phasing the dairy industry out. Economically and socially, it is not viable. A transitional change to more sustainable alternatives, gradually adopted by a growing number of farmers, seems an appropriate and realistic route forward. All things considered, what viable and realistic options do New Zealand farmers and consumers have?

One of the most popular dairy alternatives is almond milk. But a lot of people are unaware of the natural capital that is needed to produce almond milk. For a start, it needs 6,098 litres of water to produce one litre of milk. And with 80% of the world's almonds being grown in California – a drought-ridden state for the last decade – it doesn't take an environmentalist to realise the cautionary red flags. Although not as greenhouse gas-intensive as traditional dairy farming, it does in fact use 20 times the water. Perhaps something to factor in when considering New Zealand's environmental stakeholders.

Another popular alternative dairy is soy milk. Made from soybeans, the "milk" is entirely plant-based. Brazil is the largest producer and exporter of soybeans globally - and herein lies the environmental concern. Much of the deforestation in the Amazon Rainforest has been to facilitate widespread soybean cultivation. Although, this doesn't necessarily mean it can't be a viable alternative in New Zealand. With limited (but promising) commercial success so far, more trials are underway to determine the best type of soybean for New Zealand conditions. If pesticides, deforestation, and industrial monoculture can be kept to a minimum, transitioning to soybean production could definitely be an opportunity for keen farmers.

Is oat milk the holy grail? With the lowest environmental footprint of the alt-dairy's, New Zealand has already produced some eager start-ups taking advantage of the oat bull run. One major advantage of oats is that the crop can be easily rotated, avoiding the detrimental impacts of monoculture on soil nutrients. Plus, the versatile nature of the crop means that it can grow abundantly in New Zealand. There are concerns over the environmental impact of the post-harvest process, of which New Zealand has limited facilities to do so. One oat milk brand sends its oats all the way to Sweden, then brings the milk back here. Not so environmentally friendly.

Despite this, the environmental impacts are greatly reduced (including significantly less water usage) when compared to traditional dairy and other

alternatives. With investment pouring in, the future for oats looks bright.

But there is no guaranteeing consumer buy-in with any of these alternatives. Although branded as "milk" some of these options fall more under the "juice" category. Taste, texture, and complexion aren't the same – all things consumers are selective about. Our dairy loving nation knows the nutritional value of traditional milk and may take some convincing to look elsewhere. Unsurprisingly, the number of consumers opting for non-dairy is undoubtedly on the rise, but we are yet to reach a point that makes it viable for a significant number of dairy farms to switch tacks.

Any change will have to be steady, taking into consideration social and economic factors. With 3.5% of the entire country's GDP reliant on dairy, huge changes could be of significant detriment to the economy and ultimately the consumer's wallet. High suicide rates already exist amongst New Zealand farmers thanks to seemingly never-ending margin and regulatory pressures, so any shift will have to be balanced, and appropriately timed.

Perhaps one alt dairy will come to the forefront over the next few years as the obvious alternative to the traditional emission-intensive methods. Once taking into consideration the nutritional benefits and the mass consumer acceptance needed, New Zealand may be a long way off from a disruptive change in the industry. Whether it's embedded in the kiwi way, or a personal consumer choice, dairy milk is still out and out preferred. Transition will be slow, but innovative, as the industry plays a balancing act with the needs of the economy, environment, and population.

NEW ZEALAND · HOUSING

Is it a good time to buy a house in Auckland?

BY ROHAN BHATT

Auckland and its housing market have been topics hot off the press for the past few years. Rents have skyrocketed, regulations have been tightened and most prominently, valuations seemed to have forgotten the meaning of the word 'down'. After such a strong showing, the housing market finds itself at an interesting crossroads, with the road ahead, as always, unclear. Yet, the question seems too hard to resist – is it a good time to buy a house in Auckland?

After a period of constant growth, February saw average national house prices fall by one percent. Auckland house prices have followed a downward trend for the last three months and, to many, these are dominoes to a timely market correction. Why is a one percent blip perceived as a correction indicator?

To add some context, the median national house price five years ago was approximately NZD $500,000. To begin 2022, the same figure had crossed NZD $900,000.

Growth in Auckland was much the same, with the median house price peaking in November 2021 at NZD $1,300,000. A common folly within any financial market is the naïve belief that what is happening now will continue to happen. Hence, perhaps the surprise is not that prices have fallen. Rather, it is that they have not risen further.

Either way, prevailing economic conditions, both nationally and globally, indicate more of the same over the coming year.

Traditionally, the Reserve Bank of New Zealand (RBNZ) tends to follow in the footsteps of the US Federal Reserve when it comes to economic outlook and interest rate changes. Inflation rose 7.9% in the United States over the past 12 months and has exceeded 5% in New Zealand for the first time since 2011. Consequently, both central banks have made clear an intention to control inflation via interest rate hikes.

From my limited economic knowledge, low interest rates encourage market participants to borrow more, intending to stimulate additional spending and thus, local economic activity. Conversely, high interest rates correlate to high borrowing costs, incentivising us to save our money and seek fixed investments that can be trusted to deliver solid returns. The reduction of money in circulation due to high interest rates is what ultimately reduces inflation numbers. Circulatory in nature, yes, but what's important is the ability to use the former to control the latter. Hence, given the emergence of a post-pandemic world, which has coincided with trailing upward inflation pressure globally, it is all but certain that interest rates are due for a reversal.

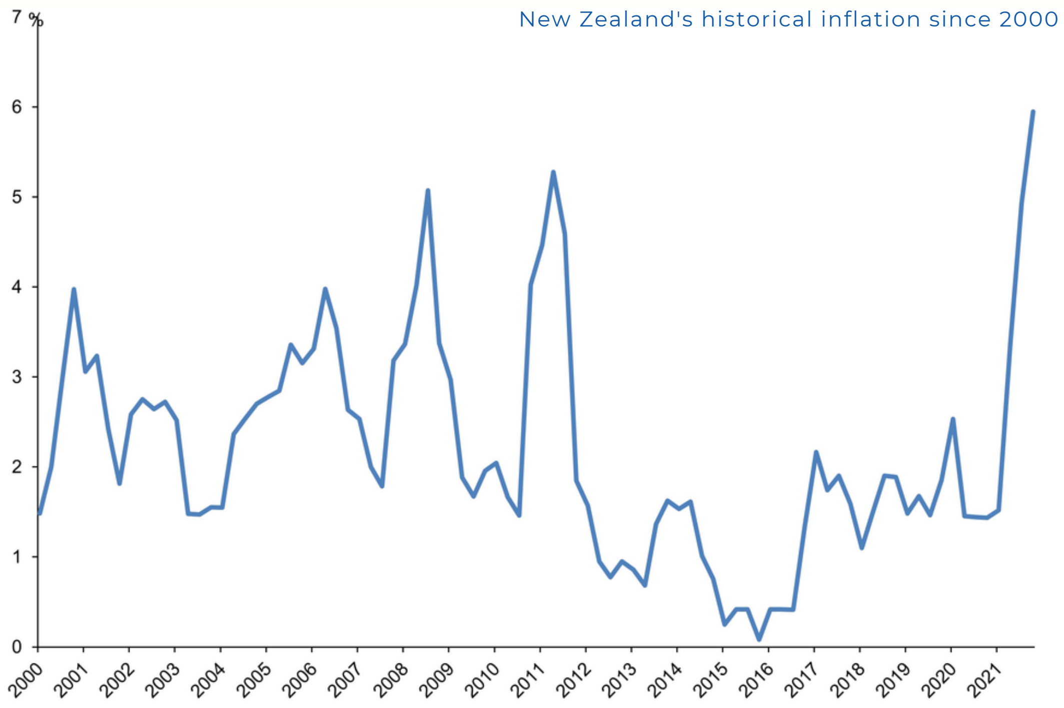
Just over a month ago the RBNZ announced a rise in the official cash rate (OCR), lifting it to 1%, from 0.75%. The OCR, in general, determines the interest rate at which registered banks can lend to and borrow from a nation's central bank. Subsequently, it serves as a benchmark for the rates at which banks are willing to transact with the holistic market.

An OCR of 1% is historically low as far as New Zealand is concerned. But the journey to the bottom has been unavoidably catalysed by the Covid-19 pandemic, fueling the need to incentivise internal economic activity in an effectively locked down global market.

What does this mean for house prices? Well, an increasing OCR correlates to higher mortgage rates and in turn, higher mortgage interest payments and decreased affordability. Affordability perhaps deserves an article of its own, but we'll save that for another day.

However, New Zealand banks have already begun to crack down on lending standards with more prominence compared to interest rate hikes. Low deposit mortgages have been reduced, alongside increasing restrictions from the RBNZ regarding lending with a high loan-to-value ratio (LVR). The LVR of a loan is the amount a bank lends relative to the value of the property offered as security. Inevitably, if valuations rise disproportionately to income, the task of securing a strong upfront deposit very quickly becomes a nightmare.

Another piece to the lending puzzle is the Credit Contracts and Consumer Finance Act (CCCFA). The act has heavily increased the need for regulatory compliance and tight affordability assessments for banks both before and after lending. Although much more complex, it is important to factor in such relatively fresh



Source: Stats NZ. Latest data (Dec qtr 2021) changes when assessing the holistic lending market. With a central bank that is aiming to peg back house prices and a growing regulatory climate, banks themselves are limited. A slowdown in prices until 2023 seems to be the current consensus, however, how much importance should a slowdown be given?

The merit of any investment can be boiled down to the likelihood of it failing. If the value of an investment were guaranteed to fall, no one would buy it of course. In a similar vein, if one were to invest in property, what are the odds of losing money?

First and foremost, losing money on a house purchased in Auckland tomorrow would mean that prices have temporarily peaked and both demand and sale activity will consistently fall going forward. Although the former may prove to be true, it is hard to say the same for the latter. One can only imagine the demand for housing in Auckland will continue to rise further, particularly following a post-Covid immigratory resurrection. Sales volumes may indeed saturate over the next year, however, unless heavily burdened by regulation, long-term growth is inevitable.

It is tough to predict an economic future because deep down we are all simply guessing. New Zealand's housing market, following years of acceleration, could collapse – there's no denying it. But the odds remain low. A period of saturation, provoked by underlying regulatory movement and overarching macroeconomic conditions, is perhaps a more likely outcome. It's a tough game to lose for investors who plan to hold onto their properties for more than 15 years, at least. Economic conditions will change, and so will governments, reserve bank forecasts and mortgage lending rates. Amid this, waiting for the market to fall is a fool's pastime. As they say – time in the market beats timing the market.

The question begs: is it a good time to buy a house in Auckland? For all investors with time on their side, I have a question in return – is it ever a bad time?

GLOBAL · MARKETS

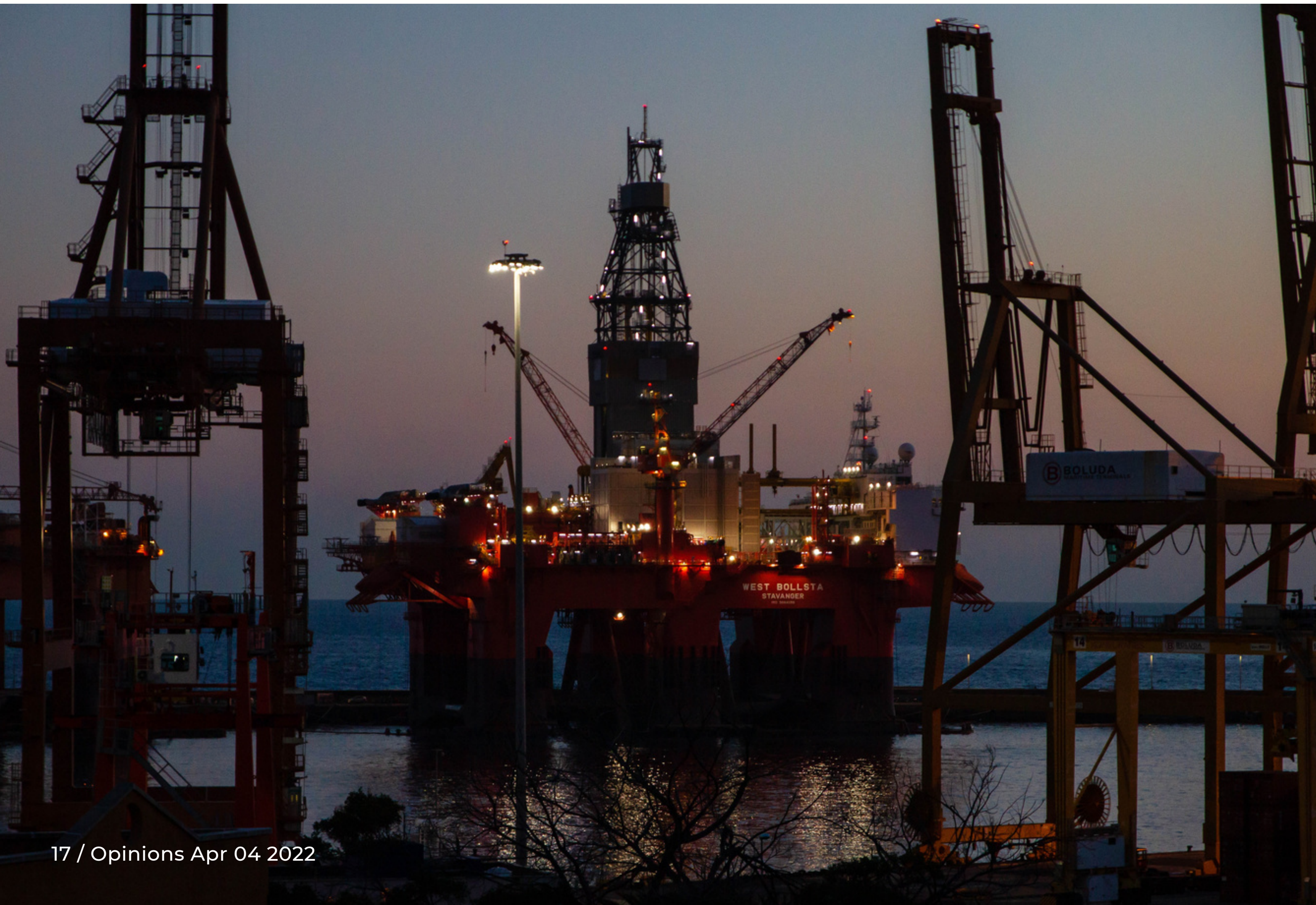
Recent developments in oil markets

BY PHOEBE HORTON ANDREWS

Fuel prices hit record highs earlier this month – a sobering point against the backdrop of renewed fears of inflation. Petrol is at the whim of global oil prices, which have skyrocketed over the past few months after a decade of steadily falling. In this article, I'm going to break down the factors contributing to oil prices over the past decade, with an emphasis on the highs of the previous few months, and make a prediction of future oil price movements.

"I THINK WE AGREE: THE PAST IS OVER"

- GEORGE W. BUSH



Oil is a fungible commodity with global demand. Oil's linchpin role as a strategic commodity has spawned an array of derivative financial products; among other things, these attempt to smooth any sudden, jarring movements in its price. As such, there are three proxies for oil prices globally: futures contracts for West Texas Crude, Brent Crude (which comes from the North Sea, between Scotland and Norway), and Dubai Crude. These contracts allow their buyers to purchase oil at a later time for a pre-determined amount; they are an effective hedge against the risk of a significant increase in the price of oil globally. New Zealand buys most of its oil from the Middle East, so contracts for Dubai Crude are our go-to, but there is a strong correlation among the three.

Oil prices began to decrease about a decade ago, as the world stumbled into what we now call the "2010s oil glut". North American shale production increased with resurgent interest in hydraulic fracturing amidst successful lobbying, and Russia and Saudi Arabia entered a price war with each other, increasing production in order to push prices lower and lower. More recently, global lockdowns attributed to COVID-19 have seen demand for oil slump, as entire populations awoke to the possibility of a world at home.

Consequently, on the 20th of April 2020, WTI futures were trading at \$-37 per barrel. Due to the cost of renting storage and workers, et cetera, holding on to oil was more expensive than selling it, and firms were eager to divest. This couldn't be passed on to consumers for the simple reason that there was no incentive to do so – supply had massively outpaced demand, and there was no practical reason for firms to consider passing those costs to consumers.

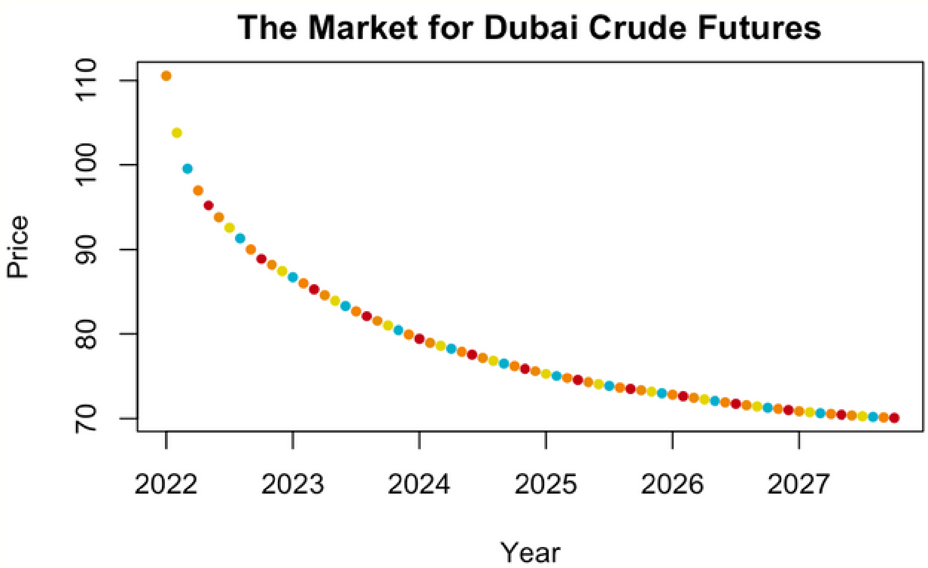
But what changed? Put simply, currently-high prices can be traced to two major factors: COVID-19 causing havoc in downstream oil and gas, and the Russo-Ukrainian War.

It's important to recognise that the oil and gas industry is split into three sectors: upstream, midstream, and downstream. Upstream typically refers to the more hands-on jobs like exploration, drilling, and extraction; midstream typically refers to wholesale activities, like bulk transport; and downstream oil and gas, by necessity, refers to the refinement and distribution of these products to retail customers.

The downstream sector has been operating below capacity due to Omicron's ability to surge through workplaces and incapacitate staff, an impact felt not only across oil and gas but across the entire global economy – this is one of the most significant causes of recent inflation, after all.

Additionally, the Russo-Ukrainian conflict has had an impact. As the world's second-largest oil producer, Russia enjoys a proximate relationship to global oil. As a result, oil prices are also sensitive to the state of Russian affairs, both domestically and abroad. The country's surprise invasion of its erstwhile ally, Ukraine, has led to pandemonium in global markets, which are generally averse to such unpredictable events.

It was this two-pronged combination of factors that led to New Zealand petrol prices being so high earlier this month. But things seem to be changing:



Source: CME Markets

anticipating the end of the COVID-19 pandemic, companies are returning to work. The bellwether for this is surely the resumption of international travel, even among states with notoriously strict border restrictions, like Australia and New Zealand. Additionally, a combination of mounting losses, insufficient strategic gains, and an overall lack of morale suggest that Moscow may be reconsidering its western ambitions, at least for now. Ukraine and Russia have been in talks recently, with a scaled-back assault on Kyiv as a result, and it look like Russia might seek Ukrainian capitulation via the cession of Donbas (parts of which have been controlled by separatists since the mid-2010s).

Where does this lead us? What will happen to oil prices in the future?

For starters, petrol prices in New Zealand have been cooled down by the Government's $0.25/litre excise tax cut. This, combined with GST, has seen a $0.29 reduction per litre, and petrol prices have now dropped below $3/litre.

The petrol industry is highly sensitive to scale, so a large-scale return to work will see prices drop even further. Over time, as supply chains improve their resilience to COVID, firms should be able to either mitigate their exposure through redundancy or develop appropriate strategies for dealing with sick staff. In the long term, structural factors that underpin oil production will likely keep prices low.

But let's look beyond theory. We can see an explanation of this effect by considering the price of Dubai Crude futures, which are decreasing exponentially over longer settlement times. We can, therefore, imply that investors are looking to hedge their exposure in the short- to medium-term, with an assumption that prices will stabilise in the long-term.

Overall, this seems the most logical course. COVID-19 seems to be falling out of the national consciousness as people adjust to their "new normal", and hermetic states are willing to risk the irreversible step of opening their borders for the first time in several years. Additionally, Western support is appearing to bring the Russo-Ukrainian conflict to a stalemate. Over time, the structural factors that outline the current market will change. As electric cars grow their market share, demand for gasoline and diesel (which make up the lion's share of petroleum products) will reduce, putting less demand-side pressure on oil, suppressing prices.

It seems, then, that while oil has recently been for a turbulent ride, it's starting to settle, and should soon return to where it was a few years ago.

MYOB column

Bold Ambition: Mid-market businesses in 2022

A new report from MYOB reveals the outlook for 2022 for mid-market businesses following a strong 2021.

Despite 2021 being packed with more change and unpredictability, mid-market businesses from Australia and New Zealand not only fared incredibly well, but they've come out of their corner armed and ready to fight for bigger and better results this year.

Top ambitions show growth on home soil and abroad is firmly on the agenda, while changes to operations will continue as businesses brace for workforce and supply challenges.

Read the full report here.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