KALKINE MEDIA MAGAZINE

May 2022

- DECENTRALISATION AND SECURITY
- BUSINESS LESSONS FROM THE GODFATHER
- CRUDE OIL ON THE BOIL
- SRI LANKA'S ECONOMIC CRISIS

ABOUT KALKINE GROUP

Kalkine Group is a prominent name in the subscription & media sales line of business. A renowned equity market research, investor relations and media house firm, Kalkine caters to the share markets of Australia, the UK, Canada, United States, and New Zealand. The Company is also eying the growing Ireland market.

Kalkine Media provides trending and live news articles about listed companies belonging to diverse sectors and market commentaries. Interestingly, Kalkine Media also operates on the model of Advertiser – a Publisher firm under its B2B umbrella, providing a dedicated platform to the subscribed clients to leverage various offerings like exclusive banners, sponsored article coverages, videos, and podcasts.

Periodic investor focused events and webinars provide a crucial platform for several listed players/private companies to present their business vision amidst broader industrial landscape and to interact with core audience including Brokers, Fund Managers/SMSF Investor Managers, Sophisticated Investors, Senior Business Executives and Retail Investors.

TEAM KALKINE

Team Kalkine comprises specialists including equity, currency, commodity, and economic analysts providing in-depth and unbiased up-to-date analysis. The team of analysts, sector-specific journalists and editors have hands on experience in developing industry breaking and trending equity and economic news. The team strives to work on the vision of establishing a strong foothold, primarily as a reliable media firm.

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KUNAL SAWHNEY

Founder & CEO

Kunal Sawhney is the Founder & CEO at Kalkine Group and is a richly experienced and accomplished financial professional with a wealth of knowledge in the Australian equities market. His knowledge, skillset and vision provided all the perfect ingredients required to start one of the fastest growing equity market research firms across Australia. This was further supported by the aim of channelising energy and enthusiasm towards the stock market into a leading media research firm.

KALKINE FOOTPRINT

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Note From The EDITOR

"Don't Panic' – we have been now used to hearing these two words. From the time Coronavirus played havoc to Russia-Ukraine Crisis to the Inflation boom, the experts are asking us not to press the panic button. And have we? With a new challenge emerging every single day, the word uncertain times have started making more sense than ever and has somehow made the world stronger than ever. Opportunities are being explored, innovations are seeing a new age and every challenge is being faced with a brave face of optimism and hope. On that note, I present to you the Hopeful and Insightful May edition of the Kalkine Media Magazine. Understand the complexities of the new world order through our in-depth coverage of all the latest buzz across the globe.

The ongoing Russia-Ukraine war has opened a new can of worms for economies across the globe, which were already battling to revive from pandemic-induced disruptions. The impact of the war is primarily visible in the form of sky-high inflation in a range of goods and services. Australia is no different in facing inflationary pressures due to the Russia-Ukraine conflict, with its fuel prices on fire over recent weeks. Get insights on the Fuel Excise Cut and what it means for Aussies in an in-depth feature in the May issue of the Kalkine Media Magazine.

Investor sentiments toward nuclear energy have been on the rise lately, driven by the clean energy push by governments on a global level. World governments are increasingly recognising nuclear power as a low-carbon source of sustainable energy generation. Leveraging the market momentum, uranium explorer Deep Yellow Limited (ASX:DYL) is positioning itself to become a major player in the industry. Do not miss an exclusive coverage of the ASX listed emerging global Uranium Player and one of Kalkine Media's reputed client Deep Yellow Limited in the issue.

Digital assets are fast gaining traction and making inroads even into traditional fund houses. So much so, financial institutions have either been working to integrate and expand their offerings and investments related to digital assets or have realised that they need to do it soon. Skim

through Portal Asset Management, that specialises in investing in listed cryptocurrencies and digital assets (crypto assets) through three underlying funds.

The Oscars 2022 celebrated the legendary movie 'The Godfather' taking audiences back to the next level mafia world it portrayed. While 'The Godfather' is popularly known as a Hollywood crime film, it is not just a crime plot but a story full of lessons. Must read is an interesting piece curated by our researchers on the Five noteworthy business lessons one can learn from 'The Godfather'.

As we move further into the age of cryptocurrency, it's incumbent upon its users to know exactly what blockchain technology means and whether its mere existence equates to a properly decentralised system. If you were perusing Netflix for enthralling documentaries last month, you might've come across Trust No One: The Hunt for The Crypto King – a tale that followed the aftermath of the sudden disappearance of a young founder of a cryptocurrency exchange. The film certainly raises some interesting questions regarding the security of crypto exchanges and just what happens when an organisation, which is not beholden to any regulatory body, goes into complete turmoil. Do not miss insights on decentralization and its perception in an in-depth piece in the May issue.

Crude oil continues to give nightmares to policymakers. With benchmark crude oil trading near US$100/bbl, the fuel prices are burning deep pockets. The embargo on Russian oil and gas has led to supply shock, which even OPEC is finding itself hard to replace. Know where oil is headed in 2022 in an interesting and insightful piece curated by Kalkine Media's Commodities researchers.

Hope you enjoy reading the May edition as much as we enjoyed curating it for you. Keep sharing your ideas/suggestions for the monthly Kalkine Media Magazine. Write to us at info@kalkinemedia.com.

Happy Reading!

By Kiara Khanna

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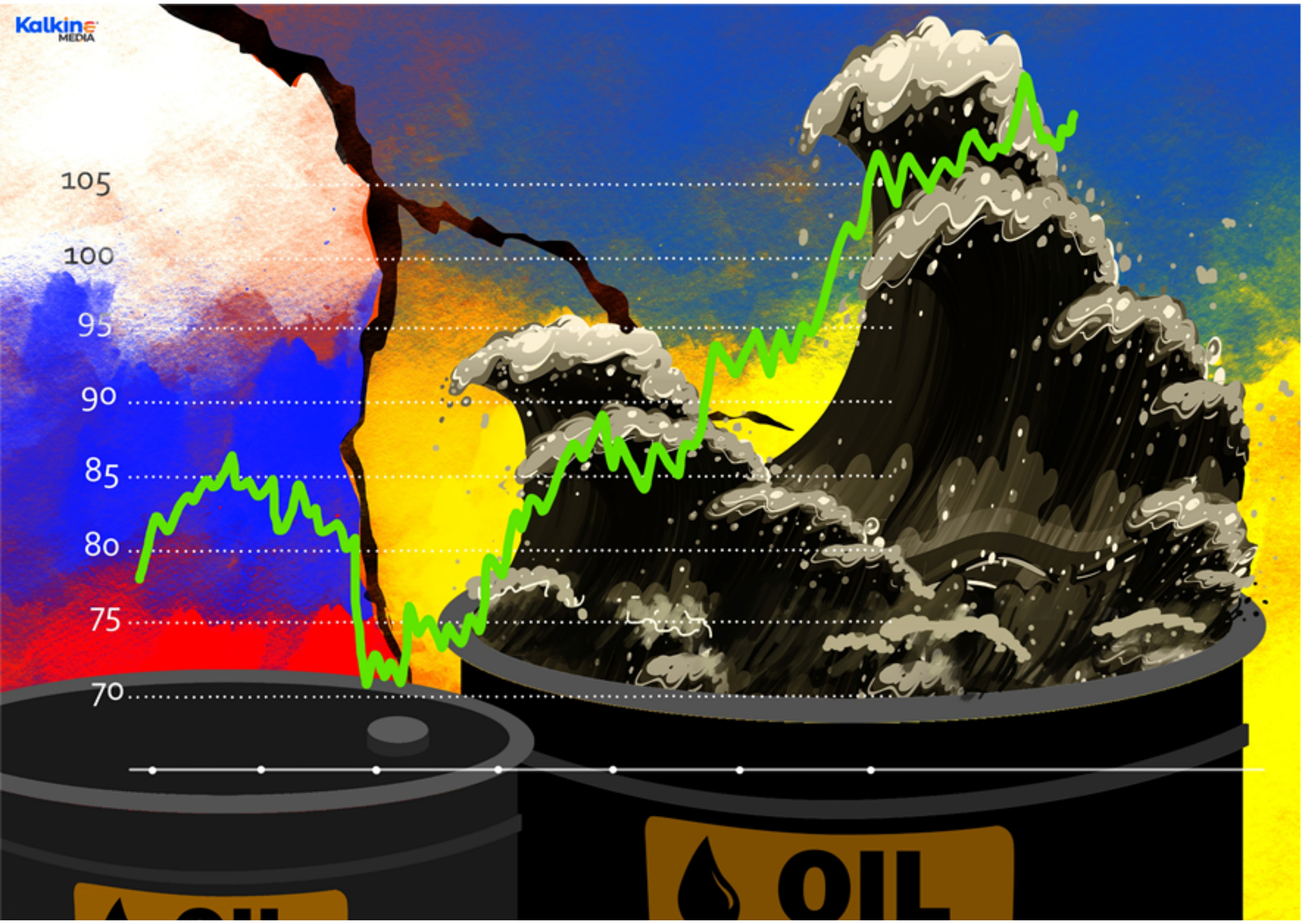
FUEL EXCISE CUT: WHAT DOES IT MEAN FOR AUSSIES?

By Akanksha Vashisht

The ongoing Russia-Ukraine war has opened a new can of worms for economies across the globe, which were already battling to revive from pandemic-induced disruptions. The impact of the war is primarily visible in the form of sky-high inflation in a range of goods and services. In fact, several rounds of sanctioning by Western countries have inadvertently led to skyrocketing fuel prices.

Australia is no different in facing inflationary pressures due to the Russia-Ukraine conflict, with its fuel prices on fire over recent weeks. Amidst soaring petrol prices, the country's government has provided a big relief to consumers in the form of a fuel excise cut in its latest budget. A generous fuel excise cut has been announced to ease Aussies' cost of living woes, which has effectively reduced the existing tax by half.

Fuel excise has been cut from 44.2 cents per litre to 22.1 cents per litre for a period of six months at a net cost of about AU$3 billion to the budget. This fuel excise cut is much-needed assistance at a time when headline inflation is already running high at 3.5%.



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While the fuel excise cut is expected to ease existing price-side pressures, it is announced for a limited time frame. This is crucial in understanding why the tax cut is receiving major criticism and how effective it would be for Aussies.

Any challenges in availing fuel excise cut benefit?

If a motorist approaches a service station, they may not notice an immediate dip in fuel price, even as the excise cut is already in place. There could be an inevitable delay in the benefits being passed on to the consumers.

One needs to understand that fuel price at the gas station has several components- costs to wholesalers, costs to retailers, wholesaler and retailer profits, and taxes and excises. At the time of the excise cut announcement, the available fuel stock at a service station was procured by retailers in advance.

This means that the fuel available at service stations on the day of the tax cut had been acquired a few days back before the cut was applicable.

If retailers sell high-priced fuel acquired earlier at a cheaper rate now, they will incur a loss. To save retailers from suffering this loss, the Australian Competition and Consumer Commission (ACCC) has given them a buffer time to sell more expensive stock at a higher rate. This has led to an unavoidable delay in the tax cut reaching consumers in the form of relaxation in prices.

Source: © Kalkine Media®

What happens if the cut is not passed on?

The ACCC, the regulatory watchdog agency, is keeping a close watch on retailers to ensure that the fuel tax cut is passed on to consumers as early as possible. If retailers do not pass on the lower prices to consumers in time, they will face serious prosecution by the ACCC.

The ACCC says it will not tolerate any false and misleading information on the subject. Ideally, the regular expects fuel prices to be lowered as soon as existing stock levels are used. In case of any wrongdoing, the ACCC can use the full force of the law as punishment. It seems imperative for consumers to stay aware of these benefits and the regulatory oversight ensured in enforcing the tax cut.

02

B2B

Source: © Shutterstock.com

DEEP YELLOW (ASX: DYL) IN THE BOX SEAT AS URANIUM OUTLOOK LOOKS BRIGHT

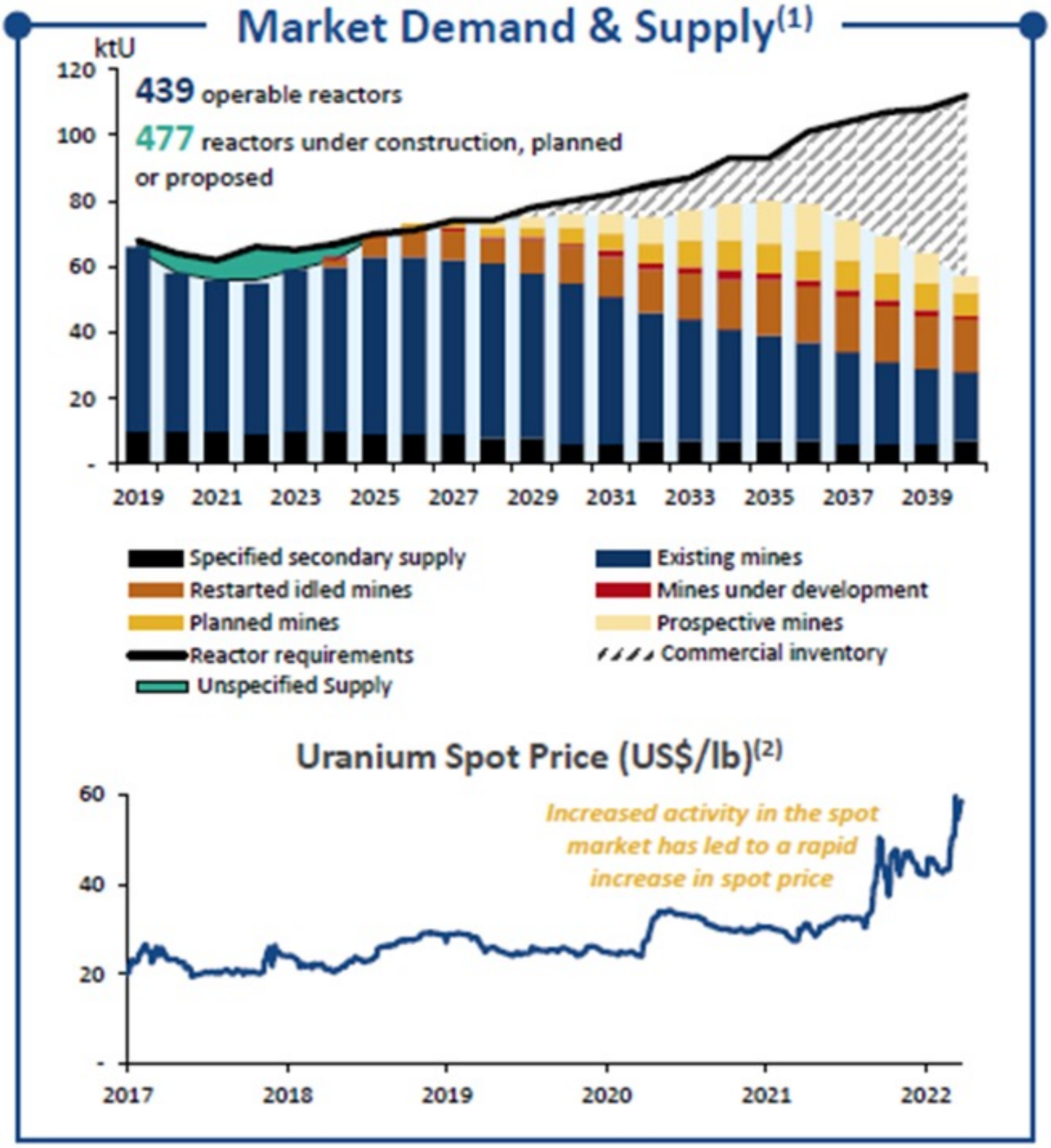
By Nitish Kumar

A volatile oil & gas market and surging coal prices have compelled global energy players to look beyond fossil fuels. The energy crisis in Europe during the peak of the winters last year showed that renewables were not mature enough to take care of the region's entire energy needs.

Nuclear energy is being seen as a possible alternative till the time renewables become dependable. Unlike fossil fuels, nuclear power does not emit carbon and can be relied upon for 24X7 electricity generation.

Nuclear energy has been in play since the 1960s and is currently responsible for nearly 10% of all electricity generated globally.

Investor sentiments toward nuclear energy have been on the rise lately, driven by the clean energy push by governments on a global level. World governments are increasingly recognising nuclear power as a low-carbon source of sustainable energy generation.



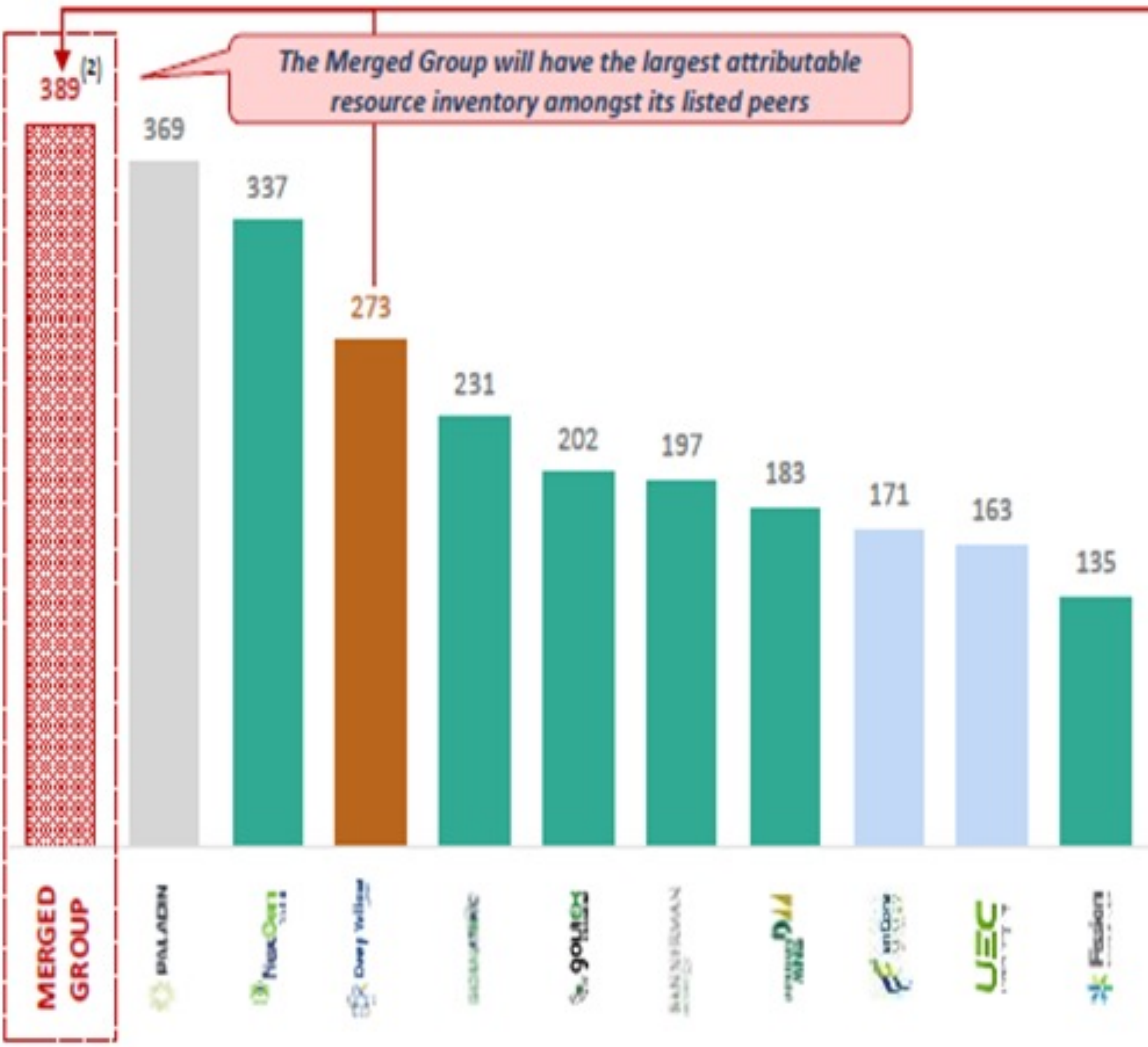
Source: © DYL presentation, 31 March 2022

(Source: World Nuclear Association, September 2021)

Leveraging the market momentum, uranium explorer Deep Yellow Limited (ASX:DYL) is positioning itself to become a major player in the industry. The ASX-listed company, which holds high-grade uranium assets in Tier-1 mining jurisdictions, recently entered into a Scheme Implementation Deed to merge with Vimy Resources Limited (ASX:VMY). Under the scheme, DYL will acquire 100% of the fully paid ordinary shares in Vimy. Vimy shareholders will receive 0.294 new fully paid shares in Deep Yellow and will control a 47% interest in the Merged Group. The shareholders of DYL will own 53% of the Merged group.

Notably, a merger at this point in the upbeat uranium market provides the opportunity for significant value accretion.

Merger to create AU$658M uranium behemoth



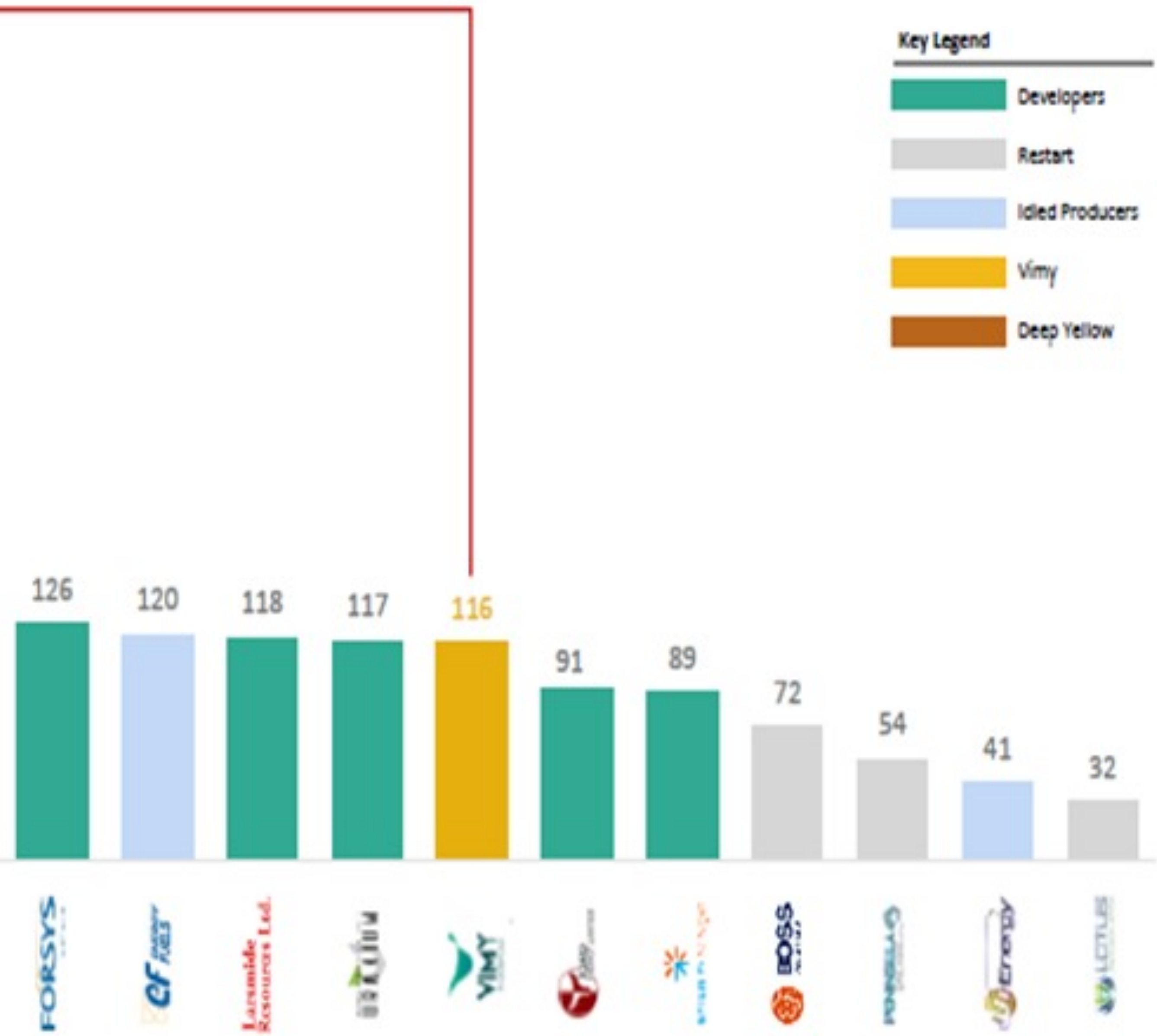
Resource of the Merged Group with respect to globally listed peers (Image source: DYL presentation, 31 March 2022)

The merged group will have one of the world's largest attributable resource inventories of 389Mlb. Post-merger, the new entity would have more financial strength and stability.

The Merged Group is estimated to have a market capitalisation of AU$658 million. It will have cash and cash equivalents of approximately AU$106 million with zero debt on the balance sheet as of 31 December 2021.

The merged group is expected to have a strong balance sheet that would have increased financial flexibility and could target more M&A opportunities.

Additionally, the merged group would have a Board and management with a strong track record of successfully developing uranium projects.

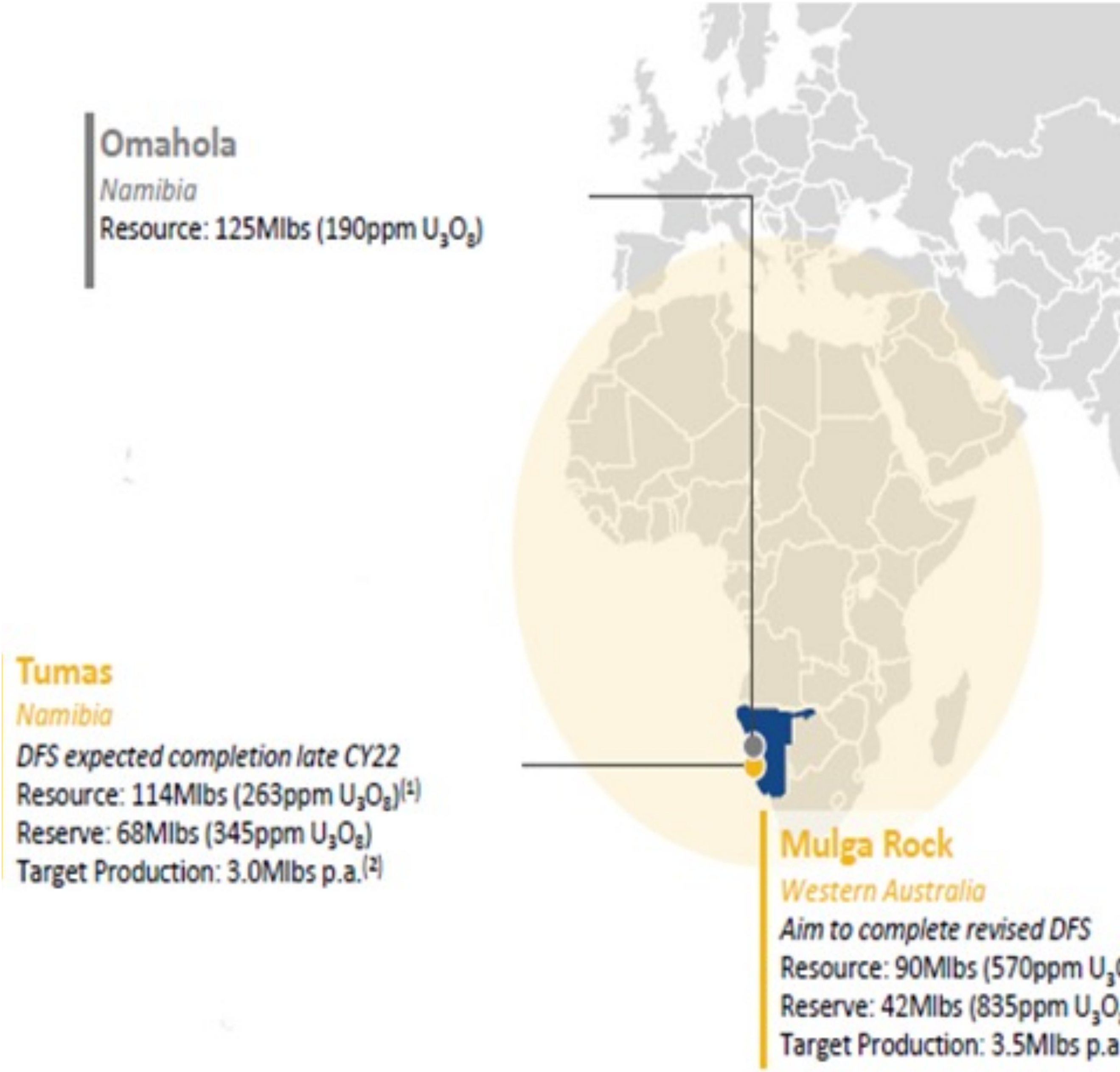


World-class assets in Tier-1 mining jurisdictions

Deep Yellow's Tumas Project lies in a highly prospective uranium province of Namibia containing nearly 2Blb of U3O8. With 89.9Mt of inferred Probable Ore Reserve at Tumas, DYL has achieved a Life of Mine (LOM) of 25.75 years, with 40% of the highly prospective Tumas channel remaining to be tested.

DYL is advancing with the Definitive Feasibility Study (DFS) on the project that supports open-pit mining operations with an annual production capacity of 3Mlb of U3O8. The DFS is expected to be completed by the end of 2022.

Vimy's Mulga Rock Project in Western Australia is an advanced uranium project with DFS already completed. The DFS has set a production target of 3.5Mlb annually with a LOM of more than 15 years. The Mulga Rock Project holds a mineral resource of 71.2Mt@570 ppm for 90.1 Mlbs U3O8.



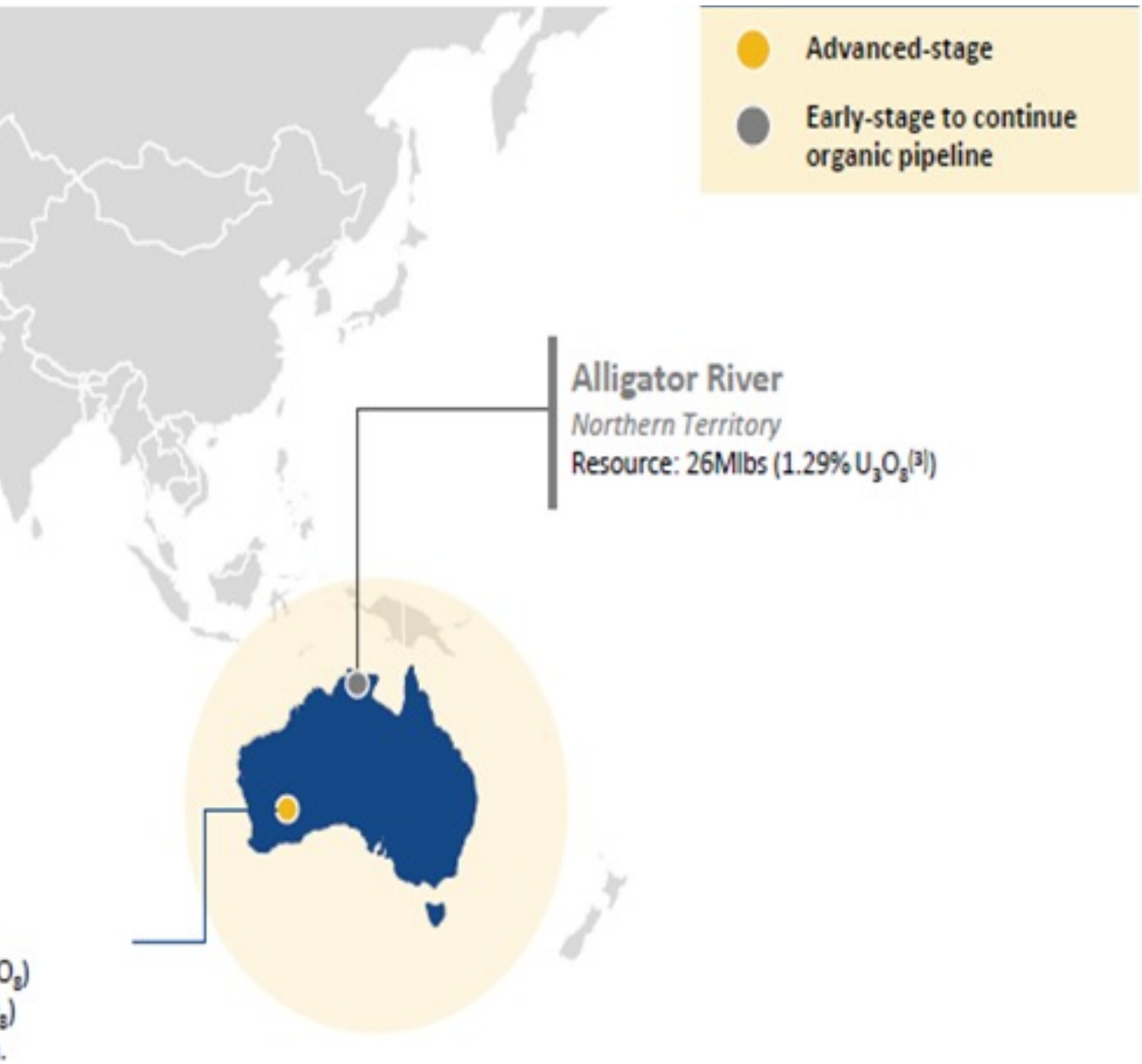
Source: © DYL presentation, 31 March 2022)

DYL has one exploration target in the pipeline- the Omahola Basement Project. The exploration project has a mineral resource of 125Mt@190 ppm U3O8, with 65% of the basement prospective zone remaining to be tested.

Additionally, DYL holds a 39.5% interest in the Nova Joint Venture Project. The drilling operations have been established at Barking Gecko, a prospective target.

Vimy's asset inventory also includes the Alligator River Project in the Northern Territory. The project sits within the premium uranium province of Alligator River, which hosts some of the highest-grade uranium deposits in Australia.

DYL is making giant strides towards establishing itself as a leading player in the global uranium market. The company's merger with Vimy is expected to give a major boost to its goal. The operations across two geographies in Tier-1 mining jurisdictions would provide a distinctive edge to the Merged Group with greater financial flexibility.



PORTAL ASSET MANAGEMENT – UNLOCKING POTENTIAL OF DIGITAL ASSETS

By Sukriti Priya

Digital assets are fast gaining traction and making inroads even into traditional fund houses. But what are they?

The International Monetary Fund (IMF) defines digital assets as "digital representations of value, made possible by advances in cryptography and distributed ledger technology". Simply put, digital assets are assets that exist virtually, and are increasingly being linked to real-world assets. Some digital assets are security tokens, utility tokens, cryptocurrencies (exchange tokens), e-Money tokens and stablecoins.

In today's world, financial institutions have either been working to integrate and expand their offerings and investments related to digital assets or have realised that they need to do it soon.

The digital assets market is gradually formalising and becoming regulated. With increasing acceptability, it represents a new frontier for accredited investors to seek superior risk-adjusted returns, uncorrelated with traditional equity and debt markets. But it has a long way to go as the digital asset market is still quite inefficient despite representing substantial sources of alpha for skilled investment managers.

A slew of market participants are now eyeing this trillion-dollar plus market and working towards making the digital asset space unique, user-friendly, and understandable.

Meet Portal Asset Management: A portal to digital economy

Portal Asset Management is a boutique fund management business with operations in Singapore, Sydney and London. It boasts a team that has over 140 years of experience to bank upon, with a proven track record in business, investment management and blockchain-driven technology.

The company specialises in investing in listed cryptocurrencies and digital assets (crypto assets) through three underlying funds- The Portal Digital Fund, The Radiance Multi-Strategy Fund and The Horizon Index Fund.

These funds provide investors with the choice to deploy funds with very different strategies and volatilities to suit their risk appetite and return goals. They are operated at institutional standards with fund managers, administrators, auditors and independent custodians. All funds report monthly and provide the option of monthly redemptions.

Portal's underlying funds

Portal Asset Management aims to provide a practical, operationally robust and risk-managed access to the burgeoning digital assets market through three underlying funds:

The Portal Digital Fund

- A Fund of Hedge Funds targeting < 20% volatility annualised
- A Cayman-domiciled fund, it was incorporated on 21 November 2019 and went live with FuM on 1 May 2020.

The first fund established by Portal, the Portal Digital Fund is essentially a global fund of hedge funds investing in fund managers that are running differentiated strategies in the listed digital currency space. These strategies are- quant-driven systematic, momentum, trend following, long/short trading, multi-strategy, high-frequency trading, arbitrage and DeFi-focused/thematic strategies.

All funds invested are liquid, providing investors with monthly liquidity in subscription/redemptions. It is constructed to target a volatility of 15%-20% per annum with steady returns of 25%-30%+ per annum over a three- to a five-year term.

The fund aims to be uncorrelated with traditional asset classes such as equities, real estate, bonds, commodities, and gold. Also, it manages risk prudently from a gross and net exposure, as well as sector and position-size perspective in order to preserve capital in down-markets.

The Horizon Index Fund

- An equally weighted index fund with a market volatility of 75%+.

The Horizon Index Fund is a passively managed equally weighted index fund focused on replicating the performance of the top 25 listed digital assets and cryptocurrencies by market capitalisation, excluding stablecoins.

The fund aims to give investors broad market exposure to the overall digital asset and the cryptocurrency market and will have volatility in line with markets at 75%+ p.a. It is an unhedged, passively managed fund, which is denominated in the AUD and is rebalanced monthly. There are no performance fees, but it does charge a 3% management fee.

The Radiance Multi Strategy Fund

- An actively managed long/short crypto asset fund targeting 35%-50% volatility annualized, which is half the market volatility and 1.2X market returns.
- It is focused on thematic and fundamental investing in the digital asset and cryptocurrency space.

The Radiance Multi-Strategy Fund is an actively managed multi-strategy hedge fund. Its philosophy is based on identifying thematic trends, conducting industry and fundamental analysis and identifying the best-placed tokens to invest in while keeping a close eye on valuation, liquidity, volatility, and a margin of safety.

The strategy mitigates risk and reduces volatility by investing in diversified tokens across various layers of cryptocurrency, DeFi, smart contract and the NFT stack. It uses short-dated puts to hedge and also adheres to a disciplined and detailed approach to portfolio management that relies on a rigorous research process, which is measurable and replicable.

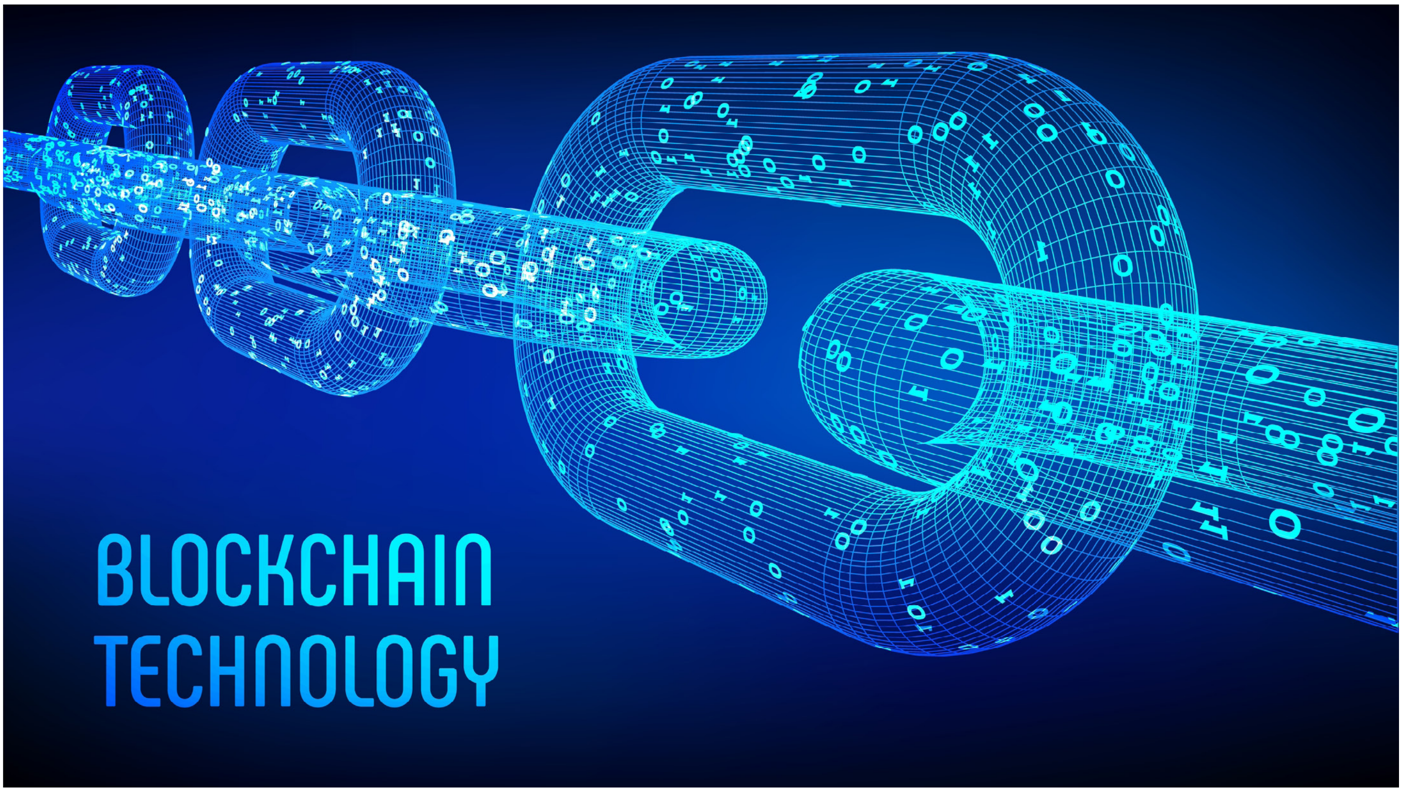
The fund follows a “Barbell Strategy” that allocates 70% of FUM to the top 20 ideas in the top 100 crypto assets and then 20% of FUM to alternative tokens that are nascent and outside the mainstream with a longer-term view. The main competitive advantage lies with investment committee members who have considerable experience as an investment team in both research and fund management within the digital currency and blockchain space.

Digital assets are becoming increasingly mainstream in our financial ecosystem and are already disrupting traditional financial services. They have a key role to play in the future growth of the sector. Portal is a key player in this transformation, as its experienced team brings an institutional-grade investment approach, combining both deep blockchain and crypto-asset experience with prudent fund management skills. It continues to provide a practical, operationally robust, and risk-managed access to the nascent asset class of crypto assets.

03

DECENTRALISATION AND SECURITY: THE COMMON MISCONCEPTION

By Daniel Paul Johns



Source: ID 113719647 © Iuriimotov | Megapixl.com

If you were perusing Netflix for enthralling documentaries last month, you might've come across Trust No One: The Hunt For The Crypto King – a tale that followed the aftermath of the sudden disappearance of a young founder of a cryptocurrency exchange.

The film follows the subsequent heartache of its customers, some of whom lost access to hundreds of thousands of dollars worth of digital assets.

The film certainly raises some interesting questions regarding the security of crypto exchanges and just what happens when an organisation, which is not beholden to any regulatory body, goes into complete turmoil.

It also raises some questions as to the reliability of decentralisation. What does it mean? Is it safe? What are the dangers? We're here to examine those questions in more detail. So let's get started.

What does decentralisation mean?

One of the main tenants of cryptocurrency and the blockchain technology on which it is built is decentralisation. Indeed, if you ever hear someone touting cryptocurrency as the future of macroeconomics and finance, they'll likely include decentralisation as a positive characteristic of this brave new world.

Decentralisation means that in the structure of crypto finance, there is no third-party interference. No banks, institutions or governing bodies impose themselves on the transacting of crypto assets from one user to another – otherwise known as peer-to-peer (p2p) finance.

When the first cryptocurrency, Bitcoin,

was introduced in 2009, decentralisation was a key motivator behind its invention. Just a year after the Global Financial Crisis (GFC), Bitcoin came along at a time when people's faith in the trading system of finance and banking was at an all-time low.

The GFC was the worst financial crisis to happen since The Great Depression and was caused largely by predatory lending - a term which describes the offering of home loans with high-interest rates to low-income households by banks, who at that time were also taking enormous financial risks, driven by the previous decade's housing boom.

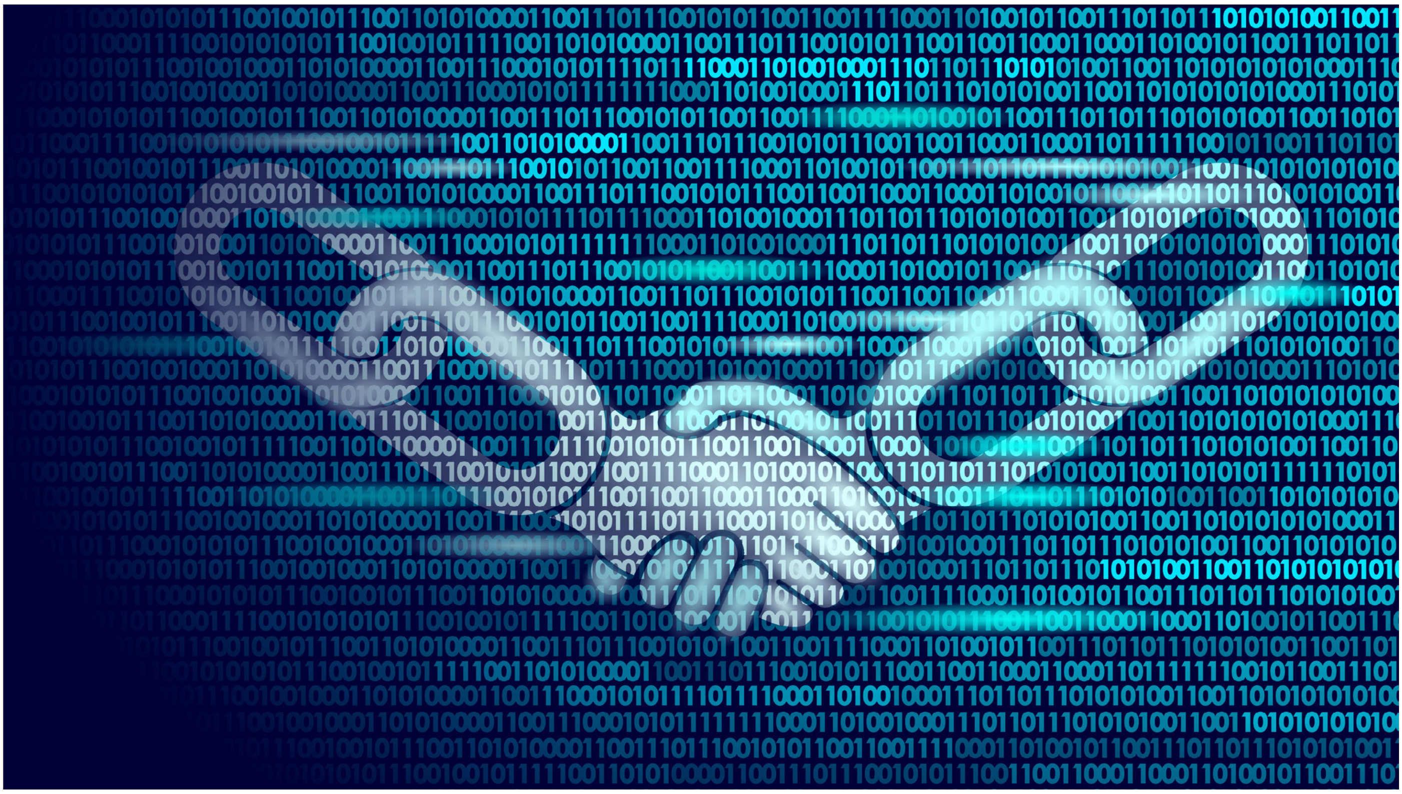
The boom turned into a bubble, which burst in 2007, leaving many of those, who had accepted the loans, destitute.

Bitcoin was a direct response to that crisis. Its blockchain technology, in theory, ensures that the system itself keeps everything and everyone in check. The blockchain records all transactions made in the system into blocks of data, which are then linked to one another on a chain. Block-chain. If anyone changes just one digit of data, it becomes apparent to everyone who is part of that blockchain – the customers. At least that's the theory.

In the aptly titled Netflix Documentary Trust No One (spoilers!), the founder of Canadian crypto exchange, Gerald Cotten, takes the passwords to access the exchange to his grave when he dies suddenly in India.

His death leaves US$190 million in the digital ether with no way for the exchange's customers to access their funds.

What a fraud investigator and a team of Internet sleuths ultimately find out is that, prior to his death, Cotton had been



Source: ID 107917155 © Luckystep48 | Megapixl.com embezzling money from the exchange to then trade on other crypto exchanges. This was done right under the noses of the exchange's customers without them ever suspecting a thing.

But how is that possible if blockchain makes everything immediately transparent? Well, the truth is, it doesn't. While, in this case, a fraud investigator was eventually able to retroactively go through all the data and find the pertinent transgressions, it was only done well after it had become apparent something had gone terribly wrong.

Can we trust in mathematics?

Trust is an integral part of doing business and especially in doing finance. If you are to give all your money to an institution, like a bank, for instance, you want to know about that place. Who are they? How long have they existed? What is their reputation?

With decentralisation, the idea is that people are being taken out of the equation and being replaced with encryption. The checks and balances that are usually done within a centralised system are supposedly taken care of through the magic of blockchain technology. Moreover, by relying simply on an encrypted digital system, rather than people, blockchain technology also offers a potentially faster and more efficient system.

The perception of decentralisation

One of the main issues associated with decentralisation may have less to do with decentralisation itself and more to do with the wider perception of what blockchain technology is.

Right now, it seems the public, many of whom are just getting acquainted with the idea of cryptocurrency, equate blockchain technology with absolute assurance when it comes to privacy and security.

In reality, however, a blockchain network is only as secure as the sum of its parts. A blockchain network relies on things called nodes. A node is a computer that exists in the system. For a blockchain to be fully decentralised, all the data has to be available across a wide network of nodes. This is because if all the data were on one node, it would be easily hackable. Having the data consist of a wide network of nodes is what makes it decentralised. It's kind of like how for a nuclear bomb to be detonated, two people have to turn their keys at the same time. For a decentralised network to exist several people have to be complicit in its existence.

But it's the quality of the nodes that determine the quality of the blockchain. In Bitcoin's blockchain, for example, nodes are incentivised to participate in the network. However, this is not necessarily the case in all cases.

Getting wise to blockchains

The crypto craze has come suddenly for many and people are struggling to take in all the information related to its foundational technology. This is a problem. And we're going to see a lot more people lose their money in the coming years if they don't wise up to what it means to be truly decentralised. Decentralisation doesn't automatically guarantee asset security, clearly. It's a broad term whose integrity depends on the solidarity of the sum of its parts.

Source: © Tanaonte | Megapixl.com

04

FIVE NOTEWORTHY BUSINESS LESSONS ONE CAN LEARN FROM 'THE GODFATHER

By Sukriti Nair

Source: © Tanaonte | Megapixl.com

This year at the Oscars, a legendary movie celebrated its 50 years. The movie was none other than the Marlon Brando and Al Pacino starred 'The Godfather'. The Academy Awards honoured the iconic film by playing a video that transported the audience to the next level mafia world.

'The Godfather', as most people know, is a 1972 Hollywood crime film based on Mario Puzo's best-selling trilogy novel with the same name.

Even after decades, a clip from the movie never fails to grip the viewers' attention. For the curious lot, the movie offers much more than mere entertainment – the lessons related to competition, capitalism, and negotiations leave a long-lasting impact on viewers. It won't be wrong to say that this iconic movie should be a must-watch for students in business schools, for it has plenty to teach.

Read along to get a quick snapshot of the 5 Noteworthy business lessons one can learn from 'The Godfather'.

- The first and foremost business lesson from the movie is to recognise that success is possible with teamwork. It can be only achieved with the involvement of every team member. Collaboration among team members to exchange knowledge and experiences is what fetches fruitful results in a business. As shown in the movie, best leaders always allow team members to bring together their strengths for the advantage of the group. Even in the real life, success hugely depends on the collaborative efforts of all the functional groups within a business. The movie teaches businesses that collectively, weaknesses of the group can be turned into productivity and ultimately success.

- The movie also emphasises that everything in life comes with a price tag. As goes the saying, there's no such thing as a free lunch. For example, how Don Vito emphasises on either money for work, or a favour in exchange for another. He is most remembered for his iconic dialogue – 'make me an offer I cannot refuse'. His character teaches businesses to use the price attached to things for their advantage. Paying the price for things also helps maintain cordial and healthy business relations, which can be beneficial during times of stress.

- Also, if one observes, a strategic focus is yet another thing prominent in the plot. Many important sections of the movie show Don's strategic moves and how his people from the inner circle implement the same. He uses strategy in all walks of life, from family matters to dealing with competitors, and always finds success. The movie thus also emphasises the need for businesses to bank on strategies and focus on key areas to achieve the desired success.

- The movie also emphasises the need and role of branding and goodwill. It teaches that reputation is key to success; once a reputation is built, success follows, and it's essential to protect it. Don Vito Corleone, the lead character, understands this because the protagonist has toiled hard to build the reputation he holds as a mafia king. The movie teaches businessmen that a strong reputation is almost like cash at a bank; though not visible always but holds immense value that others highly appreciate.

- Another key takeaway from the movie is that it shows the importance of taking risks and assessing the rewards attached, to gain success. It teaches businesses that while one should take risks, one should also keep an eye on the prize. Once both are known and understood, one can work towards better management of risks and ultimately achieve success.

While these are just five noteworthy lessons, which are apparently the most relevant for business success, the movie is like a treasure chest of lessons. Only if you have a knack for imbibing lessons, the movie teaches you everything necessary to survive in this big bad competitive world. And not just business lessons, the movie is replete with precious life lessons as well. So, if you feel like you are running low on inspiration, go ahead and watch this legendary movie. And you will see how it is as gripping and relevant as it was five decades ago!

05

CRUDE OIL ON THE BOIL: WHERE IS IT HEADED IN 2022?

By Nitish Kumar

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The world is in the grip of an oil price shock amid the ongoing Russia-Ukraine war. Crude oil prices have been on fire since the global economy started to come out from the grips of the COVID-19 pandemic. The burgeoning energy demand amid global recovery and the ongoing conflict have been pushing fuel prices to multi-year highs.

Prior to the war, Russia ranked second in crude oil supply. The world's third largest natural gas supplier accounted for ~40% of European natural gas supply, and 25-30% oil imports.

Trade embargoes on Russia sent crude oil prices to a 10-year high with WTI hitting US$123/bbl and Brent trading near US$130/bbl in the first week of March.

The oil-exporting group, OPEC, has also played a key role in driving the prices through the roof. Despite announcing a gradual increase in output, the cartel has failed to meet the production targets repeatedly. The White House, on several occasions, has called upon the member nations to boost their output to ease the prices, but the US President's repetitive calls have failed to have an impact.

Supply woes with surging demand

The US Energy Information Administration (EIA) data shows 95.53 million barrels per day (Mbbl/d) of global average crude oil production and 97.46Mbbl/d of consumption (up 6% year-on-year) in 2021.

In 2022, demand is expected to hit 100.6Mbbl/d, and global production is forecast to outrun demand with a very small margin, reaching 101Mbbl/d.

Production and consumption trend of crude oil for four years (Data source: EIA)

Highly volatile, crude oil prices fluctuate on various events ranging from demand-supply gap to geopolitical issues. The Eastern European conflict has entered its second month with no end in sight in the near future. Meanwhile, troubles in the Middle Eastern region continue to threaten global supplies.

Where is oil headed in 2022?

The global supply chain dynamics are changing rapidly. The US government is shipping LNG tankers to Europe to help the region reduce its energy dependence on Russia. Taking into account all these scenarios, it is quiet uncertain to forecast prices.

To bring in certain degree of certainty, three scenarios could be assumed to get a broader picture of 2022 crude oil price outlook.

Scenario 1: Baseline

Assumptions: OPEC's production remains unchanged; no Iranian oil hits the market before 2023 and the EU continues its energy imports in 2022.

In the baseline scenario, the prices are predicted to peak by the June-September quarter before declining. As the market reorganises and producers build inventories, the prices may see a gradual fall by the year end.

Scenario 2: Prices fall steeply

Assumptions: OPEC starts to boost monthly production (scheduled); Iranian oil does not hit the market before 2023 and no more embargoes on Russia

In this scenario, the market reorganisation occurs rapidly and as more OPEC oil starts flowing to the market, the prices start to cool down. The prices may peak in the June quarter and then start sliding.

Scenario 3: Prices peak and maintain the momentum for prolonged time

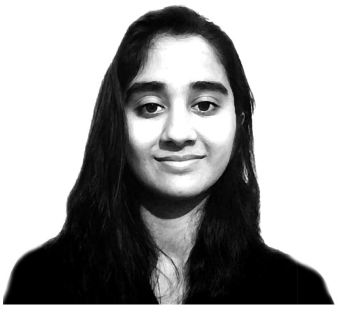
Assumptions: More restrictions on Russia exports, OPEC production remains unchanged

With the war having entered its second month, the destruction level in Ukraine is devastatingly immense with the international fraternity advocating for more stringent restrictions and cases of genocide and human rights violations piling against Russia. In such a scenario, the EU might stop all imports from Russia, creating a huge supply constraint and sending the prices to highest levels.

As Russia used to produce 10Mbbl/d, it will take time to replace this production with other alternates.

06

A CRISIS UNFOLDING IN SRI LANKA



By Shivani Joshi

Sri Lanka's economic state has pushed the country into deep despair. In the island country of Southern Asia, massive protests have been erupting along with a deepening and despairing economic crisis. Sri Lankans are reeling under extreme deprivation – be it daily electricity blackouts, or acute food shortages.

Sri Lanka has a large population of 22 million people. It is witnessing one of the biggest economic crises since it became independent. Some economists are of the view that government mismanagement is one of the reasons behind the worsening of the crisis. No doubt that the crisis began to deepen when the country couldn't import essential goods after the pandemic took over, but misguided tax cuts and huge borrowings were major reasons.

A failing government?

Over the span of the past few years, the Sri Lankan government has borrowed humungous sums of money from foreign lenders to fund public services. However, with the condition worsening now, various international rating agencies have also downgraded the country; thereby, effectively blocking the country from having access to foreign capital markets. Now, this is also restricting them from raising new loans and meeting the demand for food and fuel.

In order to put a floor under the plummeting economy, President Gotabaya Rajapaksa decided to cut taxes. However, much to the country's misfortune, the move backfired, and it threatened the government revenue instead. The government even imposed a wide import ban to conserve its foreign currency reserves but that didn't come as help either.

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Current scenario

The condition in Sri Lanka at the moment is such that people from all the classes are frustrated. Not just the deprived populations but also the those with savings are exasperated as well, fearing they could run out of essentials like medicine or gas. The country has even sought debt relief from its neighbors, India, and China, but both countries have instead offered Sri Lanka more credit lines to buy commodities from them.

The spiralling course of troubles has left people agitated and helpless. People are protesting outside the President's office and their lack of confidence in the government has even made them reject Prime Minister Mahinda Rajapksa's offer for talks. Sri Lankans have demanded to put the dynamics of familial politics to an end. They are demanding the resignation of President Gotabaya Rajapaksa and all members of his family from the government.

The helplessness of people is being reflected everywhere. The whirling economic crisis is birthing numerous grave problems, including a serious drug shortage. The trade union of doctors, known by the name of Government Medical Officers' Association, has launched a portal seeking donations of medicines and significant drugs as part of their initiative to bring at least a temporary relief to the medicine shortage in such a time.

The helpless and sombre image painted by the circumstances, however, stands in contrast to young agitators, who have braved bad weather to dissent against the government.

As the country falls into the pit of darkness, both metaphorically and literally, one can only hope that the fire of willingness of these agitators makes it better.

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