



Weathering the Hurricane Season

When Hurricane Katrina devastated New Orleans and the Gulf Coast on August 29 2005, it caused significant damage to both that region's and the United States' economy. Thousands of people lost their jobs and were forced to move to other cities. Oil production and refining operations shut down for weeks causing gasoline prices to soar, along with other energy prices. Close to 2.3 million people were left without power and the port of New Orleans was damaged, disrupting the nation's shipping industry. But the ever-resilient U.S. survived.

Hurricane Katrina was particularly damaging to the oil and natural gas industry. At the time the storm hit, the Gulf of Mexico represented approximately 29 percent of United States' oil production and 47 percent of the nation's 17 million barrels a day refining capacity. The Gulf normally produces about 1.3 million barrels of oil and an estimated 7.4 billion cubic feet of gas a day. The day after the storm made landfall, 95 percent of oil production in the Gulf ceased and oil rose as much as 5.4 percent to a then-record \$70.85 a barrel. Oil companies hurried to re-staff evacuated platforms, but 10 months later, yearly oil production was still 30 percent less than pre-Katrina levels. Katrina had a lasting impact on the psychology of the energy market as it put the hurricane season front and center in every oil trader's consciousness.

Three years later, in late August 2008, energy companies watched anxiously as Hurricane Gustav staggered across the Gulf's concentration of oil platforms and refineries. Nearly all oil and gas production in the Gulf of Mexico and more than a quarter of U.S. refining capacity was shut down or slowed as a precaution. The average hurricane halts oil drilling production for more than a week. Companies have to evacuate rig workers two to three days before the storm hits and have to check for damage before they can restart production. The spike in gas prices following Katrina and Rita (another Category 5 hurricane that followed on 24 September 2005), was a result of insufficient functional facilities to make up for the lost output - 113 offshore oil and natural gas platforms were destroyed and 457 pipelines damaged. Even though capacity at many U.S. oil refineries has been expanded, there hasn't been a new refinery built in the United States in three decades.

As Gustav approached the Gulf, oil prices rose and traded as high as US\$120 per barrel – still relatively low as compared to its July record high of \$147 a barrel. As Gustav was downgraded from a Category 4 to a Category 2 hurricane, crude oil prices fell as low as \$112.45 a barrel on 1 September 2008. The effect of Gustav on oil prices was somewhat muted for a couple reasons. Gustav's intensity was nowhere near to Katrina's or Rita's as it neared the Gulf, which led traders to believe that disruptions would be minimal this time around. Upgrades were done to rigs and pipelines in order to improve storm resistance since 2005. Drilling rigs and production platforms are now required to be moored to the sea floor with 12 to 16 lines rather than the previous 8 lines. Pipelines are buried deeper beneath the sea floor and are equipped with redundant electric generation stations to ensure the power to the pumps will not be interrupted. Of course these new safety precautions have not yet been truly tested by the wraths of a Category 4 or Category 5 hurricane.

Demand for oil is 1.2 million barrels less per day than it was a year ago and oil prices are nearly twice as high now as they were three years ago. This has been said to be attributable to the slowing U.S. economy and rising inflationary pressures. Plummeting natural gas prices also weighed on crude prices. Natural gas prices were down more than 8% after the Energy Information Administration reported natural gas supplies in storage was 2.6% above the five year average. Additionally, the dollar has gained strength against the euro over the past several weeks. As the dollar rises, investors who purchase commodities as a hedge against inflation transfer their money into other markets.

But with the effect on oil prices minimal thus far, how will the U.S. economy react to this year's hurricane season? Economists agree that in the long run, a major hurricane or other natural disaster can actually help lift economic activity because of insurance payments and federal assistance, but in the short-term, the destruction and the disruptions can be a hit to the economy. Though Gustav hit with less force than Katrina, its economic blow can be much worse on an economy far weaker than it was three years ago. The U.S. is still coping with a housing crisis, an ongoing credit crunch and a shrinking job market. It is estimated that losses due to Gustav can be in the vicinity of US \$6-10 billion, but the full extent of damages may not be known for weeks. Exports are likely to slow considerably as the main gateway for the nation's exports are five deepwater ports on the Mississippi around New Orleans. Those facilities were temporarily shut down in anticipation of Gustav and will continue to be affected every time weather threatens. Tourism and agriculture are also affected with each passing storm and can impact the overall well-being of the region's economy. Loss of jobs occurs every time residents evacuate as some choose to not return. Can the U.S. cope with a hurricane season that still has another two months ahead? With Ike and Josephine already in the mix, only time will tell.

Current Happenings in Local and International Markets:

- CMMB raises inflation forecast: will continue to edge upwards, ranging between 13 – 15%
 - Sagicor records solid first half for 2008
 - Oil companies in Gulf of Mexico resume production
 - Supreme Ventures take \$150-million hit from Gustav
 - Goodyear Jamaica to focus on Caribbean market
 - Central Bank of Barbados offers long term investment instrument
 - Canadian economy narrowly avoids recession
 - August Jobless rate at 4-1/2 year high of 6.1%
 - Bank of England Keeps Rate at 5% on Inflation Concern
 - Wal-Mart's August Sales Rise on Discounts
 - Coca-Cola to Buy China's Huiyuan for \$2.3 Billion
 - Commodities Trade Near Five-Month Low After Oil-Led Decline
 - British Consumer Confidence Held at a Four-Year Low in August
 - JPMorgan, Facing Federal Probe, Exits Municipal Swaps
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Table 1: Regional Market Performance (as at 4 September 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	1,128.38	-0.41	-3.63	14.62	22.77
All Trinidad	1,501.33	-0.45	-4.14	24.43	30.28
JSE Index	106,927.16	-1.03	-1.94	-0.55	15.88
JSE Select	2,958.66	-1.81	-0.39	1.77	10.92
All Jamaica	107,844.82	-1.85	0.04	1.87	10.46
BSE Composite	1,071.21	-0.15	0.24	4.12	10.91

Table 2: International Market Performance (as at 4 September 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,237.08	-4.89	-0.96	-14.52	-16.94
Nasdaq Composite	2,259.04	-6.33	-1.16	-13.43	-14.11
Dow Jones Industrial	11,188.23	-4.50	-0.85	-14.23	-16.81
German Dax	6,279.57	-2.20	-1.11	-21.00	-18.68
FTSE 100	5,362.10	-4.27	0.79	-16.44	-15.91
Nikkei 225	12,557.66	-1.65	-2.90	-17.97	-23.52
Hang Seng	20,389.48	-2.78	-9.44	-26.02	-14.64
Eurostoxx	3,274.82	-2.52	-0.44	-24.53	-24.27

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