

# Market update

Second Quarter (October – December) 2014

## It's time to smile at the bowser

Do you remember filling up your car with petrol for as much as \$1.70 a litre early last year? How times have changed. With petrol costing around \$1.10 a litre over the Christmas period, there were a lot of smiling faces at the bowser.

### Why has this happened?

Since June last year, the cost of oil has plummeted. In fact, oil has fallen from around US\$115 a barrel to just US\$50 (at the time of publication). This has had a direct impact on the price you pay for petrol.



In November, the Organisation of Petroleum Exporting Countries (OPEC) – a body which controls nearly 40% of the world's oil market – failed to reach an agreement on reducing production.

OPEC members are often caught in a difficult position as reducing production can mean loss of revenue. They're also conscious about holding on to their market share.

As producers of new shale oil continue to pump away in the United States, it puts pressure on OPEC to either keep producing the same amount of oil at a lower price or produce less oil at the same price. In other words, for every barrel that OPEC doesn't cut, it adds to the market surplus and depresses the price.

### Saudi Arabia flexes its muscles

Saudi Arabia, which dominates OPEC with the highest share of production, appears determined to maintain current production levels. Its oil costs very little to get out of the ground (about US\$5-6 a barrel).

Saudi Arabia is gambling that U.S. oil producers will become economically unviable to produce as prices head below the US\$50-a-barrel mark. First signs of that gamble paying off are just beginning to surface; drilling activity for new shale oil is slowing down as producers begin to feel the pinch.

### Other countries affected by the fall

Russia is one of the biggest oil producers and has already increased interest rates to 17% to support its currency. For each US\$1 fall in the oil price, Russia is expected to lose US\$2 billion in income. For a country that gets 70% of its income from oil and gas exports, this is going to hurt it.

Venezuela is another large oil producer. However, due to economic mismanagement, it was already finding it hard to pay its bills before the oil price dropped. Their government faces some difficult decisions.

### When will the price rise again?

It's anyone's guess when the price of oil will rise again. So for now, enjoy filling up your car for less!

# How your returns are tracking

The table below shows how your investment has performed for the quarter and financial year to date (FYTD).

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Investment option	Super rates %		Pension rates %	
	01/10/2014 to 31/12/2014	FYTD 01/07/2014 to 31/12/2014	01/10/2014 to 31/12/2014	FYTD 01/07/2014 to 31/12/2014
MySuper Balanced*	2.71	4.11	3.01	4.62
Conservative	1.94	2.80	2.19	3.20
Moderate	2.26	3.35	2.55	3.83
Targeted Return	1.57	2.97	1.72	3.35
High Growth	3.11	4.65	3.41	5.18
Cash	0.63	1.22	0.74	1.45
Property	9.35	9.23	11.06	10.94
Indexed Shares	4.90	7.05	5.63	7.99
Australian Shares	1.27	1.27	1.31	1.44
International Shares	6.03	9.17	6.49	9.97

\*For LUCRF Pensions, this investment option is called Balanced. Note: The table above details our final rates for 31 December 2014. For the latest rates, please visit [lucrf.com.au](http://lucrf.com.au) or call **1300 130 780**. Past performance is not a reliable indicator of future investment returns.

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*We look forward to seeing you at a seminar soon!*



Contact us

**1300 130 780**

[lucrf.com.au](http://lucrf.com.au)

E [mypartner@lucrf.com.au](mailto:mypartner@lucrf.com.au)

P PO Box 211 North Melbourne VIC 3051

F 03 9326 6907

[twitter.com/lucrfsuper](https://twitter.com/lucrfsuper)



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