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Energy Puzzler

How high will oil prices and shares go?

OPEC's price band of \$22-28/bbl was suspended last month, and in view of today's \$50 OPEC price (\$55 Brent) that band now seems like a relic of ancient history. Despite this, many companies are still referencing \$25 oil as a mid-cycle "test" and we said just a month ago that a \$30 Brent price for 2007 seems a reasonable long-term price to value oil company equities. There has been a great deal of talk in the press about \$100 oil. What are share prices reflecting now? How high could oil rise in the short run? Why? Are we building up to an oil version of the tech stock bubble? How are analysts and PMs going to know when the oil price and oil shares have gone too far?

■ *When will we know that the oil price is too high? What are you looking for? What is your view of this watch list?* (composed of Deutsche Bank estimates)

- Oil prices approach or exceed 1980-81 highs (\$80/bbl CPI or \$60/bbl PPI)
- OPEC export revenues hit the 1980 high of \$550 billion (takes \$60/bbl oil)-
- Oil's share of global GDP reaches 4% (1974-85 avg) vs. 2% now - \$80/bbl
- US dollar stops going down
- Nymex/CFTC/IPE raise margins on oil futures
- Fed raises interest rates faster than "gradual 1/4 point" expectations
- Central banks order curtailment of loans for commodity purchases
- China postpones its SPR fill or otherwise chokes back demand
- US refuses to build SPR beyond 700mb; US economy *really* slows
- OPEC adds enough production to allow inventories to build
- Oil shares weight in the S&P500 returns to old 11% peak
- Major oil companies increase annual capex by 20% instead of 10%
- Oil companies start to sell forward a portion of their production

■ *We are putting together an Energy Puzzler of responses from our clients and colleagues to these questions.* If you would like to comment on this Energy Puzzler, please send a note to adam.sieminski@db.com

■ *As usual in our Energy Puzzler series of reports, we will collect and distribute the replies* (reserving the right to edit, as appropriate, in our view). Try to keep your answers concise. We indicate job functions and institution types of respondents but we will not identify individuals or their employers, or otherwise reveal sourcing information.

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Appendix 1

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