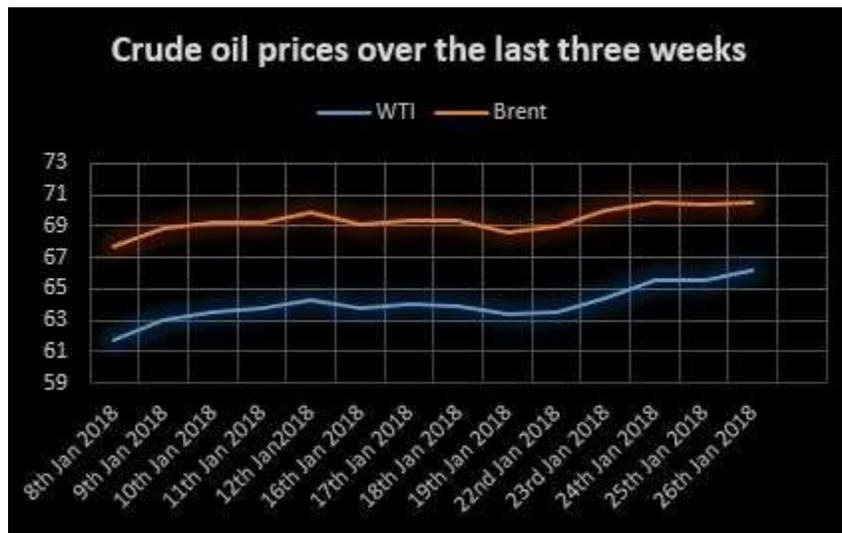
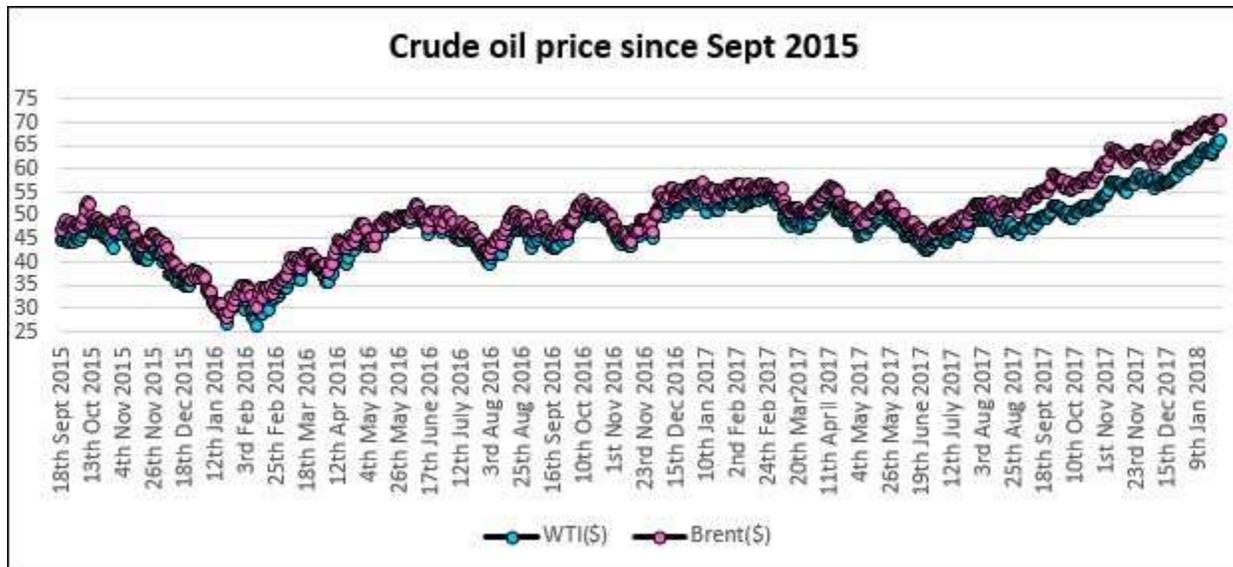


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- Last week the stockpiles in the US shrunk by 2 mb, which made it the 10th consecutive week of decline. The investors cheered this decline in the face of the surging US shale output that reached 9.88 mb/d, the highest since 1983, as per EIA. Consequently, the price of the barrel reached its highest level in 3 years. Besides, comments from Saudi Arabia that OPEC production cuts would continue beyond 2018 also pushed the price of the barrel higher. The US drillers cut 5 rigs in the week to January 19, as per Baker Hughes data, bringing down the number to 747.
- A surprising news that came about this week was from Schlumberger, that it is exiting land and marine seismic acquisition business. The present downturn since 2014 has proved to be a losing proposition for some big companies. Dolphin Group filed for bankruptcy in 2015, followed by

Global Geophysical Services in 2016, and then CGG in 2017. And now Schlumberger decides on exiting the acquisition business. As per the news coming from the company, the investments made by the company in developing differential seismic measurements and surveys are offered at a premium, which the customers are not willing to pay. The existing contracts will be honoured and then the divestment options evaluated.

- Indications are coming that may be the production cuts by OPEC and its allies are not working quickly enough to reduce the oil glut in the market. The Russian Energy Minister has said in an interview that his country is prepared to prolong its alliance with OPEC even after the present agreement expires at the end of 2018. Similarly, Saudi Energy Minister said in the same interview that the supply balancing with demand may come in 2019.
- Saudi Aramco's initial public offering is now waiting for the right time, per Saudi Arabia's oil minister, who was speaking at the World Economic Forum at Davos. It could be next year before OPEC and its allies are able to clear the supply glut.
- The National Oil Company of Libya has announced the restart of production at Wintershall's Sara oil fields that were closed two months ago, due to protests. This will increase the output by 57,000 b/d. The overall production from Libya has reduced considerably due to infighting in the country, and has crippled the export dependent economy. Before the war in 2011 that ousted the former leader Muammar Qaddafi, Libya was producing 1.6 mb/d, and the present output is about 1mb/d.

So much for the industry news this week.

On the lighter side

It is often said that old wine tastes better, especially red wine. When it is stored in barrels, the combination of sugars, tannins and the flavours impart it a taste that wine lovers relish. With all the additional effort expended, old wine is usually expensive, in line with what we often hear, 'quality comes with a price'. So, that brings us to conclude that expensive wine tastes better. Is it always true?

Well in most cases, the higher the quality ingredients used for preparing or manufacturing a product, the higher its price tag. Chocolates is a ready example. How about wine?

If different quality of wine is poured into two separate glasses, and these are labelled as per their price, we expect the expensive wine to taste better. Interestingly, studies have been carried out to check if this is indeed the case. It has been found that even if the same wine is poured in the glasses, and labelled with different tags, wine taster volunteers will rate the expensive wine to be tasting better. Such an effect is usually referred to as 'marketing placebo effect', and is similar to the medicine placebo effect, that I had written about in my column, quite some time back. A recent study conducted at University of Bonn comprised 30 participants (15 women, 15 men), who were asked to taste wine. The wine used in the experiment was average to good quality worth 12 euros retail price. The volunteers were made to lie down in an MRI scanner and were shown different price labels. Thereafter, they were made to sip a milliliter of wine through a tube in their mouth, and asked to rate the taste on a scale of 1 to 9, via a button. Every time their mouths were rinsed with a neutral liquid before the next sample was given to them. The volunteers invariably articulated that the wine with higher price tag tasted better.

While all these things were being done, the brain activity was being continuously recorded by MRI. The record analysis showed that the medial pre-frontal cortex (front part of the frontal lobe of the brain), and the ventral striatum (inner part of the lower frontal cortex) were activated more when the prices were higher. These two areas are understood to be responsible for 'evaluating expectations and seeking rewards'. On noticing a higher price our brain reacts with an expectation of a reward and tends to change our perception. Our brains can fall victim to such tricks.

Such experiments have been done before. In one such experiment carried out in 2011, a double-blind taste test was carried out with over 600 people, and over 50% of the time, the participants picked the cheaper wine as tasting better. Similarly, in 2008 in another such study, with 6000 participants, a majority chose the cheaper version as being tastier. So, the adage 'you get what you pay', may not be true in this case.

It may be appropriately mentioned here that the marketing placebo effect could have its limits in that if a 12 euro bottle is shown to be for 100 euros, perhaps the effect may be absent.

Did you know?

Though wine has been consumed since ancient times, interestingly, wine drinking then was not a party activity that we see now. Alcohol was added to the drinking water to purify it, so that when fresh water was not available, people could stay hydrated. It was more out of necessity that wine was consumed. Over the ages, gradually, wine has become more of a party drink.

I hope you find this information interesting. So much for this post!

Till the next post, stay safe and happy!