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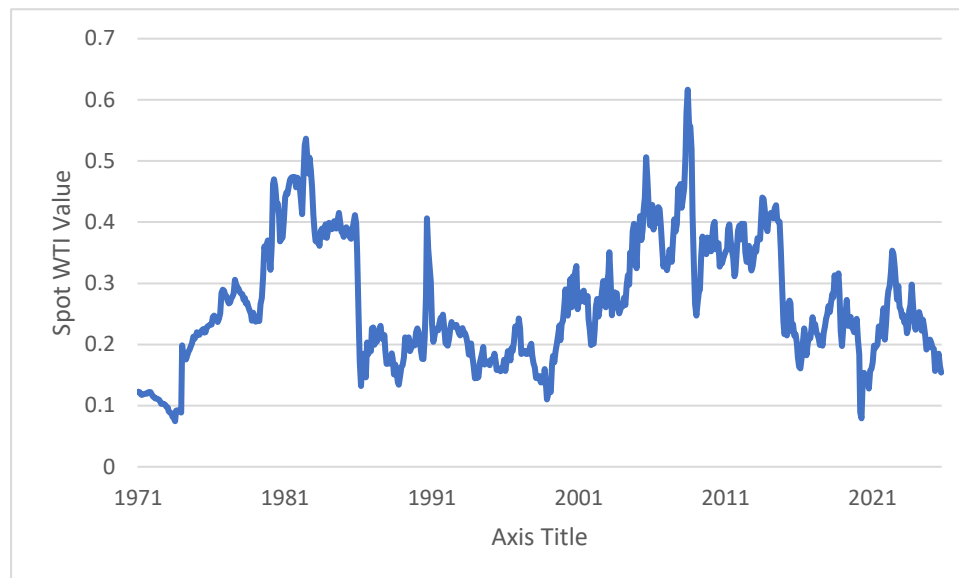
“How Cheap is Oil?”: Westminster Asset Management Investment Strategist Peter Lucas has another look at commodities, a large and diverse asset class that he has often discussed. The recent rally in precious metals has left most of the remaining raw materials sector in the shade, but oil in particular stands out as an underperformer. With gold historically the first mover in the commodities complex, Peter considers the attractions of oil as the next leg of the commodity bull market.



There is much talk about how expensive gold is by historical standards. Certainly, compared to consumer prices and other commodities, gold is close to or in new high territory, at least by the standards of the post-war period. Personally, despite the ongoing sharp sell-off, I think the risks to gold are overstated. Yes, it appears expensive but just wait until the debt crisis begins in earnest and changes everything.

Meanwhile, a commodity which is attracting very little attention is at the very opposite end of the spectrum. Crude oil, arguably the most important commodity of all, is cheap when compared to almost any valuation yardstick. The chart below shows the spot price of West Texas oil versus a composite yardstick, incorporating fundamental measures like the US money supply (M2) and headline CPI, other commodities (gold, silver agricultural commodities, and copper), the US dollar index (inverted) and global equities.

Spot West Texas Intermediate Value Indicator



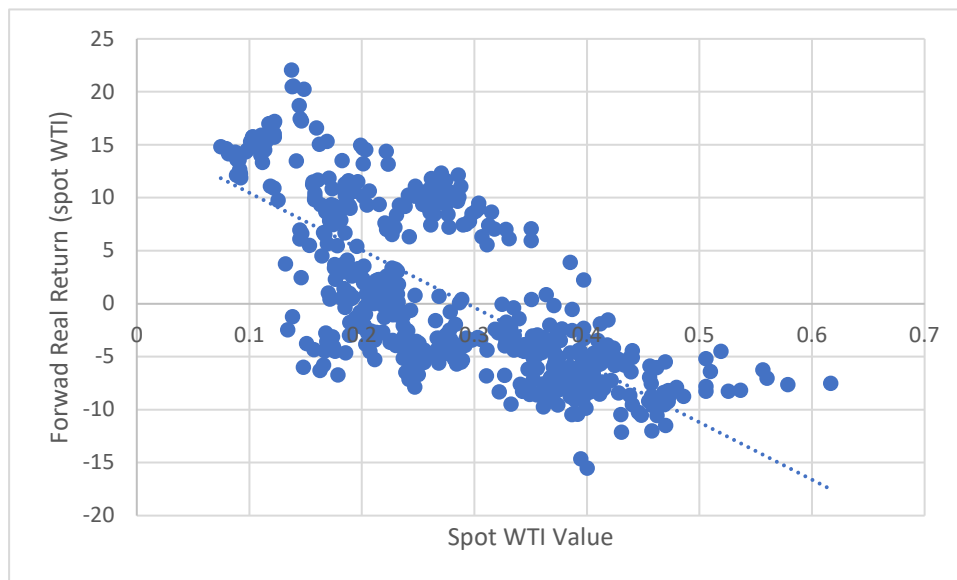
Source: Bloomberg, Westminster Asset Management

The series has a nice mean-reverting quality, which is what you want from a valuation yardstick, and decent ‘predictive’ credentials, correlating over 70% with prospective 10-year real returns. Oil is not quite at the bottom of the range but is at a level that has historically been associated with up to 15% annual return returns.

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WTI Value vs Prospective 10-year Real Spot Returns



Source: Bloomberg, Westminster Asset Management

Bottom line: commodities will be one of the best places to be when the debt crisis kicks off, but right now my focus is on oil rather than the overbought precious metals markets.

Peter Lucas – October 2025