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## OPINION

### Oil on a cusp, after 10% new year loss

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LONDON

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AN EXCEPTIONALLY mild winter, new sources of oil supply and slower economic growth in top energy consumer the United States have triggered a bigger oil price slide than even the most pessimistic analysts predicted.

The 10 per cent fall since the start of the year \_ the most dramatic loss since December 2004 according to Reuters data \_ is out of proportion to any fundamental weakness and has spread to the wider commodities asset class.

US crude was hovering above US\$55 a barrel on Friday, a key technical level, which if convincingly broken could pave the way for a deeper decline.

Oil's weakness could strengthen the Organization of the Petroleum Exporting Countries' resolve to enforce supply cuts of 1.7 million barrels per day.

Analysts said the other key factor in checking the slide could be the entry of new money as investment managers decide on their annual allocations.

"I think it would be premature to abandon the crude market completely," a fund manager at Texas-based US Global Investors.

"There are still many supportive factors."

"Our view is that the price will likely be rangebound between US\$55-\$65 versus the US\$66 a barrel average last year," he said.

But in the immediate term, there was also a risk of further hedge fund speculation and an increase in levels of open interest, or positions that have not yet been liquidated.

"There is still the potential for a further correction. It's never a good sign to see a big drop like this with rising levels of open interest," said Olivier J. G. Petromatrix in Switzerland.

He said a close below US\$55 could pave the way for a move down to US\$50.

That would be far below the US\$60 a barrel level for US crude that Opec is widely expected to defend and also below the US\$55-\$65 a level leading Opec to think that Arabia is thought to want.

The less bearish analysts predict Opec will succeed in supporting the market. Following a 25-per-cent slide from a record of US\$78.40 a barrel for US crude, Opec agreed on two output cuts, one of 1.2 million barrels per day, effective



and a second of 500,000 bpd from February 1.

Deutsche Bank has calculated that previous Opec reductions have succeeded in keeping oil prices around 70 per cent of the time and that Opec was better able to exercise discipline in times of economic growth.

"Our sense is that Opec still matters," said Michael Lewis of Deutsche Bank. "That global growth is not slowing that much." Reuters

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