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Crude below \$US50 could bring price collapse

January 19, 2007

NEW YORK: If crude oil prices extend their sharp slide below the \$US50 a barrel mark it could trigger an even deeper wave of investor selling, energy analysts said on Wednesday.

Oil prices have slumped about 16 per cent since the start of the year to below \$US51 a barrel before picking up to around \$US52.50 in after-hours trading and the market has a concentration of "put", or sell, options around the \$US50 and \$US45 a barrel level, making them key pivot points.

The spot price in Dubai sank to \$US49.39 on Wednesday but in early trading last night was back over \$US50 - by just one cent.

"If the speculative funds were able to push crude below \$US50 a barrel it could trigger a further wave of put short hedging which would give additional negative momentum," said Olivier Jakob at Petromatrix.

The drop in oil prices has been caused in part by an abnormally warm winter that has cut into demand for heating fuels and has rung alarm bells for OPEC members struggling to buoy prices with production cuts.

But analysts have also been pointing to hedging by oil producers who wish to lock in revenue because they think oil's five-year rally may have run out of steam.

"A \$US50 WTI [West Texas Intermediate] price represents a level that could concern higher-cost producers and at that level we would expect to see further producer hedging that may not be easily absorbed by the hedge fund community," JP Morgan said in a research note.

"Banks that have sold puts to producers at key levels, like \$US55 and \$US50, will have to manage that exposure as prices move lower," JP Morgan said.

As of Tuesday, open interest for put options at \$US50 a barrel for NYMEX near-month crude oil was 17,877, compared with 6384 at \$51 a barrel.

On Wednesday, US oil futures were down US56c to \$US50.65 a barrel, down from \$US61.05 at the end of 2006 and down from last July's peak of \$US78.40 a barrel.

London Brent crude oil was down US43c to \$US51.19.

Tapis, the Kuala Lumpur benchmark used to price Australian oil, was down \$US2.46 to \$US55.02.

Technical analysts said that oil prices risked a steep slide if they break below \$US50 a barrel.

"Brent is poised on the edge of a cliff here and the next step down will not be a small move," Walter Zimmermann at United Energy said.

Mr Zimmermann said the market should peg \$US50.65-\$US49.30 a barrel as the cliff edge for US crude, with any further steps to the downside likely to target the \$US47.55 and \$US44.40 levels.

"In the bigger picture, any further downside from here will greatly buttress the case for an eventual longer-term decline to the \$US36.35 area for the next major time-cycle low," he added.

■ Explorers drilled more holes in the US last year - 932 - than in any other year since 1985. A record 29,356 natural gas wells were also sunk.

Reuters, Bloomberg

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