
Recovery signs - Oil prices to hit USD 75 by H2 of 2010

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Khaleej Times reported that crude oil prices would stage a slight rally of up to USD 50 per barrel in the H2 this year and touch USD 75 by mid 2010 if members of OPEC comply with their planned production cuts.

Mr Richard Savage head of Energy Research at Swiss bank said that OPEC continued to overproduce by 1.8 million barrels per day, despite a decision last year to cut output by 4.2 million barrels per day in an effort to prop up prices that tumbled from a high of USD 147 a barrel last July to less than USD 45 a barrel recently.

Ruling out a return to USD 100 plus per barrel price range, Mr Savage who was Dubai on a short visit after taking part in at an investment seminar in Muscat said that oil market would once again be driven by fundamentals. With inventories at near record levels and OPEC sitting on 6 million barrels of spare capacity as of February, we do not expect a recovery anytime soon.

Mr Savage said that he did not expect OPEC to take a decision on further slashing output at its meeting this month as some members were against squeezing the market.

He said that global oil demand would remain at 84.7 million barrels per day for the whole of 2009, down from 85.7 million barrels per day in 2008 and 86.05 million barrels per day in 2007. In my view, the oil price rally during 2004 to 2008 was primarily driven by financial investors rather than the intricacies of the supply demand balance. The record oil price hike was the result of the same surfeit of liquidity that drove other asset classes to unsustainable highs and the withdrawal of that liquidity leading to the dramatic collapse.

Mr Savage who was MD and Global head of Commodities Research and Strategy at Bank of America before joining the 190 year old private Swiss banker, said that the dip in oil price would not prompt Gulf oil producers to shelve billions of dollars worth oil projects currently under way. Oil production costs are incredibly low in the Gulf at USD 10 per barrel compared to USD 90 at deep water oil production fields in Canada. So, we believe that a USD 75 per barrel oil price is high enough to incentives all but the most expensive producers to press ahead with development projects.

He said that USD 75 per barrel was high enough to encourage investment in alternative energy sources. Such a price range also would put a break on the explosive demand growth that was the catalyst for the last oil price rally.

(Sourced from Khaleej Times.com)

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