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Expert Commentary

Richard Mallinson, analyst at Energy Aspects, on oil

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Richard Mallinson
Analyst
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Oil futures finished higher last Tuesday on hopes that members of the OPEC and producers outside the cartel may reach an agreement to cut output to stem the persistent slump in oil prices. However, as Iran attempts to rapidly increase exports and Saudi Arabia signals little willingness to cut production, does the OPEC’s ability to boost prices remain existent?

There has been a lot of speculation about whether there might be a coordinated production cut; however, I think that it remains quite unlikely. In fact, it appears to be primarily Russia, or Russian officials, that are suggesting that the discussion is on the way, whilst Saudi Arabia, certainly, does not appear to become more willing to consider cutting production. To my mind, that is most probably because Saudi Arabia does not believe that all other OPEC members as well as non-OPEC countries would follow through with cuts.

Rumours that oil giants Saudi Arabia and Russia might work together to curb their booming output are just a vague talk or can we expect some cooperation in the nearest future?

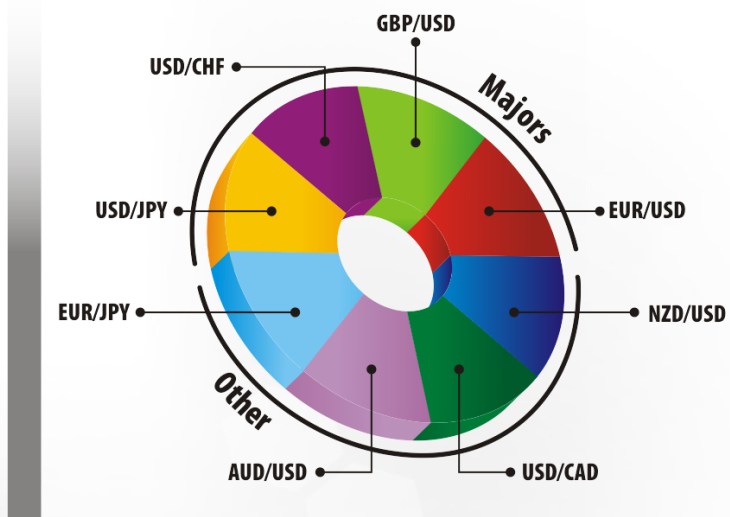
My personal view is that this could probably be just vague talk. We have seen similar rumours several times over the last eighteen months since prices began to fall, though each time it has not ended up with any tangible results.

Have we reached the bottom in oil? For how long do you expect it to stay at that level and whether the \$20-level per barrel is realistic in the foreseeable future?

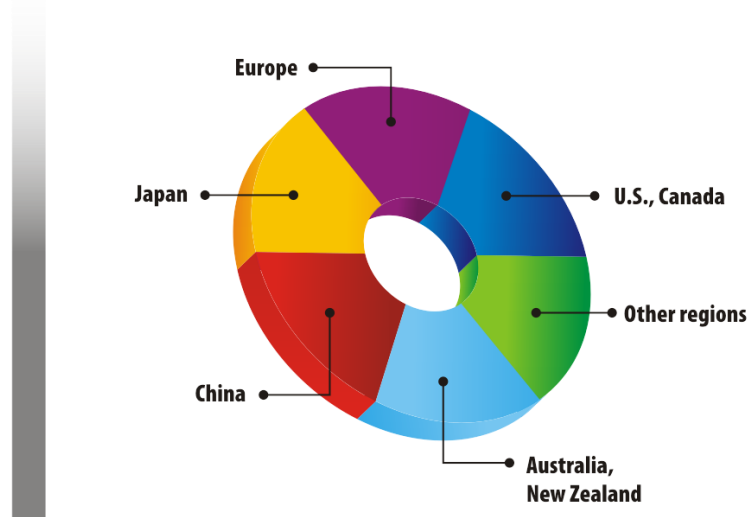
In my opinion, it is very difficult to call the current market situation ‘a bottom’, because prices are not primarily responding to fundamentals, that have been heavily influenced by macroeconomic data and headlines such as the Iran return, for example. Moreover, we have seen very volatile movements on the market, so I assume that a broader picture is that prices will remain under pressure for the next few months and most of the first half of 2016. Hence, it will be only late in the year, when I expect market fundamentals to rebalance and at that point we should finally see more support for Brent oil and a sustained rally in prices. In other words, weak first half of the year will be followed by a rally in late 2016.

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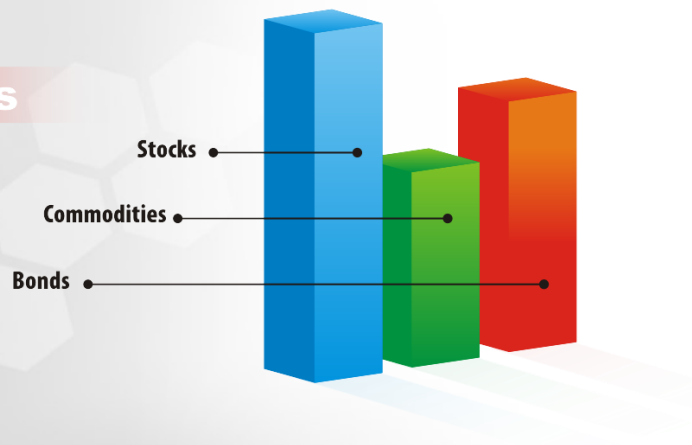
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