

Oil set to revisit US\$70-a-barrel level

Global inventories near historical lows, expected to drive first-quarter gains

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NEW YORK — No one in the Organisation of Petroleum Exporting Countries (Opec) is calling for higher oil prices, but the trend in global inventories suggests benchmark New York crude prices could be heading towards US\$70 (\$118) a barrel again in the coming months.

A review of historical patterns in United States and global commercial stocks suggests that oil inventories may end the year near the same record lows that helped push first-quarter crude prices higher in recent years.

According to the International Energy Agency (IEA), commercial oil inventories in key consuming countries are sufficient to meet 52 days of forward demand, which is in line with past years. Stocks in the US, the world's largest oil consumer, typically account for about 40 per cent of these inventories. Projections from the US Energy Information Administration show that US commercial stocks are expected to end the year at 2.9 per cent below their third-quarter level.

Given that the stock level for the key in-

dustrial countries has tracked US moves, global commercial stocks look likely to drop to between 50 and 51 days of forward demand cover by year-end.

With stocks at that level in the past three years, crude oil futures prices on the New York Mercantile Exchange (Nymex) have posted first-quarter gains ranging from 3.2 per cent to 20.3 per cent. The biggest surge in the period, though, came in 2003 when the US was marching to war with Iraq while Venezuela's oil industry was crippled by a strike.

IEA's December report is set to be released tomorrow, a day after Opec members convene in Kuwait to review output policy. The report will contain a measure of forward stock cover at the end of October.

Reflecting a switch to more scrupulous management of costly inventories, the global oil industry has shrunken considerably the size of its forward stock cover over the past 20 years. Whereas in the past, year-end stocks were bloated to cover more than 70 days of forward demand, fourth-quarter stocks hit their nadir of just 50 days at the end of 2002 and 2003. Tight stocks played a role in first-quarter price jumps, which would translate to surges of more than US\$7 to US\$12 a barrel in the current market.

Opec, which produces about 40 per cent of the world's crude oil, comprises Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates



STAYING THE COURSE: (From left) Kuwaiti Energy Minister and current Opec Chairman Sheikh Ahmad Al Fahd, Opec Secretary-General Abdulrahman Al Atiyyah and Saudi Oil Minister Ali Naimi. Opec is expected to keep its output policy unchanged at its meeting today.

and Venezuela. Its members have been keeping a close eye on global stock levels, but with mixed views.

Opec ministers have indicated they expect the group will not change its output policy for the near term. While Opec has a 28 million barrels-a-day output ceiling, it has kept actual output just above 30 million barrels a day while offering to supply up to 2 million barrels more if needed.

Benchmark New York crude oil closed at US\$59.39 per barrel on Friday. In recent days, Saudi Arabia's Oil Minister Ali Naimi has expressed content with the current market situation, reportedly describing it as "beau-

tiful". That suggests that Opec's *de facto* leader does not share the view expressed by Kuwait Oil Minister Sheikh Ahmad Al Fahd, who would like to see stocks rise to 56 days' cover by the end of the first quarter.

Kuwaiti comments often reflect the thinking of the US, a close ally, but they don't necessarily prevail at Opec. Kuwait's "56-day" comment was a rehash of a June statement that seemed out of the Opec mainstream. Since then, global stocks have fallen, not risen. IEA data show commercial stocks haven't touched 56 days since the second quarter of 2002. First-quarter stocks have not risen by anything close to the level needed to meet the Kuwaiti goal since 1996.

Opec's gathering today marks its return to Kuwait for the first time since October 1973 when oil nationalism was in full bloom. Ministers then set a fixed selling price of US\$5.12 a barrel, which they doubled two months later. Just after the talks, Arab exporters announced a cut in oil sales to the US and other pro-Israel nations, the start of an embargo which stayed in place for five months.

While the upcoming talks may pale by historical comparison, Opec is in a mood to keep its output policy unchanged. And global stocks near historical lows look likely to push near-term crude prices higher. —DOW JONES

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