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PUBLICATION:	Egyptian Gazette
DATE:	06-November-2015
COUNTRY:	Egypt
CIRCULATION:	60,000
TITLE :	Oil edges up, despite evidence of growing glut
PAGE:	05
ARTICLE TYPE:	General Industry News
REPORTER:	Staff Report

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Oil edges up, despite of evidence growing glut

LONDON (News agencies) – Oil prices rose on yesterday, paring some of the losses incurred a day earlier after data showed US inventory levels had risen for a sixth week and mounting evidence of weakness spreading through the physical market.

A day earlier, oil fell by nearly 4 per cent after the Energy Information Administration said US crude inventories added 2.85 million barrels last week, in line with forecasts, despite a drop in imports to their lowest level since 1991.

Yesterday, Brent crude futures were up 24 cents to $48.82 a barrel by 09:13 GMT although remained nearly 4 per cent below four-week highs above $50.00 hit on Tuesday.

US crude futures rose 18 cents to $46.50 a barrel, having lost 3 per cent the day before.

"Production was a bit higher in the US. It wasn't a good number and I think that kind of killed the sentiment," Petromatrix analyst Olivier Jakob said.

"For me, (Brent) is still really in a range. Each time it goes up $2, people get a bit excited, but then it goes back down $2. Technically, there is no trend," he said.

The discount in the price of oil for immediate delivery relative to that for delivery in a year, or contango, neared its largest in nearly two months this week, touching $7 a barrel.

This gap in price can often reflect the perception that near-term demand is falling short of supply.

Ample supply of barrels of North Sea crude, which underpins the benchmark futures price, has pushed physical prices to their lowest since June.

"The contango in Brent futures could widen more than the current levels ... just looking at the weight of the physical market," Petromatrix's Jakob said. Contributing to the generally bearish sentiment was an internal OPEC document published by **Reuters** that showed weaker demand in the next few years for oil from the group.

OPEC oil ministers are due to meet on Dec. 4 to decide whether to extend their year-old strategy of allowing prices to fall to slow higher-cost rival supply. OPEC, along with Russia, is unlikely to change tack, BMI Research said in a note yesterday.

"Our view remains that OPEC and Russia will continue on their strategy of producing as much oil as possible to squeeze out higher-cost producers," BMI said.

"With oil production of major producers strong, falling output from US shale will be insufficient to balance the oversupplied oil market over the next two years," it said.