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**OIL** has gained more than 15 per cent since Thursday after data showed the number of US drilling rigs had fallen the most in a week in nearly 30 years.

# Oil extend gains as BP joins sector spending cuts

**LONDON** (Reuters) – Oil rose more yesterday as BP said it will reduce capital expenditure, adding to cuts in investment in the sector and expectations that output will suffer and start to drain a glut.

Oil has gained more than 15 per cent since Thursday after data showed the number of US drilling rigs had fallen the most in a week in nearly 30 years. Some investors are betting a floor has formed under the market's seven-month-long rout.

BP Chief Executive Bob Dudley, tempered expectations of lower production, however, when he said yesterday that he expected US oil output to rise until the summer of 2015 when it would flatten.

Brent crude oil futures were up $2.13 cents at $56.88 a barrel as of 11:43GMT. US WTI futures were at $51.33 a barrel, up $1.76 cents.

BP announced it would cut capital expenditure by 13 per cent to $20 billion in 2015.

Last week, Chevron announced a 13 per cent cut in capital expenditure to $35 billion.

The announcement of capital expenditure cuts by major oil companies are helping support prices, said Michael Hewson, chief market analyst at CMC Markets.

"We've seen a lot of oil companies announce significant cuts in capacity expenditure and reductions in rig counts. What you're getting at the moment is a paring back of expectations as a result of the measures being taken," Hewson said.

"The seeds of an oil price recovery are being sown," Bernstein analysts said in a note, warning of downside risk to oil supply in places such as the Gulf of Mexico, the North Sea and Brazil, as companies cut costs in response to a fall of up to 60 per cent in oil prices since mid-June."Supply is unlikely to match expectations and demand will recover from last year's lows," the analysts said.

Others warned against getting too excited about falling rig counts in the United States. Analysts at Morgan Stanley said the relationship between rig count and production can be deceptive.

"Headline rig count declines may look impressive, but as we look at the data, much of the drop in oil rig count has come in low yielding vertical or directional rigs, i.e. the low-hanging fruit," they said.

Two OPEC delegates, one from a Gulf producer, said they could not rule out oil prices dropping to as low as $30 to $35, due to weak demand combined with global refinery maintenance in the first and second quarters of 2015.