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Oil slips as dollar recovers

LONDON (Reuters) – Crude oil futures reversed early gains to fall towards \$63 a barrel yesterday as the dollar's recovery from early losses outweighed expectations of a draw on US oil stocks.

July Brent crude fell 37 cents to \$63.35 a barrel by 12:45GMT, down from an intraday high of \$64.67, while US crude was down 13 cents at \$57.90 after touching \$58.95 earlier in the session. Oil prices had fallen nearly 3 per cent on the previous day, pressured by a strong rally in the dollar.

A weaker US dollar makes dollar-backed commodities such as crude oil more attractive for holders of other currencies.

The dollar was up 0.41 per cent against a basket of currencies, recovering from a fall of 0.33 per cent.

"We are hostages a little bit to the swings in the currency markets," said Ole Hansen, head of commodity strategy at Saxo Bank.

US commercial crude inventories are expected to have fallen by 2 million barrels last week, a preliminary Reuters survey showed. Declining US

stockpiles of crude and oil products in past weeks indicate robust demand in the world's largest oil consumer, supporting prices.

"If global demand continues to surprise to the upside and diesel somehow manages to hold value, then crude can surge," Energy Aspects analysts said in a note. However, investors have started taking profits on Brent as hedge funds and money managers cut their bets on rising prices for a second straight week.

"Further unwinding of these positions would remove a key pillar of support to prices," BMI Research analysts said in a note.

Investors also remained wary of ample supply as top OPEC producers Saudi Arabia and Iraq kept exports near record levels. The Organisation of the Petroleum Exporting Countries (OPEC) is expected to keep production steady at its meeting on June 5.

"I am not so bullish on fundamentals," said one bank trader who declined to be identified because of company policy. "Brent could possibly go down to \$60 on profit-taking."