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PUBLICATION:	**Egyptian Mail**
DATE:	**17-May-2016**
COUNTRY:	**Egypt**
CIRCULATION:	**60,000**
TITLE:	**Oil drillers betting 3-month rally nearing the end**
PAGE:	**07**
ARTICLE TYPE:	**Competitors' News**
REPORTER:	**Joe Carroll**

Oil drillers betting 3-month rally nearing the end

By Joe Carroll

OIL producers are taking advantage of the rebound in crude markets to lock in protection against another slump.

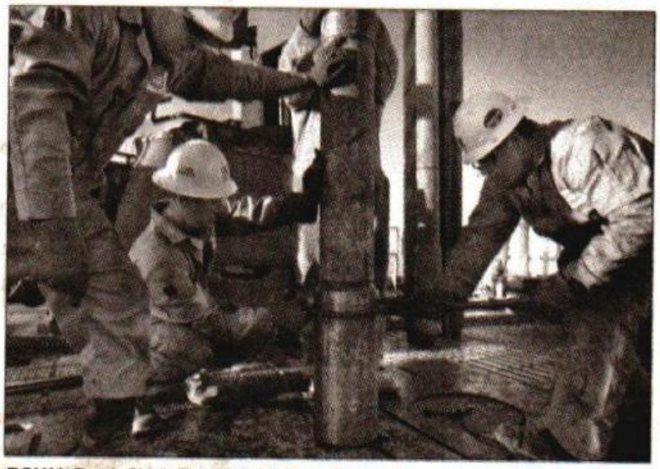
They increased their bets on falling prices to the highest level in 4 1/2 years as US inventories of stored oil remained near an 87-year high, while a natural disaster in Canada and militant attacks in Africa curtailed output. Negative sentiment among the group expanded for a third consecutive week, the longest streak since February.

Energy companies from EOG Resources Corp. to Chesapeake Energy Corp. used financial instruments such as futures, swaps and collars to guard against another fall in prices. West Texas Intermediate oil, the benchmark US crude, has gained more than 75 per cent since hitting a 12-year low in mid-February.

"They've been getting more and more active in hedging ever since the first initial jump," said John Kilduff, a partner at Again Capital LLC in New York. Oil producers "appear to be drawn to this market as everyone tries to stay alive through the downturn," he said.

Producers and merchants increased their short position in WTI by 3.8 per cent for the week ended May 10 to the highest since September 2011, according to data from the Commodity Futures Trading Commission.

In western Canada, raging forest fires closed in on Alberta's vast oil sands, prompting tens of thousands of residents to flee and interrupted shipments of the thinning agent used to help move the extra-heavy crude produced there through pipelines.



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Royal Dutch Shell Plc, Exxon Mobil Corp., Suncor Energy Inc. and other producers curtailed operations, imperiling more than 1 million barrels of daily output. The threat to oil-sands operations has since receded.

In Nigeria, militant attacks on oil installations operated by foreign companies including Shell and Chevron Corp. prompted evacuations and the shutdown of some production in Africa's biggest oil-producing nation. Output tumbled to a 20-year low last month, compounding the negative economic impacts on a country already strained by slumping energy markets, according to data compiled by Bloomberg. US output dipped to the lowest since September 2014, according to the Energy Information Administration. Inventories shrank in the week ended May 6 for the first time in more than a month, though stored supplies remained close to the highest since 1929.

"The failure to rally on bullish news was a bearish indicator, at least for a handful of sessions," said Tim Evans, an energy analyst at Citi Futures Perspective in New York. "The market still looks relatively overbought."

WTI began the month fresh off a 36 percent gain in March and April, the biggest two-month advance since May and June of 2009, according to data compiled by Bloomberg. Futures advanced by 2.3 per cent to $44.66 a barrel on the New York Mercantile Exchange during the CFTC report week and closed at $46.21 on May 13.

In other markets, money managers' net-long bets on Nymex gasoline fell 34 per cent to 15,480 contracts as prices slipped 1.6 per cent. Speculators reduced net-long positions on ultra low sulfur diesel the first time in five weeks as the fuel rose 0.3 per cent.

Money managers' net-long wagers on WTI fell 8.6 per cent to 216,521 futures and options combined in the report week, a second consecutive decline after three straight gains.

"Some subset of managed accounts have been trying to pick a top in crude," Evans said.

Meanwhile, oil prices jumped over 1 per cent yesterday after long-time bear Goldman Sachs said the market had ended almost two years of oversupply and flipped to a deficit following global oil disruptions.

Brent crude futures were trading at $48.47 per barrel at 0703 GMT, up 64 cents, or 1.3 per cent, from their last settlement.

US crude futures were up 62 cents, or 1.3 per cent, at $46.83 a barrel.

Supply disruptions around the world of as much as 3.75 million barrels per day (bpd) have wiped out a glut that pulled down oil prices by as much as over 70 per cent between 2014 and early 2016.

The disruptions have now triggered a U-turn in the outlook of Goldman Sachs, which long warned of overflowing storage and another looming price crash.

"The oil market has gone from nearing storage saturation to being in deficit much earlier than we expected," Goldman said.