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Oil stabilises above 6-year low

LONDON (Reuters) – Oil stabilised yesterday after China's central bank moved to support the country's economy, but prices stayed near 6-1/2-year lows as a heavy supply glut kept the market outlook bearish.

"Oil is catching its breath a bit and seeing if markets have been oversold or not," Capital Economics commodities economist Thomas Pugh said.

Brent LCOc1 was up 20 cents at \$43.41 a barrel by 11:15 GMT, and US crude CLc1 was up 15 cents at \$39.46 a barrel.

Oil has lost a third of its value since June on high US production, record crude pumping in the Middle East and concern about falling demand in Asian economies.

On Monday, both crude oil benchmarks saw their lowest trades since

early 2009, dropping as much as 6 per cent in one session after heavy falls in equity markets.

"The trend remains down, but in an erratic phase where attempts to recover are being made," PVM Oil Associates director Robin Bieber said.

China has cut interest rates and lowered the reserves banks must hold and injected 140 billion yuan into banks through short-term liquidity operations to calm fears about a severe economic slowdown. The Shanghai Composite Index .SSEC, is now 43 per cent below the June peak for the year.

ANZ said China's rate cuts had calmed commodity markets, but they remained cautious and gains would be limited as global oil oversupply is

likely to persist in the short term.

Pugh at Capital Economics said he thought the oil market was "already pricing in a worst case scenario in China at the moment", adding: "I'd be surprised if we drop much further."

But physical oil traders say the physical market remains stubbornly weak, with the global crude oil glut proving difficult to clear.

Several members of the Organisation of the Petroleum Exporting Countries (OPEC) are producing record volumes of oil.

OPEC member Iran plans to increase crude production and reclaim its lost export share after international sanctions are lifted, and Nigeria is also boosting exports.