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Oil prices up 2 per cent after US drilling falls

LONDON – Oil rose by more than 2 per cent yesterday after data showed US drilling slowed and a report said $1.5 trillion worth of planned production was uneconomic at current prices.

Crude has halved in value over the last year as soaring global production overwhelmed slowing demand and the much lower prices have now begun to hit drilling, particularly in the United States.

US drillers have cut the number of rigs in operation for three straight weeks.

Global benchmark Brent crude oil rose $1.19 to a high of $48.66 a barrel before easing back to trade around $48.60 by 12:00GMT. US light crude oil futures were up $1.15 a barrel at $45.83.

"The fall in rig counts (is) supporting an otherwise bearish market," said Tamas Varga, oil analyst at London brokerage PVM Oil Associates.

Investment bank Goldman Sachs said in a report that rig data pointed to a decline in US oil production between the second and fourth quarters of this year of more than 250,000 barrels per day (bpd).

Commerzbank head of commodities research, Eugen Weinberg, said reductions in US production should, eventually, turn oil market fundamentals, giving prices a lift:

"We are confident that the incipient decline of production in the United States will herald a long-term and fundamental bottoming out process on the oil market," Weinberg said. Low prices should have long-term impact on oil production.

"While operators are seeking an average cost reduction of 20-30 per cent on projects, supply chain savings through squeezing the service sector will only achieve around 10-15 per cent on average," energy consultancy Wood Mackenzie said. "$1.5 trillion of uncommitted spend on new conventional projects and North American unconventional oil is uneconomic at $50 a barrel," Woodmac added.

Despite such a cut to US spending plans, analysts said prices were expected to remain at low levels for some time as other producers, especially in the Middle East and Russia, kept pumping near record levels.