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Crude Falls on Forecasts Global Recession Will Cut Fuel Demand

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By Grant Smith and Alexander Kwiatkowski



Jan. 19 (Bloomberg) -- Crude oil futures fell below \$34 a barrel in New York on forecasts faltering global economic growth will drive down fuel consumption for a second year.

Goldman Sachs Group Inc., which expects demand to fall by about 1.6 million barrels a day this year, says that prices will rebound after slumping to about \$30 a barrel. That's more than three times the demand drop forecast by the International Energy Agency. The Organization of Petroleum Exporting Countries may have to cut output again should prices fall further, Algerian Oil Minister Chakib Khelil said over the weekend.

"Demand is falling faster than oil producers are cutting production," said Thina Saltvedt, an oil analyst at Nordea Bank AB in Oslo. "As long as OPEC is one step behind, prices will continue to fall."

Crude oil for February delivery fell as low as \$33.89 a barrel in electronic trading on the New York Mercantile Exchange, and was down \$1.89 at \$34.62 at 2:52 p.m. local time. There is no floor trading in New York today because of the Martin Luther King Day holiday.

The Nymex February contract expires at the end of trading tomorrow. The more-actively traded March contract dropped \$1.67 to \$40.90.

"There's light trading volume and the economic numbers are bearish globally," said **Chris Jarvis**, president of Caprock Risk Management LLC in Hampton Falls, New Hampshire. "The negative news coming out of Europe is pressuring the oil market."

Stocks Fall

Stocks in Europe, Brazil and Canada fell as investors speculated government efforts to shore up the financial industry will fail to stem the deepening global recession.

"The equity markets are soft and the contract expires tomorrow, so I would take today's crude oil price with a grain of salt," Jarvis said.

The settlement today of a dispute over natural gas between Russia and Ukraine, which caused shortages of the fuel in Europe, and a cease-fire in the Gaza Strip also brought selling pressure on oil futures, said **Jim Ritterbusch**, president of Ritterbusch & Associates in Galena, Illinois.

"There was a reduction of the geopolitical risk premium," he said in a telephone interview. "That has prompted some of the selling we've seen today."

The broader theme for oil is demand deterioration, he said.

Higher Stockpiles

Rising U.S. **stockpiles** and forecasts from the IEA and OPEC for declining world demand contributed to

an 11 percent decline in Nymex crude prices last week. Prices are down 20 percent this year, after tumbling 54 percent in 2008.

Prices may test the low of \$32.40 reached in mid-December before a "swift and violent rebound" to \$65 a barrel by the end of the year, Goldman Sachs analyst **Jeffrey Currie** said at a conference in London today.

Future supply constraints coupled with higher world demand in the coming years for crude will combine to push prices up, Currie said.

Brent crude oil for March settlement was down \$1.97 at \$44.60 a barrel on London's ICE Futures Europe exchange.

Record crude stockpiles in Cushing, Oklahoma, the delivery point for Nymex futures, are causing the New York contract to be cheaper than North Sea Brent crude, analysts have said.

OPEC Cuts

The difference between the two exchanges' March futures is about \$4 a barrel today. On the last day of trading of February Brent futures on Jan. 15, the premium for Brent prices over Nymex was \$9.29.

OPEC, which **produces** about 40 percent of the world's oil, agreed last month to cut output by 9 percent starting Jan. 1 to prevent a glut and stem a six-month decline in prices.

Saudi Arabia, the group's biggest producer, last week said it will reduce output further in February. Ministers should agree to fresh cuts at the group's March 15 meeting if prices continue to slide, Algeria's **Khelil** said on Jan. 17.

The IEA's latest forecast assumes global economic growth of 1.2 percent in 2009, half its previous estimate. It lowered projected daily demand in industrial nations by 530,000 barrels and consumption in developing nations by 480,000, including a 300,000 barrel-a-day reduction in China.

Chinese gross domestic product grew 6.8 percent from a year earlier, according to the median estimate of 12 economists by Bloomberg News, down from 9 percent in the previous three months. The data is due to be released this week.

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Last Updated: January 19, 2009 15:15 EST

