Brent Seen Falling to $50 in 2015 as OPEC Fails to Act

By Grant Smith and Mark Shenk - Dec 16, 2014

Crude oil prices are poised to fall below half where they were six months ago, before producers begin dealing with a global glut.

Brent, the global benchmark, will slide to as low as $50 a barrel in 2015, according to the median in a Bloomberg survey of 17 analysts, down from the $115.71 a barrel high for the year on June 19. The grade has already collapsed 47 percent since then and needs to fall further before producers clear the current glut, said five out of six respondents who gave a reason.

Brent futures sank in the weeks after the Organization of Petroleum Exporting Countries decided to maintain output even as the highest U.S. production in three decades swells a global surplus. The organization will stand by its decision even if prices fall to $40, United Arab Emirates Energy Minister Suhail Al-Mazrouei said.

“This won’t stop until oil producers are on their backs,” Bjarne Schieldrop, chief commodities analyst at SEB AB, Sweden’s fourth-biggest bank, said by phone from Oslo. “There will be better demand in the second half, hopefully some demand effects from lower prices, and definitely softer growth in U.S. shale.”

Brent futures slipped 44 cents, or 0.7 percent, to $60.62 a barrel on the London-based ICE Futures Europe exchange at 12:32 p.m. Singapore time.

Negative Effect

The group decided at the Nov. 27 meeting to keep output unchanged to protect OPEC’s market share, even if it has a negative effect on crude prices, the official Kuwait News Agency reported, citing Oil Minister Ali al-Omair.

The U.S. pumped 9.12 million barrels a day in the period ended Dec. 5, the most in weekly Energy Information Administration started in 1983. The gain came as horizontal drilling and hydraulic fracturing unlocked supplies from shale formations including the Eagle Ford in Texas and the Bakken in North Dakota.

Some respondents project the floor may be close to current levels. Drilling activity in the U.S. is showing some signs of slowing, which may grow as financing becomes more difficult, according to Saxo Bank A/S in Copenhagen. Output in some OPEC members outside the Persian Gulf will suffer
before U.S. shale drillers curb operations, consultant Petromatrix GmbH predicts.

“OPEC has scored an own-goal,” Olivier Jakob, Petromatrix’s managing director, said by e-mail. “Non-Gulf OPEC countries will participate against their will in the supply re-balancing of 2015. Venezuela will fall before the Bakken does.”

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