Oil

Oil climbs above $64 a barrel after Saudi crackdown

Concerns about stability and policymaking in world's largest crude exporter

Saudi Arabia is the world's largest crude exporter © AP

AN HOUR AGO by David Sheppard and Anjli Raval in London

Oil surged above $64 a barrel to the highest level in two years on Monday after Saudi Arabia's crackdown on dozens of princes and business tycoons raised concerns about stability and policymaking in the world's largest crude exporter.

The sharp move in Brent crude, the international benchmark, came shortly after Saudi officials warned that they had found "widespread corruption" among the suspects detained in the weekend sweep and threatened to freeze assets of those being held.

Brent settled for the day at $64.27, a rise of $2.20, taking its gains since June to more than 40 per cent, a move likely to be closely watched by central banks already monitoring rising inflation. US benchmark West Texas Intermediate hit $57.41 a barrel, its highest in two years, before settling the day at $57.35, up $1.71.

Ahead of European trading on Tuesday, Brent edged down 0.1 per cent to $64.22, while WTI was 0.1 per cent lower at $57.32.

Crude was on an upward trend even before Saudi Arabia's crown prince Mohammed bin Salman launched his purge, which has included the detention of billionaire investor Prince Alwaleed bin Talal, whose holdings include stakes in Citigroup, Apple and 21st Century Fox. The crackdown was widely seen as a move to consolidate Prince Mohammed's power as next in line to the throne.

Because Saudi Arabia is Opec's leading member, pumping one in every nine barrels of crude produced globally, political manoeuvring in the kingdom is closely watched by oil traders.

"The impact on oil could be significant on the perceived increase in volatility in the kingdom," said Cyril Widdershoven, at Dutch consultancy Verocy.

Kingdom Holdings, Prince Alwaleed's investment vehicle, issued a statement saying that the Saudi government had expressed its "full confidence" in the investment firm that manages $12.5bn of assets globally.

Employees have told business partners that there is a vacuum of information within Kingdom Holdings, with questions swirling about the fate of the firm's assets.

"Everything is on hold," said one person close to the company. Unlike oil, shares in listed companies in which Prince Alwaleed holds large stakes were initially unaffected by his detention.

Oil's move above $60 a barrel has been supported by the strongest economic growth globally since the financial crisis, with consumption booming in both developed and emerging markets.

Opec has also been cutting output in co-ordination with Russia and other large producers since January, removing about 1.8m barrels a day, or roughly 2 per cent of global supply from the market, helping to draw down surplus oil inventories that have built up since 2014. They are expected to extend the deal to the end of 2018 when they meet on November 30.

US shale drillers, whose fast-growing output helped bring the $100 oil era to a close in 2014, have also shown signs of choking back expansion, with companies becoming more focused on delivering higher profits rather than simply drilling more wells.

Tensions have also risen elsewhere in the Middle East, with Iraq moving last month to claim disputed oilfields and territory in Iraqi Kurdistan, leading to a drop in exports from the north of the country.

Oil's rally has sparked talk that crude could reach $70 a barrel by the end of the year, a level that seemed unthinkable just weeks ago.

Analysts have cautioned, however, that higher oil prices are likely to bring on more supplies from other producers, including US shale.

Carsten Fritsch, Commerzbank analyst, said that he believed that oil's spike may be shortlived as a result, though in the short term the tensions within Saudi Arabia were driving the market.

“We have stressed repeatedly that the biggest “risk” to our conservative price forecast is a destabilisation of the situation in Saudi Arabia,” Mr Fritsch said.

”As long as the geopolitical news predominates, any price forecast based solely on the fundamental data does not make a great deal of sense.”

Additional reporting by Simeon Kerr in Dubai and Ahmed Al Omran in Riyadh