

OIL & GAS MARKET WRAP

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US stock draws give crude some support

The oil price got a slight boost this week as US inventories saw stronger draws than expected.

But the strength in the dollar and an increase of oil supply from Iraq kept the market somewhat subdued.

In early trading on Friday, Brent crude was holding just above US\$46 with WTI under US\$45 a barrel.

Inventories drop for ninth week

The US Energy Information Administration reported crude oil inventory draws for the ninth straight week, down 2.3mln last week.

This helped to ease concerns about a sustained glut on the American market.

The picture was not as encouraging for gasoline stocks as stockpiles increased by 911,000 barrels despite a healthy driving season.

The president of Prestige Economics, Jason Schenker said he sees little movement in the oil price in the short term.

He expects "near-term downside risks to crude prices, but medium-term upside risks to crude oil prices. In the immediate-term, there are downside oil price risks as the end of the summer driving season approaches."

Oil production in the US has been on the decline, yet inventories remain at record high levels of 519.5mln barrels.

Schenker says he sees a slight increase in the rig-count, but adds "the medium-term upside risks for crude oil prices are significant, especially in the 18 to 24-month window, as underinvestment leads to higher prices."

The CEO of the oil services company Halliburton, David Lesar said he believes "the North America market has turned," and he expects a "modest uptick in the rig count during the second half of the year."

The company reported second quarter revenue down 35 percent to US\$3.84 billion, but this beat analyst's expectation.

Activity in South America, specifically in Brazil, Mexico and Columbia was scaled back as well as in Venezuela where the company decided to curtail activity this year.

The termination fee on the Baker Hughes agreement cost the company US\$3.5bn.

The CEO of Schlumberger added his words of optimism as the company reported an unexpected second quarter loss of US\$2.16bn.

Analysts had expected the company to return to profit, but the CEO Paal Kibsgaard said that "market conditions worsened further in most parts of our global operations."

He was more upbeat as he looked ahead to the second quarter where he added that "in spite of the continuing

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MarketTopic Synopsis:

The Oil and Gas wrap provides the latest oil prices from commodity exchanges in New York and London, gives a summary of the main corporate and macroeconomic news impacting the price of oil, a barometer of the strength of global economy.

Author:

Eithne Treanor

+44(0)1202770386

action@proactiveinvestors.com

headwinds, we now appear to have reached the bottom of the cycle."

The company said it cut another 8,000 jobs during the first quarter.

Republicans steal headlines

The Republican convention stole the headlines this week with Donald Trump securing the American Presidential nomination.

While Trump and his colleagues promised to give the US energy independence in coming years, the prospect of the CEO of Continental Resources, Harold Hamm was being raised as a possible energy secretary contender.

Hamm criticized President Obama for not doing enough, yet failed to highlight that the US was pumping 5.1mln barrels a day when President Obama took office and that has increased to 8.9mln barrels a day earlier this year.

Oil production increased 74% under president Obama's tenure to reach a 44 year high.

Oil production in Iraq has increased in recent months with 3.28mln barrels in July from the southern fields.

In 2015, Iraq managed to boost production by 500,000 barrels a day despite slow investment, political instability and threats and violence from Islamic State militants.

Shipments from northern fields in the semi-autonomous Kurdistan region are also one the rise.

Signs that the oil industry may have reached the "bottom of the cycle" will be welcomed by the industry, but no-one is talking confidently about any big investments in the near term.

The real danger now will be the sustained lack of investment over the past two years could lead to higher prices and tightness in the market by the end of the year.

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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