

OIL & GAS MARKET WRAP

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Oil majors feel pinch as crude supplies overflow

There's no way of hiding the over-supply of oil on the market.

While more positive economic indicators may have given the price and outlook a temporary boost in recent months, the constant production of crude oil has been building up and appears to be overflowing.

In early trading on Friday, Brent crude was trading above US\$42 with WTI slipping below US\$41 a barrel.

The technical analysts have been fearful of the falling price and producers will be concerned as the international oil companies look ahead to the third quarter.

Many of the major companies posted disappointing second quarter results and while the stock market is holding strong, the commodities market is suffering this earnings season.

BP suffering

Profits at BP fell 44% to US\$720mln on the back of sustained low oil prices in the second quarter.

The company has cut 10% of its work force in the past year and efficiency measures will continue as it is expecting an oil price of around US\$50-55 a barrel in the coming year.

The final debt of a US\$5.2bn charge from the Deepwater Horizon in the Gulf of Mexico was settled in the second quarter, a situation the CEO Bob Dudley called "a huge relief."

Investment for the coming year will continue, though at a subdued rate of US\$17 billion, compared to a figure of US\$27 billion three years ago.

But not as badly as Shell

The low oil price hit Shell hard and the company disappointed the market with a 72 percent decline in profits.

Ben van Beurden, chief executive, said it was proving to be a difficult "transitional year," but that the company was on track to cuts costs by 20% this year.

The French oil company Total saw net income down by 30% and ConocoPhillips reported a loss of US\$985mln.

Other American oil companies ExxonMobil and Chevron will report results on Friday.

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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.

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Both companies are expected to record a drop in second quarter earnings, with analysts looking at a possible 29% fall in sales from Chevron.

Oil services company Baker Hughes is also expected to release its rig count figures having seen an increase in recent weeks.

No respite soon

The continued weakness in the oil price will continue to impact all oil producers.

Living in the new reality of "lower for longer" has become painful for many of the key players.

There's been no let up in production in recent weeks and the refinery market is also feeling the pressure of over-supply.

American gasoline stocks were up by 452,000 barrels to hit 241.5mln barrels last week.

The market had expected a draw on inventory as is customary this time of year.

Challenging months ahead

Analysts and investment banks are reviewing their forecasts on a monthly basis as few signs of recovery are evident.

The president of Prestige Economics, Jason Schenker says he still expects "a slowing of US growth in the second half of the year as lower oil prices affect oil & gas credit and financial players."

The coming months will be a challenging time as producers tighten costs and delay investment decisions for the foreseeable future.

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