

## **Falling oil price**

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At last, one piece of good news from the financial crisis: oil prices have collapsed. In July, crude oil for New York delivery traded at more than \$146 a barrel. Three months on, it has almost halved to \$74. Some believe it could fall further. The same analysts at Goldman Sachs who first predicted crude could rise above \$100 now believe it could drop as low as \$50.

This is an unexpected boon. Lower oil prices mean lower inflation, which leaves greater scope for central banks to lower interest rates too. It is also a boost for sagging economies. In the second quarter of this year, US consumers spent almost 4 per cent of their personal income on fuel bills, some \$440bn. The halving of the oil price since then implies a saving of \$200bn. That is larger than the tax rebates sent out earlier this year, as research boutique **Gavekal** notes.

Not everyone is cheering though. Iran and Venezuela are among the loudest protesters - which is hardly surprising given that their government budgets balance at an oil price of about \$95. Russia is also, potentially, in a pickle. Its budget balances at \$70. (Saudi Arabia, the oil world's "central bank", looks safe, even if oil drops to \$50.) However, an output cut by Opec, expected on Friday, may not have much effect.

For one, markets have already discounted a cut of 1m to 2m barrels a day. Second, the incentive for members to cheat on their quotas is as strong as ever. Opec is already pumping some 400,000 b/d above its 32m b/d ceiling. Still, oil prices are unlikely to stay down for long. Crude's marginal cost of production is currently between \$65 and \$80 a barrel, Deutsche Bank estimates. All else being equal, that should determine its trading range.