Crude oil price hike positive for domestic oil output

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PETALING JAYA — With the price of Brent crude oil surpassing the US$55 per barrel mark yesterday — the first time since July 2015 — questions are arising on whether this rally is sustainable and heralds a long-term trend.

Malaysian oil and gas analysts on the whole, however, remain positive over the increase in price although they are weighing heavily on it to boost up the economy.

MIDF Research oil and gas analyst Aaron Tan Wei Min said the increase in price for crude oil is positive for local production as Malaysia's Gumusut Kakap rig in Sabah has been producing regardless of the global prices.

Gemusuk Kakap produces 20% of total domestic production. Malaysia only produces 0.7 million barrels per day (bpd) which constitutes to 0.6% of the total global production.

"It is positive for Malaysia as production here is not fully dependent on global oil prices," Tan told *Malay Mail*.

Kenanga Research analyst Sean Lim Ooi Leong said that a price correction can be expected for oil and gas counters after a few days of the oil rally.

"We can see profit taking and if the price is right for the market, the rally might start again," he told *Malay Mail* via phone interview.

Lim said in November, production for some Organization of the Petroleum Exporting Countries (Opec) members were at a record high and causing concerns.

"But overall, if Opec is able to deliver on its production cut, the outlook could be better year-on-year. But do note that the upside of oil prices could be capped by the potential revival of US shale gas production evident by the rebound of rig count."

In fact, industry commentators more or less agreed that US rigs will come back and start pumping again if Brent stabilises at US$60, and this Saturday's meet between Opec and the 14 non-members that account for 20% of global oil production may just push crude prices over the mark.

"However, the actual execution of the agreement is the key to the sustainability of oil prices, which will eventually translate into a meaningful recovery of the sector in terms of higher spending and investments.

"If the condition of the oil prices remain consistent, we should harvest above US$50 per barrel as long as Opec delivers on the 1.2 million bpd cut," Lim added.

The Conference Board executive vice president, chief economist and chief strategy officer Bart van Ark however projects the prices for crude oil to remain within the US$46-60 range, which translates to a less significant impact to Malaysia's economic growth.

"Prices are within an acceptable range and are not so high that it would cause user countries to feel the pinch. With Opec slashing production volumes, other oil producing countries like the US and Iran may come in to fill in the gap.

"US producers are flexible with their oil fracking, which makes it possible for them to come in and add to the supply," van Ark remarked.

The continuation of the initial 10% rally in Brent price, following last week's surprise announcement Opec to cut 1.2 million barrels from daily production, came as the cartel has roped in 14 more oil producers in a bid to shave off more barrels.

Opec has invited Russia, Mexico, Kazakhstan, Oman, Bahrain, Colombia, Congo, Egypt, Trinidad and Tobago, Turkmenistan, Azerbaijan, Uzbekistan, Bolivia and Brunei — which account for a fifth of the world's oil supply — to talks in Vienna on Dec 10.

Reuters, meanwhile, reported that Russian energy minister Alexander Novak will be meeting Russian oil companies to iron out implementation details (Russia having pledged to cut 300,000 bpd separately) prior to the meeting.