Govt likely to revise budget on depressed oil prices, say analysts

Pic by Amin Naharul

Perdana Putra, which is the Prime Minister's Department Complex, in Putrajaya. If crude oil prices remain low or even drop, the govt will be hard pressed to revise downwards its federal budget or to slash its expenditure

Crude oil prices expected to be under pressure in 2016 unless there's huge consumption in near future

by FARAH ADILLA

THERE is a high likelihood that the government will have to revise the federal budget this year on the back of lower government revenues as crude oil prices are anticipated to remain depressed, said analysts.

If crude oil prices remain low or even drop, the government will be hard pressed to revise downwards its federal budget or to slash its expenditure.

This is despite some market projections that crude oil prices could rebound as high as US$80 (RM347.20) per barrel in the second-half (2H) of this year. Currently, crude oil prices are trading below US$38 for Brent.

JF Apex Research oil and gas (O&G) analyst Lee Cherng Wee said while there is no immediate target of crude oil prices by year-end, the research house believes that it will remain low for the rest of the year.

"Coupled with the slowdown in China, we expect oil prices to continue to be under pressure in 2016. Unless we see huge consumption in the near future, but this is unlikely. If it's going to recover, it will be slow unlike what we had seen happening in 2008 and 2009.

"Towards this end, we believe that the Malaysian government will revise downwards the Budget 2016," he told *The Malaysian Reserve* yesterday.

In October 2015, a media report had quoted the second Finance Minister Datuk Seri Ahmad Husni Hanadzlah as saying that the Budget 2016 could be reviewed if Brent crude oil prices recovered and exceeded US$48 per barrel.

The Budget 2016 was made based on the assumption of an average Brent oil prices of US$48 a barrel.

Ahmad Husni further said that oil prices need to stabilise at that level and rise further to justify the budget review.

"What I mean by review here is if Brent crude oil prices surpass US$48 per barrel, it will mean more revenue for the country and we can (then) review the budget in order to give more to the rakyat," the report quoted Ahmad Husni as saying.

The minister, however, did mention on the possibility of slumping crude oil prices and a need to revise downwards the budget if it happens.

Meanwhile, another O&G analyst at MIDF Research Alvin Tan Wei Min who is more optimistic of the crude oil outlook said the research house is looking at a possible rebound of oil prices to about US$50 per barrel in the 2H of the year.

Tan said the development in the Middle East, with mounting conflict between Saudi Arabia and Iran may be a positive signal of oil price recovery.

"If we look geographically, most of Saudi Arabia's oil assets are located in the eastern part of the country where Saudi Arabia executed a prominent Shiite cleric.

"The fear of this conflict remains if the Shia protests near any of Saudi Arabia's oil assets which could disrupt oil production. But the impact, even it's positive, still going to be minimal," Tan said.

According to a report by *The New York Times*, Brent crude oil futures for February settled six cents lower at US$37.22 a barrel. It had risen as much as 4% in Europe on Monday.

In the US, benchmark crude oil briefly traded over US$38, but closed at US$36.76 a barrel.

Yesterday, oil price closed at US$36.74 per barrel down from US$36.76 per barrel recorded on Monday.