



Alam Maritim In The News

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## Stabilising oil prices may perk up O&G industry

By FINTAN NG

PETALING JAYA: The recent economic data from China and the United States, although far from pointing to a definite recovery anytime soon, has shown some stabilisation and given a boost to oil prices as investors bet on higher demand from rising consumption.

Last week's data from the US Energy Department showed crude stockpiles dropped by 2.1 million barrels for the week ended May 15 while gasoline stockpiles fell by 4.3 million barrels.

Nymex crude oil has been rising since mid-February after falling to a low of US\$33.98 per barrel on Feb 12. However, it is still nearly 60% below the US\$145.29 it hit in July last year.

Over the weekend, Saudi Arabian oil minister Ali al-Naimi was reported by *Bloomberg* as saying the price of oil would climb to US\$75 a barrel when demand picked up and he would recommend to the Organisation of Petroleum Exporting Countries (Opec) members at a meeting on Thursday to stay the course.



A file picture shows a worker fixing a valve at the Wafra oil field in southern Kuwaiti desert. Nymex crude oil has been rising since mid-February after falling to a low of US\$33.98 per barrel on Feb 12 · AP

Saudi Arabia is the biggest and most influential member of Opec.

With the higher price of oil, projects that were put off before might now become commercially viable.

OSK Research Sdn Bhd analyst Jason Yap said industry-wide, the local service providers to the oil and gas (O&G) industry expected more projects to come up as the oil price stabilised.

However, he said, that would depend on the segment of the industry that they were in.

It's definitely good for these companies, especially since their share prices will move in line with the recovery, as higher oil prices will mean better margins too since the cost of production will have to be adjusted,+Yap said.

Alam Maritim Resources Bhd group managing director Azmi Ahmad said the company had not made any changes to its planned capacity expenditure despite the higher price of oil.

We've been expanding our capacity since 2007/2008 and this will continue till 2010. After that, we'll be consolidating our position,+he told *StarBiz*.

Azmi said the company would take delivery of 11 vessels this year and next worth US\$200mil. Beyond that, we want to see how the oil price pans out.+

According to KNM Group Bhd group managing director Lee Swee Eng, capacity expansion will hinge on the O&G majors being aggressive in their capital expenditure.

While most O&G majors have the view that the world is structurally short of energy, investment in this industry will require a conducive credit market as well as sustainable oil and gas prices, he said.

He said the company was in the midst of completing two plants this year in Saudi Arabia and Indonesia that would cater to additional works in the next two years.

Purvin & Gertz Inc energy analyst Victor Shum said the global economy was still fragile with weak fundamentals and that oil demand was weak. We are seeing this price strength because investors are betting on a faster recovery but the Federal Reserve has come out to say that it's unconvinced that the signs of stabilisation are sustainable.

Shum said the price of crude traded on the New York Mercantile Exchange would likely be around the US\$60-level this week.

This is also the start of the summer driving season in the United States and if there are more people driving compared with last year, it may add to further price support.

Schroder Investment Management Ltd chief economist Keith Wade said in a report that a sustainable recovery was yet to be seen.

The turn in the inventory cycle and the government and central bank measures will only provide a temporary boost to activity, he said, adding that a sustained recovery would need stronger private demand which, in turn, would require a return to borrowing.