



Crude Oil Tumbles Below \$40 as Demand Drops Faster Than Supply

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By Mark Shenk

Jan. 12 (Bloomberg) -- Crude oil fell below \$40 a barrel in New York on concern output cuts by the Organization of Petroleum Exporting Countries will fail to counter a slump in demand.

Oil **consumption** will drop by 1 million barrels a day this year as the U.S., Europe and Japan face their first simultaneous recessions since the Second World War, Deutsche Bank AG said last week. OPEC members signaled last week they will curb sales to refiners in February.

"The market will remain under pressure because almost all of the news about the economy is awful," said **Michael Lynch**, president of Strategic Energy & Economic Research, in Winchester, Massachusetts. "It appears that OPEC is making a concerted effort to cut output but it's unclear whether this will be enough."

Crude oil for February delivery fell \$2.10, or 5.1 percent, to \$38.73 a barrel at 9:49 a.m. on the New York Mercantile Exchange. Futures touched \$38.12, the lowest since Dec. 31. Oil is down 58 percent from a year ago.

Goldman Sachs Group Inc. said that "weak underlying economic fundamentals" will dominate the oil market. The bank maintained its forecast that oil will fall to \$30 a barrel this quarter, in a report dated Jan. 9.

"The health of the global economy is the dominant consideration in the short term, and that is weighing down on prices," said **Harry Tchilinguirian**, senior market analyst at BNP Paribas SA in London. "OPEC cuts may prove to be supportive in future but it'll take time for them to take effect."

OPEC Production Target

OPEC, supplier of more than 40 percent of the world's oil, agreed last month to slash production quotas by 9 percent to revive prices as the global recession erodes demand. Oil has plunged more than \$100 in the past six months.

Saudi Arabian Oil Co., the world's biggest state oil company, sent notices to refiners in Asia on Jan. 9 that it would lower crude supplies to the region by about 10 percent in February. This was the third month the company reduced sales.

U.S. crude-oil **supplies** rose 6.68 million barrels to 325.4 million barrels in the week ended Jan. 2, the highest since May, the Energy Department reported on Jan. 7. It was the 13th gain in 15 weeks.

Inventories at Cushing, Oklahoma, the delivery point for crude oil traded at Nymex, climbed to 32.2 million barrels, the highest since the Energy Department started tracking the supplies in 2004.

Brent crude oil for February settlement declined \$1.86, or 4.2 percent, to \$42.56 a barrel on London's ICE Futures Europe exchange.

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