The Telegraph

Oil prices break back above $50 a barrel

Oil prices have been suppressed for the last year

By Jillian Ambrose
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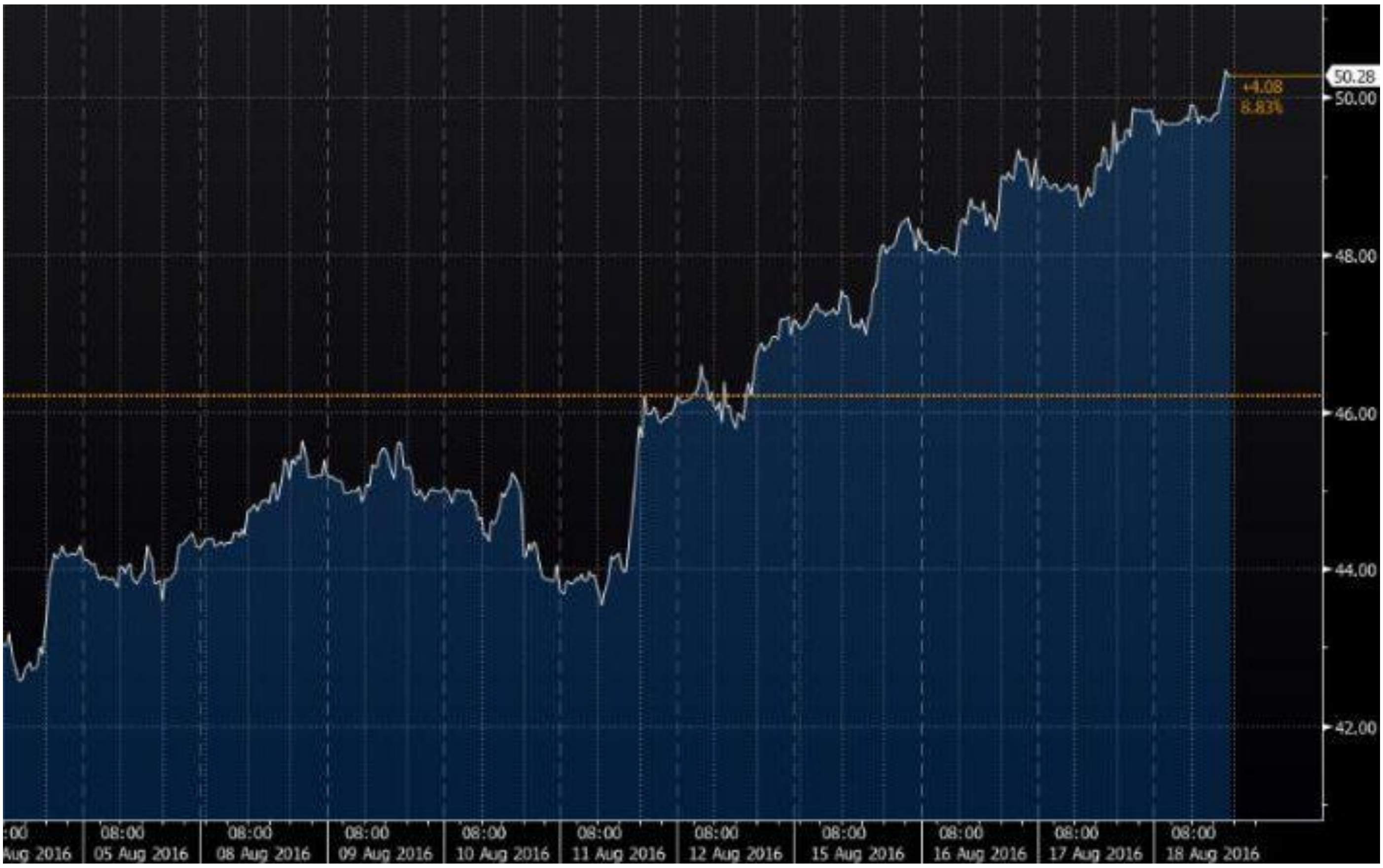
Oil prices broke above $50 a barrel for the first time in five weeks as hope that the world's largest suppliers may act to cut the glut in global supply continues to drive prices higher for a sixth consecutive day.

Brent crude moved above $50 a barrel for the first time since early July on Thursday morning before dipping back to $49.70 later in the day. But by the afternoon the market surged well above the key earlier highs to around $50.80 a barrel.

The recent rally in prices, from lows under $42 a barrel just two weeks ago, began late last week after Saudi energy minister Khalid bin Abdulaziz Al-Falih said the Oraganization of Petroleum Exporting Countries would meet in Algeria next month to discuss measures to stabilise oil market prices with major producers outside of the cartel.

The rally found further support earlier this week after Russian energy minister Alexander Novak said that his country - the world's third largest supplier of oil - was involved in the early discussions.



Brent crude prices have clim,bed higher in six consecutive days of bullish tradeCREDIT: BLOOMBERG/BLOOMBERG

Shakhil Begg, an analyst with Thomson Reuters, said oil prices bounced back as continued short covering activity sustained a rally which has propelled prices by more than 20pc since the lows of early August.

“The market has taken solace from statements made by various oil ministers – including officials from Saudi Arabia – hinting at co-ordinated action by producers to freeze output. US inventory data released on Wednesday also bolstered bullish sentiment as the EIA reported a draw in gasoline and crude oil stocks for the previous week.”

Mike van Dulken, of Accendo Markets, added: "Crude prices continue to benefit from the weaker US dollar post-Fed minutes with markets continuing to price in a dovish global economic outlook. Chat from Opec about production freezes is probably continuing to support the price as traders race to catch the boat before it leaves - in the unlikely but profitable event that it does.”

Saxo Bank’s Ole Hansen agreed that an Opec-led output freeze it unlikely, but that the cartel’s “engineered” comments should help buoy oil prices over a difficult summer period.

“What the Saudis have actually succeeded in doing is to influence market sentiment and thereby force a reduction of what was a rapidly expanding speculative short position in the futures market,” he said.

“August and especially September tend to be challenging months for the oil market with oil supply rising as refinery demand slows. By preempting these developments a better sentiment has been engineered.

“The fear of freeze action will potentially be enough to dissuade traders from going aggressively short into September, a month where oil has falling for the past five years,” he added.

Mr Hansen added that a production freeze “does not make much sense” within Opec because some members are already producing at record levels while other producing countries including Nigeria and Libya continue to struggle.

Mr Begg warned that the market could face a quick reversal of the recent price gains in the event that Opec fails to take action to curb supply, saying market fundamentals remain bearish.