

ENERGY & ENVIRONMENT

Oil Prices Surge 8% After Long Slide Down

By CLIFFORD KRAUSS JAN. 30, 2015

HOUSTON — Oil prices suddenly spiked more than 8 percent on Friday, in the biggest one-day price move for the volatile commodity in nearly three years. But most energy experts said it was too soon to say whether any meaningful shift was underway.

Traders and energy experts said the sudden move up — after oil prices had plummeted by more than 50 percent since June — could be explained by various factors, including reports that the Islamic State terrorist group was advancing in an offensive near Iraq's northern oil fields.

The sharp rise came in the final 45 minutes of the trading day, with the West Texas Intermediate benchmark rising just over \$3.71 to \$48.24 a barrel. The global Brent benchmark rose to above \$50 — still a long way from the \$100-a-barrel levels energy executives have grown accustomed to in recent years.

The rally came shortly after the Baker Hughes service company reported that the nation's rig count had dropped by 94, or 7 percent, in the last week, the largest single-week drop since the late 1980s. That leaves 1,223 rigs in operation, the lowest number in three years, and energy executives say another 300 rigs could be decommissioned in the next few months as service contracts expire.

A drop in oil production normally happens several months after rigs are decommissioned, but the Baker Hughes report was another sign that oil companies were responding fast to the global oil glut by cutting their spending.

Chevron, the nation's second-largest oil and gas producer after Exxon Mobil, reported on Friday that it was dropping its 2015 exploration and production budget by 13 percent. It was the latest in a string of company reports over the last few weeks suggesting that as much as \$100 billion in petroleum investments would be cut

worldwide this year.

“My gut says the oil price has been artificially low, and I think this is a logical correction from that overreaction,” said Joel Moser, the chief executive at Aquamarine Investment Partners. “It would not surprise me at all that this may reflect a bottom.”

Oil prices were soaring last summer when the Islamic State staged an offensive through western and northern Iraq. But the group never interrupted the most important oil production and export activities.

Within months, the offensive had actually driven the Baghdad government and the Kurdistan regional government closer together, for mutual security. That helped promote better energy coordination, which increased exports.

The Energy Department reported on Friday that Iraqi oil production had increased in the second half of 2014.

But renewed Islamic State attacks on Kurdish positions outside the city of Kirkuk raised the risks that Iraqi production could be in jeopardy again, renewing concerns about global supplies. Energy experts say the world supply is only about 1.5 to 2 million barrels a day above demand, so instability in the Middle East has the potential to rapidly change the oil price outlook.

American and international oil companies are taking no chances and they are preparing for at least several months of low oil prices.

On the day after ConocoPhillips and Occidental Petroleum announced quarterly losses and sharp cuts in 2015 investments, Chevron on Friday reported lower profits and said it would suspend stock buybacks.

John Watson, Chevron’s chief executive, was cautiously optimistic but he emphasized that more investment cuts might be necessary.

“Although commodity prices have fallen recently, we believe long-term market fundamentals remain attractive,” he said. But he added, “We will continue to monitor and be responsive to market conditions, and to actively pursue cost reductions throughout our supply chain in order to lower overall outlays.”

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