

# Oil price hits 1.5-yr high on supply cut

■ Expected US Fed rate hike may add to global volatility

London, Dec. 12: Oil prices surged to their highest since mid 2015 and US Treasury yields hit a more than two-year peak on Monday after the world's top crude producers agreed to cut output.

Coming at the start of a week when the United States is expected to raise interest rates for the only the second time since the global financial crisis, the weekend agreement between Organisation of Petroleum Exporting Countries and key non-Opec states set the markets alive.

Brent oil futures soared more than five per cent to top \$57 a barrel for the first time since July 2015 and US crude leapt above \$54 a barrel to send global inflation gauges spiking as well.

There was particular surprise as Saudi Arabia, the world's number one producer, said it may cut its output even more than it had first suggested at an Opec meeting just over a week ago.

"The original Opec deal pointed to a fairly lumpy three percent cut (in production), so this suggests there is a bit more upside for oil prices," said Neil Williams, chief economist at fund manager Hermes.

On the rise in bond yields, which tend to set global borrowing costs, he added: "The Fed hike is mostly baked in so when we do get it, it will be more about the statement."

European oil firms



## DESPERATE MEASURE

CRUDE OIL price is on the rise after years of decline following an accord between oil producing countries to slash supplies. Lower oil prices have taken oil-dependent economies out of gear in the last couple of years.

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\$70

IS THE PRICE of crude oil that India would be comfortable with and the government can absorb the hike by reducing excise duty, which it hiked when oil price was falling.

IF CRUDE OIL price rises beyond \$70 a barrel, oil firms have to increase the fuel price.

AS INDIA is heavily dependent on imported oil, higher oil price is negative for its economy as it will step up pressure on forex payments

jumped more than two per cent on the oil surge and helped the pan-regional STOXX50 index add 0.2 per cent, having just had its best week in exactly five years.

Bond markets in contrast were under heavy pressure. Euro zone government bond yields opened sharply higher with German Bunds up 5 basis points at 0.40 per cent as US yields topped 2.5 per cent for the first time since October 14.

"We have seen Opec and non-Opec producers agreeing, which is boosting reflation expectations around the world," said Chris Weston, an institutional dealer with IG Markets.

In another sign of the reflation trade, breakeven rates — the gap between yields of five-year US debt and a matching tenor in inflation-protected securities — were at two-month highs.

— Reuters