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HD **Shades of iron ore woe in oil's fall into bear market**

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Energy assets are considered by many as a cornerstone in a balanced investment portfolio, especially since prices rocketed in 2007, but the rapid global supply response has eroded the once rosy fundamentals.

Oil is now deep into a bear market decline and Goldman Sachs strategists have slashed earnings-per-share growth forecasts.

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Asian oil stocks' EPS forecasts have been cut 49 per cent to 3 per cent and their price targets lowered 22 per cent as the key global energy source shows no sign of bouncing.

Playing it cool, Goldman analysts said they had identified 12 previous oil bear markets over the past 25 years and during most correction phases "the equity is typically flat to only slightly down", suggesting that oil bear markets were typically more a function of supply side concerns than risks around global growth.

Yet they admit to being continually surprised by the current sharp selloff in oil, while equity investors also appear less than sanguine as core market beliefs are put to the test.

Goldman said the major Australian Securities Exchangeenergy names — Woodside Petroleum, Santos and Oil Search — had tended to experience about 20 per cent to 30 per cent of the down move in oil, "but this linkage has increased in recent years".

Santos and Oil Search are down 12 per cent, roughly half the move in the oil price.

The main problem for oil producers is that non-OPEC oil supply has grown consistently since May last year, "allowing the market to offset OPEC supply issues like an almost complete shut-down of Libya, sanctions on Iran oil exports and slowdown in Iraqi production growth".

"While US shale oil is pushing down the marginal oil cost curve by about $US10 per barrel, we believe debottlenecking of oil services capacity is likely to lead to a deflationary environment and push the cost curve down further," Goldman said.

All this leaves oil in a similar position to iron ore, where markets are seriously testing the widespread belief in natural "floor prices" and the view China's growth surge this century has led to a step-change, to a new plateau for commodity demand.

This bullish belief is reflected in the exponential rise of speculative net-long positioning in oil futures over the past decade. It coincided with a weakening US dollar and cheap carry-trade funding environment that has made it easy for speculators to continually build long positions, wagering that global growth and demand would offset increasing supplies.

However, the oil spec-bubble was burst by a resurgent US dollar and loss of faith in global growth momentum. The plunge in spec long holdings since August has been a stunning blow to global energy sentiment.

Bloomberg underscored the heavy oversupply this week when it reported that China consumed the second-biggest amount of crude ever last month and its stockpiles increased to a record, even as oil prices nosedived.

China National United Oil bought the most ever cargoes of Middle East crude. A key reason prices barely blinked was Saudi Arabia's total crude and refined exports also hit a record of 9.7 million barrels a day in September, according to Barclays.

Market speculation is that China plans to build a strategic oil reserve of 680 million barrels, equal to 100 days of net-imports in 2020. The country has a reserve of about 140 million barrels.

If true, it might put a floor under prices for a while but energy markets remain on edge.

"Everyone in the oil market should stop panicking because crude supply and demand will return to equilibrium," OPEC secretary-general Abdalla El-Badri said at the Oil & Money conference in London on Thursday.

"If the price is declining a lot of the investment will go out of the market," El-Badri said. Physical supply demand balance is one thing, but risks remain from the steep oversupply in "paper markets" where speculators have inserted themselves as unnecessary intermediaries between producers and end users.

The paper overhang could come crashing down if oil producers are forced to keep the wells flowing to meet company earnings expectations and fiscal budget considerations.

"OPEC may have a relaxed attitude because prices above $US80 a barrel are still high enough to fund members' spending needs," Christopher Bake, Vitol Group head of origination, told Bloomberg.

"Obviously, there's a lot of budgetary pressure at $US80 or below but I think a lot of the larger OPEC producers are going to take a little bit of a wait-and-see attitude," he said. "Short term, I don't expect much of a reaction from them."

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