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COMMODITIES

Oil Sinks to Biggest Weekly Decline of 2015 After IEA Warning

Energy watchdog warns of continuing supply glut

By Timothy Puko

Updated Dec. 11, 2015 2:32 pm ET

Oil tumbled to its biggest weekly decline of the year after an International Energy Agency report highlighted the magnitude of the global crude glut.

The IEA, an energy monitor, said low prices are taking a toll on supply but producers haven't yet scaled back enough to make a dent in stockpiles.

Oil has fallen for six straight sessions while registering its largest weekly percentage decline of 2015. This latest leg of oil's selloff, which has slashed prices by about a third since the start of the year, has rattled stock and debt markets anew. The Dow Jones Industrial Average recently was down 270 points, or 1.6%. Junk bonds, which were also reeling from a fund's closure, slumped.

U.S. oil futures for January delivery fell $1.14, or 3.1%, to $35.62 a barrel on the New York Mercantile Exchange Brent, the global benchmark, fell $1.80, or 4.5%, to $37.93 a barrel on ICE Futures Europe.

Both lost about 11% for the week, putting them down a third for the year and at their lowest settlement since the financial crisis. U.S. oil last settled this low in February 2009 and Brent in December 2008. The last time U.S. crude posted a six-session losing streak was in March. For Brent, it was in mid-2014.

Money managers have moved sharply against crude in recent weeks, repeatedly adding to bets on falling prices. Data released late Friday by the Commodity Futures Trading Commission shows only 80,474 more bets on rising prices than falling prices, the smallest margin in more than five years.

In its monthly report, the IEA said world oil-demand growth will slow to 1.2 million barrels a day in 2016 after surging to 1.8 million barrels a day this year, as support from sharply falling oil prices begins to fade. Continued strong OPEC production and extra Iranian oil hitting the market next year will swell global inventories by 300 million barrels.

"As inventories continue to swell into 2016, there will still be a lot of oil weighing on the market," the IEA said.

The price of many oil-company shares have reflected the assumption that oil will rebound to $65 a barrel, said Matt Portillo, managing director at investment bank Tudor, Pickering, Holt & Co. Prices along the oil-futures curve are now below $60 a barrel all the way through 2024, a sign that a recovery is still far off.

"That's the slow meltdown we're seeing in the market at the moment," Mr. Portillo said.

There are also broad concerns about growth, especially in emerging markets, which in previous years have driven demand growth in raw materials.

China's central bank on Friday signaled its intention to change the way it manages the yuan's value by potentially loosening its peg to the dollar. That could be a bad sign for oil demand in the world's second-largest oil consumer, said Dimitry Dayen, senior research analyst at ClearBridge Investments, which manages $103.9 billion in assets.

"If they devalue their currency, which is a little bit of what's happening today, the commodity becomes more expensive locally and that could drive demand lower," Mr. Dayen said.

A natural gas rig in the center of the Marcellus Shale in Bradford County, Pa. Some U.S. shale producers have turned off their taps in response to sliding oil prices, though not enough to rebalance the market. PHOTO: REUTERS

IEA's estimates aren't a big revelation, but makes it harder for oil bulls to claim the market is on the verge of a turnaround, said Todd Garner, managing partner at hedge fund Protec Energy Partners LLC in Boca Raton, Fla. Many in the market are hopeful that the next report from a major producer or one of the governmental energy agencies will show the turnaround is starting, but Friday's IEA report is just another sign it is not, he added.

"That's a powerful confirmation," Mr. Garner said.

Oil sold off steadily during European trading, and the losses accelerated after 9 a.m. in New York, a time when trading in the U.S. market typically takes off. Only data about the number of working oil rigs appeared to staunch losses and prices stabilized just after 1 p.m.

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Baker Hughes Inc. reported the U.S. oil-rig count fell by 21, the second-largest fall in seven months. Many see a falling rig count as a sign production will eventually decline, too, but many also discount that statistic because oil producers keep finding ways to increase supply with fewer rigs.

The IEA, which advises the world's biggest economies on energy policies, did say the decision of the Organization of the Petroleum Exporting Countries last week to continue to pump crude at record levels into an already oversupplied market is hurting producers outside the oil cartel, especially the shale industry in the U.S.

Congress is now negotiating to end the 40-year-old U.S. ban on oil exports to help bottlenecked U.S. crude to get to new markets. Analysts said that likely caused Brent to fall so much more than U.S. oil did on Friday. Energy Aspects on Friday raised the odds that the U.S. will agreed to a policy change up to 50%.

Gasoline futures gained 0.1% to $1.2815 a gallon. It gained 0.9% for the week.

Diesel futures lost 6.5% to $1.1456 a gallon, their lowest settlement since March 11, 2009. They lost 15% for the week, the largest one-week percentage decline since December 2008.

— **Georgi Kantchev***, Jenny W. Hsu and Summer Said contributed to this article.*

Write to Timothy Puko at tim.puko@wsj.com