Goldman slashes oil price forecasts

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Oil prices will fall to $30 a barrel in the next three months, Goldman Sachs said on Friday, as it lowered its calendar 2009 forecast for oil prices to $45 a barrel, down from a previous $80 a barrel prediction.

Goldman Sachs' oil forecasts demand the attention of the market as the bank is Wall Street's largest oil trader. Last year the investment bank **shocked many in the market** when it warned about the danger of a "super-spike" to $200 a barrel.

The traditional oil bull said that with the recession expected to take on "an increasingly global character as we move into 2009", demand for oil will continue to contract next year.

"The collapse in world oil demand in the fourth quarter of 2008 as the global credit crunch intensified now threatens to push oil prices below $40 a barrel in the near term," said Goldman's commodities research team, lead by Jeffrey Currie, in a note to clients. The bank's forecast is at the low end of Wall Street's and the major industry consultants' predictions for 2009.

The investment bank said oil prices will recover to about $42 by June and to $65 by December, but the low prices of early 2009 will leave the annual average at $45.

Merrill Lynch last week cut its forecast for oil prices in 2009 to $50 a barrel, warning that prices could drop to a low as $25 a barrel if the economic recession hitting the US, Europe and Japan spread to China.

In morning trade in London, Nymex January West Texas Intermediate was $2.74 down to $45.24 a barrel. ICE January Brent dropped $2.83 to $44.56 a barrel.

Goldman's gloomy forecast comes ahead of **next week's Opec meeting** in Oran, Algeria, to consider a further production cut on top of the 2m barrels a day the cartel has already pledged to remove from the market in the last two months.

Chakib Khelil, Algeria's oil minister and Opec's president, told state radio on Thursday there was a consensus among Opec members to reduce production when they meet next week. "The Oran meeting will decide a severe production cut to stabilise the oil market." Mr Khelil said.

Several Opec ministers have hinted cuts from 1-1.5m b/d, and some analysts speculate that the cartel could go to a shocking 2.5-3.0m b/d cut.

Goldman Sachs said that it will take an additional 2m barrels a day Opec production cut along with a 600,000 b/d decline in non-Opec output to "rebalance the oil market". The drop in non-Opec output "will likely have to come from forced or economically motivated shut-ins by higher cost non-Opec producers in places like Canada, North Sea, Russia and the US," the bank said.

Other commodities were also lower on Friday, with base metals sharply down after Washington's high profile effort to agree legislation to lend $14bn to the US auto industry collapsed on Thursday night.

On the London Metal Exchange, copper for delivery in three months tumbled 6.6 per cent to

$3,110 a tonne while aluminium fell 3.5 per cent to $1,500 a tonne. Zinc, lead, nickel and tine were down between 3.5 and 5.0 per cent.

Goldman Sachs said that the sharp deterioration in global industrial output and in metals-intensive sectors continued to worsen the demand outlook for industrial metals in 2009.

“Although the rebalancing process is already underway with deep cuts in mine and smelter production in response to the exceptional price weakness, we expect substantial surpluses across most metals to continue to pressure prices lower from current levels in the short-to-medium term,” it said.

On average for next year, it said aluminium will trade at $1,410 and copper at $2,950 a tonne.