Oil prices will see downturn in the next 12 to 18 months - analyst

by Jing Yang

With the world staggering at the prospect that oil prices may hit $200 per barrel in the near future after reaching $125 last week, analyst David Bensimon has rejected market consensus, instead projecting that oil prices will not spike to new historical highs straight away. Bensimon believes that oil will see a 30 percent dive over the coming 12 to 18 months before entering its next bullish phase.

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Shanghai. May 21. INTERFAX-CHINA - With global attention fixated on oil prices reaching between $150 to $200 per barrel within the year, David Bensimon is one of the few industry experts that dares to challenge the status quo.

"It's not that I disagree with their target of $200 per barrel. My point is that it's just not going to happen straight away," Bensimon, a former senior interbank trader with over 20 years of active trading experience who now advises institutional investors through his company Polar Pacific, told *Interfax* yesterday from Singapore. "Some are looking for it to continue immediately to that level, and my view is that for a variety of technical and fundamental reasons, oil should pull back to $85 before it resumes the larger uptrend."

He attributes this expected 30 percent drop to significant resistance around the $126 to $128 benchmark and forecasts that the main decline will begin in July.

In March 2005, with oil prices below $50 per barrel, Bensimon predicted that the cost of oil would reach $100 per barrel in 2007. Bensimon later highlighted a more significant target of $128, and when he spoke to *Interfax* in March this year, he emphasized further that once it reached that mark, there would be a buzz among the industry of prices hitting $200 per barrel.

"People will lift their horizons to much higher levels, simply projecting the most recent momentum and acceleration to continue into the future. That kind of maximal optimism always accompanies maximum price. That is just the nature of it," he explained.

"However, my view is that it will pull back," Bensimon said.

According to him, world oil prices are in the midst of a 16-year climb from December 1998 to December 2015, over which a unified five-wave sequence will play out.

"The first big rally from 1998 took a couple of years and saw oil prices rise from $11 to $27. A deep correction for the second wave then pulled prices back to $17 in late 2001. Everything from $17 up to $127 represents the third wave in the series, and we have now reached the top of this movement," he said.

"So in the next 12 to 18 months, we should see oil prices travel between the consolidating zone of roughly $127 to $85," he added.

On a smaller scale, he notes that during the next few weeks, the market could see a quick drop to about $115 per barrel, but only to rebound to highs in early July. He states that there is some room for short-term volatility near the $127 mark, which may lead to false price hikes. However, prices will stay below $133 per barrel.

"Only if prices quickly move and hold above $133 do we need to consider that something else is happening, but so far, everything is consistent with the long-held view that we are now completing exactly what needs to be done since 2001," he said. "And the natural expectation based on this nice rhythm that has unfolded so perfectly so far, is that prices need to move sideways in the next year or 18 months, including the dips to twice tag support at $85."

After reaching $85 in 2010, oil will enter another bullish run that may send final prices peaking at a stunning $400 per barrel around 2015, he predicts. "During that eventual five-year advance, oil prices will be driven not only by the global demand of oil, but also, to a large extent, by the monetary inflation of a weakening U.S. dollar," he said.

Bensimon also added that the expected pullback in oil prices during 2009 will drive down production costs for corporate companies and therefore will boost world stock prices.

NYMEX June West Texas Intermediate (WTI) crude oil hit a record high of $129.60 a barrel on Tuesday night after legendary Texas oil billionaire Boone Pickens publicly predicted that crude oil would reach $150 a barrel this year. His statement also came amid speculation in the market that world oil production will be unable to meet demands as early as next decade. This speculation is supported by the robust demand growth from China, which is partly a result of the country's artificially low, government-capped fuel prices.

Investment bank Goldman Sachs in its latest report raised its projection for average oil prices in the second half of this year from $107 per barrel to $141. They also said earlier in the year that international oil prices would spike to $200 per barrel in the next two years.