JIM BLECHA, VIA BLOOMBERG

OPEC price war sends crude to 3-year low

Prices down 30% since June's high

Paul Davidson and Adam Shell
USA TODAY

Oil prices fell to a three-year low Tuesday as Saudi Arabia cut prices of crude exported to the U.S., raising the specter of a bruising battle for market share that threatens the U.S. energy boom but could bring ultra-low gasoline prices.

A barrel of U.S. crude fell as low as $75.84 Tuesday before rebounding to $77.19, down 2% for the day and the lowest closing price since Oct. 4, 2011. West Texas Intermediate crude is now deeply in bear market territory, having tumbled nearly 30% since its June high of nearly $108 per barrel.

Brent, the international benchmark, fell 2.3%, to $82.82, having earlier fallen to $82.08, its lowest level in just over four years, the Associated Press reported.

Shares of U.S. oil giants traded lower late Tuesday. ExxonMobil shares closed down 74 cents, or 0.8% to $94.52. Chevron was off $1.41, or 1.2%, to $115.37. ConocoPhillips closed down $1.79, or 2.5%, to $68.77.

The Saudi price cut comes amid slowing growth in the eurozone and China that already had sharply driven down oil and gasoline prices this year. Meanwhile, global oil supplies have soared partly as a result of the U.S. drilling boom in states such as North Dakota and Texas.

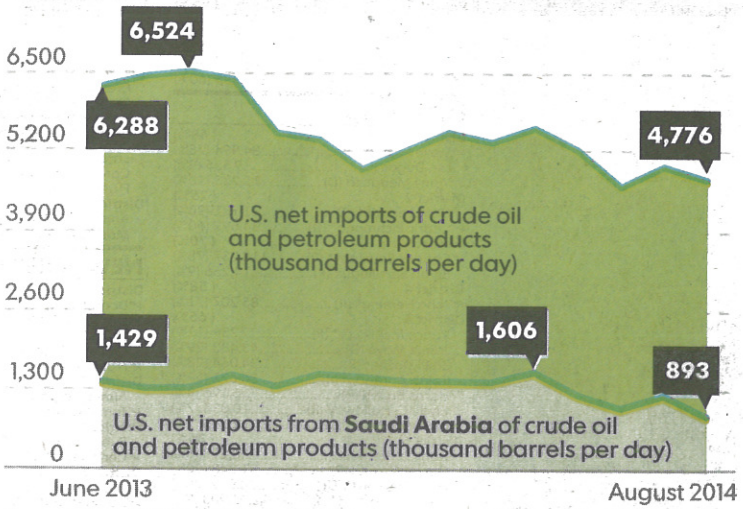
PRESSURE ON PRICES

Faced with falling market share, especially in the U.S., Saudi Arabia has reduced crude prices for U.S. refiners by about $2 a barrel since August, including a roughly 40-cent cut Monday, says independent oil analyst Philip Verleger. More significantly, the world's largest oil producer has given no signal it intends to pare back production to stabilize prices.

Saudi Arabia's hard-line position is reminiscent of stances it took in the early 1980s and late 1990 as it lowered prices in efforts to increase its market share amid weak global demand.

OIL IMPORTS SLIDE

Saudi Arabia is cutting prices on oil it sells to the U.S. in the face of a sharp slide in U.S. oil imports, including those from Saudi Arabia.



Source Energy Information Administration

DOUG CARROLL AND KRIS KINKADE, USA TODAY

Tom Kloza, chief global analyst for the Oil Price Information Service, predicts Saudi Arabia ultimately will scale back production, but not before U.S. crude falls to about $70 a barrel and gasoline prices dip as low as $2.75 a gallon. Next year, Kloza estimates, gas prices will remain unusually low amid weak global demand, peaking at $3.25 a gallon.

Analyst Daniel Katzenberg of Robert W. Baird thinks oil prices already have bottomed. Members of the Organization of the Petroleum Exporting Countries have said they require crude prices of $80 to $100 a barrel to balance their national budgets.

"I think ultimately there's too much at stake" for OPEC countries, Kloza says.

Verleger, however, says Saudi Arabia is determined to reverse the decline in its market share and can afford to be the low-price leader while keeping production high despite thinner profit margins. Its goal: to shut down production so it can reclaim its dominance, including in the U.S. and Canada, Verleger says.

"It's a price war of necessity," he says. "This is bare-knuckle stuff. ... It's like Amazon wanting to sell more books."

Saudi exports of crude oil and petroleum products to the U.S. have fallen from an average 1.5 million barrels a day in 2008 to 1.3 million last year and averaged just over 1 million barrels daily in June through August, according to the Energy Information Administration.

GASOLINE AT $1 A GALLON?

Meanwhile, Verleger predicts, U.S. crude prices will tumble to about $35 a barrel by the end of 2015 as gas prices plunge below $1 a gallon.

The drop in oil and gasoline prices would be an overall boon for the U.S. economy, analysts say, even though it would hobble oil company investments and hiring that have helped support the U.S. recovery. Analysts estimate U.S. oil producers require oil prices of $70 to $75 a barrel to break even on investments in new wells. Verleger predicts some U.S. companies will shut down while others scale back production.

"We may be near the point where relatively sharp cut in energy companies' spending could (hurt) ... the already fragile job market," says Tyler Yell, a currency analyst at Daily FX.