

Kraig Grahmann in Bloomberg: Oil Price Rally Is Stumbling at the Worst Possible Time

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The rally in global oil prices has stalled at the worst possible time for explorers, just as banks reassess credit lines crucial to their growth.

This year's reviews, due to start next month, will arrive with the industry nursing a nasty case of whiplash. Prices surged on OPEC's pledge to cut output late last year, hitting \$55.24 a barrel in New York in January. Since then, they've fallen by about 14 percent, undercut by rising U.S. rig counts.

A drop below \$45 would likely spur credit-line reductions, raising the specter of cuts that crippled drillers a year ago, said [Kraig Grahmann](#), a partner in Houston for law firm Haynes Boone LLP. Between the end of 2015 and October, when credit lines were last reassessed, the average borrowing base for U.S. explorers fell 16 percent, according to data compiled by Bloomberg...

If prices stay steady, there may be no change from the banks, according to Haynes & Boone's Grahmann. It's also possible oil could move back over \$50 before the reassessments end. Even so, bankers would need "some kind of sign" that there's long-term support for the increase, according to Grahmann. His firm tracks energy financing.

The start of the year "was definitely not a good time for a price drop," Grahmann said. "The pause that the market has taken recently has caused some bankers to be a little bit more cautious about assuming that every run-up will last."

Excerpted from *Bloomberg*. To read the full article, please [click here](#).