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*Pamie Rinker**Have questions than answers - which is fair enough.*MR NORGROVE

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*20/9.*THE OIL MARKET

A normally twitchy oil market has been surprisingly unmoved by Saudi Arabia's decision to put another 1 million b/d of oil into the market at prices netted back from the spot prices for oil products. At least for the time being, Saudi Arabia has abandoned its role as OPEC's swing producer - defender of the balance between oil supply and demand, and underwriter of high oil prices.

While oil analysts see this as a watershed which significantly increases the possibility of an oil price collapse, our North Sea crude continues to trade at around \$27 per barrel. Is this just the calm before the storm, or have the analysts got it wrong?

The psychology of the market is certainly bearish, but physically the market is tight, both in the US and Europe. Oil stocks are exceptionally low. With the northern Winter approaching, there is little scope for oil buyers to hang back in anticipation of lower prices. Thus, there may be room for an additional 1 million b/d of oil from Saudi Arabia over the remainder of this year. Additional exports are expected from Iraq's new trans-Arabian pipeline, but this may be offset by the Saudis selling less war relief oil on behalf of Iraq. The immediate outlook for Russian exports is for less rather than more.

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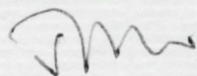
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The game of poker between the oil producers looks like getting particularly tense as we move into the new year. Do the Saudis really mean to test the collective will and nerve of their fellow OPEC members? Are they hoping that fear of an international financial crisis will at last galvanise non-OPEC producer Governments into some measure of support? Or having secured a larger share of the Winter oil market, will the Saudis be prepared to back off and absorb much of the Spring/Summer downturn?

Although no producer can expect to win from a scramble to offset falling prices by unwanted additional production, some analysts now doubt that the widely divergent standpoints of the Nigerians, the Saudis, the Iraqis and the Iranians can be reconciled without the trauma of a price collapse. The OPEC meeting early in October should give some clues.

Meanwhile, we are unlikely to see a hasty reduction of exploration and development activity in the UK. The principal determinant here is the outlook for oil prices in the 1990s, which are seen as less influenced by this Winter's poker game than by long-term trends of supply and demand.

My guess is that OPEC will continue to muddle through, with oil prices weak but not collapsing.



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