

Flash Note
10/01/2018

Alex Fusté
[@AlexfusteAlex](#)
alex.fuste@andbank.com

The unintended effects of OPEC's strategy

1. Tanker fleet is being a victim: OPEC's strategy to end a global glut through output cuts is causing havoc in the world's fleet of supertankers, with the ships' average earnings plunging last year by more than 50%! The global fleet is forecasted to expand by ~4% in 2018, but shipping rates have tumbled in recent months (a time of year when they often strengthen).
2. Iran's oil minister Bijan Zanganeh said yesterday that the OPEC cartel does not want Brent crude over \$60/barrel because of the threat from shale oil industry to boost output.

I still believe, as I have since 2015, that around US\$50/bbl is a natural ceiling for oil prices as this price offers US shale producers strong incentives to restart drilling activity and their reopen the thousands of wells unfinished. Nevertheless, as often happens in this complex job, there are too many factors at play such as the Saudi and Russian politics to curb exports (that are severely challenging my fundamental thesis of a US\$50/bbl ceiling for oil price).

If the new cartel manages to push the Brent crude above US\$70-75, this could prove lethal for financial conditions, since it would result in a combination of inflationary price pressure that will lead to a monetary tightening all across the globe (especially if we consider today's strong cyclical conditions). Not only the Fed would respond but also the ECB might reconsider its ultra-stimulative policy if oil boosts headline inflation above the 2%. Needless to say that a combination of a burst in inflation and monetary tightening could trigger a setback in all assets.

However, I still consider this scenario as unlikely, since I still trust in the ability of the US shale industry to use current prices to offset the effects of the damaging OPEC's strategy.

Best regards