

Flash Note 18/10/2018

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What's behind the recent -10% fall in oil price. Outlook

(Price Negative) – Cartel not talking price for fear of being labeled as manipulators and amid antitrust fears. OPEC has urged its members not to mention oil prices when discussing policy. This is a break from the past, as the cartel is seeking now to avoid the risk of US legal action for manipulating the market. The US legislation that could open the group up to antitrust lawsuits has long lain dormant but could be revived under a more aggressive President Trump.

(Price Negative) - US shale production expected to reach record levels in November. Production from the major US shale plays is expected to post a monthly rise of ~100K bpd in November to 7.71M bpd, with half of the increase coming from the Permian Basin. The increase is expected to come despite US drilling activity remaining relatively unchanged over the last few weeks (though the rig count is still up more than 100 since January).

(Price Negative) – New light grade being sold by Permian drillers. Oil producers in the US Permian Basin have begun selling a new grade of light crude called "WTI Light." Sales started in September with deliveries into Midland, TX. It adds the new stream is being primarily blended to produce so-called Domestic Sweet crude, WTI Midland, or benchmark WTI for delivery at Cushing.

(Price Negative) - Iran keeps oil price at the lowest level in 14 years. With the deadline for Iran's sanctions closing any waivers could be issued soon. The US has said that any sanction waivers would be "few and far between," but that the threats have already had an impact on Iran's oil business, with the country having lost key buyers. Iran has responded by keeping its price for light crude delivery to Asia at the cheapest level in 14 years relative to the rival Saudi grade.

(Price Neutral) - Management shakeup at PDVSA. Venezuela is placing at least five new executives at state-run oil firm PDVSA, though the changes are unlikely to halt the unraveling of the country's oil industry, which was put under military management last year by President Nicolas Maduro in what he stated was a move to root out inefficiencies and corruption. The new executives are relative unknowns in the energy industry.

(Price Neutral) - US planning more sanctions. The US plans to increase sanctions pressure on Venezuela, though it sees less need to immediately target its energy sector given the country's sagging production. A US administration official said sanctions are only some of the many tools the US has on the table.

Outlook. While policy-driven factors could keep oil prices trending upward, fundamental and structural elements suggest that the energy sector will be maintained without supply stress. Furthermore, the nature of the market tends towards a situation of over-supply (in the absence of political issues that expel important producers from the table).

Best Regards

Oil (WTI) price

