Are Oil Prices Rising or Falling?

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Not only are the current views contradictory but each is supported by arguments and evidence, which increases the confusion and frustration of anxious listeners worried about their economic future.

Who Sets Oil Prices?

Oil prices are set at the various commodity exchanges via offers and bids for spot or future contracts, but speculators and traders play a major role in process.

Generally, speculators and traders take short term positions with the aim of bailing out with a profit. They are not in the game for the long term and usually are not end users of the product traded. Their method of operation is to monitor the market, analyze its signals and trends, take positions, cash in with a small profit or loss and then come back again tomorrow.

Because of their short-term style of operation, speculators' decisions are affected by the daily news presented by the media, which makes them more susceptible to propaganda injected by interested parties with political or economic agendas. Fundamentals do play a role in their decision-making process but is relegated to the back stage in importance.

The Main Current Opinions

Rising Oil Prices: The proponents of this view state that:

- Iran Sanctions spooked and scared the market and put it into a panic mode. Prices rose sharply between June and October 2018 on the assumption that world oil supply will not be able to compensate the approx. one or more million barrels per day drop in Iranian exports.
- The world is scrambling to dance to the US tune of Iranian sanctions and is ceasing the import of Iranian oil.
- The continued shrinking of Venezuela's oil production and export will add to the expected Iranian shortfall.
- The Int'l Energy Agency (IEA) is worried that production outages with insufficient inventories or spare capacity could become a serious problem in 2019. It sees the solution in OPEC increasing its production capacity.
- While OPEC has been nodding in agreement with the US administration's demands to jack up production, it may become less accommodating after the midterm US elections – depending on the outcome?
- OPEC may be targeting $80 per barrel and may gauge its production accordingly.
- OPEC is rumored to be planning production cuts in 2019, especially if the

anticipated supply glut does occur.

Falling Oil Prices: These views can be summarized as follows:

- After the price peak on Oct 3rd, the market seems to have realized that the Iranian production loss can be accommodated and has hence discounted this eventuality. This is reflected by the initial rise and then fall of the month spreads on both WTI and Brent oil futures.
- World oil demand is now not expected to grow as was earlier expected.
- The strong US Dollar has raised the cost of oil to emerging market countries as well as triggered capital flight. This has slowed their economic growth and weakened their demand for oil.
- OPEC + Russia agreed in June 2018 to increase production by approx. one million barrels per day. This has had a downward effect on prices, even though it has not yet been fully implemented.
- World oil production is reported to have increased by 2.9 million barrels per day in 2018 (most of it was non-OPEC and Non-US production).
- The increase of US oil inventories the past 5 consecutive weeks has had a dampening effect on prices, especially if this continues in the USA as well as the OECD countries. Some reports indicate that US inventories have increased approx. 30 million barrels in the past month or so. However, this is a bookkeeping item and one can never be sure of its accuracy or motive for announcing it now.
- The possibility of granting exemptions from the Iranian sanctions to India, China and other countries would reduce the anticipated drop in oil supplied to the market.
- The fast rise in oil prices between June and October 2018 may have induced a downward correction as fears of a supply glut returned.
- The Saudi oil minister's announcement that Saudi has the spare capacity to replace any lost Iranian output has alleviated market fears. However, his warning that this spare capacity is insufficient to cover any other production drops or outages in other producing countries has not been taken too seriously by the media.
- Libya has announced that it will increase production up to 1.6 million barrels per day by the end of 2019.
- The monthly Brent oil futures yield curves are indicating an overpriced situation.
- According to the Saudi oil minister, the time lag between positive supply growth and drop in prices can extend to several quarters and, in view of the continuous growth in oil supply throughout 2018, prices are expected to react downwards in 2019.
- The normal divergence between stock markets and oil prices is non-existent this time round and both markets are moving in tandem, which is worrying. As the equity markets drop so do oil prices.
- Hedge Funds and traders are switching from long to short oil positions with many selling their oil positions at the highs to meet equity margin calls.

Technical Analysis

As any forecasting tool, technical analysis is based on historical data and assumes that a trend will continue unless one or more indicators signal a change. One such analysis indicates the following:

Long-Term: The WTI monthly charts continue to indicate an uptrend, but momentum is shifting down, which may indicate the selling correction continuing for a few months. But if the supports at $63.57, $61.62 and $ 56.40 are violated then the trend could switch to down and, in that case, prices could drop to $ 54.90 (or worse, theoretically to $41.34). However, if the uptrend continues, then the possible targets could be $82.02 or $92.35 .

Medium-Term: The WTI weekly charts indicate a continued uptrend. But, if the supports at $63.57 and $61.62 are broken, then the trend would switch to down with possible targets of $59.10 or $54.90.

Short-Term: The WTI daily chart shows the market has turned to a downtrend after violating in late October the supports at $67.66 and $66.58. To return to uptrend, the market has to rise and break its first resistance at $70.21 .

Conclusion

The oil market was chugging along quite nicely in 2018 and the market forces were slowly bringing supply and demand together amicably, to the reasonable satisfaction of both the producers and consumers. Then, new factors entered the arena, and everything went haywire.

These new factors were politically instigated and upset the market movement towards equilibrium. They began some time ago by disrupting oil flow from Venezuela and progressed to the present blocking of Iran oil supplies. Add to that the US/China trade war and the escalating political and military tensions in the South China Sea, Syria, Yemen, Ukraine, Russia, Turkey and elsewhere, and you end up with a highly unstable world. Instability causes confusion and panic, which lead to a gross misdirection of resources, waste and unnecessary rise in costs within the economies. They can also lead to wars, which lead to the same, but magnified, negative results.

Who benefits from such instability? No one sanely seeks instability, unless they wish to reset the chess board in their favor or to their advantage.

As for the long-term, it is difficult to see the world ignoring the environmental damage of hydrocarbons. Sooner or later oil demand is bound to peak, and oil prices are bound to fall. Until that occurs, whether in 10 or 30 years, the world will have to live with the ever-recurring turbulences and crises of oil prices.

Advice to Arab Oil Producers: You must realize that, in the final analysis, the ability to decide oil prices is beyond you, and so are the decisions regarding oil production. You are but a cog in a huge complex machine controlled by the powerful. The only wise decision is to use oil price rallies to increase your investments in real economic and social development and put an end to all kinds of waste because a day will eventually arrive when oil revenues and surpluses will fade away forever.

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