

Goldman Sachs Makes Oil Prices Drop

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"We must prepare for the worst scenario but it would be nice to be proven wrong" – is the leitmotif of virtually all major news-makers. And it is becoming obvious that the oil cartel OPEC, that, incidentally, has been created to protect the oil producers themselves, found itself in a very difficult position because of all that.

Possibly, the cartel members realized that it is much better to keep oil prices high and by doing so to help the competitors with the shale mining (fracking), or to produce at a low price, than not to produce at all. Mikhail Leontieff has been keeping a close look at the markets and his attention was drawn to the fact that the most pessimistic forecasts are being voiced by the most active players.

Oil prices seem to irresistibly be moving towards zero, based on expectations of China getting in a major slump, Iranian oil flooding the world markets and all the wild increase of demand over supply, at least this is what they want us to believe.

Brent crude fell below \$30 a barrel and continues to get cheaper. The value of OPEC oil basket dropped to \$ 25 per barrel, the Mexican Pemex has been trading at a loss, losing a dollar for every barrel of oil, Canadian crude fell as low as \$15. "Our business is dying at its core" – "Wall Street Journal" quoted the owner of the oil company from Illinois. The newspaper refers to "Barclay's" analysts, issuing the forecast of costs within industry being reduced by 20%, after they have already fallen by a quarter in the past year.

Schedule of falling oil prices, adjusted in relation to the current fluctuations, has essentially been a straight line since last September, when prices fell from \$ 50 per barrel to the current \$ 29. What was so momentous that happened in the world market in September? In September, "Goldman Sachs" lowered expectations for the average oil price for 2016, assuming that it will drop to \$ 20 a barrel. "Expectations" of "Goldman Sachs" were "wholeheartedly" supported by "Merrill Lynch", "Bank of America" and others.

There you have it – \$ 20, quoted by "Goldman Sachs", was not a forecast. It was the target. Only our own Ministry of Economy is the one that makes forecasts, "Goldman Sachs" , on the other hand, makes the markets. The oil market – is not the market of raw materials. Supply contracts for actual oil makes only 2% percent of the market, the rest – speculative securities, futures and other derivatives. Prices for futures are not determined by supply and demand, but by "expectations". The futures market is completely controlled by the largest US banks. This is the market of expectations, which creates a real "Industry of expectations" using the notorious rating agencies, "independent" experts and the media.

As the hero of the film "The seller of air" said:

” I am not a business person. But I can tell you this much- soon the most popular goods turn out to be funeral wreaths. The air is just about to knock out gold. The air will become the most valuable currency in history . Now you know what our Honourable Chief has in mind? Morgan, Rockefeller and all other Fords put together. “

This wonderful mechanism of managing expectations allows the same rotten mantras to be fed to the market over and over again. Let us not forget that the basic cause of the fall in oil prices was the shale revolution in the United States, which allowed America to increase production by half.

The number of drilling rigs still in operation in the US has been steadily declining, amounting at the moment to 2/3 of the peak number of rigs in 2014. At the same time, until recently, they managed to keep the production at a stable level – around 9.2 million barrels per day.

The phenomenon of American shale transcends any price as drilling becomes redundant. As our classic Saltykov-Shchedrin quipped: “Thence, the rascal is giving birth, they yelled , downing in the noxious fumes of pride.” In fact, it was the banks, that credited the game, allowing shale companies stay afloat no matter what, and thus supported the American production. Because the decline in production in the United States is capable in breaking the whole game. However, no such games would be possible without the genie.

From the beginning of the fall in prices, Saudi Arabia announced that it would not cut production, which completely paralysed the traditional activities of OPEC in trying to control the market. From this point on, each statement of representatives of the monarchy pushed prices down. At the same time, Saudi Arabia itself ended the year with a budget deficit of 100 billion dollars, and the actual production for the last six months has decreased by 400 thousand barrels per day. This is about 4% of Saudi production. “We will meet the demand from customers, we will no longer limit the production”, – said the minister of oil of Saudi Arabia in early January. A genie, of course, can cast a spell, just there is no need to exaggerate the sovereignty of Old man Hottabych (a character of Russian folk lore). However, every Hottabych has his own Wolf.

“The price of oil will stabilize by the end of the year and will reach \$ 50 per barrel,” – said on Thursday the director of the Frankfurt branch of “Goldman Sachs”. Moreover, she explained that the fall in prices was a consequence of slowing of the growth in China and much lower demand.

In the end it was akin to showing ones hand. If the “chip” is being placed on “China slowing down”, so why on earth China would start the process of growth by the end of the year?! For any gambling to be successful, one needs to know when to quit. It looks like it is time.

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