Oil is at a crossroads – what's next from here- 40 or 100, it's a pretty even bet?

[Oil Falls After Third Consecutive Crude Build – Oil Price May 07,2019]
[Oil prices fall on US-China trade spat, but settle off lows US-Iran – CNBC May 07,2019]
[Oil market in flux amid uncertainty over shipping's fuel rules – FT May 07,2019]

Oil has always been a volatile animal with strong trends and sharp corrections. Using Brent as the oil of choice; we can see in 2017/2018 , we had a strong trend up to over $86, when broken resulted in a sharp fall to $50, before resuming an uptrend to $76 in April of this year. Oil is generally driven by the forces of supply and demand, real or perceived. In the move up to over $86 ,driven up mainly on OPEC's decision to extend supply control and global growth going strong, reaching a high in Oct 2018, in all it rose 93% in relatively quick time before falling sharply to just above $50 early this year.
Since Jan it has now risen again steadily to its current level at $71. Supply levels have tightened, with OPEC+ continuing with their supply controls and growth in China especially picking up. The supply is also dependent on refining margins, not just overall price. So, if margins decrease then supply is reduced. Demand remained resilient despite global growth concerns, and as these growth concerns ease as they seem to be currently, then upward pressure ensues. But if trade wars were to resurface then negative pressure on oil will occur again.

Image by Flickr -Marco Verch

OPEC price policies are one of the biggest influences on oil. Any news pushes prices instantly one way or another. Russia has been making noises about removing controls, as a response to US oil production (almost doubled in 2018). Now even Trump has been asking them to do so, which seems odd as it puts stress on US shale producers, who face higher costs than OPEC, but it is probably because he wishes to not lose his popularity due to pump prices being higher and he would likely change that idea when he (should I say - if he) actually thinks about it. If OPEC were to abandon its current production limit, it would drive prices down to as much as $40. But new regulations are coming in 2020 pushing demand towards ultra-low Sulphur marine fuels. This will put pressure on refining capacity and higher prices, (Sulphur concentration 3.5% to 0.5%). The result could push Brent to $100 this year, especially if production controls remain in place. With oil at $71, the future direction is evenly balanced. We are at a crossroads particularly now, with pressures and decisions affecting demand and supply at a time when the price is particularly vulnerable. I think the odds are on a move lower, trade and growth will become a concern again, Trump will make sure of that and the uptrend although still just about alive is looking as if it's over to me. The outlook is for a sharp move to either $40 or $100. When you add in the fact that oil is so key to nearly all economies and companies, whether from a supply or demand perspective, and that price shifts can determine growth or recession, the world is watching oil more than ever. And more than ever some smart hedging of risk is a wise thing. There are plenty of derivatives available to either hedge open risk or open a strategic position and now is a good time to utilize them to fit your needs. For commodities, particularly oil, you need to understand what drives it and how to manage its fluctuations and trends.
As always it starts with knowing the fundamentals -
The Intuition Know-How Library consists several Courses related to this article:

- Commodities (13 tutorials)
- Introduction to Derivatives (5 tutorials)
- Contracts for Difference (CFDs)

For Intuition blended learning related to this article, some of our popular workshops include:

- Advanced Technical Analysis with Behavioral Finance – Identify Low Risk & High Reward Trading Strategies

The topics covered in Intuition Asia Perspectives are current developments or topics currently in the market. Intuition Asia provides bespoke learning solutions, both eLearning and Instructor-led courses. These can also be blended in a program to provide the most effective form of learning. These workshops can be structured as lunch & learns, webinars or full day deliveries. Clients can use these to keep their workforce updated with the latest developments in the market and complete their mandatory CPD learning hours.
Get in touch with your Intuition account manager at asiainfo@intuition.com for more details.

Get the app