Future Course of Oil Prices

What is the issue?

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Global petroleum prices are fluctuating in recent times, USA's action will decide the future course of oil prices.

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What is the status of global fuel prices?

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- The benchmark Brent crude, has slipped below the $70 a barrel mark reacted sharply rising to above $72.
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- The price of Brent crude, which had risen over the $85 mark in early October, is down by about 20% from its October peak.
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- The oil market is yet to break its short-term downtrend that began after the fall from its peak in October.
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- This price action suggests that markets could probably still be worried about the risks of any kind of sustained rise in oil prices.
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What are the reasons behind fluctuation of fuel prices?

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- In recent times global petroleum prices reacted to statements and counter-statements by producers and consumers.
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- Over the weekend, Saudi Arabia signaled its discomfort with the falling prices and hinted at a fresh cut of one million barrels a day.
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- That prompted a tweet from U.S. President Donald Trump asking for lower prices, and so, on Tuesday prices again fell to below $69.

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- Saudi Arabia’s call to cut output comes after the OPEC cartel decided to increase its output.
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What is the role of US in deciding fuel prices?

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- OPEC members decided to ramp up supply after apprehensions over Iranian supplies in the wake of economic sanctions imposed by the U.S.
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- Since then, the U.S. has granted a temporary waiver to eight countries, including major buyers India and China, to continue importing oil from Iran for at least the next six months.
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- Strong U.S. opposition to higher oil prices could be making investors feel jittery.
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- The increasing output of shale from US is another significant threat to oil prices, as U.S. shale producers have traditionally increased their output in response to higher oil prices.
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- The U.S. Energy Information Administration predicted that American crude output would increase at a higher pace than expected and lead to lower prices in 2019.
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What will be the future course of oil prices?

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- The way prices have responded to OPEC’s output decision, however, suggests that it may still be too early to dream about higher prices in the near future.
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- A crucial meeting between the cartel and its allies in the first week of December will decide the 2019 output level.
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- That might well set the trend for oil prices in the New Year and the production cut would not raise prices significantly.
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- Any slowdown in global economic growth is another risk factor that may weigh down oil.
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Source: The Hindu

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Quick Fact

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OPEC – Oil and Petroleum Exporting Countries

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- It is an intergovernmental organization of 14 oil-producing countries.
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- OPEC controls 61 percent of the world's oil exports and holds 80 percent of the world's proven oil reserves, its decisions have a significant impact on future oil prices.
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- The three goals of OPEC is to keep prices stable, reduce oil price volatility and to adjust the world's oil supply in response to shortages.
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- The mission of the organization is to "coordinate and unify the petroleum policies of its member countries and ensure the stabilization of oil markets, in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry."
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