PORTLAND MARKET REPORT

"PREDICTING THE OIL PRICE IS THE EASY PART. PREDICTING WHEN IT'S GOING TO HAPPEN IS HOW YOU MAKE YOUR MONEY…"

February update

So here we are with another year ahead of us and time once more for our annual oil price prediction. Before doing so however, let's go back 12 months and consider our forecasts from last year. Back then we wrote that "a price of $85 was significantly more likely than a price of $55 come the end of 2018". What's that you say? Shades of 2014 – where Portland said that prices would stay stable only to see them crash by $70?!

Well on the surface maybe, because the oil price did indeed end the year at $55 per barrel. But that doesn't tell the whole story, because whilst prices did end the year down, prior to October they had risen almost exactly in line with our predictions – peaking at (you've guessed it) $85 per barrel. So, we basically got our timings wrong and furthermore, we still managed to allude to the fact that once prices had hit the $85 peak, then a price crash was a strong possibility ("for each month of price rises, the chances of another major price crash increases in likelihood"). All in all then, not too bad as predictions go. But then again, as a wise old BP trader told a fresh-faced and eager to please Portland back in the 1990's "predicting the oil price is the easy part. Predicting when it's going to happen is how you make your money…"

Such was the speed and scale of the oil price drop in the last quarter of 2018 (the equal of anything in the 2008-09 financial crisis), that oil markets are now left at an interesting juncture. On the one hand, it's difficult to see further drastic price falls with global demand now topping 100m barrels per day (bpd) and no signs of an end to annual demand growth (and the stabilising of prices in January would certainly seem to bear this out). But at the same time, the global economy does look more shaky than it has for several years. Plus, indications from the US would seem to suggest that the shale oil industry is about to go back into production overdrive. Which is ironic really, because having taken 5 years to recover from the 2014 oil price crash, the shale oil producers are now producing the kind of excessive volumes that stimulated that particular price crash and could easily do so again.

Nonetheless, if we have to make a prediction then Portland still believes that 2019 will see a slow ticking up of prices to around the mid $60 mark. The main reason for this is continued oil demand growth, which still looks a given however shaky the rest of the global economy looks. Turning our attentions to the supply side, we expect continued discipline from OPEC in curtailing production and there is also no getting away from the fact that new investment in conventional (ie, non-shale) oil plays has all but dried up.

Which leaves US shale oil, coupled with the perpetually unpredictable President Trump as the jokers in the pack and both capable of pushing oil prices any which way. Of the two, shale is probably the easier to call, because the fall in price at the end of 2018 has got the money-men in a cold sweat over the likelihood of a repeat of the 2014 bloodbath. These shale investors categorically do not want a prolonged price dip and have tightened the credit offered to producers (almost all of whom are heavily in debt) and this should tell us that gung-ho production is off the menu for the short-term at least.

"DECISIONS EMANATING FROM THE WHITE HOUSE CAN AND DO CONTINUE TO HAVE A HUGE IMPACT ON GLOBAL OIL PRICES"

But the President is another matter entirely and decisions emanating from the White House can and do continue to have a huge impact on global oil prices. Don't forget this was the President that announced to the world in 2018 that Iranian sanctions would be re-introduced (prices up), only to then decide that actually, China, India and Japan (ie, all the major buyers of Iranian crude!) would all receive exemptions (prices back down). So, making forecasts where Trump is concerned is nigh on impossible and often potentially surreal. Who is to say for example that in a fit of twittersteria, the 45th President declares that shale is so important to the USA that it will receive Government subsidy. Oil production would boom (which operationally it is ready to do) and prices would drop, which would please US consumers no end (one can almost already see the famous thumbs up). Ditto a decision to reignite the US-China trade wars, something that could easily tip the world into recession and this in turn might just curtail oil demand growth for the first time in over 10 years.

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With Donald J Trump in power, anything can happen and that is the caveat for our 2019 oil price forecasts. If all things remain equal and the President spends all his energy on arguing over his wall, rather than focusing on say foreign policy or energy programmes, then we bet on $65-$75 (per barrel) before $45-$55. And if that turns out to be wrong, we'll blame the President.

For more pricing information, see page 26

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