PORTLAND MARKET REPORT

Portland

JANUARY IN VIEW

CAN A 'TINPOT OUTFIT IN YORK' CONTINUE TO OUTSMART THE WORLD'S LEADING ENERGY ANALYSTS?

This time last year, UBS predicted that prices in 2023 would "likely soar past $100 a barrel". At the same time, and in a similar style, Goldman Sachs saw Brent averaging $98 a barrel, with prices in excess of $105 in the second half of the year. Dow Jones Group predicted an average price for 2023 of $96 per barrel, whilst JP Morgan was slightly more prudent with a forecast of only $90 per barrel. Even the US Department of Energy (which has all the available data for US shale production – see below) predicted an average price of $95, whilst the World Bank joined the party in the second half of the year, predicting that prices could top $150 on the back of Israel's invasion of Gaza.

Meanwhile, a tinpot outfit in York, going by the name of Portland, was one of the very few companies last January to actually forecast oil prices falling in 2023, which meant for the 9th year in a row we got our annual oil price prediction correct. On January 1st, 2023, the Brent Crude price was $82 per barrel and by the mid-point of the year (Jun 30th), this had dropped to $75 per barrel. On the last working day of December, the price had risen slightly to $77. The average price for the full year was $82.16 (versus an average of $104.28 in 2022) and this is very relevant when we consider just how far off the mark the aforementioned 2023 predictions really were. The nature of averages means that if the oil price in January 2023 was $80 per barrel, then for a mean annual calculation of $100, at some point the highest price would need to be in excess of $115. In fact, the high point of the year was $92 per barrel (September) and the low was $71.84 in June.

The reason so many analysts got their 2023 price predictions wrong (apart from the obvious fact that Investment Banks do better in bullish markets) was their continued preoccupation around supply security. This was a subject that had dominated the energy picture in 2022 (on the back of the Russian invasion of Ukraine) and, although a reasonable position to take going into last year, it overlooked two key factors. Firstly, that oil supplies in 2023 would be more robust, and, secondly, that the global economy was sickly, thus suppressing oil demand.

On the supply front, way too much focus was placed on the actions of OPEC+ (OPEC Members plus Russia), as they desperately tried to force prices upwards via continuous announcements of production cuts. Not only did this dissatisfy its own members (such that Angola resigned from OPEC at the end of the year), but 2023 actually saw the cartel's activity playing second fiddle to rapidly increasing oil production in other parts of the world. The US shale industry had already added 1m barrels per day (bpd) by the end of 2022 and was more than happy to keep pushing volumes up to fill the gaps left by withdrawn OPEC barrels. At the same time, Guyana's new Stabroek field came onstream (+500,000 bpd), whilst further large scale production increases were also seen in Brazil, Argentina and Canada.

At the same time, on the demand side, China's economy did not rebound as expected after Beijing's panicked dismantling of its Covid restrictions in December 2022. In fact, the Far-Eastern economic giant saw fairly moribund growth levels throughout the year which, for the most part, were actually lower than lockdown-affected 2022. In the West, at the same time, inflation and high interest rates either kept most economies flatlining or sent them into mild recessions, further limiting demand for oil products. Only India saw robust GDP growth (>7%), but, of course they were buying cheap oil from Russia, unavailable to the rest of the world (because of sanctions), thus removing this chunk of consumption from the global demand equation.

What of 2024 then? Unlike this time last year, few analysts are predicting significant spikes in the price of oil. This is remarkable considering that we have ongoing wars in Russia / Ukraine and Israel / Palestine, plus a rapidly deteriorating security situation in the Red Sea. However, such is the confidence in growing oil supplies from the Americas, matched with an equal lack of confidence in economic growth, that geo-political concerns are now seen as less important than the basics of supply and demand.

There might, however, be two possible situations that send oil prices skywards. The first is a full escalation of the military activities in the Red Sea and a possible spill-over into the Arab Gulf.

Remember that around 50% of the seaborne oil trade passes through or near these waters and, whilst traders have been remarkably sanguine about the burgeoning conflict so far, waking up to the news that a super-tanker has been commandeered or sunk would swiftly send oil markets into panic mode

Later in the year, we might also see Russian interference in November's US Presidential Election. Do not underestimate the desire that exists in Russia for a Trump victory, as the Republican candidate has already indicated he will end military support for Ukraine and push for a negotiated settlement, should he get elected (presumably he won't dispute the outcome if he wins).

The one thing that Joe Biden would not want in the run-up to an election is high gas(oline) prices and, thus, Russia may aim to derail the Democrat campaign by manipulating oil prices upwards. This would involve the further withholding of Russian oil and gas in the 3rd Quarter, generating significant short-term economic pain for Moscow, but Putin has proved on more than one occasion that he is willing to play the long game.

Both above scenarios do still seem at the more fanciful end of the scale and, more importantly, even if these events did come to pass, the impact on oil prices would be short-lived.

Therefore, Portland's 2024 prediction is for a fairly uneventful year on the markets, with Brent Crude trending sideways and staying in the $70 - $80 price bracket.

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