Oil Market Report – November 2010

November saw prices being pressurised continually upwards, although after hitting $89 per barrel on the 10th, crude oil prices steadied for the rest of the month. Most sensible oil commentators were heard to mutter “and rightly so”, as the price rises between mid-October to mid-November were reminiscent of previously hyped oil surges and a new price bubble threatened. Whilst fundamentals do point to a sustained rise in prices over a longer period of time (see previous reports), there is little in the market to justify a rise of $8 per barrel over a period of 15 working days.

The main force behind the price rises seems once again to be currency driven – a favourite subject of Portland. Further Quantitative Easing (QE) from the Federal Reserve (the “Fed”) may have the desired effect in the States of generating more cash-flow around the economy (= more money to spend = more demand = more jobs), but inexpensive US cash is also ending up being diverted into $ based commodities, of which oil is the biggest. This has triggered the latest increases in price and has also coincided with a strategic drive by major American consumers to buy up crude oil stock, hoping to beat the predicted price rises of 2011.

So we end up with a crazy situation (sic semper) whereby stocks of crude oil in the USA have never been higher (ie, no shortage of stock) and yet prices surge and refinery margins (see September report) have never been lower. In short, the USA is frantically buying up crude (possibly to keep it out of Chinese hands?), but US consumers do not have significant demand for the end-products that crude actually produces. Furthermore, this lack of demand for refined products is likely to continue until the US economy really starts firing. Confused times indeed.

The check and balance on all of this continues to be the Euro – for so long seen as a rather boring guest who has to be invited to the party, always brings a modest bottle of wine, but never really contributes much to the merriment. How times change. The Euro has in fact now gate-crashed the party already looking the worse for wear; has brought 6 bottles of red square vodka and invited 4 troublesome PIGS from the local estate (ie, Portugal, Ireland, Greece and Spain) intent on smashing the place up. Ireland’s bail-out follows only too soon on the back of that of Greece and the question is how long can the bail-outs continue? Germany holds the whole thing together(*) and until the debt crisis has truly been put to bed (2012? 13? 14?), Portland sees a stagnant European economy and with it, suppressed demand for oil products.

We are truly witnessing monumental economic times, as currency and trade wars swing back and forth across the globe. If the UK did not have so much staked on the outcome, so much to lose if things go wrong and our current predicament was not so uncomfortable, it would almost be entertaining. Future film scripts and Hollywood awaits – or with the power shift to the East, perhaps that should be Bollywood.

* interesting footnote on Germany; German voters may not like bailing out stricken European economies, but German manufacturers aren’t too unhappy about the current state of affairs. The crashing value of the Euro has made German goods cheaper than ever and exports are booming. No wonder Frau Merkel is unsure of which way to go.