Oil Market Report: January 2019

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 ended the year at around $55 per barrel. But that doesn't really 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, plus 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"). Which means that as predictions go, it wasn't too bad. But then again, as a wise old BP trader told a fresh-faced 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 during 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 (January's stabilisation of prices would certainly seem to bear this view out). But at the same time, the global economy does look more shaky than it has for several years. Plus, some North American commentators believe that the US 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 threatening to produce the kind of excessive volumes that could stimulate another price collapse.

Nonetheless, if we have to make a prediction then Portland 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. And on the supply side, we expect continued discipline from OPEC in curtailing production, plus 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 the aforementioned US shale oil, coupled with the perpetually unpredictable President Trump as the jokers in the pack - both capable of pushing oil prices any which way. Of the two, shale is probably the easier to call, because the recent fall in oil price (Q4 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 are correspondingly tightening the credit terms offered to producers (almost all of whom are heavily in debt). This means that whilst there is the potential of shale production reaching "gung-ho" levels, for the moment it is probably off the agenda because borrowing additional money (to drill more wells) is too expensive.

But predicting what President Trump will do is another matter entirely and his decisions continue to have a hefty impact on global oil prices. Don't forget that it was President Trump that announced to the world in 2018 that Iranian sanctions would be re-introduced (prices up), only to then decide that erm...actually, China, India and Japan (the major buyers of Iranian crude!) would all receive exemptions (prices back down). Thus, making forecasts where Donald J Trump is concerned is tricky to say the least! 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). Ditto a decision to reignite the US-China trade wars – probably a vote winner but certainly something that could easily tip the world into recession, which in turn might just curtail oil demand growth for the first time in over 10 years.

With Trump in power anything can happen, so that is the caveat for our 2019 oil price forecasts. If all things remain equal and the President spends all his time arguing over "The Wall", rather than focussing on 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!