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## **CRUDE OIL PRICE COULD SPIKE AGAIN IN THE FALL: HERE'S WHY\***

by Marcello Minenna

While the convulsions of the European gas market continue, crude oil continues to benefit from a respite: the price of US West Texas Intermediate (WTI) and North European Brent are at their lowest from the peaks of \$ 120 recorded in June 2022, with a clear impact on fuel prices at the pump.

Much of the credit for the global price reduction has to be attributed to the release of more than 80 million barrels of crude oil from US national strategic reserve (17% of stocks), which allowed to increase the daily supply by roughly 1 million barrels. per day (b / d) in the last 3 months. The slowdown of global growth did the rest.

The success of the US initiative has stacked tensions with producing countries. OPEC + (the cartel of the main producers extended to Russia) has approved a reduction in global production of 100.00 b/d. De facto, the measure has no concrete effect, but cancels the decision taken two months ago to make a symbolic increase in response to requests from US President Biden visiting Saudi Arabia.

The decision highlights the renewed influence of Saudi Arabia within the cartel as the only remaining swing producer, while the global flows currently float around 98 million b / d. The sheiks are not inclined to support a growth in

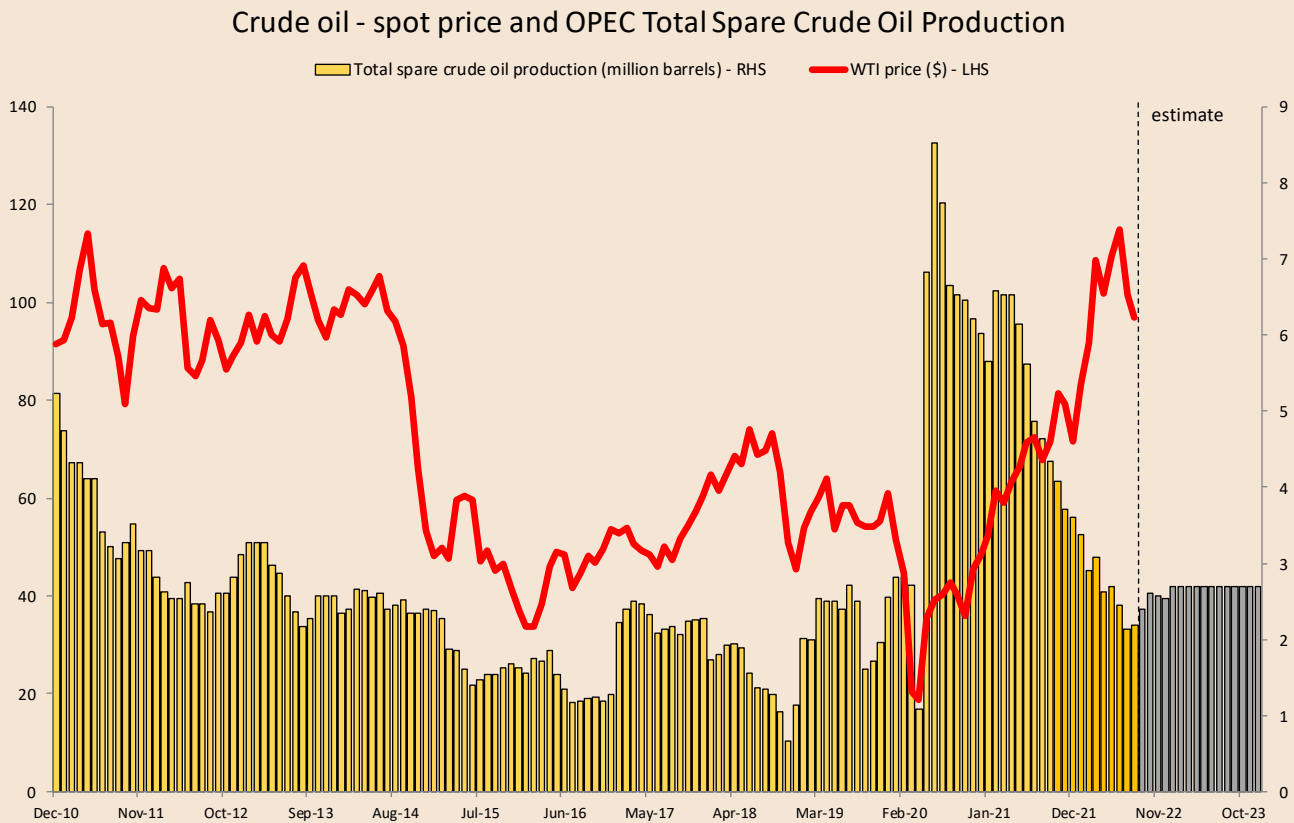
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\* The complete version (in Italian) has been published on the website:

<https://www.ilsole24ore.com/art/il-petrolio-resta-scarso-ragioni-una-nuova-possibile-fiammata-prezzo-AEpYwSzB>

supply, mainly because the progression of the UN-Iran nuclear negotiations could bring 1 b/d back to the market in short notice.

The International Energy Agency (IEA) foresees a stabilization of OPEC's total spare production (i.e. the maximum increase in production theoretically obtainable from known reserves) around 2.7 million b/d, although it is useful to note that this value has been constantly revised downwards in recent months by over 2 million b/d.



The reason is that most of OPEC countries (primarily Nigeria, Angola and Kazakhstan) in the last 2 years have not reached the maximum allowable quota and had encountered technological and distribution difficulties in increasing production.

The growth rates of US oil shale are contained, due to the more restrictive financial conditions and the higher costs of *fracking*, which requires the

combustion of large quantities of natural gas and lowers the profit margins of enterprises.

Outside of OPEC and US shale oil, there is no additional production capacity. *De facto* world production has been oscillating for 2-3 years around what could be the infamous global peak.

At the moment, the release of strategic reserves is expected to end in late October 2022 (in correspondence with the US mid-term elections) and it's reasonable to assume that it will not be extended for reasons of national security and political convenience. This will correspond to a supply-side shock of around 1 million b/d.

Another reduction in the global supply is already planned in the coming months. From December 2022 the EU ban on imports of petroleum products from Russia will become partially operational. According to IEA estimates, the embargo will remove 1.3 million b/d from the European market by the end of 2022.

Ultimately, there's little hope that in the current energy crisis, the oil front will remain calm for much longer. What you can do is prepare to manage the impact.

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*The views and opinions expressed are strictly personal*